



Asian Voices in Europe

April 2007



Table of Contents

| | |
|---|----|
| Foreword | 5 |
| by Axel Berkofsky | |
| I. India’s economy: current status and future challenges | |
| Event report | 6 |
| Keynote speech | 8 |
| II. EU-Asia relations in the wake of the ASEM summit | |
| Event report | 15 |
| Keynote speech | 18 |
| III. Japan post-Koizumi: foreign policy prospects | |
| Event report | 22 |
| Keynote speech | 24 |
| IV. Life after Thaksin: is Thailand lost in transition? | |
| Event report | 30 |
| Keynote speech | 32 |
| V. China’s ‘rise’: economic and social challenges | |
| Event report | 36 |
| Keynote speech | 38 |
| VI. Dealing (and the deal) with North Korea | |
| Event report | 45 |
| Keynote speech | 47 |

Keynote speakers

Shri Palaniappan Chidambaran, Finance Minister of India

Sung-Joo Han, Chairman, International Policy Studies Institute of South Korea, former Korean Ambassador to the US

Zhaorong Mei, President of the Development Research Centre at the State Council of China and former Chinese Ambassador to Germany

Surin Pitsuwan, former Thai Minister of Foreign Affairs, member of the National Legislative Assembly and Deputy Leader of the Democratic Party

Hitoshi Tanaka, former Japanese Deputy Minister for Foreign Affairs and Senior Fellow, Japan Centre for International Exchange

Jusuf Wanandi, Vice Chairman, Board of Trustees, Centre for Strategic and International Studies in Jakarta, Indonesia

Foreword

By Axel Berkofsky

In 2006, the European Policy Centre and the Tokyo-based Sasakawa Peace Foundation launched the first 'Asian Voices in Europe' lecture series.

Under this initiative, six high-profile Asian speakers from China, India, Indonesia, Japan, Korea and Thailand were invited to Brussels to participate in debates on Asian economic, political and security issues and various aspects of EU-Asia relations.

The EPC has been working on EU-Asia relations and Asian affairs since 2004, and the 'Asian Voices in Europe' lecture series is an important and complementary part of this work.

The Sasakawa Peace Foundation (SPF) was established in September 1986 as a private non-profit organisation. Since then, it has launched a wide range of programmes aimed at promoting international understanding, exchange and cooperation between Japan and the rest of the world. The SPF has been organising 'Asian Voices' seminars in Washington, D.C. for eight years and decided to extend this to Brussels in 2006, in collaboration with the EPC, to address a European audience.

The series reflects Asia's growing importance in international economic, political and security affairs, increased Asian interest in the Union and the intensifying relationship between the two regions.

India's economy, the state of play of the Asia-Europe Meeting (ASEM), Japan's tense relations with North Korea and China, Thailand's current political crisis, China's political and social challenges, and the nuclear crisis on the Korean Peninsula were debated over a period of nine months between June 2006 and March 2007.

The Asian speakers who took part certainly made their voices heard through interesting and thought-provoking presentations. They did not shy away from controversy, stimulating lively and challenging debates with panellists, including European and American analysts and scholars, and EU officials.

Asian Voices in Europe includes reports on all these events, plus the transcripts of the keynote speeches given at each of them.

This lecture series has been so successful that the EPC and the SPF have decided to continue the initiative in 2007-2008. The EPC is grateful for the generous support provided by the Sasakawa Peace Foundation and is looking forward to continuing this collaboration over the coming year.

Axel Berkofsky is an Associate Policy Analyst at the European Policy Centre.

I. India's economy: current status and future challenges

June 12 2006: Careful economic planning and management have resulted in an average annual 8% growth rate in India and this will be maintained – or even bettered – in future, according to the country's Finance Minister Shri Palaniappan Chidambaran. He stressed that growth was the 'best antidote to poverty' and said the Indian government's aim was to provide a decent life for its citizens.

Event report

Indian Finance Minister Shri Palaniappan Chidambaran set his remarks in context by describing India as "an old civilisation of 5,000 years and a young nation, which offers both challenges and problems".

Politically, India is a democracy and an open society, committed to the rule of law, deriving its strength from its institutions. Economically, it has moved from post-colonial "home-grown socialism" to the post-1980s liberal economy, and growth now averages 8% per annum. "This long road of economic growth and prosperity taught us valuable lessons", he said, adding that he was confident India could achieve high levels of prosperity.

The country has a complex social background: it is the birthplace of four world religions, its constitution recognises 18 languages, and it is home to a wide variety of languages, food, dress, social habits and customs, with all of this overlaid by its caste system.

The Minister described India's two defining moments: 1947, the year of independence; and 1991, the year it moved towards becoming an open liberal and competitive economy. Its current policy is geared to very high growth because, as the Minister explained, India is the only country where the working population will continue to grow for the next 30 years. Its policies must deal with this and produce revenues for desperately-needed investments in education, infrastructure, rural growth, sanitation and human resources.

"Growth is the best antidote to poverty," he said, adding that high growth rates were essential if the country was to catch up with developed countries and keep pace with China.

Growth for all

"High growth has to be coupled with equity and social justice," said Mr Chidambaran, so it has to provide the means for better sanitation, roads, electricity, schools and opportunities for people in the countryside. At the same time, India has to remain competitive and "master the forces of globalisation and liberalisation".

The government's target is to maintain India's 8% growth rate, and the Minister insisted that it could hold its own in today's fiercely-competitive world because of its excellent human resources.

The country's savings now equal 28% of its GDP and investment is equal to 30% of GDP. While much of the investment comes from domestic resources, increased Foreign Direct Investment (FDI) is needed to bring capital and new technology into the country, give access to new markets, new management styles and good governance practices.

Working with the private and public sectors

The private sector now plays a lead role in telecommunications, power, road building and the construction of sea and air ports, while the government is continuing to invest in mining, petrol exploration, railways, air transport and agriculture, and to encourage public-private partnerships.

One important challenge for growth is to make agriculture “less monsoon dependent” by establishing irrigation systems to bring more land into cultivation. This will encourage a sustained annual growth of 4% in the sector.

The manufacturing sector is being improved through massive investments in infrastructure: 4.2 kilometres of roads are being built every day, and the government is planning to add between 10,000 and 12,000 megawatts of additional power annually over ten years. It is also improving its satellite telephone connections. The Minister forecast that when all this started to produce results, the overall annual economic growth rate could rise to 10%.

Mr Chidambaran said India was already a world leader in the services sector, thanks to its outstanding human resources. The next goal is to become a world hub in manufacturing, building on its current position as world leader in the production of goods, including automobiles and automobile parts, textiles and pharmaceuticals. Its export market has grown by 25% over the last three years.

“Employment is our goal,” said the Minister. “We are not going for jobless growth.” India has to create eight million new jobs each year for young people in manufacturing and services, and these must be what the International Labour Organization has described as “decent jobs”. Small and medium-sized enterprises are being encouraged, as they are a good source of employment because of their flexibility and ability to adapt to changing markets.

Meeting the challenges

Despite this positive picture, Mr Chidambaran foresaw challenges ahead. He stressed that the government must not fall victim to complacency or make stupid mistakes, and said he had instigated procedures to ensure fiscal prudence and tight management control to avoid this.

The Minister also outlined possible outside shocks to the economy. The first is the high price of oil, at \$69 a barrel, which is causing problems for developing countries, including India, that depend on imported oil. Oil-producing countries must accept that prices should remain within a specified ‘band’.

There is also a danger that the imbalance between very rich and very poor countries could wreck the entire global economy. For example, very high interest rates in the developed world could be disastrous for poor countries which are dependent on FDI.

However, Mr Chidambaran said he was confident that India could overcome any possible outside challenges. Its goal was to abolish poverty within the next 15 years and to raise India up to the level of a developed country. “This is the context in which we prepare ourselves to face the challenges of the future,” he said.

Discussion

Asked about China’s success in encouraging higher FDI rates than India, the minister said its development began ten years before India’s and that it encouraged export-driven growth and suppressed domestic demand, while India growth was based on strong domestic demand for consumer goods.

Questioned about India’s lack of trading relations with the EU, Mr Chidambaran explained that India had historical relationships with individual European countries, but was working to establish a strategic partnership with the EU as a whole.

Asked how India reconciled economic growth with environmental protection, Mr Chidambaran said: “Poverty is the worst polluter, and abolishing poverty is our highest goal.” He then described the steps India had taken to toughen its pollution laws, fight water pollution, clean up its rivers and increase its forest coverage. He agreed that economic growth had to be balanced with environmental protection, and

said that where the government had failed to do so, the High Court and environmental NGOs would intervene to prevent further damage.

Responding to a remark that India's development was one of the causes of rising oil prices, the Minister retorted that India only used 300 KOE (kg oil equivalent) *per capita*, compared to America's 7,000 KOE *per capita*. However, he accepted that India needed to make its outdated machinery more efficient.

Asked whether India had created a single national market, he said the country's common legal system had helped this process and this had been backed up by moves to apply a standard rate of Value Added Tax (VAT) across the entire country.

Responding to a question about India's relationship with the World Trade Organization (WTO), Mr Chidambaran said that as a founder member of the General Agreement on Tariffs and Trade (GATT) and the WTO itself, India had faith in the multilateral trade-rules-based system and had helped to unite the developing world through the G20 group of countries. However, he found the lack of progress on the Doha Trade Round very disappointing: India was waiting for the developed world to come up with a reasonable offer on agriculture to which the G20 could respond with a reasonable offer on services.

Asked about India's inflation rate, the Minister said it was currently between 4.5% and 5%. The Bank of India was responsible for price stability and the government was using fiscal and monetary methods to maintain this, against the background of rising oil prices and interest rates. Nevertheless, some inflation was unavoidable in developing countries.

Keynote speech: Current policy and future challenges

By Shri Palaniappan Chidambaran, Finance Minister of India

Let me begin by describing the context in which policy is made in India, including the political context, the economic situation and the overwhelming influence of numerous social factors of a society which traces its origins back 5,000 years. India is an old civilisation, but a young nation and this interplay between the two creates problems, as well as opportunities.

India is proud of its institutions

The political context is well known and well documented. India is a democracy; it is committed to the rule of the law and is an open society.

We have institutions that we inherited from the British and that have grown over the last sixty years, through responding to changes in public opinion and international situations. For example, the Supreme Court of India is perhaps the most powerful court in the world, while the Election Commission of India has earned an enviable reputation of holding elections periodically in States and to the Union Parliament, where no one has ever questioned the integrity or the openness of India's electoral system. Our Election Commission also assists some emerging economies in holding elections.

Of course, some institutions have suffered from either neglect or atrophy, and serious questions are being raised about the effectiveness of ways in which some legislators and sometimes even how Parliament functions. But with all the drawbacks, India's strength lies in its institutions.

India's economic context is a little more complex. Soon after independence we were honoured to be guided and led by leaders who had devoted their whole lives to the struggle for independence. They believed in simple living and high thinking. Many of them were educated in England. Many of them were home-grown socialists and therefore adopted a model which they believed would deliver results

quickly and lift millions out of poverty. As it turned out, during the first 30 years after independence, the economy grew by barely 3.5% a year. It was only in the 1980s with some tentative steps towards a more liberal economy that the growth rate picked up to about 5.5% a year.

In the 1990s we achieved a little over 6% growth a year, thanks to the liberalisation of the economy, and we now averaging over 7.5% a year, with an average of 8% growth in the last three years.

The long road that we have travelled in our pursuit of economic growth and prosperity has taught us valuable lessons. Today we are more confident than ever before that we can take India to higher and higher levels of prosperity.

If the economic situation is more complex than the political one, the social situation is even more complex. India houses virtually every religion of the world. Four great world religions originated in India: Hinduism, Buddhism, Jainism and Sikhism. The constitution recognises nearly 18 languages, but including dialects, which run into hundreds.

The Indian state is divided into many provinces, each one broadly based around a language group, but thanks to migration, every state has linguistic minorities. Racially there are differences although there are things in common. It is not only language, but also food, dress, social habits and customs that both divide our people and unite them.

The social situation is, therefore, extremely complex. On top of all this is the caste system – a unique Indian institution. Broadly speaking we have castes which are considered 'forward', 'mobile' and 'progressive', castes which are the former 'untouchables' (now called Dalits) and the intermediate castes termed the 'other backward castes', which our constitution recognises as socially and educationally backward classes of people.

It is in this context that one has to frame economic policy and respond to the challenges that the economy faces. While your European Commissioners are learning to make policy in a similar context, add to this the complexity of 5,000 years of history, and you will see how much more difficult it is to frame policies which are acceptable to the people and which can deliver results.

India's defining moments

The two defining moments in India's history were 1947 and 1991. 1947 was the year that India gained its independence and 1991 the year we finally put aside all reservations and embarked upon a path of an open, liberal, competitive economy.

The most important driver of policy in India is a need for high growth: we cannot afford to grow at a low rate. Why? Because our population is growing and will continue to grow for the next 30 years or more before it reaches a stable level. India is the only large country in the world where the size of the working age population will continue to grow before it declines. Not even China faces that situation. This is also an advantage: a demographic advantage; we call it a 'demographic dividend'.

We have to frame policy to meet the requirements of a growing population. If our economy grows at about 3.5% a year and our population increases as it did in the past at about 2.5% a year, or at its current level of about 1.8% a year, the *per capita* growth rate is very small. It will take us 500 years to reach the *per capita* levels enjoyed by developed countries today. So our imperative is for high growth.

High growth will also generate the revenues required to make the crucial investments that India desperately needs. This is not simply investment in plant and machinery, but also in infrastructure, human resources, education, healthcare, sanitation, rural roads and drinking water. Massive amounts are needed to make these critical investments, and only high growth will give us the revenues that can be ploughed back as investment.

In a competitive world, if we grow at a low rate we will be far out-paced by the developed countries. A country with a *per capita* income of \$35,000, which only sees 3% growth will continue to outpace India with its *per capita* income of \$700 even if it grows at 5% or 5.5%. This is very elementary arithmetic. We need to grow faster simply to catch up with other countries. Even today, while we take pride in the fact that India is the second fastest growing economy, China's furious rate of growth means that it continues to outpace India. So growth is an imperative for us.

Growth the best antidote to poverty

We have learnt that growth is the best antidote to poverty. It is not the only instrument required to fight poverty, nor is it sufficient, but it is necessary. Without growth there is no way we can fight poverty. With growth there is a chance for equity, without growth there is no chance. Growth, therefore, is imperative for this reason as well.

The second overarching issue about economic policy in India is 'growth for whom?' What kind of growth? Will it be jobless growth? Will it be growth driven by exports alone? Will it be growth for a small creamy layer of India's people or will it be growth for all? What does growth mean?

What does a growth rate of 8% of GDP mean to the man in my village? Let us take a person who is about 60 years old. He has probably attended school for about four or five years in his childhood, he dropped out, married a girl who is perhaps even less educated than he is, barely literate, and they are both working on a patch of land. The average holding in India is about 1 hectare (about 2.5 acres) of land, which is mostly rain-fed so is monsoon-dependent, growing one crop a year. If the rains are good he will have a good harvest and enough food on his plate.

What has he seen in life? He has lived in a village without electricity for many years and now he has electricity, a road which connects his village to the nearest state road or a railroad. It is not always an all-weather road, but it is passable for about 10 months a year. There was no telephone until 10 years ago, now perhaps there is a village telephone. In the last few years there has been a community television set in the village. There is drinking water, thanks to hand pumps or overhead tanks and piped water, but he has to go to a common fountain to draw water. There is no sanitation. Some public toilets are being constructed, but people have to get used to the idea of using them. Most parts of India have a village school with up to five and sometimes eight classes, and one out of ten villages has a school with up to 12 classes.

When I tell him India is growing at 8%, he says "what does that mean to me?" It will only have meaning to him if it means assured and better quality drinking water, access to medical care, an all-weather road, electricity in every home, sanitation in the village, a proper village school to which his children can go, and above all an opportunity to break away from the confines of a village and find productive employment.

The benefits of growth must go to rural India, to the poor and to urban India, so that people see a visible improvement in their own life time. Growth in India can only be growth with equity, growth with social justice and growth where the state does not neglect its obligations, but redefines and discharges its obligations with renewed vigour.

The third overarching imperative is to remain competitive in this world. India has chosen to accept liberalisation and globalisation, as we believe that they will bring great benefits to India and to other countries. We believe that these are inescapable global trends and we must master the forces that drive them. We must raise our competitive levels so that we can compete with the rest of the world and we must be equal to other countries in holding our own in a fiercely-competitive world.

This means we must have outstanding human resources, so we must have top quality education at the higher end. We must continue to produce outstanding graduates, engineers, doctors, scientists, administrators, researchers, business people and continue to build businesses which can take on

global businesses. We must acquire a competitive edge in many areas and preserve our comparative advantages where we have them and be prepared to face the world on its own terms. The world is not going to rewrite its terms just because India is a poor country.

Economic and political growth

These are the overarching imperatives; growth, growth with social justice and the need to be able to cope with the forces of globalisation. It is in this context that we frame economic policy.

It is not very easy to do so. We have a rainbow of political parties, extreme left to extreme right and a coalition at the centre. In a parliamentary system we have to demonstrate our parliamentary majority every day and having a majority means working a consensus. So we work very hard to build consensus on policies and get legislative approval and move forward. Sometimes there are speed-breakers, we have to slow down, take one step backwards and go back to building consensus. Once we build consensus, we can move forward, make policy and pass legislation to implement those policies.

To an outsider this might seem to be an entirely frustrating exercise, but it is not. It is a great challenge and one that my generation has willingly embraced. We have learnt to be patient and persevering and the results are apparent as we have demonstrated our capacity to deliver average growth rates of 8% a year over the last few years.

The current policy framework broadly consists of the following elements: maintain sustained growth rate of 7% to 8% a year; provide universal access to quality basic education and basic healthcare; generate gainful employment in agriculture, manufacturing and services; promote both public and private investment, especially public investment in agriculture; and enlarge the space for private investment in manufacturing and services; assure 100 days of employment to every poor family in India in search of a job at a minimum wage; accelerate fiscal consolidation in reform, ensure higher and more efficient fiscal devolution; and embrace and internalise the forces of liberalisation and globalisation.

Investment an imperative

Within this broad policy framework we have taken a number of initiatives. We have been able to increase our savings rate to about 28% of GDP and our investment rate to about 30% of GDP. The bulk of India's investment comes from domestic resources but we recognise the vital role played by Foreign Direct Investment. Foreign investment not only brings us much-needed capital, but also technology, management methods and good governance practices, new products, new processes and above all, access to new markets. We recognise the crucial role played by foreign investment and we welcome it.

The space for the private sector is being continually enlarged. Today it plays the lead role in telecommunications, power, road building, seaports and airports. The public sector continues to play the lead role in other sectors like mining, exploration for petroleum products, railways and air transport. We are also forging public private partnerships (PPPs) in many areas, and these have yielded huge dividends. As far as agriculture is concerned, the bulk of the investment is public.

Investment will give us high growth. If we want to aim for higher growth we need more investment, raising investment levels from 30% of GDP to at least 32% and if possible 34% of GDP. If we are able to achieve an investment at this high level, we can aim for 10% sustainable growth every year. That is our medium-term goal.

Irrigating India's fields

Some major initiatives have been taken to accelerate investment. In agriculture, the major aim is to become less monsoon-dependent, so we have embarked upon an ambitious programme of expanding irrigation facilities to take water to the land. We have abundant water, but 60% of our arable land does

not have assured irrigation. So we are building a series of canals and irrigation systems to take water to the land, in order not to waste a single drop of water that comes to India through its monsoons.

We are making very large investments in systems to complete irrigation projects, and in particular to spend money on the 'last mile projects' so that we can bring more and more hectares of land into irrigation. The goal is to bring 10 million hectares of land under assured irrigation over the next five years.

The other major initiative in irrigation is to repair, renovate, and restore India's natural and man-made water bodies. There are half a million such water bodies in India, going back 2,000 years. Many of them are natural, some are man-made, built by the early kings as works during periods of droughts and famine. If these are restored they can double India's water storage capacity, so a massive programme is being launched to restore and repair these water bodies. Once we have water which we can take it to our fields and open up more and more land, India's agriculture will become less monsoon-dependent and its agricultural growth rate will stabilise at about 4%.

This level of growth is imperative to achieve overall double digit GDP growth. Non-agricultural GDP has been growing at 11% in the last 12 quarters and manufacturing and services are growing at a very, very satisfactory rate, but as our growth levels depend on agricultural growth the first change in public investment is in agriculture.

Investing in infrastructure

In manufacturing, the critical deficiency is in infrastructure. We have huge gaps and deficits in power, telecommunications, roads, airports and seaports. These are the accumulation of neglect over many years, which we are trying to address by pouring vast amounts of money into infrastructure. The public sector plays a lead role in some areas, the private sector leads in others and we also work through the PPP model.

Infrastructural requirements add up to mind-boggling numbers. We now build about 4.2 kms of world-class road everyday, yet to build just 1 km of world-class road costs about \$6 million. We plan to build roads in various phases: world-class, national highway grid, golden quadrilateral road to connect the metropolitan cities, and a grid to connect all India's ports with its industrial towns. The investment required to build our roads alone is estimated at about \$30 billion.

Turning to the power infrastructure: we need to add between 10,000 to 12,000 megawatts (MWs) of additional power capacity every year for the next 15 years. There is no other country in the world which needs that much investment. Just 1,000 MWs of additional power capacity require an investment of \$1 billion, and we need to add 10,000 MWs every year.

For telecommunications and telephones we are adding five million new mobile connections every month, a number which equals Denmark's total number of mobile connections. It took two and half years to provide Denmark with its five million connections, while we are adding this rate every month. This means massive investment in hardware, software, transmission towers, cable, etc. To mobilise these mind-boggling amounts of investment, we have to mobilise them in India, we have to mobilise them from abroad. Once we can fill the critical gaps in infrastructure, our manufacturing and services sectors which are already growing at 9% to 10% a year, will grow at an even faster rate.

Our leadership in the services sector has been acknowledged and we are proud of our achievements, which is thanks to our outstanding human resources. Our next goal is to make India a manufacturing hub while preserving our leadership role in the services sector and we can do this once we meet our infrastructure deficiencies. We are already the leader in several manufacturing sectors, such as automobiles, automobile parts, textiles, leather, steel making, refinery, pharmaceuticals, industrial products, forgings, castings, and two-wheelers and occupy the second or third position in many other sectors.

As a result of a conscious policy adopted in the 1950s, 60s and 70s, we have a huge public sector, which we now want to make truly commercial, competitive and efficient. However, as we have no intention of dismantling the public sector just for the sake of it, we have encouraged a significant minority non-government holding in many of these public sector companies to ensure they are competitive and commercial, while the government retains a controlling interest. Public sector reform is a major item on the agenda and we have made significant progress in the last couple of years.

Investing in people

Employment is another foremost goal. We cannot have jobless growth in India. Every year eight million young people enter the job market with varying degrees of education and qualifications and we need to find them jobs. As these cannot be found in agriculture which is already over burdened by manpower, we need to create jobs in manufacturing and services of the sort the International Labour Organization calls 'decent jobs'.

Here, the small-scale sector – the small- and medium-sized enterprises (SMEs) – plays a critical role because they have the advantage of flexibility, resilience and adaptability to changing market conditions so they create the bulk of our production and the vast majority of our new jobs. For this reason we are committed to encouraging SMEs.

Exports – a critical factor of growth

Finally, turning to exports, a very critical factor in our growth story, have been growing at the rate of 25% a year for the last three years, and we now export \$100 billion worth of products. Our leading sector is software, followed by textiles which account for one quarter of exports and other commodities, even including Mercedes Benz cars!

While domestic demand drives our economy, exports drive our growth, so we will continue to place great emphasis on this and I am confident that if we continue to pursue these policies, we can assure high growth rates in the foreseeable future.

Internal challenges

So, what are the challenges? The first is complacency: we can simply tell ourselves that everything is hunky-dory and just sit back and enjoy ourselves. I hope and believe that no government in India will become complacent. We have a lot of work to do and there is no time to rest or take a holiday.

The second challenge is to prevent making stupid mistakes, such as simply deciding to spend our way to prosperity. However, this has never happened before, and I hope will never happen, so one must observe fiscal prudence, tight fiscal management and budgetary control.

In order to ensure that we do not make these mistakes, we have enacted the Fiscal Responsibility and Budget Management Act, which obliges the country's Finance Minister to eliminate the revenue deficit (i.e. the current income minus expenditure) by March 2009 and to maintain the fiscal deficit below 3%. As long as I am Finance Minister, I intend to adhere to these obligations and I am confident that by the deadline we will achieve these targets, eliminate the revenue deficit, and maintain a fiscal deficit of below 3% (the same as the Maastricht level).

External challenges

We have met these challenges from our own resources and our own wisdom. But there are also external challenges, as like other countries we are susceptible to exogenous shocks. The first, and possibly an almost permanent shock is oil prices. There is simply no justification for these outrageous prices: the incremental cost for producing a barrel of oil is between \$1-\$2. In 2003 the average price of a barrel of oil that India bought was \$23 dollars, but today it is \$69 – i.e. three times the price.

How can a country like India afford to buy oil at \$69 a barrel? In some ways it is worse than the colonial age: then colonial masters robbed our iron ore, our coal, our cotton, and our tea. Now oil-producing countries take away our wealth by pricing oil at this outrageous level. We have suggested several measures to keep oil prices within a certain band and are prepared to accept that oil prices cannot fall below a certain level, but oil-producing countries must also accept that oil prices should not go above a certain level.

We are willing to accept swings in oil prices within a certain band, but at current levels developing countries will be robbed of vital growth. India is 75% dependent on imported oil, and other countries, many of them in Africa, are 100% dependent on imported oil. How can they ever grow and ever climb out of poverty? If we are serious about abolishing poverty in this world and achieving the Millennium Development Goals, the world must unite to find a solution to this oil crisis.

The second exogenous shock could be global imbalances. We know the reasons for today's global imbalances, but we are nevertheless disappointed with the reluctance and the tardiness at addressing their causes. On the one hand, there are countries running up huge deficits, on the other some countries have huge reserves. If global imbalances unwind in a disorderly fashion, they could wreck the world economic order, so the world has to address this issue, to help them unwind in an orderly manner.

The third exogenous shock could be a rise in hard income's interest rates. The world output is increasing, and as some economies are overheating, it may be necessary to tweak interest rates. If rates in the developed world continue to rise, capital flows to developing countries will slow down. There will be reverse flows of capital to the developed world, starving poor countries of capital. We need Foreign Direct Investment and Foreign Indirect Investment, but these will stop if the flows to the developing world slow down.

However, the world is alive to these exogenous shocks: the G8 meeting this year addressed these issues and although it did not do so in a very convincing way, at least it acknowledged that these issues need to be addressed.

These shocks will hurt us: Every \$10 permanent increase in oil prices causes an 0.8% decline in GDP growth for developing countries and an unwinding of global imbalances in a disorderly fashion will affect our exports. A rise in interest rates will mean that we have to provide more money to meet interest payment obligations.

India's resilience will win through

We will proceed cautiously when faced with these external challenges, but I believe that India has the resilience and capacity to weather them. We have learnt the lessons of 1997 and those of the earlier oil shocks.

Apart from the external challenges, we have our own challenges, which we must meet as a nation. We must find the resolve to overcome them and put India on a high growth path. We believe that we have succeeded in this endeavour in the last few years. India is now on a growth path, which can be sustained at the level of between 7-8%, with a 10% increase in investment.

Our intention is to abolish poverty as we have known it for 5,000 years, an abject poverty that neither your generation nor your father's generation would have known in Europe. This kind of poverty must be abolished in our lifetime and we can do it in the next 15 to 20 years.

After that we must resolve and find the wisdom to raise India to the level of a developed country. We have the goodwill and the support of many countries and people in the world and are determined to succeed. That is the context in which economic policy is framed and the context in which we prepare ourselves to face the challenges of the future.

II. EU-Asia relations in the wake of the ASEM summit

September 12 2006: The Asia-Europe Meeting (ASEM) was a success, with a series of significant agreements including the decision to bring in new members on both sides. ASEM could play a role in strengthening multilateralism, if its members agreed to work together on a region-to-region basis rather than just through country-to-country alliances.

Event report

Jusuf Wanandi, Vice Chairman, Board of Trustees, Centre for Strategic and International Studies in Jakarta, Indonesia, said ASEM was conceived ten years ago as “the missing link” between Europe and Asia and a “new formula for international relations”.

Since then, a number of significant developments – the “ugly side-effects of globalisation”, the 1997 Asian financial crisis, and the threat of international terrorism – had put pressure on the international system. Unfortunately, the US had taken a unilateralist approach to dealing with these problems. The challenge now was to strengthen global institutions and uphold multilateralism.

Mr Wanandi described how, after World War II, US Presidents Truman and Roosevelt had created a ‘new world order’ for achieving world peace and security through the United Nations and its Security Council, alongside the World Bank, the International Monetary Fund, and the General Agreement on Trade and Tariffs (GATT) to nurture economic growth and development.

Sadly, he said, subsequent US presidents had set these initiatives aside and had either concentrated on domestic policy or, more recently, been “mesmerised” by America's ability to use its military power to make it the world's only superpower.

US – the guarantor of the international system

Recent events have proved that military means alone cannot guarantee long-term peace, and only a multilateral system can overcome the threat of international terrorism.

“We [Asia and Europe] have to assist the US as the leader and guarantor of the international system,” insisted Mr Wanandi, although he warned that this process might have to wait until after the next US elections as the current administration was caught up in the quagmire of Iraq and the Middle East.

Asia and Europe should work positively with the next US administration to help it develop relevant policies and to demonstrate that the fight against international terrorism requires international cooperation in immigration, intelligence, finance and military policies, and in fighting poverty and improving education and employment.

Mr Wanandi said it was important to enable Muslims to see that there were several forms of Islam and to support them in establishing democratic states which delivered economic growth and justice. Failure to do so could lead to them establishing Khalifahs (Muslim theocratic states) as the only way out of their oppression.

For all these reasons, Asia-Europe cooperation should focus on restoring global norms and reinforcing institutions like the UN, IMF and World Bank, and reviving the World Trade Organization's Doha Round.

Asian constraints

Although the recent ASEM meeting in Helsinki showed that EU-Asia cooperation is capable of tackling significant global issues, Mr Wanandi acknowledged that ASEM's role is constrained, partly because of

tensions between countries in Asia and partly because of the EU's near-obsession with China's economic growth and its subsequent neglect of region-to-region economic relations. This is short-sighted given the high levels of Foreign Direct Investment in other Asian countries.

Mr Wanandi stressed the importance of the economic aspect of the EU-Asia relationship and urged ASEM to encourage Asia's private sector to play a role in boosting this. He also stressed the importance of people-to-people relations and cooperation in the socio-cultural fields.

It is important to move from state-to-state relations to region-to-region cooperation. The current EU-Asian relationship is uneven, as the EU is now a pan-European institution while East Asian institution-building is at a far earlier stage. To help boost ASEM, its Asian partners need to establish a secretariat, with EU support, and the Union has to incorporate ASEM more into its planning.

Strengthening ASEM

ASEM also needs to foster cooperation through the Asia Europe Foundation (ASEF), and through parliaments, youth and students, NGOs, think tanks and the media. In addition, relationships between business groups need to be strengthened, particularly as trade and investment between the two regions is lower than it was ten years ago.

On the question of new ASEM members, Mr Wanandi noted that the EU had insisted that all its new Member States should automatically be included, so, in order to achieve a balance, Asia had insisted on membership for India, Mongolia and Pakistan.

He ended by praising the success of the Helsinki ASEM Summit, for which he gave the Finnish hosts, as holders of the EU presidency, credit for their enthusiasm. If Germany shows the same enthusiasm when it holds the EU presidency in the first half of next year, much can be achieved in future.

David Camroux, Senior Research Associate at the Centre d'Etudes et de Recherches Internationales (CERI), Sciences Po, Paris, began with an observation on the notion of closed groups such as ASEM, quoting Groucho Marx's witticism: "I wouldn't want to be a member of a club that would allow me to join it."

"When we talk about the Europe, what do we mean?" he asked, speculating on whether the term referred to the EU as an 'entity' – what former European Commission President Jacques Delors termed "an unidentified political object", or whether it meant individual EU Member States.

Dr Camroux said that more clarity was needed on the Asian side as well, and mused that this might result in a 'greater Asia', with China and India as the two poles.

Interregionalism

He also pointed out that while some aspects of the EU-Asia relationship related to the EU and Asia as a whole, others concerned individual countries. For example, European countries are building bilateral relations with China in addition to the EU's relationship with Beijing.

Some analysts have also suggested that European integration has influenced other regions, persuading them to integrate and become institutionalised – so, for example, the Asians quote the success of the euro in their debates on whether to have a common currency.

Dr Camroux said some regions could be considered as "quite porous", making it possible for ASEM to agree to include India and Pakistan even though they were outside the original ASEM family.

He argued that while the summit had been successful, it was likely that the US mid-term elections would have more impact on the multilateral environment than any ASEM pronouncements.

For Dr Bart Gaens, Adviser to the ASEM Secretariat, Finnish Ministry of Foreign Affairs, the summit was a “highly successful and important event”.

There had been good EU attendance at a high level, confounding previous criticism that Europeans did not take ASEM seriously, and ASEM had regained its focus, included new partners and improved the debate. The agreements on enlargement – bringing in Bulgaria and Romania on the EU side, and India, Mongolia and Pakistan on the Asian side – were also a success.

Dr Gaens argued that the two declarations which emerged from the summit – one on climate change and sustainable development, and the other a political declaration on the future of ASEM – were positive moves. The summit had also confirmed cultural dialogue as a key area, including the interfaith dialogue.

Stronger links had been established between stakeholder groups and, thanks to Finland’s insistence, ASEM’s ‘bottom-up’ dimension and its ties with civil society had been strengthened. The summit had also discussed the social aspects of globalisation, including outsourcing, productive employment and workers’ rights; and had increased its visibility.

Antonio Tanca, Coordinator of the Asia Team, Council of the European Union, also praised the summit’s success, arguing that it resulted from a common resolve to avoid problems.

He said the question of whether ASEM was a region-to-region or an inter-governmental forum surfaced continually because of the discrepancy between the levels of coordination on the EU and Asian sides. However, at this summit, the Asian partners had taken a coherent position in relation to new members.

Dr Tanca believed that ASEM cooperation could be particularly useful in the areas of energy and environment and in interstate dialogue.

Discussion

Asked whether including India, Mongolia and Pakistan in ASEM would change its dynamics, Mr Wanandi said the two sides had agreed to include them to balance the new and future additional new EU members. However, he noted that India’s trading position was not as developed as others in the region.

Dr Camroux said ASEM had agreed to accept India because it was anxious to find a counter-balance to Chinese power. He believed that China had agreed to allow India to join because of its strong bilateral relations with Europe, and because Beijing did not regard ASEM as being of much significance. Dr Gaens was concerned that ASEM’s informal structure meant it might not be able to function successfully with so many members.

Questioned about the struggle between moderate and more radical Muslim communities in Indonesia, Mr Wanandi said 70 million of the country’s 200 million Muslims were moderates. However, the government was too weak to control the more fundamental Muslims, and there were now 20 regions which wanted to establish Sharia law. The government’s refusal to stop them weakened the moderates’ position.

Asked about the lack of legally-binding means to implement ASEM declarations, Mr Wanandi said that it was not always necessary to have binding agreements. Trade liberalisation in the region was based on voluntary, non-binding measures to open up trade. He also compared the relatively-straightforward Asian free trade agreements with the North American Free Trade Agreement (NAFTA), which runs into hundreds of pages.

Dr Tanca said using legal means was not always the best way to implement decisions, as each country should implement them in the way it felt was most relevant.

Dr Camroux said ASEM was too important to be left in the hands of officials or politicians, as its most important function was to bring people together through its people’s and business forums. He was

also encouraged by the growing dialogue between NGOs from Europe and governmental NGOs (GONGOs) from Asia.

Keynote speech: Challenges for Asia Europe Cooperation

By Jusuf Wanandi, Vice Chairman, Board of Trustees, Centre for Strategic and International Studies in Jakarta, Indonesia

When ASEM was conceived 10 years ago, this was to create region-to-region cooperation between Asia and Europe. APEC had been established in 1989, and in the mid-90s seemed to have a bright future. European-North American cooperation was already well-advanced, and there did not seem to be any possible friction between the two continents in the early 21st century. However Asia-Europe cooperation was missing.

We were then just entering the post-Cold War era, when a new system of international relations had not yet been established and attention was on increasing domestic expenditures as a peace dividend. Some regional issues such as the Balkans and those involving some regions of the former USSR, such as the Caucasus, were having real problems, but they did not affect the general atmosphere of victory for liberal democracies and capitalism (Francis Fukuyama's "end of history" proposition).

Problems in East Asia, such as North Korea's nuclear proliferation and the cross-Straits relations between China and Taiwan were already surfacing, but were seen as manageable within the Framework Agreement on North Korea's proliferation of 1994 and the China-Taiwan Dialogue series in early 90s. Since then, however, there have been a number of strategic developments: the ugly side-effects of globalisation, such as, among other things, the Asian financial crisis of 1997 and the threat of international terrorism, which have put a considerable pressure on the whole international system. The US has shown strong tendencies to be unilateralist in its response to these problems, which has weakened international institutions and norms, and in turn created greater uncertainties for the future.

These new developments have put considerable burdens on Asia-Europe relations and the ASEM (Asia Europe Meeting) process. A major challenge now facing the world is how to strengthen multilateralism and global institutions as the mainstay of world order.

Creating a new world order

It was the far-sighted visions of US Presidents Roosevelt and Truman, with the support from such brilliant people as George Marshall, Dean Acheson, George Ball, and George Kennan, who before and after the end of World War II envisaged a new world order, sustained and supported by norms and institutions to achieve peace and security for the future, mainly through the UN system and in particular the Security Council. They also paid attention to economic growth and development, a critical factor for world order which had been neglected in the aftermath of World War I and the deep depression of 1931. The crisis that followed gave rise to extremism in the form of fascism, nazism and communism. To combat this, the IMF the World Bank, and somewhat later the GATT, were established.

Unfortunately after the Cold War, there was no new thinking about a New World Order. US President George Bush Sr. had given some thought about this, and had he been re-elected for a second term, might have moved this forward. At the beginning of his term of office, his successor, President Clinton lacked any Cold War strategy, as he preferred to focus on the economy and health care, partly to create a 'peace dividend' after 40 years of the Cold War and high defence expenditures. When he realised the need for this in his second term, he was too weakened by his own scandals to be able to carry this through. The next President, George W. Bush also paid attention to tax cuts and education, while also building up a formidable security team.

However, the US was still mesmerised by its military might that made Washington the single super power. US economic power was great but not all that powerful, and the administration failed to give attention to its 'soft power', namely the importance that political, economic and cultural influences can bring to the imagination and hope of peoples across the globe. An early President – Ronald Reagan had been more conscious of the importance of this as can be seen from his 'light on the hill' metaphor.

While we must appreciate the shock of 9/11 to the American body politic and its over-reaction to that tragedy, we also have to assist the US, which is currently the guarantor of the international system, to overcome the asymmetric threat from international terrorism. This is also in our interest, because all of us could become its victims – as Indonesia has found out. That means that together, we, Asia and Europe, must attempt to sustain a multilateral system as the only way to overcome the long-term threat of global terrorism. The crises in Iraq and Lebanon and Palestine have shown that military means alone, especially if used unilaterally, will not work.

However, we accept that military means are important and should be used when needed, especially as global terrorism could use Weapons of Mass Destruction against the US or any other country. However, this should only be undertaken in the company of allies and friends. To overcome immediate threats, it is important to give legitimacy and support to efforts such as nation building, particularly in the aftermath of military actions. Unfortunately the way the US is going about this at this stage does not ensure a successful outcome.

ASEM – promoting Asia-Europe cooperation

The importance of ASEM is to promote cooperation in concrete and realistic ways in order to shore up multilateralism. The US is still the leader and the guarantor of the international system, including global institutions, but needs the support of others if it is to succeed. Her failure will damage the system as a whole and this could bring about anarchy in the international community. Asia-Europe cooperation should encourage the US to be willing to listen and to lead again in a more constructive manner.

For Asia-Europe to be able to achieve this new ways have to be found. This should begin with a debate about what changes are needed and how to change the system to make it relevant and effective again. From the outset, this exercise should be done together with the Americans, but it is unlikely that this administration will change its main policies. Maybe in the next two years they have enough time to keep their policies on Iraq and the Middle East in place and without major calamities, and the 'second track' can take the lead in debating and formulating new ideas, possible programmes and actions.

A minimum target is to ensure that the US will not be de-legitimised as the main guarantor of the international system. Together, Asia and Europe should suggest the policy changes the US needs to take, and the two continents should work more positively with the next US administration to improve the international system. In the end the fight against international terrorism will be a long one, and will require a lot of international cooperation, encompassing many fields (immigration, intelligence, police, law-enforcements, finance and also military if needed). It will also need to consider development issues such as poverty alleviation, education and employment.

In the longer term a critical factor will be the struggle within the Muslim community about giving the correct interpretation of Islam. In international relations, serious attention should be given to ensuring social justice and fairness for those Muslims, who feel they are oppressed, especially the Palestinians. Muslims should be assisted in their efforts to establish democratic states that deliver economic growth and social justice so that they can show that there is no need to establish a Khalifah (Muslim theocratic state) of the type that existed ten centuries ago.

ASEM's modality for cooperation uses dialogue, such as on civilisations and cultures, to build up mutual understanding and appreciation, and this has been a very positive step in the right direction, and one which can contribute to overcoming the threat of international terrorism.

ASEM – restoring global norms

Asia-Europe cooperation should focus on restoring global norms, such as on the possible criteria for using pre-emptive force in self defense. International institutions such as the UN, IMF and the World Bank should be reformed and strengthened. The WTO's Doha Round should be revived and helped to reach a successful outcome. The efforts at the ASEM Helsinki Summit 2006 to promote sustainable development and climate change are examples of how future Asia-Europe cooperation should evolve.

As I mentioned, it is not clear whether the EU can achieve unanimity on all matters of reform and the best methods to achieve this. In East Asia, the biggest constraint on developing relations is the strained relationship between China and Korea versus Japan. Improving these relationships needs time, but serious efforts in that direction should begin. That is why the 'second track' should initiate a serious dialogue and come up with proposals for serious consideration by the governments concerned. ASEM has been exceptional among regional institutions in taking up political-security matters in its agenda and deliberations, but more concrete efforts should be taken to make it more credible and useful.

In the economic field, ASEM's original driving force and current priority is to concentrate on successfully concluding the Doha Round. EU members only appear to be paying attention to China and its spectacular rise, at the expense of becoming involved in region-to-region economic relations. If Europe believes in the importance of the region-to-region relationship, this should be rectified in the future, and it is rewarding to note that Foreign Direct Investment into the ASEAN region in the first half of 2006 reached over \$30 billion – a little over half of China's during the same period.

The economic underpinning of the relationship remains the critical factor, and ASEM should create an environment which will strengthen private sector involvement in promoting this. People-to-people relations and cooperation in the socio-cultural fields should be expanded and deepened, and here public information and outreach programmes can play an important role.

The idea of ASEM as region-to-region cooperation has evolved from a state-to-state relationship. It began as government-to-government cooperation, gradually evolved into society-to-society relations, and then developed into region-to-region relations. However, these remain weak, suggesting that ASEM's programme and its institutions need to be improved.

Strengthening ASEM's institutions

On the institutional side, the Asian partners need to establish their own mechanism as well as a secretariat to assist in coordinating the Asian side. From the European viewpoint, the EU has to strengthen the Commission's coordination role and to incorporate ASEM into its standard external mechanism, which could be carried out by the special unit for ASEAN + 3 at the ASEAN Secretariat. At a later stage the Asians and European could entertain the idea of establishing a bilateral secretariat.

It is important that Europe understands the characteristics of East Asian regionalism. This is different from the European model, which is based on rules and institutions, as in East Asia it is basically a "talking-shop", although it also makes commitments and decisions that its members have to live up to.

This might be confusing: until now economic integration in East Asia has been largely market driven, but today it is felt that some government intervention and support may be needed. For instance, the Chiang Mai Initiative in the financial sector will be enlarged to create reserves worth \$200 billion for the ASEAN + 3 members to tap into, in case of future financial crises. The bilateral FTAs between ASEAN-China, ASEAN-Japan and ASEAN-Korea can become building blocks for a region-wide FTA.

Other fields of cooperation are being worked out. These include that in the Mekong Delta as well as that on non-traditional security issues such as avian flu. People-to-people cooperation has also improved tremendously.

The Ministerial Meetings could be held in various fields of importance as 'clusters', and should offer concrete proposals for cooperation. The Summit has to be an open meeting involving direct exchanges with a minimum of protocol, prepared by the 'sherpas'.

Promoting people-to-people relations

So far the people-to-people relations promoted through ASEF (Asia Europe Foundation) and other initiatives have been the most rewarding means of cooperation. After the end of the colonial period, relations between several European countries and their former colonies remained largely bilateral and with limited scope, because they focused mainly on trade and investment.

Today, relations have been broadened to include parliaments, youth and students, NGOs, intellectuals, academia and think tanks, the media and business, all of which are important in the relationship. The relationship needs to be deepened if it is to be really effective in shaping common ideals and purposes. This means that concrete programmes should also be established to get general recognition, support and participation.

So far relations between business groups have not been productive, which may be because of the existence of bilateral chambers between member countries, so new ways have to be found to develop region-to-region business groups, as well as the existing bilateral ones. In fact, total trade and investment flows between Asia and Europe are now lower than a decade ago when ASEM was established.

EU-ASEAN cooperation has been the model for ASEM, and has acted as a catalyst for Asia-Europe cooperation. As in the case of ASEAN-EU cooperation a lower form of representation for Myanmar could be an acceptable compromise for both sides.

The EU insisted that all of its new Member States should automatically become ASEM members, and while this is understandable, some balance and symmetry needs to be maintained. Therefore, the EU should also agree with East Asia's proposal to include India, Pakistan and Mongolia as members of ASEM.

Above all, cooperation and relationships between think tanks to examine all these problems are critical to ASEM's future. They can help make a difference to what ASEM has been able to achieve in its first decade.

Concluding Remarks

One thing is certain. Both sides are convinced that the Asia-Europe relationship will become more important for the future, so ASEM's role and efforts will be vital.

The Helsinki Summit and the corresponding meetings among the various stakeholders have been very positive, and the Finish Government's efforts and enthusiasm have to be lauded. All participants hope that with Germany's leadership of the EU next year, more will be achieved in building up ASEM.

III. Japan post-Koizumi: foreign policy prospects

October 16 2006: North Korea's recent nuclear test poses a serious threat to stability in East Asia and international solidarity is vital to tackle the problem. Countries in the region must also make contingency plans to respond if Pyongyang refuses to halt the testing. In Japan, the early signals from the new Prime Minister Shinzo Abe on a range of issues are to be welcomed, while for its part, the European Union should raise its profile in the region.

Event report

Hitoshi Tanaka, former Japanese Deputy Minister for Foreign Affairs and Senior Fellow, Japan Centre for International Exchange, described the international community's "sense of defeat" in the face of the North Korean nuclear tests, despite 15 years of intense international diplomacy.

"All our efforts failed," he said, attributing this to the lack of international solidarity in dealing with the regime and warning that Pyongyang's actions would undermine the Nuclear Non-Proliferation Treaty (NPT) as well as having implications for efforts to rein in Iran's nuclear ambitions.

The need for international solidarity

Mr Tanaka stressed the importance of international solidarity, in particular among the five countries in the Six-Party Talks (China, South Korea, the US, Russia and Japan). Emphasising that the region could not coexist with a nuclear North Korea, he said its neighbours must make contingency plans to respond if the regime ignores requests not to carry out any more tests. These could include regional sanctions, measures to cope with North Korean refugees and the need for a military build-up in the region. Mr Tanaka also warned Pyongyang not to underestimate the strength of the reaction from either the US or countries in the region.

The international community – in particular the US – must be prepared to enter into "serious negotiations" with Pyongyang to resolve the problem. Mr Tanaka accepted that this would be "a long and painful process" which, given Pyongyang's attitude to the outside world, could take many years, but added: "The stakes are high for us and for the region as a whole."

He said a "comprehensive settlement policy" was needed, adding that he was confident that the new Japanese Prime Minister Shinzo Abe would take a tough, but balanced stance.

Chinese-Japanese relations

Mr Tanaka said Chinese-Japanese relations were going through a "fundamental change", and China will be the world's second largest economy in the next ten years. Its rapid rise has so far been based on trade, but its energy resources are scarce and it will therefore need to find external sources to maintain its current growth.

While China has astounded the world with this unprecedented growth, three issues still need to be addressed: giving the population greater political freedom, dealing with income disparity throughout the country and making Chinese production more energy-efficient.

Japan's situation is also changing. It is going through a "psychological change", with a new pride in its activities, ridding itself of its guilt about its past. Party politics in Japan are also changing and it is forging new relationships with countries in the region.

While it is important to create a "big-power relationship" between China and Japan, this can only happen once Japan revises its approach to its own history, China makes its security policy more transparent, and

the two countries develop a joint approach to energy and the environment. Failure to address these issues would hobble attempts to build regional cooperation and a strong East Asia community.

Mr Tanaka said Japan was in a strong position to play a leading role in the region, given its good record on governance, income redistribution, fostering energy and protecting the environment.

EU-Japan relations

Chris Holtby, Policy Adviser on Asia-Pacific Issues to the EU High Representative Javier Solana, said there were many similarities between the EU and Japan, and the two sides were developing a strategic partnership. The EU had already used “careful policy and careful pragmatism” to establish a strategic dialogue with Japan and China, but individual EU Member States needed to engage “more effectively” in East Asian security as well.

Japanese foreign relations policy is also changing. Prime Minister Abe’s “beautiful Japan” speech laid out a vision for pro-active Japanese diplomacy in the region and a strategic dialogue with countries which shared key interests and fundamental values, such as US and Australia. Mr Holtby regretted that the EU was not mentioned in this context, stressing that the Union needed to raise its profile by boosting its “soft-security” contribution to the region.

Mr Holtby said Prime Minister Abe’s visit to China and the resulting joint *communiqué*, stating that the two countries “faced history squarely and looked to the future” marked a change in Sino-Japanese relationships. This would be further strengthened by cooperation and dialogue on energy, the environment, finance, security talks, defence cooperation and youth exchanges.

The need for leadership

After the North Korean nuclear test, the region had looked to Japan and China to show leadership, and Prime Minister Abe had provided it in a speech to the Japanese Diet (parliament) signaling that nuclear proliferation was not an option for Japan.

Countries in the region also looked to Tokyo to foster regional cooperation and lower tensions. The Japanese Prime Minister’s first three weeks in office gave some positive pointers and this, coupled with the Americans’ desire to work closely with its partners in the region, boded well for the future.

David Kerr, Lecturer at the School of Government and International Relations, Durham University, provided a “Chinese perspective” on regional issues. Following North Korea’s “nuclear breakout”, China was genuinely angry, as this was a huge “loss of face” for its regional strategy.

Beijing is not prepared to coexist with a nuclear North Korea and is considering several options: regime change, military punishment and a negotiated settlement. The chances of a settlement depend on how much influence Beijing can exert over Pyongyang. While regime change – or a change of leadership – is a strong possibility, this depends on how much duress Beijing can place on the regime without destabilising it totally.

As for Sino-Japanese relations, Dr Kerr believed that structural changes in the relationship were now in China’s favour as “history is moving in its direction”. Japanese atrocities during the war are still a matter of deep concern in China, so future relations could be significantly affected by the new Prime Minister’s possible controversial visit to the Yasukuni Shrine in August 2007.

Axel Berkofsky, EPC Associate Policy Analyst, suggested that the lack of solidarity and the diplomatic failures following North Korea’s nuclear tests resulted from Chinese failure to put pressure on Pyongyang. He also questioned whether it was too late to refuse to coexist with a nuclear North Korea, and explained that North Korea now insists that any future negotiations must be held on a bilateral basis with the US.

Commenting on Mr Tanaka's optimistic view of Sino-Japanese relations, Mr Berkofsky pointed out that Japan was an important economic partner for China, a large trading partner and the country's biggest foreign direct investor.

Discussion

Asked about the pressure now being put on North Korea, Dr Kerr said the Chinese could not tolerate a collapse of the current regime, particularly given the potential number of refugees this might generate. He also believed that the South Korean government should play a larger role. Mr Berkofsky argued that China should work with the international community to bring about a change in the current regime.

Questioned about the possibility of negotiating with Pyongyang, Mr Tanaka said the North Korean government wanted a diplomatic solution and the prospect of future economic cooperation. However, he warned that international negotiators must be prepared for an aggressive reaction from the North Koreans, stressing the need for countries in the region to make preparations to deal with any retaliation by Pyongyang.

Asked about possibility of a Chinese blockage of North Korea, Dr Kerr agreed that Beijing might mobilise its forces along the country's border. He suggested that North Korea's nuclear ambitions were partly motivated by a desire to "push Beijing back", as it was concerned about Chinese intervention in the country.

Responding to a question about the possibility of community-building in the region, Mr Tanaka believed that while nationalism was still strong in both Japan and China, a regional Asian consciousness was needed. Although there are moves to build an East Asian economic community, there is currently no prospect of creating a regional security community, although it might be possible to establish some regional anti-terrorism agreements with support from the EU and the US.

Asked why the EU was not playing a bigger role in resolving the North Korean problem, Mr Holtby responded by saying that, when dealing with regional problems, countries in the region should be most closely involved. Including the EU in the Six-Party Talks would make them larger and less effective, so the EU approach should be to support regional frameworks.

He also supported a strong Japanese military role in international stability and peace-keeping, and raised the possibility of Japan removing the constraints in its constitution on using military force. However, Mr Tanaka pointed out that Japan had a unique approach to a security policy, although there might be a change in the interpretation of its constitution – but this would be a long process.

Keynote speech: Prospects for Japan's foreign policy after Prime Minister Koizumi

By Hitoshi Tanaka, former Japanese Deputy Minister for Foreign Affairs and Senior Fellow, Japan Centre for International Exchange

When I visited Ireland, I spoke about North Korea, and the Irish Times carried a headline the following day reporting that I felt a sense of defeat. In fact, I think the international community as a whole should share the same sense of defeat.

If you look back, North Korea has had nuclear ambitions for over 15 years. In 1989, US intelligence agencies and others became worried about its nuclear ambitions, and efforts were made to involve North Korea in nuclear talks. All of the countries tried very hard to stop North Korea from going nuclear, and in 1994, North Korea accepted the Agreed Framework with the United States along with the creation of a new organisation, the Korean Energy Development Organization (KEDO). South Korea

began to pursue the Sunshine Policy, and by the end of the 1990s, President Bill Clinton almost went to Pyongyang.

In September 2002, Prime Minister Junichiro Koizumi went to Pyongyang and both countries issued the Pyongyang Declaration. I prepared for the visit, secretly negotiating with North Koreans face-to-face through 25 weekend meetings in a year, almost twice a month. I spent the whole year face-to-face with North Koreans trying to get the abductees back to Japan.

Before I initiated the negotiations, I talked with Mr Koizumi for over an hour, and we focused on how we could create the possibility of future peace in the region by dealing with various issues, including the abductions, missiles and the nuclear issue.

At that time, North Korea more or less agreed to the formation of the Six-Party Talks. The actual agreement came later, but we were almost in agreement on establishing a multilateral consensus to deal with the question of nuclear weapons. Then, in September 2005, the Six-Party Talks produced a joint statement on North Korea abandoning its nuclear weapons programme. But now we have had a nuclear test.

Reaching a deal over North Korea

Over the past 15 years, we have done a great deal to stop North Korea from obtaining a nuclear capability, but all our efforts failed. It is increasingly recognised that this will cause grave damage to the international community. This will undermine the Nuclear Non-Proliferation Treaty (NPT) system as a whole, and Europe must be aware of this. This is not just a question for Asia; it is an issue of great concern to the European Union as a whole. This is not just the failure of the NPT system; it will clearly have an impact on the question of Iran.

Why have we failed? The answer is quite clear in my mind. It is because of a lack of solidarity on the part of the international community. There were diverging interests and considerable differences between countries in the region, both among the countries concerned and within the countries concerned – the United States, Japan, South Korea, China and Russia. That benefited North Korea and permitted it to pursue various options. Therefore, what we need to be doing in the future is also quite clear.

I would like to talk about four essential policies to deal with North Korea. The first is solidarity among the international community. There are still differences within and among countries, but now there needs to be absolute solidarity among the nations concerned, particularly the other five countries in the Six-Party Talks. So far, solidarity has been maintained and it is good to see the strong United Nations' resolutions on the missile launch and on the nuclear test.

The second point is that we must make it clear that we cannot coexist with a nuclear North Korea. People speculate that there might be differences between the countries concerned on this point. They speculate that the US is concerned with one thing: the transfer of nuclear materials outside of North Korea to terrorists. They say that such a transfer might be the American 'red line'.

Some people argue that the South Koreans think that the Korean Peninsula will ultimately be unified and, in this context, nuclear weapons may make sense. Some argue that China should prefer a nuclear North Korea to the collapse of the North Korean regime. Some even argue that with a nuclear North Korea, Japan can find a good excuse to go nuclear itself.

Maintaining regional stability

All of these are wrong. There is a need for a clear consensus in the region that a North Korean nuclear capability will seriously damage the stability in East Asia given the nature of the North Korean regime. Also, this will be very harmful to the NPT regime as a whole; therefore there needs to be a very clear bottom line that we cannot coexist with a nuclear North Korea.

Third, we must be prepared for a regional contingency. Having negotiated with North Korea for one year prior to the prime minister's trip to the country in 2002, and having observed the North Koreans for the past 20 years, I do not believe we can be too optimistic.

North Korean government leaders make all of their decisions by resorting to battlefield tactics and they make many miscalculations. They do not fit in well – they are isolated, they are terribly suspicious of the outside world and they feel that everything comes down to power. Preparation for contingencies does create deterrence.

In the first nuclear crisis of 1994, I was involved in contingency planning in the Japanese foreign ministry. We were working closely with the United Nations in designing sanctions to apply to North Korea. The North Koreans immediately declared that the implementation of sanctions would be tantamount to a declaration of war, so we started preparing to bring US fighter aircraft to Japan and we searched for places where they could be stationed.

At that time, we estimated that 250,000 North Korean refugees were likely to come to Japan and through this whole process, we found that there was no legal basis in Japan to prepare for this. This is the reason why we later worked so hard for the revision of the US-Japan Defence Cooperation Guidelines and enacted various laws. So now, it is important that we do not let North Koreans underestimate the strength of Japan, of the US and of the other countries in the region. We must be prepared for a regional contingency.

The need for concrete negotiations

Fourth, we need negotiations. We talk about dialogue and pressure in foreign policy all the time and, in this case, the US must be prepared to pursue very serious negotiations with North Korea. The American policy-making process is very competitive, and in the US there are too many differences in terms of policy towards North Korea. One side says: "Why should we negotiate with a rogue state?" and the other side says that a war on the Korean peninsula is too costly and therefore there is no option left but to negotiate with North Korea.

There is no clear policy because the US priority is somewhere else: the Middle East. Only when Washington prioritises North Korea will it come up with a unified policy; a strong policy. We will have to make sure that very serious negotiations take place under the umbrella of the Six-Party Talks.

So these are all key: 1) solidarity; 2) the bottom line being that we cannot tolerate nuclear weapons; 3) preparations for regional contingencies; and 4) negotiations. This is the only way for us to reach a satisfactory solution to the current situation.

And this is going to be a very long and painful process, what with the sanctions issue, with the Six-Party Talks and with serious negotiations. This is not going to be something we can solve in a year or two. So we cannot be too optimistic, but we may be able to find a way to resolve this, if all of the countries involved make serious efforts on these points.

Prime Minister Abe is known for his hawkish policy toward North Korea. Prime Minister Koizumi pursued what we called a "comprehensive settlement" policy, which sought to resolve a variety of issues such as nuclear weapons, missiles and abductions in a comprehensive way, not in a piecemeal fashion. Prime Minister Abe used to argue for a much tougher policy and much stronger pressure on North Korea, while I was painted as the person who was pursuing an appeasement policy. He has ended up as prime minister; I ended up having a time bomb planted at my house. (Luckily, it did not explode and that is why I am here.)

All the same, he is now the prime minister of Japan and I am sure he understands the complex background to this and is committed to pursuing a viable policy.

Chinese-Japanese relations

Now, let me talk about China, which is a long-term issue. People say that the Japan-China relationship is deteriorating just because the prime minister has been going to the Yasukuni Shrine. My answer is that: “No, it is not just the question of Yasukuni, but we are going through a fundamental structural change in our relationship.”

Nobody had expected that China would grow by an average of 9.5% annually over the last 25 years: the World Bank predicted 5-6% growth. China will become the world's second largest economy in ten years.

But remember this: Chinese growth is unprecedented in two ways. First, when Japan or the US grew rapidly, their respective populations were under 100 million people. And we did this while energy was relatively plentiful. Now, China is growing with a massive population and at a time when energy is becoming increasingly scarce. This is unprecedented.

Second, China's growth is coming in the context of the international community. Trade and foreign investment contributes a great deal to its growth, so we are all benefiting from Chinese growth.

Having said that, we should remember that China will face huge problems. Three points in particular are important.

One is political freedom. Ten years ago, we argued that GDP growth has to bring political freedom, and there are now signs of this. In April 2005, there were huge demonstrations against Japan in China. These started with 500 people, but within two hours had reached 50,000.

Why did this happen? Because mobile telephones and the Internet have now made it very easy for the Chinese to engage in mass movements. The Chinese government is faced with a huge increase in the number of demonstrations, and this is very dangerous for it because anti-Japanese demonstrations can lead to anti-government demonstrations. This is why the central government has sent officials to the provinces to explain the importance of Sino-Japanese relations.

This is a double-edged sword, and this political freedom is going to be something that the Chinese government has to think about very carefully.

The second is the issue of income disparities. There is a 1:3 disparity between rural and urban areas, and there is a 1:10 disparity between inland and coastal regions. These huge income disparities can lead to a problem.

The third is the question of energy and the environment. Chinese energy efficiency is only one-tenth of Japan's, at a time when energy is very scarce and as there are growing environmental problems in China.

This is the background against which the political relationship between Japan and China is developing. It has been over 60 years since Japan and China were at war, and there are critical structural changes taking place in the relationship. There are three basic elements to this.

The first element involves economic issues. In the 1970s and the 1980s – and even into the 1990s – we felt that Japan was the world's second largest economy and that China was a poor developing country. But now we see, on our doorstep, huge growth in China. At the same time, the Japanese economy has experienced setbacks and, to some extent, is dependent upon China. Now, the Japanese trade relationship with China is our most extensive trade relationship, surpassing that with the US.

A 'psychological shift'

The second involves the psychological changes that have been taking place. For the past decade, Japan has been somehow moving towards becoming a more 'normal country'. With the transformation of the

defence guidelines, we substantiated a new security policy. We have seen the Japanese contribution to counter-terrorism and the dispatch of Self Defence Forces to the Indian Ocean and to Iraq. So people have started to wonder: “Why should we be haunted by the past?”

This does not mean we can forget the Japanese atrocities that were carried out in China or in Korea. But after all these years, we have come to feel that we want to talk about the future and how Japan can make a contribution to the world. Japan has had significant achievements, as a fully-fledged democracy and a peace-loving nation. So some people are asking: “Why should we constantly face criticism from China and Korea?” It is crucial to understand that there is a psychological change taking place.

I was born in 1947. None of the people who are at the core of the Japanese government – Prime Minister Abe is now 52 years old – have first-hand knowledge of the war, and they are much more future-oriented.

Indeed, Prime Minister Koizumi himself was very instrumental in promoting this sort of psychological shift. I sat in on all of the bilateral summits he had with President Bush, and I never heard Mr Bush put any pressure on us. Prime Minister Koizumi always said: “Don’t talk about the Self Defence Forces. I am the one to make that decision.”

The third element is political change within Japan. Prime Minister Koizumi was determined to pursue political and economic reform, and when you do this you cannot rely on the vested interest groups. The interest groups in the governing Liberal Democratic Party (LDP) were continually demanding the maintenance of vested interests, so Koizumi realised that he could not rely on party politics to advance reform. Instead, he decided to rely upon public opinion.

But his strength was not in following public opinion; his strength was in changing public opinion and being able to win elections. All of the LDP faction members felt that Koizumi could defeat them in any election. Even in the debate over postal reform, the people who were dependent on the support of the postal union had to change their positions and follow the prime minister.

Koizumi was not a populist. Rather, he demonstrated his strength through his ability to change public opinion. I am not entirely sure that Japanese politics will follow suit in the future, although some politicians have misunderstood what he did and are becoming more populist.

These are some of the elements shaping the Japan-China relationship. In the past, in Japan, Japan-China relations were run by the Tanaka faction, the main faction in the LDP. Prime Minister Kakuei Tanaka was the one who formalised the relationship with China, and his faction continued to strongly advocate friendship between Japan and China.

Japan – political changes

However, Prime Minister Koizumi destroyed the old ‘faction’ politics. Now, there is no major faction or politician in the Japanese political scene who prominently advocates Japan-China friendship.

So with all of these structural challenges, what should we be doing? We need to create a great power relationship, not the relationship between an advanced nation and a poor developing nation, with China focusing on the real issues.

Forging a great power relationship between Japan and China will benefit the relationship as a whole. We need to begin by dealing with three basic issues.

One is the question of history. The Japanese committed atrocities and there is no question about this. We waged war against China, and we colonised the Korean Peninsula for 36 years. We should not forget this, but we cannot be haunted by it forever.

There should be an agreement to stop politicising historical issues. Politicians should observe basic rules in how they carry themselves, and yet history needs to be kept in the right place. And, of course, this question of history is a double-edged sword for Chinese government officials.

The second point is about security policy. China will become the second largest economy in the world, and there will need to be more transparency in China's security policy. China maintains that Japan's security policy is not transparent either. Therefore, we should establish some way of creating mutual transparency.

Third, we need real, straightforward cooperation between Japan and China on energy and the environment.

These are the real issues and, if we fail to address them, both China and Japan will regret this. We are dependent upon China, China is dependent upon Japan and regional cooperation is needed.

East Asia community building cannot be advanced with the China-Japan relationship in its current state, so Prime Minister Abe will have to push for the betterment of the relationship, addressing long-term issues with China and talking about these questions in a comprehensive way. This will undoubtedly pave the way for much stronger cooperation in Asia in the form of an East Asia community.

Japan can be a leader, but to be a leader it has to talk about a vision. Japan can demonstrate 50 years of past achievement: it does not have much income disparity and it has been successful in its energy policy. It can be a model in East Asia. I very much hope that the prime minister will consider all of this in a strategic fashion and pursue this type of policy.

IV. Life after Thaksin: is Thailand lost in transition?

December 12 2006: While ‘a coup is always a coup’ the political situation in Thailand had made one inevitable, and it had been warmly welcomed by most of the Thai population. Despite positives steps to restore democracy within a year, there is concern that the coup could provide other regimes in the region with a justification for military might, particularly as parts of the country are still under military law.

Event report

Dr Surin Pitsuwan, former Thai Minister of Foreign Affairs, member of the National Legislative Assembly and Deputy Leader of the Democratic Party, argued that while democracy in Thailand had not been “lost in transition”, it had certainly been “taking a break”, since the country had recently been “hijacked in the wrong direction”.

During the coup, the media accused Dr Pitsuwan of failing to live up to his reputation as a “small d” democrat, because of his support for the coup. While he acknowledged that “a coup is always a coup”, he justified his stance on a number of grounds.

Over the last six years, democracy in Thailand had been centralised round one person, and one clique. Civil liberties had been contained, the media intimidated and the government bureaucracy politicised. The system of checks and balances had disappeared as the constitutional body was filled with people who toed the line, so by 19 September 2006 (the date of the coup), little democracy was left in the country.

Unfortunately, he said, Thailand had taken the path of other emerging democracies such as Venezuela, Nicaragua or Russia, where the population felt under pressure from globalisation and believed that strong leadership would protect them and their livelihoods.

Thaksin’s government had played on this fear, using a strong “dose of nationalism”, and populism, sustaining its support through corruption and taking a very authoritarian line, stamping out opposition in parliament, sidelining environmentalists and silencing journalists.

Strong national support for the coup

For all these reasons, 85-90% of the Thai people had supported the coup. Now there was domestic and international agreement that the country must return to democracy within a year.

Dr Pitsuwan admitted that the road to democracy would not be easy, but pointed out that a new Constitution was being drawn up to ensure parliamentary democracy and keep the monarchy secure.

The approach to politics over the last six years had been authoritarian, populist, materialist, noisy and aggressive, supporting those who wanted to make money. This contrasted with the normal Thai approach, as embodied by “their idol” – the king – which encouraged people to live within their means and to be very “Buddhist, Eastern, moral and ethical”.

The battle for Thailand over the last two years, had not taken place in the streets, but in the psyche of the Thai people. In the end, the people chose the style symbolised by their king, who had “led from behind” for the last 60 years.

Turning to the violence in southern Thailand, the former Foreign Minister acknowledged that more than 2,000 people had been killed since 2004 amid ethnic tension, suspected drug trafficking, and the breakdown of law and order. Dr Pitsuwan believed that the centralisation of power was partly to blame for the police’s freedom to act with impunity.

To the outside world, it might seem that Thailand was lost in transition, but from the Thai viewpoint, it was a necessary and corrective coup. There had been “no other way to stop the train running at high speed that was going to wreck everything”, he said.

The country was now working on its Constitution, and opening up to democracy, and although this was a struggle, it was still way ahead of many other countries in the region.

Moving towards democracy

H.E. Don Pramudwinai, Ambassador of the Kingdom of Thailand to Belgium, Luxembourg and the European Communities, supported Dr Pitsuwan’s view that the coup had been the only way out of the situation.

He said that people’s support for the coup had been reflected in their reaction to the soldiers a day afterwards, when they gave them flowers and food. Independent polls also indicated that people supported the coup.

Thailand was asking for understanding from people in Europe, said the Ambassador. The coup leaders had agreed that they would return the country to democracy within a year and had kept to the schedule so far: they have appointed a Prime Minister, a Cabinet, a national legislative assembly and the people’s national assembly. They are taking steps to draft the Constitution, and still have 108 days left to finish the job. The Ambassador said that while there may be many different forms of democracy, the Thai people were working towards parliamentary democracy.

Tomas Gnocchi, Desk Officer for Thailand, Cambodia and Uprooted People in Asia, South East Asia Unit, DG External Relations, European Commission, said his department had been monitoring developments closely since the coup and hoped that the period of transition would be used to correct some of the deficiencies in the previous system.

The ultimate goal was to embark on a new level of democracy with stable institutions. While Mr Gnocchi welcomed the lifting of martial law in some parts of the country, he believed that if it were lifted entirely, this would send a signal that the rule of law had returned to the country, help to build a strong economy and encourage investors.

Turning to EU-Thai relations, Mr Gnocchi said that as a “heavyweight” in the Association of Southeast Asian Nations (ASEAN), Thailand was an important political partner for the EU.

It is also an important EU trading partner. Two years ago, the EU and Thailand embarked on a Partnership and Cooperation Agreement (PCA), which would strengthen relations. However, it would not be possible to conclude this agreement until Thailand had a democratically-elected government in place, but the EU looked forward to doing “serious business” with Thailand.

Mr Gnocchi said the Commission was “quite concerned” about events in southern Thailand, where it was appropriate to describe the situation as “out of control”, and welcomed the less confrontational approach taken by the new government. He said the EU was willing to offer assistance to the Thai authorities in the region.

The coup – setting a bad example?

David Fouquet, Director, Asia-Europe Project, said there was not much tolerance for the military government and agreed that the country’s problems should be solved by the Thai people themselves.

Mr Fouquet said the military dictatorship in Burma (Myanmar) had initially cited the Thai coup as evidence of an evolution of the government process in the region. While the Burmese junta had later abandoned this approach, he felt that the coup gave an unfortunate example to other countries, such as the Philippines and Indonesia, which are going through a transition process. He also saw the fact that the Thai military budget had been increased by over 30% last week as an “unfortunate sign”.

Mr Fouquet said he was “watchful” of the Constitutional drafting process, and the evolution of institutional relationships within Thailand because of the example it gives to other countries in the region. Here, he noted that the press continues to be outspoken, commenting on the dissent within the country.

Mr Fouquet concluded by saying there were many lessons to be drawn from what was happening in Thailand.

Discussion

Asked what previous governments had done to help the rural poor, Dr Pitsuwan said that when the democratic parties were in power between 1997 and 2001, the country had been in a “shambles” and they had had to deal with the aftermath of the Asian financial crisis. Nevertheless, they had given money to rural areas. He was critical of Thaksin’s populist policies, warning that they could lead the country to ruin, with 300,000 small farmers now unable to repay loans from the previous government.

Responding to a question about EU-Thailand trade relations, Mr Gnocchi said the Council would adopt a mandate to start negotiations on a free trade agreement in the next few months. However, the precursor for this is the Partnership and Cooperation Agreement, which contains democracy and human rights clauses, and cannot be signed until Thailand has a democratically elected government.

Nevertheless, because of the time-scale for establishing a trade agreement, it is likely that democracy will have been restored by the time that the trade agreement is completed.

Ambassador Pramudwinai stressed that democracy was “not a text book theory” and could not be disassociated from reality. He also pointed out that martial law had been lifted in some provinces and the media now enjoyed more freedom.

Asked about Thailand’s trade exports, Dr Pitsuwan said it was moving into producing higher-quality goods, such as high fashion in textiles and motor and computer parts.

Pressed on how Thaksin had managed to win such an overwhelming victory at the last elections, Dr Pitsuwan said Thaksin had paid bribes and controlled much of the media, including giving a weekly television broadcast.

Keynote speech: Democracy under siege in Thailand and its implications for emerging democracies under pressure of globalisation

By Surin Pitsuwan, former Thai Minister of Foreign Affairs, member of the National Legislative Assembly and Deputy Leader of the Democratic Party

Introduction

Thank you for your concern about the fate of democracy in Thailand. I want to assure you that we are doing everything possible to make sure that the country will return to the democratic path as soon as possible, and that the interim period will be as short and as painless as possible.

As you are all aware, Thailand was struggling to climb out of the depths of the 1997 Financial Crisis when Mr Shinawatra Thaksin emerged on the scene as a formidable political choice for the beleaguered Thais. It was a time when the nation had lost its self-confidence, unsure of its own place in the world and uncertain about its future. Under such circumstances, the people were very attracted to a visionary, strong and populist form of leadership.

Thailand’s ongoing political process can be placed within the broader understanding of globalisation and its interactions with emerging polities. I would like to argue that newly emerging democracies like Thailand, the Philippines and Indonesia are increasingly challenged and shaped by processes

beyond their borders, and by factors that are beyond the control of their own institutions, regardless of how effective or institutionalised they are. It is this complex interplay of influences through globalisation that informs the politics of countries in the region, raising questions about the nature of democracy itself.

Emerging democracies and globalisation

I would like to posit that the forces of globalisation have challenged and had an impact on emerging democracies. As a concept, democracy was developed centuries ago and its earliest proponents conceived it within the framework of the nation state and its various levels. However, with globalisation the nation state is no longer the final level of analysis, as processes outside increasingly impact on the people themselves within these nation states.

Numerous pressures: rising competition, insecurity, alienation and anxiety are having an impact on societies at both the individual and institutional level. Responses to these pressures have been varied. The Middle East, for instance, has moved towards greater conservatism with religion claiming more cultural and political space. In emerging democracies, on the other hand, the reaction so far has been marked by a sense of confusion and uncertainty. The ongoing political process in Thailand, I would argue, brings out the complexity of this situation.

The Thai experiences in dealing with globalisation

The rise of Shinawatra Thaksin, it must be observed, had much to do with the context in which it occurred: the Asian financial Crisis had cast its gloom over the country, with people exposed to the vulnerabilities of a globalised economy, uncertain if the democratic system would truly address their problems. The context was ripe for the rise of a strong personality who could claim leadership, confidence, vision and charisma. The coming together of these factors helped the rise of Thaksin as Thailand's leading political figure.

Accompanying the rise of this leadership was the rise of populism. The pressing need for immediate solutions for ordinary Thai citizens meant that the more abstract ideas of freedom, rights, and civic virtues were no longer their clear priority. The government thus undertook a range of populist policies and programmes, such as the 'One million baht per village', the 'Thirty baht per visit stipend for hospital visits' and easy credit, among others. Populism appealed to the masses, while strengthening the position of the leader at the same time.

The campaign against drug use, known popularly and approvingly as 'The War on Drugs', which left over 2,500 people dead or missing, was part of this move towards populism. The campaign has been marked by an excessive abuse of power by authorities and a disregard for rights and civil liberties and the due process of law.

The abuses extended to the southern provinces where between 300 and 400 people were killed during the anti-drugs campaign, and this only exacerbated existing problems. There were already other problems in the South: injustices at the hand of the government officials abound, endemic economic deprivation and the force of separatism. The abuse of power in the form of 'extra-judicial killings', that occurred during the war on drugs led to the explosion of violence during an ethnic insurgence against the government in Bangkok. The on-going violent conflict in the South is another consequence of misplaced, misdirected populism.

In fact, the abuse was at a sufficiently high level to lead the King to admonish the government for the campaign, which, despite this, remained very popular among the masses. Neither most members of the population nor the media paid any attention when they were reminded that the country was losing the principle of the rule of law, as they preferred to see their problems fixed, by all necessary means, including extra-judicial and extra-constitutional ones.

Thaksin's government had used populism very effectively to win support in the countryside, but his curtailing of civil liberties lost him credibility among the urban middle classes who felt deprived of their 'non-material'

needs of recognition and participation. Thaksin's claim that he had the support of 16 million votes rang hollow with this section of the population which was unhappy with his autocratic style.

Further, this political impasse could not be solved by political and constitutional mechanisms as several institutions had been corrupted under this government. On the eve of the coup there was only a veneer of democracy left in Thailand, and the depth of dissatisfaction explains why the urban population in Bangkok consented to the coup.

This is definitely not an effort to justify the coup in Thailand, or to defend it. It is unjustifiable and indefensible. My purpose here is to explain all the reasons that had led us to this political impasse in Thailand.

Thailand's experience demonstrates the complications facing an emerging democracy where globalisation has bombarded democratic intuitions with various pressures from the outside.

Thaksin's leadership had reached such a great level of power that it soon began to expose its weaknesses through deep corruption, conflict of interests, controversial deals and the failure of its unsustainable populist programmes and schemes. Institutions and norms had been subverted to the extent that they challenged the very traditional values and institutions of society.

Thailand today and the democratic challenge

Pressures from globalisation will continue to impact on the emerging post-coup political process in Thailand. Problems inherited from previous governments persist: growing competition, interference from outside economic forces and investments, vulnerability of livelihoods, among others.

How the new leadership will deal with these challenges is a major problem for the country. The political foundation, institutions and values have been shaken to the core so it will take a lot of time to nurture those values and rebuild those institutions and to restore confidence in the system.

It remains to be seen whether the new Constitution can answer these problems more effectively than the one that has been abolished. The rising 'political undercurrents' that defied the power of the junta-installed government may result in further instability. Now that the coup has completed more than two months of its promised twelve-month life span, the Thai people are beginning to wonder about the speed and the direction of the democratic development. The 'unique' nature of the coup – both 'smooth' and widely supported – meant that it would have to realise the middle classes' numerous expectations.

Thailand will not be the last

Thailand is not an isolated case as other countries in the developing world are also encountering similar pressures and are responding in varied ways to globalisation. We should observe the ongoing politics in Russia, Venezuela and Nicaragua, among others. Most emerging democracies facing pressures from globalisation will remain attracted to strong and visionary leadership, and this throws open the possibility of autocrats consolidating power by subverting democratic institutions and establishing illiberal democracies.

The larger lessons

Let us then examine the possible 'lessons' that could be derived from Thailand's experience of mediating globalisation. First, new developing democracies must be careful about using populism to deal with problems. Once unleashed, populism is very difficult to hold back and indeed, the ultimate victims of its effects are those it claims to serve.

Second, governments should be careful not to ignore the needs of different sections of the population as they could become a formidable force in the political process, as the behaviour of the urban and rural population in Thailand has shown. Each exerted its own pressure on the political system and the result was

a divided polity. An agitated rural poor fell prey to populism and ushered in an authoritarian government bent on serving the rural power base to the point of alienating the urban middle class. Eventually the system broke down and democracy was interrupted.

Third, there should be a check on the growth of the politics of money as this can lead to corruption in the political system. This type of politics results in cronyism, populism, profiteering, and self-aggrandisement of the incumbent. It can survive only with greater corruption. It is ultimately unsustainable.

Fourth, strong leadership, populism, cronyism, conflict of interests, corruption and authoritarianism come in a package. A weakened democracy would not be able to sustain the attractions and the pressure of populism, which would eventually weaken the system of checks and balances and the constitutional curbs on the likely concentration of power. Eventually, the democratic system would lose its balance and would break down.

Finally, we must guard against the negative impact of globalisation on emerging democracies worldwide. Too much pressure to open up, to compete, to reorganise internal structures for the purpose of creating a 'level playing field' for multinational corporations would lead to a breakdown of the system. Care must be taken not to tip the democratic balance which is unique in every political system.

This is not to say that democracy is culture-specific, but its universal values manifest themselves in different ways in different societies. To nurture them, we must allow time and be willing to lend support when they falter, as in the case of Thailand.

V. China's 'rise': economic and social challenges

March 7 2007: China's rapid economic growth has prompted predictions that it will collapse or fears that it poses a threat to others. The level of mutual understanding between Europe and China is lagging behind the overall relationship, and Europeans should abandon their 'Europe-centric' mentality and take a 'calm attitude' towards competition from China. Outside pressure to speed up the process of political reform in China could also have disastrous consequences.

Event report

Zhaorong Mei, President of the Development Research Centre at the State Council of China and former Chinese Ambassador to Germany, stressed the importance of enhancing mutual understanding between the Chinese and Europeans, saying the current level of mutual understanding was "lagging behind" the overall relationship.

Ambassador Mei said China had sustained rapid growth for the last 25 years. Now its critics either predicted that the country would "collapse" or perceived it as a "threat". Beijing, however, describes its growth as "peaceful development".

He noted that many scholars referred to China's recent development as "national revitalisation" because, until the 1840s, the country had one of the world's strongest economies. At the end of 1978, Deng Xiaoping took the "historical decision" to introduce domestic reforms, cast aside the rigid system of the planned economy and open China up to the world.

Ambassador Mei said the national economy is growing at 9.6% per annum, and in 2006 China's GDP was \$2.6 trillion: the world's fourth largest. It is also the third largest economy in terms of the volume of imports and exports, and more than 550,000 foreign enterprises are operating in the country.

The standard of living rose by over 500% between 1978 and 2005, life expectancy has risen to 72, the number of people living in poverty has been reduced from 250 million to 23.65 million and an embryonic social security system is being set up.

The country's economy has been opened up, as it is now a member of the World Trade Organization, and Beijing has lowered the duty on industrial goods from 42% to 9%, and amended more than 3,000 laws and regulations.

China's path of political reform

The country is on a path of political reform, but this requires time, said Mr Mei, adding that China could not achieve in 30 years what took the West 300 years. China does not wish to duplicate Western models, and outside pressure to speed up its development could have disastrous consequences.

Despite its rapid development, China still has problems. It has a huge population, a weak economic foundation and, given the imbalance between urban and rural areas, 300 million peasants will migrate to the towns and cities in the next 20 years. China's *per capita* GDP is only \$2,000, and according to World Bank standards, 150 million people continue to live in poverty.

Mr Mei acknowledged that rapid economic growth had a high environmental cost. The government is therefore working to save energy, reduce consumption by 20%, and cut greenhouse gas emissions by 10% by 2010.

The government needed to improve agriculture and rural areas, and boost farmers' incomes, and enhance innovation to ensure that ordinary people benefit from China's economic growth. It is also

developing the small- and medium-sized enterprise sector, promoting a proactive employment policy, focusing on vocational education and training, and encouraging people to set up their own businesses.

The change to a market economy has placed additional burdens on people's ability to pay for education, healthcare and housing, so China plans to enhance the country's public services and promote social fairness and justice to build a "harmonious" society.

Mr Mei said China was now playing an increasingly global role. It wants the United Nations to have a stronger role, and has contributed to defusing the North Korea and Iran nuclear issues. In Africa, it has relieved the debt of a number of countries, particularly those with which it has diplomatic relations.

China's aim is to create a "harmonious" world with lasting peace and common prosperity and "win-win cooperation and coexistence", said Ambassador Mei, while the West now identifies the country as an economic 'competitor'.

Europeans should abandon their "Europe-centric" mentality and "adopt a calm attitude towards the competition from a developing country", as well as making themselves more competitive. Europe should avoid "countering competition with protectionism" because this approach goes nowhere.

Mr Mei said EU-China relations were generally in good shape, but he accepted that future relations would inevitably be accompanied by "frictions of interest". China hopes to build a partnership with Europe that will benefit them both.

Jan-Willem Blankert, Directorate-General for External Relations, Relations with China, European Commission, said descriptions of China today were similar to those of Charles Dickens' 19th century Britain. However, he believed that China's development would be much faster than in the West.

While he agreed that Chinese import tariffs had decreased after the country joined the WTO, non-tariff barriers were creeping in, costing EU business €21 billion in lost opportunities. While China has complained about EU trade barriers, it has a large trade surplus with the Union.

He wondered whether officials within the Commission and in the EU Member States had a more "rosy view" of the benefits of China's rise than ordinary people did. While the public had benefited from cheap Chinese goods and Western economies were better off thanks to the "China effect", there could be a backlash when people lost their jobs or their salaries were reduced because of Chinese competition.

The EU wants to engage with China, and this has already resulted in considerable EU-Chinese technical cooperation.

China's 'return'

Gudrun Wacker, Head of Asia Research at Stiftung Wissenschaft und Politik (SWP), believed the media overestimated China's strength. However, she agreed that Chinese growth was a return to the 1820s, when China and India had generated 50% of the global economy.

Looking at the issue of US-Chinese trade relations, she said the trade flows from Asia-Pacific to the US had actually remained the same, but there had been adjustments within the Asia-Pacific region, so these countries now export goods to China, which passed them on to the US. In addition, 60% of Chinese exports are generated by foreign companies and intra-company exchanges, particularly between China and Japan, are on the increase.

Turning to China's social problems, Dr Wacker there was a conflict between economic growth and maintaining social and environmental standards, as there was in many developing countries where growth was important. Although China introduced good legislation, public officials had no incentive to implement it, given

the emphasis placed on stimulating growth. The leadership had set environmental, health and education targets, but these were not being implemented.

On China's foreign policies, Dr Wacker said that many countries, particularly in Africa, welcome Chinese support as an alternative to the Western pattern of interfering in their development. While its policies on debt-relief were positive, China was also exporting some of its own problems – for example, the accidents in Chinese-run mines in Africa often mirrored the mining accidents in China itself.

While the Chinese leadership might be making efforts to achieve more sustainable development, these were not put into effect because of the pressure for growth and development.

Discussion

Asked how China was dealing with the problem of corrupt officials, Mr Mei said the leadership had prioritised the fight against corruption, and there were frequent media reports of officials being sacked. Unfortunately, the market economy had provided "grounds" for corruption, so fighting it was a long-term task.

Asked about cutting environmental pollution, Mr Mei said environmental pollution was a global issue and China wanted to cooperate with all countries, and the EU, to prevent climate change. China wanted to buy high technology products from the EU to help cut down pollution, provided the price was reasonable.

Europeans are used to judging Chinese problems from a European perspective, but they had had 300 years of industrialisation, and it takes time to solve these issues. Too much criticism in the European media would have a negative effect on the Chinese people.

Dr Wacker said there was a huge potential for energy efficiency and energy saving in China, and that there were some simple measures that would have an impact. China's current energy prices did not reflect the scarcity of resources.

Mr Blankert said the EU was discussing climate change with China, Russia and India, and he agreed that the Union should work more with China on this issue, as well as doing more itself to set environmental standards that matched its income level.

Asked about stimulating more domestic demand in China, Mr Mei said the central government was making efforts to encourage consumption, but this depended on buying Western technology to enable it to produce the consumer products. However, the US preferred to export its industrial products such as airplanes or "apples and beans" to China.

Dr Wacker said China had one of the highest savings rates in the world as people have to save money to pay for social security, health, their children's education and pensions. Without social safety nets, there would be no domestically-driven growth.

Asked about the Chinese political system, Mr Mei said China had a system of multi-party cooperation under the leadership of the Communist Party. In future, there might be greater democracy, but the system would be different from the European one.

Keynote speech: China's economic and social development: challenges and impacts

By Zhaorong Mei, President of the Development Research Centre at the State Council of China and former Chinese Ambassador to Germany

I myself have been long engaged in European affairs and I used to live in the east and west part of Germany for 25 years. I know full well how big the differences are between China and Europe in social and political

systems, in history, culture and tradition, in the level of economic development, in the geopolitical situation and in the way of thinking.

I know still more from my experience how important it is to enhance mutual understanding between the Chinese and European people. Since China and the European Economic Community established diplomatic relations in 1975, and in particular since China adopted the reform and opening-up policy, people-to-people exchange between China and Europe has become increasingly intensive, areas of bilateral cooperation have been constantly expanded, and both sides have come to know and understand each other much better. However, personally, I feel that the level of mutual understanding is still relatively low, compared to the depth of the overall relationship and its need for further development. Therefore I am most grateful that the European Policy Centre offers me this opportunity to talk about China.

Since early 1980s, China's economy has sustained rapid growth for 25 years on end. It has indeed attracted attention and now the whole world is talking about "the rise of China". More and more people have realised that China's development constitutes a positive contribution to the world economy and international peace, while there are also some people who have predicted that one day China might "collapse" due to so many problems that occur in the course of development. Still others have cooked up various arguments of a "China threat" based on their knowledge of historical conflicts triggered by the rise of big powers.

Most of us Chinese don't favour the use of the word "rise" to describe China's development. Rather, we believe it is more proper to use the phrase "peaceful development", because China's development is a long-term and progressive process. Even by the middle of this century, China will at best reach the level of a moderately developed country in *per capita* terms.

Quite a number of Chinese scholars describe China's development as "national revitalisation", because until the middle of the 18th Century, China's economic aggregate had always ranked among the highest in the world. China only began to decline sharply after the Opium War in 1840 because of the invasion of Western powers and the ludicrous conceit of the feudal rulers as well as the policy of closing China's door to the world.

History has taught Chinese people the lesson that once we lag behind we are vulnerable to attacks and bullies. At the end of 1978, the Chinese leadership represented by Deng Xiaoping summed up both positive and negative experience learned since the founding of the People's Republic of China, and made the historic decision to take up domestic reform and open up to the outside world, and resolutely cast away the rigid system of planned economy.

The leaders took reference, making use of Western experience on the basis of China's national conditions, steering the country along the path of achieving the four modernisations and building socialism with Chinese characteristics. For the past 27 years, China has made great achievements in reform, opening-up efforts and development.

Chinese growth

First, the national economy has been growing at an annual rate of 9.6%. In 2006 China's GDP amounted to 2.6 trillion US dollars, ranking the fourth in the world. National grain yield increased from 300 million tons in 1978 to 480 million tons in 2005. China has managed to keep 22% of world population with a mere 7% of world farmland.

In 2006 the volume of import and export trade was \$1.7 trillion and with that China leapt to the third place in the world. The structure of exported goods has enjoyed distinct improvement with manufactured products taking up 95% of the total volume of export. By the end of 2006, China had around \$700 billion of accumulated paid-in investment, standing in the first place among developing countries. More than 550,000 foreign enterprises have been attracted to start businesses in China.

Second, the level of people's material and cultural life has been raised considerably. From 1978 to 2005, the annual incomes for urban and rural residents have grown 5.1 and 5.2 times respectively and the

per capita housing areas have respectively increased from 6.7 to 25 square meters and 8.1 to 29.7 square meters.

The national average life-span is 72 years-old, a big rise from 35 years-old in 1949. The system of nine years of compulsory education has been widely spread. In particular, poor children in rural areas can now go to school free of charge. The number of people living in poverty has been reduced from 250 million to 23.65 million. According to the assessment by the World Bank, in the last 20 years, the number of people alleviated from poverty in China made up 75% of the total number in all developing countries.

In 2006 the agricultural tax which had lasted for more than 2,000 years was abrogated and farmers got tangible benefits. A social security system covering both urban and rural residents is gradually being set up. Since 2001, the annual growth rate of fiscal expenditure in social insurance has stayed at more than 15%.

Third, there have been great changes in all-round opening-up efforts. Upon entry into the WTO, China extended the traditional trade in goods to trade in services and has fulfilled its commitment earnestly. The duty for industrial goods was lowered to 9% in 2005 from 42.9% (before China became a WTO member). The duty for agricultural products was reduced from 54% to 15.3%. One hundred service sectors and sub-sectors have been opened. Around 3,000 pieces of law, regulations and department rules have been reviewed and amended.

Principles advocated by the WTO such as 'transparency' and 'non-discrimination' have become the principled basis for legislation in China. Conditions for market access have become more transparent and standardised. The ideas and consciousness of competition, development, rule of law and intellectual property have become more and more deeply rooted among the people. Modern enterprise systems and accounting systems are being established step-by-step. More than 50 countries have recognised China's market economy status.

Political reforms

Fourth, reform of the political system is progressively moving forward in China across-the-board. In the next five years, China will give priority to the administrative system reform, speed up the transformation of government functions, build a responsible and service-oriented government based on the rule of law, reduce direct government interventions in resource allocation and micro-economic operation, strengthen government functions in providing public goods and services, and establish and improve the macro-control system dominated by indirect regulation.

Frankly, it is still a hard task of reform and development to push forward the socialist democratic politics and build a socialist state based on rule of law. China's reform of the political system requires time. China can by no means fulfill in less than 30 years' time what the West achieved through 300 years' development, let alone keep its own characteristics and not duplicate that of Western countries.

In his book *Powers of the Future* former German Chancellor Helmut Schmidt wrote: "I believe that the political stability guaranteed by its current system is appropriate, is even beneficial for the Chinese people and for China's neighbours. China's authoritarian political culture will probably evolve as the market economy develops and as a result of the country's opening to the world. It witnessed tremendous changes under Deng Xiaoping's leadership. Today, the Chinese people enjoy greater freedom at home than during any period in the nation's history. We should give China time to develop further. Any serious political attempt to accelerate the process by applying external political pressure will not generate positive results. On the contrary, it could incur disastrous consequences." The above exposition by Mr. Schmidt demonstrates a Western statesman's deep understanding of China's history, present situation and prospect for development.

Although we have chosen the right path to development and taken the right policy of reform and opening up, it would be a one-sided view to regard the achievements I have just mentioned as the whole picture of China's reality. The equally indisputable facts are that the big population, weak economic foundation,

generally under-developed productivity and imbalances between regions and between urban and rural areas still remain China's basic national conditions.

China will remain a developing country for a considerably long time. An evaluation of China's development should not be based simply on the economic aggregate and the growth rate. Neither should the coastal regions and cities in the east be viewed as a standard for judgment. Only by taking into account the population of 1.3 billion, the central and western regions and the vast rural areas, can we come to a comprehensive and objective conclusion.

Economic development

China's current *per capita* GDP is only \$2,000, below the 100th place in the world. Even if by 2020, China's *per capita* GDP did approach \$4,500 as anticipated, it would still lag behind the 1999 average level of \$4,900 in the world's mid-income countries. All over China there are more than 23 million people living below the poverty line. In addition, more than 50 million people who have just been alleviated from poverty are still in an unstable condition. According to the World Bank standard of less than \$1 daily consumption, the number of impoverished people in China stands as high as 150 million. Apart from all that, China has more than 82 million handicapped people who are in need of special concern and care. This number almost equals the total population in Germany.

Furthermore, China's industrialisation and urbanisation are not yet completed. It is expected that China's urbanisation level will reach just 47% by 2010. The transformation from the urban-rural dual economic structure to a modern economic mix still constitutes a big challenge. The proportion of China's rural labour to total employment is not only much higher than those in industrialised countries but also above those in some developing countries. It is estimated that 300 million people will migrate from the rural areas within the coming two decades. Every year, the urban population will increase by around 10 million and nearly 24 million will be looking for employment.

Confronting future challenges

In the next ten years China will be confronted with a series of difficulties and problems. Most importantly, there is a great imbalance in the economic structure and the growth model is still extensive in nature; the environmental and resource cost is too high; the ability of independent innovation is fairly low; the product competitiveness is not strong; and the gap between urban and rural areas and between regions is huge. Meanwhile, with the market-oriented reform in education, health care and housing systems, the ordinary people will have heavier economic burdens. Various social contradictions might, if not properly tackled, lead to social turbulence. Even though these are all problems in the course of development and the developed countries in the West all had this kind of experience in their 300 years' industrialisation process, it is more difficult for China to solve all these problems given that China is far larger than European countries.

In view of these existing problems and challenges, the Chinese government has worked out a series of countering policies and measures, using a scientific development outlook as its guideline and building a harmonious society as its goal.

In economic terms, the first thing is to enable the economy to develop well and fast. We should both maintain a stable, fast economic growth and improve the quality and efficiency of that growth. Therefore it is necessary to put effort into optimising the economic structure and transforming the pattern of growth.

Secondly, save energy and reduce energy consumption as well as emission of pollutants. The aim is to build a resource-saving and environment-friendly society. The current level of China's energy consumption per GDP unit is 2.4 times higher than the world average level and 4.9 times higher than EU's average. In its 11th Five Year Plan for National Economic and Social Development, the Chinese government laid out that by 2010 the energy consumption per GDP unit will be reduced by 20% and the emission of major pollutants by 10%. The comprehensive utilisation ratio of industrial solid waste will be lifted to 60% and the forest coverage will rise from 18.2% to 20%

Thirdly, continue the focus on agriculture, rural areas and farmers. Major efforts include supporting agricultural development, boosting rural economy and increasing farmers' income. While developing modernised agriculture, we would guide the surplus rural labour forces to be transferred in order and create a market environment where both urban and rural labor forces enjoy equal opportunities of employment.

Fourthly, enhance the capabilities of independent innovation. Even though products 'Made in China' are sold throughout the world today, they bring only meager profits. In order to buy an Airbus 380 China must export 800 million shirts. In 2006, 35% of China's GDP was contributed by foreign trade surplus but most of it was created by foreign-invested enterprises. Quite a part of China's economic growth was not actually enjoyed by Chinese people.

In the aspect of social development, the priority is to enhance public service and promote social fairness and justice. We will adopt a proactive employment policy and develop the service sector as well as medium-and-small sized enterprises which could provide more jobs. We will continue to focus on education to ensure that the people have equal opportunities to be well educated.

We will strengthen vocational education and skill training and encourage people to set up their own business. We will exert our effort to improve social security and health care systems. We will push forward the reform of income allocation system and endeavour to relax the trend of the widening gap in income allocation in order to progressively realise common prosperity.

China's development not only concerns China herself, but also has an impact on the world. It is understandable that people follow closely the orientation of China's future development and the way it will use its growing overall national strength. I would like to make a few points here in this regard.

First, Chinese development in itself constitutes a great contribution to world peace, stability and development. It is also a useful experience for the evolution of society that a big oriental country of 9.6 million square kilometers with 1.3 billion people could, after winning political independence, find a path to development based on its national conditions, and where more than one fifth of the world's population live a prosperous and contented life and are gradually being lifted out of poverty and backwardness.

Its great significance can not be overestimated. Just think, if China remained weak and poor for a long time what would be the consequences for her surrounding countries or developed European countries? Probably, it is not hard for you to imagine.

Second, the fact that China conforms to the trend of economic globalisation means that it has benefited from international cooperation, but in turn it also offers great business opportunities and real profits to her partners. Since 1978, China has contributed more than 10% of world economic growth and more than 12% of the increase in international trade. The year 2006 saw China's import value of \$800 billion and about 10 million new jobs created for relevant countries and regions. The export of cheap and good Chinese commodities not only gives consumers more choice and brings them real benefits but also relieves the pressure of inflation. From 1990 to 2005, foreign-invested enterprises in China remitted \$280 billion worth of profits. These figures can well make the point.

Third, China makes an effort to participate in the formulation and improvement of international rules. China is a positive participator, defender and constructor of the international system and faithfully implements her due obligations. We abide by the purposes and principles enshrined in the UN Charter, advocate for a strengthened role of the UN and support the UN reform. We are firmly opposed to the proliferation of Weapons of Mass Destruction and their means of delivery and have played an important role in the effort to properly handle the Democratic People's Republic of Korea (DPRK) and Iran nuclear issues. In particular, we have contributed to the resumption of Six-Party Talks which achieved progress.

We take an active part in international trade and economic cooperation. During the Asian financial crisis in 1997, we kept to the decision not to devalue the RMB and helped to tide our neighbours over the crisis.

We faithfully implement our commitment to the WTO, join the Doha Round with great sincerity, oppose trade protectionism and push forward the world-wide liberalisation of trade and investment. We conduct energy dialogues and cooperation with all countries, seeking concerted efforts to maintain the stability of the global energy market. We have ratified a great majority of international covenants concerning environmental protection such as the UN Framework Convention on Climate Change, the Kyoto Protocol and the Convention on Biological Diversity.

We have actively provided international aid to the full extent of our capability and contributed to realising the UN Millennium Development Goals. The assistance we provided to countries hit by the earthquake and tsunami in the Indian Ocean was our largest in scale since the founding of the new China, with government aid and public donation worth more than 1.2 billion RMB Yuan. Over the past 3 years, China has cancelled 10.5 billion RMB Yuan worth of debt for 31 African countries.

At the 2006 Beijing Summit of the Forum on China-Africa Cooperation, the Chinese government declared that eight steps would be taken to boost China-Africa cooperation. One step is to cancel debt in the form of all the interest-free government loans that matured at the end of 2005 owed by the Heavily-Indebted Poor Countries and the Least Developed Countries in Africa that have diplomatic relations with China. China endorses the build-up of democratic politics in developing countries but does not impose her own will on others, still less interferes in the internal affairs of other countries.

Peaceful development

Fourth, China sticks to the path of peaceful development and is committed to the construction of a harmonious world with lasting peace and common prosperity. The path of peaceful development means that on the one hand we will strive for a peaceful environment to develop ourselves and on the other promote world peace with our development. In order to build a harmonious world, we energetically advocate for mutual trust, win-win cooperation and coexistence and promote common progress of different civilisations.

We uphold respect for diversity of the world and recognise differences among countries in their cultures, traditions, social systems, values and paths to development. We maintain that international disputes be settled through peaceful consultation and negotiation based on the principles of equality and mutual benefit and strive for win-win results by way of seeking common ground while reserving differences. The idea of a harmonious world stems from the traditional Chinese thinking of “cherishing harmony”.

It is also in keeping with the principles of “peaceful coexistence” initiated by China in the 1950s. In Chinese, “harmony” reads like “he xie”. “He” means every body has food to eat and “xie” means everyone has his say. Extend the meanings to the international relations, we come to the point that every country and nation should enjoy the right to subsistence and development, and international relations should be democratised. This stands for a rejection to power politics, unilateralism and hegemonism.

We cannot deny that China’s development would also to some extent “challenge” some countries, mainly in the way of competition in commodities. Some European friends recently pointed out that China is not only a market full of opportunities and a promising place for investment, but is also becoming a competitor. This may not be altogether without reason. But it is equally necessary to point out that it is the inevitable outcome of both the competition rule of market economy and the fast development of globalisation, while Europe is an active advocate and promoter of both the competition rule of market economy and economic globalisation.

The Europeans, who are used to having the advantage over other nations in all areas, should abandon the “Europe-centric” mentality and adopt a calm attitude towards the competition from a developing country with an ordinary mindset. In fact, compared to China, European countries are generally in a far more advantageous position in international competition. Even when faced with competition in certain products, Europe should also look within itself to find out where the problems lie. For example, is it necessary to reform the social welfare system with excessively high cost? And the principle of ‘win-win cooperation’

should be upheld in dealing with trade disputes. To counter competition with protectionism can go nowhere but cause great losses to both sides.

Before I end my speech, I would like to point out briefly that it is both the task China sets for herself and the responsibility China takes on for the world to build a harmonious society within China and promote the construction of a harmonious world. The future development of China faces both good opportunities and many challenges. To overestimate China's strength or to see only the many problems China faces does not conform to reality. It is groundless to either play up China's "threat" or predict China's "collapse".

China-Europe relations are generally in good shape. Their future development will inevitably be accompanied by frictions of interest. Nevertheless, our common ground takes a dominant place. The two sides can support each other in strategic sense, enjoy mutually beneficial economic cooperation and learn from each other in culture. All this will constitute the driving force for China-Europe relations to keep the vitality. China hopes to work together with Europe to build on the comprehensive strategic partnership so as to bring benefit to both Chinese and European people and to world peace and prosperity as well.

VI. Dealing (and the deal) with North Korea

March 20 2007: The agreement reached on North Korea's nuclear weapons programme is 'better than nothing'. However, Pyongyang did not give much away, whereas the US has performed a political U-turn to reach a successful outcome, and other countries in the region have lost out. The EU plans to re-establish contacts with North Korea, continue providing humanitarian assistance to its people and support efforts to implement the deal.

Event report

Ambassador Sung-Joo Han, Chairman, International Policy Studies Institute of South Korea summed up the current deal on North Korean nuclear weapons as “back to square one” or “better than nothing”. Some even described it as “worse than nothing”.

Despite reports that the weapons' issue has been resolved, the situation is actually getting worse, said Ambassador Han. The agreement has condoned North Korea's weapons programme and taken the pressure off Pyongyang, by implicitly accepting the *status quo* provided that no further weapons or plutonium are produced. The North Koreans have only agreed to 'disable' their facilities, not to 'dismantle' them, and this does not affect the stock of plutonium or weapons.

North Korea had negotiated very cleverly, said Ambassador Han. Recent photographs show North Korean leader Kim Jong Il visiting the Chinese Embassy “as if he were carrying a trophy”. He has also been given the “red carpet treatment” by the US and is credited with bringing peace to North Korea.

The US and North Korea are beginning bilateral talks to normalise relations, the International Atomic Energy Agency (IAEA) representative has visited Pyongyang, and North Korea has said it will fulfil its promises in return for the unfreezing of North Korean funds worth \$25 million in the Macau-based bank Banco Delta Asia.

The deal also has repercussions for other countries in the region, said Ambassador Han, with ministers from Pyongyang and Seoul meeting to discuss South Korea's economic assistance package to North Korea. However, for Japan, the US turnaround on North Korea was a “seismic shock”.

Moving the goal posts

Washington appears to have “moved the goal posts” to make it easier for North Korea to satisfy the requirements, with US Secretary of State Condoleezza Rice taking credit for undoing the previous US policy on North Korea which she herself originally designed. In addition, the Banco Delta Asia dispute has now been settled and North Korean funds unfrozen.

This raises many questions, said Ambassador Han. Is the US moving towards an equidistant policy towards North and South Korea? From the agreement it appears so, since the US is preoccupied with Iraq and is not immediately threatened by North Korea's nuclear weapons, so will treat the two countries with equal weight.

Is the US-South Korean alliance weakening? Again it appears so, as the relationship is cooling on both sides, with a rise of anti-Americanism in South Korea and a more 'closed' US approach towards Seoul.

Ambassador Han wondered whether Pyongyang was being allowed to keep its weapons as a way of recognising its status as a nuclear power in the region. He described North Korea's tactics as “reverse salami”, as it doles out concessions, piece-by-piece on the weapons freeze, reporting and aspects of dismantlement.

Does China accept North Korea's nuclear weapons as a *fait accompli*? The Ambassador said that while Beijing would prefer Pyongyang to drop its nuclear programme, it could accept it as long as it did not lead to conflicts with countries such as the US.

It also seems that North Korea is moving towards an equidistant policy towards China and the US, since North Koreans believe the weapons tests demonstrated that their country was equal to the big players in the region, such as China.

The Ambassador said that while it was unlikely that North Korea would really give up its nuclear weapons voluntarily, it will probably play by the rules, since there are elections in South Korea and it does not want to alienate pro-Pyongyang candidates.

The best deal “at the moment”

Leonid Petrov, Chair of Korean Studies, Asia Centre, Institute d’Etudes Politiques, Paris, felt the current deal was the best that could be achieved “at the moment”.

Finding solutions through the Six-Party Talks was like a “jigsaw puzzle”, as combinations of bilateral agreements had to be fitted together to complete the picture. The first of these were the US-North Korean talks in January in Berlin.

North Korea has not had to give way, negotiating from a position of nuclear strength, while Washington’s position has moved 180° – it has abandoned its hard-line stance of not talking to North Korea and dropped a number of other issues.

Mr Petrov welcomed any positive engagement with North Korea that would alleviate the suffering of ordinary people and wondered whether in the long term, Pyongyang might be persuaded to move from an “army-first” to a “people-first” policy.

He agreed that Japan had been the “odd man out” in the talks, allowing its domestic concerns about North Korea’s abduction of Japanese to act as interpreters to cloud the bigger picture, leaving it isolated.

In order to continue the recent positive moves, both the US and North Korea should keep their promises and pursue a policy of “enhanced engagement”, including all the parties in the Korean peninsula and North-east Asia, to complete the jigsaw puzzle.

Mr Petrov finished on a note of optimism, hoping that the Six-Party Talks might become institutionalised as a body for addressing common regional problems.

Antonio Tanca, Co-ordinator of the Asia Team, General Secretariat, Council of the European Union, believed that the situation was probably worse now than after the 1994 Agreement and the July 2005 talks.

The US attitude has become more flexible, while China’s has hardened, as it saw the North Korean nuclear weapons test as a “slap in the face”.

North Korea has become more forthcoming, which might be the effect of the UN sanctions and the country’s deteriorating food situation. The next step is to implement the agreement, stipulating clearer conditionality, with stricter benchmarks to measure progress.

Dr Tanca said the EU had been “part of the game” before the current crisis, but had not been part of the Six-Party Talks. It plans to re-establish its contacts with Pyongyang, continue providing humanitarian assistance to alleviate the suffering of the North Korean people and support efforts to ensure that the agreement is implemented.

Looking ahead, in the light of US assurances that it has no hostile intentions, Pyongyang might embark on a reform process, and has studied the Chinese and Vietnamese models of economic reform.

Given the ambiguity of North Korea’s position, Dr Tanca felt that the process might be going in the right direction and reluctantly shared the view that the current deal was better than nothing.

Not the US' finest hour

Patrick Cronin, Director of Studies, the International Institute of Strategic Studies, described the February accord as “not the United States’ finest hour”, since it put the position “back to square one”.

As the US administration was increasingly mired in the Middle East, it had opted for the United Nations’ approach of financial sanctions, which appeared to have persuaded Pyongyang to react positively. However, some hard-liners in the US remain unhappy about Washington giving up the leverage it had over North Korea.

Mr Cronin did not believe that the agreement signalled that proliferation was over – getting an agreement is the easy part, implementation is more difficult, and it could take up to 15 years to complete.

Mr Cronin was concerned about the lack of multinational architecture in South-east Asia, and wondered whether the Six-Party Talks could develop into a more permanent framework.

Discussion

Pressed on whether the deal would work, Ambassador Han said both the US and North Korea had needed one, so by redefining the issue and moving the goal posts, they gave it the appearance of success.

Asked about the Chinese role in the negotiations, Ambassador Han said North Korea’s weapons programme was more of a threat to China than to the US or the EU, and Beijing did not want North Korea to develop weapons, as this increased South Korean and Japan dependence on the US nuclear alliance in the region.

He wondered whether the US and China had reached an understanding on moving forward, since both would gain by it. The US had wanted China to increase pressure on North Korea, which it had only agreed to do after Pyongyang had carried out its weapons test. China wanted to US to open talks with Kim Jong Il and to lower the obstacles on human rights, financial transactions and highly-enriched uranium.

Mr Cronin said China had played an important diplomatic role because of Beijing’s fear of instability within North Korea.

Asked about the significance of unfreezing the North Korean funds in the Banco Delta Asia, Mr Han said this was “only the tip of the iceberg”, as Pyongyang was concerned about the negative effects that freezing funds had on all international transactions.

Keynote speech: North Korean nuclear weapons and the Korea triangle

By Sung-Joo Han, Chairman, International Policy Studies Institute of South Korea, former Korean Ambassador to the US

During the past few weeks we have seen headlines which indicate that there is a basic shift taking place in the situation in the Korean Peninsula, especially in relation to the North Korean nuclear issue:

1. A photograph of North Korean leader Kim Jong-Il visiting the Chinese Embassy in Pyongyang with a beaming smile.
2. North Korea’s chief nuclear negotiator Kim Kye-Kwan visiting the United States and receiving the red-carpet treatment by American politicians both in and out of the government.
3. The United States and North Korea beginning bilateral talks aimed at normalising relations.
4. Dr Mohamed ElBaradei Director General of the International Atomic Energy Agency (IAEA) visiting Pyongyang, holding out the possibility of an IAEA inspection of North Korea’s nuclear facilities.
5. A South-North Korean ministers’ meeting followed by former South Korean Prime Minister Lee Hae-chan’s visit to Pyongyang.

6. A decision by South Korea to provide massive aid to North Korea in food and fertiliser without substantial progress in the North Korea nuclear issue.
7. The possibility raised of a summit meeting between North and South Korean leaders.
8. A falling-out between the United States and Japan on how to deal with North Korea.
9. A continuing deterioration in both the South Korean-Japanese and Japanese-Chinese relationships.
10. The South Korean-Chinese relationship continuing to improve and expand.
11. A change in the US attitude toward North Korea, especially on the nuclear issue and in dealing with North Korea.
12. A successful conclusion of the US-South Korea free trade agreement (FTA) negotiations.
13. Defence ministers from the United States and the Republic of Korea agreeing on a transfer date of war-time operational control (April, 2012).
14. The Japan-North Korean relationship continuing to deteriorate.
15. The Chinese-US relationship continuing to improve.
16. Within the Six-Party Talks, the US-Japan coalition versus the Chinese-South Korea coalition changing to a US-China-South Korea coalition, thereby isolating Japan.
17. The United States walking out of the Six-Party Talks pending the release of North Korean funds worth \$25 million in the Macau-based bank Banco Delta Asia (BDA).
18. The United States then opening the way for the transfer of these funds.

Changing circumstances in the Korean Peninsula

This series of events is enough to raise some serious questions about what is happening in the Korean Peninsula.

1. Is the United States moving the goal posts in a way that makes it easier for North Korea to meet the requirements to normalise bilateral relations? Yes. The 13 February agreement does not even mention North Korea's HEU (Highly Enriched Uranium) issue, fissile material or the nuclear weapons that North Korea claims to have and has tested. The United States has even revised its intelligence estimate on North Korea's uranium enrichment so that it is easier now for North Korea to answer US questions on the issue when and if it is raised.
2. Is the United States moving toward an equidistant policy toward North and South Korea? It is too early to tell. But clearly the United States is moving to improve relations with North Korea, as it wants the appearance of progress on the North Korean nuclear issue. The Bush administration would not be able to establish a legacy of having dealt with North Korea if it had not resolved the nuclear issue. The US does not want to be holding the South Korean 'bag' alone as both China and Russia are developing close and good relations with both Koreas and it does not feel immediately and directly threatened by North Korean nuclear weapons.
3. Is the US-South Korean alliance weakening? It is being weakened by the rise (although this has somewhat subsided in recent months and years) of anti-Americanism in South Korea, by South Korean assertions of *jaju* or self-assertiveness, by President Mu-Hyun Roh's government's demand for the transfer of war-time operational control, and by former Defence Secretary Donald Rumsfeld's all-too-ready willingness to down-grade the alliance: "You are pushing an open door," was his answer to South Korea's demand to transfer war-time operational control.
4. Is North Korea allowed to keep its nuclear weapons and material so that its status as a nuclear weapons' state is accepted if not officially recognised, which is basically its intention? Yes, we seem to be moving in that direction – following the pattern of India and Pakistan. If the 13 February agreement is any indication, it will be a long time, if ever, before North Korea is denuclearised. I wrote an article for *Time magazine* with the title, 'Back to Square One', but the editors changed the title to 'Better than Nothing'. Some readers commented, however, the proper title would be 'Worse than Nothing?'

I believe the agreement is certainly better than nothing in that it freezes some of North Korea's nuclear programme and allows it to be inspected by the IAEA. However, it does not mean North Korean nuclear weapons, fissile material, and much of the facilities will be removed or even 'disabled' any time soon.

5. Does China accept the *fait accompli* of North Korean nuclear weapons? Yes, China would rather see North Korea retain a limited nuclear capability than seek its complete removal at the risk of either a military conflict or the collapse of the North Korean regime.
6. Does South Korea let North Korea get away with its nuclear weapons and material? It seems so. China seems to believe that it is better to keep the North Korean nuclear arsenal from growing, to prevent an armed conflict breaking out in the Korean Peninsula, and to keep the North Korean regime afloat, than to try to denuclearise North Korea altogether and soon.

Is South Korea moving away from the United States and closer to China? Yes, South Korea is certain getting closer to China, not only on the North Korean nuclear issue but in overall relations. However, the alliance with the United States will continue to exist for the foreseeable future. The pendulum is moving slowly back to closer relations with the United States, especially with the signing and probable ratification of the FTA.

7. Is North Korea moving toward an equidistant policy towards China and the United States? Yes, but the question: is how far? It seems that there is not much love lost between China and North Korea. North Korea has been using Russia to balance China and in the future will want to use the United States as a balance against China even as it maintains outwardly 'brotherly' relations with it.
8. Is Japan being increasingly isolated as the US position moves closer to that of China and South Korea on the North Korean nuclear issue? Yes, but Japan is only becoming isolated in relation to North Korea, as the United States will need Japan more as it moves away from South Korea.
9. Is there an understanding between China and the United States regarding how to deal with the Korean Peninsula and its key issues? Yes, I believe there has been a strategic dialogue and understanding between China and the United States, that it is better to freeze North Korea's nuclear programme now rather than trying to achieve a quick Libyan-style solution, thereby allowing North Korea to continue to engage and expand its nuclear programme.

International power politics

Thus, today in North-east Asia, there are two triangles evolving. One is among the United States, China and South Korea. The other is that of the United States, China and North Korea. The 13 February agreement is both a reflection of the changing shape and content of these triangles and serves as a catalyst for such changes.

All told, we are witnessing a development whereby the relationship between China and South Korea is expanding and the United States and North Korea are beginning a journey toward rapprochement, North Korea's nuclear weapons notwithstanding. Despite issues involving ancient history, the relationship between China and South Korea has been getting closer since their diplomatic normalisation in 1992. Their two-way trade went over the \$100 billion mark in 2006, which compares with \$70 billion two-way trade between the United States and South Korea. An FTA between South Korea and the United States will narrow that gap, but only temporarily and only to a limited extent.

We are witnessing changes in the alliance between South Korea and the United States as well. The transfer of wartime operational control, if and when carried out, is an indication of such changes and at the same time will further accelerate them. We are also witnessing the beginning of a thaw between North Korea and the United States, two countries which have had a hostile and confrontational relationship over the years.

How do we explain these developments? What set of factors is causing these changes? One way to get at the answers is to examine the strategic thinking of the actors, the four countries, namely, China, the United States, North and South Korea.

How do we describe the strategic thinking of China on North and South Korea? Regarding the Korean Peninsula, it seems that China has three basic goals, which are often in competition if not conflict with

one another. First, China has a stake in maintaining the *status quo* of North Korean existence in the Korean Peninsula. China does not want the disruption that would accompany and follow the collapse of North Korea. North Korea has allowed China extensive investments in its mines and harbours. China wants to keep North Korea afloat.

Second, China wants peace in the Korean Peninsula. An armed conflict, small or large, will inevitably and prematurely disrupt its current goal of focusing on what it calls “peaceful development” and becoming a great power in due course. Third, China wants a denuclearised Korean Peninsula. In particular, a North Korea armed with nuclear weapons and long range missiles constitutes both a direct threat to China and a possible precipitator of an armed conflict on the Korean Peninsula.

During the first North Korean nuclear crisis of 1993-94, China mostly stayed in the background. But when it was called for, such as in June 1994, China actively sought to persuade and restrain North Korea, using its influence, thus bringing North Korea back to the conference table. This led to the Geneva Agreed Framework of October 1994.

In the current round of negotiations since 2002, China is visibly and actively involved in the North Korean nuclear issue. In part this has been due to the urgings of the United States but in large part in recognition of the danger that the problem can get out of hand and out of control. China also saw this as an opportunity to assert its diplomatic initiative, presence and influence.

But China did not comply with US’ other wish, that is, to use China’s leverage over North Korea and apply pressure to persuade it to resolve the issue – at least not until the missile test of 4 July, 2006, and the nuclear test of 9 October, 2006. The pattern of Chinese responses to the North Korean nuclear issue has shown certain peculiarities. Even though China would be threatened by North Korean nuclear weapons, it seems to place priority on a ‘peaceful resolution’ of the issue – that is, to freeze rather than dismantle. China would like to allow North Korea to remain a nuclear weapons’ state as long as the number of weapons does not increase, fissile material remains frozen and this does not lead to conflict.

China has been encouraging and urging the United States to have bilateral talks and improve its relationship with North Korea. China has also been urging the United States to lower the barrier for resolving the nuclear issue and improving bilateral relations between the United States and North Korea. Furthermore, China has refrained from making linkages between the nuclear issue on the one hand and other important issues such as Taiwan and trade on the other.

It is clear that early in the game, China decided that the price of working for a complete denuclearisation of North Korea was simply too high relative to accepting the *status quo*, however undesirable it was. China now seems to be prepared to accept, if not recognise, the current level of North Korean nuclear weapons, welcome US-North Korean rapprochement, and maintain what amounts to an equidistant policy between North and South Korea.

What are the US’ strategic thoughts regarding Korea? Until recently, the success it achieved in dealing with Libya on its denuclearisation in 2003 dictated the US approach to the North Korean nuclear issue. The Bush Administration was critical of the 1994 Geneva Agreed Framework, saying it was immoral, expensive and ineffective (much in the same way as John Foster Dulles described the Containment Policy), and instead emphasised sticks over carrots.

However, in the spring of 2007, the Bush Administration’s policy changed completely almost overnight. Why? Perhaps it was the muddle in Iraq and setbacks in Iran or the Democratic Party’s victory in the November Congressional elections. The Bush administration needed a success story somewhere even if that ‘success’ is more perception than fact. Or the North Korean nuclear test which might have led the US to conclude that freezing must precede dismantling.

Whatever has brought it about, there clearly has been a rethinking of US strategy. The United States obviously concluded that North Korean nuclear weapons are more of a threat to China than to the United States; that

they would make both South Korea and Japan more dependent on the United States; that dealing with the issue however unsatisfactory, will enable the United States to improve relations with North Korea; and that this will help remove a very thorny issue in US-China relations. The United States must have concluded that as long as no transfer of nuclear material or weapons takes place, and a freeze on the number and size of the North Korean nuclear arsenal can be enforced, it is better to find an accommodation to the situation, past brave and tough talk notwithstanding.

North Korea's strategy

What is North Korea's strategy? North Korea has a knack of lulling the other members of the Six-Party Talks into complacency, thinking that the issue is being resolved. Now, the United States has joined China and South Korea as countries which are only too ready to construe North Korean moves as steps toward a resolution of the issue. North Korea has also skillfully redefined the issue, from dismantling the nuclear weapons, material and programme to whether or not to test the bomb, to come back to the Six-Party Talks, or allowing the IAEA inspectors back into North Korea. By being difficult generally, North Korea makes any small 'concession' look like a big retreat and gesture.

I do not think this euphoria and optimism are justified as far as the complete denuclearisation of North Korea is concerned. Right now, the North Korean strategy consists of two elements. One is what I would call salami tactics in reverse – that is, doling out inconsequential concessions and exacting big rewards. The other is the North Korean version of the 'Sunshine Policy', a policy aimed at disarming the hardliners, undoing sanctions, increasing assistance and strengthening the position of its friends.

Its ultimate aim is to make its nuclear weapons a *fait accompli* and to legitimise them. China and South Korea, now joined by the United States, are only eager to accept North Korean gestures as genuine and to claim them as a success on the road to a complete resolution of the issue.

South Korea's main goal is to maintain peace on the Korean Peninsula through accommodating their demands and developing cooperative relations with North Korea. Since 2002, until the end of 2006, there was a huge gap between South Korea and the United States on how to deal with North Korea and the North Korean nuclear issue in particular. South Korea emphasised carrots and insisted there should be no pressure on North Korea.

South Korea judged that the reason behind the North Korean nuclear weapons programme was the sense of insecurity that North Korea felt, especially vis-à-vis the United States. "Make North Korea feel secure, then they will give up the nuclear weapons programme" – such was the thinking of the South Korean President Mu-Hyun Roh. Naturally, South Korea's approach was closer to China's than either that of the United States or Japan.

Now, however, the United States has moved closer to China and South Korea on how to deal with North Korea and the nuclear issue: "Be gentle and nice to North Korea". While the United States came to that conclusion and position for different reasons than South Korea, it will still have the effect of allowing North Korea to remain as a nuclear weapons' state for the foreseeable future.

The two Koreas

China and the United States are big powers. Koreans, both in the North and in the South, have what I would call "big power-phobia." Korea as a separate entity has survived over the ages by sometimes being defiant, and sometimes being pliant to its big neighbours. The timing and choice have not been always right. Today, there are two Koreas instead of one, to play that game, in competition with each other and with the encouragement of the big powers as well.

Since the late 19th century, a big point of contention among the Korean elite has been whether to go with the maritime or the continental powers. After World War II, circumstances made North Korea choose the continentals: the Soviet Union and China, and it ended up as a poor country with a dictatorship. South

Korea chose the maritime powers headed by the United States and became a prosperous country with a democracy.

Today, more than six decades later, both North and South Korea are wary of their post-World War II partners. They see an opportunity to adjust their partnerships – not to change or exchange them, but to be friends with both, and not only with one of them at the exclusion of, or in opposition to, the other.

However, the problem, especially for the South, is that it has to contend with, and cope with the still-dangerous North Korea. North Korea is dangerous because of the oppressive polity, desperate economy, militaristic policy, and unbending will and determination to maintain the regime, now armed with nuclear weapons.

As China has been employing an equidistant policy towards the two Koreas, and the United States has been making a slow but unmistakable move in that direction, it creates both a dilemma for South Korea and gives it the opportunity to navigate between the two great competing and cooperating powers.

As the debate and oscillation go on in South Korea events and circumstances will move inexorably towards a situation in which the country faces the United States whose friendship and support are less unconditional and more calculating than before, and China, which is becoming increasingly more self-confident and influential. In the face of North Korean nuclear weapons, the threat of which South Korea does not seem to be keenly aware of, the challenge has become even more acute and forbidding.