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**Regional Overview: From Bad to Worse** by Ralph A. Cossa and Brad Glosserman

Things generally went from bad to worse this past quarter. The Six-Party Talks began on a low note and went steadily downhill. Demonstrations in Bangkok not only dealt a severe blow to Thailand but forced ASEAN to postpone its annual round of summitry and its planned celebration of its Charter ratification. China, Japan, and South Korea did manage to hold their first non-ASEAN-affiliated summit and the APEC Leaders Meeting did go off without a hitch, but neither had much impact on growing economic woes. Many in Asia saw a possible light at the end of one tunnel with the election of Barack Obama as the next U.S. president, although elite opinion remained mixed as they kept a watchful eye out for Asia policy pronouncements and the names of those who will be chosen to implement them.

**U.S.-Japan: Traversing a Rough Patch**

by Michael J. Green and Nicholas Szechenyi

The U.S. decision to rescind the designation of North Korea as a state sponsor of terrorism tested the bilateral relationship this quarter. The Aso government managed to extend the MSDF refueling mission in the Indian Ocean for one year. Japanese domestic politics remained tumultuous as the opposition led by the Democratic Party of Japan (DPJ) thwarted the legislative agenda and Prime Minister Aso's approval rating plummeted. Opinion polls revealed increased interest in giving the DPJ a chance at the helm with an election predicted for the spring. Other polls showed the Japanese public less sanguine about the U.S.-Japan alliance, a sobering development as President-elect Obama prepared to take office.

**U.S.-China: Ties Solid for Transition, but Challenges Lurk**

by Bonnie Glaser

The U.S. and China held the 5<sup>th</sup> Strategic Economic Dialogue and the 6<sup>th</sup> Senior Dialogue this quarter. The global financial crisis was a focal point of both dialogues, as well as in the meeting between Presidents Bush and Hu Jintao on the sidelines of APEC in Lima, Peru. Beijing responded to the announced U.S. sale of \$6.5 billion in arms to Taiwan by suspending bilateral military exchanges between the U.S. and China and talks on nonproliferation. China's internal debate about the international structure of power and the status of the U.S. was revived as the two prepared to celebrate the 30<sup>th</sup> anniversary of the establishment of diplomatic ties.

**U.S.-Korea: Obama's Korea Inheritance** by Victor D. Cha

The last four months of U.S.-ROK relations under the Bush administration saw the completion of an effort to broaden the scope of the alliance as well as the final resolution of the

troublesome "beef issue." Negotiations were completed on a new defense cost-sharing agreement and the ROK began the process of passing the implementing legislation for the free trade agreement. This amounts to President Obama's inheritance of an alliance relationship that is in fairly strong shape, but a North Korean nuclear negotiation that remains unfinished. Despite the best efforts of the U.S., Pyongyang remained unwilling to accept standard verification procedures. Obama's team will need to adhere to seven key principles as it continues these difficult negotiations and bolsters the alliance.

**U.S.-Russia: Economic Crisis brings Relative Calm to Relations** by Joseph Ferguson

In the past year, U.S.-Russian relations have deteriorated to post-Cold War lows. Given a number of distractions, relations stabilized somewhat over the last few months. The leaders of the two nations are increasingly preoccupied with finding solutions to the economic ills affecting their respective nations and the entire world. As the Obama administration comes to office there seems to be a determination to reestablish a working relationship with the Kremlin, something that was obviously lacking during the August crisis when Russian troops invaded Georgia. President-elect Obama and future Cabinet members – as well as members of Congress – have publicly stated the need to recalibrate relations with Russia, starting with arms control.

**U.S.-Southeast Asia: Thai Political Turmoil Impacts ASEAN** by Sheldon Simon

Political conflict in Thailand turned violent in November and shut down Bangkok and the capital's airports for several days. To the dismay of other ASEAN leaders, the government was also forced to postpone the ASEAN summit scheduled for early December. Nevertheless, the new ASEAN Charter was activated at a special meeting of ASEAN foreign ministers in Jakarta on Dec. 15. Southeast Asian leaders welcomed Barack Obama's election although some commentators noted that the Democratic Party has sometimes followed a trade protectionist policy and has also taken a tougher position on human rights. In general, though, no significant change is foreseen in U.S. policy for Southeast Asia under Obama.

**China-Southeast Asia: Economic Concerns Begin to Hit Home** by Robert Sutter and Chin-Hao Huang

Commentators who asserted that China and its neighbors could ride out the economic crisis appeared in retreat during the quarter as the impact of the financial turmoil and recession in America and Europe began to have a major effect on China and the region. The hope that China could sustain stable independent growth and thereby provide an engine for export-oriented Southeast Asian countries was dented by Chinese trade figures that nosedived in November. Meanwhile, China pursued infrastructure projects with its southern neighbors,

resolved the land boundary dispute with Vietnam, and signed an FTA with Singapore. Talk of a planned Chinese aircraft carrier caused some controversy, but on the whole assessments of China's rise were notably more balanced than in the past.

### **China-Taiwan: More Progress, Stronger Headwinds**

by David G. Brown

Beijing and Taipei continued to work cooperatively through various dialogue channels to improve cross-Strait relations. The focus this quarter was on the visit of ARATS Chairman Chen Yunlin in November, when four agreements were signed. This process is establishing a degree of trust in this long-troubled relationship. However, a vocal opposition minority in Taiwan remains. Despite the progress, there is still no evidence that Beijing has taken any steps to reduce its military threat directed at Taiwan. President Hu's new six-point statement and Taipei's initial reaction to it highlight the continuing gap between their positions. The global economic crisis is confronting the relationship with new challenges. Internationally, Taiwan's desire for participation in the WHO will be a test of this evolving relationship next spring.

### **North Korea-South Korea: Things Can Only Get Better?**

by Aidan Foster-Carter

The final quarter of 2008 saw relations between the two Koreas continue to worsen. Official ties remained frozen as Pyongyang media continued to heap childish insults on Lee. Upping the ante from words to deeds, the North placed restrictions on cross-border traffic and expelled most Southerners from the joint Kaesong Industrial Complex. The end of the year brought a possible way forward, with hints that they are both considering a deal where the South would pay for the release of abductees and prisoners of war held by the North. It remains to be seen if they can tone down the enmity stoked over the past year. Meanwhile, nongovernmental interaction continues, albeit on a far smaller.

### **China-Korea: Sweet and Sour Aftertaste** by Scott Snyder and See-won Byun

Interaction between Presidents Hu Jintao and Lee Myung-bak continues following the upgrading of the Sino-South Korean relationship to a "strategic cooperative partnership." This quarter Hu and Lee participated in the ASEM in Beijing, the G20 meeting in Washington, and the APEC forum in Lima, Peru. Lee and Premier Wen Jiabao also met at the trilateral meeting among Chinese, South Korean, and Japanese leaders held in mid-December. In contrast, Chinese and North Korean leaders rarely meet these days. The global financial crisis and the effects of China's tainted food exports are the latest wild cards in the Sino-South Korean relationship. Likewise, North Korea's intransigence brings China and South Korea closer together, while its vulnerability may pose insurmountable contradictions between Seoul and Beijing.

### **Japan-China: Gyoza, Beans, and Aircraft Carriers**

by James J. Przystup

In early December, the Japanese Foreign Ministry released its annual survey of public opinion on Japan's international relations, which revealed that over 70 percent of the public considered relations with China to be in poor shape. The survey likewise revealed a record high, 66.6 percent of the

Japanese, as feeling no affinity toward China. Meanwhile, the Ministry of Defense reported increasing PLA naval activities in the waters around Japan, including the incursion of research ships into territorial waters. There were also reports that China would begin the construction of two aircraft carriers in 2009. Japanese and Chinese leaders met in Beijing in October and in Japan in December, but failed to make any demonstrable progress on food safety and sovereignty issues.

### **Japan-Korea: In a Holding Pattern with Hope on the Horizon** by David Kang and Ji-Young Lee

The year ended fairly quietly in Japan-Korea relations. Japan-North Korea relations remained stagnant and Japan-South Korea relations mostly ignored the Dokdo/Takeshima dispute, instead focusing on dealing with the widening global economic crisis. The biggest diplomatic event was the successful trilateral summit in December among China, Korea, and Japan, which may set the stage for further diplomatic movement. Whether 2009 will bring dramatic progress on these issues remains to be seen, but with new leaders in Japan and South Korea entering their first full years in office, the continued concerns about the health of North Korea's leader, and a new U.S. president, the new year holds the possibility for progress on at least some of these issues.

### **China-Russia: Embracing a Storm and Each Other?**

By Yu Bin

In contrast to the hectic third quarter, the last quarter of 2008 was calmer for Russia and China. Their bilateral relations, nonetheless, seemed to become more substantive. The 13<sup>th</sup> annual Prime Ministerial Meeting and the 13<sup>th</sup> session of the Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation provided fresh impetus for the impasse in two areas of bilateral relations: the long-awaited oil pipeline to China and military relations. Separately, there was the final ceremony for settling the last territorial issue when Russia officially transferred to China control of disputed territory near Khabarovsk. However, the world was in turmoil not only because of the financial tsunami, but also because of regional crises in South Asia and the Middle East, and stagnation in the North Korea denuclearization process.

### **India-U.S. and India-East Asia: Old Narrative, New Chapters** by Satu Limaye

India's relations with the U.S. and East Asia during 2008 took place amidst remarkable flux domestically, within the South Asian region, and around the world – all of which influenced developments in bilateral relations. The two issues that dominated U.S.-India relations were the civilian nuclear cooperation deal and the U.S.-India-Pakistan triangle. India's relations with East Asia were quiescent during 2008. A notable development was the completion of an India-ASEAN free trade agreement, although its economic implications remain uncertain. India accentuated the positive with Myanmar as bilateral relations became more cordial while relations with China seemed to be on hold for most of the year as the border dispute remained unresolved and India responded cautiously to the Chinese handling of unrest in Tibet.