



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



Comparative Connections



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

edited by

Brad Glosserman
Sun Namkung

3rd Quarter (July-September) 2006
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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 U.S., to realize complex political, economic, and security interests. How one set of bilateral interests affects a country's other key relations is becoming more fluid and complex, and at the same time is becoming more central to the region's overall strategic compass. *Comparative Connections*, Pacific Forum's quarterly electronic journal on East Asian bilateral relations edited by Brad Glosserman and Sun Namkung, with Ralph A. Cossa serving as senior editor, was created in response to this unique environment. *Comparative Connections* provides timely and insightful analyses on key bilateral relationships in the region, including those involving the U.S.

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

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

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by Michael J. Green, CSIS, and Shinjiro Koizumi, CSIS

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

The UN Security Council unanimously condemned North Korea in mid-July for test launching seven missiles earlier in the month. Following the Sept. 14 Bush-Roh summit meeting, the U.S. showed some procedural flexibility in the nuclear negotiations, for the first time in months. President Bush gave his blessing at the summit to President Roh's request for returning operational command of South Korea's forces during wartime to Seoul. In two rounds of negotiations this quarter on a U.S.-Korea Free Trade Agreement, U.S. and South Korean trade negotiators put a number of critical issues in manufacturing, services and agriculture on the table but were only able to reach an apparent agreement on pharmaceuticals.

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

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by Aidan Foster-Carter, Leeds University, UK

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by Scott Snyder, The Asia Foundation/Pacific Forum CSIS

To the surprise of many, China signed the strongly worded UNSCR 1695 that condemned the North Korea’s July 5 missile tests. This followed the failure of diplomatic efforts to convince North Korea to exercise restraint and return to the negotiating table. PRC Foreign Minister Li Zhaoxing met with his ROK counterpart Ban Ki-moon several times during the quarter to discuss North Korea, and Roh Moo-hyun placed a rare phone call in late July to Hu Jintao, who counseled patience and restraint. Rumors of North Korean plans for a nuclear test were given credence by the North Koreans in an official statement Oct. 3. Union leaders from ailing Ssangyong Motors launched a general strike against Chinese management at Shanghai Automotive Corporation, while China’s attempts to restrain its booming economy reverberated in the form of slower growth of Korean exports to China.

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

Prime Minister Koizumi Junichiro visited Yasukuni on Aug. 15, honoring a long-standing campaign pledge. China protested the visit and moved on, focusing its attention on Chief Cabinet Secretary Abe Shinzo, odds-on favorite to succeed Koizumi as Liberal Democratic Party president and Japan’s prime minister. Abe took the reins of the LDP Sept. 20 and control of the government Sept. 26. China welcomed Abe with the same words it welcomed Taiwan’s President Chen Shui-bian: it would listen to what he says and watch what he does. Even before taking office, Abe made clear his interest in finding a path to a summit meeting with China. As the fourth quarter begins, Japanese and Chinese diplomats are exploring various paths to a summit.

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Missiles and Prime Ministers May Mark a Turning Point

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

North Korea’s missile launches in July and the election of Abe Shinzo as Japanese prime minister in September may have marked the beginning of a new chapter in Northeast Asian regional relations. Both events are widely seen to presage possibilities in the region. The missile launches marked the escalation of the North Korean issue to new heights, prompting a stern response even from countries such as China and South Korea. How Japan under Abe might deal with both North and South Korea has been the source of tremendous speculation; it remains to be seen how and in what manner Abe’s foreign policy will develop. Even as Tokyo and Seoul were haggling over territorial claims, Pyongyang’s missile tests, and Yasukuni, economic relations continued to deepen.

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While top leaders socialized at summits (G-8 and the Shanghai Cooperation Organization prime ministerial meeting), Russian and Chinese diplomats were in overdrive to deal with North Korea and Iran. The position of Beijing and Moscow has eroded because of the stalemate in the two nuclear talks. Bilateral interactions between Beijing and Moscow proceeded at full speed, as more than 200 events at both the elite and popular levels unfolded across China and Russia. Talks of a joint mission to Mars were also heard. And the oil pipeline from Eastern Siberia to the Pacific Ocean is reportedly being built at a fast tempo. However, by quarter’s end, the two sides decided to shorten the term of bilateral visa-free visits from 30 to 15 days to prevent trips from being “used for wrong purposes.”

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by Bronson Percival, The CNA Corporation

China is replacing Japan as the most influential Asian state in Southeast Asia. Japan now often trails in China’s wake. Tokyo has not been blind to Beijing’s sophisticated campaign to increase China’s influence in this region, but its response thus far has been too little, too late. Traditional issues such as investment, trade, and aid continue to dominate Japan-Southeast Asia bilateral relations. For Japan, these economic issues are managed, often on autopilot, by individual Japanese government ministries. There are few contentious issues in the Japan-Southeast Asia relationships and Japan retains a massive economic stake in the region. Tokyo is well positioned to exert greater influence if and when it puts its own house in order.

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Regional Overview

Déjà Vu All Over Again with North Korea

Ralph A. Cossa, Pacific Forum CSIS
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The last quarter ended with the international community playing “will they, or won’t they” over North Korea’s threatened missile test; they did! This quarter it’s *déjà vu* all over again, this time concerning a threatened nuclear weapons test. Following the UN Security Council’s surprisingly tough response to the missile tests, efforts were made to jump-start the negotiation process at this summer’s ASEAN Regional Forum (ARF) meeting. This attempt proved fruitless, however, as North Korea’s foreign minister refused to come to an “informal” six-party meeting, despite the opportunity to meet face-to-face with U.S. Secretary of State Condoleezza Rice (who, despite genuine crises in the Middle East, made the extra effort to attend this year’s ministerial meeting). Elsewhere in Asia, ASEAN foreign ministers held their 39th annual Ministerial and numerous 10+1 post-ministerial talks (including a productive session with Secretary Rice), along with an ASEAN Plus Three meeting with their counterparts from China, Japan, and the ROK. Meanwhile, the democratic process continued to witness ups and (mostly) downs in Asia, as the military coup in Thailand reminds us of just how fragile the democratic process remains in Asia.

Five vs. one: finally, but for how long?

North Korea’s early July missile launches resulted in a rare instance of the international community speaking with one voice in condemning North Korea’s provocative behavior. It had long been Washington’s hope that the Six-Party Talks would provide a five vs. one forum in which it could bring pressure against Pyongyang. In truth, it seldom worked that way, with the U.S., perhaps more often than North Korea, being seen as the one (or, at best, two, with Japan normally by its side) as China, South Korea, and Russia kept calling for more “flexibility” from Washington.

All this changed, at least temporarily, in the wake of the missile tests. Pyongyang’s actions helped to accomplish in 10 days what U.S. officials had failed to accomplish in almost four years of diplomacy: a unanimous United Nations Security Council (UNSC) resolution that condemned the July 5 (Fourth of July in the U.S.) missile launches and demanded that North Korea “suspend all activities related to its ballistic missile programs.”

UNSCR 1695 was no watered-down resolution. In addition to demanding an end to all ballistic missile activities, the resolution also “requires” all member states to prevent missile-related goods and technology from being transferred to the North and also “requires” all member states to “prevent the procurement” of such goods from North Korea, while banning the “transfer of any financial resources in relation to DPRK’s missile or WMD [weapons of mass destruction] programmes.” While the terms “embargo” or “sanctions” were not used, the intent is crystal clear: no sales of missiles or missile-related technology to North Korea and no purchases of such weapon systems from them as well.

While the missile launches provided the catalyst for UNSC Resolution 1695, its reach was more comprehensive. It specifically addressed North Korea’s nuclear weapons ambitions, “deploring . . . its stated pursuit of nuclear weapons in spite of its Treaty on Non-Proliferation of Nuclear Weapons [NPT] and International Atomic Energy Agency (IAEA) safeguard obligations.” It also reaffirms the May 2004 UNSC Resolution 1540, which obligates all member states, under Chapter 7 which makes measures enforceable by armed action if necessary, to prevent the proliferation of weapons of mass destruction and associated delivery systems.

The resolution also expressed the UNSC’s “grave concern about DPRK’s indication of possible additional launches” and “underlined, in particular to the DPRK, the need to show restraint and refrain from any action that would aggravate tension.” It further noted that the UNSC “decides to remain seized of the matter,” suggesting that even stronger action could be forthcoming in the face of future acts of provocation by North Korea.

For its part, Pyongyang strongly denounced the UNSC resolution, calling the action “completely unreasonable and brigandish behavior.” Nonetheless, while an official Foreign Ministry statement defiantly stated that the DPRK “will not be bound to [UNSC 1695] in the least,” there has been no subsequent testing to date . . . at least, not yet!

Instead, Pyongyang found a new provocation – very visibly making preparations in mid-August for a suspected nuclear weapons test, according to U.S. and Russian intelligence sources. Despite a new round of warnings not to do so (and assurances to a friendly American interlocutor that it would not), Pyongyang launched another “will they or won’t they?” round of debate on Oct. 3, by announcing that it “will, in the future, conduct a nuclear test.” [The debate was short-lived; on Oct. 9 Pyongyang announced its first nuclear weapons test.]

UNSC Resolution 1695 also called for the resumption of the Six-Party Talks and “strongly urges” the North to return to the talks “without preconditions.” This was not meant to be, despite strong endorsements of this dialogue process at virtually every international gathering during the past quarter and an attempt by Washington to convene an informal six-party session in Kuala Lumpur along the ARF sidelines.

Six minus one plus five

Previously in these pages, we have called for the setting of a date certain for the next round of Six-Party Talks, making it clear to Pyongyang that the other five would meet in “Six Minus One” talks if it refused to attend. This came close to happening at the July 28 ASEAN Regional Forum ministerial meeting in Malaysia when Washington proposed that the foreign ministers of all six countries, who would already be present in Kuala Lumpur, hold an “informal” session (so dubbed because the formal sessions are hosted by China in Beijing). Pyongyang promptly refused, with a Foreign Ministry spokesman telling the press “If the Americans want to see the Six-Party Talks quickly, then go tell them quickly to remove the financial sanctions” – a reference to the financial crackdown instituted by Washington against DPRK counterfeiting and money-laundering activities last fall.

The other five parties decided to meet anyway, but in a five plus five setting – with Washington inviting Australia, Canada, and ARF host Malaysia, and Beijing adding Indonesia and New Zealand – for a “general discussion of security issues in Northeast Asia,” reportedly after Seoul and Beijing made it clear that they would not participate in a “Six Minus One” session focused on North Korea *per se*. Assistant Secretary of State Christopher Hill described the Five Plus Five (5+5) meeting as “sort of general discussion of what can be done to develop security structures in Northeast Asia,” noting that “it’s not intended to reach any conclusion; it’s intended to be a good discussion.” Hill said that there was no fixed agenda but noted that “if somebody raises the [DPRK] missile launches, and I can assure you that someone will mention the missile launches, that will be discussed.”

All parties agreed that this new forum was not a substitute for the Six-Party Talks, which Secretary Rice said the U.S. was ready to resume “at any time, at any place, and without any conditions.” However, she also saw a need for “robust dialogue” on Northeast Asia security issues and hoped this new grouping could “begin the basis for such cooperation,” calling for “a new regional dialogue that can help us overcome historical tensions, help us to increase security, and help us to lay a better basis for enhanced prosperity throughout the region.”

Five plus five minus a few

Secretary Rice noted in Kuala Lumpur that the annual September UN General Assembly meetings in New York might provide the setting for another round of 5+5 Talks and Washington set out to make this happen. Not surprisingly, North Korea again opted out, with its Deputy Foreign Minister Choe Su-hon choosing instead to use his General Assembly bully pulpit to condemn Washington’s “vicious, hostile policy,” in a performance rivaling his fellow “axis of evil” compatriot, Iran President Mahmood Ahmadinejad (although both fell short of the new standard set by Venezuela President Hugo Chavez, who appeared to be auditioning for Saddam Hussein’s old spot in the club). Of note, the official North Korean version of Choe’s speech referred to his own

nation as the Democratic Peoples Republic of Korea (DPRK) but reverted to its old form by referring to the Republic of Korea exclusively as south Korea (with a lower case “s”).

Meanwhile, Secretary Hill quipped that the New York second round of 5+5 dialogue “turned out to be the Six Minus One Plus Two Plus Three Minus Two” talks as China and Russia elected not to participate this time. (Malaysia also skipped the meeting, with the Philippines joining Indonesia as the other ASEAN representative.) China’s absence was particularly unfortunate, as Hill noted that “several [unnamed] participants commented that they thought China should be doing more” to pressure Pyongyang to come back to the Six-Party Talks.

As in Kuala Lumpur, Hill stressed that the objective was “not to have an immediate sort of actionable outcome or something; it’s simply to have information exchange.” Among the pieces of information exchanged were details on the sanctions recently imposed by Australia and Japan on North Korea in accordance with UNSCR 1695; Washington has prepared its own new package of sanctions but is looking to others to lead the way on this issue. Secretary Rice reportedly suggested that the next 5+5 session take place in Hanoi in mid-November, along the sidelines of the annual Asia Pacific Economic Cooperation (APEC) Leaders Meeting. It will be interesting to see if China and Russia return to the group; North Korea is not an APEC participant.

Meanwhile, back at the ARF

Many hoped that there would at least be an opportunity for some one-on-one diplomacy between Secretary Rice and DPRK Foreign Minister Paek Nam-sun along the sidelines of the ARF, but Assistant Secretary Hill made it clear that this was not in the cards: “We have zero plans to meet with the North Koreans,” Hill asserted, saying the opportunity for a meeting was there, but only in the six-party context, which Pyongyang had refused. “We do not have any intention of engaging them bilaterally until they are back in the [six-party] diplomatic game,” Hill firmly stated, since this would allow Pyongyang “essentially to jettison the six-party process.”

The ARF Chairman’s Statement called on the six parties to resume their dialogue “without preconditions.” All ministers “emphasized that the denuclearization of the Korean Peninsula is essential” and reaffirmed support for the Sept. 19, 2005 Joint Statement on the Denuclearization of the Korean Peninsula. Most ministers “expressed concern over the test-firing of missiles by the DPRK on July 5, 2006 and believed that such tests could have adverse repercussions on peace, stability, and security in the region.” In this regard, the ministers also “urged” Pyongyang to “reestablish its moratorium on missile testing.” Minister Paek argued strenuously against any reference to the missile tests, reportedly threatening that “we may reconsider whether to stay in ARF” if such a statement appeared.

It's not all about Korea!

The focus on Korea and the side meetings caused the 13th annual ASEAN Regional Forum meeting itself to be largely overshadowed. In truth, nothing very newsworthy occurred. The ministers “reaffirmed the importance” of ASEAN’s Treaty of Amity and Cooperation (TAC) and welcomed Australia’s accession and France’s decision to accede – the U.S. remains one of the few remaining holdouts. They “condemned all acts of terror, violence, and destruction” with some ministers also expressing concern over the “disproportionate, indiscriminate, and excessive use of force” in Lebanon and the Occupied Palestinian Territories.

The ARF Chairman’s Statement also repeated, essentially verbatim, the comments contained in the July 25 ASEAN Ministerial Meeting Joint Communiqué regarding Myanmar, expressing “concern on the pace of the national reconciliation process and hope to see tangible progress that would lead to peaceful transition to democracy in the near future.” The ministers also “reiterated their calls for the early release of those placed under detention and effective dialogue with all parties concerned.” On the other hand, they also noted that Myanmar “needs both time and political space to deal with its many and complex challenges.” While this statement was a bit meeker than some earlier ones regarding Myanmar, Secretary Rice applauded it as “an important evolution of the ASEAN position.”

In other news, Bangladesh was admitted as the ARF’s 26th participant and the ministers agreed to the admission of Sri Lanka as the 27th participant, effective at next year’s ministerial in the Philippines.

A (very) few words on the EAS

The ARF and 5+5 sessions were preceded by the 39th ASEAN Ministerial Meeting (AMM), which noted the “progress made in moving toward the realization of the ASEAN Community by the year 2020.” The ministers “reaffirmed the roles of ASEAN as the primary driving force of the ARF process and the ARF as the primary forum in enhancing political and security dialogue and cooperation in the wide Asia-Pacific region.” The latter admission was significant in that some have argued that the East Asia Summit (EAS) was now destined to play that role.

In the Joint Communiqué, the EAS was identified as “an open, inclusive, transparent and outward-looking forum [that] would serve as a platform for dialogue on broad strategic, political, and economic issues of common interest to promote peace and economic prosperity in East Asia.” This “Leaders-led Summit” was heralded as “an important event of historical significance” that would promote community building and be “an integral part of the evolving regional architecture.”

ASEAN remains in the driver's seat

At the AMM and ASEAN Plus Three (A+3) meeting that followed, it was made clear that A+3 would remain the “main vehicle” for East Asia community building and that ASEAN would remain “the driving force” behind the A+3. Discussions are already underway for a Joint Statement on East Asia Cooperation, and an accompanying Work Plan, to be issued at the 2007 commemoration of the 10th anniversary of A+3 cooperation.

The ASEAN ministers also called on the United Nations to support the ASEAN candidate, Thai Deputy Prime Minister Surakiat Sathirathai, for the post of United Nations Secretary General. Even before the Thai coup, however, it appeared that another Asian candidate, ROK Foreign Minister Ban Ki-moon had the inside track for the job.

Finally, as expected, the Philippines was elected as the incoming Chair of the 40th ASEAN Standing Committee with Singapore as the vice chair. Alphabetically speaking, it was supposed to have been Myanmar's turn but recall at last year's AMM Yangon agreed to skip its turn so it could “focus its full attention on the ongoing national reconciliation and democratization process.” Clearly, more “focus” is needed.

ASEM stumbles into a second decade

While Myanmar remains the odd man out in Asia, it was permitted to be the odd man in when the Europeans and Asians met for their sixth biannual summit in Helsinki in September, marking the Asia-Europe Meeting (ASEM) 10th anniversary. ASEM was intended to strengthen the third leg of global relations – the Asia-Europe axis – but it has had marginal political utility despite growing economic ties between the two regions and the group's claim to represent 38 countries. The primary culprit has been Myanmar: European leaders object to the ruling junta's reprehensible human rights policies and refuse to meet its representatives, while Asians are troubled by the idea of Europeans dictating who can speak for the region.

This year, Finland, the European chair, broke with precedent and extended visas to Myanmar's representatives, arguing that a face-to-face meeting would allow Europe to send a clear and unambiguous message. The results were unimpressive: Myanmar's Foreign Minister U Nyan Win parried complaints about his government's human rights policies and indifference to democratic governance by demanding time to reform in a way that is compatible with his country's particular circumstances.

After that bracing exchange, the meeting agenda covered common threats ranging from globalization to terrorism. More substantively, discussion focused on energy issues, and specifically, on ways to promote energy efficiency and how to prevent global warming; the governments agreed in theory to extend the Kyoto Protocol beyond 2012 when it is scheduled to expire. The ASEM Chairman's Statement called for “the widest possible cooperation” to fight climate change; ASEM members are “committed to enhancing energy efficiency and scaling up new and renewable energy, adapted to local

circumstances.” That must be balanced against developing countries’ “legitimate priority needs” to use economic growth to better the lives of their citizens and to reduce poverty. In other words, while Asia’s developing nations acknowledged the global threat posed by climate change, they remain reluctant to make commitments that might slow their development. In their view, global warming is a problem created by developed nations, and one for which they bear the primary responsibility to respond.

The Chairman’s Statement called on Pyongyang to return to the Six-Party Talks, criticized the July missile tests, and urged the country to address “humanitarian concerns,” including the kidnapping of Japanese and South Korean citizens. Iran was told to suspend its uranium enrichment program and to resume negotiations on a permanent solution to that nuclear standoff. More generally, the statement “emphasized the importance of multilateral efforts for strengthening disarmament and the nonproliferation of Weapons of Mass Destruction (WMD) and their means of delivery. [Members] stressed the importance of universalization, implementation and compliance with the international disarmament and nonproliferation treaties, including the need to implement UNSC Resolution 1540/2004.”

The Chairman’s Statement also “took note of the EU’s intention to accede to the Treaty of Amity and Cooperation (TAC) and looked forward to the EU’s participation in the rapidly evolving regional cooperation...” While Asian nations no doubt appreciate the support for the document that serves as the cornerstone for regional integration, the real meaning of this move is unclear. In theory, it opens the door to European participation in the East Asia Summit; in fact, the twice-yearly EU summit is held at the same time, so EU leaders won’t be heading to Asia for the meeting. It may increase pressure on Washington to accede to TAC (if anyone in the U.S. is paying attention), but U.S. and European military interests in the region diverge significantly enough to dismiss the EU move. We continue to believe that is a mistake.

APEC, active as ever

There was the usual lengthy list of meetings associated with the Asia-Pacific Economic Cooperation (APEC) forum. Among the highlights was the 13th APEC finance ministers’ meeting, which was held in Hanoi, Sept. 7-8. The joint ministerial statement included the usual boilerplate: the elimination of global imbalances, to be achieved by higher consumption in Asia and greater savings in the U.S., more exchange rate flexibility, and continuing reforms to promote liberalization.

APEC senior officials met 10 days later to hammer out the agenda for the 8th APEC Joint Ministerial Meeting and the 13th APEC Economic Leaders’ Meeting, which will be held Nov. 15-16 and Nov. 18-19, respectively. Topping their concerns were the collapse of the Doha Round of world trade talks, the role of regional trade agreements (RTAs) – in particular, their consistency with global trade rules and the development of model measures to guide future negotiations of RTAs – and a draft action program on trade facilitation to reduce transaction costs by 5 percent between 2006-2010.

After the meeting, Vietnam's Deputy Foreign Minister and SOM III Chairman Le Cong Phung told reporters that members had reached a consensus on the need to reform APEC to make it more effective and flexible. He also underscored continuing divisions among the group, noting that several issues had not been resolved at the meeting and would be taken up at the next SOM, scheduled for Nov. 12-13, and by the leaders, if necessary, when they meet Nov. 18-19.

Democracy in action and undermined

Democracy was both at work and undermined this quarter. In Tokyo, there was a peaceful leadership transition. In Thailand it occurred by force, even if no shots were fired. In between, democratically elected leaders in Taiwan and the Philippines found themselves under increasing political fire; in the latter case the possibility of future coup attempts is ever-present. Myanmar, as already discussed, has experienced no movement in its "democratization process." On the other hand, the first rumblings of democracy are being felt in Vietnam.

Abe seeks better relations with China. In Japan, Prime Minister Koizumi Junichiro stepped down (as planned) as president of the Liberal Democratic Party (LDP), and Chief Cabinet Secretary Abe Shinzo won the election to succeed him – as anticipated. After prevailing in the party ballot, he was selected prime minister by the government coalition that is headed by the LDP.

Abe has an impressive political lineage. His father was a foreign minister, his grandfather Kishi Nobusuke served as prime minister and was a strong supporter of the alliance with the U.S. The new prime minister is said to have learned his politics on his grandfather's knee. He is a conservative nationalist, but a pragmatic and principled politician. In his first policy speech, he called on Japan to be a "country that is trusted and loved" by the entire world. He pledged to pursue "assertive diplomacy," and vowed to improve ties with Japan's neighbors, China in particular. As the quarter ended, the new prime minister was scheduled to meet ROK President Roh Moo-hyun in early October and negotiations were under way for a similar meeting with Chinese Premier Wen Jiabao. The prospect of visits to Yasukuni continue to throw a shadow over both relationships, but Abe appears committed to finding some resolution to this problem that does not look like a concession to Beijing or Seoul.

Chen remains under fire. In Taiwan, extraparliamentary practices got the most attention. President Chen Shui-bian's problems have intensified this quarter. Allegations of corruption continue to swirl around his family. Prosecutors cleared his wife of receiving department store vouchers in exchange for favors, but son-in-law Chao Chien-ming was indicted on charges of insider trading. While there is no indication that President Chen is involved in either of those scandals, allegations of mishandling presidential funds have come considerably closer to scoring hits. In response to the tawdry atmosphere, Shih Ming-teh, a former Democratic Progressive Party (DPP) activist with considerable credibility within and beyond the ruling party – a result of the more than 25 years he spent in jail when Taiwan was under martial law – organized street

protests to force Chen to resign. He launched demonstrations Sept. 9 with a sit-in in front of the Presidential Palace. Tens of thousands of people later took to the streets at his urging, demanding the president's resignation. On Sept 15, at least 300,000 people rallied in Taipei to demand Chen's resignation. Shih has continued his drive to force the president's resignation, even embarking on an island-wide bus tour to rally support.

While the protests are unlikely to have the desired effect, they will add to the fervent in Taiwan politics. More troubling still, the pressure on President Chen could prod him to take provocative action vis-a-vis cross-Strait relations to regain the initiative in domestic politics. His most recent attempt to do just this – a Sept. 28 declaration that “Taiwan is Taiwan, China is China, and Taiwan and China are two totally different countries,” drew only the most perfunctory of complaints from Washington and Beijing, showing just how marginalized the Taiwan president has become.

Thaksin's 'interim' government ousted. Uncertainties about Thailand's political future were swept away – or compounded, depending on the point of view – by a coup on Sept. 19, when Gen. Sonthi Boonyaratglin overthrew the government of Prime Minister Thaksin Shinawatra. Thailand had been rudderless after April 2 election results were overturned by the country's supreme court. A new vote was scheduled for Oct 15, but leading military figures – enjoying, it is rumored, the support of King Bhumipol Adulyadej – had grown frustrated with Thaksin's rule, in particular corruption surrounding his immediate circle. Reports that the prime minister planned to promote cronies in the military, allegedly to help him remain in power, may have been the last straw, prompting Sonthi “to end democracy in order to save it.”

Within two weeks, the junta named a highly regarded former general and member of the King's advisory Privy Council, Surayud Chulanont, as prime minister and unveiled an interim constitution that solidified the military's role in national politics, despite promising that its intervention in national politics would be short and a quick return to civilian rule. Investigations into the former prime minister's business deals were under way – in particular the sale of Shin Corporation, a telecommunications company owned by Thaksin's family, to a Singapore investment company – and his Thai Rak Thai (Thais Love Thais) political party was dissolving.

The U.S. government immediately condemned the coup, calling it “a step backward for democracy,” and a week later suspended \$24 million in military assistance to Thailand, invoking Section 508 of the Foreign Operations Act, which bars certain aid programs to governments that have taken power by force. Washington continues to demand “a swift return to democratic rule ... [and] a handover to civilian authorities as quickly as possible.” Note that it has not insisted on Thaksin's reinstatement!

Neighborhood reactions. Other Asian governments lamented the turn the events, while maintaining their traditional reluctance to be seen as intervening in domestic affairs. In truth, few lamented Thaksin's departure. Thailand's Muslim neighbors, in particular, hoped that the new leaders would be more forthcoming in dealing with domestic problems in Thailand's predominantly Islamic south (and there are preliminary

indications that this will, in fact, be the case). Meanwhile, in Manila, there was some speculation about the coup encouraging military officials there to deal with a similarly nettlesome government, but President Gloria Magapagal-Arroyo has dismissed any concern and there have been no echoes or portents since the coup.

‘Bloc 8406’ calls for democratic reform. While the democratic process has taken a (hopefully temporary) step backward in Thailand and shown no movement at all in Myanmar, there have been some encouraging signs of late in Vietnam. On Aug. 22, a group calling itself Bloc 8406 publicly declared a four-phase proposal for Vietnam’s democratization, including demands for the restoration of civil liberties, the establishment of political parties, the drafting of a new constitution and, finally, democratic elections for a new representative National Assembly.

Bloc 8406 emerged earlier in the year, on April 8, 2006 (hence its name), when 118 aspiring democrats boldly signed their name to a “Manifesto on Freedom and Democracy,” coincident with the Vietnamese Communist Party’s 10th National Congress. While many of the original signatories have been harassed (or worse) – several of its leaders have been arrested with whereabouts currently unknown and a planned online policy magazine, entitled “Freedom and Democracy” was shut down prior to publication – thousands of sympathizers have signed the Manifesto and the group has gained some international recognition and support.

Bloc 8406 is currently focusing on two major upcoming events, the APEC summit to be held in Hanoi in November and the Vietnamese National Assembly elections scheduled for July 2007. Bloc 8406 has initiated a campaign to boycott next year’s elections unless there are reforms to ensure a free and fair vote – independent political parties are currently prohibited and there are strict limitations on the ability of non-Communist Party endorsed individuals to stand for election.

All eyes will be on Hanoi to see how it handles this nascent democratic movement during the lead-up to the APEC Summit and during (and after) the event itself.

In the next quarter

The quarter ended with all eyes firmly focused on North Korea. Pyongyang’s brinkmanship poses severe challenges for the U.S. and all the governments of Northeast Asia, as well as the UN and key pillars of the global nonproliferation order. A North Korean test will rattle relations among the states of East Asia and shake the foundations of the regional security order. It is hard to tell when the aftershocks will end. We will soon know whether the parties understand the stakes. The fallout from Pyongyang’s declared nuclear weapons test will be a hot topic in the new quarter.

Meanwhile, the international community will continue to closely monitor how quickly and seriously the Thai generals honor their pledge to restore Thai democracy and how maturely Vietnam’s leadership handles its own nascent democratic movement when the spotlight shifts to Southeast Asia in mid-November for the APEC Leaders’ meeting – and

presumed next round of 5+5 (give or take a few) Talks, followed by the second East Asia Summit in the Philippines in December.

Regional Chronology

July-September 2006

June 26-July 28, 2006: Eight nations including Japan and South Korea participate in the 20th U.S. *Rim of the Pacific (RIMPAC) 2006* exercises.

July 1, 2006: Two U.S. Navy ships dock at Ho Chi Minh City, the fourth U.S. Navy visit to Vietnam since the war ended in 1975.

July 3-8, 2006: President Ozawa Ichiro leads a Democratic Party of Japan delegation to China at the invitation of the Communist Party of China. On July 4, Ozawa meets Chinese President Hu Jintao.

July 5, 2006: North Korea launches seven ballistic missiles – six *Nodong* and *Scud* missiles tests were successful; the one *Taepodong-2* missile launch failed.

July 6, 2006: President Bush consults with Japanese PM Koizumi and Chinese President Hu regarding North Korea missile tests.

July 6, 2006: China and India reopen Nathu La Pass, which has been closed for 44 years, as part of their Expanding Border Trade Agreement from 2003.

July 7, 2006: U.S. and Japan submit a resolution for binding sanctions against North Korea for its missile tests, along with a moratorium on missile tests and a return to Six-Party Talks.

July 7-12, 2006: Assistant Secretary of State for East Asia and Pacific Affairs Christopher Hill travels to the region to consult with Six-Party Talk negotiators in Beijing, Seoul, and Tokyo.

July 8-9, 2006: Sixth round of China-Japan consultation on the East China Sea is held in Beijing.

July 10, 2006: Chief Cabinet Secretary Abe says Japan should consider whether Japan's constitution allows Japan to attack North Korea missile bases as an act of self-defense.

July 10-13, 2006: Second round of Korea-U.S. FTA negotiations held in Seoul. The meeting ends a day early after the parties are unable to come to an agreement over pharmaceutical sector.

July 10-15, 2006: PRC Vice Premier Hui Liangyu visits North Korea as head of the goodwill delegation commemorating 45th anniversary of the Treaty on Friendship, Cooperation, and Mutual Assistance. Vice Foreign Minister Wu Dawei is one of the delegates.

July 11-15, 2006: DPRK delegation led by Supreme People's Assembly Vice Chairman Yang Hyong-sop arrives in Beijing for friendship treaty celebrations.

July 11-19, 2006: Indonesian and U.S. Navies began their annual *CARAT* exercises to enhance bilateral cooperation. The 2006 *CARAT* exercises began in Singapore in June and were followed by Thailand and then Indonesia. Brunei, Malaysia, and the Philippines will follow before the exercises conclude in August.

July 12, 2006: Chief Cabinet Secretary Abe clarifies his comment on a preemptive strike, saying that he was thinking about a scenario in which missiles had already been fired at Japan.

July 12, 2006: During Japan visit, Taipei Mayor Ma Ying-jeou urges Koizumi to take a broader view of history and reconsider visits to Yasukuni.

July 12, 2006: China and Russia introduce UN resolution that condemns the missile tests and calls for a moratorium on missile testing and a return to the Six-Party Talks, but does not call for binding sanctions.

July 12-13, 2006: The 19th Inter-Korean Ministerial talks held in Busan, South Korea.

July 13, 2006: U.S. Pacific Commander Adm. William Fallon begins a four-day visit to Vietnam for military and security discussions, his first in his current post.

July 13-14, 2006: South Korea and the U.S. hold ninth Security Policy Initiative talks.

July 13-16, 2006: Cambodian Deputy Prime Minister and Minister of Foreign Affairs Hor Namhong pays official visit to China.

July 15, 2006: UN Security Council unanimously adopts Resolution 1695 to impose limited sanctions on North Korea. North Korea rejects resolution 45 minutes after vote.

July 15-17, 2006: Group of Eight (G-8) summit held in St. Petersburg, Russia. The U.S. and China have side-meetings to discuss the North Korea nuclear crisis.

July 16, 2006: PRC, Russia, India, Brazil, South Africa, Mexico, and the Republic of Congo meet along G-8 sidelines to discuss energy security, epidemic diseases, education, African development, etc.

July 17, 2006: China, Russia, and India hold summit in St. Petersburg.

July 17, 2006: U.S. Pacific Commander Adm. William Fallon pays introductory visit to Cambodia.

July 18-19, 2006: Stuart Levey, U.S. undersecretary for terrorism and financial intelligence, briefs officials in Hanoi on illicit North Korean banking activities in Vietnam.

July 19, 2006: North Korea notifies South Korea that it would stop inter-Korean family reunions in response to the ROK halt of humanitarian aid.

July 19, 2006: Six North Koreans will be granted permanent residency in U.S. for fiscal year 2007 as part of the 2007 Diversity Visa Lottery.

July 23, 2006: ASEAN Senior Officials Meeting held in Kuala Lumpur, Malaysia.

July 24, 2006: U.S. and Malaysian navies begin a 10-day *CARAT* exercise involving some 3,000 personnel. The exercise includes land and sea combat and rescue.

July 24, 2006: The Doha Development Agenda negotiations are suspended because gaps between key players remain too wide. WTO Director General Pascal Lamy does not suggest how long the talks would be suspended.

July 24-25, 2006: The 39th ASEAN Ministerial Meeting is held in Kuala Lumpur.

July 24-28, 2006: Secretary of State Rice travels to Asia to attend the ARF in Malaysia.

July 26, 2006: *Yonhap News* reports since February North Korea has asked Asan Hyundai to pay tour fees in euros rather than U.S. dollars.

July 26, 2006: ASEAN Plus Three Senior Officials and Foreign Ministers meetings held in Kuala Lumpur, Malaysia.

July 26, 2006: Ad hoc consultations among East Asia Summit senior officials take place in Kuala Lumpur.

July 27, 2006: ASEAN Plus Ones (Australia, New Zealand, Canada, Russia, EU, U.S., etc.) are held in Kuala Lumpur. Secretary Rice signs Framework Agreement for Plan of Action to implement the ASEAN-U.S. Enhanced Partnership.

July 28, 2006: Thirteenth ASEAN Regional Forum is held in Kuala Lumpur. Secretary Rice attends.

July 28, 2006: South Korea, China, Japan, Russia, the U.S., Australia, Canada, Indonesia, Malaysia, and New Zealand hold 5+5 Talks in Kuala Lumpur to discuss North Korea as well as other broader regional security concerns.

Aug. 5, 2006: Chad switches diplomatic relations from Taipei to Beijing.

Aug. 9, 2006: A *Yomiuri Shimbun* poll shows that half of respondents do not want the next prime minister to visit Yasukuni, marking the first time in three surveys since February that those opposed exceed those in favor.

Aug. 9-10, 2006: Undersecretary of State Paula Dobriansky leads U.S. delegation to the second U.S-China Global Issues Forum in Beijing. On the agenda is clean energy, public health, humanitarian assistance, human trafficking, and other sustainable development issues.

Aug. 10, 2006: Taipei's allies submit annual resolution to UN on Taiwan participation.

Aug. 10-11, 2006: Japan PM Koizumi visits Mongolia.

Aug. 11-26, 2006: Mongolian-U.S. military exercise *Khaan Quest 2006* held in Mongolia is the capstone event for the Global Peace Operations Initiative, which is to address gaps in international peace operations.

Aug. 14, 2006: Ambassador Vershbow says that transferring operation control of armed forces during wartime to South Korea will strengthen the U.S.-Korea alliance.

Aug. 14-21, 2006: The Philippine and U.S. Navies engage in a *CARAT* exercise involving 8,000 Philippine marines and 2,000 U.S. personnel. The exercise includes counterterror and transnational crime scenarios.

Aug. 15, 2006: Japan PM Koizumi visits Yasukuni Shrine and elicits outrage from China and South Korea.

Aug. 16, 2006: Russian coast guard forces fire on a Japanese fishing boat operating in disputed waters, killing one Japanese crewmember. The three other crewmembers are arrested and detained on Sakhalin.

Aug. 17, 2006: *ABC News* reports that U.S. intelligence believes that a North Korea nuclear test is a "real possibility."

Aug. 21-Sept. 1, 2006: U.S. and South Korea hold *Ulchi Focus Lens* exercises across the Korean Peninsula.

Aug. 22, 2006: North Korea threatens to quit the armistice that ended the Korean War over the *Ulchi Focus Lens* exercise and considers the exercise an "act of war."

Aug. 22, 2006: Four-member U.S. team arrives in the Philippines to assist in the cleanup of an oil spill Aug. 11 at the request of the Philippine government.

Aug. 22, 2006: General Secretary of the Vietnamese Communist Party Nong Duc Manh starts an official five-day visit to China. It is agreed to make 2008 the deadline to settle all border disputes between Vietnam and China.

Aug. 22, 2006: Bloc 8406 reform group outlines four-phase plan for Vietnam's democratization.

Aug. 23, 2006: Ninth ROK-Australia Political-Military Dialogue held in Seoul.

Aug. 23, 2006: Thai police arrest some 175 North Korea asylum seekers in Bangkok. None will be repatriated to North Korea without their signed consent.

Aug. 24, 2006: Taiwan Army's commander-in-chief Gen. Hu Chen-pu on a visit to Japan as a tourist attends live-fire drills by the Japanese Self-Defense Force.

Aug. 26, 2006: Kim Jong-il is reported by Japan's *Kyodo News* as having called China and Russia "unreliable," saying that North Korea should overcome the international standoff over its nuclear and missile programs on its own.

Aug. 27, 2006: Some 39 Japanese fishing boats enter Russian-claimed territorial waters near Hokkaido and are chased out by Russian border guard ships after an hour. The Russian Foreign Ministry lodges a complaint with the Japanese Embassy in Moscow.

Aug. 28-31, 2006: PM Koizumi visits Kazakhstan and Uzbekistan to seek energy deals.

Aug. 30-31, 2006: ROK chief delegate to the Six-Party Talks Chun Young-woo meets U.S. chief delegate, Assistant Secretary Hill in Washington, D.C.

Sept. 4, 2006: Taiwan President Chen Shui-bian signs the Palau Declaration with six Pacific allies at the conclusion of the first Taiwan-Pacific allies summit in Koror, Palau. The declaration sets up a framework for future cooperation.

Sept. 4-5, 2006: Sixth round of talks on the demarcation of the exclusive economic zone and to set up a reliable system on early notification to conduct maritime mapping between Japan and South Korea held in Seoul.

Sept. 4-12, 2006: Assistant Secretary Hill visits Japan, China, and South Korea to discuss regional and global issues with senior government officials in the three countries. He will also meet with the six-party negotiators to get North Korea back to the table.

Sept. 6, 2006: Two Chinese naval vessels arrive in Pearl Harbor to participate in bilateral communications and passing exercises; later the Chinese ships will travel to California for search and rescue exercises Sept. 20.

Sept. 6, 2006: Taiwan's Executive Yuan adopts act to rename Chiang Kai-shek International Airport as "Taiwan Taoyuan International Airport."

Sept. 6-9, 2006: Third round of ROK-U.S. free trade agreement negotiations take place in Seattle, Washington.

Sept. 7, 2006: Third round of the ROK-Japan Vice Foreign Ministers' Strategic Dialogue held in Seoul to express views on territorial disputes, the North Korea nuclear issue, and the international situation.

Sept. 7, 2006: China appoints new ambassador to DPRK, Liu Xiaoming, a United States expert.

Sept. 7-8, 2006: The 13th Asia-Pacific Economic Cooperation finance ministers' meeting held in Hanoi.

Sept. 8, 2006: South Korea and Japan agree in principle to a joint survey in the East Sea on radioactive pollution from waste dumped by the former Soviet Union off of Vladivostok.

Sept. 8, 2006: Five Central Asian countries sign a Central Asia nuclear weapons free area treaty in Semipalatinsk, Kazakhstan.

Sept. 9, 2006: Japan-Philippine Economic Partnership Agreement is signed by Japan PM Koizumi and Philippine President Gloria Macapagal-Arroyo in Helsinki. The agreement takes effect in 2007 to liberalize flow of goods and services between the two countries.

Sept. 9, 2006: Tens of thousands of protesters gather in front of the Presidential Office for an open-ended sit-in campaign to oust President Chen.

Sept. 10, 2006: *The Daily Telegraph* reports that Kim Jong-il has made known to Russian and Chinese diplomats his plan to conduct an underground nuclear test.

Sept. 10-11, 2006: Sixth Asia-Europe Meeting (ASEM) held in Helsinki, Finland.

Sept. 12, 2006: UN decides not to consider Taiwan's UN bid.

Sept. 13, 2006: U.S. and China hold second round of U.S.-China Energy Policy Dialogue in Hangzhou, China to promote global energy security, protect the environment, and encourage bilateral economic growth and trade.

Sept. 14, 2006: U.S.-ROK Summit held in Washington, D.C.

Sept. 15, 2006: At a UN Security Council procedural meeting, China votes against a U.S.-backed proposal to include Myanmar's deteriorating situation in the Council's agenda. As this was a procedural vote, China could not use their veto to block the decision.

Sept. 15, 2006: DPRK's Supreme People's Assembly Vice Presidents Yang Hyong-sop and Kim Yong-dae meet with Chinese Ambassador Liu.

Sept. 15, 2006: The fifth meeting of the SCO's prime ministers held in the Tajik capital of Dushanbe, focusing on energy, transport, and telecommunications as priorities.

Sept. 15, 2006: Some 300,000 protesters call for President Chen's resignation as they march in front of the president's office and home.

Sept. 17, 2006: APEC Senior Officials' Meeting is held in Hanoi to draft agenda for the larger APEC gathering in November.

Sept. 19, 2006: Thai military carries out bloodless coup against Prime Minister Thaksin Shinawatra while he is attending the UN General Assembly opening.

Sept. 19, 2006: Japan and Australia adopt new financial sanctions against North Korea for July missile tests in accordance with UNSC Resolution 1695.

Sept. 19-22, 2006: U.S. Treasury Secretary Henry M. Paulson visits China; first Economic Strategic Dialogue held on Sept. 20.

Sept. 19-27, 2006: United Nations General Assembly (UNGA) is held in New York City.

Sept. 20, 2006: Abe Shinzo is elected the new president of the Japanese Liberal Party with 66 percent of the vote.

Sept. 20, 2006: The Chinese Ministry of Foreign Affairs spokesperson issues a brief statement commenting on the military coup in Bangkok as Thailand's internal affair.

Sept. 20, 2006: U.S. and Chinese navies hold a *Search and Rescue Exercise (SAREX)* off the coast of Southern California. The second-half of the exercise is scheduled to be held off the coast of China.

Sept. 20, 2006: U.S. and ROK chief nuclear delegates discuss the six-party process in New York.

Sept. 21, 2006: Second 5+5 (minus a few) meeting held in New York along UNGA sidelines.

Sept. 21, 2006: U.S. Ambassador to Korea Alexander Vershbow tells *Yonhap News* that Assistant Secretary Hill, could visit Pyongyang if the DPRK returns to the table.

Sept. 22, 2006: The joint U.S.-Russian Nuclear Cities Initiative (NCI), part of the Nunn-Lugar nonproliferation program, expires.

Sept. 23-24, 2006: Sixth round of China-Japan Strategic Dialogue held in Tokyo.

Sept. 23-28, 2006: NASA Administrator Michael Griffin visits China to gain an overview of the Chinese civilian space program.

Sept. 24, 2006: President Chen calls for reconsideration of territory defined in constitution.

Sept. 25, 2006: Shanghai Communist Party chief and Politburo member Chen Liangyu arrested on corruption charges.

Sept. 25-26, 2006: U.S. and 19 other nations attend the third government-industry Proliferation Security Initiative workshop in London, UK.

Sept. 26, 2006: Abe Shinzo succeeds Koizumi Junichiro as Japan's new prime minister.

Sept. 26, 2006: In a speech in Los Angeles, Russian Foreign Minister Sergei Lavrov tells his American audience that the United States will have to get used to a strong Russia.

Sept. 27, 2006: Prime Minister Abe and President Bush in a telephone call agree to maintain close ties and to meet in November at APEC meeting in Hanoi.

Sept. 27, 2006: A delegation from the Russian government arrives in Washington, D.C. to discuss Russia's remaining obstacles to joining the WTO.

Sept. 28, 2006: Japanese PM Abe and South Korean President Roh Moo-hyun agree by telephone call to hold a summit as early as possible.

Sept. 28, 2006: President Chen declares that "Taiwan is Taiwan, China is China, and Taiwan and China are totally different countries," drawing protests from Beijing and a reminder that Washington expects Chen to honor his previous commitments.

Sept. 28, 2006: Washington suspends \$24 million in military assistance to Thailand.

Sept. 29, 2006: Mid-Autumn festival cross-Strait charter flights begin between the PRC and Taiwan.

Sept. 29-Oct. 1, 2006: Vice Foreign Minister Wu Dawei visits Seoul to exchange views on how to jumpstart the six-party process.

Oct. 1, 2006: Surayud Chulanont, a former general and member of the Thai Privy Council, is sworn in as Thailand's interim prime minister.

Oct. 3, 2006: North Korea announces that it "will, in the future, conduct a nuclear test."



**U.S.-Japan Relations:
Enter Abe Stage Right**

**Michael J. Green, CSIS
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The key theme for the third quarter of 2006 has been the transition of power from Koizumi Junichiro to Abe Shinzo. Abe has just taken the helm, but he already had command of policy making before becoming prime minister. It was North Korea's July test-launch of seven missiles that gave Abe a chance to display his leadership credentials, setting the stage for a continued strengthening of the U.S.-Japan alliance. Koizumi's Aug. 15 visit to the Yasukuni Shrine raised questions and criticism in some corners in Washington about how ideological an Abe government might become, but the Koizumi visit may also have bought Abe time to decide how to handle the complex mix of history and power relations with China.

Japan's diplomatic victory in the UN

The curtain of the third quarter went up with North Korean fireworks. Both the Japanese and U.S. governments worked well together at the United Nations Security Council (UNSC) to reach a unanimous resolution condemning North Korea and imposing virtual, if not actual, Chapter 7 sanctions.

Japan's push for a tough response from the UNSC and China's eventual cooperation both resulted from a growing sense that Pyongyang is moving up its own escalation ladder. Despite demands for self-restraint from many countries including China, North Korea launched seven missiles (two *Nodongs*, four *Scuds*, and a *Taepodong-2*) on July 5 (July 4 in the United States) that landed in the Sea of Japan. Japan reacted quickly by imposing unilateral economic sanctions, including a ban on port entry for the ferry *Mangyongbyon-92*, which, running between Wonson in North Korea and Niigata, provides the main direct link between Japan and North Korea. The government also refused to allow North Korean officials to enter Japan and introduced a ban on charter flights between Japan and North Korea. On the day after the missile launches, Japan's Prime Minister Koizumi and U.S. President George W. Bush discussed the issue over the telephone and Japan officially proposed a United Nations Security Council resolution calling for sanctions on North Korea in response to the missile tests.

Although China and Russia preferred a presidential statement that would make sanctions voluntary and drop language drafted by Japan (and backed by the U.S.) that invoked Chapter 7 of the UN charter to enable future military action against North Korea, Japan

stuck to its strong stance and pushed for a tough resolution. In the end, the explicit reference to Chapter 7 was removed, but the UNSC succeeded in adopting unanimously Resolution 1695, which condemned North Korea's missile launches and called on member states to take specific steps to stop North Korea's trade in weapons of mass destruction (WMD) related items.

The successful ratification of a UNSC resolution was not the result of a compromise between the Japan-U.S. tag team and the Sino-Russian coalition, nor a defeat of Japan's diplomacy as some media sources claimed, but rather the result of stubborn but persistent diplomacy by both the U.S. and Japan following the tone set by the June 29 Koizumi-Bush Summit.

U.S.-Japan missile defense cooperation: preparing for the next launch

One effect of the North Korean missile launches was to boost U.S.-Japan missile defense cooperation. In July, both governments announced that *Patriot PAC-3* missiles (interceptors against ballistic missiles) would be deployed to Kadena Airbase in Okinawa with initial operational capabilities expected to be achieved by the end of the year. In addition, Japan's Maritime Self-Defense Force (MSDF) decided to deploy its sixth *Aegis* ship equipped with a sea-based *Standard Missile-3* interceptor missile system at its Sasebo base in Nagasaki. In late August, the United States deployed the *USS Shiloh*, a missile defense-capable destroyer equipped with *Aegis* technology, to the U.S. naval base in Yokosuka. Yokosuka also accepted the deployment of the U.S. nuclear-powered carrier *George Washington*, which is scheduled to replace the conventionally powered *USS Kitty Hawk* in 2008. The U.S. also conducted a test of its missile defense system over the Pacific on Sept. 1, and succeeded in hitting a dummy long-range missile (although only five tests out of nine were successful).

The debate over Yasukuni in the U.S.

As expected, Prime Minister Koizumi made his annual visit to Yasukuni Shrine, which enshrines Japan's war dead including 14 Class-A war criminals, on Aug. 15, the anniversary of the end of World War II. It was the sixth visit during his tenure as prime minister but the first visit on the anniversary of Japan's surrender in World War II. Koizumi visited Yasukuni Shrine annually since becoming prime minister in April 2001 despite fierce opposition and pressure from China, South Korea, and groups within Japan. China and South Korea were critical of the visits, but less than might have been expected this time since Koizumi's latest visit came at the end of his tenure.

Koizumi's visit also prompted more criticism in the U.S. than on past occasions. On Aug. 17, two days after Koizumi's Yasukuni visit, John Ikenberry of Princeton University published an article in the *Washington Post* titled "Japan's History Problem." Ikenberry criticized Koizumi's visits to Yasukuni as "the most visible manifestation of Japan's history problem" and argued that the next leader should stop visiting Yasukuni Shrine and pursue "historical reconciliation" with China and South Korea. He also cited the normalization between Germany and France as a successful example of reconciliation

and urged Japan to follow the German model. On Sept. 14 the U.S. House International Relations Committee held a hearing titled “Japan’s Relations with Its Neighboring Countries: Back to the Future?” In opening statements, Chairman Henry Hyde (R-IL), a veteran of the Pacific War, called for a review of the Yushukan War Museum, which is infamous for its revisionist views concerning the war. Ranking Democratic Member Tom Lantos (D-CA), the only Holocaust survivor in the U.S. Congress, criticized the Yasukuni visits by saying that visiting the shrine is akin to “laying a wreath at the graves of Heinrich Himmler, Rudolph Hess, and Herman Göring in Germany.” The other eight members who appeared before the committee did not mention Yasukuni or the history issue explicitly in their opening statements. All the members praised Japan’s contribution in Iraq and called for Japan to become a permanent member of the UN Security Council. For its part, the Bush administration refrained from criticizing or even commenting on the Yasukuni visit. State Department spokesman Sean McCormick set the tone by praising Japan’s role in the world and noting that he had no comment on the history issue or Yasukuni, because “it’s up to Japanese politicians and prime ministers to make those decisions for themselves.”

Within Japan opinions were divided about the Koizumi visit to Yasukuni. A public opinion poll conducted by *Yomiuri Shimbun* right after Koizumi’s last visit showed that 43 percent of respondents supported visits by future prime ministers and 39 percent did not. The conservative *Yomiuri Shimbun* ran long articles around the time of the visit detailing Japan’s road to war and naming the names of those officers and politicians who bore responsibility. Conservatives who support the Yasukuni visits also pressed the shrine to review its history museum, given the criticism of the revisionist presentations of some events.

The most fascinating and counterintuitive dimension of Koizumi’s visit was the effect it has had on his successor, Abe Shinzo. Rather than boxing Abe in, Koizumi chose to visit on Aug. 15 – the most sensitive of all days on the calendar for China and South Korea – precisely because that would give Abe maximum flexibility to determine when and where he would make his own decision on worshipping at Yasukuni. Since Prime Minister Nakasone Yasuhiro’s Yasukuni visit on Aug. 15, 1985, all leaders before Koizumi avoided visiting Yasukuni on that day out of consideration for Japan’s neighbors. If Abe visits Yasukuni on Aug. 15, it is certain that China and South Korea will close the door to talks. But, the calculation is that if Abe chooses another date, it provides an opportunity for China and South Korea to say that Abe’s visit is not as bad as that of Koizumi, and they can convince their people to keep the door open to Japan. Moreover, Abe made his own quiet visit to the shrine in April, which now leaves him months to work on relations with China and South Korea before deciding when, how or whether to visit the shrine as prime minister.

A Sept. 27 editorial in *The New York Times* titled “Abe’s Asian Challenge” argued Abe should “not continue Mr. Koizumi’s provocative practice of visiting Yasukuni Shrine,” but the Bush administration is not telling Abe how to handle this sensitive matter, just as the president did not tell Koizumi what to do. Instead, the administration is letting Abe take the lead in trying to set a new tone in Japan’s relations with Korea and China. Abe

would be the first prime minister since Hosokawa Morihiro not to visit the U.S. before China or Korea, but as with Nakasone's decision to go to Korea first, Washington does not mind.

LDP presidential election

The most important event of the third quarter was the power transition in Japan. The Liberal Democratic Party (LDP) presidential election took place Sept. 20. Former Chief Cabinet Secretary Fukuda Yasuo, who had been regarded as one of the top contenders, announced in late July that he would not seek the party presidency. As a result the lineup of candidates included Chief Cabinet Secretary Abe Shinzo, Foreign Minister Aso Taro, and Finance Minister Tanigaki Sadakazu. All served in the Koizumi administration, but their differences in policy emerged during the race.

Abe was always a front-runner in the post-Koizumi race. According to a public poll conducted by *Sankei* and *Fuji News Network (FNN)* released on Aug. 22, 68.1 percent of LDP supporters supported Abe. Abe's popularity stems from his fresh image as a young leader (he is 52 years old and the youngest and first prime minister born after WWII), and his hawkish stance on North Korea. Fukuda's absence from the race also contributed to Abe's popularity, but it was North Korea's missile launches that provided Abe with an optimal opportunity to demonstrate his leadership credentials.

On Sept. 20, Abe was elected president of the LDP in a landslide victory (he received just under 70 percent of the vote) and was designated prime minister by both houses of Parliament on Sept. 26. Just a day after the nomination, he held a telephone conference with President Bush and they reaffirmed the continuing strength of the U.S.-Japan alliance and agreed to have a meeting in Hanoi in November on the occasion of the Asia-Pacific Economic Cooperation (APEC) summit. Abe also received congratulatory calls as he stepped down from his post as chief Cabinet secretary from his counterpart in the White House, Stephen Hadley.

In his first policy speech on Sept. 29, Abe presented his vision for Japan by using his favorite phrase, "a beautiful country." He then described "the beautiful country" as possessing four attributes: 1) it values culture, tradition, history, and nature; 2) is underpinned by a free society that respects discipline and has dignity; 3) continues to possess the vitality to grow toward the future; and 4) and is trusted, respected, and loved in the world, and which demonstrates leadership. He also shared his views on key issues such as economic policy, education reform, and a "shift to proactive diplomacy," clearly signaling his plan to study the possibility of interpreting the constitution as allowing Japan to exercise the right of collective self-defense. Abe is an advocate of an even more robust alliance with the U.S., but this does not mean that the U.S.-Japan alliance is his only concern. He will work to mend Japan's ties with China and South Korea and is also poised to strengthen strategic links with Australia and India, rounding out Japan's strategic partnerships in a way that compliments and balances the strong emphasis on the U.S.-Japan alliance while simultaneously strengthening that alliance.

Abe's strategy

Abe has initiated efforts to centralize the policymaking process in the Prime Minister's Office (Kantei), following his predecessor's initiatives. He moved quickly to begin establishing a Japanese version of the U.S. National Security Council (NSC) to streamline decision-making. As an advisor in charge of national security, Abe handpicked the telegenic Yuriko Koike, a former minister for the environment under Koizumi famous for introducing "cool biz" (casual business attire during the summer months) and for volunteering as the first "assassin" to defeat an opponent of postal privatization in the September 2005 elections. Abe decided to send her immediately to the United States to meet with National Security Advisor Stephen Hadley and other officials. There will still be many issues to work out in establishing a Japanese NSC, namely how such a body would interact with other government agencies, but there is no doubt that Abe intends to keep pushing for further institutionalization of the Prime Minister's Office.

Iran and Myanmar

If there was any divergence between the United States and Japan in this quarter, it was on policy toward Iran and Myanmar. Concerning the Iranian nuclear issue, Japan has been reluctant to talk about sanctions because of its oil interests there. Japan has rights to develop Iran's Azadegan oilfield, which is believed to be the largest oilfield in the Middle East, but development has been pending due to safety concerns about landmines in the area and Iran's nuclear program. Japan is dependent upon Iran for roughly 15 percent of its oil imports.

Despite substantial economic interests in Iran, Japan has signaled a possible shift in its stance. First, imports from Iran quietly decreased this quarter. In addition, on Sept. 16, the *Yomiuri Shimbun* reported that two Japanese major banks decided to refrain voluntarily from business transactions with an Iranian bank prohibited by the United States from making both direct and indirect deals with American financial institutions. On Sept. 26, Japan's UN Ambassador Oshima Kenzo noted in a speech to the General Assembly Japan's desire to resolve the Iranian nuclear issue through "diplomatic negotiations." But, he also stated that "Japan strongly urges Iran to comply fully with Resolution 1696 by promptly suspending all enrichment-related activities, and to return to the negotiation process." Foreign Minister Aso Taro also signaled a shift during an interview with *Reuters* in June when he said "it is not constructive to talk about sanctions now, before they reply, but it is very much an option. Japan would not fail to join if everyone took concerted action." Japan's Foreign Ministry was unhappy with its exclusion from talks between the P-5 plus one (Britain, China, France, Russia, the U.S., and Germany) and Iran, but has managed to step up coordination with the U.S. and the other P-5 members through other forums.

There has been a steady convergence of U.S. and Japanese approaches to Myanmar, following an obvious divergence in the last quarter. In contrast to UN Ambassador Oshima's statement in May that no further steps should be considered by the Security

Council with regard to Myanmar because the UNSC only addresses threats to international security, Foreign Minister Aso agreed with Secretary of State Condoleezza Rice during a meeting in Russia in late June that the international community *should* put stronger pressure on Myanmar to stimulate the country's democratization. On Sept. 15, Japan joined with the United States, Britain, and France in voting to place the Myanmar issue on the Security Council agenda. The shift in policy happened in part because of ASEAN's own toughening stance on Myanmar, but also because the Koizumi and Abe administrations' emphasis on democracy and rule of law as part of Japan's foreign policy identity created an awkwardness on the Myanmar question.

What to watch

The last quarter of 2006 will be a challenging one for Prime Minister Abe. In terms of domestic politics, Lower House by-elections are scheduled for Oct. 22 and the result could have an impact on his ability to dictate the policy debate. On the diplomatic front, Abe will have his first meeting with President Bush on the sidelines of the APEC forum in Hanoi this November. Abe will have to decide how to handle implementation of the U.S.-Japan 2+2 agreement on Okinawa in the wake of that prefecture's closely fought gubernatorial election in November (where the opposition candidate strongly opposes the agreement on bases). It has also been reported that summits between Abe and the Chinese and Korean leaders may take place even before the meeting with Bush in order to highlight Abe's determination to restore deteriorated relations. Then, the second East Asia Summit scheduled for December in the Philippines presents another opportunity for Abe to advance his diplomatic agenda. Every action Abe takes will gather much attention from Japan's neighbors and its most important ally, the U.S. Abe's performance as deputy and then chief Cabinet secretary was highly regarded in Washington, but his first steps as prime minister will determine whether he will be seen as a pragmatic and strategic leader or – as his critics charge – a young and inexperienced nationalist.

Chronology of U.S.-Japan Relations July-September 2006

July 5, 2006: North Korea fires seven missiles, including its long range *Taepodong-2*. The missile launch coincides with the Fourth of July in the U.S.

July 5, 2006: Japan presents a proposal for a UNSC resolution condemning the missile test, urging North Korea to return immediately to talks on its nuclear program, and threatening sanctions if it did not move to irreversibly dismantle its nuclear program.

July 5, 2006: *Yomiuri Shimbun* reports that Tokyo decided to impose economic sanctions on North Korea in response to its missile launches.

July 6, 2006: PM Koizumi Junichiro discusses the North Korean missile issue with President Bush over the telephone and they agreed on the need for a strong and unified response at the UN.

July 7, 2006: Japan, together with the U.S., the UK, and several other countries, officially proposes a UNSC resolution that would impose sanctions on North Korea in response to its missile launches. However, China and Russia insist upon adopting a much weaker statement.

July 10, 2006: *Mainichi Shimbun* reports that Japanese Defense Agency Chief Nukaga Fukushima, in response to North Korea's missile launches, said the Self-Defense Forces (SDF) should have the capability to attack foreign countries' missile bases. In addition, *Kyodo News* reports Chief Cabinet Secretary Shinzo Abe said that Japan must study and debate building the capability for counterattack against foreign bases in the event of a missile attack upon Japan.

July 11-15, 2006: During his trip to the Middle East, Prime Minister Koizumi sets forth his proposal to create a "Corridor of Peace and Prosperity" and conduct four-party consultations with Israel, Palestine, and Jordan.

July 14, 2006: Bank of Japan decides to lift the zero interest rate policy.

July 15, 2006: The UNSC unanimously adopts Resolution 1695, which condemns North Korea's missile launches. The resolution deleted mention of Chapter 7 of the UN Charter, which China had strongly opposed because it would lead to sanctions or military action.

July 15-17, 2006: G-8 Summit held in St. Petersburg, Russia. Prime Minister Koizumi and Indian counterpart Manmohan Singh meet on the sidelines of the summit.

July 17, 2006: The 10th Ground Self Defense Force contingent ends humanitarian and reconstruction assistance and completed its withdrawal from Iraq.

July 19, 2006: The government of Japan decides to expand the Air Self-Defense Force's airlift mission between Kuwait and Iraq.

July 20, 2006: Ministry of Foreign Affairs reports that the U.S. government would deploy *Patriot PAC-3* missiles to Kadena Airbase. The relocation of personnel and equipment begins August 2006 and the initial operational capability is expected to be achieved by the end of the year. Washington formally notified Tokyo of its decision on the morning of July 19.

July 21, 2006: Fukuda Yasuo, former chief Cabinet secretary, announces that he will not run in the LDP presidential election.

July 24, 2006: According to a public opinion poll conducted by *Mainichi Shimbun*, 70 percent of respondents support harsher sanctions on North Korea.

July 24, 2006: The Doha Development Agenda negotiations suspended because gaps between key players remain too wide. WTO Director General Pascal Lamy does not suggest how long the talks would be suspended.

July 25, 2006: Some 280 Japanese Ground Self-Defense Force (GSDF) personnel return to Japan upon completing Iraq mission.

July 27, 2006: Finance Minister Tanigaki Sadakazu declares candidacy for the LDP election to choose a successor to party President Junichiro Koizumi.

July 27, 2006: The resumption of U.S. beef exports to Japan is officially announced.

July 28, 2006: Minister for Foreign Affairs Aso Taro and Secretary of State Condoleezza Rice meet in Kuala Lumpur, Malaysia for the ASEAN Regional Forum (ARF) ministerial and other meetings. They reaffirm their commitment to coordinate consideration of financial measures against North Korea based on UNSC Resolution 1695.

Aug. 1, 2006: *The Defense of Japan* 2006 White Paper is adopted by the cabinet.

Aug. 3, 2006: FM Aso makes surprise visit to Baghdad, Iraq, and holds talks with Hoshiyar Mahmud Zebari, minister of foreign affairs, and then PM Nuri al-Maliki.

Aug. 4, 2006: Chief Cabinet Secretary Abe Shinzo's visit to Yasukuni Shrine in April 2006 revealed.

Aug. 8, 2006: *Asahi Shimbun* reveals FM Aso's plan to reform Yasukuni Shrine. Aso called on the Shinto shrine to voluntarily disband as a religious entity and become a secular, state-run national memorial.

Aug. 15, 2006: PM Koizumi visits Yasukuni Shrine. This visit is his sixth and first on the anniversary of the end of World War II.

Aug. 16, 2006: *Yomiuri Shimbun* conducts a poll on Koizumi's Yasukuni visit: 53 percent of respondents (including those generally favorable) support the visit, and 39 percent did not.

Aug. 16, 2006: *Nikkei* reports that the governor of Kanagawa prefecture stated that the prefectural government would tolerate the deployment of a U.S. nuclear-powered carrier to Yokosuka, where a U.S. Navy base is located.

Aug. 21, 2006: FM Taro announces candidacy for the LDP presidential election.

Aug. 25, 2006: The government of Japan decides to extend a special anti-terrorism law, set to expire in November 2006, that has allowed Japan's Self Defense Force to support refueling operations in the Indian Ocean.

Aug. 29, 2006: *Mainichi* reports that *USS Shiloh*, an *Aegis*-equipped cruiser with an advanced missile defense system, docked in Yokosuka, Japan, as concerns lingered over North Korea's missile program.

Aug. 29, 2006: Ministry of Foreign Affairs releases results of the 2006 Image of Japan Study, which showed that 91 percent of U.S. opinion leaders and 69 percent of the general public considered Japan a dependable ally. The positive evaluation marks the highest level ever measured by the study.

Sept. 1, 2006: Chief Cabinet Secretary Abe declares candidacy for the LDP presidential election.

Sept. 8, 2006: LDP presidential election is announced with three candidates: Chief Cabinet Secretary Abe, FM Aso, and Finance Minister Tanigaki Sadakazu.

Sept. 12, 2006: Ozawa Ichiro, president of the Democratic Party of Japan, Japan's largest opposition party, is reelected without a contest.

Sept. 19, 2006: The Japanese government bans withdrawal and overseas remittances from accounts held in Japan by organizations and individuals suspected of being linked to North Korea's development of weapons of mass destruction.

Sept. 20, 2006: Chief Cabinet Secretary Abe wins a convincing victory in the ruling Liberal Democratic Party (LDP) presidential election to replace PM Koizumi. Of the 703 votes cast, Abe captured 464, Aso 136, and Tanigaki 102.

Sept. 23, 2006: *Nikkei* reports Japan and the United States decided to jointly develop a nuclear reactor that makes plutonium extraction difficult, part of the Global Nuclear Energy Partnership framework proposed by President Bush.

Sept. 26, 2006: President of the LDP Abe Shinzo is elected prime minister by both houses of Parliament.

Sept. 27, 2006: Abe and President Bush hold first telephone conference and agree to meet in November on the occasion of APEC in Hanoi.

Sept. 29, 2006: Abe delivers his first policy speech in the Diet and announces his plan to study the possibility of exercising the right of collective self defense; set up a Japanese version of the United States National Security Council (NSC); strengthen the U.S.-Japan alliance; and mend Japan's ties with China and South Korea.

Sept. 29, 2006: *Asahi Shimbun* survey showed that 63 percent of voters support Abe administration. It was the third highest rating for a new administration in postwar Japan.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-China Relations: Promoting Cooperation, Managing Friction

Bonnie Glaser
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Much attention focused on economic issues this quarter with visits to China by U.S. Trade Representative Susan Schwab and U.S. Treasury Secretary Henry Paulson, which launched a new U.S.-China Strategic Economic Dialogue. Bilateral military ties also took a step forward with a visit to the U.S. by Vice Chairman of the Central Military Commission Guo Boxiong and the first ever U.S.-China joint naval exercise. Bush administration officials took China to task for continued proliferation of weapons of mass destruction (WMD) materials and technology due to lax enforcement of its export control laws. North Korea, Iran, and Sudan dominated the security agenda. The second round of the China-U.S. Global Issues Forum was held in Beijing. Bilateral space cooperation was initiated with a “get acquainted” visit to China by a delegation led by NASA Administrator Michael Griffin.

Economic issues occupy center stage

This was an active quarter on the economic front. Persisting U.S. frustration over a gaping bilateral trade deficit, China’s bloated trade surplus, an undervalued Chinese yuan, continued intellectual property rights (IPR) violations, and China’s alleged lack of compliance with its World Trade Organization (WTO) commitments dominated the agenda. Over the summer, congressional efforts revived to penalize China for unfair trading practices. By late September, however, it appeared that a Bush administration approach to U.S.-China economic diplomacy premised on consultation and patience would win out over congressional threats to impose tariffs on Chinese imports. In a few select areas, however, the administration showed a willingness to adopt a tougher approach.

Citing concerns that U.S. high-tech exports to China such as semiconductors and precision machine tools are being diverted to military end uses, the U.S. Commerce Department published proposed new export control regulations on July 6. David McCormick, undersecretary for industry and security, called the revision of standards governing dual-use technology export “substantial” and explained that the new measures will achieve “two important and complementary objectives: supporting American companies in competing in the vast Chinese market for civilian technology while

* Research assistance provided by CSIS intern Kyle Jaros

preventing the export of technologies that contribute to China's military modernization." The new guidelines, which remain open to public comment for 120 days, resulted from a lengthy interagency policymaking process involving the Departments of State and Defense that sought to streamline the export control process for commercial benefit while ensuring that sensitive U.S. technologies do not enhance China's military capabilities.

The new policy establishes a registry of approved commercial end-users in China to facilitate U.S. exports to reliable customers. Export to unapproved Chinese end-users of any items on the newly expanded 47-category list of sensitive technologies will require government approval. Some members of the U.S. business community, including National Foreign Trade Council President William Reinsch, criticized the proposed rule as excessive, claiming it would harm U.S. commercial interests by restricting technologies whose sale to China by other countries will likely continue. China's Minister of Commerce Bo Xilai and other Chinese officials also voiced objections to the proposed change in export rules, maintaining they would impair U.S.-China high-tech trade and exacerbate the bilateral trade deficit.

After concerted attempts failed to resolve a trilateral trade dispute over alleged barriers to the import of autoparts to China involving China, the European Union, and the United States, the EU and the USTR officially filed a trade case against China before the WTO in mid-September. The complaint charged that China imposes high taxes on imported auto parts in violation of pledges it made when it joined the WTO. The filing triggered a 90-day consultation period in which the respective parties try to work out their differences. If no agreement is reached, USTR Schwab indicated that the U.S. would not hesitate to pursue dispute settlement that could result in penalty tariffs levied against Chinese products. The U.S. is also considering filing another trade case with the WTO against China over IPR piracy.

Several U.S. officials with economic portfolios visited China this quarter. Franklin Lavin, U.S. undersecretary of commerce for international trade, traveled to China July 25-31 seeking improved access to China's market for U.S. banks and other companies. Touting the upsurge in U.S. exports to China – which increased 20.5 percent in 2005 over the previous year – Lavin predicted that China would supplant Japan as the United States' third largest export market by the end of this year.

Susan Schwab, who took over from Rob Portman as U.S. trade representative in June, made her inaugural trip to Beijing in late August, following visits to Singapore and Malaysia, where she attended the ASEAN economic and trade ministers' meeting. In a meeting with Minister of Commerce Bo, Schwab focused on the July breakdown of the Doha round of the WTO negotiations and appealed for China to play a proactive role in reviving the world's multilateral trade system. Bo stated China's willingness to push for the resumption of the Doha negotiations and participate constructively in the talks, but at the same time called on developed members of the WTO to take the lead in making "substantive contributions so as to revive the talks at an early date and achieve the goal of the talks as scheduled." In addition, Bo elaborated on progress in IPR protection in China and highlighted Chinese concerns about achieving market economy status, easing

U.S. controls on exports to China, facilitating the acquisition of business visas for Chinese enterprises, and promoting cooperation and tourism.

Despite Beijing's professed efforts to rein in IPR violations in recent months, piracy of software, music, movies, and other protected items is still rampant in China, and remains a point of irritation in China-U.S. relations. During her visit, Schwab offered cautious praise for Chinese efforts, which include a commitment last March to require domestic computer manufacturers to install legal operating system software and a promise to close down more pirating operations. At the same time, Schwab pressed for better IPR enforcement, noting that improved protection by China's central and provincial authorities would benefit both countries' interests. Chinese media reported "brisk" U.S.-China cooperation on IPR enforcement, which led to the breakup of an international piracy ring earlier this year and will continue with training sessions for Chinese officers in IPR law enforcement this December.

Paulson takes the helm at Treasury

The nomination of Henry Paulson, a former Goldman Sachs executive who has extensive experience and personal contacts in China, for the post of U.S. Treasury secretary immediately raised hopes that faster progress would be made in swaying Chinese leaders to permit greater currency flexibility. In his confirmation hearings, however, Paulson suggested that he would attach greater priority to financial sector reform than currency issues. He characterized his approach as encouraging the Chinese "to do what is not only in our best interests, but in their best interests too." In a speech delivered Sept. 13 on the eve of his first trip to China as Treasury secretary, Paulson urged both nations to rise above short-term disputes and take a "generational" view of their relationship. He warned that the greatest danger to the U.S. lies not in China's success, but in the possibility of the failure of Chinese reforms and an ensuing inability to sustain its growth. At the same time, he called on China to press ahead with liberalization on many fronts, including financial sector reform, fiscal and regulatory policies to reduce excess savings, currency liberalization, and enhanced protection for intellectual property rights.

The first stop on Paulson's China tour the following week was Hangzhou, where he consulted with a pro-reform Communist Party secretary and local entrepreneurs before heading to Beijing to join Chinese Vice Premier Wu Yi in announcing the commencement of a Cabinet-level Strategic Economic Dialogue. The Joint Statement unveiled by Paulson and Wu indicated that the Strategic Economic Dialogue would focus on "bilateral and global economic issues of common interests and concerns" and convene semi-annually, alternately meeting in Beijing and Washington. Hu Jintao said the dialogue would serve the purpose of "making suggestions and supplying advice for high-level policy making by the two nations," according to *Xinhua*. Hu and Premier Wen Jiabao separately received Paulson for almost an hour, signaling their support for the new mechanism and the new Treasury secretary's approach to resolving economic disputes between the two countries. It remained to be seen, however, whether Paulson's visit set the stage for near-term progress. Paulson called for patience, saying his trip to China was successful, but the results would not be seen until later.

China's trade surplus with the rest of the world continued to soar this quarter. In August, the surplus hit a new record high for the fourth consecutive month, climbing to \$18.8 billion, well above the old record of \$14.6 billion set in July. China's growing trade gap continued to fuel demands by the U.S. and other trading partners for Beijing to revalue its currency, the yuan. Although Chinese officials persisted in their claims that reform of the exchange rate mechanism is a "matter of national sovereignty" and should be "gradual," and "controllable," the Chinese government evidently decided to permit the yuan to appreciate faster than before. China's currency climbed 0.8 percent against the dollar in September, equivalent to an annual rate of 10 percent, compared to an annual pace of 2 percent to 2.5 percent during most of the months since Beijing revalued its currency upward by 2.1 percent on July 21, 2005.

The stepped-up pace of appreciation of the yuan and pressure from the Bush administration persuaded Sens. Lindsey Graham (R-SC) and Charles Schumer (D-NY) to abandon plans to have the Senate vote on legislation that would have imposed a 27.5 percent tariff on products imported from China until Beijing substantially revalued its currency. President Bush apparently appealed to the two senators to allow more time for newly appointed Treasury Secretary Paulson to convince the Chinese to allow the yuan to strengthen against the dollar. Even if the bill had passed, there is no House version and President Bush would have vetoed the legislation. Schumer vowed that he and Graham would "put together a tough, strong bill" early next year if China fails to act.

A high-level military visit and first-ever joint naval exercise

Vice Chairman of the Central Military Commission Gen. Guo Boxiong traveled to the U.S. in mid-July for a weeklong visit. After arriving in Los Angeles, Guo and his entourage made a stopover in San Diego, where they visited the U.S. aircraft carrier *Ronald Reagan* and the U.S. Third Fleet. The delegation then flew to Washington D.C. for meetings with Secretary of Defense Donald Rumsfeld, Secretary of State Condoleezza Rice, Chairman of the Joint Chiefs Peter Pace, National Security Advisor Stephen Hadley, and Congressmen Mark Kirk and Rick Larsen, co-chairmen of the U.S.-China Working Group of the U.S. House of Representatives. Guo also delivered a speech on China's peaceful development and national defense building at the National Defense University.

In advance of the visit, China's Defense Ministry spokesman hailed the positive trajectory of China-U.S. military ties, noting that they are now "the best since 2001," when the Bush administration came to power and a Chinese fighter jet and an American reconnaissance plane collided, which was followed by 11 days of intense negotiations to free the U.S. crew that was held on Hainan Island after making an emergency landing.

According to accounts of the visit in China's domestic media, Guo and Secretary Rumsfeld had an "in depth exchange of views on the international and regional security situations, the relationships between the two countries and two armies, as well as other issues of mutual concern" and "agreed to enhance mutual understanding and further cooperation." Specific agreements include plans to conduct joint naval maritime search

and rescue exercises, initiate cooperation on military archives involving U.S. personnel missing in action or captured before and after the Korean War, expand exchanges between military academies of the two armed forces, and increase reciprocal visits of junior military officers. The two sides discussed setting up a hotline between the Chinese and U.S. defense ministries to enable prompt communication and promote trust, but no agreement was reached, suggesting that this remains a divisive issue in the higher echelons of the military and civilian leadership. China's official news agency, *Xinhua*, was notably upbeat in its description of Guo's meeting with Rumsfeld, using the terms "positive, pragmatic, and fruitful," while eschewing use of the word "frank," which typically signals differences.

By prior arrangement, President Bush dropped by the meeting between Gen. Guo and Stephen Hadley. In a 10-minute chat, Bush underscored the importance of the relationship between the U.S. and Chinese militaries for preserving peace and stability in East Asia and the world. He also cited the unanimous vote at the United Nations condemning North Korea's missile tests as an example of the positive working relationship that he has established with China's President Hu.

Two Chinese warships, the guided missile destroyer *Qingdao* and the refueling vessel *Hongze Hu*, visited Pearl Harbor and San Diego in September. Rear Adm. Wang Fushan, deputy commander of the North Sea Fleet, led the PLA Navy flotilla. The last visit by a Chinese warship to any of the 50 U.S. states was in 2000, when the *Qingdao* visited Pearl Harbor and Everett, Washington. In 2003, two Chinese navy vessels called on the U.S. territory Guam in the Western Pacific.

In the waters around Hawaii, the *Qingdao* and *Hongze Hu* practiced using internationally accepted communication signals with the U.S. Pacific Fleet's guided missile destroyer *Chung Hoon* in the first ever joint maritime drill staged jointly by U.S. and Chinese naval forces. Off the coast of California, U.S. and Chinese ships conducted a search-and-rescue exercise (*SAREX*). Previously, PLA navy ships and the U.S. Pacific Fleet have participated together in the Hong Kong *SAREX*, most recently in 2003, but had no direct interaction due to the exercise scenario. After departing the U.S., the PLA flotilla sailed to Canada and the Philippines. A formation of U.S. naval vessels is scheduled to visit China this October or November, when joint maritime search and rescue exercises of a slightly larger scale will be held in Chinese coastal waters. A Pacific Command spokesman said that the Command aims to have four Chinese ships visit U.S. ports annually.

Tough talk on proliferation

Bush administration concerns about Chinese proliferation practices were highlighted this quarter at hearings held Sept. 14 by the U.S.-China Economic and Security Review Commission, a congressionally mandated body charged with monitoring the national security implications of trade and economic ties between the United States and China. Paula DeSutter, assistant secretary of state for verification, compliance and implementation, testified that despite the establishment of tighter export control laws,

“Chinese entities’ record of transferring WMD and missile technologies and materials – and the record of the Chinese government’s enforcement of its own laws and regulations to stem these transfers – remains unsatisfactory.” She noted that the U.S. is particularly concerned about “serial proliferators,” a small number of entities that are repeat violators.

According to Peter Rodman, assistant secretary of defense for international security affairs, who also testified, Chinese entities, including state-owned companies, have transferred weapons technologies to many countries, including “states of concern” such as Iran, North Korea, Sudan, Burma, Zimbabwe, Cuba, and Venezuela. DeSutter also voiced suspicions that China maintains an offensive biological weapons capability in violation of its obligations under the Biological Weapons Convention as well as a chemical weapons production mobilization capability.

Rodman took Beijing to task for what he termed its “dangerously shortsighted” relationships with Iran and North Korea. Citing Chinese assistance to Tehran in developing ballistic missile, nuclear, and chemical programs, he rebuked Beijing for its reluctance to back up its support for U.N. Security Council Resolution 1696 with concrete actions to compel Iran to suspend the enrichment of uranium. On North Korea, Rodman credited China with playing a leading role in the Six-Party Talks aimed at eliminating Pyongyang’s nuclear programs and welcomed China’s decision to vote in favor of Security Council Resolution 1695 condemning North Korea’s missile launches. Yet, “as the country with the most leverage over North Korea,” Rodman indicated that China “can and should do more.”

Charging that China’s policies toward Tehran and Pyongyang shield those regimes from the consequences of their dangerous behavior, he urged Beijing to re-think its interests and assume its appropriate share of international leadership. Specifically, he called on China to strengthen its export licensing procedures, border controls and detection capabilities, and to implement more rigorous enforcement and prosecution. “...[I]t is our hope that China will come to the calculation that its best strategic interest lies in enforcing international nonproliferation norms,” Rodman stated.

Acknowledging that Beijing has expressed anger and disappointment to the Bush administration over the imposition of sanctions on Chinese companies, DeSutter stressed that ongoing proliferation problems must be addressed. “This administration takes proliferation very seriously,” she maintained, “and will not stand idly by and watch rogue states and terrorists obtain missiles and weapons of mass destruction.”

China-U.S. Global Issues Forum, round two

Cooperation was the watchword at the second session of the China-U.S. Global Issues Forum held in Beijing on Aug. 9-10, 16 months following the inaugural meeting of the Forum, which is aimed at strengthening cooperation between the two countries on transnational issues. The U.S. and Chinese interagency delegations were headed by U.S. Undersecretary of State for Democracy and Global Affairs Paula Dobriansky and Chinese Assistant Minister of Foreign Affairs Cui Tiankai. Agenda items included energy

security and clean energy, public health, humanitarian assistance, trafficking in persons; environmental conservation and sustainable development, and cooperation on financial aid for international economic development.

Discussion focused on possible areas for collaboration, bilaterally as well as multilaterally. In the energy sphere, for example, the two sides discussed ways to ameliorate the negative impact of the soaring price of oil on the global economy, including promoting international cooperation on development of clean energy sources, initiatives relating to more efficient use of existing fuels, research on new energy technology, and collaboration to improve access to cleaner energy in poorer regions of the world. Sessions on public health aimed at boosting bilateral cooperation to improve surveillance, prevention, and control of infectious diseases. Ways of enhancing cooperation to combat trafficking in persons emphasized reliance on regional and multilateral forums to protect trafficking victims, prosecute traffickers, and organize prevention campaigns.

Support for national sovereignty vs. responsible stakeholder

Beijing came under increasing criticism for its policy toward Sudan this quarter, as reports surfaced of bombings of villages in Darfur and new outbreaks of violence against displaced persons carried out by Sudan's army. China endorsed the replacement of the current 7,000 member African Union observer mission in Darfur with a full-scale UN peacekeeping mission three times as large, but only if an international force were accepted by the Sudanese government. Citing threats to its sovereignty, however, Khartoum continued to resist compliance with UN Security Council resolutions and refused to give the United Nations control over the peacekeeping mission in Darfur, whose mandate expired on Sept. 30.

China's abstention in the Aug. 31 vote on UN Security Council Resolution 1706 (along with Russia and Qatar) that called for an expansion of the mandate of the United Nations Mission in Sudan (UNMIS) and the immediate deployment of UN troops in Darfur prompted the publication of an editorial in the *Washington Post* lambasting Beijing for failing to use its leverage over Sudan because of its investment in Sudanese oil fields and for lobbying Russia to withhold support for the peacekeeping resolution. Beijing's refusal to back the deployment of U.S. peacekeepers, the *Post* stated, "calls into question China's claim to be treated as a responsible international player."

On the sidelines of the 61st UN General Assembly meeting in New York in September, Darfur dominated the discussion between Secretary Rice and Chinese Foreign Minister Li Zhaoxing. Rice pressed for China to do more to persuade the Sudanese government to accept a U.N. peacekeeping force. Li later met with Sudanese President Omar al-Beshir and expressed hope that Sudan would display flexibility to maintain peace and stability, according to *Xinhua*. At the same time, however, Li voiced Beijing's support for Sudan's efforts to maintain its sovereignty and territorial integrity.

No support for sanctions on North Korea and Iran

Frequent consultations at various levels took place during the quarter on North Korea and Iran. Pyongyang's missile firings in early July in defiance of warnings from China, the U.S., and other countries prompted quick action by Japan to submit a resolution in the United Nations that invoked Chapter 7 of the UN charter, which could have justified subsequent sanctions or even military action. Faced with the Hobbesian choice of accepting the harshly worded resolution or vetoing it, China opted to submit its own nonbinding resolution, together with Russia, that excluded Chapter 7. The text of UNSC Resolution 1695 that was unanimously adopted on July 15 used tougher language, however, than Beijing had previously used to criticize North Korea. It expresses "grave concern" at the multiple missile launches by North Korea and urged Pyongyang to re-establish a moratorium. In addition, UNSCR 1695 requires all member states to exercise vigilance and prevent missile and missile-related items, materials, goods and technology being transferred to the DPRK's missile or WMD programs.

Assistant Secretary of State for East Asia Christopher Hill traveled to Beijing, Seoul, Tokyo, and Moscow immediately following North Korea's missile tests. He visited China again in early September and discussed the need for UNSCR 1695 to be fully implemented, which, he indicated evoked a "positive response." At a press conference in Shanghai, Hill praised China for its contribution to the resumption of the Six-Party Talks and said the U.S. would not pressure Beijing to persuade the DPRK to come back to the talks. It remains unclear, however, whether China has taken any concrete steps to fulfill its obligations under UNSCR 1695. Following mid-September announcements by Japan and Australia that the governments would impose financial sanctions on North Korea, Beijing appealed for nations involved in the dispute over North Korea's weapons programs to show restraint and declared its opposition to sanctions. China also declined to participate in the informal gathering of representatives from eight nations on the sidelines of the UN General Assembly meeting in New York on Sept. 21 to discuss the North Korean nuclear issue, fearing that devoting energies to other initiatives could undermine the Six-Party Talks process.

After Tehran ignored an Aug. 31 UNSC deadline to halt uranium enrichment, Beijing continued to appeal for a negotiated solution. Chinese leaders urged Iran to abide by its international commitments, but simultaneously backed that country's right to use nuclear energy peacefully. Meeting with Iranian Vice President Ali Saidlu in Dushanbe on the sidelines of the fifth Prime Ministers' Meeting of the Shanghai Cooperation Organization, Chinese Premier Wen Jiabao pressed Iran to pay more attention to the concern of the international community on the nuclear issue and show flexibility on its uranium enrichment program. He also indicated Chinese understanding about Iran's insistence on developing its peaceful nuclear energy program.

A rocky beginning to space cooperation

In late September, a six-member team from the National Aviation and Space Administration (NASA) led by NASA Administrator Michael Griffin traveled to Beijing to explore the possibility of U.S.-Chinese cooperation in space, an initiative that President George Bush had proposed to Hu Jintao at their April summit. China has engaged in cooperative space projects with several countries, including Russia, Pakistan, Iran, and the European Space Agency, and has been eager to launch collaborative efforts with the United States in manned flight, but the U.S. has been guarded due to the integration of Chinese military and civilian space programs and the dual-use technologies involved that could be used to bolster Chinese military capabilities. Prior to the NASA team's departure from the U.S., Griffin sought to set realistic expectations for what could be accomplished. "This will be a get-acquainted session. To characterize it as anything more than that would create expectations that could possibly be embarrassing to the U.S. – or embarrassing to China," Griffin stated.

The NASA team included astronaut Shannon Lucid, who has flown five space shuttle missions and spent six months on Mir. A child of missionary parents, Lucid was born in Shanghai and detained there as a child by the Japanese during World War II. The head of NASA's Space Station and Shuttle Operations, William Gerstenmaier, and the head of NASA's international relations, Mike O'Brien, were also on the team. In Beijing, they met with Sun Laiyan, the head of the China National Space Administration (CNSA), and toured the Chinese Academy of Space Technology. Plans to visit the Jiuquan launch site in the Gobi Desert were scrapped because China rejected U.S. requests to tour the buildings and facilities used to test and prepare spacecraft for launch and hold substantive discussions at the site with Chinese counterparts. In a press conference held in Shanghai, the team's last stop, Griffin indicated that the group had only been invited to tour the launch pad in Jiuquan, adding "I have seen a lot of launch pads in my time and didn't need to go that far to see another one. . . the interesting part of the visit would have been to see the engineering facilities and to discuss those processes . . . with our peers..." The visit was also marred by CNSA's denial of visa requests to any U.S. media to cover the NASA trip.

The missions and goals of both countries' respective space programs were discussed, including China's first lunar-orbiting spacecraft and plans for next April's robotic lunar exploration. No agreements were reached, but initial talks were held on promoting cooperation between Chinese and U.S. science programs. Cooperation in human spaceflight, while not ruled out, is a long way off and would require "the greatest possible degree of transparency and openness," according to Griffin. Next steps in bilateral cooperation could include exchanges of technical experts on specific issues.

Effective management, rising long-term mistrust

Reluctance on both U.S. and Chinese sides to engage in cooperation on space exploration underscores a larger trend: The two countries have learned to manage their increasingly complex relationship reasonably effectively, but distrust over long-term strategic

intentions vis-à-vis each other continues to grow. Beijing is convinced that the United States will thwart its rise as a major power and prevent its reunification with Taiwan. Washington worries that China will use its growing clout to harm U.S. interests and undermine the international system.

One of the mechanisms that has contributed to better management of the relationship is the Senior Dialogue that was launched in August 2005. Deputy Secretary Robert Zoellick and Vice Foreign Minister Dai Bingguo presided over two rounds of dialogue, which both sides regarded as useful in promoting understanding and reducing friction. Zoellick's resignation earlier this year resulted in the suspension of those talks, creating anxiety in Beijing. Next quarter, the Senior Dialogue will resume with Undersecretary for Political Affairs Nicholas Burns in the lead on the U.S. side.

As the U.S. turns its attention to the mid-term elections next quarter, exchanges in U.S.-China relations will likely be a bit more sluggish than usual. Secretary Rice is expected to visit Asia to push for the resumption of the stalled Six-Party Talks. More joint navy exercises are planned for China's coastal waters.

Chronology of U.S.-China Relations July-September 2006*

July 5, 2005: North Korea launches seven ballistic missiles, including one long-range *Taepodong 2*.

July 6, 2006: President George Bush and Chinese President Hu Jintao talk by phone in the wake of North Korea's missile tests.

July 7-12, 2006: Assistant Secretary of State Christopher Hill travels to Asia to discuss North Korea's missile tests. In Beijing, he meets Chinese Foreign Minister Li Zhaoxing, Vice FM Wu Dawei, and State Councilor Tang Jiaxuan. Hill also visits with officials in Seoul, Tokyo, and Moscow.

July 7, 2006: In remarks at the 11th annual Senators' Trade Conference, Sen. Patty Murray (D-WA) says engagement with China is in the best interest of the U.S.

July 8, 2006: Chinese FM Li holds a phone conversation with Secretary Rice to discuss the North Korea situation.

July 9, 2006: Speaking on *FOX News Sunday*, Undersecretary of State Nicholas Burns urges China to exert its influence to help resolve the North Korea crisis.

July 10, 2006: Chinese FM Li and Secretary Rice discuss in a phone call the proposed United Nations Security Council resolution regarding North Korea's missile launch. State Councilor Tang Jiaxuan also speaks with Rice by phone.

* Chronology compiled by David Adam Fisher, CSIS intern

July 10, 2006: White House Press Secretary Tony Snow says that it is China's responsibility to ensure that North Korea stops behaving in an "unacceptable manner."

July 11, 2006: In an interview with Japan's *Yomiuri Shimbun*, President Bush calls on China to convince North Korea to re-engage in diplomatic negotiations.

July 16, 2006: President Bush and Chinese President Hu Jintao meet on the sidelines of the G-8 summit in St. Petersburg. They agree to work together to bring North Korea back to the Six-Party Talks. In addition, they discuss China-U.S. relations, the Iranian nuclear issue, and the Middle East crisis.

July 17-21, 2006: Guo Boxiong, vice chairman of China's Central Military Commission (CMC), travels to the U.S. for the first time.

July 25-31, 2006: Franklin Lavin, undersecretary of commerce for international trade, visits Beijing to press for wider access to China's market for U.S. banks and other companies.

July 26-29, 2006: Chinese State Councilor and Minister of Public Security Zhou Yongkang travels to the U.S., where he meets Attorney General Alberto R. Gonzales, Secretary of Homeland Security Michael Chertoff, Secretary of Treasury Henry M. Paulson, and Reps. Mark Kirk (R-IL) and Rick Larsen (D-WA). The two countries agree to enhance law enforcement cooperation. Beijing agrees to strengthen its monitoring of Chinese banks to fight money laundering and counterfeiting by North Korea and share pertinent information with Washington.

July 28, 2006: Secretary Rice meets with FM Li on the sidelines of the ASEAN Regional Forum (ARF) in Kuala Lumpur. Both participate in "5+5" Talks on Northeast Asia security issues.

July 31, 2006: President Bush authorizes the sale of bulk graphite to China. Chinese firms plan to use the bulk graphite, a refined form of carbon, to make electrodes, dies, and moulds that will in turn be used to produce plastic, rubber, copper, tin, and iron components, but it could also be used in rockets to launch satellites into space.

Aug. 3-4, 2006: Thomas Christensen, deputy assistant secretary of state for East Asian and Pacific affairs, and Katharine Fredriksen, principal deputy assistant secretary of energy for policy and international affairs, deliver statements at a hearing on "China's Role in the World," sponsored by the U.S.-China Economic and Security Review Commission (USCC).

Aug. 7-12, 2006: A delegation of the Senate, led by Ted Stevens (R-AK), travels to China for the third annual meeting with the National People's Congress (NPC), China's legislative body. The delegation meets President Hu and China's top legislator Wu Bangguo.

Aug. 9-10, 2006: Chinese Assistant Foreign Minister Cui Tiankai and Undersecretary of State for Democracy and Global Affairs Paula Dobriansky meet at the second session of the China-U.S. Global Issues Forum in Beijing.

Aug. 17, 2006: Secretary Rice and FM Li talk by phone. They exchange views on how to implement the consensus reached by Presidents Hu and Bush at an outreach session of the July G-8 Summit in St. Petersburg.

Aug. 21, 2006: Presidents Bush and Hu talk by phone. They discuss cementing economic dialogue, promoting bilateral trade ties, and restarting the stalled Six-Party Talks.

Aug. 27-29, 2006: USTR Susan Schwab travels to China and meets Commerce Minister Bo Xilai. They discuss the role China can play in working toward a successful conclusion of the World Trade Organization's (WTO) Doha Round of talks.

Sept. 5-11, 2006: Assistant Secretary of State Hill travels to China. He meets Vice Foreign Minister Wu Dawei and Chinese Assistant Foreign Minister Cui Tiankai to discuss developments on the Korean Peninsula and ways to restart the Six-Party Talks.

Sept. 6, 2006: U.S. and Chinese ships conduct a joint communication and formation exercise off the Hawaii coast; later (Sept. 20) conduct search and rescue exercise off the Californian coast.

Sept. 8, 2006: Barbara Franklin, vice chairperson of the U.S.-China Business Council meets with Vice Premier Wu Yi in Xiamen. They exchange views on bilateral trade relations and issues of common concern.

Sept. 8-22, 2006: China sends its first air marshals to receive training in the U.S., as agreed to in a Memorandum of Understanding the two countries signed in April 2006.

Sept. 9, 2006: FM Li and Secretary Rice speak by phone.

Sept. 13, 2006: In the second round of the U.S.-China Energy Policy Dialogue, the U.S. Department of Energy (DOE) and China's National Development and Reform Commission (NDRC) agree to pursue future cooperation in improving energy efficiency and developing new and renewable energy resources.

Sept. 13, 2006: On the eve of his first visit to China as Treasury Secretary, Henry Paulson delivers a speech on China and the international economic system.

Sept. 13, 2006: Taiwan Affairs Office Director Chen Yunlin visits Washington, D.C. and warns of the dangers of constitutional revision efforts in Taiwan.

Sept. 14, 2006: While meeting Chinese officials in Beijing, DOE Assistant Secretary for Policy and International Affairs Karen A. Harbert and Assistant Secretary for Fossil Energy Jeffrey Jarrett reach agreement for the two countries to share information in areas critical to improving energy security and environmental protection. Harbert also participates in the second U.S.-China Energy Policy Dialogue in Hangzhou.

Sept. 14, 2006: Assistant Secretary of Defense Peter W. Rodman and Assistant Secretary of State Paula DeSutter testify before the U.S.-China Economic and Security Review Commission on “China’s Proliferation to North Korea and Iran, and Its Role in Addressing the Nuclear and Missile Situations in Both Nations.”

Sept. 14, 2006: The Senate passes legislation to award a congressional gold medal to the 14th Dalai Lama in recognition of his many enduring and outstanding contributions to peace, non-violence, human rights, and religious understanding.

Sept. 15, 2006: U.S. State Department releases annual *International Religious Freedom Report 2006*, which condemns the Chinese government’s respect for religious freedom as “poor.” China’s Foreign Ministry characterizes the report as “groundless criticism.”

Sept. 15, 2006: USTR Susan Schwab announces that the U.S., the EU and Canada are requesting the WTO establish a dispute settlement panel regarding China’s treatment of imported auto parts.

Sept. 18, 2006: Secretary Rice meets FM Li on the sidelines of the UN General Assembly, elects not to participate in second round of 5+5 Talks (on Sept. 20).

Sept. 19, 2006: State Councilor Chen Zhili visits Washington, D.C. and meets Ted Stevens, president tempore of the Senate, and John Marburger, director of the White House Office of Science and Technology Policy.

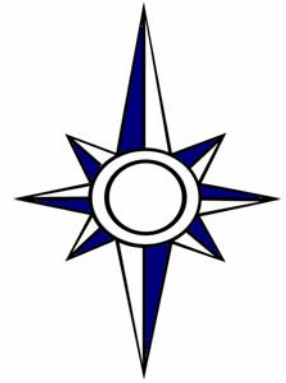
Sept. 19-22, 2006: Treasury Secretary Paulson travels to China, where he meets President Hu, Premier Wen, and Vice Premier Wu Yi. The two sides reach an agreement to establish a China-U.S. economic strategic dialogue.

Sept. 20, 2006: Congressional-Executive Commission on China releases its annual report, which asserts that the Chinese Communist Party continues to implement policies that augment its authority at the expense of citizens’ human rights. The Chinese Foreign Ministry “resolutely refutes” the charges.

Sept. 20, 2006: U.S. and Chinese navies hold a *Search and Rescue Exercise (SAREX)* off the coast of Southern California. The second half of the exercise will be held off the coast of China.

Sept. 23, 2006: NASA chief Michael Griffin arrives in China for a six-day visit. He tours the Chinese Academy of Space Technology in Beijing and meets his Chinese counterpart Sun Laiyan, head of the China National Space Administration, then visits a facility in Shanghai.

Sept. 25-Oct. 1, 2006: Deputy Undersecretary of Defense Christopher Henry travels to China for vice minister-level defense talks. The two sides discuss the 2006 *Quadrennial Defense Review* (QDR) and the improvements in Sino-U.S. military ties. Henry also meets experts from the Party School of the Communist Party of China Central Committee and the PLA Military Academy of Sciences.



U.S.-Korea Relations:

North Korea Rolls the Dice and Conducts Missile Tests

Donald G. Gross

The Atlantic Council of the United States

North Korea elevated the 11-month impasse in the Six-Party Talks to a diplomatic crisis in early October by conducting a test of a small nuclear device. The U.S. responded by calling for the United Nations Security Council (UNSC) to impose harsh sanctions on North Korea “unlike anything that they have faced before.” President George W. Bush explicitly drew a diplomatic red-line that the United States would regard Pyongyang’s “transfer of nuclear weapons or material” to other states or terrorist groups as a “grave threat” that would impliedly bring a U.S. military response.

North Korea’s nuclear test Oct. 9 followed a unanimous statement of the UNSC on Oct. 6 that a nuclear test would “jeopardize peace, stability, and security in the region and beyond.”

In an earlier unanimous resolution, the Security Council condemned North Korea in mid-July for test launching seven missiles and imposed a set of missile-related sanctions on Pyongyang. Instead of vetoing this measure, as Pyongyang undoubtedly expected, China delivered a major diplomatic shock to North Korea by voting to approve the resolution, which called on UN member countries to prevent transfers of missile technologies and “financial resources” to Pyongyang. For the moment, Washington, Seoul, and Beijing seemed to be speaking with one voice.

At the mid-September summit meeting of President Bush and ROK President Roh Moo-hyun, the two presidents indicated they would follow a “common and broad approach” to the North Korean nuclear issue. President Bush gave his blessing to President Roh’s request for returning operational command of South Korea’s forces during wartime to Seoul. Bush defused opposition to this proposal from South Korean conservatives by promising that U.S. forces would come to South Korea’s aid in an emergency and continue to play an important military support role on the Korean Peninsula.

In two rounds of negotiations this quarter on a U.S.-Korea Free Trade Agreement, U.S. and South Korean trade negotiators put on the table a number of critical issues in manufacturing, services, and agriculture but were only able to reach an apparent agreement on pharmaceuticals. In South Korea, the government is under popular pressure

from farmers, labor unions, and business organizations to resist any excessive U.S. demands for opening the Korean market.

UN Security Council condemns North Korea's missile tests

After boycotting the Six-Party Talks since November 2005 and seeking, without success, to end U.S. financial sanctions, North Korea expressed its political frustration by test launching seven missiles on July 5 (Korea time, coinciding with Fourth of July Independence Day celebrations in the United States). Six of the seven missiles – *Scuds* and medium-range *Nodongs* – reached their targets in the Sea of Japan and demonstrated Pyongyang's capability to hit targets throughout South Korea and in Japan. The seventh – a long-range *Taepodong-2* that was theoretically capable of hitting targets in the U.S. – failed after 40 seconds and crashed in an uninhabited area of North Korea.

The missile tests shocked the Japanese and U.S. publics, which had believed assurances that diplomatic pressure – from their own governments and China, in particular – would prevent North Korea from breaking a moratorium on missile tests that Pyongyang had observed for more than five years. Pyongyang's tests were a diplomatic slap in the face for China, which has invested significant political capital in the success of the Six-Party Talks that it chairs on North Korea's nuclear program.

Following the missile tests, Japan took the lead in seeking a resolution of the United Nations Security Council to condemn North Korea's actions. With the strong support of the U.S. – and most significantly, the approval of China and Russia – the Security Council unanimously adopted a resolution of condemnation July 15 by a vote of 15-0.

In addition to demanding that North Korea “suspend all activities related to its ballistic missile programme and...re-establish its [commitment] to a moratorium on missile launching,” the resolution required all UN member states to prevent transfers of missile-related technologies and “financial resources” for missile programs to Pyongyang. The resolution also put the Security Council on record as urging North Korea to “return to the Six-Party Talks without precondition” and “abandon all nuclear weapons and existing nuclear programs.”

North Korea appeared shocked by the direct Security Council condemnation of *both* its missile and nuclear programs. In the past, Pyongyang has said it would regard any imposition of UN sanctions as an “act of war.” Forty-five minutes after the Security Council passed the resolution, North Korea's Ambassador to the United Nations Park Gil-yon accused the Council of “unjustifiable and gangster-like” action. He said that “the delegation of [the] Democratic People's Republic of Korea resolutely condemns the attempt of some countries to misuse the Security Council for the despicable political aim to isolate and put pressure on the DPRK, and totally rejects the resolution.”

During negotiations on the wording of the resolution, China assisted North Korea by excluding any reference to Chapter 7 of the UN Charter, which would authorize military measures to enforce actions of the Security Council. Nevertheless, China's ultimate vote in favor of the resolution must have come as a heavy blow to Pyongyang.

Shortly after the passage of the UN Security Council resolution, a U.S. Treasury official indicated the U.S. was weighing whether to reimpose sanctions on North Korea – with respect to travel, trade, and investment – that had been lifted more than five years earlier, in June 2000, as part of the Clinton administration's policy of "engagement" with Pyongyang. According to the Treasury Department's undersecretary for terrorism and financial intelligence, Stuart Levey, the sanctions would help block the flow of "financial resources" that North Korea might use for its missile and nuclear programs.

Looking for a way to coax North Korea back to the Six-Party Talks, U.S. and South Korean diplomats sought to arrange an informal meeting of the parties at the ASEAN Regional Forum (ARF) in Kuala Lumpur, Malaysia in late July, which Pyongyang's foreign minister, Paek Nam-sun, planned to attend. Instead of joining a meeting on the nuclear issue, however, Foreign Minister Paek defiantly announced that North Korea would not rejoin the Six-Party Talks until Washington dropped its financial sanctions. Ten foreign ministers representing nations at the ARF session nevertheless went ahead with a side meeting to discuss Northeast Asia Security issue. Meanwhile, the ARF chairman's statement criticized Pyongyang's recent missile tests and urged it to return to the Six-Party Talks.

The U.S. continued applying pressure against North Korea after the ARF meeting. Undersecretary Levey sought the help of other countries in denying Pyongyang access to their financial institutions. Levey said Washington believes that North Korea's leaders are hiding "significant amounts" of illicit funds in foreign banks and therefore the U.S. would "encourage financial institutions to carefully assess the risk of holding any North Korea-related accounts."

The U.S. also proposed that if Pyongyang was unwilling to rejoin the Six-Party Talks, the remaining five parties should meet anyway to discuss the nuclear issue. Moving to block this effort to further isolate North Korea, China refused to go along. A Foreign Ministry spokesman said that "North Korea is the most directly involved party in the nuclear issues. Our stance is that the five-way format will not be helpful in resuming and developing the Six-Party Talks."

North Korea threatens an underground nuclear test

North Korea reacted to the UNSC resolution and increasing U.S. diplomatic pressure by triggering a symbolic incident at the demilitarized zone (DMZ) and making preparations for an underground nuclear test that were monitored by U.S. satellites. On July 31, North Korean soldiers along the DMZ fired at least two shots toward a South Korean guard post. The South Koreans responded with six shots of their own. A representative of South Korea's Joint Chiefs of Staff subsequently said that the UN Armistice Commission,

which controls the DMZ, would investigate the incident. South Korean political and foreign ministry officials did not publicly comment on the exchange of fire.

Far more serious, from a diplomatic standpoint, were persistent reports, beginning in mid-August that North Korea was preparing to conduct an underground nuclear test to demonstrate its nuclear capability. *ABC News* first reported in mid-August that U.S. intelligence believed there was a “real possibility” of a nuclear test and the *London Sunday Telegraph* indicated in early September that “Russian diplomats [in Pyongyang] believe it is now highly probable that North Korea will officially join the nuclear club by carrying out its first underground test of an atomic device.” The British newspaper quoted a Russian diplomat as saying that North Korean leader Kim Jong-il had been “irritated” by U.S. financial sanctions.

South Korea reacted to the threat of a North Korean nuclear test more seriously than it did to Pyongyang’s test launch of seven missiles in early July. In the days leading up to the summit meeting of Presidents Roh and Bush in mid-September, Foreign Minister Ban Ki-moon told journalists that Seoul had initiated contingency planning for a possible nuclear test: “We need to think of a policy corresponding to the principle that we do not allow the North to have nuclear bombs. Regarding this matter, our government has already begun to review a detailed action plan.”

Ban’s statement signaled North Korea that Seoul would join the U.S. and Japan in seeking harsh measures against Pyongyang, should it go ahead with a nuclear test. Such a South Korean response would have a disastrous impact on inter-Korean relations which have remained largely unaffected, thus far, by the impasse in the Six-Party Talks.

A successful summit

At their summit meeting on Sept. 14, the two presidents avoided any dispute over differing approaches to North Korea and agreed to intensify consultations on a so-called “common and broad approach” for restarting the Six-Party Talks. They did not, however, issue any joint statement or publicly detail any specific measures they would pursue to this end.

Rather than stressing diplomatic sanctions against Pyongyang, Bush spoke of potential benefits for North Korea if it returns to the nuclear negotiations: “First and foremost, the incentive is for Kim Jong-il to understand there is a better way to improve the lives of his people than being isolated – the stability in the region is in his interest.”

During the summit, President Bush also expressed support for President Roh’s policy of regaining operational command over South Korea’s armed forces during wartime. Control of South Korean forces currently remains with the commander of U.S. forces in Korea. Bush helped defuse opposition to this policy from conservatives in South Korea who fear a weakening of the U.S.-South Korea alliance when he said that South Korea should not worry about U.S. assistance during an emergency. Bush declared “my

message to the Korean people is that the United States is committed to the security of the Korean Peninsula.”

Roh and Bush also reviewed at length the status of negotiations on a U.S.-South Korea Free Trade Agreement (KORUS FTA). Roh reportedly told Bush that he hoped the FTA talks would progress quickly but neither government released any detailed information about the contents of the summit talks on this issue.

At the end of September, both North Korea and the U.S. slightly modified their negotiating positions on the Six-Party Talks for tactical advantage. North Korea stressed to visiting U.S. scholar Selig Harrison that rather than conduct an underground nuclear test during the negotiating impasse, Pyongyang would unload more fuel rods from its five-megawatt reactor in Yongbyon so it could extract additional weapons-grade plutonium. The North Korean position aimed to increase pressure on the U.S. to relax its financial sanctions by demonstrating that further delay in the Six-Party Talks was not on the U.S. side. North Korean Ambassador Kim Gye-gwan reportedly told Harrison that “we already have operating nuclear weapons, so we don’t need to conduct a test.”

For its part, the U.S. demonstrated a new degree of procedural flexibility to Pyongyang, after exerting relentless pressure through financial sanctions and the UN Security Council resolution it strongly endorsed. U.S. Ambassador to South Korea Alexander Vershbow suggested in a news interview that Ambassador Christopher Hill, U.S. delegate to the Six-Party Talks, could visit North Korea even before the next negotiating round, once Pyongyang indicates it will rejoin the talks. This trip would allow bilateral negotiations that North Korea has sought with the U.S. on the issue of financial sanctions. Previously, the U.S. indicated it would only discuss the financial sanctions with North Korea on the margins of the Six-Party Talks.

Ambassador Hill also strived for a breakthrough in the nuclear negotiations by saying that they will enter a “crucial phase” in coming weeks. He told a Washington conference on Sept. 27: “When things are stopped for so long, you really want to find ways to restart them.” Hill’s words reinforced the announcement by Secretary of State Condoleezza Rice, two days earlier, that she would soon tour Asian capitals to see whether or not “one last push” can get the Six-Party Talks back on track.

On Oct. 3, North Korea electrified the international community by declaring it “is set to conduct a nuclear test in the future...” A statement carried by North Korea’s *Korean Central News Agency (KCNA)* said that “the U.S. extreme threat of a nuclear war and sanctions and pressure compel the DPRK to conduct a nuclear test, an essential process for bolstering [our] nuclear deterrent, as a corresponding measure for defense.” The North Korean announcement evidenced a radical change in position from a week earlier when Pyongyang stressed it would continue to reprocess nuclear material and discounted the need for a nuclear test.

The most likely explanation for North Korea's altered position is that Washington brushed aside and downplayed its previous threat to reprocess. Pyongyang responded by sharply heightening tensions, which it hopes will compel the U.S. to enter into bilateral talks for ending the financial sanctions which have hit North Korea hard.

Of course, North Korea's brinkmanship carries with it serious new risks, for Pyongyang above all. In the strongest rhetorical threat to North Korea in over a decade, Ambassador Hill said "we are not going to live with a nuclear North Korea... [North Korea] can have a future or it can have these weapons. It cannot have both."

On Oct. 6, the U.N. Security Council adopted a joint statement that expressed "deep concern" over a possible North Korean nuclear test and warned it would take punitive actions in the event Pyongyang carried through on its threat. The UNSC statement said that a nuclear test would "jeopardize peace, stability and security in the region and beyond."

Bush endorses wartime operational command transfer

Despite mounting domestic opposition in South Korea, the U.S. and South Korea moved forward this quarter on finalizing President Roh's proposal to transfer wartime operational command of Seoul's armed forces back to South Korea. For South Korea, the transfer would signify recognition of the country's independent defense capabilities and affirm its equal role within the U.S.-South Korea alliance.

At the Sept. 14 summit, President Bush endorsed the transfer by 2012, although the U.S. military indicated in early September that it would be prepared to complete the transfer by 2009. A final roadmap for the transfer is being drawn up by working-level military officials and will be announced at the October Security Consultative Meeting (SCM) of U.S. and South Korean defense ministers.

In addition to President Bush's explicit commitment that the U.S. would come to South Korea's aid in an emergency, the U.S. has agreed to provide advanced intelligence assets to Seoul in the future to ensure no "security vacuum" arises after the transfer. Under a reported tentative agreement, U.S. Forces Korea would continue to operate high-tech surveillance and reconnaissance systems to support South Korea following the transfer, including the *KH-12* satellite and *U-2* aircraft.

Tough going in FTA negotiations

Negotiating teams from South Korea and the U.S. met twice this quarter, once in mid-July and the second time in early September. With the exception of pharmaceuticals, it appeared they made little or no progress on difficult sectoral issues and encountered a number of obstacles.

When U.S. negotiator Wendy Cutler arrived in Seoul in mid-July, she was met at the airport by hundreds of angry protestors who claimed the U.S. was imposing an FTA on South Korea that would severely harm farmers and vulnerable Korean workers. Demonstrations and confrontations with police continued outside the hotel where the negotiations occurred.

The main accomplishment of the July session was a procedural agreement on a five-tiered lifting of duties for manufactured products. Under this principle, some duties will be lifted immediately by an FTA and others will be eliminated after three, five, or 10 years. A last category of goods – so-called “sensitive items” – would be excluded from future tariff cuts altogether.

The mid-July round of talks ended badly after the U.S. delegation refused to attend a last scheduled session on anti-dumping remedies to protest the South Korean position on pharmaceuticals. Cutler summed up the situation diplomatically: “[Talks on] pharmaceuticals didn’t go as planned. Our group has suspended the negotiations as we believe the talks have not been operating within the spirit of the KORUS FTA.”

By late August, however, in behind-the-scenes contacts, the two sides appeared to resolve the pharmaceutical issue that had driven them apart. The U.S. said it would accept South Korea’s new drug-pricing policy, which aims to provide quality medicines at relatively low prices. U.S. and South Korean specialists on pharmaceuticals met in Singapore on Aug. 21 to work out detailed procedures for implementing this pricing policy.

At the fourth negotiating session for the FTA, which ran from Sept. 6-9 in Seattle, the U.S. focused its demands on opening South Korea’s agricultural sector within 10 years. In return, U.S. negotiators said the U.S. would gradually abolish tariffs on Korean-made textiles within the same 10-year period. South Korea countered that rice should be excluded altogether from the FTA and tariffs on other agricultural imports should be lifted gradually over 15 years. The Koreans also insisted that the U.S. open its textile market completely within five years.

The September round ended without even a tentative resolution of these issues. The two chief negotiators expressed the stalemate in their closing comments. South Korean chief negotiator Kim Jong-hoon said: “We have not made practical progress on core issues in FTA negotiations with the U.S. so far. While the U.S. side offered a revised tariff offer in merchandise and textiles during the talks, it fell short of our expectations.”

According to chief U.S. negotiator Cutler, “there certainly were areas that tested our skill as negotiators, including those involving tariff reductions in industrial goods, agricultural products and textiles...Frankly, I would have hoped to make more progress this week.” Cutler summed up the FTA talks as “challenging.”

The top U.S. trade official, U.S. Trade Representative Susan Schwab, made it clear this quarter that the U.S. would not allow South Korea to include products manufactured in the Kaesong Industrial Zone, inside North Korea, in the FTA. Former South Korean

President Kim Dae-jung agreed to establish the Kaesong zone in 2000 as part of his Sunshine Policy toward Pyongyang. Within the zone, South Korean companies employ North Korean workers to produce a variety of goods for export. South Korea's position has been that Kaesong-made products should be covered by a South Korea-U.S. FTA. Schwab rejected the South Korean position out of hand: "It won't happen. It can't happen....It's not part of the trade agreement," she said.

Prospects

When North Korea test launched seven missiles at the beginning of this quarter, it relied on the brinkmanship tactics Pyongyang knows so well in a frustrated attempt to break out of financial sanctions the U.S. imposed eight months earlier. North Korea surely believed that China would veto any ensuing UN Security Council resolution and the U.S. would likely seek bilateral negotiations to resolve the issue.

North Korea's calculations went awry, however, when China voted in favor of a UN resolution of condemnation. China used the vote to express its extreme displeasure with North Korea's missile tests – which Beijing had worked hard to prevent. Beyond all else, China believes its diplomatic prestige is at stake in the Six-Party Talks that it chairs, and would like to bring these negotiations to a successful conclusion.

In the aftermath of the UN Security Council resolution, the U.S. and North Korea continued to threaten each other through mid-September. The Bush administration publicly revealed it was seriously considering reimposing economic sanctions on North Korea that President Clinton lifted in June 2000.

For its part, North Korea flaunted to U.S. intelligence-gathering satellites its preparations for an underground nuclear test that would destabilize Northeast Asia. Pyongyang did not seem to realize – or care – that a nuclear test would be welcomed by neo-conservatives in the Bush administration. These hardliners view a nuclear test, correctly, as putting an end to diplomatic efforts for peacefully resolving the nuclear issue and opening up the options for preemptive military strikes or much harsher sanctions that they prefer.

At the summit meeting with President Bush in mid-September, President Roh's strong lobbying in favor of a continued diplomatic approach by the U.S. seemed to pay off. In his public remarks, Bush rhetorically held out negotiating incentives to Pyongyang. U.S. diplomats showed new procedural flexibility toward North Korea and Secretary Rice indicated she would seek a breakthrough in the Six-Party Talks during her upcoming trip to the region. Pyongyang also seemed to be moving away from the brink of confrontation, by indicating it did not need to test its nuclear weapons.

North Korea's nuclear test Oct. 9 only served to unify international opposition and further isolate Pyongyang. In a forthcoming resolution, the U.N. Security Council will certainly condemn North Korea in the strongest terms and apply harsh sanctions against Pyongyang, likely including unprecedented inspections of cargo coming into or going out of the country.

Now in the midst of their biggest crisis since June 1994, the U.S. and North Korea have laid out negotiating positions that strikingly mirror each other: the U.S. insists on harsh sanctions to punish Pyongyang for its nuclear test, but says “the diplomatic path is open” for North Korea to obtain “all kinds of benefits” if it returns to the Six-Party Talks. For its part, North Korea threatens to take unspecified “physical actions” in response to continued U.S. pressure, but says it will return to the Six-Party Talks if the U.S. agrees to relax its financial sanctions.

To achieve U.S. policy goals while avoiding circumstances that could spin out of control and lead the U.S. into an unwanted and potentially disastrous military conflict in Korea, the U.S. should, in the opinion of this writer, take several critical measures:

- Authorize Secretary of State Rice to enter into a diplomatic agreement with North Korea that brings Pyongyang back to the Six-Party Talks. Given the critical importance to the United States of a viable diplomatic track with North Korea, the Bush administration should grant Secretary Rice the flexibility that she feels she needs to maintain it.
- Provide concrete detail to North Korea concerning the benefits Secretary Rice promised if Pyongyang dismantles its nuclear weapons program. The degree of detail should match that of the specified punitive measures the U.S. supports if North Korea does not return to the Six-Party Talks.
- Ensure that UN sanctions are perceived by North Korea as representing the will of the international community. The U.S. can accomplish this by playing a behind-the-scenes role in sanctions enforcement, including by relying on other countries to carry out any possible inspections of cargos coming into or going out of North Korea.
- In any U.S. policy decisions, fully take into account the consequences of U.S. actions for South Korea. U.S. policymakers must constantly keep in mind that the central purpose of the U.S.-South Korea alliance is to preserve South Korea’s security and prevent harm from befalling this close U.S. ally of more than 50 years standing.

Chronology of U.S.-Korea Relations July-September 2006

June 26-July 28, 2006: Eight nations including Japan and South Korea participate in the 20th *Rim of the Pacific (RIMPAC) 2006* exercises.

July 5, 2006: North Korea test launches six short- and medium-range missiles and one long-range missile.

July 7-12, 2006: Assistant Secretary of East Asia and Pacific Affairs Christopher Hill travels to consult with Six-Party Talk negotiators in Beijing, Seoul, and Tokyo.

July 10-13, 2006: Second round of Korea-U.S. FTA negotiations held in Seoul. The meeting ends a day early after the parties are unable to come to an agreement over pharmaceutical sector and other sensitive issues.

July 12, 2006: South Korea lodges a strong complaint against North Korea for firing *Scud* missiles that could reach any area of South Korea and urges North Korea to return to Six-Party Talks; Ambassador Hill meets with Chinese officials in Beijing.

July 13-14, 2006: South Korea and the U.S. hold ninth Security Policy Initiative talks.

July 15, 2006: UN Security Council unanimously condemns North Korea's missile tests with passage of UNSCR 1695.

July 18-19, 2006: Stuart Levey, U.S. undersecretary for terrorism and financial intelligence, briefs officials in Hanoi on illicit North Korean banking activities in Vietnam.

July 19, 2006: Six North Koreans will be granted permanent residency in U.S. for fiscal year 2007 as part of the 2007 Diversity Visa Lottery.

July 25, 2006: President Roh objects to a U.S. hardline policy of "strangling" North Korea.

July 26, 2006: ASEAN Plus Three Senior Officials and Foreign Ministers meetings held in Kuala Lumpur, Malaysia.

July 26, 2006: Ad hoc consultations among East Asia Summit senior officials take place in Kuala Lumpur.

July 28, 2006: The ASEAN Regional Forum opens in Kuala Lumpur; Secretary Rice, FM Ban and eight other foreign ministers conduct side meeting to discuss the nuclear negotiations with North Korea while the DPRK foreign minister boycotts the meeting.

July 31, 2006: Soldiers of North and South Korea exchange limited rifle fire at the DMZ.

Aug. 10, 2006: The U.S. and South Korea conclude third round of defense burden-sharing negotiations without reaching agreement.

Aug. 14, 2006: Ambassador Vershbow says that transferring operation control of armed forces during wartime to South Korea will strengthen the U.S.-Korea alliance.

Aug. 17, 2006: *ABC News* reports that U.S. intelligence believes that a North Korea nuclear test is a "real possibility."

Aug. 20, 2006: U.S. Trade Representative Susan Schwab rules out inclusion of Kaesong-made products in U.S.-Korea FTA.

Aug. 21, 2006: U.S. and South Korea pharmaceutical sector experts meet in Singapore to work out the pharmaceutical details of the KORUS FTA.

Aug. 21, 2006: U.S. and South Korea start annual *Ulchi Focus Lens* military exercise; U.S. and South Korean trade negotiators meet in Singapore.

Aug. 30-31, 2006: ROK chief delegate to the Six-Party Talks Chun Young-woo meets U.S. chief delegate, Assistant Secretary of State Hill in Washington, D.C.

Sept. 4-12, 2006: Assistant Secretary Hill visit Japan, China, and South Korea to discuss regional and global issues with senior government officials in the three countries. He will also meet with the six-party negotiators to get North Korea back to the table.

Sept. 1, 2006: Ban Ki-moon tells reporters that Seoul is reviewing an action plan in the case of a possible North Korean nuclear test.

Sept. 6-9, 2006: Third round of ROK-U.S. free trade agreement negotiations take place in Seattle, Washington. Korea announces it will resume beef imports from the U.S.

Sept. 10, 2006: *London Sunday Telegraph* reports that Russian diplomats in Pyongyang believe that the probability of North Korea joining the nuclear club is very high.

Sept. 14, 2006: President George W. Bush and President Moo-hyun Roh hold a summit meeting in Washington.

Sept. 19-23, 2006: U.S. scholar Selig Harrison visits North Korea and has a six-hour conversation with the DPRK's six-party negotiator Kim Gye-gwan. Kim tells Harrison that Pyongyang would be extracting more plutonium from its Yongbyon reactor.

Sept. 20, 2006: Ambassador Hill and South Korea's envoy to the Six-Party Talks meet in New York.

Sept. 21, 2006: U.S. Ambassador to Korea Alexander Vershbow tells *Yonhap News* that Assistant Secretary Hill could visit Pyongyang if the DPRK agrees to return to the table.

Sept. 21, 2006: U.S. and ROK participate in second round of Five Plus Five Talks in NY; China and Russia opt out.

Sept. 27, 2006: Assistant Secretary Hill at a CSIS conference states that the Six-Party Talks will enter a "crucial phase" in coming weeks and confirmed that Secretary Rice will be visiting Beijing, Seoul, and Tokyo to get the talks back on track.

Oct. 3, 2006: North Korea announces that it would conduct a nuclear test at an unspecified future date.

Oct. 6, 2006: U.N. Security Council issues an unanimous statement that a nuclear test would “jeopardize peace, stability and security in the region and beyond.”

Oct. 9, 2006: North Korea announces that it has successfully completed an underground test of its nuclear bomb.



**U.S.-Russia Relations:
Energy and Strategy**

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Casual observers of U.S.-Russia relations over the past three years understand that the two nations have navigated rocky paths in their search for common understanding and shared strategic goals. This quarter started off well enough for the two nations as Presidents George W. Bush and Vladimir Putin met amiably at the G-8 Summit, for which Russia was the host this year. But as the quarter wound down, familiar themes of distrust and misunderstanding pervaded the relationship once again. It is not that Moscow and Washington have strategic interests that are directly opposed to one another. In fact, leaders in both capitals see eye-to-eye on the pressing issues of nuclear proliferation and terrorism, and on more long-term goals, such as managing a peaceful rise of China. The problems seem to lie more in the tactics of achieving these strategic aims. Russian leaders have a hard time conceding global leadership to Washington; likewise many in the United States still harbor engrained prejudices against the longtime adversary in Moscow.

Additionally, energy issues have become more and more the cause for disagreement between Russia and its neighbors and partners. The Russian government does seem determined – for right or for wrong – to control the access to and management of the resources lying beneath its soil and waters. This has become an acute problem in the Russian Far East for Washington and its two closest allies, Britain and Japan. Meanwhile, elsewhere in the Asia-Pacific region, relations between Japan and Russia have become downright contentious, due to a series of events, including the untimely death of a Japan national at the hands of Russian border authorities.

The G-8 Summit

The July G-8 Summit in St. Petersburg was a showcase for Vladimir Putin and Russia's reemergence on the international stage. The summit took place at a beautifully restored palace, in sumptuous style, and Putin was hailed by many as a decisive and informed leader. The international press gave the summit middling marks – nothing of great consequence was achieved – however, many observers came away impressed with Putin's confidence and his determination to bring Russia back to its accustomed position as a global power. As is often the case with big summits, international events came to dominate the discussions of the day. Headlining the summit was a resumption of hostilities in Lebanon. The leaders of the member nations spent much time discussing this issue, as well as the nuclear crises in Iran and on the Korean Peninsula. Although G-8

leaders agreed to return the Iran nuclear question to the UN Security Council, North Korea got off somewhat easier, with the G-8 expressing support for the UNSC resolution condemning the missile launches. There was speculation that Moscow (with Beijing's concurrence) agreed to swap action on the Iran crisis for continued inaction toward North Korea. Some wonder whether Beijing called on Moscow to back the DPRK on this issue.

Putin and his team were able to control the G-8 agenda and avoid public lectures from Western leaders about the state of democracy in Russia, or Russian diplomacy in the Middle East and Central Asia. It is also interesting that Putin's first meetings at the conclusion of the summit were with Chinese President Hu Jintao and Indian Prime Minister Manmohan Singh, both of whom had been invited as observers. Putin hopes that Russia can serve as a bridge between the West and Asia. Many in Russia favor Chinese and Indian inclusion in the G-8.

The G-8 issued an "Energy Statement." The statement read: "Energy is essential to improving the quality of life and opportunities in developed and developing nations. Therefore, ensuring sufficient, reliable and environmentally responsible supplies of energy at prices reflecting market fundamentals is a challenge for our countries and for mankind as a whole." Although the communiqué said all the right things, it probably did little to assuage fears in continental Europe and elsewhere about Russia's domination of gas and energy markets across Eurasia.

At the summit Putin and other Russian leaders scoffed at the idea that Russia would use its energy as leverage against its neighbors. On the sidelines of the public discussions, however, Russian leaders made it clear that they would like a share in Europe's downstream energy sectors, hinting darkly about what might happen if they didn't. Later it would become clear that no energy agreements between Russia and Western multinationals are immune from Russian government pressure – not even the sacred Production Sharing Agreements (PSAs) signed by several of the oil majors in the 1990s. Nowhere is this more evident than with the Sakhalin oil and gas projects.

Energy coercion

In late September a decision was made by the Russian high court system to temporarily suspend operations on the Sakhalin-2 oil and gas development project due to environmental considerations. The Russian court order was issued in response to a complaint filed by the Russian Ministry of Natural Resources that the project is violating environmental regulations. The Sakhalin-2 energy consortium – run by the Sakhalin Energy Investment Company – is 55 percent controlled by the European energy giant Royal Dutch-Shell. The Japanese trading firms Mitsui and Mitsubishi control 25 percent and 20 percent respectively. Thus far the project is experiencing massive cost overruns (thus depriving the Russian government of profits at a time of soaring energy prices). It should also be noted that the state-controlled Russian energy giant Gazprom is hoping to become involved with this project, and with other projects on Sakhalin.

The Russian Ministry of Natural Resources is also asking that the Sakhalin Energy Investment Co. review its planned gas pipeline routes, suggesting that certain portions be rerouted to avoid sensitive ecological areas. For months Gazprom has been in negotiations to acquire a 25 percent stake in Sakhalin-2 in an asset swap with Shell. Shell has been hesitant to take Gazprom management up on their offer, but the pressure from the Russian government has been intense of late, and Shell will more than likely come to some sort of agreement. Gazprom is also pressuring the Japanese to sell shares in the project. The pressure seems to have paid off as it was reported that both Mitsubishi and Mitsui plan to sell a small portion of their share, so that the project can run “more efficiently” with Russian participation.

Gazprom is very eager to get in on the Sakhalin action to meet growing energy demands across East Asia. Vladimir Putin announced recently to a group of foreign experts that Russia wishes to increase the level of its energy exports to the Asia-Pacific region from the current 3 percent of total Russian energy exports, to 30 percent over the next decade. Eastern Siberian development is still in its infant stages, so the Sakhalin projects would appear to be the best sources to meet that goal.

Leaders in Japan and Europe have expressed dismay about the court decision. Japan’s new prime minister, Abe Shinzo, voiced his dissatisfaction: “A significant hold-up in this [Sakhalin-2] project, which is a symbol of Japanese-Russian cooperation, will have...negative repercussions on the whole of our relations with Russia,” he said.

The other Sakhalin energy projects – including the Exxon-Mobil controlled Sakhalin-1 project – also appear to be under pressure. In August the Russian government announced that it wants to review the three major Production Sharing Agreements (PSAs) that it signed with Western and Japanese energy firms in the early 1990s, when it was desperately trying to attract outside investment in the energy field.

These three PSAs were negotiated when the price of oil was hovering around \$15 a barrel in the mid-1990s. At the time, the Russian government was eager to attract investment, and agreed to terms that were far less than they would have been able to negotiate today. According to the terms of the PSAs, the Russian government can only see profits once the projects themselves begin to recoup their cost outlays. Because the costs overruns have been so massive – particularly for Sakhalin-2, whose costs have risen from \$10 to \$20 billion – the Russian government is unlikely to see any profits in the near future. This must be particularly galling to the Kremlin, given the high price of oil. People in Russia might be inclined to ask: how could Russia not be gaining profit from resources taken from its own soil? Meanwhile the costs of the Exxon-led consortium Sakhalin-1 development project could rise from an initial estimate of \$12 to \$17 billion. The Russian government has strongly warned Exxon-Mobil that it would forbid any further spending on the Sakhalin-1 project.

Exxon-Mobil is also facing problems with environmental issues. The firm has been told that it cannot begin regular shipments of oil to the Asia-Pacific region from the Sakhalin-1 project until mid-November when terminal inspections have been completed. Of

course, there is no telling what these inspections might come up with. Exxon-Mobil is also under fire for a proposed gas pipeline to China from Sakhalin. In China, Exxon can get market rates for gas. In Russia, the rates are below market value. Gazprom, however, has its own plans for a gas pipeline to China through the Altai highlands near the Kazakh-Russian-Mongolian border. Any Exxon-Mobil pipeline to China would be in direct competition with Gazprom's strategy for supplying gas to China.

Putin has remained relatively quiet about these issues. Natural Resources Minister Yuri Trutnev, whose ministry is behind the proposed suspensions, met with Putin recently, and he denied that the Sakhalin projects were even discussed. Some within the Russian government are reportedly concerned that Russia's image as a place for investment could be dealt a serious blow now that the highest profile investment projects seem under fire. However, Putin did issue a veiled warning to multinationals "unconscientiously" operating within Russia; i.e., firms that have huge cost overruns and who are not overly concerned about the local ecology. His suggestion was that these firms could not expect to enjoy privileges forever.

Some people have been willing to give the Russian government the benefit of the doubt. After all, Putin himself ordered a significant northward shift of the planned East Asian oil pipeline earlier this year, so as to avoid the sensitive watershed of Lake Baikal. Perhaps the primary concern in Sakhalin is indeed the protection of the ecology of what is a beautiful island. But it is curious to see the government-owned energy giant Gazprom lurking behind some of the court decisions and government actions that are affecting the Sakhalin energy projects.

Off northern Russia in the depths of the Barents Sea, the Russian government announced that it plans to divert up to half the gas from its vast Shtokman field to Europe and away from the United States. This is bad news for U.S. companies Chevron and ConocoPhillips, which had been hoping to be the major developers of this deepwater field. Some analysts suggested that this move was in response to the U.S. State Department's August decision to introduce sanctions against the Russian arms firms Rosoboroneksport and Sukhoi for violating the Iran Nonproliferation Act.

Conflicting agendas in Moscow and Washington

There is no shortage of contentious issues between Moscow and Washington these days, even besides the energy differences listed above. Iran and the general situation in the Mideast have been sticking points for months, if not years. And if the two sides seemed in agreement at the G-8 summit over the idea of keeping Iran from acquiring nuclear weapons, the leaders of both countries cannot agree on how to go about ensuring this. Washington wants strong sanctions, if not outright military action. Moscow prefers working on an international consensus through the United Nations. Moscow may win out on this, as it seems several U.S. allies in Europe are not thrilled with the idea of sanctioning Iran.

Another issue that is indicative of the worsening tone of bilateral relations between Moscow and Washington is the state of nonproliferation efforts within Russia, which have been largely funded and run by the U.S. government. The Nunn-Lugar efforts have always had opponents in both countries, but now many of the major programs within this initiative are dying a quiet death. One of the benchmark programs, the Nuclear Cities Initiative (NCI), expired Sept. 22 with little fanfare. At its height NCI employed 13,000 Russians and helped 1,600 nuclear scientists transition into the civilian economy. Now NCI simply has run out of time and support.

Another source of concern for the relationship is the development of ABM systems. When the United States unilaterally abrogated the ABM treaty in 2001, Moscow was obviously upset. Washington's professed rationale for doing so was to respond to the nuclear ambitions of North Korea, Iraq, and Iran. Russian press reports recently suggested that now Washington aims to deploy elements of an ABM system in Poland and the Czech Republic. Should this come to pass, expect a furor to emanate from the Kremlin. The Kremlin has also made known its discomfort with the state of the START I treaty which is due to expire in 2009. Russia wants to renew the treaty, but Washington remains noncommittal, no surprise given the fact that Congress has not ratified the START II from the 1990s. Russia's non-membership in the World Trade Organization is also a sticking point. Bilateral talks on this issue collapsed prior to the G-8 summit.

Washington has its own list of grievances. These include Russia's emboldened energy policies, as well as Russia's obstreperous diplomacy in the Middle East, Latin America, and across Asia. Washington has gotten used to Russia's dalliance with Iran, Syria, North Korea, and elsewhere. But Moscow's warm reception of Venezuelan President Hugo Chavez had to have been particularly difficult for U.S. leaders. In Moscow Chavez and Putin signed a series of arms deals worth up to \$3 billion. The shopping list includes submarines, anti-aircraft *Tor-M1* missile systems, and 24 *Sukhoi Su-30* jets. Chavez also visited Belarus (home of "Europe's last dictator") and Iran. The fact that Chavez called Bush "Satan" at the UN several weeks after his historic visit certainly did not put his weapons-buying spree in a positive light in Washington.

Russia and Japan

Relations between Moscow and Tokyo are as cold as they have been in decades. The Sakhalin energy issue is making leaders in Tokyo nervous, as mentioned. But perhaps even more distressing for Japan was the shooting death of a Japanese fisherman in the waters off northern Hokkaido, adjacent to one of the disputed islands (Habomai). The Russian government has taken a hard stance on the issue, and is in no way conciliatory toward the Japanese about the plight of fisherman (or "poachers" in Russian parlance). Although the two remaining crewmembers have been released and the boat's captain appears to be set for release, the tone between the two governments has been decidedly chilly on this and other topics.

While there has been hope over the last decade within Japan that the territorial dispute with Russia might be solved to Japan's satisfaction, the last few years have witnessed fruitless and exasperating bilateral negotiations. President Vladimir Putin may have once been amenable to a settlement (in which Japan would receive two of the smallest disputed islands) but it appears that he is no longer in the mood to cooperate, especially given Russia's expanding economy and its rising international status. Meanwhile Japanese Prime Minister Koizumi Junichiro has ineptly played the history issue with China and Korea; resolving this historical and territorial issue with Russia has become even more difficult.

Moscow has moved boldly forward in advancing the economic development of the Kuril Islands, which have been among Russia's most backward and economically depressed regions. In August, the Russian government approved a draft program to aid the Kuril Islands over the next nine years by disbursing roughly \$670 million to help develop the islands' infrastructure and social programs. This in effect eliminates Tokyo's one trump card: the promise of economic development. It has been clear since before Putin's visit to Tokyo last year that Japanese-Russian relations were stalled. But the latest incidents threaten to send relations into the deep freeze.

Moscow and Washington understand that cooperation is vital in the emerging strategic environment. But achieving this cooperation is like trying to make two magnets stick to one another.

Chronology of U.S.-Russia Relations July-September 2006

July 6, 2006: It is announced that Russian government regulators have forced more than 60 regional radio stations to stop broadcasting news reports produced by Voice of America and Radio Free Europe/Radio Liberty.

July 15-17, 2006: G-8 Summit convened in Strelna, a restored Petrine palace outside of St. Petersburg, Russia. Discussions focus on the Middle East, nuclear proliferation issues, and democracy.

July 25, 2006: Venezuelan President Hugo Chavez arrives in Moscow, meets with Vladimir Putin, and signs a series of weapons deals with the Russian government.

Aug. 4, 2006: Russian Foreign Ministry publishes a statement condemning the decision of the State Department to introduce sanctions against the Russian arms firms Rosoboroneksport and Sukhoi for violating the Iran Nonproliferation Act.

Aug. 16, 2006: Russian coast guard forces fire on a Japanese fishing boat operating in disputed waters, killing one Japanese crewmember. The three other crewmembers are arrested and detained on Sakhalin.

Aug. 28, 2006: Secretary of Defense Donald Rumsfeld and Russian Defense Minister Sergei Ivanov meet in Alaska at a ceremony commemorating the WWII Lend Lease program.

Aug. 28, 2006: Japanese Prime Minister Koizumi Junichiro arrives in Central Asia for a three-day visit to Kazakhstan and Uzbekistan. This is Koizumi's last official overseas visit as prime minister.

Sept. 4, 2006: Japan External Trade Organization (JETRO) Chairman Osamu Watanabe arrives in Moscow for talks with the Russian business community.

Sept. 5, 2006: U.S.-Russia bilateral military exercise is canceled at the last minute due to technicalities concerning the extra-territoriality of U.S. soldiers in Russia.

Sept. 11, 2006: Japan and Russia sign a contract for more than \$700 million for the dismantling of several Russian nuclear submarines in the Russian Far East.

Sept. 16, 2006: Vladimir Putin addresses a group of 50 foreign experts (mainly U.S. and European) on Russia's politics and foreign policy. This meeting – held for the third year in a row – is known as the Valdai Discussion Club.

Sept. 18, 2006: A Russian high court orders the temporary suspension of operations on the Sakhalin-2 oil and gas development project due to environmental concerns.

Sept. 22, 2006: The U.S.-Russian Nuclear Cities Initiative (NCI), part of the Nunn-Lugar nonproliferation program, expires.

Sept. 26, 2006: In a speech in Los Angeles, Russian Foreign Minister Sergei Lavrov tells his audience that the United States will have to get used to a strong Russia.

Sept. 27, 2006: A delegation from the Russian government arrives in Washington, D.C. to discuss Russia's remaining obstacles to joining the WTO.



U.S.-Southeast Asian Relations:

U.S. Strengthens Ties to Southeast Asian Regionalism

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Indonesia and Malaysia chastised the United States for backing Israel in the July-August Hezbollah Lebanon war, though both Jakarta and Kuala Lumpur subsequently offered peacekeeping forces to monitor the ceasefire. Washington signed a trade and investment framework agreement with ASEAN at July ministerial meetings and is considering appointment of an ambassador to ASEAN as well as creating a new Southeast Asian financial post in the Treasury Department. On the military dimension, the U.S. is delivering spare parts for the Indonesian air force and has initialed a new defense arrangement – the Security Engagement Board – with the Philippines that will focus on humanitarian aid, civic engagement, and counterterrorism training in insurgent-ridden Mindanao. Washington has also placed Burma’s human rights violations on the UN Security Council agenda and enhanced economic and military relations with Vietnam. In response to the Sept. 19 Thai coup, the U.S. expressed disappointment in the setback to democracy by an important regional ally but did not insist that deposed Prime Minister Thaksin be restored to power.

Malaysia and Indonesia see U.S. hand in Israeli-Lebanon War

Political elites in Malaysia and Indonesia criticized the U.S. for backing Israel in the July-August war in southern Lebanon. Because neither Southeast Asian country has diplomatic relations with Tel Aviv, the U.S. embassies in Kuala Lumpur and Jakarta became lightning rods for Muslim demonstrations. Fundamentalist groups such as the Indonesian Mujahadin Council (MMI) stated their opposition to “Zionist Israel and its allies” and urged the Indonesian government “to facilitate the dispatch of Indonesian mujahadin to help Palestine against Israel.” In Malaysia, some 10,000 demonstrators led by the opposition Islamic Party of Malaysia (PAS) demonstrated against the presence of Secretary of State Condoleezza Rice at the late July ASEAN Ministerial Meetings, insisting that the United States had the responsibility for stopping Israel’s attacks on Lebanon. Demonstrators outside the U.S. Embassy on July 28 and at the Kuala Lumpur convention center burned U.S. flags and portraits of President Bush and Secretary Rice.

Both Malaysian Prime Minister Abdullah Badawi and Indonesian President Susilo Bambang Yudhoyono worked to deflect extremist demands by rhetorically siding with Hezbollah in Lebanon and Hamas in Gaza. The Malaysian prime minister on July 24 also accused the U.S. of not using its power to end the Israeli-Lebanon conflict. As the current

chairman of ASEAN, Prime Minister Abdullah urged both belligerents to “exercise utmost restraint,” while characterizing “as excessive” Israel’s military operations in Lebanon, Gaza, and the West Bank. Malaysian Foreign Minister Datuk Seri Syed Hamid Albar stated the U.S. was wrong in declaring Hezbollah a terrorist organization. He described the conflict as an Arab effort to recover occupied lands and not based on religion.

President Yudhoyono was particularly concerned about Islamist groups attempting to go to Lebanon and Gaza on their own to fight as well as requests by some for government support and military training. On Aug. 6, he declared that while anger over the plight of the Lebanese people was understandable, sending militants into the conflict zone was “out of the question.” Instead, both the Indonesian and Malaysian leaders stated that their countries were prepared to send peacekeeping forces to Lebanon under UN auspices. In mid-August, U.S. ambassador to Indonesia B. Lynn Pascoe expressed Washington’s support for Indonesian participation in the UN peacekeeping force. No such endorsement was given to Malaysia, however.

As for Israel’s objection to peacekeepers from countries that have no diplomatic relations with Tel Aviv, Indonesian officials pointed to the country’s “good history and tradition” of sending troops for peaceful missions, including the Sinai Peninsula. By early September, Israel dropped its objections to Indonesia’s participation, and Jakarta was preparing to send up to 1,000 military (TNI) personnel. Indonesian Defense Minister Sudarsono stated that Jakarta had been in contact with Israel through third parties [presumably the United States] and that Tel Aviv removed its objection. With respect to Indonesia, according to a *New York Times* article on Sept. 2, “Israeli officials have said they regard some Muslim countries in a more positive light than others” and pointed to relief aid sent by Israel to Indonesia after the December 2004 tsunami. Malaysia may be another matter. It, too, has offered up to 1,000 peacekeepers. However, Israel does not view Kuala Lumpur as positively as Jakarta. Malaysian Defense Minister Najib pointed to his country’s “excellent record in terms of providing peacekeeping services.” However, by late September, no agreement on Malaysian participation had been reached.

U.S. steps up support for Southeast Asian regionalism

Indicative of growing U.S. political and economic interest in Southeast Asia as a region as distinct from separate bilateral relations with each country, a number of events occurred this quarter. Deputy U.S. Trade Representative Karan Bhatia told the U.S.-ASEAN Business Council on July 11 that with an aggregate GDP of \$2.7 trillion, the ASEAN countries constitute the fourth largest trading partner of the United States. Washington has a bilateral free trade agreement (FTA) with Singapore and is in FTA negotiations with Thailand and Malaysia. Additionally, trade and investment framework agreement discussions are under way with Indonesia, the Philippines, Cambodia, and Brunei. Vietnam has also signed a market access agreement as an initial step toward Hanoi’s membership in the World Trade Organization. Going beyond the bilaterals, Bhatia stated: “We are looking to support ASEAN integration and to institutionalize our

relationship with ASEAN through a trade and investment agreement with ASEAN as an institution.”

On Aug. 11, the Bush administration announced plans to appoint special envoys to boost diplomatic and financial relations with Southeast Asia; Deputy Treasury Secretary Robert Kimmit stated at a Singapore National Day reception in Washington that the administration is planning to appoint an ambassador to ASEAN. Kimmit went on to note that the Treasury Department intends to establish a financial representative post for Southeast Asia. These developments followed closely on Secretary of State Rice’s agreement with ASEAN foreign ministers in July for a five-year action plan to boost economic and political ties. Sen. Richard Lugar first proposed a U.S. ambassador for ASEAN in a May 2006 Senate bill. He argued that a U.S. ambassador to ASEAN would prove crucial as ASEAN develops a regional free trade area. The ambassador, possibly an assistant secretary of state with ambassadorial rank, could deal with matters of regionwide concern ranging from environmental and financial issues to public health challenges and terrorism.

At the ASEAN Regional Forum (ARF) late July annual meeting, Malaysian Foreign Minister Hamid Albar stressed the importance of Secretary Rice’s presence for the discussion of Burma’s future and North Korean nuclear arms. Additionally, Rice’s signature on a five-year action plan promoting trade, investment, and political ties with Southeast Asia has been interpreted in the region as groundwork for a possible U.S.-ASEAN free trade pact, bringing the United States in line with China and Japan. The ASEAN Secretariat praised the ASEAN-U.S. Agreement as a significant step on the road to achieving the 2005 Joint Vision Statement on ASEAN-U.S. Enhanced Partnership.

U.S. military ties with Southeast Asia enhanced

Building on last year’s resuscitation of military relations with Indonesia, the U.S. Congress appropriated \$6 million for military equipment and training for Indonesia in 2007. Although \$2 million less than the sum requested by the Bush administration, the amount is a multi-million dollar increase over the 2006 total. Critics of the new military ties both in Indonesia and the U.S. said that Congress failed to attach sufficient conditions to the appropriation such as requiring, for example, that the military be trained in public transparency, accountability, democracy, human rights, and respect for civil society organizations. Those who support the U.S. funding claim that the Indonesian armed forces (TNI) are no longer involved in domestic politics and conform to the rule of civilian supremacy. Moreover, U.S. assistance is not cash based – susceptible to corruption – but rather in the form of equipment and training. The Indonesian military training program now includes scholarships for advanced degrees at U.S. universities.

As for equipment, the U.S. has begun to supply spare parts for Indonesia’s *F-5* and *F-16* jet fighters, but since these parts have been held for many years in the U.S. inventory, they must be reconditioned before they are airworthy. Additionally, Washington has offered new avionics for Indonesia’s first generation *F-16*s and retrofits for its *C-130*

cargo aircraft. Of the 23 *C-130s* in Indonesia's inventory, currently only nine are fully serviceable.

Despite the enhanced military assistance and successful July U.S.-Indonesian navies *CARAT* exercise, Jakarta still refrains from joining the U.S.-initiated Proliferation Security Initiative (PSI). The Indonesian director general of defense strategy Maj. Gen. Dadi Susanto, stated in early July that "we have found several aspects of the PSI which contradict the United Nations Convention on the Law of the Sea, which is not ratified by the United States." The reference could be to Indonesian concerns that under the PSI other countries' navies might be allowed to patrol Indonesia's archipelagic waters.

In mid-July, the U.S. and Philippine armed forces agreed to conduct joint military exercises under the newly formed Security Engagement Board (SEB). Currently, joint training is focusing on humanitarian and socio-economic civic engagement, according to Philippine Defense Secretary Avelino Cruz. As for security, the joint training continues counterterror operations. Secretary Cruz emphasized that exercises under the SEB would be independent of the annual *Balikatan* exercises conducted under the Philippine-U.S. Mutual Defense Treaty. Among the first exercises planned under the SEB is a counterterrorism war game in rebel-infested Mindanao where the Philippine government has been confronting protracted Muslim and Communist insurgents. The exercise, to be called *Kajit-Bisig (Linking Arms)* will last through late 2006 to the first half of 2007 and concentrate on training local troops, providing humanitarian assistance, and supporting local military operations against Muslim militants. This last component must be implemented carefully because the Philippine Constitution prohibits foreign forces from engaging in combat on Philippine soil. Up to now, U.S. advisors claim only to have provided training, intelligence, and medical support to Philippine soldiers.

Also in mid-July, the U.S. Chief of Naval Operations Adm. Michael Mullin reiterated the U.S. offer to share maritime expertise with Malaysia to fight piracy in the Malacca Strait. Washington has proffered naval assistance for the littoral states' anti-piracy activities regularly since 2004. This time Adm. Mullin said: "it is a vital strait not just locally but internationally. It is one that we all have an interest in." Going on, Mullin proposed: "As we are developing future capabilities, certainly we are willing to share those with the Malaysian navy." Mullin's offer constitutes the latest U.S. effort to see if Malaysian Defense Minister Najib Razak was sincere last year when he said that U.S. involvement in a supporting role would be welcome. Malaysia and Indonesia have rejected any regular U.S. patrols in the strait, insisting that Malacca waters' security is the responsibility of the littoral states. (Although Singapore would welcome a U.S. navy role in protecting the strategic waterway, the city-state will not split from its neighbors over the issue.)

In an effort to upgrade military relations with Vietnam and Cambodia, U.S. Pacific Commander Adm. William Fallon visited both countries in mid-July. He requested more U.S. ship visits to Vietnam and proposed a joint search and rescue exercise with the Vietnam Navy – an opening gambit in establishing navy-to-navy relations. Hanoi responded cautiously, however. Vietnam's Defense Minister Phung Quang Thanh stated that such an exercise "might be misunderstood by other countries," an obvious reference

to China. Adm. Fallon repeated his offer to Vietnam's Foreign Minister Pham Gia Khim, and also asked Hanoi to take a more active role in regional issues, including the effort to convince North Korea to stop testing long-range missiles. Khiem noted that while his country is playing a larger regional role through ASEAN, it does not consider itself a leading member of the organization. However, he also said that "Vietnam is certainly not supportive of any potential use of nuclear weapons by North Korea..." according to an *Agence France Presse* interview with Fallon on July 15.

After his sojourn in Hanoi, Fallon traveled to Cambodia to follow up a visit by Cambodia's defense chief to Hawaii where he asked for U.S. assistance to help reestablish the country's military. In July 17 meetings in Phnom Penh, Defense Minister Tea Banh told Fallon that training is their priority need from the United States. The PACOM commander said he would send a team of U.S. military officials to Cambodia to help assess its needs.

Counterterrorism stays high on the U.S. agenda

When President Bush transferred 14 of the "world's most dangerous captured terrorists" from secret prisons in various parts of the world to Guantanamo, three among them were Southeast Asians – the infamous al-Qaeda operative Hambali, captured in Thailand, as well as two Malaysians who were arrested in Pakistan alongside Khalid Sheikh Mohammad, the mastermind behind the Sept.11 attacks. Islamic militants continue to operate in the Philippines, Indonesia, and southern Thailand – activities sufficiently lethal for the U.S. to still regard Southeast Asia as the second front in the "war on terror."

The United States is most involved in the Philippines, providing military equipment and training to the Philippine army, its Special Forces, and the Philippine police with a particular focus on Mindanao where the radical Islamist group Abu Sayyaf is located. USAID plans are integrated into the counterterrorism program through projects designed to increase employment opportunities.

To back the Philippine counterinsurgency campaign, in July Washington promised to provide 26 refurbished Vietnam-era *Huey* helicopters. The United States also employed sophisticated surveillance equipment to assist Philippine forces in tracking an Abu Sayyaf chieftan, Khadaffy Janjalani, and two Jemaah Islamiyah (JI) terrorist leaders who escaped from Indonesia, Dulmantin and Umar Patek – key suspects in the 2002 Bali bombing. U.S. Special Forces personnel continue to provide technical intelligence and training to Philippine forces as well as medical assistance; however, according to both Philippine and U.S. officials, the Americans do not engage in combat. In hopes of eliciting support from Jolo island residents, the U.S. has offered a \$10 million reward to the capture of Dulmatin, \$5 million for Abu Sayyaf leaders, and \$1 million for Patek. A significant gap in Philippine counterterror capabilities is the absence of any legislation against terrorism, meaning that telephone conversations cannot be legally monitored, nor can preventive arrests be made.

Both Malaysia and Indonesia have requested access to some of the high-level terrorists recently transferred to Guantanamo, though for different reasons. Kuala Lumpur is concerned with the legal right to counsel for its nationals, while Jakarta wants access to Hambali whom they wish to extradite to stand trial for the 2002 Bali bombing. Indonesia has repeatedly asked for direct access to Hambali from the time of his 2003 capture in Thailand, to no avail. President Bush announced at the time of the terrorists' transfer to Guantanamo that under interrogation Hambali admitted that 17 JI operatives had been groomed for attacks in the U.S. If true, this would be a new dimension to JI activities that heretofore have been confined exclusively to Southeast Asia.

U.S. seeks Vietnam trade deal and urges haste for Khmer Rouge trial in Cambodia

In July, former top U.S. diplomats and trade officials urged Congress to approve Permanent Normal Trade Relations (PNTR) with Vietnam as both further progress on the road to normal relations between the two countries and as a final step toward WTO membership for Hanoi. There are some senators who oppose PNTR. They are concerned about human rights in Vietnam; U.S. textile associations fear the impact of cheap garment imports. However, the Bush administration enthusiastically backs PNTR and WTO membership, claiming that increased bilateral trade will benefit both countries.

Political cooperation between Washington and Hanoi was further enhanced this quarter at the ARF meeting, when a Vietnamese Foreign Ministry spokesman endorsed the denuclearization of the Korean Peninsula. Subsequently, in late August, responding to a request from the U.S. Treasury Department and in compliance with Hanoi's own 2005 decree to fight money laundering, Vietnamese officials began to investigate "illegal transactions of North Korea in Vietnamese banks." Later reports indicated that North Korea was transferring funds out of Vietnam to other locations.

As Cambodia proposes at long last to convene a multimillion-dollar tribunal to try the few remaining elderly Khmer Rouge leaders for genocide, U.S. Ambassador Joseph M. M. M. defended the cost of over \$56 million as necessary to heal the country's spiritual and psychological wounds by finally seeing what remains of the perpetrators brought to justice. Retired King Sihanouk questioned the value of the UN-backed tribunal for crimes against humanity during the 1975-1979 period of Khmer Rouge rule. Sihanouk stated the money would have been better spent alleviating poverty. Although the U.S. has not contributed funds directly to the tribunal, it has contributed \$1 million for the collection of testimonies and documents that form the backbone of the evidence to be presented to the Court.

Washington raises Burma's political repression before the UN Security Council

The U.S. kept up its pressure on Burma for human rights violations but assured other ASEAN members that the Trade and Investment Framework Arrangement initialed by Washington with ASEAN in late August was independent of U.S. criticisms of the Burmese junta's objectionable domestic behavior. Nevertheless, Secretary of State Rice at the late July ASEAN Ministerial Meetings urged her ASEAN colleagues to press the

Rangoon regime to end four decades of military rule. She also indicated that the United States would seek a UN Security Council resolution condemning the activities of the Burmese regime. Both Malaysian Prime Minister Abdullah Badawi and ASEAN Secretary General Ong Keng Yong admonished Burma for hurting ASEAN's relations with major partners, particularly the European Union and the United States.

Burma's response has been to accuse the U.S. of interfering in Rangoon's domestic affairs. In a Aug. 25 written attack on the U.S. Embassy by the junta's newspaper, *The New Light of Burma*, embassy officials, and local employees were castigated for daily visits to the headquarters of the political opposition party, The National League for Democracy. The junta also alleged that the embassy's English language classes are really engaged in indoctrination of students with anti-regime propaganda. The U.S. Embassy denied the charges, noting that the courses have been offered for years and are within the bounds of standard diplomatic practice.

On Sept. 1, the U.S. delegation to the UN asked the Security Council to place Burma on its agenda for lack of democracy and human rights violations. U.S. Ambassador to the UN John Bolton claimed the junta's actions with respect to human rights, refugees, drug trafficking, and HIV/AIDS were having a destabilizing impact on the region. Even U.S. First Lady Laura Bush entered the fray, hosting talks in New York on Burma's "humanitarian crisis." For the first time, Japan joined the U.S. in voting for the resolution that places Burma on the UNSC agenda. The Council vote was 10-4; expectedly China and Russia opposed, arguing that Burma's internal affairs do not pose a threat to international security.

Thai prime minister warned the U.S. of plots to depose him

As early as the end of June, Thai Prime Minister Thaksin Shinawatra had written to President Bush that current events in Thailand were threatening democracy. Opposition parties in Thailand chastised the then caretaker prime minister for appealing to the U.S. president "in a way that makes our country look like a colony of yours." Bush chose to stay out of the fray.

Then on Sept. 19, Thailand experienced its first coup in 15 years when Army Chief Gen. Sondhi Boonyaratkalin terminated Parliament, the Cabinet, and the 1997 Constitution. Fortunately bloodless, Sondhi's action was endorsed by Thailand's revered monarch King Bhumibol Adulyadej. Prime Minister Thaksin has been a polarizing figure in Thai politics for a long time. Overwhelmingly popular in the countryside – particularly in the north and northeast – he had handily won three elections by landslides. A billionaire telecommunications magnate, he had allocated a considerable amount of money to farmers and small rural businesses. However, urban dwellers and particularly businesspeople, intellectuals, and many in the military had become disillusioned with his arrogance, corruption, and cronyism as he promoted relatives and friends in the armed forces over experienced officers. Another precipitating factor in Thaksin's unpopularity was the sale of his family's Shin Corporation to Singapore interests for \$1.9 billion, a sum on which no taxes were paid. Thailand's ASEAN neighbors have variously called

for calm, expressed disappointment in the termination of a democratically elected government, or stated that the coup constituted an “internal” matter for Thailand.

On Sept. 21, the U.S. State Department condemned the coup as a setback for democracy and urged a return to civilian government – an outcome actually promised within two weeks of the coup by its leaders. Washington hinted that some U.S. aid to Thailand could be at risk and that further negotiations on a free trade agreement would depend on a return to democratic rule. In general, however, the U.S. reaction has been relatively mild, reflecting an understanding that the coup may have preempted a much more dangerous political confrontation.

A projection

This quarter witnessed a significant breakthrough in U.S. recognition of Southeast Asia’s political and economic importance. The Bush administration is now openly touting the prospect of an ambassador to ASEAN as well as a new high-level Treasury Department official for Southeast Asian financial relations. There is also talk in Washington and Southeast Asian capitals about an ASEAN-U.S. free trade agreement to supplement the bilaterals being negotiated. If one adds these proposals to continued joint military exercises and antiterrorism cooperation, a significantly enhanced U.S. profile is rising in Southeast Asia. Given China’s highly successful Southeast Asian diplomatic and economic efforts over the past several years, Washington’s enhanced activities are a welcome addition to the regional mix. Southeast Asia’s multi-dimensional importance to the U.S. has finally been acknowledged. Now, Washington needs to fulfill its promises.

Chronology of U.S.-Southeast Asia Relations July-September 2006

July 1, 2006: Two U.S. Navy ships dock at Ho Chi Minh City, the first time that two U.S. vessels have called at the same time and the fourth U.S. Navy visit to Vietnam since the war ended in 1975.

July 2, 2006: Some 10,000 Indonesians mass in front of the U.S. Embassy to condemn Israel’s offensive into the Gaza Strip and Israeli arrests of Palestinian officials. The protestors come from the Muslim-oriented Prosperous Justice Party (PKS).

July 7, 2006: Some 1,000 protestors from the Islamist PAS party march on the U.S. Embassy in Kuala Lumpur protesting Israeli incursions into Gaza and U.S. support for Israel.

July 11-19, 2006: Indonesian and U.S. Navies began their annual *CARAT* exercises to enhance bilateral cooperation. The 2006 *CARAT* exercises began in Singapore in June and were followed by Thailand and then Indonesia. Brunei, Malaysia, and the Philippines will follow before the exercises conclude in August.

July 13, 2006: U.S. Pacific Commander Adm. William Fallon begins a four-day visit to Vietnam for military and security discussions, his first in his current post.

July 15-21, 2006: The U.S. Navy hospital ship, *Mercy*, completes a six-day humanitarian mission on Indonesia's Nios island. Thousands of patients were treated on shipboard and on shore. NGOs from several countries worked with the *Mercy* medical staff.

July 17, 2006: Pacific Commander Adm. Fallon pays an introductory visit to Cambodia.

July 20, 2006: The Philippine and U.S. militaries agree to conduct joint military exercises under the newly formed Security Engagement Board. The new Board focuses on nontraditional security threats such as terrorism.

July 21, 2006: U.S. Chief of Naval Operations Adm. Mullins visits Singapore and underscores the longstanding cooperation between the two navies.

July 24, 2006: U.S. and Malaysian navies begin a 10-day *CARAT* exercise involving some 3,000 personnel. The exercise includes land and sea combat and rescue.

July 25, 2006: Michael Ray Aquino, a former Philippine National Police officer, pleads guilty in U.S. federal court to unauthorized possession of U.S. defense documents.

July 27, 2006: The U.S. and ASEAN initial a five-year action plan to boost trade and investment ties as well as counter-terrorism and the fight against HIV/AIDs.

July 27, 2006: Philippines awarded a \$21 million anti-corruption program grant under the U.S. Millennium Challenge Account Threshold Program.

July 27, 2006: 10 ASEAN foreign ministers and Secretary Rice sign a framework document to implement the 2005 ASEAN-U.S. Enhanced Partnership.

July 27, 2006: Malaysian Foreign Minister Abdullah Ahmad Badawi tells Secretary Rice to have the U.S. use its influence to broker immediate ceasefires in Lebanon and Gaza.

July 28, 2006: Malaysia and the U.S. sign a criminal investigation agreement to combat terrorism and corruption on the sidelines of the ASEAN Regional Forum (ARF) meeting.

July 28, 2006: Hundreds of anti-Israeli demonstrators from the youth wing of Malaysia's ruling UMNO party storm the convention center where the ARF was meeting, insisting on talking with Secretary Rice to halt Israel's aggression against Lebanon. Police held the demonstrators back.

July 28, 2006: Secretary Rice praises ASEAN for the "important evolution" of its policy in dealing with Burma, especially the need for the junta to make political reforms and release Ann Sang Suu Kyi from house arrest.

July 28, 2006: On the sidelines of the ARF meeting, Secretary Rice meets Vietnamese Foreign Minister Khiem and reiterates the Bush administration's support for permanent normal trade relations.

Aug. 1, 2006: President Bush renews economic sanctions against Burma for continued human rights violations.

Aug. 6, 2006: Thousands gather in front of the U.S. Embassy in Jakarta to protest U.S. support for Israel in its fight with Hezbollah in Lebanon and Hamas in Gaza, but President Yudhoyono rejects calls for Indonesia to send militants to fight against Israel.

Aug. 7, 2006: U.S. and Brunei Navy ships begin a *CARAT* exercise emphasizing interdiction of maritime crime and terrorists.

Aug. 8, 2006: Philippine Senate Agriculture Committee sends a declaration to the U.S. attorney general opposing former Philippine Agriculture Secretary Jocelyn Bolante's application for political asylum in the United States. The declaration states that Bolante fled the Philippines to avoid prosecution for the "plunder of public funds."

Aug. 9, 2006: At a Singapore National Day reception, deputy U.S. treasury secretary announces plans by the Bush administration to seek the appointment of a U.S. ambassador to ASEAN.

Aug. 14-21, 2006: Philippine and U.S. Navies engage in a *CARAT* exercise involving 8,000 Philippine marines and 2,000 U.S. personnel. The exercise includes counterterrorism and transnational crime scenarios.

Aug. 15-18, 2006: U.S. Ambassador-at-large for Religious Freedom John Hanford visits Vietnam.

Aug. 16-17, 2006: A two-day labor dialogue between Vietnam and the U.S. takes place in Washington where U.S.-funded projects on job creation, people with disabilities, child labor, and HIV/AIDS in the workplace are reviewed.

Aug. 25, 2006: U.S. Navy hospital ship *Mercy* ends a six-week humanitarian mission in Indonesia, conducting surgeries, primary and emergency health care. *Mercy* personnel also trained Indonesian paramedics and saw thousands of patients.

Aug. 25, 2006: U.S. and ASEAN sign Trade and Investment Framework Arrangement (not a treaty). The document promises better protection for U.S. intellectual property. The U.S. has complained about inadequate protection for films and computer software.

Aug. 29, 2006: U.S. Pacific Command and Indonesia's armed forces sign a Terms of Reference to increase defense cooperation in Education, Intelligence, Training, and Logistics.

Sept. 1, 2006: John Bolton, U.S. ambassador to the UN, asks the Security Council to place Burma on its agenda to discuss human rights and the lack of democracy.

Sept. 1, 2006: The *Mercy* completes a five-month humanitarian mission in Southeast Asia during which medical and dental services were provided to thousands in the Philippines, Bangladesh, Indonesia, and East Timor. *Mercy* staff also provided medical education and civil engineering projects.

Sept. 7, 2006: Thailand denies it hosted a secret detention center for the U.S. CIA to hold high level al-Qaeda prisoners after the U.S. invasion of Afghanistan.

Sept. 15, 2006: UN Security Council schedules a formal review of the situation in Burma for shortly after Sept. 19.

Sept. 19, 2006: A bloodless military coup ousts Thai Prime Minister Thaksin Shinawatra while he is in New York for the UN General Assembly. The U.S. regrets the lapse in democratic procedures and hopes for the restoration of democracy.

Sept. 22, 2006: Indonesian Vice President Jusuf Kalla visits the U.S. to encourage more foreign investment in his country, particularly in mineral resources.

Sept. 28, 2006: Washington suspends \$24 million in military assistance to Thailand.



China-Southeast Asia Relations:
Chinese Diplomacy and Optimism about ASEAN

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Chinese diplomacy this quarter focused on the ASEAN Regional Forum (ARF) meeting in July in which China played an important role regarding North Korea, Myanmar, and Japan. Chinese officials remain optimistic about Chinese-ASEAN relations as they celebrate the 15th anniversary of the China-ASEAN dialogue partnership. They reacted moderately to the military coup in Thailand, though they voiced strong objections to a successful U.S.-supported vote by the UN Security Council in September to have the Council examine the situation in Myanmar. There was little evidence of any change in China's policy toward the region as a result of a work conference on Chinese foreign policy in Beijing during three days in August that featured remarks by top Chinese leaders Hu Jintao and Wen Jiabao. Official Chinese reports on the conference appeared to support existing Chinese foreign policy priorities. U.S. and regional commentators continued to emphasize American anxiety over a perceived U.S. decline relative to China's rise in regional affairs, although in-depth analysis by some specialists underscored significant Chinese limitations and continued U.S. strengths.

China and the ASEAN Regional Forum

The 13th ASEAN Regional Forum (ARF) held in Kuala Lumpur, Malaysia July 28 was the centerpiece of China-ASEAN relations this quarter. The ARF remains the main multilateral forum in the region for the discussion of political and security issues. China has been an active participant in the forum and supports the forum's guiding principles and practices of noninterference and consensus-based decision-making. This year, several developments highlighted China's importance and influence in Southeast Asian affairs and broader regional affairs. China, for example, played an important role during the ARF meeting in dealing with the consequences of North Korea's provocative missile tests and encouraging the ARF to reaffirm the need for a negotiated solution through resumption of the Six-Party Talks. On Myanmar, China followed up with commitments to urge its neighbor to pursue greater and necessary economic reforms. And demonstrative of China's greater flexibility and intentions to foster peaceful relations with its neighbors, Foreign Minister Li Zhaoxing also agreed to meet with his Japanese counterpart on the sidelines at this year's ARF meeting.

North Korea. North Korea's multiple missile launches on July 5, 2006 (which coincided with the July 4 Independence Day celebrations in the U.S.) provided the focal point of this year's ARF conference. At the onset of the forum, the North Korean delegation threatened to walk out if a joint statement condemning the missile tests was issued. Days before the ministers gathered for the forum, Chinese President Hu Jintao publicly called for concerned parties to act with calm and restraint. While all members of the Six-Party Talks were at the ARF this year, the North Korean delegation declined to hold talks with the rest of the group. In the end, the ARF ministers voiced their support for the peaceful resolution of the nuclear impasse through dialogue and the urgent resumption of the Six-Party Talks, a stance in line with China's avowed policy. The deliberations and outcome of the ARF meeting appeared to reflect ASEAN members' recognition of Beijing's pivotal role in preserving the peace in Northeast Asia.

Myanmar. The ARF meeting discussed the situation in Myanmar at great length and concluded with positions consistent with Chinese policies and interests. The ministers recognized that Myanmar needs both time and political space to deal with its many and complex challenges and thus the joint statement that was issued did not censure the authoritarian regime's lack of respect for human rights, democratic reforms, transparency, and good governance. The ARF judged that the international community should remain constructively engaged with Myanmar's regime to encourage political and economic reforms.

An important neighbor to Myanmar, China is widely recognized among the ARF members as one of the few countries that can affect the pace and scope of the latter's domestic reforms. Shortly after the ARF meeting, Myanmar announced that it would liberalize its border trade procedures with China to help facilitate exports and boost the volume of bilateral trade. Prior to this, merchants and traders had to go through a lengthy and bureaucratic process to obtain export licenses in the cities of Yangon, Pyinmana (the new capital), and at Muse, the trade point city at the Myanmar-China border. With the new regulations, goods will be allowed direct access to China's Yunnan province through Muse.

The Myanmar government announced five new objectives of its border trade, which include fostering better ties with China, promoting bilateral trade, and a more efficient border trade regime that would enhance tax collection. Myanmar's decision to liberalize border trade was also conducted in accordance to World Trade Organization border trade procedures. It has been predicted that as a result of trade liberalization in Muse, daily trade volume would nearly double to \$1 million and would help to boost Myanmar's gross national product. According to Chinese official statistics, China is Myanmar's third largest trading partner, right behind Thailand and Singapore. China-Myanmar trade stood at nearly \$1.3 billion last year, a 5.6 percent increase from 2004.

In early September, Myanmar also signaled it was pursuing further economic reform to attract more foreign investment. According to the Ministry of National Planning and Economic Development, a new law is being drafted to help promote foreign direct investors in the Special Economic Zone that has been set up in the Thilawa Port in

Thanlyin Township. Shanghai Jingqiao, a Chinese company, is being charged with the responsibility of drawing up the new commercial zone for the Myanmar government. It is also understood that Gen. Soe Win, Myanmar's prime minister, discussed the project in detail during an official trip to Beijing for talks with senior Chinese officials in February 2006. Myanmar's FDI levels dropped by a third in 2005, and the Asian Development Bank reported that over the last five years, FDI has fallen by as much as 81 percent. The establishment of the SEZ, which is closely adapted from the Chinese model, presumably will help attract greater investments from China, ASEAN, and the West.

China-Japan dialogue at the ARF. Foreign Minister Li Zhaoxing and his Japanese counterpart Aso Taro took the opportunity to meet on the sidelines of the ARF meeting this year. The ongoing diplomatic tensions over Japan's historical legacy, maritime disputes over the East China Sea, and the controversial visits to Yasukuni Shrine by Japanese officials have been the major sources of tension between the two countries. There was a progressive decline in senior-level talks. However, shortly before the ARF meeting in Kuala Lumpur, the Chinese Ministry of Foreign Affairs announced that with the assistance of various channels, Li and Aso were to meet on the sidelines of the meeting.

The two sides demonstrated a greater degree of flexibility and focused on constructive issues that affected both Sino-Japanese relations and the Asia-Pacific region at large. These critical issues of mutual concern included the impasse over North Korea's nuclear program and the effects of a proposed new free trade zone in the greater Southeast Asian community. Such discussions could help to set the tone for the resumption of senior-level talks and a more positive relationship after Japan elects a new prime minister in September.

According to a Congressional Research Service report released earlier this year on China-Southeast Asia relations, there has been a gradual reorientation of trade from Japan to China in Southeast Asia in recent years. Japanese aid and FDI, however, still remain robust and important for ASEAN economies. While China and ASEAN have entered into a strategic partnership, most Southeast Asian governments still maintain strong ties with other economic powerhouses such as Japan, Australia, and the United States. Some specialists believe that they do this in part to hedge against China's rise and provide greater balance. Equally important, a positive and constructive Sino-Japanese relationship would also help to reduce tensions and instability in the Asia-Pacific region.

Chinese responses to military coup in Thailand, UN vote on Myanmar

On Sept. 20, the Chinese Ministry of Foreign Affairs spokesperson issued a brief statement that the military coup in Bangkok was Thailand's internal affair and that the Chinese government would not interfere with Thailand's sovereignty. The spokesperson maintained that political and economic relations between the two countries will not change. On Sept. 21, Zhang Jiuhan, Chinese ambassador to Thailand, commented that the Chinese Embassy is monitoring the situation carefully and had set up a hotline to provide assistance to more than 200,000 Chinese nationals currently residing in Thailand.

The ambassador also indicated that a key document advancing the strategic cooperation between China and Thailand that is currently being discussed will not be affected by the recent event. China developed close ties with Thailand during the rule of deposed Prime Minister Thaksin Shinawatra. Bilateral trade grew to \$8 billion in 2005 and there were nearly 800,000 Chinese visitors to Thailand that year.

On Sept. 15, Chinese Ambassador to the United Nations Wang Guangya voiced strong objection to a U.S.-backed measure that directs the UN Security Council to examine the situation in Myanmar. He saw the measure as “preposterous” and an unwarranted interference in the internal affairs of another country. He added that neither Myanmar’s neighbors nor most countries in ASEAN consider “the situation in Myanmar as being any threat to regional peace and security.”

China and Vietnam strengthening ties

Vietnamese Communist Party leader Nong Duc Manh arrived in Beijing on Aug. 22 and met with President Hu Jintao to discuss border issues, bilateral trade, and the need for further dialogue to help resolve the South China Sea dispute. Manh’s visit to Beijing was his first official overseas trip since the Communist Party Congress re-endorsed him in April for another five-year mandate as Vietnam’s top leader.

One of the most important outcomes of the summit between the two leaders was a bilateral agreement to engage in further joint projects on energy development. China, for example, has recently provided loans for the construction of a 300-megawatt Cam Pha Thermal Power Plant in northern Vietnam. Hu and Manh also agreed to enhance joint research and development of oil and gas in the resource-rich Gulf of Tonkin. As an important and symbolic gesture, they decided to put aside territorial disputes over the high seas in the South China Sea, with the understanding that there will be ongoing dialogue among China, Vietnam, and the Philippines seeking to achieve a new boundary management regulation by 2008.

Bilateral trade reached \$8.2 billion in 2005, and in the first half of this year, trade volume already reached record-high of \$5 billion. Greater road and highway linkages between the two countries’ borders have accelerated bilateral trade. China has become Vietnam’s biggest trading partner since 2004. Manh, however, raised the issue of current trade imbalances with China because over two-thirds of current trade is Chinese exports to Vietnam. Chinese Premier Wen Jiabao assured Manh that China will try to rectify this imbalance. Wen also announced that China would support Vietnam’s case for membership and accession to the World Trade Organization.

China-ASEAN security workshop; China-Singapore military ties

Despite the conspicuous absence of senior Chinese military representatives at the Shangri-La Dialogue in Singapore last quarter, China played host to the first China-ASEAN workshop on regional security in mid July. More than 30 senior defense officials from China’s People’s Liberation Army (PLA) and Southeast Asian governments

gathered in Beijing for the four-day workshop. Chinese officials spoke highly of the outcomes of the first workshop as it explored the prospects to deal with military and security issues of mutual concern including cooperation between armed forces of China and Southeast Asia. The workshop covered several important themes, including China-ASEAN influences on regional security, East Asian maritime security cooperation, the military's role in humanitarian aid and relief during natural disasters, counterterrorism exercises, and peacekeeping operations.

China's greater interest in and tolerance for multilateral settings on security issues has important implications. China's longstanding emphasis on win-win cooperation and consensus-building initiatives seeks to reassure and reduce worries of Southeast Asia over Chinese intentions. In turn, Southeast Asian governments are put on an equal playing field with China, and the establishment of annual regional security workshops and more frequent military agreements will allow them to better fathom and respond to China's military developments and intentions in the region.

Also in this quarter, Singapore and China have attempted to step up their military-to-military ties. Singapore has close military relations with the U.S., Taiwan, and other powers. China and Singapore agreed to "cement the relations" between the two armed forces during the July visit of Ng Yat Chung, Singaporean chief of defense force. He met with Cao Gangchuan, Chinese defense minister, and they discussed the need for further cooperation and deepening of mutual trust between the two countries.

China's satisfaction and American angst

The Chinese administration is increasingly optimistic about China's relations with ASEAN and its individual members, according to Zhou Gang, a former Chinese ambassador to Southeast Asia writing in the June edition of the official Chinese quarterly, *Foreign Affairs Journal*. The ambassador said that China is preparing to host a summit meeting this year marking the 15th anniversary of the establishment of China-ASEAN dialogue partnership. (Later media reports said that a series of meetings involving Prime Minister Wen Jiabao and ASEAN leaders that will mark the 15th anniversary of the China-ASEAN relationship are planned for Nanning in Guangxi Province during October 2006). Ambassador Zhou's inventory of Chinese accomplishments in Southeast Asia, highlighted below, came amid continuing U.S. media and analytical accounts depicting the U.S. in decline in the region as China rises in influence.

A lengthy *Boston Globe* assessment on June 17 repeated the refrain seen often in mainstream U.S. media that China has become "Southeast Asia's new best friend," while the U.S. is inattentive in the region because of misplaced priorities and preoccupations elsewhere. Burgeoning Chinese trade is set to surpass U.S. trade in the region, China enjoys a much more positive image than the U.S., and Chinese tour groups now crowd regional sites. China has advantages over the U.S. as ethnic Chinese communities throughout the region are "blossoming" with pride and confidence, regional leaders with Chinese ancestry are "flaunting" their ethnic Chinese roots as they make "pilgrimages" to their "ancestral homes" in China, and Chinese economic interchange comes without

human rights and other conditions seen in U.S. interchange with the region. Repeating an image widely used in U.S. media, the article said that China is “eating America’s lunch” in Southeast Asia, leading to a remolding of the regional power structure in ways that “Americans ignore at their peril.”

Expert assessments appearing in the Pacific Forum CSIS *Pacnet* Newsletter in July and August reported that U.S. officials and opinion leaders in Washington are feeling a growing sense of insecurity in the face of China’s rise, and Southeast Asian officials are worried by the perceived lack of U.S. attention to the region and are calling for the United States to “re-engage.” The assessments focused on U.S. “weakness and vulnerability” in economic competitiveness and financial clout when compared to China. The Southeast Asian officials were said to welcome an invigorated U.S. posture in the region including the signing of ASEAN’s Treaty of Amity and Cooperation, and closer U.S. cooperation with the regional organization and with regional financial initiatives.

According to Ambassador Zhou’s assessment in *Foreign Affairs Journal*, frequent high-level exchanges and annual summit meetings have shaped the strategic orientation of China-ASEAN relations. In the course of these exchanges, in 2003 China became ASEAN’s first “strategic partner,” and ASEAN became the first regional organization to establish a strategic partnership with China. In 2004, the 10 ASEAN member states recognized China’s full market economy status. In 2005, China-ASEAN trade reached \$130 billion, with each side being the fourth largest trading partner of the other.

Salient agreements included various accords to establish a China-ASEAN free trade area; bilateral agreements between China and each ASEAN member state providing frameworks for closer cooperation; and agreements on nontraditional security matters and managing territorial disputes and resource issues in the South China Sea. Tourist and other personal exchanges saw 5 million two-way visits between China and ASEAN in 2004. There are now 28 “cooperation framework mechanisms” between ASEAN and China. They include annual summit meetings between Chinese and ASEAN leaders, an annual conference of foreign ministers to support the summit; and senior officials meetings focused on consultations on strategic and political security cooperation. Among other things, the mechanisms result in close consultation among the ASEAN and Chinese leaders on issues discussed at regional and other international forums.

Chinese limits, U.S. strengths

The prevailing commentaries and expert assessments emphasizing Chinese strengths and U.S. weaknesses in Southeast Asia do not go unchallenged, however. This quarter, Dr. Sheng Lijun, a former Chinese administration officer and widely published scholar who now directs ASEAN-China projects at Singapore’s Institute for Southeast Asian Studies, has weighed in with several reports that highlight significant Chinese weaknesses in the face of U.S. strengths, despite China’s recent progress in Southeast Asia. They include:

Investment and aid. Using official Chinese data, Sheng pointed out that in 2004 accumulated investment by Chinese companies in ASEAN was \$1.17 billion (compared with \$38.22 billion of ASEAN investment in China). This was 7.7 percent of total Chinese overseas investment. U.S. investment in Southeast Asia at that time was \$85.4 billion. From 1995 to 2003, China's investment in Southeast Asia was 0.29 percent of total foreign investment in ASEAN, compared with 28.83 percent for the EU, 16.47 percent for the U.S., and 12.9 percent for Japan.

Sheng's assessment emphasized that Chinese companies are relative newcomers to Southeast Asia, in contrast to U.S. and other foreign businesses that have established deep roots and close working relationships in the region. According to Sheng, foreign-owned firms in China are the main actors from China in dealing with Southeast Asia. Chinese firms tend to eschew much involvement in Southeast Asia, preferring better and more familiar prospects at home. Moreover, Chinese firms are predicted to have a harder time in Southeast Asia because they compete with Southeast Asian manufacturers for regional and international markets, whereas U.S., European, and Japanese firms are said to pose much less direct competitive threat to ASEAN manufacturers.

Sheng's analysis also took account of Chinese government aid and investment to show that in 2004, \$3 billion of Chinese investment (government and nongovernment outlays) went to Asia, but as in the past the lion's share (\$2.63 billion) went to Hong Kong, leaving little for Southeast Asia. Chinese foreign aid allocations remain shrouded in official secrecy, but foreign analysts using various sources judge the overall allocation to be under \$1 billion a year. Given heavy Chinese aid commitments to North Korea and various promises to African, Pacific Island, and Latin American states, Sheng judged that little aid was left for Southeast Asia.

Trade. Taking a closer look at Chinese-ASEAN trade figures, Sheng agreed with those analysts who argue that Chinese-ASEAN trade figures are exaggerated. This is because more than half of China's foreign trade, and 60 percent of China-ASEAN trade, is so-called processing trade that is in the hands of foreign companies in China and ASEAN; the companies engage in intra-industrial trade within and between foreign companies in China and Southeast Asia as well as entrepot trade. Many products, especially electronic products, cross borders twice or more, thereby inflating trade figures. This double counting is estimated as high as 30 percent of the total trade between China and ASEAN.

Meanwhile, China's rising trade with ASEAN (\$130 billion in 2005 versus U.S.-ASEAN trade of \$148 billion that year) features prominently trade with Singapore valued at \$33.15 billion in 2005. Yet about half of China-Singapore trade is entrepot trade, not destined for either country's markets, according to Sheng.

Official attentiveness, soft power, and hedging. Sheng saw the dizzying array of Chinese official visits and agreements with Southeast Asia as a reflection of Chinese weakness as well as a source of strength in China-ASEAN relations. In particular, China relies very heavily on government initiatives to improve relations with Southeast Asia, because it has little of the wide ranging and well established business and other

nongovernment relationships, as well as extensive defense relations, that the United States has with the major Southeast Asian countries.

The expert also judged that the Chinese administration would be foolish to overemphasize the attraction of Chinese people and culture in Southeast Asia. Chinese culture is only one of several major cultural streams in Southeast Asia. The region has huge and complex religious, ethnic, political, cultural, and other diverse elements. Sheng believes that the Americans have enough experience to know “to keep the right distance and maintain the right pace” in dealing with these sensitivities. As a newcomer enjoying good media publicity and positive reactions from regional leaders, China runs the risk of believing its own press releases – coming on too strong and offending the various cultural and ethnic groups that represent the majorities in most Southeast Asian states and that for a long time in the past have viewed Chinese with a wary eye and sometimes with hostility.

Finally, Sheng strongly sides with those who judge that China’s rise has prompted an array of hedging and balancing maneuvers by various Southeast Asian and other Asian governments that works against Chinese influence and supports a continued strong U.S. role in Asia. Sheng concludes that these governments are not bandwagoning with rising China; they are hedging against it. “That is, while they are engaging China, they are also working to ensure the enhanced presence of other extra-regional powers, especially the U.S., to balance China.”

Outlook

Regional analysts will be watching closely for signs of closer relations and any notable differences registered in the China-ASEAN meeting reportedly planned for October and other events marking the 15th anniversary of the China-ASEAN dialogue partnership. The Beijing work conference on Chinese foreign policy in August seemed to continue China’s cautious approach to international commitments and prominence, as Chinese leaders’ priorities reportedly remained focused on domestic development and stability. Clarification of any changes in Chinese intentions and behavior in the region may come during the continuing series of dialogues between Southeast Asian and Chinese officials. How China deals with the aftermath of the military coup in Thailand and reacts to UN Security Council consideration of Myanmar may provide concrete indicators of continuity or change in Chinese policies.

Chronology of China-Southeast Asian Relations July-September 2006

July 2, 2006: Choummaly Sayasone, president of Laos concludes his visit to China. Both sides issue a joint communiqué that seeks to further bilateral cooperation and push forward the all-round friendly and cooperative relations to “a new level.”

July 4, 2006: Singaporean Chief of Defense Ng Yat Chung arrives in Beijing for a five-day official visit. Senior military officials from both sides agree to expand military ties between the two armed forces.

July 12, 2006: Chinese FM Li Zhaoxing attends a reception in Beijing commemorating the 15th anniversary of cooperation and dialogue between China and ASEAN.

July 13-16, 2006: Cambodian Deputy Prime Minister Hor Nam Hong meets State Councilor Tang Jiaxuan for a three-day official visit in Beijing. Hor expresses appreciation for China's economic assistance and social development to Cambodia.

July 18, 2006: Somsawat Lengsavad, member of the Lao People's Revolutionary Party (LDRP), leads a senior Laotian delegation for an 11-day visit to Beijing, meeting Wu Guanzheng, member of the Chinese Communist Party Standing Committee. Both sides seek to enhance party-to-party cooperation and discuss economic reforms.

July 19, 2006: More than 30 senior-level defense officials from Southeast Asian countries attend a workshop in Beijing to discuss Chinese and ASEAN influences on Asia-Pacific security, maritime security cooperation, the military's role in international humanitarian aid, counterterrorism activities, and regional peacekeeping operations.

July 24, 2006: A China-Southeast Asia land transport network is proposed connecting southern China to major cities in Southeast Asia by 2007. Nanning and Hanoi will be the first two cities to have a direct transport agreement to help expand regional trade and further economic relations.

July 26-28, 2006: Chinese FM Li attends the 13th ASEAN Regional Forum in Kuala Lumpur, Malaysia. Myanmar's political and economic reforms, Korean Peninsula denuclearization, and other regional security issues are discussed.

Aug. 1, 2006: Myanmar announces that it will liberalize its border trade procedure with China to facilitate bilateral trade. It will allow easier access for the direct transport of goods through the trading point at the city of Muse.

Aug. 3, 2006: The Third China-ASEAN Attorney Generals' Meeting concludes in Jakarta, Indonesia. Officials agree to strengthen regional cooperation in combating transnational crimes such as terrorism, corruption, money laundering as well as human and drug trafficking.

Aug. 11, 2006: A year after agreements on reduced tariffs and China-ASEAN free trade deals were struck, the Chinese Ministry of Commerce announces that regional trade has soared 21.6 percent over the past year. China's Commerce Minister Bo Xilai comments that China and ASEAN will face a key period in the next few years as they seek to complete tariff cuts toward establishing the world's largest free trade area by 2010.

Aug. 14, 2006: Sisavat Keobounphan, chairman of Lao Front for National Reconstruction, pays an official visit to China and meets Jia Qinglin, chairman of the National Committee of the Chinese People's Political Consultative Conference. Both sides affirm increasing political trust and economic relations.

Aug. 21, 2006: Former President Fidel Ramos leads a 70-member Filipino business delegation to China to promote trade, sport, and cultural exchanges between the Philippines and China. The Philippine trade group visits Macao and Zhuhai, Guangdong Province.

Aug. 22, 2006: Vietnamese Communist Party leader Nong Duc Manh meets President Hu Jintao in Beijing to discuss trade, border issues, and developing joint partnership for oil and gas development in the Gulf of Tonkin.

Aug. 25, 2006: At a Joint Council for Bilateral Cooperation meeting in Beijing co-chaired by China's Vice Premier Wu Yi and Singapore's Deputy Prime Minister Wong Kan Seng, both sides decide to launch negotiations for a bilateral free trade agreement. They also agree on promoting cooperation on non-traditional security issues such as maritime security, combating terrorism, transnational crime, and illegal immigration.

Aug. 29, 2006: Senior officials from Singapore, China, and Norway sign a memorandum of understanding (MOU) to help promote cooperation in shipping, maritime safety, research, and development in Southeast Asia.

Sept. 1, 2006: While meeting with ASEAN Secretary General Ong Keng Yong at the "ASEAN Cultural Week" launched in Beijing, Li Changchun, a senior official of the Chinese Communist Party announces that China is ready to develop a strategic partnership based on peace and prosperity with its Southeast Asian neighbors.

Sept. 2, 2006: Chinese Finance Minister Jin Ren Qing meets Cambodian Prime Minister Hun Sen in Cambodia. Hun Sen says Cambodia is in need of a \$200 million loan from China to develop its infrastructure, including bridges in the Tonle Sap Lake and the Mekong River, and various highways.

Sept. 4, 2006: Philippine President Gloria Macapagal-Arroyo meets a visiting Chinese delegation led by Liu Yunshan, member of the Political Bureau of the Central Committee of the Chinese Communist Party. They exchange views on deepening bilateral trust and economic cooperation. Both sides also agree to resolve the South China Sea dispute through further dialogue.

Sept. 5, 2006: Chinese FM Li holds talks with Brunei Foreign and Trade Minister Prince Mohamed Bolkiah, affirming bilateral friendly and cooperative ties. At the conclusion of the talks, both sides sign an MOU on tourism cooperation.

Sept. 6, 2006: Liang Guanglie, chief of the general staff of the Chinese People's Liberation Army, tells visiting Neang Phat, secretary of the Cambodian Ministry of National Defense, that the Chinese armed forces seek enhance closer military exchanges with the Cambodian army.

Sept. 12, 2006: Indonesian Coordinating Minister for Political, Law, and Security Affairs Widodo Adi and Chinese State Councilor Tang Jiaxuan hold the first deputy prime ministerial level meeting on China-Indonesia law enforcement issues.

Sept. 15, 2006: At a UN Security Council procedural meeting, China votes against a U.S.-backed proposal to include Myanmar's deteriorating situation in the Council's agenda. Chinese Ambassador to the UN Wang Guangya calls the move "preposterous" as it violates the principle of non-interference in Chinese foreign policy. As this was a procedural vote, China could not use their veto to block the decision.

Sept. 18, 2006: China attends the International Drug Enforcement Conference held in Bali, Indonesia. More than 80 participants from ASEAN countries, East Asia, South Asia, the U.S., and Europe promote joint efforts to stop drug trafficking activities.

Sept. 20, 2006: The Chinese Ministry of Foreign Affairs spokesperson issues a brief statement commenting on the military coup in Bangkok as Thailand's internal affair and that the Chinese government will not interfere with Thailand's sovereignty. The spokesperson maintains that political and economic relations between the two countries will not change. The Chinese embassy in Bangkok also announces that it has set up a hotline to answer any inquiries and provide assistance to Chinese nationals in Thailand.

Sept. 22, 2006: According to *Xinhua News Agency*, the Chinese government donated nearly 500 tons of rice and \$62,500 worth of anti-malaria medicines to Myanmar. Beijing aims to support Myanmar's poppy-substitute program, helping local governments reduce poppy cultivation while raising household income by introducing alternative crops.

Sept. 26, 2006: Vu Xuan Hong, president of the Vietnam Union of Friendship Organizations, concludes his visit to China by signing a Memorandum of Understanding to promote people-to-people contacts between China and Vietnam.

Sept. 26, 2006: The Chinese embassy to Cambodia announces that it has entered into a partnership with the Association of Khmer Chinese in Cambodia (AKCC) to help promote and develop Chinese language courses in more than 70 primary and junior schools in Cambodia. Since 2000, the Chinese government has allocated more than \$150,000 to help fund and train Chinese language instructors.

Sept. 27, 2006: Vietnam's Chamber of Commerce and Industry and China's National Development and Reform Commission host a one-day forum to help boost bilateral trade and economic ties. In addition to officials from both governments, representatives from 500 Vietnamese enterprises and nearly 100 Chinese companies attend the forum.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Taiwan Relations: More Small Steps

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Corruption scandals and street protests calling for President Chen's resignation have largely paralyzed policy making in Taipei. Beijing is concerned over President Chen's playing the constitutional reform card to counter the campaign for his removal. Nevertheless, Taipei and Beijing undertook more small steps to ease restrictions on cross-Strait contacts. Beijing also continued active exchanges with the Kuomintang (KMT) opposition. Significant changes in Taiwan Affairs Office (TAO) personnel were announced, and the changes were viewed positively in Taipei. The PRC continued to outmaneuver Taiwan in the international arena, but at home Chen pushed his campaign for a stronger Taiwanese identity. The visit to Taipei of a Japanese vice minister of agriculture symbolized the increased contacts that have been taking place between Tokyo and Taipei. With the Democratic Progressive Party (DPP) set to release its proposals on constitutional reform, that issue is likely to reemerge as a source of cross-Strait tension.

Prosecutorial investigations of President Chen Shui-bian's family and aides continued to provide fodder for a media frenzy in Taipei. Allegations about the president's possible role in the mishandling of the Presidential Office Allowance for State Affairs for the first time directly touched the president. In August, former DPP activist Shih Ming-teh launched a "depose Chen" campaign to force Chen from office. This led to repeated demonstrations and counter demonstrations, and these events largely paralyzed policy-making in Taipei and raised concerns in Beijing.

In mid-September, Chen Yunlin, minister in Beijing's TAO, made an unpublicized trip to Washington. Reportedly, he expressed concerns to U.S. officials that Chen might seek to rescue himself by provoking some incident in cross-Strait relations or by reneging on his promises concerning the constitutional reform issue to regain support from the DPP's political base. The constitutional concerns were prompted by DPP plans to make public its proposals concerning a new constitution for Taiwan by the end of September. DPP Chairman Yu Shyi-kun was in Washington at the same time on a mission to reassure the U.S. that Taipei politics would remain stable and that the DPP's constitutional proposals would not touch on sovereignty issues.

While release of the DPP constitutional draft(s) has been delayed, President Chen told a DPP seminar on constitutional reform in late September that he believed the time had come to reconsider the definition of the country's territory in the constitution. Chen's

purpose was clearly to deflect attention from the scandals by making a controversial proposal that would appeal to his core DPP supporters. While there is no chance that any amendment concerning territory could actually be passed, this proposal was a clear deviation from Chen's assurances to the U.S. on constitutional reform and an example of what Beijing fears. Politburo Standing Committee Member Jia Qinglin reacted promptly, warning of the dangers Chen is creating by promoting independence under the guise of constitutional reform. In Washington, the State Department said that adherence to President Chen's commitments that constitutional reform would not touch on sovereignty issues, including the territorial definition, was very important to peace and "would be a test of the President's leadership, dependability and statesmanship." If information that has leaked out about the content of constitutional drafts under consideration by the DPP is accurate, the constitutional reform issue will soon re-emerge as a serious source of tension in cross-Strait and U.S.-Taiwan relations.

Small steps

Despite these developments, Taipei and Beijing managed again to take some small steps forward. Both sides implemented their June agreement on additional cross-Strait charter flights. In July, Taiwan Semiconductor Manufacturing Company arranged the first cross-Strait cargo charter flight to deliver computer chip manufacturing equipment to its factory under construction near Shanghai. In September, the first medical emergency charter flight flew an elderly stroke patient from Guangzhou to Taipei, and other emergency flights occurred subsequently. The arrangements for both sides' airlines to fly charters during the mid-Autumn festival began smoothly on Sept. 29.

In addition, the two sides appear to have set the stage for productive discussions concerning Chinese tourism to Taiwan. On Aug. 17, Beijing announced the formation of a new "Cross-Strait Travel Exchange Association." In announcing its formation, Shao Qiwei, director of China's Tourism Administration, stated that its formation indicated that Beijing's preparations for talks had been completed. Just as the June agreement on airline charters was announced shortly after the start of the special Legislative Yuan (LY) session to consider the recall of President Chen, Beijing's announcement came just a few days after Shih Ming-teh launched his "depose Chen" campaign. It is clear that Beijing has decided to divorce its promotion of cross-Strait functional issues from Taiwan domestic politics.

Within a week of Beijing's announcement, the Mainland Affairs Council (MAC), which had long been aware of Beijing's plans, announced the formation of a new parallel organization on its side, the "Taiwan Strait Tourism and Travel Association." While nominally private, both associations include government tourism officials serving in their private capacities. Hence, a mechanism on the "Macau model" that has successfully handled airline charter issues now exists for tourism. Beijing officials say they want agreement to be reached as soon as possible, and officials at the MAC have expressed their expectations that tourists from China will be coming by the end of the year.

While working out these arrangements indirectly with the Chen administration, Beijing has kept up active contacts with the opposition KMT and private business groups. Meetings between visiting KMT delegations and the TAO have been used to portray the KMT as actively involved in negotiations on charter and tourism issues. In July, Beijing announced a new program of loans to small and medium enterprises from Taiwan. President Hu Jintao received Evergreen Group Chairman Chang Yung-fa in July, and Jia Qinglin met with a large delegation from Taipei's Chinese National Federation of Industries in August. The Chinese Communist party (CCP) and KMT announced plans for TAO Minister Chen Yunlin to participate in an agricultural forum in Taiwan in October. When the MAC made it clear that it would only approve Chen's participation if a way could be found for him to meet with the administration as well as the opposition, Beijing dropped plans for the visit. The KMT-CCP agricultural forum is being moved to Hainan.

Politics impedes investment policy

Given the clear economic benefits to the tourism industry in Taiwan, planning for Chinese tourists has not evoked effective opposition among DPP supporters. However, economic policy on investments in China has continued to be a divisive issue for the Chen administration and its supporters. These divisions were on view during the Sustainable Economic Development Conference (SEDC) that President Chen convened in July. Business community participants worked hard behind the scene in advance to build consensus on several issues: easing the 40 percent limit on capital invested in China, regular direct cross-Strait air service and approval of the export of 0.18 micron chip technology. These proposals were opposed by pro-independence elements in the DPP and by Lee Teng-hui and his Taiwan Solidarity Union (TSU) supporters. When Premier Su Tseng-chang met with business representatives before the conference, he was attacked in the pro-DDP press for caving into the "pro-China" elements. The following day, the Cabinet formally decided that the SEDC would not deal with these issues, and Su had to assure the media that the government remained committed to President Chen's restrictive policy of "actively managing" cross-Strait economic ties.

Personnel changes at the TAO

In July, Beijing announced that two TAO vice ministers, Wang Zaixi and Li Bingcai, had retired. Both men were made vice chairmen of Beijing's Association for Relations Across the Taiwan Strait (ARATS). Reportedly, these were routine retirements of vice ministerial level personnel who had turned 60 and therefore had to retire under age guidelines that are now being more systematically enforced. That said, both these officials were Jiang Zemin-era appointees who were associated with relatively hardline positions on cross-Strait issues. With their departure, Zheng Lizhong, has moved up to be the TAO principal vice minister. Zheng is well known in Taipei from his service as CCP Party Secretary in Xiamen and is seen as a pragmatic individual with whom Taipei can work. The speculation is that Zheng will replace Chen Yunlin as TAO director next year when Chen reaches 65, the age for retirement of minister level officials. In addition, with their departure, Ye Kedong was promoted from within the TAO as a new vice minister.

Ye worked as a secretary to Hu Jintao in earlier years in the Communist Youth League. These personnel changes therefore seem to strengthen Hu's hand in managing cross-Strait relations.

Diplomatic struggle

Despite progress on functional issues in recent months, the diplomatic struggle continued unabated. Taipei's annual application to the UN played out as expected with the UN General Committee, under pressure from Beijing, voting again not to consider the issue. The new feature this year was the Taipei seriously considered applying to the UN under the name of "Taiwan" rather than the "Republic of China." In August, President Chen publicly advocated applying as Taiwan. However, for reasons that are not clear, in the end the decision was to apply as the "Republic of China (Taiwan)."

In August, Chad suddenly announced it was shifting recognition from the Republic of China to the People's Republic of China. As the announcement came just as Premier Su Tseng-chang was about to depart for an official visit to Chad, the switch was seen in Taipei as an intentional slap in the face to Taiwan and to Su personally. At the UN General Assembly (UNGA) in September, PRC Foreign Minister Li Zhaoxing met with Costa Rican President Arias and the foreign minister of Guatemala. These meetings were seen as signs that two more of Taiwan's diplomatic partners might be considering recognizing Beijing. Neither Costa Rica nor Guatemala joined in cosponsoring Taiwan's UNGA resolution this year.

Cross-Strait trade and investment

Cross-Strait trade and investment continued to increase rapidly in the first half of 2006. This was despite President Chen's new policy to "actively manage" cross-Strait economic ties and despite the continuing political differences within his administration over cross-Strait economic policy. According to statistics from Beijing's Ministry of Commerce, cross-Strait trade in the first half of 2006 totaled \$50.2 billion, a 22.2 percent increase over the first half of 2005. Figures from Taipei's Board of Foreign Trade (BOFT), which are always lower, put total first half cross-Strait trade at \$41.0 billion, up 15 percent. The BOFT said Taiwan's exports were \$29.6 billion, up 13.6 percent and Taiwan's imports were 11.5 billion, up 18.9 percent. In its annual report listing leading export firms, Beijing's Ministry of Commerce again listed Hon Fu Jin Precision Inc., a subsidiary of Taiwan's Hon Hai, as China's largest exporting firm by value. The Ministry of Commerce said that approved investments from Taiwan totaled \$5.5 billion in the first half up 15.6 percent. With both Taiwan's and China's exports booming at the present time, this strong trade and investment growth is set to continue in the second half.

Increasing Japanese contacts with Taiwan

On Aug. 15, Japan's vice minister of agriculture quietly visited Taipei and was received by President Chen. He was the most senior Japanese official to visit Taiwan since Tokyo recognized Beijing in 1972. His visit symbolizes the quiet improvements that have been occurring in Japan's relations with Taiwan.

Taipei's National Security Report published last quarter identified Japan's drive to become a "normal country" as a key long-term trend important to Taiwan's security. Consequently, the DPP administration has been actively cultivating closer ties with Japan. In an interview with *Fuji TV*, President Chen described Japan-Taiwan relations as the best in 30 years. Despite the absence of diplomatic ties, Chen said he hopes to develop a "military partnership" with Japan.

In March, journalists in Taipei reported that a retired Japanese general had recently been assigned as the first defense attaché in the Interchange Association, Tokyo's unofficial representative office in Taipei. In August, the Japanese press reported that Taiwan's Army Commander-in-Chief Hu Chen-pu was in Japan to observe a Ground Self-Defense Force exercise, despite protests from Beijing. Sources in Taipei state that this was not the first time a Taiwanese officer had observed exercises in Japan. Needless to say, these improvements are taking place at a time of deteriorating Sino-Japanese relations and are themselves contributing to that deterioration.

Looking ahead

Impasse on fundamental political issues; agreement on some small pragmatic steps on functional issues; a basic stability in cross-Strait relations, but concerns that DPP proposals on future constitutional reform are reigniting cross-Strait tensions; continuing rapid growth of trade and investment ties, despite continuing internal debate on investment policy in Taipei; further setbacks for Taipei in the international arena, but closer unofficial ties with Tokyo; a gradual shift in the cross-Strait military balance in Beijing's favor. This mixture, hard to capture in a sound bite, characterizes current cross-Strait relations and is likely to continue to do so in the months ahead.

Chronology of China-Taiwan Relations July-September 2006

July 3, 2006: *Defense News* reports "Monterey" talks were held June 28-29 in Quantico.

July 6, 2006: President Hu Jintao meets Evergreen Chairman Chang Yung-fa and promises more support for Taiwan investors.

July 7, 2006: TAO Minister Chen Yunlin receives KMT delegation.

July 10, 2006: Taipei Mayor Ma Ying-jeou begins Japan visit.

July 10, 2006: PRC's Huaxia Bank announces 20 billion RMB program for Taiwan firms.

July 12, 2006: In Japan, Ma Ying-jeou urges Japanese PM Koizumi to take broader view of history and reconsider visits to Yasukuni.

July 16, 2006: Presidents Bush and Hu meet at G-8 Summit.

July 17, 2006: President Chen emphasizes Chinese threat to visiting Japanese delegation.

July 19, 2006: TSMC charters first cargo flight to take equipment to Shanghai.

July 25, 2006: In Taipei, USTR's Bahtia urges removal of cross-Strait trade barriers.

July 25, 2006: Executive Yuan decides Sustainable Development Conference (SEDC) will not address cross-Strait economic issues.

July 27, 2006: *Hanguang-22* live fire exercise.

July 27, 2006: At SEDC, President Chen calls for investment in Taiwan.

July 30, 2006: Lee Teng-hui says Taiwan must not become more dependent on China market.

July 31, 2006: MAC Chairman Wu says PRC tourists may be coming by end of year.

Aug. 1, 2006: Premier Su says pragmatism will guide handling of cross-Strait issues.

Aug. 1, 2006: MAC Chairman Wu says restrictions on visits by PRC employees of multinational firms will be eased.

Aug. 1, 2006: KMT announces invitation to TAO Minister Chen Yunlin.

Aug. 2, 2006: Premier Su says no plans to change 40 percent ceiling on China investment.

Aug. 2, 2006: President Chen urges Formosa Foundation to push for change in U.S. "one China" policy.

Aug. 2, 2006: TAO requests Taiwan to facilitate visit by Chen Yunlin.

Aug. 4, 2006: MAC Chairman Wu says negotiations needed on Chen Yunlin's visit.

Aug. 4, 2006: Xiamen announces new air service via Xiamen-Jinmen.

Aug. 5, 2006: Chad switches diplomatic relations from Taipei to Beijing.

Aug. 8, 2006: China repatriates 11 fugitives via Jinmen.

Aug. 9, 2006: Beijing says private law enforcement officials have agreed to increase cooperation on fighting crime, extraditing criminals.

Aug. 10, 2006: Taipei's allies submit annual resolution to UN on Taiwan participation.

Aug. 12, 2006: Shih Ming-teh launches his campaign to oust President Chen. The monies collected will be used for a massive sit-in campaign Sept. 9.

Aug. 15, 2006: Japan's vice minister of agriculture makes highest-level visit to Taiwan since normalization in 1972.

Aug. 16, 2006: TSMC Chairman Chang urges approval for export of 0.18 micron technology.

Aug. 17, 2006: Beijing announces formation of "Cross-Strait Travel Exchange Association."

Aug. 17, 2006: TAO announces personnel changes.

Aug. 21, 2006: Taipei approves mid-Autumn Festival charters to start Sept 29.

Aug. 22, 2006: PRC's Jia Qinglin receives large Taiwan trade delegation.

Aug. 23, 2006: EY adopts proposed 2007 budget with NT\$323.5 billion for defense.

Aug. 24, 2006: DPP has parliamentary exchange with Japan LDP.

Aug. 25, 2006: Departure ceremony for last two *Kidd* destroyers from Charleston.

Aug. 25, 2006: PRC protests ROC army commander visit to Japan.

Aug. 25, 2006: MAC announces formation of "Taiwan Strait Tourism & Travel Association."

Aug. 26, 2006: *Kyodo* reports ROC army commander in Japan observing GSDF exercise.

Aug. 28, 2006: Beijing's ARATS spokesman urges Taipei to approve Chen Yunlin's visit.

Aug. 29, 2006: MND releases National Defense Report mentioning "Special Operations Missiles."

Aug. 30, 2006: *Defense News* says U.S. recommending against approving *F-16* sale to Taiwan.

Aug. 31, 2006: Beijing convicts Ching Cheong, Hong Kong-based *Strait Times* reporter, of spying for Taiwan.

Sept. 4, 2006: President Chen signs partnership agreement with six allies in Palau.

Sept. 4, 2006: AMCHAM visits Premier Su; urges easing cross-Strait restrictions.

Sept. 6, 2006: EY adopts act to rename CKS as “Taiwan Taoyuan International Airport.”

Sept. 6, 2006: MAC Chairman Wu in Washington, D.C. for consultations.

Sept 7, 2006: KMT and CCP announce agricultural conference being moved to Hainan.

Sept. 9, 2006: Tens of thousands of protesters gather in front of the Presidential Office for an open-ended sit-in campaign to oust President Chen.

Sept. 10, 2006: On *Fuji TV*, Chen calls for Japan-Taiwan military cooperation.

Sept. 11, 2006: TAO Minister Chen Yunlin in Washington, D.C. for consultations.

Sept. 11, 2006: U.S.-Taiwan Defense Industry Conference in Denver.

Sept. 12, 2006: DPP Chairman Yu Shyi-kun in Washington, D.C. for consultations.

Sept. 12, 2006: In Helsinki, Premier Wen Jiabao declines to comment on the news report; says Taiwan politics are for Taiwanese people to decide.

Sept. 12, 2006: UN decides not to consider Taiwan’s UN bid.

Sept. 14, 2006: First cross-Strait medical charter flight.

Sept. 15, 2006: Some 300,000 protesters call for President Chen’s resignation as they march in front of the president’s office and home.

Sept. 18, 2006: KMT delegation led by Chiang Ping-kun meets TAO’s Zheng Lizhong.

Sept. 20, 2006: Foreign Minister Li Zhaoxing meets Costa Rican President Arias at UN.

Sept. 24, 2006: President Chen calls for reconsideration of territory defined in constitution.

Sept. 26, 2006: Jia Qinglin warns of danger from Chen’s promotion of independence under guise of constitutional reform.

Sept. 27, 2006: TAO's Li Weiyi criticizes Chen for violating his "four noes."

Sept. 28, 2006: President Chen declares that "Taiwan is Taiwan, China is China, and Taiwan and China are totally different countries," drawing protests from Beijing and a reminder that Washington expects Chen to honor his previous commitments.

Sept. 28, 2006: U.S. State Department spokesman says abiding by his commitments will be a test of President Chen's "leadership, dependability, and statesmanship."

Sept. 29, 2006: Mid-Autumn festival cross-Strait charter flights begin.



North Korea-South Korea Relations:
Sunset for Sunshine

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Rarely has the arbitrary time unit of a quarter so neatly framed real events as on the Korean Peninsula these past three months. For South Korea, like all of Pyongyang's other interlocutors, the third quarter of 2006 was topped and tailed by two ominous bookends. It began with, and was dominated by, the seven missiles (including a long-range *Taepodong-2*) which North Korea test-fired on the Fourth of July, U.S. time (locally, early July 5). Inevitably this rude gesture of defiance cast a large shadow, at least partially and temporarily, on the "Sunshine" policy of engagement and outreach that Seoul has pursued for the past nine years. At that stage it was too early to tell whether this was just a temporary hiccup, or marked a lasting sea-change in the balance and thrust of the ROK's *Nordpolitik*.

For reasons hard to fathom, Kim Jong-il chose to settle that question in the negative by ending the quarter with a far graver threat. After weeks of rumors of preparations spotted by spy satellites, on Oct. 3 North Korea for the first time gave notice of its intention to conduct a nuclear test. Still, some analysts hoped that this might be just a sharp negotiating ploy, as arguably the missile tests were: intended to break almost a year's stalemate in the suspended Six-Party Talks and jolt the U.S. and others into concessions on financial sanctions. Less than a week later, such hopes were dashed Oct. 9, when Pyongyang announced, with typical pride, that it had carried out its first nuclear test. Outside opinion seems to agree, though at this writing it is unclear whether it was completely successful. The implications of this are considered at the end of this article.

July's missile launch had put most of the now quite dense network of regular official inter-Korean contacts on ice for late summer and early fall. Seoul struggled to strike a balance between showing its disapproval – and keeping the semblance of a common front with Washington – while seeking to ensure that the overall framework and achievements of Sunshine were not jeopardized. Walking such a tightrope was no easy task, and – as often with the Roh Moo-hyun administration, which now has little more than a year left to run before his successor is elected in December 2007 – some of the specific policy decisions and judgments made thus far appeared questionable.

A bigger splash

Until October's nuclear shock, all other political events on the peninsula in the past quarter were overshadowed by the seven missiles – one long-range *Taepodong-2*, which failed, and six short- to medium-range *Rodongs* and *Scuds*, which did not – that North Korea fired into the East Sea (Sea of Japan) from Musudan-ri on its northeast coast on July 5, local time. In the U.S. it was still the Fourth of July, and a space shuttle was being launched. Kim Jong-il's choice of date was surely no accident.

Unlike the first and only previous *Taepodong* test, which was launched over Japan without warning in August 1998, shock did not entail surprise. The first intelligence reports of a large missile being moved to the Musudan-ri site had come in mid-May. Although much of North Korea's war effort, including missile manufacture, is concealed underground, launching a long-range missile requires a gantry, which cannot be hidden from U.S. and other spy satellites.

Like it's 1999

In mid-June, rumors that the *Taepodong* had been fueled – a process hazardous to reverse – intensified regional and global concern. Many governments and others spoke out, with unusual unanimity. Even China, rarely so explicit, warned against a test. But with counter-reports that the satellite pictures were ambiguous, late June brought speculation that this was a rerun not of 1998, but 1999. (Then too a *Taepodong* was trundled onto its gantry and stayed there for weeks. That led the U.S. administration to start talks on missiles, during which Kim Jong-il declared a moratorium on further long-range tests. The talks nearly led to an agreement, essentially to buy out the program – which North Korea has long said was for sale. President Bill Clinton was ready to go to Pyongyang to sign this, but his term ran out. The incoming Bush administration elected to discontinue these negotiations.)

Once the phoney war was over and the missiles were actually fired, they rapidly exposed familiar faultlines between North Korea's five main interlocutors. The fact that Kim Jong-il went ahead, despite explicit pleas not to from both Seoul and Beijing, was a slap in the face for supporters of engagement and put Roh Moo-hyun in an awkward position. Yet Roh's own perverse reaction hardly helped. When a newly and unusually assertive Japan made much of the initial reactive diplomatic running, drafting a hardline resolution to the UN Security Council (UNSC), some comments from Seoul seemed more concerned to criticize Tokyo for "making a fuss" than to condemn Pyongyang's provocation.

Wrong calls?

In devising its own policy response – which after all it had had several weeks to prepare – South Korea again looked off-balance. The challenge was clear, and admittedly not easy: to show firm disapproval, but also not let this destroy the many and varied links achieved by almost a decade of the Sunshine Policy. Patience in Seoul had already been wearing

thin, especially over the North's last-minute cancellation of long-delayed railway test runs in May. With Roh Moo-hyun's ratings plunging, and having explicitly warned that a missile launch would put aid in jeopardy, the South had to do something.

Yet some of the specific policy calls made in Seoul since the missiles looked questionable. South Korea's first, immediate riposte was to rebuff a Northern suggestion, made two days before the missile launch, for a military liaison meeting on July 7. This is a forum that the South is usually keen to promote, but presumably it felt that at this juncture this would send the wrong signal. That logic is not obvious: such a meeting could have been used as a rare and timely chance to read the riot act directly to the Korean People's Army (KPA).

Conversely, were one to cancel anything, the obvious candidate would have been regular inter-Korean ministerial talks, the 19th since the June 2000 Pyongyang summit, due to be held in Busan, South Korea's second city and main port, on July 11-14. After all, North Korea had postponed the last meeting by a month (from March to April) to protest regular U.S.-ROK wargames. In the event Busan went ahead, to no purpose. The North's delegation refused to talk missiles, and left a day early when the South would not discuss food aid.

Yes to business, no to food

The South's more general stance was also peculiar. On July 6, right after the missile tests, unification minister Lee Jong-seok said humanitarian aid to the North will be suspended indefinitely. But business cooperation, like the Kaesong industrial zone and Mt Kungang tourism, will continue; ostensibly because this is a private rather than state initiative. This again is questionable, on both counts. Normal international practice is to exempt food aid from any punitive measures; while the Kaesong and Kungang ventures, though nominally led by Hyundai, are in fact key tools of official policy that depend on state subvention.

Moreover, the profits from these two border special zones go straight to the DPRK state and elites, so suspending these could have hit Kim Jong-il's pocket. (The Dear Leader called at Kungangsan in September en route to one of his regular frontline military trips, but did not visit any of Hyundai's facilities while there; nor did the official news agency *KCNA* deign to mention, much less thank, the South for financing and developing this resort.) By contrast, despite concerns over diversion, at least some rice feeds North Korea's hungry.

Nature strikes again

Concretely, when the missiles flew South Korea had just finished shipping 350,000 tons of fertilizer, but amid already cooling relations had not yet agreed to the North's request for the usual 500,000 tons of rice. As of early October that remains the case, but Seoul's wider refusal of food aid predictably soon crumpled after nature inflicted what seems its annual misery on North Korea. In mid-July, Typhoon Ewiniar caused flooding that left at

least 154 dead and 127 missing, according to the UN. Good Friends, a South Korean Buddhist NGO that assists Northern refugees, alleged a disaster “of biblical proportions,” as *Time* puts it: with 54,700 dead (many due to landslides); 2.5 million – over 10 percent of the population – rendered homeless, and wide destruction of crops in major rice-growing areas. Even if those figures exaggerate, this is a harsh blow to a country already barely and minimally coping as regards food, yet which this year has spurned aid, expelling foreign NGOs, and forcing the UN World Food Programme (WFP) to curtail operations that once fed up to 6 million North Koreans.

Facing pressure at home from public opinion to help their Northern brethren, the ROK first on Aug. 11 allocated \$10.5 million to support local NGOs that had already stepped into the breach. Then on Aug. 20, Seoul announced much larger-scale official support, to be channeled via the Red Cross: some 100,000 tons of rice and the same weight of cement, along with iron rods, excavators, and trucks, plus blankets and medical kits. All this is worth over \$200 million; it would cost less than half that if foreign rice were bought, but – as the ROK Unification Ministry (MOU) frankly admitted – because of a local rice surplus South Korea will send its own rice, at five times the price. As in the U.S., food aid is in practice inseparable from the political economy of farm support.

In an immediate reaction to October’s nuclear shock, Seoul suspended even this emergency aid. Politically it will now be very difficult to resume this in the foreseeable future.

Washington tightens the noose

The financial squeeze which the U.S. has pursued since last autumn appears to be both biting and spreading, with Vietnam its latest focus. According to the *Financial Times* on Aug. 23, a visit to Hanoi in July by Stuart Levey, who as U.S. undersecretary for terrorism and financial intelligence is overseeing this drive, led to the closing of several DPRK accounts there. A leaked Japanese joint intelligence report, cited by *Bloomberg*, claims that since U.S. pressure forced the Macau-based Banco Delta Asia to freeze all DPRK accounts a year ago, North Korea has established new links with 23 banks in 10 countries – including Mongolia and Russia, said to be among the few nations left where North Korea can still bank.

Levey’s itinerary also took in Japan, Singapore, and South Korea. While Seoul had earlier expressed dismay that this U.S. pressure has stymied the Six-Party Talks, this time the ROK foreign ministry (MOFAT) echoed Washington’s stern note, saying it “has serious concerns about North Korea’s illicit activities, including counterfeiting,” and urging Pyongyang to “take steps to quell such worries in order to become a member of the international society.” Even so, Levey’s line that “the U.S. continues to encourage financial institutions to carefully assess the risk of holding *any* North Korea-related accounts” (emphasis added) makes this a very blunt instrument: hitting legitimate trade and joint ventures as much as, indeed maybe more than, the dodgy stuff – which will always find ways of going underground.

China chafes

Although not confirmed by Beijing, China (beyond Macau) is also said to have joined the financial crackdown, with the state-owned Bank of China (BoC) freezing or closing DPRK accounts. Reports from northeastern China claim that border trade has been curtailed, and that some North Koreans working without permits in China – as distinct from refugees – have been deported. In July, three refugees who had taken sanctuary in the U.S. consulate in Shenyang were allowed to fly direct to the U.S., most unusual.

Yet while China must protect itself financially, and may vent irritation with Kim Jong-il in small ways, there is no sign of any large-scale sanctions or squeeze. At a time when North Korea's capital needs and partial opening are creating great opportunities for Chinese firms, and thereby also building leverage for Beijing in Pyongyang, it would be self-defeating if China were to overreact to the missile launch. Its nuclear test may be a different matter.

Is Ban the man?

Under a darkening sky, one possible ray of hope was the election of South Korea's foreign minister, Ban Ki-moon, to succeed Kofi Annan from Jan. 1 as the UN's next secretary general. Even before his formal appointment, Ban pledged to make North Korea a priority and to seek an early visit to Pyongyang, pointing out that Annan had not done so in a decade. Yet his being Korean is not necessarily an asset, given the North's lingering suspicions of the South even while it grabs Sunshine's gifts, and especially if ties now worsen. In any case the DPRK is cross with the UN over the UNSC's unanimous condemnation on July 15 of its missile tests; it called the resolution (1695) "brigandish," and will be even angrier with whatever further nuclear condemnation must now follow. Nor has it forgotten, or forgiven, that in the 1950-53 Korean War the UN was the enemy.

Refugee raid in Bangkok

Elsewhere, refugees from North Korea returned to the headlines in August. A police raid in Bangkok on Aug. 22 arrested no fewer than 175, all staying in a two-storey house; their numbers, unsurprisingly, drew attention. Eighty percent were women, as is ever more the trend. Such fugitives must still make a long trek across a hostile China to find sanctuary in a third country, often aided by South Korean missionaries, as here. Despite this raid, Thailand is friendlier than other destinations like Vietnam and Laos, which as fellow communist states have hitherto been more heedful of their ties with the DPRK. Sixteen of those arrested already had papers from the UN High Commissioner for Refugees (UNHCR), and with two others were swiftly flown to Seoul. It was expected that the rest would follow, after a short spell in jail while UNHCR and the ROK government processed them.

The numbers are growing, with 400 North Koreans turning up in Thailand alone so far this year. Some 1,054 reached the South in the first seven months of 2006: 59 percent more than in the same period last year, whose total was down from 2004. These are still tiny figures compared to the former two Germanys, or most other global refugee flows. All governments, in Beijing and Seoul no less than Pyongyang, are fearful lest this trickle should swell into a mighty flood. North Korea suspended most contacts with the South for almost a year after 468 defectors were flown out of Ho Chi Minh City to Seoul (at Vietnamese insistence) in July 2004, even though the ROK did its best to keep this airlift low-key. This time, post-missiles and nukes, the South may prove less deferential to Northern sensitivities.

A new point man needed on the South

Rim Tong-ok, North Korea's point man on the South, died on Aug. 20 aged 70. As director of the United Front Department (UFD) of the ruling Workers' Party of Korea (WPK), and vice chairman of the Committee for the Peaceful Reunification of the Fatherland (CPRF), Rim oversaw ties with South Korea, his field since the early 1970s. As such he was well known in Seoul, where the government sent condolences to Pyongyang, angering some. "Seoul Condoles N. Korea on Death of Spymaster" was the headline in the rightwing daily *Chosun Ilbo*. This was the South's second such gesture, the first being on the death last year of the North's ex-premier, Yon Hyong-muk. One imagines there will be no more for the time being.

Speculation began at once in Seoul on who would succeed Rim. Most money is on one of the UFD's two vice directors: Ri Jong-hyok, an urbane ex-diplomat, and Choe Sung-chol, a rising star. Also in the frame is CPRF vice chairman An Kyong-ho, notorious for warning that if the South's opposition Grand National Party (GNP) comes to power – as it may well do in 2008 – Korea will be "enveloped in the flames of war." Or Kim Jong-il may pick one of his own cronies, as is increasingly his wont; some analysts attribute his missile test gaffe – and *a fortiori*, the nuclear test – to the Dear Leader being surrounded by yes-men, who echo rather than question his judgment. Also cited is Kim's brother-in-law Jang Song-thaek, purged in 2003 but reinstated earlier this year, but he is said to have been injured in a car crash in late September. None of this may happen quickly: Rim only got the job two years after the death of his predecessor, former KWP international secretary Kim Yong-sun.

A new approach?

Though all water under the bridge now, for the record a desultory search for a way out of the present impasse continued. The usual talking up of prospects – such as an unspecified new "common and broad" approach, said to have been agreed when George Bush and Roh Moo-hyun met (very briefly) in Washington Sept. 14 – may just be whistling to keep spirits up. Although the U.S. and South Korean presidents manage to paper over the cracks, their respective preferences for stick and carrot were well known.

Yet something might have been afoot. Roh, loose-tongued as ever, said Sept. 28 that the new approach was put to North Korea before he discussed it with Bush. A day later China's top delegate to the Six-Party Talks, Wu Dawei, said in Seoul that Beijing supports it. What no one would spell out is what this magic formula consists of. That is not necessarily a bad sign. A certain public vagueness may mean the nitty gritty is being argued behind the scenes, a better bet than publicly parading specific non-negotiable incompatible demands, as has too often occurred in the past. Just possibly, all parties realize they have collectively dug themselves into a hole that benefits no one, and are ready to compromise. But how? – and all the more so now, after the nuclear test.

Further straws in the wind include hints by the U.S. ambassador in Seoul, Alexander Vershbow, hitherto seen as a hardliner, that bilateral U.S.-DPRK talks might be possible (albeit within the six-party format). Vershbow also said that his predecessor Christopher Hill, well liked in his brief sojourn in Seoul before he was promoted to assistant secretary of state to head the U.S. delegation to the Six-Party Talks, could be willing to visit Pyongyang.

Seoul suspends Kaesong applications

Post-missiles but pre-nuke, South Korea remained reluctant to paint the North into a corner completely, yet could hardly fail to react. Thus, on Sept. 21, Unification Minister Lee Jong-seok said Seoul is suspending applications from local SMEs to set up in the Kaesong Industrial Zone, just across the Demilitarized Zone (DMZ) inside North Korea. Yet he insisted that “the general development of the Kaesong complex is continuing,” and that the applications process will resume “when market conditions are most appropriate.”

Market conditions hardly seem the point. While only 15 ROK firms are operating in the zone so far, interest had hitherto been keen, but the fear was that the missile tests would scare off applicants. Yet the Bush administration dislikes Kaesong, and is firmly resisting Seoul's vigorous efforts to have its products included in the bilateral free trade agreement (FTA) which the two nations are currently seeking to negotiate – in any case a long shot politically, given strong public opposition in South Korea. In view of its timing, a week after Roh Moo-hyun met Bush, this suspension looks like a gesture to please Washington. October's nuclear test now puts the whole project at risk, especially if the outcome is UN-mandated economic sanctions.

A Chinese satellite?

All analysis of North Korea, as anywhere, needs to contemplate the longer term as well as immediacies. The cover story in October's issue of the U.S. magazine *Atlantic Monthly* was a long article by Robert Kaplan, provocatively titled “When North Korea Falls.” If rather one-sidedly reflecting the view of U.S. Forces in Korea (USFK), this performed a service in thinking the unthinkable on several fronts. Most striking was his suggestion that “China's infrastructure investments are already laying the groundwork for a Tibet-like buffer state in much of North Korea, to be ruled indirectly through Beijing's

Korean cronies once the KFR [Kim family regime] unravels.” Kaplan suggests that the U.S. and even South Korea might go along with this, if only because the alternative of either of them trying to run a post-Kim North Korea (vide Iraq) threatens to be riskier and costlier than letting China carry the can.

A royal niece takes her life in Paris

Mid-September brought a rare and tragic fresh glimpse of North Korea’s royal family, with reports that Kim Jong-il’s niece had killed herself in Paris in August. Jang Keum-song, 29, was the sole birth child of Kim Jong-il’s brother-in-law and confidant Jang Song-thaek, a first vice director in the ruling Workers Party of Korea (WPK), and the Dear Leader’s only sister Kim Kyong-hui, herself director of the WPK’s light industry department.

Said to be tall and beautiful (and not to have told her friends she was North Korean), Ms. Jang was studying in Paris, evidently in some style; her body was found in her villa by her maid and chauffeur. She had taken an overdose of sleeping pills. Press speculation – none of this has been announced or confirmed, needless to say – is that she had been ordered to return to Pyongyang, where she had a suitor whom her parents rejected because of his bad ideological background. In North Korea’s contorted demonology, that means some of his family members may have been landlords, Christians, victims of successive purges, living in South Korea, returnees from Japan, or a long litany of similar supposed sins.

Echoes and repetitions

If true, this is ironic in that North Korea’s founding leader Kim Il-sung opposed Jang Song-thaek’s marriage to his daughter on similar grounds. Jang was exiled for a while to the east coast city of Wonsan, before the Great Leader relented and permitted them to wed in 1972. (Rumor has it that they are now separated, and that Kim Kyong-hui has a drink problem.)

This also echoed a parallel recent tragedy for South Korea’s quasi-royalty. Last November, Lee Yoon-hyung, 26, youngest daughter of Lee Kun-hee – chairman of the Samsung group, Korea’s biggest conglomerate, and the country’s richest man – hanged herself in New York where she was studying. Here again the cause was said to be parental opposition to the man she loved: Shin Soo-bin, who found her body. Public sympathy was strained by Samsung’s initial clumsy attempts to hush up the suicide and claim she had died in a car accident.

While Jang Keum-song’s death has no known direct political overtones, in Pyongyang the personal is political. Her father, long the Dear Leader’s righthand man, fell from grace in 2003 and was not seen for two years before re-emerging early this year in what appeared a slightly lower rank – soon belied by his following his brother-in-law in making a high-level but low-profile visit to China in March. One alleged reason for Jang Song-taek’s purge was his pushing his adopted son Kim Jang-hyun – in fact a natural son

of Kim Il-sung with one of his nurses – as a potential successor to Kim Jong-il. In North Korea’s neo-patriarchy, princesses seem to have no claim, even though the Dear Leader’s daughter Kim Sol-song is reportedly an able economist who accompanies her father on some of his workplace visits.

All is revealed

North Korea’s obsessive secretiveness is indefensible in more than one sense; it is no match for spy satellites. No longer restricted to the professional intelligence community, detailed views of everything from Kim Jong-il’s palaces to his prison camps, not to mention missile batteries and nuclear sites, are now available – free, at present – to anyone with broadband internet access, courtesy of Google Earth (earth.google.com). Writing on Aug. 29, Sonni Efron of the *Los Angeles Times* commented that this was far more revealing than anything she was ever allowed to see as a visiting reporter. Already viewers are debating landmarks of interest. One has identified no fewer than 332 mainly military sites, including artillery along the Demilitarized Zone and the vast network of air defenses ringing Pyongyang.

Efron also noted a stark visual contrast: “Click on down into South Korea and the barren, deforested mountaintops give way to lush forests, the dusty valleys to emerald rice fields, the surface-to-air missiles to factories, houses and cars.... Kim may rule in secret and hide nuclear secrets underground, but the shameful nature of his regime is on global display.”

Two lighter moments

Other than the regime’s endlessly risible self-presentation, humor on North Korea tends to be in short supply. Last month was lightened by two exceptions. On Sept. 25, Seoul dailies headlined a claim by Kang Sok-ju, North Korea’s senior vice foreign minister and long-time chief nuclear negotiator, that Pyongyang has at least five nuclear weapons. Their source was an article on the Nautilus.org website, a key forum of debate on North Korea, by Robert Carlin, a former chief of the Northeast Asia section in the U.S. State Department.

Carlin’s title, “Wabbit in Free Fall,” plus sundry other clues, made it abundantly clear that what purported to be a speech by Kang was in fact a spoof; indeed, a clever and poignant lament for those on both sides who spent years building bridges between Washington and Pyongyang, only to see all their efforts ruined by hardline colleagues. (It follows a similar exercise by Erich Weingartner of the Canadian clipping service *CanKor*, imagining how a senior North Korean aid official might strive to make sense of the famine and the ups and downs of his government’s dealings with an outside world that it barely understands.)

Six hours passed before the South Korean media twigged, issuing red-faced retractions and apologies. Soul-searching and self-criticism followed, for not only literal-mindedness but sheer laziness and haste in simply reproducing the story without checking it out first.

Wordplay as a weapon

North Koreans themselves have precious little to laugh about. While communism elsewhere – especially in Eastern Europe – generated a rich vein of wry humor, North Koreans are often deemed too cowed or brainwashed to do likewise. Yet a recent issue (no. 38) of *North Korea Today* – a well-informed newsletter from the South Korean Buddhist NGO Good Friends – reports some ironic punning on who really does what in North Korea. Wordplay has the Democratic Women’s Union (DWU) as ‘Running’, the Socialist Working Youth League (SWYL) ‘Standing’, and the ruling Workers Party of Korea (WPK) ‘Sitting.’ That is, the party just sits around, young male officials of the SWYL stand and out bark orders – and the women do all the work. Good Friends adds that “it is no exaggeration to say that the North Korean economy is run by women.” It is good to know they have the last laugh.

From Sunshine to sunset

Though early days yet, in the immediate aftermath of October’s nuclear test it is hard to see this as anything other than marking the end of an era in inter-Korean relations. It is sunset for Sunshine. That does not mean engagement will cease altogether, or if suspended that it will not resume in some form – and continue even if the GNP forms the next government.

But it will be different now, and rightly so. Both from a policy and political viewpoint, it must surely now be acknowledged that the sound of one hand giving was the wrong way to go, and cannot continue. Even if a loss-leader approach was arguably necessary initially to build confidence, it is now discredited. Future North-South dialogue must be less one-sided and asymmetrical, insisting rather on conditionality and reciprocity. October’s nuclear test shows the North’s cold-eyed contempt for the South’s self-deluding efforts and generosity. With elections approaching – presidential in December 2007, then legislative in April 2008 – there will be no votes now in South Korea for being nice to a nuclear North.

A new stage was in any case on the cards from early 2008, if the conservative opposition Grand National Party (GNP) wins back the presidency. Currently the GNP is far ahead in opinion polls, and the election looks theirs to lose. But they did exactly that last time, in 2002, and 14 months is a long time in South Korea’s ever-swirling political scene. The nuclear shock has just given the GNP a massive electoral boost, which seems perverse in the extreme: Pyongyang media routinely excoriate the GNP as traitors and U.S. flunkys.

Just conceivably, after the present shock has died down (albeit leaving both the local and global situations permanently changed for the worse), fresh twists may prove possible. Not only is there little practical choice for others save to glumly accept the DPRK’s nuclear fait accompli, but – clutching at straws – it is just possible that this new status may give Kim Jong-il fresh confidence in his impregnability, such that he might dare to take more risks in negotiating on other fronts. Yet how others could respond, without seeming to reward him for what China rightly and sharply termed “brazen” behavior, is a

crux that will trouble all North Korea's interlocutors. Hopefully henceforth they will prove less divided on how to deal with this uniquely obdurate regime, which has now taken its longstanding and fateful doctrine of *jawi* – self-reliance in defense, independent of friend and foe alike – to its grim logical conclusion.

Chronology of North Korea-South Korea Relations July-September 2006*

July 1, 2006: North Korea bans South Koreans from visiting the historic city of Kaesong. Hitherto there had been trial tours, plus side-trips for those visiting the nearby Kaesong Industrial Complex (KIC). Pyongyang still wants to replace Hyundai Asan, which has the contract for Kaesong tours, with a new partner, Lotte.

July 5, 2006: North Korea launches seven missiles into the Sea of Japan, provoking a firestorm of international condemnation.

July 6, 2006: After the missiles tests, South Korean Unification Minister Lee says humanitarian aid to the North will be suspended indefinitely.

July 6, 2006: Facing criticism that Seoul had been too sanguine about the prospect of a North Korean missile test, a Blue House spokesman admitted “some differences regarding the degree of caution in making a judgement” compared to Washington and Tokyo.

July 7, 2006: The South cancels a planned inter-Korean military liaison contact in protest at the North's missile tests. Pyongyang had proposed the meeting on July 3.

July 9, 2006: Seoul's comments on the Japanese draft of UNSC resolution condemning North Korea's missile tests criticize Tokyo for “making a fuss” rather than condemn Pyongyang for its provocation.

July 11, 2006: ROK President Roh reportedly calls North Korea's missile tests “a political act demanding American concessions,” and likens U.S. financial sanctions against Pyongyang to the premodern practice of beheading a criminal before sending his case to the king. He also says that Japan “ended up helping North Korea” fire its missiles, blaming Tokyo for “making noise” on the issue instead of “stay[ing] composed.”

July 12, 2006: South Korea lodges a strong complaint against North Korea for firing *Scud* missiles that could reach any area of South Korea and urges it to return to the Six-Party Talks.

July 12-13, 2006: The 19th Inter-Korean Ministerial talks held in Busan, South Korea.

* Chronology compiled with assistance from Junbeom Pyon and Qinghong Wang, 2006 Vasey Fellows, Pacific Forum CSIS

July 13, 2006: Opinion poll shows the number of South Koreans who say the ROK should support U.S. policy toward North Korea has risen from 20 percent in 2002 to 37 percent, while support for increased Southern aid to the North has narrowed from 59 percent to 54 percent.

July 14-16, 2006: Typhoon Ewiniar batters North Korea, causing severe damage.

July 15, 2006: UN Security Council adopts resolution 1695. The PRC signs on to a compromise resolution that condemns North Korea's missile tests, but does not include Chapter 7 language originally endorsed by Tokyo.

July 16, 2006: DPRK Foreign Ministry calls UNSCR 1695 "brigandish."

July 16, 2006: ROK military source says an Army missile defense command will be formed later this year to counter threats from missiles and long-range artillery.

July 18, 2006: ROK government reaffirms plan, first decided in January, to enact a law to assist post-1953 abductees to North Korea; not only from a humanitarian viewpoint, but also in terms of the state's duty to protect its citizens. It will not cover the much larger numbers taken North during the 1950-53 Korean War, nor earlier victims.

July 19, 2006: ROK President Roh Moo-hyun calls Pyongyang's missile tests "wrong behavior" that increased regional tensions, but warns against over-reacting to them.

July 19, 2006: North Korea notifies South Korea that it would stop inter-Korean family reunions in response to the ROK halt of humanitarian aid.

July 21, 2006: North Korea notifies the South that it is withdrawing personnel from the Office of Inter-Korean Economic Cooperation (OIKEC) in Kaesong, meaning it can no longer operate as a venue for working-level consultations. Staff from the North's National Economic Cooperation Federation will remain to facilitate joint ventures.

July 25, 2006: President Roh objects to U.S. hardline policy of "strangling" North Korea.

July 28, 2006: South Korea, China, Japan, Russia, the U.S., Australia, Canada, Indonesia, Malaysia, and New Zealand hold 5+5 Talks in Kuala Lumpur to discuss North Korea as well as other broader regional security concerns.

July 28, 2006: At a regular meeting of the Inter-Korean Economic Cooperation Promotion Committee in Kaesong, the North's chief delegate, Ju Dong-chan, calls for projects like the KIC to continue "regardless of international conditions."

July 31, 2006: North and South Korean soldiers exchange limited rifle fire at the DMZ.

July 31, 2006: The North cancels joint Liberation Day celebrations in Pyongyang planned for Aug. 15, citing flood damage as the reason. Seoul says it believes this.

Aug. 7, 2006: *Choson Sinbo*, a pro-DPRK daily published in Tokyo, reports official tally of July's flood toll: 549 dead, 295 missing and 3,043 injured. An ROK Buddhist NGO, Good Friends, claims casualties and damage were far worse: 54,700 dead (many due to landslides); 2.5 million – over 10 percent of the population – rendered homeless; and wide destruction of crops in major rice-growing areas.

Aug. 8, 2006: South Korea's ruling Uri party proposes all-party meeting on flood aid to the North. Despite July's missile tests, pressure for aid grows, with even the conservative opposition Grand National Party (GNP) calling on Seoul to assist Pyongyang.

Aug. 11, 2006: ROK allocates \$10.5 million for local NGOs assisting in the North.

Aug. 17, 2006: ROK FM Ban Ki-moon says it is deplorable that the DPRK is more than ever opting for isolation, and that "it is hard to say the prospects are bright."

Aug. 19, 2006: After the North accepts a Southern proposal on Aug. 14 to meet, the two Koreas hold working-level Red Cross talks on flood aid at Mt. Kumgang. The North had originally rebuffed Southern and other offers of help.

Aug. 20, 2006: Seoul announces larger-scale official support, to be channeled via the Red Cross: some 100,000 tons of rice and the same weight of cement, along with iron rods, excavators, and trucks, plus blankets and medical kits.

Aug. 20, 2006: Rim Tong-ok, North Korea's point man on the South, dies at 70.

Aug. 21-Sept. 1, 2006: U.S. and South Korea hold *Ulchi Focus Lens* exercises across the Korean Peninsula.

Aug. 22, 2006: North Korea threatens to quit armistice that ended the Korean War over the *Ulchi Focus Lens* exercise and considers the exercise an "act of war."

Aug. 22, 2006: Police raid in Bangkok nets 175 North Korean refugees.

Aug. 22, 2006: ROK Foreign Ministry says it "has serious concerns about North Korea's illicit activities, including counterfeiting," and urging Pyongyang to "take steps to quell such worries in order to become a member of the international society."

Aug. 24, 2006: Eighteen North Korean refugees arrested in Thailand are flown to Seoul.

Aug. 26, 2006: Japan's *Kyodo News* reports that Kim Jong-il has called China and Russia "unreliable" and that North Korea should overcome the international standoff over its nuclear and missile programs on its own.

Aug. 29, 2006: The Kaesong Industrial Complex Management Committee (KICMC) agrees simplified entry and exit procedures with the North's immigration office.

Sept. 1, 2006: Ban Ki-moon tells reporters that Seoul is reviewing an action plan in the case of a possible North Korean nuclear test.

Sept. 7, 2006: ROK Unification Minister Lee Jong-seok says that if Kim Jong-il were to visit China that it would be a “highly positive” move.

Sept. 7, 2006: Unification Minister Lee says that despite a “lull” in inter-Korean talks, the Kaesong Industrial Complex, Mt. Kumgang tour, economic cooperation, social-cultural exchanges, and inter-military communications are operating normally.

Sept. 14, 2006: Presidents Bush and Roh hold a summit meeting in Washington.

Sept. 14, 2006: *KCNA* reports that Kim Jong-il provided field guidance at Mt. Kumgang, en route to inspecting front-line military positions.

Sept. 15, 2006: Media reports that Jang Keum-Song, Kim Jong-II’s niece, committed suicide in Paris in August.

Sept. 21, 2006: U.S. Ambassador to Korea Alexander Vershbow tells *Yonhap News* that Assistant Secretary Hill could visit Pyongyang if the DPRK returns to the table.

Sept. 21, 2006: Unification Minister Lee announces that Seoul is suspending applications from local SMEs to set up in the Kaesong Industrial Zone.

Sept. 21, 2006: Robert Carlin, former chief U.S. diplomat, writes article emulating DPRK First Vice Foreign Minister Kang Sok Ju to a meeting of North Korean diplomats.

Sept. 25, 2006: Seoul dailies print claim by Kang Seok-ju, North Korea’s senior vice foreign minister and long-time chief nuclear negotiator, that Pyongyang has at least five nuclear weapons.

Sept. 28, 2006: President Roh announces that new approach was put to North Korea prior to the Bush-Roh summit.

Sept. 29, 2006: China’s top delegate to the Six-Party Talks, Wu Dawei, says in Seoul that Beijing supports President Roh’s new approach.

Sept. 29, 2006: The first products are shipped from the main Kaesong complex: 40,000 pieces of underwear, worth 200 million won, made by Kaeseong Cotton Club whose factory was completed on Aug. 20. Quality is said to be better than Chinese products.

Oct. 3, 2006: North Korea announces that it would conduct a nuclear test at an unspecified future date.

Oct. 6, 2006: U.N. Security Council issues unanimous statement that a nuclear test would “jeopardize peace, stability and security in the region and beyond.”

Oct. 6, 2006: On the eve of election as UN secretary general, South Korea's FM, Ban pledges to make North Korea a priority and to seek an early visit to Pyongyang, which Annan has not done in a decade.

Oct. 9, 2006: North Korea announces that it has successfully completed an underground nuclear test. Seoul suspends emergency aid to North Korea due to the nuclear test.

Oct. 9, 2006: South Korea's FM Ban is confirmed as next UN secretary general. He will succeed Kofi Annan Jan. 1, 2007.



China-Korea Relations:
Unrestrained Defiance

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North Korea's July 5 missile tests set the stage for a quarter of active diplomacy designed to prevent Pyongyang from taking additional escalatory actions and to further isolate and punish Pyongyang. To the surprise of many, China signed on to the strongly worded UN Security Council (UNSC) Resolution 1695 that condemned the North Korean missile tests. This followed the failure of last-ditch diplomatic efforts to convince North Korea to exercise restraint and return to the negotiating table.

Diplomatic activity this quarter focused almost exclusively on how China could re-establish high-level communications with North Korea while seeking to revive an effective multilateral channel for addressing North Korea's nuclear challenge. PRC Foreign Minister Li Zhaoxing met with his counterpart Ban Ki-moon several times during the quarter to discuss North Korea, and Roh Moo-hyun placed a rare phone call in late July to Hu Jintao, who counseled patience and restraint on the part of all parties in responding to the situation. Rumors of North Korean plans for a nuclear test gained momentum throughout the quarter and were given official credence by the North Koreans in an official statement Oct. 3. Union leaders from ailing Ssangyong Motors took a page from North Korea's book with a general strike against Chinese management at Shanghai Automotive Corporation, while China's attempts to restrain its booming economy reverberated in the form of slower growth of Korean exports to China.

North Korea unrestrained: China's diplomatic setback

North Korea's test of seven missiles of various ranges in the early morning of July 5 (coinciding with Fourth of July Independence Day celebrations in the U.S.) catalyzed a new round of diplomatic activity designed to condemn and further isolate an already isolated state. But the tests themselves proved clearly that isolation alone is not an effective tool for encouraging North Korea to exercise self-restraint. Preparations for the missile test were known to the international community through satellite monitoring weeks prior to the actual test, and catalyzed a range of public and private diplomatic messages prior to the tests to warn North Korea not to proceed. Perhaps most notable was Chinese Premier Wen Jiabao's public statement at the end of June urging North Korea not to conduct a missile test, a statement that implied China's loss of face if North Korea failed to restrain itself. Less than a week later, North Korea defied Beijing and the rest of the international community and went ahead with the tests. One perhaps fatal consequence of this series of interactions is that it proved the limits of international

influence, even from China, to restrain the North Korean leadership from exercising what it sees as its sovereign right to conduct missile (and other) tests.

Given North Korea's direct defiance of the international community, the response from North Korea's neighbors (with the exception of Seoul, which as a result of the missile tests also found itself isolated) was unprecedented and stronger than expected. Japan led efforts at the UN Security Council to forge a resolution condemning the missile tests and imposing an international sanctions regime to prohibit international cooperation with North Korea's missile and nuclear development efforts. Early Japanese drafts of the resolution, backed by the United States, also included Chapter 7 references that would have authorized an international military response to North Korean provocations.

China tabled a much milder resolution and requested additional time to allow Vice Premier Hui Liangyu and Vice Minister Wu Dawei to visit Pyongyang during July 10-15 for diplomatic discussions, ironically as part of a delegation to commemorate the signing of the DPRK-China Treaty of Friendship, Cooperation, and Mutual Assistance. Simultaneously, North Korea's Vice Premier Yang Hyong-sop visited Beijing and met with Hu Jintao, who urged Pyongyang's leaders not to take further escalatory actions and to return to the Six-Party Talks in a rare public deviation from more even-handed Chinese calls for "all parties" to exercise patience and restraint. Following the Chinese delegation's failure to meet with Kim Jong-il or to make diplomatic headway with North Korea, the PRC signed on to the Japan-sponsored UNSC language, but insisted that references to Chapter 7 be dropped. UNSC Resolution 1695, condemning the North Korean missile tests and urging that the international community refrain from assisting North Korean missile and nuclear development efforts, was passed July 17.

One apparent effect of China's sponsorship of the UN resolution was a cooling of China's diplomatic relations with North Korea and a reduction in high-level diplomatic contact between the two leaderships. Unconfirmed reports, primarily from the South Korean media, suggested tougher Chinese measures toward North Korea such as a slowdown in border trade between the Chinese city of Dandong and the North Korean city of Sinuiju and the introduction of new visa requirements for Chinese and North Koreans who travel across the border. The Bank of China had issued internal advisories earlier this year regarding North Korean counterfeiting activities, but there is no way to confirm how extensively actions are being taken against suspected North Korean accounts. Some previously reported projects, including efforts to build a new road between the Chinese border near Hunchun and the North Korean port at Rajin-Sonbong, appear to have been delayed. But *KCNA* reported that an opening ceremony for an ore dressing plant at the Ronghung mine was held in early September. Preliminary reports suggest that Sino-DPRK trade during the first half of 2006 has remained flat, but no figures are yet available for the period following the North Korean missile tests.

China used the timing of a change in its diplomatic representation to North Korea as an opportunity to restore some communication with the North. Ambassador Wu Donghe made the rounds of the senior North Korean leadership in August to pay farewell courtesy calls. Interestingly, China's new ambassador is U.S.-trained expert, Liu

Xiaoming, who made an introductory round of courtesy calls in Pyongyang in mid-September. *KCNA* reported that during Liu's initial meeting with DPRK President Kim Yong-nam, Kim reaffirmed that the DPRK would "make efforts to strengthen the traditional relationship with China." Given the lack of high-level diplomatic contact with North Korea and the priority that China has placed in recent years on maintaining communication with North Korea's top leadership, there is also the possibility that a senior-level envoy could have traveled to North Korea for secret consultations that have not yet been publicly revealed.

A round of diplomatic activity in late August, precipitated by a telephone exchange over North Korea between George Bush and Hu Jintao, unleashed South Korean media speculation that Kim Jong-il would soon be summoned to China for diplomatic consultations. These rumors persisted despite the unlikelihood that Kim would under the circumstances accept any interaction that carried the connotation that he was paying tribute to or taking instructions from Beijing. The speculation was fed by over a week of rumors in early September that North Korean security personnel had visited Beijing and sightings of Kim Jong-il's special train in the border area near Sinuiju. Unification Minister Lee Jong-seok even publicly appealed to Kim Jong-il to visit China on Sept. 7. However, *KCNA* reports on Sept. 7 that Kim Jong-il had given on-the-spot guidance at the Kusong Machine Tool Factory and Kusong Chicken Farm in North Pyongan Province put to rest rumors that Kim might visit Beijing.

North Korean missile test and China-South Korea Relations

China's stern reaction to North Korea's missile tests appears to have caught South Korea off guard. South Korea had called upon China to convince North Korea to come back to the Six-Party Talks and had tried to work with China to revive prospects for negotiations in the run-up to the North Korean missile tests. (Following the missile tests, both Kim Jong-il and Roh Moo-hyun appeared to go into hiding as South Korea isolated itself from efforts to pursue a resolution condemning the tests.) Such consultations represented the most active combined effort by China and South Korea to coordinate their positions during the crisis thus far, but these efforts were overshadowed by North Korea's missile tests.

Less than a week after China's decision to sign on to the UNSC resolution, a July 22 telephone conversation between Roh and Hu Jintao offered Hu an opportunity to underscore China's consistent calls for patience and restraint, and to urge active diplomatic efforts to mitigate tensions and address North Korea's nuclear program. Roh expressed a willingness to work with other concerned parties to resume diplomatic negotiations through the Six-Party Talks. Consultations between South Korea and China on how to revive the six-party process have proceeded on the premise that China would play the primary role in convincing North Korea to come back to the table while South Korea would play the primary role in convincing the U.S. to return to negotiations. They are limited by South Korean suspicions that China is using its economic influence to extend its political dominance in North Korea in ways that might thwart Korean

reunification. The telephone conversation foreshadowed Roh's plans to visit Beijing in mid-October.

South Korea and China also consulted on efforts to convince North Korea to participate in multilateral discussions on the sidelines of the ASEAN Regional Forum (ARF) in late July in Kuala Lumpur. Foreign Ministers Ban Ki-moon and Li Zhaoxing agreed that efforts should be made to convince North Korea to return to the negotiating table and both countries participated in a multi-party meeting to discuss North Korea's nuclear program on the sidelines of the ARF, although the addition of Australia, New Zealand, Canada and several Southeast Asian nations signaled that the dialogue was not intended to replace the six-party process. North Korean Foreign Minister Paek Nam-sun refused to attend, however, and China and Russia subsequently chose not to participate in a similar gathering organized at the initiative of the U.S. on the sidelines of the UN General Assembly meetings in September.

Following the publication of a *New York Times* article signaling a possible North Korean nuclear test in May of 2005, South Korean and Chinese officials provided stiff rhetorical warnings of the isolation North Korea could face if it pursued that course of action. A second round of rumors that North Korea might conduct a nuclear test evoked a similar set of public warnings to North Korea in recent weeks. This time, an Aug. 17 *ABC News* report of "suspicious vehicle movement" and the unreeling of large strands of cable triggered speculation that North Korea may be readying a nuclear test. These rumors were given added credibility by arguments among some analysts that following the North Korean missile tests, a nuclear test might possibly be next on the list as North Korea climbed a "ladder of escalation."

In response to these reports, the question of whether North Korea might conduct a nuclear test was a subject of discussion in an Aug. 22 telephone call between President Bush and President Hu Jintao, and stimulated a public statement on the subject by ROK Foreign Minister Ban Ki-moon that "If North Korea conducts a nuclear test, it will lead to a more threatening situation, shaking the basis of the international community's non-proliferation system far more seriously than the missile issue." China's Assistant Foreign Minister Cui Tiankai was reported on the same day to have indicated to a group of visiting Japanese politicians that China would suspend cooperation with North Korea if there was a North Korean test. Despite these warnings, periodic reports suggest that Kim Jong-il, disillusioned with his Chinese and Russian allies, has decided to proceed with a North Korean test. These reports gain added credibility following North Korea's Oct. 3 statement pledging to test its nuclear capability.

Sino-South Korean historical and maritime claims unrestrained

Despite the ongoing consultations between South Korea and the PRC, a number of historical and territorial conflicts have again emerged as sore points in South Korea's relationship with China. South Korean lawmakers and the public were agitated again by claims made by the Chinese government-sponsored Center of China's Borderland and History and Geography Research that the Balhae and Goguryeo kingdoms are a part of

Chinese history. These claims are considered by South Korea to violate a 2004 agreement that China would refrain from public claims to these kingdoms, while Chinese argue that the papers produced are academic works and are unrelated to government claims. South Korean media responded angrily and a South Korean delegation went on a fact-finding mission to China during the last week of September. Chinese history claims that contradict Korea's traditional historiography focused on the "Three Kingdoms" era of Korean history were decisive in mobilizing anti-China public opinion in the fall of 2004 (see "A Turning Point for China-Korea Relations?" *Comparative Connections*, October 2004), and the recurrence of this issue illustrates ongoing sensitivities to China's activities regarding historical claims.

China has also challenged South Korean claims to a maritime feature located within an area where China's and South Korea's exclusive economic zones (EEZ) overlap known as in Korean as Ieo-do and identified by Chinese as Suyan Rock. The feature is located 149 km to the southwest of Korea's Mara Island and is 245 km from China's Tongdao Island. The feature remains submerged at all times, but South Korea has built maritime scientific facilities and a helicopter landing pad on it. China's State Oceanic Administration announced Sept. 7 that Chinese planes had conducted surveillance activities of the feature.

Ssangyong strikers unrestrained: challenges for China's investment in South Korea

Ongoing tensions between Ssangyong Motors labor union leaders and Chinese management from Shanghai Automotive Industry Corporation (SAIC) boiled over this summer as workers at the Peongtaek factory put down their tools July 14 and called a general strike Aug. 11 to protest management decisions about future production and investment. The dispute arose as a result of a June announcement by Shanghai Automotive that it would move production of Ssangyong Motor's sport utility vehicles to China under a licensing agreement worth \$25 million (10 percent of the true commercial value of the technology, according to critics of the agreement) and would fail to meet commitments to invest in the Korean plant that were made when Shanghai Automotive made its initial investment to take over the company.

During the course of the strike, the labor union and a South Korean civic group named Spec Watch Korea, dedicated to monitoring activities of foreign investors, jointly filed a lawsuit against the board of directors on Aug. 11. The labor union voted to end the strike on Aug. 31, following an agreement by management to drop planned job cuts and a promise to invest \$1.25 billion over the next four years to develop new models and engines. An initial agreement on Aug. 26, including a wage freeze and investment of 1.2 trillion won through 2009, was rejected by the rank and file. The strike resulted in losses of \$400 million and 17,200 units in lost production.

Chinese investment in South Korea may be set to increase in the near future as Lenovo, China's top PC maker, has filed a letter in the Suwon District Court expressing an interest in acquiring the troubled South Korean TriGem computer company. But publicity surrounding Ssangyong's labor-management difficulties has raised fears in Korea that

Chinese shareholders could use acquisitions to transfer core technologies to Chinese competitors.

Restraining Chinese economic growth: implications for South Korea

In recent years, the South Korean equities market has proved to be particularly sensitive to Chinese leadership efforts to keep China's domestic growth under control. But during the last quarter, Chinese efforts to use fiscal measures to tamp down a record 11.3 percent economic growth did not stimulate a big response from South Korean markets. However, these measures are expected to further slow Chinese demand for South Korean exports to around 12 percent through 2006. Bilateral trade is projected to increase by only 10 percent to about \$110 billion.

South Korean concerns continue to deepen as China cuts into South Korea's technology advantage in areas of core production, including shipbuilding, electronics, chemicals, telecommunications, and information technology. South Korean shipbuilders, for instance, have record back orders, especially for large tankers and gas carriers, but newly emerging Chinese shipbuilders are cutting into South Korea's advantage for medium-size ships. Hyundai is being challenged in the domestic China market as Toyota ramps up its marketing efforts in China. The Korean share of the online computer gaming market in China has dropped to about 40 percent in 2005 compared to 90 percent in 2003. However, South Korean petrochemicals companies are benefiting from growing Chinese energy demand, and the Korea International Trade Association urges South Korean machine tool makers to actively consider export opportunities to the China market.

One South Korean analyst at Hyundai Research Institute summed up the dilemma South Korea faces as follows: "China is like the black hole of technology. The country quickly absorbs, accumulates necessary technologies by attracting foreign companies, capital and manpower, to its best advantages. Foreign companies may not get much benefit as they hoped for." Chinese industrial espionage, copycat branding, and fakes are as big a challenge to South Korean products as South Korean fakes were to established manufacturers in an earlier era of South Korea's own development. South Korea was the second largest foreign investor and fourth largest export market for China during 2005, with over 40 percent of South Korean FDI destined for China, but that trend has cooled in the first half of 2006: overall South Korean investment has more than doubled from \$3.9 to \$7.1 billion in the first half of the year, but has also diversified, with only about 28 percent of overall investment headed for China. In an August report, the Korean Development Bank urged Korean investors in China to develop long-term localization strategies to enhance prospects for success. SK Telecom is one South Korean company that is bucking the trend, with significant investment and joint ventures with China Unicom in the areas of broadband and messaging systems development.

China and South Korea have agreed to cooperate on technology development, standard settings, and device manufacturing for new-generation wireless services, including joint promotion of research and development for commercialization of the service in bilateral talks led by South Korea's finance minister with China's director of the National

Development and Reform Commission. However, South Korean efforts to attract listings of Chinese companies on the Seoul stock market have been stalled as Hong Kong and Singapore have proved more attractive to Chinese firms.

A paradigm shift for the region?

Despite unprecedented international convergence at the UN Security Council of regional and global views – including China’s endorsement of a resolution that Japan introduced at a time of heightened Sino-Japanese rivalry on other UN-related issues – it is unclear to what extent a North Korean nuclear test would result in unified action by North Korea’s neighbors. It is possible to imagine that the United Nations might pass a stronger resolution condemning a North Korean nuclear test and that such a resolution might even contain Chapter 7 language authorizing sanctions or military action. But it is hard to imagine that China and South Korea would effectively enforce such a resolution or join into any action that might lead to military conflict or create a leadership vacuum in North Korea.

In any event, the effectiveness of a unified international response to a North Korean nuclear test will also require management of the problem that includes participation by North Korean leaders themselves. Absent a voluntary action by the North Korean leadership to make a “strategic decision” and give up its nuclear weapons and absent an atmosphere in which North Korea’s external security concerns are addressed in some form, internal divisions or instability in the North will only make the challenge of dealing with North Korea’s nuclear aspirations more intractable. Even in the aftermath of a North Korean nuclear test, China may still believe that the need to prevent regional instability remains a more immediate foreign policy priority than North Korean proliferation concerns. Absent an effective internationally imposed restraint, there is little reason to expect that North Korea will show self-restraint in pursuit of what it perceives as its “reliable war deterrent” against “the U.S. threat of aggression.”

Chronology of China-Korea Relations July-September 2006

July 5, 2006: North Korea launches seven missiles into the Sea of Japan, provoking a firestorm of international condemnation.

July 5, 2006: South Korean Chairman of the Joint Chiefs of Staff Gen. Rhee Sang-hee visits China to promote bilateral military cooperation.

July 10, 2006: China circulates a nonbinding statement within the UN Security Council as an alternative to a draft resolution that would sanction North Korea for its missile tests.

July 10-15, 2006: Chinese Vice Premier Hui Liangyu leads the first Chinese delegation to North Korea following the July 5 missile tests to commemorate the 45th anniversary of the signing of the DPRK-China Treaty of Friendship, Cooperation and Mutual Assistance. PRC Ambassador Wu Dawei accompanied the delegation, but the group failed to meet Kim Jong-il.

July 11, 2006: In a meeting with DPRK Vice President Yang Hyong-sop, PRC President Hu Jintao urges North Korea to refrain from increasing tensions over its nuclear program and to return to disarmament talks.

July 12, 2006: China and Russia introduce UN resolution that condemns the missile tests and calls for a moratorium on missile testing and a return to the Six-Party Talks, but does not call for binding sanctions.

July 15, 2006: The PRC signs on to a compromise UNSC resolution that condemns North Korea's missile tests, but does not include Chapter 7 language originally endorsed by Tokyo.

July 22, 2006: DPRK Defense Commission Chairman Kim Jong-il receives a message of sympathy from PRC President Hu Jintao regarding recent flood damages in North Korea.

July 22, 2006: In a phone conversation with Roh Moo-hyun, Hu Jintao calls on all parties to be patient and restrained and to push forward the Six-Party Talks.

July 24, 2006: Grand National Party lawmaker Park Jin states that the Bank of China has frozen North Korean accounts in relation to alleged counterfeiting activities, based on conversations he held in Washington with U.S. Treasury officials.

July 26, 2006: DPRK Defense Commission Chairman Kim Jong-il replies to President Hu's message of sympathy regarding floods that hit North Korea.

July 26, 2006: ROK Foreign Minister Ban Ki-moon and PRC Foreign Minister Li Zhaoxing agreed to pursue dialogue with North Korea at the ASEAN Regional Forum in Kuala Lumpur.

July 31, 2006: POSCO becomes the first foreign company to operate an integrated stainless steel mill in China, a factory with an annual production capacity of 600,000 metric tons at Zhangjiagang in Jiangsu province.

Aug. 1, 2006: DPRK Football Association files a written protest against officiating at the semifinal match of the Asian Football Confederation between China and North Korea in which three North Korean players attacked a referee on a disputed call. China won 1-0. China won the tournament and the DPRK won the consolation game.

Aug. 10, 2006: South Korean Trade Minister Kim Hyun-chong denies that Korea rejected China's proposal to sign a free trade agreement last year due to U.S. concerns over China's rising influence in Northeast Asia.

Aug. 11, 2006: PRC Ambassador to the DPRK Wu Donghe pays a farewell call on President Kim Yong-nam.

Aug. 11, 2006: Ssangyong Motors union leaders call a general strike against Shanghai Automotive International Company management to protest management decisions to implement layoffs and move production to China rather than investing in plant in Korea.

Aug. 15, 2006: A delegation of China's Ministry of Public Security led by Vice Minister Meng Hongwei travels to Pyongyang and signs an agreement on cooperation with counterparts in the DPRK Ministry of People's Security.

Aug. 18, 2006: A delegation of the China Council for the Promotion of International Trade and the China Chamber of International Commerce led by Vice Chairman Zhang Wei visits Pyongyang.

Aug. 24, 2006: Korea Development Bank urges Korean firms to draw up long-term localization strategies when considering investments in China.

Aug. 27, 2006: Korea International Trade Association forecasts a decrease in Korean exports and investments in China in response to Chinese efforts to cool its overheating economy.

Aug. 25, 2006: Ssangyong Motor workers reject a tentative agreement with management to end a protracted strike.

Aug. 26, 2006: Kim Jong-il is reported by Japan's *Kyodo News* as having called China and Russia "unreliable," saying that North Korea should overcome the international standoff over its nuclear and missile programs on its own.

Aug. 28, 2006: Korea and China agree to strengthen cooperation on technology development, standard settings, and device manufacturing at the sixth Korea-China economic ministerial meeting held in Seoul.

Aug. 30, 2006: China's Lenovo company expresses interest in taking over Korean PC manufacturer TriGem Computer Inc. through a letter filed with the Suwon District Court.

Aug. 31, 2006: Ssangyong Motors labor union accepts settlement to end seven-week strike.

Sept. 1-7, 2006: South Korean newspapers speculate on possibility of Kim Jong-il's visiting China based on rumors that Kim Jong-il's special train approached Sinuiju on the China-DPRK border.

Sept. 3, 2006: North Korea defeats China 5-0 in the finals of the FIFA U-20 Women's World Championship held in Moscow.

Sept. 7, 2006: Unification Minister Lee Jong-seok says that if Kim Jong-il were to visit China that it would be a "highly positive" move.

Sept. 8, 2006: Chinese Foreign Ministry Spokesman Qin Gang confirms that China has provided "a certain amount" of humanitarian assistance to the DPRK, including grain, food, diesel oil, and medicine for disaster relief.

Sept. 10, 2006: *KCNA* reports that a commissioning ceremony to open the ore dressing plant of the Ryonghung Mine was held. China's Guangshou Group Company is a major partner in the operation of the plant.

Sept. 10, 2006: *The Daily Telegraph* reports that Kim Jong-il has made known to Russian and Chinese diplomats his plan to conduct an underground nuclear test.

Sept. 11, 2006: PRC Ambassador to the DPRK Liu Xiaoming meets DPRK President Kim Yong-nam to present his credentials. Kim reaffirms that North Korea's policy is to "make efforts to strengthen the traditional relationship with China."

Sept. 20-22, 2006: Six South Korean lawmakers visit China to investigate issues in a dispute involving conflicting Chinese and South Korean historical claims.

Sept. 21-30, 2006: SK Telecom organizes and sponsors "Experience China," a 10-day cultural extravaganza held in southern Seoul to commemorate the 15th anniversary of the normalization of Sino-South Korean relations.

Sept. 27, 2006: China's new ambassador to North Korea Liu Xiaoming pays a courtesy call on Kim Il-chol, minister of the People's Armed Forces, and Kim Yong-chun, chief of the General Staff of the Korean People's Army.

Sept. 28, 2006: The DPRK Physical Culture and Sports Guidance Commission and the General Administration of Sports of China sign a protocol on sports exchanges for 2007.

Sept. 29, 2006: PRC Vice Minister Wu Dawei visits Seoul for consultations with South Korean leaders on how to get North Korea to come to Six-Party Talks in advance of President Roh's planned visit to Beijing for consultations with China's top leadership.

Comparative Connections

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Japan-China Relations: Searching for a Summit

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Prime Minister Koizumi Junichiro visited Yasukuni on Aug. 15, honoring a long-standing campaign pledge. China protested the visit and moved on, focusing its attention on Chief Cabinet Secretary Abe Shinzo, odds-on favorite to succeed Koizumi as Liberal Democratic Party president and Japan's prime minister. Abe took the reins of the LDP Sept. 20 and control of the government Sept. 26. China welcomed Abe with the same words it welcomed Taiwan's President Chen Shui-bian: it would listen to what he says and watch what he does.

Meanwhile in Japan, the late Showa Emperor and the LDP's intra-party search for a successor brought the subject of Japan's relations with its neighbors and the nature of Yasukuni Shrine to center stage. In August, Abe acknowledged an April visit to the shrine but, contrary to his custom of visiting the shrine on Aug. 15, did not do so this year. Even before taking office, Abe made clear his interest in finding a path to a summit meeting with China. As the fourth quarter begins, Japanese and Chinese diplomats are engaged in exploring various paths to a summit.

Prologue

At the end of June, the *Asahi Shimbun*, reporting from Beijing on the visit of a Self-Defense Force delegation, quoted an unidentified Chinese expert on Japan as saying "China is well aware that it is highly likely that Prime Minister Koizumi will visit Yasukuni Shrine on Aug. 15. China is making efforts to prevent such a situation and even if such a situation happens, to prevent China-Japan relations from falling into an irreparable situation."

Also at the end of June, Koizumi told reporters that he had been approached during ceremonies commemorating the Battle of Okinawa by a representative of the War Bereaved Families Association with a request that he continue visiting Yasukuni. Later he reiterated his position that his visits to the shrine, a matter of individual freedom, should not become a problem no matter how many times he visited and certainly should not become a political issue during the LDP presidential campaign. He noted, however, that there were individuals who wanted to make it a political issue, in short, individuals who say "please do as China asks...people who say you must not visit Yasukuni."

Chief Cabinet Secretary Abe Shinzo, the frontrunner in the LDP presidential sweepstakes, told reporters that he thought Koizumi was correct in defining the issue as one of personal choice and that he would prefer not to discuss his stance on Yasukuni to avoid it escalating into “a diplomatic issue.”

And so the stage was set for the July-September quarter.

The Showa Emperor and Yasukuni

On July 19, the *Nihon Keizai Shimbun* published a memorandum, written by the former Grand Steward of the Imperial Household Agency that was based on a 1988 conversation with the deceased Showa Emperor in which the emperor said that the reason he had ceased to visit Yasukuni was related to the enshrinement of the Class A-war criminals. Asked whether the emperor’s memorandum would have any affect on his decision to visit the shrine, Koizumi replied “none”; a decision to visit the shrine remained one of each individual’s choice. As for the issue of separation, Koizumi said that it is best for the government not to tell a religious corporation what it ought to do.

Abe ended a press conference with a “no comment” on the Yasukuni issue. However, LDP Secretary General Takebe Tsutomu told the press that “Yasukuni Shrine is a religious corporation. So the government and politicians should not tell the shrine to do this or that.” He though it wrong to judge the memorandum from its impact of the LDP presidential election. Foreign Minister Aso Taro cautioned against having the emperor’s words caught up in politics.

Nevertheless, the publication of the memorandum prodded LDP senior statesmen to renew calls for separation of the Class-A war criminals. Former LDP Secretary General Koga Makoto, current head of the War Bereaved Families Association, suggested consideration be given to the secularization of Yasukuni. Former Defense Minister Kyuma Fumio said that the Class-A war criminals should never have been enshrined in Yasukuni, while former LDP Vice President Yamasaki Taku reiterated his call for a separate secular war memorial.

In Beijing, the Chinese Foreign Ministry responded to the publication of the memorandum by emphasizing China’s consistent desire to develop relations with Japan and the hope that obstacles to that development would be removed as quickly as possible.

The candidates and Yasukuni

Even as the prime minister and chief Cabinet secretary endeavored to take Yasukuni out of succession politics, the candidates and the politics of succession invariably brought it back into the contest.

During a late evening radio broadcast on July 16, Foreign Minister Aso addressed the issue of the Class-A war criminals enshrined in Yasukuni. Aso told listeners that given the shrine’s status as a religious corporation, a decision by the government to separate the

Class-A war criminals would violate the constitution. However, he went on to note that should the shrine lose its religious character, anyone would be able to visit, including the prime minister and emperor. On Aug. 5, Aso unveiled a gradual multi-step draft reform plan for the shrine. Recognizing that the government lacks legal authority to deal with Yasukuni, the plan started with a call to the shrine to surrender voluntarily its status as a religious corporation. If successful, the Diet would pass legislation that would make Yasukuni a secular war memorial and give the Diet the authority to decide on who would be enshrined at Yasukuni, thus opening the door to a resolution of separation of the Class-A war criminals. The Yasukuni Shrine authorities maintain that, based on Shinto beliefs, souls once enshrined cannot be disenshrined and that even if the souls of the Class-A war criminals were moved to another shrine, they would still remain at Yasukuni. On Aug. 5, however, it was learned that Prime Minister and War Minister Tojo Hideki issued a secret order on July 15, 1944 that only those whose deaths “resulted directly from military service” were to be enshrined in Yasukuni. Those who did not die on the battlefield were not, in principle, entitled to be enshrined in Yasukuni.

Abe released his campaign manifesto “Toward a Beautiful Country” on July 20. Like Koizumi, the chief Cabinet secretary criticized China for refusing to hold summit meetings because of the Yasukuni issue. Later in a July 23 speech in Kobe, Abe, speaking to the issue of separation of the spirits of the Class-A war criminals, said that “it would seem that this decision should come from the shrine itself or the bereaved families.” He noted that under Japan’s domestic laws, the Class-A war criminals were not considered criminals and criticized those who opposed visits on the grounds that Japan had accepted the verdict of the Tokyo War Crimes Tribunal when it signed the San Francisco peace treaty. He found that position to be “a leap in logic” and an “absurd argument.” Asked whether he would visit the shrine, Abe told reporters that “I have no intention of saying whether I will visit, whether I visited, or when I might visit.” He went on to say that he visited the shrine to pay his respects to those who fought and died for Japan and that “this sort of feeling is still with me and will not change in the future.”

Finance Minister Tanigaki Sadakazu, touching on relations with China and South Korea, told a July 23 *NHK* television audience that “there’s no doubt that there is a fishbone in our throat.” Accordingly, adjustments with regard to Yasukuni were necessary. However, he recognized that “since it is a religious corporation’s problem, it is very difficult to tackle.” The next day, he suggested that the decision should be made by the shrine. For his part, he would refrain from visiting the shrine. Tanigaki told reporters that he supported the efforts of former LDP Secretary General Koga Makoto, currently head of the War Bereaved Families Association, to work toward separation. On July 7, Koga told members of the Niwa-Koga faction that he wanted to advance the debate on Yasukuni “including the possibility of building a facility unconnected with any religious faith and whether the state will sponsor such a secular facility.” Koga, who previously called for a study on the separation of Class-A war criminals, maintained his position that Yasukuni be the “only war memorial in Japan” and his opposition to transforming Chidorigafuchi into a new secular war memorial. Later, during a July 30 appearance on *Asahi TV*, he suggested a secularization of Yasukuni to allow for separation of the Class-A war criminals. On Aug. 2, Koga presented to the War Bereaved Families Association a

proposal to study the issue of separation, but the Association decided to postpone consideration until after the LDP presidential election to avoid being caught up in election politics.

While visiting China in mid-July, Koga met with Wang Jiarui head of the International Department of Chinese Communist Party's Central Committee. Wang told Koga that China had studied his proposal for separation and that, "if that idea were acceptable in Japan, it would be a good idea." Wang added that China understood "the act of consoling the souls of the war dead, but mixing up those who caused the war and the general public must not be allowed."

On Aug. 6, Nakagawa Hidenao, Chairman of the LDP's Policy Research Council announced that he would consider introducing legislation that would make Yasukuni a government directed entity. He conditioned such legislation on securing the agreement of the War Bereaved Families Association. Accordingly, any decision would await the conclusion of Association's debate on the issue, which would follow the LDP election.

On Sept. 1, Abe declared his candidacy in the LDP presidential sweepstakes. In a post-announcement press conference, Abe said relations with China and South Korea "are extremely important" and recognized the need "for both sides to make efforts in order to resume summit talks. Abe again refused to say whether he would visit Yasukuni to avoid turning the matter into a political or diplomatic issue. Speaking that day at a Hokkaido LDP convention, Abe compared the enshrinement of Class-A war criminals at Yasukuni to the burial of confederate soldiers in Arlington National Cemetery. Two days later, former Foreign Minister Machimura told a *Sunday Fuji TV* audience that chances for a summit "are enough to be realized within this year." Abe returned to the issue of summitry on Sept. 5 telling reporters that "we want to make efforts to realize summit talks" and urged China and South Korea to make similar efforts toward their realization.

The polls, the public, and Yasukuni

A number of public opinion polls were conducted in the July and early August focused on approval or disapproval of Koizumi's visits to Yasukuni.

On July 24, the *Mainichi Shimbun* released the results of a 1,000-person telephone survey, conducted July 22-23. On the question of visiting Yasukuni on Aug. 15, 36 percent supported such a visit; 54 percent were opposed. On the issue of separation of Class-A war criminals, 63 percent were in favor; and 23 percent opposed; 64 percent favored the building of a secular war memorial, while 25 percent were opposed. As for future visits to the shrine by Koizumi's successor, 33 percent supported the idea; 54 percent opposed.

Also during July 22-23, the *Asahi Shimbun* conducted a similar telephone-based poll. When asked whether they favored a visit to the shrine by Koizumi before the end of his term in September, 29 percent supported a visit; 57 percent opposed. Of those who supported a visit, 39 percent favored a visit on Aug. 15, while 45 percent opposed. As for

the next prime minister's visiting the shrine, 20 percent responded in the affirmative while 60 percent opposed.

On July 28, the *Tokyo Shimbun* released the results of an internet poll in which 52.3 percent opposed a visit to the shrine on Aug. 15, while 35.3 percent approved. Among LDP supporters, 59.3 percent favored an Aug. 15 visit. And on Aug. 1, the *Sankei Shimbun* published the results of its telephone-based poll, conducted July 29-30. With regard to an Aug. 15 visit to the shrine, 26.9 percent of respondents favored the visit, while 55.7 percent opposed. On the question of separation, 58.5 percent supported the idea, while 25.9 percent opposed.

As Aug. 15 approached the *Yomiuri Shimbun* on Aug. 9 released the result of an Aug. 5-6 nationwide survey, revealing that 50 percent of respondents opposed a visit to Yasukuni by the next prime minister, the "No" percentage increasing eight points since a June survey. Those favoring a visit stood at 40 percent, a decrease of six points in the "Yes" vote. As for the separation of Class-A war criminals, 62 percent approved, while 24 percent opposed.

Territorial issues: East China Sea and the Senkakus

On July 8-9, diplomats held working-level talks in Beijing on issues related to the East China Sea. While gaps remained with regard to the demarcation of the respective EEZs and joint development of the natural gas fields, the two sides agreed to set up a panel of technical experts to assist in resolution of the issues. Japanese diplomats, however, were unsuccessful in efforts to persuade China to cease ongoing activities and to provide Japan with data from Chinese exploration activities.

On Aug. 7, *Kyodo News Service* reported from Beijing that China National Offshore Oil Corporation (CNOOC) had announced on its website that full-scale production was underway in the Chunxiao natural gas field. The statement was attributed to Zhang Guobao, head of China's State Development and Reform Commission. Later that day Futabashi Masahiro, deputy chief Cabinet secretary, told reporters that, in response to an inquiry from Tokyo, Beijing reported that there had been no change in the status quo in the Chunxiao field. Following the Japanese government's inquiry, Zhang's pronouncement was taken down from the CNOOC home page. On Aug. 14, the Ministry of Trade and Economics announced that it had received through diplomatic channels assurances from Beijing that China had yet to begin production. Nevertheless, on Aug. 28, addressing reports of China's activities in gas fields close to the disputed mid-line boundary, Abe told reporters that Japan had repeatedly communicated its strong concerns to Beijing.

In mid-August, following Koizumi's visit to Yasukuni, the Senkakus became the site of a Taiwanese protest. On the morning of Aug. 17, the Japanese Coast Guard warned away the Taiwanese ship, the *Quanjiafu*, before it entered Japanese territorial waters. It was reported that stones were thrown at the intercepting Japanese Coast Guard ship.

Originally, Hong Kong activists were to join the protest but were prevented from doing so by Chinese authorities.

Security

On Sunday July 2, the Japanese Coast Guard found a Chinese maritime survey ship, the *Dongfangdong #2*, operating in waters near Uotsuri Island in the Senkaku island chain inside Japan's EEZ. The Chinese ship had failed to give advance notice of its activities, and that evening the Foreign Ministry protested to the Chinese embassy in Tokyo.

A day earlier, on July 1, the Koizumi government released the 2006 edition of Japan's Defense White Paper, *The Defense of Japan*. On China, the White Paper called for increased transparency with regard to defense policy and military strength, while expressing concern with the continuing rapid increase in defense expenditures as well as intelligence-gathering activities by China's air force over the seas near Japan. The document also noted an expansion of China's naval activities outward to defend China at greater distances from the mainland, to protect the sea lanes and sea-borne commerce, to deter movement toward independence by Taiwan, and to support and secure maritime interests. At the same time, looking at the rate of increase in China's defense spending, the White Paper pointed out that, should it continue at a 15 percent annual increase, China's defense expenditures would surpass Japan's spending on defense by 2008. It also raised questions about the objectives of China's defense modernization – whether it went beyond what is necessary for defensive purposes. Ozawa Ichiro, president of the major opposition party, the Democratic Party of Japan (DPJ), criticized the White Paper as reflecting a “confrontational mentality.”

A month later, on Aug. 11, the *Yomiuri Shimbun* released the results of a poll on Japan-China relations conducted July 8-9. The findings were not encouraging. On the present state of relations, those who considered it “good” or “good to a certain extent” accounted for 27.1 percent of respondents; those viewing it as “bad” or “bad to a certain extent” totaled 66.4 percent. Those who considered China “very trustworthy” or “somewhat trustworthy” stood at just under 30 percent (29.5); the opposite opinions totaled 65.3 percent. Those with a “good” or “good to a certain degree” view of China amounted to 26.8 percent of respondents; those with a “bad” or “bad to a certain extent” view of China accounted for 66.8 percent. China ranked second, 44.0 percent, only to North Korea, 77.7 percent, as posing a threat to Japan. Views were mixed with regard to the effect of China's economic growth on Japan – 28.4 percent thought it positive; 35.7 percent found it negative; and 29.7 percent thought it both positive and negative. As for the future, 50 percent thought relations would continue “unchanged” while 28.7 percent had hopes for improvement and 16.5 percent were not optimistic.

Also related to security issues, Chief Cabinet Secretary Abe in announcing his candidacy for the LDP presidency raised the issue of constitutional reform, including Article IX and the right of collective self-defense. During a Sept. 5 press conference, addressing a question on the constitution and the right of collective self-defense, Abe argued that

“given the expectations for Japan to contribute actively ... to maintain stability and security in the region, we must consider specific cases more seriously.”

On Sept. 5, former Prime Minister Nakasone Yasuhiro called for Japan to study the issue of nuclear weapons. While advocating efforts to strengthen the NPT, Nakasone noted that there are nuclear powers close to Japan and that Japan, currently dependent on the United States extended deterrence, had to look at a future in which “it is not necessarily known whether the U.S. attitude will continue.” That same day Shikata Toshiyuki, currently a professor at Teikyo University and former commanding general of the Northern District/Ground Self-Defense Force, argued that to deal with possible attacks from terrorists and failed states, Japan “should possess the military capability of preemption against enemy bases.” Shikata went on to say that use of such capabilities would be “a political decision.” He also was critical of Japan’s dependence on the United States for intelligence that “forms the basis of political decisions.”

High-level visits

In early July, DPJ President Ozawa traveled to China for a six-day visit. On July 3, shortly after arriving, Ozawa met with Wang Jiarui, head of the International Department of the Chinese Communist Party’s Central Committee and with State Councilor Tang Jiaxuan. The following day, Ozawa met with President Hu Jintao. Ozawa quoted Hu as welcoming him as an “old friend” at a time when bilateral relations were “facing difficulties.” The *Yomiuri Shimbun* reported that Ozawa told Hu that relations among Japan, China, and the United States “must be an isosceles triangle.” This caused Foreign Minister Aso to respond that such a proposition was “inconceivable” – Japan and the United States shared “universal values.” Relations between Japan and China were “important,” but the foreign minister emphasized the two countries were not “allies.”

From July 4-9, a delegation of junior members from both ruling and opposition parties, members of the Japan-China Parliamentary Association traveled to China. The group was led by LDP Upper House member Hayashi Yoshimasa. In meetings with State Councilor Tang, Hayashi expressed concern that a visit to Yasukuni by the prime minister could produce an excessively strong Chinese reaction, “which would result in an outcome undesirable to China.” Tang replied that China would “take your advice to heart.” An LDP delegation led by Acting Secretary General Aisawa Ichiro also met with State Councilor Tang July 8.

On the official level Foreign Ministers Li and Aso met July 27 in Kuala Lumpur during the meeting of the ASEAN Regional Forum. Li and Aso centered their talks on cooperation with respect to North Korea. As for bilateral relations, Li told Aso that a political obstacle to their development had yet to be removed. The *Sankei Shimbun* reported that Aso did not receive a hoped-for invitation to visit China; the paper interpreting Beijing’s decision not to extend an invitation as a move to forestall a Koizumi visit to the shrine.

A month after the visit to Yasukuni, Koizumi traveled to Helsinki for the Asia-Europe meeting. During the conference, Koizumi was reported to have informally met several times, on Sept. 10-11, with China's Premier Wen Jiabao. According to a *Yomiuri* story, the two leaders were photographed smiling and shaking hands by the official Chinese photographer, who then asked ASEM officials to post the photo on the ASEM official website. The *Yomiuri* quoted a Japanese government source in Helsinki as saying "we take it a clear message from China that it wants to repair relations with Japan."

Abe and Koizumi visit Yasukuni

When Chief Cabinet Secretary Abe told reporters that he had no intention of saying whether he would visit Yasukuni, had visited, or when he might visit the shrine lest he make the shrine a political or diplomatic issue, he was concealing the fact that he had visited the shrine April 15. The visit came to light Aug. 4. Shrine officials confirmed that he signed the guest book as chief Cabinet secretary. Asked whether he thought the visit would affect the LDP election, Abe said that his position remained unchanged – namely that it should not become an election issue.

In Beijing, the Foreign Ministry spokesperson called on Japan's political leaders to end visits to the shrine and thereby remove an obstacle to the proper development of relations; Japanese officials judged the tone of the comments as being restrained. Koizumi told reporters that Abe's visit was based on individual freedom and that he thought the reaction from China and Korea as always was "strange." LDP Secretary General Takebe referred to the constitutional guarantees and said that no matter who visited the shrine there should be no issue. He also noted that within the LDP, a majority of members were opposed to politicizing the matter and thought Abe's visit would have zero impact on the election.

The announcement, however, made the visit at least an issue for political comment in Tokyo. Opposition leader Ozawa told reporters that he thought it would be difficult to improve relations with China and Korea under an Abe government. Finance Minister and political rival Tanigaki recognized that the constitution's guarantee of freedom of religion allowed individuals to visit the shrine, but he wondered if, given Abe's position, the argument that he had visited the shrine as an individual was persuasive. Moreover, he thought consideration should be given to diplomatic implications. Foreign Minister Aso took an indirect shot at Abe, telling the media that in the event he became prime minister he would exercise self-restraint regarding visits to Yasukuni. Kanzaki Takenori, head of the New Komeito Party, the LDP's coalition partner, found Abe's visit "regrettable," noting that he had previously called for self-restraint on the part of the prime minister, foreign minister, and chief Cabinet secretary.

In the first days of August, the prime minister, in a series of remarks, began to signal his intention of visiting Yasukuni on Aug. 15.

On Aug. 6, after attending commemorative ceremonies in Hiroshima, Koizumi told reporters that he was ready to visit the shrine “at any time.” He added that he did not think “there is anything wrong with a visit by a Japanese prime minister to a Japanese establishment to mourn the war dead” and to renew his commitment that “war should never be waged.” He saw “no problem in that.” As for relations with China, the prime minister reaffirmed that he was “ready to talk at any time.” He also offered the thought that should he refuse to talk because of differences over a single issue, he would undoubtedly be criticized. Two days later, Koizumi reaffirmed that his 2001 campaign promise to visit Yasukuni on Aug. 15 was “still valid.” The next day, he added that, because his promise was “still valid,” it “ought to be respected.” And on Aug. 10, he announced that whenever he goes to the shrine, be it Aug. 15 or Aug. 13, China’s criticism is “always the same.” He saw “no reason” for the visits of a Japanese prime minister to be criticized. As for an Aug. 15 visit, the prime minister said he would “decide appropriately.”

The prime minister visited Yasukuni early in the morning of Aug. 15. Koizumi was joined by two of his 17 Cabinet ministers, Nakagawa Shoichi, minister of agriculture, forestry, and fisheries, and Kutsukake Tetsuo, chairman of the National Public Safety Commission. Ninety members of the Diet also visited the shrine on Aug. 15 and 101 were represented by staff visits. It was later reported that the Foreign Ministry had informed Beijing and Seoul to expect an Aug. 15 visit. Also coming to light was a cable, sent in the summer of last year by Koreshige Anami, then ambassador to China, to Koizumi advising against visiting the shrine. Beijing’s protests followed. Foreign Minister Li called in Ambassador Miyamoto. Li told the ambassador that the visit was “an affront to international morality,” a remark that the ambassador found “totally inappropriate” and “unacceptable.” A similar protest was lodged at the Japanese Foreign Ministry by the minister at the Chinese embassy

At the same time, the Foreign Ministry released a statement saying the visit “gravely offends the people in countries victimized by the war of aggression launched by Japanese militarists and undermines the political foundation of China-Japan relations.” It went on to say that Koizumi had “repeatedly offended the Chinese people over the history issue...” Nevertheless, China would “continue to work untiringly with all Japanese statesmen and people who value and are committed to China-Japan friendship” and was “confident that the Japanese people ... will follow the trend of history to remove the political obstacle and help put China-Japan relations back on the track of normal growth at an early date.” On Aug. 10, *Kyodo News Service* reported the text of an Aug. 18, 1998 speech by former President Jiang Zemin in which he instructed China’s diplomats in dealing with Japan to “continuously emphasize the issue of history, and forever discuss this issue.” Japanese media found the Chinese statement to be a forward-looking, post-Koizumi message aimed at advancing the bilateral relationship.

In response to reporters’ questions about the protests from China and Korea, Abe replied that he wanted to create conditions to advance resolution of misunderstandings. Mutually keeping the door open to dialogue was a link to the development of bilateral relations. Asked whether he thought the visit would affect the next government, Abe replied that he

did not. On Aug. 25, the *Mainichi Shimbun* reported that Abe had initiated planning for a Japan-China summit during the November APEC conference in Vietnam. At the same time, Abe's political *consiglieri* told a Naha city audience on Aug. 24 that China was indicating an interest in improving bilateral relations, referring to an Aug. 18 statement from Beijing calling on both Japan and China "to make efforts for opening summits."

The polls, the public and Yasukuni – part II

Koizumi's visit to Yasukuni set off a second round of polling with regard to the shrine. One casualty of Koizumi's Yasukuni visit turned out to be a residence of Kato Koichi, former LDP secretary general who had opposed the prime minister's visits. On the evening of Aug. 16, the house of Kato's mother in Yamagata prefecture and Kato's local office burned down. Nearby, police arrested a 65-year-old man, who had apparently attempted hara-kiri. Police identified the suspect as belonging to a rightist organization. The pollsters asked the public whether they approved of Koizumi's Aug. 15 visit and whether they would support visits to the shrine by the next prime minister. Some polls also asked whether the Class-A war criminals should be disenshrined from Yasukuni or whether an alternate site should serve as a memorial to the war dead.

- An Aug. 16 *Kyodo* poll found 51.1 percent approving of Koizumi's visit and 41.8 percent opposed. As for visits by the next prime minister, 44.9 percent were opposed, while 39.6 percent supported the visits. Sixty-four percent believed that the Class-A war criminals should be disenshrined.
- A *Mainichi Shimbun* poll, conducted Aug. 15-16, found 50 percent in favor of Koizumi's visit and 46 percent opposed. As for visits to the shrine by Koizumi's successor, 47 percent were opposed while 42 percent approved.
- An Aug. 15-16 *Yomiuri Shimbun* poll revealed that 53 percent supported Koizumi, while 39 percent opposed. Sixty percent supported an alternate site from Yasukuni as it is at present. Among those favoring an alternate site, 30 percent favored a government-run shrine with no religious affiliation; 19 percent supported Yasukuni after the Class-A war criminals are disenshrined; 11 percent supported an expansion of Chodorigafuchi.
- A *Nikkei Shimbun* poll of Aug. 18-20 found 48 percent supporting Koizumi's visit with 36 percent disapproving; 43 percent supported a visit to the shrine by the next prime minister while 39 percent opposed.
- An *Asahi Shimbun* poll of Aug. 21-22 found 49 percent in favor of Koizumi's visit with 37 percent opposed. As for visits by his successor, 47 percent were opposed with 37 percent in favor.

- A *Sankei Shimbun* poll conducted Aug. 19-20 showed a counter trend: 44.6 percent disapproving of the visit with 41.1 percent in support. Also, 47.4 percent opposed visits to the shrine by the next prime minister, with only 26.9 percent approving; among LDP members 42.8 percent favored such visits and 28.9 percent opposed.

From Koizumi to Abe

Koizumi said good-bye in a farewell interview with members of the Japanese media on the evening of Sept. 25. Asked if he had any regrets regarding the affects of his visits to Yasukuni on relations with China and South Korea, the prime minister replied “none.” Moreover, he visited the shrine to pay respect to those who gave their lives for their country, not to justify war or militarism.

On Sept. 19, Abe was elected president of the LDP. Beijing welcomed Abe with the same words it welcomed Taiwan’s President Chen Shui-bian, namely, that it would listen to what he says and watch what he does. A week later, Abe succeeded Koizumi as prime minister and retained Aso as foreign minister. In the interim, Japanese and Chinese diplomats, led by Vice Ministers Yachi Shotaro and Cui Tiankai, met in Tokyo on Sept. 23-24, to conduct the sixth Comprehensive Policy Dialogue and to explore paths to a summit.

During the first day’s meeting, Yachi conveyed Abe’s hope for an early summit, and Cui expressed China’s hope for an improvement in the relationship after five years of treading water. Yet, the *Asahi Shimbun* reported that an “informed source” as saying that “nothing would occur unless Mr. Abe comes up with positive stance” with regard to Yasukuni.

The next day, Yachi endeavored to explain Abe’s position on Yasukuni, which sounded very much like that of his predecessor: that “what should not be done is to shut off every dialogue just because of the Yasukuni issue.” In turn, the Chinese side asked Abe to drop his ambiguity with regard to his intention of visiting the shrine and to state that he would not. Japanese efforts to persuade the Chinese that Abe would not visit the shrine by the time of next year’s Spring Festival proved unavailing. The outcome of the two days of meetings seemed to confirm what a senior Foreign Ministry official had told the *Asahi Shimbun* – that “the situation is not so easy that the strained relations will not turn for the better only with a change of prime minister.”

Two days later, the new foreign minister sounded very much like the old foreign minister. In an interview with the *Nihon Keizai Shimbun*, Aso, addressing the summit issue, told the paper that sooner would be better and that the ball is in China’s court on this one. While hoping for a meeting before the November APEC meeting in Hanoi, Aso noted that China continues to make restraint with regard to Yasukuni a condition for talks, that it is “China that is raising the hurdle.”

Outlook

The political debate in Japan appears to be moving toward a resolution of the Yasukuni issue, in particular the enshrinement of the Class-A war criminals. Movement on this issue would certainly provide a positive impetus to bilateral relations, but just as certainly would not resolve all the problems in this complex relationship. The same may be said of a summit, if it occurs.

Chronology of Japan-China Relations July-September 2006

July 1, 2006: Koizumi government releases 2006 Defense White Paper.

July 2, 2006: Japanese Foreign Ministry protests operation of Chinese research ship within Japan's EEZ.

July 3, 2006: Democratic Party of Japan President Ozawa meets Wang Jiarui, head of CCP Central Committee International Department and State Councilor Tang Jixuan.

July 4, 2006: Ozawa meets with China's President Hu Jintao.

July 4-9, 2006: Delegation of junior Diet members from ruling and opposition parties visits China.

July 5, 2006: Tokyo Gov. Ishihara equates 2008 Beijing Olympics to Hitler's 1936 Berlin games.

July 5, 2006: Cleanup of chemical weapons abandoned by Imperial Army begins near Ning'an in China's Northeast; 210 poison gas bombs found; completion of chemical weapons cleanup slated for 2007; in August, Japanese official says complete cleanup will require five additional years.

July 7, 2006: Former LDP Secretary General Koga, head of War Bereaved Families Association, proposes secular war memorial as solution to Yasukuni.

July 7-11, 2006: LDP and DPJ Diet members visit China, including acting LDP Secretary General Aisawa.

July 8-9, 2006: Working-level talks on East China Sea held in Beijing.

July 9, 2006: Yamasaki tells *Asahi TV* audience that Koizumi's visits to Yasukuni may be unconstitutional.

July 10-11, 2006: DPJ President Ozawa visits China; meets State Councilor Tang and President Hu.

July 11, 2006: Taipei Mayor and Nationalist Party Chairman Ma meets former Prime Minister Mori in Tokyo; also meets Tokyo Gov. Ishihara, Yokohama Mayor Nakada, and addresses Tokyo Foreign Correspondents Club during six-day stay in Japan.

July 14, 2006: Transportation Minister Kitagawa visits China; markets shinkansen technology to China's railroad minister.

July 16, 2006: Foreign Minister Aso addresses Yasukuni issue; points to difficulty of government making decisions with regard to Yasukuni as private, religious corporation.

July 16, 2006: Koizumi meets with German Chancellor Merkel during G-8 Summit in St. Petersburg; lobbies against dropping of EU arms embargo on China.

July 16-20, 2006: Koga visits China; July 17 visits Nanjing and museum dedicated to Nanjing Massacre; on July 19 Koga meets with Wang Jiarui, head of CCP Central Committee International Department; Wang approves of Koga's Yasukuni plan.

July 18, 2006: Yamasaki faction issues proposals for LDP presidential election; calls for secular war memorial.

July 19, 2006: *Nihon Keizai Shimbun* publishes record of conversation with Showa Emperor on the enshrinement of Class-A war criminals in Yasukuni.

July 20, 2006: Abe publishes campaign manifesto "Toward a Beautiful Country"; criticizes China for refusing to meet with Koizumi because of Yasukuni.

July 21, 2006: China's Vice Foreign Minister Wu and Japan's Deputy Minister for Foreign Affairs Nishida lead delegations to 10th China-Japan security dialogue in Beijing.

July 23, 2006: Abe tells Kobe audience that decision on Class-A war criminals should be made by the shrine or the War Bereaved Families; refuses to say whether he will or had visited the shrine.

July 23, 2006: Finance Minister Tanigaki characterizes Yasukuni as a "fishbone" in Japan's throat with respect to China and Korea.

July 25, 2006: Minister for Financial, Economic, and Fiscal Policy Yosano calls on Yasukuni to create environment that would allow emperor to visit.

July 25, 2006: In Tokyo speech, Koga calls on Yasukuni to remove Class-A war criminals.

July 26, 2006: *Asahi Shimbun* publishes interview with grandson of Class-A war criminal Hirota Koki in which grandson voices family opposition to Hirota's Yasukuni enshrinement.

July 27, 2006: LDP Asia Study Group meets at LDP headquarters; calls for strategic ambiguity with regard to Yasukuni.

July 27, 2006: Foreign Ministers Aso and Li meet in Kuala Lumpur during ARF meeting.

July 28, 2006: China's Ambassador Wang suggests to Nagoya audience that restraint on the part of Koizumi with regard to Yasukuni visit could open door to summit meeting.

July 28, 2006: LDP Tokyo chapter hosts Abe, Aso and Tanigaki in policy debate.

July 30, 2006: Koga suggests secularization as solution to Yasukuni issue.

Aug. 1, 2006: Akiba Takeo appointed director of Foreign Ministry's China and Mongolia Division.

Aug. 1, 2006: Grandson of Class-A war criminal former Foreign Minister Togo Shigenori calls on Koizumi to end visits to Yasukuni.

Aug. 2, 2006: Koga presents War Bereaved Families Association with plan to study separation of Class A-war criminals; association decides to postpone consideration until after Sept. 20 LDP presidential election.

Aug. 2, 2006: Relatives of Taiwanese conscripted into Imperial Army file law suit in Osaka District Court requesting disenshrinement from Yasukuni.

Aug. 2, 2006: Hong Kong-Taiwan group announce plans for Senkaku protest.

Aug. 4, 2006: Reports surface that Abe had visited Yasukuni April 15.

Aug. 5, 2006: 1944 War Ministry order becomes public; by order of War Minister Tojo enshrinement at Yasukuni limited to those who directly died from military service.

Aug. 5, 2006: Aso releases multi-step reform plan for Yasukuni.

Aug. 6, 2006: Nakagawa Hidenao, chairman of LDP's Policy Research Council, suggests legislation to make Yasukuni a government-directed entity.

Aug. 6, 2006: Koizumi announces that he is ready to visit Yasukuni at any time.

Aug. 7, 2006: *Kyodo News* reports that China National Oil Corporation had announced on its website the beginning of full-scale production; later Deputy Chief Cabinet Secretary Futabashi reports that Beijing confirmed no change in status quo.

Aug. 8, 2006: Koizumi reaffirms 2001 campaign pledge to visit Yasukuni on Aug. 15.

Aug. 10, 2006: Koizumi says that he will decide appropriately with regard to visiting Yasukuni.

Aug. 11, 2006: Relatives of war dead enshrined at Yasukuni file suit in Osaka District Court; demand relatives be disenshrined on grounds that enshrinement was effected without their permission.

Aug. 13, 2006: Former Taiwan President Lee Teng-hui announces plans for Sept. 12-17 sight-seeing visit to Japan.

Aug. 14, 2006: Ministry of Trade and Economics confirms no change in status quo in East China Sea.

Aug. 15, 2006: Koizumi visits Yasukuni; China protests; Japanese ambassador called in; Chinese ambassador protest to Japanese Foreign Ministry.

Aug. 15, 2006: Fisheries Vice Minister Miyakoshi Mitsuhiro makes “private” visit to Taiwan meets with Taiwan’s President Chen, Premier Su, and Agriculture Minister Su to discuss fisheries issues; China urges Japan to honor “one China” policy; trip acknowledged by Abe on Sept. 12.

Aug. 17, 2006: Japan Coast Guard ship intercepts Taiwanese ship attempting to land on Senkaku islands.

Aug. 21, 2006: Foreign Minister Aso declares candidacy for LDP presidency.

Aug. 24, 2006: Chinese court awards 1.6 million yuan damages to Nanjing massacre survivor.

Aug. 25, 2006: *Mainichi Shimbun* reports Abe had initiated planning for a Japan-China summit during November APEC meeting in Hanoi; Nakagawa tells Naha audience that China is interested in improving relations.

Sept. 1, 2006: Abe announces candidacy for LDP presidency.

Sept. 3, 2006: Abe tells Morioka LDP convention of plans to elevate JDA to ministry status.

Sept. 5, 2006: Abe tells reporters that he will make efforts to realize a summit; urges China and Korea to make similar efforts.

Sept. 5, 2006: Former Prime Minister Nakasone raises issue of Japan possessing nuclear weapons; former Ground Self-Defense Force Gen. Shikata talks of need for Japan to possess pre-emptive strike capability.

Sept. 6, 2006: Keidanren Chairman Mitarai Fujio, adviser to the Japan-China Business Associations, visits China; meets President Hu; Hu calls for regular high-level exchanges, once political obstacles are removed; meeting, however, is focused on economic, financial, technology cooperation.

Sept. 7, 2006: National Defense Academy President Iokibe Makoto in Koizumi government e-mail magazine criticizes the prime minister's Yasukuni visits as having negative affect on Japan's diplomacy.

Sept. 7, 2006: Former President Lee postpones travel to Japan due to health reasons.

Sept. 9-10, 2006: Senior Vice Minister of Foreign Affairs Shiozaki visits Beijing; holds informal talks with Communist Party officials on possibility of summit.

Sept. 10-11, 2006: Koizumi and China's Premier Wen Jiabao meet in Helsinki at ASEM meeting; photographed smiling and shaking hands; photo taken by official Chinese photographer posted on ASEM website, reportedly at request of Chinese government.

Sept. 12, 2006: Abe rejects China's logic on war responsibilities as basis for normalization, i.e., separation of general public and war leadership.

Sept. 20, 2006: Abe elected LDP president; Beijing welcomes Abe with same greeting it gave to Taiwan's President Chen; namely that China would listen to what Abe says and watch what he does.

Sept. 23, 2006: Minister of Economy, Trade, and Industry Nikai visits trade fair in Hunan province; meets Vice Premier Wu Yi and Commerce Minister Bo Xilai.

Sept. 24, 2006: LDP Policy Research Council Chairman Nakagawa meets Vice Foreign Minister Cui Tiankai in advance of Comprehensive Policy Dialogue to explore summit possibilities.

Sept. 23-24, 2006: Vice Foreign Minister Yachi Shotaro and Vice Foreign Minister Cui meet in Tokyo in sixth Comprehensive Policy Dialogue; talks major focused on summit possibilities; also discussed are East China Sea and Korean Peninsula issues.

Sept. 25, 2006: LDP and New Komeito agree on new coalition government under Abe.

Sept. 26, 2006: Abe becomes prime minister; new Cabinet announced; Aso remains foreign minister.



Japan-Korea Relations:

Missiles and Prime Ministers May Mark a Turning Point

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As a tumultuous summer drew to a close, North Korea's missile launches in July and the election of Abe Shinzo as prime minister of Japan in September may have marked the beginning of a new chapter in Northeast Asian regional relations. Although neither by itself has clearly redefined Japan-Korea relations, both events are widely seen to presage a new series of options and possibilities in the region. The missile launches in early July marked the escalation of the North Korean issue to new heights, prompting a stern response even from countries such as China and South Korea, the end result being a UN resolution that could open the door to economic sanctions against the North.

As for Abe's election, former Prime Minister Koizumi was widely considered to have been a revolutionary Japanese politician, and whether Abe will continue along the same path as Koizumi remains to be seen. Certainly Abe, as both the youngest prime minister in the postwar era and the first one born after World War II, appears to have the potential to continue Koizumi's reformist path. How Japan under Abe might deal with both North and South Korea has been the source of tremendous speculation, and while there are a number of predictions, it remains to be seen how and in what manner Abe's foreign policy will develop. Some speculate that Abe will be even more assertive toward the Koreas than was Koizumi. Others wonder whether Koizumi might have been the exception, and whether Abe will revert to the norm of previous prime ministers remarkable mainly for their blandness and conventionality.

Japan-North Korea: intimidation + sanctions = abnormal relations

North Korea opened the quarter with the launch of seven missiles into the Sea of Japan/East Sea, and Tokyo's response was so quick and assertive in denouncing Pyongyang's decision that Japan's diplomacy surprised the world for its unprecedented "leadership." Less than a day after the first launches, Tokyo asked the UN Security Council to convene an urgent meeting and introduced a draft Security Council resolution calling for sanctions to prevent Pyongyang from acquiring funds, material, or technology for missiles or weapons of mass destruction. By highlighting the fact that Japan is not a "normal" country in a dangerous neighborhood, the tests worked favorably for Japanese hardline politicians, enabling them to better appeal to both domestic and international audiences.

Although the full impact of North Korea's missile tests remains to be seen, developments suggest that Tokyo and Pyongyang have moved farther away from normalizing their bilateral relations. First, Japan placed various unilateral sanctions on Pyongyang while working diligently to get other countries to cooperate with them, while North Korea responded to these moves with more intimidation. Upon the North's missile launches, Japan immediately imposed a six-month ban on port calls by the North Korean ferry *Mangyongbong-92*, the only passenger link between Japan and North Korea. At the same time, Tokyo stepped up the screening of entry requests and barred North Korean officials from entering Japan. Abe defended the Japanese government's rejection of requests made by five North Koreans who wanted to visit Japan to give speeches about the forced labor issue at citizens' groups, on the grounds that some of them are involved with Pyongyang's intelligence activities against Japan. A month later, the Justice Ministry denied visas to six North Koreans representing Christian and Buddhist organizations because they appeared to be linked to the North Korean government. In line with UN Security Council Resolution 1695 adopted July 15 without the Chapter 7 invocation (that allows economic sanctions), on Sept. 19 Japan imposed a ban on financial transfers and overseas remittances to 15 North Korea-linked financial institutions and trading firms as well as Jakob Steiger, president of Swiss company Kohas AG. Those moves took effect immediately.

North Korea strongly criticized Japan's moves and demanded that the new economic sanctions be lifted. On July 7, Song Il-ho, North Korea's ambassador in charge of diplomatic normalization talks with Japan, told Japanese reporters that the sanctions could bring about "devastating consequences" and "catastrophic results." Song also said Japan-North Korea relations "have gone past the worst to the confrontational stage." Japan's then-Chief Cabinet Secretary Abe Shinzo responded by saying that, "we would like [the North] to think about who brought about the current relationship. The abductions, the nuclear, and the missile issues – North Korea caused all of them." The Japanese newspaper *Asahi Shimbun* July 9 editorial commented that Japan-North Korea relations were a truly abnormal relationship and questioned how the two countries could "normalize" their bilateral relations.

More importantly, careful reading of Japan's reaction makes one wonder whether the missile launches – so close to the LDP presidential election – have pushed Japan closer to revising its postwar pacifist Constitution. Although Abe Shinzo had long been the expected winner of the Sept. 20 presidential election, Japanese political analysts noted that the missile tests and the sense of crisis among the Japanese public were a big plus for Abe. A *Kyodo News* poll held on July 8 and 9 showed that 87 percent of respondents expressed anxiety over North Korea's missile launches, with 45.2 percent saying that they "feel very anxious" and 41.8 percent saying they "feel somewhat anxious." The same poll found that 82.6 percent said they give credit to the government for invoking economic sanctions while 80.7 percent said that Japan should step up economic sanctions against North Korea with only 12.6 percent responding otherwise. While TV cameras and reporters were constantly following Abe, he successfully played a strong leader, boosting his popularity. According to a *Yomiuri Shimbun* poll on July 8 and 9, Abe was the most

avored to succeed Koizumi with 45.6 percent of 1,867 people, while 18.3 percent backing former Chief Cabinet Secretary Fukuda Yasuo, who later decided not to run.

It was in this context that Abe Shinzo, known as a longtime advocate for revising the pacifist Constitution, broached the possibility of “attacking [North Korea’s] missile bases within the legal right of self-defense” under the condition that Japan has “no other option to prevent a missile attack.” Although his comment drew criticism and attention worldwide for advocating a preemptive strike, a day earlier the head of the Japan Defense Agency Nukaga Fukushima said that Japan should consider preemptive strikes “if an enemy country definitely has a way of attacking Japan,” Abe clarified that he was talking about one option allowed under the Constitution to strike a foreign missile base “when [Japan] is being attacked with missiles.” On July 26, the *Korean Central News Agency*, North Korea’s official news agency, reported that Japanese authorities vied with each other “to cry out a preemptive attack” on Pyongyang and advised “not to go reckless like a newborn puppy which knows no fear of a tiger.”

Given the missile tests, the abduction issue took a backseat during the quarter, with no progress made, even after South Korean abductee Kim Young-nam repeated at a press conference at Mt. Kumgang Pyongyang’s claim that Japanese abductee Yokota Megumi committed suicide in 1994.

Although Japan-North Korea relations during the Abe era began in a less than friendly manner, the door for diplomatic normalization is not closed. Abe, despite his well-known hawkish stance toward North Korea, is said to have described North Korea’s Kim Jong-il as “a leader who can talk logically and think rationally,” when recalling his meeting with him in Pyongyang in September 2002. On North Korea’s part, Jong Thae-hwa, a former top negotiator in normalization talks with Japan, told *Kyodo News* that the new Japanese leadership “should abandon its policy of hostility” against North Korea and work to sincerely implement the Pyongyang Declaration of 2002, should Japan hope to prosper together with North Korea as neighbors. Sept. 17 marked the fourth anniversary of the signing of the bilateral Pyongyang Declaration between Koizumi and Kim.

Japan-South Korea: near, yet distant countries

Japan-South Korea relations remained chilly amid a hot war of words surrounding North Korea’s missile launches, disputes over the Dokdo/Takeshima islets, and Prime Minister Koizumi’s visit to the Yasukuni Shrine on Aug. 15. Toward Abe Shinzo – who has tended to cause ire among South Koreans with his nationalist remarks and potential policies – Seoul seemed to express mixed feelings of cautious hope for a new breakthrough in their bilateral relations and concern over the future direction of Japan under Abe’s leadership.

An incident over the Sea of Japan/East Sea on July 5 revealed how geographically close Japan and the two Koreas are, and how “dynamic” their relationship can be. As North Korea was firing seven test missiles into the Sea of Japan/East Sea beginning at 3:32 am, South Korea sent a research vessel into waters near the Dokdo/Takeshima islets and was

met by a Japanese boat that issued a warning to stop. The South Korean vessel responded that it was conducting a survey in “South Korean” territorial waters and warned that the Japanese boat should not interfere. Japan’s Foreign Ministry called the South Korean Ambassador to Japan Ro Jong-il and issued a protest statement expressing “extreme displeasure.” When the Japanese government promised its own counter-survey, the South Korean government responded by claiming that Tokyo would need “consent” from Seoul for any research in “South Korean” waters.

Subsequently, in early September, Tokyo and Seoul met for the sixth time since 1996 for negotiations aimed at comprehensively delineating the boundaries of their exclusive economic zones (EEZ). The bad news is that the negotiations ended without an agreement. The good news is that the two sides agreed to resume negotiations in Tokyo as soon as possible, and to work based on the mutual understanding that the boundaries are to be drawn by compromise. The two governments also decided that they will conduct a joint survey of sea radiation looking for evidence of contamination in the disputed area to avoid any potential conflicts between survey vessels and their maritime defense forces. Scientific research in a disputed area could help bolster a territorial claim. In another sign of “cooperation despite antagonism,” for the fourth time since 1999, the coast guards of Japan and South Korea on Sept. 13 conducted a joint rescue exercise 230 km south of Jeju Island under the scenario in which a fishing boat sinks and its crew is adrift in a raft.

The two different faces of Tokyo and Seoul during the days that followed the North’s missile tests reveal the contours of their bilateral relations, as the two sides traded accusations. Whereas Japan immediately imposed economic sanctions and worked hard to get other countries to adopt a UN Security Council resolution condemning the North’s behavior, South Korea, facing domestic criticism that the government had under-reacted to the North’s provocation, issued a statement saying “South Korea has no reason to make a fuss about it like Japan did starting early in the morning.” In response to South Korean President Roh’s comment that Japan’s reaction was excessive, Abe reacted angrily, noting the constitutionality of attacking the missile sites. South Korea’s Blue House spokesman Jung Tae-ho responded in kind, vehemently linking Japan’s reaction to the North’s missile launches with Japan’s “invasive ambitions,” and scolding Japanese leaders’ “arrogant and thoughtless remarks to try to stroke a crisis on the peninsula and take advantage of the situation to build up their military.” Abe denied the charge that he plans a preemptive attack on North Korea’s missile sites.

The reaction to North Korea’s missile tests was another indicator of the wide gap between Tokyo and Seoul over what is perceived as a threat to national security. Nukaga Fukushima, the head of Japan’s Defense Agency, asked, “if an enemy is targeting Japan and has its finger on a trigger, what should Japan do?” South Korea’s Unification Minister Lee Jong-seok said “when it comes to security threats, North Korea poses a microscopic one in the short term, but we can’t deny that Japan poses one in the long term and from a historical point of view.”

The conflict between Tokyo and Seoul grew ugly in part because Seoul reacted to Tokyo's moves against Pyongyang as if they were directed against the entire Korean Peninsula. When Tokyo submitted a draft UN Security Council resolution, Seoul was concerned that Japan did not consult with the South Korean government first, because the draft mentioned the "use of force" under Chapter 7 of the UN Charter. South Korea's Vice Foreign Minister Lee Kyu-hyung called in Japanese Ambassador to Korea Oshima Shotaro to inform him that Seoul would not support the resolution. For Tokyo, responses from Seoul such as President Roh's comment that although he could hardly understand the North's intention behind the missile tests, "more worrisome is some Japanese leaders' remarks about a preemptive attack," made Seoul appear to be both willingly missing the point and needlessly provocative.

A month later, another incident underscored the gulf between Seoul and Tokyo. Unlike its restrained reaction to the North's missile tests, Seoul's response to Koizumi's visit to the Yasukuni Shrine on Aug. 15 was quick, expressing "deep disappointment and indignation." With Koizumi leaving office having held no summit with South Korea in over a year, Seoul has turned its attention to Abe. Despite the forecast made earlier this year that the question of how to mend relations with South Korea and China would top the policy debate among candidates for the September LDP presidential election, the issue was more or less muted during the Japanese election campaign.

One important factor was that Fukuda, a vocal critic of Prime Minister Koizumi's visits to the Yasukuni Shrine and an advocate of friendly relations with South Korea and China, decided not to run for the presidential election. The other factor was that Abe, the most favored candidate, has avoided giving clear positions on Shrine visits, preventing the issue from being the contentious point of the campaign.

Noteworthy was Seoul's more vociferous reaction to Japan's thought of revising the pacifist constitution. During the bilateral "strategic dialogue" on Sept. 7, Vice Foreign Minister Yu Myung-hwan of South Korea told his Japanese counterpart Yachi Shotaro that Seoul was concerned about possible changes to Japan's constitution. Commenting on remarks made by former Japanese Prime Minister Nakasone Yasuhiro that urged discussion on the development of nuclear weapons, Yu said that Seoul wanted Japan's new leadership to take note of its concerns. The *Korea Times* on Sept. 22 expressed the concern that Abe, known as a hawk and in favor of revising the Constitution, had given full support to Prime Minister Koizumi's visits to Yasukuni Shrine and commented that, "if Abe keeps using the communist regime [North Korea] as a scapegoat for Japan's military buildup in alliance with the United States, regional tension will only intensify."

Despite Seoul's skepticism about Abe, when the Diet elected Abe Shinzo to replace Koizumi as the new prime minister of Japan on Sept. 26, Abe and Roh talked on the telephone for 20 minutes and agreed to meet as soon as possible. According to the Korean media, the heads of the two states are likely to meet in early or mid-October.

Economic relations

With Japan imposing a series of major economic sanctions against North Korea, Japan-North Korean economic relations have clearly deteriorated. After the Japanese government named 15 organizations and one individual to be subjected to restrictions under the Foreign Exchange and Foreign Trade Law and barred them from transferring funds to North Korea, the next step was to tighten the exports of items that could end up in North Korea for weapons development, according to the *Japan Times*. Japanese firms are prohibited from sending certain types of equipment to North Korea, Iraq, or Libya. Furthermore, the Japanese Ministry of Economy, Trade, and Industry (METI) is considering the revision of its regulations to require all firms to tell METI where their products are going, in an attempt to stop them from being delivered to North Korea. In August, executives of Mitutoyo Corp. were arrested for exporting two sensitive measuring devices to Malaysia in 2001 that could be used to produce nuclear weapons. One of them was found in a nuclear facility in Libya during the weapons inspections of 2003 and 2004.

From Japan-South Korean economic relations, the events of the past quarter reveal that economic interdependence has still not had any measurable impact on political relations between the two countries. Even as the Japanese and South Korean governments were haggling over issues of the territorial claims, Pyongyang's missile tests, and Yasukuni Shrine, their two economies continued to deepen even further, bringing with it competition and cooperation. One notable trend during the past quarter has been that the government agencies of Japan, South Korea, and China have initiated unprecedented intergovernmental cooperation in the areas of tourism and transportation. The ministers of the three countries in charge of tourism held the first-ever meeting to boost the number of visitors among the three countries to 17 million in five years, 5 million higher than the present level. Land, Infrastructure, and Transport Minister Kitagawa Kazuo of Japan, Director of China's National Tourism Administration Shao Qiwei and South Korea's Culture and Tourism Minister Kim Myong-gon adopted the Hokkaido Declaration and decided that they would meet annually taking turns as host. The Hokkaido Declaration expressed the importance of peace and stability in East Asia through strengthened interactions, promised to remove obstacles to tourism exchanges, and agreed to attract tourists from other parts of the world through joint promotion campaigns.

On Sept. 7, there was another first-ever trilateral transport ministers' meeting aimed at creating a "seamless logistics system" in Northeast Asia. Japan's Land, Infrastructure and Transport Minister, Kitagawa Kazuo, China's Communication Minister Li Shenglin, and South Korea's Minister of Maritime Affairs and Fisheries, Kim Sung-jin agreed to cooperate on a project to establish a unified foundation for logistics between the countries in ways that are commensurate with their combined gross volume of trade, which came to \$400 billion last year. They also decided to meet annually so that the meetings eventually evolve into an intergovernmental cooperative channel.

At the private level, cooperation between Japanese and South Korean firms also continued apace; South Korea's Samsung Electronics Co. and Japan's Sony Corp. decided to invest \$1.9 billion to build a liquid crystal display panel factory in Tangjeong, South Korean Chungcheong Province. The plant for eighth-generation flat panels will be built in S-LCD's Tangjeong complex in a site next to the panel maker's seventh-generation production lines. According to South Chungcheong Gov. Lee Won-koo, the entire LCD "valley," when completed in 2015, will create 50,000 jobs, increasing local tax revenues by 150 billion won and national tax revenue by 860 billion won. *Nihon Keizai Shimbun* Sept. 5 quoted unidentified corporate executives that South Korean steelmaker POSCO and Japan's Nippon Steel Corp. were entering into a strategic alliance. *Joongang Ilbo* Sept. 6 interviewed a POSCO spokeswoman, Hong Jin-sook, who said that although the Japanese media report was premature, it was true that the two companies had been discussing cooperation in materials, accounting, and marketing activities since 2000.

While negotiations over a Japan-South Korea free trade agreement (FTA) did not make much progress, Japan proposed creating a 16-nation free trade area including Japan, China, India, Australia, and New Zealand, covering half the world's population. According to *Kyodo News* Aug. 24, South Korea and China dismissed Japan's proposal as infeasible and maintained that a 13-nation FTA involving just ASEAN, China, South Korea, and Japan should take precedence.

Despite this cooperation, economic competition between Japan and South Korea in such areas as electronics has intensified. The *Choson Ilbo* reported Aug. 7 that Toshiba has started building its fourth flash memory plant in an effort to catch up with its Korean competitor Samsung Electronics. Toshiba was the first to develop flash memory in the 1990s but was overtaken by Samsung. Toshiba plans to invest more than ¥1 trillion by 2008. Matsushita and Pioneer, Japan's No. 1 and 2 Plasma Display Panel (PDP) makers, are also expanding their manufacturing facilities. Matsushita overtook LG Electronics and Samsung to claim the No. 1 position in the global PDP market in the second quarter by boosting production at its plant in Amagasaki to 3.4 million units a year.

According to the *Japan Times*, South Korean auto and home appliance makers are making a big push in the Japanese market. It reported that South Korean firms are gaining popularity with Japanese consumers based on "low-priced but good quality," instead of the earlier strategy based on the premise of "cheap, but you get what you pay for." Hyundai Motors Japan is targeting Japanese consumers in their 40s and 50s, and hopes to sell about 5,000 cars in Japan this year, after selling about 2,300 units last year. LG Electronics is changing its strategy in Japan, hoping to change its image from that of a supplier of cheap products to that of high value-added products, including items such as liquid crystal display television sets, washing machines, and refrigerators. According to the Korea Trade-Investment Promotion Agency, South Korea exported about \$3.8 billion worth of consumer goods to Japan last year, down 14 percent from a year earlier, due mainly to China's emergence in the fields of light industrial products.

South Korea's trade deficit with Japan is expected to be the highest ever. The trade deficit during the first half-year registered \$12.5 billion, the highest among the half-year records. This long-time trade imbalance with Japan was attributed to the economic structure of the two economies, in that any rise in South Korean exports is linked to an increase in Japanese imports because many components for products such as cellular phones and automobiles are imported from Japan.

Cultural relations

The North's missile tests had a direct impact on relations between the pro-Pyongyang group Chongryun and pro-Seoul group Mindan within Japan. Ending a hard-won reconciliation agreement between the two groups signed earlier this year, the pro-Seoul group Mindan on July 6 officially ended the statement of reconciliation, saying that it would never forgive North Korea's "brutal act." This came amid internal conflict within Mindan itself, as the regional chapters had been opposed to the reconciliation moves. As a result, several senior officials of Mindan, including the President Ha Byung-ok, stepped down July 21 to take responsibility for the turmoil. Chongryun itself and several other affiliated organizations, including a pro-Pyongyang school in Tokyo, have received harassing phone calls after the North's missile launches. The Metropolitan Police Department tightened security and increased the number of officers on guard at Chongryun's head office in Central Tokyo and other facilities.

Inside South Korea, a civic group decided to take the case of South Korean comfort women to the ROK Constitutional Court because the South Korean government failed to take diplomatic action demanding that Japan take responsibility. According to the *JoongAng Ilbo*, about 30 lawyers affiliated with the Minbyun, the Lawyers for a Democratic Society, would take part in the petition. The U.S. House International Relations Committee unanimously passed a resolution calling on Tokyo to acknowledge the fact that it drafted comfort women from Asian countries, accept responsibility, and educate future generations about this crime against humanity.

The South Korean government also started an investigation aimed at confiscating the assets of descendents of Japanese collaborators who received financial benefits from some 400 pro-Japanese activities during the Japanese occupation. The Committee for the Inspection of Property of Japan Collaborators is composed of 104 public officials from various governmental agencies such as the Ministry of Justice, the National Police Agency, the Ministry of Finance and Economy, and the National Tax Service. The establishment of this Presidential Panel is based on a special law enacted last December, and confiscated assets will be used to support the descendents of Korean independence fighters, most of whom live in destitution.

Japan-South Korea cultural relations continued to be intertwined, as South Korean celebrities remained popular in Japan, while some Japanese models have been increasingly seen in commercials in South Korea. According to a recent poll of Japanese women between the ages of 18 and 25 by the Japanese broadcaster *NTV's* variety show *Geikoi Real*, South Korean actor Kwon Sang-woo and singer BoA were the two South

Korean stars to appear on a list of the most popular world celebrities, which included entertainers, politicians, athletes, and writers. The U.S. newspaper *Chicago Tribune* noted the success of Korean pop culture across Asia, reporting that South Korean male celebrities are among the highest-paid actors outside Hollywood.

The coming quarter

The coming quarter promises to be eventful. Not only are there rumors of a North Korean nuclear test – which would surely draw even greater ire from Japan than its missile tests – but South Korea and Japan hope to hold a summit between their two leaders. Whether Abe and Roh can manage to put their relationship, and relations between the two countries, back on a path toward political normalcy remains to be seen. For now, speculation is rife in both Japan and South Korea about the prospects for such an event. Negotiations between Japan and South Korea will continue over Dokdo/Takeshima, North Korean policy, and other issues.

Chronology of Japan-Korea Relations July-September 2006

July 2, 2006: Japan, South Korea, and China adopt the Hokkaido Declaration and agree to boost the number of tourists to 17 million in five years.

July 5, 2006: North Korea launches seven missiles into the Sea of Japan/East Sea. Japan imposes a ban on port entry of the North Korean ferry *Mangyongbong-92*.

July 5, 2006: ROK conducts a maritime survey near the Dokdo/Takeshima islets. Japan's FM Aso protests to ROK FM Ban during a telephone conversation.

July 6, 2006: Japan's pro-Seoul group Mindan officially retracts a statement of reconciliation with pro-Pyongyang counterpart Chongryun.

July 6, 2006: Japan Defense Agency head Nukaga Fukushima tells a Diet panel that Japan will increase efforts to establish a missile defense shield in cooperation with Washington.

July 7, 2006: North Korea's ambassador in charge of normalization talks with Japan, Song Il-ho, criticizes Tokyo's moves toward economic sanctions and says that Japan-North Korean relations "have gone past the worst to the confrontational stage."

July 7-8, 2006: A *Kyodo News* poll shows more than 80 percent of Japanese respondents think that Japan should increase economic sanctions against North Korea.

July 9, 2006: JDA head Nukaga says Japan should consider preemptive strikes "if an enemy definitely has a way of attacking Japan."

July 9, 2006: ROK criticizes Japan for “making a fuss” over Pyongyang’s missile launches.

July 10, 2006: Japan’s Chief Cabinet Secretary Abe says it is “regrettable” that South Korea uses such an expression.

July 10, 2006: Chief Cabinet Secretary Abe says Japan should consider whether Japan’s constitution allows Japan to attack North Korea missile bases as an act of self-defense.

July 10, 2006: ROK Ministry of Foreign Affairs and Trade summons Japan’s Ambassador to ROK Oshima Shotaro to urge prudence regarding Japan’s moves to impose a UN Security Council sanction on North Korea.

July 12, 2006: Chief Cabinet Secretary Abe clarifies his comment on a preemptive strike, saying that he was thinking about a scenario in which missiles had already been fired at Japan.

July 15, 2006: The UN Security Council adopts resolution 1695 requiring all member states to prevent the transfer of funds as well as goods and technology that can be used in North Korea’s missile development or weapons of mass destruction program.

July 18, 2006: Samsung Electronics announces that together with Sony, it will invest \$1.9 billion to build a liquid crystal display panel factory in South Korea’s Chungcheong province.

July 21, 2006: ROK Blue House Chief of Staff Lee Byung-wan criticizes Japan’s reaction to North Korea’s missile tests and calls it “truly evil.”

July 21, 2006: President of Mindan and other leaders announce their resignations, taking responsibility for the internal turmoil caused by their moves for reconciliation with pro-Pyongyang group, Chongryun earlier this year.

July 23, 2006: Chief Cabinet Secretary Abe describes North Korean leader Kim Jong-il as having a “rational” way of thinking.

Aug. 2, 2005: *Japan Times* reports that Tokyo informed Seoul of its plan to survey the waters near the Dokdo/Takeshima islets and that this was rejected by Seoul.

Aug. 4, 2006: ROK Foreign Affairs and Trade Ministry says Chief Cabinet Secretary Abe’s April visit to Yasukuni was “very regrettable.”

Aug. 8, 2006: ROK representatives, including FM Ban Ki-moon, attend the funeral of former Prime Minister Hashimoto Ryutaro.

Aug. 9, 2006: A *Yomiuri Shimbun* poll shows that half of respondents do not want the next prime minister to visit Yasukuni, marking the first time in three surveys since February that those opposed exceed those in favor.

Aug. 15, 2006: PM Koizumi visits Yasukuni. ROK summons Japanese Ambassador to ROK Shotaro and expresses “deep disappointment and indignation.”

Aug. 16, 2006: ROK Senior Secretary for Unification, Foreign Affairs, and National Security says that President Roh Moo-hyun will not hold a summit with Japan if the next leader decides to visit Yasukuni Shrine.

Sept. 5, 2006: Japan and ROK end a two-day negotiation aiming to draw the EEZ boundaries without reaching an agreement.

Sept. 5, 2006: Japan’s former PM Nakasone Yasuhiro says Tokyo needs to consider developing nuclear weapons against North Korea’s threat.

Sept. 6, 2006: Chief Cabinet Secretary Abe says he will try to hold bilateral summits with South Korea and China if he becomes prime minister.

Sept. 7, 2006: ROK Vice Foreign Minister Yu Myung-hwan expresses Seoul’s concern over possible changes to Japan’s pacifist Constitution to his Japanese counterpart Vice Foreign Minister Yachi Shotaro during their bilateral “strategic dialogue.”

Sept. 7, 2006: Trilateral transportation ministers of Japan, South Korea, and China agree to cooperate to build a unified foundation for logistics services in Northeast Asia.

Sept. 11, 2006: *Kyodo News* reports that Chief Cabinet Secretary Abe says that he aims to enact a new Constitution in about five years to replace the current pacifist Constitution if he becomes prime minister.

Sept. 13, 2006: Japan and the ROK conduct a joint rescue exercise in the East China Sea.

Sept. 17, 2006: Japan’s Foreign Ministry says that Japan and the ROK will hold a joint radioactive survey near the Dokdo/Takeshima islets from Oct. 7-14.

Sept. 18, 2006: *Kyodo News* reports North Korea wants Japan’s new prime minister to implement a 2002 Pyongyang Declaration committing both countries to work toward normalizing ties.

Sept. 19, 2006: Japan imposes financial sanctions under a UNSC resolution. Financial institutions are prohibited from conducting fund transfers and overseas remittances to 15 North Korea-linked financial institutions and trading firms as well as Jakob Steiger.

Sept. 20, 2006: Abe Shinzo elected new president of the Liberal Democratic Party.

Sept. 26, 2006: Japan's Diet elects Abe as the new prime minister of Japan.

Sept. 28, 2006: PM Abe and ROK President Roh agreed to have a summit meeting as soon as possible during their telephone conversation.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Russia Relations:

G-8, Geoeconomics, and Growing “Talk” Fatigue

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The third quarter was both routine and hectic for Russia and China. While top leaders socialized at summits (G-8 in mid-July and the Shanghai Cooperation Organization prime ministerial meeting in mid-September), Russian and Chinese diplomats were in overdrive to deal with North Korea’s excessiveness (missile tests) and Iran’s sluggishness in responding to outside “offers.” In both cases, the middling position of Beijing and Moscow was eroded because of the stalemate in the two nuclear talks. For Russia and China, it seems that working with friends is as difficult as confronting foes.

Spotlights and sidelines

The G-8 Summit in St. Petersburg turned out to be both a plus and a problem for Russian President Vladimir Putin. In normal terms, entertaining the world’s richest and most powerful nations in Russia’s most Westernized city should symbolize the final step of Russia’s grand return to the West since Russia’s admission into the forum in 1997. This time, an economically rejuvenated Russia – largely due to rising energy prices – was not well received by other G-8 members, whose views of Putin’s Russia ranged from the usual skepticism to outright hostility. Some of Russia’s “sins” included its suspension of natural gas supplies to Ukraine early this year and inviting to Moscow representatives of Hamas (considered by the U.S. to be a terrorist group) in March. The image of Russia’s assertive foreign policy was also paralleled by an increasing centralization of the Russian state over society and its strategic resources like energy. As a result, Russia bashing in the West, particularly in the U.S., reached an all-time high on the eve of the G-8 meeting.

China’s participation, together with those other “emerging economies,” (India, Brazil, Mexico, and South Africa) was more valuable for Putin. “Without the participation of such countries as China and India we can’t consider discussions on world economic problems and security comprehensive,” remarked Putin. As usual, the hosting nation usually has more weight in setting the agenda and this time, the topics included global energy security, education, and health care. Exactly how President Hu’s formal participation in the G-8’s “dialogues” actually raised China’s profile is a matter of perception. President Hu’s speech at the G-8 did echo much of the G-8 agenda. There was, however, a conspicuous focus in Hu’s speech on global energy security. And it was only in this area that Hu made three specific policy recommendations – mutually

beneficial cooperation, more R&D, and a stable political environment – while skimming over health care and education.

Indeed, the G-8 seemed a near perfect opportunity for the oil superpower (Russia) and the fastest growing economy (China) to tackle the issue of energy security. Two days after the G-8, the China National Petroleum Corp (CNPC) purchased 66,225,200 shares (worth \$500 million) from the Russian state-owned oil group Rosneft in its initial public offering (IPO), which was the first time that Chinese oil companies ever had a foothold in Russia's oil business. CNPC's purchase, however, was only half of BP's purchase of \$1 billion and far below the previously speculated \$3 billion possibility. China's cautious and limited entrance into the Russian market reflects both the higher-than-expected IPO listing price and a strong sense of uncertainty about working with Russia on the energy issue, particularly the much-talked-about-but-still-unrealized Russian oil pipeline to China. Hu's suggestion of "mutually beneficial cooperation" on the energy issue, therefore, may well be directed at his Russian counterpart. After all, only 3 percent of Russian natural gas exports and 5 percent its oil exports went to Asia, a troubling sum considering that Russia is the world's largest exporter of natural gas and the second largest petroleum exporter. For Putin, however, the very concept of "global energy security" naturally includes the interests of energy producers for "fair pricing," "unimpeded transportation," and "long-term commitments" by consumers, etc., reported Vyacheslav Nikonov, president of the prominent Politika Foundation in Russia.

Perhaps the fact that the St. Petersburg G-8 took place was itself a success, considering the growing outcry in the U.S. prior to the summit to urge the Bush administration to boycott the meeting to "punish" Russia. At least for a few days, Russia-bashing in the West paused. The low expectation for the summit perhaps also led to a positive outcome: Bush and Putin took the opportunity to announce a new international initiative to prevent nuclear terrorism and stop the spread of nuclear and radioactive materials. Finally, Russia's unique position within the G-8 (the weakest link?) may make it a vehicle for acting as a "bridge" between the world's rich and poor, developed and developing nations. During the G-8 meeting, Putin held a trilateral meeting with President Hu and Indian Prime Minister Manmohan Singh, in addition to his separate meetings with each of them. Later in the quarter, the Russian foreign minister initiated a four-party talk, for the first time, with Chinese, Indian, and Brazilian counterparts on the sidelines of the September UN General Assembly session in New York City. "The aggregate amount of the gold and foreign currency reserves of the four countries [\$1.3 trillion] is already greater than the aggregate volume of gold and foreign currency reserves of the G-7," Russian Foreign Minister Sergei Lavrov delightfully told journalists following the four-party meeting. "Naturally, our countries have had more and more coinciding interests at economic forums and within the framework of international negotiations," added Lavrov.

Traditionally, China, like India, tends to be more skeptical about the Moscow-Beijing-New Delhi linkage, brainchild of former Russian Prime Minister Primakov in December 1998. Russia's persistence in this regard, however, seemed to have convinced at least some in China that the concept, if not actual policy, should be played out and stretched. Chu Shulong, a prominent scholar of international affairs at Tsinghua University in

Beijing, argued shortly after the G-8 for more attention to this new trilateral mechanism as “a natural extension” of the trilateral meeting of the three foreign ministers in 2005. In August, a pro-China newspaper in Hong Kong went so far as to trace the roots of “strategic cooperation” between China, India, and Russia all the way back to Lenin’s time in order to justify the current cooperation.

The renewed enthusiasm for the emerging Moscow-Beijing-New Delhi “axis” this quarter was perhaps no accident as Moscow and Beijing faced mounting diplomatic challenges to managing relationships with their friends: North Korea and Iran. Both seemed to have developed “talk fatigue,” though with different “symptoms.” While North Korea demanded more attention from Washington, strategic delaying and deflection seemed to be preferred by Iran. Both, however, undermine the middling position of Beijing and Moscow in the two sets of Six-Party Talks.

Korea missile crisis: not quite “13 Days,” but...

On July 5, between 3:23 am and 8:22 am, Standard Korean Time (2:23 to 7:22 pm, July 4, U.S. Eastern time zone), North Korea test-fired seven missiles, including a long-range *Taepodong-2* capable of hitting the western United States. This was done without prior notification to its neighbors, friends, or foes. Two of the missiles fell within the Russian economic zone in the Sea of Japan, according to Japanese sources. The United Nations Security Council (UNSC) held an emergency, closed meeting to discuss the issue, after a request to do so by Japan’s ambassador to the UN, Oshima Kenzo.

Initial Russian reaction to the test firing ranged from describing the test as “a controversial event” (Deputy Foreign Minister Alexander Alexeyev), “utterly counterproductive” (head of the State Duma Committee on International Relations Konstantin Kosachev), to “a violation of all generally accepted norms of behavior” (Foreign Minister Lavrov). Some argued that many problems of North Korea “have been provoked from the outside,” and that “North Korea breached no international obligations” but the question of “the ethics of international relations.” President Putin, though “disappointed” by the test firings, went as far as to say that the North Koreans were right in their assertion that they had the legal right to perform such tests. Putin, however, suggested that the range of North Korean missiles should be put on the agenda for six-nation talks on the North Korean nuclear program.

Official Chinese reactions were more reserved. Foreign Ministry Spokesman Liu Jianchao expressed “serious concerns” over the tests. Immediately after the tests, it was the foreign counterparts (U.S., Japan, South Korea, and Australia) of Chinese Foreign Minister Li Zhaoxing that took the initiative to call him. Privately, however, the Chinese were more critical. Shi Yinhong, a prominent Northeast Asia security expert, remarked that “China is extremely upset over the behavior of North Korea. This is something that China did not want to see.” Although North Korea’s real goal was to pressure the U.S. to drop its financial sanctions against the North and to have direct talks with the U.S., the tests instantly complicated and undermined Russian and Chinese positions in the Six-

Party Talks, which have been stalled since November 2005. Beijing and Moscow really feared that the tests would strengthen hardliners in both Japan and the U.S.

Indeed, less than half an hour after the first missile firing, Prime Minister Koizumi Junichiro was notified and this was followed by Japan's new economic sanctions against North Korea. Although President Bush stated later that the tests only "isolated Korea," and that the U.S. would continue to encourage Six-Party Talks, Japanese Self-Defense Forces reportedly went to higher alert. Japan diplomats at the UN also quickly introduced a draft UNSC resolution on July 8, seeking sanctions against the DPRK. The draft, co-sponsored by Britain, France, and the U.S., invoked Chapter 7 of the UN Charter, which authorizes sanctions or even military action and is more likely to invite more confrontational behavior from North Korea.

Russian and Chinese leaders and diplomats were therefore constrained as much by North Koreans as by the harsh reaction from Japan and other UNSC members. Foreign ministers of the two nations coordinated their policies over the phone and through other channels in order to produce "a firm, but utmost weighed reaction." On July 9 Chinese Foreign Minister Li initiated phone calls to 11 foreign ministers of the members of the UN Security Council and the Republic of Korea. He insisted that any action should be conducive to maintaining the peace and stability in the region and the unity of the UN Security Council. The next day China sent to Pyongyang a "goodwill" delegation for the 45th anniversary of the China-North Korea military alliance led by Vice Premier Hui Liangyu. The group, however, also included Deputy Foreign Minister Wu Dawei, Beijing's top nuclear negotiator, who also chairs the six-way talks on the North's nuclear program. The same day, the U.S. and UK decided to postpone voting on the Japanese draft resolution in the UNSC, anticipating strong resistance from China and Russia, as well as awaiting China's diplomatic probes in Pyongyang.

When China's "goodwill" delegation to North Korea was received by several secondary North Korean officials but not top leader Kim Jong-il himself, China and Russia on July 12 circulated a draft UNSC resolution, which strongly urged the DPRK to immediately and unconditionally return to the Six-Party Talks and urged parties to work together to resume the six-party process as soon as possible. The bottom-line was that the UNSC document "must be firm, but not overly emotional" nor "contain threats," according to Russian Foreign Minister Lavrov. Meanwhile, China's UN representative Wang Guanya stated that if relevant countries forced the UNSC to vote on Japan's draft UNSC resolution that contains sanctions, he would be compelled to exercise the right to veto.

On July 15, the UNSC unanimously adopted a compromise resolution without wording of economic sanctions that condemned North Korea's recent missile tests and demanded that Pyongyang's missile program be suspended. [Please see this quarter's Regional Overview for details regarding UNSCR 1695.]

On July 16, President Hu met President Bush shortly after Hu arrived at St. Petersburg for the G-8 meeting. Chinese media reported the meeting with Bush was initiated by President Hu before the formal G-8 session. The Chinese press stated that "the two sides

pledged to continue to push for denuclearization of the Korean Peninsula through negotiations; to be committed to peace and stability in Northeast Asia; and to work together to promote the process of peaceful solution to Iran's nuclear issue." For this, Hu was "satisfied" with his meeting with Bush, and Bush was "thankful" for the meeting. The Hu-Bush St. Petersburg meeting apparently soft-landed the missile crisis. A week later, Secretary of State Condoleezza Rice said that China was showing evidence of becoming a responsible stakeholder.

On the second day of the G-8 conference (July 17), Putin and Hu held their "mini-summit," a full day after the Hu-Bush meeting and about 13 days after North Korea test-fired missiles. The two exchanged views on the situation in the Korean Peninsula and urged all parties concerned to take into consideration the overall interests of peace and stability in the region.

At least for a while, this round of the Korean missile crisis subsided. The issue, however, is far from resolved. One thing is clear: both China and Russia have become somewhat alienated from North Korea. The China-Russian resolution, though less binding, is not very different from the U.S.-Japan one in terms of the political message it conveys. In late July, China reportedly started to freeze North Korean accounts in China, a move that further isolated Pyongyang. Japan became far more assertive, though it was somewhat reined in by the more moderate policy of the Bush administration. With the new and more nationalistic Prime Minister Abe Shinzo – who was behind the uncompromising stance as Koizumi's chief Cabinet secretary during the crisis – taking office at the end of the quarter, the prospect for a negotiated peaceful settlement of the Korean nuclear issue became more distant.

Iran: slowly moving to nowhere?

If North Korea's missile tests undercut the mediators' role of China and Russia, Iran's sluggish and inconsistent response to the West also erodes their position.

On June 6, EU foreign policy chief Javier Solana presented Iran with a package agreed on by the five permanent members of the UN Security – the U.S., Russia, China, France and Britain – plus Germany concerning the Iranian nuclear issue. The proposal includes both incentives aimed at persuading Iran to suspend uranium enrichment and possible sanctions if Iran does not comply. Iran promised to give an official response by Aug. 22. On July 31, the UNSC adopted Resolution 1696, demanding that Iran suspend its nuclear program within one month; otherwise, it will face sanctions. On Aug. 22, Iran officially responded to the Solana package, offering to talk again about suspension but would not accept this as a precondition. Several times in September, however, officials of the Islamic republic indicated that Iran may temporarily suspend its uranium enrichment and reprocessing activities, either as a confidence-building measure in response to growing international pressure, or with right and fair conditions. At the end of the day, however, the gap between Iran's "rights" and America's demands remains as wide as ever. Iran still leaves the door open for more talks. The danger of a military solution of the issue, too, continues to exist.

Throughout the quarter, Chinese and Russian leaders and diplomats coordinated their policies and continued to work for a negotiated peaceful settlement. On many occasions, they warned Iran that the Islamic republic should be flexible in responding to outside offers and demands.

Unlike the Korean case, Russia clearly takes the Iranian issue more seriously and takes more responsibility. On July 6, President Putin expressed his hope that Iran would respond to the proposals of the six nations as soon as possible. “My latest meeting with the Iranian president [at the SCO summit in Shanghai in early June] showed that Iran had positively taken the proposals. Certainly, we would favor a quicker reaction and a constructive and detailed discussion,” said Putin in a press conference. A week later, Iran’s uncompromising position at a meeting in Brussels between Javier Solana and Iranian national security adviser Ali Larijani clearly angered Russian Foreign Minister Lavrov, who was attending the G-8 foreign ministerial meeting in Paris. “We were disappointed by the absence of a positive reaction by Iran, particularly as this is at odds with what President Ahmadinezhad said to the Russian president a month ago at the Shanghai Cooperation Organization meeting.” “In Shanghai Ahmadinezhad promised to adopt a constructive stance in considering the ‘six’s’ carefully drawn up proposals.” Russia’s frustration regarding Iran continued throughout the quarter and into September after Tehran avoided a direct response to the UNSC resolution. Russian Foreign Minister Lavrov described Tehran’s actions as not “wholly satisfactory,” but suggested that the possibility for dialogue remains.

China seemed to let Russia take the spotlight in the Iranian case while trying to persuade Iran to be more accommodating. Immediately after the UNSC resolution on July 31, China’s deputy UN representative Liu Zhenmin urged Iran to maintain restraint, place importance on the international community’s popular demands and anticipations, and carry out the relevant demands of the resolution in practice. In mid-August, Chinese Assistant Foreign Minister Cui Tiankai visited Tehran and met his Iranian counterparts and Iran’s chief nuclear negotiator Larijani. During the SCO’s prime ministerial meeting in Dushanbe in mid-September, Chinese Premier Wen Jiabao told Iranian Vice President Ali Saidlu that Iran’s flexibility would help create conditions for an early resumption of the talks and the final settlement of the Iranian nuclear issue. Meanwhile, Wen also said China supports the international mechanism of nuclear nonproliferation and understands Iran’s concern about its right to the peaceful use of nuclear energy. “The crisis over Iran’s nuclear program needs to be settled through negotiations and other peaceful measures, since China is fully opposed to adoption of sanctions and resorting to force against Iran.”

China’s mediating role, like that of the Russians, however, seemed to be interpreted by Iran as supportive of Iran’s nuclear program rather than pressing for regional stability, as well as backing Russian and Chinese interests. Iranian officials and press continued to describe Russia and China as working hard to help Iran. In contrast, North Korea’s provocative behavior early in the quarter was perhaps derived from its diminishing distrust of China and Russia, and as a means to directly deal with Washington.

It remains to be seen how far this perception gap between Tehran and Pyongyang and their two mediators will be narrowed. It seems that neither the “hare” (North Korea) nor the “tortoise” (Iran) was helpful for Beijing and Moscow, as the two “nuclear rogues” continue to face the lone superpower. The job of the mediators is clearly becoming more difficult, if not impossible.

China’s “Russia Year” and its dissonances

In contrast to the mounting difficulties in getting Pyongyang and Tehran back to talks, bilateral interactions between Beijing and Moscow were in full speed, as more than 200 events at both the elite and popular levels unfolded across China and Russia. The “Russia Year” culminated in mid-September when some 40 Chinese and Russian journalists arrived in Moscow after driving together in their 13 SUVs for 16,000 km in 45 days from Beijing. Meanwhile, Russian and Chinese scientists set out on the second joint exploration of Siberia, following the first expedition to Lake Baikal a year before. Talks of a joint mission to Mars were also heard from time to time. And the oil pipeline from Eastern Siberia to the Pacific Ocean is reportedly being built at a fast tempo.

Not everything was in tune with the beat of the ongoing “Russian Year” in China: five Chinese nationals were among the 10 dead in an apparently racially motivated explosion in Moscow in late August; Russian officials in the Far Eastern districts continued to complain about lingering and allegedly new pollution from China in Russia’s Amur River region; two Chinese citizens died in a Russian airline crash in Irkutsk on July 9; the consul-attaché of the Chinese Consulate General in Khabarovsk was beaten by three young Russians; Russia was “puzzled” about China’s “hesitation” in allowing Russia to open a “trade office” in Shanghai; and by the end of the quarter, the two sides decided to shorten the term of bilateral visa-free visits from 30 to 15 days in order to prevent the trips from being “used for wrong purposes.”

At the end of the day, however, the quarter appeared just “normal” in the numerous and still growing interactions between the two large nations. Russia decided not to invite the Dalai Lama to a religious conference in Moscow in early July; China planned to finance the rebuilding of the Irkutsk airport and to spend \$1.7 billion for environmental protection along the Sino-Russian border. On Sept. 28, Russia handed over to China the second *Project 956EM* (*Sovremenny*-class) destroyer equipped with *S-N-22 Sunburn* (*3M-80E Moskit*) supersonic anti-ship missiles as part of the \$1.4 billion deal signed in 2002. The timing of the handover was also the first day of a week-long visit to China by Putin’s right-hand man, Presidential Chief of Staff Sergei Sobyenin, as a “guest” of the Chinese government. The stage is being set for the final portion of the “Russia Year” in China.

Chronology of China-Russia Relations: July-September 2006

July 2, 2006: Russia decides not to invite the Dalai-Lama to the Moscow Religious Summit. Ye Xiaowen, head of the Chinese department for religious affairs, attends.

July 8, 2006: Chinese Foreign Minister Li Zhaoxing and his Russian counterpart Sergei Lavrov discuss via telephone the UN's response to the missile tests by North Korea.

July 9, 2006: President Hu Jintao sends a consolatory message to President Vladimir Putin over the crash of an *A-310* passenger plane at Irkutsk airport.

July 9, 2006: FM Li makes phone calls to foreign ministers of 11 member UNSC countries and the Republic of Korea.

July 14, 2006: SCO's Antiterror Structure (RATS) approves Myrzakan Subanov, former head of the Kyrgyz Border Service, as director of the RATS' executive committee, starting from Jan. 1, 2007.

July 16-17, 2006: President Hu Jintao attends dialogue meeting of the leaders of the G-8 in St. Petersburg. He first meets President Bush and then President Putin. Hu also visited the \$1.346-billion "Baltic Pearl" construction project in the Red Village District in the southwestern part of St Petersburg, now being built by a Shanghai company.

July 20, 2006: FM Li holds phone talks with Russian counterpart Sergei Lavrov regarding implementation of the consensus reached by Presidents Hu and Putin during the G-8 meeting.

July 24, 2006: Russian Interior Minister Rashid Nurgaliyev holds second joint working group meeting in Moscow with Chinese counterpart Minister of Public Security Zhou Yongkang. They sign a protocol of border defense cooperation after discussing possible joint operations against trans-border organized crimes especially drug trafficking, training of personnel, and hosting children's groups of each other's police officers. Zhou also visited the Alfa Special Antiterror Troop of Russia.

Aug. 9, 2006: Russian First Deputy Foreign Minister Andrei Denisov and Chinese Assistant Foreign Minister Cui Tiankai agree via telephone to step up joint efforts in the UN Security Council to resolve the Lebanese-Israeli conflict.

Aug. 21, 2006: Five Chinese citizens among 10 killed in the explosion in the Cherkizovsky market in Moscow. Seven out of 55 injured were Chinese.

Aug. 22, 2006: Prosecutors from six SCO member countries attend a meeting in Dushanbe. Russia and China were represented by Prosecutor-General Yuriy Chayka and Deputy Procurator-General of the Chinese Supreme People's Procuratorate Hu Kehui.

Aug. 24, 2006: SCO holds its trade ministerial meeting in Uzbek capital of Tashkent. Chinese Vice Minister of Commerce Yu Guangzhou and Russian Deputy Minister of Economic Development and Trade Vitaliy Savelyev joins the meeting. A decision is made to set up a working panel specialized in promoting regional energy and telecommunications cooperation.

Aug. 31-Sept. 1, 2006: Seminar of Russian and Chinese media workers held in Beijing as part of the Year of Russia in China. Russian First Deputy Prime Minister Dmitri Medvedev and Chinese Vice Premier Wu Yi sent congratulation messages.

Sept. 8, 2006: The seventh session of the space exploration sub-commission of the Russian-Chinese commission for the preparation of regular prime minister meetings held in Moscow. Russian Federal Space Agency Chairman Anatoly Perminov and head of the China National Space Administration Sun Laiyan approve and confirm the program of Russian-Chinese cooperation for 2007-2009, including a joint space exploration program.

Sept. 15, 2006: The fifth meeting of the SCO's prime ministers held in the Tajik capital of Dushanbe, focusing on energy, transport, and telecommunications as priorities.

Sept. 18, 2006: Chairman of the Federation Council Upper House of Parliament Sergei Mironov and Chairman of the Standing Committee of the Chinese National People's Congress Wu Bangguo co-chair a roundtable regarding "legal, regulatory framework" for Russian-Chinese economic and humanitarian cooperation.

Sept. 20, 2006: Russian FM Sergei Lavrov initiates a meeting with foreign ministers of China and Brazil, and defense minister of India on the sideline of the UN in New York. They agreed to continue this at various multilateral forums.

Sept. 21, 2006: First Deputy Minister of Industry and Energy Andrei Reus and Chinese counterpart deputy chairman of the committee on science technology and industry of national defense Jin Zhuanglong launch the first session of the bilateral commission on cooperation in civil aviation and aircraft-manufacturing. An agreement was signed to co-develop a trainer aircraft. They endorse a 2007-10 plan for cooperation and discussed the possibility of co-developing a large transportation plane.

Sept. 21-22, 2006: SCO holds first supreme court presidents conference in Shanghai. They discuss cross-border crime and measures to strengthen judicial cooperation to fight the "three evil forces" of terrorism, extremism and separatism. Russian Supreme Court Chairman Vyacheslav Lebedev and Chinese counterpart Xiao Yang attend. The conference also decides to set up a permanent conference of supreme court heads.

Sept. 26-30, 2006: Russian Presidential Chief of Staff Sergei Sobyenin visits China as guest of the Chinese government. He meets Secretary of China's State Council Hua Jianmin, Vice-President Zeng Qinghong, and chief of the Communist Party Central Committee's chancellery Wang Gang. He also visits Shanghai.

Sept. 27, 2006: Chinese State Councilor Tang Jiaxuan and Russian Ambassador to China Sergei Razov attend a reception in Beijing for the 57th anniversary of the establishment of diplomatic relations between China and Russia. President Hu attends a song and dance performance by the Alexandrov Ensemble of the Russian Armed Forces.

Sept. 28, 2006: Fifty Chinese and Russian scholars and experts join the first non-governmental “friendly strategic dialogue mechanism” in Beijing, co-sponsored by the China Association for International Friendly Contacts (CAIFC) and the Russian Institute of Security, National Defense and Justice.

Sept. 28-October 3, 2006: Chief of the Russian Federal Agency of Atomic Energy Sergei Kiriyenko visits China for the 10th meeting of the Russian-Chinese subcommission on nuclear cooperation as part of the preparation for regular meetings of Russian and Chinese prime ministers and visits the Tianwan nuclear power plant.

Sept. 29, 2006: The 10th session of the Russian-Chinese atomic energy cooperation commission held in Beijing and co-chaired by Russian Federal Atomic Energy head Sergei Kiriyenko and Chairman of the Chinese Commission of Science, Technology and Industry for National Defense Zhang Yunchuan. The two sides plan atomic energy cooperation following the commercial start-up of two units of the Tianwan nuclear power plant.

Sept. 29, 2006: Eighth meeting of the SCO regional antiterror agency council held in Beijing. Twelve documents were signed and Russia took chairmanship of the council.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-Southeast Asia Relations: Playing Catch-up with China

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In the first years of the 21st century, China is replacing Japan as the most influential Asian state in most of Southeast Asia. After barely maintaining economic steerage for much of the past decade, Japan now often trails in China's wake. Tokyo has not been blind to Beijing's sophisticated campaign to increase China's influence in this region, but its response thus far has been too little, too late.

Sino-Japanese rivalry is riveted on direct bilateral issues – the Yasukuni Shrine and other historical issues, and contention over the East China Sea. The ups and downs in dealing with these high-profile issues are charted in capitals throughout Asia. Southeast Asia is seldom mentioned. Moreover, such traditional issues as investment, trade, and aid continue to dominate Japanese-Southeast Asian bilateral relations. For Japan, these economic issues are managed, often on autopilot, by individual Japanese government ministries.

However, the Sino-Japanese contest for leadership in East Asia appears to be here to stay. Among all of China's neighbors, only Japan has been singled out as a country with which Beijing does not seek warm relations. This rivalry may be centered in Northeast Asia, but it spills over into Southeast Asia.

One reason for Japan's complacency when it looks south may be a misplaced assumption that China and the United States are locked in a strategic rivalry in Southeast Asia. But since 2001, Beijing has gone out of its way to avoid competition with the Washington in this region. As China-U.S. tensions in Southeast Asia have faded, the profile of China-Japan rivalry has become sharper.

Southeast Asians prefer quiet competition to public rivalry, though the incessant Southeast Asian refrain about Japan has been its strategic absence, often captured in the cliché describing Japan as an “economic giant/strategic dwarf” in their region. Southeast Asian elites, despite the recent revival of the Japanese economy after a decade of stagnation, tend to take their relationships with Japan for granted. They want Japan to remain involved in their region, but seldom factor Tokyo into their strategic calculations. Nonetheless, there are few contentious issues in Japanese-Southeast Asian relationships and Japan retains a massive economic stake in the region. Tokyo is well positioned to exert greater influence if and when it puts its own house in order and finally, if

reluctantly, accepts that Beijing is aiming at the nation that once called itself the “leading goose” in Asia’s V-shaped flight to stability and prosperity.

Japan’s interests in Southeast Asia

Access to Southeast Asia’s resources, and the benefits that flow from the dense trade networks that have evolved over the past 30 years between Japan and the region, remain at the heart of Japan’s interests. Japan is the largest trading partner and the largest source of foreign investment for many Southeast Asian countries. It runs neck and neck with the United States to be the largest market for ASEAN states as a whole, including for products partially produced in China and Southeast Asia. Southeast Asia offers an alternative investment and export destination should Japan’s now “hot” economic relationship with China cool.

In addition, through Southeast Asian chokepoints flow the lifeblood of Japan’s modern economy. Almost 80 percent of Japan’s oil and about 70 percent of its shipping transits Southeast Asia. In recent years, Tokyo has sought to play a role in sea-lane security through cooperation between its coast guard and Southeast Asian countries’ maritime forces. But the basic Japanese approach to security is broader: it has been Japan’s self-appointed role to contribute to stability in the region primarily through economic development, particularly through massive investment in and aid to Indonesia.

Japan’s interests are not fundamentally different from those of the United States, though Washington has tended to focus on security issues and to prominently inject such global policies as human rights and more recently countering terrorism into its relationships with Southeast Asia. The congruence of Japanese and U.S. interests in Southeast Asia is not lost on Beijing. However, in the past five years China has redirected its antagonism from the United States to Japan.

Tokyo’s traditional roles

In securing its interests, Tokyo faces none of the impediments that it finds in Northeast Asia. History is no longer a significant issue, even among the descendants of those brutalized by Japan’s Imperial Army more than 60 years ago, such as the ethnic Chinese in Malaya. Territorial disputes between Japan and Southeast Asian countries do not exist, and no state now threatens to use classic military means to resolve security issues in Southeast Asia. This means that Japan has been able to focus on economics, and leave traditional security matters largely to Southeast Asians and the U.S., though it has contributed money and self-defense forces to peacekeeping operations in Cambodia (1992) and East Timor (2000 and 2002).

Before the beginning of its own long economic stagnation and the 1997 Asian financial crisis, Japan appeared to stand on the threshold of complementing its economic clout with a new political role. But in the intervening decade and a half, Japan’s window of opportunity has closed. First, Japan’s prestige faded rapidly among Southeast Asian elites when the Japanese economy faltered, and especially after Japan was widely perceived to

have failed to come to Southeast Asian elites' rescue during the Asian financial crisis. Second, Japan itself has been more interested in playing on the world stage than in consolidating a role in Asia. Third, China launched a successful campaign, beginning in 1997, to woo Southeast Asia.

Strengths and weaknesses

Japan's economic profile is impressive. According to June 2005 IMF Direction of Trade statistics, Southeast Asian trade with Japan was \$149.7 billion, or 18.1 percent of ASEAN trade, about equal to that of the U.S. and China. The cumulative flow of Japanese foreign investment in Southeast Asia to 2004 was about \$85 billion, similar to that of the U.S. and probably about 20 times that of China. Japan is the largest source of official development assistance (ODA), providing 50.6 percent of all Development Assistance Committee ODA to ASEAN in 2003, but Japan's overall ODA has declined by a third since 1995.

Japan is also influential in other areas within the economic sphere. It plays the largest role in the Asian Development Bank (ADB). Since 1992, Japan and the ADB have pumped billions of dollars into exploiting the Mekong River for power generation and to build related transportation networks, largely to China's benefit. Decades of investment have provided Japan with a role in setting economic rules and regulations, as production networks have evolved with Southeast Asia. Tokyo has played a leadership role in Asian currency swap arrangements (the Chiang Mai Initiative) designed to prevent another financial crisis similar to the crisis that plunged Thailand and Indonesia into brutal depressions in 1997. Once existing commitments are put in place, the sum of swap arrangements will exceed \$80 billion dollars. Under these arrangements, Thailand, for example, will have access to nearly 10 times as much as its old IMF quota. More recently, Tokyo has also followed up with an Asian bond market initiative.

As a compulsive participant in the evolving Asian multilateral architecture, Tokyo distinguishes itself from Washington. It argues for the Asia-Pacific Economic Cooperation (APEC) forum's continued relevance and a broader interpretation of the region than China (to include not just the ASEAN Plus Three, but also India, Australia, and New Zealand). Tokyo's active participation in regional organizations is appreciated in Southeast Asia, the home of ASEAN, as is its willingness to let ASEAN take the lead in most of these organizations. Japan does not lead except on financial matters, but participates in the ASEAN Plus One (A+1), ASEAN Plus Three (A+3), ASEAN Regional Forum (ARF), and the East Asia Summit (EAS).

Japan's non-economic role in supporting regional stability has been modest. It did play a key role in the 1990s in Cambodia, but since then it has been only one of many contributors in East Timor after the vote for independence in 1999 and played a minor role in the Aceh peace process. Tokyo's assistance in the wake of the December 2004 Indian Ocean tsunami was generous, but scarcely noticed in Southeast Asia. Most interesting has been its ambivalent approach to promoting human rights, particularly in Myanmar (Burma). The most common argument is that Japan resists Western pressures

to impose sanctions in pursuit of human rights to protect its own economic interests, though others would argue that Japan's Asian identity better explains Tokyo's consensus approach to human rights issues.

A relatively new, and fascinating, shift has been Japan's tentative steps toward carving out a role in promoting security. Attention in Japan has focused on the dispatch of Self-Defense Forces (SDF) to Iraq, but in Southeast Asia, Tokyo has been slowly building on its 1990s experience in Cambodia. The dispatch of SDF for peacekeeping operations in Timor-Leste in 2002 was considered unremarkable in the region, and the belated arrival of SDF in Aceh in 2005 to help with the tsunami recovery warranted almost no attention. Japan also participated, for the first time, in the large U.S.-Thai *Cobra Gold* military exercise in 2005. In addition, Tokyo has hosted meetings with ASEAN designed to improve anti-terrorism capacity building.

The days of supposed Southeast Asian allergic reactions to alleged Japanese militarism are long over. Instead, Southeast Asian elites just aren't very interested in arcane arguments about changes in Japanese defense policy, though they are ambivalent about an increased Japanese military role in Southeast Asia, depending on the issue and the country. The only constant appears to be unease with the idea that Japan's contribution to security could be perceived as anti-Chinese.

The high-profile issue, however, has been Japan's plea to Southeast Asians to improve security against pirates (and potentially terrorists) in the Strait of Malacca. In this matter, Tokyo displayed incredible diffidence. In 2000, it initiated a series of training exercises between Japanese coast guard boats and planes with Southeast Asian states' maritime forces. In 2001, Prime Minister Koizumi proposed negotiations for the establishment of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) to the A+3. Five years later ReCAAP has only within the past month entered into force, leading to the establishment of an anti-piracy information center in Singapore. In short, leaving the protection of Japanese shipping to bureaucrats led to glacial movement. Malaysia and Indonesia only took action to improve maritime security, which was in their own interests, after public U.S. intervention and after Lloyd's insurance had declared the Strait to be a war risk zone.

If a June/July 2006 *Yoimui* *Shimbun* poll is to be believed, more than 90 percent of Indonesians, Malaysians, Thais, and Vietnamese feel their country has a good relationship with Japan, and between 70 and 90 percent believe Japan is a trustworthy nation. The polling is undoubtedly accurate, but the results should be taken with a grain of salt. The polling shows that more than 80 percent of those polled also had a good impression of China. Moreover, earlier polling by others suggests that when China and Japan are compared, China comes out on top. For example, polls taken in 2003 in Thailand showed that 76 percent of Thais considered China to be their country's best friend, and only 8 percent picked Japan. Anecdotal evidence of Southeast Asian elites' perceptions of Japan show no antagonism, but not much respect either.

Japan's weaknesses are less measurable than its strengths, but nonetheless real. In private, Southeast Asians can be scathing about Japan. A senior Southeast Asian diplomat recently commented privately to the author that, "Japan doesn't know what it wants. They have no consensus on what their role is." Others point to Japan's glacial consensus decision-making process, and its hesitant, poorly coordinated policy implementation when it attempts to step outside economic issues. Japanese timing, following on Chinese initiatives, has been described as atrocious. Deeper problems include the fact that the 3.5 million Japanese tourists who visit Southeast Asia annually and Japan's massive investments over the past 30 years have not left much of a positive cultural legacy. Southeast Asians are well aware of Japanese ambivalence toward other Asians, including them. Moreover, the image of Japan as Asia's economic engine is gone. Finally Southeast Asians show little appreciation for Japanese ODA, which many tend to view as either primarily support for Japanese companies or a form of war reparations.

In short, at this point, Southeast Asians are ambivalent about Japan. Nonetheless, the main impediment to an expanded Japanese political and security role in Southeast Asia would not be negative reactions from Southeast Asia, provided Japan's expanded role was not cast in anti-Chinese terms. The main difficulty would be the need at home to re-focus on Southeast Asia and coordinate policies across autonomous ministries.

The diplomatic dance: Japan attempts to catch-up with China

2001 was a pivotal year in Southeast Asia's relations with the major powers. After a Chinese jet fighter and an American *EP-3* patrol aircraft collided off Hainan Island in April, it looked as if China-U.S. strategic rivalry in Southeast Asia might become a dominant theme. But the Sept. 11 terrorist attacks and the subsequent discovery of terrorist networks in Southeast Asia brought renewed U.S. attention to the region not to compete with China, but to forge a regional counter-terrorism coalition. At the same time, China sought to mend relations with the U.S., and in Southeast Asia reoriented its regional policy to avoid competition with the United States. As Washington and Beijing pursued their different interests in the region, they seldom bumped into each other.

Thus not China-U.S. but China-Japan rivalry came to the fore. Most government and press attention on Japan and China naturally focuses on emotional bilateral issues and on Northeast Asia, but even in June 2002 the *People's Daily* accused Japan of "coveting" Southeast Asia and having "sent out large patrol boats to the Southeast Asian water areas under the pretext of attacking pirates, thus sounding the bugle call for Japan's military advance into Southeast Asia." And then, as American attention was increasingly drawn to the Middle East with the invasion and subsequent insurgency in Iraq, Sino-Japanese rivalry for leadership in East Asia heated up.

Japan was caught flatfooted in Southeast Asia. Still trapped in economic stagnation in 2001 in Southeast Asia, Tokyo was cautiously reaching out to propose ways to deal with piracy in key maritime chokepoints and testing the limits of Japan's use of its self-defense forces by announcing plans to send several hundred troops to East Timor for a United Nations peacekeeping operation (though they didn't arrive until early 2002). But

China was already throwing down the gauntlet, proposing an ASEAN-China free trade area in 2000, and more generally courting Southeast Asians with adept diplomacy and the promise of participation in China's economic boom. The pattern was established when Japanese Prime Minister Koizumi Junichiro visited the Philippines, Thailand, Singapore, Malaysia, and Indonesia in January 2002. For the next three years, Japan would always be playing catch-up with China, often paying Beijing the compliment of copying Chinese initiatives in Southeast Asia.

When Prime Minister Koizumi arrived in Southeast Asia in January 2002, the region was looking to Tokyo. The bursting of the technology bubble in the United States had led to slower growth in parts of Southeast Asia and China had launched its campaign to woo the region. But Koizumi traveled almost empty handed, constrained by Tokyo's decision to cut its official development aid and the Japanese agricultural lobby's fierce opposition to efforts to pry open Japan's protected agricultural market to Southeast Asian products. The result was that Koizumi and Singapore's prime minister signed an economic partnership agreement (EPA), a broader kind of free trade agreement (FTA). This was the forerunner in what would come to be Japanese "diplomacy by EPA," vehicles supposed to also promote scientific and technological links and human resource development. Blind to the diplomatic and political role of FTAs, bureaucrats in Japanese economic ministries tout their proposed EPAs with Southeast Asian countries as meeting higher, more rigorous economic standards than China's popular FTA with ASEAN as a whole. In his keynote speech, Koizumi also proposed closer economic and security ties with a broad community, essentially the ASEAN Plus Three and Australia and New Zealand. These themes, renamed bilateral free trade agreements excluding agricultural products and an enlarged community, would be pounded home over the next three years. Southeast Asians were not impressed.

In addition to proposing and then negotiating the ASEAN-China FTA, Beijing moved briskly to appeal to Southeast Asians by signing ASEAN's Treaty of Amity and Cooperation (TAC) and indicating that it was prepared to sign the protocol of ASEAN's Southeast Asia Nuclear Weapons Free Zone treaty. When China became the first non-Southeast Asian nation to accede to the TAC and signed a "strategic partnership" with ASEAN at the October 2003 Bali Summit, Japan was confined to China's diplomatic shadow. At the subsequent APEC meeting in Bangkok, the U.S. drive for more attention to counter-terrorism and China's focus on mutual economic benefits dominated. A major Japanese paper complained that Japan's diplomatic presence in Southeast Asia had never been weaker. Only in July 2004 did Tokyo follow suit by announcing that it too would sign the TAC.

Tokyo's answer was an ASEAN summit with Japan to commemorate the 30th anniversary of formal relations, which was held in Tokyo in December 2003. At this summit, Tokyo launched the ASEAN-Japan plan of action, the heart of which appears to be the negotiation of bilateral EPAs. Thus far, these EPAs have been negotiated with Singapore and Malaysia, and the text of an agreement has been finalized with Thailand. Negotiations are proceeding with the Philippines, Indonesia, and Brunei, and have been "recommended" with Vietnam.

The rivalry was next seen over the relief effort in response to the December 2004 Indian Ocean tsunami, which devastated parts of Southeast Asia. Japan quickly pledged \$500 million to help tsunami victims and in January 2005 Prime Minister Koizumi attended the special ASEAN meeting on the aftermath of the tsunami and meet with Indonesian President Yudhoyono in Indonesia. But as Singapore professor Lam Peng-er commented, “Japan assistance will help to reclaim certain diplomatic clout it had lost to China when Tokyo has to play catch-up with Beijing over free trade agreements with Southeast Asia.” In fact, the rapid U.S. response dominated public perceptions in Southeast Asia. Japan’s monetary contribution and the belated dispatch of Japanese Self-Defense Forces were overshadowed. Moreover, though China’s pledge of \$83 million paled in comparison, Southeast Asians welcomed it as another example of China’s new role as a “responsible country.”

At the same time, Japan Defense Agency Director General Ohno Yoshinori visited Indonesia, Singapore, and Malaysia to explain the new Japanese National Defense Program Outline (NDPG), a visit that apparently elicited little interest or sympathy in Southeast Asia. In April 2005, Prime Minister Koizumi attended the Asia-Africa Summit in Indonesia, and met with Chinese President Hu Jintao. In the summer of 2005, Japan turned to Southeast Asia to drum up support for a permanent Japanese seat on the United Nations Security Council (UNSC). The Japanese Foreign Ministry was then shocked to learn they had almost no friends in Southeast Asia. In the end, after China intervened, only Singapore among all the states in Southeast Asia (though Jakarta was reportedly ambivalent) appears to have supported Japan’s bid for a permanent UNSC seat.

In contrast, the Malaysian-hosted first East Asia Summit (EAS) in December 2005, designed to reflect an allegedly growing sense of regionalism in East Asia, did provide Tokyo with a chance to score some points. The intellectual origins of the EAS included former Malaysian Prime Minister Mahathir’s proposed East Asian Economic Community, which had earlier been scotched by Washington and Tokyo. This time, the behind-the-scenes arguments within ASEAN focused on criteria to determine who would be invited to participate in the EAS. Japan, working with Singapore and Indonesia, was able to prevail over China and Malaysia in ensuring a broader list of invitees, including India, Australia, and New Zealand. Although no state’s basic interests were harmed by the eventual outcome of this summit, some Southeast Asians blamed Japan for the muddle and what one pundit told the author was Tokyo’s “refusal to move in a helpful way.” In any case, Japan emerged from this summit with some success. It had proposed a comprehensive Asian assistance plan to fund efforts to smooth the way for FTA negotiations, which was also “designed to increase Japan’s presence and leadership in Asia to counter growing Chinese influence.” It had also found a new framework, ASEAN Plus Three and India, Australia, and New Zealand, which it would use later in 2006.

Thus far, 2006 has been a quiet year in Japan-Southeast Asia relations. Prime Minister Koizumi traveled to North America, Europe, and Africa, but not back to Southeast Asia, and relations mostly seem to tread water. In August, Tokyo built on the formula of the EAS to propose a regional free trade initiative, which copies a 2004 Chinese proposal,

but adds new members. The Southeast Asian reaction has been to ask Tokyo to concentrate on completing negotiations on the EPAs before moving on to such a grand scheme. In mid-September, Abe Shinzo was elected to replace Koizumi.

Assessing Southeast Asian-Japanese Relations

Japan's basic problem in Southeast Asia is that it is yesterday's story. It is an economic giant that tends to be taken for granted. Southeast Asian elites don't fear a resurgent Japan, but a Japan disengaged from everything except economic issues. Japan is now paying the price for decades of segmenting the aspects of its foreign policy, and now finds it difficult to be taken seriously outside its traditional role. If Japan is not interested in leadership in Asia, but only desires a seat at the table, then trailing in China's wake is not a major problem. If, on the other hand, it is caught up in rivalry with China for leadership in Asia, then it needs a national policy in Southeast Asia.

Chronology of Japan-Southeast Asian Relations January 2002- September 2006*

Jan. 9-16, 2002: Prime Minister Koizumi Junichiro visits Indonesia, Malaysia, Singapore, Thailand, and the Philippines; Koizumi proposes a "Comprehensive Economic Partnership" in his speech to Southeast Asian nations in Singapore.

March 22, 2002: Over 300 Japanese Ground Self-Defense Force members leave for East Timor on UN peacekeeping operations.

April 27-29, 2002: PM Koizumi visits Vietnam and Timor-Leste.

July 29-Aug. 2, 2002: Foreign Minister Kawaguchi visits Brunei for Asian Regional Forum (ARF) and ASEAN meetings.

Aug. 9-16, 2002: Brunei, Cambodian, Indonesian, and Malaysian Foreign Ministers, and Philippine Foreign Secretary, visit Japan for IDEA Ministerial Meeting.

Nov. 3-5, 2002: PM Koizumi attends 6th ASEAN Plus Three (A+3) Summit in Cambodia.

Dec. 2-5, 2002: Philippine President Arroyo visits Tokyo.

Dec. 12-17, 2002: Malaysian PM Mahathir visits Tokyo.

March 25-30, 2003: Singapore PM Goh Chok Tong visits Japan

June 3-6, 2003: Malaysian PM Mahathir, Philippine President Arroyo, and Thai PM Thaksin Shinawatra attend international conference on "The Future of Asia" in Tokyo.

* Chronology compiled by Junbeom Pyon, 2006 Vasey Fellow, Pacific Forum CSIS

June 17-19, 2003: FM Kawaguchi attends A+3 and 10th ARF meetings in Cambodia.

June 22-25, 2003: Indonesian President Megawati visits Japan.

Oct. 6-9, 2003: PM Koizumi attends A+3 Summit in Indonesia.

Oct. 19-22, 2003: PM Koizumi attends 11th APEC Leaders' Meeting in Bangkok.

Dec. 11-12 2003: First ASEAN Plus One (A+1) Summit with Japan to commemorate the 30th anniversary of Japan's Formal Relations with ASEAN. All ASEAN heads of government attend the summit in Japan.

Feb. 23-26, 2004: Timor-Leste President Gusmao visits Japan.

June 2-5, 2004: Vietnamese PM Khai visits Tokyo.

June 2-3, 2004: Malaysian PM Abdullah Badawi attends International Conference on "The Future of Asia" and meets with PM Koizumi in Tokyo.

June 4, 2004: PM Koizumi meets with PM Phan Van Khai in Hanoi.

June 30-July 2, 2004: FM Kawaguchi attends A+3 Foreign Ministers Meeting and ASEAN PMC in Indonesia.

July 2, 2004: Japan signs ASEAN's Treaty of Amity and Cooperation (TAC).

Oct. 6-10, 2004: PM Koizumi attends 5th Asia-Europe (ASEM) Meeting in Vietnam.

Nov. 28- Dec. 1, 2004: PM Koizumi attends A+3 Summit and Japan-ASEAN Summit in Laos.

Jan. 5-6, 2005: PM Koizumi attends special ASEAN Meeting on the Aftermath of the Tsunami and meets with President Yudhoyono in Indonesia.

Jan. 9-12, 2005: JDA Director General Yoshinori Ohno visits Indonesia, Singapore, and Malaysia to explain the new Japanese national defense program outline (NDPG).

Jan. 25, 2005: The Bank of Japan, acting as the agent of the Japan's minister of finance, and the Bank of Thailand reach agreement on the second bilateral swap arrangement under the Chiang Mai Initiative of the A+3 Finance Ministers' Process.

Feb. 3-5, 2005: Philippine Secretary of Foreign Affairs Romulo visits Tokyo.

March 6-10, 2005: Vietnamese FM Nien visits Tokyo.

March 6- 13, 2005: Malaysian King and Queen visit Japan.

April 21-24, 2005: PM Koizumi attends Asia-Africa Summit in Indonesia and holds side meeting with Chinese President Hu Jintao.

April 27-29, 2005: Senior Vice-Foreign Minister Aisawa attends Asia Pacific Roundtable and signing session for the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) in Singapore.

May 1-2, 2005: JDA head Ohno visits the Philippines.

May 5-9, 2005: ASEAN Foreign Ministers attend 7th ASEM Meeting held in Japan

May 9-13, 2005: Cambodian PM Hun Sen visits Japan.

May 23-28, 2005: Singapore PM Lee Hsien visits Japan.

May 24-26, 2005: Malaysian Prime Minister Abdullah Badawi visits Japan.

May 31 - June 3, 2005: Indonesian President Susilo Bambang Yudhoyono visits Japan.

June 9-10, 2005: Minister for Foreign Affairs Machimura visits Cambodia and Vietnam.

July 1, 2005: Vietnamese PM Khai visits Tokyo.

July 19, 2005: Minister for Foreign Affairs Machimura visits Singapore.

July 26-20, 2005: Senior Vice-Foreign Minister Aisawa attends A+3 FM meeting, ASEAN PMC, ARF in Laos.

Aug. 30-Sept. 1, 2005: PM Koizumi and Thai PM Thaksin announce that agreement in principle has been reached on all major elements of the Japan-Thailand Economic Partnership Agreement in Tokyo.

Oct. 6, 2005: APEC Human Security Seminar is held in Tokyo, Japan.

Oct. 12, 2005: Tokyo extends emergency assistance Vietnam for typhoon disaster relief.

Dec. 5-8, 2005: Parliamentary Secretary for Foreign Affairs visits Indonesia

Dec. 8-11, 2005: FM Aso Taro attends A+3 Foreign Ministers meeting and holds side meetings with ASEAN counterparts in Malaysia.

Dec. 9, 2005: Economy, Trade, and Industry Minister Nikai attends A+3 Finance Ministers Meeting in Malaysia.

Dec. 11-14, 2005: PM Koizumi attends first East Asia Summit and the A+3 Summit in Kuala Lumpur. Japan-Malaysia Economic Partnership Agreement is signed.

Dec. 24-29, 2005: Dr. Kiyohiko Toyama, parliamentary secretary for foreign affairs, visits Thailand and Cambodia.

Jan. 11-17, 2006: Senior Vice Minister for Foreign Affairs Shiozaki Yasuhisa visits the Philippines, Thailand, and Indonesia.

Jan. 18, 2006: Japan attends international pledging conference in China on avian flu and human pandemic influenza, and pledges \$135 million.

Jan. 25, 2006: Japan hosts meeting with ASEAN states on the Promotion of Accession to the International Counterterrorism Conventions and Protocols.

Jan. 22-26, 2006: Indonesian Vice President Kalla visits Japan.

Feb. 9-14, 2006: Third round of Japan-Indonesia EPA negotiations is held.

Feb. 16-18, 2006: First meeting of Joint Study Group for Japan-Vietnam EPA is held.

Feb. 19, 2006: Japan extends emergency assistance to victims of landslide in Leyte, Philippines.

March 3, 2006: Tokyo announces grant aid program for Aceh, Indonesia.

March 15, 2006: Japan provides the Philippines assistance for “Economic and Social Empowerment of Returned Victims of Trafficking.”

March 23, 2006: PM Koizumi meets with PM Mari Alkatiri of Timor-Leste in Tokyo; Japan extends \$20 million in aid.

March 27, 2006: Japan-ASEAN Integration Fund is signed. Japan pledges \$70 million to support the integration of ASEAN.

March 28, 2006: Yen loan of \$800 million announced for Indonesia

April 3-6, 2006: Philippine Foreign Secretary Romulo visits Japan as a guest of the Ministry of Foreign Affairs and met FM Aso.

April 10-12, 2006: The third round of negotiations of the ASEAN-Japan Comprehensive Economic Partnership Agreement is held in Tokyo.

April 17-21, 2006: Fourth round of negotiations on Japan-Indonesia Economic Partnership Agreement (EPA) held.

May 9, 2006: Japan-Vietnam Foreign Ministry vice ministerial meeting in Japan.

May 12-15, 2006: Thai FM Kantathi Suphamongkhon visits Japan.

May 24, 2006: Cambodian Deputy PM and Minister of Interior Sar Kheng visits Japan.

May 24, 2006: Malaysian PM Abdullah Badawi meets PM Koizumi.

May 29, 2006: Statement of concern on the continued detention of Daw Aung San Suu Kyi in Myanmar is released by Tokyo.

May 30, 2006: Dispatch of JDSF units for medical assistance in the wake of earthquake disaster in central Java.

May 31-June 3, 2006: Toyama Kiyohiko, vice minister (Parliamentary) for Foreign Affairs, visits Ho Chi Minh City, Vietnam to attend the meeting of APEC Ministers Responsible for Trade.

June 8-15, 2006: Japan's Emperor and Empress visit Singapore, Thailand, and Malaysia.

June 13, 2006: Japan extends emergency aid for internally displaced persons in Timor-Leste.

June 15, 2006: Aid to Indonesia to construct patrol vessels for the prevention of piracy and maritime terrorism announced.

June 28-29, 2006: ASEAN-Japan Counter-Terrorism Dialogue in Tokyo

June 28-29, 2006: Fourth round of ASEAN-Japan Comprehensive Economic Partnership Agreement Negotiations in Jakarta, Indonesia.

July 1-8, 2006, Vice Minister (Parliamentary) for Foreign Affairs Toyama visits Laos.

July 18, 2006: Japan extends emergency assistance equivalent to about ¥13 million to Indonesia in response to another Indian Ocean tsunami.

July 18, 2006: Governments of Japan and the Philippines reach agreement in principle on the protocol amending the Income Tax Treaty between Japan and the Philippines.

July 22-29, 2006: FM Aso visits the Philippines and Malaysia: in Malaysia attends foreign ministers meetings on A+3, EAS, ARF, and the ASEAN PMC.

July 23, 2006: Japan extends grant aids up to ¥382 million to the Philippines for the Project for Human Resource Development Scholarship.

July 28, 2006: The 13th ASEAN Regional Forum is held in Kuala Lumpur.

July 28, 2006: South Korea, China, Japan, Russia, the U.S., Australia, Canada, Indonesia, Malaysia, and New Zealand hold 5+5 security talks in Kuala Lumpur to discuss North Korea as well as other broader regional concerns.

Aug. 16, 2006: Japan provides emergency assistance in kind (tents and plastic sheets) equivalent to approximately ¥10 million to the Philippines, where many evacuees have taken refuge because of the volcanic activity of Mt. Mayon in south Luzon.

Aug. 22, 2006: Japan dispatches Japan Disaster Relief Expert Team to Guimaras Island, Philippines in response to an oil spill disaster caused by the sinking of an oil tanker.

Aug. 24, 2006: Japan proposes and Southeast Asian nations consider a 16-nation Asian Trade Bloc, but Southeast Asians suggest first focusing on a Japan-ASEAN FTA.

Sept. 9, 2006: PM Koizumi and Philippine President Arroyo sign an agreement for economic partnership between Japan and the Philippines in Helsinki.

Sept. 19, 2006: Thai military carries out bloodless coup against Prime Minister Thaksin Shinawatra while he is attending the UN General Assembly opening.

Sept. 20, 2006: Tokyo expresses serious concern about the Thai coup and urges Japanese to refrain from traveling to Thailand.

Sept. 20, 2006: Abe Shinzo is elected president of Japan's Liberal Democratic Party by 66 percent of the vote.

Sept. 26, 2006: Abe Shinzo succeeds Koizumi Junichiro as Japan's new prime minister.

About The Contributors

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