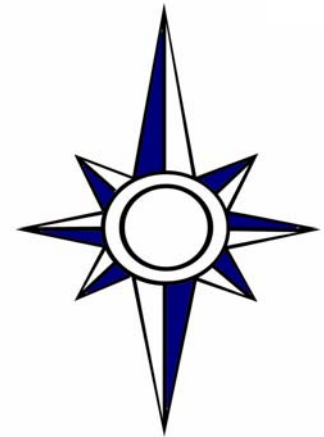




**P a c i f i c   F o r u m   C S I S**



# Comparative Connections



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

*edited by*

Brad Glosserman  
Sun Namkung

1st Quarter (January-March) 2007  
Vol. 9, No. 1  
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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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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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North Korea promised to shut down and seal its nuclear facilities at Yongbyon this quarter in a deal that could lead to the implementation of the Six-Party Talks September 2005 Joint Statement. In return, the Bush administration agreed to transfer back to North Korea its \$25 million in funds that were frozen since the fall of 2005 in a Macau bank for alleged laundering of U.S. money. Despite the political will on both sides, “technical issues” involving financial regulations prevented the funds from being transferred as scheduled, which contributed to the early adjournment of the sixth round of the nuclear talks. At quarter’s end, U.S. diplomats expected a quick resolution to the banking issues. The U.S. reached an historic free trade agreement (FTA) with South Korea, the largest since NAFTA and the first with a major Asian nation. The U.S. and South Korea also made progress on the relocation of U.S. bases and dissolution of the Joint Forces Command by 2012.

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The opening of 2007 witnessed perhaps the nadir in bilateral relations between Moscow and Washington since the establishment of the “strategic partnership” in the war on terror in late 2001. In a highly publicized speech in Munich in February, Russian President Vladimir Putin launched a broadside against U.S. foreign policy, suggesting that the U.S. seemed to view force as the only policy option at its disposal. If relations did not return to the dark days of the Cold War, then the series of events that transpired this quarter did resemble a return to the tumultuous days of the late 1990s. But, in an interesting twist, by late March it appeared that Moscow and Washington had agreed on the need to foil Iran’s bid to march down the road to uranium enrichment. Thus the quarter concluded on a favorable note, hinting that – at least temporarily – the bilateral relationship had regained sounder footing.

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The highlight of this quarter's activities in China-Southeast Asia relations was the series of meetings and events surrounding the visit of Chinese Prime Minister Wen Jiabao to Cebu, Philippines Jan. 13-16. Beijing signed an important accord to open key service sectors that would come into effect in July 2007. The deal would give Southeast Asian businesses an edge, help ASEAN members cut their looming trade deficits with China, and allay fears of the negative impacts of China's economic boom. China's veto of a U.S.-backed UN Security Council draft resolution on Myanmar and Chinese military advances, including a controversial anti-satellite test, occasioned little apparent negative reaction among Southeast Asian governments.

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When the new year began, and well into February, most official contacts remained suspended in the wake of last year’s twin shocks: the DPRK’s missile launches in July, followed by its nuclear test in October. Yet even then there were hopes of an early thaw, amid visibly energetic efforts to breathe life into the Six-Party Talks after their resumed session in December ended in failure. On Feb. 13, after appearing close to collapse over North Korea’s large energy demands, this on-off forum finally produced an agreement that – if imperfect – nonetheless looked more comprehensive and detailed than many observers had dared to hope after more than three years of getting nowhere much. The ROK moved swiftly to reinstate the formal channels of dialogue suspended for the past half-year, starting with ministerial talks held in Pyongyang Feb. 27 to March 2.

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China played a key role in resurrecting the Six-Party Talks with a Feb. 13 agreement in which North Korea would shut down and disable its reactors in exchange for 1 million tons of heavy fuel oil or its equivalent. The deal had stalled by the end of the quarter over the return of North Korean funds frozen at the Macau-based Banco Delta Asia. This glitch underscored the extent of North Korea’s financial and political isolation from China as well as the distance between Beijing and Pyongyang. During bilateral working group meetings with the U.S., DPRK Vice Foreign Minister Kim Gye-gwan publicly vented frustrations about China, even while Kim Jong-il maintained the facade of Sino-DPRK friendship through a rare visit to the PRC Embassy in Pyongyang. China-South Korean coordination in the nuclear talks and three-way dialogue with Japan on the sidelines of the ASEAN Plus Three Meetings continued to develop. South Korea proposed to institutionalize tripartite consultations among the three foreign ministers. China-ROK trade and investment grew to new highs amid a mounting list of irritations and obstacles.

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Japanese and Chinese political leaders and diplomats, focusing on the steps necessary to build a strategic mutually beneficial relationship, worked throughout the quarter to lay the groundwork for a successful April visit to Japan by Premier Wen Jiabao. Dialogue, cooperation, and peaceful resolution were omnipresent bywords. But, in fact, little progress was made in addressing longstanding issues related to the East China Sea, North Korea, security, and China’s Jan. 11 anti-satellite (ASAT) test – all hopefully deferred for resolution to the Wen visit. Meanwhile, Prime Minister Abe Shinzo and the Liberal Democratic Party were caught up in a debate over history, comfort women, and Nanjing. Interestingly, Beijing’s response was low key, suggesting a commitment on the part of China’s leadership to progress with Japan.

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The Russian-China strategic partnership moved to high gear toward the end of the quarter as Russia kicked off its “Year of China.” This coincided with President Hu Jintao’s state visit to Russia on March 26-28. Putin and Hu were facing global dynamics, dilemmas, and growing dangers. The two heads of state apparently had a serious and satisfactory meeting that focused on regional and world affairs. During the Moscow Summit, both the Chinese media and President Hu called for the two states to “upgrade” bilateral ties. There was, however, a rather paradoxical mist in the festival air. Moscow decided to expel a million non-Russian “illegal” vendors, about 90 percent of whom were ethnic Chinese. Meanwhile, the two Eurasian powers closely coordinated to soft-land the Korean nuclear crisis as well as to postpone and prepare for, the upcoming storm regarding Iran.

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**Regional Overview:**

**Renewed Hope in the Year of the Golden Pig**

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

The Year of the Golden Pig has gotten off to an auspicious beginning. The Six-Party Talks, seemingly left for dead at the end of last quarter, were miraculously revived, resulting in an “action for action” game plan for the phased implementation of the September 2005 joint denuclearization agreement. Neither weather nor terrorism concerns prevented the second East Asia Summit from taking place as rescheduled, with the U.S. nowhere to be found. ASEAN leaders also took a step forward in examining their first formal Charter while agreeing with their Plus Three partners (China, Japan, and South Korea, finally once again on speaking terms) to promote greater regional integration. Tokyo and Canberra took a dramatic step forward in strengthening bilateral security cooperation, while the second “Armitage-Nye Report” was released, laying out a bipartisan vision for “getting Asia right.”

**Korean Peninsula disarmament talks resume**

The previous two quarters had begun with a blast-off and a bang, respectively, as North Korean missile and nuclear tests had raised the ante and seemed to diminish the prospects for a negotiated denuclearization of the Korean Peninsula, the promises embodied in the September 2005 Joint Statement notwithstanding. Last quarter ended on an equally pessimistic note when the first round of Six-Party Talks in 13 months went nowhere; the participants could not even agree on a date to meet again.

Obituary notices turned out to be premature, however, with not one but two Six-Party Talks plenary sessions taking place this quarter. The first represented a potential breakthrough, providing a specific set of actions to be accomplished within a 60-day window; the second showed that the process still wasn’t going to be easy – while “checkbook diplomacy” might work with Pyongyang, “the check’s in the mail” diplomacy most decidedly will not.

The first six-party session, in Beijing in early February, was preceded by two bilateral U.S.-DPRK meetings, the first involving the primary U.S. Six-Party Talks negotiator, Assistant Secretary of State Christopher Hill, and his North Korean counterpart, Vice Foreign Minister Kim Kye Gwan, in Berlin in mid-January. While Hill insisted that this represented “discussions,” not negotiations, apparently there were enough secret

handshakes to persuade Pyongyang to return to the six-sided table. The second bilateral dialogue was held in Beijing between the Treasury Department's deputy assistant secretary for terrorist financing and financial crimes, Daniel Glaser, and the head of North Korea's Foreign Trade Bank, O Kwang Chol. Glaser crowed that "we have been vindicated with respect to our [money laundering] concerns," but added that the two sides were now in a position "to start moving forward and trying to bring some resolution to this matter."

*Action plan agreed upon . . .*

While "resolution" has proven elusive, enough progress was made in these bilateral sessions to permit the convening of the third session of the fifth round of Six-Party Talks from Feb. 8-13 in Beijing. The resulting "joint agreement on North Korea's nuclear disarmament" laid out a series of actions that the parties agreed to take "in parallel" during an initial 60-day phase and a "next phase" of unspecified duration.

The 60-day action plan called on the DPRK to: shut down and seal for the purpose of eventual abandonment the Yongbyon nuclear facility, including the reprocessing facility; invite back IAEA personnel to conduct all necessary monitoring and verifications as agreed between IAEA and the DPRK; discuss with other parties a list of all its nuclear programs; and start bilateral talks respectively with the U.S. and Japan aimed at normalizing relations. In return, the parties would provide "emergency energy assistance" to Pyongyang, with the equivalent of 50,000 tons of heavy fuel oil to be provided during the initial phase. The next stage includes "provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities" in return for "economic, energy, and humanitarian assistance up to the equivalent of 1 million tons of heavy fuel oil." While the agreement "reaffirmed their common goal and will to achieve early denuclearization of the Korean Peninsula," there is no specific reference to the disposition of any existing DPRK nuclear weapons (or even a prohibition against future nuclear weapons tests – U.S. intelligence now claims the October 2006 test was a failure).

The Feb. 13 statement also established five working groups, each with a different convener (and none chaired by North Korea), dealing with Denuclearization of the Korean Peninsula (China), Normalization of DPRK-U.S. Relations (U.S.), Normalization of DPRK-Japan Relations (Japan), Economy and Energy Cooperation (ROK), and Northeast Asia Peace and Security Mechanism (Russia). All were to (and did) meet within 30 days. Details of the various working group meetings remain sketchy. The DPRK-Japan session in Hanoi on March 7-8 apparently did not go well; the DPRK representatives left early due to displeasure with Japan's persistent stance on the abductees issue (which Pyongyang claims has been "resolved," although obviously not to Tokyo's satisfaction). At the March 17-18 denuclearization meeting in Beijing, Pyongyang reportedly demanded that it be recognized as a nuclear weapons state as a condition for incapacitating its nuclear facilities, a demand the others rejected.

*. . . but “technical issues” remain*

Working group findings were supposed to be reviewed at the first session of the sixth round of Six-Party Talks in Beijing on March 19-22. This session turned into a repeat of the December meeting, with the others wanting to move on beyond the “resolved” financial sanctions issue, only to have Pyongyang stubbornly insist that its definition of resolved was money in the bank – in this case, a deposit of up to \$25 million dollars from Banco Delta Asia (BDA) into a Bank of China account in Pyongyang’s name, with the money to be used “solely for the betterment of the North Korean people, including for humanitarian and educational purposes.” The U.S., as promised, completed its BDA investigation, and at yet another bilateral meeting with the DPRK, paving the way for the money (at Pyongyang’s suggestion) to be transferred into the above-mentioned account. However, “technical issues” prevented the money from being transferred by meeting time and the North was still singing “show me the money” at quarter’s end.

Despite this setback, Ambassador Hill was still optimistic: “It is our strong view that we are still on schedule to meet all the 60-day requirements,” Hill said, further opining that there was “a pretty good shot” that the next stage – “that includes disablement, a full declaration, all of those things” (including the equivalent of 1 million tons of heavy fuel oil in economic assistance) – could be achieved before the end of the year. (Then again, Hill also believes the Red Sox will beat the Yankees this year, and what are the odds of that?)

*Testing (everyone’s) sincerity*

Even if the 60-day milestones are met – and one cannot help but be skeptical – the initial phase represents only a modest step forward; the shut-down at this stage is not yet irreversible and no denuclearization actually takes place. It does at least temporarily prevent the situation from getting worse, however, and at this point, that must be seen as progress. More importantly, the 60-day action plan provides an opportunity to test DPRK (and U.S.) seriousness and sincerity. Even the most ardent supporters of direct negotiations with Pyongyang have always added the caveat that no one knows for sure if North Korea is really willing to give up its nuclear weapons. The argument was that we would never know unless we tested the proposition. Well, the test has begun, and it has a 60-day initial expiration date.

The real test is not the Yongbyon freeze but the “list of all its nuclear programs” that Pyongyang must discuss with the other parties within the specified 60-day first stage. This specifically includes the plutonium extracted from used fuel rods, which is currently unaccounted for. From a U.S. perspective (but not specified in the Joint Agreement, other than under the “all its nuclear programs” caveat), it must also include an acknowledgment of a suspected highly enriched uranium (HEU) program.

It is hard to imagine how the process could proceed without some accounting for the centrifuges and other uranium enrichment equipment clandestinely provided to North Korea through the since exposed and confirmed A.Q. Khan nuclear suppliers network.

Ambassador Hill has reportedly delivered this message, very specifically and most pointedly, to Pyongyang. The bigger question is whether Washington has made this point equally clear to the other parties and if they too are prepared to treat HEU as a “pass-fail” issue. If not, we will be right back where we started, with Pyongyang once again playing Washington and its other negotiating partners against one another.

### **Sun (finally) shines on ASEAN**

Multilateralism was also the order of the day in East Asia writ large, with a panoply of ASEAN-related meetings taking place early in the quarter in Cebu, culminating in the surprisingly productive second East Asia Summit (EAS). Other meetings included the 12<sup>th</sup> ASEAN summit, the 10<sup>th</sup> ASEAN Plus Three Summit, the seventh Plus Three Summit, and various 10+1 summits between ASEAN and its dialogue partners. All were originally scheduled for December, but were postponed by their Philippine host because of an approaching typhoon (and rumored reports of possible terrorist attacks).

#### *Second East Asia Summit focuses on energy and economic cooperation*

As host of all the Philippine-based events, President Gloria Macapagal-Arroyo chaired the second EAS or so-called 10+3+2+1 gathering involving the 10 ASEAN states, their long-standing Plus Three partners (China, Japan, and the ROK), plus Australia and New Zealand, and India. By design, no new members were inducted and, unlike last year, President Putin was nowhere to be found – he had visited Kuala Lumpur coincident with the first EAS in December 2005 and was invited to address the group as a special guest. Moscow has applied to join and meets all the membership criteria; Washington has not, and does not – members are required to accede to ASEAN’s Treaty of Amity and Cooperation (TAC), which Washington has historically been reluctant to do.

In addition to its traditional Chairperson’s Statement, EAS participants signed the Cebu Declaration on East Asian Energy Security, whose lofty goals included a joint commitment to:

- Improve the efficiency and environmental performance of fossil fuel use;
- Reduce dependence on conventional fuels through intensified energy efficiency and conservation programs, hydro-power, expansion of renewable energy systems and bio-fuel production/utilization, and for interested parties, civilian nuclear power;
- Encourage the open and competitive regional and international markets geared towards providing affordable energy at all economic levels;
- Mitigate greenhouse gas emission through effective policies and measures, thus contributing to global climate change abatement; and
- Pursue and encourage investment on energy resource and infrastructure development through greater private sector involvement.

As is the case with most ASEAN-related efforts, no specific targets were designated and no penalties were attached to non-compliance. Instead, members were merely called upon to “take concrete action toward improving efficiency and conservation, while enhancing

international cooperation through intensified energy efficiency and conservation programs,” and to “set individual goals and formulate action plans voluntarily for improving energy efficiency.”

EAS members also welcomed Japan’s proposal for an Economic Research Institute for ASEAN and East Asia (ERIA) and agreed to a track-two (unofficial, nongovernmental) study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS participants. The Chairperson’s Statement also “reiterated our support for ASEAN’s role as the driving force for economic integration in this region.”

#### *ASEAN Charter “Blueprint” put forward*

The 12<sup>th</sup> ASEAN Summit, held Jan. 13, focused on “how we may deepen ASEAN integration to better foster the region’s sustainable development, stability, security and prosperity.” It reflected increasing concern about ASEAN’s ability to lead and tackle the truly difficult challenges faced by its members and a desire, at least among some participants, to do something about the perceived growing sense of drift within the group.

The chairman’s statement flagged the usual concerns: protecting migrants, HIV and AIDS, eradicating poverty and hunger, fighting transboundary pollution, energy security, and sustainable development. It called for denuclearization of the Korean Peninsula and “urged” the DPRK to desist from additional nuclear tests, to implement the Sept. 19, 2005 Joint Statement and to effectively address “humanitarian concerns of the international community.” It noted progress in implementing the ASEAN Security Community, flagging the First ASEAN Defense Ministers Meeting, among other items. The group also signed the ASEAN Convention on Counter Terrorism (ACCT) that obligates members to extend mutual legal assistance in criminal matters. The statement also “encouraged” Myanmar to make more progress toward national reconciliation. Significantly, it highlighted “the need to preserve ASEAN’s credibility as an effective regional organization by demonstrating a capacity to manage important issues within the region.”

Most significantly, the group signed the Cebu Declaration on the Blueprint of the ASEAN Charter, to manage “the key challenges of regional integration, globalization, economic growth and new technologies.” A High Level Task Force lead by Philippine diplomat Rosario Menalo was appointed to study the Charter recommendations submitted by the ASEAN Eminent Persons Group (EPG). A first draft is to be submitted at the ASEAN Ministerial in July; the intention is to have the final document ready to sign at the 13<sup>th</sup> ASEAN Summit in Singapore in November of this year.

As proposed by the EPG, the Charter reportedly would give ASEAN a stronger legal basis and better allow it to enforce its agreements and, for the first time, punish members who do not follow the rules. However, initial reports attributed to Task Force leader Menalo indicate that the controversial section recommending sanctions (including expulsion from ASEAN) for those violating the Charter has already been dropped. The EPG had also recommended that ASEAN relax its style of decision-making by full

consensus; it remains to be seen if this suggestion, and those aimed at strengthening human rights and opposing “extraconstitutional” methods of changing government will make the cut.

*ASEAN Plus Three remains the core of East Asia community building*

The ASEAN Plus Three (A+3) Summit highlighted ongoing cooperation and its extension into other areas, such as women, poverty alleviation, disaster management and minerals. Its closing statement flagged the “urgent need to address energy security,” and, like the EAS Statement and virtually all other official pronouncements, expressed support for the six-party process, the Sept. 19 Joint Declaration, and all pertinent UNSC resolutions dealing with Korean Peninsula denuclearization.

The A+3 statement underscored the Declaration of December 2005 that put the A+3 process “as the main vehicle in achieving ... an East Asia community, with ASEAN as the driving force.” It put ASEAN “at the center of our long-term pursuit of an East Asia community,” further noting that the APT process “could make positive contributions” and was “an essential part of the evolving regional architecture, complementary to the East Asia Summit and other regional fora.”

The EAS Chairman’s Statement further reinforced this point, expressing “our conviction that the EAS should remain outward looking, with ASEAN as the driving force working in close partnership with other participants of the East Asia Summit.” Rounding out and reconfirming the chorus, the Chairperson’s Statement from the ASEAN Summit meeting reaffirmed that “ASEAN should consolidate its leading and central role in the evolving regional architecture” and that “the ASEAN Plus Three process would be the main vehicle towards achieving an East Asia Community.”

*Plus Three: together again*

Of special significance was the Jan. 14 Seventh Plus Three Summit Meeting. This was the first such trilateral meeting since 2004; Japanese Prime Minister Koizumi Junichiro’s visits to Yasukuni Shrine effectively stopped the process. His successor, Abe Shinzo, has made outreach to China and South Korea a priority and it appears to have paid off with the resumption of this three-way summitry.

Abe, Chinese Premier Wen Jiabao, and ROK President Roh Moo-hyun all underscored the need for trust and cooperation among their three nations. They agreed to establish regular consultations among senior foreign affairs officials on issues of common concern; the first meeting will be held in China this year. (The fourth tripartite meeting of the countries’ foreign ministers took place in Cebu two days before the leaders met.) They identified new priorities in trilateral cooperation – finance, science and technology, public health, tourism, logistics and distribution, youth and teenager communication – and agreed to promote cultural exchanges to enhance understanding and friendship among the people of the three countries. All three countries will jointly hold “Year of Cultural Exchange among China, Japan, and Republic of Korea” in 2007.

The three men also condemned the North Korean missile and nuclear weapons tests. They pledged to work together to achieve a peaceful resolution of the North Korean nuclear issue through dialogue and negotiations and to realize the denuclearization of the Korean Peninsula. They also said they would cooperate to expedite the process of the Six-Party Talks, and they agreed to improve “coordination on major political and diplomatic issues involving the three countries as well as international and regional issues.”

### *Dialogue partners meet, and meet, and meet*

The ASEAN conclave includes numerous “10 on one” meetings with dialogue partners and other ASEAN-centered discussions. A quick rundown of the results follows; results from the 10<sup>th</sup> *ASEAN-China* dialogue are available in the chapter on China-Southeast Asia relations.

The 10<sup>th</sup> *ASEAN-ROK* summit report echoed the ASEAN statement, expressing concern about the DPRK’s missile and nuclear tests and calling for full implementation of the Sept. 19 Joint Statement in all its particulars. Seoul was applauded for announcing that it would double overseas development assistance to ASEAN member countries by 2009.

The fifth *ASEAN-India* summit statement welcomed Delhi’s “Look East Policy,” and expressed confidence in the realization of an ASEAN-India Free Trade Agreement. To promote people to people contacts, the two parties will launch a dialogue on an Open Skies Agreement to liberalize air services between ASEAN and India.

At the 10<sup>th</sup> *ASEAN-Japan* meeting, ASEAN leaders thanked Tokyo for another \$52 million in development aid, and Japan’s pledge to provide \$67 million – on top of \$150 million already disbursed – to help fight avian flu and other pandemic diseases and for Tokyo’s contributions to strengthening maritime security through capacity-building for ASEAN Member Countries. ASEAN applauded Japan’s youth exchange initiative (worth \$315 million over the next five years), which aims to bring 6,000 young people annually from ASEAN and other EAS member countries to Japan. Both sides are still determined to conclude their Comprehensive Partnership Agreement by April 2007, as scheduled; ASEAN noted that they expect “more than a compendium of Japan’s bilateral Economic Partnership Agreements with individual ASEAN Member Countries.”

### **Japan and Australia chart new ground**

Tokyo’s efforts to expand its regional profile did not stop with ASEAN or its various permutations. On March 13, Japanese Prime Minister Abe Shinzo and his Australian counterpart John Howard signed a joint declaration on security cooperation. The path-breaking statement builds on intensifying contacts between the two governments, both bilateral and trilateral (with the U.S.), and calls for yet more cooperation and consultation on issues of common strategic interest in the Asia-Pacific and beyond. The statement explicitly identified issues related to North Korea and terrorism. The two leaders pledged to strengthen cooperation at the UN and other international and regional organizations

and in activities such as peacekeeping and humanitarian relief operations. It should be noted that Australian forces provided security for Japanese Self-Defense Forces deployed in Iraq and they have worked side-by side in Cambodia and East Timor and during tsunami relief operations in Indonesia.

The declaration grounds their “strategic partnership” in “democratic values, a commitment to human rights, freedom, and the rule of law, as well as shared security interests, mutual respect, trust, and deep friendship, as well as [their] history of cooperation.” Reflecting Japanese constitutional limitations, the agreement is not a treaty, nor does it create an alliance. Nonetheless, it calls for security cooperation in law enforcement on: combating transnational crime; border security; counterterrorism; disarmament and counter-proliferation of weapons of mass destruction and their means of delivery; peace operations; the exchange of strategic assessments and related information; maritime and aviation security; humanitarian relief operations, including disaster relief; and contingency planning, including for pandemics.

The two countries will develop an action plan with specific measures to tackle these issues, will step up their foreign ministers’ strategic dialogue, create an annual defense ministers’ dialogue as well as a “2+2” meeting that brings all four ministers together, all to advance security cooperation in the above areas.

The two prime ministers also agreed to commence talks on a free trade agreement, the first round of which will be held in Canberra April 23-24. These talks will focus on procedures and frameworks for negotiations. There is no deadline for the FTA.

Reaction to the agreement was muted. There was applause from the U.S., which always seeks more cooperation among its allies. Supporters of a more robust security role for Japan also backed the deal; surprisingly there was little dissent in Australia, despite powerful anti-Japanese sentiment, a remnant of World War II. Even China’s response was relatively quiet: a Foreign Ministry spokesperson called on “relevant countries” to “take into consideration the concerns and interests of other countries when they strengthen bilateral security cooperation.” Commenting on statements by the Australian and Japanese leaders that their security pact is not aimed at China, the spokesperson said “we hope what they said is true.”

### **Armitage-Nye Two: “getting Asia right”**

Finally, the long-awaited follow-up to the first Armitage-Nye report on the U.S.-Japan alliance was released in February ([www.csis.org/media/csis/pubs/070216\\_asia2020.pdf](http://www.csis.org/media/csis/pubs/070216_asia2020.pdf)). While a detailed assessment of the report is in the chapter on U.S.-Japan relations, several points are worth noting here.

First, while the report is often associated with former Deputy Secretary of State Richard Armitage, it is in fact the “Armitage-Nye” report, as the study group was co-chaired by Dr. Joseph Nye, former assistant secretary of defense for international security affairs. It is a bipartisan blueprint for the U.S.-Japan alliance and the study group participants come

from both sides of the aisle. While the first report (which came out in October 2000) served as a master plan for the alliance during the first George W. Bush administration, it is not a Republican document.

The second key point is that the first report served as a roadmap for the alliance – because it enjoyed bipartisan support. In other words, alliance watchers would do well to study the new report to anticipate future developments.

Third, look at the subtitle: “Getting Asia right through 2020.” The report explains, “With half the world’s population, one-third of the global economy, and growing economic, financial, technological, and political weight in the international system, Asia is key to a stable, prosperous world order that best advances American interests.” Central to U.S. concerns is its alliance with Japan: “America’s future requires a robust, dynamic relationship with the new Asia of 2020, and the keystone of the United States’ position in Asia remains the U.S.-Japan alliance.”

Thus, the report frames the alliance within a regional context. It begins with a look at China, “the engine of regional growth and global dynamism,” and then turns to India, the Korean Peninsula, relations with South Korea, Southeast Asia, Australia, Russia, and Taiwan. Only half the report focuses on the U.S.-Japan alliance, although the specific recommendations for Japan, the U.S. and the alliance are likely to get the most attention. The broader point should also not be missed. It is not just U.S.-China relations that Washington must “get right,” but its relations with Asia writ large, including India, Korea, ASEAN, and elsewhere, but centered on its continued vital alliance with Tokyo.

### **Looking forward**

In all, it was a relatively quiet and potentially productive start to the new year. There could be fireworks next quarter, however. When and if the Six-Party Talks resume, North Korea’s sincerity and readiness to make a deal will be genuinely tested. There seems to be a real shift in the dynamics among the other five parties to the talks and Pyongyang’s antics may no longer be as tolerated as they were in the past. If this is true, genuine progress – or a real breakdown – is possible. The real challenge will be to keep the other five parties speaking with one voice if the North only partially complies with the action plan during the first 60-day test period.

The visit of Chinese Premier Wen Jiabao to Tokyo could solidify the turn in Japan-China relations; a visit by Prime Minister Abe to Yasukuni Shrine, increasingly possible as Upper House elections approach, could torpedo whatever gains are made. Abe will also make a long-overdue visit to Washington for a summit with President George W. Bush, and both men need to smooth growing wrinkles in that relationship. In the meantime, Mr. Bush’s team will be working on getting the U.S.-Korea free trade agreement through the Congress. Stiff opposition in Seoul and Washington is likely to singe that bilateral relationship, too. Foreign policy makers and analysts will have much to watch in the next three months.

## **Regional Chronology**

### **January-March 2007**

**Jan. 1, 2007:** Former South Korean Foreign Minister Ban Ki-moon assumes office as secretary general of the United Nations.

**Jan. 1, 2007:** President Chen's New Year's address stresses Taiwanese nationalism.

**Jan. 5, 2007:** U.S. approves President Chen's U.S. transits in San Francisco and Los Angeles en route to and from Central America.

**Jan. 7, 2007:** FM Li Zhaoxing calls Secretary Rice to protest U.S. transit decision.

**Jan. 9, 2007:** Japan Defense Agency becomes Ministry of Defense.

**Jan. 9, 2007:** Energy Secretary Bodman meets Minister of Economy, Trade, and Industry Amari Akira to discuss U.S.-Japan energy cooperation issues in Washington.

**Jan. 9, 2007:** The U.S. introduces a draft resolution in the UN Security Council calling on Burma to engage the opposition in "substantive political dialogue," cease continued attacks "in ethnic minority regions on civilians," and "desist immediately from the systematic use of rape on women and girls as an instrument of armed conflict."

**Jan. 9, 2007:** Chinese Foreign Ministry spokesman says that China strongly opposes the U.S. government's sanctions on Chinese companies on the basis of selling sanctioned weapons to relevant countries.

**Jan. 9, 2007:** President Chen overnights in San Francisco en route to Nicaragua.

**Jan. 11, 2007:** China destroys one of its own satellites using a ground-based medium-range ballistic missile; U.S. and other governments' protest.

**Jan. 11, 2007:** U.S. National Intelligence Director John Negroponte reports to the Senate Intelligence Committee that the emerging "rivalry with Russia will complicate cooperation on important foreign policy goals including counter-terror, nonproliferation and democracy promotion in the Middle East."

**Jan. 12, 2007:** China and Russia veto U.S.-backed resolution before the UN Security Council that condemns Burma's human rights violations, arguing that although Beijing and Moscow condemn the military junta's political tyranny, it does not threaten regional security, and, therefore, should not be a UNSC concern.

**Jan 12, 2006:** President Chen stops briefly in Los Angeles.

**Jan. 12-13, 2007:** Twelfth ASEAN summit is held in Cebu, the Philippines, along with a series of 10+1 meetings with dialogue partners.

**Jan. 14, 2007:** Tenth ASEAN Plus Three and Seventh Plus Three Korea-China-Japan Summit are held in Cebu.

**Jan. 15, 2007:** Second East Asia Summit is held in Cebu.

**Jan. 16-18, 2007:** U.S. Assistant Secretary of State Christopher Hill and DPRK Vice Foreign Minister Kim Gye-gwan, top negotiators in the Six-Party Talks, meet in Berlin for a U.S.-DPRK bilateral “discussion” to get the six-party process going.

**Jan. 20, 2007:** DNA tests confirm the death of Khaddafy Janjalani, nominal head of Abu Sayyaf, who was reportedly killed in a September raid by U.S.-backed Philippine troops in operation Oplan Ultimatum.

**Jan. 22, 2007:** Ambassador Hill visits Beijing and talks to Chinese Foreign Ministry officials about his meeting with DPRK officials in Berlin.

**Jan. 23, 2007:** Foreign Ministry spokesman confirms that China fired a missile to destroy one of its orbiting satellites, China’s first confirmation of the ASAT test.

**Jan. 23, 2007:** The governments of Japan and Russia hold a “strategic dialogue,” as their foreign vice ministers meet in Moscow.

**Jan. 25, 2007:** Top army commanders from South Korea and China announce plans to enhance military cooperation and improve military exchange programs during the visit to South Korea of PLA Deputy Chief of the General Staff Gen. Ge Zhenfeng.

**Jan. 25-26, 2007:** Tokyo hosts fourth Asian Senior-level Talks on Nonproliferation to discuss Iranian and North Korean nuclear developments and cooperation on nonproliferation.

**Jan. 25-27, 2007:** Chinese Vice FM Dai Bingguo and Japanese Vice FM Shotaro Yachi head seventh round of China-Japan strategic dialogues.

**Jan. 26, 2007:** Russian President Vladimir Putin arrives in India for a two-day visit.

**Jan. 28-Feb. 9, 2007:** A senior PLA delegation headed by Deputy Chief of Staff Gen. Ge Zhenfeng visits Hawaii, San Diego, and Washington, D.C.

**Jan. 29-Feb. 9, 2007:** U.S., Thai, and Singapore Air Forces conduct annual *Cope Thunder* air exercise from Korat, Thailand with 113 aircraft and 1,300 personnel.

**Jan. 30-Feb. 1, 2007:** U.S. Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser hosts talks to discuss Banco Delta Asia and counterfeiting concerns with DPRK officials at the U.S. Embassy in Beijing.

**Jan. 31, 2007:** U.S. Congressman Michael Honda (D-Ca) introduces nonbinding resolution in the House of Representatives calling for the Japanese government to apologize unambiguously for its role in the “comfort women” issue during World War II.

**Feb. 2, 2007:** Indonesia announces that the U.S. has given Jakarta permission to interview Hambali, a notorious Southeast Asian al-Qaeda operative, who was captured in Thailand in 2003. Hambali is being held in Guantanamo.

**Feb. 2, 2007:** The U.S. files a trade case against China at the WTO charging that China unfairly subsidizes its steel, information technology, wood, and other industries.

**Feb. 2, 2007:** The U.S. Peace Corps inaugurates its first mission to Cambodia since the Corps inception in 1962.

**Feb. 7-8, 2007:** The U.S. and ROK hold Security Policy Initiative talks.

**Feb. 8-13, 2007:** Third session of the fifth round of Six-Party Talks is held in Beijing, culminating in a phased “action for action” plan under which in return for heavy fuel oil and other economic assistance North Korea will shut down and seal the Yongbyon nuclear facility and bring IAEA inspectors to the DPRK.

**Feb. 10, 2007:** In a key policy speech at an international security conference in Munich, Russian President Vladimir Putin strongly denounces U.S. policy, using – among other terms – the words “pernicious” and “unacceptable.”

**Feb. 13, 2007:** Adm. Fallon, CENTCOM commander-designate, states he would seek support from Indonesia and Malaysia in the Afghan and Iraq conflicts, though he did not specify what kind.

**Feb. 13, 2007:** Lunar New Year/Spring Festival charter flights begin between Taiwan and PRC.

**Feb. 14, 2007:** FM Li Zhaoxing, Indian FM Pranab Mukherjee, and Russian FM Sergei Lavrov meet in New Dehli to exchange views on Iranian and North Korean nuclear issues, Middle East, Iraq, the Shanghai Cooperation Organization, and other regional and international issues.

**Feb. 15, 2007:** President Hu Jintao talks to President Bush on the phone and exchanges opinions on China-U.S. relations and the North Korean nuclear issue.

**Feb. 15-17, 2007:** FM Li travels to Japan to make preparations for Premier Wen Jiabao’s visit to Japan; meets Prime Minister Abe and Japanese FM Aso.

**Feb. 16, 2007:** “The U.S.-Japan Alliance: Getting Asia Right through 2020,” co-authored by Richard Armitage and Joseph Nye, highlights major trends in Asia and provides comprehensive analyses on of the security and economic situation in the region and policy recommendations.

**Feb. 19-March 4, 2007:** U.S. and Philippine military forces hold *Balikatan 2007* exercises in the Philippines.

**Feb. 19, 2007:** The U.S. announces that the multilateral *Cobra Gold* annual military exercise will take place in Thailand May 8-18.

**Feb. 20, 2007:** Assistant Secretary Hill says that the six-party agreement to end North Korea’s nuclear program has strengthened the diplomatic relationship between the U.S. and China.

**Feb. 20- 22, 2007:** Vice President Dick Cheney and Mrs. Cheney pay official working visit to Japan. Cheney receives in an audience with the Emperor and Empress of Japan, and then meets Prime Minister Abe.

**Feb. 21, 2007:** U.S. and China mark 35<sup>th</sup> anniversary of President Nixon’s visit to China.

**Feb. 21, 2007:** India and Pakistan sign a nuclear pact to reduce the risk of nuclear war by establishing a hotline between the two nations.

**Feb. 21, 2007:** Chairman of the U.S. House of Representatives’ International Relations Committee Tom Lantos arrives in Moscow for a two-day visit. In Moscow, Lantos pledges to help repeal the Jackson-Vanik Amendment, which prevents Russia from attaining permanent normal trading status with the United States.

**Feb. 23, 2007:** Defense Secretary Robert Gates and ROK Defense Minister Kim Jang-soo meet in Washington to reaffirm and to look at the future of the U.S.-ROK alliance. It is agreed that the Joint Forces Command will be disestablished on April 17, 2012.

**Feb. 25-28, 2007:** Japanese and Chinese diplomats hold seventh bilateral Strategic Dialogue in China.

**Feb. 28, 2007:** U.S. Department of Defense announces that it plans to sell Taiwan more than 400 missiles, as well as spare parts and maintenance equipment. China voices its strong dissatisfaction.

**March 1, 2007:** Japanese PM Abe fumbles questions on the Japanese government’s role in recruiting “comfort women” during War World II.

**March 1-6, 2007:** Newly appointed Deputy Secretary of State John Negroponte travels to Japan, South Korea, and China to discuss Iran, Iraq, Afghanistan, North Korea, regional security, the war on terrorism, and trade.

**March 4, 2007:** Taiwan President Chen announces “four wants and one have not”: that Taiwan wants independence, a new constitution, name rectification and further development, and there are no rightist and leftist divisions in Taiwan except for the debate on the issue of reunification and independence.

**March 5, 2007:** Abe reaffirms government will stand by Kono Statement on “comfort women.”

**March 4-16, 2007:** Fifth Plenary Session of the 10<sup>th</sup> National People’s Congress is held in Beijing. The NPC passes private property legislation, unified corporate tax rates for domestic and foreign companies at 25 percent; and all proposals and resolutions were for the first time fully translated into English.

**March 5-6, 2007:** The U.S. and North Korea hold working group meetings in New York to discuss the North Korean nuclear arms programs, removal of North Korea from the U.S. list of state-sponsor of terrorism, and normalization of relations.

**March 6, 2007:** U.S. State Department issues *2006 Country Reports on Human Rights Practices* as required by Congress in the Foreign Assistance Act of 1961.

**March 6, 2007:** ROK Ministry of Education and Human Resources Development announces that from 2012 South Korean high school textbooks will include information on South Korea’s historical and territorial disputes with China and Japan.

**March 7, 2007:** Defense Secretary Gates says at a Pentagon press roundtable that he does not view China as a strategic adversary despite Beijing’s growing military budget.

**March 7, 2007:** Pro-Beijing Hong Kong newspaper *Wen Wei Po* reports a PLA official stated off-the-record on the sidelines of the National People’s Congress that China could build its first aircraft carrier by 2010.

**March 7-8, 2007:** Japan and North Korea hold bilateral six-party working group talks in Hanoi, Vietnam, to discuss normalization of diplomatic relations and the abduction issues.

**March 8, 2007:** Chinese Information Office of the State Council releases *Human Rights Record of the U.S. in 2006* in response to the State Department’s *Country Reports on Human Rights*.

**March 10, 2007:** China and Russia, along with the U.S., France, England, and Germany, vote for UNSCR 1747 that bans all Iranian arms exports and freezes the financial assets of 28 Iranian officials and institutions.

**March 11, 2007:** Prime Minister Abe reiterates “unfeigned apology” to the “comfort women” and that he stands by the Kono Statement – Japan’s acknowledgement and apology for Japan’s military direct involvement in the running of the “comfort stations” – on a Sunday morning NHK program.

**March 11-14, 2007:** Australian Prime Minister John Howard visits Japan and signs the Japan-Australia Joint Declaration of Security Cooperation that provides for diplomatic and military cooperation including periodical dialogues and joint exercises.

**March 12, 2007:** Adm. Fallon relinquishes command of U.S. Pacific Command and moves to U.S. Central Command.

**March 12, 2007:** The Russian government expresses dissatisfaction with Iran’s defiance concerning its nuclear program. It informs Tehran that it will withhold nuclear fuel for Iran’s nearly completed Bushehr power plant unless Iran meets financial obligations and suspends uranium enrichment as demanded by the UN Security Council.

**March 13-14, 2007:** IAEA head Mohamed ElBaradei visits North Korea to discuss the return of the DPRK to the IAEA as a member state, among other issues.

**March 14, 2007:** Assistant Secretary Hill arrives in Beijing to attend the denuclearization working group, Northeast Asia security working group, and the new round of Six-Party Talks.

**March 14, 2007:** U.S. Treasury finalizes ruling against Banco Delta Asia that prohibits all U.S. financial institutions from maintaining correspondent accounts for BDA and prevents BDA from accessing the U.S. financial system. China expresses deep regret at the Treasury’s decision. The Treasury Department also announces that treatment of the North Korean BDA account will be left to the discretion of the Macau authority.

**March 15, 2007:** After chairing the first meeting in Beijing of the six-party working group on energy cooperation, chief ROK nuclear negotiator Chun Yung-woo says Seoul will pay for the first batch of 50,000 tons of heavy fuel oil that the DPRK is due to receive once the Yongbyon site is closed.

**March 16, 2007:** FM Song and Secretary Rice review the process of the Six-Party Talks working group discussions and the status of the KORUS FTA.

**March 16, 2007:** Senate approves a nonbinding resolution calling for the support and funding of Ukraine and Georgia’s membership to NATO.

**March 16, 2007:** IAEA Director General Mohamed ElBaradei meets in Beijing with U.S., Japanese, and South Korean ambassadors in charge of North Korean nuclear issues to report on his visit to North Korea.

**March 16, 2007:** U.S. Ambassador to Japan Thomas Schieffer describes “comfort women” as the victims of rape by the Japanese military during World War II.

**March 19, 2007:** Treasury Deputy Assistant Secretary Glaser states the \$25 million frozen in a North Korean bank account at BDA in Macau will be released and transferred to a North Korean account in the Bank of China in Beijing.

**March 19-20, 2007:** Members of Japan-China joint history study group meet in Tokyo.

**March 19-22, 2007:** First session of the sixth round of Six-Party Talks is held in Beijing. Chief U.S. negotiator Christopher Hill announces that \$25 million frozen in North Korea’s Banco Delta Asia account will be returned; DPRK says “show me the money.”

**March 22-23, 2007:** First negotiations of the Trilateral Investment Agreement among China, Japan, and South Korea and the seventh Consultation for the Improvement of the Business Environment of the three countries are held in Tokyo.

**March 22-25, 2007:** Chairman of Joint Chiefs of Staff Gen. Peter Pace visits PLA officials in Beijing and military installations in Shenyang and Nanjing, China.

**March 23, 2007:** Chinese military ships, which included two destroyers, arrive in a seaport in Jakarta, Indonesia for the first time in 12 years. The Chinese ships recently completed anti-terror drills with the U.S. Navy in Pakistan in early March.

**March 24, 2007:** UN Security Council adopts Resolution 1747 requiring Iran to come under IAEA compliance and freeze its nuclear weapons program.

**March 25, 2007:** Treasury Deputy Assistant Secretary Glaser arrives in Beijing to discuss with Chinese officials issues related to the bank transfer of North Korean money from BDA.

**March 25-31, 2007:** U.S. and ROK military hold 12<sup>th</sup> *Reception, Staging, Onward Movement and Integration* and *Foal Eagle* exercises in South Korea.

**March 26, 2007:** Adm. Timothy J. Keating, former commander of North American Aerospace Defense Command and United States Northern Command, assumes command of U.S. Pacific Command.

**March 26-28, 2007:** Chinese President Hu Jintao visits Russia and meets Russian President Vladimir Putin and exchanges views on furthering China-Russia strategic partnership and energy cooperation.

**March 28, 2007:** President Bush telephones President Putin to explain U.S. plans for a missile defense system in Eastern Europe. The U.S. explanation is reportedly “received with satisfaction.”

**March 28, 2007:** South Korean aid to the North resumes. A ship leaves the ROK port of Yeosu bearing 6,500 tons of fertilizer, 60,000 blankets, and other items.

**March 29, 2007:** Seventh Round of Consultations on the East China Sea is held in Tokyo.

**March 30, 2007:** Cross-Strait charter flights for Tomb Sweeping Day begin.

**March 31-April 1, 2007:** ROK-Japan ministerial talks held to discuss the North Korean nuclear issue, Northeast Asia, and cooperation in the international arena.

**April 1, 2007:** United States-Republic of Korea Free Trade Agreement is concluded. Next steps are the approval of the U.S. Congress and the South Korean National Assembly.





U.S.-Japan Relations:  
**An Unexpected Rough Patch**

Michael J. Green, CSIS Japan Chair  
Shinjiro Koizumi, CSIS Japan Chair

In the last quarter of 2006, the first quarter since taking office, Japan's Prime Minister Abe Shinzo enjoyed his honeymoon period by showing the "right stuff": (snap visits to China and South Korea as part of efforts to reconcile relations with the two countries, success in reaching the unanimous resolution of the United Nations Security Council condemning North Korea for its October 2006 nuclear test; and the first summit meeting with U.S. President George W. Bush that reconfirmed the importance of and confidence in the U.S.-Japan alliance). But the decline of his popularity over the same period because of scandals and disciplinary problems in his Cabinet also revealed political weaknesses. Across the Pacific, President Bush saw his political situation deteriorate with Republican defeats in the House and Senate in November.

The first quarter of 2007 turned out to be a rough patch not only for President Bush and Prime Minister Abe domestically, but also for the U.S.-Japan alliance. In the United States the shock came from comments made by Abe and other political leaders in response to U.S. Congressional hearings regarding "comfort women" (women put into brothels for the Japanese army during the war). In Japan, the shock came from the sudden shift in U.S. policy toward North Korea with the Feb. 13 Six-Party Talks agreement. Several major U.S. newspapers criticized Abe for attempting to justify Japanese behavior during the war and virtually all Japanese newspapers criticized the U.S. decision to take a more accommodating line toward North Korea so soon after the nuclear test. For the first time since the 1995 Okinawa rape incident, editorials in both countries raised questions of trust about the other.

Despite this *Sturm und Drang* in the press and the legislatures, this quarter also saw a marked increase in high-level attention to Japan from the Bush administration, with visits to Japan from Vice President Dick Cheney, Deputy Secretary of State John Negroponte, and Deputy National Security Advisor J.D. Crouch. Meanwhile, Japan moved ahead with steps to strengthen its security policy institutions, passing legislation that elevates the Defense Agency to a ministry and introducing new legislation to establish a U.S.-style National Security Council. And fears that a more protectionist Congress might start targeting Japan proved mostly wrong as the new Democratic majority instead set its sights on China.

Prime Minister Abe will make his first visit to Washington since taking office in late April. Until then, he has to do his utmost to remind audiences in Japan and the United States that he still has the “right stuff” when it comes to tough problems like North Korea and sensitive issues like the comfort women. He also has to demonstrate his resilience domestically in April local elections just before coming to Washington. And then there is the big test – Upper House elections in July that could be make-or-break.

### **Abe’s slide in popularity**

Prime Minister Abe’s popularity saw a sudden decline this quarter from 63 percent in September (*Asahi Shimbun*) to 40 percent in March. Moreover, in at least one poll his negative rating surpassed his approval rating (39 against 37 percent, according to *Asahi*). Before Koizumi Junichiro, a Japanese prime minister could survive with relatively low public support by relying on the factions that put him in office in the first place. But Koizumi dealt a body blow to factions and made public polling a critical indicator of the political strength of the prime minister.

There are several reasons for the slide in Abe’s popularity. First, public expectations for Abe’s performance were artificially high because of his good looks, his tough stance on North Korea, and his Kennedy-like youth and energy. More notably, it was almost certain that he would come to office long before he became prime minister, and expectations for him reached a very high level by the time he took office.

Second, Abe mishandled some domestic issues, especially in making his too-late decision to bring back the Liberal Democratic Party (LDP) members who were expelled by his predecessor, Koizumi, due to their opposition to the postal services privatization. It was expected that Prime Minister Abe would get the purged LDP members back into his party to win the upcoming Upper House election. They are believed to have the ability to mobilize strong support groups and to share the conservative views of the Abe administration. Abe’s decision itself was unpopular because it appeared to roll back his party to the pre-Koizumi period. The more damaging consequence, however, was that, in taking too long to reach a decision on readmitting the expelled members, he painted an image of himself as an indecisive leader.

Third, Abe’s Cabinet members created enough scandals to disappoint the public. The Abe administration had already lost one of its ministers and the tax commission chief last December, due to scandals. Although no more resignations of Cabinet members have taken place, Cabinet members have continued to slip up and have contributed to the sharp decline of the Cabinet’s popularity.

The first terrible gaffe was made by Yanagisawa Hakuo, minister of health, labor, and welfare. At an LDP prefectural assembly, he compared women to “baby-making machines,” and his comments invited fierce responses from the opposition parties, human rights groups, and the majority of the public. Yanagisawa immediately apologized for his remarks and denied his intention to look down on or discriminate against women, but the public demand for his resignation did not die down. Prime Minister Abe, however,

decided not to yield and kept Yanagisawa in his Cabinet. It is possible that he might not have been able to retire Yanagisawa because another resignation in his Cabinet would have thrown into question his ability to select the right person.

Defense Minister Kyuma Fumio then further undermined confidence in Abe by stating to the press that the decision to attack Iraq was a mistake and by criticizing the U.S. stance on negotiations over base relocation in Okinawa. These statements were ironic, given Kyuma's critical role within the ruling LDP to realize both policies. Nevertheless, the Bush administration was not amused and quietly expressed its displeasure through diplomatic channels, which were then leaked to the press the next day. When Vice President Cheney visited Japan in February, he did not include Kyuma in his meetings, though he did see Prime Minister Abe, Chief Cabinet Secretary Shiozaki Yasuhisa, and Foreign Minister Aso Taro. The vice president's office explained that it did not receive a request for a meeting with Kyuma and then had no time by the time the defense minister decided he wanted to be on the schedule. Whatever the reason, the appearance of a freewheeling defense minister upsetting the U.S. government and then not being disciplined by the Prime Minister's Office conveyed a public sense of uncertainty about Abe's control of his Cabinet.

A spring 2007 *Foreign Affairs* article written by Richard Katz and Peter Ennis also pointed out the reasons for Abe's difficulties on the domestic front. While the authors praised Abe's successful handling of foreign affairs, they urge him to "become as assertive within Japan as he has been abroad." Japan's success in implementing its economic reforms, Katz and Ennis argue, is not only in Japan's interest, but also in the world's interest. They note that if Abe can manage domestic affairs and push the economic reform agenda further, he could regain the confidence of people in Japan and around the world.

The difficulties Abe had this quarter at home were matched only by the struggle of opposition leader Ozawa Ichiro to maintain support with the public and control of his own Democratic Party of Japan. Rumors of Abe's demise are premature and if he regains his bearings in the April local elections, the visit to the U.S., and the big Upper House election in July, he will have two years without elections and a chance to consolidate his political and foreign policy agenda.

### **Comfort women**

The consequences of the political shift in Washington became apparent on Feb. 15 when the Democratic leadership of the House granted Rep. Mike Honda (D-Ca) permission to hold a hearing on his nonbinding resolution on comfort women. The resolution calls for Japan to formally acknowledge and accept responsibility for comfort women and requests "a clear and unequivocal" apology to them. This news had not attracted much public attention in either the U.S. or Japan, but Prime Minister Abe inadvertently put the issue on the front pages of the U.S. press when he responded to a reporter's question about the resolution by arguing there was no evidence that the comfort women were "narrowly coerced" (meaning physically taken as sex slaves by the Imperial Army). Whether

intentional or off-the-cuff, Abe's effort to remove some of the stigma associated with the comfort women while retaining the official government position apologizing and offering compensation (the 1993 "Kono Statement"), completely backfired. On March 6, *The New York Times* published an editorial titled "No Comfort," stating, "Japan is only dishonored by such efforts to contort the truth," and requesting "official compensation to the surviving victims" and "a frank apology" by the Diet. the *Los Angeles Times* editorial titled "Paging the Emperor" urged Emperor Akihito, son of the wartime emperor, Hirohito, "to offer a more forceful apology for all crimes committed in his family's name" in order to reconcile with Japan's neighbors.

Abe recovered quickly, formally reiterating the Kono Statement and offering his own personal sympathy, apology, and remorse as the prime minister of Japan in statements to the Diet and the press. However, other conservative politicians in the Liberal Democratic Party's "Fraternity of Lawmakers Who Are Concerned about the Future of Japan and History Education" announced their intention to examine the "true facts" about the comfort women. Meanwhile, in the U.S. House of Representatives, several key Republicans who had been opposing the resolution reversed positions, leading most observers to conclude the resolution would likely pass in the subcommittee before Abe's visit to Washington.

Any fear that Japan was isolated internationally because of the history problem was quelled by the March 6 release of the annual BBC poll on which countries are most respected in the world. For the second year in a row, Japan came in number one, with 54 percent of respondents in 27 countries around the world praising Japan's contribution to international society. Voting negatively were Korea and China for the second year in a row, but, in South and Southeast Asia, Japan fared quite well.

### **The impact of the Six-Party Talks**

While the sudden shift in U.S. policy toward North Korea was generally well received in China and South Korea, it caused considerable dismay in Japan. The Feb. 13 agreement of the six parties contained no element that hurt Japan's national interest in denuclearization and resolution of the abductee issue, yet the Japanese press analysis generally interpreted the agreement as a diplomatic defeat for Japan. Abe's decision not to provide any of the heavy fuel oil to Pyongyang under the agreement until Tokyo saw progress on the abductee issue played well at home, but raised concerns that Japan might be left behind in the negotiating process.

Contributing to the Japanese public's sense of unease were the images of smiling U.S. and DPRK negotiators making progress in their March 5-6 bilateral talks in New York, which contrasted on the television with the frowning Japanese negotiators after the DPRK walked out of the Japan-DPRK talks in Hanoi on March 7-8. While the U.S. negotiators reportedly pressed their DPRK counterparts in bilateral talks to make progress with Japan on the abductees and Vice President Cheney reiterated Washington's support on the issue while in Japan, Tokyo worried that rapid U.S.-DPRK negotiations to lift terrorist-related sanctions could lead to a decoupling of the abductee issue from the

terrorist list (the two were only formally linked by the State Department in 2003). The announcement on March 14 that the U.S. Department of Treasury would arrange the return of the \$25 million in North Korean assets frozen in the Macao-based Banco Delta Asia also stunned a Japanese public that had been told much of the money was derived from counterfeiting and illegal drug sales. Officially, the Japanese government reiterated its support for the February 13 agreement, but editorials from the conservative *Sankei* (“betrayal!!”) to the moderate *Nikkei* (“Don’t Use Diplomacy as an Alibi”) were critical of the U.S. stance. In a significant, but not surprising move, the press also reported that the Japanese Ministry of Defense would be approaching the Pentagon for briefings and explanations of how the United States would maintain the extended nuclear deterrent in the face of North Korea’s nuclear weapons and missile programs.

### **High-level dialogue**

From Feb. 20 to March 3, Vice President Cheney, Assistant to the President and National Security Advisor Jack Dyer Crouch, and Deputy Secretary of State John Negroponte arrived in Tokyo, to deepen the U.S.-Japan strategic dialogue at a time of flux in Northeast Asia and in both countries’ domestic politics. During his stay, Cheney met Abe, Shiozaki, and Aso. They reconfirmed the importance of the U.S.-Japan security and economic relationship and promised to continue working closely with each other on the North Korean issues, including the Six-Party Talks and abduction issues, and United Nations Security Council reform, which encompasses the issue of Japan’s permanent membership in the Security Council. Crouch had another meeting in his ongoing discourse with Vice Foreign Minister Yachi Shotaro, in which they reaffirmed the importance of the U.S.-Japan alliance and agreed to see the Feb. 13 agreement on the Six-Party Talks as a step forward. Crouch also expressed his appreciation for Japan’s contribution to Afghanistan and Iraq and discussed with Yachi the Afghan and Iraqi issues that Japan and the United States should tackle in the future. Negroponte met with Shiozaki, Aso, and Yachi to reassure them of the importance of bilateral cooperation on international issues, particularly North Korean issues. All three visits were well received and viewed as timely and reassuring, given the uncertainties introduced into the public discourse on the alliance by the comfort women and North Korea issues.

### **Developments on the realignment of U.S. forces in Japan**

This quarter saw some progress in the realignment of U.S. forces in Japan. Based on the training relocation plan in the roadmap for realignment implementation, five U.S. *F-15* fighters conducted joint exercises from March 5-8 with four Japanese *F-15*s at Tsuiki ASDF base in Fukuoka Prefecture. The *F-15* training relocation, based on the realignment of the U.S. forces in Japan, was conducted on Japan’s mainland for the first time. It is seen as the first step in the enhancement of the interoperability between Japan and the U.S. and a measure for reducing the concentration of U.S. forces in Okinawa. In FY 2007, 15 joint training exercises at six bases are expected. The Japanese government also introduced into the Diet legislation that would allow the Japan Bank of International Development (JBIC) to establish funding mechanisms to pay for the relocation of U.S. Marines from Okinawa to Guam.

## **JNSC report**

As part of efforts to enhance the function of the Prime Minister's Office, a panel chaired by Abe submitted to the government a report aiming to establish a Japan National Security Council (JNSC) modeled after the U.S. National Security Council (NSC). The report listed only four Cabinet members (the prime minister, chief Cabinet secretary, foreign minister, and defense minister) as part of the council, in order to accelerate the policymaking process. The special adviser to the prime minister will attend the council and other ministers will also be included, depending on the issues. The JNSC will discuss basic policies on important foreign and security matters, interagency foreign and security policies, and responses to emergencies, including armed attacks, but final decision-making will be made by the Cabinet. The JNSC secretariat will be composed of 10-20 full-time staff, including Self-Defense Forces personnel and experts and researchers from the private sector. If the current Diet session will take up the bill on the creation of the JNSC, it will be officially established in April 2008.

## **Armitage-Nye Report Two**

On Feb. 16, the long-awaited second Armitage-Nye report was finally released. The report, titled *The U.S.-Japan Alliance: Getting Asia Right through 2020*, was coauthored by former Deputy Secretary of State Richard Armitage and Harvard University professor and former Assistant Secretary of Defense for International Security Affairs Joseph Nye, with bipartisan participants (the first one was also worked on by a cross-party group led by Armitage and Nye). As the title of the report shows, Asia's status as the world center of gravity and maintaining Asia's stability are the main themes of the report. It clearly states that the U.S.-Japan alliance "can and should remain at the core of the United States' Asia strategy," while citing the U.S.-Japan-China trilateral relationship as key to the stability in Asia.

The report listed numerous recommendations, such as the U.S.-Japan free-trade agreement, U.S.-Japan-India cooperation, strengthened U.S.-Japan-Australia relations, maritime security and antipiracy, promotion of a democratic agenda in Asia, and energy cooperation. In the attached annex, there are 10 specific recommendations, especially on military and security cooperation. One of them is the deployment of the U.S. *F-22 Raptor* fighters to Japan, which has already been realized due to the deployment of 12 *F-22s* to the Kadena U.S. Air Force base on Feb. 21.

## **The way forward**

This quarter showcased Prime Minister Abe's hardships both inside and outside Japan, coupled with his dropping popularity, a series of successive scandals from his Cabinet members, and the debate over comfort women that Abe himself provoked. Abe, however, will have a chance to regain the public's trust in his abilities at the upcoming local general election in April, although this could also turn out to be another headache, if the LDP loses badly. His first trip to the U.S. to see President Bush is scheduled for late April. That trip will afford him an opportunity to showcase his values-based diplomacy

and his government's commitment to strengthening a normative agenda in Asia based on universal values, as captured in Foreign Minister Aso's "Arc of Freedom and Stability." His message will be more convincing if he is able to set the right tone on the comfort women issue in Japan as the U.S. Congress moves to pass the Honda resolution.

In addition, a long awaited "2+2" meeting is finally likely to happen in the next quarter. It will be an important meeting for Japan and the United States to reconfirm their mutual commitment to implement their agreement on the realignment of U.S. forces and to move beyond the dissonance caused by Defense Minister Kyuma's statements on Iraq and Okinawa. Abe's vision of a stronger U.S.-Japan-India relationship will also move forward with the first ever trilateral naval exercise in April.

The next quarter will be extremely important for Abe to pave his way for the upcoming Upper House election. Because his tough stance on North Korea elevated him to office, a lack of progress on the abduction issue might hurt his credibility. In this context, the ongoing Six-Party Talks could affect the mood leading up to the election. The next quarter will give Abe many chances to score points in the international arena, but will not be free of risk.

### **Chronology of U.S.-Japan Relations January-March 2007**

**Jan. 9, 2007:** Tokyo upgrades the Japan Defense Agency to the Ministry of Defense. Prime Minister Abe Shinzo attends the commemorative ceremony for the inauguration of the Ministry of Defense.

**Jan. 11, 2007:** After the U.S. announcement of a new policy on Iraq, Foreign Minister Aso Taro states that Japan will promote assistance through airlift service by the Japan Air Self-Defense Force and yen loan projects to Iraq up to a total of ¥79.837 billion.

**Jan. 15, 2007:** The Second East Asia Summit (EAS) held in Cebu, the Philippines, following ASEAN Plus Three, Japan-China-South Korea, and Japan-ASEAN summits. In the EAS, the leaders agree to the Cebu Declaration on East Asian Energy Security. The EAS chairman's statement also expresses concern about the North Korean abduction issues.

**Jan. 20, 2007:** U.S. Assistant Secretary of State Christopher Hill holds talks on North Korea issues in Tokyo with Sasae Kenichiro, director general of the Asia and Oceania Bureau, the Ministry of Foreign Affairs of Japan.

**Jan. 24, 2007:** Defense Minister Kyuma Akio comments on the Iraq war saying that the U.S. decision to fight a war with Iraq was a mistake. The U.S. expresses displeasure through diplomatic channels. Kyuma again criticizes the U.S. (Jan. 27) on U.S. attitude toward the Futenma Base transfer issue.

**Jan. 25-26, 2007:** Tokyo hosts the fourth Asian Senior-level Talks on Nonproliferation to discuss Iranian and North Korean nuclear developments and cooperation on nonproliferation. Participants include Australia, Canada, China, Japan, New Zealand, South Korea, the United States, and ASEAN.

**Jan. 26, 2007:** FM Aso gives a speech to the 166<sup>th</sup> Session of the Diet. He argues that it is time to enhance the credibility of Japan-U.S. security arrangements in facing with the nuclear threat from North Korea.

**Jan. 28, 2007:** *Nihon Keizai Shimbun* public opinion polls on the Abe administration show approval rate drop to 48 percent; the disapproval rating was 41 percent. [ The approval rate was 71 percent in September 2006.]

**Jan. 31, 2007:** U.S. Rep. Michael M. Honda introduces a bipartisan resolution that calls for the Japanese government to formally and unambiguously apologize for and acknowledge the tragedy of “comfort women” endured by the Japanese Imperial Army during World War II.

**Feb. 1, 2007:** FM Aso delivers a speech on the WTO Doha Round. He says Japan agrees with President Bush’s statement, which reaffirmed the U.S. commitment to a successful Doha Round and would request that Congress extend the Trade Promotion Authority.

**Feb. 8, 2007:** Assistant Secretary Hill pays courtesy calls on Vice Foreign Minister Yachi Shotaro and FM Aso.

**Feb. 8-13, 2007:** The fifth round of Six-Party Talks resumes in Beijing and issues a joint statement that includes closing the Yongbyon reactor, normalizing the U.S.-DPRK diplomatic relationship, and resuming Japan-North Korea normalization of diplomatic relations and the abductees issue.

**Feb. 13, 2007:** Koike Yuriko, special adviser to the prime minister for national security affairs, gives a speech on Abe’s foreign and national security policy at CSIS.

**Feb. 14, 2007:** President Bush and Prime Minister Abe hold a summit teleconference on the North Korean nuclear issue.

**Feb. 15, 2007:** The U.S. House Subcommittee on Asia, the Pacific, and the Global Environment holds hearing on “comfort women” issues and protection of human rights.

**Feb. 16, 2007:** “The U.S.-Japan Alliance: Getting Asia Right through 2020,” co-authored by Richard Armitage and Joseph Nye, highlights major trends in Asia, provides analyses at the security and economic situation, and policy recommendations.

**Feb. 19, 2007:** *Asahi Shimbun* public opinion polls of the Abe administration show approval rate drops to 37 percent and disapproval rate increases to 40 percent, the first time the disapproval rating exceeded the approval rating since his September 2006 inauguration.

**Feb. 20- 22, 2007:** Vice President Dick Cheney and Mrs. Cheney pay an official working visit to Japan. The vice president receives an audience with the Emperor and Empress of Japan, and then meet Prime Minister Abe Shinzo.

**Feb. 26-28, 2007:** Deputy National Security Advisor J. D. Crouch visits Japan to meet FM Aso and VFM Yachi.

**March 1-3, 2007:** Deputy Secretary of State John Negroponte visits Japan to exchange views on the U.S.-Japan alliance and East Asia security environment with Japanese officials. Japan is the first destination for Negroponte after being confirmed as deputy secretary of state.

**March 5, 2007:** Prime Minister Abe says that the Japanese government will not apologize again even if the House of Representatives passes the nonbinding resolution requesting Tokyo to apologize for the “comfort women” issue. He reiterates that the Japanese government did not backtrack from the Kono Statement which offered “sincere apologies and remorse” to former comfort women.

**March 5-6, 2007:** The U.S. and North Korea hold working group meetings in New York to discuss North Korean nuclear arms programs, removal of North Korea from the U.S. list of state-sponsor of terrorism, and normalization of trade relations.

**March 6, 2007:** *BBC World Service* poll ranks Japan as the most positively judged country with an average of 54 percent positive responses (20 percent negative) among 27 countries. The U.S. receives 31 percent positive and 51 percent negative responses.

**March 7-8, 2007:** Japan and North Korea hold bilateral six-party working group talks in Hanoi, Vietnam, to discuss normalization of diplomatic relations and the abduction issues. No new developments are reported.

**March 9, 2007:** U.S. Ambassador Schieffer tells Japanese reporters a move away from the 1993 Kono Statement would have a significant negative impact on the American people. “It would be a mistake to underestimate the impact of this issue in the United States,” he said. “Engaging women in trafficking or the sex trade against their will is something that is going to find no constituency in the United States,” he added.

**March 11-14, 2007:** Australian Prime Minister John Howard visits Japan. On March 13, PM Abe and PM Howard hold a summit meeting in Tokyo, and sign the Japan-Australia Joint Declaration of Security Cooperation that provides for diplomatic and military cooperation, including periodical dialogues and joint exercises.

**March 14, 2007:** U.S. Treasury announces lifting of *de facto* sanctions on North Korea. It also announces that treatment of the North Korean Banco Delta Asia (BDA) account will be left to the discretion of the Macau authority.

**March 14, 2007:** Ambassador Schieffer hopes PM Abe's recent remarks to uphold the 1993 Kono Statement to express the remorse of the Japanese government over wartime sex slavery will reduce the international criticism of Abe's earlier remarks questioning the existing evidence.

**March 14, 2007:** Ambassador Schieffer tells reporters in Tokyo that the burdens of the U.S. and Japan were not equal in relation to GDP ratio of defense spending, and he hoped that Japan would increase defense spending.

**March 16, 2007:** Ambassador Schieffer describes "comfort women" as the victims of serial rape by the Japanese military during World War II.

**March 16, 2007:** Director General of the IAEA Mohamed Elbaradei holds a meeting in Beijing with U.S., Japanese, and South Korean ambassadors in charge of North Korean nuclear issues to report on his visit to North Korea from March 13 to 14.

**March 19-22, 2007:** The first phase of the sixth round of the Six-Party Talks is held in Beijing. North Korea says that it will not start discussions on denuclearization until the remittance of money from BDA is confirmed.

**March 21, 2007:** Defense Minister Kyuma and Chief of the Joint Chiefs of Staff Gen. Peter Pace meet in Tokyo and come to agreements on close cooperation on Iraq and Futenma airbase relocation issues.

**March 23, 2007:** Tokyo adopts the Missile Contingency Guideline, which enables the defense minister to mobilize ballistic missile defense without Cabinet approval when Japan is under attack.



U.S.-China Relations:  
**Old and New Challenges: ASAT Test, Taiwan, and Trade**

Bonnie Glaser  
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China's test of an anti-satellite weapon against a defunct Chinese weather satellite on Jan. 11 prompted concern and criticism that reverberated around the world. A U.S. decision to allow Taiwan President Chen Shui-bian to make a stopover in San Francisco and notification to Congress of a possible arms sale to Taiwan led to Chinese protests. A Private Property Law was passed at the National People's Congress along with a Corporate Tax Law. U.S. officials credited China with making positive contributions toward strengthening the international system, notably in the Six-Party Talks, but urged China to do more. In a possible signal of toughening U.S. trade policy, the Commerce Department slapped duties on imports of coated paper, reversing a decades-old policy of not applying duties to subsidized goods from non-market economies. Sino-U.S. military ties advanced with the visit to the U.S. by Gen. Ge Zhenfeng, deputy chief of general staff of the People's Liberation Army, and the visit to China by Gen. Peter Pace, chairman of the U.S. Joint Chiefs of Staff.

**Anti-satellite test prompts concerns**

Without advance warning, a Chinese medium-range ballistic missile (MRBM) armed with a direct-ascent kinetic kill vehicle destroyed an aging Chinese weather satellite on Jan. 11. Shortly after the apparent anti-satellite (ASAT) weapons test, the Bush administration sought an explanation from Beijing, but received none. On Jan. 18, National Security Council Spokesman Gordon Johndroe expressed concern about the ASAT test: "The U.S. believes China's development and testing of such weapons is inconsistent with the spirit of cooperation that both countries aspire to in the civil space area. We and other countries have expressed our concern regarding this action to the Chinese."

Five more days of silence passed before a Chinese Foreign Ministry spokesman confirmed the test. In a brief statement, the spokesman declared that the ASAT test "was not directed at any country and does not constitute a threat to any country." He reiterated China's opposition to the weaponization of space and an arms race in space. When asked about the delay in confirming the test, the Foreign Ministry spokesman responded, "China has nothing to hide. After various parties expressed concern, we explained this test in outer space to them."

Countries that formally protested the Chinese ASAT test included the United States, Australia, Canada, Japan, and South Korea. The incident raised questions about civilian control over the Chinese military, coordination in the Chinese bureaucracy, and China's crisis-management capability. Privately, Chinese Foreign Ministry officials claimed they were unaware of the test, but admitted that had they been informed they would not have anticipated a strong international reaction, in part because China had only destroyed its own satellite and because the U.S. and the Soviet Union had already conducted such tests two decades earlier.

China's ASAT test did not come as a complete surprise. U.S. intelligence has been aware of Chinese efforts to develop such weapons for many years. In its annual report to Congress on Chinese military power in 2006, the Pentagon had noted Beijing's continued pursuit of an offensive anti-satellite capability, including by launching a ballistic missile and by using ground-based lasers to damage or blind imaging satellites. But the timing of the test – just months prior to China's politically sensitive 17<sup>th</sup> Party Congress – and the apparent lack of consideration accorded the response of the international community raised serious concerns.

Reaction to the ASAT test resounded in the pages of leading newspapers, in U.S. think tanks, and in Congress. Council on Foreign Relations Senior Fellow Elizabeth Economy wrote in *The Washington Post* that the “real message” of the test is that “China's rise will be as disruptive and difficult as that of any other global power.” Sen. John Kyl (R-Az) and Rep. Jane Harman (D-CA), from opposite sides of the aisle, voiced worries about the test and China's asymmetric warfare approach at the Center for Strategic and International Studies, and called for increased investment in U.S. counter-space capabilities and space situational awareness.

Deputy Under Secretary of Defense Richard Lawless told the U.S.-China Economic and Security Review Commission Feb. 1 that China's test of an ASAT weapon “poses dangers to human space flight and puts at risk the assets of all space-faring nations.” China's military transformation is expanding beyond the traditional air, land, and sea dimensions “to now include space and cyberspace,” he added. With China's military transformation accelerating annually, he said, it is not certain whether the end result will be peaceful or not. In a speech in Sydney, Australia, Vice President Dick Cheney maintained that China's ASAT test, along with its “continued fast-paced military buildup are less constructive and are not consistent with China's stated goal of a ‘peaceful rise.’”

Testifying before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific and the Global Environment on March 27, Thomas Christensen, deputy assistant secretary of state for East Asian and Pacific affairs, repeated that “the development and deployment of such an offensive system appears inconsistent with China's stated goal of ‘peaceful rise.’” Commander of U.S. Strategic Forces Marine Corps Gen. James Cartwright told the Senate Armed Services Strategic Forces Subcommittee March 29 that China has undertaken a “very disciplined and comprehensive continuum of capability against . . . our space capabilities.”

## Taiwan remains front and center

Chinese concern about Taiwan spiked this quarter in response to developments on Taiwan as well as in U.S. policy. In early January, Washington approved an overnight stopover for Taiwan President Chen Shui-bian in San Francisco on his way to attend the inauguration of Nicaraguan President Daniel Ortega later that month and a brief refueling stop in Los Angeles on his way back to Taiwan. Beijing had hoped that the U.S. would only offer Chen refueling stops in Hawaii or Alaska, as it had done in May 2006 to signal displeasure with Chen's decision to abolish the National Unification Council and the National Unification Guidelines. Chinese Vice Minister Yang Jiechi, who was dispatched to Washington to attend President Ford's funeral, had planned to discuss the bilateral exchange program for the upcoming year as well as substantive matters, but was compelled to spend a considerable amount of time delivering a demarche in meetings with U.S. officials.

Later that month, deputy director of the Chinese State Council's Taiwan Affairs Office Sun Yafu traveled to the U.S. to discuss developments in cross-Strait relations with U.S. officials and scholars. Speaking at a forum with overseas Chinese representatives in New York on Jan. 17, Sun said that the Chen Shui-bian administration's adventure to strive for "*de jure* Taiwan independence" through so-called "constitutional transformation" is the greatest threat confronting cross-Strait peace and stability at present. In meetings with Americans, Sun urged greater joint efforts by the U.S. and China to constrain Chen Shui-bian's pro-independence antics.

At the end of February, the U.S. Defense Department notified Congress of a possible sale to Taiwan of advanced medium-range air-to-air missiles, *Maverick* air-to-ground missiles and other equipment in a deal worth about \$421 million. China lodged a formal complaint with the U.S. over the matter. Foreign Minister Spokesman Qin Gang said the proposed sale would "seriously violate" previous commitments made by Washington to reduce arms sales to Taiwan and would constitute a "rude interference into China's internal affairs."

During U.S. Deputy Secretary of State John Negroponte's visit to China in early March, Chinese officials reiterated their objections to U.S. arms sales to Taiwan and expressed concerns about Chen Shui-bian's rhetoric that China considers provocative. Chinese State Councilor Tang Jiaxuan told Negroponte that "the activities of Taiwan separatists pose a major threat to peace and stability in the Taiwan Strait," and warned the U.S. not to send wrong signals. *Xinhua* quoted Chinese Vice Foreign Minister Yang Jiechi as insisting that the U.S. "cease" selling weapons to Taiwan.

Chinese Ambassador to the U.S. Zhou Wenzhong brought the message to the public arena in March, delivering speeches at Brown University and the Paul H. Nitze School of Advanced International Studies. At Brown, Zhou said the U.S. should "stop sending advanced weapons to Taiwan and stop sending any wrong signals to the Taiwan independence forces." He expressed Beijing's hope "that the U.S. will work with China to unequivocally oppose and repulse any form of Taiwan independence activities."

## **NPC highlights domestic troubles**

The Fifth Plenary Session of the 10<sup>th</sup> National People's Congress was held March 5-16 in conjunction with the meeting of the Chinese People's Political Consultative Conference. Premier Wen Jiabao delivered the 2006 government work report in a speech that focused largely on populist issues such as health care and education, and signaled increased attention to addressing corruption, governmental waste, and environmental degradation. The need to balance regional disparities was another common theme. Wen also focused on real estate, guaranteeing an increase in low-income housing benefits in the coming year, and vowing a serious crackdown on real estate crime. He stressed the "Three Rural Issues" of agriculture, the countryside, and farmers, and pledged an increase in funding for rural health care that would provide over 80 percent of China's rural population with basic health care in the coming year.

Acknowledging governmental flaws, Wen set out a vision of a governmental system that is "clean, effective, satisfactory, and transparent," but did not discuss specifics about how governing institutions should be reformed. The longest period of applause came when he declared that China will remain resolutely opposed to any form of Taiwan's declaration of *de jure* independence.

At end of the 12-day NPC, with the backing of 97 percent of the 2,889 legislators attending (2,799 for, 53 against, and 37 abstentions), a Private Property Law was passed. When introducing the bill, NPC Standing Committee Vice Chairman Wang Zhaoguo told the Congress that the law will "safeguard the fundamental interests of the people," and is an attempt to adapt to new "economic and social realities" in China. The law declares: "The property of the state, the collective, the individual and other obligees is protected by law, and no units or individuals may infringe upon it." By elevating private property to the same status as state property, the law gives formal legal protection to China's burgeoning private enterprises and legitimizes capitalist exploitation of the working class for the first time in six decades. The bill was shelved last year due to controversy.

A petition against the Private Property Law, endorsed by hundreds of retired officials and academics, warned that it would increase social inequality and legalize the corrupt plundering of state-owned assets by officials. "With the unceasing advance of privatization, our country already has a serious gap between rich and poor, which is polarizing into two extremes," the petition declared. The NPC also passed a Corporate Tax Law that unifies the tax rates of foreign and domestic corporations at 25 percent.

The 2007 NPC session set the precedent of allowing foreign journalists to approach and interview any NPC members without restriction. All proposals and resolutions from the session for the first time were fully translated into English.

One day before the legislative session opened, Jiang Enzhu, the deputy secretary general and spokesman for the NPC, announced that China would increase its military spending by 17.8 percent to nearly \$45 billion in 2007. Jiang emphasized that the spending increase will increase salaries, improve living conditions for military personnel, and

upgrade equipment and technology. Just one week earlier, Lt. Gen. Michael Maples, director of the Defense Intelligence Agency, estimated China's annual defense spending at between \$80 billion and \$115 billion, the highest in the world after the United States, in testimony to the Senate Armed Services Committee.

### **Progress on Korea and Iran**

U.S. officials continued to laud China's role in the Six-Party Talks this quarter and point to U.S.-Chinese cooperation on North Korean denuclearization as a factor contributing to the further strengthening of the bilateral Sino-U.S. relationship. Speaking to the press in Beijing on Feb. 13, Assistant Secretary for East Asian and Pacific Affairs Christopher Hill observed that the six-party process "has done more to bring the U.S. and China together than any other process I'm aware of." Testifying before the House Foreign Affairs Committee on Feb. 28, Hill stated: "One of the benefits of the six-party process has been the development of our relationship with China. The new and highly constructive role of China as the convener of the Six-Party Talks is especially important, and our coordination with them in this area has been outstanding."

In a comprehensive assessment of the status of China-U.S. relations, Deputy Assistant Secretary Tom Christensen told the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific, and the Global Environment, that China had played a key role in helping get North Korea back to the Six-Party Talks in February and promoting agreement on the initial actions plan. On Feb. 15, Presidents Hu Jintao and George W. Bush exchanged views on the progress made toward implementation of the September 2005 Joint Statement and restated their willingness to continue close communication and cooperation to achieve denuclearization of the Korean Peninsula.

China joined the U.S. and other UN Security Council members in March in a vote to impose new, substantial sanctions on Iran as a result of its failure to comply with UNSCR 1737, which required Tehran to completely and verifiably suspend its uranium enrichment activities. UNSC Resolution 1747 includes a provision prohibiting Iran from providing weapons to any individual or organization and calls on nations to exercise "vigilance and restraint" in exporting arms to Iran. In addition, it recommends nations and international financial institutions refrain from providing financial assistance, grants, or concessional loans to Iran, except for humanitarian and development purposes. In his March 29 testimony to Congress, Christensen called on China "to expand its efforts to increase targeted pressure on Tehran through bilateral financial measures, by increasing efforts to block transit of proliferation sensitive materials to and from Iran, including between Iran and North Korea, and by ending its unhelpful weapons sales to Tehran." He underscored U.S. expectations that China will curtail sales of certain arms equipment to Iran per its obligations under UNSCR 1747, and highlighted U.S. concerns over reports that Chinese companies may invest in Iran's oil and gas sector.

In general, reflecting a near-consensus view of the Bush administration, Christensen maintained that the U.S. encourages China to work with the U.S. "to build and strengthen the global system and advance global peace and security." He noted that the U.S.

appreciates China's positive contributions, while urging China to do more, for example, in Darfur. As a whole, the bilateral relationship has improved in recent years and progress has been made in some key areas of cooperation, Christensen noted. Nevertheless, there are numerous areas of differences, including human rights, trade, and military affairs, that require candid dialogue, he added. The U.S. seeks to "encourage China to join us in actions to strengthen and support global security and prosperity for both our countries and the world" and to "help China frame its choices, to encourage it to act responsibly in a manner commensurate with its growing wealth, stature and influence," Christensen asserted.

### **U.S. trade policy toughens**

Under mounting congressional pressure, the Bush administration slapped duties of up to 20 percent on imports of coated paper from China on March 30, in a reversal of a decades-old policy of not applying duties to subsidized goods from non-market economies. The action, announced by Commerce Secretary Carlos Gutierrez, could lead to duties on imports of steel, plastics, machinery, textiles, and many other Chinese products sold in the United States, if those industries seek relief and the Commerce Department finds that they are helped by illegal subsidies. The Commerce decision signals a toughening of U.S. trade policies toward China and may be an indication that Treasury Secretary Henry Paulson's more patient and conciliatory approach is being revised.

Several bills have been introduced in the U.S. Congress to require the Commerce Department to end its policy of not applying countervailing duties to non-market economies like China and Vietnam as a tool to enable U.S. manufacturers to fight unfair trade. Critics in Congress are demanding that the administration take concrete measures to open Chinese markets to U.S. goods or impose sanctions if it does not. The \$232.5 billion U.S. trade deficit with China last year has further increased Congressional pressure. Democrats in Congress lauded the Commerce Department's decision, but said they would continue their efforts to force a tougher policy on China through various pieces of legislation. China is expected to retaliate against the U.S. action by challenging it in Federal courts and also at the World Trade Organization, but refrain from imposing tariffs of its own on U.S. goods.

During a Senate Finance Committee hearing a few days earlier, two U.S. senators reaffirmed their intention to write tough legislation that would compel China to revalue its currency. Democratic Sen. Charles Schumer and Republican Sen. Lindsey Graham did not provide details about the legislation or when it would be introduced. "Currency has come to define the U.S.-China relationship," Graham said. "The biggest thing impacting an American right now is having your job leave this country because American manufacturers can't stay in business because they're being cheated out of job shares."

Proving that pressure produces results, on March 8, China published a notice terminating a subsidy program that the U.S. identified as a prohibited export subsidy in a Feb. 2 request for World Trade Organization dispute settlement consultations. The subsidy

program – a regulation implemented by China’s central bank that allowed large exporters to take advantage of discounted loans not available to other companies – was one of nine subsidy programs that the U.S. named as possibly violating WTO rules. U.S. Trade Representative Susan Schwab welcomed China’s move. “China recognizes its own long-term economic interests will be advanced by adhering to global trade rules,” she said.

Schwab expressed hope that China plans to withdraw other subsidy programs identified in the recent WTO action. In addition to programs that grant export subsidies that provide incentives for foreign investors and their Chinese partners to export to the U.S. and other markets, the WTO action targets subsidy programs that appear to provide incentives for companies in China to purchase domestic equipment and accessories, instead of buying them from U.S. exporters. Japan, Australia, the European Union, and Mexico have requested to participate as third parties in the U.S. dispute settlement consultations. The Feb. 2 request for dispute settlement consultations marks the third time the Bush administration has gone to the WTO to seek enforcement of China’s trading obligations.

Treasury Secretary Henry Paulson visited Shanghai in early March to make preparations for round two of the Strategic Economic Dialogue (SED) planned for May. He met Chinese Central Bank Gov. Zhou Xiaochuan and toured the trading floor of the Shanghai Futures Exchange. In an address to the Exchange, Paulson called on China to open its financial sector further to foreign competition to enable it to become more than an exporter of low-cost manufactured goods. He also warned that China’s growth was becoming “increasingly imbalanced” because of its excessive dependence on exports, which could undermine growth if reforms lag. “Financial sector development is the key to China’s transition into an economy that is less reliant on industrial activity, produces more high-value-added products and reduces the intensity of natural resources consumption,” Paulson said.

In addition, Paulson urged easing “tight caps” of foreign ownership in Chinese capital markets that would foster the development in China of world-class investment bankers. China’s exchange rate was barely mentioned. Paulson’s advice to the Chinese seemed to be to grant foreign firms greater access to Chinese capital markets and strengthen protection for intellectual property rights as a strategy to dampen protectionist sentiment in Congress and ease pressure on the currency issue.

### **Sino-U.S. military ties advance**

Sino-U.S. military exchanges were kicked off in January with a visit to the U.S. by Gen. Ge Zhenfeng, deputy chief of General Staff of the People’s Liberation Army. Gen. Ge led a delegation of 10 Chinese military officers to the U.S. Pacific Command in Honolulu, the Army’s Fort Lewis, Washington base, the naval base in San Diego, the U.S. Military Academy at West Point, N.Y., and the Pentagon in Washington, D.C.

At the invitation of Gen. Liang Guanglie, chief of the PLA’s General Staff Department, Gen. Peter Pace traveled to China in March for a four-day visit. It was Pace’s first visit to China since he was appointed chairman of the U.S. Joint Chiefs of Staff in 2005. In

Beijing, Pace had meetings with his counterpart Gen. Liang, as well as with Defense Minister and Central Military Commission Vice Chairman Cao Gangchuan and Central Military Commission Vice Chairman Guo Boxiong.

In a sign of growing PLA confidence and interest in expanding military ties with the U.S., Gen. Liang proposed exchanges of students at the cadet level, and expanding junior officer level and senior officer level exchanges. Both sides agreed that preliminary search and rescue exercises that were conducted in 2006 were beneficial and agreed to conduct more humanitarian relief exercises later this year. Gen. Pace said he would work with the services, U.S. Pacific Command, the Joint Staff, and the office of the secretary of defense to quickly implement the PLA's proposals, "because they all made good sense." Progress was also made toward the establishment of a hotline for emergency communication between the two militaries, although no agreement was reached.

Before departing Beijing, Gen. Pace held a roundtable discussion with researchers with the PLA Military Science Academy. On visits to Chinese military installations, Pace scored several "firsts" for a U.S. military officer, including sitting in a Russian-designed *SU-27* fighter plane at Anshan Air Base in Nanjing and riding in a state-of-the-art *T-99* tank at the Dalian military training area in Shenyang. He was also invited into a Chinese general's office where war maps were displayed and visited a command post with a table displaying the disposition of Chinese forces. Upon his return to the U.S., Pace told the *Washington Times* that he was treated better than the Chinese have treated any other U.S. officer.

Gen. Pace told the press in Beijing that both China and the U.S. have "enormous military capacity," but "neither country has the intent to create a war toward the other country." He stressed the need for setting up a hotline, which he said would reduce the possibility of "misunderstanding based on misinformation." Later he proposed that the hotline be a telex or email connection modeled on the hotline between the Soviet Union and the U.S. during the Cold War. Pace indicated his hope to find ways to foster greater understanding between the U.S. and Chinese militaries so that "we could become partners in the future." Later this year, Adm. Timothy Keating, who assumed command of the U.S. Pacific Command at the end of March, replacing Adm. William Fallon, is expected to visit China.

### **Busy agenda planned for next quarter**

U.S.-China relations go into high gear next quarter with a very busy agenda of exchanges. Vice Premier Wu Yi will lead a delegation of senior Chinese officials to attend the second round of the Strategic Economic Dialogue in Washington, D.C. on May 23-24. In late June, Chinese Vice Foreign Minister Dai Bingguo will travel to the U.S. to hold the Senior Dialogue with his counterpart Deputy Secretary of State John Negroponte. At a date yet to be agreed upon, Chairman of the Standing Committee of the National People's Congress Wu Bangguo will visit the U.S. A senior Pentagon delegation will also travel to China for the Defense Consultative Talks, tentatively

scheduled for June. In their first meeting of 2007, Presidents Hu and Bush will get together on the sidelines of the 33<sup>rd</sup> G-8 Summit in Heiligendamm, Germany June 6-8.

### **Chronology of U.S.-China Relations January-March 2007\***

**Jan. 2-5, 2007:** Chinese Vice Foreign Minister Yang Jiechi attends the funeral ceremony of former U.S. President Gerald Ford. He meets Deputy National Security Advisor David McCormick, Secretary of State Condoleezza Rice, Secretary of Treasury Henry M. Paulson, and Under Secretary of State for Political Affairs R. Nicholas Burns.

**Jan. 7, 2007:** While visiting Africa, Chinese Foreign Minister Li Zhaoxing exchanges views on issues of common concerns over the phone with Secretary Rice.

**Jan. 8, 2007:** China protests a planned stopover in San Francisco by Taiwan's President Chen Shui-bian.

**Jan. 9, 2007:** Chinese Foreign Ministry spokesman says that China strongly opposes U.S. sanctions on Chinese companies selling sanctioned weapons to relevant countries.

**Jan. 9, 2007:** The U.S. Embassy spokesman in Beijing says that the U.S. has urged China to reconsider a reported multibillion dollar natural gas deal between the China National Offshore Oil Corporation (CNOOC) with Iran amid international efforts to sanction Tehran for its nuclear programs.

**Jan. 11, 2007:** Andrew Natsios, the U.S. president's special envoy to Sudan, visits Beijing and meets State Councilor Tang Jiaxuan and Vice Foreign Minister Yang Jiechi.

**Jan. 11, 2007:** China successfully tests an anti-satellite weapon, destroying an aging Chinese weather satellite.

**Jan. 12, 2007:** China and Russia cast vetoes in the UN Security Council to stop a U.S. draft resolution condemning human rights abuse in Myanmar.

**Jan. 17-21, 2007:** U.S. Under Secretary of State for Public Diplomacy Karen Hughes and Public Diplomacy Envoy Michelle Kwan visit Beijing to promote people-to-people exchange.

**Jan. 17-19, 2007:** Chinese Vice Minister of Taiwan Affairs Office Sun Yafu travels to the U.S. to discuss developments in cross-Strait relations with U.S. officials and scholars.

**Jan. 22, 2007:** U.S. Assistant Secretary of State Christopher Hill visits Beijing and talks to Chinese Foreign Ministry officials about his meeting with DPRK officials in Berlin.

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\* Chronology by CSIS intern Wang Liang

**Jan. 23, 2007:** Chinese Foreign Ministry spokesman confirms that China fired a missile to destroy an orbiting satellite, China's first confirmation of the ASAT test.

**Jan. 23, 2007:** Chinese FM Li and Secretary Rice exchange views over the phone on promoting a constructive China-U.S. relationship and on the North Korean nuclear issue.

**Jan. 23, 2007:** U.S. Assistant Secretary of State for International Organization Affairs Kristen Silverberg visits Beijing and meets FM Li, Assistant FM Cui Tiankai, Director of Department of International Affairs Wu Hailong, and Director of Department of Policy Research Ma Chaoxu.

**Jan. 24, 2007:** In a letter to U.S. Commerce Secretary Carlos Gutierrez, 23 U.S. senators appeal to impose duties on Chinese imports in response to a request for public comment on whether the U.S. countervailing duty law should apply to imports from China.

**Jan. 28-Feb. 9, 2007:** A senior PLA delegation headed by Deputy Chief of Staff Gen. Ge Zhenfeng visits Hawaii, San Diego, and Washington, D.C., and meets U.S. Pacific Commander William J. Fallon and Pentagon officials.

**Jan. 29-30, 2007:** A Chinese delegation led by Ma Chaoxu, director of the MFA's Department of Policy Research, visits Washington, D.C. for talks with Stephen Krasner, director of the State Department's Policy Planning Bureau.

**Jan. 30-31, 2007:** A U.S. transportation delegation travels to Beijing to restart talks with Chinese counterparts on a bilateral open skies agreement.

**Jan. 31, 2007:** Treasury Secretary Henry Paulson tells the Senate Banking Committee that the administration will continue to press China to accelerate currency reform.

**Feb. 1-2, 2007:** The U.S.-China Economic and Security Review Commission holds a hearing on economic and security issues in the U.S.-China relationship. Among those testifying are U.S. Deputy Under Secretary of Defense Richard Lawless and Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen.

**Feb. 2, 2007:** The U.S. files a trade case against China at the WTO charging that China unfairly subsidizes its steel, information technology, wood, and other industries.

**Feb. 5, 2007:** FM Li calls Secretary Rice over the phone and expresses China's condolences over the losses caused by the thunderstorm and tornado in Florida.

**Feb. 7, 2007:** Under Secretary for International Trade Franklin Lavin tells a U.S. steel industry gathering that the Bush administration is concerned about state-supported expansion of the Chinese steel industry and problems created by China's rapid growth.

**Feb. 8, 2007:** The fifth round of the Six-Party talks resumes in Beijing.

**Feb. 9, 2007:** U.S. Deputy Assistant Secretary of State for African Affairs James Swan says in a speech at Columbia University that the U.S. does not regard China's emerging interest in Africa as a security threat.

**Feb. 12, 2007:** Chinese DM Cao tells a visiting Japanese delegation that China has no plans to carry out further anti-satellite missile tests.

**Feb. 13, 2007:** Third phase of the fifth round of Six-Party Talks ends in Beijing. The six parties reach an agreement under which North Korea promises to shut down its main nuclear reactor in return for fuel aid. The six parties agree to hold the sixth round on March 19.

**Feb. 13, 2007:** Chinese Councilor of the State Council Tang Jiaxuan meets the heads of delegations attending the Six-Party Talks in Beijing.

**Feb. 15, 2007:** President Hu Jintao talks to President Bush on the phone and exchanges opinions on China-U.S. relations and the North Korean nuclear issue.

**Feb. 20, 2007:** U.S. Assistant Secretary of State Christopher Hill says that the six-party agreement to end North Korea's nuclear program has strengthened the diplomatic relationship between the U.S. and China.

**Feb. 21, 2007:** U.S. and China mark the 35<sup>th</sup> anniversary of President Nixon's visit to China.

**Feb. 23, 2007:** U.S. Vice President Dick Cheney says in Australia that China's recent anti-satellite weapons test and rapid military buildup are "not consistent" with its stated aim of a peaceful rise as a global power.

**Feb. 27, 2007:** Michael McConnell, new director of National Intelligence, tells the Senate Armed Services Committee that China's military modernization is aimed at achieving parity with the U.S. and is not limited to its drive for reunification with Taiwan.

**Feb. 28, 2007:** Assistant Secretary Hill testifies before the House Foreign Affairs Committee, stating that one of the benefits of the six-party process has been the development of U.S.-China relations.

**Feb. 28, 2007:** U.S. Department of Defense announces that it plans to sell Taiwan more than 400 missiles worth \$421 million, which would include 218 advanced medium-range air-to-air missiles, 235 *Maverick* missiles, as well as spare parts and maintenance equipment. China voices strong dissatisfaction and resolute opposition to the U.S. plan.

**March 3, 2007:** FM Li calls Rice and expresses China's condolences over losses caused by a tornado in the U.S. Southeast and Midwest.

**March 3-5, 2007:** On his first trip to the region as deputy secretary of state, John Negroponte visits Beijing and meets Vice FM Yang Jiechi, Vice FM Dai Bingguo, FM Li and State Councilor Tang. China-U.S. relations, particularly the upcoming strategic dialogue, Taiwan, North Korean nuclear program, Iran and Sudan are discussed.

**March 4, 2007:** Taiwan President Chen Shui-bian announces “four wants and one have not”: that Taiwan wants independence, a new constitution, name rectification and further development, and there are no rightist and leftist divisions in Taiwan except for the debate on the issue of reunification and independence.

**March 4, 2007:** The Annual Meeting of the National People’s Congress of China opens in Beijing. China announces an increase in military spending of 17.8 percent in 2007.

**March 5, 2007:** China’s Taiwan Affairs Office issues a warning that “Chen Shui-bian’s pursuit of ‘Taiwan’s *de jure* independence’ and [Taiwan’s] separation from the country through ‘constitutional amendment’ will severely undermine peace and stability in the Taiwan Strait region and even the Asia-Pacific region.” The State Department labels President Chen’s remarks as “unhelpful.”

**March 5-7, 2007:** Chinese Assistant FM He Yafei visits Washington. In addition to meeting officials at State, NSC, DOD, and members of Congress, he delivers speeches at the U.S.-China Business Council and the Council on Foreign Relations.

**March 6, 2007:** State Department releases *2006 Country on Human Rights Practices* report. China is included in countries in which power is concentrated in the hands of unaccountable rulers and is one of “the world’s most systematic human rights violators.”

**March 6-13, 2007:** China and the U.S. join in a naval exercise codenamed *Aman* (peace) with Pakistan and six other countries aimed at consolidating efforts against terrorism.

**March 7, 2007:** U.S. Adm. William J. Fallon, outgoing chief of the U.S. Pacific Command, testifies to the House Armed Services Committee, noting that U.S.-Chinese military exchanges are “moving forward.”

**March 7, 2007:** Secretary of Defense Robert Gates says at a Pentagon press roundtable that he does not view China as a strategic adversary of the U.S. despite Beijing’s growing military budget.

**March 7-8, 2007:** Treasury Secretary Paulson travels to China. In Beijing, he meets Vice Premier Wu Yi and discusses the planned May meeting of the Strategic Economic Dialogue and other bilateral issues. In Shanghai, Paulson delivers a speech at the Shanghai Futures Exchange and encourages China to launch capital market reforms more quickly.

**March 8, 2007:** China’s State Council Information Office issues the *Human Rights Record of the U.S. in 2006*.

**March 8, 2007:** U.S. Navy Adm. Timothy Keating, nominee to head U.S. Pacific Command, says during a Senate hearing that if confirmed, he will pursue robust engagement with China to help defuse tensions across the Taiwan Strait.

**March 12, 2007:** The People's Bank of China releases a statement that it will gradually increase the flexibility in the exchange rate of the RMB.

**March 12, 2007:** Deputy U.S. Trade Representative Peter Allgeier travels to China and holds meetings with Chinese counterparts on issues related to the current WTO round, the Doha Round, and bilateral commercial ties.

**March 13, 2007:** Assistant Secretary Hill arrives in Beijing to join working group talks on denuclearization, economic and energy cooperation, and peace and security in Northeast Asia.

**March 13, 2007:** U.S. Trade Representative Susan C. Schwab welcomes news that China has announced the termination of one of the subsidy programs the U.S. challenged as a prohibited export subsidy in a Feb. 2 request for WTO dispute settlement consultations.

**March 14, 2007:** U.S. Treasury finalizes a ruling against Banco Delta Asia that prohibits all U.S. financial institutions from maintaining correspondent accounts for BDA and prevents BDA from accessing the U.S. financial system. China expresses deep regret over Treasury's decision.

**March 16, 2007:** The National People's Congress (NPC) of China concludes its annual session with the adoption of a properly law and a corporate income tax law.

**March 17-18, 2007:** Treasury Deputy Assistant Secretary Daniel Glaser travels to Macau and Beijing to discuss with Macau and Chinese officials issues related to BDA.

**March 19, 2007:** The sixth round of Six-Party Talks begins in Beijing aimed at implementing the Feb. 13 agreement.

**March 22, 2007:** The Six-Party Talks recess with a chairman's statement reaffirming all parties' commitment to the Joint Statement of Sept. 19, 2005 and the Joint Statement of Feb. 13, 2007.

**March 22, 2007:** Chinese Ambassador to the U.S. Zhou Wenzhong delivers a speech on U.S.-China trade, China's economic development, and Taiwan at the Watson Institute for International Studies at Brown University.

**March 22-25, 2007:** Marine Gen. Peter Pace, chairman of the U.S. Joint Chiefs of Staff, arrives in Beijing for a four-day visit.

**March 25, 2007:** Treasury Deputy Assistant Secretary Glaser arrives in Beijing to discuss with Chinese officials issues related to the transfer of North Korean money from BDA.

**March 25, 2007:** FM Li and Secretary Rice hold a phone conversation about Sino-U.S. relations and promoting the Six-Party Talks.

**March 27, 2007:** Thomas J. Christensen, deputy assistant secretary for East Asian and Pacific Affairs, testifies before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific, and the Global Environment.

**March 27-28, 2007:** The Senate Finance Committee holds hearings on U.S.-China trade and China's currency regime.

**March 28, 2007:** United Airlines launches direct flights between Washington. and Beijing.

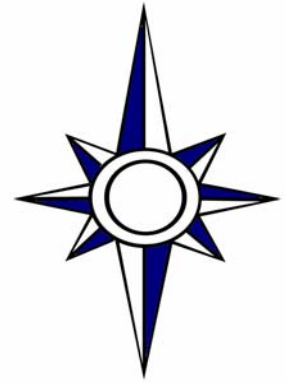
**March 28, 2007:** Speaking at the Paul H. Nitze School of Advanced International Studies in Washington, D.C., China's Ambassador to the U.S. Zhou Wenzhong calls on the U.S. to stop selling advanced weapons and sending to Taiwan.

**March 29, 2007:** Gen. James Cartwright, commander U.S. strategic command, testifies before the strategic forces subcommittee of the Senate Armed Services Committee.

**March 29-30, 2007:** U.S.-China Economic and Security Review Commission holds hearing on China's military modernization and its impact on the U.S. and the Asia Pacific.

**March 30, 2007:** Commerce Secretary Carlos Gutierrez announces the adoption of new policy imposing potentially steep tariffs on Chinese manufactured goods on the grounds that its government subsidies of exports are illegal.

**March 30, 2007:** U.S. health officials say that a toxin used in fertilizer in China and to make plastics in the United States has been found in samples of recalled pet food and in imported Chinese wheat gluten used in the food.



U.S.-Korea Relations:  
**Unexpected Progress on All Fronts**

Donald G. Gross  
The Atlantic Council of the United States

North Korea promised to shut down and seal its nuclear facilities at Yongbyon this quarter in a deal that implements the Six-Party Talks September 2005 Joint Statement, committing Pyongyang to dismantling its nuclear weapons program. To achieve this breakthrough, the Bush administration agreed to transfer back to North Korea approximately \$25 million in funds that were frozen since the fall of 2005 in a Macau bank for reported laundering of U.S. money.

Despite the political will on both sides, however, “technical issues” involving financial regulations prevented the funds from being transferred, as scheduled, by the mid-March round of Six-Party Talks, which was quickly adjourned. At the end of the quarter, U.S. diplomats expected to resolve the banking issues shortly so North Korea would move to shut down its reactor and allow inspectors from the International Atomic Energy Agency (IAEA) to reenter the country.

The U.S. and South Korea reached an historic free trade agreement (FTA) at the end of the quarter, which must now go to the U.S. Congress and South Korean National Assembly for ratification. The agreement would eliminate more than 90 percent of the tariffs currently applied in the two countries’ international trade. Reportedly, a “rice for beef” deal clinched the FTA. South Korea agreed to lift completely restrictions on U.S. beef that aim at preventing the spread of mad cow disease. In return, U.S. negotiators agreed to exclude rice from the FTA, effectively giving into demands from Korean rice farmers who had angrily demonstrated against the accord.

Senior U.S. and South Korean defense officials reached a tentative agreement in March on the timetable and funding to relocate U.S. forces in South Korea to a newly expanded base at Pyongtaek, south of Seoul. South Korea agreed to pay \$6 billion of the \$11 billion project and promised that base construction would be completed no later than 2012.

**A critical meeting in Berlin**

In mid-January, assistant secretary of state of the Bureau of East Asian and Pacific Affairs and chief U.S. negotiator to the Six-Party Talks, Ambassador Christopher Hill met in Berlin with North Korea’s chief delegate to the Six-Party Talks, Kim Gye-gwan, to resolve the dispute that bogged down the previous round of multilateral talks –

Pyongyang's unwillingness to negotiate on dismantling its nuclear weapons program until the U.S. ended financial sanctions for alleged counterfeiting. At stake was approximately \$25 million in North Korean funds that were frozen in a Macau bank Banco Delta Asia since the fall of 2005.

Both the White House and State Department spokesmen played down the significance of this meeting, though it represented the first time during the Bush administration that U.S. diplomats met bilaterally with North Korean officials outside the setting of the Six-Party Talks. That the meeting took place at all was something of a procedural concession to Pyongyang, which has long sought direct talks with the United States.

Details of discussions at the meeting did not emerge for approximately two weeks. Ambassador Hill initially commented that the talks were "substantive" and "useful," while the administration denied that anything unusual had occurred. White House press secretary Tony Snow said that "this is not an instance of bilateral negotiations," while State Department's Deputy Spokesman Tom Casey emphasized that the talks "certainly don't represent anything particularly new or different from what we've done before."

In fact, according to a story in early February by the Japanese *Asahi Shimbun*, the U.S. and North Korea signed a memorandum of understanding (MOU) in Berlin that laid the basis for the negotiating breakthrough at the mid-February round of the Six-Party Talks. Under the MOU, North Korea agreed to initially freeze the operation of its nuclear reactors in Yongbyon in exchange for energy and humanitarian assistance from the U.S. In concept, this agreement was similar to the Agreed Framework reached between Washington and Pyongyang in October 1994 that previously led to the shutdown of the Yongbyon nuclear reactor. Following the Berlin meeting, Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser hosted a three-hour session to discuss Banco Delta Asia and counterfeiting concerns with DPRK officials at the U.S. Embassy in Beijing.

### **A "joint agreement" at the Six-Party Talks**

The Six-Party Talks reconvened in Beijing on Feb. 8, in an atmosphere of optimism engendered by the Berlin meeting. Despite the blueprint for progress in the U.S.-North Korea MOU, the talks proved more difficult than expected. One day before the successful conclusion of the round, *The New York Times* reported that the negotiations were on the verge of "collapse" due to differences over the amount of energy assistance Pyongyang would initially receive as compensation.

Nevertheless, on the last day of the round, the delegates announced their "joint agreement" for implementing the principles they previously agreed upon at the Six-Party Talks on Sept. 19, 2005. In the text of their "joint agreement," the U.S. and North Korea joined the other parties in reaffirming "their common goal and will to achieve early denuclearization of the Korean peninsula in a peaceful manner." The key points of the joint agreement were:

- Within 60 days, North Korea will shut down and seal its main nuclear facilities at Yongbyon. Inspectors from the IAEA will be allowed to return to North Korea to verify this process.
- In exchange for the complete accounting of its nuclear programs and the shutting down of its nuclear facilities, North Korea will receive energy, food, and other assistance up to an equivalent of 1 million tons of heavy fuel oil (HFO), including an initial shipment of 50,000 tons of HFO from the other five parties.
- The U.S. will begin bilateral talks with North Korea, at an unspecified future time, to discuss normalizing relations.
- The U.S. will, at an unspecified future time, begin the process of removing North Korea from the U.S. list of states that support terrorism. (This listing currently requires the U.S. to oppose any assistance by multilateral financial institutions, such as the World Bank and IMF, to North Korea).
- Japan will begin bilateral talks with North Korea to normalize their relations.
- After 60 days, the foreign ministers of all the countries involved in the Six-Party Talks will meet to confirm the implementation of the agreement and discuss creation of a peace and security mechanism in Northeast Asia.
- “Some countries” (presumably the U.S., China, North Korea, and South Korea – the “principal belligerents” in the Korean War) will hold a separate forum on negotiations for a permanent peace settlement to replace the 1953 Armistice, a ceasefire agreement that ended the Korean War.
- Five working groups will be created to discuss the following topics: denuclearization, U.S.-North Korea relations, Japan-North Korea relations, economic cooperation, and a peace and security mechanism in Northeast Asia.
- The parties will meet for their next round of talks on March 19.

Although unstated in the text of the Feb. 13 joint agreement, prior U.S. willingness (in the Berlin MOU) to release the \$25 million in North Korean funds frozen in a Macau bank for reported counterfeiting was the critical *quid pro quo* for North Korea to shut down its nuclear facilities at Yongbyon.

### **Reaction to the joint agreement**

Following announcement of the joint agreement, President George W. Bush said that he was “pleased with the agreements reached today at the Six-Party Talks in Beijing. These talks represent the best opportunity to use diplomacy to address North Korea’s nuclear programs. They reflect the common commitment of the participants to a Korean Peninsula that is free of nuclear weapons.”

Bush tied the joint agreement closely to the joint statement of principles reached by the six countries on Sept. 19, 2005. He said that “today’s announcement represents the first step toward implementing that [September 2005] agreement.” Bush also acknowledged that the U.S. would participate in providing economic, humanitarian, and energy assistance to North Korea when he said that “such assistance will be provided as the North carries out its commitments to disable its nuclear facilities.”

Bush’s support for advancing nuclear negotiations with North Korea represented a victory for a moderate faction in the administration, now led by Secretary of State Condoleezza Rice, which seeks a diplomatic agreement with Pyongyang. Members of a more conservative faction, including former U.S. Representative to the United Nations John Bolton and Under Secretary of State Robert Joseph, made clear after the announcement that they preferred a tougher U.S. approach. In response to Bolton’s public comment that the agreement sets a bad example by rewarding North Korea for its nuclear activities, Bush said “I strongly disagree, strongly disagree with this assessment.”

South Korea’s President Roh Moo-hyun welcomed the six-party breakthrough and called for an agreement between North and South Korea on a permanent peace regime following a denuclearization agreement. He emphasized that a peace agreement to replace the 1953 Armistice and the formation of a multilateral security and cooperation framework in Northeast Asia would confer major economic benefits on South Korea.

Referring to this lower credit rating that South Korea receives because of security problems on the peninsula, Roh commented: “the successful settlement of negotiations between South and North Korea on lasting peace as well as the nuclear problem would eliminate non-economic hurdles to South Korea’s ascent to the top of the global credit rating ladder.”

### **“Technical problems” transferring North Korean funds**

From mid-February until the new round of six-party process began March 19, events proceeded apace, in line with the outlines of the Feb. 13 joint agreement:

- On Feb. 26, U.S. Treasury official Glaser met with Macau authorities and told the press afterward “we’ve completed our investigation.... All of this work has put us in a position where we can begin to take steps to resolve the [Banco Delta Asia] matter.... We do intend to take steps to resolve the matter and we do intend to do that in a timely fashion and to do it as soon as possible.”
- On March 5, North Korean chief delegate to the Six-Party Talks Kim Gye-gwan met in New York with Ambassador Hill where they agreed to “normalize ties between North Korea and the U.S.” and resolve the issues of Pyongyang’s continued listing a state sponsor of terrorism and as an object of the U.S. Trading with the Enemy Act.

- On March 13, Mohamed ElBaradei, head of the IAEA, visited North Korea, meeting with high-level officials as well as nuclear experts to prepare for a return of IAEA inspectors and the process of verifying Pyongyang's shut-down and sealing of its Yongbyon nuclear facility.

At the March 19 round of Six-Party Talks, the momentum built during the prior month seemed to continue. Hill said that "we are very pleased to announce that we've been able to reach an understanding with the DPRK on the full return of funds [held by Banco Delta Asia]."

Treasury official Glaser confirmed that the frozen North Korean funds would be "transferred to an account "held by North Korea's Foreign Trade Bank at the Bank of China in Beijing." He added in his prepared statement in Beijing that "North Korea has pledged, within the framework of the Six-Party Talks, that these funds will be used solely for the betterment of the North Korean people, including for humanitarian and educational purposes."

The hint of a possible problem arose, however, from Glaser's comment that the transfer of funds would be arranged between Pyongyang and Macau "in conformity with Macanese procedures and regulations" and this would take some time. It soon became clear that because of technical issues – bearing on the formal permissions required for inter-bank transfers – the \$25 million in frozen funds could not be turned over to North Korea during the next several days of scheduled six-party negotiations.

Until the monies were transferred, North Korea refused to move ahead in implementing the Feb. 13 agreement. North Korean Chief Delegate Kim Gye-gwan, affirmed that only "if the Banco Delta Asia issue is completely resolved, [North Korea] will halt its nuclear activities at Yongbyon." Given what amounted to a technical glitch, despite the political agreement of the parties, China decided to adjourn the Six-Party Talks March 22 with the intention of reconvening after the transfer of funds to North Korea occurred.

### **U.S. and South Korea complete free trade agreement**

On April 1, the U.S. and South Korea reached a final deal on the Korea-U.S. Free Trade Agreement (KORUS) they had negotiated, at times with great difficulty, since early 2006. For the United States, the FTA is the biggest since the North American Free Trade Agreement with Canada and Mexico in 1994 and the first with a major Asian country.

The agreement, which still needs to be approved by the U.S. Congress and South Korea's National Assembly, would eliminate more than 90 percent of the tariffs currently applied to products in the two countries' international trade. South Korea is the 11<sup>th</sup> largest economy in the world, while the U.S. economy is the world's largest.

Trade negotiators were working under a tight March 31 deadline for finishing their talks. They "declared" completion of the agreement by that time, which will allow the Bush administration to submit the agreement to the Congress under so-called "fast track"

negotiating authority. Using this procedure, Congress must give a “thumbs up or thumbs down” decision to the overall pact and cannot amend it in part.

Both President Bush and President Roh welcomed the agreement. According to Bush, “the United States-Korea Free Trade Agreement will generate export opportunities for U.S. farmers, ranchers, manufacturers and service suppliers, promote economic growth and the creation of better paying jobs in the United States, and help American consumers save money while offering them greater choices. The agreement will also further enhance the strong United States-Korea partnership, which has served as a force for stability and prosperity in Asia.”

Roh said in a special nation-wide address that “I expect the accord to be a stepping stone for our country to take a leap forward to becoming an advanced economy.” The South Korean president plans to lead a major effort to seek ratification of the pact in the National Assembly, where many of his former colleagues in the Uri Party oppose the FTA.

For the Bush administration, the agreement is a major victory in its drive to secure a number of new free trade agreements before leaving office in 2008. The U.S.-Korea FTA should help build support for other pending FTA negotiations with Peru, Columbia, and Panama, despite skepticism for free trade agreements, in general, from a Democrat-controlled Congress.

For South Korea, the FTA culminates its strategy of securing preferential access for South Korean products to the U.S. market, ahead of its primary Asia competitors, China and Japan. According to Fred Bergsten, director of the Peterson Institute for International Economics in Washington, the FTA gives Korea “a unique historic opportunity to achieve a preferred trade and indeed overall relationship with the United States that is unlikely to be available to any of its main competitors for a prolonged period of time.”

In 2006, the U.S. and South Korea had approximately \$78 billion in international trade. Studies by researchers at economic think-tanks have estimated that trade between the two countries may rise by as much as 20 percent as a result of the FTA.

### **Resolving tough final issues on the FTA**

In the closing days of the negotiations, the most difficult issues were not surprisingly in the agricultural and automobile sectors. South Korea insisted on excluding rice from the FTA altogether to protect its vulnerable – and militant – rice farmers whose pleas for protection resonated with the Korean public. The U.S. on the other hand, demanded free access to the Korean market for U.S. beef, which the Korean government has severely restricted over the past several years due to the threat of mad cow disease.

Negotiators reportedly reached an agreement that South Korea would fully open its beef market under the FTA over 15 years, assuming that the World Organization for Animal Health classifies U.S. beef as relatively free from mad cow disease, a decision that is expected in mid-May. In return the U.S. would not press for opening Korea's rice market.

In the automobile sector, South Korea agreed to remove an 8 percent tariff on imported cars and to eliminate a domestic vehicle tax system, which U.S. trade negotiators said discriminates against U.S. made cars with bigger engines. In return, the U.S. agreed to immediately eliminate import tariffs on Korean-made auto parts and a 2.5 percent tariff on Korean-made autos with engines smaller than 3,000 cubic centimeters. The U.S. also said it would phase out a 25 percent duty on trucks over a 10-year period.

Other important measures in the FTA include:

- Over \$1 billion of U.S. agricultural exports will become duty-free in Korea, once the FTA is ratified.
- 95 percent of bilateral trade in consumer and industrial products will become duty-free within three years; most remaining tariffs will be removed in 10 years.
- South Korea will expand market-access for U.S. service providers in the fields of law, accounting, broadcasting, and e-commerce.
- U.S. tariffs on Korean textiles, averaging approximately 9 percent, will be removed on about 60 percent of textiles.
- The U.S. and South Korea will form a committee to discuss the creation of "outward processing zones" on the Korean Peninsula, which would potentially include the Kaesong industrial complex in North Korea.
- U.S. investors in South Korea will have the same rights and protections as Korean investors. These rights will be strengthened by a transparent, legal framework.
- South Korea will provide strong protection for intellectual property rights including patents, copyrights, and trademarks, at the level of U.S. standards.
- Both the U.S. and South Korea will enforce their labor and environmental laws to safeguard labor rights and protect the environment.

### **Relocation of U.S. Bases in South Korea**

Senior U.S. and South Korean defense officials reached a tentative agreement in late March on the timetable and funding for relocating U.S. forces to a newly expanded base south of Seoul. Under the plan, South Korea would spend approximately \$6 billion for the \$11 billion project, with the U.S. picking up the rest. The new base construction, in

Pyongtaek, Gyeonggi province (about 70 km from Seoul) would be completed no later than 2012.

At the outset of the quarter, the commander of U.S. forces in Korea, Gen. B.B. Bell, strongly criticized the South Korean government for suggesting a delay of four to five years in the construction, beyond the previously agreed completion date of 2008. Bell argued that the new base expansion would “correct a wrong we have tolerated for years. That is, lousy living conditions and lousy facilities. So, I’m opposed to any decision to stretch this out for any reason, whether that is political or whether it’s fiscal, money or whatever it is.”

Despite the tentative agreement, differences still remain. For example, Washington wants South Korea to pay \$400 million for moving C4I (command, control, communications, computers, and intelligence) facilities, while Seoul has said that the most it is willing to pay is \$200 million.

The senior South Korean army official in charge of base relocation, Gen. H.K. Kwon, summed up the situation this way: “Despite 17 months of negotiations, there are still unresolved issues that we have failed to compromise on. We expect that such remaining problems will be solved after a consortium of firms to handle the relocation is picked in May... Total cost-sharing between the two sides is likely to [eventually] be 50-50.”

## **Prospects**

U.S. relations with both South and North Korea lurched this quarter in unexpectedly positive directions. Merely four months after Pyongyang conducted a nuclear test and declared itself a nuclear weapons state, North Korea and the U.S. agreed on a concrete process for dismantling North Korea’s nuclear weapons program. In so doing, the U.S. reached its immediate diplomatic objective of starting to implement the Sept. 19, 2005 joint statement of principles at the Six Party Talks – in which North Korea, for the first time, committed itself to abandoning its nuclear weapons program.

The sudden adjournment of the round of Six-Party Talks that began March 19 reflected an underlying “technical problem” in the true sense. Despite the political decision of the U.S., China, and other parties to release North Korean funds, the banks involved would not implement a transfer unless certain financial regulatory requirements were met. At the end of the quarter, U.S. officials were optimistic that the North Korea funds would be released, and Pyongyang would proceed to shut down and seal its nuclear facilities at Yongbyon.

Once that shutdown occurs, Washington and Pyongyang will truly be charting new ground. With six-party working groups focusing on normalizing U.S.-North Korea bilateral relations as well as establishing a new multilateral “peace and security mechanism” for Northeast Asia, U.S. diplomats will need to ensure that movement in these areas spurs progress on the main issue – dismantling North Korea’s nuclear weapons program.

Despite months of pessimism that the U.S. and South Korea would ever agree on a free trade agreement, negotiators successfully achieved a deal at the end of the quarter. Considerable credit for this accomplishment should go to President Roh, who made an FTA a central objective of his last year in office.

Ultimately, the Bush administration gathered the political will to finalize an agreement, though its potential value to the U.S., both economically and politically, could not possibly match its importance to South Korea. Merely comparing the treatment of the issue in Korean newspapers – where the FTA negotiation has been front-page news for months – to its minor mention in U.S. media, bears out this point.

Although some members of Congress were critical of the final agreement, it is likely to be approved at the end of the 90-day fast-track review period. Once South Korea declares its decision to admit all U.S. beef, as is probable in mid-May, leading advocates for U.S. agriculture, including Montana Sen. Max Baucus, are likely to embrace the accord.

They and other members of Congress will find that U.S. trade negotiators gained considerable economic concessions from South Korea that benefit U.S. businesses in a variety of sectors. In retrospect, U.S. negotiators were able to achieve this impressive result because South Korea focused more on reaching its strategic goals – strengthening the Korea-U.S. political relationship and obtaining broad preferential access to the U.S. market vis-à-vis China and Japan – than on achieving narrow economic gains on most specific sectoral issues.

### **Chronology of U.S.-Korea Relations January-March 2007**

**Jan. 15, 2007:** U.S. and South Korean trade negotiators meet in Seoul to continue discussions on a free trade agreement.

**Jan. 16-18, 2007:** U.S. and North Korean negotiators meet in Berlin to discuss the nuclear issue.

**Jan. 30-Feb. 1, 2007:** Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser hosts financial talks to discuss Banco Delta Asia and counterfeiting concerns with DPRK officials at the U.S. Embassy in Beijing.

**Jan. 31, 2007:** U.S. Congressman Michael Honda (D-Ca) introduces nonbinding resolution in the House of Representatives calling for the Japanese government to apologize unambiguously for its role in the “comfort women” issue during World War II.

**Feb. 7-8, 2007:** The U.S. and ROK hold Security Policy Initiative talks.

**Feb. 8, 2007:** U.S. and South Korean negotiators meet to resolve differences on the relocation of U.S. military bases in South Korea.

**Feb. 8-13, 2007:** The Six-Party Talks convene in Beijing. At the conclusion of the proceedings, a phased “action for action” agreement is reached.

**Feb. 9, 2007:** *Asahi Shimbun* reports that during the January Berlin U.S.-DPRK bilateral meeting the parties signed a memorandum of understanding under which North Korea agreed to freeze its Yongbyon nuclear reactors for energy and economic assistance.

**Feb. 12, 2007:** *The New York Times* reports that the North Korea demand for huge amount of oil and energy in exchange for its nuclear weapons program nearly stalls the talks.

**Feb. 13, 2007:** Diplomats reach agreement at the Six-Party Talks on phasing in a denuclearization agreement for North Korea.

**Feb. 13, 2007:** President Roh Moo-hyun tells South Korean residents in Spain that he welcomes the breakthrough agreement because a permanent peace regime will not only ease tensions in the region, but also strengthen South Korea’s global credit rating.

**Feb. 23, 2007:** Defense Secretary Robert Gates and ROK Defense Minister Kim Jang-soo meet in Washington to reaffirm and to look at the future of the U.S.-ROK alliance. They agree that the Joint Forces Command will be disestablished on April 17, 2012.

**Feb. 26, 2007:** U.S. Treasury official Glaser meets Macau authorities to discuss Treasury Department findings on Banco Delta Asia.

**March 1, 2007:** PM Abe says that there is no evidence or testimony that the Japanese military forced the so-called women to become sex slaves during World War II.

**March 1-6, 2007:** Newly appointed Deputy Secretary of State John Negroponte travels to Japan, South Korea, and China to discuss Iran, Iraq, Afghanistan, North Korea, regional security, the war on terrorism, and trade.

**March 5-6, 2007:** The U.S. and North Korea hold working group meetings in New York to discuss North Korean nuclear arms programs, removal of North Korea from the U.S. list of state sponsors of terrorism, and normalization of relations.

**March 11, 2007:** Prime Minister Abe reiterates “unfeigned apology” to the “comfort women” and that he stands by the Kono Statement – Japan’s acknowledgement and apology for Japan’s military direct involvement in the running of the “comfort stations” – on a Sunday morning NHK program

**March 13, 2007:** IAEA head Mohamed ElBaradei visits North Korea; President Roh calls for a new peace regime in Korea after the North Korea nuclear issue is settled.

**March 14, 2007:** U.S. Treasury finalizes a ruling against Banco Delta Asia that prohibits all U.S. financial institutions from maintaining correspondent accounts for BDA and prevents BDA from accessing the U.S. financial system. China expresses deep regret over Treasury's decision. It also announces that treatment of the North Korean BDA account will be left to the discretion of the Macau authority.

**March 14, 2007:** Assistant Secretary Hill arrives in Beijing to attend the denuclearization working group, Northeast Asia security working group, and the next round of Six-Party Talks.

**March 16, 2007:** IAEA head ElBaradei meets in Beijing with U.S., Japanese, and South Korean ambassadors in charge of North Korean nuclear issues to report on his visit to North Korea from March 13 to 14.

**March 16, 2007:** FM Song and Secretary Rice review the process of the Six-Party Talks working group discussions and the status of the KORUS FTA.

**March 19, 2007:** U.S. and North Korea agree on the release of \$25 million in frozen funds in a Macau bank; Six-Party Talks open in Beijing.

**March 22, 2007:** Six-Party Talks abruptly adjourn after technical problems prevent the transfer of frozen funds in a Macau bank to North Korea.

**March 25-31, 2007:** U.S. and ROK military hold 12<sup>th</sup> Reception, Staging, Onward Movement and Integration and Foal Eagle exercises in South Korea.

**March 24, 2007:** Deputy Assistant Secretary Glaser meets Chinese Foreign Ministry officials in Beijing to discuss the transfer of the frozen North Korean funds held at Banco Delta Asia to the Bank of China.

**April 1, 2007:** U.S. and South Korean trade negotiators announce conclusion of a free trade agreement.





**U.S.-Russia Relations:  
Coming Full Circle**

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The opening of 2007 witnessed perhaps the nadir in bilateral relations between Moscow and Washington since the establishment of the “strategic partnership” in the war on terror in late 2001. In a highly publicized speech in Munich in February, Russian President Vladimir Putin launched a broadside against U.S. foreign policy, suggesting that the United States seemed to view force as the only policy option at its disposal. If relations did not return to the dark days of bipolar confrontation during the Cold War, then the series of events that transpired this quarter did resemble a return to the tumultuous days of the late 1990s, when U.S. and NATO forces were bombing a long-time Russian ally in the Balkans, when NATO expanded into the former Soviet sphere, and when China and Russia were locked in an embrace hoping to contain U.S. “unilateralism.” But, in an interesting twist, by the latter stages of March it appeared that Moscow and Washington had agreed on the need to foil Iran’s bid to march down the road to uranium enrichment. Thus, the quarter concluded on a favorable note, hinting that – at least temporarily – the bilateral relationship had regained sounder footing.

**Munich takes center stage – again**

Munich served as a stage for global geopolitics on several occasions during the 20<sup>th</sup> century. The picturesque city again took up a familiar role in discussions of global importance this past February. At a conference on international security attended by dozens of European defense and foreign ministers, Vladimir Putin denounced the U.S. tendency to unilaterally impose its will across the globe. “The United States has overstepped its national borders in every way,” the president said in his address. “Nobody feels secure anymore, because nobody can take safety behind the stone wall of international law.” NATO expansion, U.S. policy in the Middle East, the development of a missile defense system, and a series of other issues were negatively highlighted during his talk. In the past, Putin had made oblique references to “unilateralism” and “Comrade Wolf,” but this speech was by far Putin’s most damning public excoriation of U.S. policy.

Both the timing and the venue were perhaps selected to ease the sting of Putin’s remarks. For one, there were few other heads of state present (the other notable attendee was German Chancellor Angela Merkel), so George Bush and others were not forced to sit and listen to the rebuke. Additionally, Russian Defense Minister (soon to be named first deputy prime minister) and close Putin confidante Sergei Ivanov was quick to downplay

Putin's remarks the following day. Ivanov spoke of the necessity of cooperation and invited U.S. Defense Secretary Robert Gates (who was present in Munich) to Moscow. What is significant is that normally Ivanov is the man tasked to deliver public criticism of the United States. Perhaps Moscow hoped to defuse any tension by using a hardliner to speak in soothing tones afterward. Putin was clearly speaking to a domestic audience; and it might even be argued that if Putin was not addressing a disillusioned electorate in the U.S. that had delivered a stinging defeat to the Republicans in Congressional elections at the end of 2006, then the Democratic victory at least gave Putin the courage to say what he did publicly.

The timing must also be viewed in the context of international and domestic factors. Just prior to the Munich conference, Secretary Gates delivered a dire assessment of the situation in Russia at a Congressional committee meeting. Additionally, Putin may have had the Arab world on his mind. After the Munich meeting he traveled to Saudi Arabia, Jordan, and Qatar. Russia is attempting to play a larger geopolitical role in the region and any distancing from the U.S. would be perceived by many in the region as a plus.

In the Mideast, however, hopeful news emerged concerning the long-running Iranian attempt to develop a nuclear weapons program. In mid-March, Moscow warned Tehran that nuclear fuel shipments for the Russian-built Bushehr plant would be suspended if the Iranian government did not resolve outstanding financial obligations. Of even more importance was the Russian decision to back UN-sponsored sanctions against Iran, if the regime continues to pursue a uranium enrichment program. At the end of March, the Iranian government had 60 days to comply with UN demands or face severe sanctions, and Moscow (as well as Beijing) continued to stand firm with other Security Council members.

Meanwhile back in Europe old East-West tensions seemed to re-emerge from the woodwork. The issue receiving the most negative coverage in Russia was the announcement that the U.S. Department of Defense and NATO were discussing with the governments in the Czech Republic and Poland about the construction of radar stations in their countries that would serve as integral parts of a region-wide anti-ballistic missile defense system. Both Putin and Foreign Minister Sergei Lavrov questioned the necessity and the objective of such a system so close to Russia's borders. U.S. statements meant to assuage Russian fears (issued by Secretary of State Condoleezza Rice and National Security Advisor Steve Hadley) fell on deaf ears. No Russian leader could be persuaded that the establishment of a missile defense system in Europe would be aimed at anyone other than Russia.

Over the past several months, the Russian government and military leaders have openly spoken about the idea of Russia unilaterally withdrawing from the Intermediate-Range Nuclear Forces Treaty (otherwise known as the INF Treaty signed by Reagan and Gorbachev in 1987). A deconstruct of the Russian argument was posted in the respected *Nezavisimoe Voennoe Obozrenie*. Truth be told, the Russians would not see a withdrawal as "unilateral." It would be viewed in Moscow as a clear response to the U.S. withdrawal

from the ABM Treaty in 2002, and the U.S./NATO attempts to build an anti-missile defense system along Russia's old borders.

The idea of "coming full circle" in U.S.-Russian relations (at least back to 1999) really gains credence when the issue of the former Yugoslavia comes up. Readers remember the highly publicized split between Moscow and Washington in response to NATO's bombing campaign of Belgrade in 1999, and the dramatic turn-around of Prime Minister Evgeny Primakov's plane over the mid Atlantic. Back then, Russian armored forces made a dash to the airport in Pristina from nearby Bosnia, in order to arrive before British-led NATO forces, almost touching off an armed skirmish. In 2007, Kosovo again presents a divisive issue. Kosovar leaders now desire independence for their region, which has been administered by NATO for the last eight years. The West feels that Kosovo deserves to become an independent nation (which Serbia does not want). Moscow – without directly stating its support of Serbia – simply states that the future of Kosovo must not be decided without a Russian say. To be sure, Russian leaders are also nervous about the precedent that independence for Kosovo would set for Chechnya, Moldova, and elsewhere. The UN Security Council is due to make a final decision on the future of Kosovo later this spring or summer. This could fully expose the U.S.-Russian rift on this issue.

Perhaps of utmost concern to leaders in Russia is NATO's continued expansion (again coming full circle to the 1999 expansion bringing in the first former Soviet bloc members: the Czech Republic, Hungary, and Poland). In March, the Senate approved a measure calling for U.S. support of NATO membership for Georgia and Ukraine (as well as Albania, Croatia, and Macedonia). Although the former Soviet Baltic states were granted NATO membership in 2004, Georgia and Ukraine are much closer to the traditional core of Russian interests, and the two nations have a much longer historical association with Moscow (though not necessarily St. Petersburg). Their entry into NATO would be seen as a much bigger affront to Russian strategic interests than prior entries. Equally offensive to Russian leaders is the rumor of the U.S. probing the possibility of establishing missile defense radar stations in Georgia and elsewhere in the south Caucasus.

What has not gone unnoticed in the Russian press is the fact that many in the Democratic leadership who have ascended to positions of authority and influence manifest a decided anti-Russian bias. Tom Lantos who is now the chair of the House International Relations Committee is known in Russia as much for his supposedly anti-Russian views as his East European (and, hence, in the Russian mind, prejudiced) heritage (he was born in Hungary). Joseph Biden, who now chairs the Senate Foreign Relations Committee, is known as an advocate of expelling Russia from the G-8. John McCain is the foremost advocate of this strategy, and although he attained no leadership position after the Congressional elections, he is viewed as one of the more prominent U.S. presidential candidates by observers in Russia. Ironically, Lantos visited Moscow in February and promised to help repeal the long-standing Jackson-Vanick Amendment, which has prevented Russia from attaining normal trading status with the U.S. (even though the legislation was initially aimed at the Soviet Union in the 1970s).

## Washington's stance vs. the view from America

On most occasions this column would be littered with references to energy cooperation, nuclear proliferation, the war on terror, strategic competition in Central Asia, and the North Korean nuclear impasse. But the high-level nature of the dialogue on the state of relations deserves close inspection. Now that Russia's views have been examined in-depth, it behooves us to look at the view from Washington and elsewhere in the U. S.

It would be dangerous to generalize about how "official Washington" views relations with Russia, as viewpoints in the various branches of government run from A to Z. Most of the press emanating from the western shores of the Atlantic Ocean (or the eastern shores of the Pacific for the Pacific Forum audience) has been increasingly critical of the Russian government, and of Putin specifically. The list of journalists and opposition figures being jailed and killed seems to grow with each passing week. Political opposition to the pro-Putin party *United Russia* is becoming a distant memory, a fact made even more apparent with the regional elections in Russia on March 11. *United Russia* scored a convincing victory in 13 of the 14 regions where elections were held; the 14<sup>th</sup> region was won by another pro-Putin party, *A Just Russia*. Additionally, Putin seems to be laying the groundwork for a smooth transition for his successor, due to be elected (with a comfortable margin, no doubt) in March 2008. Putin elevated Sergei Ivanov from defense minister to first deputy prime minister, where he now is equal in rank with Dmitry Medvedev. Both Ivanov and Medvedev are close confidantes of Putin and are rumored to be his first choices for successor (although given Russia's track record the "chosen" successor may very well be a relative unknown named at the 11<sup>th</sup> hour). Putin also recently named a political protégé as head of the Central Electoral Commission.

Given these trends, it is hard to be enthusiastic about the development of democracy in Russia. Throw in the continued political and military morass in Chechnya; the energy power plays that Moscow has undertaken against CIS neighbors like Belarus, Georgia, and Ukraine; Russia's less than cooperative stance in the Middle East (outside of Iran); arms sales to China, Iran, Syria, and Venezuela; and one can see why Russia's supporters in the U.S. are on the defensive.

Nevertheless, the Bush administration – feeling isolated domestically and internationally – appears to be strengthening efforts to keep the "strategic partnership" with Moscow afloat. Despite the criticism and invective that have been streaming from Moscow toward Washington, the leadership in the White House and the State Department has decided to turn the other cheek. Whereas a year ago the Bush administration may have sent Dick Cheney to the Baltics to deliver a speech warning of growing authoritarianism in Russia, President Bush and Secretary Rice are now extending olive branches to the Kremlin. A lead article in *The New York Times* March 6 reported that senior administration officials were orchestrating a series of high-level talks aimed at assuaging Russian fears about U.S. intentions in Eastern Europe, the Middle East, and Central Asia. The article stated, "there is a growing acknowledgment among officials in Washington that the United States has not responded as rapidly or eloquently as it might have to a widespread sense of grievance in Russia." Both Secretary Rice and National Security Advisor Stephen

Hadley met with their counterparts in March, while at the end of the month President Bush personally telephoned President Putin to give his explanation for a number of strategic decisions (including the establishment of a missile defense system in Eastern Europe). Bush's call was reportedly "received with satisfaction" by Putin.

The Bush administration is not alone in the U.S. in its decision to look past moral and normative issues and focus on the big picture. Wall Street also appears to be in love with Vladimir Putin's version of Russia. A January article in the *Wall Street Journal* pointed out that when Putin became president in 2000, the value of Russia's traded stocks was \$74 billion. Today that value exceeds \$1 trillion. While energy prices have had much to do with that, political stability and predictability are also valued assets in the eyes of international investors and fund managers. For them, Putin is the essence of stability. Companies such as Boeing, Exxon-Mobil, General Motors, IBM, Microsoft, and a host of others have made huge profits in Russia during Putin's time in office. They are a quiet, yet effective voice for Russia in Washington. Although Russian commentary often decries the lack of a Russian lobby in Capitol Hill corridors, multinationals undoubtedly represent Russia with flying colors in Washington.

The love-hate relationship between Moscow and Washington has become a semi-permanent fixture in international politics. It is also not so easily painted in black and white, as it was during the Cold War. One long-time U.S. resident in Moscow had this to say about the recent acrimony between the U.S. and Russia: "an unbiased observer will easily see that both are at fault, and the list of recriminations in either case is perfectly logical and adequate." This may actually represent the establishment of normalcy in the bilateral relationship. How are relations between the United States and China, France, Germany, or Japan at any one time? Are they not at times contentious and stormy? Nations such as Great Britain, Canada, and Australia are perhaps exceptions to the rule, but to suggest that U.S. relations with the world besides Russia over the last six years have been ideal would be delusional.

### **Russia and the U.S. in Asia**

Besides the high-profile visit of Chinese President Hu Jintao to Moscow in late March and the launching of the "Year of China" in Russia, there was little in the news about Russia in East Asia, except for the fact that bilateral meetings between Russian and North Korean officials in Moscow in March resulted in no deal.

Russian officials, eager to play a positive role on the Korean Peninsula – and to get in on any economic deals – were prepared to offer DPRK Deputy Foreign Trade Minister Lim Gen Man (who was in Moscow in late March) debt forgiveness for a more cooperative stance on nuclear issues. The DPRK owes Russia approximately \$8 billion from the Soviet era, and on several occasions Moscow has dangled debt forgiveness in front of Pyongyang, only to get nowhere. Thus far, Pyongyang has been unwilling to play its "Russia card" in negotiations with the U.S. and the other three parties.

Russian and Japanese diplomats were engaged in a so-called “strategic” dialogue in January. At the time there were hopeful signs from the entourage of Prime Minister Abe Shinzo concerning Japanese flexibility on the territorial issue. But by the end of the quarter, relations – like a broken record – returned to the familiar tones and rhetoric of negativity.

The most noteworthy issue recently debated in Russia concerning Asia had to do with its own territory. In December 2006, President Putin announced in a speech that the economic isolation of the Russian Far East and the ineffective management of the region pose a national security risk to Russia as a whole. Putin made no direct reference to foreign powers, but considering his comments several years ago that if the region did not sufficiently develop economically, politically, and socially everyone there would be speaking Chinese, it takes little to surmise which neighbor he feels is a national security risk. Since Putin’s speech, the Russian government has announced a plan to allocate several billion dollars to help the economic development of the region (centering on the immediate area around Vladivostok). Social and economic development and stabilization are rightly seen in Moscow as keys to national security in that beleaguered region.

Although the Russian government has announced its interest in constructing a gas pipeline to parallel the proposed East Siberian-Pacific Ocean (ESPO) oil pipeline, there has still been no concrete decision or public announcement whether the pipelines will end in China, or in Perevoznaya, a terminal outside of Vladivostok (across from Japan and the Korean Peninsula). Beijing and Tokyo await that decision with baited breath.

### **Looking ahead**

The primary pending issues between Moscow and Washington are the presidential elections slated for March and November of 2008. But these are a long way off. Two issues will be coming up soon in the United Nations, however, that will also have an impact on bilateral relations. Within the next 60 days or so, Iran will have to have shown progress on the nuclear issue. Additionally the UN Security Council is due to debate Kosovo independence, which will also have a bearing on relations between Moscow and Washington. As for Kosovo, it appears that Russia has many allies on this issue in the UN, including China, Indonesia, Romania, Slovakia, and a handful of other states. The next few weeks will also be critical for maintaining whatever momentum the Six-Party Talks on Korean Peninsula security issues achieved early this year. Russia has demonstrated positive attitudes toward the U.S., but has been unable to deliver anything of note.

If the relationship between Moscow and Washington can survive the public tongue lashing Russian leaders have been delivering over the past several weeks and if the leadership of both nations can maintain civil relations, then it appears the “strategic partnership” will have survived yet another tense quarter.

## **Chronology of U.S.-Russia Relations January-March 2007**

**Jan. 6, 2007:** The Russian Foreign Ministry publicly denounces a U.S. government decision to maintain sanctions against the Russian arms export firm Rosoboroneksport. The decision was made in fall 2006; subsequently the U.S. government lifted sanctions against aircraft maker Sukhoi, while Rosoboroneksport remains blacklisted.

**Jan. 11, 2007:** U.S. National Intelligence Director John Negroponte reports to the Senate Intelligence Committee that the emerging “rivalry with Russia will complicate cooperation on important foreign policy goals including counter-terror, nonproliferation and democracy promotion in the Middle East.”

**Jan. 16, 2007:** Russian Defense Minister Sergei Ivanov announces that Russia has completed the sale of *Tor-M1* anti-aircraft missiles to Iran, the latest generation of Russian-produced *SAM* missiles.

**Jan. 22, 2007:** Reports from the Russian press (*Itar-Tass*) announce that Washington has begun negotiations with the Polish and Czech governments about placing radars to accompany anti-missile defense systems in those two countries.

**Jan. 23, 2007:** The governments of Japan and Russia hold a “strategic dialogue,” as their foreign vice ministers meet in Moscow.

**Jan. 26, 2007:** Russian President Vladimir Putin arrives in India for a two-day visit.

**Jan. 31, 2007:** Russian Foreign Minister Sergei Lavrov arrives in Washington for a three-day visit. He meets with U.S. counterpart Condoleezza Rice and President Bush. The agenda is primarily economic, concerning Russia’s WTO membership.

**Feb. 10, 2007:** In a key policy speech at an international security conference in Munich, Russian President Vladimir Putin strongly denounces U.S. policy, using – among other terms – the words “pernicious” and “unacceptable.”

**Feb. 21, 2007:** Chairman of the U.S. House of Representatives’ International Relations Committee Tom Lantos arrives in Moscow for a two-day visit. In Moscow, Lantos pledges to help repeal the Jackson-Vanik Amendment, which prevents Russia from attaining permanent normal trading status with the United States.

**Feb. 22, 2006:** U.S. National Security Advisor Stephen Hadley visits Moscow to reassure Russian leaders of the benign intentions behind the proposed deployment of a missile defense system in Eastern Europe.

**Feb. 25, 2007:** In a television interview, FM Lavrov criticizes U.S. discussions with the Czech and Polish governments over the installation of radar stations linked to missile defense systems.

**Feb. 27, 2007:** Russian Prime Minister Mikhail Fradkov visits Tokyo to discuss conventional and nuclear energy cooperation between Japan and Russia.

**March 6, 2007:** U.S. State Department releases its annual *Country Reports on Human Rights Practices*. The report states that human rights abuses are worsening in Russia.

**March 7, 2007:** Two U.S. citizens return to Los Angeles after having been hospitalized in Moscow and diagnosed as having been poisoned.

**March 11-14, 2007:** U.S. Deputy Energy Secretary Clay Sell leads a U.S. delegation to Moscow to participate in discussions with Russian counterparts and U.S. industry executives on energy issues and nuclear nonproliferation.

**March 12, 2007:** The Russian government expresses dissatisfaction with Iran over its defiant stance concerning its nuclear program. It informs Tehran that it will withhold nuclear fuel for Iran's nearly completed Bushehr power plant unless Iran meets financial obligations and suspends uranium enrichment as demanded by the UN Security Council.

**March 13, 2007:** The GAO issues a report saying that the U.S. Energy Department has not done enough in Russia to secure radioactive material.

**March 16, 2007:** The Senate approves a nonbinding resolution calling for the support and funding of Ukraine and Georgia's membership to NATO.

**March 27, 2007:** The Russian Foreign Ministry publishes a 100-page document entitled *A Review of the Russian Federation's Foreign Policy*. The document is critical of U.S. policies seeking "unipolar" domination of the globe.

**March 28, 2007:** President Bush telephones President Putin to explain U.S. plans for a missile defense system in Eastern Europe. His attempts to assuage Russian concerns include a pitch for U.S.-Russian cooperation on missile defense. The U.S. explanation is reportedly "received with satisfaction."



U.S.-Southeast Asia Relations:  
**Military Support and Political Concerns**

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U.S. military support for Philippine counterterrorism forces has led to significant gains against the Abu Sayyaf radical Islamist criminal gang in the southern Philippines, although Philippine complaints against the Visiting Forces Agreement continue in the aftermath of the rape conviction of a U.S. Marine. Manila passed long-awaited anti-terrorism legislation to Washington's applause. The U.S.-backed UN Security Council (UNSC) resolution condemning Burma's human rights violations was defeated by joint Chinese-Russian vetoes, although a majority of the UNSC members supported the resolution. Free Trade Agreement negotiations with Malaysia have run up against significant labor and service industry obstacles, while former Prime Minister Mahathir Mohammad convened a private tribunal to condemn the Bush administration's actions in Iraq. Meanwhile, Indonesia's importance for U.S. security was emphasized in a visit by Gen. Peter Pace, chairman of the U.S. Joint Chiefs, and U.S. naval visits to Vietnam and Cambodia signaled growing warmth in those relations.

**Controversies in training Philippine forces and antiterrorist activities**

The U.S. security relationship with the Philippines elicited both positive and negative reactions this quarter. Fallout from a year-long rape case involving four U.S. Marines continued. (For full story, see "Bush Reaches Out at APEC," *Comparative Connections*, Vol. 8, No. 4, January 2007.) The Visiting Forces Agreement (VFA) permitted the lone marine convicted to be held in the U.S. Embassy rather than a Philippine jail while the appeals process proceeds. Philippine anger at this VFA provision has led to calls by prominent Filipinos such as former President Fidel Ramos for the VFA's renegotiation. Ramos wanted to derail efforts by nationalist groups to abrogate entirely the 1951 Philippine-U.S. Mutual Defense Treaty which provides the basis for joint training of the two armed forces and U.S. assistance for Philippine counterinsurgency against the radical Islamist Abu Sayyaf Group (ASG) and Jemaah Islamiya (JI) personnel who also shelter in the southern Philippines.

While the annual *Balikatan* U.S.-Philippine exercises take place over a few weeks after which U.S. personnel return to their bases outside the Philippines, a small number of U.S. Special Operations forces seem to be permanently deployed in Mindanao monitoring ASG movements and advising their Philippine counterparts in counterinsurgency. Under the terms of reference between the two governments, U.S. forces may not participate in

combat but are permitted to defend themselves. U.S. Special Operations Forces patrol with their Philippine counterparts and, according to the respected Philippine Center for Investigative Journalism in a Jan. 17 report, have facilitated the rescue of hostages held by the ASG. U.S. surveillance support for the Philippine military includes P-3 aircraft and UAVs. The killing of two major ASG leaders, Khadaffy Janjalani in September and Abu Sulaimon in January, occurred with the assistance of U.S. surveillance. Concern has been expressed that the U.S. Special Forces deployment violates the Philippine prohibition of foreign bases, a contention denied by the U.S. Embassy Jan. 15, which stated that all facilities used by the U.S. are only temporary.

The February 2007 *Balikatan* exercise consisted predominantly of tabletop simulations dealing with maritime terrorism and transnational crime and included scenarios involving threats to passenger ships, offshore oil fields, cargo ships, and drug smugglers. This year Philippine police and coast guard officials joined the tabletop exercises. On the ground, U.S. soldiers engaged in civic action building schools, bridges, and repairing roads while U.S. medical personnel visited villages. The 2007 *Balikatan* was considerably scaled down. Typically, the exercise involves 3,000-5,000 U.S. troops, but field training was cancelled this year because of the uncertainty involving the impact of the rape case.

U.S. technical assistance to the Philippine military in its fight against the ASG has led to a string of successes. By the end of January, six senior ASG leaders had been killed and the remaining several hundred fighters are bottled up in the rugged interior of Jolo. Two leading JI members – Dulmatin and Umar Patek – continue to be sought in the same region. These two Indonesians were involved in the 2002 Bali nightclub bombing. The U.S. has offered \$10 million for Dulmatin's capture, the same amount Washington has offered for Mullah Omar, the Taliban leader.

Philippine President Gloria Arroyo has been effusive about her country's security relationship with the United States. At a National Security Council meeting on Jan. 23 she said: "Our strategic relationship with the United States has always been a leading point for Philippine and regional security – and becomes even more important as we push for strong collective security arrangements in ASEAN and in East Asia involving the U.S., China, and Japan. Our victories against the Abu Sayyaf highlight the success of our training and intelligence fusion programs with the United States, and these are reinforced by broader programs of peace and development, trade and investment that enlarge the space of Philippine security while constricting the space for terror and transnational crime." At the same time, U.S. Ambassador Kristie Kenney averred that "relations were stronger than ever," implicitly putting the VFA controversy behind.

Other U.S. agencies are also involved in helping to build Philippine security capacity. The State Department's Antiterrorist Assistance Program for the past two years has conducted training seminars for Philippine first responders on how to deal with weapons of mass destruction threats. And FBI and CIA agents are reported by the Philippine press along with Australian police and intelligence to help track down ASG and JI militants. The FBI particularly has provided forensic skills in determining the identities of ASG fighters killed in battle.

Antiterrorist efforts in the Philippines, according to a number of commentators, have been hampered by the absence of antiterrorist legislation. Actions designed to apprehend and incarcerate terrorist suspects have been obstructed by strong public apprehension about the abuses of executive powers over 20 years that characterized draconian rule under the late President Ferdinand Marcos. The Philippines was the only one of the original ASEAN five members lacking a law specifically devoted to countering terrorism; the U.S. had been urging the Arroyo government to see its passage through the Congress, citing the presence of militants operating in the country's southern islands. Finally, on Feb. 20, the Philippine legislature passed an antiterrorism act, first introduced a decade earlier. While weaker than the legislation in other ASEAN states, the new law authorizes government access to bank accounts it believes are used to launder terrorist finances. The law permits security forces to detain suspects for three days without charges, though this provision already existed in the criminal statutes. (Security forces had hoped for a month-long detention before charges had to be filed.) Philippine human rights groups have condemned the law's definition of terrorism as "too broad and vague," while warning that it could be used to stifle legitimate forms of dissent. In a bid to allay fears about rights violations, the law includes a clause that grants compensation of up to \$10,400 per day for people wrongfully detained. Additionally, any group accused of espousing terrorism can be outlawed by the Department of Justice, though any such groups must be duly notified and given the opportunity to refute the allegations. To further guard civil liberties, the law also bans extraordinary rendition – a secretive practice of which the CIA has been accused of sending foreign terror suspects to third countries that practice torture for interrogation. The U.S. Embassy welcomed the law, praising its balance between confronting terrorist threats "while ensuring protection of civil liberties and human rights."

Allegations of human rights violations continue to trouble the Philippines. On Feb. 21, a UN report blamed the Philippine military for a number of political murders that have rocked the country, stating that the government was responsible for a climate of impunity which meant that 80 percent of these murder cases failed to move from police investigation to prosecution. U.S. Ambassador Kenney on Feb. 26 urged the Philippine military to "beef up human rights ... and make every effort to investigate [and] prosecute those responsible...." The Philippine military for the most part has denied the allegations, insisting that the murders of Philippine leftists was an internal purge carried out by the country's Communist Party.

On Feb. 27, Ambassador Kenney offered U.S. assistance in the investigation of the extra-judicial killings, eliciting complaints from some Philippine legislators that the United States was interfering in Philippine internal affairs and that the U.S. government "only has to look at the record of their own soldiers in Iraq [to] know whose forces need indoctrination on respect for human rights." By March, the U.S. Senate began to hold hearings on the Philippine murders, and the Philippine ambassador in Washington conveyed an offer from his government to send a special team of observers to the U.S. Senate Hearings to provide "any information needed for a fair, objective, and balanced inquiry." The U.S. Senate inquiry was arranged by Barbara Boxer (D-California), the

Democratic deputy whip, upon the request of Filipino-American organizations in the U.S. They continue at the end of this quarter.

### **U.S. political pressure on Myanmar (Burma) unsuccessful**

As discussed in last quarter's *Comparative Connections*, the U.S. planned to introduce a UN Security Council resolution condemning Burma's military junta for human rights violations against ethnic minorities, the political opposition, as well as the conscription of child soldiers. Calling these actions a threat to regional peace brought on by refugee flows to neighboring countries, the U.S. formally tabled the resolution in early January. It deplored the continuing detention of opposition leader and Nobel Prize winner Aung San Suu Kyi and the "systematic rape of women and girls as an instrument of armed conflict in ethnic minority regions." Although stopping short of any punitive action, nevertheless, the resolution failed when both China and Russia voted against it. China insisted that Burma's internal situation is not a matter for the UN. Speaking on ASEAN's behalf, Malaysian Foreign Minister Syed Hamid Albar stated that Myanmar had asked ASEAN to defend the country from any UN action. Foreign Minister Hamid Albar also went on to say that ASEAN should lead any reconciliation process, not the United Nations. When the resolution failed on Jan. 15, U.S. Acting UN ambassador Alejandro Wolff expressed U.S. deep disappointment, even though a majority of the UN Security Council supported the condemnation of Myanmar. Indonesia, a non-permanent member of the Security Council at the time of the vote, abstained; its ambassador said that the UNSC "should concentrate on conflicts that really constitute a threat to international peace and security...."

Subsequently, on Jan. 25, the Burmese military junta accused the U.S. of using the UNSC resolution as an initial step to install a puppet government in Myanmar that will dance to its tune." Washington continues to criticize the military government, meeting with a delegation of ethnic minority activists who testified to the military regime's gross violation of human rights. Persecution of the Chin and Kachin ethnic groups, 90 percent of whom are Christian, led the State Department to designate Burma "a Country of Particular Concern" for its severe violations of religious freedom.

### **Tough negotiations for a U.S.-Malaysia free trade pact**

Ongoing negotiations between the U.S. and Malaysia for a bilateral free trade agreement (FTA) have been troubled by Malaysian concerns over job losses for local businesses, resistance from U.S. pharmaceutical industries about lower prices, and an argument by Malaysian opponents that the FTA will disproportionately benefit the U.S. because approximately half of the trade between the two countries is intra-industry and U.S.-owned. Other stumbling blocks include U.S. firms' access to government procurement and the service sector in Malaysia. Moreover, U.S. trade unions have joined their Malaysian counterparts in insisting that trade agreements include enforceable provisions to protect workers rights, public service, and the environment. Washington also opposes the long-standing Malaysian policy that gives business preference to ethnic Malays.

A further complication was added in early February when House of Representatives Foreign Affairs Committee chairman Tom Lantos (D-Ca) demanded that the U.S. suspend the FTA negotiations in protest over a \$16 billion oil deal signed in January between Malaysia and the state-owned National Iranian Oil Company. Malaysian International Trade Minister Datuk Seri Rafidah Aziz responded immediately threatening to cancel the negotiations if Washington engages in threats. She noted that among the agreed conditions for the negotiations was that there be no political agenda. In addition to Malaysia, the U.S. has signed or is negotiating FTAs with Singapore, Indonesia, the Philippines, Thailand, and Brunei.

Former Malaysian Prime Minister Mahathir, ever mindful of an opportunity to admonish the U.S. and keep his profile before the Malaysian public, in February set up a private body – the Kuala Lumpur War Tribunal – to publicize and condemn “U.S. war crimes” in Iraq. Mahathir said his Perdana Leadership Foundation will actively support any war victims who want to take legal action against President Bush. Meanwhile, the three-day February “war crimes tribunal” would educate the world on the crimes perpetrated by the U.S. and its allies.

The Malaysian government quickly distanced itself from the former prime minister. Foreign Minister Sayed Hamid Albar noted that Malaysia is a free country and what Mahathir and his foundation did was entirely on their own and within their rights. They did not affect the good relations between Kuala Lumpur and Washington. The foreign minister was speaking at a Feb. 9 presentation of the U.S. government’s contribution to the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) in Kuala Lumpur. U.S. specialists have conducted courses for officials from throughout Southeast Asia at SEARCCT.

### **U.S. reiterates Indonesia’s importance for regional security**

Chairman of the U.S. Joint Chiefs of Staff Gen. Peter Pace visited Jakarta in mid-February and emphasized the importance of the U.S. Navy’s humanitarian work in the region, noting: “When we get a chance to do humanitarian work, it builds friendships, and friendships last longer.” Indonesia’s Defense Minister Juwono Sudarsono took advantage of the visit to seek U.S. support for Indonesia’s Navy, while acknowledging that the U.S. “still dominates the maritime security at the Asia-Pacific region. Therefore, we want the country to play its optimal role in the security of trade and investment....”

Nevertheless, Juwono also asserted that local countries should be primarily responsible for their own maritime security and that U.S. aid to Indonesian Defense Forces was the best way to insure a secure region. In January, before Gen. Pace’s visit, Adm. Mike Mullen, U.S. Chief of Naval Operations, praised the coordinated Malacca Strait efforts of Indonesia, Malaysia, and Singapore as a “model maritime network.” Mullen stated that what the three littoral states need from the U.S. was information technology. (Incorporating the naval capabilities of friendly states in a common security endeavor is the concept behind Adm. Mullen’s “thousand ship navy.”) Subsequently, in March, Commander of the U.S. Pacific Fleet Adm. Gary Roughead agreed when he averred: “I

have no desire to patrol the Strait and believe it is appropriate for the littoral nations there to maintain the security, which they are doing very well. We cooperate closely with these countries.”

The littoral states have been pressing users of the Malacca Strait to contribute a fair share of the costs needed to ensure its navigational safety. Malaysian Deputy Prime Minister Datuk Seri Najib Tun Razak in mid-March stated that user states that want to see better safety arrangements should help finance their upgrade. He praised Japan’s Nippon Foundation, which has proposed a special fund to which shipping companies could contribute to finance navigational aids and the removal of shipwrecks from the Strait.

### **U.S. Navy visits Vietnam and Cambodia, though human rights concerns persist**

Pacific Commander Adm. Gary Roughead visited Vietnam Jan. 21-22 and spoke of cooperation between the two countries’ navies on search and rescue as well as storm forecasts and disaster relief. Adm. Roughead reiterated that the U.S. has no plans for naval bases in Southeast Asia. Subsequently, the *USS Gary* visited Cambodia, the first port visit by a U.S. navy ship to that country in more than three decades. In Cambodia, personnel from the U.S. warship provided medical care for villagers near Cambodia’s main port, Sihanoukville.

Human rights concerns in both Vietnam and Cambodia continue to disturb diplomatic relations with Washington. On Feb. 5, U.S. Under Secretary of State Ellen Sauerbrey had a rare opportunity to visit ethnic minority Montagnards who had been repatriated to Vietnam from Cambodia in 2006. She stated she found no evidence they had been harassed by Vietnamese authorities. Human Rights Watch was skeptical of the under secretary’s findings, however, insisting that its organization had evidence that Montagnards who had participated in anti-Vietnam demonstrations were persecuted when they were sent back to Vietnam. The United States recently dropped Vietnam from its list of “Countries of Particular Concern” regarding religious rights abuses, though human rights watchdog groups claim that hundreds of Christians are jailed. In March when the State Department annual human rights report criticized Hanoi, its Ministry of Foreign Affairs responded with a relatively mild rejoinder that emphasized cultural relativism, noting differences between the two countries’ cultural values and historical experiences.

In February, President Bush signed a budget resolution for 2007 that for the first time in nearly a decade lifted the Congressional ban on direct U.S. funding for Cambodia. Sam Rainsy, the leader of Cambodia’s nominal opposition party, praised the U.S. policy change, noting it would give the U.S. more leverage to promote human rights and democracy in the country and help balance China. He said: “China does not pay any attention to human rights. We cannot leave our country to Chinese influence alone. The world must become more balanced.” The State Department’s human rights report on Cambodia rated its record “poor,” citing arbitrary arrests and human trafficking. Moreover, U.S. Ambassador to Cambodia Joseph A. Mussomeli bemoaned the country’s lack of any anti-corruption policy, a situation that led Transparency International at the end of 2006 to rank Cambodia 151 out of 163 countries in its corruption index. The

corruption problem has become particularly important with the discovery of up to 2 billion barrels of oil off the Cambodian coast. Revenues from these fields could triple the government's budget if the fields begin to produce by 2010. In February, Mussumeli urged the Cambodian government to avoid the situation where "a small corrupt elite siphons off revenue that should go to improving the welfare of all the people."

### **Political pressure but continued U.S.-Thai military cooperation**

Although the U.S. was required by law to suspend some military aid to Thailand in the wake of the September 2006 coup that overthrew the democratically elected government of Thaksin Shinawatra, the annual U.S.-Thai joint exercise *Cobra Gold* is scheduled to go forward in May. *Cope Thunder* air forces exercises were held in February involving the U.S., Thailand, and Singapore. And, it also appears that the U.S.-Thai *CARAT* naval exercise will take place this summer.

Politically, U.S. officials regularly remind Thai military coup leaders that they have promised to hold elections and step down later this year after which Washington can restart suspended programs. The U.S. is particularly concerned that martial law continues in north and northeast Thailand, areas where the deposed prime minister has significant political strength. However, while the United States has suspended military sales and training for the Thai armed forces, China seems to have stepped in to fill the gap, offering \$40 million in military aid and training opportunities in China for Thai officers with no political strings attached.

### **The way forward**

The U.S. seems to be playing catch up with China in Southeast Asia. Negotiating free trade agreements and emphasizing the importance of U.S. military aid to regional armed forces as well as joint exercises to enhance the latter's capabilities are ways of demonstrating the significance of an ongoing U.S. role in regional security. Washington's emphasis on human rights and democracy has been a long-term U.S. foreign policy commitment that may seem, in the short run, to cede an advantage to China whose aid programs carry no political conditions. However, to be true to U.S. core values, pressing partners toward political and economic liberalism will undoubtedly remain a constant in U.S. foreign policy that over the long term foresees a world more conducive to peace and prosperity. Authoritarian governments, however, of which there are several in Southeast Asia, may be less sympathetic to these U.S. strictures.

## **Chronology of U.S.-Southeast Asia Relations January-March 2007**

**Jan. 2, 2007:** Philippine President Gloria Arroyo authorizes transfer of a U.S. Marine convicted of rape back to U.S. Embassy custody. The U.S. announced it would proceed with military exercises with Philippine forces that had been cancelled when a Philippine judge refused to return the marine to U.S. custody pending an appeal, a violation of the Visiting Forces Agreement.

**Jan. 9, 2007:** The U.S. introduces a draft resolution in the UN Security Council calling on the Burmese government to engage the opposition in “substantive political dialogue,” cease continued attacks “in ethnic minority regions on civilians,” and “desist immediately from the systematic use of rape on women and girls as an instrument of armed conflict.”

**Jan. 11, 2007:** The U.S. Trade and Development Agency confers the 2006 Country of the Year honor on Vietnam, marking Hanoi’s official admission to the WTO. The honor acknowledges Vietnam’s serious commitments to revamping its investment regulations and liberalizing the financial sector.

**Jan. 12, 2007:** China and Russia veto the U.S. resolution before the UN Security Council condemning Burma’s human rights violations, arguing that although Beijing and Moscow condemn the military junta’s political tyranny, it does not threaten regional security, and, therefore, should not be a UNSC concern.

**Jan. 16, 2007:** The U.S. Embassy in Manila denies a Philippine press report that U.S. forces are fighting al-Qaeda-linked guerrillas in the southern Philippines in violation of the Philippine Constitution. The embassy insists that U.S. forces serve exclusively in a training and advisory capacity.

**Jan. 16, 2007:** Former U.S. Ambassador to Cambodia Charles Ray in a Phnom Penh talk states the country must move against rampant corruption and labor abuses if it hopes to attract the external investment needed for development. Banks are untrustworthy because the justice system is so weak.

**Jan. 20, 2007:** U.S. DNA tests confirm that a body found in the southern Philippines is that of Abu Sayyaf militant leader Khadaffy Janjalani. His second in command, Abu Sulaiman who kidnapped three Americans and 17 Filipinos in 2001, was also killed in recent encounters with U.S.-trained Philippine forces.

**Jan. 22-23, 2007:** U.S. Commander of the Pacific Fleet Adm. Gary Roughead visits Vietnam and announces that the U.S. and Vietnamese navies will engage in search and rescue exercises as part of the new relationship between them.

**Jan. 23, 2007:** Philippine President Arroyo credits “our strategic relationship with the United States” for the successful campaign against the Abu Sayyaf in the Sulu Archipelago.

**Jan. 24, 2007:** U.S. Under Secretary of State for Public Diplomacy Karen Hughes arrives in the Philippines for a three day visit where she will go to Sulu. The annual *Balikatan* exercise will emphasize humanitarian activities.

**Jan. 25, 2007:** Burma's military junta accuses the U.S. of plotting to install a puppet government in the country.

**Jan. 26 and Jan. 29, 2007:** Under Secretary Hughes congratulates the Philippine armed forces for killing two Abu Sayyaf leaders. The U.S. offered \$10 million for the capture or killing of Khaddaffy Janjalani and Abu Sulaiman. President Bush followed up with a congratulatory phone call to Philippine President Arroyo.

**Jan. 29-Feb. 9, 2007:** U.S., Thai, and Singapore Air Forces conduct *Cope Thunder* air exercise from Korat, Thailand with 113 aircraft and 1,300 personnel. *Cope Thunder* is an annual exercise that began in 1994.

**Feb. 2, 2007:** Indonesia announces that the U.S. has given Jakarta permission to interview Hambali, a notorious Southeast Asian al-Qaeda operative, who was captured in Thailand in 2003. Hambali is being held in Guantanamo; Indonesia has wanted access to him ever since his capture.

**Feb. 2, 2007:** The U.S. Peace Corps inaugurates its first mission to Cambodia since the Corps inception in 1962. Thirty U.S. English teachers will spread out to rural provinces after a few months in Phnom Penh for Khmer language and cultural training.

**Feb. 6, 2007:** USAID announces that it is cutting aid to Cambodia by over 50 percent to \$2 million and reallocating it from antihuman trafficking to good governance. Human trafficking results from poverty which, in turn, is linked to poor governance, according to an AID official who explained the shift.

**Feb. 7, 2007:** Malaysia's former Prime Minister Mahathir Mohammad convenes a "war crimes tribunal" in Malaysia to hear complaints against the U.S., Britain, and Israel for "crimes against humanity" in Iraq and Palestine.

**Feb. 8, 2007:** *USS Blue Ridge*, the Seventh Fleet's flagship, arrives in the Philippines on a humanitarian mission including medical clinics and repair of schools and public buildings.

**Feb. 9, 2007:** In a change of policy, the U.S. announces it will clean up a site – Danang air base – where Agent Orange and other chemicals were stored during the Vietnam War. U.S. Ambassador Michael Marine acknowledges this is a small step but "a marked improvement on our ability to work together on this issue."

**Feb. 9, 2007:** The *USS Gary* docks in Sihanoukville, the first U.S. Navy ship to visit Cambodia in more than 30 years. A first step in expanding U.S.-Cambodian military ties, the ship visit is seen as a response to China's growing influence.

**Feb. 13, 2007:** Adm. William Fallon, former PACOM commander and new commander of CENTCOM, states he would seek support from Indonesia and Malaysia in the Afghan and Iraq conflicts, though he did not specify what kind.

**Feb. 13, 2007:** The Chairman of the U.S. Joint Chiefs of Staff Gen. Peter Pace meets Indonesian President Susilo Bambang Yudhoyono to discuss ways of improving the military partnership between the two countries' armed forces.

**Feb. 18-March 4, 2007:** U.S. and Filipino soldiers begin *Balikatan*, a series of joint military exercises on war-torn Jolo island in the Philippine south. This year, the exercises focus on humanitarian missions in local villages. The annual *Balikatan* assists the Philippines in building counter-terrorist capacity.

**Feb. 19, 2007:** The U.S. announces that the multilateral *Cobra Gold* annual military exercise will take place in Thailand May 8-18 since the Thai military Council for National Security has lifted martial law in 41 provinces.

**Feb. 27, 2007:** Direct U.S. government aid to Cambodia is resumed following a 10-year ban imposed when Cambodian Prime Minister Hun Sen ousted Prince Norodom Rannaridh in a coup. Lifting the ban is the most recent indicator of improved government relations.

**March 9, 2007:** U.S. Seventh Fleet flagship *USS Blue Ridge* arrives in Jakarta for a port visit.



**China-Southeast Asia Relations:  
Cebu Meetings, UN Veto on Myanmar**

**Robert Sutter, Georgetown University  
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China advanced relations with Southeast Asia during ASEAN-related meetings in Cebu. China's veto of a U.S.-backed UN Security Council draft resolution on Myanmar and Chinese military advances, including a controversial anti-satellite test, occasioned little apparent negative reaction among Southeast Asian governments.

**Chinese Prime Minister Wen Jiabao at Cebu**

The highlight of this quarter's activities in China-Southeast Asia relations was the series of meetings and events surrounding the visit of Chinese Prime Minister Wen Jiabao to Cebu, Philippines Jan. 13-16. Following the 12<sup>th</sup> ASEAN Summit, Wen participated in the ASEAN Plus China meeting, the East Asia Trilateral Leaders' meeting, the ASEAN Plus Three (China, Japan, and South Korea) meeting, and the second East Asia Summit (EAS) that involved leaders of the ASEAN Plus Three (A+3) along with those from India, Australia, and New Zealand.

Beijing continued to assure Southeast Asian neighbors of its peaceful development at the 10<sup>th</sup> ASEAN Plus China meeting. Wen cited the successful China-ASEAN Commemorative Summit held in Nanning, China in October 2006 as an example of continued positive and collaborative relations between China and ASEAN countries. In addition, he raised five broad proposals aimed at further cooperation, which included: strengthening political mutual trust; raising economic and trade relations to a new level; conducting pragmatic cooperation in the nontraditional security field; actively supporting the development of closer integration within the greater ASEAN region; and promoting social and cultural exchanges and personnel contacts.

More specifically, China continued to push for "win-win" trade agreements with ASEAN. Beijing signed an important accord to open key service sectors that would come into effect in July 2007. Southeast Asian companies would gain broader access to do business in a variety of sectors in China such as banking, transportation, construction, real estate, health, information technology, engineering, and education. Beijing currently restricts foreign-owned entities from operating in these sectors in China. The deal would give Southeast Asian businesses an edge, help ASEAN members cut their looming trade deficits with China, and allay fears of the negative impacts of China's economic boom.

The announcement of the agreement came at an opportune time as many Southeast Asian countries are hoping to provide greater business and consumer services in the lead up to the 2008 Beijing Olympics and the 2010 Shanghai World Exposition. The agreement would lay the foundation for the full implementation of the China-ASEAN free trade zone scheduled for 2015.

On Jan. 14, Chinese Prime Minister Wen met Japanese Prime Minister Abe Shinzo and South Korean President Roh Moo-hyun for the Seventh Trilateral Leaders' meeting. This was the first three-way meeting in two years, and the leaders reportedly engaged in frank, practical, and productive talks. The three sides agreed to further enhance political trust, deepen mutually beneficial cooperation, and strengthen communication and coordination in regional affairs. The general atmosphere of the meeting was cordial, marking an improvement in relations between China and Japan in particular. Beijing announced shortly thereafter that Wen is scheduled to travel to Japan in April.

Following the Trilateral Leaders' meeting, the three leaders were joined by ASEAN members for further discussions Jan. 14. The leaders had in-depth exchanges of views on building the East Asian community through the ASEAN Plus Three mechanism, which has been established over the years to strengthen dialogue and communication, discuss cooperation, as well as to promote peace, stability, and prosperity in the region. The leaders agreed that ASEAN would continue to play a leading role in this important relationship. On China's part, Wen suggested that Beijing would cooperate and address key issues of disaster mitigation, trade, poverty alleviation, and cultural exchanges to help strengthen the "A+3" mechanism.

The East Asia Summit rounded off the four-day gathering in Cebu. The 10 ASEAN members, China, Japan, South Korea, India, Australia, and New Zealand focused largely on emergent nontraditional threats to regional security, including key issues such as natural disasters and diseases. An important energy deal was struck at the end of the summit, with members signing on to a series of goals aimed at providing "reliable, adequate, and affordable" energy supplies to the rapidly growing region.

An article in the *South China Morning Post* commented that the overall atmosphere of this year's meetings and summits in Cebu was generally positive on the surface. In private, however, most ASEAN governments are still wary of China's diplomatic and economic ascendancy. The article further suggested that ASEAN's current priority is to play catch-up as China and India's markets open for greater trade and economic opportunities. At the same time, ASEAN is also actively strengthening its relationship with Japan to ensure greater balance in the region. There is greater understanding within the region that ASEAN must be more proactive in reaching out to all major partners to ensure regional stability and provide an opportunity for economic development for each of the member countries.

## Situation in Myanmar

On Jan. 12, China voted to block a United Nations Security Council resolution which targeted Myanmar. Notwithstanding the Chinese dissent on a procedural vote to include Myanmar on the Security Council agenda in December 2006, the U.S. pushed forward with a resolution that called for political reform, respect for human rights, and an end to the military repression against ethnic minorities in Myanmar. The resolution eventually failed with a 9-3 vote, with Russia and South Africa joining China in the opposition.

Beijing's commitment to protecting the principle of sovereignty and "noninterference" is an important dimension of China's global foreign policy and has been the basis for China's tough opposition to UN resolutions targeting Myanmar. Speaking shortly before the vote, Chinese Ambassador to the UN Wang Guangya stated that China, as an immediate neighbor to Myanmar, attaches no less importance to the situation in Myanmar than other countries. Political stability, economic development, and national reconciliation in Myanmar are important issues for China. The issues addressed in the resolution cannot be resolved with sanctions but should, according to Wang, be resolved incrementally by the authorities in Myanmar through continued dialogue and consultation.

China's decision to defend Myanmar came with little surprise. China has been the major military and economic supporter of the military regime in Myanmar. Beijing has provided the military regime in Myanmar with significant arms, military equipment that included fighter aircraft, naval patrol boats, and anti-aircraft artilleries. China has also contributed to the construction of naval bases in the Bay of Bengal and the Andaman Sea. China's interest includes plans for constructing a gas pipeline across Myanmar from the offshore gas reserves in the Bay of Bengal to Yunnan province and an oil pipeline for crude from the Middle East. Myanmar's strategic location also becomes an important outlet for Chinese exports via the Bay of Bengal and serves as an alternate trading and shipping route to the Malacca Strait.

Beijing's interest-free loans have kept the junta afloat, which prevented Myanmar's economic collapse and caving in to Western pressure for political and economic reforms in 1997. Both sides have also established closer economic ties through the establishment of border trade zones. In December 2006, for example, a Myanmar-China annual border trade exhibition opened at Myanmar's largest border trade zone of Muse. According to the Chinese Customs Department, bilateral trade in the first half of 2006 amounted to \$662 million, a 10.8 percent increase from 2005.

While many observers point to the natural alignment of interests between China and Myanmar, a closer examination points to subtle adjustments in Beijing's evolving approach and points of emerging tensions between the two traditional allies. An extensive assessment on China-Myanmar relations was made by Ian Storey in the Feb. 7 Jamestown Foundation's *China Brief*. According to his analysis, the Burmese are "fiercely nationalistic and often xenophobic, and Rangoon's foreign policy actions since the mid-1990s strongly suggest that the ruling military junta has sought to reduce its

dependence on China.” Within the last decade, Myanmar has gradually reached out to other regional powers including India and Japan.

Beijing has also voiced greater concern over increasing social unrest and the lack of visible progress toward political reform in Myanmar. The article further notes that Chinese leaders have addressed the urgency of the issue to its counterparts in Myanmar on at least two official occasions since 2004. A senior U.S. official also was said to have noted that China had expressed its concern (albeit in private) to Washington with the scope and pace of Myanmar’s pursuit of political and economic reforms.

In light of these developments, Ambassador Wang’s statement at the UN bore a subtle yet important recognition that while the resolution was tabled and blocked, the issue could be revisited in the near future. Wang stated that the “current domestic situation in Myanmar does not constitute a threat to international or regional peace and security,” which presumably implies that should the situation in Myanmar worsen or unravel toward greater chaos and disorder, one that constitutes a threat to regional peace or security, Beijing could consider a stronger response.

Like China, ASEAN members are treading a careful line. They have largely avoided unhelpful, critical rebuke or threats to revoke Myanmar’s membership status. At the recent ASEAN Summit, they issued a mild but stern message to the military regime to “speed up national reconciliation and to free more political prisoners.”

### **Muted response to Chinese military developments**

Southeast Asian governments and media generally kept a low profile in response to some highly publicized Chinese military developments that prompted comment and criticism from U.S., Japanese, Australian, Indian, and other world officials and media. Official Chinese commentary, notably an article by Chinese Premier Wen carried by *Xinhua* on Feb. 26, continued to reaffirm China’s avowed commitment to live in peace with its neighbors as it follows a policy of “peace, development, and cooperation.” The Chinese premier rarely airs his views in an article under his name in official Chinese media. The premier’s message in February reinforced the similar benign foreign policy message to China’s neighbors contained in his March 5 report on government work to the annual session of China’s National People’s Congress.

However, several Chinese actions and commentary on military matters prompted substantial international criticism and debate that clouded China’s message and raised implications that seemed to complicate China’s stated emphasis on a peaceful approach to Asian and world affairs. Heading the list was China’s belated admission in January that it destroyed one of its own satellites by hitting it with a Chinese ballistic missile. Chinese officials disclosed during the National People’s Congress in March that China’s military budget would increase 17.8 percent in the coming year, the biggest increase in five years amid regular double-digit annual increases for over a decade. Earlier, on Dec. 28 official Chinese media widely publicized Hu Jintao’s emphasis on building a strong Chinese navy during his remarks at a Communist Party meeting the previous day. In

January, a Chinese defense spokesman said that China has the ability to build an aircraft carrier, and Chinese officials in Washington privately affirmed China's plans to build these ships. On Dec. 29, China released its bi-annual defense white paper that tried to mesh China's growing military preparations to deal with wide-ranging international challenges with China's commitment to seek international harmony and cooperation.

U.S. and Japanese officials, notably Vice President Dick Cheney during stops in Asia during February, were in the lead in criticizing the anti-satellite test and other Chinese defense moves. Australian and Indian officials reacted negatively to the anti-satellite test. The U.S. director of national intelligence, the U.S. defense secretary, and the chairman of the Joint Chiefs of Staff provided carefully measured comments on the implications of China's steady military buildup for the stability of Asia. By contrast, Southeast Asian officials generally kept to themselves any reservations they may have had about China's actions or U.S. and other international reactions. China, meanwhile, moved forward with growing military contacts with Southeast Asia governments, inviting ASEAN members at the Cebu summit in January to participate in a joint military exercise to be hosted by China in July that would deal with peacekeeping training and disaster zone management and reconstruction.

### **Trade, investment, and aid**

In the report on government work to the National People's Congress on March 5, Premier Wen pledged continued development of trade and investment ties with Southeast Asia and the rest of the world. The Chinese government will seek to "upgrade" processing trade, which characterizes China-Southeast Asian trade, seeking higher "added value" from Chinese exports. China will strive to raise the "quality" of foreign investment coming to China from Southeast Asia and elsewhere, and will endeavor to "guide multinational companies," which are heavily involved in China-Southeast Asia trade and investment, to move "high-end" manufacturing and research and development to China. The Chinese government also will "guide and regulate" Chinese investment going abroad, seeking to avoid "blind investment and vicious competition" among enterprises.

The specter of massive increases in Chinese investment going abroad received a major boost with the disclosure by the Chinese finance minister on March 9 that China will create an agency to invest an undisclosed amount of its immense reserves of foreign currency, which total over \$1 trillion. With little firm information provided by the Chinese government, media reports speculated on the possible size and focus of such a fund, including increased Chinese investment abroad. On Feb. 20, *The Wall Street Journal* published an assessment that predicted that the amount of China's outward direct investment will overtake the amount of foreign direct investment (FDI) that China receives by 2010. According to the article, in 2006, China received about \$70 billion in FDI. It said that as Chinese investment abroad increases rapidly, China by 2010 will become the fifth largest foreign investing nation behind the U.S., Britain, Germany, and Japan. It noted that the majority of Chinese investment abroad, 60 percent, goes to Asia, with the remainder to the rest of the world

Official Chinese media also reported an up tick in Chinese investment abroad but offered a more modest assessment of China's international role. *China Daily* on Feb. 7 cited Chinese officials and Commerce Department data to show that outbound investment of Chinese firms amounted to \$16.1 billion in 2006, a big increase over \$12.26 billion invested in 2005 and much smaller figures for earlier years. It said that China was the world's 13<sup>th</sup> largest investor in 2006, up from 17<sup>th</sup> place in 2005. The article said that China received \$64.5 billion in FDI in 2006. Speaking at a press conference after the National People's Congress on March 16, Premier Wen underlined a modest view of China's investment abroad. He cited the \$16 billion figure for 2006 to note that "compared with developed countries, this amount is nearly negligible."

To what degree these developments and trends will change the continued asymmetry in investment between China and Southeast Asia remains to be seen. While the bulk of Chinese investment abroad reportedly goes to Asia, much of that goes to Hong Kong. According to Hong Kong government figures, China is the largest investor in the territory, providing \$9.3 billion in 2005. The pattern of large Southeast Asian investment in China and small Chinese investment in Southeast Asia continues for now. *China Daily* on Jan. 18 reviewed China-Malaysia economic ties, highlighting Malaysia as China's second largest trading partner in Southeast Asia, after Singapore. It pointed out that in the previous five years, the amount that China had invested in Malaysia represented only 5 percent of the \$3.5 billion Malaysian enterprises had invested in China.

Meanwhile, increased Chinese wealth and massive foreign exchange reserves focused new and sometimes critical attention on Chinese foreign assistance abroad, including Southeast Asia. Chinese assistance to Myanmar, Laos, and Cambodia has long been seen by environmental groups as accompanied by logging, river dredging, and hydroelectric dams seen as damaging to the regional environment. *The New York Times* Feb. 15 published an assessment by prominent foreign policy commentator Moises Naim that highlighted China's assistance to Indonesia as emblematic of the kind of "rogue aid" that undercuts efforts by international financial institutions to use aid to promote good governance and environmentally sustainable development. In the case of Indonesia, China competed successfully to provide support for Indonesia's electrical power grid, but did so by building several plants that use "a highly polluting, coal-based Chinese technology."

### **Assessing China's rising influence in Southeast Asia**

Following the Cebu meetings in January, a researcher from the Chinese Institute of Contemporary International Relations offered a positive assessment of China's leading role in Southeast Asia in an article in *China Daily* Jan. 15. The author acknowledged ASEAN's "special role" in East Asian cooperation and went on to highlight China's relations with ASEAN as "the most successful" among Asian partners. China-ASEAN cooperation was said to be setting the pace on East Asian cooperation and supporting the China-preferred ASEAN Plus Three as the premier regional grouping, as opposed to the larger East Asia Summit which the author said "is obviously still finding its way and therefore is the secondary channel" for regional cooperation.

Japanese government officials speaking on background at a meeting of 40 U.S.-Japanese specialists on China and Southeast Asia in Washington, D.C. Feb. 26 showed serious and explicit concern with China's rising influence in Southeast Asia. Though there were differences among the Japanese experts, Japan's emphasis was said to involve supporting ASEAN unity and the leading role of Indonesia as a hedge against Chinese influence; strong Japanese support for the U.S. military presence in the region including expanding U.S. military interaction in Southeast Asia; closer Japanese security cooperation with Australia; greater Japanese support for India's involvement in Southeast Asia; and promoting closer economic and other regional integration based on the broad membership seen in the Asian Leadership Summit.

U.S. officials and experts at the meeting were generally supportive of the Japanese approaches, though they tended to see China's rise in Southeast Asia in less disturbing terms than their Japanese counterparts. The two sides differed on the high U.S. priority given to APEC, with Japanese saying they will "go along" with APEC but noting that unlike the East Asia Summit, APEC does not include India, a key focus of Japanese interest at present. Also, the United States has not joined the Asian Leadership Summit, which Japan strongly supports. Meanwhile, two prominent officials who resigned from the Bush administration after many years of service reflected carefully balanced and nuanced views of the significance of China's rise for U.S. influence in Southeast Asia. Robert Zoellick told *The Straits Times* Feb. 10 that "China's expanding role and influence in Asia need not be a point of tension with the United States" and that U.S. interests would be best secured with the U.S. playing "a more active role in the region with a multifaceted agenda." Michael Green wrote in *The Washington Post* Feb. 13 that the U.S. is far from losing Asia's leadership to China as Washington chalks up "quiet victories" in Southeast Asia and other parts of Asia and remains the region's indispensable security guarantor and trading partner.

That Chinese leaders remain far from confident about China's approach to Southeast Asia and other aspects of Chinese foreign relations was vividly brought to light in an assessment by Bonnie Glaser in the March 8 Jamestown Foundation's *China Brief*. She recounted interviews with Chinese officials expressing serious concerns about many negative reactions abroad to features of China's greater international prominence including the dumping of Chinese products; sharp trade competition and poor treatment of foreign workers by Chinese businesses; pollution, deforestation, and other environmentally damaging results associated with Chinese development efforts; and rude and uncouth behavior of Chinese tourists and business people abroad. Experienced Chinese foreign policy officials and experts also were said to be determined not to get swept up with publicity about China's prominence as they continued to follow Deng Xiaoping's maxims on avoiding excessive involvement in international affairs and exaggerating China's strength abroad, while focusing on many tasks at home.

In brief assessments in the *International Herald Tribune*, *Yaleglobal Online*, and a publication of the Institute of Southeast Asian Studies, where he works, China-Southeast specialist Sheng Lijun this quarter emphasized that China's advances in Southeast Asia owed as much to Southeast Asian governments seeking to integrate China into the region

as to China's own actions. He parsed the double counting, large entrepot trade, and heavy involvement of foreign owned enterprises in the processing trade that dominates China-ASEAN trade ties. Sheng highlighted China's very weak investment involvement in Southeast Asia, especially when compared with that of the U.S., Japan, or the European Union. Unlike the U.S., China has little of the web of business, religious, educational, and other networks of connection and communication developed over many decades. Maoist China's record prompted fear in Southeast Asia. The recent Chinese efforts to foster a positive image and broad relationships in Southeast Asia necessarily depend on Chinese government actions without much input from nongovernmental forces. Sheng averred that China's influence remains thwarted by "deeply rooted" distrust in Southeast Asia, with regional governments actively "hedging their bets" in developing ties with the U.S. – "perceived as the least distrusted of all major powers" – Japan, India, and others.

## **Outlook**

Southeast Asian officials and elites likely would welcome major increases in Chinese foreign investment and aid forecast by foreign observers. They will watch closely how Beijing handles the investment of its massive foreign exchange reserves. ASEAN and its member governments have registered little public concern with notable advances in Chinese military power, though the Chinese buildup may affect the pace and scope of their hedging endeavors as China continues to rise in prominence and influence.

## **Chronology of China-Southeast Asia Relations January-March 2007**

**Jan. 8, 2007:** Two vessels carrying the first supply of refined oil arrive in China's Yunnan Province via the Mekong River. China signed an agreement with Laos, Myanmar, and Thailand in March 2006, opening up a new shipping route to meet its growing demand for oil and natural gas and to decrease over-reliance on the Strait of Malacca.

**Jan. 10, 2007:** Chen Jianguo, secretary of the Chinese Communist Party (CCP) Ningxia Hui Autonomous Regional Committee, leads a delegation to neighboring Laos, Vietnam, and Cambodia for a goodwill visit.

**Jan. 10-15, 2007:** Leaders of ASEAN member countries and dialogue partners gather in Cebu, Philippines for the 12<sup>th</sup> ASEAN Summit and the second annual East Asia Summit. Chinese Premier Wen Jiabao pledges to strengthen China-ASEAN relations through an array of agreements on energy security, public health, and trade issues.

**Jan. 12, 2007:** The Asian Development Bank loses to China in bidding on an important financing deal to repair an aqueduct that supplies 98 percent of Manila's water needs. Manila decides to take a \$70 million loan from the Chinese Export-Import Bank instead of the ADB offer.

**Jan. 13, 2007:** Chinese Foreign Minister Li Zhaoxing defends the decision to veto a UN Security Council resolution targeting Myanmar's human rights practices and lack of political reforms. ASEAN members issue a mild rebuke of Myanmar, calling on Myanmar's leadership to speed up national reconciliation and to release political prisoners.

**Jan. 15, 2007:** Chinese and Vietnamese government officials agree to establish Hekou-Lao Cai as the border gate for "one-stop" clearance in order to simplify customs and export-import procedures. According to Chinese officials, two-way trade between Vietnam and China will reach \$15 billion in 2010 following rapid development of bilateral investment and trade cooperation.

**Jan. 18, 2007:** The Kunming Intermediate People's Court tries Han Yongwan, ringleader of one of the region's largest drug syndicates. Police authorities from China, Myanmar, Laos and Thailand have been monitoring Han's drug-trafficking network since 2004 and he was arrested the following year by Laotian police before being repatriated to China.

**Jan. 23, 2007:** Li Tieying, vice chairperson of the Chinese National People's Congress, visits Myanmar and meets Myanmar State Peace and Development Council Chairperson Than Shwe. They discuss strengthening longstanding political and economic ties.

**Feb. 5, 2007:** Liang Guanglie, chief of General Staff of the People's Liberation Army, meets Thura Shwe Mann, member of the ruling Myanmar State Peace and Development Council and Myanmar military's chief of staff, in Beijing. They exchange views on relations between the two armed forces and discuss strengthening bilateral military ties.

**Feb. 14, 2007:** Cambodian Prime Minister Hun Sen lauds China for its "unconditional aid" to Cambodia. His announcement comes shortly after international donors criticized Cambodia for its failure to tackle corruption. According to Chinese sources, in the last two years, Beijing's aid has amounted to \$800 million and focused largely on infrastructure development in Cambodia.

**Feb. 17, 2007:** Chinese State Councilor Tang Jiaxuan visits former Cambodian King Norodom Sihanouk. Both sides affirm the longstanding friendly relations and seek to promote greater people-to-people contact as China and Cambodia celebrate the 50<sup>th</sup> anniversary of the establishment of full bilateral diplomatic ties in 2008.

**Feb. 25, 2007:** On the second leg of his three-country visit to Southeast Asia, Chinese State Councilor Tang visits Myanmar and meets Myanmar leader Than Shwe. They discuss achievements in bilateral collaboration on issues such as border administration and drug control. Than Shwe explains that domestic stability and economic reform are priorities for his government and seeks continued support from China to further strengthen bilateral economic and trade relations.

**Feb. 27, 2007:** Tang arrives in Bangkok for a three-day working visit. He meets Thai Prime Minister Surayud Chulanont. Both sides reaffirm the comprehensive and cooperative relationship between the two countries and the need for continued collaboration on issues of mutual concern to deepen bilateral trust.

**March 12, 2007:** Jia Qinglin, chairperson of the Chinese People's Political Consultative Conference (CPPCC), meets Ho Duc Viet, leading member of the Political Bureau of the Communist Party of Vietnam (CPV). Jia mentions that following Chinese President Hu Jintao's visit to Vietnam in November 2006, frequent senior-level visits between the two countries have helped to strengthen bilateral economic ties and solve border disputes.

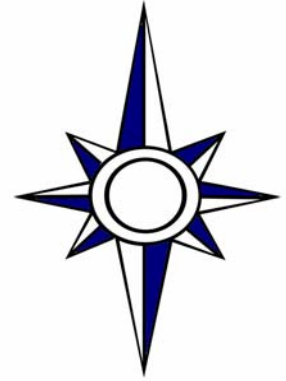
**March 13, 2007:** China joins Cambodia, Laos, Myanmar, Thailand, and Vietnam to test responsiveness for possible bird flu pandemic. Officials representing a variety of agencies, from tourism to defense, practiced responding to a mock outbreak of the disease. The exercise would help regional coordination of early detection of suspected cases and rapid dissemination of information to the general public.

**March 20, 2007:** Chinese Defense Minister Cao Gangchuan holds talks with visiting Laotian Deputy Prime Minister and Defense Minister Douangchai Phichit on bilateral military ties, regional and international security situation and other issues of common concern. China expresses interest in deepening military-to-military ties and closer cooperation on technical assistance.

**March 21, 2007:** Wen Haiying, vice provincial leader of Anhui, leads a delegation to Cambodia and meets Cambodian Prime Minister Hun Sen to discuss investment and trade opportunities between Anhui Province and Cambodia's agricultural sector.

**March 23, 2007:** Chinese military ships, which included two destroyers, arrive in a seaport in Jakarta, Indonesia for the first time in 12 years. The Chinese ships recently completed antiterror drills with the U.S. Navy in Pakistan in early March.

**March 26, 2007:** At the invitation of Chinese FM Li, Vietnamese Deputy PM and FM Pham Gia Khiem arrives in Beijing for a six-day official visit. They praise recent senior-level exchanges for contributing to closer political and economic ties. Total trade volume between the two countries reached nearly \$10 billion in 2006, up 21.4 percent from 2005, and according to Vietnamese sources, there are currently over 400 Chinese investment projects in Vietnam with a total registration fund of more than \$1 billion.



China-Taiwan Relations:  
To Be Concerned or Not?

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Despite the basic stability of cross-Strait relations, Beijing has been concerned this spring that Taiwan's President Chen Shui-bian would somehow take steps to realize his dream of a new constitution for Taiwan. In contrast, Washington has been more impressed by the domestic constraints that make constitutional reform affecting Taiwan's sovereignty all but impossible. President Chen has not abandoned his dreams, as he made explicit in this "four wants" speech, but he has focused on the more modest and achievable goal of heightening the public's sense of Taiwan's separate identity – steps that appeal to the Democratic Progressive Party's core supporters and create realities his successor will have difficulty reversing. Treatment of Taiwan at the PRC's National People's Congress in March reflected the continuity of President Hu Jintao's approach to Taiwan. Talks on Chinese tourism to Taiwan and on expanding cross-Strait charter flights have continued but no agreements have been announced. China's anti-satellite test and another major increase in its defense budget have been sources of concern in Taipei, but the Legislative Yuan has not yet passed its arms procurement legislation.

**China's concerns: U.S. government vigilance**

While recognizing that cross-Strait relations are relatively stable, Chinese government and academic experts have consistently emphasized this spring their concern that Taiwan's President Chen Shui-bian would use the last year of his presidency to achieve his campaign goal of giving Taiwan a new constitution that would formalize Taiwan's *de jure* independence. President Hu Jintao's New Year's message was a restatement of existing Chinese policy toward Taiwan, with official news reports emphasizing Hu's reiteration that there would be no let up in the struggle against separatism. The next day the Taiwan Affairs Office (TAO) warned against Chen Shui-bian's continuing promotion of Taiwan independence. A few days later, the Chinese Foreign Ministry urged the U.S. to take steps to check Taiwan independence.

In mid-January, TAO Deputy Sun Yafu came to Washington for consultations and voiced Beijing's concerns that 2007 was a particularly dangerous year in which Chen would try to promote a new constitution for Taiwan. Continued discussion of a "Second Republic Constitution" by pro-independence figures in Taipei has been a particular focus of PRC concern. Reportedly, Sun sought assurances that the U.S. would use its influence to check the separatist actions that Beijing anticipated. When Washington approved transits for

President Chen and later missiles for Taiwan's defense, Beijing was quick to criticize these as sending wrong signals to Taiwan. These expressions of concern reflect Beijing's profound mistrust of Chen, but they are also a useful way to keep pressure on Washington to check Chen.

Washington has evinced less concern, though not because it has a positive assessment of President Chen. U.S. scholars have emphasized the domestic constraints that will prevent any constitutional reform that would affect Taiwan's sovereignty. Those constraints are the lack of consensus in Taiwan on constitutional changes and the extremely high legislative and referendum hurdles that make the prospects of any constitutional reform remote. Moreover, differences within the DPP on the reform issue have led the party to defer the issue for the time being.

For its part, the Bush administration has remained vigilant and has repeatedly urged President Chen to abide by his commitments with respect to constitutional reform. Washington only granted Chen's request to transit the U.S. in January enroute to Nicaragua after it saw that his New Year's address did not launch any troubling constitutional reform initiatives. On several occasions this spring, the State Department spokesman has reiterated the importance the U.S. places on Chen abiding by his commitments. Deputy Assistant Secretary of State Tom Christensen reiterated these points in a congressional hearing on March 27. These frequent U.S. government comments have led to criticisms from Presidential Office Secretary General Mark Chen and DPP Chairman Yu Shyi-kun that the U.S. should stop meddling in Taiwan's domestic politics.

### **Chen promotes Taiwanese identity**

Although President Chen's New Year's address did not contain any unexpected initiatives, a commitment to Taiwanese nationalism was woven through the speech. It seems that, with a new constitution beyond his reach, President Chen has focused on steps to strengthen Taiwan's separate identity, or as he phrases it now the island's "Taiwan-centric consciousness." In January, the Executive Yuan changed the statute of the National Palace Museum to downplay its promotion of Chinese art. That month, the Education Ministry explained that new high school history textbooks published last fall have separate volumes on Chinese and Taiwanese history and that references in the old textbooks to China as "our country" had been removed. In February, steps to change the names of several state-owned corporations were announced. The most symbolic involved the postal service. President Chen personally presided at the ceremony renaming the service "Taiwan Post." The issuance of the first stamp with the word "Taiwan" followed quickly; that stamp commemorated the establishment of the new "228 Memorial Hall." Not to be out done in the name game, Beijing then added "Taiwan Post" to the list of provincial post offices contained on the website of China's postal service.

As 2007 is the 60<sup>th</sup> anniversary of the Feb. 28 crackdown, the DPP has taken a number of steps to capitalize politically on the anniversary. President Chen stated on the eve of the anniversary that Chiang Kai-shek (CKS) should be held responsible for 228. Various

DPP legislators have called for removing military honor guards from the CKS mausoleum and CKS memorial hall. In March, the Executive Yuan announced that the CKS memorial hall would be renamed the “Taiwan Democracy Memorial Hall” and that the Chinese style wall around the memorial would be removed. The Minister of National Defense (MND) Lee Jye has agreed that all CKS statues will be removed from military bases.

### **“Four Wants, One Without”**

While a lame duck with diminished influence, President Chen demonstrated again that he has a flair for unanticipated news flourishes. In a speech on the anniversary of the founding of the Formosan Association for Public Affairs, Chen said there are four things Taiwan wants: independence, name rectification including joining the UN as “Taiwan,” a new constitution, and economic and social development. Moreover there was one thing Taiwan did not have – the usual left–right political issues. Rather, what makes Taiwan unique is that its fundamental political issue is national identity – the independence-unification divide. Once again, Chen’s government and party were found scrambling for explanations of why his remarks were not a contradiction of his previous commitments not to implement such policies. And now four weeks later, there is still no authorized English translation of his remarks on the Presidential Office website because of the question of how to translate the key phrase *siyao imei*. The president’s preferred translation is now “Four Imperatives and One Non-Issue.”

Chen’s remarks came on the eve of the National People’s Congress (NPC) in Beijing. As such, senior Chinese leaders could hardly avoid commenting. The first reaction came from Foreign Minister Li Zhaoxing who has often reacted harshly, saying Chen’s statement showed why history would judge him a criminal and warning that such steps could trigger Beijing’s Anti-Secession Law. But the more authoritative reaction came from Politburo Standing Committee Member, Jia Qinglin on March 8. Jia characterized Chen’s speech as a dangerous step toward secession and reiterated that China would resolutely oppose Taiwan independence. A week later, when Premier Wen met the press at the end of the NPC, he passed up an opportunity to comment on Chen’s statement. Washington at first declined comment, saying it had not seen the text of Chen’s remarks. Subsequently, the State Department spokesman called the remarks “unhelpful” and pointedly reiterated the importance of Chen’s abiding by his previous commitments for cross-Strait stability, U.S. national interest, and Taiwan’s welfare. On balance, both Beijing and Washington reacted mildly, recognizing that Chen no longer had the power to implement his dreams while in office.

The “Four Wants” mark a sharp contrast with Ma Ying-jeou’s “Five Does,” first enunciated in March 2006. Ma’s five goals are: to resume cross-Strait dialogue on the basis of the 1992 consensus, to reach a peace accord to stabilize relations for 30-50 years, to normalize cross-Strait economic relations including direct flights, to reach a “modus operandi” on Taiwan’s international space, and to encourage cultural and educational exchange.

## **NPC statements**

Premier Wen Jiabao's work report to the NPC made only brief mention of Taiwan. Wen's remarks reflected continuity in approaches to Taiwan developed under President Hu Jintao over the past two years. After reiterating Beijing's firm opposition to all secessionist activities, Wen emphasized Beijing's goal of promoting peaceful cross-Strait relations. No sense of urgency or threat was reflected in his statement. In response to a question at his post-NPC press conference, Wen added that priority would be put on opening regular weekend charter flights, on simplified procedures for charter cargo flights, and on arrangements for tourists from the mainland to visit Taiwan. The handling of Taiwan at the NPC indicates that there is no controversy in the leadership over the broad outlines of current policy toward Taiwan as the party prepares for the all-important 17<sup>th</sup> Party Congress in the fall.

## **Security issues**

China's first successful anti-satellite test was conducted on Jan. 11. While this test has broader implications, it was a reminder to Taiwan of the pace of People's Liberation Army modernization and the growing threat it poses to Taiwan. At the NPC, Beijing announced a further 18 percent increase in the published defense budget. Taiwan's Defense Ministry, MAC, and several leading politicians criticized these PRC steps, but whether they will stir the Legislative Yuan (LY) into action on Taiwan's arms procurement remains to be seen.

The regular LY session ended in January without passage of the overall government budget or the arms procurement legislation. An effort to schedule a special session on budget issues was unsuccessful. When the LY reconvened in March, the political controversies that blocked the budget in January resurfaced.

On March 6, *Defense News*, citing sources in Taiwan, reported that Taipei had conducted a test of the *Hsiungfeng IIE* land-attack cruise missile (LACM) on Feb. 2 with President Chen and Defense Minister Lee in attendance. The article said that these missiles had a range of 1,000 km and that Taiwan planned to deploy 500 of them. The MND spokesman subsequently said that article was untrue and reiterated that the *Hsiungfeng* missiles are anti-ship, not land-attack, missiles. The *Defense News* story had said that this new missile had been intentionally mislabeled as part of the *Hsiungfeng* series to disguise its characteristics. The status of the program remains uncertain. However, it is highly likely that, if the system were successfully developed, that news would leak to the media. *Defense News* also stated that the U.S. government had been attempting for a year to persuade Taiwan to drop the LACM program.

## **Functional agreements delayed**

Reports from both Beijing and Taiwan have indicated that negotiations and contacts concerning an expansion of charter flights and mainland tourism to Taiwan have continued through the quarter. Even though an agreement on tourism had been expected by the end of last year, no agreements have yet been announced.

Why the delay when both sides' interests would be served by agreement? It appears that there are still a number of unresolved issues on the inter-related charter and tourism questions. Taipei has reportedly proposed that some flights fly through Okinawan airspace rather than only through Hong Kong's, as Beijing has insisted. There is a question of who will be eligible to use the flights: just business people as at present, Chinese tourists, or others? President Chen has said that foreigners should also be able to use the flights. Beijing is reportedly seeking stronger assurances about the reliability of Taiwan tour operators. Another issue is whether tourists from China need to carry their passports when visiting Taiwan, which Taiwan would want and Beijing would resist because it implies its citizens would be traveling abroad. A comment from the TAO in late March about artificially created obstacles indicates that some differences remain.

It is also possible that the political conditions are not yet ripe for agreement. Although TAO officials have said that Chen's "Four Wants" statement will not delay agreement on functional issues, some Chinese academics have explained that such statements make it more difficult for Beijing to reach consensus on agreements. Within the Chen administration any agreement to expand cross-Strait contacts is inevitably politically contentious. So political atmospherics have probably played a role. Nevertheless, spokesman on both sides have expressed optimism that some agreement should be possible before mid-year.

## **Cross-Strait trade**

2006 saw further substantial growth in cross-Strait trade. According to Taipei's Board of Foreign Trade, cross-Strait trade grew 15.4 percent in 2006 to reach \$88.12 billion. As usual, China's statistics gave substantially higher figures. The PRC Ministry of Commerce put 2006 cross-Strait trade at \$107.8 billion, up 18.2 percent. Both sources indicated again that PRC exports to Taiwan were growing faster than Taiwan exports to China. From Taiwan's perspective, its exports to China totaled \$63.33 billion and accounted for 28.3 percent of Taiwan's total exports. This figure for Taiwan's export dependence on China was essentially unchanged from 2005. From Beijing's perspective, imports from Taiwan grew 16.6 percent in 2006. As this percentage increase was less than the increase in China's worldwide imports, Taiwan once again lost market share in China. Taiwan's declining share of China's imports is caused in part by the Chen administration's restrictive policies toward investment in the mainland.

## Looking ahead

In the coming months the political calendars in Beijing and Taipei will affect cross-Strait relations in different ways. In Beijing there is no controversy over Taiwan policy and confidence that long-term trends are working in China's favor. In the short-term, Beijing will continue to rely on Washington to check President Chen. With cross-Strait relations remarkably stable, the Beijing leadership is focused on more pressing domestic issues in the run-up to the 17<sup>th</sup> Party Congress.

In Taipei, the presidential election calendar is already influencing policy. President Chen is using his remaining months in office to promote a stronger Taiwan consciousness. Further steps in this direction can be expected. The campaign for the DPP presidential nomination is underway and is pushing candidates toward stronger pro-independence positions. While Premier Su Tseng-chang and former Premier Hsieh Chang-ting have more moderate images on cross-Strait issues, both have expressed reluctance to abide by President Chen's "four noes" commitment, and Hsieh has all but dropped his identification with the "constitutional 'one China'" position by saying the long-term goal is to remove the "one China" features from the constitution. Unfortunately, President Chen is correct in saying national identity is still the core issue in Taiwan politics, and recent LY and particularly presidential elections have exacerbated that divide.

In these circumstances, Washington will need to maintain a steady, predictable policy toward both sides and make its policy clear in public, including when candidates in Taiwan advocate positions which, if implemented, would threaten cross-Strait peace or cause a deterioration in U.S.-Taiwan relations.

## Chronology of China-Taiwan Relations January-March 2007

**Jan. 1, 2007:** President Hu Jintao's New Year's message reiterates his four points saying no compromise in opposing separatism.

**Jan. 1, 2007:** President Chen's New Year's address stresses Taiwanese nationalism.

**Jan. 1, 2007:** Chen says RMB exchange requires a clearance/liquidation agreement.

**Jan. 2, 2007:** TAO Minister Chen Yunlin says PRC remains vigilant against separatism.

**Jan. 3, 2007:** DPP leaders urge focus on welfare rather than constitutional reform.

**Jan. 4, 2007:** TAO spokesman criticizes Chen for preaching separatism.

**Jan. 5, 2006:** PRC FM spokesman urges U.S. to contain Taiwan independence.

**Jan. 5, 2007:** U.S. approves President Chen's U.S. transits in San Francisco and Los Angeles to Central America.

**Jan. 7, 2007:** FM Li Zhaoxing calls Secretary Rice to protest U.S. transit decision.

**Jan. 9, 2007:** President Chen overnights in San Francisco en route to Nicaragua.

**Jan.10, 2007:** Chen meets incoming Nicaraguan President Ortega.

**Jan. 11, 2007:** TAO says China will purchase tangerines to help with over production in Taiwan.

**Jan. 11, 2007:** China's first successful anti-satellite test.

**Jan 12, 2006:** President Chen stops briefly in Los Angeles.

**Jan. 14, 2007:** Premier Wen urges Japanese Prime Minister Abe Shinzo to abide by commitments on Taiwan issue.

**Jan. 15, 2007:** National Development and Resources Council Vice Chair Zhang Xiaoqiang leads 13-member delegate to Taiwan for conference on economics.

**Jan. 17, 2007:** Executive Yuan changes Palace Museum statute to downplay study of Chinese art.

**Jan. 18, 2006:** TAO Deputy Sun Yafu in Washington for consultations.

**Jan. 19, 2007:** LY session ends without passing budget or procurement package.

**Jan. 19, 2007:** News of China's anti-satellite test provokes criticism in Taiwan.

**Jan. 23, 2007:** Taipei says 880 missiles and 100 cruise missiles aimed at Taiwan.

**Jan. 25, 2007:** PRC repatriates robbery criminal Li Hanyang.

**Jan. 29, 2007:** Taipei explains changes in new high school history text book that treat Taiwanese and Chinese history as separate.

**Jan. 29, 2007:** MAC Chair Wu says talks on tourism going smoothly; Beijing agrees.

**Jan. 31, 2007:** TAO spokesman Yang Yi condemns changes in history texts but says talks on weekend charter flights proceeding well.

**Feb. 3, 2007:** Economics Minister Chen mentions new corporate names "CPC Taiwan" and "CSBC Taiwan."

**Feb. 4, 2007:** DPP Chair Yu says he supports changing national name and amending General Provisions of constitution.

**Feb. 7, 2007:** MAC Chair Wu in DC wants foreigners eligible for charter flights.

**Feb. 8, 2007:** President Chen suggests changing name of China Postal Service.

**Feb. 9, 2007:** China Post chairman changes organization name to Taiwan Post amid protests.

**Feb. 9, 2007:** State Dept. spokesman says U.S. does not support name changes.

**Feb. 12, 2007:** President Chen presides at “Taiwan Post” name change ceremony.

**Feb. 12, 2007:** DPP Chair Yu says U.S. has no right to meddle in name changes.

**Feb. 13, 2007:** KMT Chair Ma Ying-jeou indicted on corruption.

**Feb. 13, 2007:** Lunar New Year/Spring Festival charter flights begin between Taiwan and PRC.

**Feb. 14, 2007:** DPP releases poll asserting 51 percent want “Taiwan” as national name.

**Feb. 15, 2007:** MAC says opinion polls show rise of Taiwan identity in 2006.

**Feb. 26, 2007:** President Chen says Chiang Kai-shek responsible for 228 Incident.

**Feb. 28, 2007:** President Chen presides over opening of National 228 Memorial.

**Feb. 28, 2007:** Beijing forum says 228 being manipulated by independence advocates.

**Feb. 28, 2007:** State notifies AMRAAM and Maverick missile sales to Taiwan.

**March 1, 2007:** CSBC Board adopts name Taiwan International Shipbuilding Corp.

**March 2, 2007:** Executive Yuan decides to rename Chiang Kai-shek memorial as “Taiwan Democracy Memorial Hall”

**March 3, 2007:** U.S. Deputy Secretary of State John Negroponte travels to Beijing; Beijing wants missile sale cancelled.

**March 4, 2007:** In speech, President Chen voices his “Four Wants, One Without.”

**March 4, 2007:** Beijing announces 17.8 percent defense budget increase on eve of NPC.

**March 5, 2007:** State Dept. spokesman says Chen’s remarks are “unhelpful.”

**March 5, 2007:** Premier Wen's NPC report emphasizes peace and development in Taiwan Strait.

**March 5, 2007:** FM Li Zhaoxing says Chen a criminal before history.

**March 5, 2007:** TAO statement says Chen's remarks a "dangerous step."

**March 5, 2007:** MAC says Taipei ready to negotiate a currency clearance agreement.

**March 6, 2007:** Taiwan MOFA protests Abe's remarks on comfort women.

**March 6, 2007:** *Defense News* publishes an article on *Hsiungfeng IIE* cruise missiles.

**March 8, 2007:** Jia Qinglin calls Chen's "Four Wants" a dangerous step.

**March 9, 2007:** KMT expels Defense Minister Lee Jye for removing CKS statutes.

**March 13, 2007:** Taiwan announces 43 percent anti-dumping duty on Chinese shoes.

**March 14, 2007:** TAO's Ye Kedong says "Four Wants" will not affect functional issues.

**March 15, 2007:** Acting DPP chair Trong Chai registers referendum proposal to apply to UN under name "Taiwan."

**March 17, 2007:** Premier Wen Jiabao holds NPC press conference.

**March 18, 2007:** Chen Ming-tung releases draft second republic constitution.

**March 18, 2007:** *Xinhua* criticizes draft as an independence step.

**March 19, 2007:** Executive Yuan proposes National Language Development Law.

**March 20, 2007:** Taipei's Investment Commission approves TSMC's 0.18 micron technology investment in China.

**March 21, 2007:** AIT Director Young calls for expanded cross-Strait economic ties.

**March 22, 2007:** PRC Ambassador Zhou Wenzhong urges U.S. to stop arms sales to Taiwan.

**March 23, 2007:** Taiwan Foreign Minister Huang visits St. Lucia for trade talks.

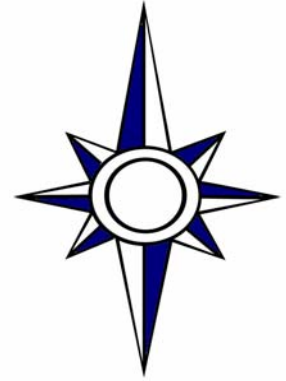
**March 24, 2007:** First DPP presidential primary debate.

**March 26, 2007:** Intel announces plan to build 12-inch wafer plant in China.

**March 27, 2007:** Deputy Assistant Secretary Christensen's testimony at HFAC.

**March 28, 2007:** TAO says draft second republic constitution is aimed at creating *de jure* independence.

**March 30, 2007:** Cross-Strait charter flights for Tomb Sweeping Day begin.



**North Korea-South Korea Relations:  
Sunshine Regardless?**

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

For South Korea, as for all North Korea's interlocutors, dealing with Pyongyang during the first quarter of 2007 was – in a cliché beloved of British soccer commentators – “a game of two halves.” When the new year began, and well into February, most official contacts remained suspended in the wake of last year's twin shocks: the DPRK's missile launches in July, followed by its nuclear test in October.

Yet even then there were hopes of an early thaw amid visibly energetic efforts to breathe life into the Six-Party Talks after their resumed session in December ended in failure. On Feb. 13, after appearing close to collapse over North Korea's large energy demands, this on-off forum finally produced an agreement that – if imperfect – nonetheless looked more comprehensive and detailed than many observers had dared to hope after more than three years of getting nowhere much.

**Tight deadlines**

While it remains to be seen whether the DPRK will meet the tight and specific deadlines laid down in the Feb. 13 accord, the immediate effect was to create both an atmosphere of cautious optimism and a flurry of activity. South Korea, which under President Roh Moo-hyun remains committed to the Sunshine Policy – rebranded as “Peace and Prosperity” – of engaging North Korea pioneered by his predecessor Kim Dae-jung, lost no time in reactivating the various channels that had been on ice for half a year. As the first quarter ended, ministerial and other talks had already resumed, with much more to follow.

But even as many in Seoul celebrate an early spring, caution is in order. Dealing with North Korea has never been smooth, and the Feb. 13 deal could yet run into problems: for instance, if Pyongyang misses deadlines, or argues over interpretations and commitments.

**Why seek a summit?**

On the inter-Korean front specifically, there are at least two concerns. The immediate one is that a beleaguered Roh Moo-hyun, a lame duck leader in his final year (his term ends in February 2008), and the ruling – albeit collapsing – Uri Party may seek a second inter-Korean summit in Pyongyang to boost their position, even though Kim Jong-il appears to have no plan to come to Seoul, as he was supposed to in return for Kim Dae-jung's visit

to Pyongyang in June 2000. Besides typically letting the DPRK off the hook of genuine reciprocity, it is hard to see what of substance such a gesture could achieve.

Second, even a fresh summit is unlikely to bolster the Uri Party ratings enough to dent the conservative opposition Grand National Party (GNP)'s huge lead in opinion polls. While anything can happen in South Korean politics, the two upcoming elections – the Dec. 19 presidential and the April 2008 National Assembly elections – look set to return the political right to power in Seoul, ending a decade of center-left rule. While a GNP government would still pursue engagement, it would certainly demand more reciprocity from North Korea – whose media regularly and roundly abuse the GNP as pro-U.S. flunkies and traitors. All this suggests that any new burst of Sunshine this year may prove shortlived, with 2008 portending at the very least a chilly and possibly prolonged eclipse.

### **Marking time**

Even before the Feb. 13 breakthrough, by no means all inter-Korean contact ceased. Official aid remained suspended, but ROK NGOs continued to help the North with medical supplies, food, and more. In mid-January doctors from the two Koreas began working side by side for the first time, in a small NGO-run hospital in the DPRK's Kaesong industrial complex.

Nor did ROK local authorities feel bound by the central government's aid freeze. In early February, the island province of Jeju, which has long cherished its autonomy, sent more of its tangerines and carrots to the DPRK, as it has been doing since 1998. The carrots may also serve as a metaphor: these days, few in the South now send the North sticks.

Semi-official contacts continued too. As is now usual, the two Koreas marched together in the opening ceremony of the Sixth Winter Asian Games in Changchun, China on Jan. 28 – but went on to compete separately. DPRK television reportedly omitted to mention the joint march. But talks toward a joint team for the 2008 Beijing Olympics remain stalemated: the South wants athletes picked on merit; the North demands equal numbers.

### **Kaesong opens wider**

Nor did official contact wholly cease. On Jan. 24, Unification Minister Lee Jae-joung led a 100-strong Southern delegation on a visit to the Kaesong industrial complex. They were also allowed to tour Kaesong city, an historic ancient capital, the first Southern group to do so since Pyongyang banned this last July, in reprisal for Seoul's suspension of aid.

The Kaesong industrial park, controversially never subject to sanctions, continued normal operations throughout the quarter. On Feb. 20, the ROK Unification Ministry (MOU) said it will resume expansion of the complex, suspended last September as tensions rose, and lease a further 1.6 sq km of land in the zone to Southern firms by mid-April. Business apart, Kaesong has also become an ever more popular destination for politicians from the ROK's ruling but beleaguered Uri Party, to show their commitment to détente.

## **Calm seas**

Two incidents (or non-incidents) in January were a reminder of real progress in at least one area. It is less than five years since the two Koreas' navies fought a brief but fierce and fatal battle in a disputed border zone. In earlier decades, ROK fishermen venturing too close to the border risked being seized by the DPRK, never to return: Seoul reckons some 434 are still held in the North. (Last quarter's article spotlighted one of these, who escaped via China only to be – at first – cold-shouldered by his own government.)

Today, Korean seas are calm, and incidents that in the past would have escalated are swiftly defused. On Christmas day, a solo ROK fisherman deliberately sailed his squid boat into Northern waters; alcohol was rumored. On Jan. 12, the DPRK returned the man and ship, without fuss. Five days later the ROK vessel *Heonseong-ho* returned to its homeport of Gunsan with a cargo of sand from Haeju in the DPRK, two days after colliding with a DPRK fishing boat in Northern waters. Though four of its fishermen were missing, Pyongyang did not read the riot act; it simply asked for Seoul's cooperation in searching.

## **Six-party deal unblocks bilaterals, too**

As the examples above illustrate, rightly or wrongly Seoul hardly let the DPRK nuclear test cast a shadow on ongoing inter-Korean cooperation at the grassroots. So naturally, once the Six-Party Talks achieved their breakthrough on Feb. 13, the ROK moved swiftly to reinstate the formal channels of dialogue suspended for the past half-year, starting with ministerial talks – the 20<sup>th</sup> since the June 2000 summit, and the first since last July's unhappily session in Busan – held in Pyongyang from Feb. 27 to March 2.

That meeting produced a six-point statement that, like the new six-party accord, was encouragingly specific in setting dates and deadlines for a range of further events. (By contrast, too many earlier agreements were often vague on timelines, allowing Pyongyang to temporize and backslide – and for it to be hailed as progress if the North merely agreed to show up to a meeting. Such bad habits are now, one must hope, a thing of the past.)

## **Family reunions resume**

One area resumed is reunions of separated families. A fifth videolink session was held on March 27-29, with the 15<sup>th</sup> face-to-face reunions to follow at Mt. Kumgang in early May. Construction of a permanent reunion center at Mt. Kumgang, halted since last July, was to resume on March 21. It remains to be seen whether the nature and pace of these events will evolve from the present pitiful charades into more genuine and lasting encounters. So far the scale and frequency of reunions, even when not interrupted, is grossly inadequate.

At the present rate, most of these now elderly folk, separated from their kin for over half a century, will die before ever having a chance to meet. Even for the lucky few who get this opportunity – selected by lot in the South, but seemingly by privilege in the North –

this is for one time only, much of it in the glare of the cameras as if in a reality TV show. Tears flow – as well they might, since thereafter those so briefly reunited are not allowed even to write, telephone, or email, much less visit. Besides, the stylized setting of the Mt. Kumgang resort is no substitute for the visits to hometowns and ancestral graves, which Korean custom and tradition dictate. If the DPRK's rulers had an ounce of humanitarian spirit, they would ease these cruel and indefensible restrictions forthwith.

### **Abductees: a thornier issue**

Not unrelatedly, on April 10-12 an eighth round of Red Cross talks will *inter alia* tackle the thorny issue of “persons whose fate is unknown during or after the 1950-53 Korean War”. This phrase is code for some 542 Southern prisoners of war (POWs) still held in the North, and 485 (mainly fishermen) seized since 1953. Pyongyang denies holding anyone involuntarily, but in recent years a few have escaped to tell their grim stories. Seoul for its part had been hesitant to raise this issue – in marked contrast to Japan, for whom a far smaller number of abductions are its top policy priority with the DPRK.

This is obviously a delicate area. But if Kim Jong-il could bravely manage a personal admission and apology – if not the whole truth, unfortunately – for the DPRK's past kidnappings from Japan, then it is not clear why the ROK should settle for less and allow over a thousand of its aging citizens to remain prisoners of the North. The true number may be far higher, since this excludes thousands – estimates run as high as 84,000 – of South Korean civilians taken North during 1950-51 when the KPA overran much of the South. How bright, really, is a “Sunshine” that ignores or glosses over such crimes?

Yet unlike in Japan, for some reason this is not a matter that greatly exercises public opinion in South Korea. Similarly, the now 10,000 Northern defectors who have braved huge odds to find sanctuary in the South all too often face prejudice and lack of interest in their plight – or even criticism as “anti-unification” for speaking ill of Kim Jong-il. In this, what critics regard as the ROK government's oddly twisted stance in fact reflects its citizens' equally curious posture; the three monkeys of fable come to mind. Things may be different if next year the conservative opposition is voted back into power.

### **Economy and aid: not yet? (at first)**

Turning to the less tricky area of economic cooperation, it was agreed to hold the 13<sup>th</sup> economic cooperation promotion committee (ECPC) meeting in Pyongyang on April 18-21. The North reportedly wanted it sooner, but the South initially insisted on waiting until after the 60-day deadline (from Feb. 13) in the six-party accord for Pyongyang to shut its nuclear facilities at Yongbyon, as a key test of its commitment to genuine compliance.

This is presumably why the Pyongyang joint statement did not mention aid. North Korea apparently asked for 400,000 tons of rice and 300,000 tons of fertilizer, as it has received in most recent years until 2006; it repeated the latter demand on March 7. Seoul then, it seems, retreated; the same day, ROK Vice Unification Minister Shin Eon-sang said that fertilizer deliveries (which are time-sensitive), worth \$115 million, would begin later in March. By early April, Shin was ready to delink rice aid as well from nuclear compliance and offer it unconditionally, as described below. Actual shipments resumed on March 28, when a ship bearing 6,500 tons of fertilizer, 60,000 blankets, disinfectant to combat foot and mouth disease, and other items headed North from the southern ROK port of Yeosu.

### **An ROK parastatal does its own deals**

As of early April, it looked ever more likely that the April 14 deadline to shut Yongbyon may be postponed, due to technical difficulties in resolving the Banco Delta Asia issue. That would let the ECPC meeting off the hook in terms of its further non-aid agenda of economic cooperation. Before everything got put on ice last July, the main focus was on a barter deal where the South would supply raw materials for very basic needs – clothing, soap, etc – in exchange for unspecified mineral rights. This sounds straightforward, but progress had been slow; the North reportedly wanted the raw materials as aid, while the South insisted on a formal linkage to mining investments as a *quid pro quo*.

Yet here again, neither this dispute nor the half-year freeze on official contacts impeded direct business dealings, including by ROK parastatals. One in particular, KoRes (Korea Resources Corp), has long been quietly doing deals in the North. The latest, reported on Jan. 10, is for feasibility and environmental studies on zinc and magnesite mines – among Asia’s largest – in Hamgyong Province in the DPRK’s northeast. Already KoRes has two ventures with the DPRK firm Samcholli: one for lead and zinc and the other for graphite at Yongho, just north of the DMZ. In the latter KoRes is providing machinery and equipment; annual sales of 10,000 tons of graphite to South Korea are envisaged.

### **Peace train?**

Another crux for Seoul is Pyongyang’s persistent refusal thus far to put two reconnected cross-border railways into actual use. The track has long been ready, but test runs have been repeatedly postponed. The March 2 accord says these will take place by late June, subject to a security guarantee; yet working-level talks in Kaesong on March 14-15 got nowhere. With parallel trans-DMZ roads now in active use – albeit unidirectional: of course, no North Koreans come South except the odd official for talks – it is not clear why even the most paranoid of KPA hawks, having already allowed the front line to become a front door, should object to one form of locomotion more than another.

If the trains do finally run, this will renew hopes for the “iron silk road” – a rail link from Pusan to Paris, or even Portugal – dear to Kim Dae-jung and at least some in Moscow. But for this to be realized would require modernizing the DPRK’s decrepit rail network. It is unclear who would pay for that, or whether a regime that rebuffed the late Chung Ju-

Yung's hopes to run a gas pipeline from Siberia to Seoul is yet ready for the far more intrusive prospect of ROK freight trains transiting its carefully guarded territory.

### **Military CBMs?**

On Feb. 20, a week after the six-party accord, MOU issued its policy goals for the year. For the first time these include arms control measures, like a direct telephone line between defense chiefs and confidence-building steps such as exchanges of military personnel. One lives in hope, but hitherto the DPRK has always refused invitations to observe regular joint ROK-U.S. exercises, which it criticizes every year in hackneyed phrases as though these routine war games represented a real threat of invasion. Thus of late, daily diatribes in the Pyongyang media have warned that the hardy perennial *RSOI* and *Foal Eagle* exercises – the latter dating back to 1962! – which began March 25 are “very dangerous provocations” that risk jeopardizing the Feb. 13 six-party agreement.

Pyongyang has also been consistently reluctant to discuss significant security issues with Seoul. Southern hopes were high when the DPRK defense minister came to Seoul in September 2000, soon after the Pyongyang summit. KPA Vice Marshal Kim Il-chol visited the Blue House in uniform, and even reportedly saluted Kim Dae-jung. But he would discuss only railways (still unresolved six years on, as noted above); and no return visit was allowed. In recent years, lower-level military talks have inaugurated naval radio communications and dismantled border propaganda, but have yet to address major underlying security issues. Were the DPRK stance to change, this would be a major and welcome shift of strategy toward taking the ROK seriously as a dialogue partner in this most fundamental area, instead of treating it as a mere subaltern of the U.S. – and a cash cow.

### **Sunshine as axiom?**

Overall, since the Feb. 13 six-party breakthrough (if such it prove) it has been back to full steam ahead for the Sunshine Policy; as if Pyongyang's missile and nuclear tests were a tiresome inconvenience, rather than a brazen slap in the face to all Seoul's olive branches.

While it would be churlish for a foreigner to begrudge Koreans any genuine steps on the road to reunifying their sundered land, sentimentality is not enough. The almost unseemly haste with which Seoul rushed to resume Sunshine suggests this has become – at least for the current government – an axiom and article of faith, rather than a cool-headed targeted policy with clear goals, to be revised or fine-tuned with constant ongoing appraisal of whether its objectives are actually being met. Are they? Is there genuine reciprocity here?

## Secret contacts last October are admitted, at last

A particular risk, in an election year, is of *Nordpolitik* being abused for partisan purposes – as distinct from the right of parties to offer voters a choice on this as on other policies.

After months of rumors and official denials, it is now confirmed that South Korea held secret talks with the North last fall. On Oct. 20, just days after the nuclear test, two close aides of President Roh – Ahn Hee-jeong, who served a year in jail for taking illicit funds for Roh's election campaign but now holds no official post, and Rep. Lee Hwa-young of the ruling Uri Party, met in Beijing with Ri Ho-nam, said to be a councilor of the DPRK's National Economic Cooperation Federation. Only on March 29 did the Blue House finally admit that this meeting took place. A day later Unification Minister Lee Jae-joung told a skeptical press conference that he did not deem this illegal, even though it is far from clear whether the law and procedures for inter-Korean contacts were followed.

According to the Seoul daily *Donga Ilbo* – no friend to Roh Moo-hyun, admittedly – one month later Suh Hoon, in charge of North Korea strategy and intelligence at the ROK's National Intelligence Service (NIS), also met Ri in Dandong, China circa Nov. 19-23, 2006. Suh denies any such meeting, but Rep. Lee Hwa-young confirmed it, adding that the NIS was not keen to get involved. The feeling seems mutual: Gwon O-hong, a businessman go-between for Ahn's Beijing contact, in a written memorandum quoted Ri as saying: "When Suh comes, tell him I have nothing to say or hear, so go back as soon as possible and save hotel fees."

Inter-Korean back channels as such are nothing new. Their full history, over at least 36 years, would make a fascinating read: someone should write it. (Who now recalls that 20 years ago Park Chul-un, the then dictator Chun Doo-hwan's secretary for political affairs, had a direct hotline on his desk to Han Si-hae, a vice-director of the central committee of the North's ruling Workers Party of Korea (WPK), later to be DPRK ambassador to the UN? According to Don Oberdorfer's invaluable *The Two Koreas*, Park and Han not only spoke often but met no less than 42 times during 1985-91 in many places: Pyongyang and Seoul, Mt Paektu, Jeju island, Panmunjom, Singapore, and elsewhere. While all this was secret and bore few fruits, the new "authorized version" in both Koreas that dates contacts as starting only with Sunshine and the 2000 summit is profoundly misleading.)

Back channels have their precedents and uses. The NIS – an agency deeply conflicted nowadays about its role re the North – may have been coy this time; yet its predecessor, the dreaded KCIA, used to keep up its own contacts with Pyongyang – not always telling its nominal political masters. Each case must be judged on its merits, but in this case one must share the NIS's reservations. What on earth did Roh think he was up to, just days after the North had tested a nuke? The official line is that this was to sniff out a rumored Northern offer of fresh talks, and whether the source was reliable. Both proved elusive, so the channel was shut down after a month. Even if that is true, the timing seems gauche.

Political judgment aside, what of the legalities? Should the latest revival of inter-Korean ties turn sour, the next ROK government may well act as Roh did against Park Jie-won, Kim Dae-jung's former presidential chief of staff and a key player in the Sunshine Policy, who served over three years in jail for illegal contacts with the North (admittedly money was involved) until freed under one of the ROK's regular presidential pardons on Feb. 9.

### **A summit in Kaesong?**

Also playing politics is Chung Dong-young, a former unification minister who once met Kim Jong-il, and ex-head of the ruling but now imploding Uri Party. After lying low for several months, Chung has resurfaced in hopes of reviving what once seemed a plausible bid to be South Korea's next president – although like all Uri wannabes, he languishes in single figures in opinion polls. On March 28, Chung visited the Kaesong zone, with two other key former unification ministers: Lim Dong-won, *eminence grise* of the Sunshine Policy under Kim Dae-jung (albeit later convicted of breaking the law by secretly sending money to Pyongyang as an inducement), and Park Jae-kyu, now an influential academic.

Before his trip, Chung made headlines by proposing Kaesong as a good venue for a new inter-Korean summit, both for its “political and economic significance” and convenience: the two leaders could get there and back within a day. That sounds a brief encounter, for a meeting that Chung claims is “not a matter of choice but of necessity” to achieve a permanent peace regime on the peninsula. Sounding a nationalist note that will grow as December's presidential election draws nearer, Chung asked: “Should we just be looking at the United States or China? With our fate at stake, naturally we should take the helm.”

Fine rhetoric, but unfortunately Pyongyang's predilection for making a nuclear and wider nuisance of itself, on a regional and even global scale, has so multilateralized the North Korean question that Seoul can no longer thus claim ownership of it. Many hands are on this tiller, and not all have confidence in whatever map Seoul's helmsmen are steering by.

### **Rice aid, regardless**

As April began, all eyes were on the laudably precise but now pressing schedule laid out in the Feb. 13 six-party joint statement. With a publicly expressed skepticism that itself might be said to tacitly license Pyongyang to prevaricate, the continuing tangle over the Banco Delta Asia funds issue prompted growing anxiety as to whether the DPRK would in fact fulfill its undertaking to shut its Yongbyon reactor by mid-April.

But some parties seem less anxious than others. On April 5, Vice Unification Minister Shin Eon-sang said that in any case the ROK will “give rice to the North as scheduled” – the usual 400,000 tons as requested, presumably, costing over \$200 million at the ROK's inflated domestic prices – after the bilateral ECPC economic talks set for April 18-21 in Pyongyang. As noted, the timing of that meeting – the DPRK pressed for an earlier date –

had been seen as building in conditionality: no closure, no rice. No longer, apparently: Shin now insists that “the momentum for inter-Korean development should not be lost.”

### **Wrong call then; wrong signal now**

Arguably it was wrong in the first place, as we suggested at the time, for Seoul to breach international norms and suspend humanitarian food aid rather than business projects like the Kaesong and Kungang zones in retaliation for Pyongyang’s missile tests last July. On March 28, the UN World Food Program (WFP) warned that “millions of people [will] go hungry” in North Korea in the current pre-harvest lean season, unless donors delink food aid from nuclear concerns and help plug a food gap of about 1 million tons, 20 percent of the DPRK’s total needs.

Yet after the far greater threat of October’s nuclear test, this is a major U-turn for Seoul. As he celebrates Sun’s Day – his late father Kim Il-sung’s birthday – with the usual pomp on April 15, Kim Jong-il could be forgiven for concluding, as he watches the continuing disarray among the other five parties, that in practice he can do pretty much what and when he pleases, with no serious fear of reprisal from any quarter. He may also infer that South Korea in particular is happy to remain a unilateral cash cow for his regime, and that he has but to snap his fingers for a naïve and politically desperate Roh Moo-hyun to come running for a second inter-Korean summit – any place, any time. This cannot be a healthy basis for successful future diplomacy, whether bilateral or multilateral.

## **Chronology of North Korea-South Korea Relations January-March 2007**

**Jan. 1, 2007:** Lee Kun-hee, chairman of Samsung, Korea’s largest conglomerate, in his new year address cites the North Korean nuclear issue as one of three reasons (the others being high oil prices and the appreciating won) why “this year, the future for us isn’t that bright.”

**Jan. 2, 2007:** ROK Unification Minister Lee Jae-joung calls for more aid to the DPRK once it abandons its nuclear ambitions, saying that “unless we fundamentally solve the problem of poverty in North Korea, security on the Korean Peninsula will always be in danger.” The opposition Grand National Party (GNP) criticizes Lee the same day, saying the problem is nuclear weapons rather than poverty and accusing the Roh administration of “begging for the inter-Korean summit.”

**Jan. 2, 2007:** Former ROK President Kim Dae-jung says the “possibility of an inter-Korean summit is higher than ever, as President Roh Moo-hyun has vowed to meet North Korean leader Kim Jong-il anytime, anywhere.”

**Jan. 9, 2007:** Jong Geun, secretary general of Green Doctors, an ROK NGO, says that from Jan. 11 doctors from both Koreas will work side by side for the first time, in GD’s 396 sq m hospital in the Kaesong industrial complex.

**Jan. 10, 2007:** Good Neighbors International, a Southern NGO, says it has sent penicillin and antibiotics worth \$5 million to the North to help fight a scarlet fever epidemic.

**Jan. 10, 2007:** The ROK Olympic Committee says that on Jan. 5, the DPRK proposed, via an official in the border village on Panmunjom, that both Koreas march jointly in the opening and closing ceremonies of the Winter Asian Games to be held in Changchun, China, from Jan. 28.

**Jan. 12, 2007:** North Korea returns a Southern squid boat and its crew of one engineer, who had sailed into Northern waters on the east coast on Dec. 25 for reasons unknown.

**Jan. 13, 2007:** The DPRK's Committee for the Peaceful Reunification of the Fatherland issues a statement attacking the U.S. for sending a wing of *F-117* Stealth fighter bombers and at least 300 support personnel to South Korea.

**Jan. 17, 2007:** Northern political parties, government, and organizations issue a joint statement on unification, calling on South Koreans to eschew conservatism and cooperation with the U.S.

**Jan. 17, 2007:** The ROK vessel *Heonseong-ho* returns to its homeport of Gunsan, North Jeolla, with a cargo of sand from Haeju in the DPRK, two days after colliding with a DPRK fishing boat in Northern waters. Four DPRK fishermen are missing, and Pyongyang asked for Seoul's cooperation in search and notification.

**Jan. 24, 2007:** In what is seen as a sign of détente, ROK Unification Minister Lee Jae-joung visits the Kaesong industrial complex. The 100-strong delegation is also allowed to tour Kaesong city, the first Southern group to do so since the North banned this last July.

**Jan. 24, 2007:** A spokesman for the DPRK's Korean Asia-Pacific Peace Committee says KAPPC has no formal agreement with the ROK's Hyundai Asan to organize city tours to Kaesong. The North has been trying to offer the contract to a rival ROK operator, Lotte.

**Jan. 28, 2007:** Teams from North and South Korea march jointly behind a neutral flag at the opening ceremony of the sixth Winter Asian Games in the northeast Chinese city of Changchun. As usual they go on to compete separately. DPRK television does not mention the joint march.

**Jan. 31, 2007:** The North's *Korean Central News Agency (KCNA)* accuses the South of at least 70 cases of aerial espionage during the past month, and U.S. forces of a further 110 incidents.

**Feb. 5, 2007:** The ROK's island province of Jeju sends 2,150 tons of carrots and tangerines to the North. A similar amount again was due to be sent later in the month. Since 1998, Jeju has sent the DPRK 36,228 tons of tangerines and 13,000 tons of carrots.

**Feb. 6, 2007:** The South's *Yonhap News Agency* quotes an unnamed senior ROK official as saying that Southern aid to the North may resume once inter-Korean dialogue is restored and if the six-party nuclear talks make progress.

**Feb. 13, 2007:** The Six-Party Talks in Beijing agree on a detailed joint statement, setting up five working groups and laying down a detailed timetable for first steps by all concerned; including the closure of the DPRK's nuclear site at Yongbyon within 60 days.

**Feb. 13, 2007:** A seven-hour meeting in Kaesong, the fourth since 2004, on fielding a joint team for the 2008 Beijing Olympics again ends in disagreement. South Korea wants athletes to be selected on merit, while the North insists on equal numbers from each side.

**Feb. 14, 2007:** The head of the North's delegation to inter-Korean ministerial talks accepts an offer from his Southern counterpart for working-level talks toward a resumption of this channel.

**Feb. 15, 2007:** Meeting in Kaesong, the two Koreas agree to hold the 20<sup>th</sup> ministerial talks – the first since last July – in Pyongyang, starting on Feb. 27.

**Feb. 20, 2007:** The ROK Unification Ministry (MOU) says it will resume expansion of the Kaesong industrial park, suspended last September due to rising tensions. It plans to lease a further 1.6 sq km of land in the zone to Southern firms by mid-April.

**Feb. 20, 2007:** MOU issues its policy goals for the year. They include establishment of peace systems on the peninsula, economic cooperation for co-development, humanitarian aid and socio-cultural exchanges. In the medium- and long-term, MOU plans to develop strategies to modernize infrastructure in the North, such as ports and railroads.

**Feb. 24, 2007:** *KCNA* reports that the co-chairmen of the National Alliance for the Country's Reunification – Pomminryon, a pro-North front organization – held an extraordinary meeting on Feb. 23 by exchanging faxes between the North, South, and overseas, to discuss plans for 2007.

**Feb. 26, 2007:** For the first time in an official ROK text, MOU says it will seek arms control talks with the DPRK this year. Ideas include a direct phone line between the two sides' defense chiefs, and confidence-building steps like exchanges of military personnel.

**Feb. 27, 2007:** A Southern delegation, led by Unification Minister Lee Jae-joung, flies into Pyongyang for the 20<sup>th</sup> inter-Korean ministerial talks.

**March 1, 2007:** Kim Yong-nam, the DPRK's titular head of state as president of the Presidium of the Supreme People's Assembly (SPA), meets ROK Unification Minister Lee and other Southern delegates to the ministerial talks in Pyongyang.

**March 2, 2007:** North-South ministerial talks in Pyongyang close with a six-point joint statement, setting a detailed timetable to resume a range of inter-Korean contacts.

**March 7, 2007:** MOU says the North has sent a fax asking for 300,000 tons of fertilizer.

**March 7, 2007:** A delegation of the Committee for Peace in Northeast Asia of the ROK's ruling Uri Party, led by former Prime Minister Lee Hae-chan, arrives in Pyongyang at the invitation of the DPRK's National Reconciliation Council. Lee rebuts speculation that he is President Roh's special envoy seeking to broker a second summit.

**March 8, 2007:** Lee Hae-chan meets the DPRK's titular head of state, Kim Yong-nam.

**March 9, 2007:** ROK Foreign Minister Song Min-soon says the DPRK still wants to be supplied with a light-water reactor (LWR), and that this can be discussed at a later stage of the Six-Party Talks.

**March 10, 2007:** After two days of working-level Red Cross talks at Mt Kumgang, both Koreas agree to resume construction, halted last year, of a family reunion center at the DPRK resort. The South will also give the North \$400,000 to buy equipment for more frequent video reunions.

**March 12, 2007:** Anonymous ROK government sources predict that former President Kim Dae-jung will revisit Pyongyang around June, followed by a North-South summit in August or September.

**March 12, 2007:** Former ROK Premier Lee returns from Pyongyang. He again denies being a special envoy, and says the North has shown movement on the "missing persons" (abductees) issue.

**March 14-15, 2007:** Talks in Kaesong fail again to agree on a much-delayed test train run on two reconnected, but so far unused, cross-border railways. A separate meeting agrees to resume family reunions in May.

**March 15, 2007:** After chairing the first meeting in Beijing of the six-party working group on energy cooperation, chief ROK nuclear negotiator Chun Yung-woo says Seoul will pay for the first batch of 50,000 tons of heavy fuel oil which the DPRK is due to receive once the Yongbyon site is closed.

**March 20, 2007:** The DPRK's 32-strong under-17 soccer squad arrives in the ROK's Jeju island province for a month of training: the first time a Northern team has trained in the South. They will also tour four cities and play friendly matches. DPRK ice hockey and taekwondo teams are due to visit the ROK in April.

**March 21, 2007:** Good Friends, a Seoul-based NGO, claims that 70 percent of North Koreans are short of food, and that DPRK local officials fear famine may return.

**March 22, 2007:** The ROK's Inter-Korean Exchange and Cooperation Promotion Committee holds its 182<sup>nd</sup> meeting. Seven agenda items are approved, including video reunions and the provision of aid for this as well as fertilizer and medical aid (measles, malaria, and foot and mouth).

**March 22, 2007:** The DPRK Foreign Ministry criticizes the annual U.S.-ROK *RSOI* and *Foal Eagle* war games, due to start on March 25, as "very dangerous provocations" which jeopardize the Feb. 13 six-party agreement. Northern media repeat such routine attacks almost daily thereafter, into April.

**March 22, 2007:** Lee Hae-chan proposes a four-way summit between the two Koreas, the U.S., and China. He again denies having been an envoy to broker a North-South summit.

**March 24, 2007:** Meeting in Kaesong, labor unions from both Koreas agree to celebrate May Day together in the ROK industrial port city of Ulsan, Hyundai's heartland. This is the first time that this event, ongoing since 2002, will be held in South Korea. Some 60 North Koreans will attend.

**March 26, 2007:** At a brief chance meeting at a reception in Kuwait with DPRK ambassador to Kuwait Ho Jong, Roh Moo-hyun asks him to tell Kim Jong-il "that I am acting from my heart."

**March 27, 2007:** Seoul daily *JoongAng Ilbo* says Lee Hae-chan will return to Pyongyang soon, rekindling speculation that he is acting as a special envoy to arrange a summit.

**March 27-29, 2007:** A fifth round of video reunions is held, briefly reuniting around 120 separated families in 13 locations in South Korea and 10 in the North. After more than half a century apart, each family gets around two hours of contact.

**March 28, 2007:** South Korean aid to the North resumes. A ship leaves the ROK port of Yeosu bearing 6,500 tons of fertilizer, 60,000 blankets, and other items.

**March 29, 2007:** Aide to Lee Hae-chan claims that while in Pyongyang recently the ex-ROK premier suggested that the warship *USS Pueblo*, seized in 1968, should be returned to improve relations with the US. DPRK officials were reportedly not averse to the idea.

**March 28, 2007:** Former Unification Minister Chung Dong-young visits the Kaesong zone, and suggests this is the best venue for a second inter-Korean summit: as a symbol of North-South cooperation, and for its convenience.

**March 29, 2007:** After months of denials, the Blue House admits that Ahn Hee-jeong, a close aide of President Roh who currently holds no formal post, secretly met a senior North Korean envoy in Beijing on Oct. 20, 2006, just days after the North's nuclear test.

**March 30, 2007:** ROK Unification Minister Lee says he does not see Ahn Hee-jeong as having broken the law by his secret meeting.

**March 30, 2007:** It is announced in Seoul that for the first time two ROK athletes will run in a marathon in Pyongyang on April 15: a major DPRK holiday marking the late Kim Il-sung's birthday.



**China-Korea Relations:  
A Dark Turn in Political Relations**

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

China played a key role in resurrecting the Six-Party Talks from near death through a Feb. 13 agreement in which North Korea would shut down its reactors for 50,000 tons of heavy fuel oil and disable its reactors for an additional 950,000 tons of heavy fuel oil or the equivalent. The deal had stalled by the end of the quarter over the return of North Korean funds frozen at the Macau-based Banco Delta Asia (BDA) to the account owners. This glitch underscored the extent of North Korea's financial and political isolation from China as well as the distance between Beijing and Pyongyang, especially on economic matters. During bilateral working group meetings with the United States in New York in early March, DPRK Vice Foreign Minister Kim Gye-gwan publicly vented frustrations about China, even while Kim Jong-il maintained the facade of Sino-DPRK friendship through a rare visit to the PRC Embassy in Pyongyang during the first full moon following the Spring Festival.

China-South Korea coordination in the six-party process and through three-way dialogue with Japan on the sidelines of the ASEAN Plus Three Meeting continued to develop. South Korea proposed to institutionalize tripartite consultations among the three foreign ministers. China-South Korea trade and investment grew to new highs amid a mounting list of irritations and obstacles. These challenges included disputes over the handling of North Korean refugees, worsening pollution from China, historical and territorial spats, concerns over changes in Chinese investment rules, and shifts in the balance of China-South Korea trade and investment relations.

**Six-Party Talks and China-Korea relations**

The Six-Party Talks remain a focal point for observing key aspects of China-DPRK interactions. This quarter the nature of interaction changed somewhat as the U.S.-DPRK bilateral dialogue took on new life. Bilateral talks in Berlin led to the revival of a six-party process no longer solely dependent on Beijing's efforts to lure North Korea back to the negotiating table. At the same time, Chinese and U.S. priorities on the need for denuclearization of the Korean Peninsula had never been in greater alignment than in the months following North Korea's October nuclear test.

Chinese officials still played an active role in facilitating the completion of a six-party implementing agreement by reconvening talks in Beijing shortly following the U.S.-DPRK Berlin meeting. The PRC even formally pledged to provide North Korea with energy assistance in return for disabling its nuclear reactor and allowing IAEA inspectors to return to Pyongyang, and Beijing benefited from a tangible result of longstanding Chinese efforts to promote the six-party process. Meanwhile, PRC economic relations with the DPRK appeared to have returned to normal. As thanks, Vice Minister Kim Gye-gwan immediately attempted to create distance between the U.S. and China while attempting to draw the DPRK closer to the United States. Kim was reported to have asserted at an unofficial session on the sidelines of March 6-7 bilateral working group discussions in New York that the U.S. reliance on China to try to resolve the nuclear issue had not worked and that China was “trying to use” the DPRK. Predictably, the North Koreans walked out on the latest round of Six-Party Talks on March 22 even before the Chinese had officially called a recess.

Whatever has gone on behind the scenes in the China-DPRK relationship, Kim Jong-il's March 4 visit to the PRC Embassy in Pyongyang and his receipt of a “verbal personal message” from PRC Ambassador Liu Xiaoming has put a good face on the relationship. The visit restored China's regular habit of engineering quarterly direct contact with Kim Jong-il that had started in the context of the second North Korean nuclear crisis in early 2003. The failure of Chinese authorities to meet Kim Jong-il between the July 5, 2006 North Korean missile test and the Oct. 9, 2006 nuclear test appears to have been a low point in the relationship, but Kim Jong-il's meeting with Special Envoy Tang Jiaxuan October 2006 restored contact prior to Kim's latest visit to the PRC Embassy. Some reports raise the possibility that Kim's embassy visit might foreshadow plans by Kim to visit China later this year.

### **Back to reality: China-South Korea economic relations**

2006 marked new heights for China-South Korea trade and investment, but the torrid 30 percent annual growth that had characterized the trade relationship since China's entry into the World Trade Organization (WTO) in 2001 shrank to more normal levels. South Korean exports to China increased to just under \$70 billion, a 12.2 percent increase over 2005, while Chinese exports to South Korea grew by over 25 percent to \$48.5 billion. For the first time, South Korea's trade surplus with China began to shrink, a fact that had drawn notice late in 2006 as a worrisome sign of lagging competitiveness vis-à-vis China in third-country markets. South Korean banks are opening branches in China; Hana Bank has been particularly active in China's northeastern provinces. In the other direction, there are rumors that two Chinese banks may now be interested in purchasing the Korea Exchange Bank. A survey by the Korea International Trade Association showed that over one-quarter of Korean firms in China are losing money on their operations as a result of management difficulties and labor problems, increased tax audits, or the appreciation of the Chinese yuan against major currencies.

South Korean investment in China also continued to grow in 2006, but represented a smaller proportion of South Korea's overall foreign direct investment than in previous years. South Korean overseas investment more than doubled to over \$18.5 billion and Chinese-bound foreign investment increased by 27.9 percent to \$4.5 billion. But China's portion of South Korea's overall investment dropped to 24 percent, compared to 44.6 percent in 2004. New regulations in China restricted investments in labor-intensive sectors in favor of more technology-intensive sectors that would involve a greater transfer of technology or know-how to Chinese workers. The Korea Trade Investment Promotion Agency (KOTRA) warned Korean investors to fully study the changing conditions of China's business environment and to manage the risks associated with investments in a January report. China also continued to enhance its international competitiveness in sectors such as steel and shipbuilding, sectors in which South Korea has been a global leader in recent years.

Nonetheless, South Korean export and production continued to thrive in selective sectors within China. Hyundai continued to expand its production in hopes of boosting its market share in the Chinese automobile and truck market, while Korean tire manufacturers have had great success in expanding their market share. Hankook Tire Company has 25 percent of tire sales in China (up from 5.4 percent in 1998 when it entered the market), while Kumho has 15 percent of China's tire market, the third largest market share.

Samsung announced that it would cede production of "white goods" such as household appliances to local Chinese rivals. Despite their price advantage, Chinese manufacturers of household goods are having surprising trouble in the Korean market due to their inexperience with after-sale service arrangements that are standard in Korea. Likewise, Pusan Port has faced increasingly stiff competition from newer Chinese ports that have come on-line in recent years, dropping from the third busiest port in the world during 2000-2002 to fifth. New Chinese ports at Yantai and Weihai may take as many as 2 million TEU containers from Korea's Pusan and Kwangyang ports by 2011.

China exerts a powerful attraction for Korean exporters, but it is difficult to escape China's magnetic field. Even as South Korean negotiators were ramping up for a final push to conclude a Korea-U.S. free trade agreement, it was announced that China and South Korea would launch a feasibility study to explore a China-South Korea free trade agreement.

A 9 percent drop in the Shanghai stock market caused a 2.45 percent downturn on the KOSPI, South Korea's stock index, in early March. But the impact of Chinese economic developments on the South Korean equities market is nothing new, and the effect on the KOSPI was less than on many other markets. In fact, South Korean equity markets are increasingly taking in stride periodic Chinese government efforts to rein in China domestic economic growth after experiencing several "China shocks" in recent years following Chinese government announcements designed to cool the domestic economy.

## **Mounting challenges in the China-South Korea relationship**

This quarter was marked by a series of negative events that highlight the chronic political problems between China and South Korea. The first incident involved a South Korean fisherman, Choe Uk-il, who had been held in North Korea since 1975. Choe's family arranged a broker to make the dangerous trek to North Korea to bring Choe out. He arrived in Yanji on Dec. 25 and had a reunion with his wife on New Year's Eve, but when his wife attempted to call a South Korean consular official in Shenyang in an attempt to arrange passage to Seoul, the official repeatedly asked her how she got his mobile phone number and seemed disinclined to help, leaving Choe unprotected and at risk of repatriation to North Korea if he were caught by Chinese security authorities. Finally, South Korean authorities provided Choe with a safe place to stay in Shenyang while PRC authorities reviewed the case, and he arrived in Seoul in less than one month.

A tape of the conversation between Choe's wife and the South Korean consular official in Shenyang enraged public opinion, stimulated strong criticism of the Foreign Ministry for its handling of the situation, and reminded the South Korean public of previous cases in which South Korean consular officials had ignored pleas for help from a South Korean prisoner of war who had escaped from the North. The South Korean consulate in Shenyang failed to provide protection to North Korean family members of long-time South Korean prisoners of war who had come to Seoul last year. Those family members were at a safe house in Shenyang last October, but while the South Korean consulate attempted to arrange safe passage for them to Seoul, Chinese police authorities raided the safe house and repatriated the family members to North Korea despite South Korean requests that they be allowed to come to Seoul. (Testimony by North Korean defectors reveals that repatriation under such circumstances is a virtual death sentence since North Korean authorities will assign refugees who have come into contact with South Koreans to labor camps where the work is so hard they are likely to die within months.) This development contravened an informal understanding between South Korean authorities and Chinese counterparts by which South Korean authorities would notify and turn over refugees for a Chinese internal investigation prior to their travel to Seoul. But since the repatriation of the defector families last fall and in light of increasing South Korean public criticisms of the Foreign Ministry, South Korean officials are extending protection in sensitive defector cases and notifying Chinese authorities after the fact that individuals are under South Korean consular protection.

An even more challenging case involved the daughter of a South Korean prisoner of war who sought to bring her father's remains from China to South Korea late last year, but was prevented by Chinese authorities. She went public with her criticisms at a forum hosted by the opposition party in early February. Although she was able to come from China to Seoul with her two children, Chinese authorities confiscated the remains. Despite her requests for assistance from South Korean consular officials, the Chinese authorities handed over the remains to North Korea.

Increasingly, North Korea's borders are porous enough that money paid to brokers determines whether and how quickly an individual in North Korea can depart Pyongyang and arrive in Seoul. But the journey remains fraught with danger and there are numerous risks; dubious brokers may swindle victims; refugees may be robbed, raped, or enslaved; or Chinese public security authorities may capture and repatriate North Koreans. South Korean citizens such as prisoners of war or victims of North Korean kidnapping face peculiar dangers since the South Korean government has a responsibility to protect those citizens, but often can not make proper representations to the Chinese government without the opportunity to research and verify the subject's claims to South Korean citizenship. Yet refugee conditions are so precarious that they can not easily make their case or gain urgent assistance from South Korean government officials who are discouraged by Chinese authorities from assisting North Korean refugees.

Another diplomatic tempest occurred during the winter Asian Games held in South Korea in early February. Irked by China's campaign to host the 2018 Winter Olympic Games at Mount Changbai (known to Koreans as Mount Paektu) near the China/North Korea border, five South Korean female short-track speed skaters held up a sign during the medal award ceremony stating that "Paektusan is our land." This incident led the South Korean Ministry of Foreign Affairs and Trade to make an official apology in response to Chinese official protests since South Korea has no claim to that territory, which is on the border of China and North Korea. The Chinese government has recently shut down South Korean-operated hotels at Mount Changbai and sought to list the mountain as a UNESCO World Heritage site. Given recent disputes over whether the ancient Goguryeo kingdom belongs to Chinese or Korean history, South Korean passions over the mountain that is regarded as the historic birthplace of the Korean race run high. The incident also foreshadowed renewed difficulties over territorial issues that might ensue after Korean reunification and highlighted South Korean irritation at affronts derived from China's "rising power" mentality.

Yet another case of Chinese diplomatic pressure from the PRC Embassy in Seoul on a South Korean domestic matter resulted in the cancellation of a New Year's gala performance scheduled for Jan. 6-7 at the National Theater of Korea. The sponsors from an overseas Chinese broadcasting company, the New Tang Dynasty Television (NTDTV), are considered unfavorable by the Chinese Communist Party, and had been denied media access to cover the APEC Summit in Busan in November 2005.

In mid-February, a fire set by a Chinese-Korean inmate at the Yeosu Detention Center took the lives of eight Chinese detainees, raising concerns about the treatment of illegal immigrants in detention in South Korea. PRC Ambassador Ning Fukui raised concerns following the incident and urged the Korean government to provide adequate compensation for victims and to discipline responsible immigration authorities.

Chronic environmental concerns over the annual "yellow dust" from western China across the Korean Peninsula are an ongoing concern in South Korea, despite increased inter-governmental efforts among South Korea, China, and Japan to address the issue through projects coordinated among the respective ministries of environment. Each

spring South Korea's Meteorological Association attempts to provide environmental alerts based on wind patterns, since the yellow dust directly affects the elderly and school children. South Korean schools have even closed in response to the alerts and those at risk of respiratory ailments are urged to stay inside on yellow dust alert days. In 2006, there were four yellow dust alerts lasting a total of 11 days. The yellow dust contains carcinogenic heavy metals and is blamed for an increase in respiratory disease and higher rates of defective products in the precision manufacturing industry. A recent study by the National Institute of Environmental Research revealed that sulfur dioxide emissions in South Korea's coastal areas is four times higher than the level reported on Japan's western coast and more than 10 times higher than the level found on the North Pacific, highlighting the health impact of pollutants and acid rain caused by China's industrialization. This environmental problem has also been the focal point of NGOs such as the Korea-China Future Forest Association, through which young South Koreans travel to Inner Mongolia to plant trees as part of a reforestation campaign.

South Korea opened a new visa category under the Foreign Workers' Employment Act during the first week in March for ethnic Koreans in China and Russia who want to work in or visit South Korea. The new regulation allows qualified overseas ethnic Koreans with family ties to Korea to work in a greater number of sectors and to exercise other rights in South Korea on a broader basis than immigrants in other visa categories. The Ministry of Justice anticipated that over 275,000 ethnic Koreans will apply for the visa. Ethnic Koreans who do not have relatives in Korea will be required to pass a state-run Korean language test. The H-2 visa will allow ethnic Koreans to stay and work in Korea for up to three years on a single-entry basis or five years on a multiple-entry basis. A previous attempt to ease visa regulations on ethnic Koreans from China and Russia in 2001 and 2002 had faced objections from PRC authorities and was ultimately ruled unconstitutional by South Korea's constitutional court, but since this new law does not extend citizenship rights to overseas Koreans, it is not expected to run into opposition this time.

### **From "Plus Three" to "Three-Party"**

The Chinese, South Korean, and Japanese leaders have had regular "Plus Three" meetings on the sidelines of the ASEAN Plus Three meetings in recent years. Usually those meetings have focused on prospects for deepening economic cooperation, although the status of Six-Party Talks has also drawn attention in recent years. The meeting was not held in 2005 due to Chinese and South Korean negative responses to Prime Minister Koizumi Junichiro's visit to Yasukuni Shrine; the meeting resumed in January 2007 with Wen, Roh Moo-hyun, and Abe Shinzo at the ASEAN Plus Three meeting in Cebu. At the three-way summit, Wen Jiabao emphasized the need for more regular high-level contact among the three countries, and Roh proposed regular annual high-level meetings among foreign ministers from the three countries to discuss regional issues rather than dealing with them only in a bilateral context. Such a forum would mark the second regular tripartite meeting among ministers; the other is an annual tripartite meeting of environment ministers from the three countries. This would be the first meeting among officials focusing on international political and diplomatic issues.

Following the meeting in Cebu, ROK Foreign Minister Song Min-soon met leaders in Beijing in late January to discuss developments related to the Six-Party Talks as well as economic and cultural cooperation issues and issues related to South Korean citizens escaping North Korea and China's management of North Korean defectors. To address the latter issue, Minister Song is reported to have requested that China approve an expansion of ROK consular personnel in Shenyang from the current staff of four. ROK Army Chief of Staff Park Heung-ryul and PLA Gen. Ge Zhenfeng announced enhanced military cooperation and exchanges during Gen. Ge's late January visit to South Korea.

### **The future of China-Korea relations**

Looking back on the 15 years since normalization of China's relations with South Korea, the relationship has developed a vibrancy and intensity that few could have predicted in 1992. PRC Prime Minister Wen Jiabao is set to make his first official visit to South Korea as prime minister in early April to open "Korea-China Friendship Year." But as the two countries move closer, there is no doubt that the future issues may be more difficult than those of the past – even the past itself keeps showing up as an issue in the relationship in the form of territorial and history disputes.

Progress with the Six-Party Talks has served to make South Korean visions of a regional security mechanism more real, even while practical implementation of the Feb. 13 agreement still appears to deliver less influence to South Korea than many South Koreans had envisioned. The mechanisms for cooperation on practical issues such as the environment have developed in response to the emergence of difficult problems. As China and South Korea move closer to each other, new conflicts require new structures for managing new issues, as illustrated this quarter by the impromptu protest by South Korean athletes over Mount Paektu/Mount Changbai. The future of North Korea will be another decisive factor in shaping China's long-term relationship with the Korean Peninsula.

### **Chronology of China-Korea Relations January-March 2007**

**Jan. 3, 2007:** The National Theater of Korea cancels a "2007 Seoul Spectacular" New Year's gala sponsored by the overseas Chinese New Tang Dynasty Television (NTDTV) under pressure from the Chinese government.

**Jan. 4, 2007:** The South Korean public is enraged by media reports of a recording of a conversation between the wife of abducted fisherman Choe Uk-il and an ROK consular official who asks how she got his mobile telephone number. The case highlights chronic difficulties on the part of the South Korean Foreign Ministry in safeguarding rights of South Korean citizens who have escaped from North Korea.

**Jan. 14, 2007:** Roh Moo-hyun, Wen Jiabao, and Abe Shinzo meet on the sidelines of the ASEAN Plus Three summit in Cebu. Roh proposes Gimpo-Shanghai direct air service and the institutionalization of a three-way meeting among South Korean, Japanese, and Chinese foreign ministers.

**Jan. 16, 2007:** South Korean fisherman Choe Uk-il returns to South Korea from China 31 years after his detention in North Korea.

**Jan. 18, 2007:** South Korean media strongly criticizes the ROK Foreign Ministry for revelations that it failed to safeguard the families of South Korean prisoners of war in Shenyang who sought to come to South Korea. Chinese police raided their hotel and repatriated the families to North Korea.

**Jan. 25, 2007:** The Korea Trade Investment-Promotion Agency urges South Korean companies to weigh the risks of China's changing business environment carefully before making investments in China.

**Jan. 25, 2007:** Top army commanders from South Korea and China announce plans to enhance military cooperation and improve military exchange programs during the visit to South Korea of PLA Deputy Chief of the General Staff Gen. Ge Zhenfeng.

**Jan. 25-27, 2007:** ROK FM Song Min-soon visits Beijing to meet Chinese counterpart Li Zhaoxing and other Chinese leaders on Six-Party Talks and other bilateral issues.

**Jan. 29, 2007:** South Korea's opposition Grand National Party seeks a National Assembly probe into recent incidents in the course of handling North Korean refugee cases at the South Korean consulate general in Shenyang, China.

**Jan. 31, 2007:** Five female South Korean short-track silver medalists raise signs reading "Mount Paektu is our territory" at a medal awards ceremony during the Winter Asian Games in Chuncheon, South Korea, triggering Chinese demands for an apology from South Korean Foreign Ministry counterparts.

**Feb. 5, 2007:** Twenty North Korean guards are reported to have fled to China after having been accused of bribery for helping defectors.

**Feb. 6, 2007:** The daughter of a South Korean prisoner of war criticizes the South Korean government for its failure to assist her in bringing her father's remains from China to South Korea.

**Feb. 7, 2007:** Korea and China signed an agreement to actively cooperate to promote establishment of electronic governance systems.

**Feb. 8-13, 2007:** The PRC hosts the third session of the fifth round of Six-Party Talks, and announces a Feb. 13 agreement on initial measures to be taken to implement the Sept. 19, 2005 Joint Statement.

**Feb. 11-13, 2007:** Media sightings of Kim Jong-il's oldest son Kim Jong-nam in Beijing en route from Macao to Pyongyang stimulate speculation about North Korean succession and China-DPRK relations.

**Feb. 11, 2007:** A Chinese-Korean detainee is suspected to have started a fire at the Yeosu immigration detention center that claimed the lives of nine foreign inmates.

**Feb. 13, 2007:** Korea International Trade Association (KITA) projects that China will become the largest exporter in the world and the largest exporter to South Korea this year.

**Feb. 14, 2007:** Yellow dust from China arrives on the Korean Peninsula, one month earlier than previous years.

**Feb. 22, 2007:** Korea Meteorological Association issues its first nationwide warning on yellow dust from China. This warning occurs almost one month earlier than usual.

**Feb. 25, 2007:** Former Chinese Ambassador to Korea Li Bin has come under investigation by the PRC government for leaking state secrets. Li Bin is alleged to have revealed to news media information related to Kim Jong-il's January 2006 visit to China.

**Feb. 26, 2007:** The Korea Intellectual Property Office announces that its patent registration system takes less than nine months to register a technology patent, a measure that is anticipated to help prevent technology infringement by foreign competitors, especially from China.

**March 1, 2007:** South Korea's National Institute of Environmental Research reveals results of a study that shows emissions of sulfur dioxide in coastal areas surrounding South Korea are four to 10 times higher than in other parts of the North Pacific due to China's industrialization.

**March 4, 2007:** Kim Jong-il visits the PRC Embassy in Pyongyang on the occasion of the first full moon following the Spring Festival at the invitation of PRC Ambassador Liu Xiaoming and receives a "verbal message" from Hu Jintao.

**March 5, 2007:** The South Korean Ministry of Justice begins implementation of a new H-2 visa for ethnic Koreans from China and the former Soviet Union that provides more flexible work rules and entry guidelines and other privileges in South Korea.

**March 6, 2007:** South Korean Ministry of Education and Human Resources Development announces that from 2012 South Korean high school textbooks will include information on South Korea's historical and territorial disputes with China and Japan.

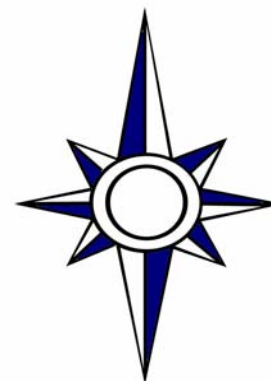
**March 20, 2007:** The South Korean Ministry of Foreign Affairs and Trade (MOFAT) announces the launch of a joint feasibility study with Chinese counterparts of the desirability of a China-South Korea FTA.

**March 19-22, 2007:** The PRC hosts the sixth round of Six-Party Talks, but is forced to call a recess as a result of failure by the U.S. and DPRK to resolve financial issues surrounding Macao-based Banco Delta Asia.

**March 21-23, 2007:** The China National Symphony Orchestra holds two concerts at the Seoul Arts Center Concert Hall and the Sejong Center for the Performing Arts in honor of the 15<sup>th</sup> anniversary of China-ROK diplomatic normalization.

**March 28, 2007:** China receives the first DPRK military delegation to visit in over six months – the longest interval between military exchanges reported in PRC media over the past year – according to *Xinhua*. The last military delegation, headed by the deputy chief of staff of the DPRK army, visited in late September 2006, before the DPRK nuclear test.

**March 29, 2007:** Amnesty International sends a letter to ROK President Roh Moo-hyun criticizing Korea's forcible deportation of migrant workers following a fire in February at the Yeosu detention facility that took the lives of nine migrant workers.



Japan-China Relations:

## **New Year, Old Problems, Hope for Wen**

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Japanese and Chinese political leaders and diplomats, focusing on the steps necessary to build a strategic mutually beneficial relationship, worked throughout the quarter to lay the groundwork for a successful April visit to Japan by Premier Wen Jiabao. Dialogue, cooperation, and peaceful resolution were omnipresent bywords. But, in fact, little progress was made in addressing longstanding issues related to the East China Sea, North Korea, security, and China's Jan. 11 anti-satellite (ASAT) test – all hopefully deferred for resolution to the Wen visit. Meanwhile, Prime Minister Abe Shinzo and the Liberal Democratic Party (LDP) were caught up in a debate over history, comfort women, and Nanjing. Interestingly, Beijing's response was low key, suggesting a commitment on the part of China's leadership to progress with Japan.

### **Abe and China**

On Jan. 13-14, during the ASEAN Plus Three and East Asia Summits, Prime Minister Abe met China's Premier Wen Jiabao on the island of Cebu in the Philippines. Abe welcomed Wen's desire to visit Japan in April. Discussion then focused on North Korea, with Abe asking for China's support in Japan's efforts on the abductees issue and Wen expressing China's understanding and offering necessary cooperation. Abe broached a proposal for a five-year youth exchange program that Wen said he would study. Abe also raised the issue of Japan's intent to secure a permanent seat on the UN Security Council, and Wen, avoiding a direct answer, expressed China's understanding. Both leaders highly valued the work of the joint history study launched in December. While not directly raising the issue of Yasukuni, Wen noted that 2007 would mark the 70<sup>th</sup> anniversary of the Marco Polo Bridge Incident and expressed the hope that issues of history would be handled properly. This year also marks the 35<sup>th</sup> anniversary of Japan-China normalization as well as the 70<sup>th</sup> anniversary of the Nanjing Massacre. Abe replied that Japan would reflect on its past and asked China to appreciate Japan's postwar record of peace. Both leaders agreed to accelerate discussions on the East China Sea. On Jan. 23, the *Asahi Shimbun* published the results of a Jan. 20-21 public opinion poll on Abe's diplomacy toward China and South Korea. The poll found 60 percent of 3,000 respondents supporting his diplomacy.

On Jan. 17, when questioned about the 2007 LDP platform calling for a continuation of visits to Yasukuni, Abe observed that this was a longstanding party position. Previous LDP presidents had visited the shrine to pray for lasting peace and for those who had fought for their country, and, as party president, he would not change his feelings toward such expressions. However, given the diplomatic and political implications of visits, Abe repeated that he would not address the question of his visiting the shrine.

In his Jan. 26 address to the 166<sup>th</sup> meeting of the Diet, Abe called attention to his visits to China and the Republic of Korea, his high-level meetings with leaders of both countries, and his intent to build a “mutually beneficial relationship based on common strategic interests” with China. Foreign Minister Aso Taro, in his foreign policy address, echoed the prime minister’s commitment.

Earlier in the month, during his trip to Europe, Abe, in a speech delivered at NATO headquarters in Brussels on Jan. 12, spoke of his efforts to develop a strategic relationship with China. At the same time, he thought China’s future to be marked by a number of uncertainties, in particular a lack of transparency in its military spending. Later that day, in an evening meeting with French President Jacques Chirac, Abe expressed his opposition to any lifting of the EU arms embargo against China.

### **High-level political visits to China and South Korea**

Building on the success of Abe’s October visit to China, high-level political visits began early in January and continued throughout the quarter.

On Jan. 7, the leader of the New Komeito Party, Ota Akihiro, left for Beijing. On his arrival, he met Wang Jiarui, head of the Chinese Communist Party’s External Liaison Department. Ota asked for China’s assistance with regard to North Korea.

The next day, Ota met China’s President Hu Jintao in the Great Hall of the People. During the meeting, Hu told Ota that since Prime Minister Abe’s visit in October, “there has been a clear improvement in Sino-Japanese relations” and called for fleshing out the strategic reciprocal relationship. Ota told Hu of Abe’s hope that Hu would visit Japan as soon as possible; Hu expressed his interest in visiting Japan at a mutually convenient time and asked Ota to convey that message to the prime minister. Hu’s failure to be specific about a timeframe for his visit was interpreted by some analysts as part of a strategy aimed at constraining any decision by Abe with regard to visiting Yasukuni Shrine. Ota again asked for China’s assistance with regard to North Korea, and Hu replied that he understood Japanese concerns with regard to the abductees issue. Ota also met State Councilor Tang Jiaxuan, who announced that China would welcome a visit by Abe later in the year. On Jan. 9, Ota met Vice Foreign Minister Wu Dawei to discuss the scheduling of Foreign Minister Li Zhaoxing’s visit to Japan, which would advance Premier Wen’s April visit.

In Tokyo Jan. 16, the Democratic Party of Japan (DPJ) and the Chinese Communist Party's External Liaison Department opened the first meeting of their Exchange Talks Organization. Wang Jiarui pointed to the significance of Premier Wen's April visit and said that he expected both countries would work to realize a successful visit. He told the meeting that the most difficult period in Sino-Japanese relations since normalization had passed, and, following Abe's October visit to China, relations were now on a proper path. North Korea was a major topic of discussion. The Chinese urged that denuclearization be effected peacefully through dialogue, while the Japanese urged China to exert its great influence on the abductees issue. Wang also touched on Taiwan, asking Japan not to send a signal that could be interpreted as supporting Taiwan independence. While opposing visits to Yasukuni by the prime minister and chief Cabinet secretary, DPJ members also asked that China treat Yasukuni as a domestic Japanese political issue. The Chinese side asked Japan to fully understand the feelings and conditions of those outside Japan.

The Chinese took up the Yasukuni issue during the visit of Nikai Toshihiro, chairman of the LDP's Diet Affairs Committee. On Jan. 22, Nikai met State Councilor Tang who told Nikai that Wen's April visit coming during Yasukuni's Spring Festival could result in "a delicate issue in Japan-China relations." The clear message was that Abe should not think of visiting the shrine at that time. Nikai also met Wu Bangguo, chairman of the National People's Congress Standing Committee, who also pointed to "a number of delicate issues" in the relationship. On Feb. 28, Deputy Chief Cabinet Secretary Shimomura Hakubun raised the possibility of an Abe visit to Yasukuni sometime during the year. Shimomura told the *Asahi Newstar* television program that "The Yasukuni card is not in the hands of China. It is in the hands of Prime Minister Abe." The next day China's ambassador told a meeting of the LDP's Asia Strategy Study Group that, while he personally was not pessimistic about the prospects of an Abe visit to the shrine, should the prime minister do so, the results would be "irremediable."

On Feb. 12, former Defense Agency Director General Nukaga Fukushima met in Beijing with China's Minister of Defense Cao Gangchuan. Taking up criticism of China's ASAT test, Cao told Nukaga that he did not consider the test to be a violation of international law; but, at the same time, there was no thought that China would continue with follow-on tests. Cao explained that the test was aimed at no specific country or threat. During the meeting, discussions were held on the coordination of mutual ship visits scheduled to begin in September. Nukaga also met Vice Foreign Minister Wu and State Councilor Tang, who told Nukaga that Premier Wen, during his April visit to Japan, would extend an invitation to the prime minister to visit China in October. Nukaga said that he would report back to the prime minister.

Three days later, on Feb. 15, Foreign Minister Li arrived in Tokyo to advance Premier Wen's April visit. Upon arrival, Li met separately with Lower House Speaker Kono Yohei, New Komeito leader Ota Akihiro, and Chief Cabinet Secretary Shiozaki Yasuhisa. Li and Shiozaki agreed that, in advance of Premier Wen's visit, both countries would work to produce "concrete results" on resource development in the East China Sea. Li told Shiozaki that China fully understood Japan's concerns with regard to North

Korea and committed to continuing cooperation. Shiozaki expressed Japan's dissatisfaction with China's explanation of the ASAT test.

Kono likewise raised China's ASAT test, calling it "regrettable" and noting that it caused Japan to "harbor doubts." Li replied only that "we firmly uphold the policy of using space for peaceful purposes." When Kono called attention to the need to reach a concrete formula for resource development in the East China Sea, Li acknowledged that differences of opinion did exist but that China and Japan shared many common points as well. China wanted to make productive efforts to make the area a sea of peace and cooperation.

The next day, Foreign Minister Li met Prime Minister Abe for 45 minutes. Abe underscored the importance of resolving the abductees issue and made clear that, in the event of progress, Japan was prepared to play a major role toward North Korea. Absent progress, Japan would not be able to respond to calls for energy assistance. Li replied that he "completely understands" Japan's position and that China would offer as much assistance as it could. Abe also raised the issue of Chinese activities in Japan's exclusive economic zone (EEZ), called for early resolution of the issues relating to the East China Sea, asked for China's support for Japan's UN Security Council bid and, addressing China's AST test, called for greater transparency and a persuasive explanation of China's reason for the test. Avoiding direct answers, Li expressed China's expectations that Japan would play a major role in the UN, put off the East China Sea issues to the March consultations, and raised Taiwan and the history issue. Li added that the proper handling of Taiwan and the history issue would serve as the foundation for the development of "healthy and stable" bilateral relations. Abe said he considered Wen's visit an opportunity to demonstrate the building of a strategic reciprocal relationship.

Later at a meeting with Aso at the Foreign Ministry, Li called Aso's attention to 2007 as marking the 70<sup>th</sup> anniversary of the Marco Polo Bridge Incident, and, without touching on specific historical issues, urged both countries to maintain "the current environment" with respect to the past. The two ministers agreed to cooperate on UN Security Council reform.

Also on that day, Li addressed a meeting of Diet Members of the Japan-China Friendship Association. Li told the supra-party group that the 35<sup>th</sup> anniversary of China-Japan normalization offered the chance to develop friendly relations. At the same time, he noted that, even as sensitive problems of the past remained, he wanted to work to develop cooperative relations.

At the end of the month a delegation led by the Chairman of the LDP's Executive Council Niwa Yuya left for a three-day visit to China. Accompanying Niwa were Kawamura Takeo, acting chairman of the LDP's Policy Research Council, and Suzuki Shinichi, chairman of the Social Security Research Council. On arrival, Niwa visited the Memorial Museum of the Chinese People's War of Resistance against Japan.

Also on Feb. 28, Niwa's delegation met Premier Wen. Wen told the delegation that on the occasion of his visit he hoped to issue a joint communiqué outlining the agreed contents of the strategic reciprocal relationship. Without directly referring to Abe's visits to Yasukuni Shrine, Wen remarked that "sensitive problems ought to be handled properly." As for the East China Sea, Wen called for putting conflict on the shelf and advocated joint development. In turn, Niwa emphasized the importance of a complete resolution of the abductees issue and asked for China's assistance.

At the end of February, senior Chinese and Japanese diplomats, led respectively by Vice Ministers Dai Bingguo and Yachi Shotaro, conducted the seventh bilateral Strategic Dialogue. The talks began in Beijing on Feb. 25 and concluded on Feb. 27 in Hangzhou.

### **Security: ASAT**

On Dec. 29, Beijing released its 2006 Defense White Paper. The White Paper expressed Chinese concerns over the strengthening of the U.S.-Japan alliance, Japan's pursuit of constitutional revision and the right of collective self-defense, as well as a clear trend toward the external deployment of Japan's military strength. The document dismissed the "China threat" argument, observing that China's aim was the development of a modern military.

Two weeks later on Jan. 11, China carried out a successful ASAT test. After learning of the test from U.S. intelligence sources, the Abe government on Jan. 17 sought, through the Japanese embassy in Beijing, confirmation of facts and of China's intentions. Two days later, Chief Cabinet Secretary Shiozaki told reporters that the test, from a security perspective, raised concerns about the peaceful use of space and made clear that Japan considered an explanation to be necessary. Addressing China's military build-up, he went on to observe that China's lack of transparency invited speculation.

On Jan. 22, Defense Vice Minister Moriya Takemasa focused on the ASAT test and its implications for the objectives of China's space policy. At the same time, he raised the issue of China's mass production and deployment of the state-of-the-art fighter, the *Jian 10*, stating that Japan was "seriously concerned about China's military modernization." Making clear Tokyo's dissatisfaction with China's response to Japan's request for information on the ASAT test, Shiozaki told a Jan. 23 press conference that China's explanation was insufficient." In a near simultaneous news conference in Beijing, Foreign Ministry spokesperson confirmed the test, said that China had no plans for second test and told reporters that China had notified Japan and the United States. As for Japan's request for a detailed explanation, the spokesperson said that if that's what Japan wanted, China would welcome an exchange of views.

In a speech delivered in Nagoya on Jan. 26, Nakagawa Shoichi, chairman of the LDP's Policy Research Council, looked at the implications of China's build-up, telling his audience that "if something happens to Taiwan, Japan might become China's next province over the next 20 years or so." Nakagawa pointed to China's 18 consecutive

years of double-digit defense spending and a budget that “does not include nuclear spending, R&D, or arms imports.”

China’s reaction to Nakagawa came the next day. Addressing a press conference, Foreign Ministry Spokesperson Qin Gang asked “What is the purpose of constantly making a big fuss over China as if it is a threat.” Qin asserted that Japan’s military spending was “enormous” which he found “absurd” given the fact that Japan’s land mass was “1/25 of China’s size with 1/10 of China’s population.” In total, China’s military spending was “67 percent of Japan’s and only 7 percent per capita.” China, he emphasized, is a “peace-loving country committed to the road of peaceful development.”

On March 4, in advance of the National People’s Congress, Beijing announced a \$17.8 billion increase in military spending for 2007. Reasons cited for the double-digit increase were rising personnel costs, increasing costs of joint exercises with foreign militaries, and the need to upgrade high-tech capabilities. Tokyo took note of the announcement but noted, as the chief Cabinet secretary told the media, that “aside from the military spending that was announced, there are other elements that lack transparency.” Shiozaki called on China to “improve transparency on its national defense, including military spending.” Asked whether Japan considered China a threat, he replied, “we have never said so.”

The Japanese Foreign Ministry’s 2007 Diplomatic Blue Book took China to task for its lack of transparency in defense spending and for the lack of a persuasive explanation for the ASAT test. At the end of March, the National Institute for Defense Studies released its annual report *East Asian Strategic Review 2007*. With regard to China, the report observed that it is “difficult to say that its military power and national defense policy have been fully made transparent.” The institute considered Beijing’s diplomatic efforts to be aimed at expanding its influence in the region – a goal Japan “cannot share.”

### **Territorial issues: the Senkakus and East China Sea**

On Feb. 4, the Japanese Coast Guard detected the Chinese research ship *Dongfangfong No. 2* operating within Japan’s exclusive economic zone (EEZ) in the Senkaku island chain. The ship’s research activities violated the 2001 Japan-China agreement to provide prior notification of research activities. The Coast Guard warned the ship to cease operations but the warnings were disregarded and the ship conducted research activities in four separate locations before leaving the EEZ. That evening, the Foreign Ministry protested to the Chinese Embassy and through the Japanese Embassy in Beijing. The following day, the chief Cabinet secretary told reporters that China had failed to provide a satisfactory response to the Foreign Ministry’s demarche.

On Feb. 6, the Chinese Foreign Ministry spokesperson fired back that the island chain was Chinese territory, and accordingly notification was not required for Chinese research activities in the area and expressed China’s “strong dissatisfaction” with the Japanese announcement. This led Foreign Minister Aso to brand China as “lacking an honest response” and told reporters that Japan would continue “to demand a convincing

explanation.” Meanwhile, Shiozaki told reporters that the issue would be taken up during the pending April visit of China’s foreign minister and made clear that “The Chinese side was basically just repeating its position on the Senkaku islands and that is not something we can accept.” He called on China to honor the terms of the prior notification agreement.

At the same time, issues related to resource development in the East China Sea flared. During the Abe-Wen meeting in Cebu the two leaders agreed to accelerate a resolution of the East China Sea dispute based on the principle of joint development. The *Yomiuri Shimbun*, however, reported that Japanese officials were skeptical of rapid progress. At the end of January, Hong Kong media reported that, as of September 2006, China had begun to convey natural gas from the Shirakaba (Chunxiao) field to the mainland. Although Chinese authorities denied any change in the status quo, Shiozaki made clear that Japan had strong concerns about the contents of the reports.” “The ball,” Shiozaki told reporters, “is now in China’s court.”

### **The politics of history: the Honda Resolution, comfort women, and Nanjing**

2007 is marked by anniversaries, good and bad, in modern Japan-China relations: the 35<sup>th</sup> anniversary of the normalization of postwar diplomatic relations, the 70<sup>th</sup> anniversary of the Marco Polo Bridge Incident, as well as the 70<sup>th</sup> anniversary of the Nanjing massacre.

At the end of January, a group of LDP lawmakers, under the leadership of Nakayama Nariaki, formed what became known as the Parliamentary Council to Consider the Future of Japan and History. The primary focus of the group was to consider revisions of the Kono Statement, a document issued in 1993 by then LDP Chief Cabinet Secretary Kono Yohei. The Kono Statement accepted responsibility for the actions of the Japanese Imperial Army in the forcible recruitment of comfort women during the war and expressed “apology and regret.” During the autumn session of the Diet, Abe announced that his government would continue to honor the Kono Statement, though ruling out “forcible recruitment in the narrow sense.” The Nakayama group was concerned about a resolution, authored by Rep. Michael Honda (D-Ca) and introduced in the U.S. House of Representatives, condemning Japan for actions taken by the government and Imperial Army with respect to comfort women. Addressing the Honda resolution, Foreign Minister Aso told the Lower House Budget Committee that “it is extremely regrettable that the proposed resolution is not based on objective facts.” Taking a similar line, Abe told reporters that “basing it on objective facts is essential.”

Nakayama’s Parliamentary Council was also concerned with the December anniversary of the Nanjing Massacre and determined to clear up what it considered misunderstandings over the incident. Nakayama took the position that “If foreign visitors see articles on display showing exaggerated and falsified Japanese soldiers’ actions, their image of the Japanese will be damaged.” Nakayama believed that “unless we say what should be said, a real friendly relationship will never be established between Japan and China.” To provide understanding of Nanjing, a number of political figures, professors, and journalists met on Jan. 24 to support the efforts of Director Mizushima Satoru to

produce the movie “Nanking No Shinjitsu” (“The Truth About Nanking”), scheduled for release in December. The gathering included Upper House members Ryu Hirofumi and Matsubara Jin, Tokyo Gov. Ishihara Shintaro, and journalist Sakurai Yoshiko. When asked about the movie, China’s Foreign Ministry Spokesperson Jiang Yu emphasized that the Nanjing massacre is “iron-clad.”

A month later on Feb. 26, 22 members of both the ruling and opposition parties as well as 26 Diet members agreed to hold three study sessions on the Iris Chang best seller “The Rape of Nanking.” The lawmakers were concerned that the book could spawn a number of anti-Japanese films as the anniversary approached. Democratic Party of Japan (DPJ) member Matsubara Jin said that “documentation would demonstrate to Diet members that the massacre was without foundation.” The LDP’s Inada Akemi told the group that “not to protest a lie would be to harm Japan’s national interest and impair its national honor.”

The Nakayama-led group thought to present the government with a resolution calling for a review of the Kono Statement. The resolution would insert the following “Although there may have been forced recruitment of women against their will by traders, there was no forced rounding up of women by the military or other authorities.” The group argued that the Kono Statement was based “only on the investigation of the oral testimony of former comfort women; no documentary proof was ever discovered.” The proposed language also called for deletion from the Kono Statement of the word “military” in the term “military comfort women.” A member of the group, Nakayama Yasuhide, acknowledged that comfort women may have existed but asserted that “they were not under military control.”

What was an in-house Japan discussion became an international issue when the prime minister on March 1 told reporters that with regard to the issue of coercion, “the fact is that, there is no evidence to prove there was coercion as initially defined. I think it is true there was no evidence to prove it.” Asked if the lack of evidence might suggest a review of the Kono Statement, Abe replied “we need to consider that possibility on the premise that the definition of coercion has changed.” The issue then was the definition of coercion, and Abe’s view was that “we have to take it from there.” Ultimately, the Nakayama group decided against petitioning for a review of the Kono Statement and instead called on the government to review the issue of comfort women. In a 1997 interview with *Asahi Shimbun*, former Foreign Minister and Chief Cabinet Secretary Kono said “If you ask whether there was any document that ‘the government followed up legal procedures and rounded up women by force’ my answer is, there was no such document ever found. But, if ‘coercion’ is defined as rounding up women against their will, a number of such cases existed.”

The intra-party debate appeared to take the LDP and government down different policy paths. Nakagawa Shoichi, chairman of the LDP’s Policy Research Council, appeared to support calls for the revision of the Kono Statement noting both its “lack of precision” and “the existence of factual errors.” Revision, he felt, would set Japan’s relations in a positive direction; this was an objective with which he sympathized. Meanwhile, Chief Cabinet Secretary Shiozaki pointed to Abe’s statement before the Lower House Budget

Committee; namely, that there would be no change in the Kono Statement. Seko Hiroshige, special advisor to the prime minister for public relations, attempted to explain what the prime minister had said or meant to say. Seko told a *TV Asahi* talk show audience: “What the prime minister meant in the statement is that though there are various definitions of ‘coercion’, including a narrow sense or a broad sense, Japan will continue to stand by the Kono Statement without fail.”

The first full political week in March opened with Abe telling the Upper House Budget Committee on Monday that his government would comply with the Kono Statement. As for the Honda Resolution, Abe announced that “we will not apologize because of a resolution,” reiterating that the resolution “is not based on objective facts” and that it fails to “reflect the Japanese government’s responses so far.” Abe did admit to coercion “in the broad sense” though observing that “there is no data in the narrow sense. There was no coercion like police authorities taking away women from their homes like kidnapers.” Nevertheless, he acknowledged that “There would have been no one who went willingly into that situation. There was coercion in the broad sense.”

The next day, a group of young LDP and DPJ lawmakers established The Committee to Verify the Facts of the Nanjing Incident. During its meeting the committee listened to a presentation from Professor Higashinakano Shudo of Asia University. The professor said that in his research on the Nanjing Incident he was unable to find, in either the official documents of the International Committee to Protect Refugees or reporting from British and American consulates, any reference to “a massacre.” While acknowledging misconduct by individual Japanese soldiers, he pointed out that even in the records of the KMT government there was no reference to a massacre of non-combatants. The young lawmakers decided to present a proposal to the prime minister requesting a review of the Kono Statement. In subsequent meetings, the Nakayama group determined that it would not call for a review of the Kono Statement but would ask the government to reinvestigate the issue of comfort women and the Nanjing Massacre.

Attempting to clarify matters and gain control of the unfolding events, Chief Cabinet Secretary Shiozaki told reporters that the government would stand by the Kono Statement and that there was no reason for the government to say anything new about the matter. On Wednesday, Abe told reporters at the Kantei that “The Kono Statement will be followed, there will be no changes in it.” Abe then made clear his displeasure with the press for what he said was its failure to accurately report what he said and how he answered questions.

The issue of revising the Kono Statement or reexamining the comfort women issue and who, the government or LDP, would do what was the leitmotif for political maneuverings. On March 8, Abe announced that the government would not reexamine the comfort women issue; that task would be left to the LDP, which would have the cooperation of the government. Speaking to reporters at the Kantei, Abe reiterated that he “basically” stood by the Kono Statement. Earlier in the day, the Nakayama group met with Abe and asked him to review the comfort women issue, which would open the door to revising the Kono Statement. Later, Nakayama told reporters that Abe had in fact

accepted his group's call for a reexamination. Addressing Abe's assignment of the review to the LDP, a senior member of the Nakayama group said that it had "no intention to reinvestigate the issue."

On March 9, LDP Executive Council Chairman Niwa Yuya responded to reports that the government would cooperate with the LDP in a review of the issue. Niwa cautioned that "This is not a matter that the party's leadership should conduct." Doing so could "cause misunderstanding." He warned that "developing it into a political issue is not diplomatically preferable." Foreign Minister Aso thought it "not necessarily bad to conduct another round of investigations" but favored the LDP taking the lead. Meanwhile, Nakayama's group, meeting at LDP headquarters, agreed to present the prime minister early next month with a proposal to reinvestigate the Nanjing Massacre.

Appearing on NHK television on Sunday, March 11, Abe told viewers "I will stand by the Kono Statement." He noted that this had been the government's "consistent position." He went on to say "We have been apologizing sincerely to those who suffered immeasurable pain and incurable psychological wounds as comfort women." Abe noted that former Prime Ministers Hashimoto and Koizumi had signed personal letters to former comfort women and that he carried "the same feeling." The Chinese Communist Party's *People's Daily* and other media outlets carried the Abe statement.

Despite Abe's statement, the Nakayama group was determined not to let the issue of reinvestigating the comfort women issue die. The group continued to insist that Abe had committed the government to reexamine the issue, causing Chief Cabinet Secretary Shiozaki to tell reporters March 12 that "the government has not decided to conduct an investigation." Three days later, the *Nikkei* reported that the Nakayama group was preparing to undertake a review of the comfort women issue.

The following day the Abe government, with the endorsement of the Cabinet, released a written reply to a question posed by Democratic Party of Japan (DPJ) Lower House member Tsujimoto Kiyomi. The government's statement announced that, in conducting a review of documents relating to the Kono Statement, "it did not come across any references that directly indicated the use of so called coercion by military or civil authorities."

While the debate continued in Tokyo, officials in Beijing were noticeably low-key. On March 6, five days after Abe's March 1 statement, Beijing responded. Foreign Minister Li told a press conference held in the Great Hall of the People that the Japanese government "should recognize the facts of history." Li then went on to address Premier Wen's coming visit to Japan and called attention to the significance of efforts by both governments to develop cooperation in various fields.

On March 16, at the conclusion of the National People's Congress, Wen met with the media. Looking back at Abe's October visit, which he characterized as "ice-breaking," Wen said he wanted to make his visit "ice-melting."<sup>\*</sup> He intended to concretize the strategic reciprocal relationship and establish an economic cooperation mechanism. As for the abductees issue, Wen expressed his "sympathy and understanding" but pointed out that the issue was between Japan and North Korea. Addressing the history, Wen repeated the well-worn talking point of taking history as a mirror and facing the future.

That same day, President Hu met with LDP Secretary General Nakagawa Hidenao and New Komeito Secretary General Kitagawa Kazuo at the Great Hall of the People. Hu said that the Chinese people were old friends of Japan and that he wanted to do his utmost to improve and advance relations with Japan. Nakagawa reciprocated Hu's feelings. As for Yasukuni, Hu said that it should be managed as "an important and sensitive issue" allowing for a healthy development over the long-term. Nakagawa and Kitagawa reported on their visit to the prime minister March 20, telling Abe that China's leadership was intent on improving relations with Japan and citing "positive" Chinese positions on North Korea and the abductees issue, the East China Sea and the holding of economic ministers meetings. Abe replied that their visit had produced "terrific results" and that he "definitely" wanted to Wen's visit to be successful.

On March 19-20, members of the Joint History Study Group held their second meeting in Tokyo. The two sides agreed to take up issues related to the Nanjing Massacre and Yasukuni Shrine, as well as the understanding and teaching of history. The scholars also agreed on separately authored articles, setting a target date of June 2008 for publication. Minor revisions will be allowed in individual texts.

On the issues of history, the quarter ended much as it began, with Japanese political leaders reacting to developments in the U.S., namely the *Washington Post's* March 24 editorial, "Abe Shinzo's Double Talk," which asserted that the prime minister was "passionate" about the abductees but "blind to Japan's own war crimes." Responding to reporters' questions at the Diet building, Abe drew a distinction between the abductees and comfort women; the latter was an "issue of the past," whereas the former is "ongoing violation of human rights." Meanwhile, Deputy Chief Cabinet Secretary Shimomura told a radio audience that the "so-called comfort women did not exist." He acknowledged that there were instances of prostitution, such as parents selling their daughters, but "the Imperial Japanese Army was not involved."

The failure to discover official documents indicating that the Imperial Army or government authorities had coerced women into prostitution suggested to Shimomura that there was "no coercion of women into sexual servitude by the Imperial Army."

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\* Author's query: Recalling the title of the fourth quarter 2006 report "Ice Breaks at the Summit," it is tempting to ask: is Wen a reader of this journal?

## Outlook

Political leaders and government officials in both Beijing and Tokyo pointed to Abe's October visit to China as breaking the ice in the bilateral relationship, where things go in the coming quarter will depend to a large degree on Wen, Hu, and Abe.

### Chronology of Japan-China Relations January-March 2007

**Jan. 7, 2007:** New Komeito Party leader Ota visits China meets Wang Jiarui, head of CCP's External Liaison Department.

**Jan. 8, 2007:** Ota meets with President Hu Jintao; State Councilor Tang Jiaxuan.

**Jan. 9, 2007:** Ota meets with Vice Foreign Minister Wu Dawei.

**Jan. 9, 2007:** Japan's Defense Agency becomes Ministry of Defense; Chinese Foreign Ministry expresses hopes that Japan will continue to advance along the path of peaceful development; Jan. 20-21 *Yomiuri* poll indicates that 46 percent support the upgrade.

**Jan. 11, 2007:** China conducts ASAT test.

**Jan. 12, 2007:** Abe speaks at NATO headquarters in Brussels; meets French President Chirac and urges continuation of EU arms embargo on China.

**Jan. 12, 2007:** Japanese and Chinese sources report Premier Wen Jiabao will visit Japan in April.

**Jan. 14, 2007:** Chief Cabinet Secretary Shiozaki expresses Japanese concerns over ASAT test.

**Jan. 13-14, 2007:** Abe meets Chinese Premier Wen at ASEAN Plus Three and East Asia Summits in the Philippines.

**Jan. 16, 2007:** Democratic Party of Japan and CCP's External Liaison Department hold first meeting of Exchange Talks Organization in Tokyo.

**Jan. 17, 2007:** LDP adopts 2007 platform calling for continued visits to Yasukuni Shrine by members; Abe refuses to address question of a personal visit to shrine, citing diplomatic and political implications of such a visit.

**Jan. 20, 2007:** Deputy Chief Cabinet Secretary Suzuki Seiji announces that Japanese and Chinese governments plan for an Abe visit to China in the summer or autumn.

**Jan. 22, 2007:** Chairman of LDP's Diet Affairs Committee Nikai Toshihiro meets in Beijing with State Councilor Tang and Chairman of NPC Standing Committee Wu Bangguo.

**Jan. 22, 2007:** Vice Minister of Defense Moriya expresses concerns with ASAT test.

**Jan. 23, 2007:** Shiozaki expresses dissatisfaction with China's explanation of ASAT test.

**Jan. 24, 2007:** Japanese political figures, academics, and journalists meet to support Director Mizushima's efforts to produce movie "The Truth about Nanjing."

**Jan. 24, 2007:** Director General of Asian and Ocean Affairs Sasae meets Vice Foreign Minister Wu to discuss Six-Party Talks with North Korea.

**Jan. 25, 2007:** Forty-eight Chinese file suit in Tokyo District Court seeking damages for injuries suffered from poison gas leaking from weapons abandoned in China by the Imperial Army.

**Jan. 26, 2007:** Abe addresses opening session of 166<sup>th</sup> Diet; with China, he aims to advance a "mutually beneficial relationship based on common strategic interests."

**Jan. 29, 2007:** Tokyo High Court orders NHK to pay ¥2 million in compensation to women's rights group over 2001 program on wartime comfort women.

**Jan. 30, 2007:** Tokyo District Court dismisses suit, filed by war-displaced Japanese citizens, seeking compensation for government's failure to repatriate from China at end of war and failure to support adequately after repatriation; decision is appealed on Feb. 7.

**Jan. 30, 2007:** Chinese Ambassador Wang meets Diet leaders to explore possibility of Premier Wen addressing Diet during April visit.

**Jan. 31, 2007:** Abe tells group of war-displaced Japanese that he has asked Ministry of Health to look for ways to support citizens resettled from China.

**Feb. 1, 2007:** Beijing sounds out Japanese government officials on possibility of the Crown Prince and Princess attending 2008 Olympic Games in Beijing

**Feb. 4, 2007:** Japanese Coast Guard finds Chinese research ship operating without prior notification in Japan's EEZ in Senkaku island chain; Foreign Ministry protests to Chinese Embassy in Tokyo and through Japanese Embassy in Beijing.

**Feb. 5-8, 2007:** Defense Intelligence Director Mukunoki Isao visits China.

**Feb. 6, 2007:** China explains that Senkaku islands are Chinese territory.

**Feb. 9, 2007:** Parliamentary Council to Consider the Future of Japan and History decides to present government with resolution calling for review of Kono Statement.

**Feb. 12, 2007:** Former Defense Agency Director Nukaga meets in Beijing with China's Minister of Defense Cao Gangchuan, Vice Foreign Minister Wu, and State Councilor Tang.

**Feb. 15, 2007:** Foreign Minister Li Zhaoxing arrives in Tokyo meets Lower House Speaker Kono; New Komeito Party leader Ota; and Chief Cabinet Secretary Shiozaki.

**Feb. 16, 2007:** Foreign Minister Li meets with Abe and Foreign Minister Aso Taro.

**Feb. 16, 2007:** Li addresses meeting of Japan-China Friendship Association.

**Feb. 25-28, 2007:** Japanese and Chinese diplomats hold seventh bilateral Strategic Dialogue in China.

**Feb. 26, 2007:** Chairman of LDP's Policy Research Council Nakagawa Shoichi in Nagoya speech raises concerns with China's military build-up; cautions that Japan could be target.

**Feb. 26, 2007:** Members of ruling and opposition parties agree to form study group to review the Iris Chang book, *The Rape of Nanking*

**Feb. 27, 2007:** China reacts to Nakagawa's remarks; blasts Japan for "enormous" defense spending.

**Feb. 28, 2007:** Shiozaki again expresses dissatisfaction with lack of satisfactory explanation of ASAT test.

**Feb. 28, 2007:** Chairman of LDP Executive Council Niwa Yuya arrives in Beijing; visits Memorial Museum of the Chinese People's War of Resistance against Japan; meets Premier Wen.

**Feb. 28, 2007:** Deputy Chief Cabinet Secretary Shimomura raises possibility of Abe visit to Yasukuni.

**March 1, 2007:** Chinese Ambassador Wang tells LDP Asia Strategy Study Group that a visit to Yasukuni by Abe would cause irremediable damage.

**March 1, 2007:** Abe tells reporters that there is no evidence that either Imperial Japanese Army or government officials used coercion in recruitment of comfort women; suggests possible revision of Kono Statement.

**March 4, 2007:** Seko Hiroshige, special advisor to the prime minister for public relations, tells television audience that there are various definitions of coercion but that government will stand by Kono Statement.

**March 5, 2007:** Abe reaffirms government will stand by Kono Statement.

**March 5, 2007:** Japan decides to cut FY 2006 yen loans to China by 20 percent to approximately ¥62 billion; yen loan program by mutual agreement will end in FY 2008.

**March 6, 2007:** Young LDP and DPJ Diet members form Committee to Verify the Facts of Nanjing Incident.

**March 6, 2007:** China's Foreign Minister Li urges Japan to learn from its history; expresses hopes for successful April visit to Japan by Premier Wen.

**March 7, 2007:** Abe reiterates no change in Kono Statement to reporters at Kantei.

**March 8, 2007:** Abe announces government will not review comfort women issue, but would allow LDP to do so.

**March 11, 2007:** Abe appears on national television; upholds Kono Statement; expresses sincere apologies for physical and psychological suffering to comfort women.

**March 11, 2007:** Vice FM Wu meets visiting Senior Vice Minister Asano Katsuhito to discuss the six-party process and Japan-North Korea Normalization Working Group, as well as security related issues, including China's ASAT test and defense budget.

**March 14, 2007:** Tokyo High Court upholds lower court dismissal of petition from Chinese citizens seeking compensation for injuries suffered as a result of exposure to chemical weapons abandoned in China by the Imperial Army.

**March 15, 2007:** Tokyo High Court, citing statute of limitations, overturns ruling granting compensation to wartime forced Chinese laborers in Japan.

**March 15, 2007:** Abe government releases statement that review of documents related to Kono Statement reveals no accounts relating to direct use of coercion by Imperial Japanese Army or civil authorities in recruitment of comfort women.

**March 16, 2007:** President Hu meets LDP Secretary General Nakagawa and New Komeito Secretary General Kitagawa; on March 20 Nakagawa and Kitagawa report on trip to Abe.

**March 19-20, 2007:** Members of Joint History Study Group meet in Tokyo.

**March 23, 2007:** Parliamentary Council to Consider the Future of Japan and History decides to reinvestigate comfort women issue; will ask government for documents relating to Kono Statement.

**March 25-26, 2007:** Deputy Chief Cabinet Secretary Shimomura denies direct involvement of former Imperial Army in comfort women activities.

**March 26, 2007:** National Institute for Defense Studies releases *Asian Strategic Review 2007*. The report calls attention to China's lack of transparency and China's efforts to expand its influence in East Asia.

**March 26, 2007:** Miyazaki District Court dismisses suit filed by forced wartime Chinese laborers, seeking compensation for damages suffered from Japanese government and Mitsubishi Mining Company; expiration of 20-year statute of limitations is cited as grounds for dismissal

**March 26, 2007:** Abe responds to March 24 *Washington Post* editorial on distinction between comfort women and abductees.

**March 27, 2007:** Nagasaki District Court rejects suit by Chinese seeking compensation for wartime forced labor in Japan, expiration of 20-year statute of limitations is cited as grounds for dismissal.

**March 27, 2007:** Japanese Foreign Ministry publishes 2007 Diplomatic Blue Book, which expresses concerns with China's lack of transparency and lack of satisfactory explanation for Jan. 12 ASAT test.

**March 27, 2007:** Abe Cabinet formally invites Wen to visit Japan April 11-13.

**March 31, 2007:** The Japanese Asian Women's Fund, established in 1995 to deal with "comfort women" compensation, expires.



Japan-Korea Relations:  
**The Honeymoon's Over**

David Kang, Dartmouth College  
Ji-Young Lee, Georgetown University

The first quarter of 2007 saw new developments in the Japan-Korea relationship, while some very old issues resurfaced. Prime Minister Abe's honeymoon appears to be over in both domestic politics and Japan's foreign relations, while South Korean President Roh Moo-hyun is a lame duck with the next presidential election coming this December. The Six-Party Talks experienced unexpected and dramatic progress as a result of U.S. and North Korean initiatives, with a potential resolution appearing on the horizon. Japan's unyielding insistence on making resolution of the abductions issue the center of its relations with North Korea threatened to isolate Japan even further as the six-party process continued.

Abe further heightened regional suspicions about Japan's intentions when he seemed to cast doubt on both the Japanese government's role in the World War II "comfort women" brothels and its 1993 apology, by questioning whether coercion was involved and whether the military and government were directly involved. This led to predictable outrage in South and North Korea, although South Korea's responses were more muted than in the past. Even Australian Prime Minister John Howard told Abe that Japan should "stop quibbling" over the details of the women who were pressed into sexual service during World War II. Given Japan's new emphasis on human rights and "value-oriented diplomacy," as well as its insistence on resolving the abduction issue, Abe's comments led to concerns about Japan's new foreign policy direction.

Despite the political tensions between Japan and the Koreas, economic relations between South Korea and Japan continued their slow integration, and at the working levels, the two governments continued to find new areas of cooperation. So far, Abe has not fully defined his stance toward the two Koreas, and the coming quarter promises to be an eventful one.

**Japan-North Korea: We will not even pay ¥1**

Japan-North Korea relations continued to be stalemated despite progress in the larger Six-Party Talks. Tokyo welcomed the deal with Pyongyang reached on Feb. 13 – in which North Korea takes steps toward denuclearization in exchange for limited energy aid and other incentives – but announced its intention to withhold any fuel aid to Pyongyang until the abduction issue is resolved. In early March, as mandated by the Feb. 13 agreement,

Japan and North Korea resumed bilateral normalization talks after a 13-month hiatus, but failed to make any meaningful progress. Tokyo emphasized the abduction issue and Pyongyang walked away. No date for future talks was announced.

The year began with little hope of rapid progress on the North Korean issue, and Prime Minister Abe Shinzo's New Year's foreign policy message was unmistakable: "pursue assertive diplomacy in earnest this year." In January, he traveled to four European countries and urged European leaders to implement the UN sanctions resolution against North Korea to add further pressure on Pyongyang. During his foreign policy speech to the Diet on Jan. 25, Foreign Minister Aso Taro confirmed "dialogue and pressure" as Japan's basic policy toward North Korea, but put more weight on pressure by urging the international community "to continue being united in applying pressure on North Korea to elicit a sincere response." Former Vice President of the LDP Yamasaki Taku's visit to Pyongyang in mid-January, which was intended to help energize stalled bilateral relations, drew domestic criticism in Japan. Chief Cabinet Secretary Shiozaki Yasuhisa said that the Japanese government considered it "undesirable" that a Diet member visited Pyongyang when one aspect of Japanese sanctions included a prohibition on Japanese officials visiting North Korea.

To Prime Minister Abe and his Cabinet, the U.S. shift toward a more "flexible" approach to Pyongyang over North Korea's frozen funds at a Macao bank, and the ensuing Feb. 13 agreement, came with "mixed feelings." The Feb. 13 deal stipulates that Pyongyang will be provided as a first step with 50,000 tons of heavy fuel oil and other rewards, including removing Pyongyang from the U.S. list of states sponsoring terrorism, in return for shutting down its main nuclear reactor at Yongbyon. The agreement leaves Japan in a bind, as Tokyo has long sought to have the nuclear weapons and abduction issues handled comprehensively, and it leaves Tokyo's pursuit of "further pressure on Pyongyang" less likely.

The conservative Japanese newspaper *Yomiuri Shimbun* reported Feb. 14 that the agreement left a number of officials within the Japanese government "perplexed," since North Korea's bad behavior "effectively turned out profitable for them." Behind Tokyo's cautious response that it will back the accord but not take part in the first part of the aid plan, were issues larger than the unresolved abduction issue. Both the *Asahi Shimbun* and *Japan Times* noted that the agreement was not necessarily good news for Abe, as he owes much of his current popularity to the hardline policy he has pursued toward Pyongyang. On the one hand, for Prime Minister Abe to reward Pyongyang without any visible progress on the abduction issue would be a big blow to his popularity and to his "Beautiful Japan" agenda as a whole. On the other hand, Prime Minister Abe has to manage criticism both by opposition leaders and by members of his own party that his narrow focus on the abduction issue comes at the expense of regional stability, isolating Japan from the rest of the Six-Party Talks participants.

Walking a tightrope, on Feb. 25 Prime Minister Abe met the five repatriated abductees and promised further pressure on Pyongyang. This was largely seen as a gesture to dispel concerns among Abe's domestic audience that the abduction issue would be pushed aside

by the Feb. 13 agreement. On another occasion, Abe reiterated that Japan had no plans to lift the sanction measures imposed on Pyongyang. However, in an effort to avoid isolation within the six-party process, Foreign Minister Aso has been floating the idea of “indirect assistance” to North Korea, in which Japan would cooperate with the other participants of the Six-Party Talks by dispatching Japanese researchers to examine the fuel demands of North Korea, instead of providing direct energy assistance to Pyongyang. Aso also said that Japan had received assurances from the other participants that they understood Tokyo’s position.

North Korea, not surprisingly, was displeased with Tokyo’s decision to withhold direct fuel aid. According to Ri Pyong-dok of the North Korean Foreign Ministry, Japan must fulfill its commitment as long as it is a member of the Six-Party Talks. Ri also accused the Japanese government of “abusing the abduction issue for political purposes,” when the issue has already been resolved. The *Korean Central News Agency* continued to blame Tokyo for denying its role in the “comfort women” issue, and for abusing human rights of the pro-Pyongyang General Association of Korean Residents in Japan.

It was not surprising then, that the resumed bilateral talks March 7-8 in Hanoi aimed at normalization of diplomatic relations between Tokyo and Pyongyang made no progress. In Tokyo, in a parliamentary address prior to the talks, Prime Minister Abe reiterated that Japan will not compromise on the abduction issue, while Foreign Minister Aso stressed that “if no progress is made on the abduction issue, we will not pay even pay ¥1.” Although both sides agreed that the first day would be spent addressing Tokyo’s issues and the second day addressing Pyongyang’s issues, the talks collapsed after 45 minutes into the second day as North Korean delegates walked out. Japan insisted that all lingering questions about abductions of Japanese nationals be resolved, while North Korea had warned of “fierce resistance” against Japan should it highlight only the abduction issue. Whereas Japan maintains 17 people on its official list of abductees by Pyongyang, the North claims some on the list are dead and others, except those five repatriated, did not enter the country.

Criticizing Tokyo that “these are not abduction working groups,” Pyongyang’s chief delegate Song Il-no said that North Korea would be willing to reopen the abduction issue under certain conditions: Japan lifts economic sanctions, stops reining in the pro-Pyongyang General Association of Korean Residents in Japan, and starts atoning for Japan’s colonial rule of the Korean Peninsula. While Song’s counterpart Haraguchi warned that the North should “understand the consequences,” Song blamed Japan for not being prepared to discuss the issue of “comfort women” and urged Tokyo to “move on.”

When the Six-Party Talks resumed in late March, Japan’s chief delegate Sasae Kenichiro confirmed that Japan was ready to work toward the settlement of the unfortunate past as well as outstanding issues based on the 2002 Japan-North Korea Pyongyang Declaration. North Korean counterpart Kim Gye-gwan in his keynote speech said that Japan was “not qualified” to participate in the Six-Party Talks if it fails to comply with the Feb. 13 deal.

## Japan-South Korea: revisiting history yet again

The first quarter of 2007 revealed how historical issues have weighed upon Japan-South Korea relations, even as both sides attempt to move toward further cooperation. Prime Minister Abe, after making a visit to South Korea and China immediately upon his inauguration, pushed his conservative agenda for “Beautiful Japan” at home. Through doors opened by Abe’s visit to Seoul, Tokyo and Seoul made progress in restarting military and political cooperation, but those efforts were quickly overshadowed as the issue of the “comfort women” eclipsed everything else.

This quarter Japan pressed forward in deepening institutional changes that allow for a more assertive foreign policy. On Jan. 9, on the eve of Prime Minister Abe’s departure to Europe where he vowed that Japan would no longer shy away from overseas activities involving the SDF, Japan’s Defense Agency was officially upgraded to the Ministry of Defense – 52 years after the formation of the agency in 1954. In addition, the government announced plans to create a Japanese version of the U.S. National Security Council in April next year. More importantly, Abe formally announced that he intends to revise the pacifist Constitution during the 150-day regular Diet session.

Tokyo made attempts to alleviate regional concerns about the creation of the Ministry of Defense, but they proved fairly ineffective. Prime Minister Abe and Japan’s first Defense Minister Kyuma Fumio claimed that other countries have nothing to fear and that there will be no major changes in Japanese defense policies. However, Seoul was apparently not convinced. In a Jan. 9 editorial, South Korea’s *Joongang Ilbo* said that sentiment in Seoul feels the move is “worrisome” because it is a catalyst for more militarization by Japan, and claimed that Japan “has not reflected upon its past invasions of neighboring countries.”

Seoul’s tendency to read Japan-South Korea relations through the lens of history has not shown any signs of changing, and South Korean public sentiment continued to negatively view Japan’s attitude about its past. Speaking at the annual news conference marking the start of the year, President Roh Moo-Hyun urged Prime Minister Abe not to visit Yasukuni Shrine because “not just me personally, but the people of South Korea as a whole will use that as a yardstick for Japan-Korea relations.” Early in January, the news that President Roh had suggested changing the name of the Sea of Japan/East Sea to the Sea of Peace or the Sea of Friendship during the summit with Prime Minister Abe last year triggered an immediate and negative South Korean reaction; Roh’s attempt to find a compromise met with loud condemnation, where both the opposition Grand National Party and South Korean internet users accused the already unpopular president of “irresponsible” behavior and “giving in” to the Japanese.

Amid the usual anti-Japanese rallies and marches celebrating the March 1 Independence Movement, Roh delivered a speech urging Japan to abstain from glorifying or justifying its colonial history, and to respect globally accepted principles of conscientious behavior for future-oriented bilateral relations. In response, Japan’s Chief Cabinet Secretary

Shiozaki Yasuhisa criticized Roh's speech as using expressions that were "a bit too sharp," and said Roh's views of history differed from those of Japan's.

Adding to the problem were Prime Minister Abe's remarks on "comfort women." On Jan. 31, U.S. Representative Michael Honda (D-Ca) introduced a bipartisan resolution in the House Foreign Affairs Committee calling for Japan to formally acknowledge and accept responsibility for sexually enslaving women during World War II. Both the South Korean and Japanese media reported the accounts of historians that up to 200,000 women – mostly from Korea but also China, the Philippines, and other countries – were forced into sexual slavery by the Japanese military during World War II in brothels as so-called "comfort women."

While three victims of Japan's wartime sexual slavery, two Koreans and one Dutch woman, were testifying before the U.S. Congress, Abe provoked widespread criticism (even by Australia) by claiming that there was "no evidence to prove there was coercion as initially suggested." Last October, just before his visits to South Korea and China, Prime Minister Abe had accepted the 1993 Kono Statement that officially acknowledges and apologizes for the enslavement of "comfort women." But joining forces with the conservatives within the ruling LDP, Abe slightly switched gears and said that Japan would not apologize even if the resolution passed the U.S. Congress. On March 4, *The Japan Times* reported that Nakayama Nariaki, chairman of the group of 120 lawmakers who believe the Kono Statement's apology "went too far," compared the military brothels to a college cafeteria run by private contractors. This group of lawmakers argued that the "comfort issue" issue must be reconsidered based on truth "for the sake of Japanese honor." Later in the quarter, Japan's Cabinet for the first time clarified the official position that a 14-year old study found no hard evidence that these women were forced to serve in the army brothels.

As expected, the South Korean Foreign Ministry furiously criticized Abe's behavior and expressed "strong regrets." The South Korean media viewed this as a calculated attempt by Abe to salvage his plunging approval ratings by pleasing conservatives in the LDP before an election for the House of Councilors in July. The *Choson Ilbo* reported March 5 that Abe seems to have ended his honeymoon with the international community; while a *Joongang Ilbo* editorial asked, "is it so hard for Japan to confess to its past sins and to teach subsequent generations never to repeat them?"

Even as historical issues dampened bilateral ties, Japan and South Korea moved forward with cooperation on a number of other important measures, however. On Feb. 25-26, Defense Minister Kyuma and South Korean Defense Minister Kim Jang-soo met in Tokyo, the first meeting between the defense chiefs of the two countries since January 2005. They agreed to set up a hotline between Seoul and Tokyo to prevent clashes in the Sea of Japan/East Sea and discussed ways to cooperate on the North Korean nuclear issue. After a five-month hiatus, on March 1, Seoul and Tokyo also resumed talks about delineating the boundary of their exclusive economic zone (EEZ), although they failed to produce any agreement. The two sides did, however, agree to meet soon in Seoul. Finally, the foreign ministers of the two sides are scheduled to meet in early April to

discuss various issues in their bilateral relations. Thus, although historical issues continue to take center stage in the Japan-Korea relationship, on contemporary issues there seems to be far more goodwill and ability to cooperate.

### **Economic relations**

Reflecting the chill in Japan-North Korea diplomatic relations, their economic ties continued to be almost nonexistent, with Tokyo's sanctions against Pyongyang severely inhibiting trade. During Yamasaki Taku's visit to Pyongyang in early January, Song Il-ho, North Korea's chief delegate to the normalization talks with Japan, said that the economic sanctions placed on North Korea "have not been effective." Yet Song demanded that Japan lift its ban on the North Korean ferry to Niigata, because "humanitarian problems must be solved immediately." According to *The Japan Times*, the Cambodian-registered freighter *Argus* departed from Shimane Prefecture bound for North Korea's Wonsan, carrying thousands of used bicycles and cars Jan. 18. There are loopholes in Japan's sanctions, as ships registered in a third country are not subject to the sanction measures placed after the missile and nuclear tests.

The most distinctive trend in Japan-South Korea economic relations during this quarter was the accelerated integration of the two economies, as some of the largest and most well-known firms from both countries formed partnerships to boost global competitiveness. In the financial sector, in January, Korea Exchange Bank, Korea's fifth-largest lender, and Japan's Resona Bank, Japan's third-largest financial firm, formed a partnership to boost their operations and to attract more customers from both countries. On March 12, top South Korean lender Kookmin Bank and Japan's Sumitomo Mitsui Banking Corp., Japan's third-largest, signed a business cooperation agreement that focuses on corporate banking services. According to *The Japan Times*, the two banks have jointly provided syndicated loans and maintained a cooperative relationship through staff exchange programs since 1987. Kookmin Bank expects the deal to become a stepping-stone for it to grow into a leading player in the Asian financial sector. Sumitomo aims to boost its real-estate project-financing and investment-financing segments in South Korea by working with Kookmin.

SK Corp., South Korea's largest oil refiner, formed a strategic partnership with Nippon Oil Corp., Japan's largest oil refiner, marking the first cross-national alliance between top oil firms. The strategic ties will cover five key business areas: exploration and production, supply and trading, overseas operations, petrochemicals and lubricants. According to the *Joongang Ilbo*, Nippon Oil Corp. has been experiencing a decline in profit in recent years and is in need of cost reductions, while SK hopes to learn from the Japanese firm's over 100 years of experience, increasing the global competitiveness of both firms. In March, Nippon Steel Corp., Japan's leading steelmaker, said that it owned a 5 percent stake in POSCO, Korea's top steel producer, as part of an agreement in which the two companies will increase their stakes in each other. POSCO said it will make an equal investment in Nippon Steel Corp. increasing its share from the current 2.8 percent stake. According to the *Joongang Ilbo*, the acquisition and the cross-shareholding are meant to help the two major steelmakers defend themselves from possible takeovers.

South Korea's largest province, Gyeonggi, concluded a memorandum of understanding with DENSO, Japan's leading auto-parts maker. Based on the MOU, the Japanese company will build a factory in an industrial complex in Changan, Gyeonggi Province. DENSO will invest about \$25 million in the region to produce fuel injection systems for automobiles, and this is expected to create over 200 jobs.

South Korea's Ministry of Commerce, Industry, and Energy announced on Jan. 27 that the country's trade deficit with Japan in 2006 reached a record high. South Korea's deficit with Japan was \$25.3 billion last year, up 3.9 percent from 2005.

In finance, Japan's Central Bank abandoned its near-zero interest rate policy this quarter and raised its interest rate by a quarter percentage point to 0.5 percent. By Feb. 12, the Korean won had risen to a nine-year high against the Japanese yen at 7.69 won to 1 yen, and to over 8 won by late March. When Japan raised its key interest rate from 0.25 percent to 0.5 percent on Feb. 21, South Korean yen-denominated loans became much more expensive to pay back. The *Joongang Ilbo* reported March 6 that many Korean traders have started dumping their Asia investments that were based on yen carry trade practices. According to Park Sang-hyun, an economist at CJ Investment & Securities Co., because much of Korean banks' yen-dominated loans – worth \$5.1 billion – had been in the local property market, the strengthening yen could have an adverse effect on the local economy.

### **Society and culture**

While Japan's efforts to deal with the abductees issue continued in and outside of the country, the pro-Pyongyang General Association of Korean Residents in Japan also decided to take its issue to the UN Human Rights Council to give testimony on what it claims is a discriminatory crackdown by the Japanese government. In the meantime, Tokyo signed the International Convention for the Protection of All Persons from Enforced Disappearance, hoping to send a strong message to Pyongyang and the international community about the abduction issue. The *Bloomberg News* reported Jan. 26 that at the Davos World Economic Forum in Switzerland, Koike Yuriko, the special national security advisor to Prime Minister Abe, showed "Megumi," a documentary about 13-year old Yokota Megumi. The aim was to raise awareness among the 2,500 political and business leaders about the abduction issue. *Reuters* reported Jan. 29 that an increasing number of firms in Japan have been investigated in recent years on suspicion of illegally exporting "dual-use instruments" to North Korea, that is, civilian devices that can be used for military purposes. This quarter, the Japanese Police arrested an engineer and his wife on suspicion of violating the country's labor law. The couple is suspected of being part of a group of scientists affiliated with the pro-Pyongyang General Association of Korean Residents in Japan.

2007 also marks the 400<sup>th</sup> anniversary of the Choson Tongshinsa Culture Exchange Association. Celebrating a history of friendship, top tourism officials from Seoul and Tokyo have agreed to expand educational trips for students and boost exchanges between provincial governments. South Korean Culture and Tourism Minister Kum Myung-gon

and Japanese Minister of Land, Infrastructure, and Transport Fuyushiba Tetsuzo decided to organize events throughout the year to encourage more tourists to visit each other's country. According to *Choson Ilbo*, the meeting was called by Fuyushiba, prompted by a report that the 2 millionth South Korean visitor had visited Japan last month. Fuyushiba said that he "strongly feels that [Japan and South Korea] must further strengthen that relationship, and make it more specific."

Finally, Japanese Emperor Akihito and Empress Michiko kept a promise – to attend the premiere of a film that was then in production commemorating a South Korean's heroism – they made five years ago to a South Korean family whose son was killed as he rescued a drunken Japanese man on a subway track. The *Joongang Ilbo* reported Jan. 30 that the imperial couple had invited the parents of Lee Soo-hyun to the palace in Tokyo to console them on the first anniversary of their son's death. The imperial couple did indeed attend the film preview, "Anata o Wasurenai," or "We Will Never Forget You." The film is a joint production of South Korea and Japan. Royal aides said it was the first time the imperial couple had attended a film preview. First Lady Abe Akie, former Prime Minister Mori Yoshiro, former Chief Cabinet Secretary Fukuda Yasuo, Jang Hun, an ethnic Korean baseball player, along with other 600 people were invited to the preview.

### **The coming quarter**

The coming quarter promises to be eventful. A series of deadlines will occur within the six-party process, and whether or not these deadlines are met, the North Korean issue will further develop – for better or worse. As the Upper House elections that will take place this July loom larger, Abe will be under increasing pressure to take foreign policy stances that will help the LDP retain power. Whether this includes visiting Yasukuni Shrine in April during *sakura* season, or whether it involves the abductees issue, it is likely that Abe's foreign policy views will become more clearly articulated over the next few months. How Seoul and Pyongyang react is an open question, but with Roh a lame-duck president, he is less constrained than before.

## **Chronology of Japan- Korea Relations January-March 2007**

**Jan. 8, 2007:** South Korean daily *Segye Ilbo* reports that President Roh suggested changing the name of the Sea of Japan/East Sea into "Sea of Peace" or "Sea of Friendship" during his summit with Prime Minister Abe last year.

**Jan. 9, 2007:** PM Abe indicates the trip to Pyongyang by Yamasaki Taku runs counter to sanctions Japan imposed prohibiting Japanese officials from traveling to North Korea.

**Jan. 9, 2007:** Japan Defense Agency is upgraded to the Ministry of Defense.

**Jan. 12, 2007:** PM Abe returns to Japan after his trip to four European countries, urging their support for further pressure on North Korea to give up its nuclear ambitions and resolve the abduction issue.

**Jan. 17, 2007:** Korea Exchange Bank says that it has formed a partnership with Japan's Resona Bank.

**Jan. 19, 2007:** *Yomiuri Shimbun* reports that the Japanese government decided to repatriate the remains of 140 Korean soldiers and civilians who died in Japan during World War II.

**Jan. 25, 2007:** President Roh urges PM Abe not to visit Yasukuni Shrine since the South Korean public will use it as a yardstick in Japan-South Korean relations.

**Jan. 25, 2007:** FM Aso in his foreign policy speech at the 150-day regular Diet session stresses the need to cement the momentum for restoring ties with South Korea and China. He also confirms "pressure and dialogue" as Japan's basic policy toward North Korea.

**Jan. 26, 2007:** Japanese Emperor Akihito and Empress Michiko attend a film preview for "anata o wasurenai" keeping the promise they made five years ago to the parents whose son was killed on a subway track as he tried to rescue a drunken Japanese man.

**Jan. 27, 2007:** South Korean Ministry of Commerce, Industry, and Energy announces that the country posted a deficit of \$25.3 billion with Japan last year.

**Jan. 31, 2007:** U.S. Rep. Michael Honda introduces a bipartisan resolution in the U.S. House of Foreign Affairs Committee, calling for Japan to formally acknowledge and accept responsibility for sexually enslaving women during World War II.

**Feb. 11, 2007:** FM Aso says that Japan will not provide direct energy aid but is ready to provide "indirect cooperation" for North Korea.

**Feb. 13, 2007:** Six-Party Talks participants reach an agreement in which North Korea will be provided fuel oil and other incentives in exchange for disabling its nuclear development program. The Japanese government praises the deal but refuses to give any energy assistance to North Korea.

**Feb. 14, 2007:** North Korean Foreign Ministry official says Pyongyang was displeased with Tokyo's refusal to provide fuel aid as part of the Feb. 13 agreement of the Six-Party Talks.

**Feb. 15, 2007:** Three victims of Japan's wartime sexual slavery testify before the U.S. Congress.

**Feb. 21, 2007:** Japan raises the interest rate from 0.25 percent to 0.5 percent, the first increase since July 2006.

**Feb. 25, 2007:** PM Abe meets with five repatriated abductees and promises to continue pressuring North Korea over the abduction issue.

**Feb. 25-26, 2007:** Defense ministers of Japan and South Korea meet and decide to establish a hotline between Seoul and Tokyo to prevent clashes in the Sea of Japan/East Sea.

**Feb. 26, 2007:** *Joongang Ilbo* reports a group of 11 South Koreans have filed a suit against the Japanese civilian group that runs Yasukuni Shrine and the Japanese government demanding the names of their relatives be removed from the shrine.

**Feb. 28, 2007:** South Korea's Gyeonggi Province concludes a memorandum of understanding with Japan's auto parts maker, DENSO.

**March 1, 2007:** President Roh says Japan should refrain from glorifying or justifying its colonial history in his speech commemorating the 88<sup>th</sup> anniversary of the March 1 Independence Movement. Japan's Chief Cabinet Secretary Shiozaki Yasuhisa protests Roh's words as "a bit too sharp."

**March 1, 2007:** PM Abe says that there is no evidence or testimony that the Japanese military forced the so-called women to become sex slaves during World War II.

**March 3, 2007:** South Korean government criticizes PM Abe for denying Japan's responsibility for the "comfort women" issue.

**March 3, 2007:** FM Aso reiterates that Japan will not "even pay ¥1" to North Korea unless there is progress on the abduction issue.

**March 5, 2007:** Seoul and Tokyo hold exclusive economic zone talks, but fail to reach an agreement.

**March 6, 2007:** Tokyo and Pyongyang hold a preparatory meeting before their normalization talks. Pyongyang envoys cancel the afternoon session.

**March 7-8, 2007:** Tokyo and Pyongyang hold the normalization talks for the first time in a year but fail to reach an agreement.

**March 12, 2007:** South Korea's Kookmin Bank and Japan's Mitsui Banking Corp. sign an agreement to cooperate in corporate banking services.

**March 13, 2007:** Pyongyang criticizes Tokyo for not participating in energy assistance at the UN Conference on Disarmament.

**March 13, 2007:** Japan's NHK says that it will allow a private group to use a transmitting station for a shortwave radio service to send messages to Japanese abductees in North Korea.

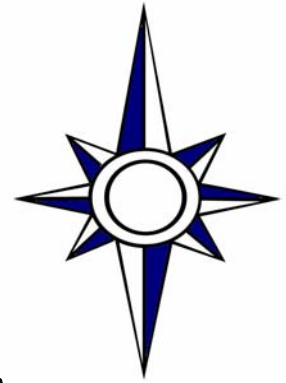
**March 14, 2007:** Japanese Navy Adm. Saito Takashi visits Seoul National Cemetery as part of a three-day trip at the invitation of South Korean counterpart, Gen. Kim Kwan-jin.

**March 16, 2007:** Japanese Cabinet says in a written statement that the Japanese government found no evidence that foreign women were forced to serve in army brothels.

**March 16, 2007:** U.S. Ambassador to Japan Thomas Schieffer describes “comfort women” as the victims of rape by the Japanese military during World War II.

**March 19-22, 2007:** Sixth round of the Six-Party Talks is held in Beijing.





China-Russia Relations:

## Russia Says “No” to the West, and “Sort of” to China

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The Russian-China strategic partnership moved to high gear toward the end of the quarter as Russia kicked off its “Year of China.” This coincided with President Hu Jintao’s state visit to Russia on March 26-28, his third trip as president. Beyond the grand opening gala of Russia’s China Year in Moscow, Putin and Hu were facing global dynamics, dilemmas, and growing dangers. Meanwhile, the two Eurasian powers closely coordinated, throughout the quarter, to soft-land the Korean nuclear crisis as well as postponing, and preparing for, the upcoming storm regarding Iran.

There was, however, a rather paradoxical mist in the festival air as Russia launched its first-ever China Year. While a stronger Russia chose the first quarter to severely criticize U.S. unilateralism and its missile defense program in Eastern Europe (Feb. 10), Moscow also proceeded to “Russianize,” despite China’s “inquiries,” its vast retail market: in other words, it decided to expel a million non-Russian “illegal” vendors, about 90 percent of whom were ethnic Chinese. After years of working through the worst economic hardship in the post-Soviet era, those Chinese entrepreneurs found no space in a recovering Russian economy.

### **Hu’s Moscow night**

By any standard, China-Russia relations deserved to be called the “best ever” as their strategic partnership entered a second decade. In both symbolic and substantive terms, Hu’s third official visit to Russia as China’s president testified to the warm bilateral relations. As did Russian President Vladimir Putin a year before in Beijing, Hu’s Moscow visit was accompanied by a dozen high-profile political, cultural, and economic activities (\$4.3 billion in contracts).

The idea of holding national years was agreed in July 2005 when Hu visited Russia. The actual length of China’s Russia Year in 2006 was only about eight months. Between March 21 and Nov. 9, 2006, some 300 activities and projects were held throughout China, with the direct participation of half a million people and hundreds of millions of audience members/viewers. Now it was Russia’s turn to reciprocate.

The Moscow night of March 26 was the culmination of Hu's visit. Following a state banquet, Hu and Putin presided over the opening ceremony for the "China Year" at the State Kremlin Palace with hundreds of Chinese and Russian performing artists and 5,000 members of the audience. Both spoke highly of the accomplishment of China's "Russia Year" in 2006 and projected an even better China Year in Russia for 2007.

Some 250 of the best Chinese cultural workers participated in the gala concert "Spring's Symphony." Among them were artists from the Beijing-based Oriental State Song and Dance Ensemble, the Chinese Central Ballet Troup, the Chengdu circus troupe, the Shaolin Monastery martial arts fighters, to name a few. The world famous Chinese pianist Lang Lang was accompanied by Russia's world-class Tchaikovsky Orchestra. Their spectacular teamwork brought the festivities to a peak, ironically, not by playing the timeless *Moscow Night*, but with the *Yellow River* piano concerto, a symbol of a rising, nationalist China resisting Japan's invasion during World War II.

Few among the audience and performers would not be affected by the *Yellow River*. Fewer, perhaps, were aware of the piano concerto's historical "finger print": Chinese composer Xian Xinghai was in Russia in 1941 when he revised the 1939 version he wrote in the Chinese Communist wartime capital of Yanan. Xian had no idea how his work would be used to bridge the strategic partners in the 21<sup>st</sup> century. Culture, history, and the fate of the Chinese and Russian nation-states are inseparable.

### **Strategize the strategic partnership?**

Aside from the grand opening in the Kremlin, the real business of Hu's state visit was done during the day. Shortly after his arrival in Moscow, Hu held summit talks with Putin in the Kremlin. This was followed by the signing of the "Sino-Russian Joint Statement" and nine other agreements in the areas of transportation, banking, communication, etc. After a brief joint press conference, Hu held talks with Russian Prime Minister Mikhail Fradkov and Chairman of the State Duma Boris Gryzlov.

The two heads of state apparently had a serious and satisfactory meeting that focused on regional and world affairs. "Foreign policy matters received the bulk of attention at the Moscow summit," remarked Putin after the summit talks. "We are convinced that our joint efforts will help maintain stability in Russia and China, stability in Central Asia and the Asian-Pacific region," Putin said. Hu's public assessment of the summit talks, however, wasn't entirely in tune with Putin's, "We had a substantive exchange of views on the deepening of strategic interaction and the expansion of cooperation on regional and international issues."

Nonetheless, in their two-part, 30-clause Joint Statement, the "international" content clearly outweighs the bilateral portions – a sharp contrast to their Beijing Declaration a year before. Of the 30 separate clauses, 17 are devoted to regional and international issues, ranging from the UN (II, 2), international law (II, 3), nonproliferation (II, 4), outer space (II, 5), information and communication security (II, 6), peaceful resolution of international disputes (II, 7-12), and to regional multilateralism and a multipolar world

(II, 13-17). Each of the outstanding international issues is covered by one clause: Iran, Korea, Iraq, Israeli-Palestinian conflict, and Afghanistan. Almost all multilateral institutions with Russia and/or China participation are addressed: the Shanghai Cooperation Organization, the G-8, Euro-Asia Economic Community, the Collective Security Treaty Organization, the Sino-Russian-Indian trilateral mechanism, and even the UN ministerial-level meeting between Brazil, Russia, India, and China.

These issues and concerns were not obscured by the festivities in Moscow. Despite their soft-landing the Korean nuclear crisis, clouds are gathering following Iran's seizure of 15 British soldiers. Meanwhile, both a "good war" (Afghanistan) and a "bad" one (Iraq) are being mismanaged, further destabilizing the already volatile region vital for both Moscow and Beijing. Each also has its own problems with the world's sole superpower: Russia on the deployment of U.S. missile defense close to home (in Poland and the Czech Republic) and NATO's continuing expansion into the shrinking post-Soviet space (Ukraine, Georgia, etc.); China on the potentially explosive situation across the Taiwan Strait. All these issues are by themselves important, but they are being compounded by the approaching "timelines" in 2008: presidential elections in the U.S., Russia, and Taiwan, and the 2008 Summer Olympics in Beijing. The Olympics may not be a time just for international sports, but is an opportunity for a statement by pro-independence Taiwan activists, who do not consider time to be on their side. Given these issues and concerns, Beijing and Moscow cannot leave their relations on autopilot.

The heavy load of international affairs in the joint declaration may be in line with a growing power and confidence that has largely been absent in Russia during the post-Soviet years. Curiously, none of the 17 clauses of the international portions include Russia's indignation over the U.S. missile defense deployment, which may have triggered Putin's sweeping criticism of the U.S. on Feb. 10 at the Munich Security Conference. Exactly what would be accomplished if China openly sided with Putin in lashing out against the U.S. missile defense remains hypothetical. In East Asia, missile defense in the framework of the U.S.-Japan alliance is already an irreversible process, and there is nothing China can do except live with it while developing its own counter-capabilities. Besides, Beijing still remembers Putin's first two years in the Kremlin, when the new Russia president was loud and clear in his opposition to U.S. withdrawal from the ABM treaty. After Sept. 11, however, Putin simply swallowed the "bitter pill." It remains to be seen to what extent Putin's tough talk at Munich was essentially an announcement that "Russia is back, and it must be reckoned with," insisted Sergei Yastrzhembskiy, special representative of the Russian president for the development of relations with the EU shortly after Putin's speech. Even before Putin's speech, however, Russian Foreign Minister Lavrov asserted that "No international problem of any significance can be resolved without Russia or in spite of Russia." For China, if a stronger and more confident Russia is more capable, and willing, to take on the West, it may also be capable of dealing with its strategic partner of China from a position of strength.

## **“Harmonize” bilateral relations**

For Hu and his colleagues, a well-synchronized strategic partnership requires constant care and adjustment, whether Russia is weak or strong. This may well be the reason that both the Chinese media and President Hu urged – before, during, and after the Moscow summit – to “upgrade” bilateral ties “to a higher level.”

The joint statement starts with bilateral issues, mostly focusing on economic (I-6, 7, 8, 9, 10) and humanitarian-social interactions (I-5, 11, 12, 13). Clauses 1-4 in Part I, however, lay the foundations for both bilateral and foreign policy cooperation, including the emphasis on the so-called “core issues” such as Taiwan and Tibet (I-2) and the border (I-4). The document, however, opens with the capstone clause, which stretches “strategic partnership relations” into five more specific dimensions:

- Increase mutual trust;
- Enhance cooperation in the political area;
- Strengthen mutually beneficial economic cooperation;
- Deepen cooperation in science, technology, in culture and the arts; and
- Coordinate to enhance cooperation in the security area.

All five areas originated on the Chinese side. It was unclear how Putin responded to these recommendations. Several concerns seemed to be salient at this time.

At a minimum, Hu and his colleagues simply did not believe that the existing framework and mechanism between China and Russia would guarantee the quality and momentum of mutual interaction between the two powers. Despite the thickening and deepening of their relations in the past decade of strategic partnership, the chemistry of goodwill and mutual trust at the top level seems unable to trickle down to the working level and in issue areas. Indeed, beyond the rather frequent summit meetings (six times in 2006 in both bilateral and multilateral occasions), almost every major area of bilateral relations has major and potential problems, which give rise to misperceptions and mistrust on both sides. In their military-to-military relationship, Moscow and Beijing are at a crossroads after large-scale air and naval arms transfers to China, most of which were delivered by 2006. The current lack of procurement orders from China may well be the result of a “digesting” period for the People’s Liberation Army (PLA) after a decade-long shopping spree for Russian arms. It may also be negatively affected by Russia’s inability to fulfill a \$1.5 billion Chinese order in 2005 for 34 *Il-76* military transport aircraft and four *Il-78* refueling aircraft.

There is no question that the mil-mil relationship remains healthy, and is growing and deepening. Russia, however, remains wary of China’s economic growth and its impact on China’s military posture. It appeared that the Russians were perhaps as surprised as the Americans by China’s successful anti-satellite test on Jan. 11. Some Russian analysts went as far as to suggest in February that China’s current conventional deployment and training in the Beijing and Shenyang Military Regions targeted only Russia due to their proximity to the Russia’s Far East Military District. As a result, Russia “should have no

illusions about the border treaty signed recently between Russia and China,” insisted Aleksandr Khranchikhin, head of the analytical department at the Institute of Political and Military Analysis in the Moscow daily *Izvestiya* Feb. 13. “We had already signed the Treaty of Peking in 1860, followed by a number of protocols. In accordance with the agreements, the Amur islands of Tarabarov and Bolshoy Ussuriyskiy belonged unequivocally and incontestably to Russia. Now, they are Chinese (at present just half of the latter). If China becomes still stronger and Russia still weaker, they [the Chinese] will ‘ask’ for new territories. Will we really give them up once again without a murmur, as we did two years ago?” It is also well known that Russia has chosen India as its partner for joint research and development for the next generation of jet fighters and missiles.

Even in the fast-growing economic relationship, Russia sees itself becoming a raw material supplier to China. Bilateral trade in 2006 grew by 15 percent to \$33.4 billion. The proportion of machinery and equipment deliveries in Russia’s exports to China, however, fell by nearly 40 percent to \$217 million, or only 1.2 percent of Russia’s overall exports to China compared with 2.1 percent in 2005. For many in Russia, the prospect of Russia becoming a raw material supplier to China is simply unacceptable, even if this has long been a fact of economic life in Russia’s trade relationship with the West. Energy cooperation is both mutually beneficial and mutually complementary if markets, not *petropolitiks*, dictate terms. After years of foot-dragging, Russia finally started building the Eastern Siberia-Pacific Ocean oil pipeline (ESPO); 800 km had been completed by the end of the first quarter. Shortly before Hu’s state visit to Russia, a group from the China National Petroleum Corporation (CNPC) held a meeting with the Russian pipeline operator Transneft, and they felt “confident that the branch will be built.” [emphasis added] It is also unclear if Russia would remain competitive in China’s fast-growing nuclear power market following Russia’s withdrawal from tenders after China presented the bidders with extra conditions demanding complete technology transfers. In the end, Westinghouse won the \$5.3 billion deal for four VP-1000 reactors with complete technology transfers.

The distrust and lack of trust are particularly obvious at the societal level. Ordinary Russians and Chinese seem to be bypassing each other to Westernize and modernize. This may not necessarily be a “bad” thing if they no longer love or hate one another as much as in the past. The problem today is that they may not care much about each other. There are numerous reasons for misperceptions, distrust, and lack of attention to each other. The “best ever” bilateral relationship between the two nations, for one, is being fostered, maintained, and nurtured precisely at a time when their domestic political systems are so different: Russia has become a democracy, while China remained communist, though each departs from its own legacies on its own terms and at its own pace. This is compounded by China’s steady rise and Russia’s historical decline, leading to psychological discomfort for many in Russia. This, coupled with the ongoing depopulation of Russia’s Far Eastern regions and a perceived illegal immigration “problem” there, is fanning a deeply seated Russian xenophobia.

## A 'chill' in the air

While these issues – mil-mil relations, economic asymmetry, and people-to-people exchanges – have preoccupied bilateral relations in the past few years, Russia's new migration legislation – which was put into effect Jan. 15 and will be completed April 1, leading to a totally Russianized-retail system – stunned the Chinese and other foreigners. It will eliminate foreign nationals as salespersons in Russia's retail market, a serious blow to the businesses of Chinese nationals in Russia. Despite repeated requests by the Chinese for a more humane execution of Russia's immigration law, Russian policy became irreversible, to the dismay of many Chinese. Moreover, the timing of the Russian immigration law runs counter to the goal of the Russia-China national years: bringing ordinary Russians and Chinese closer.

For many of those Chinese nationals, the impact of this "spring chill" in the heat of Russia's China Year was immediate. Most of those vendors had clearance sales at give-away prices. Some have already packed and left; others tried to wait it out. Still others hurried to legalize their status by getting citizenship. Exactly how average Russians will benefit from this "exclusion act" remains to be seen. Some Russians may have to pick up those manual and unpleasant jobs they did not want, even if they are able to do them. In the long-term, many outgoing Chinese, talented and hardworking, will bypass Russia in their global search for wealth and opportunities. This is because what is happening in Russia makes little sense: a stronger and more prosperous nation should be more open to foreign inputs.

A few Russians seem to have realized the negative implications of these tactics in an age of globalized competition for the best and the brightest. Igor Rogachyov, former Russian ambassador to China and now Federation Council member, pointed out that "most Chinese are hardworking, disciplined, responsible, and, what is most important, law-abiding people." "All the concerns voiced by various political pundits and the media on this account are farfetched from beginning to end. There is no such threat," Rogachyov told Russian media *Interfax* on the last day of the first quarter and shortly before the day of "judgment" (April 1) when all illegal foreign vendors have to be completely out of Russia's retail market, at least theoretically. Perhaps more than anyone else, Rogachyov noticed a striking difference between Russia and America in dealing with talented Chinese.

In the mid-1960s, according to Rogachyov who worked at the time in the Soviet Embassy in Washington, "[t]here were only 400,000 Chinese living in America then, and American politicians said already then in conversations that they did not fear Chinese expansion but, on the contrary, were interested in attracting the Chinese workforce," and "[t]here are over 7 million ethnic Chinese in the U.S. now, and nobody feels any threats or suggests imposing some restrictions." For the 100,000 Chinese students who are now studying at U.S. universities and colleges, Americans selected the most talented to keep them at work in the U.S. and provide all essential conditions for their promotion, "because they understand that investment in brains is the most rewarding investment," said the veteran Russian diplomat.

At the onset of the second ten years of their strategic partnership, Putin's Russia, with a steadily recovering and growing economy, has clearly become more nationalistic in both its foreign and domestic policies. Meanwhile, a fast-rising China seems to be opting for a quite different path. Two and half weeks after Putin's Munich tough talk against Washington, the "Shanghai flu" – a 9 percent dip of the Shanghai stock market – sent a shock wave through world financial market, leading to a 416-point (3.2 percent) drop in the Dow Jones industrials, the biggest losses since Sept. 11. This, however, did not prevent the U.S. computer-chip giant Intel from announcing in late March that it would build a \$2.5 billion semi-conductor plant in China that will use cutting edge 90-nanometer technology to build 12-inch wafer chips. Both the "Shanghai flu" and the U.S. "chip fever," however, showed that China present and future is irreversibly linked to the world economic system, for better or worse.

Exactly how Russia's "Year of China" will shape the minds of ordinary Russians regarding China remains to be seen. Fewer Chinese in Russia – as a result of Russia's decision to Russianize the nation's retail market – may alleviate the Russians' sense of a "China threat," leading to a "better" perception of China. More important, the Hu-Putin summit took the two countries beyond the bilateral horizon and beyond the political-strategic level for the post-Sept. 11, post-Iraq, and post-Korean nuclear crisis world. For all the inadequacies in their bilateral ties, real or imagined, Russia and China are each other's strategic rear. In this sense, the China-Russia relationship is strategic by nature, be the two countries friends or foes. Plus, Moscow and Beijing need to continue to interface through the SCO to adjust their respective interests in Central Asia. This is a region where not only Russia and China are engaging and hedging the U.S., but is also a meeting place, if not a fault-line, for all major civilizations.

## **Chronology of China-Russia Relations January-March 2007**

**Jan. 1, 2007:** The official website – [www.2007china.org](http://www.2007china.org), for the "Year of China" in Russia in 2007 – is opened in both Chinese and Russian. It covers all activities during the "Year of China."

**Jan. 8, 2007:** Chen Haosu, president of the Chinese People's Association for Friendship with Foreign Countries (CPAFFC) announces China will establish friendship associations to enhance ties with five Central Asian countries (Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan and Turkmenistan). He makes the remark at a reception with ambassadors of the five nations in Beijing to celebrate the 15<sup>th</sup> anniversary of the establishment of diplomatic relations between China and five central Asian countries.

**Jan. 12, 2007:** China and Russia veto a U.S.-sponsored UNSC resolution that demanded an end to political repression and human rights violations in Myanmar.

**Jan. 15, 2007:** Russia bans all foreigners from working as sellers in its shops and markets. Foreigners can still work as loaders, cleaners, wholesalers, or managers.

**Feb. 10, 2007:** In a key policy speech at an international security conference in Munich, Russian President Vladimir Putin strongly denounces U.S. policy, using – among other terms – the words “pernicious” and “unacceptable.”

**Feb. 14, 2007:** The second trilateral meeting of foreign ministers of India, Russia, and China is held in New Delhi (between Pranab Mukherjee, Sergei Lavrov, and Li Zhaoxing).

**Feb. 27, 2007:** Shanghai Stock Exchange drops 8.8 percent on fears that Beijing might try to dampen the recent rise in stock prices; other exchanges have steep drops as well.

**March 3-4, 2007:** Russian Armed Forces Chief-of-Staff Army Gen. Yury Baluyevsky visits China to discuss bilateral military and military-technical cooperation, particularly joint military exercises *Peace Mission 2007* in summer. He meets Deputy Chairman of the Chinese Central Military Council Guo Boxiong, Defense Minister Cao Gangchuan, and Chief of the Chinese Army General Staff Liang Guanglie.

**March 10, 2007:** China and Russia, along with the United States, France, England, and Germany, agree to UNSCR 1747 to ban all Iranian arms exports and freeze the financial assets of 28 Iranian officials and institutions, including several commanders of the Iranian Revolutionary Guard Corps.

**March 15, 2007:** SCO holds its second meeting of the expert working group on modern information and telecommunication technology in Bishkek to prepare documents for the SCO summit in Bishkek, Kyrgyzstan, Aug. 16, 2007.

**March 26, 2007:** Intel announces plan to build 12-inch wafer plant in China.

**March 26-28, 2007:** Chinese President Hu Jintao pays a three-day state visit to Russia. Hu and Putin attend the opening ceremony of the “Year of China” in Russia. He also meets Prime Minister Mikhail Fradkov and State Duma Chairman Boris Gрызлов. Russia’s Year of China will feature some 200 activities, including a large Chinese National Exhibition in Moscow on March 26-29, the biggest exhibition China held overseas in almost three decades; \$4.3 billion contracts are signed during the exhibition.

**March 28, 2007:** Executive Committee of the SCO’s Regional Anti-Terror Structure (RATS) holds ninth session in Tashkent. Representatives of intelligence agencies of Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan discuss creation of a secure information and telecommunications system. They pass a draft RATS 2006 report that will be submitted to the Council of Heads of State, and deliberate on a draft agreement for the training of specialists and instructors for SCO countries’ anti-terror units. Myrzakan Subanov of Kyrgyzstan is elected new director of the RATS Executive Committee.

**March 29, 2007:** A delegation of Russian Interior Ministry Forces, led by Deputy Commander-in-Chief Maj. Gen. Yury Babkin, begins a visit to China. The group holds the third coordination session with Chinese counterparts in Beijing for a joint exercise in September in Russia's Krasnodar territory. The Russian delegation also visits a Chinese armed police unit in Shanghai.

**April 1, 2007:** Igor Rogachyov, former Russian ambassador to China and now Federation Council member, points out to Russian media *Interfax* that “most Chinese are hardworking, disciplined, responsible, and, what is most important, law-abiding people” and that “all the concerns voiced by various political pundits and the media on this account are farfetched from beginning to end. There is no such threat.”



## About The Contributors

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