



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



# Comparative Connections



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

*edited by*

Brad Glosserman  
Carl Baker

1st Quarter (January-March) 2009  
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## Pacific Forum CSIS

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

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

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

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

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

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# Table of Contents

## **Regional Overview:.....1**

### **High Priority and High Drama over Asia**

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

Secretary of State Hillary Clinton’s choice of Japan, Indonesia, South Korea, and China for her first official trip overseas helped shine a spotlight on Asia as a high priority region this quarter, as did North Korean Dear Leader Kim Jong-il’s announcement that he intended to conduct a satellite launch in early April. The drama surrounding the anticipated launch provided an unfortunate back drop for otherwise very positive pronouncements about intended Obama administration policies in East Asia, even if the quarter closed with only a handful of those eventually to be tasked with implementing these policies at their desks. ASEAN leaders finally held their postponed summit and celebrated the entry into force of their much-maligned Charter. Meanwhile, Australian Prime Minister Kevin Rudd visited Washington to underscore that the U.S. and Australia are still “mates,” even as his reluctance to send more combat forces to Afghanistan foreshadowed the difficulty President Obama faces in getting allies to sign up for his “surge” there. Finally, economic forecasts kept being adjusted downward as Asian leaders prepared for the G20 Summit in London in hopes that this would bring a turnaround.

## **U.S.-Japan Relations:.....15**

### **A Fresh Start**

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

A new calendar year did little to change the tenor of Japanese domestic politics as the public became increasingly frustrated with parliamentary gridlock and the leadership of Prime Minister Aso Taro, whose approval rating plummeted amid a deepening recession. In an effort to prevent political turmoil from weakening Japan’s global leadership role, the government dispatched two Maritime Self-Defense Force (MSDF) destroyers to participate in antipiracy operations in the Gulf of Aden. Meanwhile, the Obama administration wasted little time in establishing a positive trajectory for the U.S.-Japan alliance, first sending Secretary of State Hillary Clinton to Tokyo in mid-February and receiving Prime Minister Aso at the White House shortly thereafter. The core agenda items for both visits – the economic crisis, North Korea, Afghanistan, and climate change – reflected both regional and global challenges. In a fitting end to a quarter of close bilateral coordination, Washington and Tokyo were poised to monitor an anticipated missile test by North Korea and orchestrate a cohesive response that could determine the fate of the Six-Party Talks.

**U.S.-China Relations:.....25**

**A Good Beginning is Half Way to Success**

**by Bonnie S. Glaser, CSIS/Pacific Forum CSIS**

The U.S.-China relationship got off to a good start under the Obama administration, putting to rest Chinese worries that a prolonged period would be required to educate the new U.S. president about China’s importance. “Positive” and “cooperative” were the two watchwords used repeatedly by Secretary of State Hillary Clinton in her discussions with Chinese leaders, which focused on the need to deepen and broaden the U.S.-China relationship, and to elevate cooperation to address urgent global problems, especially the financial crisis and global warming. In late February, U.S.-China military-to-military ties, which had been suspended by Beijing after the U.S. sold a large weapons package to Taiwan last October, partially resumed with the visit of U.S. Deputy Assistant Secretary of Defense David Sedney to Beijing. A naval confrontation between U.S. and Chinese ships took place near Hainan Island, which was quickly defused, although the underlying causes remain. Chinese Foreign Minister Yang Jiechi visited Washington D.C. in March to prepare for the first meeting between the two countries’ presidents, which took place on the margins of the G20 meeting in London on April 1.

**U.S.-Korea Relations:.....37**

**The Late Night Phone Call**

**by Victor Cha, Georgetown University/Pacific Council on International Policy**

The quarter ended with the question of whether President Obama’s first late-night crisis phone call – the metric for leadership bandied about during the campaign – would be over a ballistic missile test by North Korea. The suspenseful end to the quarter contrasted with its quiet start where the focus of U.S.-ROK bilateral relations was on initial contacts between the Lee and Obama administration teams and policy coordination over the global financial crisis, while the North Korea missile launch issue slowly but steadily moved from a simmer to a slow boil. However events unfold, the launch itself gives the new administration its first taste of North Korean bad behavior and confronts it with the problem of finding the right balance between under- and over-reaction that is needed to move denuclearization negotiations forward.

**U.S.-Russia Relations:.....45**

**The Kremlin Sizes up Obama**

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

The bilateral dialogue in the first quarter of the year was cordial, if somewhat distant. The administration of President Barack Obama sent clear and positive signals to the Kremlin. At times President Dmitry Medvedev and Prime Minister Vladimir Putin reciprocated with positive language; at times Moscow’s negative rhetoric reappeared. Clearly the Russian leadership has been making a cautious assessment of the new U.S. leader. Optimism was again evident at the London meeting between Obama and Medvedev on the eve of the G20 summit on global economic issues. In London, the two leaders pledged cooperation on a variety of issues, centering on arms control. There has been nothing positive in the bilateral relationship to report since last April when then-President George W. Bush visited then-President Putin at Sochi. Since that time, the relationship has plunged to depths unseen since the Cold War. Although many observers wish to see progress (and have come to forecast it), there is clearly much work to be done to repair the rift that has developed over the past six years.

**U.S.-Southeast Asia Relations:.....53**

**Indonesia as Exemplar of Southeast Asia’s Importance**

**by Sheldon Simon, Arizona State University**

Secretary of State Hillary Clinton’s visit to Indonesia, part of her initial overseas journey to Asia, was enthusiastically received in the world’s most populous Muslim country. She praised Indonesia’s thriving democracy as evidence of the compatibility of Islam and political pluralism. Noting Southeast Asia’s importance to the U.S., Clinton announced that the State Department would begin consideration of a process to sign ASEAN’s Treaty of Amity and Cooperation, a prerequisite for membership in the East Asia Summit. She also acknowledged that Washington’s harsh sanctions against Burma’s military junta had not changed that regime’s draconian rule but also pointed out that ASEAN’s engagement strategy was equally impotent. Nevertheless, she stated that the U.S. would consult with ASEAN in the process of reviewing its Burma policy. Meanwhile, ASEAN held its 14th summit in Thailand at the end of February. While the global economic crisis dominated the agenda, the future of a human rights commission mandated by ASEAN’s new Charter proved the most contentious issue.

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

**South China Sea, Economic Issues**

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

Southeast Asian and broader international attention focused in March on the confrontation between five Chinese government ships and the U.S. surveyor ship *USNS Impeccable* in the South China Sea near Hainan Island. U.S. and Chinese protests and related media commentary highlighted for Southeast Asian audiences a pattern of U.S. surveillance to learn more about China’s growing military presence and activities in the area, and a pattern of China’s unwillingness to tolerate such actions in areas where it claims rights that are disputed by the U.S. and other naval powers. The protests and commentary provided a vivid backdrop for China’s continued efforts to claim and defend territory in the South China Sea that is also claimed by Southeast Asian nations. Meanwhile, there was little good news on the economic front as China’s international trade and economic interchange with Southeast Asia continued to fall rapidly. Chinese diplomatic and political attention to the region remained low during the quarter.

**China-Taiwan Relations:.....73**

**New Economic Challenges**

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

Beijing and Taipei have been making preparations for the third round of ARATS-SEF talks to be held in May or June at which time additional agreements on finance, flights, and crime are expected. The global recession has precipitated a dramatic decline in cross-Strait trade and that, in turn, has contributed to accelerated plans to negotiate a comprehensive cross-Strait economic agreement. However, the planning for such an agreement has produced a storm of opposition protest in Taiwan, which represents the most serious challenge yet to President Ma’s cross-Strait policies. Officials on both sides are speaking optimistically about finding a formula under which Taipei could be an observer at the World Health Assembly (WHA) in May. Although defense reports from both sides acknowledge reduced tensions, there is as yet no sign that Beijing will reduce the military threat directed at Taiwan.

**North Korea-South Korea Relations: .....83**  
**Squeezing the Border**

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

This was a quarter when a single event – or more exactly, the expectation of an event – dominated the Korean Peninsula and Northeast Asia more widely. Suspected since January, announced in February and awaited throughout March, despite all efforts to dissuade it, North Korea’s long-anticipated *Taepodong* launched on April 5. This evoked a broader context, and a seeming shift in Pyongyang. Even by the DPRK’s unfathomable logic, firing a big rocket – satellite or no – seemed a rude and perverse way to greet a new U.S. president avowedly committed to engagement with Washington’s foes. Yet, no fewer than four separate senior private U.S. delegations, visiting Pyongyang in unusually swift succession during the past quarter, heard the same uncompromising message: North Korea apparently just is not interested in an opportunity for a fresh start offered by a radically different incumbent of the White House.

**China-Korea Relations:.....99**  
**Year of China-DPRK Friendship; North’s Rocket Fizzles**

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

Top-level diplomacy between Beijing and Pyongyang intensified this quarter in honor of China-DPRK Friendship Year and the 60<sup>th</sup> anniversary of diplomatic relations. The Chinese have accompanied these commemorative meetings with active diplomatic interaction with the U.S., South Korea, and Japan focused on how to respond to North Korea’s launch of a multi-stage rocket. Meanwhile, South Korean concerns about China’s rise are no longer confined to issues of economic competitiveness with its first public assessment of the implications of China’s rising economic capabilities for South Korea’s long-term security policies. The response to North Korea’s rocket launch also highlights differences in the respective near-term positions of Seoul and Beijing. Following years of expanding bilateral trade and investment ties, the global financial crisis also provides new challenges for Sino-ROK economic relations.

**Japan-China Relations:.....109**  
**New Year, Old Problems**

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

The year 2008 ended with reports that China would begin construction of two conventionally powered aircraft carriers, while February brought news that China was planning to construct two nuclear-powered carriers. January marked the first anniversary of the contaminated *gyoza* controversy and despite concerted efforts to find the source of the contamination and the interrogation of several suspects, Chinese officials reported that the investigation was back at square one. Meanwhile, efforts to implement the June 2008 Japan-China joint agreement on the development of natural gas fields in the East China Sea made little progress and the long-standing territorial dispute over the Senkaku Islands found its way into the headlines following Prime Minister Aso’s February visit to Washington. In mid-March, China’s defense minister confirmed to his Japanese counterpart Beijing’s decision to initiate aircraft carrier construction.



**Japan-Korea Relations:.....119**  
**Conflict with North Improves Japan-ROK Relations**

**by David C. Kang, University of Southern California, and Ji-Young Lee, Georgetown University**

The first three months of 2009 saw Japan-North Korea relations go from stalemate to hostility, as North Korea’s “satellite” launch on April 5 heightened tensions throughout Northeast Asia. As Pyongyang tried to goad its partners in the Six-Party Talks (the new Obama administration in particular) to induce more favorable terms, Tokyo took steps that may have more far-reaching implications for regional security than merely a plan to deal with the current North Korean missile crisis. Meanwhile, Tokyo and Seoul continued to focus on a practical partnership for economic cooperation and stayed on good terms. The highlight of the quarter was Prime Minister Aso’s successful two-day visit to South Korea in mid-January for a summit with President Lee Myung-bak. Although historical issues lingered as a potential factor that might challenge and disrupt this mood of détente, Japan-South Korea relations improved due in no small part to the Lee administration’s tough policy toward Pyongyang.

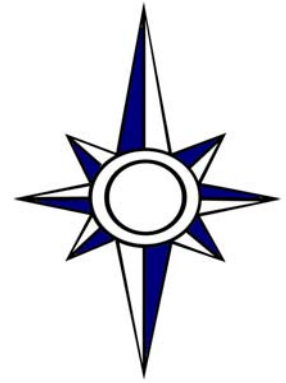
**China-Russia Relations:.....127**  
**Between Crisis and Cooperation**

**by Yu Bin, Wittenberg University**

The year of 2009, which marks the 60<sup>th</sup> anniversary of diplomatic ties between China and Russia, unfolded with a series of high-profile interactions. The “Year of Russian Language” in China was launched, which is to be reciprocated by Russia’s “Year of Chinese language” in 2010. An oil pipeline is finally to be built from Skovorodino to northeast China 15 years after its initial conception. The two militaries were engaged in the first round of talks for joint exercises to be held in July-August. The Shanghai Cooperation Organization held its first special session on Afghanistan as it officially reached out to NATO. Meanwhile, top leaders and senior diplomats were busy coordinating policies regarding the financial crisis and growing tensions on the Korean Peninsula. All of this, however, could hardly conceal a sense of uneasiness, particularly from the Chinese side, about the sinking in mid-February of a Chinese cargo ship by the Russian Coast Guard near Vladivostok. While Beijing requested a thorough and timely investigation, Moscow seemed more interesting in a weapons smuggling case allegedly involving top Russian naval officers.

**About the Contributors.....137**





**Regional Overview:**

**High Priority and High Drama over Asia**

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

Secretary of State Hillary Clinton's choice of Japan, Indonesia, South Korea, and China for her first official trip overseas helped shine a spotlight on Asia as a high priority region this quarter, as did North Korean Dear Leader Kim Jong-il's announcement that he intended to conduct a satellite launch in early April. The drama surrounding the anticipated launch provided an unfortunate back drop for otherwise very positive pronouncements about intended Obama administration policies in East Asia, even if the quarter closed with only a handful of those eventually to be tasked with implementing these policies at their desks. ASEAN leaders finally held their postponed summit and celebrated the entry into force of their much-maligned Charter. Meanwhile, Australian Prime Minister Kevin Rudd visited Washington to underscore that the U.S. and Australia are still "mates," even as his reluctance to send more combat forces to Afghanistan foreshadowed the difficulty President Obama faces in getting allies to sign up for his "surge" there. Finally, economic forecasts kept being adjusted downward as Asian leaders prepared for the G20 summit in London in hopes that this would bring a turnaround.

**Six-Party Talks: lots of rhetoric but little movement**

We normally start our regional overview with an update on the Six-Party Talks. We can sum it up in two words: nothing happened. On the plus side, five of the six members repeated their commitment to the process, beginning with new U.S. Secretary of State Hillary Clinton, who stressed the importance of continuing this dialogue as the best vehicle for engaging Pyongyang and bringing about the mutually desired Korean Peninsula denuclearization. We say "mutually desired" since even Pyongyang continues to assert that this is the North's ultimate objective; they just appear to be in less of a rush to get there than the other parties.

Pyongyang also appears most eager to kill the six-way dialogue or at least hold it hostage to other events, asserting that if the UN Security Council dared to even discuss the North's satellite launch [which at this writing it was doing, without a great deal of success], this would mean an end to the talks. Pyongyang would clearly prefer direct dialogue with Washington alone, although it is hard to see how its current behavior will enhance the prospects of this happening.

**When is ballistic missile activity not ballistic missile activity?**

The missile launch drama began early in the quarter when intelligence sources reported seeing launch preparations underway at the North's ballistic missile test facility shortly after President Obama was inaugurated. This impending missile activity prompted calls from pundits (not to

mention legislators and even some government officials) in Washington, Tokyo, and elsewhere, to shoot down the missile, or better yet (their caveat, not ours), to destroy it on the launch pad before it could be fired, given its potential threat to Japan and to locations as far away as Alaska or even *Comparative Connections* headquarters in Hawaii. Cooler heads obviously prevailed, but the sense of helplessness felt in Tokyo is sure to stimulate discussion not only on enhanced missile defense but perhaps on developing an offensive missile capability as well.

The North's bellicose behavior was disappointing and potentially counterproductive. Why would any country think it in its interest to be the first to test the resolve of a new administration, especially one in the process of reviewing its policy toward your nation? But it is hardly surprising, given the tepid response to past provocative actions.

It should be noted that under normal circumstances, North Korea would have as much right to launch satellites (or even test missiles) as South Korea, the U.S., or anyone else. But these are not normal circumstances. Pyongyang's 2006 missile launches and nuclear test prompted two stern UNSC resolutions (UNSCR 1695 and 1718). These "demanded" a halt in all ballistic missile activity; the second even authorized Chapter VII enforcement mechanisms in the case of noncompliance, but with the caveat that only "measures not involving the use of armed force are to be employed to give effect to its decisions" and then, only after additional UNSC consultation.

This is hardly a deterrent. Nor have the "mandatory" actions, which prohibited the export to North Korea of military hardware and "luxury goods," been aggressively implemented by neighboring countries (like China, Russia, and even South Korea, despite the more conservative nature of its current government); they continue to provide Pyongyang a lifeline with few if any strings attached. More importantly, the UNSC prohibition against providing any outside support to Pyongyang's missile programs clearly did not have the intended effect of making such launches impossible in the future.

Incredibly, there is not even consensus among the major actors as to whether this announced satellite launch violates the UNSC resolutions: Washington, Tokyo, and Seoul said it does; Beijing and Moscow seem less sure. What part of the phrase "shall suspend all activities related to its ballistic missile programme" don't they understand? Even a cursory reading of the two resolutions reveals that "all" means "all," including "launch[ing] an object propelled by a missile."

That the North was intent on going ahead with their ballistic missile launch – despite nearly unanimous urging from the rest of the world (some using stronger language than others) that it refrain from such an action – appeared clear at quarter's end [*the launch took place on April 5; its implications will be covered in more detail next quarter*]; the reasons why it choose to go down this path remain open to wide speculation. The probability that this could very well force a hardening of the current more flexible U.S. position toward direct negotiations with Pyongyang seems to have escaped North Korean Dear Leader Kim Jong-il completely. Or, perhaps he believes that such confrontational behavior will (as all too often in the past) increase rather than decrease the prospects for dialogue on his terms. Or, perhaps it signals that there is no interest in Pyongyang for dialogue on the nuclear or missile issue with anyone – at least not until it gets some new tests of its thus far marginal capability. At a minimum, the North is once again

successfully diverting attention from the real problem at hand, which is dealing with Pyongyang's nuclear weapons capability.

Responses to the threatened satellite launch seemed to fall into three general categories. Some believed that a missile launch would provide final proof (not that they believed any further proof was needed) that the North has no intention of cooperating with the West and thus regime change is the only viable option. On the flip side, others argued (whether they truly believed it or not) that a satellite launch would not be a violation of UNSCR 1695/1718 and that the U.S. and others should not push for additional punitive measures. The important thing was to keep engaging the North, regardless of its provocations, and UNSC action could put the Six-Party Talks at risk. Straddling the middle ground were some (like us) who saw a firm U.S. and UNSC response as absolutely essential to maintain solidarity with our Korean and Japanese allies and to try to preserve some semblance of credibility for the UN, while still cautioning against over-reaction and hoping the six-party process could be kept alive. The Obama administration appears to be leaning toward the third option. But it seems fair for even optimists and engagers to begin to ask at what point does pursuing regime change – and there are many nonmilitary ways to follow this path – become the best or only viable option for achieving Korean Peninsula denuclearization?

### **Clinton puts Asia first**

In an important signal that the Obama administration “gets it,” Secretary of State Hillary Clinton made her first visit abroad as secretary of state to Asia, visiting Japan, Indonesia, South Korea, and China. She previewed the trip in a speech to the Asia Society just before her departure. During the discussion, she noted that “our new administration wants to focus a lot of time and energy in working with Asian partners and all the nations in the Pacific region because we know that so much of our future depends upon our relationships there. And we equally know that our capacity to solve a lot of the global challenges that we’re confronting depends upon decisions that are made there. ...there has been a general feeling that perhaps we didn’t pay an appropriate amount of attention to Asia over the last years, being very preoccupied with other parts of the world, so I wanted to start at the very beginning demonstrating our commitment there.”

In the speech, she explained the U.S. desire “for more rigorous and persistent commitment and engagement, ready to work with leaders in Asia to resolve the economic crisis that threatens the Pacific as much as any other region, ready to strengthen our historic partnerships and alliances while developing deeper bonds with all nations, ready to help prevent the proliferation of nuclear weapons in Asia, ready to expand our combined efforts on 21<sup>st</sup> century challenges like climate change and clean energy, pandemics, and income inequality.”

Setting the tone for her trip (and Obama’s subsequent trip to Europe), she said that she was prepared to reach out, not only to governments but to civil society as well, and to “actively listen” to partners. The U.S. “is committed to a new era of diplomacy and development in which we will use smart power to work with historic allies and emerging nations to find regional and global solutions to common global problems.” High on her list of priorities is a response to the global economic crisis, energy policy, and tackling climate change.

The trip went well and Clinton received high marks for her performance throughout the tour. (For details of each stop, please see the respective chapters in this issue of *Comparative Connections*). She calmed Japanese fears about the new administration by reaffirming the U.S. commitment to the alliance, voicing sympathy for the families of abductees, and extending an invitation to the White House for beleaguered Prime Minister Aso Taro. In meetings with South Korean President Lee Myung-bak, Prime Minister Han Seung-soo, and Foreign Minister Yu Myung-hwan, she spoke highly of the U.S.-ROK alliance, thanked Seoul for its support in Afghanistan, and confirmed the U.S. commitment to the Six-Party Talks and denuclearization of the Korean Peninsula. She also warned Pyongyang that it was “not going to get a different relationship with the U.S. while insulting and refusing dialogue with the Republic of Korea.”

The stop in Indonesia may have had the most symbolism, given the years Obama spent there as a child and U.S. efforts to reach out to the Muslim world. She became the first secretary of state to visit the ASEAN headquarters, and said the U.S. was beginning the process to accede to ASEAN’s Treaty of Amity and Cooperation, which would then allow the U.S. to join the East Asia Summit. While meeting ASEAN Secretary General Surin Pitsuwan, Clinton committed to attending the ASEAN Regional Forum (ARF) ministerial meeting in Thailand on July 27. In Jakarta, she also met President Susilo Bambang Yudhoyono and Foreign Minister Wirajuda.

Finally, in China she met with the highest level of Chinese officials and held talks that covered a wide range of issues. She committed to an enhanced high-level dialogue that would combine strategic, economic, and development issues while staking out her leading role in that process. The presence of Todd Stern, the climate change envoy, also signaled the priority the U.S. gives that issue, generally and in relations with China in particular – the U.S. and China combined account for 40 percent of the world’s total greenhouse gas emissions.

The trip to Asia underscored elements of continuity and change in the Obama administration’s Asia policy. Generally speaking, her visits in Northeast Asia – to Japan, Korea, and China – represented continuity; her trip to Indonesia signaled change. It wasn’t just business as usual with Northeast Asia, however. Secretary Clinton stressed that this administration would spend more time listening and responding to the concerns of its allies and partners (not to mention opposition politicians like Democratic Party of Japan leader Ozawa Ichiro) and would not neglect the region despite preoccupation with serious challenges elsewhere. She also stressed at each stop, but especially in China, the need to cooperate to address the serious transnational challenges posed by climate change. But basic policy – alliances come first and engagement (vice containment) of China – reflected continuity with previous administrations.

All in all, Clinton’s trip successfully accomplished its main missions: it reassured America’s allies and partners that the U.S. was committed to the region and its alliances, that it wanted a cooperative relationship with China, that it would hold fast on Washington’s denuclearization demands even while reaching out to Pyongyang, and that it would become more proactively engaged in Southeast as well as Northeast Asia. The enthusiastic reception she received at every stop also indicates that U.S. “soft power” may indeed be making a comeback with the advent of the new administration.

## Some friendly advice

If the new administration needs guideposts for its Asia policy, the Pacific Forum CSIS, along with four other think tanks – the Center for A New American Security, the Center for Naval Analyses, the Institute for Defense Analyses, and the Institute of National Security Studies at the National Defense University – provided them in their report *The United States and the Asia-Pacific Region: Security Strategy for the Obama Administration*. The report, previewed in last quarter's regional overview, was officially released in March and is available at the Pacific Forum website ([http://www.csis.org/media/csis/pubs/issuesinsights\\_v09n01.pdf](http://www.csis.org/media/csis/pubs/issuesinsights_v09n01.pdf)), among others. Now all that's needed is an Asia team in place to implement these policies. While there were lots of assumptions and indications, the quarter ended without assistant secretaries for Asia at either State or Defense and with no ambassadors identified for key Asian giants such as Japan, China, and India.

## ASEAN summit (finally) takes place

Despite Secretary Clinton's (and Kim Jong-il's) attempts to shine a spotlight on Asia, the region's main multilateral event of the quarter went largely unnoticed. The 14<sup>th</sup> ASEAN summit, celebrating "ASEAN Charter for ASEAN Peoples," originally slated for Thailand in December (and postponed after protestors shut down Bangkok's two major airports and threatened demonstrations to disrupt summit-related events), finally took place in Hua Hin, Thailand on Feb. 28 - March 1, 2009. Normally, the ASEAN summit is part of a multi-stage extravaganza, further highlighted by an ASEAN Plus Three (APT) summit with China, Japan, and South Korea and the broader East Asia Summit (EAS), which adds Australia, New Zealand, and India to this mix. This time, the decision was made to postpone the APT and EAS events – they are now scheduled for April 10-12 in Pattaya, Thailand, which lowered the international spotlight still further. At quarter's end, red-shirted protestors associated with former Prime Minister Thaksin were already gathering in Pattaya to try to disrupt these events. Taking a page out of the former anti-government yellow-shirted protestors who helped bring Prime Minister Abhisit Vejjajiva to power; as part of their emulation campaign, they seized Abhisit's Bangkok offices on March 27.

Had the international press paid more attention to the 14<sup>th</sup> ASEAN summit, they still would not have had a great deal to report. The assembled ministers celebrated the Dec. 15, 2008 entry into force of the ASEAN Charter and "mandated all ASEAN organs to be guided by and to fully implement the ASEAN Charter." ASEAN leaders signed a number of trade agreements aimed at forming an "integrated economic community," albeit without a common currency, by 2015. They issued a press statement on the global economic and financial crisis that stressed the importance of "macroeconomic policy coordination, standing firm against protectionism, implementing the ASEAN Economic Community Blueprint, and intensifying efforts for a strong Doha Development Agenda outcome," while also calling for "bold and urgent reform of the international financial system." They also unveiled ASEAN's new "national song," entitled "The ASEAN Way," which ends with this lofty proclamation: "We dare to dream, we care to share. Together for ASEAN."

To the extent anyone paid attention to the meeting, it was to assess its progress in establishing the ASEAN Human Rights Body (AHRB) called for in the Charter but as yet largely undefined.

The Chairman's Statement did indicate that a first draft of the terms of reference for the AHRB had been submitted and that the goal was for the body to be "inaugurated and operationalized" by the 15<sup>th</sup> ASEAN Summit meeting in late 2009. But little detail beyond this was provided and most observers remain skeptical, despite the assertion that the establishment of the AHRB "to promote and protect human rights of ASEAN's peoples would be one of the most important undertakings to make ASEAN a genuinely people-oriented community." To this end they encouraged the Myanmar (Burmese) government "to facilitate the national reconciliation process," further pointing out that "the release of political detainees and the inclusion of all political parties leading to the general elections in 2010 will contribute significantly to the national reconciliation process." Few were willing to take bets that Rangoon's "roadmap toward democracy" would lead toward anything other than more repression but it does provide a yardstick with which ASEAN and Washington could begin to measure the ruling junta's promises if both were really inclined to take the fresh approach toward Burma hinted at by Secretary Clinton during her visit to the ASEAN Secretariat in Jakarta.

### **Rudd-Obama: best of mates!**

On March 24, President Obama had "an excellent meeting" with Australian Prime Minister Kevin Rudd, the high point of Rudd's whirlwind tour of Washington. His visit included chats with Defense Secretary Robert Gates, Energy Secretary Steven Chu, Speaker of the House Nancy Pelosi and others on Capitol Hill, including Sen. John McCain, who Mr. Obama bested in last November's vote, and World Bank President Robert Zoellick. Mr. Obama continued the bonding with Australia that began under different administrations in both capitals, noting that "there are very few countries that are closer than the United States and Australia" and he applauded Mr. Rudd for having "the kind of vision not just domestically but on the international stage that we greatly admire." Mr. Rudd reciprocated those warm words, calling theirs "a first-class alliance and it's a first-class partnership between our two countries."

In their talks, they discussed Afghanistan – Australia received Mr. Obama's thanks for its support there – and promised close consultation as the U.S. completes its strategic review of the situation. Having already deployed 1,000 soldiers, Canberra is reluctant to send more troops to that troubled country. The bulk of their time was taken up with the financial crisis and the most effective response to it. Rudd welcomed the return of "U.S. global economic leadership."

Climate change was another big topic. As Rudd explained, "It presents challenges and it presents opportunities." Here the change of administrations in both capitals augurs well for the relationship since the two governments are largely in sync in their thinking about the importance of this problem and the need to move forward on it.

### **Grim economic tidings**

The economic outlook was bad, and it's looking worse. The most significant development this quarter was the marking down of regional forecasts by institutions that track these things. At the end of March, the World Bank released new estimates for East Asia: it now anticipates 2.1 percent growth for the entire region for 2009, less than half of the 4.4 percent estimated in November 2008; 2010 growth is now pegged at 4.4 percent, a drop of 1.6 percentage points from



the 6.0 percent growth forecast in November. The World Bank also anticipates 3.7 percent growth for South Asia, a decline from previous forecasts of 5.4 percent growth, and down from the 5.6 percent recorded in 2008.

The Asian Development Bank (ADB) is a little less gloomy, but only just. Its *Asian Development Outlook 2009*, released just before the end of the quarter, forecasts 3.4 percent growth for developing Asia in 2009, down from 6.3 percent in 2008 and 9.5 percent in 2007. This is the region's worst performance since the 1997-98 Asian financial crisis. Fortunately, most regional governments are better equipped today to handle the downturn – they have large foreign exchange reserves – a lesson learned from the crisis of a decade ago.

Still, the numbers are stunning. The ADB anticipates economic growth in East Asia will drop to 3.6 percent in 2009, almost half the 6.6 percent recorded in 2008, and a plunge from the 10.4 percent of 2007. Southeast Asia is expected to expand just 0.7 percent this year, plummeting from 4.3 percent growth the year before. The economies of Malaysia, Singapore, and Thailand are expected to shrink. The ROK is anticipated to experience a 3 percent contraction, more than Hong Kong (a 2 percent decrease) but less than Taiwan (4 percent shrinkage).

Most eyes are focused on China. For years, the Beijing leadership and most observers have believed that China must sustain 8 percent growth to accommodate new graduates, migrant workers from the countryside, and displaced workers from former state-owned enterprises. The World Bank forecasts that China's economy will grow 6.5 percent this year, a respectable sum, but below that threshold. The ADB is slightly more optimistic, anticipating 7 percent growth in 2009, with a return to 8 percent in 2010 if the country's fundamentals remain strong. The OECD is even more pessimistic, forecasting 6.3 percent growth this year.

Key to China's future – and that of Asia as a whole – is a recovery of demand in foreign markets. The region continues to rely on exports to drive national economies. With the U.S. and European economies forecast to contract 2.4 percent and 2.7 percent respectively, and Japan's economy doubling those numbers (5.3 percent, says the World Bank), that is a forlorn hope. Some effort has been made to boost domestic demand, but there is no sign of a real shift to permanent domestically driven policies.

To their credit, regional governments have taken steps to help fight the crisis. In February, finance ministers from the ASEAN Plus Three countries agreed to expand the Chiang Mai Initiative from \$80 billion to \$120 billion. This facility provides funds to countries experiencing liquidity problems. The protection may prove more psychological than real – it isn't clear how the funding mechanism would work and whether the sums are substantial enough to turn a financial tide – but it is an important sign of “community” for the region.

One significant and symbolic development has been the resort to the G20 as the forum to deal with the global crisis. While the G20 may yet prove to be too unwieldy to produce results, the sidelining of the G7 as the “go-to” forum for economic diplomacy is a portent. Just one Asian nation – Japan – had entered those ranks as a member of the G7. The G20 includes China, Indonesia, India, and Japan, and the ASEAN secretary general attended the London meeting as well. That is a substantial increase in Asia's voice and a tangible indication of “Asia's rise.”

## Looking ahead

The next quarter has already begun. During Obama's trip to Europe, he made an important statement on U.S. nuclear policy that has potentially profound implications for engagement with Asia: we'll examine it in detail in our next issue. Similarly, Defense Secretary Gates' proposals to reconfigure defense spending could impact the region; we will take that up as well in the next quarter. Meanwhile, the world will wait to see how the economic situation develops and what response greets North Korea's missile/satellite launch of April 5. Most expect the economy to continue to slide and for the international community to do little to rebuke Pyongyang.

## Regional Chronology January-March 2009

**Jan. 7- 8, 2009:** U.S. Deputy Secretary of State John Negroponte visits China to mark 30 years of diplomatic ties and give the Bush administration's farewell to the Chinese leadership. He meets Vice President Xi Jinping and Foreign Minister Yang Jiechi.

**Jan. 10-11, 2009:** Japanese Prime Minister Aso Taro visits South Korea and meets President Lee Myung-bak.

**Jan. 10-12, 2009:** Japanese Foreign Minister Nakasone Hirofumi visits Thailand, Cambodia, and Laos; meets his counterparts; and signs agreements on demining activities and economic cooperation.

**Jan. 13, 2009:** World Health Organization invites Taiwan to participate in International Health Regulations (IHR).

**Jan. 13, 2009:** North Korean Foreign Ministry statement calls for "free field access" to ensure there are no nuclear weapons in South Korea. The statement also says that the North will not to give up its nuclear weapons until the U.S. drops its "hostile policy" and establishes diplomatic relations.

**Jan. 14, 2009:** The Shanghai Cooperation Organization (SCO) holds a deputy foreign ministerial meeting in Moscow to discuss Afghanistan.

**Jan. 15, 2009:** The U.S. freezes the assets of Burmese businessmen Win Aung and Zaw Zaw and their companies for aiding Burma's military junta.

**Jan. 15-17, 2009:** Hwang Joon-kook, director general of South Korea's Foreign Ministry's North Korean Nuclear Affairs Bureau, leads a five-member fact-finding mission to North Korea to discuss buying unused fuel rods stored at the Yongbyon nuclear facility.

**Jan. 20, 2009:** China releases its white paper entitled *China's National Defense in 2008*.

**Jan. 20, 2009:** Barack Obama is sworn in as the 44<sup>th</sup> president of the United States.

**Jan. 22-23, 2009:** Wang Jiarui, chief of the international department of the Chinese Communist Party's Central Committee visits North Korea and meets Kim Jong-il. This is Kim's first reported meeting with a foreign guest since August 2008.

**Jan. 27, 2009:** The Pacific Island Forum leaders hold a summit in Port Moresby and threaten to suspend Fiji from the Forum if Fiji's coup leader Frank Bainimarama does not establish "credible plans" before May 1 to hold elections in 2009.

**Jan. 27-29, 2009:** The annual World Economic Forum is held in Davos, Switzerland.

**Jan. 30, 2009:** North Korea's Committee for the Peaceful Reunification of Korea announces that it would nullify "all the agreed points concerning the issue of putting an end to the political and military confrontation between the north and the south."

**Feb. 1-2, 2009:** Premier Wen Jiabao visits the United Kingdom and stresses the need to deepen ties between the UK and China.

**Feb. 1, 2009:** Gen. Jing Zhiyuan, the commander of China's Second Artillery Corps, in a co-authored article in the journal *Qiushi*, says that China will develop "a nuclear and conventional missile force corresponding to the needs of winning a war" in conditions changed by modern information technology.

**Feb. 2, 2009:** India and the International Atomic Energy Agency (IAEA) sign an agreement that will give monitors oversight of 14 Indian civilian nuclear reactors by 2014, a prerequisite for implementation of the U.S.-India nuclear agreement.

**Feb. 3, 2009:** Japan announces that it will provide \$300 million in reconstruction aid to Afghanistan.

**Feb. 4, 2009:** Defense sources in Seoul confirm that a *Taepodong-2* long-range missile is now at the North's main testing ground at Musudan-ri in the northeast.

**Feb. 4, 2009:** The Kyrgyz government announces that it will be closing the NATO airbase at Manas, a vital supply depot for U.S. and NATO forces in Afghanistan.

**Feb. 4-17, 2009:** *Cobra Gold*, an annual military exercise involving troops from the U.S., Thailand, Japan, Singapore, and Indonesia is held in northern Thailand.

**Feb 5, 2009:** Japan sends fact finding mission to Djibouti and the Middle East to assess facilities to house a Maritime Self-Defense Force (MSDF) antipiracy patrol group.

**Feb. 5, 2009:** China declares a drought emergency in eight northern and central wheat-producing regions of the country.

**Feb. 5-7, 2009:** Thai Prime Minister Abhisit Vejjajiva visits Japan and meets Prime Minister Aso.

**Feb. 6-8, 2009:** Vice President Joseph Biden and Deputy Prime Minister Sergei Ivanov meet at the 45<sup>th</sup> Munich Security Conference and agree to start discussions on reducing the number of nuclear arms in the U.S. and Russia.

**Feb. 10-11, 2009:** Japanese Foreign Minister Nakasone Hirofume visit South Korea and meets his counterpart Yu Myung-Hwan and President Lee Myung-Bak.

**Feb. 10-17, 2009:** President Hu Jintao visits Mali, Tanzania, Mauritius, Senegal, and Saudi Arabia.

**Feb. 16-22, 2009:** U.S. Secretary of State Hillary Clinton visits Japan, Indonesia, South Korea, and China.

**Feb. 17, 2009:** Russia signs an agreement to deliver 15 million metric tons of oil a year (301,000 barrels a day) to China for the next twenty years and build a branch from a new Siberian pipeline to the Chinese border in exchange for a \$25 billion credit.

**Feb. 17, 2009:** Secretary of State Clinton and her Japanese counterpart Foreign Minister Nakasone sign an agreement on the relocation of U.S. Marines from Okinawa to Guam, honoring the commitment to the 2006 road map on realigning U.S. forces in Japan.

**Feb. 18, 2009:** Prime Minister Aso and President Dmitry Medvedev meet in Yuzhno-Sakhalinsk to discuss bilateral issues including a longstanding territorial dispute involving four Russian-held islands off Hokkaido in northern Japan.

**Feb. 19-20, 2009:** The Six-Party Talks Peace and Security Working Group meets in Moscow.

**Feb. 22, 2009:** ASEAN plus 3 finance ministers meet in Phuket, Thailand and agree to expand the Chiang Mai Initiative by increasing the scale of emergency funds from US\$80 billion to \$120 billion to help members solve their currency liquidity shortages.

**Feb. 24, 2009:** North Korea announces that it plans to put its *Kwangmyongsong (Lodestar)-2* satellite into orbit aboard its *Eunha (Galaxy)-2* rocket.

**Feb. 24, 2009:** Democratic Party of Japan President Ozawa states that as Japan assumes a greater role in its defense the need for a U.S. presence will decrease and that the presence of the 7<sup>th</sup> fleet alone should suffice in maintaining security in the Far East.

**Feb. 24, 2009:** Prime Minister Aso meets President Obama in Washington, become the first foreign leader at the White House since Obama took office.

**Feb. 25, 2009:** The U.S. State Department releases its annual country report on human rights practices.

**Feb. 27, 2009:** China responds in detail to the U.S. report on human rights and releases its own report on the U.S., saying crime is a threat and racial discrimination prevails.

**Feb. 27-March 1, 2009:** The ASEAN summit is held in Hua Hin Thailand. The summit was initially due to take place in December, but had to be postponed after demonstrators took over Bangkok's two airports.

**Feb. 27-28, 2009:** U.S. Deputy Assistant Secretary of Defense David Sedney holds the annual Defense Policy Coordination Talks with the People's Liberation Army in Beijing, marking the resumption of their military dialogue after Beijing suspended it last year to protest U.S. arms sales to Taiwan.

**March 1, 2009:** North Korea marks Independence Movement Day by renewing threats against South Korea, the U.S. and Japan, threatening "merciless punishment."

**March 2, 2009:** At the first UNC general-level meeting in almost seven years at Panmunjom, North Korea demands that the U.S. and ROK cancel their joint annual drills *Key Resolve and Foal Eagle*, scheduled for March 9-20. The meeting lasts barely half an hour.

**March 3, 2009:** The *New York Times* reports that President Obama sent a secret letter in February to President Medvedev offering to halt the construction of a missile defense system if Moscow helps suppress Iran's missile threat. The White House denies the offer of such a deal.

**March 3, 2009:** The IAEA approves additional nuclear inspection measures for India. The so-called Additional Protocol will give the IAEA access to information regarding India's nuclear exports, but does not mention verification of nuclear imports, short-notice inspections, or the IAEA's right to take chemical samples.

**March 3, 2009:** South Korea launches a 300-person naval antipiracy contingent on a naval destroyer for duty in the waters off Somalia.

**March 3-10, 2009:** U.S. Special Envoy for North Korea Stephen Bosworth visits China, South Korea, and Japan to discuss the North Korean nuclear issue.

**March 5, 2009:** President Lee Myung-bak visits Australia and meets Prime Minister Kevin Rudd to announce agreements to increase security cooperation and launch formal talks on a free trade agreement.

**March 5, 2009:** North Korea warns that it cannot guarantee the safety of ROK civilian aircraft in or near its airspace if the U.S.-ROK war games go ahead as planned.

**March 8, 2008:** Chinese vessels harass a U.S. Navy research ship in international waters inside China's 200 NM Exclusive Economic Zone in the South China Sea.

**March 9, 2009:** North Korea closes the border and cuts its military telephone link with South Korea in conjunction with the beginning of the U.S.-ROK Combined Forces Command exercise *Key Resolve/Foal Eagle*, leaving 620 workers stranded in the Kaesong Industrial Complex.

**March 9, 2009:** The U.S. issues a protest to the Chinese government over the harassment of a U.S. Navy Ship by Chinese vessels on March 8 in the South China Sea.

**March 9-20, 2009:** The U.S.-ROK Combined Forces Command conducts the annual *Key Resolve/Foal Eagle* military exercise in South Korea. North Korea says the exercise raises cross-border tension and that Pyongyang is ready for an “all-out confrontation.”

**March 10, 2009:** North Korea reopens the border with South Korea.

**March 10, 2009:** The Dalai Lama releases transcripts of a speech in which he accuses China of a “brutal crackdown” of the Tibetan revolt that began on March 10, 1959 and warns that Tibetan culture and identity are “nearing extinction.”

**March 10, 2009:** China accuses a U.S. Navy ship for violating international law during the confrontation with Chinese vessels on March 8 in the South China Sea.

**March 10, 2009:** Philippine President Arroyo signs the “baseline law” defining the Philippines’ maritime boundaries as including Kalayaan Group of Islands and the Scarborough Shoal in the Spratly Islands.

**March 11, 2009:** The Chinese Embassy in Manila describes as “illegal and invalid” the Philippines’ claim of sovereignty over the Nansha Islands and Huangyan Island.

**March 11, 2009:** North Korea notifies the International Civil Aviation Organization and the International Maritime Organization that it will launch a communications satellite between April 4-8, 2009.

**March 11-12, 2009:** China’s Foreign Minister Yang Jiechi visits Washington and meets President Obama, Secretary of State Clinton, and Treasury Secretary Timothy Geithner.

**March 12, 2009:** South Korea announces that the Korea Space Launch Vehicle-1 (KSLV-1) mission, which will mark the first directly launched rocket into space from its soil, has been postponed by a month to late July to give engineers more time for tests.

**March 13, 2009:** Japan condemns North Korea’s plan to launch a rocket, warning that it is legally entitled to shoot down any threatening object that falls toward its territory.

**March 13, 2009:** North Korea closes the border with South Korea.

**March 13, 2009:** Two Japanese destroyers carrying about 400 sailors and coast guard officials left Japan to join the international antipiracy mission off the coast of Somalia.

**March 15, 2009:** China dispatches a “fishery patrol ship” to the South China Sea to conduct patrols of what it called China’s exclusive maritime zone in the disputed waters surrounding the Paracel and Spratly Islands.

**March 16, 2009:** Taiwan announces the publication of its first Quadrennial Defense Review, which calls for the creation of an all-volunteer military by 2014.

**March 16, 2009:** North Korea announces it will reopen the border for South Koreans to return from the Kaesong Industrial Complex but is not yet allowing people or cargo to cross from the South to the North.

**March 16, 2009:** A ship carrying 1,600 Chinese mainland tourists arrives at Keelung harbor in Taiwan, marking the first direct cruise from the mainland to the island.

**March 16, 2009:** Vietnam issues a protest to China for allowing a tour company to open a tour to Phu Lam Island in Viet Nam’s Hoang Sa (Paracel) archipelago and to the Philippines objecting to its “baseline law.”

**March 17, 2009:** North Korea informs the U.S. that it does not wish to receive additional U.S. food assistance and orders U.S. nongovernmental agencies involved with distributing the food to leave the country by the end of March.

**March 17, 2009:** Two U.S. reporters, Euna Lee and Laura Ling, are detained by North Korean security officials near North Korea’s border with China.

**March 17, 2009:** Japan hosts a meeting for senior defense ministers from Japan and the 10 ASEAN member countries to explore non-military security issues such as natural disasters and the bird flu epidemic.

**March 17-21, 2009:** North Korean Premier Kim Yong-il visits China and meets Premier Wen Jiabao and President Hu Jintao.

**March 18, 2009:** SCO Secretary General Bolat Nurgaliyev says the SCO is open to cooperation with NATO.

**March 20, 2009:** North Korea closes the border to traffic to and from South Korea.

**March 21, 2009:** North Korea reopens the military hotline and the border with the South, a day after the end of the annual U.S.-ROK *Key Resolve/Foal Eagle* military exercise.

**Mar. 24, 2009:** North Korea’s Foreign Ministry warns that the Six-Party Talks will collapse if the UN imposes sanctions against its rocket launch.

**March 24, 2009:** The U.S. Congress passes a resolution vowing “unwavering commitment” to Taiwan’s security and calling the 1979 Taiwan Relations Act a “cornerstone” of U.S. policy.

**Mar. 25, 2009:** Secretary Clinton warns North Korea that a missile launch will be a “provocative act” that could have consequences.

**March 25, 2009:** The Pentagon releases its annual report on Chinese military power.

**March 26, 2009:** China announces that it has lodged a formal protest with the U.S. in response to the U.S. Congress resolution vowing to defend Taiwan.

**March 27, 2009:** Stephen Bosworth, the U.S. policy director for North Korea and Sung Kim, the U.S. special envoy to the Six-Party Talks meet South Korea’s chief negotiator in Six-Party Talks, Wi Sung-lak, and Japanese Foreign Ministry Director General Akitaka Saiki in Washington to discuss tensions with North Korea as Pyongyang prepares to launch a rocket.

**March 27, 2009:** Defense Minister Yasukazu Hamada issues an order to the Japan Self-Defense Forces to destroy a North Korean rocket or its debris in the event that its launch fails and it falls onto Japanese territory.

**March 27, 2009:** Thai protesters seize and occupy Prime Minister Abhisit’s offices in Bangkok.

**March 27, 2009:** SCO member states hold a conference on Afghanistan in Moscow and issue a joint statement and an action plan to deal with terrorism and drug trafficking in Afghanistan.

**March 29, 2009:** Secretary of Defense Robert Gates says that the U.S. has no plans for military action to pre-empt the launching of a long-range missile by North Korea and would act only if the missile or its parts appeared to be headed toward U.S. territory. ROK President Lee says he also opposes any military response to North Korea’s impending rocket launch.

**March 30, 2009:** North Korea announces that a South Korean worker has been detained at the Kaesong industrial zone after allegedly criticizing North Korea’s political system.

**March 31, 2009:** Meeting in the Hague, foreign ministers of South Korea, the U.S., and Japan reaffirm their consensus that if North Korea goes ahead with a rocket launch, it should be taken up at the U.N. Security Council (UNSC).

**March 31, 2009:** The UN-backed tribunal for former Khmer Rouge official Kaing Guek Eav – also known as Duch – begins in Cambodia.

**March 31, 2009:** North Korea announces that the two U.S. reporters detained in North Korea since March 17 will be tried for illegal entry and “hostile acts” against the DPRK.

**April 1, 2009:** Presidents Obama and Hu meet on the margins of the G20 summit in London.

**Apr. 5, 2009:** North Korea launches a long-range rocket. It claims a successful satellite launch, but the U.S. and South Korea say the launch was unsuccessful and they, with many other states, criticize Pyongyang’s act as provocative and call for an emergency meeting of the UNSC.





**U.S.-Japan Relations:  
A Fresh Start**

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A new calendar year did little to change the tenor of Japanese domestic politics as the public became increasingly frustrated with parliamentary gridlock and the leadership of Prime Minister Aso Taro, whose approval rating plummeted amid a deepening recession. Opposition leader Ozawa Ichiro continued pressure tactics against the government and became the favorite to succeed Aso until the arrest of a close aide damaged his reputation and stunted momentum for a snap election. Aso demonstrated the art of political survival, touting the urgency of economic stimulus over a poll he could easily lose and which need not take place until the fall. In an effort to prevent political turmoil from weakening Japan's global leadership role, the government dispatched two Maritime Self-Defense Force (MSDF) destroyers to participate in antipiracy operations in the Gulf of Aden.

The Obama administration wasted little time in establishing a positive trajectory for the U.S.-Japan alliance, first sending Secretary of State Hillary Clinton to Tokyo in mid-February and receiving Prime Minister Aso at the White House shortly thereafter. The core agenda items for both visits – the economic crisis, North Korea, Afghanistan, and climate change – reflected both regional and global challenges. Bilateral issues also featured prominently on the agenda in the form of an agreement on the relocation of U.S. forces from Okinawa to Guam. In a fitting end to a quarter of close bilateral coordination, Washington and Tokyo were poised to monitor an anticipated missile test by North Korea and orchestrate a cohesive response that could determine the fate of the Six-Party Talks.

**Putting off an election**

Prime Minister Aso opened the year with a pledge to stimulate the economy but could not win public support in the face of grim economic data; for example, exports fell 50 percent in January from a year earlier and the economy shrank at an annualized rate of 12.7 percent in the fourth quarter of 2008. Unable to reach a compromise with the opposition led by Democratic Party of Japan (DPJ) President Ozawa Ichiro, Aso was forced to ram a second stimulus package through the Diet in January by asking his ruling coalition to vote on it a second time with a two-thirds majority in the Lower House, but that did little to improve his standing. Aso then compounded his political problems in early February by stating that he opposed former Prime Minister Koizumi Junichiro's plan to privatize the postal system – a symbol of economic reform that propelled the Liberal Democratic Party (LDP) to a landslide victory in an election back in 2005 – despite having served in Koizumi's Cabinet at the time. This raised questions about Aso's credibility. A week later the public was outraged by video footage showing Finance Minister

Nakagawa Shoichi seemingly intoxicated during a press conference with the Japanese media at a G7 meeting in Rome. Nakagawa was forced to resign and Aso's approval rating dropped below ten percent in some polls. Opposition members repeatedly called for a snap election, but Aso stood firm stressing the importance of economic stimulus measures and noting that, as prime minister, the timing of an election is his prerogative.

Meanwhile, Ozawa Ichiro's popularity increased steadily and he escalated a rhetorical campaign based on two themes: criticizing the LDP on domestic policy and standing up to the U.S. (using phrases such as "equal alliance.") But like Aso, Ozawa raised eyebrows with controversial commentary, was tarnished by scandal, lost the support of the public, and refused to step down. He caused a stir in the media in February, when he stated that the U.S. 7<sup>th</sup> fleet alone should suffice for maintaining security in the Far East, implying that the U.S. footprint in Japan should be drastically reduced and Japan would fill the gap (thus pulling off the rare feat of simultaneously angering both the pro-U.S. conservatives and the pacifist left within the DPJ). One of his closest aides, Okubo Takanori, was then arrested in early March for allegedly accepting illegal donations from a construction company. Ozawa apologized to the public but refused to resign as DPJ president. A *Yomiuri* poll published on March 26 said 68 percent of the public opposed Ozawa as head of the DPJ.

Aso's approval rating rebounded to just above 20 percent at the end of March and he intimated during a press conference on March 31 that he might consider dissolving the Lower House if the opposition refused to pass a third stimulus package this spring. He could also wait until August in an attempt to develop a message that resonates with the public, but that might prove challenging for both parties as ambivalence best describes current attitudes about politics. According to an *Asahi Shimbun* poll published on March 17, 60 percent of the public is disappointed with the state of politics and close to 90 percent feels that political leaders are not offering a future vision for the country nor reflecting the will of the people. The Aso government did garner public support for its decision to dispatch two MSDF destroyers to the Gulf of Aden for antipiracy missions, which 61 percent of the public favored according to a *Yomiuri* poll in mid-March.

### **Kick-starting alliance cooperation**

President Obama moved quickly to dispel any concerns in Japan that a Democratic administration might place less emphasis on the U.S.-Japan alliance. Hillary Clinton sent a strong signal by emphasizing in her Senate confirmation hearing that the U.S.-Japan alliance remains the "cornerstone" of U.S. Asia policy. The administration then announced that her first trip as secretary of state would be to Asia and that she would stop in Tokyo first. Just prior to her departure, in an address to the Asia Society, Secretary Clinton stated that the U.S. has not forgotten the families of Japanese citizens abducted to North Korea and she later met them during her visit to Tokyo from Feb. 16-17. Her meeting with Foreign Minister Nakasone Hirofumi covered a broad spectrum of issues including the global economic crisis, extended deterrence, the North Korean nuclear issue, efforts to stabilize Afghanistan and Pakistan, and climate change. The two also signed an agreement on the relocation of U.S. forces from Okinawa to Guam, a central element in a realignment plan finalized back in May 2006. Clinton also met other leaders including DPJ President Ozawa, who reportedly emphasized the

importance of China and the U.S.-Japan-China trilateral relationship. She also conducted a town hall meeting at the University of Tokyo to reinforce the administration's theme of listening to the perspectives of friends and allies.

Secretary Clinton also delivered an invitation to Prime Minister Aso, who a week later became the first foreign leader to meet President Obama in the White House. That discussion centered on the need to coordinate responses to the global financial crisis but also addressed North Korea's nuclear and missile programs and the abductee issue. The president thanked Aso for Japan's contributions in Afghanistan, but did not pressure Japan to assume a greater military role. Japan has dispatched MSDF vessels for refueling missions in the Indian Ocean since 2001 and is also a major aid donor to Afghanistan. The government has provided approximately \$1.78 billion in aid since 2001 in various areas including governance; humanitarian assistance; reconstruction; disarmament, demobilization, and reintegration (DDR) projects; and counter-narcotics and border control. Climate change also figured in the discussions and could serve as a key agenda item for bilateral cooperation. Though the Japanese media tended to downgrade the meeting as truncated and business-like, the leaders set the stage for sustained coordination on key challenges regardless of the election outcome in Japan.

There were only a few minor sour notes in this impressive start to alliance relations under the new Obama administration. The first was U.S. Treasury Secretary Timothy Geithner's failure to publicly acknowledge Japan's \$100 billion contribution to the IMF and its passage of two stimulus packages when calling on the international community to support developing economies through the IMF and promote domestic stimulus measures. Within the G20 process, the U.S. and Japan may be the two most closely aligned countries on the need for replenishing the IMF and increasing stimulus. Finance Minister Yosano Kaoru met Geithner in England on the sidelines of a G20 preparatory meeting in March and explained Prime Minister Aso's desire to pass a third stimulus package this spring, noting that the three packages combined would surpass Geithner's proposed threshold of 2 percent of GDP. The other sour note was a leak by someone in the Japanese government of U.S. intelligence shared on the North Korean rocket launch preparations just before Secretary Clinton's visit to Tokyo. If the new administration loses confidence in Tokyo's ability to handle the most sensitive intelligence, it could become a problem for the overall flow of information and coordination between the two governments.

### **Preparing for a missile launch**

On Feb. 3, the *Sankei Shimbun* reported that North Korea had begun preparations for a long-range missile test. Pyongyang claimed to be planning a satellite launch on what many analysts concluded was a *Taepodong-2* missile. The U.S., Japan, and South Korea agreed that a launch would violate United Nations Security Council (UNSC) Resolution 1718, which prohibits any missile activity by North Korea, and later dispatched ships to monitor any missile test. They also began considering Security Council resolutions or statements that might be adopted after Secretary Clinton warned publicly that there would be "consequences" for the launch. However, Chinese and Russian cooperation in the Security Council was not a foregone conclusion since both Beijing and Moscow accepted North Korean claims that the launch was intended to put a peaceful satellite into space. Meanwhile, the Japanese government announced it would shoot down any debris that might fall on Japanese territory in a demonstration of its missile defense

capabilities. Japan deployed three *Aegis* destroyers together with two U.S. and one South Korean missile defense ships monitoring North Korean actions.

### **A lot to watch**

North Korea's antics will certainly take center stage next quarter. Washington and Tokyo can also be expected to build on whatever agreements come out of the G20 summit in London concerning the global economy. The United Nations Framework Convention on Climate Change (UNFCCC) talks in Bonn carry over into the second quarter and could shed light on the prospects for a post-Kyoto framework at the 15<sup>th</sup> Conference of the Parties (COP 15) in Copenhagen this December. Japan will host a Pakistan donors' conference in April and assume a leadership role in promoting reconstruction and development. There may also be an election in Japan, which could produce the first non-LDP government since 1994.

## **Chronology of U.S.-Japan Relations January-March 2009**

**Jan. 1, 2009:** In a New Year's message, Prime Minister Aso Taro addresses the global economic crisis and vows to make Japan the first country to emerge from recession.

**Jan. 1, 2009:** Democratic Party of Japan (DPJ) President Ozawa Ichiro issues a New Year's message titled, "The Year of Change" and outlines a five-point policy platform for the next Lower House election.

**Jan. 4, 2009:** In his first press conference of the year, PM Aso refuses to consider the dissolution of the Lower House until budget measures are passed in the Diet citing the need for economic stimulus measures.

**Jan. 4, 2009:** In his first interview of the year, DPJ President Ozawa denounces government economic policies and reiterates his desire to win the next election to "protect the lives and livelihoods of the people."

**Jan. 6, 2009:** PM Aso rejects DPJ Secretary General Hatoyama Yukio's call for his resignation citing the need to stem the adverse effects of the financial crisis.

**Jan. 7, 2009:** *Asahi Shimbun* reports that Joseph Nye will become U.S. ambassador to Japan.

**Jan. 10, 2009:** The first six of 12 U.S. Air Force *F-22 Raptor* stealth fighters arrive at Kadena Air Base in Okinawa for a three-month deployment, the second such deployment to the Far East since 2007.

**Jan. 11, 2009:** PM Aso's disapproval rating is 72 percent according to a *Yomiuri Shimbun* poll.

**Jan. 12, 2009:** PM Aso and South Korean President Lee Myung-bak agree at a summit in Seoul to jointly tackle the global financial crisis and work closely with the Obama administration on North Korean issues.

**Jan. 12, 2009:** A *Fuji Sankei* poll, asking who is most suitable to become prime minister, deems Ozawa Ichiro most popular for the first time with 13.2 percent of responses followed by former PM Koizumi Junichiro with 9.9 percent. PM Aso comes in fourth with 5.9 percent and 25.7 percent of respondents said no one is suitable to lead the country.

**Jan. 13, 2009:** A second supplementary budget and other measures, including a cash handout program for households, are passed in the Lower House of the Diet.

**Jan. 13, 2009:** MP Watanabe Yoshimi quits the ruling Liberal Democratic Party (LDP) to protest PM Aso's policies.

**Jan. 14, 2009:** PM Aso dismisses a vice minister in the Cabinet office for refusing to vote for the second supplementary budget in the Lower House.

**Jan. 14, 2009:** During a farewell appearance at the Japan National Press Club in Tokyo, U.S. Ambassador to Japan Thomas Schieffer states that Japan should consider exercising the right of collective self-defense.

**Jan. 15, 2009:** Secretary of State-designate Hillary Clinton praises the U.S.-Japan alliance as the cornerstone of U.S. policy in Asia during her Senate confirmation hearing.

**Jan. 16, 2009:** Japan's Ministry of Defense releases a policy blueprint for the use of space for defensive purposes.

**Jan. 21, 2009:** PM Aso issues a statement of congratulations on the inauguration of President Barack Obama.

**Jan. 21, 2009:** DPJ Secretary General Hatoyama offers congratulations on the inauguration of President Obama and criticizes the LDP as simply following the direction of the U.S.

**Jan. 22, 2009:** The Bank of Japan revises previous GDP estimates and predicts the Japanese economy will shrink two percent in fiscal 2009, the steepest contraction on record.

**Jan. 22, 2009:** Japan's Ministry of Finance announces that Japan's 2008 trade surplus fell 80 percent compared to the previous year.

**Jan. 23, 2009:** Secretary of State Clinton expresses sympathy during a telephone conversation with Foreign Minister Nakasone Hirofumi for the relatives of Japanese citizens abducted by North Korea.

**Jan. 23, 2009:** Japan launches the Greenhouse Gases Observing Satellite (GOSAT) *Ibuki* into space, the first satellite dedicated to monitoring greenhouse gas emissions.

**Jan. 26, 2009:** A *Mainichi Shimbun* poll lists an approval rating of 19 percent for PM Aso, and a disapproval rating of 65 percent.

**Jan. 27, 2009:** A second supplementary budget for fiscal year 2008 comes into force after the ruling coalition passes it a second time in the Lower House of the Diet.

**Jan. 28, 2009:** Japanese Defense Minister Hamada Yasukazu orders preparations for the dispatch of Maritime Self Defense Force (MSDF) vessels to the coast of East Africa and the Gulf of Aden for antipiracy operations.

**Jan. 28, 2009:** In a speech to the Diet, PM Aso vows to create 1.6 million jobs over three years and touts stimulus measures to pull Japan out of recession.

**Jan. 29, 2009:** During a brief telephone conversation, President Obama and PM Aso agree to tackle the global financial crisis and other issues including North Korea.

**Jan. 29, 2009:** A white paper on Official Development Assistance (ODA) prepared by the Ministry of Foreign Affairs for the Cabinet states Japan fell to fifth place in 2007.

**Feb. 3, 2009:** *Sankei Shimbun* reports that North Korea has begun preparations for a *Taepodong-2* missile launch.

**Feb. 4, 2009:** In an appearance before the Lower House Budget Committee, PM Aso criticizes the “buy American” provisions in the U.S. stimulus package as a violation of World Trade Organization (WTO) rules.

**Feb. 5, 2009:** PM Aso states during a question and answer session in the Diet that he opposed the break-up of Japan Post into four companies back in 2005, despite his having served in the Koizumi administration at the time, and that the decision should be reviewed.

**Feb. 5, 2009:** The State Department announces that Japan will be Hillary Clinton’s first stop on her first trip abroad as secretary of state.

**Feb. 6, 2009:** PM Aso backtracks, stressing that he never said Japan Post should be nationalized and that the 2005 election was obviously about privatizing the postal service.

**Feb. 6, 2009:** A *Yomiuri Shimbun* poll asking who is most suitable to be prime minister finds former PM Koizumi most popular with 14.4 percent, followed by Ozawa Ichiro with 13.7 percent. Aso came in fourth at 4.7 percent.

**Feb. 9, 2009:** Still under fire for controversial comments about postal privatization, PM Aso revises his previous marks and states that the plan was acceptable in the end.

**Feb. 9, 2009:** A poll by *Asahi Shimbun* projects an approval rating of 14 percent for PM Aso, with a disapproval rating of 73 percent.

**Feb. 10, 2009:** A joint survey by *BBC News* and *Yomiuri Shimbun* reveals that 56 percent of respondents polled worldwide said Japan has a positive influence in the world.

**Feb. 12, 2009:** Former PM Koizumi criticizes PM Aso's comments on postal privatization deeming them laughable.

**Feb. 16, 2009:** The government of Japan releases figures indicating Japan's economy shrank at an annualized rate of 12.7 percent in the fourth quarter of 2008.

**Feb. 17, 2009:** Japanese Finance Minister Nakagawa Shoichi resigns after reportedly appearing drunk during a press conference at a G7 summit in Rome on Feb. 14. He is replaced by Minister for Economic and Fiscal Policy Yosano Kaoru, who holds both posts concurrently.

**Feb. 17, 2009:** Secretary Clinton meets Foreign Minister Nakasone in Tokyo and the two sign an accord regarding the relocation of U.S. military personnel to Guam. Clinton also meets PM Aso, opposition leader Ozawa, and relatives of Japanese citizens abducted by North Korea.

**Feb. 18, 2009:** PM Aso's approval rating falls to 13.4 percent in a *Kyodo News* poll.

**Feb. 23, 2009:** Polls by *Fuji Television* and *Mainichi Shimbun* show an 11 percent approval rating for PM Aso.

**Feb. 24, 2009:** PM Aso meets President Obama at the White House, the first foreign leader to do so. The two discuss the global economic crisis, North Korea, Afghanistan, and climate change.

**Feb. 24, 2009:** DPJ President Ozawa states that as Japan assumes a greater role in its defense the need for a U.S. presence will decrease and that the presence of the 7<sup>th</sup> fleet alone should suffice in maintaining security in the Far East.

**Feb. 28, 2009:** Japanese Agriculture Minister Ishiba Shigeru suggests during an appearance on a television program that PM Aso should call a snap election.

**March 2, 2009:** In response to Ishiba's comments, PM Aso states that the timing of an election is his prerogative and that economic stimulus measures should take precedence.

**March 3, 2009:** Okubo Takanori, a senior aide to DPJ President Ozawa, is arrested for allegedly violating regulations on political contributions. Two executives of the Nishimatsu construction company are also arrested for allegedly making illegal donations to Okubo.

**March 3, 2009:** Defense Minister Hamada announces that if North Korea conducts a missile test, Japan will shoot down any debris that falls toward Japanese territory.

**March 4, 2009:** DPJ President Ozawa holds a press conference and refuses to resign in the wake of the Okubo scandal, criticizing the arrest of his aide as an abuse of state power.

**March 5, 2009:** U.S. Special Envoy for North Korea Stephen Bosworth meets Saiki Akitaka, director general Asian and Oceanian Affairs Bureau of the Ministry of Foreign Affairs, in Tokyo to discuss the North Korean nuclear issue.

**March 5, 2009:** Public opinion poll by the Cabinet office shows over 70 percent of respondents somewhat or extremely supportive of the MSDF refueling mission in the Indian Ocean.

**March 8, 2009:** *Asahi Shimbun* poll shows 57 percent of the Japanese public thinks Ozawa Ichiro should resign as DPJ president. PM Aso's approval rating was 14 percent in the same poll; *Kyodo News* poll shows an approval rating of 16 percent.

**March 9, 2009:** Ministry of Finance reports Japanese exports fell close to 50 percent in January 2009 from a year earlier and that the country posted its first current account deficit in 13 years.

**March 9, 2009:** U.S. Special Envoy Bosworth states in Seoul that a North Korean missile launch would constitute a contravention of UNSC Resolution 1718.

**March 10, 2009:** DPJ President Ozawa holds a press conference and apologizes to the public for the Okubo scandal but declines to resign.

**March 11, 2009:** Defense Minister Hamada urges North Korea not to conduct what it argues is a satellite test warning that a launch of what others believe to be a ballistic missile could damage peace and stability in the region.

**March 11, 2009:** Secretary Clinton notes during media availability with Chinese Foreign Minister Yang Jiechi in Washington that the Obama administration is ready to send Special Envoy Bosworth to Pyongyang to begin direct discussions with the North Korea but that he has not been invited.

**March 13, 2009:** Defense Minister Hamada orders the dispatch of two destroyers to take part in anti-piracy missions off the coast of Somalia.

**March 13, 2009:** In an interview with *Asahi Shimbun*, PM Aso states that Japan will push for a new United Nations Security Resolution sanctioning North Korea if it conducts a missile test.

**March 15, 2009:** Japanese Finance Minister Yosano Kaoru and U.S. Treasury Secretary Timothy Geithner meet on the sidelines of a G20 preparatory meeting in the United Kingdom and agree to promote stimulus packages totaling the equivalent of two percent of GDP.

**March 17, 2009:** An *Asahi Shimbun* poll shows that 60 percent of the public is disappointed with the state of Japanese politics, with close to 90 percent saying politicians have not presented a future vision for the country and are not reflecting the will of the people.

**March 18, 2009:** In a *Yomiuri Shimbun* poll asking who is most suitable to be prime minister, former PM Koizumi comes in first with 12.9 percent, DPJ President Ozawa fifth with six percent, and PM Aso eighth with 3.5 percent.



**March 24, 2009:** Okubo Takanori, a senior aide to Ozawa Ichiro, is indicted for violating regulations on political donations. Ozawa announces his decision to stay on as DPJ President.

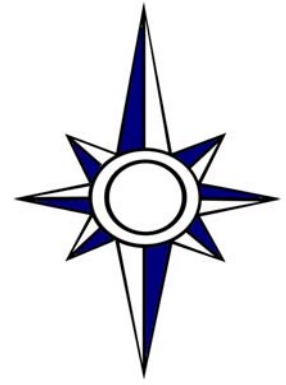
**March 26, 2009:** A *Yomiuri Shimbun* survey shows that 68 percent of the public opposes Ozawa Ichiro as head of the DPJ. PM Aso's approval rating increases to 23 percent from 17 percent in a previous survey.

**March 27, 2009:** Japan's Diet enacts a record \$897 billion budget for fiscal year 2009.

**March 28, 2009:** Public opinion poll released by Cabinet office shows 68 percent of Japanese are pessimistic about the economy with 57 percent expressing concern about unemployment.

**March 31, 2009:** PM Aso calls for a third stimulus package and announces his intention to submit it to the Diet for approval during the current session.





**U.S.-China Relations:  
A Good Beginning Is Half Way to Success**

**Bonnie Glaser**  
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The U.S.-China relationship got off to a good start under the Obama administration, putting to rest Chinese worries that a prolonged period would be required to educate the new U.S. president about China's importance. "Positive" and "cooperative" were the two watchwords used repeatedly by Secretary of State Hillary Clinton in her discussions with Chinese leaders, which focused on the need to deepen and broaden the U.S.-China relationship, and to elevate cooperation to address urgent global problems, especially the financial crisis and global warming. In late February, U.S.-China military-to-military ties, which had been suspended by Beijing after the U.S. sold a large weapons package to Taiwan last October, partially resumed with the visit of U.S. Deputy Assistant Secretary of Defense David Sedney to Beijing. A naval confrontation between U.S. and Chinese ships took place near Hainan Island, which was quickly defused, although the underlying causes remain. Chinese Foreign Minister Yang Jiechi visited Washington D.C. in March to prepare for the first meeting between the two countries' presidents, which took place on the margins of the G20 meeting in London on April 1.

**Secretary Clinton's visit sets a positive tone**

The Obama administration entered office with a firm conviction that U.S.-Chinese cooperation is essential to address pressing global challenges such as the financial crisis and climate change. Even before President Barack Obama's inauguration, he phoned President Hu Jintao to signal his intentions to build a positive and constructive U.S.-China relationship. Eager to ensure a smooth transition and a good beginning to Sino-U.S. relations under the new administration, Beijing was elated by the decision that Secretary Clinton would make her first foreign trip to Asia and that China would bat clean-up in the four nation itinerary.

Prior to Clinton's departure for Asia, she delivered a speech at The Asia Society in New York entitled "U.S. and Asia: Two Transatlantic and Transpacific Powers." In the portion of the speech that addressed relations with China, Clinton asserted that "Even with our differences, the United States will remain committed to pursuing a positive relationship with China, one that we believe is essential to America's future peace, progress, and prosperity." She related an ancient Chinese tale in which soldiers from warring feudal states find themselves on a boat together crossing a wide river in a storm. Instead of fighting, the soldiers work together and survive. The Chinese aphorism from this story, "When you are in a common boat, you need to cross the river peacefully together," was cited by Clinton in the speech and was a constant refrain in her subsequent discussions with Chinese leaders in Beijing.

In meetings with China's party leader and President Hu Jintao, Premier Wen Jiabao, State Councilor Dai Bingguo, and Foreign Minister Yang Jiechi, Clinton underscored the need for the U.S. and China to have a "positive, cooperative and comprehensive" relationship. Agreement was reached to create a new high-level dialogue mechanism that integrates the diplomatic talks known as the "senior dialogue" and the strategic economic dialogue launched by Bush administration Treasury Secretary Hank Paulson. The two sides also agreed that China and the U.S. should intensify exchanges and cooperation in economy and trade, law enforcement, science, education, culture, health, and climate change, sustain military-to-military exchanges, and continue to hold human rights dialogues. In the foreign policy realm, topics discussed included working together to promote North Korea's denuclearization through the Six-Party Talks, further better cross-Strait relations, enhance stability in Afghanistan and Pakistan, prevent Iran from developing nuclear weapons, advance counter-terrorism globally, promote arms control and disarmament, and stem the proliferation of weapons of mass destruction.

On several occasions, Clinton thanked China for its continued purchases of U.S. Treasury notes. "By continuing to support American Treasury instruments, the Chinese are recognizing our interconnection. We are truly going to rise or fall together," Secretary Clinton said in a local television interview.

Clinton's approach to human rights prompted vocal criticism from human rights groups. Prior to her departure, in response to a reporter's question about whether she intended to raise human rights concerns in Beijing, Clinton lamented that "We know what they are going to say because I've had those kinds of conversations for more than a decade with Chinese leaders." Noting that the U.S. should continue to raise its concerns, she insisted that "our pressing on those issues can't interfere with the global economic crisis, the global climate change crisis and the security crisis." At the joint press conference with Foreign Minister Yang, Clinton stated, however, that "The promotion of human rights is an essential aspect of our global foreign policy, and something we discussed candidly with the Chinese leadership." And shortly after Clinton's return, the State Department catalogued setbacks in Chinese human rights policies, including increased cultural and religious repression of ethnic minorities in Xinjiang and Tibet, in its annual report on human rights around the world.

In addition to holding meetings with senior Chinese officials, Clinton visited a clean thermal power plant built with General Electric and Chinese technology, had audiences with civil society leaders, met with a group of prominent women, and attended a local church service.

The Chinese media gave Secretary Clinton high marks for her trip to Asia and specifically for the message that she conveyed of the great importance that the Obama administration attaches to Sino-U.S. relations. Commentators applauded Clinton's "listening tour" and compared it favorably to the Bush administration's tendency to lecture others. Against the background of the global financial crisis and the growth of Chinese power, experts concluded that a new phenomenon of "balance" has appeared in Sino-U.S. relations. Analysts credited increased economic and security interdependence with enabling the bilateral relationship to start off on the track of cooperation, as opposed to the pattern with prior U.S. administrations of early friction followed by adaptation and eventual accommodation.

The decision to combine the senior dialogue and the strategic economic dialogue elicited favorable comments from Chinese researchers. Fudan University Professor Wu Xinbo, for example, told the Shanghai newspaper *Jiefang Ribao* that he expected the new dialogue mechanism would improve the coordination of U.S. policies toward China. Other Chinese experts interviewed by the media praised Clinton for bringing along her special envoy on climate change rather than officials with responsibility for human rights and paid special attention to the secretary's emphasis on using "smart power." Amid the upbeat assessment of Clinton's visit, however, were persisting concerns that the international financial crisis could lead the U.S. to adopt protectionist measures.

### **U.S. attempts to restart mil-to-mil ties**

The Obama administration's goal of getting U.S.-Chinese relations off to a good start was complicated by Beijing's suspension of military contacts with the U.S. last October in protest over a sizeable U.S. arms sales package to Taiwan valued at \$6.5 billion. In late February, Deputy Assistant Secretary of Defense David Sedney traveled to Beijing to restart the bilateral military relationship, but China refused to agree to full-scale recommencement, insisting that the U.S. first take additional steps to address Chinese concerns.

Following two days of consultations with Gen. Qian Lihua, director of the Ministry of National Defense's Foreign Affairs Office, Sedney told a news conference that high-level exchanges between the two nations' militaries would soon resume. Moreover, he described his discussions in the annual meeting known as the Defense Policy Coordination Talks as the best he had conducted in more than 20 years of negotiations with the Chinese military, calling them "intense, very productive, and very useful." Sedney also told the press that the talks were grounded in a conviction that China's emergence as a military power was not a threat to U.S. interests, but instead could be a stabilizing force in an uncertain world, a formulation that is more positive than prior statements about Chinese military developments contained in the Pentagon's annual report on Chinese military power.

However, Sedney's Chinese counterpart underscored that the Taiwan issue remained China's "core interest and concern" and urged the U.S. "to prudently deal with the Taiwan question, stop upgrading substantive military relations with Taiwan, stop selling arms and take concrete actions in support of the peaceful development of cross-Straits ties." In addition, Qian stated that the dialogue itself did not necessarily signify the resumption of the suspended military exchanges between the U.S. and China, according to *Xinhua*. Qian described the two countries' military relations as "still in a difficult period," and added: "Frankly speaking, it will take a long time to restore our military exchanges as not a single obstacle in military ties has been removed so far." Apart from U.S. arms sales to Taiwan, China reiterated its objections to the restrictions on bilateral military exchanges in the 2000 Fiscal Year Defense Authorization Act, the annual report issued by the Pentagon on Chinese military power, the conduct of surveillance activities by U.S. ships in China's Exclusive Economic Zone (EEZ), and other U.S. actions. An article in *International Herald Leader*, published by *Xinhua*, stated categorically that China would not agree to hold the Defense Consultative Talks until the U.S. takes "concrete measures."

During the two days of discussions, the two sides covered a broad range of topics, including security developments in South and Central Asia, and the Horn of Africa. Representatives from the U.S. Central Command briefed the Chinese on President Obama's decision to send 17,000 additional troops to Afghanistan. The delegations also exchanged ideas on principles and a framework for developing their bilateral military ties in the coming year. However, the Chinese side made clear that the future development of the military relationship would depend on U.S. actions and policies.

On March 4, Sedney testified before the U.S.-China Economic and Security Review Commission, where he reviewed the Department of Defense's views on the foreign military and security activities of the PLA and U.S.-China military-to-military exchanges. Emphasizing the need not only to avoid adversarial relations, but also to forge positive and cooperative ties, Sedney maintained that the new U.S. administration looks to a "new beginning to strengthen and broaden our relations with China to our mutual benefit and that of the world at-large."

One month after Sedney's return from China, the Defense Department issued its annual report to Congress, *Military Power of the People's Republic of China 2009*. The report outlined recent developments in China's military programs and stressed that China's lack of transparency about how it intends to use its growing capability creates mistrust and potential for miscalculation. The report highlighted China's investment in "disruptive" military technologies designed for anti-access/area-denial, as well as for nuclear, space, and cyber warfare, that "are changing regional military balances" and "have implications beyond the Asia-Pacific region." It also noted that the PLA's development of longer-range capabilities has enabled it to contribute cooperatively to the international community's responsibilities in areas such as peacekeeping, humanitarian assistance and disaster relief, and counter-piracy, but could also allow China to project power to ensure access to resources or enforce claims to disputed territories. China voiced strong objections to the report. A spokesman for the Chinese Ministry of National Defense maintained that publication of the report "can only add new negative factors to the restoration and development" of U.S.-Chinese military ties.

### **Naval confrontation is reminder of strategic mistrust**

Less than one month after Secretary Clinton clinked glasses with her Chinese hosts and declared the need for a positive, cooperative, U.S.-China relationship, a naval confrontation took place between U.S. and Chinese vessels that served as a reminder of the strategic mistrust between the two countries. The incident occurred on the eve of Foreign Minister Yang Jiechi's visit to Washington. According to a Pentagon statement, on March 9, five Chinese ships "shadowed and aggressively maneuvered in dangerously close proximity to the *USNS Impeccable*," an ocean surveillance ship that was conducting routine operations in international waters. The Chinese vessels came within 25 feet of the *Impeccable*, dropped pieces of wood in the water in front of the *Impeccable*'s path, and came to a stop directly ahead of the *Impeccable*, forcing the U.S. ship to conduct an emergency "all stop" to avoid collision. A Chinese trawler used a grapple hook in an attempt to snag the towed acoustic array of the *Impeccable*.

The incident took place approximately 75 miles south of Hainan Island, where in April 2001, a U.S. *EP-3* reconnaissance plane had been forced to make an emergency landing after a Chinese

*F-8* fighter collided with it. The Chinese pilot died and the Chinese held the 24-member crew of the *EP-3* for 11 days. The plane was returned months later after being cut up into pieces.

The Pentagon also revealed that the March 8 incident was preceded by several days of increasingly aggressive conduct by Chinese vessels. Two of those incidents involved harassment of the *Impeccable*; in one case a Chinese frigate crossed its bow several times without warning at close range. A third incident took place in the Yellow Sea where a Chinese Bureau of Fisheries Patrol vessel shined a high-intensity spotlight on the *USNS Victorious* and a Chinese *Y-12* maritime surveillance aircraft conducted 12 fly-bys of *Victorious* at dangerously low altitudes.

The U.S. lodged an official complaint with Beijing and a Pentagon spokesman charged that the unprofessional maneuvers by Chinese ships violated the requirement under international law to operate with due regard for the rights and safety of other lawful users of the ocean. Beijing blamed the U.S. for the confrontation, insisting that the *Impeccable* was violating international law by conducting surveillance activities in waters where China claims jurisdiction. A Chinese Foreign Ministry spokesman said that “The U.S. claims are gravely in contravention of the facts and confuse black and white, and they are totally unacceptable to China.”

It is undeniable that the U.S. ships were collecting intelligence. Ocean surveillance ships such as the *Impeccable* and the *Victorious* directly support the U.S. Navy by using passive and active sonar arrays to detect and track undersea threats. They are tasked with gathering marine data that are essential for effective submarine operations, anti-submarine warfare, and mine warfare. From the U.S. perspective, such operations are necessary to monitor China’s military deployments and capabilities, which is part of a larger mission – to deter or defeat any possible future Chinese military aggression against Taiwan. Indeed, the *Impeccable* was operating approximately 75 miles from a newly constructed naval base in Hainan. And these incidents occurred at the same time that the PLA Navy was conducting an exercise that included a Chinese submarine and a destroyer in the South China Sea.

The U.S. views the peaceful conduct of surveillance and other military activities in a country’s EEZ, which extends 200 nautical miles from the coast, without that country’s consent, as legal based on its interpretation of the U.N. Convention of the Law of the Sea (UNCLOS). Unfettered access to the world’s oceans and international airspace, with the exception of countries’ territorial waters that extend 12 nautical miles from the coastline, is part of the holy grail of the U.S. Navy. China argues that the UNCLOS prohibits activities such as military operations, military surveying, intelligence collection, and hydrographic surveying in the EEZ of a coastal state without its permission. Beijing also has an abiding interest in preventing the U.S. from uncovering information on its sensitive military programs, including submarines.

For both U.S. and Chinese leaders, the fracas was ill-timed. Yang Jiechi’s visit was intended to make preparations for the first meeting between Hu Jintao and Barak Obama on the margins of the G20 summit meeting in London on April 1. Neither side wanted the naval dust-up to get in the way of increased cooperation on a robust global and regional agenda. Secretary Clinton told the press after her talks with Yang that she had raised U.S. concerns about the naval confrontation and that both had agreed that the U.S. and China should “work to ensure that such incidents do not happen again in the future.” The topic was broached again at the White House

both by National Security Adviser James Jones and President Obama. A White House press release noted that Obama stressed the importance of raising the level and frequency of the U.S.-China military-to-military dialogue in order to avoid future incidents.

In China, Zhang Deshun, a rear admiral in the PLA Navy, tried to defuse the potential crisis by reiterating an invitation to the U.S. to watch a Chinese naval parade off the eastern port of Qingdao next month. "The incident ... is not going to deter everything," he told the *China Daily*. Secretary of Defense Robert Gates expressed his hope that diplomatic interaction in the aftermath of the episode would ensure that future confrontations could be avoided.

U.S. officials used a multitude of channels to persuade China to discuss the incident, but were rebuffed. Commander of U.S. Pacific Command Adm. Timothy Keating aired his frustration in remarks to the Senate Armed Services Committee on March 19. He told the lawmakers that the *Impeccable* incident was "certainly a troubling indicator that China, particularly in the South China Sea, is behaving in an aggressive, troublesome manner, and they're not willing to abide by acceptable standards of behavior or rules of the road." He contrasted China's "illegal" and "irresponsible" behavior in the episode with the PLA Navy's constructive contribution to antipiracy operations in the Gulf of Aden where they are communicating with U.S. warships, noting that China's military intentions remain unclear.

Mutual efforts to prevent the incident from escalating to a political crisis were successful this time, but it can be expected that encounters between the U.S. Navy and the PLA Navy will increase as the PLAN goes further out to sea and continues to aggressively challenge U.S. freedom of navigation operations. U.S. unwillingness to back down from its position was signaled clearly by the ordering of a heavily-armed destroyer that was operating in the region, the *USS Chung-Hoon*, to escort the *USNS Impeccable* in the wake of the incident. China also dispatched a converted naval rescue vessel, the *Yuzheng 311*, to the South China Sea, to safeguard China's maritime rights and to assert Chinese sovereignty in the region in the face of intensifying territorial disputes with the Philippines, Malaysia, and Vietnam. Chinese officials said they were exercising moderation by sending an administrative ship rather than warships, the *China Daily* reported.

### **Yang Jiechi's DC visit**

With the adroit handling of the naval confrontation by both sides, Foreign Minister Yang's visit to Washington D.C. proceeded smoothly. Yang discussed a range of issues with Secretary Clinton, including ways to achieve a denuclearized North Korea and Iran, promote stability in Afghanistan and Pakistan, address the humanitarian crisis in Darfur, and cooperate on climate change and clean energy. They also discussed Tibet and human rights, which Clinton described in detail and at length in remarks to the press, evidently on the defensive after being criticized for playing down U.S. concerns about Chinese human rights violations during her Beijing visit.

Yang's statements to the U.S. side during his visit, as reported by the Chinese media, suggest that Beijing is keen to keep the bilateral relationship on an even keel and promote greater cooperation. China's official news agency *Xinhua* quoted Yang as telling President Obama that China attaches "great importance" to advancing bilateral ties and Secretary Clinton that relations



“face a major opportunity for development.” *Xinhua* also cited Yang as emphasizing to Treasury Secretary Timothy Geithner China’s support for an “early initiation” of the Sino-U.S. strategic and economic dialogue mechanism.

Cooperation was also the main theme of Yang’s speech at the Center for Strategic and International Studies. In his prepared remarks, Yang asserted that the strategic foundation of China-U.S. relations lies in “our major and unique responsibility of maintaining world peace and stability,” in “our ever-expanding common interest in promoting sustainable economic development in the world,” and “in the longstanding friendship and mutual learning between our peoples.” In the face of the profound changes in the international landscape and mounting global challenges, he maintained that the U.S. and China have a “new historic opportunity” to develop their relations. Yang did not shy away from raising sensitive issues of concern to Beijing. He warned that China would never waiver in its commitment to the one-China principle and would never compromise in its opposition to Taiwan independence, two Chinas, or one China, one Taiwan. In addition, he declared that Tibetan affairs are “exclusively China’s internal affairs” and told his American audience that they should appreciate such facts as the “traditional culture of Tibet has been well preserved, and the people there enjoy all rights prescribed by law.”

### **Obama and Hu meet on margins of G20**

The first meeting between Presidents Obama and Hu took place on the sidelines of the G20 meeting in London. In addition to providing an opportunity for the two heads of state to establish a personal rapport, two notable achievements were made. First, the two sides agreed to work together to build a positive, cooperative, and comprehensive U.S.-China relationship for the 21<sup>st</sup> century. This marks the return to a common consensus between the U.S. and China about the “label” for the bilateral relationship. Under President Clinton, the two countries had agreed to build toward a constructive strategic partnership. However, the Bush administration described the bilateral relationship as constructive, cooperative, and candid, while the Chinese side eschewed the term candid, which usually signals differences.

Second, the two leaders announced their decision to establish the “U.S.-China Strategic and Economic Dialogue.” The new dialogue mechanism will comprise two tracks, with the “strategic track” chaired by Secretary of State Clinton and Chinese State Councilor Dai Bingguo and the “Economic Track” chaired by Secretary of the Treasury Geithner and Chinese Vice Premier Wang Qishan. The new dialogue seeks to more effectively integrate economic and political issues and elevates the diplomatic dialogue a notch. In addition, it eliminates the past awkward practice of the U.S. and Chinese sides using different terms (“senior dialogue” and “strategic dialogue,” respectively) to characterize the high-level discussions between the U.S. Department of State and the Chinese Ministry of Foreign Affairs. The Bush administration had insisted on reserving use of the term “strategic” for dialogues with its allies, but the Obama administration obviously doesn’t have those qualms.

In a conversation that was limited to one hour including consecutive translation, the two presidents touched on a large number of issues including Korea, Iran, Pakistan and Afghanistan, Sudan, human rights, Tibet, Taiwan, and climate change. Not surprisingly, challenges to the global economy and the financial system topped the agenda and the statement on the bilateral

meeting issued by the White House devoted a separate section to that discussion. They both welcomed the fiscal stimulus measures taken by the other, agreed to provide international financial institutions with more resources to help emerging market and developing nations withstand the shortfall in capital, made commitments to resist protectionism and promote sound and stable U.S.-China trade relations, and agreed on the need for sweeping changes in the governance structure of international financial institutions.

Presidents Hu and Obama underscored their commitment to the relationship between the U.S. and Chinese militaries and indicated they would work to continue to improve and develop those ties. The leaders announced that U.S. Chief of Naval Operations Adm. Gary Roughead will visit China in April to attend events marking the 60<sup>th</sup> anniversary of the founding of the Navy of the Chinese People's Liberation Army. The U.S. side said it looks forward to visits by senior Chinese military leaders later this year. Finally, President Obama accepted an invitation from Hu Jintao to visit China in the second half of this year.

### **Building strategic trust is greatest challenge**

U.S.-China relations have gotten off to a good start in the first quarter of 2009. Leaders of both countries have declared their intention to deepen and broaden the bilateral relationship while also working together to solve regional and global challenges. Expectations are high that U.S.-China cooperation will yield results on a broad range of issues. Time will tell if those expectations are met. The biggest obstacle to increased collaboration is strategic mutual mistrust. In a nutshell, the United States worries about China's ambitions as it amasses greater economic, political, and military power while China fears that the U.S. will take steps to inhibit China's re-emergence as a great power. Increased dialogue has led to greater understanding, but has failed to cement strategic trust. Establishing mutual strategic confidence is the greatest challenge facing the largest developed country and the largest developing country in the 21<sup>st</sup> century.

Next quarter the U.S. and China will begin to flesh out their agenda for cooperation. Highlights include planning for the first round of the strategic and economic dialogue, which is scheduled to take place this summer, if schedules permit. Preparations will also begin for the first summit and President Obama's first ever visit to China in the second half of this year.

## **Chronology of U.S.-China Relations January-March 2009\***

**Jan. 4, 2009:** Chinese President Hu Jintao speaks by telephone with President George W. Bush about bilateral relations and major international issues of common concern.

**Jan. 7, 2009:** To mark the 30<sup>th</sup> anniversary of US-China diplomatic relations, ping-pong diplomacy is commemorated by a "Friendship Ping Pong Rematch" in Beijing.

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\* Chronology by CSIS intern Gao Dexiang

**Jan. 7, 2009:** Foreign Minister Yang Jiechi meets Deputy Secretary of State John D. Negroponte, who comes to mark the 30th anniversary of the establishment of Sino-U.S. diplomatic relations.

**Jan. 8, 2009:** Ma Xiaotian, deputy chief of general staff of the Chinese People's Liberation Army, meets with Secretary Negroponte and urges the U.S. to take actions to repair military ties seriously damaged by U.S. arms sales to Taiwan.

**Jan. 12, 2009:** President Hu meets former President Jimmy Carter as the two nations mark the 30th anniversary of diplomatic ties. The U.S. delegation to the Beijing celebrations includes key figures in forging relations such as former Secretary of State Henry Kissinger, National Security Advisors Brent Scowcroft and Zbigniew Brzezinski, and former U.S. ambassadors.

**Jan. 13, 2009:** A Chinese-born businessman William Tsu Cha-Wai is arrested in California on charges of illegally exporting sensitive technology for military radar systems to China.

**Jan. 13, 2009:** The U.S. Commerce Department announces a U.S.-China trade agreement that will allow U.S. officials to conduct inspections of facilities of pre-approved Chinese companies, paving the way for those companies to receive U.S. exports of dual-use technology.

**Jan. 13, 2009:** China joins the Inter-American Development Bank Group (IDB), the most important regional development institution in Latin America and the Caribbean.

**Jan. 16, 2009:** The American Chamber of Commerce in China (AmCham-China) announces three goals to strengthen Sino-U.S. economic ties to be met by 2039. John Watkins, chairman of AmCham-China, says the goals each set at \$1 trillion a year are: U.S. exports to China, sales of U.S. companies in China, and investment of Chinese companies in the U.S.

**Jan. 18, 2009:** China and the U.S. sign a memorandum of understanding restricting the U.S. import of archeological items originating in China.

**Jan. 20, 2009:** The World Trade Organization (WTO) establishes an expert panel to investigate the legitimacy of U.S. antidumping and countervailing duties on Chinese exports.

**Jan. 20, 2009:** At a press conference in Beijing marking the release of China's White Paper on National Defense, Defense Ministry spokesman Hu Changming urges the new U.S. administration to remove barriers to bilateral military relations.

**Jan. 21, 2009:** An official "full text" Chinese language translation of President Barack Obama's Jan. 20 inauguration speech is published in major state-controlled Chinese news media omits two paragraphs including references to "communism" and "dissidents."

**Jan. 24, 2009:** In written comments submitted to the Senate Finance Committee for his confirmation hearings, Treasury Secretary-designate Timothy Geithner says that President Obama believes that China is "manipulating" its currency.

**Jan. 25, 2009:** Foreign Minister Yang Jiechi and Secretary of State Hillary Clinton hold a telephone conversation on bilateral relations and major international issues of common concern.

**Jan. 27, 2009:** Zhang Yesui, China's permanent representative to the United Nations, meets Susan Rice, the new U.S. ambassador to the UN, and exchanges views on Sino-U.S. relations and other world and regional issues of common concern.

**Jan. 28, 2009:** Sens. Bob Casey (D-PA) and Sam Brownback (R-KS) introduce a resolution to Congress that calls on China to honor its international human rights commitments, commends the Chinese citizens who have signed the recently issued Charter 08 petition, and urges the new administration to maintain a strong human rights dialogue with China.

**Jan. 29, 2009:** At the annual World Economic Forum in Davos, Switzerland, Chinese Premier Wen Jiabao blames the U.S.-led financial system for the world's deepening economic slump.

**Jan. 30, 2009:** President Hu has a telephone conversation with President Obama. The two leaders agree to meet in conjunction with the Group of 20 (G20) summit in London.

**Feb. 3, 2009:** Foreign Ministry spokeswoman Jiang Yu expresses opposition to the U.S. decision to impose sanctions on two Chinese companies that allegedly violate U.S. anti-proliferation laws. According to the U.S. Federal Register, the two Chinese companies, Dalian Sunny Industries and Bellamax, allegedly engaged in activities that breach the Arms Export Control Act and the Export Administration Act of 1979.

**Feb. 6, 2009:** The Chinese General Administration of Customs announces that China-U.S. bilateral trade expanded 10.5 percent last year to \$ 333.74 billion, the smallest increase since China joined the World Trade Organization seven years ago.

**Feb. 13, 2009:** Secretary Clinton delivers her first major policy speech as secretary of state on U.S. relations with Asia to the Asia Society in New York.

**Feb. 17, 2009:** The U.S.-China Economic and Security Review Commission holds its first public hearing for the 2009 reporting cycle on "China's Role in the Origins of and Response to the Global Recession."

**Feb. 21-22, 2009:** Secretary Clinton visits China, her last stop on a four-nation tour.

**Feb. 25, 2009:** China lodges protest to the U.S. in response to the introduction of a resolution by 17 members of Congress marking the 30<sup>th</sup> anniversary of the Taiwan Relations Act.

**Feb. 26, 2009:** State Department releases its annual human rights report, which harshly criticizes China for human rights abuses last year.

**Feb. 26, 2009:** Foreign Ministry spokesman Ma Zhaoxu refutes the U.S. human rights report and urges the U.S. to stop interfering in the domestic affairs of other countries through such reports.

**Feb. 27-28, 2009:** Deputy Assistant Secretary of Defense David Sedney holds annual Defense Policy Coordination Talks in Beijing with Maj. Gen. Qian Lihua, director of the Foreign Affairs Office of the Ministry of Defense.

**March 3, 2009:** U.S. special representative for the Democratic People's Republic of Korea Stephen Bosworth arrives in Beijing.

**March 4, 2009:** The U.S.-China Economic and Security Review Commission holds a hearing on "China's Military and Security Activities Abroad."

**March 9, 2009:** Pentagon releases a statement that Chinese ships harassed a U.S. surveillance vessel in international waters, using measures described as illegal, unprofessional and dangerous. In turn, China accuses the U.S. of conducting illegal surveying in its Exclusive Economic Zone.

**March 9-13, 2009:** Foreign Minister Yang Jiechi visits the U.S. as a guest of Secretary Clinton.

**March 10, 2009:** The State Department issues a statement marking the 50<sup>th</sup> anniversary of the 1959 Tibetan uprising that respects China's territorial integrity, but expresses concerns about the human rights situation in Tibetan areas.

**March 11, 2009:** Congress passes H. Res. 226 by a vote of 422-1 calling on China to cease its repression of the Tibetan people and to lift the harsh policies imposed on Tibetans who have been wrongfully detained and abused for expressing political views.

**March 13, 2009:** At the close of the National People's Congress, Premier Wen Jiabo demands that the Obama administration "guarantee the safety" of its \$1 trillion in U.S. bonds.

**March 20, 2009:** Zhou Xiaochuan, head of the People's Bank of China, proposes the creation a new international reserve currency in an essay published on the central bank's website.

**March 20, 2009:** Speaker of the House of Representatives Nancy Pelosi and a visiting delegation of China's National People's Congress (NPC), headed by Li Zhaoxing, chairman of the NPC Foreign Affairs Committee, agree to expand bilateral parliamentary exchanges.

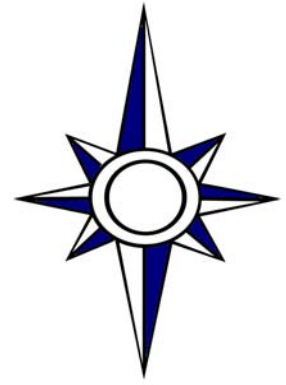
**March 24, 2009:** The House of Representatives votes unanimously to adopt a resolution recognizing the 30th anniversary of the Taiwan Relations Act.

**March 24, 2009:** The U.S.-China Economic and Security Review Commission holds a hearing on "China's Industrial Policy and its Pillar Industries."

**March 25, 2009:** The Pentagon releases its annual report on Chinese military power.

**April 1, 2009:** Presidents Obama and Hu meet on the margins of the G20 summit in London.





**U.S.-Korea Relations:  
The Late Night Phone Call**

**Victor Cha**  
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The quarter ended with the question of whether President Obama's first late-night crisis phone call – the metric for leadership bandied about during the campaign – would be over a ballistic missile test by North Korea. The suspenseful end to the quarter contrasted with its quiet start where the focus of U.S.-ROK bilateral relations was on initial contacts between the Lee and Obama administration teams and policy coordination over the global financial crisis, while the North Korea missile launch issue slowly but steadily moved from a simmer to a slow boil. However events unfold, the launch itself gives the new administration its first taste of North Korean bad behavior and confronts it with the problem of finding the right balance between under- and over-reaction that is needed to move denuclearization negotiations forward.

**Getting to know you**

U.S.-ROK relations during the period largely consisted of initial contacts with the new administration in Washington. Unlike the past, the Koreans generally used a light touch, keeping the meetings informal and avoiding pressure on burning agenda items too early on a government not yet in place. The precedent that everyone sought to avoid was the first meeting between Kim Dae-jung and George W. Bush, when the ROK leader invited himself for an early visit to press his “Sunshine” policy on the new U.S. president. The infamous results of that meeting led to considerable caution on Seoul's part this time. The burning issue today is not “Sunshine” but, of course, the Korea-U.S. (KORUS) Free Trade Agreement (FTA). Some early and informal visits by members of the Lee team to Washington helped to chart a go-slow path on the FTA, upon which the two governments appear to be coordinated.

Even before Obama's inauguration, former academic and Deputy National Security Advisor Kim Tae-hyo led a small senior delegation to Washington in early January to meet Bush officials, but also advisors to the new administration. The discussions held at CSIS, among other places, allowed for a frank exchange of views on areas where Koreans looked to see continuity from the new government (e.g., base realignment, OPCON transfer), and potential areas where there might be change (e.g. FTA, North Korea, Afghanistan). On Feb. 3, President Lee Myung-bak phoned President Barack Obama ostensibly to discuss the financial crisis and North Korea, but the call largely served the purpose of establishing dialogue between the two leaders. Lee's phone call was followed about one week later by a visit of National Security Advisor Kim Seung-hwan to Washington to meet his counterpart Jim Jones. Obama officials were careful to stress commitments to the Six-Party Talks and alliance coordination to sooth any anxieties by Seoul that the new administration would privilege high-level bilateral talks with the North.

To the delight of Asia hands, Secretary of State Hillary Clinton broke with tradition and made her first overseas visit to Asia. Also careful to allay misplaced concerns in Asia that Democratic administrations gravitate to a China-first policy, the secretary made Japan her first stop and helped to ensure that Prime Minister Aso Taro would be the first foreign leader to visit Washington. Clinton's meetings in Seoul by all accounts were good. The two governments worked to ensure that the "FTA breakdown" would not be the headline of her visit. Indeed, considering her position during the campaign on the FTA and the degree to which this became one of the distinguishing issues in Asia policy of the two parties, the fact that it was not the focus of the visit is testament to careful issue-management and message-control on both sides.

Clinton used the Seoul stop to announce the appointment of Fletcher School dean and former Clinton administration official Stephen Bosworth as her senior envoy for North Korea. This led to some confusion among the six-party governments and in the press about who exactly was Bush's Six-Party Talks negotiator Christopher Hill's replacement: Bosworth or Ambassador for Six-Party Talks Sung Kim. There was also speculation about whether Bosworth's part-time appointment to the position signaled a downgrading of the issue for the Obama administration. Since then, Obama officials have made clear that Bosworth will be fully engaged in the policy and intimated that his role will be to reach higher up in the DPRK leadership (beyond six-party negotiator Kim Kye-gwan) in bilateral discussions. This was evident in Bosworth's first trip to the region in which he made clear a willingness to meet with the North bilaterally. Meanwhile, Sung Kim will manage the daily activities of implementing the 2005 Joint Statement and February 2007 Disablement Agreement. Speculation is nonetheless likely to continue until an actual round of Six-Party Talks takes place. Regardless, both are integral to the process. Bosworth offers a very senior official who could garner a counterpart in Pyongyang like Kang Sok-ju. Sung Kim is critical in no small part because he is probably the only official who has full knowledge of the history of the negotiations, much of which took place informally and without interagency input in the last months of the Bush administration.

Secretary Clinton's most notable statements during her Seoul trip were the informal ones. When asked during one of her press availabilities on the plane if she would be discussing potential unification planning with her counterparts in Seoul and in Beijing, her response effectively said that given the situation of the leadership in Pyongyang and overall potential volatility of the situation, it would be natural to discuss the future of the peninsula with interested parties. In one fell swoop, she managed to wipe away all the taboos that had been previously associated with U.S. officials mentioning the obvious when it came to the future of Pyongyang. And she did it in a commonsense way that disarmed any potential criticisms that the U.S. was intimating regime change. In this regard, she used well one of the advantages that the Obama administration had over its predecessor – she associated the U.S. with an interest in unification that was not reflexively viewed as a neoconservative strategy for regime overthrow in the North.

There were convergent reasons for Clinton's path-breaking first trip to Asia. Among these were the proximate need to coordinate policies with Japan and China on the financial crisis; a calendar that already had her accompanying the president to Europe soon thereafter for the G20 meeting; and a set of senior envoys who were already on the ground South/Central Asia, the Middle East, and other parts of the world. Nevertheless, the visit set a good precedent for future principals and sent a message that Asia matters. For this, she deserves credit.



The G20 meeting in London afforded the opportunity for Presidents Obama and Lee to meet for the first time on April 2. They discussed a range of issues headlined by the global economic crisis. Korea has a \$30 billion currency swap arrangement with the U.S. and there are indications that it sought more from the U.S. to avoid a liquidity crunch. The main deliverable of the meeting was an agreement for Obama to host Lee in the U.S. on June 16. Meeting to agree to meet is actually quite important. Periodic meetings help to build rapport between the two leaders and creates the habit of consultation that all U.S. allies desire. More important, it sets a three-month time frame for the bureaucracy to come up with deliverables based on the broader directives coming out of the leaders' discussions.

The two leaders made all the right noise about joint commitments to strengthen the alliance for the challenges of 21<sup>st</sup> century and to push the alliance to expand regional and global cooperation. But the key issue was the KORUS FTA. The language used in the joint statement about "working together to chart a way forward" offers some hope for the process. The reference to "avoiding protectionism and economic nationalism" was the type of compromise language that allowed both sides to claim some progress. Washington could claim that it represented an ROK commitment to avoid perceived unfair trade practices that might continue even under a FTA. Seoul could claim Obama's commitment to avoid succumbing to some of the protectionist rhetoric flowing with the current financial crisis. While this is certainly a suboptimal outcome for most FTA supporters, they can take some comfort that the issue could have been far more poorly framed, especially after U.S. Trade Representative-designate Ron Kirk's fairly negative statements on the Hill during his confirmation testimony created acute concerns in Seoul. Moreover, sounding like you are cooperating and putting FTA passage on a slow constructive track is a lot better than the rhetoric during the campaign. Both sides avoided talking openly about renegotiation (even in press backgrounders), though they will eventually have to deal with this thorny topic.

The references to Obama's appreciation for Korea's work on the global stage, made by the president in advance of his meeting with Lee and included in the joint statement following the meeting, were conspicuous for the absence of any mention of ROK troop contributions since 2003 in Iraq, which peaked at 3,500 and constituted the third largest contingent of ground forces behind that of the U.S. and Britain. This was by far the most significant contribution on the global stage for Seoul since the Vietnam War. Further, while references were made to Korean contributions in Afghanistan and Pakistan reconstruction, nothing specific was mentioned about ROK contributions to the former theater, suggesting any decisions have been punted until the June meeting.

On North Korea, the two leaders reaffirmed the mantra of the Bush administration regarding verifiable denuclearization through the Six-Party Talks and called on North Korea to abide by UN Security Council resolution (UNSCR) 1718 and refrain from launching a long-range missile.

### **The late night phone call?**

The quarter closed without a DPRK test. Yet, the prospect, which lingered, raised the question: if the first late-night crisis phone call fielded by the new president was over a North Korean missile launch, what should be the U.S. response? A missile test would represent the latest in a

string of North Korean bad behavior over the last several months. At the end of 2008, Pyongyang walked away from previous understandings it had reached with U.S. negotiators regarding verification of its nuclear declaration. In early 2009, it spewed fiery rhetoric against South Korea and Japan; in the former case, claiming the nullification of all past inter-Korean agreements. In March, Pyongyang ejected food donor teams from the U.S. who had been part of a landmark agreement to provide 500,000 tons of food. Then the news came of the detainment of two U.S. journalists, Laura Ling and Euna Lee, who had been operating on the China-North Korean border doing a story on human trafficking of North Korean refugees. All these actions are likely manifestations of political fluidity within Pyongyang sparked by Kim's debility.

A DPRK missile test would presumably put pressure on China as past history has shown that when Pyongyang's bad behavior threatens to derail the Six-Party Talks, China as host works harder behind the scenes to bring its neighbor back to the negotiating table. Despite early signs that China would not view an attempted satellite launch by the North as a violation of UNSCR 1718, the US government position (i.e., that a Space Launch Vehicle is a violation) comports with the general understanding reached by all parties to the resolution (including China) when the resolution was drafted in the aftermath of the October 2006 nuclear test. China's lack of action in either the UN or vis-a-vis Pyongyang would be a rather major setback to its post-Beijing 2008 Olympics profile as a global player.

Depending on how successful such a missile test would be, a likely tertiary consequence would be an evolution in views about how best for other countries in the region to adjust to a changing security environment. This would be the third such test of a long range ballistic missile by the North that could spark more statements out of Japan about preemption and security normalization. It could also elicit from a conservative South Korean government, changing views in how to adjust its own security profile to the realities of a nuclear North Korea with ballistic missiles.

How should the U.S. respond? A response must balance the need to punish the North for its behavior but avoid an overreaction that escalates the crisis. Some have recommended that the best path to ending Kim's nuclear ambitions is to offer him a peace treaty and normalized relations with the U.S. thereby ending the Korean War. Such an offer could however give strength to hardliners in Pyongyang as justification for retention of their nuclear weapons, not to mention its negative impact on Japan's views of its ally's security guarantee.

The answer is probably to seek a strong resolution at the Security Council followed by U.S. actions to enforce UNSCR 1718 by the imposition of financial sanctions used in 2005 to 2007, this time designed to target North Korean entities involved in ballistic missile financing. Such a response would not entail an end to six-party diplomacy. Continuing the six-party negotiations is important to continue the disablement and degrading of Pyongyang's nuclear capabilities. But a serious strategy needs to acknowledge the sad fact that the North often respects force more than it does friendship.

George W. Bush said that presidencies are about dealing with the unexpected. For his successor, the known challenges of two wars and a financial crisis may yet be complicated by the unexpected challenge of North Korea.

## **Chronology of U.S.-Korea Relations January-March 2009\***

**Jan. 1, 2009:** State-run North Korean newspapers refrain from issuing their usual blistering New Year's Day diatribe against the U.S. and reaffirm North Korea's commitment to a nuclear-free Korean Peninsula.

**Jan. 5, 2009:** The U.S. agrees to a South Korea-proposed timetable for relocating its military command out of Seoul by 2014, but the sides remain split on when to complete the relocation of a frontline U.S. Army base.

**Jan. 6, 2009:** Opposition members of Parliament end their violent 12-day siege of South Korea's Parliament after successfully delaying a key vote on the KORUS FTA. The ruling Grand National Party (GNP) agrees to postpone the vote until after Obama's inauguration on Jan. 20.

**Jan. 6, 2009:** A team of senior South Korean officials and academics led by Deputy National Security Advisor Kim Tae-hyo arrives in Washington to meet some of Obama's diplomatic aides and Korea experts at Washington-based think tanks.

**Jan. 7, 2009:** U.S. National Security Adviser Stephen Hadley says intelligence officials are growing more concerned that North Korea may be continuing uranium-based activities.

**Jan. 8, 2009:** *New York Times* reports that a group of former Korean prostitutes have accused past South Korean governments and the U.S. military of taking a direct hand in the sex trade from the 1960s through the 1980s.

**Jan. 13, 2009:** North Korean Foreign Ministry calls for "free field access" to ensure there are no nuclear weapons in South Korea. The statement also says that the North will not to give up its nuclear weapons until the U.S. drops its "hostile policy" and establishes diplomatic relations.

**Jan. 17, 2009:** Foreign Ministry of North Korea announces the country would maintain its "status as a nuclear weapons state" as long as it perceived a nuclear threat from the U.S.

**Jan. 17, 2009:** North Korean military declares an "all-out confrontational posture" against the South and threatens a naval clash.

**Jan. 30, 2009:** The Committee for the Peaceful Reunification of Korea, the North's agency in charge of relations with the South, declares all political and military agreements with South Korea void, including the 1991 Agreement on Reconciliation, Nonaggression and Exchange.

**Jan. 30, 2009:** *Yonhap* reports that a South Korean Navy destroyer has sailed into waters near the disputed western sea border with North Korea – the scene of naval skirmishes in 1999 and 2002 – to bolster defenses there.

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\* Compiled by David Shin

**Feb. 2, 2009:** The U.S. government imposes two-year sanctions on three North Korean firms for their involvement in the proliferation of weapons of mass destruction.

**Feb. 3, 2009:** President Barack Obama and President Lee Myung-bak have a telephone conversation and exchange ideas on pending issues, including North Korea's nuclear problems and global recession. Obama emphasizes that solving North Korea's nuclear problem through the Six-Party Talks is important.

**Feb. 6, 2009:** *Yonhap* reports that U.S. Forces Korea (USFK) Commander Gen. Walter Sharp proposed in a closed meeting that the Eighth U.S. Army command remain in South Korea rather than move to Hawaii as part of a U.S. global realignment plan, even after Washington hands back full control of South Korean troops to Seoul in 2012.

**Feb. 8, 2009:** The Korean Agency for Technology and Standards (KATS) urges South Korean exporters to strictly follow revised safety rules for children's products bound for the U.S.

**Feb. 11-15, 2009:** National Security Advisor Kim Sung-hwan visits Washington for talks with counterparts from the White House, State Department, and Defense Department.

**Feb. 16, 2009:** Former Prime Minister Han Duck-soo is appointed ROK ambassador to the U.S.

**Feb. 19, 2009:** Secretary of State Hillary Clinton visits Seoul as part of her first Asian tour, meeting with Foreign Minister Yu Myung-hwan to discuss North Korea's nuclear threat and other regional security issues.

**Feb. 25, 2009:** Gen. Sharp, USFK commander, urges South Korea to participate in a U.S. regional missile defense network to thwart the threat posed by North Korea's missile programs.

**Feb. 25, 2009:** Pentagon Press Secretary Geoff Morrell says at a daily news conference, "We feel we are well prepared to defend the South against any provocation."

**Feb. 26, 2009:** During a news conference, Assistant Secretary of State Christopher Hill says that the U.S. will not develop ties with North Korea at the cost of relations with South Korea.

**Feb. 27, 2009:** Gen. Howie Chandler, commander of U.S. Pacific Air Forces, says that radar-evading bombers and fighter jets have been deployed together for the first time in Guam.

**March 2, 2009:** Jeon Jei-guk, South Korea's deputy defense minister for policy, meets with U.S. Deputy Secretary of Defense for East Asia David Sedney in Seoul for the Security Policy Initiative (SPI) meeting.

**March 2, 2009:** A rare meeting between the Korea People's Army and the United Nations Command is held in Panmunjom.

**March 2, 2009:** The office of the U.S. Trade Representative says the Obama administration will move quickly to address issues related to Congressional approval of free trade agreements with South Korea, Colombia, and Panama.

**March 3, 2009:** In response to the upcoming annual U.S.-South Korea military drill, North Korean government newspaper *Minju Joson* says, "Our revolutionary armed forces are fully prepared with combat mobilization posture to sternly strike any provocative maneuvers by the enemies to harm the dignity and safety of our republic."

**March 4, 2009:** The Korean Airport Corporation (KAC) and the Eighth U.S. Army sign a memorandum of understanding that calls for annual antiterrorism drills to better handle explosive materials and to promote bilateral information and technology exchanges

**March 4, 2009:** President Lee says, "It appears from Chairman Kim's recent activities that there are no serious obstacles for him to continue ruling North Korea, and I think it is better to have a stabilized North Korean regime at this point in time for inter-Korean dialogue and cooperation."

**March 5, 2009:** *KCNA*, the official North Korean news agency, warns that "security cannot be guaranteed for South Korean civil airplanes flying through the territorial air of our side and its vicinity" while joint military exercises between the U.S. and South Korea are under way.

**March 6, 2009:** In response to North Korea's warning, State Department Deputy Spokesman Gordon Duguid says, "The North Koreans should be working on their commitments to the Six-Party Talks rather than making statements that are threatening to peaceful aviation."

**March 7, 2009:** Stephen Bosworth, U.S. special envoy for North Korea, meets key South Korean policymakers including Minister of Foreign Affairs Yu Myung-ywan and Defense Minister Lee Sang-hee in an effort to restart talks over North Korea's nuclear program.

**March 9, 2009:** Ron Kirk, President Obama's nominee for U.S. trade representative (USTR), says at a Senate confirmation hearing that the FTA deal with South Korea "isn't acceptable" and "not fair," implying a renegotiation of the deal.

**March 9, 2009:** North Korea cuts military communications lines with South Korea in protest of the annual South Korea-U.S. joint military drills.

**March 9-20, 2009:** The annual U.S.-South Korea joint military exercise *Key Resolve/Foal Eagle* is held. According to the USFK, this year's drill involves 26,000 troops and a nuclear-powered carrier to test the ability to quickly deploy forces in case of a North Korean invasion.

**March 10, 2009:** A U.S. district court rules that South Korean computer memory-chip maker Hynix must pay a U.S. designer company Rambus \$397 million for patent infringement.

**March 11, 2009:** Foreign Minister Yu Myung-hwan says the pending FTA with the U.S. would ultimately serve both countries' interests and expresses hope for swift approval of the deal.

**March 11, 2009:** Secretary Clinton urges North Korea not to launch a ballistic missile, proposing to hold talks on North Korea's missile program as well as Six-Party Talks on ending the North's nuclear ambitions.

**March 13, 2009:** USTR nominee Kirk says he is “generally supportive of the Korea FTA” and pledges to work closely with South Korea to address U.S. concerns over restricted shipments of U.S. beef and an imbalance in auto trade before bringing the FTA to Congress for ratification.

**March 15, 2009:** Shin Je-yoon, deputy finance minister, says South Korea is pushing to expand the size and maturity of its \$30 billion currency swap deal with the U.S. as part of efforts to better prepare for a liquidity crunch.

**March 17, 2009:** Two U.S. journalists who work for former Vice President Al Gore's online news outlet are detained by North Korean guards near the border between China and North Korea. Gore asks Secretary Clinton for help, and according to a senior administration official, “She is very engaged and is following it closely.”

**March 17, 2009:** North Korea refuses to accept further humanitarian food aid from the U.S.

**March 19, 2009:** Gen. Sharp, commander of USFK, tells the Senate Armed Services Committee that “It is both prudent and the ROK's sovereign obligation to assume primary responsibility for the lead role in its own defense.”

**March 19, 2009:** *Yonhap* reports that the U.S. and South Korea have reached an agreement on improving ways to share the burden for cleaning up U.S. military bases in Seoul that were returned to South Korean authorities.

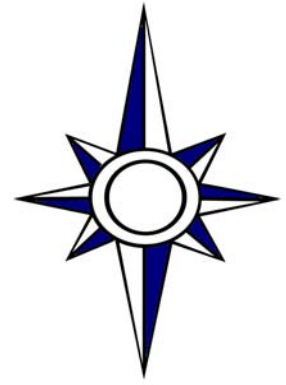
**March 24, 2009:** A North Korean Foreign Ministry official warns that if the U.S. pushes for U.N. sanctions in response to its planned rocket launch, it would quit the already stalled Six-Party Talks and restart a nuclear plant making weapons-grade plutonium.

**March 25, 2009:** Hillary Clinton warns that a missile launch would deal a blow to the Six-Party Talks and would bring “consequences.”

**March 27, 2009:** North Korea places a long-range missile on a launch pad as it prepares for what it claims is a satellite launch in early April.

**March 28, 2009:** Two U.S. *Aegis* radar-equipped destroyers dock in Busan. Rear Adm. Chae Hong-pil of the South Korean Navy says that the U.S. vessels would move into the sea between Japan and Korea to monitor the North Korean missile launch.

**March 29, 2009:** Secretary of Defense Robert M. Gates says that the U.S. has no plans for military action to pre-empt the launching of a long-range missile by North Korea and would act only if the missile or its parts appeared to be headed toward U.S. territory. President Lee says he also opposes any military response to North Korea's impending rocket launch.



U.S.-Russia Relations:  
The Kremlin Sizes up Obama

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The bilateral dialogue in the first quarter of the year was cordial, if somewhat distant. The administration of President Barack Obama sent clear and positive signals to the Kremlin. At times President Dmitry Medvedev and Prime Minister Vladimir Putin reciprocated with positive language; at times Moscow's negative rhetoric reappeared. Clearly the Russian leadership has been making a cautious assessment of the new U.S. leader. Optimism was again evident at the London meeting between Obama and Medvedev on the eve of the G20 summit on global economic issues. In London, the two leaders pledged cooperation on a variety of issues, centering on arms control. There has been nothing positive in the bilateral relationship to report since last April when then-President George W. Bush visited then-President Putin at Sochi. Since that time, the relationship has plunged to depths unseen since the Cold War. Although many observers wish to see progress (and have come to forecast it), there is clearly much work to be done to repair the rift that has developed over the past six years.

**A “re-boot” for the relationship**

In February when Vice President Joe Biden gave a speech at a security conference in Munich, he uttered a phrase that spawned an entire cottage industry for analysts, linguists, and policy wonks – the likes of which we have not seen since the first person uttered the phrase, “Whither [insert country]?” In his speech, Biden suggested that the U.S. needed to press the “reset” button when it comes to relations with Russia. Since that time news articles, press releases, television news reports, and speeches from the top levels (both President Obama and President Medvedev used the term) have borrowed Biden's phrase and reiterated it *ad infinitum*. When Secretary of State Hillary Clinton met Foreign Minister Sergei Lavrov in Geneva in March, she famously – or infamously – presented Lavrov with a box containing a button inside with the ostensible translation for the Russian word for “reset” [*perezagruzka*]. Unfortunately the translation was botched and the red button indicated “overload” [*peregruzka*], much to the bemusement of the Russians and the embarrassment of the State Department.

Nevertheless, the sentiment expressed by Washington was sincere and was not lost in translation for Moscow; Russia's leaders seemed to have taken the signal to heart. A series of exchanges began with the February trip by former ambassador and current U.S. Undersecretary of State William Burns to Moscow for talks on arms control agreements, the most prominent of which (START 1) is due to expire at the end of the year. On the eve of a March meeting between Clinton and Lavrov, the *New York Times* reported that Obama had sent Medvedev a secret letter. The letter was said to have offered a grand compromise on the missile defense issue: the U.S.

would desist from the development of the controversial system should Moscow convince the Iranians to give up their incipient ballistic missile and nuclear programs. The White House denied such a bargain was offered, but clearly Obama had indicated his willingness to reach out to Moscow. Russia's response has been ambivalent, at least until the recent meeting in London.

Other high-profile U.S. visits to Russia included a delegation led by former Sens. Chuck Hagel and Gary Hart, which was able to meet with President Medvedev. Henry Kissinger led a group of "wise men" to Moscow in March. This group – which included former Secretary of State George Schulz, former Secretary of Defense William Perry, and former Senator Sam Nunn (James Baker traveled to Moscow on his own) – managed not only to meet Medvedev, but Kissinger also dined with Vladimir Putin. The luminaries all brought to Moscow the same message of Washington's eagerness to improve relations with Russia. The much-anticipated meeting between Obama and Medvedev finally took place in London on April 1. The two presidents had traveled there to attend the G20 summit on the global economic situation. Fittingly the meeting took place before the actual G20 summit, where all the distractions were bound to have taken from the time and energy of the two leaders.

After the meeting in London, Obama and Medvedev issued a joint statement that went a long way toward the "reset" that Washington desires. The statement called on the two nations to "move beyond Cold War mentalities" and to work together on arms control, missile defense, nuclear proliferation, international terrorism, Iran policy, Korea policy, and Russia's World Trade Organization membership. Obama also announced that he would visit Moscow in July for a state visit. The big focus, predictably, was on arms control, specifically the need to find a replacement for the soon-to-expire START 1 treaty. The statement, which ran close to 1,500 words, devoted close to half the text to arms control and nuclear proliferation. Negotiators from both sides reportedly have until July to come up with an alternative or temporary replacement treaty for the START 1.

### **Economic crisis**

As recently as last fall the Russian government had been touting the imperviousness of the Russian economy to the global crisis. In October, both Medvedev and Putin assured the Russian people that the crisis would not affect them too badly. There is now no question that Russia has been as badly hit as any other nation – and in some cases perhaps worse. The *ruble* has plummeted against the dollar by approximately 50 percent, and as the price of oil continues to hover around the \$40-50 level, the state budget suffers. There are over 6 million unemployed and this figure could rise to 10 million by the end of the year (of a population of 140 million). Public protests have arisen across Russia, although they are neither particularly widespread nor dangerous at this point. But Putin seemed to have received a shock. When he gave a speech at the World Economic Forum in Davos in January, his tone was severely subdued in comparison to his speeches of years past. He stated that Russia was "seriously affected" by the economic fallout and promised that Russia would work together with the rest of the world to address the necessary issues.

Between bailing out banks and protecting the *ruble*, the Russian government's foreign exchange reserves have dropped from roughly \$600 billion last fall to under \$380 billion in March.



Inflation could reach as high as 13 percent in 2009; industrial output could be down as much as 8 percent. Foreign investment is decreasing; capital flight is increasing. Meanwhile, the economy is predicted to shrink between 2 and 4 percent this year (in March GDP contracted 5.4 percent); in nominal dollar terms it could contract as much as 20 percent.

This dire economic situation has taken a certain bark out of official Russian rhetoric, which has been anti-U.S. for the past several years. Ironically, the bilateral economic data from 2008 began to show positive signs. Two-way trade between Russia and the U.S. amounted to \$36.1 billion, up from \$27 billion in 2007. Although the amount pales compared to other bilateral trading partners (U.S.- China trade totaled \$387 billion in 2007; EU-Russia trade totaled approximately \$364 billion), it was one positive sign amid a bundle of negative data. But for the economic relationship to mature further, the status of Russia's WTO membership needs to be resolved. Russia is the largest economy that is not involved in the WTO. Although the U.S. favors Russian membership, Washington has done little to facilitate Moscow's entry as evidenced by the continued existence of the Jackson-Vanick amendment that forces the executive branch to certify to Congress that Russia no longer restricts the emigration of Jews from Russia. As long as this amendment exists, Russia will only have conditional normal trade relations (NTR) with the United States. The U.S. and other WTO members are concerned about access for their exports to the Russian market and about integrating WTO provisions into Russian domestic law. Washington is also concerned about the lack of enforced intellectual property rights in Russia and the lack of a bilateral investment treaty. Once these issues are resolved, Russia will be on track to gain WTO membership.

### **Arms control**

In many ways, it was easy – and predictable – for the two governments to focus first on arms control as a method of getting relations back on track. Arms control issues represent the low-hanging fruit of bilateral cooperation, borne of the Cold War years when this was the only issue the two governments could speak about civilly. START 1 is due to expire at the end of this year. This 1991 treaty, which stipulated no more than 6,000 deployed long-range nuclear warheads on each side, is in some ways already outdated. The Moscow Treaty, signed by both sides in 2003, pledged to decrease deployed warheads to between the 1,700-2,200-level for each side. In fact, the U.S. has already met this commitment, as was announced in February by the *Washington Post*. Many in Moscow – including Foreign Minister Lavrov – are calling for a new treaty to replace START 1, rather than a blanket extension at the end of the year. START 2 negotiations were suspended in 2002 at Moscow's insistence, due to the unilateral U.S. withdrawal from the 1972 ABM Treaty. A new treaty could lower the level of operational warheads to 1,000 for each side. Both sides have publicly discussed such an option, including most recently President Obama on his European tour. Russia has also made it clear that it wants any new treaty to include delivery vehicles – even those carrying conventional munitions – and not just operational nuclear warheads.

As for missile defense, it appears that the two sides still have much to discuss. Earlier in March, it had been reported that Obama penned a private letter to Medvedev offering to halt the construction of the missile and radar facilities in Poland and the Czech Republic if Moscow could help persuade Iran to give up its nuclear and ballistic missile ambitions. Later, the White

House denied such an offer. While visiting Spain, Medvedev denied a concrete offer from Obama, and ruled out a “swap” between missile defense and Iran. In Russia, many experts insisted that Russia had little – if any – influence when it comes to Iran and suggestions of a grand bargain were brushed aside. This was all put to rest in April. In a speech in Prague on April 5, Obama said that he would move forward with the planned East European shield, despite Russian objections. “Let me be clear: Iran’s nuclear and ballistic missile activity poses a real threat, not just to the United States, but to Iran’s neighbors and our allies.” Moscow’s response has not been made public, but it will undoubtedly be negative.

Ironically, just as pundits in Moscow were claiming that Russia wields little influence over Iran, the chief of the government atomic agency (*Rosatom*) Sergei Kiriyenko announced the completion of Iran’s first nuclear energy facility at Bushehr. The plant was built by Russian engineers and will be manned initially by Russian experts who will train Iranian staff. Additionally, Kiriyenko announced that Russia would supply Bushehr with nuclear fuel for at least 10 years and that *Rosatom* hopes to build more reactors in Iran. Also, in late February, Iranian Defense Minister Mostafa Mohammad Najjar arrived in Moscow to try to secure an *S-300* air-defense system, for which reportedly the Iranian government signed a contract to buy at the end of 2008. But reports from the Russian daily *Kommersant* stated that the Kremlin informed Najjar that the deal was put on hold, due to “political considerations.” In 2007, Russia supplied Iran with advanced *Tor-M1* short-range anti-aircraft missile systems that Tehran plans to deploy around its nuclear site at Bushehr. The *S-300* system is a step above the *Tor-M1* in capability and sophistication – it can target missiles as well as aircraft. Meanwhile, Moscow continues to hold the all-important UN Security Council veto, which can be used to defend any possible sanctions against Iran. These facts and events suggest that the “conventional” wisdom in Moscow that Russia has no influence over Iran is partly mistaken. Clearly, some people in the Obama administration feel that a deal is possible with Moscow over missile defense and Iran, but the Kremlin is not ready to act.

### **Afghanistan and Eurasia**

Afghanistan garnered mention in the joint statement issued from London, but it was clearly not as high a priority as arms control. This was fairly surprising to observers, as the run-up to the summit included extensive analysis of how the two leaders planned to address the issue of cooperation against terrorism across the globe and in Afghanistan. It was announced, however, in early March that the first train carrying a cargo of nonmilitary goods to U.S. troops in Afghanistan passed from Latvia through Russia and into Kazakhstan and Uzbekistan. Russian Defense Minister Anatoly Serdyukov also announced that German troops and military cargo would be transported to Afghanistan by rail. Serdyukov hinted that in the future Moscow could allow the same privilege to other NATO member nations, including the United States. The U.S. has been looking for alternative routes into Afghanistan in the aftermath of attacks against supply convoys transiting Pakistan. Any route transiting Central Asia must have the tacit support of Moscow, as evidenced by the recent decision of the Kyrgyz government to shut down the NATO supply base at Manas. This decision was taken by the Kyrgyz government in February, after Moscow had announced a handsome aid package for Bishkek to the tune of \$2 billion. Afghanistan has become the crucial battleground for the Obama administration in the war on

terror. Any cooperation from Moscow could be the key to success there; any obstruction could prove extremely harmful to the NATO effort.

Discussion about NATO expansion was also conspicuously thin at the London meeting. Membership for Georgia and Ukraine remains on the backburner, but the potential admission of these two states will remain a point of great concern for Moscow. After the meeting, Obama addressed these issues. "It is important for NATO allies to engage Russia and to recognize that they have legitimate interests. In some case, we have common interests, but we also have some core disagreements." Georgia is one of these disagreements. At the NATO summit that convened in Strasbourg on April 3 on the occasion of the 60<sup>th</sup> anniversary of the alliance, Obama declared, "I was a critic of the Russian invasion of Georgia. I continue to believe that ... we have not seen a stabilization of that situation." He added, "I think we have to send a very clear message to Russia, that we want to work with them, but we can't go back to old ways of doing business." In his famous "reset" speech in Munich in February Vice President Biden said that the U.S. would "not agree with Russia on everything." "For example," he said, "[we] will not... recognize any nation having a sphere of influence."

### **Northeast Asia**

The two nations also evidently do not agree about the extent of the threat from North Korea. The U.S. and its allies in the Six-Party Talks roundly denounced the April 4 launch of a rocket by the DPRK. The UN Security Council called an emergency session to come up with a response. But both Moscow and Beijing were nonplussed by the launch and called for restraint so as not to upset the delicate six-party mechanism. Although Moscow claims it has little influence with Tehran, in the case with Pyongyang this is true. Russia has had almost no constructive role in the Six-Party Talks.

Similarly, Russia has had little positive interaction recently with another six-party partner – Japan. Nevertheless, in February, Japanese Prime Minister Aso Taro visited Sakhalin Island, becoming the first Japanese leader to do so since the end of World War II. He was there at the invitation of President Medvedev to participate in a ceremony marking the opening of the Prigorodnoye gas liquefaction plant near the port of Korsakov, south of Yuzhno-Sakhalinsk. The plant is the partial culmination of the Sakhalin-2 project, a \$22 billion consortium composed of two Japanese trading houses (Mitsubishi and Mitsui), the Anglo-Dutch energy giant Shell, and Gazprom. Exports of liquefied natural gas (LNG) began in April with the first shipment going to Japan. At the Sakhalin ceremony, Aso stated that the Japanese government would assist with the construction of a bridge linking Vladivostok to Russky Island, site of the 2012 APEC summit. Bilateral trade has risen six-fold since 2002, topping \$30 billion in 2008. As much as Tokyo wants to achieve a political settlement on the "Northern Territories," Moscow is content to let economic cooperation take the lead role in relations. It appears that Moscow continues to hold the upper hand in relations with Tokyo, in spite of the fall of energy prices and the subsequent economic crisis. As much as the Japanese government and Japanese interest groups would love to keep the territorial dispute at the center of Japanese-Russia relations, the fact is each passing day takes them further from a settlement.

## Looking ahead

It appears that thus far the leadership in both the U.S. and Russia is utilizing the tried and tested method of arms control to settle into bilateral interaction and cooperation. The Obama administration is wise to do so. Politically it is noncontroversial and at home it is easier for both leaders to sell this to domestic opponents. But the more difficult issues – such as Iran, Afghanistan, missile defense, and North Korea – will need to be addressed sooner rather than later. Rather than settling for a mere extension or successor to START, the leadership of the two nations needs to be prepared to take advantage of this honeymoon period to tackle the tough issues. In this way, Obama and Medvedev can make their own imprint on U.S.-Russia relations.

## Chronology of U.S.-Russia Relations January-March 2009

**Jan. 1, 2009:** The Russian government-controlled gas giant Gazprom refuses to offer the Ukrainian government a new contract for gas deliveries. This shutting of gas supplies to Ukraine launches the “Gas War” between Moscow and Kyiv.

**Jan. 13, 2009:** Before the Senate Foreign Relations Committee, President-elect Obama’s choice for secretary of state, Hillary Rodham Clinton, criticizes the outgoing Bush administration for having downgraded the role of arms control in Russia policy.

**Jan. 20, 2009:** Barack Obama is sworn in as the 44<sup>th</sup> president of the United States.

**Jan. 26, 2009:** Russian President Dmitry Medvedev telephones Barack Obama to congratulate him on his swearing in as president. They agree to meet soon.

**Jan. 26, 2009:** In an interview, Russian Prime Minister Vladimir Putin blames George Bush and the U.S. for the Russo-Ukrainian gas war that threatened supplies to Europe over the New Year.

**Jan. 28, 2009:** The Kremlin announces that it is putting on hold plans to deploy medium-range *Iskander* missiles to Kaliningrad, the Baltic enclave located between Poland and Lithuania.

**Feb. 4, 2009:** The Kyrgyz government announces that it will be closing the NATO airbase at Manas, a vital supply depot for U.S. and NATO forces in Afghanistan.

**Feb. 7, 2009:** While attending a security conference in Munich, Vice President Joseph Biden suggests that it is time for Washington to press the “reset” button in relations with Moscow. He also signals that the Obama administration is open to compromises with the Kremlin over issues such as missile defense and Iran.

**Feb. 10, 2009:** Russian Foreign Minister Sergei Lavrov announces that Moscow is ready for strategic arms talks with Washington.

**Feb. 11, 2009:** Undersecretary of State William Burns arrives in Moscow to seek Russian cooperation on nuclear arms reduction and the stabilization of Afghanistan.

**Feb. 13, 2009:** ExxonMobil complains that the Russian government is preventing the firm from continuing to develop a multibillion-dollar project off of Sakhalin Island.

**Feb. 18, 2009:** Japanese Prime Minister Aso Taro visits Sakhalin – the first Japanese leader to do so since the end of the Second World War – to participate in a ceremony marking the opening of an LNG plant that will export gas to Japan.

**Feb. 19-20, 2009:** NATO defense ministers meet in Cracow, Poland. U.S. Defense Secretary Robert Gates repeats the U.S. intention to “reset” relations with Moscow.

**Feb. 19, 2009:** It is reported that two-way trade between Russian and the U.S. grew 35.3 percent in 2008 to \$36.11 billion.

**Feb. 25, 2009:** The U.S. State Department issues its annual report on human rights. The report states that in Russia civil liberties are “under siege, reflecting an erosion of the government’s accountability to its citizens.”

**Feb. 25, 2009:** The agency *Rosatom* announces that it has completed the construction of Iran’s first nuclear power plant at Bushehr and is launching start-up operations.

**March 2, 2009:** Foreign Minister Lavrov says that Russia is more in favor of new arms control agreements than an extension of the START 1 treaty that is due to expire in December 2009.

**March 3, 2009:** The *New York Times* reports that President Obama sent a secret letter in February to President Medvedev offering to halt the construction of a missile defense system if Moscow helps suppress Iran’s missile threat. The White House denies the offer of such a deal.

**March 3, 2009:** Defense Minister Anatoly Serdyukov states Russia will not deploy missiles to Kaliningrad if the U.S. ceases plans to build a missile defense system in Eastern Europe.

**March 6, 2009:** Secretary of State Clinton meets Foreign Minister Lavrov in Geneva, marking the first high-level talks between the two nations in 2009.

**March 6, 2009:** The Kyrgyz Parliament officially approves legislation closing Manas Air Base, a major NATO supply base for Afghanistan.

**March 10, 2009:** In Moscow, President Medvedev meets members of a U.S. commission on Russia policy, chaired by former Sens. Chuck Hagel and Gary Hart.

**March 19, 2009:** In Moscow, former U.S. Secretary of State James Baker gives a speech at a conference organized by the American Chamber of Commerce in Russia. He says that the “stakes are too high” for U.S.-Russia relations to go adrift.

**March 20, 2009:** Henry Kissinger leads a delegation of former U.S. officials to Moscow to meet with President Medvedev and Prime Minister Putin. The group includes former Secretary of State George Shultz and former Senator Sam Nunn.

**March 24, 2009:** The Czech government suspends the ratification of its agreement with the U.S. on the deployment of a missile tracking radar.

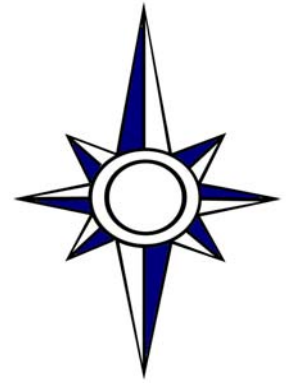
**March 27, 2009:** Senate Foreign Relations Committee Chairman John Kerry delivers a speech entitled, "A New Partnership for a New Moment in U.S.-Russian Relations."

**March 27, 2009:** The Shanghai Cooperation Organization (SCO) convenes in Moscow to discuss the situation in Afghanistan. Both Iran and the U.S. send representation.

**April 1, 2009:** In London, President Obama meets President Medvedev for the first time ahead of a G20 summit to address the global economic crisis.

**April 1, 2009:** Russia starts exporting liquefied natural gas from Sakhalin.

**April 3, 2009:** NATO holds its 60<sup>th</sup> anniversary celebration at a summit in Strasbourg, France.



**U.S.-Southeast Asia Relations:  
Indonesia as Exemplar of Southeast Asia's Importance**

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Secretary of State Hillary Clinton's visit to Indonesia, part of her initial overseas journey to Asia, was enthusiastically received in the world's most populous Muslim country. The secretary praised Indonesia's thriving democracy as evidence of the compatibility of Islam and political pluralism. Noting Southeast Asia's importance to the U.S., Clinton announced that the State Department would begin consideration of a process to sign ASEAN's Treaty of Amity and Cooperation, a prerequisite for membership in the East Asia Summit. She also acknowledged that Washington's harsh sanctions against Burma's military junta had not changed that regime's draconian rule but also pointed out that ASEAN's engagement strategy was equally impotent. Nevertheless, she stated that the U.S. would consult with ASEAN in the process of reviewing its Burma policy. Meanwhile, ASEAN held its 14th summit in Thailand at the end of February. While the global economic crisis dominated the agenda, the future of a human rights commission mandated by ASEAN's new Charter proved the most contentious, with the more authoritarian ASEAN members insisting that noninterference in domestic affairs should remain the underlying principle of any human rights body.

**Secretary Clinton expands America's Southeast Asia agenda**

During a Feb. 18-19 visit to Indonesia – part of her first overseas Asia trip – Secretary of State Hillary Clinton opened a variety of new doors for U.S. policy toward Southeast Asia generally and Indonesia in particular. For Indonesia, the world's largest Muslim country and fourth most populous country in the world, Clinton praised its thriving democracy, its economic status as a member of the G-20, and its success in suppressing terrorism. At the same time she emphasized that her visit was the start of a “concerted effort” by the Obama administration to bring a new message to the Muslim world. Noting that U.S. interests are “not just focused on China” and that “the United States must have strong relationships and a strong and productive presence in Southeast Asia,” Clinton saw Indonesia as an example “that Islam, democracy, and modernity can co-exist very successfully.” Indonesian Foreign Minister Hassan Wirajuda, obviously pleased by the description of his country's importance, replied on Feb. 18 that “Indonesia will be a good partner of the United States in reaching out to the Muslim world.”

Noting that a “comprehensive partnership with Indonesia is a critical step on behalf of the United States commitment to smart power,” Secretary Clinton may have been endorsing the statement made by President Yudhoyono in his November 2008 address to the U.S.-Indonesia Society when he averred that he wants a partnership with the U.S. on global issues. For Clinton, that partnership would cover both nontraditional security concerns such as environmental protection

and climate change as well as trade and investment. Clinton also announced that Indonesia had agreed to begin negotiations to allow the return of the U.S. Peace Corps to the country after a 43-year absence, having been forced to leave in 1965 during the turmoil that culminated in a military coup by Gen. Suharto.

Expanding the policy lens to Southeast Asia, Secretary Clinton stated that the U.S. would begin consideration of the process of signing on to ASEAN's Treaty of Amity and Cooperation (TAC), a nonaggression pact that is a prerequisite for membership in the East Asia Summit (EAS). Heretofore, Washington has declined to sign the treaty due to Pentagon concerns that it would limit U.S. military activities in East Asia. These objections have diminished as the U.S. allies in Asia (Japan, the ROK, Thailand, the Philippines, and Australia) have all signed the TAC and do not believe their adherence has negatively impacted their security relationships with the U.S.

Secretary Clinton also visited the Jakarta headquarters of the ASEAN Secretariat (a first for a U.S. secretary of state) and promised to attend the annual security conference of the ASEAN Regional Forum (ARF), an event that Condoleezza Rice, President Bush's secretary of state, missed twice in the last four years. ASEAN Secretary General Surin Pitsuwan welcomed Clinton's visit and announcement as "a reaffirmation of the U.S. political and security commitment to the region."

In a subsequent Feb. 26 address in Thailand, U.S. Ambassador to ASEAN Scot Marciel stated that "it would be valuable to have a U.S.-ASEAN summit, [but] it's early days yet, and we haven't had a full discussion about that." President Bush had originally scheduled such a summit in his last year in office but postponed it in part because of his refusal to meet with an official representative of Burma's junta. Burma policy was also raised during Secretary Clinton's talks in Indonesia. While stating that U.S. democracy and human rights goals remain the same, she acknowledged that Washington's sanctions policy had not changed the junta's behavior. Nor, she added, had ASEAN's engagement strategy elicited salutary responses. Clinton indicated that Washington was open to new approaches on Burma and was willing to consult with ASEAN as to the way ahead. Marciel listed a series of steps the U.S. hopes Burma's authorities will take that follow those articulated by the Bush administration: "that the government release political prisoners, that it reach out to the opposition and begin a genuine dialogue so that the people of Burma can work with the existing government to try and form a better way ahead." However, he also admitted: "The fact is there isn't any obvious way ahead." Clearly, the U.S. does not believe that the junta's projected "elections" scheduled for 2010 conform to these objectives. Nevertheless, on March 25, Director of the State Department Mainland Southeast Asia Office Steven Blake visited Burma's capital, Naypyidaw, and met with the Burmese foreign minister marking the first time a U.S. official has met with someone from the ruling State Peace and Development Council (SPDC) since it took office in 1997. Blake subsequently traveled to Rangoon, the former capital, where he met with members of the opposition party. His visit constitutes a tangible indication that the Obama administration is gathering new information for a reexamination of its Burma policy, although on the same day as Blake's talks with the foreign minister, the State Department issued a statement that his visit "does not reflect a change in policy or approach to Burma."



## **ASEAN foreign ministers grapple with the new Charter**

From Feb. 27 to March 1, ASEAN leaders held their first meeting since the organization's new Charter came into effect last December. Because of ongoing Thai political turmoil in the capital, the meeting was moved from Bangkok to Hua Hin away from contending political parties. (For background, see the U.S.-Southeast Asia article "Thai Political Turmoil Impacts ASEAN" in the January 2009 issue of *Comparative Connections*.) The agenda mostly focused on the global economic crisis and regional economic integration. Recognizing the nature of their export-led economies, ASEAN members initialed agreements to form an integrated economic community by 2015 and issued a statement vowing to shun protectionist policies. Nevertheless, the summit did not yield the deep trade concessions most analysts believe are necessary to boost economic growth in the region and to compete with China and India for foreign investment.

The formation of a human rights body by the end of this year continues to be contentious. The leaders of Burma and Cambodia threatened to leave the summit before it began if exiled human rights activists from their countries were permitted to attend. (Reluctantly, the human rights activists withdrew rather than disrupt the meeting.) No agreement was reached on the specifics of a human rights commission at the summit, although a draft document was circulated that calls for respect for basic freedoms but provides for no provisions for investigation or prosecution.

The draft features ASEAN's underlying principle of noninterference in domestic affairs and states that "primary responsibility to promote and protect human rights ... rests within member states." Nor does the draft specify who should sit on the human rights commission other than representatives with "competence in the field of human rights." Malaysian Prime Minister Abdullah Badawi admitted that promoting human rights in ASEAN will be "difficult ... because we are at different stages of development." On Feb. 26, a U.S. official urged ASEAN leaders to use the planned body to push for reform in Burma.

In its chairman's statement, the 10-nation bloc urged Burma to implement inclusive national reconciliation but at the same time abjured any ASEAN facilitation role. The Malaysian prime minister at a separate press conference stated that Burma has indicated its willingness to interact with the UN on the junta's "democratization" process, implying that ASEAN was not the right organization to fill that role.

The ASEAN summit also failed to act on the problem created by the flight of ethnic Rohingya from Burma to neighboring states. The ASEAN chairman's statement avoided referring to the Rohingya's plight as a humanitarian issue, thus insuring that ASEAN states to which they have fled can continue to treat the arrivals as illegal immigrants. Originating along the Burma-Bangladesh border, this Muslim community has long suffered persecution by Burma's military government. As for the future of those who arrived illegally by boat in Indonesia, Malaysia, and Thailand, the chairman's statement declared the issue would be taken up at the "Bali Process" – an ASEAN ministerial conference on people smuggling, trafficking in persons, and related transnational crimes. Burma's Prime Minister Gen. Thein Sein acknowledged the Rohingya as a Bengali minority group and stated that his country would take back those who can verify they were born in Burma – a problematic offer for poor villagers with little documentation. As an

Amnesty International spokesperson put it, the Bali Process on human trafficking cannot get at the root cause of Rohingya flight, their persecution in Burma.

ASEAN states also pledged to fully implement a regional counterterrorism pact this year – an integral component of the ASEAN political-security community. The Convention, signed in January 2007, calls for the exchange of intelligence and prevention of any ASEAN member’s territory to plan, finance, or facilitate attacks on another.

### **Visiting forces agreement controversial in Philippines**

Under the Philippine-U.S. 1999 Visiting Forces Agreement (VFA), U.S. exercises with the Philippine Armed Forces take place in locations ranging from assisting Philippine Special Forces in their quest to suppress radical groups such as Abu Sayyaf in the south to larger joint exercises under the rubric *Balikatan*, in other parts of the country. The presence of U.S. forces has created a backlash among nationalist and leftist groups in the Philippines. Two events this quarter impacted the VFA’s future. One dealt with a U.S. soldier convicted of rape and sentenced to a 40-year prison term, who has been confined to the U.S. embassy since 2005 pending an appeal. The other is related to Philippine strategic concerns generated by China’s negative reaction to a Philippine filing of a baseline territorial claim with the United Nations in March, leading to Chinese protests over encroachment on its own sovereignty claims in the South China Sea. The PRC’s dispatch of a patrol ship to the area has elicited official Philippine expressions about the importance of maintaining the U.S. security relationship.

On Feb. 11, the Philippine Supreme Court ruled that the convicted U.S. soldier, Daniel Smith, should be turned over to Philippine custody but also upheld the VFA and stated that the U.S. and Philippine governments should negotiate where Smith would be detained. Meanwhile, he remains in the U.S. embassy compound. Opposition lawmakers are using the Supreme Court decision to insist that the VFA is disproportionately in favor of U.S. interests. Subsequently, on March 11, President Obama telephoned President Gloria Arroyo and praised the VFA as mutually beneficial for each side’s national security. Philippine Sen. Francis Escudero then stated that the U.S. might welcome a review of the VFA if changes “will lead to stronger and warmer bilateral ties.” The changes Escudero has in mind are based on Manila’s status of forces agreement with Australia which gives the Philippines more jurisdiction over criminal prosecution of visiting foreign soldiers. Earlier, on Feb. 23, U.S. Ambassador to the Philippines Kristie Kenney stated that any review of the VFA would be premature until the custody of the convicted American marine is negotiated. The issue was further complicated late in March, when the woman who brought the original charges against Smith recanted her accusation. The woman’s supporters say they smell “a plot” to vindicate and release the convicted serviceman in order to remove the persisting cloud of controversy over the VFA.

In the midst of the VFA controversy, a new concern arose. China’s objection to the Philippine Archipelagic Baselines Law and subsequent PRC deployment of a patrol vessel to monitor its maritime zone in the disputed Spratly Islands led the Arroyo government to caution those who want to abrogate the VFA as weakening the Philippines at a time that Beijing may be flexing its military muscle, according to National Security Advisor Norberto Gonzales. Nevertheless, opposition Congressman Rufino Biazon stated on March 17 that “with or without the VFA, the

U.S. is obliged to help the Philippines should it come into conflict with China under the Mutual Defense Treaty.” He went on to say, “This might be an opportune time for Philippine officials to sit down with the secretary of state to find out what we can expect under the MDT with regards to the China issue.”

Philippine-U.S. war games on Panay Island and the Bicol region in late January and early February drew strenuous objections from the Philippine Communist Party which claimed the purpose was to crush its New People’s Army (NPA), whose guerrillas operate in these areas. These exercises will be followed by the larger April 2009 *Balikatan* exercises in the same region focusing on enhancing interoperability between U.S. and Philippine forces. NPA statements indicating that the guerrillas would target Americans during the January-February maneuvers led to tighter Philippine security; however, there was no indication that any NPA action against the Americans occurred.

### **Enhanced *Cobra Gold* exercise held**

The 28th annual multinational exercise *Cobra Gold*, America’s most elaborate Asian military maneuvers, were held from Feb. 4-17 in Thailand, this year involving troops from 19 countries as participants and 9 others as observers. The primary participants included 7,300 troops from the U.S., 4,000 from Thailand, 113 from Indonesia, 106 from Singapore, and 75 from Japan, who engaged in air, water, and ground maneuvers. The emphasis was on responses to natural disasters such as the December 2004 Indian Ocean tsunami. This year’s *Cobra Gold* also introduced robotic operations to remotely access hazardous areas.

Lt. Gen. Benjamin Mixon, commander of the U.S. Army Pacific, stressed that the “soft power” aspects of *Cobra Gold* were just as important as practicing coalition warfare and tactical operations. Soft power activities in this year’s exercise included building schools and medical facilities, providing medical and dental services to villagers, and veterinary examinations of farm animals. Mixon also noted the counterterrorist importance of training Asian armed forces in this exercise. Thailand contributed \$1.1 million for the games, while the U.S. provided \$13 million.

### **U.S. human rights allegations challenged by Southeast Asian states**

The annual State Department Human Rights Report elicited the usual rejections from those Southeast Asian states whose records continue to be severely blemished. Other U.S. agencies have also investigated human rights violations in the region. In mid-January the U.S. Senate Foreign Relations committee publicized a probe it is conducting in Malaysia on allegations that Malaysian officials were extorting money from foreign migrants – mainly from Burma – in order for them to avoid being sold to human trafficking syndicates along the Malaysia-Thai border.

Vietnam was described in the State Department’s report as an authoritarian state where dissent is prohibited and people were arbitrarily detained for political activities. Human trafficking continues in the country along with violence toward and discrimination against women, according to the report. Moreover, governmental corruption is pervasive, particularly in the confiscation of land without compensation to make way for infrastructure projects.

Burma was excoriated for brutally suppressing its citizens and razing entire villages. Recalling the junta's delay in permitting international assistance to Cyclone *Nargis* victims last May, "the regime showed contempt for the welfare of its own citizens." It has also forcibly relocated people from their homes, particularly in areas dominated by ethnic minorities, while looting their possessions.

Cambodia responded to the report by denying there was extra-judicial killing by security forces and insisting that freedom of speech existed in the country as could be seen in opposition newspaper criticism of the government. As for the forced evacuation of people from their land, residents were described by Cambodian authorities as "squatters" who must be removed from public property. (Cambodian official corruption and impunity are notorious and have led to its ranking among the most corrupt regimes in the world.)

The State Department also criticized Thailand for using excessive force against criminal suspects and linked the police to disappearances, torture, and other abuses including incarceration in overcrowded and unsanitary conditions. Depredations were particularly prevalent in the south where the government is fighting a five-year old Muslim insurgency. At year's end, no military personnel had yet to be charged or prosecuted for these actions.

Despite condemnation of rampant corruption, drug trafficking, and extra-judicial killing, the Philippine government acknowledged that the report was "fair" and noted that the overall country rating vis-à-vis other Southeast Asian states "is one of the best." The report did note that extra-legal killings and enforced disappearances were down in 2008 but criticized a judicial system that suffered from "corruption and inefficiency" where "personal ties and sometimes bribery resulted in impunity for some wealthy or influential offenders...."

### **Other issues of concern**

The U.S. praised Thailand in mid-February for joining the Malacca Strait antipiracy patrols initiated by Malaysia, Singapore, and Indonesia in 2004. Commander of the U.S. Pacific Command Adm. Timothy Keating noted that since the patrols began, piracy in the Strait has declined, most recently from 50 cases in 2007 to only two last year.

Testifying before the U.S. Senate Foreign Relations Committee in mid-February, Keating also averred that "Indonesia has become an increasingly important partner of ours." U.S. financial assistance for the country's counterterrorism program has helped Jakarta significantly curtail terrorism. Nevertheless, Indonesia is still waiting for U.S. confirmation regarding the fate of one of its most notorious terrorist suspects, Hambali, who was arrested in Thailand in 2003 in a joint U.S.-Thai operation and interrogated by the CIA at undisclosed locations until being imprisoned at Guantanamo in 2006. Reportedly dubbed by the CIA as the "Osama bin Laden of Southeast Asia," Hambali is wanted in Indonesia, Malaysia, the Philippines, and Singapore and blamed for the 2002 Bali bombing and the 2003 attack on the Jakarta Marriott hotel. Indonesian authorities speculate that since President Obama signed an executive order to close Guantanamo prison, Hambali will be returned to Indonesia, particularly since he has not been linked to 9/11. However, seven U.S. citizens died in the Bali bombing and Hambali is also tied to the planning of an abortive attack on the U.S. Embassy in Singapore. Therefore, according to Sidney Jones, a

Southeast Asia specialist with the International Crisis Group, Washington may not return Hambali unless “there was an absolute guarantee” he would be convicted and given a heavy sentence, and “you can’t guarantee that absolutely in a democratic system....”

### **A straw in the wind**

Although this is still early innings for the Obama administration’s Southeast Asia policy, the one area where change may be in the works is Burma. Washington may hope that it has some chance of encouraging the ruling junta to provide a genuine opposition voice in the forthcoming 2010 elections even though the SPDC’s continued domination of the government is a foregone conclusion. Perhaps Washington is considering softening the sanctions it has imposed on the regime in exchange for the latter’s political opening to the opposition National League for Democracy including the release from house arrest of Nobel Prize winner Aung San Suu Kyi. If this is the Obama administration’s thinking, it would do well to consult with partners whose policies toward Burma are compatible with Washington’s: the ASEAN states, Japan, and India. A combined endeavor could enhance any new American demarche.

## **Chronology of U.S.-Southeast Asian Relations January - March 2009**

**Jan. 3, 2009:** More than 3,000 Muslim demonstrators rally outside the U.S. Consulate in Medan, Indonesia condemning the Israeli attack on Gaza.

**Jan. 4, 2009:** Former Malaysian Prime Minister Mahathir Mohammad calls for a global boycott of U.S.-made products because of U.S. backing for Israel on its war in Gaza against Hamas. He criticizes Washington’s veto of a UN Security Council resolution calling for a ceasefire and sees no change in U.S. policy under President Obama “because a lot of voters in America are Jews.”

**Jan. 5, 2009:** U.S. Ambassador to the Philippines Kristie Kenney states that President Obama will continue U.S. support for the Mindanao peace process including economic aid for the region’s development.

**Jan. 9, 2009:** Philippine Defense Secretary Gilberto Teodoro says that this year’s U.S.-Philippine *Balikatan* exercise would focus on rehabilitation in calamity-stricken areas and not be involved in the anti-insurgency campaign in the Bicol region.

**Jan. 9, 2009:** U.S.-based Human Rights Watch calls on the World Bank and donor countries to press Vietnam to stop arresting journalists who expose corruption and urges Hanoi to permit free media expression.

**Jan. 9, 2009:** Supporting anti-Israel and anti-American demonstrations in Kuala Lumpur, former Prime Minister Mahathir calls on Malaysians who work for U.S. companies to quit and to sell any U.S. dollars they own so that the U.S. “will become a bankrupt country and will not be able to produce weapons for Israel.”

**Jan. 15, 2009:** The U.S. Senate Foreign Relations Committee states it is investigating allegations that Malaysian authorities are transporting Burmese refugees from government detention facilities and turning them over to human traffickers in southern Thailand.

**Jan. 15, 2009:** A U.S.-Vietnam education forum opens in Hanoi. Eighty U.S. universities have formed partnerships with Vietnam, and about 10,000 Vietnamese are studying in the U.S.

**Jan. 20, 2009:** Ambassador Kenney states the U.S. is prepared to aid in the search for three Red Cross personnel kidnapped in the southern Philippines presumably by the Abu Sayyaf.

**Jan. 22, 2009:** Malaysian Prime Minister Abdullah Badawi says he is “happy with President Obama’s plans to engage the Muslim world.”

**Jan. 26, 2009:** Burma’s weekly journal, *The Voice*, publishes excerpts from President Obama’s inaugural address, excluding passages that criticized “those who cling to power through corruption and deceit and the silencing of dissent....”

**Jan. 26-Feb. 20, 2009:** 178 Philippine and 35 U.S. military personnel participate in the *Balance Piston 90-01* exercise in Capiz in the Visayas to enhance interoperability between the armies as well as interagency cooperation between the military and law enforcement.

**Jan. 29, 2009:** The Philippine Council for Islam and Democracy sends a letter to President Obama through the U.S. embassy, urging him to help end the internecine Mindanao conflict. The letter refers to Obama’s pledge to seek better relations with the Muslim world.

**Feb. 2-6, 2009:** A U.S. Navy *Arleigh Burke*-class destroyer, the *USS Lassen*, visits Bali where its crew is hosted by the Indonesian Navy. Vice Adm. John Bird, commander of the U.S. 7th Fleet, states that the U.S. Navy conducts 150 engagements annually with its Indonesian counterpart.

**Feb. 4-17, 2009:** *Cobra Gold*, Asia’s largest U.S.-led and Thai-hosted annual multinational military exercise, takes place with an emphasis on peacekeeping and humanitarian operations.

**Feb. 6, 2009:** Indonesian State Secretary Hatta Radjasa states that U.S. Secretary of State Clinton’s upcoming visit to Indonesia is a sign of the Obama administration’s outreach to the Muslim world.

**Feb. 7, 2009:** Ambassador Kenney says the Visiting Forces Agreement (VFA) for U.S. troops in the Philippines will continue under President Obama.

**Feb. 11, 2009:** The Philippine Supreme Court rules that a U.S. serviceman convicted of rape but detained on US embassy grounds must be transferred to a Philippine prison. The case has become entangled in Philippine national politics and the fairness of the Philippine-U.S. VFA.

**Feb. 17, 2009:** Adm. Timothy Keating at the *Cobra Gold* closing ceremony praises the Malacca Strait countries for their collaboration in ensuring safe maritime passage. Piracy dropped to just two cases in 2008 from 50 in 2007.

**Feb. 18, 2009:** Indonesian Finance Minister Sri Mulyani Indrawati suggests to Secretary Clinton that Jakarta would be interested in a currency swap arrangement to help Indonesia through its current credit difficulties.

**Feb. 18-19, 2009:** Secretary Clinton visits Indonesia as part of her four nation initial Asia trip.

**Feb. 18-20, 2009:** The Second Asia-Pacific Intelligence Chiefs conference is held in Singapore co-hosted by the U.S. Pacific Command and Singapore with 25 countries represented.

**Feb. 27-March 1, 2009:** The ASEAN summit meets in Hua Hin, Thailand. The meeting focuses on trade deals and prospects for an integrated economic community by 2015.

**March 2, 2009:** The U.S. government reveals that hundreds of hours of video tapes showing harsh interrogation of Al Qaeda captives in Thailand were destroyed in 2005 as Congress and U.S. courts intensified their scrutiny of CIA detention and interrogation practices.

**March 9, 2009:** U.S. Navy destroyers begin the escort of U.S. surveillance ships in the South China Sea the day after Chinese boats harassed the *USS Impeccable* south of Hainan Island.

**March 17, 2009:** Suzette Nicolas submitted a sworn statement to a Philippine appeals court, recanting her accusation of rape against U.S. Lance Cpl. Daniel Smith, who was convicted of the offense in December 2006 and sentenced to 40 years in prison.

**March 18, 2009:** Speaking in Phnom Penh, Stephen Blake, director of the State Department's Mainland Southeast Asia Bureau, states that the U.S. will not interfere in the Cambodia-Thailand border dispute around the Preah Vihear temple and urges that the conflict be resolved peacefully.

**March 24, 2009:** The director of the State Department's Mainland Southeast Asia Bureau meets with Burma's foreign minister in the capital, Naypyidaw – the first time a U.S. official has met with a member of the ruling junta since it took office in 1997.







**China-Southeast Asia Relations:  
South China Sea, Economic Issues**

Robert Sutter, Georgetown University  
Chin-Hao Huang, SIPRI

Southeast Asian and broader international attention focused in March on the confrontation between five Chinese government ships and the U.S. surveyor ship *USNS Impeccable* in the South China Sea near Hainan Island. U.S. and Chinese protests and related media commentary highlighted for Southeast Asian audiences a pattern of U.S. surveillance to learn more about China's growing military presence and activities in the area, and a pattern of China's unwillingness to tolerate such actions in areas where it claims rights that are disputed by the U.S. and other naval powers. The protests and commentary provided a vivid backdrop for China's continued efforts to claim and defend territory in the South China Sea that is also claimed by Southeast Asian nations. Meanwhile, there was little good news on the economic front as China's international trade and economic interchange with Southeast Asia continued to fall rapidly. Chinese diplomatic and political attention to the region remained low during the quarter.

**South China Sea issues**

The impasse between China's determination to resist U.S. surveillance in areas of the ocean where it claims rights and U.S. opposition to Chinese harassment of unarmed U.S. surveyor ships put the public spotlight on the buildup of Chinese military forces and related government naval capabilities in the South China Sea. Foreign media focused attention on China's submarine base on Hainan Island and the deployment of advanced Chinese submarines to the base as one of the targets of U.S. surveillance. The announced U.S. deployment of a destroyer to accompany and prevent further harassment of the *Impeccable* coincided with reports in official Chinese media of deployment of government ships to patrol Chinese claimed waters used by China's Southeast Asian neighbors for fishing and other activities.

China's determination over the dispute with the U.S. seemed to be underlined by a continued firm public stance on the territorial issues despite the concurrent efforts of the foreign minister to get China's relations with the Obama administration off on a positive footing during his first visit to Washington to meet with the new U.S. leaders. Official Chinese media began efforts to calm the dispute and to reassure China's neighbors and other concerned parties by disavowing abnormal Chinese patrolling after the foreign minister had left Washington for home.

Former Commander of U.S. Pacific Command and current Director of National Intelligence Dennis Blair judged in comment to the Congress on March 10 that contrary to what he saw as China's predominantly diplomatic approach regarding territorial disputes in Southeast Asia

earlier in the decade, “in the past several years, they have become more aggressive” in asserting territorial claims. Veteran Southeast Asia and maritime expert Mark Valencia warned in an article in the *Far Eastern Economic Review* that the current dispute is “the tip of an iceberg” of maritime legal differences between the U.S. and China. Given China’s expanding blue water navy and its major submarine base on Hainan Island, China was seen determined to protect its “secrets” and the U.S. was seen as just as determined to know as much as possible about Chinese submarines and the morphology of the sea bottom. Valencia earlier documented China’s growing assertiveness over South China Sea territorial claims, judging in an assessment last year that “China’s behavior in the South China Sea has become more confrontational than cooperative and deserves renewed ASEAN attention.”

Reports in official Chinese media regarding patrols in South China Sea waters by Chinese government vessels noted infringements on Chinese territorial rights by neighboring countries. In February, media reports from Manila highlighted strong Chinese pressure to get the Philippine legislature to water down language in proposed legislation dealing with Philippine claims to 53 of the Spratly Islands, also claimed by China. The *South China Morning Post* on Feb. 12 recounted the play-by-play among the Chinese embassy, Philippine legislative leaders, and the Philippine government, citing strong Chinese warnings of “grave concern” and warnings of “negative impact” on Sino-Philippine relations if the offending legislation were passed. The bill was altered and approved in March amid strong Chinese official protests in Beijing and Manila.

Meanwhile, the Vietnamese Foreign Ministry expressed concern in January over Chinese plans to develop and use uninhabited islands in the Paracel and Spratly Islands claimed by Vietnam. The ongoing maritime disputes did not prevent the completion of the demarcation of the Sino-Vietnamese land border. The latter accomplishment was noted in official media by both sides at the turn of the year during the official visit of a Chinese vice foreign minister to Hanoi, and it also was marked by a ceremony along the border in February. The two countries signed a land border agreement in 1999 and took nine years to demarcate the 840-mile frontier.

### **Military buildup, aircraft carrier**

The annual meeting of China’s National People’s Congress (NPC) featured China’s continued strong advance in military capabilities through an announced annual defense budget increase of 15 percent. The Chinese buildup has been the focus of recent statements of concern by the Australian government. Prime Minister Kevin Rudd joined visiting South Korean President Lee Myung-bak in March in discussing the need for transparency and concern over an undesirable arms race and increases in military spending. Their comments were careful not to directly oppose China, but they were seen to register clear concerns with China’s military buildup.

The deliberations at the NPC also featured discussion in official Chinese media by congressional delegates urging the Chinese government to start work on building aircraft carriers. The *China Daily* on March 6 recalled earlier commentaries by official Chinese defense spokesmen regarding China’s “right” to build carriers and its “serious consideration” of building them. It highlighted foreign media reports that China would build “medium-size carriers” within 10 years and that construction is already underway. It went on to cite other reports saying that the plan to build aircraft carriers would be announced during the Chinese Navy’s 60<sup>th</sup> anniversary in April.

When asked in late March about plans to build an aircraft carrier, the Chinese defense minister avoided a specific answer.

### **ASEAN summit and China's participation**

The 14<sup>th</sup> ASEAN summit took place in Hua Hin, Thailand, with attendance from all of the leaders from the 10-country regional bloc. Unlike previous years, additional follow-on dialogues, such as the ASEAN Plus 1 (with China) and the East Asian Summit will be held separately in April. The thematic discussions for this year's summit focused on the current state of the world economy and ways in which ASEAN and its regional partners could work together to minimize the impact of the global financial crisis.

The Chinese delegation at the summit was led by the newly appointed Chinese Ambassador to ASEAN Xue Hanqin. In a press interview at the summit, Xue explained that her role is to serve as a liaison and facilitator between the Chinese government and ASEAN. In light of the regional and global economic downturn, she explained that China will continue to work with ASEAN leaders and play an important role in mitigating the impact of the financial crisis on the regional economy. She indicated that the China-ASEAN Expo, owing to previous successes in further opening and linking up the economies of Southeast Asia and China, will be held again for the sixth consecutive year in Nanning later this year and will continue to be an important platform for enhancing regional economic, business, and trade activities. Xue also commented that China remains supportive of the China-ASEAN free trade agreement, indicating that there is political will in Beijing to achieving this goal with ASEAN.

More concretely, one of the main developments of this year's summit was the decision to establish a \$120 billion multilateral fund to help the region address the problems of foreign capital flow shortage in the future. The details of this new reserve were discussed and ironed out by the finance ministers from ASEAN as well as from China, Japan, and South Korea. This new fund will be a follow-up to the bilateral currency swap known as the Chiang Mai Initiative established in 1997 after the Asian financial crisis. The initial proposal for the size of this reserve pool was set at \$80 billion, but China, Japan, and South Korea agreed to contribute 80 percent of the fund while the remaining 20 percent would come from ASEAN member countries. This helped expand the scope and scale of the fund to a total of \$120 billion. The final implementation plans will be signed and put into action in the upcoming ASEAN Plus 3 Finance Ministers' Meeting in May in Bali, Indonesia. A *Xinhua* article on Feb. 27 reported on this recent initiative and was largely supported by Chinese academics and economists, calling such a move a possible prelude to the establishment of an Asian monetary fund.

At the conclusion of the summit, ASEAN Secretary General Surin Pitsuwan held an exclusive interview with *Xinhua* where he praised not only China's increasingly important role in Southeast Asia but also ASEAN's commitment to strengthen its ties with China and other parts of Asia. He noted that the financial crisis provides a unique opportunity for Southeast Asia and China to work even more closely to cooperate and curb protectionist measures. He also acknowledged China's longstanding contributions to the Greater Mekong sub-region (GMS) countries and sought to deepen and broaden ASEAN's engagement with China and other key partners to address the long-term economic growth and political stability in the region.

## **Economic crisis, regional cooperation**

The sharp decline in Chinese trade figures in recent months foreshadowed serious distress for Southeast Asian traders and manufacturers integrated with China-based enterprises, often foreign invested enterprises, involved with the widespread so-called processing trade that has made up about half of Chinese trade with Southeast Asia. In the early months of the economic crisis, Chinese imports declined more rapidly than Chinese exports, though both declined substantially. By February, China's figures showed exports down over 25 percent while imports fell by almost that amount. China continued to run a hefty trade surplus in the early months of the crisis, but the February figures showed a major contraction.

One option for Southeast Asian manufacturers and traders dependent on the webs of processing trade with China is to hunker down and wait out the crisis, making ready to resume active and profitable enterprise once the markets for these products, often in the developed countries of Europe, North America, and Asia, revive. Since that day seems distant, attention is sometimes directed to regional solutions or remedies to ease the pain of the slowdown.

Chinese commentary on Asian regional solutions to the crisis has been limited. A lengthy review in *China Daily* on Jan. 5 assessed that China is focused on three paths in dealing with the crisis: stimulating the domestic Chinese economy, participating in global cooperation efforts, and regional cooperation. The evidence thus far is that Chinese leaders give clear primacy to the first path, and their international attention is focused on interactions with world economies, especially developed economies, that make a significant difference in the health of the Chinese and world economies. Chinese leaders also register support for growing regional cooperation among newly developed or developing countries in various parts of the world, and growing alignment of such countries across regional boundaries in order to deal with the crisis. In Asia, the salient example of Chinese cooperation has been the China-Japan-South Korea currency swap arrangement reached at their first trilateral summit in December. Other Chinese commentary registered some pessimism about the significance of Asian regional cooperation when compared with other regions of developing countries. An assessment in *China Daily* on Jan. 23 by the president of the China Institutes of Contemporary International Relations noted "slow" progress in Asian regional cooperation in comparison with other world areas.

## **Other developments**

Official Chinese media gave some attention to the appointment in December 2008 of Ambassador Xue Hanqin, a career diplomat, as China's first ambassador to ASEAN. *Xinhua* on Jan. 15 interviewed Xue, who proclaimed "a new era" of Chinese relations with ASEAN. *China Daily* on Dec. 31 duly justified the appointment as reflecting ASEAN's increasing importance for China, and repeatedly noted that the Chinese action came after the U.S. and Japan had appointed ambassadors to ASEAN. *Xinhua* said that Xue's appointment represented the latest of China's "special-mission envoys," which include special ambassadors on the European Union, African affairs (e.g. Sudan), and Korean Peninsula issues.

*China Daily* on Dec. 24 reported that construction of a 30-km bridge linking Hainan Island with the mainland was slated to begin in 2012, with completion scheduled for 2020. It said that 14 years of research and preparations had been done before the project was submitted to the State Development and Reform Commission. The completion will reduce the travel time of five hours for ferry traffic to a 20-minute road or rail trip across the bridge. It noted that China has built a longer cross-sea bridge, the 36 km Hangzhou Bay Bridge in eastern China.

Taiwan continued strong interest in using the improvement in its relations with China and the thaw in cross-Strait relations to open opportunities for Taiwan's increased international participation, including in Southeast Asia. In February, President Ma Ying-jeou proposed to a visiting economic minister from the Philippines that Taiwan be invited to participate in meetings of labor ministers of the ASEAN countries. Ma noted that laborers from Southeast Asian countries represent the largest group in the 360,000 foreign workers in Taiwan, and he expected that participation with ASEAN over labor and other issues would open the way for Taiwan's interaction with the ASEAN free trade area.

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

The publication of a rich array of studies and commentaries assessing the progress and importance of China's rising involvement and interaction with Asia and Southeast Asia in particular continued this quarter. Heading the list was *Strategic Views on Asian Regionalism: Survey Result and Analysis* released by the Center for Strategic and International Studies (CSIS) in Washington DC. The study laid out the findings of surveys of elites in Asia, including Southeast Asia, regarding their expectations of the future power dynamics and order in the region. China's rising importance loomed very large in their calculations. On balance, the majority of the Asian elites expected that China will be the strongest in overall national power in the Asian region in 10 years, and will be the most important country for their nation in 10 years. The U.S. came in second in importance.

The study went on to note that China also was more likely than any other country to be seen as a threat to regional peace and security in 10 years and that the U.S. would continue to be valued for its positive and stabilizing role. The study advised U.S. policymakers to work with Asian leaders in fostering multilateral institutions and other means that support a stable environment to ensure China contributes positively to regional growth and stability as it becomes more integrated into regional and global institutions and practices supported by the U.S.

The CSIS study highlighted deterioration of support for the U.S. among what the study called "strategic elites" in Thailand. It alluded to possible Thai shifts in favor of closer relations with China at the expense of U.S.-Thai relations. Shawn Crispin, an editor for *Asia Times*, wrote an assessment in that publication on Feb. 16 that supported this line of argument. The analysis detailed Chinese advances in relations with Thailand at a time of "drift" in Thai relations with the U.S. on account of diverging strategic interests, mounting trade tensions, and other difficulties in U.S.-Thai relations. Crispin seemed to downplay the significance of continued close U.S. military cooperation with Thailand, notably during the *Cobra Gold* exercise held in early February. Washington's CSIS said the exercise represented "the largest military exercise in

the Pacific.” Crispin chose to highlight recent “unprecedented” joint Chinese-Thai Naval and Special Forces exercises.

Writing in the Jamestown Foundation’s *China Brief* on Feb. 20, Ian Storey added to his past reviews of Chinese military interactions with other Southeast nations to assess China-Indonesia military ties. He found little follow through in regard to various Sino-Indonesia defense and security cooperation declarations and plans. As he has done in reviewing Chinese military ties with other major Southeast Asian governments, Storey found that Chinese efforts have been “dwarfed” by the scope and depth of U.S. security cooperation with Indonesia.

The Singapore-based specialist on Southeast Asia-China relations, Sheng Lijun, writing in the *Straits Times* on Feb. 11, endeavored to support his conclusion that China has been more successful than the U.S. in advancing its interests and influence in Southeast Asia. Despite his judgment that the U.S. exerts “more than enough power – of both the hard and soft variety,” while China “lacks both hard and soft power,” Sheng found that explanations focusing on hard and soft power are inadequate. His research shows that Chinese strategists have skillfully used their limited power in line with regional and international changes and in accord with concepts of strategy and statecraft dating back to pre-Confucian times that remain in common use among strategists in China today. He advised that understanding traditional Chinese strategic thinking and its applications today provide a better way to grasp how and why China has been successful in advancing its position in the region.

A new report by the Congressional Research Service (CRS) titled *China’s Foreign Aid Activities in Africa, Latin America, and Southeast Asia* added to the muddle caused by widely ranging assessments of the scope and impact of Chinese foreign assistance in Southeast Asia. Because the China does not publish information about the costs and scope of its foreign aid efforts, specialists have a hard time discerning the importance and impact of these efforts. Conservative estimates say the overall cost to China of its world-wide foreign aid efforts may be in the range of \$1-2 billion annually. But other estimates are many more times that amount. The CRS study seemed to lean to the latter perspective. It notably highlighted the work of a team at New York University (NYU) that did an inventory of various reporting about Chinese foreign aid activities. Regarding Southeast Asia, the NYU team found that Chinese aid and related investment projects or offers in Southeast Asia in 2002-2007 were valued at \$14.8 billion. How meaningful such an inventory is in determining the cost and scope of Chinese aid efforts remains a matter of debate.

## **Outlook**

Chinese efforts to deal with regional consequences of the global economic crisis may be featured at regional dialogue meetings, including the China-ASEAN meeting and the East Asia Summit in mid-April, and at this year’s Boao Forum, also scheduled for April, which usually attracts many delegates from Southeast Asian countries. The next quarter also will provide trade and investment figures that will allow for a fuller assessment of the consequences of the world economic calamity for Chinese economic relations with Southeast Asia. Fuller reporting on the impact of China’s large domestic economic stimulus also should illustrate its implications for Chinese economic interchange with its Southeast Asian neighbors.

## **Chronology of China-Southeast Asia Relations January-March 2009**

**Jan. 6-9, 2009:** Zhou Tienong, vice chairperson of the Standing Committee of the National People's Congress, arrives in Brunei for an official visit and meets Sultan Hassanal Bolkiah to discuss closer collaboration between the two countries on regional and international affairs. Zhou then makes a follow-on visit to Singapore, meeting Prime Minister Lee Hsien Loong to exchange views on the current state of bilateral political and economic ties as well as on cross-Strait relations.

**Jan. 11-15, 2009:** Zhou Tienong leads a delegation of Chinese legislators for the 17<sup>th</sup> annual conference of the Asia-Pacific Parliamentary Forum in Laos.

**Jan. 12, 2009:** President Hu Jintao issues a formal message to his Indonesian counterpart, Susilo Bambang Yudhoyono, to express his condolences to the victims of a capsized Indonesian passenger ferry carrying more than 250 people.

**Jan. 15, 2009:** In her first, exclusive interview with *Xinhua*, newly appointed Chinese Ambassador to ASEAN Xue Hanqin explains her role and vision in this new post.

**Jan. 20, 2009:** Jia Qinglin, chairperson of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), meets Ong Tee Keat, Malaysian minister of transport and head of the Malaysian Chinese Association to discuss areas for further cooperation.

**Jan. 24, 2009:** According to Chinese media reports, 10 kidnapping victims, formerly held for ransom in Myanmar, were released and have returned safely to Hangzhou, Zhejiang Province. The provincial public security department official indicates that the Chinese civilians were illegally detained, and that since 2005, there has been a rise in such kidnapping incidents.

**Feb. 17, 2009:** On the 30<sup>th</sup> anniversary of the Chinese invasion of Vietnam, Chinese Foreign Ministry spokesperson Jiang Yu makes a brief comment: "History has already made its conclusions, we hope we will put behind the past and face the future." According to an AFP news report, Chinese authorities did not mark the event in any official way and no public commentary or article was aired or published in the Chinese media.

**Feb. 19, 2009:** Chinese Vice Foreign Minister Wang Guangya issues a formal protest to the charge d'affaires of the Philippine Embassy in Beijing in response to the passage of a bill by the Philippine Congress indicating that the Scarborough Reef and parts of the disputed Spratly Islands belong to the Philippines.

**Feb. 20, 2009:** Jia Qinglin meets King Norodom Sihamoni of Cambodia in Beijing. The two leaders agree to improve and expand high-level exchanges and promote further bilateral political and economic cooperation. Sihamoni acknowledges China's longstanding support and continued assistance for Cambodia.

**Feb. 20, 2009:** Ye Dabo, the newly appointed Chinese ambassador to Myanmar, meets Prime Minister Gen. Thein Sein and Deputy Foreign Minister U Maung Myint. According to official Chinese statistics, bilateral trade amounted to \$2.6 billion in 2008, a 26 percent increase from 2007. Chinese exports to Myanmar accounted for close to \$2 billion, an increase of 16.4 percent from the previous year, and China's imports from Myanmar reached nearly \$650 million, an increase of 71 percent.

**Feb. 23, 2009:** Minister of Defense Liang Guanglie meets Royal Thai Army Commander-in-Chief Anupong Paochinda in Beijing. They agree to enhance bilateral relations and build greater trust through an increase in exchanges between their military forces.

**Feb. 23, 2009:** Chinese and Vietnamese officials gather to celebrate the completion of land border demarcation and lay down the boundary markers. More than 100 officials from both sides participate in the ceremony at the border gate in Pingxiang City of Guangxi Province.

**Feb. 25, 2009:** Chinese State Councilor and Minister of Public Security Meng Jianzhu meets senior officials from Cambodia, including Deputy Prime Minister and Minister of Interior Sar Kheng in Shanghai to discuss bilateral cooperation to clamp down on cross-border narcotics trade and transnational crimes.

**Feb. 27-March 1, 2009:** Chinese Ambassador to ASEAN Xue Hanqin attends the 14<sup>th</sup> ASEAN Summit in Hua Hin, Thailand.

**March 6, 2009:** Ma Xiaotian, deputy chief of general staff of the PLA, visits Singapore and meets Defense Minister Teo Chee-hean for the second China-Singapore Defense Policy Dialogue.

**March 6, 2009:** Chinese Ambassador to Indonesia Zhang Qiyue announces the donation of \$100,000 from Beijing to the ASEAN Fund to support its socio-economic development projects throughout the region.

**March 15, 2009:** China dispatches *Yuzheng 311*, a decommissioned vessel in the South China Sea Fleet of the PLA Navy, to patrol the South China Sea, monitor the Gulf of Tonkin, offer rescue operations and protection for fishery accidents, conduct escort missions around the Spratly and Paracel Islands, and demonstrate China's sovereignty over the disputed islands.

**March 18, 2009:** Chen Bingde, chief of the general staff of the PLA, visits Nay Pyi Taw and meets with the head of Myanmar's State Peace and Development Council Gen. Than Shwe. The two leaders review the state of bilateral relations, emphasizing that the good, neighborly relations between China and Myanmar are established under the principles of friendship, collaboration, and noninterference in each other's internal affairs.

**March 19, 2009:** Vice Premier Li Keqiang meets Indonesia's acting Coordinating Minister for Economy Sri Mulyani Inrawati in Beijing to discuss stepping up bilateral economic activities and exchanges. Li announces that China is willing to help develop Indonesia's infrastructure and agrees to provide financial assistance for a new 10,000 megawatt power plant in Indonesia.

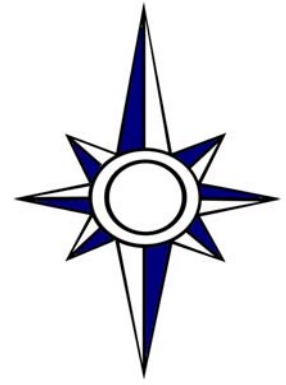


**March 19-20, 2009:** State Councilor Dai Bingguo visits Hanoi and meets Vietnamese Deputy Prime Minister and Minister of Foreign Affairs Pham Gia Khiem for the third meeting of the China-Vietnam Steering Committee on Cooperation. They agree to launch the “China-Vietnam Friendship Year” in 2010 to mark the 60<sup>th</sup> anniversary of the establishment of diplomatic ties between the two sides.

**March 23, 2009:** Li Jianguo, vice chairman and general secretary of the Standing Committee of the National People’s Congress, visits Kuala Lumpur and meets Deputy Prime Minister Najib Tun Razak to discuss relations between China and Malaysia.

**March 24-26, 2009:** Chinese Foreign Minister Yang Jiechi visits Bangkok and meets his Thai counterpart Kasit Piromya to exchange ideas for furthering bilateral relations.





**China-Taiwan Relations:  
New Economic Challenges**

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Beijing and Taipei have been making preparations for the third round of ARATS-SEF talks to be held in May or June at which time additional agreements on finance, flights, and crime are expected. The global recession has precipitated a dramatic decline in cross-Strait trade and that, in turn, has contributed to accelerated plans to negotiate a comprehensive cross-Strait economic agreement. However, the planning for such an agreement has produced a storm of opposition protest in Taiwan, which represents the most serious challenge yet to President Ma's cross-Strait policies. Officials on both sides are speaking optimistically about finding a formula under which Taipei could be an observer at the World Health Assembly (WHA) in May. Although defense reports from both sides acknowledge reduced tensions, there is as yet no sign that Beijing will reduce the military threat directed at Taiwan.

**Hu's six points**

On Dec. 31, President Hu Jintao gave a speech on the 30<sup>th</sup> anniversary of the 1979 "Message to Compatriots in Taiwan." He used the occasion to lay out the leadership's views on dealing with the Ma Ying-jeou administration in a six-point guideline. Since Hu's previous policy statements had been made to deal with the separatist challenge from Chen Shui-bian, Ma's election had led to a debate within the leadership on how to deal with the new situation and a policy statement to set guidelines was needed. Hu was addressing audiences at home, in Taiwan, and abroad. Clearly the domestic audience was very important. The impression is that Hu felt it necessary to consolidate support among hardliners by asserting principled positions on "one China" and opposing separatism in his speech before moving ahead on conciliatory steps that might be controversial. This was similar to Hu's approach in late 2004 when he had the National People's Congress Standing Committee approve the draft Anti-Secession Law in December 2004 before he authorized the Taiwan Affairs Office (TAO) to negotiate the first New Year's charter flight agreement in January 2005. In fact, Hu's six points contain many elements that may provide the basis for further improving cross-Strait relations.

Generally, the Ma administration saw the six points positively. Nevertheless its initial comments reminded Beijing that Taipei's policy is based on the 1992 consensus, which allows for different interpretations of "one China" and on mutual non-denial, i.e., that neither should explicitly deny the other's sovereignty. Taipei considered making a formal public response, but thus far has decided not to as President Ma's policies are well-documented on the public record.

## **ARATS-SEF planning**

Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF) have been preparing for their third meeting, which will take place in China, probably Shanghai, in May or June. At this point, both China's Taiwan Affairs Office (TAO) and the Mainland Affairs Council (MAC) in Taipei are indicating that three agreements are expected to be signed at that time: one on cooperation in the supervision of financial service companies, which is needed to reciprocally open their financial services sectors; another on regular scheduled cross-Strait flights, and a third one on cooperation in combating crime, which would supersede the existing agreement between the respective Red Cross Societies. Some progress on other issues, including PRC investment in Taiwan, may also occur at the meeting.

## **Cross-Strait trade declines dramatically**

Although cross-Strait trade grew modestly in 2008, total trade and particularly Taiwan's exports to China declined dramatically in late 2008 and early 2009. The MAC estimates that cross-Strait trade in 2008 reached \$105.4 billion, up 3.1 percent. Taiwan's exports were estimated at \$74 billion, down 0.4 percent and Taiwan's imports were estimated at \$31.4 billion, up 12.1 percent over 2007. Statistics from Beijing's Ministry of Commerce show similar trends but, as usual, showing higher imports and exports. Beijing put two-way trade at \$129.2 billion, up 3.8 percent. It showed China's imports at \$103.3, up 2.3 percent and China's exports at \$25.9 billion, up 10.3 percent.

These full-year figures mask the dramatic decline in trade that began in September 2008. In September, Taiwan saw the first monthly decline in exports to China compared with a year earlier since the global information technology recession in 2001. Taiwan's exports to China declined 16.3 percent in September, and the rate of decline accelerated rapidly to reach 58.6 percent in January 2009. February was the sixth month of successive declines, but the rate of decline fell to 28.6 percent. As exports are equivalent to about 70 percent of Taiwan's Gross Domestic Product (GDP), economists in Taiwan have been revising their projections for growth in 2009 downward and the government now predicts GDP will decline about 3 percent. Although exports from both China and Taiwan have suffered from the decline in global trade, Taiwan's exports to China have declined more sharply than Taiwan's exports to other markets. These factors have led to a new round of charges from pro-Democratic Progressive Party (DPP) economists in Taipei that Taiwan is too dependent on the China market.

As economics has been the most important positive element in cross-Strait relations, Beijing has recognized the potential political implications of this downturn and has announced a variety of programs to benefit Taiwan invested enterprises (TIEs). How effective these financial measures can be when the primary problem is not financing but a decline in foreign markets remains to be seen. The decline has also accelerated Beijing's interest in reaching an overall trade agreement with Taiwan. Premier Wen Jiabao has said that strengthening economic ties is the best way to respond to the global financial crisis.

## **Brewing confrontation in Taipei**

President Ma too wishes to accelerate efforts to achieve a Comprehensive Economic Cooperation Agreement (CECA), but his efforts to do so have sparked political controversy with the opposition. Taiwanese exporters argue that a cross-Strait economic agreement is needed because the implementation of the ASEAN-China Free Trade Agreement in 2010 will significantly erode Taiwan's competitive position in those markets. A comment by National Security Advisor Su Chi on Feb. 13 that this issue would be discussed at the upcoming SEF-ARATS talks roused the opposition to action.

Although proponents portray the CECA as a purely economic agreement, the opposition both sees and portrays it in political terms as a move that would erode Taiwan's sovereignty and lay a basis for eventual reunification. On Feb. 22, Taiwan Solidarity Union (TSU) Chairman Huang Kuang-hui said that a CECA agreement would be grounds for impeaching President Ma. DPP Chairwoman Tsai Ing-wen said that a CECA would provide the basis for an all-out campaign against Ma and would likely lead to "social unrest." Her comments are an indication of pressure from deep-green activists, who will use the issue to mobilize street demonstrations to block the agreement and to rebuild public support for the DPP by making emotional appeals over fears about unification. The DPP has charged that China will condition a new agreement on Taiwan's acceptance of "one China." However, Chinese officials say that the agreement would be between ARATS and SEF and, like other ARATS-SEF agreements, would not touch on politics.

Government spokesmen have tried to calm opposition concerns by stating repeatedly that discussion of such an agreement is not on the agenda for the coming ARATS-SEF meeting and that the government has no timetable for its negotiation. On Feb. 27, President Ma gave a televised interview to address public concerns, emphasizing the economic rationale for an agreement and saying that plans would be reported to the Legislative Yuan (LY) in advance. Ma said his administration would no longer use the now politically charged term CECA but instead adopt the term Economic Cooperation Framework Agreement (ECFA). Just how much of a substantive difference this implies will not be known until the Ma administration defines the content it seeks in an agreement, which it has not yet done. MAC Chairperson Lai Shin-yuan gave assurance that the CECA or ECFA would be submitted to the LY for approval. The opposition saw little reassurance in that because Kuomintang (KMT) dominance in the LY would assure approval. Given its minority position, the DPP will see taking to the streets as its only effective means of blocking the agreement. The DPP and government have published competing polls showing public opinion favorable to their respective points of view.

To make its case and defuse criticism that the agreement would erode Taiwan's sovereignty, the administration plans to hold a series of public forums to air issues related to negotiating an ECFA. The first such forum produced evidence of support for an agreement from firms exporting to China and opposition from industries that would likely be hurt by imports from China. The MAC has said that it will take about three months for the government to complete the studies needed to define Taipei's ECFA negotiation objectives. As mentioned, Beijing sees the benefits of reaching agreement and has responded to the debate in Taipei by stating that it is flexible on what the agreement is called and seeks an agreement that will meet Taiwan's needs.

## **Taiwan and the WHO**

Within two weeks of Hu's six-point speech, Beijing made a conciliatory gesture. On Jan. 13, Taipei received a letter from the World Health Organization (WHO) Secretariat inviting it to participate in the International Health Regulations (IHR). Until then, Taipei's well-known interest in participation had been blocked by Beijing. Now, deft behind-the-scenes compromises got around various political issues. Inclusion allows Taiwan to participate in IHR's international health alert systems, achieving some of the most important practical benefits Taipei seeks from participation in the WHO.

In welcoming this step forward, Taipei made clear that it was not a substitute for its desire to attend the WHA meeting in May as an observer. Rather than pursuing this goal through international lobbying as in the past, the Ma administration has indicated it will seek to reach an understanding with Beijing. President Ma said in March that the contacts with Beijing would take place abroad beginning in April. Many observers believe that some informal contacts on the issue have already occurred through one or more channels. While it is realistic for the Ma administration to try to reach an understanding with Beijing, the idea that it would do so has fed opposition fears that the administration would "sacrifice Taiwan's sovereignty" in a secret deal with the "Chinese Communists." The DPP has stated that it would not accept an arrangement in which Taipei would attend under the aegis of China as the sovereign state or an arrangement under which China would have a veto each year on whether Taiwan was invited. Ma has to weigh such concerns in seeking an arrangement with China.

## **Defense issues**

Both Beijing and Taipei have recently published defense policy papers. In January, Beijing released its 2008 Defense White Paper and Taipei released its first Quadrennial Defense Report (QDR) in March. Not surprisingly, both reports state that tensions in the Taiwan Strait have been reduced. Despite Beijing's acknowledgement that tensions have lowered, its White Paper gives no indication that Beijing's deployments that threaten Taiwan have been or likely will be changed. When asked about deployments, all spokesman Hu Changming would say is that China's "limited deployments" reflect China's national interests and that changes would depend upon China's interests. On the eve of the National People's Congress (NPC) in March, Beijing announced that its published defense budget for 2009 would increase by 14.9 percent to \$70.27 billion. For its part, Washington released its 2009 Report on Chinese Military Power, which likewise concluded that despite the reduction of tension, there is no indication of a change in PRC deployments targeted at Taiwan.

Taipei's QDR was the first formal statement of the Ma administration's comprehensive policies for securing Taiwan. In presenting the report, the Ministry of National Defense (MND) emphasized that Taiwan's basic approach is "preventive defense." The QDR avoided some of the provocative ideas advocated by former President Chen such as active defense and fighting the "decisive battle outside our territory." Beijing commentators have noted the changed tone. At the same time, the QDR maintains the importance of air and sea defense of Taiwan. In answering questions on the report, Defense Minister Chen noted that the Legislative Yuan had

approved funds for the *Hsiungfeng IIE* land attack cruise missile and stated that the program would be continued. Chen said Taipei saw the *HF IIE* as a defensive system that would only be employed after war broke out and used to degrade military bases being used to attack Taiwan.

There has been no significant progress on defense-related Confidence Building Measures (CBMs). Hu Jintao's six points takes a very cautious approach saying only "The two sides can, in due course ... hold exploratory discussions on the issue of establishing a mechanism of mutual trust for military security." TAO Minister Wang Yi spoke somewhat more positively in March suggesting that exchanges of retired military officers could be conducted. However, as informal contacts by retired Taiwan officers have been occurring for some time, Wang's statement seems to indicate some official blessing and perhaps more structure for such exchanges. Taipei too is taking a very cautious approach to cross-Strait CBMs.

Hu Jintao's six points spoke more positively about reaching an agreement to end hostilities. This is seen as reflecting Hu's desire to reach such an agreement before his term ends in 2012. For Ma, under the constant barrage of opposition charges that he is sacrificing Taiwan's sovereignty, the idea of a peace agreement is currently seen as an issue that he would not plan to tackle until achieving a second term in 2012.

### **U.S. policy**

Secretary of State Hillary Clinton's confirmation process and her first trip to Asia presented opportunities for the Obama administration to put on record statements reaffirming continuity in the key elements in U.S. policy on cross-Strait relations based on the three U.S.-China communiqués and the Taiwan Relations Act (TRA). Clinton said the US was pleased with the reduction of tension and encouraged continued progress. She also said there would be no change in U.S. arms sales policy guided by the TRA. American Institute in Taiwan (AIT) Chairman Ray Burghardt reinforced some of these messages during a March visit to Taipei. He pointedly rebutted continuing comments in Taipei that the U.S. is concerned by the pace and direction of President Ma's cross-Strait policies. He reiterated that the U.S. wished to see this progress continue and stated that the U.S. is not worried by the prospect that the cross-Strait dialogue would proceed to consider a comprehensive economic agreement or political and military issues.

### **Looking ahead**

May and June will witness two more tests of the two sides' abilities to sustain the progress that has reduced tensions in cross-Strait relations. The WHA meeting in May will be a litmus test of whether Beijing has sufficient pragmatism to reach a mutually acceptable way for Taiwan to participate as an observer. The 3<sup>rd</sup> ARATS-SEF meeting should demonstrate the two sides' abilities to continue reaching agreements of practical benefit.

In Taipei, the Ma administration will be developing its specific proposals for an ECFA negotiation with the PRC against the background of continuing opposition criticism. How the public will react to their opposing views on the issue will be important. The decline in cross-Strait trade is a negative influence, but how severe the impact of a prolonged decline would be is difficult to foresee. The trade and export order data for February shows that the rate of decline

has slowed and the drop in export orders may have bottomed out – providing a ray of hope that trade trends may begin to improve.

## **Chronology of China-Taiwan Relations January-March 2009**

**Dec. 31, 2008:** President Hu Jintao delivers a six-point speech outlining the Peoples Republic of China (PRC) leadership’s approach to dealing with Taiwan.

**Jan. 1, 2009:** President Ma Ying-jeou’s New Year’s address stresses Republic of China (ROC) sovereignty and dignity.

**Jan. 5, 2009:** Straits Exchange Foundation (SEF) sends the Association for Relations across the Taiwan Straits (ARATS) compensation claims for melamine contamination.

**Jan. 7, 2009:** SEF Chair Chiang Pin-kung visits China for consultations with Taiwan invested enterprises (TIEs).

**Jan. 8, 2009:** Reports show Taiwan’s exports to China in December decline by 54 percent.

**Jan. 8, 2009:** Taiwan Affairs Office (TAO) Minister Wang Yi meets U.S. Deputy Secretary of State John Negroponte in Beijing.

**Jan. 12, 2009:** Beijing reports that PLA Navy escorts Taiwan ship near Somalia.

**Jan. 13, 2009:** World Health Organization invites Taiwan to participate in International Health Regulations (IHR).

**Jan. 16, 2009:** SEF Chair Chiang says the ASEAN-China Free Trade Agreement makes Comprehensive Economic Cooperation Agreement (CECA) with China necessary.

**Jan. 17, 2009:** President Ma Ying-jeou again calls for removal of Chinese missiles from the coastal region opposite Taiwan.

**Jan. 20, 2009:** Beijing releases its 2008 white paper on national defense.

**Jan. 21, 2009:** TAO Minister Wang Yi comments on the agenda for the 3<sup>rd</sup> ARATS-SEF talks.

**Jan. 22, 2009:** President Ma reiterates “resolute defense, effective deterrence” policy.

**Jan. 22, 2009:** Mainland Affairs Council (MAC) authorizes financial services, scheduled flights, and PRC investment as issues for 3<sup>rd</sup> SEF-ARATS talks.

**Jan. 26, 2009:** Taipei Zoo’s panda house opens.

**Jan. 27, 2009:** Raytheon wins a bid to upgrade Taiwan’s *Patriot* missiles.



**Jan. 30, 2009:** President Barack Obama calls President Hu and makes no mention of Taiwan.

**Feb. 1, 2009:** Democratic Progressive Party Chair Tsai Ing-wen asserts Washington has doubts about President Ma's cross-Strait policy.

**Feb. 6, 2009:** Jia Qinglin, fourth-ranking member of the Politburo Standing Committee of the Communist Party of China and chairman of the People's Political Consultative Conference, attends a conference in Taiwan.

**Feb. 13, 2009:** President Ma is interviewed by *New York Times*.

**Feb. 13, 2009:** Secretary of State Hillary Clinton expresses hope that cross-Strait relations will continue to improve.

**Feb. 14, 2009:** MAC states that CECA is not on the agenda for the 3<sup>rd</sup> SEF-ARATS meeting.

**Feb. 14, 2009:** DPP chair Tsai says CECA requires social consensus in Taiwan.

**Feb. 14, 2009:** MAC Chair Lai Shin-yuan says the number of Chinese missiles aimed at Taiwan has increased to 1,500.

**Feb. 15, 2009:** The two Palace Museums ink an artifact exchange deal in Beijing.

**Feb. 16, 2009:** Secretary Clinton says U.S. encourages further progress in cross-Strait relations.

**Feb. 16, 2009:** Taiwan financial services delegation holds talks in Beijing.

**Feb. 21, 2009:** Secretary Clinton visits Beijing.

**Feb. 21, 2009:** DPP-Taiwan Solidarity Union National Policy Conference focuses on CECA.

**Feb. 22, 2009:** TSU Chair Huang Chu-wen says CECA will prompt all-out impeachment effort.

**Feb. 22, 2009:** DPP Chair Tsai says CECA would cause serious social conflict.

**Feb. 24, 2009:** Taiwan's Presidential Office says name CECA will be dropped from the discussions on the development of an agreement on economic issues with China.

**Feb. 24, 2009:** Premier Liu Chao-shiuan says there is no timetable for concluding CECA.

**Feb. 24, 2009:** SEF Chair Chiang says he hopes a framework for CECA can be reached in 2009.

**Feb. 25, 2009:** TAO spokesman says CECA would be mutually beneficial.

**Feb. 26, 2009:** Cross-Strait postal remittance of funds begins.

**Feb. 27, 2009:** President Ma's news conference introduces the term Economic Cooperation Framework Agreement (ECFA) in lieu of CECA.

**Feb. 27, 2009:** MAC says CECA would be sent to Legislative Yuan (LY) for approval.

**Feb. 27, 2009:** Premier Liu says CECA is not on 3rd SEF-ARATS agenda.

**Feb. 28, 2009:** U.S.-China Defense Policy Coordination Talks conclude.

**March 1, 2009:** In online dialogue, Premier Wen Jiabao calls for economic cooperation mechanism that meets Taiwan's needs.

**March 2, 2009:** DPP Chair Tsai calls for referendum on CECA/ECFA.

**March 2, 2009:** Speaker Wang Jin-pyng calls for LY task force on cross-Strait relations.

**March 3, 2009:** Group led by Frank Hsieh says CECA would mean unification.

**March 3, 2009:** Former Vice Premier Wu Rong-yi says ECFA is a trap set by China.

**March 4, 2009:** Former President Lee Teng-hui says ECFA not in Taiwan's interest.

**March 4, 2009:** President Ma says tensions with the mainland are at record low; PRC announces 15 percent increase in 2010 defense budget.

**March 4, 2009:** Kuomintang (KMT) Chair Wu Poh-hsuing returns from trip to Southeast Asia.

**March 5, 2009:** President Ma expresses hope that ECFA can be discussed at the 3<sup>rd</sup> SEF-ARATS meeting.

**March 6, 2009:** People's Bank of China President Zhou Xiaochuan says financial service memorandum of understanding with Taiwan could be based on HK agreement.

**March 7, 2009:** Taiwan Semiconductor (TSMC) Chair Morris Chang endorses goal of ECFA.

**March 10, 2009:** PRC Minister of Commerce Chen Deming calls for early talks on CECA to combat financial downturn.

**March 11, 2009:** TAO Minister Wang Yi is cautiously optimistic that Taiwan will be able to attend the World Health Assembly as an observer.

**March 12, 2009:** President Ma says talks on WHA participation will be held overseas in April.

**March 16, 2009:** Taipei releases its first Quadrennial Defense Report.

**March 18, 2009:** President Ma receives American Institute in Taiwan Chairman Ray Burghardt.

**March 19, 2009:** Taipei's Ministry of Economic Affairs (MOEA) holds first ECFA hearing.

**March 24, 2009:** DPP Chair Tsai says ECFA under "one China" principle would divide society.

**March 25, 2009:** U.S. Department of Defense releases *Military Power of the PRC 2009* report.

**March 29, 2009:** MOEA Minister Yiin Chii-ming says there have been talks on ECFA.

**March 30, 2009:** DPP Caucus calls for full transparency on ECFA.

**March 30, 2009:** Two Red Cross societies sign cooperation agreement in Taipei.

**March 31, 2009:** Taipei ratifies two UN human rights conventions.





North Korea-South Korea Relations:  
**Squeezing the Border**

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Looking back, it was a hostage to fortune to title our last quarterly review: “Things can only get better?” Even with that equivocating final question mark, this was too optimistic a take on relations between the two Koreas – which, as it turned out, not only failed to improve but deteriorated further in the first months of 2009. Nor was that an isolated trend. This was a quarter when a single event – or more exactly, the expectation of an event – dominated the Korean Peninsula and Northeast Asia more widely. Suspected since January, announced in February and awaited throughout March, despite all efforts to dissuade it North Korea’s long-anticipated *Taepodong* launched on April 5. This too evoked a broader context, and a seeming shift in Pyongyang. Even by the DPRK’s unfathomable logic, firing a big rocket – satellite or no – seemed a rude and perverse way to greet a new U.S. president avowedly committed to engagement with Washington’s foes. Yet, no fewer than four separate senior private U.S. delegations, visiting Pyongyang in unusually swift succession during the past quarter, heard the same uncompromising message. Even veteran visitors who fancied they had good contacts found the usual access denied and their hosts tough-minded: apparently just not interested in an opportunity for a fresh start offered by a radically different incumbent of the White House.

**Not mending but building fences**

Speculation on the reasons for this newly negative stance – paralleled by a reversion to hardline policies on the home front also, as in efforts to rein in markets (with mixed success) – is beyond the scope of this article. Suffice it to say that a North Korea disdaining even Barack Obama was *a fortiori* in no mood to mend fences with the conservative South Korean president, Lee Myung-bak, whom DPRK media continued to insult as a traitor.

Indeed, speaking of fences, the North was more inclined to re-erect them. The quarter’s main inter-Korean event was March’s petty and self-defeating – but also calibrated and temporary – border restrictions imposed to protest routine annual joint U.S.–ROK military exercises. This harassment put in doubt the future of the joint Kaesong Industrial Complex (KIC), just north of the Demilitarized Zone (DMZ). A more sinister twist, unresolved at this writing, was the arrest of a Hyundai Asan employee at the KIC on March 30. He is charged with inciting a DPRK worker to defect and has been denied access to his employer or the ROK authorities, much less a lawyer. Whatever the background, as with the earlier arrest of two U.S. journalists on the DPRK-China border, this looked very much as if North Korea might be taking hostages, so as to blunt what in any case looked unlikely to be an especially stern or effective reaction by its enemies to the rocket launch.

## From bad to worse

The year began on a sour note. The DPRK's customary New Year joint editorial, carried in the Party, Army, and youth daily papers, accused Lee Myung-bak of being "steeped in pro-U.S. sycophancy and hostility toward fellow countrymen." Washington, by contrast, was spared such invective. For his part, Lee said his government would work calmly and flexibly to resolve the current stalemate in inter-Korean relations." That mild note cut no ice, as the tone from Pyongyang grew harsher – with predictable criticism, for instance, of Japanese Premier Aso Taro's visit to Seoul on Jan. 11 as an anti-communist confab.

A week later the DPRK moved the rhetoric up a level. On Jan. 17, an unnamed spokesman of the Korean Peoples Army (KPA) General Staff appeared on DPRK TV in full uniform: a rare event. Declaring that "a war ... can neither be averted nor avoided," the grim-faced officer threatened "the puppet military warhawks" with "a strong military retaliatory step to wipe them out." South Korea decided to say nothing, but put its forces on alert. This set the stage for almost daily diatribes, strong even by North Korea's usual standards.

## Seoul becomes hawkish

This was perhaps not the most tactful moment for South Korea to name a noted hawk as its new unification minister. On Jan. 19 Kim Ha-joong – a career diplomat who spent six years as ROK ambassador in Beijing, reportedly seen as too soft by Lee MB – was replaced by Hyun In-taek, in a mini-reshuffle that also saw a new economic team appointed. Hyun, a political science professor, is seen as a hardliner and strong critic of the past "Sunshine" policy. He was also already a key adviser to Lee Myung-bak, known to be the architect of Lee's main policy switches on the North: making further aid conditional on denuclearization, and the so-called "Vision 3000" which offers to raise DPRK per capita income to \$3,000 if Kim Jong-il disarms. Predictably, *Minju Choson*, the DPRK government's daily paper, a week later criticized this appointment as an "outright challenge" and "open provocation" that will "push inter-Korean relations deeper into the abyss of confrontation and ruin."

Debate continues in Seoul and beyond over the wisdom or otherwise of Lee Myung-bak's new *nordpolitik*. No doubt the old "Sunshine" was too one-sided, and needed rebalancing. But over a decade it did bring the Koreas closer, so critics fear hard-won progress is now being lost in a slide back into the old Cold War antagonisms with no evident gain for Seoul.

Moreover, some policy decisions negate Lee's claim of goodwill toward the North; or more particularly, Seoul's claim to still support private humanitarian aid even while official ties remain frozen. For the past decade Jeju, the ROK's independent-minded sub-tropical island province, has every winter sent some 20,000 tons of its own produce – tangerines and carrots – to the DPRK. Much of this was centrally funded by the Unification Ministry (MOU), but not any more. In January, Jeju sent a much reduced shipment, as the Lee government refused to pay and withdrew the subsidy. Whatever one's politics, this just seems petty and mean.

Also needlessly negative was Seoul's veto in February of a journalist association's agreement, signed in Pyongyang last October, to share news content online with Northern counterparts. MOU claimed this might "undermine national security [and] public order." That is at once

ridiculous – need the South really fear the North’s risible propaganda? – and inconsistent. Two other ROK media bodies already have exchange accords with the DPRK, approved by the previous liberal administration in 2006 and 2007. The sky has not fallen in Seoul, yet.

### **The North tears up all past accords**

Fathoming either Korean regime’s current motives and tactics is problematic. The North’s cranking of tension moved up another notch on Jan. 30, when its Committee for the Peaceful Reunification of the Fatherland (CPRF) roundly declared all past inter-Korean agreements “nullified.” Taken literally, that means not only the two summit accords of 2000 and 2007, to which Pyongyang constantly urges President Lee to recommit; but also their more far-reaching yet never implemented predecessor, the 1991 Agreement on Reconciliation, Non-aggression, Cooperation and Exchange, which Lee insists must also form a basis for future relations.

To some unease in Seoul, the CPRF singled out “points on the military boundary line in the West Sea” stipulated in the appendix of the 1991 accord referring to the Northern Limit Line (NLL), an issue that has been much rehearsed in these pages. The DPRK never formally accepted this UN-drawn post-Korean War *de facto* maritime boundary, the scene of brief but bloody naval skirmishes in 1999 and 2002. Fears that this presages renewed conflict have so far proved groundless. (Pyongyang is hardly likely to give advance notice of renewed provocations.)

The ROK kept its cool. Hours after the CPRF statement, President Lee said he is “waiting for North Korea to understand that the South will work with an open heart and compassion to help [it]. I believe South-North relations will improve before too long.” Others noted that the DPRK had no right unilaterally to abrogate bilateral agreements, although its readiness to do so inevitably raised wider questions as to the value or reliability of any paper it might deign to sign. The nuclear Six-Party Talks (6PT), currently still stalled, spring to mind.

### **Making nice: hot rods for sale**

Yet inter-Korean ties have many levels and nuances. Even as the KPA was barking threats on TV, the first ROK government delegation since President Lee took office a year ago was visiting Pyongyang. Admittedly this was under 6PT auspices, and there was money in it. Hwang Joon-kook, South Korea’s deputy nuclear envoy, spent Jan. 15-20 in the North to examine 14,800 unused nuclear fuel rods at Yongbyon, with a view to buying them for the South’s own civilian nuclear power program. No decision seems to have been reached on that, but Hwang said his hosts were cooperative as long as he stuck to his brief. Political aspects were off-limits, and he was not allowed to visit the Foreign Ministry.

### **Down on the farm: the price of failure**

South Koreans involved in dealing with the North must be glad (on this and all counts) not to live there, as they contemplate the fate of a key counterpart. As vice chairman of the Asia-Pacific Peace Committee, Choe Sung-chol was North Korea’s point man on the South. At the October 2007 summit when Roh Moo-hyun visited Pyongyang, he was constantly at the then ROK president’s side. A year ago he disappeared, seemingly sacked for failing to predict or prevent

the eclipse of “Sunshine” in Seoul once Lee Myung-bak took over. Now he is said to be undergoing “severe revolutionary training” at a chicken farm in Hwanghae Province. It is possible to come back from being purged thus, but it is no fun and there are no guarantees.

### **A rocket is spotted**

February saw even fiercer Northern rhetoric against the South, but also – more importantly – the emergence of the issue that was to dominate the DPRK’s relations with the outside world during the first quarter. Spy satellites first spotted a train carrying what appeared to be a *Taepodong-2* long-range missile leaving a munitions plant south of Pyongyang in late January. Despite suggestions that it might head for a new launch site recently completed and not yet used at Tongchang-dong in the northwest, near both the sea and (interestingly) the Chinese border, in fact it trundled to the tried and tested Musudan-ri site in the northeast.

Sometimes Pyongyang likes to tease what it calls the “reptile press.” On Feb. 16 (Kim Jong-il’s 67<sup>th</sup> birthday, celebrated with the usual pomp, flower shows, synchronized swimming displays and so on), the official *Korean Central News Agency (KCNA)* disingenuously criticized the U.S. and others for the “vicious trick” of spreading rumors of a long-range missile test. Asserting that “space development is the independent right of the DPRK,” *KCNA* added coyly that “one will come to know later what will be launched in the DPRK.”

### **A satellite, they say**

Not much later. On Feb. 24 *KCNA* published a statement by the Korean Committee of Space Technology. Following the “great success [of] putting [our] first experimental satellite *Kwangmyongsong-1* into orbit at one try in August 1998” – in fact a failure; no satellite was ever detected – KCST said it “envisages launching practical satellites for communications, prospecting natural resources and weather forecast ... essential for the economic development of the country [as part of] the first phase of the state long-term plan for space development.” More immediately: “The preparations for launching experimental communications satellite *Kwangmyongsong-2* by means of delivery rocket *Unha-2* are now making brisk headway.”

*Unha* would appear to be the civilian guise – it is hardly a disguise – for *Taepodong*. As was widely observed, “missile or satellite?” is not really either/or: the technology is dual-use. So this was a double test, including of the reach of a potential DPRK long-range missile. Little by little Pyongyang revealed more: more considerate than with 1998’s *Taepodong-1* and also its July 2006 failed firing of a *Taepodong-2*, both of which flew without warning. (Though the same Western satellites that this time gave us almost daily progress reports – pictures, even – of the launch preparations must have seen those two precursors coming too; yet our governments chose for whatever reason to connive with the DPRK’s secrecy, and let public opinion be duly shocked. It is hard not to smell conspiracy here, especially in Tokyo.)

Thus, in March, the DPRK duly notified the proper authorities – the International Maritime Organization (IMO) and International Civil Aviation Organization (ICAO) – of the date range (April 4-8) and coordinates for where the booster rockets were expected to fall: the first northwest of Japan, the second in mid-Pacific (in the event it fell 500 miles short).



## **A firework fizzles**

Despite a chorus of pleas not to, North Korea duly fired its big rocket on April 5 – and failed, again. True, it flew some 2,000 miles, further than any previous DPRK missile. As in 1998, Pyongyang boasted of a triumph: a second satellite now circling the earth, warbling songs of the great generals Kim Il-sung and Kim Jong-il. But as in 1998, no one else can see or hear it. The U.S. Northern Command said firmly that “no object entered orbit.” Rather, the second and third stages failed to separate, ditching instead into the Pacific with their payload.

World concern, always uneven, quickly fizzled too. Russian and Chinese reluctance made it unlikely that the UN Security Council will condemn severely, let alone impose sanctions (to little effect, as recent studies have unsurprisingly shown) as it did in July and October 2006 after North Korea’s missile and nuclear tests. Kim Jong-il may have given Barack Obama his first “3 a.m. moment;” to be exact the U.S. president was awakened at 4:30 in Prague to be told of the launch, which he conveniently factored into his speech on nuclear disarmament later that day. But whether the Dear Leader has gained his lasting attention is another matter, given the ongoing economic crisis and West Asia’s permanent arc of havoc: from Israel/ Palestine via Syria, Iraq and Iran through to Afghanistan and Pakistan. Compared to these, despite all Kim’s efforts North Korea remains a backburner sort of crisis – at least for now.

## **Much more than missiles**

South Korea, naturally, was among those who from the start urged the North not to launch its rocket. In fact a *Taepodong-2* adds nothing directly to the DPRK’s threat to the ROK, which consists rather of heavy artillery (some chemical-tipped) targeted on Seoul, short-range missiles, and the massed ranks of the 1.2 million strong Korean People’s Army (KPA).

That multiple menace was spelled out in detail on Feb. 23, when South Korea’s Ministry of National Defense (MND) published its delayed 2008 biennial defense white paper (WP). For those further afield, MND noted that the KPA has completed deployment of a brand-new medium-range missile – not a *Taepodong* – said to be capable of reaching Guam. Little detail was given, so one wonders if this has been tested or how much it should be feared.

## **What’s in a name?**

But for South Korea, it is hard to quarrel – although local liberals do – with MND’s verdict that North Korea constitutes an “immediate and grave threat.” (That seems to be the official English version, but at least one Seoul press source – the liberal daily *Hankyoreh* – renders it as “direct and serious”; which somehow sounds a shade less grave and immediate.)

Semantics matter here. Past center-left governments had conservatives up in arms when they proposed removing the tag “main enemy” from North Korea – though in fact this dates back no further than 1995. The 2004 MND WP called it an immediate threat, while the 2006 one used the adjective grave. So the new composite designation implicitly raises the threat level – but does not say “main enemy.” Though the ROK military had problems (understandably) adapting to the

“Sunshine” era – is my foe my brother, suddenly? – Defense Minister Lee Sang-hee, asked last September by the National Assembly Defense Committee if the next WP would revert to the phrase “main enemy” replied: “I don’t think its right for our society to relapse into the internal conflict which North Korea desires by using the expression ‘main enemy’ again.” If only Lee MB’s overall approach to the North displayed similar wisdom and calm.

Whatever name is used, the substance of the new WP gives ample ground for concern. The main and unanswerable criticism of the “Sunshine” decade is that it failed to induce the DPRK to decrease its menace even an iota. To the contrary, this has been further beefed up. True, the KPA’s huge arsenal is aging – some jets are half a century old – and fuel shortages limit flight and field training. But computer simulations may compensate, and one should not take too much comfort. For on the other hand, MND notes *inter alia* a new advanced *Chonmaho* tank, improved submarines, and new types of torpedo.

### **Behind the lines**

Especially unsettling is the claim that KPA special forces, already the world’s largest, have been boosted by a further 50 percent and now number 180,000 – bigger than most nations’ entire armed forces. North Korea has learned from Iraq and Afghanistan, apparently deciding to compensate for its lack of high-tech hardware by a new focus on guerrilla warfare. MND policy planner Shin Won-sik put it thus: “Their aim appears to be to blur the line between friend and foe once a conflict erupts ... North Korea deems it very important to be able to quickly cause disarray among its enemies.”

Shin paints the conventional scenario of lightly equipped special forces infiltrating the South to strike U.S. and ROK troops from behind. But Iraq and Afghanistan also hold implications for any DPRK collapse, if it led to outside intervention. Many assume, perhaps rightly, that a hungry, oppressed northern populace would welcome South Korean, U.S., or Chinese troops as liberators. Yet after decades of brainwashing, the KPA may not see it that way or give up that easily. Like Saddam Hussein, Kim Jong-il surely has a Plan B. Relatedly, a Council of Foreign Relations (CFR) study published on Jan. 28 estimated that up to 460,000 soldiers – three times the U.S. total in Iraq – may be needed to stabilize North Korea if it collapses and an insurgency erupts. CFR reckons South Korea and the U.S. could not handle this alone.

To ram home the point, the MND WP lists the North’s arsenal. This includes 40 kg of plutonium, 5,000 tons of chemical weapons, and 300 munitions factories. There are 600 *Scud* and 100 *Rodong* missiles, plus 5,200 multiple rocket launchers (300 more than before). Cyberwarfare capacity has strengthened, and many trans-DMZ tunnels remain undiscovered. The overall potential for mischief, to put it mildly, hardly bears thinking about.

### **War talk**

But to return from apocalyptic endgames to the thankfully only verbal fire and brimstone of everyday DPRK rhetoric, this reached fever pitch in February. To take one example, on Feb. 13 *Rodong Sinmun* thundered: “If the Lee Myung-bak group intrudes even one inch into our divine territorial waters, priding itself on the groundless, unreasonable Northern Limit Line, our

patience will explode with the anger of justice, and we will thoroughly crush the warmongers into the raw waters of the Yellow Sea.” But in fact the waters lay undisturbed, and the main impact of such barking was to ensure a robust response and some frank talking from U.S. Secretary of State Hillary Clinton on her first visit to the region in mid-February.

In March, Pyongyang tried another tack. Having long shunned the UN Command (UNC), at the DPRK’s request the first UNC general-level meeting in almost seven years was held at Panmunjom on March 2. It lasted barely half an hour with North Korea insisting that the U.S. and ROK cancel their joint annual drills *Key Resolve* and *Foal Eagle (KR/FE)*, scheduled for March 9-20. It reiterated this demand at a second meeting on March 6, adding – as it had also warned a day earlier – that it could not guarantee the safety of ROK civilian aircraft in or near its airspace if the *KR/FE* war games went ahead as scheduled. Korean Air and Asiana, plus some foreign airlines, immediately rerouted flights that usually pass over DPRK waters. Seoul called this threat “inhuman”, and the ICAO issued a protest (drafted by the ROK).

### **Border games**

Every year the DPRK lambastes every routine US-ROK exercise as a prelude to invasion. But this time Pyongyang went beyond words to deeds, albeit more annoying than menacing. On March 9, as *KR/FE* got under way, it suspended its last military telephone link with the South. This is used to notify cross-border traffic, so over 500 South Koreans were stranded in the KIC and a handful in the mothballed Kumgang tourist zone. The border reopened next day; but with the telephone line still suspended, lists of those crossing had to be laboriously hand-written and delivered. On March 13 they shut it again, marooning 730 South Koreans, three Chinese and an Australian in Kaesong. The border was reopened partially on March 16 and fully on March 17, only for restrictions to be imposed again on March 20. From March 21 traffic got back to normal, albeit still at the much reduced flows imposed by the North back in December.

### **Curtains for Kaesong?**

DPRK rhetoric may sound out of control, but when it comes to action this harassment was as usual carefully calibrated. It nonetheless caused great inconvenience, above all to the 100-odd small ROK firms who have taken the plunge and invested in the KIC. Most are already suffering from the global economic downturn, so the last thing they need is North Korea making life even tougher for them. (As we noted last quarter, since December it already severely cut the number of South Koreans allowed to stay in Kaesong.) Actions like this can only stoke concern as to whether the KIC is truly viable. Northern hardliners reportedly fear it as a Trojan horse for capitalism, while the Lee government seems lukewarm at best.

All this is very bad news for Hyundai Asan, which runs the KIC as well as the Mt. Kumgang tourist zone, still shuttered after nine months since the KPA killed a straying middle-aged female tourist there last July. Even before March’s border blues, CEO Cho Kun-shik, an ex-MOU vice minister, had warned in February that “we are now reaching a critical situation. Unless the [Mt. Kumgang] tours resume by April, it will be difficult for us to stay afloat.” The suspension has cost Hyundai Asan, which has halved its workforce since July and lost over \$72 million in revenue. If its other project at Kaesong is jeopardized too, the Hyundai group founder Chung Ju-

young's dream of business promoting reunification – a noble and feasible ideal, which Lee Myung-bak (himself a former Hyundai CEO) had in the past appeared to endorse – may be dashed. That does not seem in either Korean state's real interest.

### **Held hostage**

As the quarter ended, North Korea again used Kaesong to raise the stakes and temperature. On March 30 it detained an engineer working for Hyundai Asan at the KIC. He has not been named, nor at this writing (over a week later) has any ROK authority been allowed to see him, in direct defiance of the KIC's regulations. He is accused of criticizing the socialist regime and urging a DPRK female worker to defect. (The man is single, so one wonders if romance – strictly banned, but most Southerners at the KIC are male, most Northern workers are female, and all are human – was involved.)

Whatever the facts of the case, given the detention days earlier of two U.S. journalists at the DPRK-China border, the suspicion is that it suits Pyongyang to hold a few hostages; in case anyone overreacted to its rocket launch – as they did not, thankfully, despite loose talk of shooting it down – or perhaps just for general bargaining power. Yet this drives another nail in Sunshine's coffin, to mix metaphors. With neocons ascendant in both Korean capitals, and the North also preoccupied with a probable political succession process, inter-Korean relations may yet get even worse before they get better. We can only hope that NGO and private-level contacts, which continue – some are detailed in the chronology – can keep the flame of dialogue alive, until their rulers come to their senses.

## **Chronology of North Korea-South Korea Relations January-March 2009**

**Jan. 1, 2009:** The DPRK's New Year joint editorial accuses ROK President Lee Myung-bak of being “steeped in pro-U.S. sycophancy and hostility towards fellow countrymen.”

**Jan. 2, 2009:** President Lee says in his New Year address that he “will work calmly and flexibly to resolve the current stalemate in inter-Korean relations.” He calls on the North to abandon its “outdated practice” of trying to fan tension between conservatives and liberals in the South.

**Jan. 2, 2009:** *Choson Sinbo*, the daily paper of pro-North Koreans in Japan, says that the North will continue a hard line toward the South unless Seoul changes its stance, “no matter how [the Lee government] rehearses kind but hollow words.”

**Jan. 3, 2009:** In a telephone call to UN Secretary General Ban Ki-moon, himself a former ROK foreign minister, President Lee asks the UN to help improve inter-Korean relations.

**Jan. 5, 2009:** ROK government unofficially confirms that the DPRK's point man on the South, Choe Song-chul, was sacked in March 2008. Some name his replacement as Yu Yong-sun (68), who is the former leader of North Korea's Buddhist federation.

**Jan. 5, 2009:** South Korea's Unification Ministry (MOU) reports that 2,809 North Korean defectors entered the South in 2008, up 10 percent from 2007. The flow slowed with tighter Chinese border controls for the Olympics; thus 1,700 arrived in the first half-year and 1,100 in the second. Of the total of 15,057 Northern defectors since 1953, who for decades were a tiny trickle, over half have come in the last four years alone.

**Jan. 5, 2009:** MOU says that on Dec. 31 it signed a contract to build a day-care center at the Kaesong IC. The \$685,000 facility will take 200 children and is due for completion in 2009.

**Jan. 5, 2009:** A boat chartered by the the Korea Peasants League leaves Jeju island for several ROK west coast ports to collect 174 tons of rice aid for the DPRK, including 60 tons donated by the radical Korean Confederation of Trade Unions (KCTU).

**Jan. 7, 2009:** MOU says the North has begun enforcing a ban on mobile phones and in-car GPS receivers for South Koreans in the Kaesong complex. Hitherto border authorities had let Southern drivers enter if these were switched off, but now they are being turned away.

**Jan. 8, 2009:** Park Sang-hak, who leads Fighters for a Free North Korea (FFNK), says his group will henceforth send DPRK rather than U.S. currency with its balloon-borne leaflets into the North, since the regime arrests those found in possession of dollars. It is not clear how FFNK can obtain North Korean won without breaking both Korean states' laws.

**Jan. 9, 2009:** Former ROK Foreign Minister Song Min-soon, now a lawmaker of the main opposition Democratic Party, cites South Korea's single-term presidency as a major obstacle to consistent dialogue with the North. He proposes establishing a pan-national consultative body to handle inter-Korean issues, to build bipartisan policy continuity.

**Jan. 11, 2009:** In the DPRK's first direct comment this year on President Lee, the weekly *Tongil Shinbo* blamed him for deteriorating inter-Korean relations. It insisted that "a change must come from South Korea by sweeping out the entire group of traitors."

**Jan. 11, 2009:** *Rodong Sinmun*, daily paper of the North's ruling Workers Party of Korea (WPK), denounces the Japanese Prime Minister Aso Taro's visit to Seoul as collusion by anti-communist forces in both countries.

**Jan. 11, 2009:** Seoul sources claim that Choe Song-chul, who escorted then ROK President Roh Moo-hyun at his summit with DPRK leader Kim Jong-il in Oct. 2007, is undergoing severe "revolutionary training" at a chicken farm in Hwanghae Province.

**Jan. 14, 2009:** ROK Unification Minister Kim Ha-joong says Kim Jong-il appears to be in full command in the North, and that recent photos released by Pyongyang seem genuine.

**Jan. 15, 2009:** *Yonhap* says Kim Jong-il has chosen his third son Kim Jong-un as his successor. A day earlier, a Japanese daily claimed number one son Kim Jong-nam has been chosen.

**Jan. 16, 2009:** The ROK island province of Jeju starts shipping to the North a much reduced shipment of 300 tons of tangerines and 1,000 tons of carrots, worth some \$400,000.

**Jan. 17, 2009:** A spokesman of the Korean Peoples Army (KPA) General Staff appears on DPRK TV in full uniform and declares that “a war ... can neither be averted nor avoided.”

**Jan. 18, 2009:** *Rodong Sinmun* dismisses as “rhetoric” an MOU report saying the ministry will focus on resuming inter-Korean dialogue this year. The WPK daily notes the absence of an explicit pledge to implement the 2000 and 2007 summit accords, as Pyongyang demands.

**Jan. 19, 2009:** Hyun In-taek replaces Kim Ha-joong as ROK unification minister.

**Jan. 19, 2009:** *Rodong Sinmun* warns what it calls “the Lee Myung-bak group” that “our guns and bayonets ... are aimed at their throats.”

**Jan. 20, 2009:** Hwang Joon-kook, South Korea’s deputy nuclear envoy, returns from a five-day trip to the North under the 6PT. His brief was to examine 14,800 unused nuclear fuel rods at Yongbyon with a view to buying them.

**Jan. 22, 2009:** The Korea Institute for National Unification (KINU) says the DPRK regime is unlikely to collapse despite uncertainties over Kim Jong-il’s health and growing social distress.

**Jan. 23, 2009:** President Lee says his top priority is securing peace and reconciliation with the North, while the military is to “maintain a perfect defense posture” and counter any aggression.

**Jan. 23, 2009:** The UN Committee on the Rights of the Child in Geneva closely questions DPRK officials about claims of child labor and other abuses, made by Northern defectors in Seoul and NGOs supporting them who had briefed the UN committee ahead of the meeting.

**Jan. 25, 2009:** *Minju Choson*, the DPRK government daily paper, criticizes the choice of Hyun In-taek, as the new ROK unification minister as an “outright challenge” and “open provocation” that will “push inter-Korean relations deeper into the abyss of confrontation and ruin.”

**Jan. 26, 2009:** *Minju Choson* criticizes ongoing ROK military exercise as war preparation.

**Jan. 30, 2009:** The DPRK’s Committee for the Peaceful Reunification of the Fatherland (CPRF) declares that all past inter-Korean agreements are now “nullified.”

**Jan. 30, 2009:** Hours after the CPRF statement, ROK President Lee says he is “waiting for North Korea to understand that the South will work with an open heart and compassion to help the North. I believe the South-North relationship will improve before too long.”

**Feb. 1, 2009:** *Rodong Sinmun* warns that “escalated tension ... may lead to an uncontrollable and unavoidable military conflict and war.” The ROK Defense Ministry (MND) reports that the KPA is on its regular winter exercises, but with no “noticeably unusual” features.

**Feb. 2, 2009:** The KPA General Staff warns “the Lee Myung-bak group of traitors” that the DPRK will never give up its nuclear weapons unless the U.S does likewise in South Korea.

**Feb. 3, 2009:** DPRK media say that Kim Jong-il sent a New Year card to the UN secretary general, mentioning him last in a long list and not naming him.

**Feb. 4, 2009:** Defense sources in Seoul confirm that a *Taepodong-2* long-range missile, seen leaving a factory south of Pyongyang by train in late January, is now at the North’s main testing ground at Musudan-ri in the northeast.

**Feb. 4, 2009:** The ROK government rejects a journalist association’s agreement, signed in Pyongyang last October, to share news content online with Northern counterparts.

**Feb. 4, 2009:** Hyundai Asan says it is “desperate” to resume tours to Mt. Kumgang.

**Feb. 8, 2009:** Some 20 Southern NGOs report a recent meeting in Shenyang, China with the North’s National Reconciliation Council (NRC). They agree to continue aid, even as official ROK assistance remains suspended. Projects include hospital modernization, a soybean milk plant, and greenhouses to grow strawberries in winter.

**Feb. 9, 2009:** President Lee tells South Koreans that “you do not need to worry too much” about the North’s recent threats.

**Feb. 11, 2009:** The official *Korean Central News Agency (KCNA)* issues a rare report of a military reshuffle. KPA Vice Marshal Kim Yong-chun becomes defense minister, while a little-known general, Ri Yong-ho, is appointed chief of the KPA General Staff. The previous defense minister, Kim Il-chol, has apparently been demoted to vice minister.

**Feb. 12, 2009:** Won Sei-hoon, appointed head of the ROK National Intelligence Service (NIS) in January, says Seoul needs to “beef up an early warning system to cope with any moves by North Korea” as well as “fully prepare for any terror and international crimes.”

**Feb. 13, 2009:** *Rodong Sinmun* says western inter-Korean sea border “can no longer work” It calls the Northern Limit Line (NLL) “thoroughly unfair and sheer robbery” and a “ghost border.”

**Feb. 14, 2009:** The DPRK *Korean Central Broadcasting Station (KCBS)* attacks the ROK government’s veto of a recent inter-Korean journalists’ agreement (see Feb. 4).

**Feb. 15, 2009:** At a meeting to celebrate Kim Jong-il’s 67<sup>th</sup> birthday next day, Kim Yong-nam, president of the SPA Presidium, warns that the DPRK will “punish the group of traitors with decisive actions” It is rare for the North’s titular head of state to utter such menaces.

**Feb. 18, 2009:** A spokesman for the KPA General Staff tells *KCNA* that the Army is fully ready for an all-out confrontation with “the Lee Myung-bak group of traitors.”

**Feb. 18, 2009:** ROK Foreign Minister Yu Myung-hwan says the DPRK's anticipated missile test is the more worrying given its nuclear capability. This combination "will have a very serious impact on the world's peace and security."

**Feb. 19, 2009:** Hours before Hillary Clinton arrives in Seoul on her first visit as secretary of state, *KCNA* warns that "The political and military confrontation between the north and the south has reached such an extreme phase that there is neither way nor hope to put it under control." The same day, *KCNA* blasts upcoming routine U.S.-ROK military exercises as a "war preparation maneuver," warning both countries that they will "pay a high price."

**Feb. 19, 2009:** ROK Chairman of the Joint Chiefs of Staff (JCS) Kim Thae-young warns that the DPRK may attempt a border provocation, but said his and U.S. forces are fully prepared.

**Feb. 19, 2009:** MOU forecasts that North Korea's food supply will fall 1.17 million tons short of demand this year, despite an improved grain harvest of 4.31 million tons in 2008. It reports that since late last year the North has tightened social control.

**Feb. 19-20, 2009:** Both Koreas, along with the other four partners in the Six-Party Talks, meet in Moscow for a session of the 6PT working group on peace and security in northeast Asia.

**Feb. 20, 2009:** ROK Defense Minister Lee Sang-hee says Seoul would "clearly respond to any preemptive artillery or missile attack by North Korea," including striking the bases from which any such attack was launched.

**Feb. 21, 2009:** The North's CPRF accuses Lee Myung-bak of "maliciously defaming the dignity of socialism," apparently by telling supporters that the DPRK "would be better off without socialism if it means they have to worry about three meals a day for their people."

**Feb. 22, 2009:** MOU reports that inter-Korean trade in January fell year on year for a fifth consecutive month. It totaled \$113 million, down from \$140 million in Jan. 2008.

**Feb. 23, 2009:** MND's delayed 2008 defense white paper terms the KPA an "immediate and grave threat."

**Feb. 24, 2009:** The DPRK's Committee of Space Technology announces that it is preparing to launch an "experimental communications satellite." ROK Foreign Minister Yu says this would contravene UNSC resolution 1718.

**Feb. 24, 2009:** South Korea accuses the North of false allegations and time-wasting at the UN Special Committee on Peacekeeping Operations. The DPRK delegate says that the UN Command (UNC) in the ROK is just a cover for the US, and calls for its dissolution.

**Feb. 25, 2009:** NIS chief Won Sei-hoon (see Feb. 12) says that another father-to-son power transfer in North Korea appears possible. He adds that Kim Jong-il is fully in charge, but has not wholly recovered from his suspected stroke last year.



**Feb. 27, 2009:** Ahead of the 90<sup>th</sup> anniversary of the March First rising against Japanese rule in 1919, conservative and progressive ROK churches issue a rare joint “3.1 Declaration of Korean Churches for Peace and Unification”, in hope of breaking the inter-Korean impasse. They call for 1 percent of the South’s budget to go as aid to the North. That would almost triple the present budget of some \$700 million, much of which this year may remain unspent.

**Feb. 28, 2009:** The KPA’s self-described chief of “the military working group of the DPRK side in the area under the control of the North and South in the Eastern and Western regions” sends a notice to the ROK, warning of countermeasures against alleged provocations by U.S. troops along the Military Demarcation Line (MDL).

**March 1, 2009:** North Korea marks Independence Movement Day (see Feb. 27) by renewing threats against South Korea, the U.S. and Japan, threatening “merciless punishment.”

**March 1, 2009:** President Lee calls on North Korea to abandon its planned satellite launch. If it does, “The doors to unconditional dialogue remain wide open even now. The South and the North must talk at the earliest date possible.”

**March 2, 2009:** At the first UNC general-level meeting in almost seven years at Panmunjom, North Korea demands that the US and ROK cancel their joint annual drills *Key Resolve and Foal Eagle (KR/FE)*, scheduled for March 9-20. The meeting lasts barely half an hour.

**March 3, 2009:** *Minju Joson* says the peninsula is a “powder keg of Northeast Asia.” It calls *KR/FE* “a serious military threat to our republic and also an extremely dangerous fire play aimed at provoking a new war.”

**March 3, 2009:** At the UN Human Rights Council in Geneva, South Korea urges the North to improve its human rights record. The North blasts these “impertinent remarks,” saying they “instigate confrontation and hatred.”

**March 4, 2009:** *Rodong Sinmun* warns that: “Should the enemies invade even 0.001 mm into our territory, we will mobilize all our potential and deal retaliatory strikes that will be a hundred times and a thousand times more powerful.”

**March 4, 2009:** ROK Unification Minister Hyun In-taek says the North’s missile launch is not imminent. He tells the North to stop insulting President Lee, and says there will be no early resumption of government-level rice and fertilizer aid suspended last year after a decade.

**March 4, 2009:** President Lee says, “It appears from Chairman Kim’s recent activities that there are no serious obstacles for him to continue ruling North Korea, and I think it is better to have a stabilized North Korean regime at this point in time for inter-Korean dialogue and cooperation.”

**March 5, 2009:** The DPRK warns that it cannot guarantee the safety of ROK civilian aircraft in or near its airspace if the *KR/FE* war games go ahead.

**March 5, 2009:** Lighthouse Foundation, a Seoul-based NGO, says it will break ground on a rehabilitation center for the disabled in Pyongyang in May. Costing \$3.2 million, the five story building will be ready by 2011.

**March 6, 2009:** KPA and UNC generals meet again at Panmunjom (see March 2). The DPRK repeats its threat to South Korean passenger airplanes if *KR/FE* goes ahead.

**March 7, 2009:** *Minju Joson* attacks the new ROK defense white paper (see Feb. 23): “It is the United States and the South Korean puppet government who are creating the immediate and grave threat to the peace and stability of the Korean Peninsula.”

**March 8, 2009:** North Korea holds its general election as scheduled, claiming the usual 100 percent yes vote for the 687 candidates (all unopposed). 316 SPA members are new, but contrary to prior rumors they include no son of Kim Jong-il.

**March 8, 2009:** On International Women’s Day, *Rodong Sinmun* claims that North Korean women live a happy life in the warm care and love of Kim Jong-il. By contrast, “traitor Lee Myung-bak’s misrule” has plunged their Southern sisters into “misery and pain.”

**March 9, 2009:** To protest the US-ROK war games starting the same day (see March 2), North Korea suspends its last military telephone link with the South.

**March 10, 2009:** *Rodong Sinmun* claims the DPRK has “capability and modern military and technical means strong enough to neutralize” the vaunted “superiority” of US and ROK forces.

**March 10, 2009:** North Korea reopens border crossings after a day’s closure.

**March 12, 2009:** Military sources in Seoul claim that Gen. Kim Kyok-sik, replaced by Ri Yong-ho in February as chief of the KPA General Staff, was transferred to head the KPA’s 4th Army Corps, whose mission includes guarding the marine border in the West/Yellow Sea.

**March 13, 2009:** The North shuts the border again, this time stranding 730 South Koreans, three Chinese and an Australian; almost all in the Kaesong IC.

**March 14, 2009:** The CPRF says: “The Lee Myung-bak government, if it really is interested in inter-Korean dialogue, must apologize before the entire Korean nation for ruining relations with its anti-DPRK confrontational scheme and driving us to the brink of war.”

**March 16, 2009:** The North partly reopens DMZ crossings, and fully on March 17. Despite this, doubts are aired in Seoul as to the KIC’s viability if subject to such arbitrary threats.

**March 16, 2009:** South Korea’s foreign minister says Seoul would not object if the U.S. were to resume direct talks with North Korea on its missile programs, as in the Clinton era.

**March 20, 2009:** The North again imposes border restrictions, despite saying it will reinstate the military hotline now that the US-ROK military exercises are over.

**March 20, 2009:** The CPRF says North Korea will not talk to South Korea or the U.S. until they stop accusing it of being a human rights violator. The same day, the ROK says it will co-sponsor the latest annual UN resolution criticizing the DPRK's human rights record.

**March 21, 2009:** North Korea reopens the inter-Korean military communication line around 8 a.m., and later faxes a letter of approval for border traffic. Normal service gradually resumes.

**March 26, 2009:** UNHRC passes a resolution criticizing North Korea's human rights abuses. The vote is 26-6 with 15 abstentions.

**March 30, 2009:** North Korea detains a Southern employee of Hyundai Asan at the KIC. The unnamed engineer is accused of criticizing the socialist regime and urging a DPRK female worker to defect.

**March 30, 2009:** The CPRF warns that if the ROK joins the U.S.-led Proliferation Security Initiative (PSI) "over our plan to launch a rocket," this would be tantamount to a declaration of war. Seoul has said it is contemplating this. It has been an observer in the PSI since 2005.

**March 30, 2009:** Pyongyang slams UNHCR resolution on North Korean human rights (see March 26) as "peppered with lies and fabrications."

**March 31, 2009:** Seoul demands access to its citizen detained in Kaesong.

**March 31, 2009:** Meeting in the Hague, foreign ministers of South Korea, the U.S., and Japan reaffirm their consensus that if North Korea goes ahead with a rocket launch, it should be taken up at the U.N. Security Council.

**Apr. 5, 2009:** The DPRK finally launches its long-expected three-stage rocket. It claims a successful satellite launch, but the U.S. and South Korea dispute this. The ROK, with many other states, criticizes Pyongyang's act as provocative and calls for punishment.





China-Korea Relations:

## Year of China-DPRK Friendship; North's Rocket Fizzles

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

Top-level diplomacy between Beijing and Pyongyang intensified this quarter in honor of China-DPRK Friendship Year and the 60<sup>th</sup> anniversary of diplomatic relations. Prior to the Lunar New Year holiday in mid-January, Kim Jong-il held his first public meeting since his reported illness with Chinese Communist Party International Liaison Department Head Wang Jiarui. In March, DPRK Prime Minister Kim Yong-il paid a return visit to Beijing. The Chinese have accompanied these commemorative meetings with active diplomatic interaction with the U.S., South Korea, and Japan focused on how to respond to North Korea's launch of a multi-stage rocket. Thus, China finds itself under pressure to dissuade Pyongyang from destabilizing activity and ease regional tensions while retaining its 60-year friendship with the North. Meanwhile, South Korean concerns about China's rise are no longer confined to issues of economic competitiveness; the Korea Institute for Defense Analysis has produced its first public assessment of the implications of China's rising economic capabilities for South Korea's long-term security policies. The response to North Korea's rocket launch also highlights differences in the respective near-term positions of Seoul and Beijing. Following years of expanding bilateral trade and investment ties, the global financial crisis provides new challenges for Sino-ROK economic relations: how to manage the fallout from a potential decline in bilateral trade and the possibility that domestic burdens will spill over and create new strains in the relationship.

### **Beginning a year of China-DPRK friendship**

The January meeting in Pyongyang between Kim Jong-il and Wang Jiarui, chief of the Chinese Communist Party's (CCP) International Department, was Kim's first meeting with a foreign guest since his alleged stroke in August 2008. The DPRK state media hailed China's decision to give "free aid" to the North in an apparent effort to demonstrate Pyongyang's solid ties with Beijing at a time of stagnation in inter-Korean relations. President Hu has twice extended an invitation to Kim Jong-il to visit China according to the North Korean media, leading to speculation that Kim may visit Beijing later this year as part of friendship year activities.

Sino-DPRK Friendship Year activities were officially launched during a five-day visit to China by DPRK Premier Kim Yong-il and a 100-member delegation on March 17-21. The visit occurred amid heightened regional concerns over North Korea's planned satellite launch, but it is not clear in what form the Chinese leadership raised the issue with North Korea's visiting premier. Premier Kim held meetings with President Hu Jintao, top legislator Wu Bangguo, and his official counterpart Wen Jiabao. Both sides pledged to use the year of friendship as an opportunity to advance bilateral ties. Kim also met local leaders in Shandong Province, where

he agreed to expand North Korea's political, economic, and cultural ties. Hu pointed to a 60-year relationship that has "withstood the test of international and domestic changes" while Premier Wen proposed further cooperation on Six-Party Talks and denuclearization. He also called for improving bilateral relations through high-level political dialogue, cultural exchanges, and the pursuit of "common development" through trade and investment, mining exploration, and infrastructure.

Based on these diplomatic exchanges, Chinese officials reported that Kim Jong-il was healthy and in control and that North Korea had reaffirmed its commitment to denuclearization. The visit also served to underscore China's important role and continued interest in managing security issues surrounding the Korean Peninsula. Wang Jiarui's previous visits to North Korea have coincided with major events; he met Kim Jong-il in January 2004 prior to Kim's visit to China, and in February 2005, shortly after North Korea's declaration that it was a nuclear-weapon state. China has renewed efforts to sustain high-level contacts with Pyongyang following a relative cooling of diplomatic exchanges in the aftermath of North Korea's October 2006 nuclear test. Talk among Chinese analysts of an adjustment from a "special" to a "normal" relationship with North Korea has been replaced with sober assessments of what approaches China can take in the context of the Sino-DPRK relationship to secure its own strategic interests. There is also an increased willingness on the part of Chinese analysts to suggest withholding promised benefits and even limited sanctions in an effort to influence North Korean behavior rather than simply using inducements to get North Korea to offer China quid pro quos.

### **Intensified regional diplomacy on North Korea**

North Korean preparatory activities at its primary missile launch site fueled diplomatic efforts among Asia's major powers this quarter. China's main efforts have been to persuade all parties to take actions to preserve peace and stability and to take measures to resume the Six-Party Talks at an early stage in the new Obama administration. Mindful of prior failed efforts in 2006 to convince North Korea not to conduct missile or nuclear tests, China took a cautious and even-handed public approach and avoided public efforts to persuade North Korea not to launch on this occasion. China sent Six-Party Talks envoy Wu Dawei to Pyongyang on Feb. 17-19 for discussions with counterpart Kim Kye-Gwan. North Korea reaffirmed its willingness to return to multilateral talks, but Wu's visit failed to reverse Pyongyang's decision to proceed with a launch. South Korean Foreign Minister Yu Myunghwan arrived in Beijing on Feb. 24 within hours of Pyongyang's official announcement of launch preparations to meet Chinese counterpart Yang Jiechi and Premier Wen Jiabao for discussions on how to respond to the North Korean plans and to discuss prospects for early resumption of the Six-Party Talks.

Despite mutual expressions of concern and repeated warnings to Pyongyang, North Korea's launch preparations serve to highlight differences between Beijing and Seoul on how to approach North Korea. In a follow-up meeting with Wu Dawei in Beijing in late March, newly appointed Six-Party Talks envoy Wi Sunghac discussed "measures before and after North Korea fires a missile." Wi noted a move toward contingency planning among members of the Six-Party Talks and called for a China-ROK "joint response" while acknowledging differences in preferred approaches. North Korea's announcement that it would launch a multi-stage rocket catalyzed bilateral consultations among the six parties in an effort to narrow the gap in desired

countermeasures. China expressed a preference for a UN presidential statement denouncing North Korean actions while the U.S., Japan, and South Korea expressed the intent to pursue an additional UN sanctions resolution. The South Korean government has argued that any launch of a long-range rocket, regardless of the ostensible purpose, constitutes a violation of prior resolutions condemning North Korean missile development, while China and Russia have been more willing to accept North Korea's argument that it has a right to conduct a satellite launch and to use space for peaceful purposes.

There is Sino-South Korean agreement that the launch has an adverse impact on regional stability and that it is desirable to resume six-party dialogue as early as possible. While Pyongyang has threatened to abandon the talks if sanctions are imposed, China has consistently called for an early resumption of the talks, which it sees as the best way to ease tensions, urging all parties to "show restraint."

Prior to North Korea's April 5 launch, South Korea continued efforts to engage China bilaterally on the missile threat during a visit by a Chinese military delegation on March 25-28 led by PLA Chief of Staff Chen Bingde. During the delegation visit to Seoul, Chen's first visit to South Korea since taking office in 2007, a Seoul defense official stressed: "China is the closest country to North Korea. Its comments carry weight, and we hope it can more actively pressure Pyongyang."

### **China's competing trade relationships with the two Koreas**

The global financial crisis has been a focal point of Sino-South Korean economic diplomacy amid a deteriorating trade environment. ROK and Chinese finance ministers met on Feb. 22 on the sidelines of the ASEAN plus 3 ministerial meeting in Phuket, where members agreed to launch a \$120 billion emergency fund to stabilize Asian foreign exchange markets. At China's annual parliamentary session in March, Foreign Minister Yang Jiechi emphasized continued China-ROK-Japan financial cooperation ahead of the tripartite summit China will be hosting this year and called for initiating negotiations on a bilateral free trade agreement (FTA) with South Korea as a means to boost Asian confidence. According to the Bank of Korea, the South Korean and Chinese central banks are in ongoing talks to convert part of their 38 trillion *won* (\$27.2 billion) currency swap deal into dollars. South Korea's currency swaps with the U.S., Japan, and China since October 2008 as part of efforts to ease foreign currency shortages have provided for as much as \$90 billion. But a proposal ahead of the April 2 G20 summit in London by the Chinese central bank governor to create a "super-sovereign reserve currency" has raised speculation that China seeks to shed its dollar holdings in favor of a basket of global currencies given growing doubts about the strength of the U.S. dollar.

Total bilateral trade in 2008 rose 16.4 percent to \$186.1 billion, but South Korean exports to China, which had grown by an annual 25 percent during the first nine months of 2008, declined at a record rate in the fourth quarter, dropping 32.3 percent year-on-year in December 2008. In March, the ROK government agreed to expand its export insurance for China-bound exports by 30 percent to 20 trillion *won* (\$14 billion) to provide for potential losses, given a 19 percent decline in exports to China during January. To strengthen exports, Seoul policymakers have called for tapping into the Chinese domestic market instead of depending on China-based Korean

subsidiaries and multinational firms engaged in final assembly. According to the South Korean Ministry of Knowledge Economy, about half of all South Korean exports to China go to Korean firms and a quarter to multinationals, with only the remaining 25 percent going directly to Chinese consumers. South Korea sees the economic stimulus plans implemented by Beijing and Seoul as an opportunity to expand bilateral business ties (for instance, South Korea remains the leading supplier of excavators to China). South Korean stocks jumped in response to Beijing's new economic stimulus package launched in March. One possible indication of increased strains in the Sino-South Korean trade relationship is the willingness of each to utilize anti-dumping penalties to protect domestic industries from competition; South Korean authorities imposed duties on Chinese-made polyester yarn while Chinese petrochemical companies accused South Korean firms of dumping.

Given that the greater Shanghai region accounts for half of all trade between China and South Korea and that the trade fair expects to attract a 95 percent Chinese audience of over 70 million people, the planned six-month long Shanghai World Trade Exposition scheduled for next year have added to expectations for improved trade. The event has fueled South Korean hopes to boost national brand image and local interest ahead of the 2012 Yeosu expo. A Shanghai-Yeosu agreement was signed in August 2008 to cooperate on event logistics, knowhow, and tourism. But South Korea is already lagging behind other foreign participants in preparing for the Shanghai expo, allegedly due to a sharp depreciation of the *won* against the *renminbi*. A longer-term challenge to South Korea's performance in the China market is the loss of Korean cultural appeal in China as demonstrated by the rapid waning of the "Korean Wave." Korean TV drama exports to China and Japan, the primary export markets for Korean cultural products, shrunk by 35 percent in 2008 after more than a 50 percent decline between 2006 and 2007.

Despite the global financial crisis, Chinese customs statistics indicate that Sino-DPRK trade has grown steadily in recent years, increasing 41.3 percent year-on-year to \$2.793 billion in 2008. In contrast, the deterioration in inter-Korean relations has led to stagnation in inter-Korean trade, which in 2008 stood at \$1.8 billion, a mere 1.2 percent annual increase following double-digit year-on-year increases during the Roh Moo-hyun administration. Although Chinese sources report a decline in cross-border economic activity, Chinese governmental assistance – at least in the area of food supply to North Korea – appears to be growing. For instance, China exported 5 tons of beef worth \$77,174 to North Korea via Dalian in 2008, and agreed to send 60,000 tons of flour via Henan Province between June and August 2009.

In January, North Korea opened a consular branch office in the border city of Dandong, a move viewed in South Korea as an effort to reinforce bilateral trade with China. Located across from the North Korean trade center of Sinuiju, Dandong is the passageway for about 70 percent of China-DPRK trade and the North Korean consular branch office is to first foreign diplomatic mission to be located there. Bilateral trade is expected to grow further during the Sino-DPRK Year of Friendship and Chinese governmental aid to North Korea should also increase in the context of intensified leadership visits on both sides



## **Ssangyong-SAIC: the first victim of financial crisis**

The fate of Ssangyong Motors, the South Korean unit of China's biggest automaker Shanghai Automotive Industry Corp. (SAIC), now appears to be the highest-profile failure to date in Sino-South Korean economic relations. After weeks of debate about whether the Chinese parent would pull out or provide financial assistance, Ssangyong confirmed receipt of \$45 million from SAIC in early January and resumed talks with its main creditor, state-owned Korean Development Bank (KDB) on restructuring. Although the Feb. 6 approval of bankruptcy protection for Ssangyong has given it time to rehabilitate, the clock is ticking for the company to develop a major restructuring plan by this summer.

Ssangyong sold 92,665 cars in 2008, less than half its annual production capacity of 200,000 units. Domestic sales dropped 51.5 percent and exports dropped 82.7 percent in February given weak demand and tight credit. While Ssangyong's total sales dropped 82 percent in January, Beijing Hyundai Motor Co. and Dongfeng Yueda Kia Automobile Co., the Chinese affiliates of South Korea's largest carmakers, recorded record sales in China during the same period. Despite weakening demand, Beijing Hyundai Motor Co., the per-capita productivity of which is about three times Ssangyong's, emerged fourth in auto sales in China, accounting for over 7 percent of the Chinese auto market.

Ssangyong's bankruptcy filing could have broader reverberations in the South Korean economy. About 150 direct suppliers have pushed for financial aid from creditors and the government after Ssangyong suspended production at its sole plant in Pyeongtaek in mid-January citing a parts shortage. By the end of the month, Seoul decided to withdraw its support to Ssangyong parts suppliers due to worsening economic conditions. The first collapse of a local supplier for Ssangyong in February threatened the survival of another 200 vendors, an illustration of the contagion effect posed by the current global crisis.

The impact of the global recession on South Korea raises the question of whether creditors are willing to support Ssangyong until the South Korean economy recovers, and whether SAIC might finally withdraw financial support for Ssangyong's operations and leave the Korean market. The company suffered a net loss of 709.7 billion *won* (\$511 million) in 2008 on sales of 2.5 trillion *won*, and may require an estimated 800 billion *won* (\$580 million) in new loans to survive. Ssangyong's labor union in January suspended strike plans against SAIC's request for job cuts of as many as 3,000 workers, or almost half of its factory jobs, in exchange for aid. Although the union showed a new willingness to negotiate restructuring, it announced plans in late March to sue SAIC for mismanagement and technological theft, seeking compensation for damages and cancellation of SAIC's 51 percent stake. The potential lawsuit would attempt to force Ssangyong to cut ties completely with its Chinese parent.

## **Changing China-Korea security perceptions**

China as an economic opportunity has long been the primary frame of reference for South Koreans with little public consideration of China as a potential security threat. A December 2008 report by the Korea Institute for Defense Analyses (KIDA) entitled "China or the United

States? China's Rise and Implications for Korean Security," for the first time assesses the implications of China's rise in broader security rather than primarily economic terms based on projections of comprehensive national strength. According to the study, China is projected to be the world's second economic power behind the U.S. with an economy three times its current size by 2020. China will be Asia's biggest military power, especially in terms of naval capabilities with expanded technological and cultural influence. However, the report argues that China will not challenge the U.S., which will accept China's security role in Asia given a continued gap in U.S. and Chinese military capabilities. China's Korea policy will be focused on managing security on a divided peninsula and sustaining the North Korean regime rather than seeking early reunification, while exercising regional influence through mechanisms like the Six-Party Talks.

Chinese economic competition, the possibility of rising maritime/naval tensions, a China-based regional security regime, and the possibility of conflict in U.S.-China relations are presented as potential major challenges to South Korea's security environment. The KIDA report proposes that the ROK should make strategic use of multilateral tools engaging not only its neighbors but also other Asian countries like India, Vietnam, and Mongolia, who are also wary of China's rise. From this perspective, Lee Myung-bak's ambitious new "Asia Initiative" launched in March, which seeks to maximize South Korean diplomatic and economic influence throughout the region, seems conducive to Seoul's strategy of cooperating with China, while countering its rise in the long term.

On the other hand, leading Chinese international relations strategist Shi Yinhong argues in the KIDA journal that China's role has since 2007 been displaced by the U.S.-DPRK relationship as the principal factor in Korean nuclear diplomacy, and Beijing is now limited to "rubber-stamping" existing agreements between Washington and Pyongyang. Dealing with North Korea has required reconciling three key interests: ensuring peace on the Korean Peninsula, fostering denuclearization, and preserving a continued relationship with Pyongyang. Changes in the external environment after the October 2006 nuclear test have required readjustment of Chinese strategy based on a broader security perspective beyond either engagement or confrontation. Another recent study by a Chinese analyst suggests that resolving the North Korean nuclear issue requires measures at national, regional, and global levels. These include U.S.-DPRK engagement, the creation of a Northeast Asian security mechanism based on U.S.-China cooperation and the six-party process, and strengthening the global nuclear nonproliferation regime. South Korea shares a common interest in both stable U.S.-DPRK relations and favorable U.S.-China ties, but has not embraced the idea of a regional security architecture centered on China.

### **Tested strategic interests**

The North Korean rocket launch has heightened Beijing's conflicting priorities of maintaining friendship with North Korea and maintaining stability on the Korean Peninsula. North Korea's strategy of advertising the rocket launch as a satellite rather than a missile test and its willingness to abide by international standards of prior notification has ironically created divisions in the international response while testing the Obama administration. China underscored its own interest in North Korean stability through Wang Jiarui's January visit with Kim Jong-il and China's apparent willingness to mitigate UN measures by accepting North Korea's efforts to

characterize the event as a satellite launch rather than a missile test. In an attempt to avoid the fallout in the relationship that accompanied North Korea's 2006 tests, China is taking a more cautious approach and trying to expand its capacity for influence with North Korea. China will be carefully calibrating its approach to the UN Security Council response with a view to promoting the early resumption of Six-Party Talks that will now have to address the challenges to regional security posed by North Korea's nuclear and missile programs. On the one hand, China has little interest in returning to the sanctions approach envisaged under UN sanctions resolutions 1695 and 1718, which addressed the 2006 tests. At the same time, a weakened resolution might have the effect of undermining efforts of the Obama administration to resume negotiations at an early stage if there is a backlash to a UN resolution that appears to be too weak. Following agreement on a UN Security Council statement, China will also find itself under pressure to convince North Korea to come back to the Six-Party Talks. China will seek to preserve sufficient leverage to convince North Korea to return to talks while attempting to avoid blame for watering down the UN reaction. An early return to Six-Party Talks, if it is possible, is unlikely to ease China's dilemmas.

### **Chronology of China-Korea Relations January-March 2009**

**Jan. 1, 2009:** Hu Jintao and Kim Jong-il exchange New Year messages and pledge closer China-DPRK ties.

**Jan. 2, 2009:** ROK Ministry of Strategy and Finance says South Korea will implement anti-dumping duties on Chinese and Taiwanese polyester yarn for the next three years.

**Jan. 5, 2009:** ROK Unification Ministry says the current slowdown in North Korean defectors to South Korea is partly due to tightened border controls in China.

**Jan. 5, 2009:** SAIC injects \$45 million into Ssangyong and resumes negotiations with Korea Development Bank over a possible restructuring plan.

**Jan. 7, 2009:** The Korea Center for Disease Control and Prevention heightens bird flu warnings after a teenager in Beijing is suspected of dying from the virus on Jan. 6.

**Jan. 9, 2009:** China's Assistant Foreign Minister Hu Zhengyue visits Pyongyang to discuss 60<sup>th</sup> anniversary-related exchanges.

**Jan. 9, 2009:** Ssangyong Motor Co. files for court protection from creditors. The board reconvenes in Shanghai to finalize restructuring plans.

**Jan. 9-12, 2009:** A Chinese Foreign Ministry delegation visits Pyongyang for 60<sup>th</sup> anniversary celebrations of China-DPRK diplomatic relations.

**Jan. 11, 2009:** The North Korean consulate general in Shenyang opens its branch office in Dandong city bordering North Korea.

**Jan. 12, 2009:** The Seoul Central District Court grants receivership to Ssangyong. Union workers say they are prepared to negotiate a turnaround plan.

**Jan. 13, 2009:** Ssangyong suspends production at its sole plant in Pyeongtaek.

**Jan. 13, 2009:** Family members urge Seoul to press Beijing for the release of South Korean abductee who escaped North Korea in May 2008 after three decades in captivity.

**Jan. 13-14, 2009:** Chinese Foreign Ministry hosts gatherings with North Korean diplomats in Beijing.

**Jan. 14, 2009:** About 150 direct suppliers to Ssangyong plead with creditors and the ROK government to provide financial assistance.

**Jan. 16, 2009:** North Korea holds a New Year reception for Chinese diplomats in Pyongyang.

**Jan. 18, 2009:** ROK Ministry of Land, Transport and Maritime Affairs announces that South Korea and China have agreed to shuttle flights linking Seoul's Gimpo Airport and Beijing's Capital International Airport.

**Jan. 21, 2009:** Chinese petrochemical makers accuse South Korean firms of dumping.

**Jan. 21-23, 2009:** Chinese party official Wang Jiarui visits Pyongyang and meets high-level DPRK officials. He delivers a letter to Kim Jong-il from President Hu Jintao on the occasion of Lunar New Year.

**Jan. 30, 2009:** The ROK government announces it will discontinue support for parts suppliers of Ssangyong in face of worsening economic conditions.

**Jan. 30, 2009:** The ROK government says it will ban imports of dried persimmon from China after the discovery of a harmful parasite in the product.

**Jan. 30, 2009:** President Obama calls President Hu to reaffirm his pledge to denuclearize North Korea through Six-Party Talks.

**Feb. 1, 2009:** Hyundai and Kia report a record number of car sales in China in January.

**Feb. 2, 2009:** Ssangyong reveals that its auto sales dropped 82 percent in January.

**Feb. 4, 2009:** DPRK media says China has decided to give "free aid" to North Korea.

**Feb. 6, 2009:** Ssangyong wins court approval for bankruptcy protection.

**Feb. 10, 2009:** A local supplier for Ssangyong collapses due to the automaker's deteriorating financial situation, putting at risk 200 more vendors.

**Feb. 15, 2009:** Ssangyong announces plans to revamp its assembly lines.

**Feb. 17-19, 2009:** Chinese nuclear envoy Wu Dawei visits Pyongyang to express concern over activity at North Korea's primary missile launching facility.

**Feb. 18, 2009:** Ssangyong says it will downsize business operations and cut executive wages by up to 54 percent in a bid to meet procedures for court receivership.

**Feb. 22, 2009:** ROK Minister of Strategy and Finance Yoon Jeung-hyun and Chinese counterpart Xie Xueren meet on the sidelines of the ASEAN Plus 3 special meeting of finance ministers. ASEAN Plus 3 finance chiefs agree to expand their regional currency swap fund from \$80 billion to \$120 billion to cope with the financial crisis.

**Feb. 23, 2009:** ROK agriculture officials report that South Korea imported a record \$112.7 million worth of *kimchi* in 2008, mostly accounted for by Chinese imports that reached 13.5 percent of local consumption.

**Feb. 24, 2009:** Pyongyang announces it is preparing to launch a communications satellite.

**Feb. 24-25, 2009:** ROK Foreign Minister Yu Myung-hwan meets senior officials in Beijing including Chinese counterpart Yang Jiechi and Premier Wen Jiabao.

**Feb. 26, 2009:** DPRK state media reports that China has repeated its invitation to Kim Jong-il to visit Beijing for a summit with President Hu Jintao.

**Feb. 27, 2009:** Air purifier sales in South Korea jump in sales with forecasts of especially severe "yellow dust" from China this spring.

**March 2, 2009:** Ssangyong says sales dropped 69.4 percent in February, with domestic sales plunging 51.5 percent and exports 82.7 percent.

**March 7, 2009:** Foreign Minister Yang Jiechi at China's annual parliamentary session calls for enhanced China-Japan-ROK cooperation on the financial crisis and says FTA negotiations with ROK should begin as early as possible.

**March 8, 2009:** The Ministry of Knowledge Economy reports that Hong Kong has replaced China as South Korea's largest overseas market in terms of trade surplus (\$2 billion).

**March 17, 2009:** North Korean officials arrest two U.S. journalists on the Sino-North Korean border for "illegally intruding" into DPRK territory.

**March 20, 2009:** A Bank of Korea official announces the central bank is in talks with its Chinese counterpart to convert part of a 38 trillion won (\$27.2 billion) currency deal into dollars.

**March 17-21, 2009:** DPRK Premier Kim Yong-il makes a five-day visit to China where he tours Shandong Province and meets senior officials in Beijing including Premier Wen Jiabao, NPC Standing Committee Chairman Wu Banguo, and President Hu Jintao.

**March 18, 2009:** The Ministry of Knowledge and Economy says it will expand export insurance for shipments to China to 20 trillion won (\$14 billion), a 30 percent increase from 2008.

**March 24, 2009:** Pyongyang declares it will launch a satellite between April 4 and 8.

**March 24-25, 2009:** ROK nuclear envoy Wi Sung-lac meets Chinese counterpart Wu Dawei in Beijing to discuss Pyongyang's planned satellite launch and stalled Six-Party Talks.

**March 24-25, 2009:** High-level officials from China, Russia, South Korea, and Mongolia attend the 10<sup>th</sup> Consultative Commission Meeting of the Greater Tumen Initiative in Ulaanbaatar to further regional cooperation on Tumen development.

**March 25, 2009:** Ssangyong union workers announce plans to sue SAIC for mismanagement, seeking compensation for damages and cancellation of SAIC's 51 percent stake.

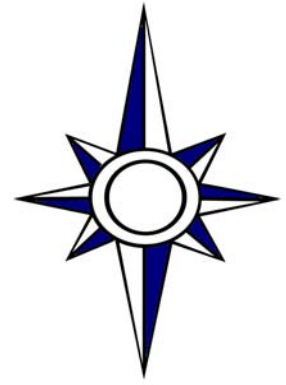
**March 25-28, 2009:** PLA Chief of Staff Chen Bingde meets ROK Joint Chiefs of Staff Chairman Kim Tae-Young and tours military bases in South Korea.

**March 27-29, 2009:** Seoul's Sejong Center for the Performing Arts stages China's "Butterflies" in the first major exchange of plays since the establishment of cultural ties in 1992.

**April 5, 2009:** North Korea launches what it describes as a satellite.

# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## Japan-China Relations: New Year, Old Problems

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The year 2008 ended with reports that China would begin construction of two conventionally powered aircraft carriers, while February brought news that China was planning to construct two nuclear-powered carriers. January marked the first anniversary of the contaminated *gyoza* controversy and despite concerted efforts to find the source of the contamination and the interrogation of several suspects, Chinese officials reported that the investigation was back at square one. Meanwhile, efforts to implement the June 2008 Japan-China joint agreement on the development of natural gas fields in the East China Sea made little progress and the long-standing territorial dispute over the Senkaku Islands found its way into the headlines following Prime Minister Aso's February visit to Washington. In mid-March, China's defense minister confirmed to his Japanese counterpart Beijing's decision to initiate aircraft carrier construction.

### Security

On Jan. 9, the Council on Security and Defense Capabilities met in Tokyo to begin discussions on revision of Japan's National Defense Program Outline. Issues under review included the size, disposition, and equipment of the Self-Defense Force; the situation on the Korean Peninsula; and the implications of China's military build-up.

The Chinese government released its 2008 Defense White Paper on Jan. 20. Although avoiding any specific mention of the late December 2008 decision to begin construction of aircraft carriers, the document did refer to the dispatch of PLA warships to deal with the threats posed by piracy off Somalia and the need to develop capabilities to deal with threats to security in "distant seas." With regard to the China-Japan defense relationship, the White Paper supported the development of the defense exchange program.

In Tokyo, Administrative Vice Minister of Defense Masuda Kohei welcomed the White Paper, noting that China had "shown their own efforts to improve the transparency of their national defense. However, Masuda found Beijing's transparency "somewhat insufficient" with regard to "descriptions of defense spending, equipment quantities, and procurement plans."

On Feb. 13, the *Asahi Shimbun*, citing military sources, reported that China is beginning to plan the construction of two nuclear-powered aircraft carriers for the period after 2020. The article noted the previously reported decision to begin the construction of two conventionally powered carriers in 2009 and observed that while the conventionally powered carriers would extend the

PLA Navy's reach beyond the first island chain (Okinawa, Taiwan, and the Philippines), nuclear-powered carriers would extend China's reach to the second island chain (the Japanese home islands, Guam, and Indonesia) out to the Indian Ocean and beyond, giving China the capability to cope with the U.S. Navy.

On March 4, China released its 2009 defense budget with a 14.9 percent increase in defense spending, the 21<sup>st</sup> consecutive year of double-digit increases. Chief Cabinet Secretary Kawamura Takeo observed that the increase represented a "significant sum" and called on China to increase transparency, which he found lacking in sections of the budget. The *Sankei Shimbun* noted that the increase, occurring at a time of unprecedented financial turmoil and despite the prospects of significant budget deficits, was certain to raise the specter of the "China Threat."

On March 20, Minister of Defense Hamada Yasukazu travelled to Beijing to meet Chinese counterpart Liang Guanglie. During the visit, which was the first by a Japanese defense minister in five years, Hamada raised the issue of North Korea's pending satellite launch and asked that China urge self-control on Pyongyang. Liang, in reply, urged all concerned parties to exercise restraint and act calmly. Liang also made clear that China was intent on the construction of aircraft carriers. Noting that China had wide ocean areas, and a heavy responsibility to defend them, Liang observed that "China is the only great power that does not have aircraft carriers" and that "China could not wait forever to be without them." At the same time, Liang acknowledged that "various factors had to be taken into account." With regard to antipiracy measures off Somalia, Liang offered that China and Japan could cooperate "at the administrative level" and exchange information on escort procedures. Hamada later met Wu Bangguo, chairman of the Standing Committee of the National People's Congress, and discussed North Korea and antipiracy operations off Somalia. The next day, Hamada visited the PLA's 196 brigade in Tientsin and attended a firing exercise.

### **East China Sea**

On Jan. 4, the *Sankei Shimbun* reported that China had unilaterally begun drilling in the Kashi (Tianwaitan) gas field in the East China Sea, an area that has been the subject of an ongoing dispute between Japan and China. The drilling reportedly occurred after the June 2008 agreement on joint development of gas fields in the East China Sea. Reacting quickly, the Chinese Foreign Ministry posted a statement on its website making clear that "The Tianwaitan gas field is located in waters controlled by China that are not under dispute. The development constitutes the exercising of its sovereign right."

The *Mainichi Shimbun* quoted a senior Japanese Foreign Ministry official as saying that "the finding will not affect future talks on the two gas fields that the two countries have already agreed to jointly develop." Foreign Minister Nakasone Hirofumi, however, told a press conference that he found the media reports to be "very disturbing," acknowledged that the government had protested China's actions, and made clear that Japan could not accept China's assertion of an "inherent right to development." Separately, Chief Cabinet Secretary Kawamura told reporters that Japan wanted to maintain "the current status of continuing discussions" and "could not allow China to proceed with the development unilaterally."



On Jan. 6, the Chinese Foreign Ministry's deputy spokesperson told a press conference that China's independent development of the Tianwaitan gas field did not contradict the principles of the June 2008 joint agreement.

In Tokyo on Jan. 9, Vice Foreign Minister Yabunaka Mitoji took up the issue with his Chinese counterpart, Vice Foreign Minister Wang Guangya. The two agreed to advance "speedily" discussions on the joint development agreement but were unable to narrow differences over China's unilateral actions in the areas subject to further negotiation. Foreign Ministers Nakasone and Yang Jiechi discussed the issue during their Feb. 28 meeting in Beijing. However, Nakasone's call for negotiations to implement the June 2008 agreement failed to produce concrete results.

On March 7, during a press conference held on the sidelines of the National People's Congress, Foreign Minister Yang made clear that China's development of the Tianwaitan/Kashi gas field was not covered by the June 2008 agreement. Tianwaitan, he explained, was within China's Exclusive Economic Zone and not a subject for joint development. The 2008 agreement, on the other hand, covered joint exploration and development of areas yet to be explored and provided for further negotiations to identify specific areas. Yang observed that the June agreement was "a reflection of an improvement in and development of bilateral relations" and called for the continuation of working-level discussions.

## **Senkaku Islands**

Early in January, the *Sankei Shimbun* reported that the Japanese Coast Guard, in response to the December 2008 incursion of two Chinese research vessels, was moving to strengthen its presence in the area of the Senkaku Islands. Beginning Feb. 1, in addition to a temporary increase in patrol ships on station in the area from two to three, a helicopter-bearing patrol ship would remain on station in the area.

The Coast Guard declined comment on the *Sankei* story. However, the Chinese Foreign Ministry attempted to confirm the story making it clear through the Japanese Embassy in Beijing that the reports "if true, would represent a serious infringement on Chinese sovereignty." The Feb. 20 *Nikkei Shimbun* reported that at a Feb. 16 meeting of China's Oceanic Administration in Beijing, Administrator Sun Zhihui, announced that the December incursion was a deliberate effort to demonstrate Chinese sovereignty, telling the officials that "our vessels navigated all the oceanic areas over which China holds sovereignty."

The Senkakus also figured in the Aso-Obama summit in Washington. On his return to Tokyo, Aso told the Lower House Budget Committee on Feb. 26 that "since the Senkaku Islands are Japan's inherent territory, the Japan-U.S. security treaty covers them." Aso's statement drew a strong rejoinder from China. The Foreign Ministry issued a statement that expressed "strong dissatisfaction" and cautioned the U.S. and Japan to recognize the extremely sensitive nature of the issue and called on Tokyo and Washington to be careful in words and actions so as not to harm regional stability and, from a broad perspective, their bilateral relations with China.

Meanwhile on Feb. 28, the American Institute on Taiwan weighed in, stating that since the security treaty “applies to the territories under the administration of Japan, [it] does apply to the island.” At the same time the U.S. took no position with regard to the ultimate sovereignty of the islands. Beijing again was quick to respond. In a website statement, Foreign Ministry spokesperson Ma Zhaoxu made clear that “the islets are Chinese territory, and China holds indisputable sovereignty over them.”

Silence from the State Department in Washington led to media speculation in Japan about the strength of the U.S. commitment and on March 4, in response to a question from the *Yomiuri Shimbun*, the State Department said that “The Senkaku Islands since the reversion of Okinawa have been under the administrative control of Japan. The U.S.-Japan Security Treaty is applicable to territories that fall under Japan’s administrative control.”

On the evening of March 5, Chief Cabinet Secretary Kawamura confirmed that there was “no change” in the U.S. position regarding the Senkakus. The next day, China’s Ambassador to Japan Cui Tainkai told a *Kyodo News Service* conference that China’s position had been consistent and unchanging – the U.S.-Japan alliance did not pertain to the Senkakus. To avoid fueling passion and antagonism in both countries, the ambassador advised against taking up problems that cannot be resolved at present and called for a deliberate approach to avoid adversely affecting the overall relationship.

### **Food security: gyoza strikes back**

Jan. 30 marked the first anniversary of the contaminated *gyoza* controversy. To commemorate the event, the Jan. 26 *Asahi Shimbun* ran front page and page 2 articles on the events of the past year. Despite bilateral efforts to resolve responsibility for the poisoned *gyoza*, little progress had been made. Chinese security officials had called in several suspects for questioning, but all had been released. An *Asahi* report from Beijing quoted one Chinese official as saying the investigation was “back at the beginning.”

In late January, the contaminated *gyoza* case took a Chinese twist. Japanese media reported that frozen *gyoza* manufactured by Tianyang Food, the company widely suspected in Japan as being the cause of food poisoning incident in 2008, again appeared to be the cause of illness; this time in China. The reports told of frozen *gyoza* being recalled from the market and then redistributed at no cost to various enterprises in China’s Hebei Province between April and June 2008. The Jan. 23 *Yomiuri Shimbun* reported that in June 2008 four employees of the Tangshan iron and Steel Company showed symptoms of food poisoning after eating the recalled *gyoza*.

A month later, on Feb. 23, the Japan Agency for International Cooperation opened a five-day conference in Chingdao aimed at strengthening China’s inspection regime on foods exported to Japan. An estimated 50 Chinese officials involved in food inspections attended the conference. Demonstrating its sensitivity to the food safety issue, China’s National People’s Congress (NPC), on Feb. 28, adopted legislation aimed at assuring food safety.

During the NPC, Wang Yifang, head of the Hebei Province delegation met with reporters to address questions related to both Japanese and Chinese *gyoza* poisoning cases. Wang made it

clear that “there is no substance to reports of distributing (contaminated) *gyoza*” and went on to accuse the reporters of “making up this reality.” The *Yomiuri Shimbun* later reported that postings on the Chinese internet expressed anger at the recycling of the recalled *gyoza* and supported the Japanese media’s line of inquiry, asking why the *gyoza* were distributed at no cost and accusing the company president of dodging reporters’ questions.

Foreign Minister Yang took a more diplomatic approach during his March 7 NPC press conference. He explained that China was making every effort to deal with the issue. After pointing out that the long-running investigation remained in progress, he observed that Japan too, after devoting much time to the issue, had likewise failed to resolve it. At the same time, he emphasized that China regarded food safety as being of great importance and called for the development of a long-term cooperative system to assure food safety.

### **Foreign ministers’ meeting**

On Feb. 28, Foreign Ministers Nakasone and Wang met in Beijing to review the bilateral relationship. Taking up the Senkaku Islands issue, the two ministers agreed not to allow the dispute to adversely affect the development of bilateral relations. With regard to North Korea, both called on Pyongyang to refrain from launching a long-range ballistic missile and agreed to cooperate in the denuclearization of North Korea and the resolution of Japan’s abductee issue. They also agreed to cooperate in addressing the global economic and financial crisis. Agreement was also reached to begin negotiations on developing a convention on the transfer of criminals and a criminal extradition treaty as well as on a teacher exchange program, ranging from elementary school to university, to provide for the exchange of 1,500 teachers over a three-year period with 1,000 from China and 500 from Japan.

Nakasone, however, expressed concern with the increase in China’s defense budget and its shortcomings in transparency. In reply, Yang stressed that China had been making efforts to improve transparency. When Nakasone raised the issue of the poisoned *gyoza*, Yang replied that Chinese officials were engaged in a thorough investigation of the matter and that results would be conveyed to Japan. On the East China Sea, Nakasone called for an early start to negotiations on the joint development of the gas fields, which Yang parried by noting that the issue was “sensitive and complex.”

On March 1, Nakasone met with Premier Wen Jiabao and State Councilor Dai Bingguo. Discussions focused on North Korea, the state of the international economy, the Senkakus, the poisoned *gyoza* case, and gas field development in the East China Sea. On the Senkakus, both sides reiterated their basic talking points. On the *gyoza* issue, Nakasone asked China to provide Japan with the results of their investigations and on the East China Sea, Nakasone made clear Japan’s interest in an early start to negotiations. Nakasone also expressed Prime Minister Aso’s interest in an early visit to China.

On March 17, however, Chief Cabinet Secretary Kawamura told reporters that with the April 2 G20 summit fast approaching preparations for the prime minister’s visit to China had run into scheduling problems. Speaking to media reports that the recent flare-up in the Senkaku dispute had complicated summit planning, Kawamura observed that “all sides are sensitive to the

territorial issue,” but he would not speculate as to whether the Senkaku issue was influencing visit preparations. Addressing summit scheduling, Foreign Minister Nakasone said that it was his understanding that “it would be difficult to realize in March.”

### **High-level visits**

On Feb. 23, Wang Jiarui, head of the Chinese Communist Party’s International Department, met Prime Minister Aso to discuss Japan-China relations. The discussion focused on the global economic crisis and steps the two countries should take to advance recovery; both leaders agreed on the need to stimulate domestic demand. Prior to meeting the prime minister, Wang met Chief Cabinet Secretary Kawamura, who asked for China’s assistance in resolving the abductee and missile issues with North Korea. Wang observed that the issues were complicated but assured Kawamura that China would “continue to make efforts to encourage the countries concerned to reach a settlement.”

At a news conference following the meetings, Wang told reporters that at the time of his January visit to Pyongyang, Kim Jong-il appeared to be in good health and that he had passed on to the North Korean leader Japan’s concern with the abductee and nuclear issues. He offered that “if both sides seriously put their heads together and talk it over, the problems will be resolved.”

Wang also met with Ozawa Ichiro, leader of the Democratic Party of Japan, at the party’s headquarters. The *Asahi Shimbun* reported that the Ozawa-Wang meeting lasted 75 minutes, 15 minutes longer than Wang’s one hour meeting with the prime minister and 45 minutes longer than Ozawa had spent with Secretary of State Clinton. During the meeting, Ozawa was reported to have told Wang of his “special close feeling toward China” and set out his idea of an isosceles triangle as the proper construct for the Japan-U.S.-China relationship.

### **Prospects**

With the dissolution of the Diet’s Lower House pending, Japan’s political leadership will be focused on electioneering. Significant progress in the Japan-China relationship should not be expected in the coming quarter. Treading water may be the best that can be expected.

## **Chronology of Japan-China Relations January-March 2009**

**Jan. 3, 2009:** Prime Minister Aso Taro visits Issei Shrine to pray for a prosperous 2009.

**Jan. 4, 2009:** *Yomuri Shimbun* reports that the Ministry of Agriculture, Forestry and Fisheries will set up mechanism to protect Japan’s intellectual property rights in farm, forestry, and fisheries sectors in China.

**Jan. 4, 2009:** *Sankei Shimbun* reports that China has unilaterally initiated drilling in the Kashi/Tianwaitan natural gas field in the East China Sea.

**Jan. 6, 2009:** China's Foreign Ministry states that independent development of the Tianwaitan/Kashi field does not contradict the June 2008 China-Japan agreement on joint development in East China Sea.

**Jan. 9, 2009:** Japan's Council on Security and Defense Capabilities begins discussions on revising the Defense Program Outline.

**Jan. 9, 2009:** Vice Foreign Ministers Yabunaka Mitoji and Wang Guangya meet in Beijing.

**Jan. 10, 2009:** Hong Kong's *Mingpao* reports Hunan provincial police prevent the opening of a conference sponsored by China's Defend the Senkakus Association.

**Jan. 20, 2009:** China releases its defense white paper.

**Jan. 21, 2009:** Marubeni Corp. reports scrap iron steel exports to China have quadrupled over past two months with export prices increasing 28 percent from January 2008.

**Jan. 22, 2009:** *Sankei Shimbun* reports that Japan has decided on a three-year freeze on construction of plants to dispose of chemical weapons abandoned in Jilin Province, China.

**Jan. 23, 2009:** *Yomiuri Shimbun* cites *Xinhua* reports that Hebei Province Middle Court has given death sentences to three defendants convicted in melamine milk poisoning cases.

**Jan. 29, 2009:** Japan releases its 2008 official development assistance white paper, which indicates that among OECD members Japan's standing has fallen from third to fifth place and records the second consecutive year that Japan's standing has fallen.

**Jan. 30, 2009:** First anniversary of *gyoza* controversy.

**Feb. 3, 2009:** *Sankei Shimbun*, citing China's *Legal Evening Report*, reports that China's Foreign Ministry has released documents indicating that in November 1956 Chairman Mao responded favorably to a request from visiting Japanese academicians to allow an early release of ill Japanese prisoners of war; Mao cautioned that given the emotional context in China, release would require some time to pass.

**Feb. 4, 2009:** *Xinhua* reports that a local Beijing court convicted four Chinese defendants involved in illegal departures of Chinese citizens to Japan

**Feb. 13, 2009:** *Asahi Shimbun* reports China is planning to build two nuclear-powered aircraft carriers some time after 2020.

**Feb. 17, 2009:** *Sankei Shimbun* reports that a Chinese think tank analyst was arrested in January for leaking classified information on North Korea and health of Kim Jong-il.

**Feb. 17, 2009:** China acts to investigate organ transplants allegedly given to 17 Japanese visitors. Chinese law prohibits organ transplants to foreigners.

**Feb.17, 2009:** Taiwan's Association to Defend the Senkakus announces May plans to land on islands to protest Japanese occupation.

**Feb. 19, 2009:** Japanese Fisheries Agency seizes Chinese fishing boat for operating in Japan's Exclusive Economic Zone off Nagasaki Prefecture.

**Feb. 22, 2009:** ASEAN Plus 3 finance ministers meet to expand funding mechanism of the Chiang Mai Initiative.

**Feb. 26-27, 2009:** Japan-Taiwan fisheries talks resume in Taipei after three-year hiatus.

**Feb. 27, 2009:** Taiwan's Foreign Ministry protests Prime Minister Aso's statements on the applicability of Japan-U.S. Security Treaty to Senkaku Islands.

**Feb. 23, 2009:** Wang Jiarui, head of Chinese Communist Party's International Department, meets Prime Minister Aso and Democratic Party of Japan President Ozawa Ichiro in Tokyo

**Feb. 26, 2009:** Prime Minister Aso tells the Lower House Budget Committee that the Japan-U.S. Security Treaty extends to Senkaku Islands.

**Feb. 27, 2009:** Former Prime Minister Fukuda Yasuo attends ground-breaking ceremony for the Japanese pavilion at the 2010 Shanghai Exposition.

**Feb. 28, 2009:** Foreign Ministers Nakasone and Yang meet in Beijing.

**Feb. 28, 2009:** American Institute on Taiwan issues a statement affirming that Japan-U.S. Security Treaty extends to Senkaku Islands.

**Feb. 28, 2009:** China's National People's Congress passes a law aimed at strengthening food safety that will take effect on June 1.

**March 1, 2009:** Foreign Minister Nakasone meets Premier Wen Jiabao and State Councilor Dai Bingguo in Beijing.

**March 3, 2009:** *Yomiuri Shimbun* reports that Beijing has informally asked Japan to allow construction of a consulate on Okinawa.

**March 4, 2009:** China announces large-scale April naval exercise off Chingdao to commemorate 60<sup>th</sup> anniversary of the founding of the PLA Navy, which is April 23. The announcement states that invitations to attend the exercise have been extended to foreign countries.

**March 4, 2009:** China releases its 2009 defense budget with a 14.9 percent increase, marking the 21<sup>st</sup> consecutive year of double-digit increases in defense spending.

**March 4, 2009:** U.S. State Department issues official statement that U.S.-Japan Security Treaty extends to the Senkaku Islands.

**March 5-13, 2009:** China's National People's Congress meets in Beijing.

**March 5, 2009:** Chief Cabinet Secretary Kawamura Takeo tells a press conference that there is no change in U.S. policy toward the Senkaku Islands.

**March 6, 2009:** Japan's Finance Ministry cites China as a major source of counterfeit goods seized by Japanese Customs.

**March 7, 2009:** Foreign Minister Yang holds a press conference during National People's Congress and addresses the East China Sea and *gyoza* issues.

**March 9, 2009:** Fukuoka High Court dismisses a suit by 45 Chinese seeking compensation for forced wartime labor. It rules that by signing that 1972 Japan-China Joint Communiqué, China waived the right of individual Chinese to seek war reparations from Japan.

**March 13, 2009:** Beijing press conference announces the joint Japan-China production of the Akutagawa Prize-winning novel "Wall of Dreams." Filming began in Hebei province in February with a target 2010 release date.

**March 16, 2009:** China announces that it will postpone compulsory certification system for information security technologies. Japanese and Western companies are concerned that compulsory registration would expose source codes.

**March 15-17, 2009:** Taiwan's Democratic Progressive Party President Tsai Ing-Wen visits Japan and calls on Japan to play the role of regional balancer.

**March 20-21, 2009:** Japan's Defense Minister Hamada Yasukazu visits China.

**March 23, 2009:** Saiki Akitaka, Foreign Ministry director general for Asian and Oceanic Affairs, meets Vice Foreign Minister Wu Dawei in Beijing to discuss Six-Party Talks and North Korea's pending ballistic missile launch.

**March 29-April 4, 2009:** Li Changchun, fifth-ranking member of the Politburo's Standing Committee who is said to be hard-liner toward Japan, visits Tokyo and meets Prime Minister Aso and Foreign Minister Nakasone.

**March 30, 2009:** Taiwan's Association of East Asian Relations announced plans to open a representative office in Hokkaido to support growing number of Taiwanese visitors to the northern island.







Japan-Korea Relations:

## Conflict with North Improves Japan-ROK Relations

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The first three months of 2009 saw Japan-North Korea relations go from stalemate to hostility, as North Korea's "satellite" launch on April 5 heightened tensions throughout Northeast Asia. As Pyongyang tried to goad its partners in the Six-Party Talks (the new Obama administration in particular) to induce more favorable terms, Tokyo took steps that may have more far-reaching implications for regional security than merely a plan to deal with the current North Korean missile crisis. Meanwhile, Tokyo and Seoul continued to focus on a practical partnership for economic cooperation and stayed on good terms. The highlight of the quarter was Prime Minister Aso's successful two-day visit to South Korea in mid-January for a summit with President Lee Myung-bak. Although historical issues lingered as a potential factor that might challenge and disrupt this mood of détente, Japan-South Korea relations improved due in no small part to the Lee administration's tough policy toward Pyongyang.

### Japan-North Korea relations

Japan-North Korea relations worsened from stalemate to hostility during the first quarter of 2009. By the end of March, tensions had been significantly elevated. The Japanese government announced its intention to intercept "any debris" that might fall on Japanese soil from a rocket fired by Pyongyang, mobilizing its ¥800 billion missile defense shield for the first time while North Korea responded by saying that any such attempt would result in a counterstrike.

Although Pyongyang's tactic is not new, there are reasons to believe that this particular missile/satellite launch might signal the beginning of something new. Pyongyang has exhibited this type of behavior before to gain attention from the U.S. when the Six-Party Talks stalled. However, there are more moving parts in the Six-Party Talks denuclearization process now, making it more difficult to predict an outcome. For one thing, compared to its missile tests in 1998 and 2006, Pyongyang's long-range missile test can now be associated more directly with its capability to deliver nuclear warheads in theory as far as Hawaii, Alaska, or even the west coast of the U.S. mainland. Yet, the Obama government has not had a chance to form its overall policy toward North Korea or create any clear relationship with Pyongyang, and its dialogue-oriented administration is increasingly under criticism from U.S. conservatives. South Korea for its part now sounds more like a hawkish Japan and Tokyo was making preparations for a military interception of Pyongyang's missile even while the U.S. tried to tone down the significance of the launch. With the future of the Six-Party Talks uncertain, two possible consequences are the

unwanted strengthening of North Korea's position vis-à-vis other states in the Six-Party Talks and a more assertive Japan, which bodes ill for Japan-North Korea relations.

### **North Korea's planned "satellite" launch**

The news about Pyongyang's satellite/missile launch dominated this quarter's Japan-North Korea relations, while the abduction issue remained unresolved and saw no meaningful progress. As the Six-Party Talks negotiations faced another hurdle over the issue of verification of North Korea's nuclear program, Pyongyang kicked off the new year by using increasingly combative language such as "smashing" South Korea in an "all-out confrontation," while declaring that it would maintain its "status as a nuclear weapons state." Secretary of State Hillary Clinton's visit to Asia in February must have been a disappointment to Pyongyang since she made it very clear that the U.S. would work closely with its Asian allies in moving forward with North Korea's denuclearization. Furthermore, Clinton gave a straightforward message that the Obama administration would not establish diplomatic relations with Pyongyang until after it completely abandons its nuclear and missile development program.

As early as January, analysts suspected that North Korea was preparing a missile launch and by mid-March Pyongyang publicly announced its intention to launch an experimental communications satellite in early April "for peaceful purposes." In a departure from its earlier missile launches – which had been abrupt and come with no warning – this time North Korea followed international convention for conducting space launches and notified the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO) of its plan, including the flight path and possible sites where debris might fall. Not surprisingly, there was deep skepticism and concern in Tokyo, Seoul, and Washington toward Pyongyang's claim as they suspected that a satellite launch was a disguise for a *Taepodong 2* long-range ballistic missile test. By late-March, tension had intensified as top negotiators from South Korea, Japan, and the U.S. gathered in Washington to coordinate a joint strategy while Tokyo and Seoul were considering moves to intercept the rocket. (Later, Seoul and Washington clarified that they would not take or want any military action to counter the North's launch.) A *Taepodong 2* long-range missile is believed to have a range of 4,300 to 6,000 km. which puts Alaska within its reach, while an improved version of the missile could actually reach the U.S. west coast, given its estimated maximum range of 10,000 km.

Understandably, already precarious Japan-North Korea relations and the geographic proximity of the two countries, Pyongyang's move prompted Japan to deploy a range of hardline countermeasures that included the potential use of the missile defense system. Anyone who compares Japanese foreign policy in 1998 when Pyongyang's missile first flew over Japanese territory with today will realize how far Japan has come in its dealings with Pyongyang, going from its previous emphasis on dialogue toward pressure today. According to the trajectory data that Pyongyang submitted to ICAO, the first booster of the rocket would fall into the East Sea/Sea of Japan off Japan's northern coast, and the second into the Pacific Ocean between Japan and Hawaii. Japan's Foreign Minister Nakasone Hirofumi criticized Pyongyang, saying that even a satellite launch by the North would constitute a violation of UN Security Council resolution 1718 passed in 2006, a warning shared by Seoul and Washington. Japanese Ambassador to the UN Takasu Yukio announced that the Japanese government would request

the UN Security Council to convene for an emergency meeting and call for immediate action if North Korea's missile launch is confirmed. Following its underground nuclear explosion in 2006, UN Security Council resolution 1718 prohibits North Korea from conducting any nuclear explosions or missile tests.

On March 27, Japan's National Security Council formally authorized Defense Minister Hamada Yasukazu to mobilize its missile interceptor for the first time since the missile defense system was introduced in 2003. This was also the first order based on the revised Self-Defense Forces Law in 2005, which allows the defense minister to act without receiving Cabinet approval in event of a sudden and unexpected change in Japan's security environment. Later that day, Hamada ordered the Self-Defense Forces to shoot down any part of a North Korean rocket (regardless of whether it is a missile or a satellite) that might fall toward Japanese territory. Under the current defense system in Japan, the Maritime Self-Defense Force would first launch a *Standard Missile-3 (SM-3)* interceptor missile to destroy the missile in space. And if the *SM-3* fails, a *Patriot Advanced Capability-3 (PAC-3)* interceptor missile would be launched from the ground to intercept the missile at an altitude above 10 km.

The ever-unpopular Aso administration dealt with the "satellite" crisis by making these plans known to the public. When asked by a reporter why the government decided to disclose its plans, Chief Cabinet Secretary Takeo Kawamura answered that it was "to reduce as much public anxiety over the launch by explaining how we plan to respond."

Japan is also prepared to impose more sanctions on Pyongyang. According to the March 21 *Asahi Shimbun*, Japanese lawmakers are pushing for tougher sanctions over Pyongyang's satellite/missile launch. At the very least, it looks certain that Japanese sanctions imposed on North Korea that began with Pyongyang's ballistic missile launch and nuclear test in 2006, and consistently extended in six-month increments since then, will be extended another six months after the April 13 expiration date of the current extension. These unilateral sanctions include a ban on North Korean vessels from entering Japan and on North Korean imports.

### **Japan-South Korea relations**

In the first quarter of 2009 Tokyo and Seoul continued to focus on a practical partnership for economic cooperation and stayed on good terms. The highlight of the quarter was Prime Minister Aso's successful two-day visit to South Korea in mid-January for a summit with President Lee Myung-bak. Aso and Lee agreed to help more Japanese businesses "advance into South Korea without a hitch" while working closely to address the global financial crisis, North Korea's nuclear and missile development program, and the reconstruction of Afghanistan. Setting aside historical and territorial issues, Aso and Lee seemed to find each other's businessman-like style congenial. Although historical issues lingered as a potential factor that might challenge and disrupt this mood of détente, Japan-South Korea relations improved due in no small part to the Lee administration's tough policy toward Pyongyang.

### **The Aso-Lee January summit: tailor-made for business**

Following their Tokyo-Seoul-Beijing trilateral summit meeting in December 2008, Prime Minister Aso and President Lee met a month later in Seoul as part of their shuttle diplomacy. During this “tailor-made for economic cooperation” summit on Jan. 11-12, Aso and Lee agreed to continue working-level talks aimed at resuscitating the moribund Japan-Korea free trade agreement and produced specific plans that will further the integration of the two economies. South Korea designated Gumi and three other locations for the parts and materials industries to better support Japanese businesses. The two leaders also agreed to hold a chief executive officer (CEO) forum in Tokyo this summer for small- and middle-size companies from the two countries to help build networks and exchange information on markets and advanced technology.

For his visit to Seoul, Aso brought with him CEOs from the top companies in Tokyo to have a luncheon meeting and other discussion sessions with their South Korean business counterparts, as well as to meet President Lee. This gesture was well-received in Seoul as a fulfillment of a promise Aso made to Lee during their summit in Fukuoka last December, when Lee had urged Aso to bring more Japanese business leaders and prospective investors to South Korea. Among those who accompanied Aso to Seoul included the chairmen of Japan Business Federation, Canon, Toyota, Toshiba, and the President Nippon Steel Corporation, among others. According to the Jan. 10 *Joongang Ilbo*, most of these CEOs had initially declined the offer due to their tight schedules but Aso’s personal phone calls convinced them to change their minds.

### **Pyongyang brings Tokyo & Seoul closer**

In the midst of the increasing tension in the region from North Korea’s planned satellite/missile launch, North Korea policy was one other area where Tokyo and Seoul appeared to move closer, even though there remain important differences in the two countries’ policies. The focus of both these countries’ strategies has been to reaffirm the importance of trilateral Tokyo-Seoul-Washington cooperation in dealing with the North’s nuclear and missile issues. Prior to Secretary Clinton’s visit to Asia in mid-February, Foreign Minister Nakasone expressed support for South Korea’s tougher, quid pro quo policy on North Korea while South Korea’s Foreign Minister Yu Myung-hwan reiterated Seoul’s support for Japan’s efforts on the abduction issue. In late February, prior to his visit to Washington for a summit with President Barack Obama, Aso phoned Lee to confirm their joint commitment to close relations with Washington in dealing with Pyongyang.

According to the March 18 *Choson Ilbo*, this quarter marked the first time Seoul seriously considered joining Japan in drafting a list of potential sanctions against North Korea in case Pyongyang fires a long-range missile. The last time sanctions were imposed, when the UN Security Council adopted resolution 1718 after Pyongyang’s nuclear test in 2006, Seoul did not make any such list out of political considerations.

On the abduction issue, the Lee administration was apparently more supportive than the previous Roh Moo-hyun administration of Japan’s effort to investigate the fate of the Japanese nationals abducted by Pyongyang. This quarter, the two governments worked jointly to arrange a meeting between former North Korean secret agent Kim Hyun-hee, who was involved in the 1987 bombing of a Korean Air flight, and the family of Japanese abductee Taguchi Yaeko, who had taught her Japanese in North Korea. The meeting was made possible when Kim responded to the

Taguchi family's desire to talk to her after Kim said she believed Taguchi might be still alive somewhere in North Korea.

### **Below the surface: territorial issues and domestic politics**

While all seemed fine on the surface, both Japan and South Korea continued to advocate their territorial claims. Japan's Shimane Prefecture celebrated "Takeshima Day" on Feb. 22 while South Korea's Foreign Ministry held various events to criticize Japan's claim over the Dokdo/Takeshima islets. As part of South Korea's Land, Transport and Maritime Affairs Ministry project for Ulleung Island, it was announced that the Korean Coast Guard will build a pier as a forward base to respond rapidly to an emergency situation on the Dokdo/Takeshima islets. Japan, on the other hand, announced that it will conduct a comprehensive survey of underwater resources in its territorial waters starting from this year. According to the report, Japan's plan covers a radius of 60,000 sq. km. in the East Sea/Sea of Japan, which means that it could transgress on South Korea's exclusive economic zone (EEZ), given that the bilateral talks on the bilateral EEZ delineation have not made any progress.

Although Japan and South Korea enjoyed a closer working relationship this quarter, both Aso and Lee struggled at home with low approval ratings driven in part by plunging economic conditions. In Japan, former Finance Minister Nakagawa Shoichi's unprofessional behavior at a press conference and subsequent resignation was yet another blow to Aso's ratings. According to an *Asahi Shimbun* opinion poll conducted on Feb 7-8, 71 percent of respondents wanted Aso to resign as soon as possible while opposition leader Ozawa Ichiro was gaining popularity with a 45 percent approval rating as a national leader. After Nakagawa's embarrassing behavior, the Aso Cabinet's approval rating fell as low as 13.4 percent, according to a *Kyodo News* survey released on Feb. 18. At the same time on Feb. 9-10, President Lee's approval rating in South Korea was better than 32.3 percent according to a JOINS Research survey. This was a marked improvement over his first year when Lee's ratings had fallen to nearly single digits.

### **Economy and society**

Both the Japanese and South Korean economies continued to struggle this quarter. According to Tokyo Shoko Research, 1,318 Japanese companies, with liabilities of more than ¥10 million, declared bankruptcy in the month of February, the largest number in six years. According to a Feb. 25 *BBC News* report, Japan's exports fell 45.7 percent in January compared with a year ago, the largest drop in 10 years. Demand for Japanese cars dropped 69 percent and Japan's exports to Asia dropped 47 percent. According to a report released by the Korea Customs Service on Feb. 16, South Korea's trade deficit reached \$3.35 billion in January. This same report revealed that South Korea's exports plunged 33.8 percent year-on-year to \$21.37 billion, while imports fell 31.9 percent to \$24.72 billion.

Amid these harsh economic conditions, a strong *yen/won* exchange rate brought some benefits to South Korea's economy. According to the March 20 *Joongang Ilbo*, the weakened *won* is lowering barriers for Japanese companies seeking high quality supplies in South Korea. Japan's own economic struggles have been forcing Japanese companies to seek outsourcing partners and the newspaper reported that Vana World, a Japanese real estate private equity fund, signed a

contract with a Korean promotion agency to invest almost 30 trillion *won* in a local real estate development project. Also, to attract rich Japanese customers to South Korea, department stores and hotels held a promotion event with discount coupons on items that are popular to Japanese customers. Indeed, with the stronger *yen*, Japanese consumers are increasingly coming to South Korea for shopping and recreation.

On a gloomier note, a survey conducted by South Korea's Presidential Council on Nation Branding revealed that South Korea's national brand ranks only 33<sup>rd</sup> in the world. The survey was conducted in February among 1,000 foreigners living in the country including staff of foreign firms, foreign students, and members of bi-national families living in South Korea. They cited inter-Korean confrontation as the biggest factor (48.4 percent) for the national branding being undervalued. South Korea's insufficient contribution to the international community (44.1 percent) and political and social unrest (41.5) followed next as reasons for the low ranking. For positive images, respondents emphasized information and communications (34.9 percent) and the economy (13.2 percent) as factors for consideration.

### **The coming quarter**

Spring 2009 will most likely be dominated by the aftermath of the North Korean missile launch. It is likely relations in Northeast Asia will be – once again – thrown into crisis. With the Obama administration still putting its policy team in place and with the future of the Six-Party Talks in doubt, it is not at all clear how Japan, South Korea, the U.S., China, and Russia will respond. Regardless, it will be a long process of beginning the next round of nuclear talks. At the same time, the global economic crisis remains a more important factor and Japan and South Korea will have to focus much of their energies on how to deal with it and how best to coordinate their own economies as problems continue to mount.

## **Chronology of Japan-Korea Relations January-March 2009**

**Jan. 5, 2009:** South Korea's Coast Guard says that it will build a special pier in Ulleung Island to respond rapidly to an emergency on the Dokdo/Takeshima islets.

**Jan. 11, 2009:** Prime Minister Aso Taro and President Lee Myung-bak hold a meeting in Seoul with business leaders of the two countries.

**Jan. 12, 2009:** PM Aso and President Lee meet at South Korea's Blue House and agree to promote bilateral cooperation.

**Jan. 15, 2009:** Kim Hyun-hee says in her interview with Japan's *NHK* that she is certain that Takuchi Yaeko is alive in North Korea and expresses her desire to meet with the Takuchi family.

**Jan. 29, 2009:** Japanese and South Korean top negotiators for the Six-Party Talks, Saiki Akitaka and Kim Sook, discuss the denuclearization of North Korea.

**Jan. 31, 2009:** China's official *Xinhua News* reports that South Korean, Japanese, and Chinese astronomers will collaborate to build a 6,000 km-diameter radio telescope, which will be the world's largest in its scale.

**Feb. 11, 2009:** Japan's Foreign Minister Nakasone Hirofumi meets Foreign Minister Yu Myung-hwan in Seoul and they agree to deepen the bilateral cooperation.

**Feb. 18, 2009:** *Kyodo News* opinion poll shows support for Aso Cabinet as low as 13.4 percent.

**Feb. 20, 2009:** Japan and South Korea wrap up a four-day session of a joint fisheries committee and reach an agreement on the total fish quota in each other's exclusive economic zone (EEZ).

**Feb. 22, 2009:** Japan's Shimane Prefecture celebrates "Takeshima Day" as the South Korean Foreign Ministry and the public denounce the celebration.

**Feb. 23, 2009:** President Lee and PM Aso speak on the phone and reaffirm their commitment to close relations with Washington before Aso's meeting with the U.S. President Barack Obama.

**Feb. 23, 2009:** South Korea's 2008 defense white paper says that it is "fully prepared" to defend its territory including the Dokdo/Takeshima islets.

**March 1, 2009:** FM Nakasone says that even a satellite launch by North Korea will be a violation of the UN Security Council resolution 1718, which bans Pyongyang from conducting any nuclear explosion or missile launch.

**March 3, 2009:** *Kyodo News* cites a senior official at the Ministry of Defense that Japan would deploy two arsenal ships with the latest *Aegis* radar system to intercept the North's missile launch in case Pyongyang continues its preparation of the launch.

**March 9, 2009:** North Korea's spokesman of General Staff of the Korean People's Army warns that any interception attempt of its "satellite" will cause a counterstrike.

**March 9, 2009:** Japan and South Korea hold working-level meeting in Seoul over the demarcation of their maritime border (EEZ) but fail to produce any agreement.

**March 10, 2009:** Former North Korean agent Kim Hyun-hee involved in the 1987 bombing of a Korean Airline flight meets the brother and son of a Japanese woman abducted by North Korea.

**March 10, 2009:** Japan's Defense Minister Hamada Yazukazu urges Pyongyang to refrain from launching a rocket.

**March 12, 2009:** Japanese Ambassador to the United Nations Taksu Yukio says that Japan will ask the UN Security Council to take immediate action against North Korea in the event of Pyongyang's missile launch.

**March 17, 2009:** South Korea's Presidential Council on National Branding publishes a survey about South Korea's image, which shows that the country's national brand ranks 33<sup>rd</sup> due mostly to inter-Korean confrontation and insufficient contribution to the international community.

**March 18, 2009:** *Choson Ilbo* reports that the Lee administration is considering drafting a list of targets for sanctions against Pyongyang in the event that the North fires a long-range missile.

**March 19, 2009:** PM Aso says that Japan could impose more sanctions against North Korea if the North fires a missile over Japanese territory.

**March 20, 2009:** Chinese Defense Minister Liang Guanglie and Defense Minister Hamada meet. China urges North Korea not to launch a satellite.

**March 23, 2009:** Japan's Six-Party Talks negotiator Saiki meets his Chinese counterpart Wu Dawei and they agree that the two countries will cooperate for North Korea's denuclearization.

**March 24, 2009:** North Korea's Foreign Ministry warns that the Six-Party Talks will collapse if the UN imposes sanctions against its rocket launch.

**March 25, 2009:** U.S. Secretary of State Hillary Clinton warns North Korea that a missile launch will be a "provocative act" that could have consequences.

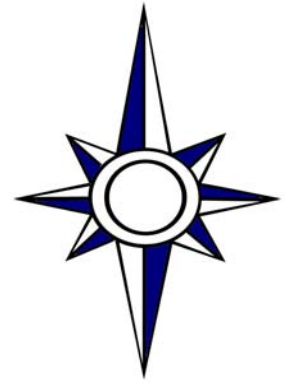
**March 27, 2009:** Japan's National Security Council authorizes the defense minister to mobilize its missile interceptors for the first time.

**March 27, 2009:** Japan's Defense Minister Hamada issues an order to shoot down any part of a North Korean rocket that might fall toward Japanese territory.

**March 27, 2009:** Six-Party Talks negotiators from South Korea, Japan, and the U.S. gather in Washington to coordinate their response to North Korea's plan to launch a satellite rocket.

**March 29, 2009:** Defense Secretary Robert Gates says that the U.S. has no plan to militarily preempt Pyongyang's missile. On the same day, South Korean President Lee says in his interview with *Financial Times* that South Korea does not intend to take any military action.





**China-Russia Relations:  
Between Crisis and Cooperation**

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The year of 2009, which marks the 60<sup>th</sup> anniversary of diplomatic ties between China and Russia, unfolded with a series of high-profile interactions. The “Year of Russian Language” in China was launched, which is to be reciprocated by Russia’s “Year of Chinese language” in 2010. An oil pipeline is finally to be built from Skovorodino to northeast China 15 years after its initial conception. The two militaries were engaged in the first round of talks for joint exercises to be held in July-August. The Shanghai Cooperation Organization held its first special session on Afghanistan as it officially reached out to NATO. Meanwhile, top leaders and senior diplomats were busy coordinating policies regarding the financial crisis and growing tensions on the Korean Peninsula. All of this, however, could hardly conceal a sense of uneasiness, particularly from the Chinese side, about the sinking in mid-February of a Chinese cargo ship by the Russian Coast Guard near Vladivostok. While Beijing requested a thorough and timely investigation, Moscow seemed more interested in a weapons smuggling case allegedly involving top Russian naval officers.

**One step toward the “deal of the century”**

On Feb. 17, China and Russia held their third energy dialogue in Beijing. Vice Premier Wang Qishan and visiting Deputy Prime Minister Igor Sechin presided over the signing of seven documents on oil pipelines, loans, and long-term crude oil trade, collectively known as the “loan-for-oil deal.” The China Development Bank signed the \$25 billion loan agreements with Rosneft and Transneft. Rosneft and China National Petroleum Corporation (CNPC) signed documents on Russian oil deliveries of 300 million tons of crude oil to China between 2011 and 2030 (15 million tons annually). The deputy premiers also signed an agreement on construction of a spur of the Eastern Siberia-Pacific Ocean pipeline (ESPO) to China, and CNPC and Transneft signed a corresponding contract on construction and operation of the pipeline spur.

These agreements were follow-on steps from “a memorandum of understanding on oil cooperation” signed in Moscow on Oct. 28, 2008. The memorandum, which would expire in March, only spells out intentions and broad parameters for this “deal of the century.” Two rounds of negotiations were held after the October 2008 memorandum, but stalemated in late 2008 over the price of the oil and the interest rate on the loans.

At least three factors seemed to get the sides to the February agreements. One was the deepening financial crisis that hit Russian oil companies especially hard. Rosneft, for example, had net debt of \$19.338 billion as of the end of 2008. Much of Rosneft’s debt, like that of many Russian

companies, was accumulated during the period of easy credit prior to the financial crisis. Russian energy giants have incurred huge losses as energy prices nosedived from their peak of \$174 per barrel in July 2008 to below \$40 in January 2009. As a result, investors withdrew more than \$300 billion from Russia while the *ruble* lost some 35 percent against the U.S. dollar between August 2009 and January 2009. Low energy prices and excessive supply considerably weakened Russia's bargaining ability. These problems in the Russian economy were perhaps the central issues in Prime Minister Vladimir Putin's telephone conversation with his Chinese counterpart Wen Jiabao on Feb. 12.

The huge oil deal between China and Saudi Arabia reached during President Hu Jintao's Feb. 11-12 state visit to the oil kingdom also had significant psychological impact on the Russian side. As the largest oil supplier to China, Saudi Arabia exported 36 million tons of crude to China in 2008, a 40 percent increase over the previous year and 20 percent of China's total import of oil. Hu and his Saudi host reached several long-term energy supply agreements.

Thus, it took nearly 15 years from the inception of ideas initiated by former President Boris Yeltsin in 1994, almost 10 years of negotiations, a worldwide economic crisis, and a final "Saudi kick" to get the sides to sign the deal. The longest soap opera in the world's pipeline business seems near its curtain call. In his meeting with Premier Wen after the signing ceremony, Vice-Premier Igor Sechin delivered a message from President Dmitry Medvedev to Hu. After some congratulatory words, the Russian president turned to the future: "It is necessary to step up consultations between Gazprom and CNPC on the possible supplies of Russian natural gas and electricity to China," and "the construction of the second unit of the Tianwan nuclear power plant is important. Our main goal is to preserve the positive dynamics of Russia-China economic cooperation ..." which "will help minimize negative effects of the world crisis on our economies."

Indeed, the breakthrough in the pipeline and oil business was seen particularly by Moscow as an anti-recession mechanism against a rapid downturn of bilateral economic relations. In January 2009, Sino-Russian trade plunged by 42 percent. This trend is likely to continue for most of 2009 as energy prices remain low during the global economic crisis.

### ***New Star sinking***

While the Chinese and Russian officials were putting final touches on the landmark oil and pipeline deal, a small crisis was brewing near Vladivostok. On Feb. 15, the *Russian Information Agency (RIA) Novosti* reported that a cargo ship sank in the Sea of Japan 50 nautical miles from the Russian port city of Nakhodka and a Russian rescue vessel was sent out for emergency assistance. The news did not draw much attention until the following day when the *Vladivostok Daily News (VDN)*, reported that 10 Chinese sailors were on the sunken ship. There were also rumors in Vladivostok that the ship was fired upon. Russian officials, however, denied that border guards had fired on the ship and insisted that bad weather caused the sinking. On Feb. 18, *VDN's* web page carried a video clip showing two Russian Coast Guard ships firing on the cargo ship. The video was immediately shown on Russia's more independent *NTV's* evening news. On the same day, the Russian Federal Security Service admitted it had fired on the ship.

The incident started with a commercial dispute on Jan. 29. The *New Star* – a cargo ship flying the flag of Sierra Leone, owned by Shanghai-based J-Rui Lucky Shipping Company, and operated by a Hong Kong company – had almost finished unloading its 5,000 tons of Thai rice when the Russian recipient company suddenly refused to accept the rice for its “poor quality.” On Feb. 7, the Russian company sued the owner of the cargo ship \$300,000 for the “loss.”

According to the Russian account, the Chinese vessel, upon instruction from its owner, allegedly left Nakhodka on Feb. 12 without permission from the Russian port authorities and did not obey orders to return when two armed Russian Coast Guard ships tried to intercept it on Feb. 13. The Coast Guard ships first fired warning shots but failed to stop it. At 10:51, Russian ships started to fire at the bow, damaging at least three pieces below the ship’s water line. Nevertheless, the Chinese ship was still afloat and leaving Russia’s exclusive economic zone. Upon receiving an order from the Border Department of Russia’s Primorye Federal Security Bureau office, the Russian patrol boats opened fire at the propeller and mechanical parts of the Chinese ship at 16:15 until it lost its main power at 18:00 local time. The two sets of AK-230 30-mm guns on the Coast Guard ships fired all of their 515 rounds of ammo during their 8-hour chase. The damaged ship finally stopped and headed back to the Russian port. It sunk during a storm, and 7 out of the 16 Chinese sailors were missing and presumably died.

### **Chinese media erupted**

While Russian and Chinese diplomats were publicly trading remarks – a situation rarely seen since Gorbachev’s historical visit to China in 1989 – Chinese media erupted with coverage of the incident. Numerous news outlets carried VDN’s video clip showing how the Chinese ship was being intercepted and fired upon by the Russian ships. Although there were plenty of sober analyses, anger, disbelief, and criticism dominated the Chinese media. The opinions of Chinese “netizens,” many of which were posted on official Chinese media’s web pages, were even more passionate. Later, the web page of the Russian Consulate in Shanghai was reportedly damaged by hackers.

For many in China, there was too much unpleasant historical baggage regarding Russia’s use of excessive force against an unarmed Chinese civilian ship. Some commentators compared the sinking of the *New Star* with the Soviet shoot-down of Korean Air Flight 007 in 1983, leading to the death of all 269 passengers and crew aboard. Others expressed disbelief that Russia would do such a thing to its strategic partner. On Feb. 19, when diplomatic interactions seemed going nowhere, the web page of China’s *Xinhua News Agency* posted a photo of Russian city of Vladivostok with the caption: “Vladivostok is situated in Russia’s eastern coastal region. It is used to be part of the Bohai Shuabin region of China. In the Jin Dynasty (1115-1234 AD), it was under the rule of “xie bin lu.” In the Qing Dynasty, it was administered by the Hui Chun County, Jilin Prefecture. In 1860, Czarist Russia forced the Qing government to sign the unequal Treaty of Peking. Vladivostok was taken by the Czarist Russia and Russia built a naval port and fortifications there. Vladivostok is the largest naval port in the Far East and plays an important role in both history and today.”

On the same day, the influential *Guangming Daily*, which covers cultural and intellectual stories, also ran a story about the publication of the first two volumes of the four-volume *History of*

*Czarist Russia's China Invasion* compiled by the Institute of Modern History of the Chinese Academy of Social Sciences and published by the People's Press. The title of the article is "History of Western Powers' China Invasion: Czarist Russia was the crudest and greediest."

On Feb. 20, *Zhongguo Xinwen She* [*China News*], an official news service, carried a long investigative and rather objective story, tracing every step of the incident. The title of the story, however, read: "Russia's barbarian law enforcement forced *New Star* to the death path."

By early March, the attention of the Chinese media began to shift away to other issues. Discussion of the incident also assumed some broader and deeper dimension, such as comparing cultural, social, economic, and racial differences between Chinese and Russian societies. The fast growing number of Russian skinheads and their organized and brutal attacks on foreigners and ethnic minorities drew a lot of attention of the Chinese media. On March 15, the *People's Daily* ran a story contrasting the good and comfortable life for Russians living in China and rather difficult life for Chinese in Russia, particularly in Russia's Far Eastern regions.

Later, the *South China Weekend* [*Nanfang zhoumo*], a popular periodical, described the sinking of the Chinese ship as the tip of the iceberg. Chinese working in and traveling to Russia were said to have been harassed frequently by both the Russian mafia and law enforcement agencies. The incident particularly exposed the so-called "gray customs clearance procedure" [*huise qingguan*] that subjects Chinese export business to third Russian parties/companies for customs clearance. The process is full of bribery and corruption. Many Chinese business transactions have been interrupted, seized, and fined at will. In the current hard times, things could get even worse before better.

### **Diplomatic tug-of-words**

The highly sensitive nature of the *New Star* incident and instantaneous news dissemination put tremendous pressure on the diplomatic corps of the two strategic partners, particularly on the eve of the 60<sup>th</sup> anniversary of their diplomatic ties. Chinese Consul General Sun Lijie traveled from Khabarovsk to Nakhodka to discuss the incident with local authorities and to visit the rescued sailors shortly after the incident. Sun also asked that the Chinese side be informed as soon as possible about the cause of the incident after a serious probe is carried out. On Feb. 19, Chinese Deputy Foreign Minister Li Hui summoned Russian Ambassador Sergei Razov and told him that China was shocked at and seriously concerned with the incident. He expressed China's strong dissatisfaction with Russian warship's firing at the civilian cargo ship, Russia's insufficient efforts to save drowning sailors, and its failure to provide prompt investigation results to China. Li urged Russian authorities to complete investigations into the incident as soon as possible and try its best to search for the missing crewmembers.

In response, the Russian Foreign Ministry on Feb. 20 expressed regret over the incident, but insisted that the captain of the Chinese ship bore all responsibility for the tragedy. It also insisted that Russia's rescue operation was seriously complicated by the stormy weather, which made it impossible to "moor to the ship in distress." Russian Foreign Ministry official Andrey Nesterenko went so far as to remind China that on Feb. 15 the Chinese Foreign Ministry's

consular protection center, through the Russian embassy in China, had thanked the Russian side for its efforts to save Chinese nationals who were members of the *New Star* crew.

On Feb. 21, the Russian side declared the end of the search and rescue operation. Chinese Foreign Ministry officials, however, continued to request that the Russian authorities share the results of an investigation into the sinking. The result of Russia's investigation released a few days later found that no crewmembers were injured as a result of Russia's shots, and that Russian border guards took "all possible measures in good time to rescue seamen, including Chinese crewmembers." Furthermore, "The illegal actions by the captain were provoked by overt pressure by the Chinese ship owner, trying now to distort the real situation of the incident."

For Beijing, Russia's explanation and attitude were "unacceptable." Zhang Xiyun, director general of the Department of European-Central Asian Affairs, lodged representations on the afternoon of Feb. 20 to Russian Minister Counselor to China Morgulov Igor saying that the Russian attitude regarding the incident is "hard to understand and unacceptable" for China.

On Feb. 24, the prosecutor's office of the Primorsky Territory of Russia filed criminal proceedings against Nazwir Adi, the ship's Indonesian captain, for "crimes" including illegal crossing of Russian territories, failure to heed prolonged persuasions of his own team, ignoring legitimate demands of Russian border guards, failure to reply to signals and warning shots, and unprofessional handling of the ship and evacuation of its crew.

The two sides appear to have entered a diplomatic dead end, at least publicly. On Feb. 25, the tug of words took a new twist when the Russian side suddenly publicized a case of smuggling weapons to China. The Main Military Prosecutor Sergei Fridinsky informed a session of the Prosecutor General Office Board about a suspected theft of antisubmarine missiles by some high-ranking Russian naval officials, including several admirals. According to Fridinsky, his office opened a criminal case a few days before against officials and a group of businessmen for smuggling 30 antisubmarine missiles and 200 aerial bombs into Tajikistan and planning to sell them to China for \$18 million. Tajik officials, however, quickly disclaimed any knowledge of the smuggling of Russian weapons to China through Tajik territory.

It is unclear how and why Russia chose to publicize the scandal at this point since weapons smuggling by Russian military personnel has been very common in the post-Soviet era. Even Fridinsky acknowledged that in 2008 alone, "over 500 officers, including 370 senior officers, 117 military unit commanders and 20 generals among them, were brought to justice for such crimes." Fridinsky, however, did not detail the names, ranks, and activities of those involved in this particular case. Although China has not officially responded to the story, China's *Global Times*, a subsidiary of the official *People's Daily*, cited Chinese military experts who dismissed it. China actually had both types of weapons and there was no need to smuggle them from Russia, remarked Wang Haiyun, a Russia expert in the China Strategic Society in Beijing. Besides, even if China tried to smuggle these weapons, there was no need to get so many of them, according to Wang. Transporting so many heavy weapons systems on a long land journey and through many foreign territories (first through either Kazakhstan or Turkmenistan, then via Uzbekistan before reaching Tajikistan) was highly dangerous and more likely to be detected. There were simply too many "irrational" elements in the alleged case.

The relationship between the weapons case and the sinking of the *New Star* is unclear. On Feb. 26, the day after publicizing the alleged smuggling case, Deputy Secretary of the Russian Security Council Vladimir Nazarov traveled to Beijing and held talks with Deputy Foreign Minister Li Hui, secretary general of the *Sino-Russian Strategic Security Talks mechanism*. Although the meeting was said to be “within the framework of the preparation for 4<sup>th</sup> round of the Sino-Russian Strategic Security Talks,” the two also “exchanged views on *urgent issues of Chinese-Russian relations* [emphasis added].” The 3<sup>rd</sup> round of the talks was held in November 2008. What exactly was discussed between the two remains largely unknown as the two sides appeared to prefer behind-the-scene consultations after a deadlock in open communication.

On March 18, *Xinhua* reported that 32 people, all family members and relatives of the victims, protested in front of the Russian Embassy in Beijing, demanding compensation for the victims of the cargo ship. The Chinese police persuaded them to disperse shortly after they gathered.

### **Moscow, Beijing, and their “March madness”**

Regardless of the substance of the Li-Nazarov meeting, both sides seemed to have realized that the infrastructure of their strategic partnership should not be jeopardized, particularly on the 60<sup>th</sup> anniversary of their diplomatic ties and when the ongoing global economic crisis requires more cooperation between the two.

China took the first step. On Feb. 23, Chinese Ambassador to Moscow Liu Guchang made a speech at the Moscow Intellectual and Industrial Club. This “elite club” is comprised of 82 members and most of them are diplomats, politicians, and cultural and art celebrities. Strategic cooperation partnership was the key part in China-Russian relations, said Liu, particularly against the background of the international financial crisis.

In early March, when China’s National People’s Congress met for its annual session, Foreign Minister Yang Jiechi, in his press conference, also pointed to the importance of developing Chinese-Russian cooperation particularly in high-level contact, pragmatic cooperation in all fields, humanitarian exchanges, and global issues. He did not mention the *New Star* incident.

Apparently, a growing list of global and regional issues deserved serious attention and required cooperation between Moscow and Beijing. On March 10, Russian and Chinese Foreign Ministers Lavrov and Yang held a telephone conversation and called on relevant states to exercise restraint and composure, and for all countries concerned to refrain from steps that could undermine stability on the Korean Peninsula.

While the situation in Korea required immediate attention, Central Asia, particularly the deteriorating situation in Afghanistan, posed another challenge. With the Taliban taking about 80 percent of Afghan territory, neither the Afghan government nor the international coalition forces are able to ensure security in the country. While NATO, including the U.S., may have the choice of packing up and leaving the war-torn nation, Shanghai Cooperation Organization (SCO) member states would have to live with an Afghanistan ruled by any one or no one. Some SCO members and observers, particularly Russia, Iran, and India, strongly oppose the prospect of a

deal, presumably by the U.S. and Pakistan, with “moderate” Taliban forces in Afghanistan. This prospect may well be behind Russia’s offer in early February to handle NATO’s supplies to Afghanistan through Russian territory in anticipation of the closure of the Manas Air Base in Kyrgyzstan, a key logistics center for U.S.-led operations in Afghanistan.

For Beijing, the U.S. departure from Manas may ease China’s concerns regarding the U.S. use of the base for surveillance missions on China. Russia’s “new thinking,” however, would affect China’s calculations in Central Asia. Neither Russia nor China wants U.S. operations in Manas to be transferred to any other SCO member state. Beyond Central Asia, the proposed supply route through Russia may well be used as a bargaining chip over the U.S. missile defense system in Europe. Coordinating policies with Moscow over Central Asia, therefore, was paramount for Beijing. On March 21-22, the Chinese International Strategic Society and the Society on Russian Foreign Affairs and National Defense Policy held a two-day symposium in Moscow focusing on issues of security and stability in Central Asia. On Mar. 23-24, the China Foundation of International Studies and Academic Exchanges hosted the first academic conference in Beijing with the theme: “The Present and Future of Regional Cooperation Mechanism for Central Asia.” Deputy Foreign Minister Li Hui and Russian Ambassador Sergei Razov joined the conference, together with more than 50 participants. The two conferences in Moscow and Beijing were held just a few days before the SCO’s special conference on Afghanistan in Moscow. For the stability of Afghanistan, China had already given over \$180 million to the Kabul government, has completely written off its debts, and would give another \$75 million in non-repayable financial aid over the next five years.

It was against this backdrop that the SCO took several steps in March. On March 18, SCO Secretary General Bolat Nurgaliyev stated that SCO was open to cooperation with NATO. On March 27, SCO held a special conference on Afghanistan in Moscow. Participants of the one-day conference included all the SCO members and observer states, UN Secretary General Ban Ki-moon, and representatives from the European Union, NATO, the Collective Security Treaty Organization (CSTO), and the Organization for Security Cooperation in Europe (OSCE). The conference ended with a joint statement and an action plan on Afghanistan for SCO joint efforts in fighting terrorism, drug trafficking, and cross-border organized crime originating in the territory of Afghanistan. Conference participants agreed that it was impossible to resolve Afghanistan’s problems only with the aid of methods and means of warfare. Other approaches, such as developing Afghanistan’s civil society and its social and economic development, must be pursued.

While external developments may be beyond the control of Moscow and Beijing, their militaries held the first round of consultations on a joint antiterrorist exercise in July-August, code-named *Peace-mission 2009*. On March 23-28, Russian ground forces’ Deputy Chief of Staff Lt. Gen. Sergei Antonov led a military delegation to China for a six-day consultation with the PLA’s Deputy Chief of General Staff Lt. Gen. Ma Xiaotian. The sides discussed the exercise’s code name, theme, general concept, and phases. The joint exercise, which would be the second since August 2005, is to be held in July-August in three phases: the first one will be in Russia, and the other two, in the Chinese city of Baicheng. The exercise would be one of the events scheduled for the celebration of the 60<sup>th</sup> anniversary of the establishment of diplomatic relations between

the two states. The consultation was a follow-up to the agreement reached at a meeting of Defense Ministers Anatoly Serdyukov and Liang Guanglie in December 2008.

### **Year of Russian language in China**

By the end of the first quarter, the fallout from the *New Star* seemed to be subsiding. It was also time for the official opening ceremony for China's Year of Russian Language. On March 27 in Beijing, State Councilor Liu Yandong and Russian Vice Premier Alexander Zhukov presided over the gathering of 6,000 people in the Great Hall of the People. This was among the 260 cultural exchange activities across China including language and singing contests, art performances, literature and arts exhibitions, education exchanges, and the launch of a Russian language TV channel. Premier Wen and Prime Minister Putin exchanged congratulatory letters.

The Language Year celebrations are the extension of China's Russian Year (2006) and Russia's China Year (2007) and for the same goal: to bridge the gap between the relatively high-level of political-diplomatic relations and low-level of social and cultural contacts. The fact that the Russians and Chinese are simply more interested in their respective relations with others, particularly the West, is not conducive to the stability of a long-term relationship.

In contrast to the rather high-sounding Sino-Russian strategic partnership relations, Russian language teaching and learning in China have been marginalized. There are about 40,000 Chinese college students and 80,000 middle school students learning Russian. In contrast, more than 200 million Chinese are learning English. This is the opposite of 60 years ago when Russian was the primary foreign language for educated Chinese. During the 1960s and 1970s when relations between the two communist nations deteriorated to the brink of war, Russian language learning was among the first "casualties." When Gorbachev and Deng finally patched up this unpleasant part of bilateral history, China's attention focused on the English-speaking world dominated by the West. Although the third generation of China's leaders (Jiang Zemin and Li Peng) were "made," or educated, in Russia, their successors do not have such a background. It seems that Russian language teaching and learning in China are similar to Russian-China trade, which requires a lot of government input and is still not doing well.

Because of these challenges, the two sides tried to make the best use of the language years. Russian Vice Premier Alexander Zhukov went so far as to give an exclusive one-hour interview to China's *People's Daily* online on March 19 before his travel to China. Once in Beijing, Zhukov also joined the Fifth China-Russia Investment Forum that led to the signing of several investment documents. He also told his Chinese host that "Russia is fully capable of becoming the biggest energy supplier for China in upcoming 15 years."

### **Sixty years in retrospect: a bottle half empty?**

On the eve of the 60<sup>th</sup> anniversary of Sino-Russian diplomatic ties, relations between the two largest powers on the Eurasian continent couldn't be broader or deeper, albeit problems remain. The two seemed to have developed the capabilities and willingness to manage the relationship so that pragmatism and interest prevail over emotions and ideologies. Developments during the first quarter of 2009 seemed to demonstrate both the strength and weakness of their "strategic



partnership,” now in its 13<sup>th</sup> year. It remains to be seen how the two powers will weather the current global financial and economic crises.

The past decades may be a reliable guide. Sixty years of diplomacy is a historical landmark, but it also a moment to see what it has been and what it should be. Moscow and Beijing have barely passed the “threshold” between “good” and “bad” times: 30 “good years” (10 years of Sino-Soviet “honeymoon” of 1949-59 and the longest stability of 20 years of 1989-2009) vs. 30 “bad years” (between 1960 when Moscow withdrew experts and aid from China and 1989 when Gorbachev visited Beijing for normalization).

The *New Star* incident indicates that seemingly strong or normal relations can be easily and quickly disrupted and/or damaged by a relatively minor issue, intentionally or not may take much longer time and more effort.

### **Chronology of China-Russia Relations January-March 2009**

**Jan. 1, 2009:** The Years of the Chinese and Russian Languages (2009-10) are officially launched. The arrangement is that 2009 is Year of Russian Language in China and 2010 will be the Year of Chinese Language in Russia.

**Jan. 14, 2009:** The Shanghai Cooperation Organization (SCO) holds a deputy foreign ministerial meeting in Moscow to discuss Afghanistan.

**Jan. 20, 2009:** The third Russian-Chinese financial dialogue opens in Beijing. Finance Minister Alexei Kudrin and Chinese counterpart Xie Xuren and the Chairman of the People’s Bank of China Zhou Xiaochuan discuss steps to strengthening bilateral cooperation, the world financial crisis, and prospects for expanding the use of national currencies in trade operations.

**Jan. 28, 2009:** Foreign Minister Sergey Lavrov states that Moscow is ready to consider the possibility of a pastoral visit by the Dalai Lama to Russia.

**Feb. 12, 2009:** Premier Wen Jiabao and Russian counterpart Vladimir Putin hold an “in depth” exchange of views over the phone on bilateral relations and issues of common concern, such as financial crisis, cooperation in trade, energy, science, technology, and activities for the 60<sup>th</sup> anniversary of diplomatic ties.

**Feb. 14, 2009:** Chinese cargo ship *New Star* is shelled by Russian Coast Guard vessels and sunk in seas near Nakhodka.

**Feb. 17, 2009:** China and Russia sign seven energy cooperation agreements including the construction of a 67-km oil pipeline, a long-term crude oil deal (15 million tons of oil each year for 20 years), and a \$25-billion financing for Russian oil and pipeline companies.

**Feb. 22, 2009:** President Dmitry Medvedev sends a telegram to President Hu Jintao extending condolences to the families of the miners, who perished in north China's Shanxi Province coalmine blast, and sending wishes of recovery to the injured.

**Feb. 26, 2009:** State Councilor Meng Jianzhu, Chairman of the National Narcotics Control Commission and Minister of Public Security, meets Director Ivanov of the Federal Russian Narcotics Control Administration in Shanghai. Meng calls for stronger Sino-Russian cooperation in drug-trafficking crackdown.

**Feb. 26, 2009:** Chinese and Russian border defense forces hold the first joint border blockading and controlling military exercise between China's Heihe City and Russia's Blagoveschensk City.

**March 10, 2009:** Foreign Ministers Sergei Lavrov and Yang Jiechi call on relevant states to exercise restraint and composure, and for all countries concerned to refrain from steps that could undermine stability on the Korean Peninsula.

**March 18, 2009:** Secretary General Bolat Nurgaliyev of the Shanghai Cooperation Organization (SCO) says the SCO is open to cooperation with NATO.

**March 21-22, 2009:** The Chinese International Strategic Society and the Society on Russian Foreign Affairs and National Defense Policy hold a two-day symposium in Moscow on global economic and political development, Central Asia, the Middle East, the SCO, and the global

**March 23-28, 2009:** Russian and Chinese militaries hold the first round of consultations on holding a joint antiterrorism exercise due in July-August.

**March 25-28, 2009:** Vice Premier Alexander Zhukov visits China to co-chair with State Councilor Liu Yandong a ceremony of opening the "Year of the Russian Language" in China.

**March 27, 2009:** The 14<sup>th</sup> session of the Council of the SCO's Regional Antiterrorist Structure (RATS) meet in Tashkent and approve a draft program of cooperation in the fight against terrorism, separatism, and extremism in 2010-2012.

**March 27, 2009:** Wu Bangguo, chairman of the Standing Committee of the National People's Congress, meets Dmitry Mezentsev, deputy chairman of the Russian Federation Council.

**March 27, 2009:** SCO member states hold a conference on Afghanistan in Moscow and issue a joint statement and an action plan to deal with terrorism and drug trafficking in Afghanistan.

## About The Contributors

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