EAST-WEST CENTER

U.S. Asia Pacific Council

Washington REPORT

News and analysis from Washington, D.C. about key issues in U.S.-Asia Pacific Relations

Volume 2 March 2007

Actions By China, North Korea Focus Attention On East Asian Missile Defenses

USAPC Interview with Admiral Dennis C. Blair

On January 11, the Chinese military used a ground-based ballistic missile to destroy one of its aging satellites. Washington and other governments expressed concern that China's test violated a spirit of cooperation concerning use of space. Some experts suggested that the test not only demonstrated the vulnerability of any satellite launched by the United States or other nations, but also signaled China's intention to precipitate a space arms race.

Admiral Dennis C. Blair, who served as Commander in Chief Pacific (CINCPAC) from 1999 to 2002, does not share that extreme view. He regards China's pursuit of space capabilities as part of a broader effort to modernize its military. Admiral Blair also examines how developments in East Asian missile defense serve to undermine the potential threat posed by North Korea—notwithstanding recent progress in talks aimed at ending its nuclear program.

USAPC: Was China's anti-satellite missile test (ASAT) in January cause for alarm? Did it have strategic significance?

Blair: Let me answer first from the military point of view. The Chinese have observed closely how Western nations, particularly the United States, have developed capabilities to use space. They have come to realize that there are real advantages to using satellites in modern warfare. China's military modernization program has been aimed at making the leap from relatively backward ground-based forces to very modern forces using the latest technology. Thus, the Chinese now are considering how to use outer space for their own military purposes. They also are working on the means to deny the use of space to other nations.

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Congress Probes Amb. Hill About North Korea Nuclear Deal

Members of the House Foreign Affairs Committee commended Christopher Hill, Assistant Secretary of State for East Asian and Pacific Affairs, February 28 for his role in helping to conclude what Hill described as "an important first step—but only a small step" toward ending North Korea's nuclear program.

Lawmakers were skeptical, however, that North Korea would make good on its pledge to implement the accord. They repeatedly questioned Hill about how North Korea's promise to shut down its nuclear reactor would be verified and what recourse the "five parties" would have if they learned Pyongyang did not follow through.

On February 13, Hill and his counterparts from China, Japan, North Korea, Russia, and South Korea—the so-called Six Parties—announced in Beijing they had reached an agreement. Within 60 days, North Korea will (1) shut down and seal its nuclear reactor complex at Yongbyon, (2) allow international inspectors to return to North Korea

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Inside This Issue

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Official Washington

In each issue, Washington Report will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to U.S.-Asia Pacific relations. This issue will focus on pertinent personnel from the ***Office of the U.S. Trade Representative (USTR)****.*

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South Asian Affairs:
Douglas A. Hartwick—Assistant U.S. Trade Representative for South Asian Affairs—WBB 114, 202.395.4720.

Intellectual Property Rights (IPR):
Victoria Espinel—Assistant U.S. Trade Representative for IPR—WBB 311, 202.395.6884.

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In recent years, the Chinese have launched various satellites—reconnaissance satellites, communications satellites, and geo-location satellites. The ASAT test demonstrated that the Chinese also are developing capabilities to knock satellites out of action.

As the Chinese enter this area of warfare, however, they will find—what those countries that have been in space for quite a while have found—that this capability provides both advantages and vulnerabilities.

The United States, of course, has huge advantages in both civilian and military uses of space. We have been working at this a long time. There certainly is no cause to think that China's ASAT test represents some entirely new, menacing development that will completely upset military balances. The test is best viewed as part of China's overall modernization of its armed forces.

From a military point of view, I am not as concerned about the strategic implications of China's ASAT test as some observers.

USAPC: Has the ASAT test set back U.S. efforts to realize greater transparency in Chinese military planning? Beijing evidently gave Washington very short notice about the test.

Blair: The Chinese have been weak for so long that they have adopted the traditional tactic of the weak—hide what you are doing so you don't expose weakness and others may think you are stronger than you really are. Now that China is the second- or third-largest military power in Asia, depending on how you measure military power, the leadership must realize that their nation is not weak anymore.

It is not to China's advantage to hide its capabilities. In fact, the Chinese are scaring people by hiding their capabilities. Chinese authorities need to make decisions to match their military actions to their diplomatic words.

If China indeed poses no threat to the interests of others and its military modernization efforts are part of a "peaceful rise," then Chinese military programs need to be governed by that principle and they need to be open to outside observers.

What we observed in China's handling of the ASAT test was a lot of learned, old behavior. The Chinese must mature. But if they continue to be secretive about their military programs, then the United States and other countries have a right to be suspicious and to take measures aimed at offsetting what they think China might be doing.

USAPC: What do you think of the charge that the Chinese used the ASAT test as a way of forcing the United States into negotiations aimed at governing the use of space for military purposes?

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Committee Assignments: 110th Congress

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John Kerry (D., Massachusetts)
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[1]When the January 2007 USAPC Washington Report went to press, Democratic membership of the House Foreign Affairs Committee still was in flux. The above listing is the roster for the 110th Congress.

Blair: Given the choice between a clever, well-coordinated plan on the one hand, and bureaucratic bumbling on the other, I think the latter offers a better explanation for China's decision to conduct the ASAT test. I would conjecture that Chinese engineers had been working on an anti-satellite capability, it was time to conduct a test, so they tested the missile. The missile test was driven by program imperatives rather than by some clever political strategy.

Chinese government officials have been trying to score propaganda points by officially opposing the weaponization of space at the same time that all evidence points to their strong efforts to develop both offensive and defensive military uses of space.

So I think it more likely that lack of bureaucratic coordination was behind the test rather than some very careful signal China was trying to send the United States.

USAPC: What do you see happening region-wide in ballistic missile defense?

Blair: Things are very dynamic. In terms of military

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Subcommittee Assignments: 110th Congress*

Senate Appropriations Subcommittee on State, Foreign Operations

Patrick Leahy (D., Vermont) – Chair
Daniel Inouye (D., Hawaii)
Tom Harkin (D., Iowa)
Barbara Mikulski (D., Maryland)
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Max Baucus (D., Montana)
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Debbie Stabenow (D., Michigan)
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House Ways and Means Trade Subcommittee

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developments in Asia, it has been in the area of missiles and missile defenses that we have seen the most activity in recent years. In Northeast Asia, for example, China is developing many more missile systems of all types of mobility and ranges.

North Korea has been putting considerable effort into its missile development program. You will recall the "fireworks display" last July 4 when Pyongyang tested a long-range ballistic missile and several shorter range missiles.

Meanwhile, the United States has been putting tremendous effort and resources into developing a missile system for Asia. Recently, we successfully tested a very capable ground-based missile defense system called THAAD, or Theater High Altitude Air Defense, by intercepting a challenging test target over the Pacific.

Japan, too, has been cooperating more with the United States on missile defense, especially on the development of the Standard sea-based missile, and in deploying tracking radars aimed at North Korea.

USAPC: Please elaborate further on U.S.-Japan cooperation on missile defense.

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Subcommittee Assignments: 110th Congress*

Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs

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Steve Chabot (R., Ohio)
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These subcommittees have jurisdiction over most legislation that would affect U.S. economic, political, and cultural relations with the nations of the Asia Pacific.

USTR, Congress Target China's Subsidies

U.S. Trade Representative Susan C. Schwab announced February 2 that the United States filed a petition with the World Trade Organization (WTO) requesting formal consultations with China regarding its provision of subsidies to companies in a range of industrial sectors that appear to be prohibited by WTO rules. Some insiders proposed that the timing of USTR's action seemed aimed, in part, at preempting a potential wave of protectionist legislation from a new Congress controlled by Democrats who have been ardent critics of China's trading practices.

Not only did the WTO filing draw rare praise from such hardliners as House Trade Subcommittee Chairman Sander Levin (D., Michigan), but it appeared to have little deterrent effect on China-targeted legislation. By early March, there were several legislative proposals either introduced or under development aimed at (1) holding China accountable for its alleged abuse of WTO rules, (2) making non-market economies like China eligible for anti-subsidy (i.e., countervailing duty) suits by the United States, and (3) making evidence of currency manipulation grounds for U.S. countervailing duty action.

WTO Case – In announcing the WTO case, USTR Schwab acknowledged that China has taken significant steps to institute market-opening reforms since acceding to the WTO in December 2001. Nevertheless, China is using prohibited subsidies to compete unfairly, and the U.S. decision to bring this case to the WTO "comes after our efforts at dialogue have failed," Schwab said.

Specifically, USTR alleges that China is granting companies in key industries, such as steel, paper, and wood, refunds, reductions, or exemptions from taxes and other payments owed to the government to subsidize their export of manufactured goods or to support the purchase of domestic over imported equipment or manufactured inputs. "By subsidizing Chinese exports to the United States and denying U.S. exporters a fair opportunity to compete in China, these programs unfairly impact U.S. manufacturers and their workers," USTR asserted.

Under WTO dispute settlement procedures, the United States and China have 30 days to consult and, hopefully, resolve the dispute. If they do not, 60 days after the petition filing, the United States may ask the WTO to establish a dispute settlement panel to examine the matter. At press time, it appeared likely that the case would proceed to the latter phase.

Congressional Proposals – Despite the WTO suit, members of Congress are dissatisfied with, in their view, the apparent reluctance of USTR to use WTO enforcement procedures against China more aggressively and the unwillingness of the Treasury Department to press Beijing to accelerate currency reform. U.S. manufacturers and workers are paying a steep price for such "softness,"

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Public Diplomacy

Under Secretary of State Hughes And U.S. Public Diplomacy Envoy Kwan Visit China

Karen Hughes, Undersecretary of State for Public Diplomacy and Public Affairs, and Michelle Kwan, U.S. figure skating champion and first American Public Diplomacy Envoy, made a sweeping tour of China January 17–25. The purpose of their visits to Beijing, Guangzhou, and Hong Kong was to promote cross-cultural dialogue and understanding between the United States and China, particularly with respect to the empowerment of women in academic, business, and government spheres.

Notably, while in Guangzhou, Hughes and Kwan visited a secondary school dedicated to teaching English and computer skills to physically disabled individuals. The school boasts a 96 percent employment rate for its graduates, and claims that many of its former students find jobs with U.S. firms in China.

Drawing on her figure skating experience, Kwan shared her life story and experiences in an effort to build bridges to Chinese youth and broaden understanding about America and American values.

Following the China tour, Hughes continued on to the Philippines. She visited Jolo Island in the southern region of Mindano to learn first-hand about projects sponsored by the U.S. Agency for International Development (USAID). These include (1) a farm-to-market road that will improve access to schools, hospitals, and commercial opportunities, (2) a USAID Computer Literacy and Internet Connectivity Project, and (3) a new Home Economic Center jointly funded by USAID and the local school's Parent-Teacher Association.

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Blair: Typically, Japan examines the U.S. missile defense program and then decides to join specific research and development. Two years ago, for example, Japan participated in a small program relating to warheads on one of the sea-based systems.

Since then, the Japanese have expanded their participation across the board, both in terms of financial resources and joint research on both ground-based and sea-based missile defenses. This amounts to more than a ten-fold increase in the resources Japan is contributing to joint development of defensive systems—systems that would protect it against a potential missile strike from North Korea, for example.

Specifically, Japan has purchased Patriot missiles, the original series used in the Persian Gulf War, which were moderately successful. Currently, there is a third generation Patriot, or PAC-3 series, which is far more effective in killing Scuds than the predecessor generations. I believe Japan has purchased some of those as well.

In addition, there are successor sea-based systems, such as the so-called Standard Missile 3 program, which goes on the Aegis ships that are part of Japan's Maritime Self-Defense Force. Japan also is cooperating on deployment of the THAAD system.

The THAAD is a very effective ground-based system. In fact, at the time of North Korea's missile and nuclear tests last year, the THAAD detection radar, which operates in the X frequency band, was deployed to northern Japan.

Japan has expanded cooperation with the United States on missile defense across the board

The THAAD system enables the United States and Japan to keep closer watch on North Korea. It provides better targeting information for the Patriot missiles and sea-based missiles that could shoot down any North Korean missiles bound for Japan. Finally, the U.S. cruisers and destroyers stationed in Japan further bolster its defenses.

USAPC: So that while North Korea's short- and medium-range missiles may cause psychological terror in Japan, at the end of the day, it sounds like Japan could defend itself very well from a possible strike.

Blair: Yes. Once these systems mature and are fielded in large numbers, Japan will have a defensive system capable of handling a great number of missiles that North Korea could shoot. Even if one or two North Korean missiles get through the defensive system, the Japanese people would know that most of the missiles are being intercepted so they are not defenseless. That is very important. North Korea's missiles then become less of a psychological and actual threat to the Japanese.

The strength of Japan's anti-missile defense capability also should make the North Korean leadership realize that its use of military brinkmanship is not a winner in the long term. With their weak industrial base, the North Koreans cannot come anywhere near matching the military capabilities of their neighbors.

USAPC: Is China's missile program approaching a stage where it could affect deterrence with respect to Taiwan?

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Blair: No, I don't think China's missile program has reached the stage where it undermines deterrence with respect to Taiwan. China has 800-odd missiles that could reach Taiwan. But in comparison, Hezbollah fired about 14,000 rockets into Israel and Israel didn't buckle.

Admittedly, rockets are much smaller than missiles. Nevertheless, it is important to bear in mind that a missile is still a very expensive way of delivering a warhead onto a country.

Even advanced countries, like the United States, that have bombers capable of delivering huge loads of warheads have found that they have limited ability to bomb a country into submission. We learned that with the U.S. air campaigns against Serbian military and government targets in the 1990s when we dropped thousands of warheads.

China's missile program has not reached the point where it could have a decisive political effect on Taiwan. But these missiles certainly can cause terror. In fact, Taiwan has been expanding its own missile defense capabilities. Like Japan, it has purchased PAC-3s from the United States and it just has completed a large, heavily fortified radar system. In addition, the Taiwanese are hardening and dispersing their forces so that they will not be disarmed by a potential missile attack. So Taiwan is not standing still.

China's missile program has not yet reached the stage where it undermines deterrence with respect to Taiwan

China certainly is increasing its ability to cause damage to Taiwan. But in terms of being able to disarm Taiwan with a missile strike and then walk in and take over the country, China is no where close to that capability.

USAPC: Have U.S. military commitments in the Middle East and Afghanistan weakened U.S. deterrent capabilities in Asia?

Blair: No. The United States draws primarily on maritime and air power to support its interests in Asia. In the Middle East and Afghanistan, we have committed primarily ground power. The U.S. air and naval forces deployed in the Pacific are strong enough to provide effective deterrence.

USAPC: You recently attributed the relative stability of the Asia Pacific region to the fact that underlying military relationships among regional actors are stable.

Blair: Yes. The stability can be attributed to a combination of relationship-building, geography, and military forces on the ground.

China is at the center of the East Asia ground balances. It has pursued methodically settlement of border disputes with its neighbors. Meanwhile, China has modernized its forces. But nearly all of China's neighbors—India, Russia, North Korea—possess nuclear weapons or nuclear capabilities. The nuclear capabilities of these nations effectively hold in check ground warfare. That creates stability.

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USAPC In Action

Congressional Study Group on the Asia Pacific Economy:

"Intellectual Property Protection In Asia: Progress And Continuing Challenges"—On February 5, USAPC held a program on Capitol Hill that featured a discussion about broad trends in the protection of intellectual property rights (IPR) in Asia during the past five years. The speakers were Victoria Espinel, Assistant U.S. Trade Representative for Intellectual Property Rights, and Michael Schlesinger, Vice President of the International Intellectual Property Alliance.

Ms. Espinel outlined various U.S. initiatives aimed at strengthening the protection of U.S. IPR in Asia. These include specific chapters of Free Trade Agreements (FTAs) currently under negotiation with South Korea and Malaysia, and negotiations stemming from the citation of China, Indonesia, and other Asian nations in the annual "Special 301" report on intellectual property protection. With respect to China's weak enforcement, Ms. Espinel attributed problems, in part, to a breakdown in implementation at the provincial level. Mr. Schlesinger offered the business community's perspective on IPR enforcement problems in Asia. He said business regards extension of the president's Trade Promotion Authority (TPA), set to expire June 30, as an opportunity to increase awareness about the need to negotiate IPR protections into bilateral, regional, and multilateral trade agreements.

The East-West Center's Congressional Study Groups (CSG) provide fora for the dissemination of research and discussions of key issues in U.S.-Asia relations of potential interest to U.S. lawmakers. The CSG on the Asia Pacific Economy addresses current issues arising from the ever-deepening U.S. economic relationship with nations of the Pacific Rim. The program is for congressional staff only.

Asia Pacific Dialogue

Important 'Track-Two' Meetings:

PECC Pacific Economic Outlook (PEO)/State of the Region (SOTR) Meeting, March 17–18, Osaka, Japan—More than 20 prominent economists from member economies of the Pacific Economic Cooperation Council (PECC) will begin work on PECC's annual economic forecast for the Asia Pacific region. Their analysis will be included in PECC's 2008 *State of the Region* report. PECC's *State of the Region 2006–2007* is available at www.pecc.org/.

17th General Meeting of the Pacific Economic Cooperation Council (PECC), May 1–2, Sydney, Australia —The theme for the 2007 General Meeting is *Managing the Challenges of Growth*. It symbolizes a continuing positive outlook across the region, especially the momentum flowing from economies such as China, as well as the challenges to effective economic management that come with sustained growth. Interested U.S. attendees should contact USAPC Director Mark Borthwick at (202) 327-9760.

Asia Pacific Economic Cooperation (APEC) forum:

APEC Energy Working Group, March 26–30, Auckland, New Zealand—The topic of talks between business observers and government officials will be "Improving Cooperation between State-Owned and International (Private Sector) Energy Companies."

Asia Development Bank (ADB):

"Emerging Asian Regionalism: Ten Years After the Crisis," Inception Workshop for an ADB study, February 19–20, Manila, Philippines—This workshop gathered a team composed of ADB staff and external experts to launch a year-long study to examine Asia's economic recovery since the 1997–98 financial crisis and "to analyze new dimensions of Asian interdependence." USAPC members Prof. Hugh Patrick, Columbia University, and Prof. Peter Petri, Brandeis University, will contribute to the study.

Key Official Meetings, March–April 2007:

- **Deputy Secretary of State John Negroponte** and **U.S. Treasury Secretary Henry Paulson** traveled to Japan, China, and South Korea for meetings with their counterparts, March 1-6 and March 5–8, respectively.
- **Christopher Hill, Assistant Secretary of State for East Asian and Pacific Affairs,** and **North Korean Vice Foreign Minister Kim Gye Gwan** began bilateral talks that may lead eventually to normalizing relations, March 5–6 in New York City.
- **Kim Jong-hun, South Korea's lead trade negotiator,** and **Wendy Cutler, Assistant U.S. Trade Representative,** resumed Korea-U.S. Free Trade Agreement negotiations, March 8–12, in Seoul.
- **Ambassador Hill** and his counterparts from China, Japan, North Korea, Russia, and South Korea likely will meet to discuss implementation of the first phase of the February 13 agreement aimed at ending North Korea's nuclear program, March 19, Beijing.
- **New Zealand Prime Minister Helen Clark** will hold talks with President Bush, March 21, Washington.
- **Japanese Prime Minister Shinzo Abe** likely will hold talks with President Bush, April 25–26, Washington.

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America's naval superiority serves to protect Japan, Singapore, and the Philippines. China is developing its naval forces, but still falls far short of the United States, especially if you add in Japan's maritime capabilities. This also creates a stable military balance.

Military-to-military relations among the nations of Asia further promote stability. Joint peacekeeping and search-and-rescue exercises are on the rise. All of these elements create a fairly solid situation in Asia that will not change quickly. We're not on a hair-trigger there. ♦

Admiral Dennis C. Blair was president and chief executive officer of the Institute for Defense Analysis (IDA), a Virginia-based federally funded research and development center, from 2003 to 2006. An expanded version of this interview is available at www.usapc.org/Resource-Blog/blair.pdf

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some have argued. In turn, they have introduced bills such as those sampled below. Insiders expect more China-targeted legislation in the coming weeks.

- "The Nonmarket Economic Trade Remedy Act of 2007," introduced March 1 by Reps. Artur Davis (D., Alabama) and Phil English (R., Pennsylvania), would revise U.S. trade law to permit countervailing duty cases against nonmarket economies.
- "The Fair Currency Act of 2007," introduced February 28 by Reps. Tim Ryan (D., Ohio) and Duncan Hunter (R., California), would make exchange rate misalignment by any foreign nation a countervailable export subsidy. Sen. Jim Bunning (R., Kentucky) introduced the Senate companion bill on March 7.
- Sen. Byron Dorgan (D., North Dakota) introduced a bill February 13 that would rescind China's permanent normal trade status. ♦

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after expelling them more than four years ago to verify the Yongbyon shutdown, and (3) provide the "five parties" with a comprehensive list of all its nuclear programs, including plutonium extracted from fuel rods, that Pyongyang will abandon. In exchange, North will receive emergency energy assistance equivalent to 50,000 tons of heavy fuel oil.

Role of China – Lawmakers asked what would stop North Korea from abrogating the accord upon receipt of the oil. Nothing, replied Hill, although it certainly "would not be in [Pyongyang's] interest to break a multilateral agreement, especially when one of the parties is China—upon which North Korea depends daily for many basic needs." Hill praised China's "new and highly constructive role" as the convener of the Six-Party Talks and important intermediary in dealing with North Korea. U.S.–China relations had deepened and benefited as a result of Six-Party diplomacy, he added.

Verifiable Results – With respect to Members' concerns about verifying North Korea's actions, Hill said IAEA inspectors will determine whether Pyongyang has shut down and sealed the Yongbyon facility. He underscored that implementation of the February 13 accord will proceed step-by-step, "action for action."

Thus, if (1) the IAEA cannot verify that operations have ceased at Yongbyon, (2) Pyongyang fails to provide a precise and verifiable accounting of its nuclear programs, and/or (3) North Korea resumes its nuclear operations upon receipt of the first tranche of energy aid, the other five parties are not obliged to provide additional economic, energy, or humanitarian assistance. "We will not end up with an agreement where [Pyongyang] pretends to disarm. The only agreement acceptable to us is one we can verify," Hill said. He further noted that North Korea already had contacted the IAEA to begin the inspection and verification process.

Highly Enriched Uranium Program (HEU) – Lawmakers did not question Hill aggressively about the controversy surrounding North Korea's suspected uranium enrichment program.

In October 2002, U.S. officials informed their North Korean counterparts that the United States was aware of a large uranium enrichment program in violation of the 1994 Agreed Framework, which created an obstacle to improved relations. [See also the *Washington Report* interview with USAPC member James Kelly, November 2006, available at www.usapc.org/Resource-Blog/kelly.pdf/.] That confrontation precipitated a chain of events that led to a U.S. decision to halt fuel deliveries, Pyongyang's decision to expel IAEA inspectors, and ultimately, North Korea's decision on October 9, 2006 to test a nuclear weapon. In late February, senior U.S. officials revealed that they still do not know the extent and viability of North Korea's HEU effort.

Hill did not elaborate on the recently revised HEU assessment. He told committee members that the United States knows North Korea purchased equipment from Pakistan ostensibly for HEU development. Washington therefore will press for a complete accounting of those purchases as part of the full nuclear disclosure process.

Banco Delta Asia (BDA) – Hill reported that the Treasury Department is close to resolving the dispute concerning North Korea's money laundering through Macao-based Banco Delta Asia (BDA). Replying to one lawmaker's concerns about continued North Korean counterfeiting, Hill asserted that the United States would not trade progress on denuclearization for laxity in policing illicit financial transactions. "They are the same pattern of [bad] behavior," he said. ♦

Six-Party 'Initial Action Agreement'

On February 13, China, Japan, North Korea, Russia, South Korea, and the United States—the so-called Six Parties—set forth the following goals to be achieved within 60 days:

- North Korea must shut down and seal for the purposes of eventual abandonment the Yongbyon nuclear facility;
- North Korea must invite back inspectors from the International Atomic Energy Agency (IAEA), which it expelled in 2002, to conduct all necessary monitoring and verifications;
- North Korea must compile a list of all its nuclear programs, including plutonium extracted from used fuel rods, that would be abandoned pursuant to the September 2005 Joint Statement;
- South Korea will provide an initial tranche of emergency energy assistance to North Korea equivalent to 50,000 tons of heavy fuel oil; and
- The Six Parties will carry out initial actions and formulate specific plans to implement the September 2005 Joint Statement through the following agreed upon working groups:
  - Denuclearization of the Korean Peninsula
  - Normalization of U.S.-North Korea Relations
  - Normalization of Japan-North Korea Relations
  - Economy and Energy Cooperation
  - Northeast Asia Peace and Security Mechanism

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