



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



# Comparative Connections



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

*edited by*

Brad Glosserman  
Vivian Brailey Fritschi

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## Pacific Forum CSIS

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

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

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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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It’s only fitting that the United States and Japan marked the 150<sup>th</sup> anniversary of the Treaty of Kanagawa this quarter as they celebrated “the best relations ever” between the two nations. Cynics will note that it’s only downhill from here, so there is every reason to enjoy the blissful state of relations while we can. To the delight of alliance managers on both sides of the Pacific, both governments managed to stay the course. There were no surprises or shocks, despite concerns about the risks in Japan’s deployment of Self-Defense Forces to Iraq. That historic event was part of a larger effort to strengthen the framework for intensified collaboration between Washington and Tokyo. That agenda continues to move forward. There were some bumps along the way, but they were minor. All in all, it was a very good quarter.

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The six-party talks on the nuclear issue with North Korea failed to reach an agreement or even release a joint statement. North Korea balked at accepting the eventual “complete, verifiable, and irreversible dismantlement” of its entire nuclear program. Still, the U.S. assessed the meetings as making a “good deal of progress,” especially in their agreement to “institutionalize” the process by establishing working groups. The U.S. was also pleased that Russia and China endorsed the goal of fully dismantling North Korea’s nuclear program, verifiably and irreversibly. It will fall mainly to China to bridge the U.S. and North Korean positions. A continuing impasse may ratchet up domestic political pressure on President Bush to take tougher measures against North Korea.

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China’s hosting of the second round of six-party talks in Beijing marked the high point of China’s Korea diplomacy in the first quarter, stimulating a flurry of follow-up diplomatic contacts and shuttle diplomacy involving China and the two Koreas. An extended squall over competing historical interpretations of the Koguryo kingdom has heated up amid attempts by China and the DPRK (backed by South Korean scholarship and the government) to claim the kingdom as part of its history. And competition over raw materials is introducing a new element of competition between South Korea and the PRC. Despite South Korea’s increasing dependence on exports to China for growth, China is competing with South Korea as an export competitor and an importer of raw materials in third-country markets.

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It was not quite all Yasukuni all the time, but close. Set off by Prime Minister Koizumi Junichiro’s Jan. 1 visit to the shrine, Yasukuni served as the leitmotif for extensive high-level political and diplomatic exchanges throughout the first quarter. Neither the prime minister and his political proxies nor China’s political leaders gave any ground. In the meantime, the Self-Defense Forces deployed to Iraq, raising back-to-the future concerns in Beijing, and a landing by Chinese activists on the Senkaku Islands raised nationalist sentiments in both countries. In Japan, suits brought by Chinese nationals seeking compensation for wartime forced labor kept alive the issues of history. The good news was economic. Commercial relations rapidly expanded during the quarter, stimulating Japanese growth. As a result, Japanese views of China were shifting from “threat” to “market opportunity.”



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Japan-DPRK relations show no progress on abductions. In the meantime, the Japanese have passed new sanctions legislation as a birthday gift to Kim Jong-il. Japan-South Korea free trade agreement talks gain momentum, as do historical animosities. Finally, the quarter saw Japanese and South Korean contributions to the Iraq reconstruction effort. President Bush’s praise of Seoul and Tokyo has not been exaggerated. In both cases, America’s two most prominent Asian allies have shown their support for establishing stability in the Middle East – Japan with the second largest monetary contribution, and South Korea with the third largest contribution of manpower. The size and substance of this support show that the scope of both these American alliances in Asia has effectively expanded beyond Asia to embrace global issues of common interest. Who said America’s Asian alliances were only about Asia?

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There was unprecedented diplomatic posturing by China and Russia this quarter: the Shanghai Cooperation Organization was inaugurated and the second round of six-party talks on the Korean nuclear issue was held. Meanwhile, the Russian military conducted its largest exercises in 22 years and the People’s Liberation Army went to high alert when Taiwan’s presidential politicking moved to hyper mode. To minimize the impact on China of Moscow’s decision to proceed with the Angarsk-Nakhodka oil pipeline, President Putin authorized Russian railroad ministry and transportation companies to increase oil exports to China. Russia’s move would allow it to meet at least part of China’s growing need for energy, and seemed to signal Russia’s final decision in favor of the Taishet-Nakhodka (Japan) line. Ultimately, Russia will give priority to its own interests regarding an oil pipeline in East Siberia.

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U.S.-Taiwan relations over the four years of Chen Shui-bian’s first term shifted unevenly between commitment and crisis. The DPP’s rise to power initially frightened U.S. policymakers, who feared the radicalism of a party long identified with independence. They discovered that Chen could be pragmatic and willing to accept guidance from the U.S. Taiwan accordingly received significant support for reform and expansion of its military capabilities; support that sometimes exceeded what the DPP and the Taiwan military were prepared to accept. While Taiwan has enjoyed an era of unprecedented friendship in Washington, Chen has pushed the limits by taking several initiatives considered provocative by China and the U.S. without prior consultation with the U.S. The result has been anger and friction with uncertain implications for the future, as Chen prepares for his second term following his narrow election victory.

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## Regional Overview

# CVID, WMD, and Elections Galore

Ralph A. Cossa  
President, Pacific Forum CSIS

The six-party coalition of the not-so-willing held its long-awaited second meeting in Beijing in Feb with CVID – the complete, verifiable, irreversible dismantlement of all of North Korea’s nuclear programs – becoming the new mantra. CVID fit snugly into the Bush administration’s broader focus on halting the global spread of weapons of mass destruction (WMD), underscored in a major address by the president in early February laying out his determination to “close the loopholes” of the Nuclear Non-Proliferation Treaty (NPT) and rally worldwide (including United Nations) support behind the expanding Proliferation Security Initiative (PSI).

Meanwhile, in the “be careful what you wish for because you might get it” category, two of Asia’s most vibrant democracies – Taiwan and South Korea – became a bit too vibrant this quarter as the region prepared for a series of presidential and parliamentary elections that could change the political face of East Asia for years to come. Anxiety levels were also beginning to rise as Asians watched the political process unfold in advance of this November’s U.S. presidential elections. A question (or accusation) on many minds: “Were Pyongyang and Washington already playing a ‘wait until November’ game?”

### **Six-party talks: agreements ‘in principle,’ but not much else**

The major multilateral gathering of the quarter took place in Beijing on Feb 25-28 when senior officials from China, the DPRK, ROK, Japan, Russia, and the U.S. finally came together for round two of the six-party talks, fully six months after round one ended with an “agreement in principle” – immediately disavowed by North Korea – that they would meet again.

Meet again they did, thanks in no small measure to Chinese persistence, persuasion, and added incentives (read: bribes – reportedly including “significant” new amounts of economic and energy assistance and an agreement to build a glass manufacturing factory in the North in honor of Dear Leader Kim Jong-il’s birthday). Once again, however, the most substantive accomplishment to come out of the talks seemed to be agreement – “in principle” – to meet again, albeit this time a bit more quickly (specifically, before the end of the second quarter). All sides also reportedly agreed to establish a working group to help with preparations for the third plenary meeting, although neither a date nor terms of reference were established.

Commendable efforts by spin doctors notwithstanding, it was hard to be too enthused about the outcome. Hopes had been raised prior to the meeting that a freeze of North Korea's various nuclear programs might be accomplished at the meeting. If such an action were identified as "a first step toward dismantlement," Washington intimated, it would not object to a ROK plan to provide energy assistance to the North, even though Washington itself would not participate in any "rewards" until significant steps toward dismantlement had been achieved. North Korea added to its "freeze" tease by hinting that its nuclear energy program might also be placed on the negotiating table, which addressed Washington's NPT "loophole" concerns as well.

It quickly became apparent that neither this, nor any other "breakthrough" would be achieved, however. Regardless of what one thinks of the current U.S. negotiating stance – and I would characterize it as more flexible than its critics are willing to acknowledge but short of where the other parties (with the possible exception of Japan) wish it to be – once Pyongyang took its *What highly enriched uranium (HEU) program?* stance at the beginning of the talks, meaningful progress became impossible.

Rumor has it that the DPRK representative at one point asked – and reportedly did not receive a satisfactory answer to – this "hypothetical" question: "What would happen if we were to 'confess' to possessing an HEU program?" But, rumors and hypotheticals aside, there was no way – strategically or politically – that Washington could proceed without some acknowledgment that all of Pyongyang's nuclear programs were on the table. Making matters worse, Pyongyang also insisted on its right to continue to pursue its "peaceful nuclear energy program." This does not mean that its nuclear power plants will remain off the table forever, but the timing – and price – apparently do not yet seem right to Pyongyang.

**Chairman's Statement.** Up to the eleventh hour, the Chinese hosts appeared set to issue the gathering's first joint statement, until Pyongyang reportedly attempted to insert some words about the continuing philosophical differences between itself and Washington into the communique's text. When Washington (among others) refused to accept these last minute changes, Beijing had to resort to a Chairman's Statement which merely noted that round two had "launched the discussion on substantive issues, which was beneficial and positive, and that the attitudes of all parties were serious in the discussion." "While differences remained," the Statement noted, "the Parties enhanced their understanding of each other's positions." Most importantly, they "expressed their commitment to a nuclear-weapon-free Korean Peninsula, and to resolving the nuclear issue peacefully through dialogue in a spirit of mutual respect and consultations on an equal basis." They also agree to "coexist peacefully."

**U.S. pleased.** The U.S. delegation head, Assistant Secretary of State James Kelly, subsequently told the Senate Foreign Relations Committee (March 2) that "the talks are working to our benefit and are moving a serious process forward." Kelly noted that the talks had remained focused on Washington's CVID objective, "and that acronym and the important goal it represents has been accepted by all but the North Koreans." He asserted

separately that CVID included “both plutonium and uranium enrichment-based programs.” However, despite the highly-publicized confession by the father of Pakistan’s nuclear weapons program, A. Q. Khan, that he had sold uranium enrichment equipment to both Libya and North Korea, several members of the six-party process seemed openly skeptical of Washington’s HEU accusations (or more willing to disregard the evidence even if it might be true).

Kelly also signaled that the “freeze” deal may not yet be dead: “The Republic of Korea has also made a valuable commitment. It would offer fuel relief to the North if there were a halt or ‘freeze’ of the nuclear programs. But South Korea has made clear that any such freeze is but a temporary measure toward the larger goal, and will have to be complete and verifiable.” There has been open skepticism about whether Washington hardliners would accept such a deal if one could be arranged, but at least the idea has been tabled before the U.S. Congress.

It was clear from Kelly’s remarks that Washington sees the ball as currently residing in Pyongyang’s court: “The process of transforming the situation . . . must begin with a fundamental decision by the DPRK. The DPRK needs to make a strategic choice for transformed relations with the United States and the world – as other countries have done, including quite recently – to abandon all of its nuclear programs.” In case the reference was too subtle, Kelly later noted that he “discussed Libya’s example with our North Korean counterparts, and we hope they understand its significance.” For its part, Pyongyang has been quick to point out that it is not Libya. Nonetheless, Libya’s decision to come clean about its WMD programs in return for subsequent economic and political benefits does provide a refreshing alternative to the Iraq model for dealing with such problems.

**CVID dissected.** It may be true, as Kelly asserts, that the other four members (less North Korea) support CVID “in principle,” but it is not clear all agree on the definition of its components. Nor has Washington been real specific as to what CVID fully entails. It has, however, made it clear that “complete” means both plutonium and uranium enrichment-based programs. Thus it would appear that DPRK acknowledgment of an HEU program – and a willingness by the others to press Pyongyang on this point – is a prerequisite to progress.

“Verifiable” means just that and it has long been acknowledged that devising a verification regime intrusive enough to satisfy hardline skeptics will be no mean feat. This is why the Libyan model is potentially so important. Verification can only work if the North cooperates in turning in its hidden hardware (not to mentioned reprocessed plutonium). Taking an Iraqi-style “catch me if you can” approach seems unworkable.

The definition of “irreversible” remains subject to the most interpretation. At a minimum, it would seem to require an end to all DPRK nuclear programs, including energy-associated efforts (both production and reprocessing), to guard against future backsliding. While Washington has yet to formally demand an end to such programs, it

has made no secret of its desire to avoid an Agreed Framework II or a revival of any light water reactor (LWR) programs.

Finally, Washington sees “dismantlement” as an action, not as a future promise. As noted, however, it does now accept some *quid pro quos* being provided by others in return for a “verifiable freeze” as a first step toward dismantlement, even if Washington’s own incentives still apparently require a demonstration of DPRK sincerity before delivery. North Korea’s reaction to this has thus far been pretty blunt, if not shameless: “Only if the compensation issue is settled can the DPRK freeze plan be achieved,” a DPRK spokesman asserted the day before the Beijing talks began, “If the ‘freeze first, compensate later’ question is raised in these talks, [we] will resolutely oppose it.”

**Whose side is time on?** One thing all sides seem to agree on is that the six-party process will be a long and difficult one. What seems to be missing among the parties – while nonetheless abundant among the pundits and critics – is a sense of urgency. As Chinese Foreign Minister Li Zhaoxing noted in his closing remarks to the participants, “Differences, even serious differences still exist. The road is long and bumpy. But time is on our side. Time is on the side of peace.”

Is it? True, North Korea did refrain from repeating prior threats to test or deploy nuclear weapons (and has long since seen the wisdom of not threatening to export them). But there was no agreement to refrain from destabilizing or counter-productive behavior and, absent a freeze, Pyongyang’s nuclear programs must be assumed to be proceeding at full speed. As Pyongyang’s chief delegate, Deputy Foreign Minister Kim Gye Gwan said at a post-talks news conference, “it will be a great mistake if the U.S. thinks that time is with them indefinitely.”

### **New measures to counter the WMD threat**

If a sense of urgency was missing from the six-party dialogue, it permeated President Bush’s speech on WMD proliferation two weeks earlier (Feb. 11) at the National Defense University in Washington. Noting that Cold War “weapons of last resort” could become a “first resort” in the hands of terrorists, President Bush stated categorically that “America will not permit terrorists and dangerous regimes to threaten us with the world’s most deadly weapons.” Mr. Bush called for changes in thinking and strategy, not only in America but globally, to deal with this challenge. He promised a more proactive approach toward dealing with WMD threats: “We’re determined to confront those threats at the source. We will stop these weapons from being acquired or built. We’ll block them from being transferred. We’ll prevent them from ever being used.” He did not say exactly how this would be done, acknowledging that nations with WMD capabilities “pose different challenges; they require different strategies.”

Not surprisingly, he held up the “Libyan Model” as a preferred approach: “Colonel Ghaddafi made the right decision, and the world will be safer once his commitment is fulfilled. We expect other regimes to follow his example. Abandoning the pursuit of illegal weapons can lead to better relations with the United States, and other free nations.

Continuing to seek those weapons will not bring security or international prestige, but only political isolation, economic hardship, and other unwelcome consequences.”

President Bush then announced seven proposals to “strengthen the world’s efforts to stop the spread of deadly weapons.” First was the expansion of the Proliferation Security Initiative, currently focused on shipments and transfers, to include “direct action against proliferation networks.” In this regard, the 14 PSI core participants – Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, the UK, and the U.S. – held their fifth plenary in Lisbon on March 4-5 and supported the president’s call for greater cooperation “in preventing WMD proliferation facilitators (i.e., individuals, companies, other entities) from engaging in this deadly trade.” Both in Bush’s speech and in Lisbon, emphasis was placed on greater intelligence and law enforcement cooperation.

Second, President Bush called for action, by all nations, “to strengthen the laws and international controls that govern proliferation.” To this end, the U.S. and UK on March 25 presented to other UNSC members a draft resolution that would require all countries to “adopt and enforce appropriate effective laws” to deny WMD, their components, and “means of delivery” (such as missiles or drones) to any “non-state actors.” The draft, which grew out of Bush’s September 2003 speech to the UN General Assembly, had been circulating since December but had drawn criticism, particularly from China, over indirect references to the PSI and other “frameworks” (which were dropped from the final draft text).

Third, President Bush called for a reinvigoration and expansion of the 1991 Nunn-Lugar effort to help find productive employment for former weapons scientists (now including those from Iraq and Libya as well as the former Soviet Union) and to dismantle, destroy, and secure weapons and materials left over from the Soviet, Libyan, or other WMD arsenals. The key, of course, is continued funding, both from the U.S. Congress and from the international community.

Fourth was an expanded effort to “prevent governments from developing nuclear weapons under false pretenses” by closing the current “loophole” in the 30-year old Nuclear Non-Proliferation Treaty, which allows states to “cynically manipulate” the NPT by acquiring the material and enrichment/reprocessing infrastructure necessary for manufacturing illegal weapons: “The 40 nations of the Nuclear Suppliers Group should refuse to sell enrichment and reprocessing equipment and technologies to any state that does not already possess full-scale, functioning enrichment and reprocessing plants.”

Stopping new states from acquiring such capabilities is not enough. Bush argued that the International Atomic Energy Agency (IAEA) “must have all the tools it needs to fulfill its essential mandate.” One such tool is the Additional Protocol, which requires states to declare a broad range of nuclear activities and facilities, and allows the IAEA to inspect those facilities. As a fifth step, President Bush proposed that “by next year, only states that have signed the Additional Protocol be allowed to import equipment for their civilian nuclear programs.”

Sixth, to “ensure that the IAEA is organized to take action when action is required,” he proposed the creation of a special committee of the IAEA Board to “focus intensively on safeguards and verification.” Seventh and finally, Bush argued that no state under investigation for proliferation violations should be allowed to serve on the IAEA Board of Governors or on the new special committee and that any state currently on the Board that comes under investigation should be suspended.

Only time will tell how much energy and enthusiasm Washington will place behind this new counter-proliferation effort and how much regional and broader international support it will enjoy. But the Bush administration’s efforts to strengthen and reinforce the NPT and IAEA and its attempt to use the UNSC as well as its ad hoc PSI coalition of the willing as vehicles for achieving these goals were a welcome departure from past tendencies that failed to emphasize or appreciate the value of international regimes.

### **Elections everywhere, but not quite democracy’s finest hour!**

Winston Churchill once said that “democracy is the worst form of government, except for all those others that have been tried.” Events in Korea and Taiwan during the quarter have already demonstrated the irony imbedded in these words and we are early in a year containing a number of important presidential and parliamentary elections. Despite numerous ups and downs, thus far the democratic process continues to prevail, however, even if moving down the road to democracy remains challenging, especially in those states where it remains in an embryonic form.

**Russia: Putin prevails.** The year’s first major election in or impacting on Asia was the March 14 Russian presidential elections, which saw President Vladimir Putin reelected with a sweeping mandate (71 percent). While the election process was hardly a model for democracy – Putin had jailed his strongest (and richest) opponent early in the process and the government kept the media (and especially TV stations) largely muzzled – the outcome can still be seen as an expression of the Russian people’s desire for strong, steady leadership. This should give Putin an even greater sense of confidence in dealing with Washington and with Asia. This is not necessarily a bad thing. While Russian and American world views appear increasingly divergent, both see the need to cooperate in the war on terrorism and in efforts to stem the flow of WMD (Moscow’s reluctance to join the PSI notwithstanding). Russia also continues to play a generally constructive role in the six-party talks although its ability to influence North Korea is limited . . . but, then again, so it seems is everyone else’s.

**Taiwan: a too-close shave.** The most closely watched and clearly most controversial election this (and we hope any other) quarter was the March 20 Taiwan election, which turned out to be more like an Oliver Stone movie, complete with a suspicious (and still unexplained) assassination attempt (in which the president and vice president both received minor gunshot wounds), an unusually high number of invalid ballots (shades of “hanging chads”), and a final margin of victory of less than one-quarter of 1 percent, prompting calls for recounts, if not re-votes. When all is said and done, however, like it or not – and Beijing clearly does not like it – President Chen Shui-bian and his ruling

Democratic Progressive Party (DPP) are expected to begin a second four-year term on May 20 (barring an unexpected reversal during the impending recount).

While Chen's margin of victory was minuscule, the campaign itself sent a strong message to Beijing. The so-called (and falsely labeled) "pro-PRC" candidate, Lien Chen, took great pains to distance the opposition "pan-blue" camp from Beijing's "one China" concept, even playing down his own earlier "one China, different interpretations" formulation. Taiwanese nationalism and other identity issues are a growing phenomenon that Beijing must recognize and deal with effectively if there is to be any future progress in cross-Strait relations.

The "good news" from Beijing's (and Washington's) perspective is that President Chen's referendum campaign (detailed last quarter) failed, with less than half the eligible voters (but more than half of those voting) casting a ballot on the two referendum questions: 1). *Should the Government acquire more advanced anti-missile weapons if the Chinese refuse either to withdraw their missiles opposite Taiwan or to renounce the use of force?* 2). *Should the Government engage in negotiations with Mainland China on the establishment of a "peace and stability" framework for cross-Strait interactions?* [paraphrased] Nonetheless, more voted on the referendum than voted for Chen and 85 percent of those who voted said "yes," giving Chen a moral victory of sorts on this issue as well.

All eyes will now be on President Chen's May 20 swearing in ceremony to see if he will repeat the "five noes" from his May 2000 inaugural address or take a less conciliatory (or even a more openly confrontational) approach toward Beijing. Chen has already intimated that he will repeat (or at least not renounce) the "five noes" and has pledged to support the "status quo" – recall it was concern that "he may be willing to make decisions unilaterally that change the status quo, which we oppose" that led to President Bush's open criticism of Chen last December – although Chen's definition of the status quo clearly differs from Beijing's, ensuring a tough four years ahead unless Beijing also decides on a more conciliatory, cooperative approach. [For this author's suggestions on how Beijing could be more constructive, see *PacNet* #11, "Taiwan Elections: Time for Diplomatic Gestures from Beijing?" March 16, 2004.]

**Malaysia: secularism wins big.** Largely overshadowed by events in Taiwan were the March 21 Malaysian elections that provided a sweeping mandate for Prime Minister Abdullah Ahmad Badawi, Dr. Mahathir's chosen successor. Abdullah Badawi's Barisan National (BN) Party won 90 percent of the seats in Parliament and retained (and in one case gained) control over 12 of Malaysia's 13 state assemblies, dealing a crushing blow to the Islamic fundamentalist opposition Parti Islam SeMalaysia (PAS) Party. The prime minister had surprised and delighted advocates of reform with his crackdown on corruption since replacing his mercurial patron on Oct. 31, 2003. His deeply felt but moderate religious views were in stark contrast to an increasingly confrontational PAS and the BN victory firmly establishes the more secular model of governance instituted by Dr. Mahathir, something the United States, no less than the international business community, is sure to appreciate.



**Indonesia: democracy coming of age?** It remains to be seen if moderate Islam will also prevail in Indonesia as voters go to the polls first for parliamentary elections in early April, followed by presidential elections in July. A run-off election is planned for Sept. in the likely event that no candidate achieves more than 50 percent of the vote in Indonesia's first direct presidential elections – in 1995 and 1999, the election took place within the People's Consultative Assembly. While 90 percent of the country is nominally Islamic, religious political parties have never been in a position to dominate national politics since free elections were instituted in 1995 and the main battle this year is expected again to be between two secular-nationalist parties, the ruling Indonesian Democratic Party of Struggle (PDI-P) lead by President Megawati Sukarnoputri and the nation's second-largest (and previous ruling party) Golkar, which is regaining popularity and is expected to do well in the April 6 Parliamentary contest. The candidates ready and eager to challenge President Megawati in July are far too numerous to name at this point but a close, tough contest is expected with the outcome (or even the most likely candidates) difficult to forecast. Stay tuned!

**Korea: UP-lifting?** South Koreans go to the polls on April 15 to elect a new National Assembly but much, much more than that now appears at stake since the impeachment this quarter of President Roh Moo-hyun, ostensibly because of his statement of support for one of the contesting parties. The president's support for the upstart Uri Party (UP) over the opposition Grand National Party (GNP) and the Millennium Democratic Party (MDP) – nominally his own party, since he ran on the MDP ticket – caused the opposition to unite and present Roh with an ultimatum in early March: either apologize for his comments – which were judged to be illegal but only a minor infraction of ROK election laws – or face impeachment.

Roh could have defused the crisis by acknowledging that his mistake but decided instead to call the opposition's bluff. After internationally broadcast fisticuffs between his supporters and detractors on the floor of the National Assembly, Roh was impeached by a vote of 193 to 2 (Uri Party members walked out before the vote), on the grounds of election law violations, corruption, and incompetence. Roh's fate now lies in the hands of a Constitutional Court, where within 180 days (and more likely by the end of April but not before the elections) six of nine members must vote to support the impeachment or President Roh returns to the Blue House after a paid vacation with full room and board.

Public opinion is running 70-30 against impeachment and the Uri Party is expected to gain a big boost as a result of the political showdown. Some have suggested that Roh, ever the brilliant political tactician, orchestrated the whole crisis to lift the UP up. Whether by design or default, that is what has happened. While inconceivable at the beginning of the year, it now appears Uri could become the largest (and perhaps even the majority) party in the National Assembly after the April 15 election, giving Roh the foundation he has thus far lacked to pursue his political agenda . . . assuming, of course – as almost everyone does – that the impeachment charges do not stand.

The implications of all this for ROK-U.S. and South-North relations are less than clear but most UP members are considerably more sympathetic and tolerant of North Korea than they appear to be toward Washington. Without the checks and balances provided by a more conservative National Assembly, it is difficult to predict in which direction Roh will choose to take either relationship. Meanwhile, in the very-capable hands of Prime Minister and now acting-President Goh Kun, the country remains safe and secure and perhaps more politically stable than at any time since Roh's election, which could revive calls for a less-powerful presidency or even for a parliamentary system somewhere down the line.

**Philippines: star power.** Filipinos go to the polls on May 10 to select their next president in what is shaping up to be a neck-and-neck race between the unelected incumbent, President Gloria Macapagal-Arroyo – the former vice president who assumed office after then-President Joseph Estrada was removed following “people power” demonstrations in 2001 – and Fernando Poe, an immensely popular movie actor with no political experience and close ties to fellow actor Estrada (who remains under detention while awaiting trial for corruption). International investors are keeping a close eye on the contest. While former economics professor Arroyo has not distinguished herself in the management of the Philippines rapidly sinking economy, few in the corporate sector believe that turning things over to a complete political novice will make things anything other than worse, a view reinforced by some of Poe's off-hand remarks on economic affairs. Meanwhile, Arroyo has named her coalition after a Taiwan boy band and has a TV personality running as her vice president and several other movie stars on her ticket, prompting one frustrated Makati business leader to lament: “We have politicians who want to be celebrities and celebrities who want to be politicians and neither are doing a good job in what they profess they want to be.”

**Japan: Iraq redux?** Looking past next quarter, many pundits are already depicting the Upper House elections in Japan in July as a potential vote of confidence on Prime Minister Koizumi's controversial decision to deploy Self-Defense Forces (SDF) to Iraq to help in the reconstruction effort. Public opinion, initially running strongly against Koizumi's decision, now seems more equally divided but there is concern that this upward trend could be reversed if the SDF troops in Iraq were to sustain significant (some would say any) casualties. More ominously, the Spanish public's reaction to the March 11 terrorist attack against the nation's rail system, while perhaps over-interpreted, nonetheless has raised concern that terrorist groups might attempt to make a similar “statement” in Japan just prior to the July elections. Security has already been tightened throughout Japan.

**Burma: first step on road to democracy?** While no one anticipates democracy breaking out any time soon in one of the world's most repressive societies, even in Burma there was a positive sign at quarter's end that a first step might be taken in accordance with the “road map toward democracy” prepared last year by Prime Minister Khin Nyunt's office. On March 31, the ruling junta (the State Peace and Development Council or SPDC) announced the convening of a National Convention in mid-May to discuss a new constitution. Since the SPDC had previously intimated that all parties,

including Aung San Suu Kyi's National League for Democracy (NLD), would be allowed to participate in the convention, this has raised speculation that Daw Suu and other key NLD officials might be released (again) from detention in time to participate.

**Hong Kong: “one country, one system”?** The next major election in Hong Kong is not scheduled to take place until 2007 but political maneuvering has already begun as China begins to issue restrictive interpretations on just what will and won't be allowed as the former British colony moves along the bumpy road toward greater representational democracy as promised by its Basic Law. While Beijing had promised a certain degree of political freedom for a 50-year period under its “one country, two systems” formulation, Beijing appears nervous about allowing too much free expression. “Hong Kong is not ready for democracy” goes the Chinese reasoning, using language normally reserved for discussions about political pluralism on the mainland. Translated, this means there is no assurance that only “patriotic Chinese” will be elected if the people are left to their own devices. An official “reinterpretation” of the Basic Law is expected in April, which could prompt a return of “people power” protests, Hong Kong-style, as witnessed last year.

**U.S.: election madness begins, and it's a long time until November.** Normally, Asians don't start seriously worrying about American politics until after the conventions have officially named the nominees and set party platforms (which are more carefully read abroad than in the U.S.). Not so this year. With John Kerry quickly earning the “presumptive nominee” title, the 2004 U.S. presidential campaign already seems in full swing. Foreign policy (other than vis-à-vis Iraq) has not yet become a major topic of debate but Asia appears unlikely to escape some not-so-friendly fire once things heat up further. “Outsourcing” seems destined to be a major topic of debate and one cannot discuss this issue without China (and India) figuring prominently in the debate. Another perennial favorite, trade imbalances, will serve to put China and several other Asian nations under the spotlight and even America's “best friend” in Asia, Japan, may find itself in line for renewed Japan-bashing, given Tokyo's continuing massive interventions in currency markets to prevent the climb in value of the yen against the dollar.

After many years of Japan-bashing and Japan-passing, Tokyo has enjoyed the recent era of what I have termed “Japan-surpassing,” where Washington's every expectation – at least in the security arena – has been exceeded. However, some Japanese are now openly worrying that Prime Minister Koizumi's unabashed support for President Bush and his war in Iraq will, if the Democrats win in November, result in retribution. This worry seems misguided – Japan is providing just the kind of support in Iraq that Sen. Kerry believes all of America's allies should be providing – but many in Asia, as elsewhere, follow the “devil you know” line of reasoning.

Speaking of devils, Republicans are already trying to brand John Kerry as “Kim Jong-il's best friend in America” [readers can pick whether Kim or the Republicans are the “devils” in question] and there are legitimate concerns that North Korea may be stonewalling at the six-party talks to assess the prospects of “regime change” in Washington, in hopes that a kinder, gentler administration might be more amenable to

Pyongyang's demands. This line of reasoning is seriously flawed – even President Bush would have trouble selling a new DPRK incentive package to Congress; a Democrat wouldn't even try – but no one ever accused North Korea of being experts at understanding the democratic political process. Of course the flip side of this “wait until November” coin is the suspicion that Republican hardliners are themselves stalling until after the elections (and the further pacification of Iraq) so that they can seriously pursue their own brand of regime change. This can be a dangerously counterproductive game, however one plays it.

### **Regional economic trends: it's (mostly) all about China**

Briefly updating last quarter's economic forecast, the sway of China's economy on regional trade, investment, and production patterns continued to test economic policy makers throughout the region this quarter. On March 24, China announced the adoption of a second set of credit tightening policies that intend to apply steady brakes to its still-overheating economy. While Asia's addiction to export-led growth is ultimately dependent on the U.S. consumer, Pacific Forum Director for Programs Jane Skanderup argues that China has become the handy hungry middleman in this bargain, and its outsized demand in 2003 contributed mightily to Asian economic recovery last year. Chinese officials are visibly concerned that their August 2003 tightening measures failed to stem credit expansion as desired, and lowering annual GDP growth to 7 percent from last year's 9.1 percent was a major focus of Premier Wen Jiabao's address to the National People's Congress in early March.

China's success at a soft landing has high stakes for China and the region, according to Skanderup. For China, financial sector restructuring is at the heart of its many ills, not to mention WTO commitments, with the most immediate concern being that the new credit will aggravate the non-performing loan drain, and could hazard the intended public offering of two of the four state-owned banks later this year. For the region, export demand from China should slow dramatically, and policy makers will once again come face to face with the challenges of restructuring and reform that could sow the seeds of domestic demand as fuel for economic growth. But this kind of political leadership will be hard to come by given all the above-referenced elections this year. One can only hope that the region's economic ministers keep their eye on the ball as their leaders toil in the streets of democracy.

It is also worth noting that the bedraggled Doha Development Round got a modicum of attention this quarter as USTR Zoellick made a world tour, including visits to Tokyo, Beijing, and Singapore with six ASEAN ministers. Unlike the jolt of Sept. 11 that got this round going, WTO members are trying to recover from Cancun mistakes and get into the long slog of problem solving. It doesn't help that bilateral deals take so much attention away from the global focus, nor that the U.S. Congress will likely take a pass on approving bilateral deals already concluded. With the U.S. election driving our own form of hyped economic debate, one can at least appreciate Zoellick's soldiering on the “free” trade cause alone.

## **Regional Chronology January-March 2004**

- Jan. 1, 2004:** Japanese PM Koizumi makes New Year visit to Yasukuni Shrine.
- Jan. 6, 2004:** DPRK offers to stop testing and producing nuclear weapons, as well as cease operating its nuclear power industry, if compensated.
- Jan. 6-10, 2004:** Stanford University Professor John Lewis leads delegation to Yongbyon nuclear facilities in the DPRK, including former Los Alamos Director Sig Hecker, former State Dept. negotiator Jack Pritchard, and Congressional staff members Frank Jannuzi and Keith Luse.
- Jan. 7, 2004:** Cambodia marks the 25th anniversary of the fall of the Khmer Rouge.
- Jan. 12, 2004:** WHO links the death of three children in Hanoi to an Avian flu virus that has killed thousands of chickens in Vietnam.
- Jan. 12, 2004:** U.S. and China sign Statement of Intent establishing a process for cooperation with the IAEA on a range of nuclear nonproliferation and security activities, including strengthening export controls and nuclear safeguards.
- Jan. 12, 2004:** USTR Robert Zoellick calls for reinvigoration of WTO Doha Development Agenda trade talks.
- Jan. 13, 2004:** U.S. announces immediate embargo on importation of civet cats to prevent the spread of SARS.
- Jan. 14, 2004:** ROK President Roh accepts resignation of FM Yoon Young-kwan.
- Jan. 14, 2004:** Former South Vietnam PM Nguyen Cao Ky, visits Vietnam for the first time since the war ended in 1975 for the lunar new year holiday.
- Jan. 14-15, 2004:** Chairman of the Joint Chiefs of Staff Gen. Richard Myers visits China.
- Jan. 15, 2004:** Roh appoints veteran diplomat Ban Ki-moon as foreign minister.
- Jan. 15, 2004:** Shanghai Cooperation Organization Secretariat opening ceremony in Beijing.
- Jan. 16, 2004:** Taiwan President Chen Shui-bian announces the wording of his proposed referendum; Secretary Powell says it shows some “flexibility.”

**Jan. 19, 2004:** PM Koizumi, in speech opening Parliament, marks the first day Japanese troops have entered a combat zone since WWII and defends support of the U.S. war in Iraq stating, “Japan’s development and prosperity depends on world peace and stability.”

**Jan. 20, 2004:** U.S. police officers attend a 22 nation Asia-Pacific conference in Bali on the global campaign against terror.

**Jan. 21, 2004:** The U.S. initiates an antidumping investigation on shrimp imports from India, China, Thailand, Vietnam, Brazil, and Ecuador worth more than \$2 billion a year.

**Jan. 21, 2004:** Naoto Kan of opposition Democratic Party of Japan calls for PM Koizumi to resign over his decision to send troops to Iraq, claiming he violated the Japanese constitution.

**Jan. 21-22, 2004:** TCOG meeting in Washington, DC.

**Jan. 22, 2004:** U.S. expresses deep disappointment in the Malaysian court of appeal decision to uphold the conviction and sentence of former Deputy PM Anwar Ibrahim.

**Jan. 23-27, 2004:** Secretary Powell visits Russia and Georgia.

**Jan. 25, 2004:** Indonesia’s Ministry of Agriculture confirms the avian flu epidemic has reached Indonesia.

**Jan. 28 to Feb. 4, 2004:** Deputy Secretary of State Richard Armitage visits China, Mongolia, and Japan.

**Jan. 29, 2004:** Dead sperm whale being transported to a natural preserve explodes in Tainan City, Taiwan.

**Jan. 29, 2004:** BBC reports the DPRK has offered Nigeria missile technology. The U.S. expresses concern.

**Jan. 29-30, 2004:** Under Secretary of State Bolton visits Moscow; fails to convince Russia to join PSI.

**Jan. 30, 2004:** In Beijing, Secretary Armitage states that the U.S. opposes any unilateral action by either side that could affect the status quo in the region.

**Feb. 1-2, 2004:** Assistant Secretary of State Kelly visits Seoul.

**Feb. 3, 2004:** President Chen calls for Taiwan and China to launch talks on political, economic, and military relations after the island’s March election; also offers to establish a demilitarized zone across the Taiwan Strait.

**Feb. 3, 2004:** In Tokyo, Australia, U.S., and Japan conduct fifth round of the Trilateral Security Dialogue that began in August 2002.

**Feb. 3-6, 2004:** North-South Cabinet-level talks in Seoul.

**Feb. 3-5, 2004:** President Megawati Sukarnoputri opens Bali Regional Ministerial Meeting on Counter-Terrorism co-chaired by Indonesia and Australia; U.S. Attorney General John Ashcroft and over two dozen foreign ministers from Asia and Europe participate.

**Feb. 5, 2004:** Deputy USTR Charles Freeman says “China’s WTO compliance record falls short of the mark”; notes that over the past three years, U.S. exports to the world have decreased by 9 percent, while China exports have increased by 62 percent.

**Feb. 6, 2004:** Bombing on Moscow subway kills 39 people and injures more than 100.

**Feb. 8, 2004:** U.S. and Australia conclude historic free trade agreement.

**Feb. 8-11, 2004:** Adm. Thomas Fargo, Commander, U.S. Pacific Command, visits Vietnam.

**Feb. 9, 2004:** The UN World Food Programme (WFP) issues statement that it faces a supply shortfall for emergency aid to the DPRK due to a funding crisis.

**Feb. 10, 2004:** The sixth round of bilateral U.S.-China Defense Consultative talks are held in Beijing.

**Feb. 10, 2004:** USTR Zoellick visits Tokyo.

**Feb. 11, 2004:** President Bush proposes new measures to counter WMD threat during NDU speech.

**Feb. 11, 2004:** China dismisses President Chen’s proposal to establish a DMZ as “deceitful,” warning the March referendum will “provoke confrontation” and “endanger peace.”

**Feb. 11-13, 2004:** Adm. Fargo visits Indonesia, meets with President Megawati to discuss new measures to enhance military cooperation between the two countries.

**Feb. 12, 2004:** USTR submits to Congress a formal “Intent to Initiate Free Trade Agreement Negotiations with Thailand.”

**Feb. 12, 2004:** USTR Zoellick visits Beijing.

**Feb. 13, 2004:** South Korea's Parliament approves deployment of more than 3,000 troops to Iraq, in addition to 465 Korean military medics already in Iraq. It will be the third largest force after US and British troops.

**Feb. 13, 2004:** USTR Zoellick visit Singapore.

**Feb. 15, 2004:** Tin Oo, vice chairman of Burma's National League for Democracy, is released from prison and placed under house arrest in Rangoon.

**Feb. 16, 2004:** USTR Zoellick visits New Delhi for talks about increasing market access for goods, services, and agriculture.

**Feb. 16-17, 2004:** Under Secretary Bolton visits China for the third round of China-U.S. consultations on strategic security, multilateral disarmament, and proliferation prevention.

**Feb. 16-27, 2004:** Exercise *Cope Tiger* among the U.S., Thai, and Singapore air forces takes place at Korat, Thailand.

**Feb. 17, 2004:** Japan confirms second outbreak of bird flu.

**Feb. 19, 2004:** Under Secretary Bolton visits Tokyo, says the success of the upcoming six-party talks in Beijing depends on North Korea.

**Feb. 23-March 8, 2004:** Philippines and U.S. militaries hold *Balikatan-04* exercises in the Philippines with approximately 2,500 forces from each country.

**Feb. 25-28, 2004:** Second round of six-party talks on the DPRK nuclear issue held in Beijing. ROK outlines a three-step proposal to resolve the stand-off and offers "countermeasures" to reward the DPRK for compliance. U.S. hails the meeting as "very successful," but DPRK says there has been "no substantive and positive result." China states there is a "complete lack of trust" between the U.S. and North Korea.

**Feb. 25, 2004:** State Department issues "Country Reports on Human Rights Practices." Burma and the DPRK are rated as "extremely poor." Cambodia, Indonesia, Laos, and Vietnam's rated "poor"; East Timor and Thailand rated as "problematic." Also accuses China of "backsliding."

**Feb. 27, 2004:** A Japanese court sentences Asahara Shoko, the leader of a Japanese cult Aum Shinrikyo, to death for ordering the 1995 sarin gas attack on the Tokyo subway.

**Feb. 28, 2004:** Two million supporters for President Chen form human chain along the length of Taiwan.

**Feb. 28, 2004:** The U.S. and China celebrate the 32<sup>nd</sup> anniversary of the signing of the Shanghai Communiqué.



**March 1, 2004:** China releases annual report on human rights in the United States.

**March 1-4, 2004:** U.N. special envoy Razali Ismail visits Burma, meets pro-democracy leader Aung San Suu Kyi and Prime Minister Khin Nyunt in effort to restart peace talks between the NLD and the military junta.

**March 1, 2004:** The Philippine army chief announces that the U.S. Army will complete its training of Philippine soldiers in counterterror tactics by June, slightly extending its U.S. counterterror program on Mindanao.

**March 2, 2004:** Asst. Secretary Kelly tells Senate Foreign Relations Committee that six-party talks are “working to our benefit and are moving a serious process forward.”

**March 2, 2004:** U.S. Federal Reserve Chairman Greenspan singles out Japan for criticism over dollar intervention and high accumulation of dollar reserves.

**March 4, 2004:** ROK FM Ban Ki-moon meets Secretary Powell in Washington, D.C.

**March 5, 2004:** Secretary Powell meets with Hong Kong Democratic Party Leader Martin Lee in Washington, DC.

**March 7, 2004:** President Megawati says martial law could be lifted in Aceh province by May, but does not indicate if major military operations would also end.

**March 7, 2004:** FM Ban visits Tokyo, meets FM Kawaguchi. Japan and South Korea agree to work closely to persuade the DPRK to abandon its nuclear weapons program.

**March 8, 2004:** IAEA chief Mohamed ElBaradei tells IAEA’s Board of Governors that North Korea’s nuclear activities and withdrawal from the NPT have “set a dangerous precedent and thus remain a threat to the credibility of the nuclear non-proliferation regime.”

**March 9, 2004:** South Korea’s main opposition parties take unprecedented action and place a motion before the parliament to impeach President Roh.

**March 9, 2004:** The Indonesian Supreme Court announces a reduced prison sentence for JI leader Abu Bakar Bashir.

**March 12, 2004:** South Korea’s parliament impeaches President Roh for endorsing a pro-government party and for corruption and incompetence by a vote of 193 to 2, suspending his powers pending a Constitutional Court ruling. PM Goh Kun becomes acting president.

**March 14, 2004:** Vladimir Putin is re-elected president of Russia, winning 71% of the vote.

**March 14, 2004:** China amends its constitution to include formal guarantees of private property right and human rights.

**March 15-17, 2004:** Secretary Powell visits India.

**March 17, 2004:** *KCNA* commentary on Roh impeachment: “The U.S. is chiefly to blame for the incident. [...] The U.S. egged the South Korean political quacks, obsessed by the greed for power, on to stage such incident in a bid to install an ultra-right pro-U.S. regime there.”

**March 18, 2004:** U.S. files a WTO case against China for discriminatory tax rebate policy for integrated circuits.

**March 19, 2004:** ROK halts plans to deploy forces to Kirkuk, Iraq. Government official states that the ROK will eventually dispatch the troops, but only after finding a safer location.

**March 19, 2004:** DPRK says U.S.-ROK joint military exercises show the U.S. is preparing to attack the North and is not serious about pursuing a peaceful solution to the nuclear standoff.

**March 19, 2004:** President Chen Shui-bian and Vice President Annette Lu survive assassination attempt, receiving only minor injuries.

**March 20, 2004:** President Chen defeats opposition contender, Lien Chan, by less than 30,000 votes. Lien demands a recount. Voters reject Chen’s referendum.

**March 20, 2004:** President Bush, in speech at one-year anniversary of war against Iraq, singles out Japan and South Korea for their efforts to help fight the war on terrorism.

**March 21, 2004:** Abdullah Badawi’s Barisan National (BN) Party wins 90 percent of the seats in Parliament and retains control over 12 of Malaysia’s 13 state assemblies.

**March 21, 2004:** Taiwan High Court orders all ballot boxes sealed.

**March 21-28, 2004:** The U.S. and ROK hold joint military exercises *Foal Eagle* and *Reception, Staging, Onward Movement and Integration* (RSOI).

**March 22, 2004:** ROK Agriculture and Forestry Ministry confirms additional bird flu inflections and announces it killed 400,000 chickens and ducks on farms north of Seoul.

**March 23, 2004:** President Chen agrees to recount and vows to abide by the results.

**March 23-25, 2004:** Chinese FM Li Zhaoxing visits the DPRK (the first Chinese foreign minister to visit in five years) and meets with DPRK leader Kim Jong-il.

**March 23-26, 2004:** Seven Chinese activists land on Senkaku Islands and are arrested, taken to Okinawa for questioning, and subsequently released.

**March 25, 2004:** U.S. and UK introduce draft UNSC resolution to keep WMD out of the hands of non-state actors.

**March 26, 2004:** The White House announces that Vice President Cheney will visit Japan, China, and South Korea in April.

**March 26, 2004:** *Xinhua* announces that China will issue reinterpretation of Hong Kong's Basic Law.

**March 29, 2004:** Russia claims development of a "revolutionary" weapon that would penetrate a missile defense shield.

**March 29-April 2, 2004:** Chinese DM Cao conducts first visit by a Chinese defense minister to India in a decade.

**March 30, 2004:** Under Secretary Bolton says, "The global proliferation of biological, chemical, and nuclear weapons is becoming riskier and more uncertain, and the United States is sending the message that the pursuit of these weapons does not bring security, but insecurity."

**March 31, 2004:** FM Ban says a North Korean proposal for a nuclear freeze would be unacceptable unless North Korea commits to have all its nuclear-related facilities frozen.

**March 31, 2004:** Russian Duma decides to outlaw public protests in most Russian public places, including outside official buildings.

**March 31, 2004:** Ruling junta announces conference to discuss new constitution for Burma will be held in May, prompting speculation that Aung San Suu Kyi may soon be released (again).

## U.S.-Japan Relations: Staying the Course

Brad Glosserman  
Pacific Forum CSIS

It's only fitting that the United States and Japan marked the 150<sup>th</sup> anniversary of the Treaty of Kanagawa this quarter as they celebrated "the best relations ever" between the two nations. Cynics will note that it's only downhill from here, so there is every reason to enjoy the blissful state of relations while we can. To the delight of alliance managers on both sides of the Pacific, both governments managed to stay the course. There were no surprises or shocks, despite concerns about the risks in Japan's deployment of Self-Defense Forces (SDF) to Iraq.

That historic event was part of a larger effort to strengthen the framework for intensified collaboration between Washington and Tokyo. That agenda continues to move forward. There were some bumps along the way, but they were minor. All in all, it was a very good quarter.

### **Remembering 'a good decent man'**

This quarter witnessed the first anniversary of the start of the war on Iraq. In his March 19 speech commemorating that event, U.S. President George W. Bush mentioned Japan five times, closing with a reading from the diary of Japanese diplomat Oku Katsuhiko. Oku was, said Bush, "a good, decent man" who wrote, "the free people of Iraq are now making steady progress in reconstructing their country – while also fighting against the threat of terrorism. We must join hands with the Iraqi people in their effort to prevent Iraq from falling into the hands of terrorists ... This is also our fight to defend freedom."

Oku was part of Japan's diplomatic advance guard that was assessing conditions in Iraq prior to the SDF deployment. He, his colleague Mr. Inoue Masamori, and their Iraqi driver were murdered near Tikrit last November by unknown assailants. Despite some fears in Japan, the tragedy did not deter the deployment of Ground Self Defense Forces (GSDF) to Iraq this quarter. A 30-member advance reconnaissance team arrived Jan. 19, and the main body, an estimated 520 troops, was dispatched to the southern Iraqi city of Samawah in phases over a two-month period beginning in early February. There, they will engage in water-purification and medical-relief activities.

Japanese newspapers were divided over the move. In a March 19 editorial, the *Yomiuri Shimbun* argued “the only option for Japan is to support the United States.” True to form, the *Asahi Shimbun* countered that Prime Minister Koizumi Junichiro was merely following the U.S. lead, and that he should be using his supposed influence in Washington to push for more UN involvement. The *Mainichi Shimbun* echoed the *Asahi* position. Those divergent perspectives were reflected in Japanese public opinion. Opinion polls in January showed about 48 percent of respondents in an *Asahi* poll opposed the dispatch, down from 55 percent in December; 40 percent were in favor, up from 34 percent. A *Kyodo* survey showed 51.6 percent against vs. 42.8 percent in favor. Support continued its upward trend: by mid-March the numbers were roughly equal.

Attribute the shift in public opinion to relief that there have been no mishaps, as well as very positive media coverage. The SDF has proven good at PR. The troops have done their best to win friends on the ground. The image that has been conveyed back home is of Japan helping a shattered nation rebuild. Ranking U.S. officials from the president on down have applauded the Japanese deployment. The question hanging over the dispatch is how the public will respond if something goes wrong.

That is not merely an exercise in morbid speculation. The war anniversary came days after al-Qaeda linked terrorists detonated a series of bombs on Spanish commuter trains in Madrid, killing nearly 200 people; the perpetrators claimed that the Spanish government’s support for the U.S. in Iraq and in the war against terror made the country a legitimate target. In a letter from a group taking responsibility for the blasts, Japan was identified, along with several other U.S. allies, as a target for future attacks. There was a heavy security deployment in Japan following the blasts, with extra police deployed on the streets, underground, and around key facilities. That presence is a visible daily reminder of the price of Japan’s backing for the U.S. in Iraq and against terrorism.

### **In Iraq, thinking about North Korea**

While Prime Minister Koizumi and several other officials have explained that the Iraq deployment is a natural consequence of Japan’s status as a leading nation and its interest in international peace and stability, a lot of folks in Japan consider support for the U.S. in Iraq to be a *quid pro quo* for U.S. support for Japan in dealing with North Korea. The latter reasoning is wrong, but the threat from North Korea is proof of the importance of the U.S.-Japan alliance for Japan’s national security as well as that of the region.

The two governments have continued their joint efforts to get North Korea to accept “complete, verifiable, irreversible dismantlement” of its nuclear weapons program. The Trilateral Coordination and Oversight Group (TCOG), which includes South Korea, is the primary vehicle for that cooperation, although there are bilateral meetings as well. TCOG convened prior to the second round of six-party talks on the North Korean nuclear crisis that was held in Beijing in late February. The U.S. has strongly backed Japan’s demand to put the abductee question on the negotiating agenda, despite Pyongyang’s objections and the apparent concern of China that the issue will distract from the main focus of the talks. Undeterred, Assistant Secretary of State James Kelly reportedly

mentioned the issue during his opening remarks to the meeting. As mentioned elsewhere in this volume, the talks were disappointing, even though they produced agreement to meet again and to create a working-level group to help facilitate the dialogue process.

Near the end of the quarter, the U.S. informed Japan of plans to deploy an Aegis-equipped destroyer to the Japan Sea later in the year. While the move could be interpreted as a sign of growing concern about North Korean intentions, the decision was greeted in Japan as an indication of the U.S. commitment to Japanese security. Alliance solidarity was also advanced when Deputy Secretary of State Richard Armitage reiterated that any attack on Japan or its administrative territories – meaning the disputed Senkaku/Diaoyu Islands, in particular – would be seen as an attack on the U.S. Given the ongoing tussle over those rocky outcrops – see James Przystup’s contribution (Japan-China Relations) in this volume for more details – those were welcome words.

### **Focusing on the big picture**

All the quarter’s security-related developments highlight increasing coordination and cooperation between the U.S. and Japan. They have simultaneously underscored the need for yet more changes in the legal framework for Japan’s national defense and anticipated more radical changes that lie ahead. In March, the Japanese Cabinet approved seven bills to prepare for war-related contingencies that are designed to supplement the legislation passed by the Diet late last year. The new package includes measures to facilitate U.S.-Japan military cooperation in the event of emergencies. In addition, the two governments are preparing amendments to previous treaties, including the Acquisition and Cross-Servicing Agreement (ACSA), to expand cooperation. At present, Japan has to write a new agreement each time it dispatches forces, detailing the particulars of its cooperation. The new ACSA would be an ongoing agreement that covers a range of contingencies. Proponents of the change applaud the move, saying it makes the alliance more flexible and durable; critics charge it is too flexible and risks turning the U.S.-Japan alliance into a “NATO-like partnership” that sidesteps constitutional constraints and civilian control.

Missile defense (MD) has also returned to the political agenda. Actually, it was always there, but recent developments have forced it to the fore. The North Korean question, in addition to production and procurement schedules, has obliged Japanese decision makers to refocus on the issue. The U.S. decision to deploy an Aegis-equipped destroyer in the Sea of Japan is a reminder of the reality of the North Korean threat. Last year’s decision by the Tokyo government to deploy limited MD systems in Japan will require the two militaries to integrate planning, development, and systems design in unprecedented ways. The mechanics and physics of a response to a ballistic missile attack will force decision making to devolve to field commanders; existing Japanese law requires the prime minister to convene a Security Council meeting, which is followed by a Cabinet meeting to approve the launch of interceptors. The most optimistic estimate of that process is that it takes 30 minutes: a missile from North Korea only takes 8 minutes to hit its target. Something has to give. Similarly, the need to respond quickly to an attack makes the constitutional debate over the legality of shooting down missiles that might only be flying over Japan irrelevant. Controversy is also swirling around plans for the two countries to

share radar data. Politicians debated all these issues this quarter, as well as the growing need to reform the limits on the export of arms – if Japan is to participate, as anticipated, in the production of critical MD components.

Japan Defense Agency officials are preparing internal reforms to facilitate cooperation with the U.S. There is talk of centralizing the SDF command authority by establishing a new Joint Chiefs of Staff, based on the U.S. model, which will serve as a single point of contact to coordinate military plans with the U.S. In addition, there are reports that the services will establish three specialized joint SDF task forces – for international contributions, counterterrorism, and missile defense – in the first force structure revision since the SDF's formation in 1954.

A few clouds spotted this sunny horizon. Reports that Secretary of Defense Donald Rumsfeld decided to abandon plans to move the Futenma Air Station to Nago City in northern Okinawa and instead relocate it in Kadena Air Base ruffled feathers in Japan. While the move might have appealed to peace and environmental activists, the seemingly arbitrary fashion in which it was announced – the product of a helicopter flight that opened the secretary's eyes to the danger of continuing operation of the air station – made a mockery of Japanese claims that it was being consulted on alliance matters. It also scared Okinawans who look to the relocation to provide political cover for a healthy infusion of funds from Tokyo. The reports were denied by U.S. and Japanese government sources. In testimony to the House Armed Services Committee at the end of the quarter, commander of the U.S. forces in the Pacific Adm. Thomas Fargo said the U.S. remains committed to the Special Action Committee Okinawa (SACO) process. A second “hiccup” occurred when Japan reportedly turned down a U.S. request to move the U.S. Army/Corps HQ from Washington State to Kanagawa Prefecture.

### **Legal briefs, briefly**

Legal issues also colored alliance relations. Agreement between the two countries to revise the status of forces agreement (SOFA) and permit a U.S. representative to witness the interrogation of U.S. military personnel accused of serious crimes helped smooth a wrinkle and provided tangible proof the two governments could resolve thorny issues. Civilian legal issues weren't quite as easily settled. Two years ago, the U.S. requested that Japan extradite scientist Okamoto Takashi to stand trial on charges he stole genetic material samples while working at the Cleveland Clinic Foundation. In late March, the Tokyo High Court turned down the request, the first time a Japanese court refused a U.S. extradition request.

### **Dealing with Tehran**

Japan's readiness to do business with Iran has raised some eyebrows. Japan imported \$50 billion of crude oil last year, more than four-fifths of which came from the Middle East; Iran was its third-largest supplier. Eager to secure oil supplies and worried about its sinking national petroleum company, Tokyo has been negotiating for years with Tehran to win access to Iran's oil reserves. In February, a \$2.8 billion bid gave a Japanese

consortium the right to develop the Azadegan field. Some in the U.S. are troubled by Japan's readiness to do business with a charter member of "the axis of evil." U.S. spokesmen called the deal "deeply disturbing." U.S. concern was amplified by reports that Iran is cheating on its commitments to the International Atomic Energy Agency and is secretly developing nuclear weapons. Tokyo's apparent willingness to turn a blind eye to Tehran's games makes shoring up the Nuclear Nonproliferation Treaty even more difficult, and harms Japan's credibility as an advocate for nuclear nonproliferation and disarmament.

The whole episode is a bit odd. There are questions about the commercial viability of the project: Japan has had difficulty finding partners to develop the oil field and eventually, the Japan Bank for International Cooperation and the country's four largest commercial lenders agreed to loan \$1.2 billion to Iran's national oil company, Japan's main partner in the deal. After their initial response, U.S. officials have expressed "understanding" and even Under Secretary of State John Bolton reportedly told the Japanese the deal would not damage bilateral relations.

### **Batter up!**

This quarter marked the beginning of baseball season, in this writer's mind one of the most important contributors to the healthy state of U.S.-Japan relations. Early in the year, Seattle Mariners relief pitcher Sasaki Kazuhiro decided not to return for the last year of his contract and would instead remain in Japan to be with his family. Yankee fans are no doubt relieved. Their season began in Japan as the Bronx bombers traveled to Tokyo for a few preseason games against Japanese teams and their season opener against the Tampa Bay Devil Rays. The Yankee visit was a marketing spectacular for Major League Baseball, which played up the homecoming of "Godzilla," former Yoimuri Giants slugger Matsui Hideki. Matsui obliged with monstrous home runs from the clean-up slot. Unfortunately, the Yanks lost the opener, but recovered to win the second game in a convincing 12-1 rout. Only 160 plus games to go ...

### **Intervention interregnum?**

For many Japan watchers, the big news this quarter has been the growing sense that the economy has finally turned the corner. Takenaka Heizo, the minister for economics and financial services, believes the economy expanded by nearly 3 percent in the fiscal year that ended March 30, substantially ahead of the government's 2 percent forecast. Economists figure that the economy grew a fifth straight quarter from January to March, with export demand, business investment, and consumer demand all climbing. The Bank of Japan's quarterly "tankan" survey showed that more Japanese firms felt they were doing better in March than at any time in nearly seven years.

The recovery has reportedly allowed the Bank of Japan to ease off its massive intervention in currency markets, a King Canute-like effort to halt the climb in the value of the yen. Japan sold more than ¥15 trillion (\$144 billion) during the first three months of 2004, following the record ¥20 trillion spent in 2003. Those attempts to keep the yen



from becoming too strong and damaging exports earned Tokyo mostly subtle criticism in the U.S. – although Federal Reserve Chairman Alan Greenspan fired a warning shot in early March – but there were concerns in Japan that the complaints might get louder as the U.S. campaign intensified and the search for a scapegoat for American economic ills got stronger. At the end of the quarter, there were reports that the Bank of Japan was going to ease off to avoid giving the U.S. a target. Japanese government officials denied any change in policy.

### **Beef over beef**

Finally, there was no resolution of the U.S.-Japan beef dispute. Japan stopped all beef imports from the U.S. after the U.S. reported its first case of bovine spongiform encephalopathy (BSE), or mad cow disease, last December. Since Japan was the U.S.'s number one beef export market, the decision hurt. According to a survey released by the Ministry of Agriculture, Forestry and Fisheries (MAFF) the BSE outbreak resulted in a 16 percent drop in the volume of U.S. beef imported during fiscal 2003. The loss has forced “*gyudon*” restaurants to end some of their most popular dishes – a real loss for *salarymen* looking for inexpensive lunches after 12 years of recession. Japan has demanded that the U.S. test all slaughter cattle for BSE, but the U.S. refuses, claiming there is no scientific basis for the move. Washington countered with an offer to increase BSE testing by 10 times – from 40,000 cows to 466,000 – but Tokyo, sensitive to its consumer lobby – has said this won't do. Japan wants the U.S. to implement the same measures it does, and the U.S. has threatened a World Trade Organization complaint if Japan doesn't compromise. Expect the issue to surface when Vice President Richard Cheney visits Japan in mid-April.

### **All eyes forward**

The challenge now is to ensure that the alliance continues to consolidate and prepare for the future. Iraq is the biggest wild card. Japan will hold Upper House elections in July and if terrorists do watch the electoral calendar, then Tokyo must be nervous. Even if there are no explicit attacks on Japan or its forces, the continued deterioration of the situation there is likely to prompt increasing soul-searching in Japan about the wisdom of following the U.S. lead. North Korea is another possible trouble spot, but Pyongyang is likely to avoid saber rattling in the run-up to the U.S. vote. Signs that the North might be ready to make a deal on the abductees – see Victor Cha's analysis this quarter in Japan-Korea Relations – could anticipate an attempt to drive a wedge between Tokyo and Washington. There is little chance that the current governments in both capitals would allow that to happen, but a tragedy in Iraq combined with skillful diplomacy by the North, and perceived intransigence in Washington could undermine public support for the alliance. That is a lot of “ifs.” It's better to enjoy “the best relations ever” while remaining mindful of the possibility that things could turn sour.

## **Chronology of U.S.-Japan Relations January-March 2004**

**Jan. 5, 2004:** Vice Minister of Agriculture Watanabe Yoshiaki states that U.S. action hasn't quieted concerns in Japan about the safety of American beef. Two-thirds of Japan's beef imports, more than 226,000 tons, came from the U.S. last year.

**Jan. 9, 2004:** JDA Chief Ishiba Shigeru orders advance reconnaissance team from the GSDF to leave for Iraq – the first of about 600 soldiers that Japan plans to send to southern Iraq for reconstruction efforts.

**Jan. 13, 2004:** JDA head Ishiba states that Japan should review its 36-year-old export ban so that it can participate in joint weapons development projects with the U.S. and other countries, as well as lifting the ban on arms sales to other countries.

**Jan. 19, 2004:** 30 members of GSDF advance team arrive in southern Iraq; PM Koizumi states that “Japan's development and prosperity depends on world peace and stability,” during Parliament's opening session.

**Jan. 20, 2004:** Seattle Mariners' right-hander Sasaki Kazuhiro decides to forfeit the last year of his contract and return to Japan to remain with his family.

**Jan. 21-22, 2004:** U.S., Japanese, and South Korean officials convene in Washington, D.C. to discuss six-party talks on North Korea.

**Jan. 22, 2004:** Japan's first main air SDF contingent of 110 personnel, leaves for Iraq.

**Jan. 23, 2004:** U.S. and Japanese officials discuss safety measures on mad cow disease; U.S. rebuts Japan's demands for comprehensive testing of every animal slaughtered; Koizumi tells the Diet he will demand such testing before U.S. beef imports can resume.

**Jan. 25, 2004:** Movie “Lost in Translation” wins three Golden Globe awards: best comedy film; best screenplay; and best comedy actor for Bill Murray in Los Angeles.

**Jan. 26, 2004:** USDA official David Hegwood says that Japan's demand for testing all U.S. beef for mad cow disease is scientifically unjustifiable and expensive.

**Feb. 2, 2004:** Deputy Secretary of State Richard Armitage praises Koizumi for “remarkable vision” in increasing Japan's strategic role. Armitage also reiterated any attack on Japan or administrative territories under Japanese control would be seen as an attack on the U.S. “Administrative territories” includes disputed Senkaku/Diaoyu Islands.

**Feb. 5, 2004:** U.S., Japan, and Australia hold fifth round of Trilateral Security Dialogue, focusing on regional and global security issues.

**Feb. 8, 2004:** Japan suspends import of all U.S. poultry after U.S. agriculture officials confirm outbreak of avian flu in Delaware.

**Feb. 10, 2004:** USTR Robert Zoellick holds talks with FM Kawaguchi and Economy, Trade and Industry Minister Nakagawa on trade and Japan's ban on U.S. beef imports.

**Feb. 13, 2004:** *Mainichi* reports the U.S. has dropped demands to return land occupied by the U.S. Marine Corps Futenma Air Station in exchange for an alternate facility, instead it will integrate into Kadena.

**Feb. 18, 2004:** Japan wins right to develop Iran's Azadegan oilfield for an estimated \$2.8 billion. U.S. calls the deal "deeply disconcerting."

**Feb. 18, 2004:** Under Secretary of State John Bolton meets counterpart Amano Yukiya to discuss WMD nonproliferation and arms control policy. He reassures Japan its agreement to develop Azadegan oilfield will not damage U.S.-Japan relations.

**Feb. 19, 2004:** JDA Director Ishiba denies change in plans to build a heliport in Nago, Okinawa to replace Futenma Air Station.

**Feb. 25, 2004:** Six-party talks on North Korea open in Beijing. In his address, James Kelly, U.S. assistant secretary of state for Asian and Pacific affairs, makes an unequivocal reference to the abduction issue.

**Feb. 27, 2004:** U.S. and Japan sign deal to amend the Acquisition and Cross-Servicing Agreement, increasing share of military supplies and services in event of attack on Japan. For the first time the arrangement allows Japan to supply U.S. forces with ammunition.

**March 1, 2004:** U.S. requests Japan consider relocation of U.S. Army/Corps HQ from Washington State to Kanagawa.

**March 2, 2004:** U.S. Federal Reserve Chairman Greenspan singles out Japan for criticism over dollar intervention and high accumulation of dollar reserves.

**March 9, 2004:** Japanese Cabinet submits seven military emergency bills to the Diet, supplementing legislation passed last year. The bills include procedures to increase SDF and U.S. military cooperation and facility usage.

**March 11, 2004:** Armitage states the U.S. position on Futenma Air Station in Okinawa has not changed and the U.S. fully intends to comply with the SACO agreement.

**March 16, 2004:** USTR chief agriculture negotiator threatens Japan with WTO action if Japan does not back down from requiring the U.S. to test all cattle for BSE before resuming U.S. beef imports.

**March 16, 2004:** *Asahi* poll reveals support for Koizumi Cabinet up to 49 percent from last month's 44 percent; those who did not support the government fell from 37 percent to 32 percent. Support for SDF deployment to Iraq is split with 42 percent for and 41 percent against, a sharp drop from the 48 percent against in February.

**March 18, 2004:** Defense Secretary Donald Rumsfeld calls the SDF deployment to Iraq a "great step" in talks with Japan's Adm. Ishikawa Toru, chairman of Joint Staff Council.

**March 18, 2004:** London-based Arab newspaper publishes statement from alleged al-Qaeda affiliate claiming responsibility for Madrid bomb attacks, indicating the group is planning strikes against other U.S. allies, including Japan.

**March 19, 2004** Marking the first anniversary of the invasion of Iraq, President Bush closes with remarks remembering diplomat Oku Katsuhiko, who was killed in Iraq last November. Bush calls Japan a key ally in the war on terrorism and a member of the PSI.

**March 19, 2004:** Agreement is reached in principle between the U.S. and Japan on updating Status of Forces Agreement (SOFA). Deal will allow a U.S. representative to witness Japanese interrogation of U.S. military personnel accused of serious crimes.

**March 20, 2004:** U.S. report identifies Japan's measures to combat trafficking of women as worst of any industrialized country.

**March 23, 2004:** *Reuters* reports U.S. Navy will deploy an *Aegis*-class destroyer in the Sea of Japan by September 2004 to protect U.S. and its allies.

**March 25, 2004:** First treaty signed between the U.S. and Japan, the Treaty of Kanagawa, goes on display at the National Archives in Washington, DC, as part of the annual Cherry Blossom Festival and the 150<sup>th</sup> anniversary of the signing.

**March 29, 2004:** *Yomiuri* reports Japanese plan to rewrite policy to share radar data collected from FPS-XX early warning radars, expected to go online in 2007, with U.S.

**March 29, 2004:** Tokyo High Court turns down U.S. request to extradite a researcher on industrial espionage charges, marking Japan's first rejection of an extradition request from American authorities.

**March 30, 2004:** Yankees and Devil Rays open baseball season in Tokyo. Matsui Hideki hits a two-run homer propelling the Yankees to a 12-1 win in the second game.

**March 31, 2004:** Tokyo pledges an additional \$400 million for Afghanistan reconstruction over the next two years.

**March 31, 2004:** In Congressional testimony, commander of U.S. forces Pacific, Adm. Thomas Fargo said U.S. remains committed to the Special Action Committee Okinawa (SACO) process.



U.S.-China Relations:

## A Familiar Pattern: Cooperation with a Dash of Friction

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U.S. and Chinese diplomats shuttled to each other's capitals for consultations this quarter on a rich agenda of bilateral issues and regional and international security matters, including North Korea, Iraq, Libya, Iran, Taiwan, and curbing proliferation of weapons of mass destruction. The pace of China-U.S. military exchanges accelerated with visits to Beijing by the Chairman of the Joint Chiefs of Staff Gen. Richard Myers, the holding of the Defense Consultative Talks, and a U.S. port call to Shanghai. At the same time, friction mounted on trade and human rights as the U.S. filed the first case against China at the World Trade Organization (WTO) and introduced a resolution condemning Chinese human rights practices for the first time in three years at the UN Commission on Human Rights in Geneva. The disputed presidential election in Taiwan captured attention and elicited concern in both Beijing and Washington, although their responses diverged considerably.

### **Active consultations on security issues**

There were several opportunities for Beijing and Washington to continue their high-level consultations on security matters of mutual interest this quarter. In January, Deputy Secretary of State Richard Armitage stopped in China on an Asian tour, where he held discussions with Chinese counterparts on Taiwan, international security, U.S.-Chinese military relations, North Korea, and the reconstruction of Iraq. In addition, Armitage briefed Chinese Defense Minister Cao Gangchuan on the possible impact on Asia and Europe of changes in U.S. force deployments as the U.S. reshapes its military to become more agile and better positioned to respond to possible 21<sup>st</sup> century contingencies.

Under Secretary of State John Bolton traveled to China in mid-February for the third round of China-U.S. consultations on strategic security, multilateral disarmament, and proliferation prevention. He and his MFA counterpart, Zhang Yesui, discussed the Proliferation Security Initiative (PSI) and Bush administration proposals to strengthen international nonproliferation networks, as well as regional security questions such as North Korea, Iran, Libya, and Pakistan. Bolton sought China's support in the expansion of PSI activities, including sharing intelligence and engaging in law enforcement on a global basis to interdict trafficking in weapons of mass destruction, related materials, and their delivery systems.

Not wanting to be viewed as thwarting global efforts to curb proliferation, the Chinese agreed to strengthen cooperation in information exchanges and emphasized their resolute opposition to proliferation of WMD, but demurred from endorsing the PSI. China's Foreign Ministry spokesman noted that although China understands the concerns of the PSI participant states regarding the proliferation of WMD and the means of delivering them and agrees with their anti-proliferation principles and goals, Beijing is skeptical about the legal basis for PSI interdiction and worried about the consequences that may ensue. Instead, China emphasized reliance on political and diplomatic means to resolve proliferation problems.

Bolton put a positive spin on China's lukewarm response and held out the possibility that U.S.-Chinese differences on PSI might be narrowed in the future. In a press conference he noted that the U.S. and China had cooperated in some interdiction efforts and expressed his expectation that such cooperation would continue in the future. In addition, Bolton said that the two sides had agreed to continue their dialogue on PSI. During the talks, the Chinese proposed that future rounds of their bilateral dialogue focus less on the immediate issues of proliferation and more on the bilateral strategic relationship. Bolton indicated U.S. willingness to broaden the agenda for the talks in the future and specifically agreed to include more discussion on U.S. missile defense plans.

The U.S. won China's support for a United Nations resolution banning proliferation of weapons of mass destruction by dropping a call for interdiction of ships at sea suspected of carrying such arms. China's UN Ambassador Wang Guangya had threatened to use the PRC's veto in the Security Council to block any U.S. draft resolution that included interdiction, arguing that stopping ships at sea violated international laws. "That nasty word, interdiction, has been taken out," Wang said at the UN in New York. "Now there is just a reference to prevention. So this is now okay with the permanent members."

Beijing and Washington coordinated closely in preparation for the second round of the six-party talks to address North Korea's nuclear weapons programs, which were held Feb. 25-28 in the Chinese capital. China's provision of about \$50 million in aid to North Korea, including heavy fuel oil and the promise of a glass factory, played an important role in inducing Pyongyang to attend. In advance of the talks, China pressed both Washington and Pyongyang to show greater flexibility and expended great effort to lay the diplomatic groundwork for the issuance of a joint statement at the close of the second round.

North Korea's last-minute demand that a statement include language asserting the existence of significant differences between Washington and Pyongyang that the other members of the six-party process would work to narrow undoubtedly frustrated Beijing, which was forced to abandon its plan to forge a joint statement and instead issued a chairman's statement. But the Chinese were equally perturbed by U.S. unwillingness to provide specifics about what it would offer in exchange for a North Korean commitment to completely, irreversibly, and verifiably dismantle its nuclear weapons programs. In a press conference following the close of the talks, Vice Minister Wang Yi, head of the Chinese delegation, pronounced the talks a success. He summed up progress achieved in

five areas: 1) promotion of the discussion on substantive issues; 2) making clear that coordinated steps would be taken to address the issues; 3) release of the first paper on the process of the six-party talks; 4) fixing the date and venue for the third round of the six-party talks; and 5) and agreement to set up a working group to better institutionalize the mechanism of the six-party talks.

### **U.S. files first WTO case against China**

United States Trade Representative Robert B. Zoellick stopped in Beijing in mid-February as part of a multi-nation tour intended to promote strategic dialogue on trade liberalization and global development. Zoellick exchanged views with the Chinese on global trade topics, leaving China-U.S. bilateral economic issues for the planned late April meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT). How to move ahead with the Doha Development Agenda of the World Trade Organization was at the top of Zoellick's agenda. In addition, there were discussions on trade facilitation, one of the four "Singapore Issues" that also include investment, transparency in government procurement, and competition policy.

In a press conference following his discussions with Vice Premier Wu Yi and Executive Vice Minister Yu Guangzhou of China's Ministry of Commerce, Zoellick highlighted China's strong commitment to the Doha agenda. He cited agriculture, manufactured goods, and services as areas in which the interests of China and the United States "overlap quite closely." Asked how China has performed in meeting the obligations it assumed upon accession to the WTO, Zoellick said that Beijing has demonstrated tremendous accomplishments with the reforms it has undertaken, but "still has important work to do." Areas in which the U.S. has persisting concerns about China's WTO compliance, according to Zoellick, include intellectual property protection, the use of value-added taxes in ways that are inconsistent with WTO rules, and the application of quotas and sanitary standards for agricultural imports.

In mid-March, under pressure from U.S. chip makers and Democrats who accused the Bush administration of not doing enough to protect American workers, the U.S. filed the first case against China at the World Trade Organization (WTO). The complaint alleges that China's tax policies violate global trade rules by penalizing foreign semiconductor producers. "The bottom line is that China is discriminating against key U.S. technology products, it's wrong, and it's time to pursue a remedy through the WTO," Zoellick said in a statement. U.S. exports of semiconductors to China are subject to a 17 percent value-added tax (VAT). China refunds part of that tax to firms producing semiconductors in China, effectively dropping the VAT rate on domestic products to as low as 3 percent. U.S. semiconductor exports to China were \$2.45 billion last year, according to the Commerce Department. They are the second-biggest U.S. export to China after soybeans. Filing a case at the WTO starts a 60-day consultation period. If the sides do not negotiate a settlement, the case goes to a dispute settlement panel for resolution. The process can take at least 18 months. China said it was puzzled by the U.S. complaint and agreed to hold discussions on the issue of drawing back the semiconductor value-added tax.



## **U.S. tables human rights resolution in Geneva**

Beijing and Washington censured each other's human rights practices this quarter in what has become an almost ritualistic release of their respective annual reports on the human rights situation in the United States and China. *The Country Reports on Human Rights Practices 2003* issued by the U.S. Department of State on Feb. 25 concluded that "although legal reforms continued, there was backsliding on key human rights issues during the year, including arrests of individuals discussing sensitive subjects on the Internet, health activists, labor protesters, defense lawyers, journalists, house church members, and others seeking to take advantage of the space created by reforms." Responding to U.S. criticism five days later, Beijing issued its report entitled *Human Rights Record of the United States in 2003*, which blasted the U.S. for its government crimes, racism at home and its "military aggression around the world."

To signal its displeasure with the setback in China's human rights behavior in the past year, Washington announced that it would introduce a resolution on China's human rights practices at the U.N. Commission on Human Rights (UNHRC) meeting in Geneva from March 15 to April 23. In the announcement of its plan to table a resolution, the U.S. claimed that the Chinese failed to meet their commitments made at the U.S.-China Human Rights Dialogue in December 2002 to allow the International Committee of the Red Cross to open a permanent office in China, permit regular visits by UN rapporteurs, conduct parole reviews for some political prisoners, and declare that minors are entitled to religious instruction. In addition, the U.S. charged that Beijing had not followed through on its stated intention to expand cooperation on human rights in 2003. By sponsoring the resolution, the U.S. said it hoped "to encourage China to take positive concrete steps to meet its international obligations to protect human rights and fundamental freedoms of the Chinese people."

Chinese officials had lobbied hard to dissuade Washington from seeking a resolution critical of Chinese human rights and reacted with indignation. China's Assistant Foreign Minister Shen Guofang summoned U.S. Ambassador Clark Randt to the Foreign Ministry to protest the U.S. decision. He insisted that China had made 'remarkable progress' in promoting human rights, citing as evidence the amendment of China's constitution a few weeks earlier at the 10<sup>th</sup> National People Congress session to include the protection of lawful private property rights and the respect and protection of human rights. In retaliation, Shen informed Randt that Beijing would immediately suspend the bilateral dialogue on human rights with the United States, declaring that the U.S. side would be "held responsible for any consequences." At the UNHRC meeting in Geneva, Chinese Ambassador Sha Zukang alleged that the U.S. submission of an anti-China resolution was motivated by "the need of general elections and has nothing to do with China's human rights."

Washington leaned hard on the European Union and its members this quarter to persuade the organization not to lift the 14-year arms embargo that was imposed on China following the June 1989 Tiananmen incident in which Chinese troops killed pro-democracy protestors. In response to appeals from Beijing, the EU agreed to consider a

review of the embargo, with France and Germany strongly arguing in favor of lifting the ban. The U.S. opposes an end to the embargo on three grounds: 1) it would send the wrong signal to a government that continues to resist democratic reform and violate its citizens' human rights; 2) it would enable China to boost its military capabilities and thereby further erode the military balance across the Taiwan Strait; and 3) it would increase the risk of the proliferation of sensitive technologies.

EU diplomats maintain that the consequences of lifting the embargo would be primarily symbolic since arms sales to China would still be barred under a separate code of conduct aimed at preventing weapons transfers to repressive regimes or unstable areas. This is a questionable assertion, however. Unlike the embargo, the code is not legally binding, and its political restraints might be insufficient to prevent some defense companies from proceeding with weapons sales.

### **Taiwan elections capture attention**

Beijing was elated after Chinese Premier Wen Jiabao's visit to the U.S. last December, during which President Bush publicly rebuked Taiwan President Chen Shui-bian for comments and actions that implied an intent to change the status quo, which the U.S. would oppose. The Chinese were convinced that Bush shared their assessment that Taiwan's leader was a troublemaker and his plan to hold a referendum was destabilizing and should be blocked. China's disappointment ran deep when statements by senior U.S. officials this quarter proved otherwise. When Taiwan released the wording of the referendum in mid-January, which was somewhat more judicious than had been expected, Secretary of State Colin Powell said that Chen had shown flexibility with the new questions and a White House spokesman said the United States neither supported nor opposed the new ballot issue. The following month, Powell told a U.S. Congressional committee that although the U.S. doesn't "really see a need for these referenda ... Taiwan is a democratic place, and if they choose to have a referenda, they can have a referenda."

In early February, Director of China's Taiwan Affairs Office Chen Yunlin visited Washington and urged U.S. officials to do more to rein in Chen. He complained about the inconsistency between President Bush's sharp rebuke of Chen's behavior and the more forbearing positions subsequently articulated by senior U.S. officials, including Deputy Secretary of State Armitage, with whom he had met in Beijing only a few days earlier. The following week, the Chinese again pressed Under Secretary of Defense Douglas Feith to use U.S. influence to compel Chen to back down and not hold the referendum. Noting that the matter was being handled through diplomatic, not military, channels, Feith focused instead on the destabilizing impact of China's missile buildup against Taiwan.

A similar theme was emphasized by Deputy Assistant Secretary of State Randall Schriver and his Pentagon counterpart, Deputy Assistant Secretary of Defense Richard Lawless, in testimony at a hearing held by the U.S.-China Economic and Security Review Commission. Lawless asserted that "[China's] ambitious military modernization casts a cloud over Beijing's declared preference for resolving differences with Taiwan through peaceful means." After explaining U.S. obligations to Taiwan under the 1979 Taiwan Relations Act to the Commissioners, Lawless maintained that "the preservation of

Taiwan's democracy depends on ... providing Taipei the support it needs to deter [Chinese] coercion." Echoing Powell's earlier statements, Schriver praised referenda as valuable "tools of democracy."

On March 20, Chen Shui-bian won a razor-thin victory in an election that was mired in controversy due to invalid ballots that amounted to 11 times the almost 30,000 vote margin and to an assassination attempt on Chen and Vice President Annette Lu on the day before ballots that likely provided a sympathy boost in votes for the incumbent. The opposition presidential and vice presidential candidates, Lien Chan and James Soong, charged that the election was unfair and demanded an annulment, then a recount, and then supported legislation that would essentially force a new election. Chinese Foreign Minister Li Zhaoxing phoned Secretary Powell to confer and to urge Washington to not congratulate Chen as the winner and to avoid taking steps that might embolden him to press for independence, especially arms sales. *Xinhua* reported the phone conversation, noting that Li had called on the U.S. to abide by the "one China" principle and do more to help peace and stability in the Taiwan Strait and the development of cross-Strait relations.

Despite China's objections, following the certification of the election results by Taiwan's Central Election Commission as required by law, Washington issued a statement congratulating Chen on his victory. The statement noted that legal challenges to the results were pending and lauded the people of Taiwan for resolving their differences through established legal mechanisms. Beijing did not acknowledge the certification of Chen's win and Lien's defeat, but instead warned that China would not sit idly by if Taiwan devolved into social turmoil. It also denounced the U.S. congratulatory message as a "mistaken move" which violates the principles of the three China-U.S. joint communiqués and interferes in China's internal affairs.

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

The pace of China-U.S. military exchanges picked up this quarter with visits to Beijing by the Chairman of the Joint Chiefs of Staff Gen. Richard Meyers, the holding of the Defense Consultative Talks, a visit to China by a U.S. National Defense University Capstone delegation, and a U.S. ship visit to Shanghai. The January visit by Gen. Meyers marked the highest-ranking U.S. military official to visit China since 1997. Meyers met with CMC Chairman Jiang Zemin and his counterpart Liang Guanglie, chief of the PLA General Staff, to whom he extended an invitation to visit the U.S. later this year. The discussion agenda centered on regional and international security issues, especially North Korea and Taiwan, and bilateral military ties.

Meyers provided a cautiously optimistic appraisal of the visit, noting that the two sides are making "some good progress in our military-to-military relationship." He proposed expanding military education exchanges, conducting additional visits by warships to ports in each country, and holding joint search-and-rescue exercises. His Chinese interlocutors welcomed the positive developments in the ties between the two militaries and the two countries in recent years and endorsed the pursuit of a "forward looking, healthy, and stable military relationship" with the U.S.

Media accounts suggest that there was a blunt exchange on Taiwan in which Chinese military leaders warned that China would not tolerate Taiwan independence. In a press conference following his two days of talks Meyers underscored the commitment of the Bush administration to maintaining Taiwan's ability to defend itself and noted that the PLA "very clearly" understands that the U.S. "will resist any attempt to use coercion" to resolve the status of Taiwan. In addition to exchanging views with senior PLA leaders, Myers and his entourage became the first foreign delegation allowed to tour the mission control center of China's space program, which last October successfully launched China's first manned space flight, the *Shenzhou V*.

Less than a month after Gen. Meyers' visit, Deputy Under Secretary of Defense Douglas Feith led a delegation to Beijing for the Defense Consultative Talks (DCT). This year's meeting was the sixth installment in an annual series first held in 1997 under an agreement signed by then-Presidents Bill Clinton and Jiang Zemin. The last gathering took place in Washington in December 2002. In addition to the formal talks with his Chinese counterpart Deputy Chief of Staff Lt. Gen. Xiong Guangkai, Feith met with CMC Chairman and Minister of Defense Cao Gangchuan. Cao praised the DCT as "positive and constructive" and said they had enhance mutual understanding and trust.

Following Feith's visit, the *USS Blue Ridge*, the command ship of the U.S. Seventh Fleet, steamed into Shanghai for a four-day port call visit at the end of February. At the same time, a delegation from the U.S. National Defense University's Capstone Program arrived in Beijing for discussions with Chinese military researchers after touring Urumchi, capital of China's Xinjiang Uighur Autonomous Region.

In March, the U.S. and Chinese militaries held the fourth round of the China-U.S. Military Maritime and Air Safety Working Group under the Military Maritime Consultative Agreement Mechanism (MMCA). China's *Xinhua News Agency* reported that the two sides held "frank and constructive consultations" on issues concerning China-U.S. military safety at sea. The Chinese agreed to consider a proposal by the U.S. to conduct joint search and rescue exercises within the coming year, realizing this objective is now more feasible than in the past (since the PLA has abandoned its past policy of not holding joint exercises with foreign armies). In the past year, the Chinese military has held joint exercises with India, Pakistan, Russia, Kazakhstan, and Kyrgyzstan. In addition, two Chinese naval warships and two French warships held a one-day joint maritime drill this quarter that included fleet formation changes, shipboard helicopter flying and landing at sea, replenishment exercises at sea, communications, and search-and rescue exercises.

## **Cooperation trumps discord**

In sum, the already familiar pattern of cooperation intermingled with a modicum of friction characterized U.S.-Chinese relations in the first quarter of 2004. U.S. strategic preoccupation with Iraq and the war on terrorism continue to increase Washington's need to partner with Beijing and limit the degree of discord in the overall bilateral relationship. At the same time, China's focus on internal matters and its need to avoid serious confrontation with the U.S. work in favor of continued bilateral collaboration. Managing Taiwan's aspirations under Chen Shui-bian's rule, assuming that his victory is affirmed, will pose difficult challenges to Chinese and U.S. leaders, but the prospects for success are enhanced by the broader context of a positive and cooperative bilateral relationship. High-level consultations continue next quarter as Vice President Dick Cheney visits China and Vice Premier Wu Yi travels to the United States.

## **Chronology of U.S.-China Relations January-March 2004**

**Jan. 2-3, 2004:** Vice Chairman of the NPC Standing Committee Sheng Huaren meets with Ted Stevens, President Pro Tempore of the Senate and Sen. Daniel Inouye in Hawaii and signs a MOU to establish an NPC-Senate Parliamentary Group.

**Jan. 12, 2004:** During a three-day visit to China by Secretary of Energy Spencer Abraham, he and his counterpart Zhang Huazhu, chairman of the China Atomic Energy Authority, sign a Statement of Intent that establishes a process to coordinate joint efforts on nuclear non-proliferation with the International Atomic Energy Agency.

**Jan. 12, 2004:** Secretary Abraham with Science and Technology Minister Xu and Beijing's Vice Mayor Fan sign the Green Olympic Protocol for Beijing's 2008 Olympic Games.

**Jan. 13, 2004:** U.S. Department of Agriculture announces the opening of a new agricultural trade office in Beijing.

**Jan. 13, 2004:** Fu Ying, director of the Asian Affairs Department of the Foreign Ministry, and Ning Fukui, newly appointed special ambassador in charge of Korean peninsula affairs, visit Washington D.C. to discuss the Korean Peninsula nuclear issue.

**Jan. 14-15, 2004:** Chairman of the Joint Chiefs of Staff Gen. Richard Myers visits China. Delegation meets senior Chinese military leaders and visits the Beijing Aerospace Control Center.

**Jan. 29-30, 2004:** Deputy Secretary of State Richard Armitage visits Beijing and meets with Premier Wen Jiabao, Defense Minister Cao Gangchuan, Taiwan Affairs Office Director Chen Yunlin, and counterparts in the Chinese Foreign Ministry.

**Feb. 3, 2004:** TAO Director Chen arrives in Washington for talks with U.S. officials and experts about Taiwan's March 20 presidential election and the planned referendum.

**Feb. 10, 2004:** The sixth round of bilateral Defense Consultative talks are held in Beijing with the U.S. delegation headed by Under Secretary of Defense Douglas Feith and the Chinese delegation headed by PLA Deputy Chief of the General Staff Xiong Guangkai.

**Feb. 12, 2003:** USTR Robert B. Zoellick stops in Beijing as part of a multi-nation tour to promote strategic dialogue on trade liberalization and global development.

**Feb. 16-17, 2004:** Under Secretary of State for International Security Affairs John Bolton visits China for the third round of China-U.S. consultations on strategic security, multilateral disarmament, and proliferation prevention.

**Feb. 21, 2004:** Vice FM Wang Yi meets in Beijing with Joseph R. DeTrani, a U.S. State Department special envoy for Korean affairs, to discuss the upcoming six-party talks.

**Feb. 23, 2004:** FM Li Zhaoxing and Secretary of State Powell talk on the phone on how to secure smooth progress in the second round of six-party talks to be held in Beijing.

**Feb. 24-28, 2004:** The *USS Blue Ridge*, command ship of the Seventh Fleet, berths at Shanghai's Huangpu River for the third time on a five-day visit to the municipality.

**Feb. 25, 2003:** State Department issues annual report on human rights. It concludes that although legal reforms in China continued in 2003, "there was backsliding on key human rights issues during the year, including arrests of individuals discussing sensitive subjects on the Internet, health activists, labor protesters, defense lawyers, journalists, house church members, and others seeking to take advantage of the space created by reforms."

**Feb. 26, 2004:** Deputy Chief of General Staff of the Chinese PLA Xiong Guangkai meets a delegation from the U.S. National Defense University Capstone Program, headed by ret. Gen. Robert Sennewald. The delegation also visited Urumchi, capital of northwest China's Xinjiang Uighur Autonomous Region.

**Feb. 26, 2004:** China grants one-year sentence reduction and releases Phuntsog Nyidron, a Tibetan Buddhist nun and longest-serving female political prisoner in China. She was imprisoned for campaigning for Tibetan independence and served nearly 15 years.

**Feb. 27, 2004:** FM Li calls Secretary Powell to exchange views on the second round of six-party talks.

**Feb. 28, 2004:** U.S. and China celebrate 32<sup>nd</sup> anniversary of the Shanghai Communiqué.

**March 1, 2004:** China releases its annual report on the human rights in the United States.

**March 2, 2004:** China and the U.S. launch a joint project to fight AIDS. The Global AIDS Program, initiated by the Center for Disease Control and Prevention, promises \$15-million U.S. investment.

**March 5, 2004:** China's National People's Congress opens for a 10-day session.

**March 5, 2004:** China releases from prison Wang Youcai, sentenced to 11 years behind bars for subversion after he and two other dissidents founded the China Democracy Party.

**March 6, 2004:** *USS Kitty Hawk* strike group makes a ship visit in Hong Kong, revisiting the city more than 15 months since its last visit in November 2002.

**March 9-10, 2004:** Vice FM Dai Bingguo visits Washington for consultations on Taiwan and North Korea. He delivers a letter from President Hu Jintao to President George Bush.

**March 9-11, 2004:** Fourth China-U.S. Military Maritime and Air Safety Working Group meeting in Shanghai under the Military Maritime Consultative Agreement mechanism.

**March 12, 2004:** FM Li talks on the phone with Secretary Powell and National Security Adviser Condoleezza Rice.

**March 18, 2004:** U.S. files case against China at the WTO, charging Beijing with pursuing a discriminatory tax rebate policy for integrated circuits.

**March 20, 2004:** Taiwan President Chen Shui-bian is re-elected by less than 30,000 votes and the results are disputed by the opposition pan-blue coalition.

**March 21, 2004:** FM Li phones Secretary Powell and the two discuss Taiwan's presidential election, among other issues.

**March 22, 2004:** The U.S. announces its intention to introduce a resolution on China's human rights practices at the 2004 U.N. Commission on Human Rights in Geneva.

**March 23, 2004:** Chinese Foreign Ministry summons U.S. Ambassador Randt to protest U.S. decision to make a human rights motion on China to the UN Human Rights Commission and suspends bilateral dialogue with the U.S. on human rights in retaliation.

**March 26, 2004:** Zhou Xiaochuan, governor of the People's Bank of China, meets with U.S. Treasury Secretary Snow in Washington, DC.

**March 26, 2004:** U.S. delegation holds discussions with Vice Minister of Commerce Ma Xiuhong and Minister of Commerce Bo Xilai to prepare agenda of the 15th meeting of the China-U.S. Joint Commission on Commerce and Trade planned for April.

**March 30, 2004:** *Agence France-Presse* reports that China will retaliate against U.S. decision to fingerprint PRC citizens applying for non-immigrant visas by ending the policy of “visa on arrival” for U.S. citizens and by tightening rules for U.S. citizens visiting China.

**March 31, 2004:** FM Li meets with Secretary Powell in Berlin on the sidelines of the International Conference on Afghanistan to discuss bilateral and international issues.





U.S.-Korea Relations:  
**In the Eye of the Beholder:  
Impasse or Progress in the Six-Party Talks?**

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Contrary to expectations, the six-party talks on the nuclear issue with North Korea failed to reach an agreement or even release a joint statement after several days of negotiations in late February. North Korea balked at accepting the eventual “complete, verifiable, and irreversible dismantlement” of its entire nuclear program, which would have included ending any future capability for peacefully generating nuclear energy. Had North Korea agreed to the goal of dismantlement, the U.S. was reportedly prepared to accept Pyongyang’s offer to *freeze* its nuclear program in exchange for energy assistance that South Korea, Russia, and China would have supplied.

Despite the inability of the talks to take any substantive first steps, the U.S. positively assessed the meetings as making a “good deal of progress,” especially in their agreement to “institutionalize” the process of negotiation by establishing working groups. The U.S. was also pleased that Russia and China endorsed for the first time, the U.S. goal of fully dismantling North Korea’s nuclear program, verifiably and irreversibly.

Looking toward the next round of talks, scheduled to occur no later than the end of June, it will fall mainly to China to bridge the U.S. and North Korean positions. If China fails to broker an agreement, the continuing impasse in the negotiations, in the context of the U.S. presidential campaign, may ratchet up significant domestic political pressure on U.S. President George W. Bush to take tougher measures against North Korea.

On other security issues, South Korea’s National Assembly approved, during this quarter, President Roh Moo-hyun’s proposal to dispatch 3,000 Korean troops to Iraq to assist U.S.-led coalition forces. The original deployment plans were scuttled by the violence in Iraq and are being reassessed. U.S. and South Korean defense officials also continued their consultations on how best to carry out the agreed transfer of the U.S. military command from central Seoul to a more southern location by 2007.

Finally, in U.S.-Korea trade talks, negotiators temporarily settled a dispute over South Korea’s pending adoption of a new single national standard for accessing the internet through cell phones. If South Korea were to adopt this standard, it would shut a major U.S. company, which has developed an alternative technology for the same purpose, out of the Korean market.

## **North Korea meets an unofficial U.S. delegation**

Early in the quarter, North Korea continued its posturing on the nuclear issue, apparently trying to keep the United States off-balance. On Jan. 5, North Korea characterized its earlier offers to “freeze” its nuclear weapons program and not to test any nuclear weapons as a “bold concession.” Inasmuch as North Korea was primarily reiterating the same commitment it made in the 1994 Geneva Agreed Framework (to maintain a freeze), it was hard for the U.S. to give credence to North Korea’s claim of making any “concession” at all. At the same time, the U.S. could not fail to notice that North Korea’s offer *not* to test was an off-handed way of confirming that it already possessed nuclear weapons and was capable of testing them if it chose to do so.

North Korea stressed this second point in its meeting with a visiting unofficial delegation of U.S. nuclear experts in early January. After bringing the delegation to “inspect” its nuclear facilities, North Korea displayed what it termed its “nuclear deterrent” to the visitors. In subsequent testimony to a U.S. congressional committee, nuclear expert Sig Hecker stated that his visual observation alone was insufficient to verify North Korea’s claim of possessing fissile material for weapons.

North Korea’s apparent purpose in making a new concession to the United States while trying to demonstrate its nuclear prowess was to strengthen its negotiating position going into the second full round of six-party talks. On the one hand, the alleged concession served to deflect pressure against it from China – host of the upcoming six-party talks – by showing North Korea’s seeming good faith and flexibility. On the other hand, North Korea increased the value of the main asset it would have to give up at the negotiating table: its suspected nuclear weapons program.

North Korea’s continuing focus on a freeze was, of course, at odds with the U.S. position calling for the complete, verifiable, and irreversible *dismantlement* (“CVID,” as diplomats have termed it) of Pyongyang’s nuclear program. In advance of the upcoming round of six-party talks, it raised the question of whether the U.S., with its allies South Korea and Japan, would move closer to the North Korean position (perhaps by accepting a “freeze” as a stepping-stone to dismantlement) and how China would attempt to bridge the two conflicting positions.

## **Foreign Minister Yoon fired for excessive pro-American views**

During early January, South Korea’s President Roh Moo-hyun moved to replace the country’s highly respected foreign minister, Yoon Young-kwan, after a dispute between the president’s National Security Council staff and the Foreign Ministry. News reports had it that Minister Yoon and the ministry’s North American division were too “pro-American” and failed to follow directives coming from the National Security Council.

Some U.S. and South Korean observers feared that the policy outcome of this bureaucratic infighting could be a more “independent” South Korean approach to international issues (as the Blue House’s NSC staff proclaimed in one public statement)

that could undermine the U.S.-South Korea alliance at a critical time. Worries on the U.S. side were partially allayed, however, when President Roh appointed career diplomat Ban Ki-moon to replace Yoon. Ban has been a strong supporter of close U.S.-South Korea ties and is well-known to U.S. officials after serving diplomatic tours in Washington. Despite welcoming Ban as foreign minister, some U.S. diplomats expressed severe displeasure about the incident, which they believed showed the “immaturity” of certain officials on South Korea’s NSC staff who were motivated by “misplaced nationalist sentiments.”

### **Diplomatic maneuvering prior to the six-party talks**

With no date yet announced for the second round of six-party talks, the U.S., Japan, and South Korea met in late January to coordinate a joint position. The result of their discussion was a reported agreement to press for nuclear inspections and acceptance of the goal of eventual nuclear dismantlement by North Korea in exchange for a freeze. Japan reportedly urged the U.S. to seize Pyongyang’s offer of a freeze, though it fell short of the U.S. primary goal of dismantlement. South Korea apparently expressed concern that unless the allies also provided new fuel oil shipments to North Korea (of the kind the U.S. suspended in 2002 after discovering Pyongyang’s alleged uranium-enrichment program for nuclear weapons), North Korea would not agree to the freeze.

On Feb. 1, U.S. Assistant Secretary of State for Pacific and Asian Affairs James Kelly met with South Korean officials in Seoul to fine-tune the joint negotiating position for the next round of six-party talks. South Korea reportedly urged the U.S. to factor into the trilateral negotiating position the recent progress in North-South relations. South Korea was deeply concerned that the unresolved nuclear issue could undermine North-South detente, though South Korean officials also stressed how improved North-South relations could foster progress in the multilateral talks. Assistant Secretary Kelly reportedly showed greater U.S. flexibility on the issue of allowing South Korea to provide energy assistance to North Korea before Pyongyang embarked on dismantling its nuclear weapons program (though U.S. policy ruled out any U.S. assistance of this kind). In a public statement, Kelly acknowledged that improved North-South relations also helped to advance the progress of the six-party talks.

Given factional splits within the Bush administration over policy toward North Korea, Kelly was walking a fine line. Under pressure from Japan, South Korea, and presumably China to accept North Korea’s offer of a freeze, Kelly nevertheless knew that Bush administration conservatives would expect to see real progress toward dismantlement and inspections before agreeing to offer any concessions (such as energy aid) to North Korea. Judging from statements and commentary surrounding the trilateral talks, it appears that Kelly and the State Department favored accepting North Korea’s freeze offer and acquiescing in Seoul’s energy assistance to Pyongyang, so long as this “interim deal” could be legitimately portrayed as a step toward nuclear dismantlement. The fact that the six-party talks, which ran from Feb. 25 to 28, could not reach consensus on an agreement of this kind reveals the difficulty in bridging the U.S. and North Korean positions under current conditions.

## Proceedings and results of the six-party talks

During the late February round of talks, in addition to carrying on discussions in the plenary multilateral forum, the U.S. and North Korea conducted bilateral sessions to exchange views directly about the nuclear issue. According to subsequent congressional testimony from Secretary Kelly, the U.S. told North Korea that if it renounced nuclear weapons in the same way that Libya is currently doing, it could open a process leading to full normalization of relations with the United States. “[We said that] when North Korea’s nuclear issue is resolved, discussion would be possible on a wide range of issues that could lead to an improvement or normalization in relations,” Kelly told senators. He noted that this would include reaching understandings with North Korea on its missile program, conventional force deployments, and human rights.

The tangible results of the February six-party talks were not impressive to observers focusing on the ability of the parties to produce a substantive agreement. Instead of a joint statement of all the parties, China issued a “Chairman’s Statement” that characterized procedural progress at the meeting in an upbeat way. China stressed that the parties had agreed to another round of talks during June 2004 and would form “working groups” to discuss technical issues pertaining to nuclear weapons in a more detailed way.

What apparently prevented a joint statement, let alone a substantive interim agreement, was North Korea’s refusal to commit to the goal of dismantling its nuclear programs altogether or to accept nuclear inspections. To the chagrin of the United States, Pyongyang insisted on its right to maintain a peaceful nuclear energy production capability, even after freezing its weapons program. It was perhaps not surprising that North Korea emphasized this point since the Agreed Framework explicitly allowed Pyongyang to continue its peaceful nuclear program by building two light-water reactors. Indeed, the light-water reactors were part of the *quid pro quo* offered to Pyongyang for giving up its ability to build nuclear weapons. From the U.S. standpoint, the major positive outcome of this round of talks was China and Russia’s apparent endorsement of the U.S. position that North Korea should fully dismantle its nuclear facilities.

Rather than emphasize the shortcomings of the talks, Secretary of State Colin Powell gave a surprisingly positive assessment. In Powell’s view, the talks yielded “a good deal of progress,” especially in the agreement to “institutionalize” the process by establishing working groups. Powell stressed that, at the talks, “the United States, South Korea, Japan, China, and Russia have made it clear to North Korea that a better future awaits them, that none of these nations is intent on attacking them or destroying them, or exhibiting hostile intent toward them. Instead we want to help the people of North Korea, who are in such difficulty now. But it must begin with North Korea’s understanding that these programs must be ended in a verifiable way.”

## Preparing for the next round of six-party talks

Looking toward the next round of talks, it will fall largely to China to bridge the U.S. and North Korean positions. As noted earlier, North Korea appears to be trying to resurrect the deal embodied in the 1994 agreement, which entailed a freeze on its current nuclear program in exchange for agreement from the U.S., South Korea, and Japan to provide temporary energy assistance (through fuel shipments) and to build a new, much more highly safeguarded peaceful nuclear capability. The Bush administration's demand for CVID of all of North Korea's nuclear capabilities (including its entire nuclear energy production program) cuts much more deeply than the Clinton administration position, even though the Bush administration is offering less upfront *quid pro quos* than did the previous U.S. administration.

To bridge this gap and prevent an impasse in the six-party talks, it is likely that the U.S. will have to offer more incentives to North Korea at an earlier stage in the negotiating process to obtain North Korea's acceptance of the tougher U.S. demands. Moreover, this greater and earlier *quid quo pro* will have to be coupled with significant pressure from China on North Korea to accept such an arrangement as a first step. Without this combination of carrots and sticks, it is hard to see how a diplomatic agreement, based on consensus and perceived mutual benefit, can be reached. If the U.S. merely holds out the prospect of *long-term* material benefits as well as *long-term* security assurances and diplomatic normalization in return for *short-term* North Korean actions to end its nuclear program irreversibly, it is highly unlikely that the parties can agree on the terms of a diplomatic settlement.

Another underlying point of dispute in the six-party talks was North Korea's continuing refusal to admit trying to enrich uranium as fissile material for nuclear weapons. Pyongyang's alleged admission of such a program to a visiting U.S. delegation in the fall of 2002 triggered the current nuclear crisis, but North Korea has denied any effort to enrich uranium since that time. Pakistan's current investigation of nuclear weapons developer Abdul Qadeer Khan has generated reports that Khan illicitly shipped highly enriched uranium-related equipment and materials to North Korea, but the Pakistan government, to date, has refused to confirm it.

It is likely that this issue will have to be addressed to achieve a stable diplomatic resolution of the nuclear issue. If the U.S. and other countries believe North Korea is conducting a clandestine HEU development program while North Korea flatly denies it, the U.S. would find it impossible, for both security and political reasons, to enter into any agreement. If North Korea, for reasons of "face," is incapable of admitting its HEU-related activities, diplomats will have to find a way to expose and end this program *without* an official (and undisputed) admission of its existence from Pyongyang.

## **Dispatch of Korean troops to Iraq and U.S.-Korea base negotiations**

On Feb. 12, South Korea's National Assembly approved President Roh's proposal to send 3,000 troops to Iraq to support U.S.-led coalition forces. At full strength, this deployment will give South Korea the third largest number of foreign troops on the ground in Iraq, after the United States and Britain. The South Korean troops were to be sent to the northern Kirkuk region of Iraq in late April, preceded by an advance team of 500 troops which were scheduled to arrive in March. The South Korean force will reportedly be built around two 1,000-person strong brigades that focus on civil affairs and reconstruction. The brigades will also include two Special Forces battalions, a guard battalion, and an armored company. They will be joined by additional medics, engineers, and headquarters units.

The original plans for the South Korean deployment to Kirkuk were scrapped when the U.S. decided to keep a contingent of its own military forces in the area to continue raids and other offensive missions. That conflicted with the parliamentary mandate for the South Korean forces, which restricted the troops to peacekeeping and reconstruction efforts. Seoul then consulted with the U.S. on where to redeploy the troops. An ROK fact-finding team will be dispatched in early April to examine two possible sites in the Kurdish autonomous regions near the Iranian border. After additional consultations, the ROK forces will be deployed, but probably not until June.

During two days of U.S.-South Korean defense consultations that started on Feb. 13, officials discussed the South Korean deployment to Iraq, but spent the bulk of their time trying to iron out differences on the previously agreed transfer of the U.S. military command from Yongsan Army Base in central Seoul to a more southern location by 2007. Besides discussing how to apportion the cost of this transfer, officials continued to debate the modalities for South Korea assuming responsibility for guarding the so-called Joint Security Area which adjoins the border village of Panmunjom.

## **U.S.-Korea trade talks**

At a regular bilateral meeting of U.S. and Korean trade officials on Feb. 25, negotiators agreed on steps to resolve an issue that threatened to become a major point of dispute: South Korea's pending adoption of the so-called "wireless internet platform for interoperability" (WIPI). If South Korea were to adopt WIPI as the single national standard for accessing the internet through cell phones, it would effectively shut out of the Korean market a major U.S. company, Qualcomm, which has developed an alternative technology that performs the same function. Trade negotiators effectively agreed on the mutual compatibility of these two technologies and decided to look for alternative ways of addressing the overall issue of wireless technology standardization.

Negotiators also discussed the progress of a bilateral investment treaty (BIT) between the two countries. Discussions on a BIT have been stymied by U.S. objections to the South Korean "screen quota" which protects the local film industry and prevents foreign film makers from freely showing movies in South Korean cinemas. Earlier in the quarter, the

South Korean Fair Trade Commission (FTC) attacked the screen quota as “anti-competitive” and vowed to investigate its market impact. But it was not clear that any recommendation of the FTC to reduce or eliminate the screen quota would be sufficient to overcome support for the quota from the Ministry of Culture and the South Korean film industry.

U.S. and South Korean trade officials reportedly did not take up the issue of South Korea’s temporary ban on the import of U.S. beef that resulted from the widely reported U.S. case of “mad cow disease.” Although U.S. Department of Agriculture officials have underscored the safety of U.S. beef exports and expressed annoyance at the South Korean action, the two governments decided not to put this issue on the official agenda of the trade talks. Perhaps in an effort to leverage its position on other agricultural issues, South Korean officials urged the U.S. to accept additional imports of Korean cucumbers, watermelon, musk melon, and paprika. The U.S. responded that it would attempt to resolve these issues by the end of the second quarter of 2004.

### **Impeachable offense?**

The attempt to impeach President Roh could have an effect on U.S.-ROK relations, although it was, strictly speaking, a purely domestic affair. On March 12, the opposition parties in the South Korean National Assembly passed an unprecedented motion to impeach the president. The motion was based on statements that he made that violated election statutes that require executive officials to maintain neutrality in elections. The Election Commission conceded the comments, which endorsed the Uri party, broke the law, but said they were minor infractions. Undaunted, the opposition sensed an opportunity and passed the motion to impeach Mr. Roh.

The move looks set to backfire. Although the public is deeply divided in its support for the president, opinion polls show 70 percent think the impeachment vote goes too far. The most recent surveys show Uri leads its closest rival, the conservative Grand National Party, by a 2-1 margin, which means that the April 15 vote could transform ROK politics. Since Uri is composed of more radical members of the opposition, the result is likely to be a legislature more supportive of Mr. Roh – and more critical of the U.S. (even though the U.S. has taken no stand on the outcome of the impeachment and called for the respect of democratic processes in the ROK). The Constitutional Court has to rule on the legality of the impeachment vote, but its conclusion is likely to be influenced by the April elections. Compounding the ironies, the stand-in president is Prime Minister Goh Kun, who is more conservative than Mr. Roh and who has done well to strengthen relations with the U.S.

### **Prospects**

A perplexing question arising out of the February six-party talks is why the U.S., in particular, gave an upbeat assessment of their “progress,” although the parties could not even agree on a joint statement containing some substantive steps toward diplomatic agreement. In stressing the value of “institutionalizing” the six-party *process* through



newly organized working groups, the U.S. appeared to be doing its utmost to keep the negotiations alive. Perhaps the U.S. sought to avoid publicly highlighting the impasse in the talks – at a time when it is facing significant difficulties in Iraq – since a widely perceived breakdown in the negotiations could lead to a new crisis in Northeast Asia at an undesired moment.

If the six-party talks do not bear fruit at their next round, however, the underlying impasse in the negotiations will be too obvious to cover up with benign rhetoric. Bush administration conservatives can then be expected to highlight the “failure of the diplomatic track” and call for tougher measures, including UN sanctions and preparatory military steps, to demonstrate U.S. resolve on the nuclear issue. In the context of the U.S. presidential campaign, the domestic political pressure on President Bush to show “tough-minded leadership” in dealing with North Korea may prove difficult to resist.

### **Chronology of U.S.-Korea Relations January-March 2004**

**Jan. 6, 2004:** North Korea in “bold concession” to U.S. offers not to test or produce nuclear weapons and to freeze its nuclear facilities.

**Jan. 8, 2004:** South Korean Foreign Ministry expresses “regret” over U.S. move to put South Korea on “priority watch list” for intellectual property rights violations.

**Jan. 10, 2004:** North shows its “nuclear deterrent” to visiting unofficial delegation of U.S. experts.

**Jan. 14, 2004:** President Roh accepts resignation of Foreign Minister Yoon Young-kwan.

**Jan. 15, 2004:** Roh appoints veteran diplomat Ban Ki-moon as foreign minister; departing Minister Yoon calls for “balance” in South Korea’s foreign policy.

**Jan. 17, 2004:** U.S. and South Korean defense officials reach agreement on the relocation of U.S. troops to Pyong-taek and the return of Yongsan Army Base to South Korea by the end of 2007.

**Jan. 21-22, 2004:** TCOG meeting in Washington. U.S., South Korea, and Japan reach agreement on pressing North Korea to agree to nuclear inspections at the six-party talks. International Institute for Strategic Studies says North Korea could complete uranium enrichment program in two years and begin producing 5 to 13 nuclear bombs per year.

**Jan. 27, 2004:** South Korea tells U.S. government delegation it will maintain its ban on imported U.S. beef due to concern about “mad-cow disease.”

**Feb. 1, 2004:** Assistant Secretary Kelly visits Seoul and says North-South talks assist the progress of the six-party talks.

**Feb. 2, 2004:** North Korea says new round of six-party talks will begin Feb. 25 in Beijing.

**Feb. 7, 2004:** Seoul provisionally suspends import of U.S. poultry because of reported bird-flu cases.

**Feb. 12, 2004:** National Assembly approves dispatch of 3,000 South Korean troops to Iraq. U.S. and South Korean military officials meet in Seoul to discuss transfer of U.S. forces out of Yongsan Army Base.

**Feb. 21, 2004:** South Korean FM Ban calls on North Korea to allow inspections of its nuclear facilities.

**Feb. 22, 2004:** South Korean Unification Minister Jeong calls for more U.S. flexibility at upcoming six-party talks.

**Feb. 23, 2004:** U.S., South Korea, and Japan hold trilateral talks in Seoul, in advance of upcoming six-party talks.

**Feb. 28, 2004:** Six-party talks end in Beijing with agreement to meet again by the end of June and to form working groups to facilitate greater progress.

**March 3, 2004:** FM Ban meets with Secretary Powell to discuss North Korea-related issues.

**March 12, 2004:** National Assembly impeaches President Roh.

**March 13, 2004:** Secretary of Homeland Security Tom Ridge meets interim President Goh Kun; U.S. and South Korean defense officials confirm U.S.-South Korea alliance.

**March 14, 2004:** *New York Times* reports Pakistan's Khan Research Laboratories provided North Korea with all necessary equipment to enrich uranium for nuclear weapons.

**March 15, 2004:** FM Ban warns North Korea not to use impeachment of President Roh as pretext to stall on moving ahead with six-party working groups.

**March 15, 2004:** U.S. aircraft carrier *USS Kitty Hawk* arrives at Pusan port to participate in U.S.-ROK joint military exercises.

**March 16, 2004:** Pyongyang denounces the State Department's recent report, which charges the DPRK with being involved in state-sponsored drug smuggling, as another political plot by the U.S. against North Korea.

**March 17, 2004:** DPRK accuses the U.S. of instigating the impeachment of South Korean President Roh.

**March 19, 2004:** ROK halts plans to deploy forces to Kirkuk, Iraq. Government official states the ROK will eventually dispatch the troops, but only after finding a safer location.

**March 19, 2004:** President George W. Bush delivers his White House address on the first anniversary of war in Iraq; recognizes Japan's and the ROK's historic troop commitments to help bring peace to Iraq.

**March 19, 2004:** U.S. Deputy Secretary of State Richard L. Armitage acknowledges the importance of ROK's cooperation with the U.S. in the war against terror; considers ROK's generous financial contributions, military support and decision to dispatch 3,000 additional troops to Iraq as very significant commitments.

**March 22, 2004:** North Korea cancels rapprochement talks with South Korea for the second time in a week, this time to protest ongoing U.S.-ROK joint military exercises.

**March 22-27, 2004:** U.S. and South Korea hold joint military training exercises *SOI* and *Foal Eagle* amid unresolved tensions over North Korea's nuclear weapons program.

**March 24, 2004:** South Korea stresses that there is no disagreement between Seoul and Washington over plans to send 3,000 ROK troops to Iraq; explains the two sides agreed to change the dispatch location because of concern about the security situation in Kirkuk.

**March 25, 2004:** U.S. accuses North Korea of seeking to sell missiles to Myanmar.

**March 30, 2004:** Deputy Under Secretary of Defense Sue C. Payton visits South Korea.

**March 31, 2004:** FM Ban says a North Korean proposal for a nuclear freeze would be unacceptable unless North Korea commits to have all its nuclear-related facilities frozen.

**March 31, 2004:** DPRK slams planned U.S. air defense deployment as preparation for war; says it will boost its nuclear deterrent force to protect itself and further condemns U.S. plans to deploy a Aegis-destroyer off the Korean coast in September as a "preparation for war."

## U.S.-Russia Relations: Elections Bring Tensions

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On the surface, U.S.-Russian relations continued the downward spiral that marked the chilly fall months. Bush administration and U.S. government criticism of Russia's March 14 presidential elections was thinly veiled, and the international press had a field day decrying both the electoral process and the outcome. In spite of this heightened friction, structural factors continue to keep the two countries' relations from plummeting to extreme depths. Although energy cooperation has eased to some extent, the all-important war on terrorism, and the drive against the proliferation of weapons of mass destruction (WMD) are issues of great importance to both nations, and a successful prosecution of both struggles is a goal shared by both Moscow and Washington. Ironically, democratic elections can prove divisive in diplomatic relations as the most recent one in Russia demonstrated. With an upcoming presidential election in the United States, Russia could again become a whipping post for the U.S.

### **Putin's uncontested election**

Putin's re-election on March 14 with more than 70 percent of the popular vote came as no surprise to observers. The elections themselves were carried out fairly, but the run-up to the election attracted criticism. Last fall, Putin jailed perhaps the most viable opposition candidate (at least the one with the deepest pockets), Yukos CEO Mikhail Khodorkovsky. The Kremlin has also muzzled the media, especially the television stations, which have become the most accessible source of information for the majority of Russians. By the time of the elections, Putin was opposed by a relatively unknown communist candidate (who garnered a surprising number of votes), and by a liberal candidate whose popularity has never been widespread. In the run-up to the election, U.S. Secretary of State Colin Powell questioned the Kremlin (and hence Putin's) tactics in an op-ed piece in the Russian daily *Izvestia*. Attempting to soften what was in essence a critical piece, Powell wondered why the Kremlin went to such great lengths to assure media and print control when Putin was actually quite popular in the first place. The White House and the State Department have continued to speak about the questionable electoral tactics of the Kremlin in the weeks following the election.

Undaunted, Putin has made a series of bold political moves to put his personal imprimatur on his second term of office. Among these were the sacking of the entire Cabinet two weeks prior to the election and the hiring of a prime minister with both a police and a liberal economic background. The general reaction of the Western press to

Mikhail Fradkov's appointment was guarded optimism: he is a competent man without some of the seamier qualities associated with his successor, Mikhail Kasyanov. *The New York Times* stated that Fradkov was "a promising choice" for the Kremlin, and that his appointment "points in a promising direction." Additionally, Putin's appointment of Sergei Lavrov to head the Foreign Ministry was also met with grudging respect in the West, particularly in New York where Lavrov had headed the Russian UN delegation for the better part of 10 years. Both men have long experience working in Western Europe or the United States and are seen as both reasonable and earnest, if somewhat (in the case of Lavrov) opinionated. In an op-ed in the *Wall Street Journal*, Lavrov set a positive tone and called for Moscow and Washington to continue building on the strategic partnership in spite of differences in certain areas: "tactical differences...are far less important for us than the convergence of Russia and the U.S.'s strategic interests."

### **Cold War hangover**

Nevertheless, the general tone in the U.S.-Russian bilateral relationship in the winter months was as frigid as the weather. The term "new Cold War" appeared with increasing frequency in the U.S. and Russian press. The Russian centrist weekly journal *Kommersant-Vlast* suggested that the Russian-American "strategic partnership" is becoming nothing more than a "covert form of rivalry." At issue are problems that are quite familiar to cold warriors, including conventional and nuclear forces, military exercises, alliances, and verbal barbs.

Moscow is concerned with NATO's recent expansion to include seven more former socialist states (and in the case of the Baltics, three former Soviet republics) – Bulgaria, Estonia, Latvia, Lithuania, Slovakia, Slovenia, and Romania. Two of these countries share a common border with Russia. Furthermore, NATO already has plans to include the Baltic Republics within the overflight area of alliance aircraft. The U.S. also has plans to establish a number of military bases in Romania and Bulgaria, bordering the Black Sea. Russian Defense Minister Sergei Ivanov questioned NATO's plans and asked of the new facilities being planned in Eastern Europe, "What purpose do they serve?" He went on to warn that Moscow might be forced to boost its military presence in the Kaliningrad enclave, situated between Poland and the Baltic republics.

Moscow responded in part by staging large military maneuvers based on its still potent nuclear force. The maneuvers, described by Russian media as the largest show of military might since Soviet times, were conducted in the Barents Sea, north of Murmansk. Vladimir Putin personally observed the maneuvers from the bridge of a nuclear submarine. Several of the staged ballistic missile launches, however, resulted in failure, which must have been a great embarrassment for Putin. All the more so since these were the waters where the nuclear submarine *Kursk* sank after a mysterious explosion in August 2000, also while participating in a large exercise. Respected Moscow military analyst Alexei Arbatov lamented the new muscle flexing of both sides, suggesting that 90 percent of the military budget of each country is still directed toward each other, when they should both be focusing on the common terrorist threat.

In another echo of the Cold War, Russia and the U.S. have been engaged in competition in the international arms market, particularly in Asia. In 2003, Russian arms sales passed the \$5 billion threshold for the first time since the collapse of the Soviet Union. During that period Russia sold to India 12 *Su-30MKIs* and to China 19 *Su-30MKKs*. Russia has also been aggressively pushing arms sales in Southeast Asia. As pointed out in this column last quarter (and before), over the past year Russia has completed sales (of planes and other arms) to Indonesia, Malaysia, and Vietnam. Most notably, in January, Russian Defense Minister Sergei Ivanov visited India to put the final touches on a deal transferring the aircraft carrier *Admiral Gorshkov* to India for \$1.5 billion.

Meanwhile, energy cooperation took a step backward, when the Russian government informed Exxon-Mobil executives that the tender their firm took out on the *Sakhalin-3* project in 1993 is no longer valid. There are signs that the Russian government has begun to rethink the liberal production sharing agreements (PSAs) that were signed with Western energy firms in Sakhalin. It appears that foreign investor rights in Russia's energy complex will henceforth be given severe scrutiny in the Kremlin, and it is not far-fetched to imagine the Russians following the Saudi model of strict domestic control of oil and gas reserves, and the production thereof. In a similar vein, it appears that the U.S. government is less willing to pony up for programs meant to destroy and clean-up Russia's vast chemical, biological, and nuclear weapons stockpiles. In an editorial in the *Chicago Tribune*, Sen. Richard Lugar took Congress to task for holding back some of the funding.

In an interview after the Russian presidential election, U.S. analyst and former NSC official Toby Gati said that she felt that the United States has spent too much time either ignoring Russia or lecturing it, without taking the time to build a partnership based on trust and a spirit of equanimity. This assessment is echoed frequently in the Russian press and among ordinary Russians. Much as the Japanese lamented the idea of "Japan passing" in the late 1990s, the Russians too feel they are often passed over by the United States. But it has become clear that Russia's road to democracy is imperfect, and that if anything, the Putin administration is moving Russia slightly back down the road toward a more controlled type of government exercising the principles of a market economy. A clear sign of this tendency was the March 31 decision by the Kremlin-dominated Duma to ban public protests in most areas of Russia.

### **The Middle East**

Moscow and Washington continue to spar over Iran and Iraq. Although Russia has been much more cooperative over Iran and the threat of proliferation, it still hopes to complete the sale of a reactor to the Iranians, and indeed the Kremlin has stated that it is determined to do so. Meanwhile, Russia refuses to join the U.S. and 13 other nations in the Proliferation Security Initiative (PSI), an organization aimed at counter-proliferation. U.S. Under Secretary of State John Bolton was sent to Moscow in January to try and convince the Russians, but was unsuccessful.

In Iran, the U.S. has had problems with both a strategic partner (Russia) and an ally (Japan). In February, Russia restated its intention to provide nuclear fuel to Tehran's nuclear reactor at Bushehr, and Japan signed a ground-breaking \$2.8 billion deal to develop Iran's giant Azadegan oil field.

Russia continues to state its unhappiness with the U.S.-run occupation of Iraq, and an opinion poll showed that more than 60 percent of Russia's citizens oppose U.S. actions there and equate the 2003 war to a crime. Nevertheless, in spite of earlier U.S. pronouncements about shutting out nations that opposed the war in Iraq from reconstruction contracts (aimed mainly at France and Germany), Russian firms are still optimistic that they can secure work there. The Russian government's decision to declare debt relief was aimed primarily at securing good will in Iraq and smoothing the way for Russian firms to work there.

### **Central Asia and the Caucasus**

U.S. intentions in Central Asia continue to worry leaders in Moscow. In earlier columns I have alluded to Russian concern over U.S. air bases in Kyrgyzstan and Uzbekistan. Of perhaps more worry for leaders in the Kremlin, according to the daily *Kommersant*, is the increasing pro-Western orientation of Kazakhstan. Vladimir Putin visited Kazakhstan in the first part of January to lobby for the rights of the Russian minority there and to argue for closer strategic cooperation. Undoubtedly Russian leaders are also closely monitoring Chinese overtures in the region, which could leave Russia as the third most important country for Kazakh leaders.

Moscow and Washington have also crossed swords over Georgia, where a velvet revolution of sorts swept into power a young president with obvious sympathies for the U.S. The U.S. has backed Georgia's new president, Mikhail Saakashvili, and his request that Russia remove its two remaining bases from that country. Russian military leaders say they cannot afford to do so and that any withdrawal will come only after 10 years. Washington has hinted that it will pay for the Russian withdrawal. Now people in Russia are wondering whether the small U.S. military presence in Georgia will become permanent. Secretary Powell tried to reassure his hosts in Moscow during his trip there in March, but the fear of the U.S. surrounding Russia with bases is latent, and indeed U.S. actions in this regard (in southeastern Europe and Central Asia) have done nothing to assuage this fear.

Chechnya continues to fester as an open wound for the Russians. U.S. leaders are also becoming more and more open in their criticism of Russia's actions there, something the Bush administration was reluctant to bring up in the early years of the presidency. Now, perhaps in anticipation of the upcoming U.S. presidential election, the White House is becoming less hesitant to voice its dissatisfaction about Russia's actions in Chechnya. The war brought up further irritants this winter when two Russian intelligence officers were arrested in Qatar in connection with the death of a Chechen rebel leader in that country in February. Allegedly these two men carried out the assassination of Zelimkhan Yandarbiyev in Qatar, and reportedly they were apprehended in part with the help of

intelligence provided to Qatari police by the U.S. Whatever the case, it is clear that Russia is no closer to victory in Chechnya than it was in Afghanistan in the 1980s. The Russian leadership needs to think about new strategies for ending the war and the senseless bloodshed, which is only further weakening the Russian army and sapping vital resources that are desperately needed elsewhere.

## **East Asia**

Korean Peninsula issues continue to hold center stage for U.S.-Russian relations in East Asia. The second round of six-party talks on North Korea's nuclear program in February reached no conclusive outcome. Impatience is evident on all sides, and indications are that talks have reached the point of diminishing returns. Nevertheless, Moscow continues to back Washington's demand that North Korea give up its nuclear weapons program.

Another issue that has occupied the energy of Russian leaders in recent months has been the diplomatic tug-of-war between China and Japan over the final destination of the pipeline serving Russian oil to East Asia. The Russian government seems to have come to a decision (for now at least, but this could change) that it prefers the longer pipeline skirting northeastern China and ending up at Nakhodka (south of Vladivostok) from whence oil could be shipped to Japan, South Korea, China/Taiwan, and across the Pacific to the U.S. and elsewhere. In March, acting Energy Minister for Russia Igor Yusufov announced that his government wants the state-run pipeline monopoly Transneft to build a new \$7 billion crude oil link to Nakhodka so that sales can be opened to all buyers. According to Yusufov the decision was based on "pure economic terms." Yusufov went on to add, "China will have equal access to buy oil [from Nakhodka port]." The 2,400-mile route to Nakhodka has long been favored by Transneft and Rosneft, Russia's largest state-owned oil company. The Pacific route also supports Russia's plan to expand further into the U.S. market.

The private Russian oil firm Yukos had favored the China (Daqing) route, but with the arrest last fall of CEO Mikhail Khodorkovsky, it became clear that advocates for the China route were losing. The Chinese government-owned *China Daily* suggested that Beijing may still succeed in lobbying Russia to build the Daqing route, but warned that failure to do so would damage the relationship between Russia and China in trade and politics. Coincidentally (or not), China announced in March that its crude oil exports to Japan were to be halted for the first time in 30 years due to rising demand in China itself. Although the U.S. has in no way been involved in this struggle over resources, it can be guessed that U.S. officials and industry leaders would also prefer a Pacific route. Whatever decision is made, the pipeline is still years from completion, and things could change during that time period that could alter the Russian government decision.



## Looking Ahead

U.S.-Russia relations have weathered a tough half-year. The remainder of this year also promises to be difficult given the upcoming U.S. presidential election. The war on terror continues, and as events in Madrid and Moscow in recent weeks have demonstrated, more attacks can be expected. The situation in Chechnya can also be expected to heat up with the summer months, if past years give any indication. What sort of pressure this will put on the U.S.-Russia relationship is hard to gauge. But one thing is certain: one rarely hears the word “partnership” bandied about any more in reference to relations between Moscow and Washington.

## Chronology of U.S.-Russia Relations January-March 2004

**Jan. 9, 2004:** Russian President Putin visits Kazakhstan and meets with President Nursultan Nazarbayev to discuss strategic cooperation and joint energy development.

**Jan. 19-21, 2004:** Defense Minister Sergei Ivanov visits India to finalize the \$1.5 billion sale of the *Admiral Gorshkov* aircraft carrier to India.

**Jan. 23-24, 2004:** Secretary of State Colin Powell visits Georgia to attend the inauguration of President Mikhail Saakashvili.

**Jan. 26-27, 2004:** Powell arrives in Moscow for a two-day visit during which he meets with Russian counterpart Igor Ivanov and President Putin.

**Jan. 29-30, 2004:** Under Secretary of State John Bolton visits Moscow to meet with top defense and foreign ministry officials, but he fails to convince them that Russia should join the U.S.-led Proliferation Security Initiative (PSI).

**Feb. 6, 2004:** A powerful explosion blasts a packed underground train in Moscow during the morning rush-hour, killing at least 39 people and injuring more than 100.

**Feb. 7, 2004:** At a gathering of defense experts in Munich, DM Ivanov urges NATO not to put new military facilities in Poland and the Baltics, and warns that Moscow could take measures if its interests were threatened. At the same conference Sen. John McCain accuses Putin’s regime of a “creeping coup” against democracy.

**Feb. 10, 2004:** President Bush meets the head of the Russian presidential administration, Dmitri Medvedev who delivers a message to Bush from Putin that promises Russia will remain a “stable, reliable, and predictable partner.”

**Feb. 17, 2004:** Putin observes a large military exercise involving missile launches and strategic bombing flights on board a nuclear submarine in the Barents Sea. Several missile launches, however, result in failure and embarrassment for Putin.

**Feb. 19, 2004:** Three Russians are arrested in Qatar on suspicion of planting a bomb that killed Chechen rebel leader Zelimkhan Yandarbiyev in Doha on Feb. 13.

**Feb. 24, 2004:** Putin dismisses PM Mikhail Kasyanov and all other Cabinet ministers, saying he is reshuffling the government in preparation for next month's presidential vote.

**Feb. 25, 2004:** President Bush meets Mikhail Saakashvili, new president of Georgia at the White House.

**Feb. 25, 2004:** In its annual human rights report, the State Department accuses Russia of manipulating elections and making threats against opposition parties.

**Feb. 26, 2004:** In a phone call President Bush tells President Putin that he hopes Russia will move in a "reformist direction" after the March 14 presidential elections.

**March 1, 2004:** Putin nominates Mikhail Fradkov, a former tax police chief and Russia's top diplomat at the European Union, as prime minister.

**March 2, 2004:** Putin meets with former Secretary of State Henry Kissinger in Moscow.

**March 13, 2004:** CIA warns of a "greater assertiveness" on the part of Russia after Putin wins re-election.

**March 14, 2004:** Secretary Powell says he is concerned about the way Russia is conducting its presidential election and urges Putin's government "to do a better job" of making democracy work.

**March 14, 2004:** Putin is announced the winner of the presidential election in Russia with more than 70 percent of the popular vote.

**March 17, 2004:** Newly appointed FM Sergei Lavrov tells journalists that "virtually nothing separates" Russia from the U.S. when it comes to a vision of humanity's strategic problems in ensuring security.

**March 18, 2004:** U.S.-Russian relations are on the "right track" Assistant Secretary of State Elizabeth Jones tells Congress, though the track "is not without its bumps and occasional setbacks."

**March 20, 2004:** Sixty-two percent of Russians say the U.S.-led operation in Iraq is a crime against the people of Iraq, according to a VTsIOM survey.

**March 29, 2004:** Estonia, Lithuania, and Latvia are among seven former Soviet bloc countries formally join NATO. The other ex-communist nations joining are Romania, Bulgaria, Slovenia, and Slovakia.

**March 29, 2004:** Russian news agencies quote a senior Russian Defense Ministry official who announces Russia has designed a “revolutionary” weapon that would make the prospective U.S. missile defense useless.

**March 31, 2004:** Russian Duma decides to outlaw public protests in most Russian public places, including outside official buildings.

U.S.-Southeast Asia Relations:

## A WMD Discovery in Malaysia and Counter-Terrorism Concerns in the Rest of Southeast Asia

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Despite Southeast Asia's treaty commitment to a nuclear weapons free zone, the interdiction of nuclear centrifuges bound for Libya manufactured by a Malaysian company reveals that the region is not immune to weapons of mass destruction (WMD) proliferation. Communal violence in southern Thailand and continued Muslim-based militance in Indonesia and the southern Philippines reinforced U.S. efforts to cooperate with these governments in tracking down militants and/or to help negotiate compromises to defuse militancy. However, America's continued presence in Iraq has complicated relations with Indonesia where forthcoming elections have led President Megawati Sukarnoputri to publicly distance herself from U.S. policy. Southeast Asian discontent with the United States is exacerbated by Washington's continued refusal to permit direct access by regional investigators to captured *Jemaah Islamiyah* (JI) leader Hambali who remains exclusively in U.S. custody.

### **Nuclear weapons proliferation in Southeast Asia?**

Among Asia's subregions, only the 10 Southeast Asian states have explicitly abjured the manufacture or possession of nuclear weapons through the declaration of a Southeast Asia Nuclear Weapons Free Zone (SEANWFZ). In 1995, this declaration became a treaty to which all ASEAN members have adhered. Hence, the discovery in October 2003 that a Malaysian company – Scomi Oil and Gas – had manufactured and shipped high-quality centrifuge components destined for Libya shocked the region. Centrifuges are a vital part of the process for creating highly enriched uranium – essential for nuclear weapons. These developments became public knowledge in February 2004.

The centrifuge parts were seized under the U.S.-led Proliferation Security Initiative (PSI) by which some 14 countries have agreed to interdict the illegal shipment of WMD. Both Scomi and Malaysian authorities claimed ignorance about the ultimate use of the centrifuge components, noting that they could be employed in a variety of ways having nothing to do with nuclear weapons. A senior Bush administration official disagreed with the Malaysian disclaimer, however, saying that it was unlikely that Scomi was unaware that they were parts of nuclear centrifuges since such a large number had been manufactured.

The discovery of a Malaysian connection constituted part of the unraveling of the black market nuclear proliferation network run by Pakistani scientist – and father of its nuclear weapons program – A.Q. Khan. While the Malaysian prime minister’s son, Kammaludin Abdullah, currently holds a majority share in Scomi, it was acquired after the centrifuge contract was fulfilled and there is nothing to indicate he was aware of the transaction.

In a February speech at the U.S. National Defense University, President Bush cited the Malaysian link in Dr. Khan’s nuclear network, an allegation immediately denied by Malaysia’s new prime minister, Abdullah Badawi. Foreign Minister Syed Hamid Albar said Malaysia was being unfairly targeted because it was a Muslim country. However, Malaysian authorities promised to share information with the United States in its investigations of BSA Takir, a Sri Lankan resident of Malaysia, described by the U.S. president as A.Q Khan’s “chief financial officer and money launderer.” Subsequently, in mid-February, Under Secretary of State John Bolton softened the U.S position on Malaysia saying that it did not mean to implicate the Malaysian government in the nuclear black market scandal. Bolton also appeared to accept Scomi’s explanation that it did not know the parts were destined for Libya and believed they were to be used in oil and gas industries. In early March, Assistant Secretary of State John Wolf met Malaysian officials and urged them to tighten export controls to which Foreign Minister Syed Hamid replied that he did not “see any necessity.”

### **Renewed terrorist activities in southern Thailand**

In early January, a series of apparently coordinated terrorist raids and attacks in three Muslim-dominated southern Thai provinces led to the theft of large quantities of arms and the killing of army and police personnel, while at the same time, some 20 government schools were torched. Malaysia immediately denied any involvement and stepped up border coordination to prevent the stolen weapons from being smuggled out of Thailand. Although Thai Prime Minister Thaksin Shinawatra initially blamed the attacks on criminal elements, he later acknowledged that they probably were, in fact, acts of communal violence. Southern Thailand is a complicated region where organized crime is deeply entrenched and illegal trafficking in people and arms is ubiquitous. Separatist movements against the central government plagued the region in the 1970s and 1980s. Although much calmer in recent years, this history of violence has deterred foreign and domestic investors, thus exacerbating the region’s poverty.

U.S. officials in Bangkok and Thai intelligence detect a trend toward more Islamic fundamentalism in the south where local Islamists had provided sanctuary and logistics for Hambali and other JI members when they passed through Thailand in early 2002. Some Thai analysts believe that Bangkok’s decision to dispatch troops for the reconstruction effort in Iraq has led to the country’s being targeted by *jihadists*. Senior Thai military officials believe that the long dormant Muslim separatist insurgency has been revived with financial and operational support from internationally linked terrorist groups. If so, this would fit plans by Southeast Asian Islamic extremist groups to build networks across Southeast Asia.

The U.S. and Thailand have a close counter-terrorism relationship with CIA and Thai intelligence working on a regular basis in a joint Counter-Terrorism Intelligence Center (CTIC) established even before the Sept. 11 attacks on the United States. The CTIC is now directing attention to southern Thailand, though no U.S. military assistance is contemplated. However, Thai forces have rented time on three U.S. spy satellites to search for the stolen army weapons.

Much of southern Thailand is currently under martial law and there is talk of building a security fence along the Malaysian border. Bangkok and Kuala Lumpur have commenced joint patrols and the two countries have agreed to tighten entry procedures for those having dual citizenship.

On other matters, positive and negative factors played into U.S.-Thai relations this quarter. On the positive side, with the new year, Thailand achieved “major non-NATO ally status” – the second Southeast Asian state after the Philippines. In recognition of Thailand’s support for Iraq’s reconstruction, the designation provides significant benefits in military assistance, including a U.S. loan guarantee arrangement for private banks to finance U.S. arms exports to Thailand. On the negative side, however, Bangkok protested the State Department’s lowering of Thailand’s ranking in human trafficking, which could lead to some withholding of foreign aid. For years, Thailand has been a prime destination for illegal immigrants from neighboring countries destined for the sex industry as well as back-breaking jobs generally shunned by Thai nationals. However, in all probability, the negative human rights report was generated more by U.S. concerns over Prime Minister Thaksin’s extra-judicial crackdown on drug traffickers that led to thousands of summary executions that ignored due process.

### **Islamic militancy and Indonesian politics**

At a January meeting of police officials from Asia and Europe in Bali, al-Qaeda was described more as an inspiration than a director of Southeast Asian Islamic extremist terror groups. The latter have their individual agendas as a reason to launch attacks against regional governments as well as U.S. interests. This has certainly been true for the Indonesia-based JI responsible for the October 2002 and August 2003 Bali and Jakarta Marriott bombings as well as the December 2000 Indonesian church bombings. JI may be currently training in the southern Philippines, according to counter-terrorism officials attending the conference. Moreover, in a report by the International Crisis Group written by Indonesian specialist Sidney Jones, an even more violence-oriented hardline group – *Mujahadeen Kompok* – has split off from JI. While JI has been weakened by a number of arrests in the wake of the Bali and Marriott bombings, the FBI has complained privately that it has not had much direct access to those arrested, some of whom have already been tried and convicted in Indonesian courts.

For its part, Indonesia is still anxious to obtain access to key JI and al-Qaeda leader Hambali, arrested last October in Thailand and considered al-Qaeda’s top Southeast Asian operative, as well as number four in its hierarchy. U.S. Attorney General John Ashcroft at the Bali meeting said only that the United States is “working towards” giving

foreign investigators access, but American investigators have provided Indonesians some interview transcripts. The problem is that information obtained indirectly may not be admissible in Indonesian courts.

Hambali has reportedly been forthcoming to his American interrogators with details about al-Qaeda and JI members, finances, and methods of operation, though the United States has shared little operational intelligence with Southeast Asian governments. The reports that have been made public reveal that al-Qaeda gave \$30,000 in seed money to the Bali bombers and another \$27,000 to the Moro Islamic Liberation Front (MILF) in the southern Philippines. Hambali's statements also strengthened the case against JI spiritual leader Abu Bakar Bashir who was present at Malaysian JI meetings where terrorist attacks were planned. Indonesian police want to verify these findings with their own direct access to Hambali, a request the Americans have yet to honor. Moreover, the absence of direct evidence linking Bashir to terrorist acts is at least partially responsible for the Indonesian Supreme Court decision in early March to reduce his three year sentence to time served – less than one year. The U.S. embassy expressed extreme disappointment with the Court's decision and indicated it was prepared to ask Indonesian authorities to reinstitute the charges against the cleric "using fully available evidence at their disposal" – apparently a reference to interrogation transcripts of al-Qaeda and JI members in U.S. custody.

The January Bali conference (mentioned above) also led to the creation of another regional antiterrorism center – the first was set up in July 2003 in Kuala Lumpur primarily for conferences and training. Plans for Indonesia's center seem to be more operationally oriented, involving the establishment of a central forensics laboratory. The center will operate 24-hour, seven days a week hotlines to provide an information repository on terrorist suspects. While the United States is a significant funder for the Malaysian center, Australia will be Jakarta's major external collaborator in its new center, apparently building on the close cooperation developed by Australian and Indonesian law enforcement after the Bali bombing.

Anti-American rhetoric has played into Indonesian politics with the upcoming parliamentary and presidential elections slated for April and July. In a speech before the International Conference of Islamic Scholars organized by the country's largest Muslim organization, *Nahdlatul Ulama* (NU) on Feb. 22, President Megawati castigated the U.S. occupation of Iraq as an example of unjust treatment of Muslims. Also distasteful to the United States is Gen. Wiranto's presidential candidacy in the July election. He is seeking Golkar's nomination – the second largest Indonesian political party. Wiranto has been charged with war crimes by the United Nations in connection with the violence attendant upon East Timor's 1999 independence referendum. American officials have made it known that Wiranto's nomination would not be helpful to Indonesia's relations with Washington; and the general is on a U.S. watch list that prevents him from obtaining a visa to visit the U.S.

## **Philippine-U.S. relations continue to center on counter-terror**

Responding to U.S. concerns about possible terrorism aboard commercial aircraft, President Gloria Macapagal-Arroyo in early January stated that the Philippines is prepared to put air marshals aboard Philippine Airline flights to the United States if the U.S. reciprocates on its flights to the islands. Manila also played down U.S. travel advisories about terror threats in the country, insisting – somewhat prematurely – that terror threats had been neutralized by the capture of top *Abu Sayyaf* leaders in recent months and the death of top JI bomb maker Fathur Rahman al-Ghozi last year. In refutation, the U.S. embassy stated: “The terrorist threat to Americans in the Philippines remains high, and the embassy continues to receive reports of ongoing activities by known terrorist groups.”

Washington appears to be following a “carrot-and-stick” policy toward the protracted MILF rebellion in Mindanao. In late February, the U.S. reiterated its offer to provide millions of dollars in development aid if the MILF engages in peace talks with Manila. The alternative is to risk being placed on America’s terrorist list. An American scholar, Zachary Abuza, meeting with MILF leaders in February, stated that the organization hoped the United States would pressure Manila authorities to compromise. If so, then, MILF might be willing to close its camps to JI recruits who currently train there.

Meanwhile, the other Philippine insurgency conducted by the Philippine Communist Party’s National Peoples Army (NPA) warned that peace talks in Norway will not succeed as long as the United States continues to label the CPP’s National Democratic Front (NDF) as terrorists. The terrorist tag has dried up the NDF’s foreign funding and has led the CPP-NPA to step up extortion in the Philippines to fuel their operations.

Once again, the Philippines and U.S. exercised together in *Balikatan-04* from Feb. 23-March 4 with approximately 2,500 forces from each country. This time instead of training in Mindanao, some of the exercises took place on the island of Palawan – adjacent to the Philippines’ Spratly Islands claim – and Batanes province. Conventional warfare and counterterrorism were emphasized; and U.S. troops also provided civil and humanitarian assistance programs in local villages as they did in Basilan in 2002. President Arroyo insisted that despite the Palawan venue, the exercises were not related to the Philippines Spratly claims and that the war game was a “command post” exercise with no actual “live fire.” The latter took place on Luzon. Nor was the war game concerned with protecting an off-shore gas platform from terrorist attacks, according to the *Balikatan* Information Bureau, though President Arroyo had stated on March 5 that protecting the gas platform was one purpose of the exercise. U.S. aid to the Philippines post-Sept. 11 has reached \$400 million by 2004.

## **Mixed U.S. relations with Indochina**

American frustration with the politics of murder in Cambodia was on display again this quarter as a top trade union leader, who was a founding member of the Sam Rainsy Party and outspoken critic of the Hun Sen government’s human rights abuses, was gunned



down Jan. 22. The State Department called on the Cambodian government “to undertake immediate and effective action” to solve the crime and stressed that a culture of intimidation and violence must not be tolerated. Human rights and opposition groups have accused Hun Sen’s Cambodian People’s Party (CPP) of being behind this killing and of other high-profile opposition leaders which have deepened the country’s political crisis. No new government has been formed since last July’s general election because neither the Sam Rainsy Party nor Prince Rannaridh’s FUNCINPEC party have agreed to join the CPP in a post-election coalition. Adding to U.S. ire with the Hun Sen government’s lawlessness was a March 8 petition by six prominent U.S. senators to FBI director Robert Mueller asking that he reopen the investigation of a 1997 grenade attack in Phnom Penh on a Sam Rainsy rally in which there were scores of casualties. Hun Sen failed to investigate the attack probably because of his party’s complicity. The senators stated in their letter that “[t]he absence of the rule of law in Cambodia has created an ideal environment for gangsters and terrorists...”

On a more positive note, Cambodia has agreed to destroy all its man-portable surface-to-air missiles in a program funded by the United States. The program arose out of U.S. concerns that Cambodian SAMs could be purchased by terrorists through black market channels.

Vietnam-U.S. relations experienced an upswing this quarter as former South Vietnamese Prime Minister Nguyen Cao Ky was invited back by Hanoi in January as a gesture of forgiveness. Mr. Ky said it was time for reconciliation between the survivors of the former South Vietnam government and its communist successor. His visit was promoted by the Bush administration, which convinced Hanoi it would be a way to improve its image in the United States.

In another effort to put the legacy of the Second Indochina War (1965-1975) to rest, U.S. Deputy Assistant Secretary of State Matthew Daly met with 73-year old Vang Pao, the leader of the Hmong resistance in Laos who resides in the United States. Rejecting an offer of humanitarian aid if he would urge his Hmong supporters to abandon their struggle, the former commander instead urged the U.S. to back a plan whereby he would be included as part of a new coalition government in Vientiane. Separately, the United States announced it would accept for resettlement as many as 14,000 Hmong refugees who have been in northern Thailand for decades.

## **Conclusion**

The Scomi company centrifuge interdiction illustrates the effectiveness of the U.S. led Proliferation Security Initiative in stopping contraband trade in WMD components. Nevertheless, the involvement of a Southeast Asian company is a blow to the region’s nuclear weapons free zone treaty and reveals another vulnerability in global efforts to prevent the proliferation of highly lethal materials to outlaw regimes and terrorists. Malaysia’s rather blasé attitude toward the discovery and continued terrorist activities in Thailand, Indonesia, and the Philippines indicate that countering terrorism will remain at the top of America’s Southeast Asia agenda for the indefinite future.

## **Chronology of U.S.-Southeast Asia Relations January-March 2004**

**Jan. 2, 2004:** Manila announces it's ready to deploy air marshals on Philippine Airline flights to the U.S. if the U.S. reciprocates on U.S. flights to the Philippines.

**Jan. 7, 2004:** U.S. Congressman Gelbans in talks with Malaysian Foreign Minister Syed Hamid agree that Malaysia and the U.S. must work together closely to combat terrorism.

**Jan. 16, 2004:** Indonesia criticizes Australian decision to join the U.S. plan to build a regional missile defense, calling it "offensive" and fearing it may push China into a harsh response.

**Jan. 16, 2004:** U.S. puts a half dozen leading current and former Indonesian military officers on a watch list of indicted war criminals, including a leading presidential candidate, Gen. Wiranto, effectively barring them from entering the U.S. This comes as the Bush administration increases its antiterrorism ties to Indonesia's military.

**Jan. 18, 2004:** Indonesian VP Hamzah Haz complains that the U.S. is requiring Indonesian banks to repay loans when the banks had not yet recovered from the 1997-98 financial crisis.

**Jan. 19, 2004:** Philippine President Arroyo says its 96 soldiers on humanitarian missions will remain in Iraq despite insecurity in the country.

**Jan. 19, 2004:** Philippine President's Office takes issue with a U.S. travel advisory to the Philippines by claiming that local terrorist groups had been "neutralized."

**Jan. 20, 2004:** U.S. police officers attend a 22 nation Asia-Pacific conference in Bali on the global campaign against terror.

**Jan. 21, 2004:** U.S. Ambassador to Indonesia Ralph Boyce says that Washington is considering giving Indonesian investigators direct access to captured *Jemaah Islamiyah* terrorist leader Hambali.

**Jan. 21, 2004:** President Bush, in his State of the Union Address, commends the Philippines and Thailand for committing troops for Iraqi reconstruction.

**Jan. 22, 2004:** U.S. State Department condemns assassination of Cambodian trade union leader Chea Vichea on Jan. 22 and calls upon the Cambodian government to solve the crime.

**Jan. 30, 2004:** Indonesian government hires former Republican senator and U.S. presidential candidate Robert Dole as its lobbyist in Washington, the first time Jakarta has retained a prominent U.S. politician to promote its interests.

**Feb. 2, 2004:** U.S. intelligence contributes to the arrest of a Filipino in Northern Ireland who allegedly provided financial aid to JI organizations in Southeast Asia.

**Feb. 5, 2004:** Attorney General Ashcroft attends Asia-Pacific Counter-Terrorism conference in Bali, co-hosted by Indonesia and Australia. He is pressed by Indonesian officials for access to Hambali, currently held by the Americans at an undisclosed location.

**Feb. 9, 2004:** Cofer Black, U.S. ambassador at large for counter-terrorism, talks with Indonesian officials in Jakarta about prospects for interviewing Hambali.

**Feb. 10-11, 2004:** U.S. Pacific Commander Adm. Thomas Fargo visits Vietnamese naval base at Danang in central Vietnam. Analysts believe the visit is a sign that Hanoi is interested in improving military relations with the United States.

**Feb. 12, 2004:** President Arroyo assures the country's neighbors that the Philippine-U.S. joint exercises, *Balikatan-04*, are unrelated to Philippine sovereignty claims over the Spratly Islands.

**Feb. 12, 2004:** USTR Robert Zoellick submits to Congress a formal "Intent to Initiate Free Trade Agreement Negotiations with Thailand."

**Feb. 13, 2004:** Burmese government web site denies a U.S. Senate aide's claim that North Korea has provided nuclear technology to Rangoon.

**Feb. 13, 2004:** USTR Zoellick visit Singapore meets with Singapore's Trade Minister George Yong-boon Yeo and meets ASEAN representatives.

**Feb. 15, 2004:** Malaysian FM Syed Hamid Albar protests President Bush's allegation of Malaysian involvement in shipping centrifuges used for nuclear weapons to Libya. Albar said Malaysia was unfairly targeted because it was a Muslim country.

**Feb. 16, 2004:** USTR Zoellick visits New Delhi for talks about increasing market access for goods, services, and agriculture.

**Feb. 16-27, 2004:** Flying phase of Exercise *Cope Tiger* among the U.S., Thai, and Singapore air forces and the U.S. Marine Corps takes place at Korat Air Force Base in Thailand.

**Feb. 19, 2004:** U.S. Under Secretary of State John Bolton in Beijing absolves Malaysia of any official involvement in the manufacture of nuclear centrifuge parts for export to Libya under a rogue Pakistani nuclear weapon proliferation program.

**Feb. 20, 2004:** Indonesia and the U.S. sign an agreement on the peaceful exploitation of nuclear energy designed to protect Indonesian facilities from terrorist attacks.

**Feb. 23, 2004:** U.S. Navy Secretary Gordon England at the Singapore Asia-Pacific Security Conference says the U.S. will likely increase its Asian military presence after discussions with America's partners.

**Feb. 23, 2004:** Thirty U.S. House of Representative lawmakers write a letter to Cambodian leader Hun Sen asking that he complete an investigation into the Jan. 22 murder of labor union leader Chea Vichea and to "insure the future safety of other political and labor leaders..."

**Feb. 23, 2004:** In a speech to the International Islamic Scholars Conference in Jakarta, President Megawati castigates the U.S. occupation of Iraq as unjust to Muslims.

**Feb. 25, 2004:** *The Philippine Daily Inquirer* recalls U.S. Democratic presidential aspirant John Kerry's role as a 1986 election monitor in the Philippines which called for an invalidation of the election because of voting fraud committed by the late President Marcos.

**Feb. 29, 2004:** Thai House of Representatives Committee on Foreign Affairs passes resolution urging Thailand to withdraw its contingent of 400 soldiers from Iraq to help quell violence in the Thai south where anti-U.S. Muslim sentiment is high.

**March 8, 2004:** *Balikatan-04* ends. The focus of this year's joint exercise was on Palawan island and included civic action, involving school construction, medial assistance, and road repairs by U.S. forces.

**March 8, 2004:** Sixteen prominent U.S. senators ask FBI director Robert Mueller to reopen an investigation of a 1997 grenade attack in Phnom Penh.

**March 10, 2004:** U.S. State Department spokesman Richard Boucher and visiting U.S. Homeland Security Secretary Tom Ridge express "extreme disappointment" in the Indonesian Supreme Court's decision to reduce convicted JI spiritual leader Abu Bakar Bashir's three-year prison sentence to time-served.

**March 16, 2004:** Singapore formally joins the U.S. Joint Strike Fighter development program, making it the first Asian nation to contribute to the world's most advanced combat jet.



## China – Southeast Asia Relations: A lull, and some complaints

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There was a lull in the mutual courtship between China and Southeast Asia during the first quarter of 2004, following a year of intense activity and the declaration of a “strategic partnership” at the Bali summit in October. The pause allowed some old problems to resurface, and drew attention to new ways in which China’s rise is impinging on its southern neighbors. Early tariff reductions under the China-ASEAN free trade negotiations, which China had touted as concessions to benefit the ASEAN countries, drew protests from exporters in Thailand and Vietnam, whose products faced frustrating obstacles in China’s southern provinces. Nongovernmental organizations in lower Mekong countries complained that China’s dam construction had drastically reduced the Mekong River’s flow to Cambodia and Vietnam, spoiling ricefields and fisheries and raising the specter of future conflict over water. China took unusual steps to deal with the flow of drugs and HIV/AIDS from Burma into Yunnan, while avian flu, dengue fever, and other cross-border threats underlined the need for more transparency and cooperative action. Beijing, Hanoi, and Manila tussled verbally over competing claims to the Spratly Islands, demonstrating again the failure of the 2002 China-ASEAN South China Sea declaration to calm the waters. China-Southeast Asia relations remain on track for further development, but Beijing would be well advised to take seriously nongovernmental complaints about the effects of its actions, especially in the case of Mekong development.

### **Trade and investment**

The weight of China’s economic influence is increasingly affecting the economies of the ASEAN countries, and is already creating changes in established trade and investment patterns. Some of the changes are beneficial. A 20 percent drop in U.S. imports from Singapore in January was offset by increases in Singapore’s semiconductor and pharmaceutical exports to China and Europe. “Early harvest” tariff reductions on agricultural products appear to be benefiting Vietnam, which is projected to supply 300-400,000 tons of rice to China this year.

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\* CNA Corporation is a non-profit research and analysis organization. The opinions expressed in this article are those of the author.

On the other hand, while new figures for 2003 indicate that two-way trade with China increased sharply for several ASEAN countries, most of this growth resulted from increases in ASEAN imports from China, not exports. Malaysia, Thailand, and Singapore all saw imports from China grow twice as fast as exports to their northern neighbor. China replaced the United States as the second biggest supplier of products to Indonesia (after Japan). These trends suggest that as economic integration proceeds, ASEAN's trade surpluses with China may turn into deficits. Thai farmers are complaining that tariff reductions trumpeted by Beijing as concessions to ASEAN are actually benefiting China more than Thailand. Chinese fruits and vegetables, they report, are swamping northern Thai markets, while Thai growers attempting to enter China's markets face unfair practices, including provincial taxes and trumped-up claims that their produce is tainted. Vietnamese exporters are making similar complaints. The Vietnamese government, more optimistically, predicts that overall the tariff cuts will eventually generate an additional \$500 million in Vietnamese exports of seafood, fruits, and vegetables.

On the investment side, China continued its expansion in Indonesia's energy sector with a decision to buy an additional \$236 million stake in the BP-led Tannguh natural gas project in Papua. China is reportedly considering buying into Thailand's oil sector as well. Investors from Xinjiang announced they would invest an initial \$10 million in fishing facilities in Maluku, Indonesia – undoubtedly a welcome move, as China is often faulted for predatory fishing in the claimed exclusive zones of Southeast Asian countries.

### **An energy land bridge in Thailand?**

Thailand has reportedly decided that rather than building a long-discussed canal across the Isthmus of Kra to facilitate oil shipments to China and other Northeast Asian consumers, it will promote an “energy land bridge,” consisting of a 260-km. trans-Kra pipeline with storage facilities and oil terminals at both ends. Tankers from the Middle East and Persian Gulf would unload at the Andaman Sea end, the oil would be pumped across, and another set of tankers would upload in the Gulf of Thailand and continue their voyages to China, Japan, or the Republic of Korea. Advantages cited include security from pirates and seaborne terrorists, and cost, with an estimated saving of \$2 per barrel. The pipeline and associated infrastructure would cost an estimated \$600-700 million, and take two years to build. China is reported to have indicated an interest in investing in the project, as have several Middle East countries. The pipeline plan could benefit Thailand in other ways, creating jobs in a relatively poor – and sensitive – region, and furthering Prime Minister Thaksin Shinawatra's goal of making Thailand an energy-trading hub. According to some observers, pessimistic security planners in Beijing may also see the pipeline as less vulnerable to military pressure from the U.S. in a future crisis.

### **Ripples on the Mekong . . .**

Some negative consequences from China's growing regional presence are emerging more clearly in areas besides trade. Chinese media announced during the quarter that dredging activities on the upper Mekong River, which originates in China (as the Lancang River) and flows through Laos, Thailand, Cambodia, and Vietnam, had increased shipping

between Yunnan and Southeast Asia by nearly 60 percent. Year-round navigation is possible, and larger ships are able to transit these new passages, cutting transportation costs and increasing trade. Downstream countries are increasingly concerned, however, at the effects of China's activities on water resources and fisheries. Scientists at the Mekong River Commission (MRC) conclude that food security and water availability will soon be threatened, with a potential to trigger conflicts among riparian nations. Cambodia is suffering from low fishing yields, and water levels are so low in the Mekong Delta of Vietnam that saltwater intrusion is damaging rice fields. A Thai environmental group reported that the level of water in the Mekong had dropped dramatically after China's first dam (of eight planned) was opened in 1996.

### **. . . But transnational problems affect China, too**

As China impinges increasingly on Southeast Asia, problems flow in the other direction as well. Southeast Asian nations are sources or channels for viruses, narcotics, manmade disasters, and other afflictions of growing concern to China.

Comments by Chinese officials during the quarter painted an alarming picture of "immense harm" from drugs flowing from Burma and Laos into Yunnan. A senior security official reported that narcotics addiction had become a "serious political issue." Another said China had become "the largest victim of heroin from the Golden Triangle" (of Burma, Laos, and northern Thailand). Chinese authorities have identified drug use as the primary channel for HIV/AIDS, spreading especially in Yunnan as transportation links and travel in both directions increase. Yunnan Province officials have taken unusual steps, for China, to counter HIV infection, by promoting condom use and providing disposable needles to heroin addicts. Joint police work and raids by Chinese police with their Burmese and other Southeast Asian counterparts continue, and officials report the seizure of ever larger amounts of heroin and methamphetamines, but the number of addicts appears to grow in tandem. Corruption is doubtless one factor. Allegations surfaced in the *Bangkok Post* in March that some Chinese officials (as well as elements of the military junta in Rangoon) are supporting the Wa State Army in northern Burma, a notorious source of both heroin and manufactured drugs.

Other trans-border problems arising for China during the quarter included avian flu, causing Beijing to close all border trading ports in Yunnan and cut off poultry imports from Vietnam, Cambodia, and Thailand. China and several Southeast Asian governments were criticized for covering up the outbreak for weeks or months. Dengue fever, apparently transmitted by hitchhiking mosquitoes from Indonesia, caused China to order strict inspections and quarantine of passengers, aircraft, and vessels from that country. Even a massive forest fire threatened to cross into Yunnan from Burma.

### **The Spratly Islands: no end to the jockeying**

The ASEAN-China joint declaration on conduct in the South China Sea, signed in November 2002, frayed a bit more during the quarter, as China, the Philippines, and Vietnam all made moves to assert their claims to the Spratly Island group. The



declaration's key undertaking, to "exercise self-restraint in the conduct of activities that would complicate or escalate disputes," was stretched, if not torn, by actions that included:

- A Vietnamese Communist Party conference Feb. 7 in Ha Tinh province (which Hanoi claims administers the Spratlys) on unilateral Vietnamese development programs for the islands;
- A Philippine-Chinese announcement Feb. 9 that the two countries had agreed in principle to joint exploitation of the islands' resources;
- Philippine military comments in February suggesting that combined military exercises with U.S. forces on Palawan Island, the closest Philippine territory to the Spratlys, would include a conventional threat scenario (although Philippine President Gloria Macapagal-Arroyo later said the exercises were unrelated to sovereignty claims);
- Reported comments in March by the commander of the Chinese navy's South China Sea fleet that China's construction program on the Spratlys should be speeded up;
- A Vietnamese announcement March 24 that it would conduct the first organized tourist visit to the Spratlys in April, under Defense Ministry auspices; and,
- Sharp counter reactions from Manila and Beijing. A spokesman for the latter said the next day that China had "lodged a solemn representation" asserting its "indisputable sovereignty" over the whole island group. Hanoi responded that indisputable sovereignty was its own, and invited foreign correspondents to join its tour.

There is no suggestion in all this that armed conflict is likely to break out. It does suggest that more work needs to be done to achieve a more binding, and more restrictive, code of conduct – a goal that is made more difficult by the disunity and unilateral moves of the ASEAN claimants.

### **China-Philippines relations**

Reports surfaced in February that China might host peace talks between the Philippine government and Communist New People's Army insurgents, remnants of the 35-year armed campaign that goes back to a period when China was supporting and supplying Communist insurgencies in most Southeast Asian countries. President Arroyo's spokesman said she would welcome such a Chinese role. An incident in a rural region of the Philippines in January neatly caught some of the irony in China's new role as a status quo power in Asia: an attack by Communist rebels on a road project being carried out by a Chinese firm in Negros Oriental in January caused the firm's manager to suspend construction activity until the safety of his personnel and equipment could be guaranteed.

Chinese and Philippine officials on March 19 celebrated the first anniversary of a Philippine-Chinese Center for Agricultural Technology intended to introduce Chinese hybrid rice strains in the Philippines to improve yields. China thus assumes a role played by the United States a generation ago, when the International Rice Research Institute was set up in Los Banos with funding from the Ford and Rockefeller foundations, and played a key role in the “green revolution” in a number of Asian countries in the 1960s.

### **New cooperation agreements with ASEAN governments**

China’s Vice Premier Wu Li, visiting the capitals of the three least-developed Southeast Asian nations – Vientiane, Phnom Penh, and Rangoon – in March, presided over the signing of a total of 41 separate agreements on trade, development assistance, loans, export guarantees, and other forms of cooperation. Wu brought with her some 40 Chinese entrepreneurs. Her visit was clearly intended as a concrete step toward fulfilling China’s commitment, under last year’s framework agreement on free trade negotiations, to help bridge the gap between ASEAN’s richest and poorest nations. China’s news agency *Xinhua* reported that in Burma, Wu Li spoke warmly of the brotherly bilateral relations between the two countries, and reiterated that Burma’s affairs should be managed by Burma, but expressed the hope as well to SPDC Chairman Than Shwe that the government could “push the situation developing towards a more positive direction.”

### **China-Vietnam: plodding along on border issues**

Vietnam and China held a series of talks during the quarter to renew efforts to resolve outstanding border issues, but achieved little. Statements following vice foreign minister-level talks Jan. 9 suggested that frustration at the slow pace of land border demarcation is increasing. The two sides could only report that they agreed on speeding up the pace of placing markers on the border. On the more difficult sea borders, which involve the Spratly Islands, they merely “focused on discussing affairs concerning the issue.” In February, Vietnamese and Chinese diplomats initialed a protocol aimed at implementing a four-year-old fishing agreement covering the Gulf of Tonkin, but the agreement remains unratified. In March, specialists held talks on maritime issues in a “friendly and frank atmosphere,” diplomatic language to describe a meeting whose chief result is to agree to hold more meetings. Domestic unhappiness in Vietnam over territorial concessions made to China was reportedly still one reason for the lack of progress.

### **Implications**

It is not surprising that there should be a lull in high-level contacts after a banner year of remarkable developments in China-Southeast Asian relations, or that disagreements going back decades (or even centuries) should still be on the agenda, or that dislocations caused by China’s rise should cause some questioning among China’s smaller neighbors. The tone of the public dialogue between the two sides is still cordial, and ASEAN leaders are still expressing confidence that China will offer their countries more opportunities than problems. With the Malaysian elections in March, and elections or leadership changes in prospect soon in several other ASEAN nations, Beijing may have decided that

a low posture best suits its interests for a time. But China would be well advised to take seriously the alarm voiced by ordinary citizens in Southeast Asia regarding the negative consequences of China's growth for its close neighbors. In particular, disregard for the ecological effects of over-development of the Lancang and upper Mekong rivers could have disastrous results for downstream farmers and fisheries, and lead to destabilizing conflicts over water resources.

### **Chronology of China-Southeast Asia Relations January-March 2004**

**Jan. 10, 2004:** Thai PM Thaksin Shinawatra tells a meeting of senior Thai officials that Thailand's foreign relations will be overhauled to put more stress on China and India, which "should be the most important countries for Thailand's diplomacy."

**Jan. 11, 2004:** Malaysia's new deputy PM, Datuk Seri Najib Tun Razak, announces that he will push for closer and deeper relations with China, following in the footsteps of his late father, Tun Abdul Razak, who was PM in 1974 when Malaysian-Chinese relations were established.

**Jan. 20, 2004:** Chinese media report that China and Malaysia have agreed on modalities for bringing new Chinese guest workers into the country starting in April. If true, the report is a sign that the politics of Malaysian demography have eased considerably, and Kuala Lumpur no longer fears a political backlash from Malays against Chinese workers.

**Feb. 17, 2004:** Vietnamese Communist Party General Secretary Nong Duc Manh and Chinese Politburo member Xia Guoqiang take part in a seminar on "Building the Ruling Party-Experience of Vietnam and China." Several other party-to-party exchanges between China and Vietnam occur during the quarter.

**Feb. 19, 2004:** Xiong Guangkai, deputy chief of the PLA general staff, observes to the visiting director of joint intelligence for Singapore, Brig. Gen. Tay Lim Heng, that the armies of the two nations carry out wide-ranging cooperation and pledges that China's armed forces are willing to work constantly with Singapore to promote friendly military relations.

**Feb. 24, 2004:** Indonesia's Coordinating Minister for Political, Social, and Security Affairs, Bambang Yudhoyono, meets in Beijing with State Councilor Zhou Yongkang, who tells him China will strengthen cooperation in combating terrorism, cross-border crime, and drug trafficking. Yudhoyono also meets PLA Deputy Chief of the General Staff Xiong Guangkai.

**Feb. 27, 2004:** Thai Princess Maha Chakri Sirindhorn meets in Beijing with Wu Bangguo, chairman of China's National People's Congress, and receives the title of "friendship ambassador."

**March 2-3, 2004:** More than 1,000 overseas Chinese attend a conference in Bangkok, sponsored by the Thai-Chinese Chamber of Commerce, to oppose Taiwan President Chen Shui-bian government's moves toward Taiwan independence. The conference issues a "Bangkok Declaration" upholding the "one China" principle.

**March 3, 2004:** Thai media report that Deputy PM Suwit Khunkitti has ordered an investigation into the Thai Forestry Department's approval of a shipment of 100 tigers from Thailand to China. China's ambassador defends the shipment, dismissing rumors that the tigers were delivered for culinary or commercial purposes.

**March 5, 2004:** PLA Deputy Chief of General Staff Sen. Lieut. Gen. Qian Shugen pays a working visit to Vietnam. He tells Deputy PM Nguyen Tan Dung and his military hosts that China hopes to develop closer army-to-army relations with Vietnam, and holds talks on military education and training exchanges between the two armed forces.

**March 9, 2004:** Manila media report that the Manila and Beijing have agreed to expand the cargo capacity of their national airlines by a factor of 15 over the next four years, as well as doubling the passenger capacity. China grants Philippine Airlines "fifth freedom" rights to pick up passengers in China and fly to selected destinations in other countries.

**March 11, 2004:** Singapore's FM S. Jayakumar tells Parliament that China has a major regional role to play, and urges China and the U.S. to make efforts for better relations.

**March 14, 2004:** Thai Minister of Commerce Watana Muangsook leads a business delegation to Nanning, in China's Guangxi Zhuang autonomous region, and announces steps to increase Thai exports, including a China-ASEAN Expo in November.

**March 19, 2004:** China announces that a mining company in Yunnan has gained Lao approval to mine potassium chloride in Vientiane, for fertilizer production. China faces a shortage of the mineral and plans to build a joint venture plant with Laos to produce 50,000 tons annually.

**March 20, 2004:** The China International Forestry Group Corporation announces the donation of timber transport vehicles to the Burmese forestry department, to expand the timber trade between the two countries.

**March 23, 2004:** Winai Phattiyakul, secretary general of the Thai National Security Council, tells China's Minister of Public Security Zhou Yongkang that the Thai NSC hopes to develop relations with the Chinese Public Security Ministry.

**March 31, 2004:** Chinese Defense Minister Cao Gangchuan visits Bangkok, telling his Thai counterpart that China wants to maintain close relations between the two militaries.



## China-Taiwan Relations: Election Drama and Implications

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The presidential campaign and referendum issue dominated cross-Strait relations this quarter. Taiwan President Chen Shui-bian's narrow reelection victory gives him a weak mandate to lead a society deeply divided over the issue of Taiwan's national identity and future relationship with China. The election outcome reflects the extent to which opinion on Taiwan has moved away from the "one China" concept in the eight years since Taiwan's first direct presidential election in 1996. With the campaign over, President Chen now faces concrete choices about how to pursue cross-Strait relations, and Beijing is confronted with difficult choices and the need to review its policies toward Taiwan. Washington can expect to be caught in the middle and to be challenged to find effective ways to deter President Chen from changing the cross-Strait status quo.

### **Campaign and referendum**

Chen Shui-bian, a skillful campaigner, shaped the campaign agenda with his slogan "Believe in Taiwan; Insist on Reform." His proposal for Taiwan's first island-wide referendum, which he portrayed as a step for reform and deepening democracy, was the principal issue debated in the campaign. The opposition KMT- Peoples First Party (PFP) alliance charged that the referendum was illegal and that linking it to the election was mainly a campaign ploy to boost Chen's support. The pan-blue (KMT-PFP) camp tried to make the economy, cross-Strait peace, and Chen's poor record campaign issues, but Chen deftly sidestepped their charges. Scandals, mudslinging, and Chen's relentless efforts to tar pan-blue presidential candidate Lien Chan as the "Chinese" candidate dominated much campaign advertising and press coverage of the campaign.

President George W. Bush's personal criticism of Chen in December had generated considerable public concern that Chen's promotion of the referendum was damaging Taiwan's important relations with the U.S. At one point, Chen said that holding a referendum was more important than his reelection. Nevertheless, Chen responded to the public concerns by designing referendum questions that were less confrontational toward China and linked to the U.S. interest in Taiwan doing more for its own defense. As a result, the public perception that U.S.-Taiwan relations were seriously strained subsided, and the U.S. relationship was not an important factor in the last weeks of the campaign.

## **Beijing's posture and the China factor**

In contrast to previous Taiwan presidential elections, Beijing adopted a remarkably low-key posture during the last months of the campaign, avoiding threatening words or actions that might be used by Chen to rally support for his candidacy. Mid-level officials made clear Beijing's opposition to the referendum. Premier Wen Jiabao's report to the National People's Congress in March mentioned Taiwan only briefly and in moderate nonconfrontational terms. The contrast between Premier Wen's tone and former Premier Zhu Rongji's finger wagging in 2000 was sharp and widely noted in Taiwan. Instead of addressing Taiwan directly, Beijing's efforts were aimed at encouraging international opposition to the referendum. Beijing pressed Washington frequently to reiterate President Bush's criticism of Chen Shui-bian and obtained statements criticizing the referendum from France, Japan, and others.

Despite China's low-key stance, candidate Chen frequently accused China of intervening in the election to support his opponents. In January, China crudely forced detained Taiwanese businessmen accused of spying to meet the media and publicly blame President Chen for their predicament. Although China tried to convey a neutral public posture, Chen accused Beijing of permitting pan-blue supporters to campaign among the Taiwanese business community in China and of paying the airfares for Taiwanese businessmen who would return to vote against Chen. In March, Chen claimed that the joint Chinese-French naval exercise conducted near Qingdao was aimed at intimidating Taiwan and influencing the election. In his campaign advertising and at campaign rallies, Chen relentlessly painted Lien Chan as the "Chinese" candidate who mistakenly accepted the "one China" principle and could not be trusted to stand up for Taiwan's interests. This smear tactic, in Chinese culture called putting a red hat on Lien, seemed to resonate with voters, particularly in southern Taiwan where Taiwanese identity is strongest.

## **Assessing the election outcome**

The election gave Chen a narrow 0.2 percent victory, which was certified by the Central Election Commission on March 26. The voting process was both simple and transparent. When the recount demanded by the opposition is conducted, there is little reason to expect that it will alter the election outcome. In the absence of reliable exit polling, there is no way to ascertain with certainty to what extent the shooting incident the day before the election influenced the outcome.

Despite the narrowness of his victory, Chen has strengthened his political position substantially from the 2000 election when he won with only a plurality of 39.6 percent. Chen increased his support by about 1.5 million votes, and the Democratic Progressive Party exceeded the 50 percent threshold for the first time in an island-wide election – an impressive accomplishment. Chen attributes his victory to the strengthening of a sense of Taiwanese identity. This seems accurate, in large part because Chen persistently cultivated awareness of Taiwanese identity during his first term and skillfully appealed to that sentiment in the campaign.

The passions of the campaign and the closeness of the outcome reflect a society deeply divided over its future and its relationship to China. However, the election also shows how far opinion within Taiwan on relations with China has shifted over the past eight years. In Taiwan's first direct presidential election in 1996, the winning KMT still adhered to the National Unification Guidelines, which envisage eventual reunification. In 1996, the pro-independence DPP candidate garnered only 20 percent of the vote. Fast forward eight years. In the 2004 election, the KMT-PFP ticket would not publicly endorse the "one China, separate interpretations" position because it believed doing so would be a liability in the campaign. Even Lien Chan stated that negotiations would be difficult if Beijing insists on a "one China" precondition for talks. For his part, President Chen emphatically and repeatedly rejected "one China," ran on a platform stating that there was "one country on each side" of the Strait, and won majority support. Chen appealed for support arguing that his victory would force Beijing to accept the realities on Taiwan and negotiate with him on a basis of equality.

The referendum results are difficult to interpret. The debate over the referendum was about the legality and wisdom of holding a referendum rather than over the content of the two specific questions. How one interprets the results depends on one's political point of view. Beijing and pan-blue supporters say the fact that the referendum failed to garner the required participation of 50 percent of eligible voters shows it was a failure. President Chen says that the 85 percent of those who did participate and voted for the proposals clearly reflected their views. Chen said his government would take that support into account.

### **Beijing's reaction**

Beijing's first public comment was to exult in what it saw as the failure of the referendum which it had so vigorously opposed. Noting the pan-blue challenge to the election, Beijing avoided commenting on Chen's reelection by stating that it would observe developments. After the Central Election Commission certified Chen's election, the Taiwan Affairs Office released an odd and ominous statement that, if the demonstrations led to disorder and instability in Taipei, Beijing could not sit idly by unconcerned about its compatriots. Taipei immediately dismissed this as interference in Taiwan's internal affairs. Behind this public façade, Beijing was deeply disturbed by the outcome and consequently was hanging on to any shred of hope that the result might be reversed.

### **Policy choices and implications**

With the election over, President Chen, Beijing, and Washington all face difficult policy choices and challenges. As Beijing has no good options, leadership divisions on Taiwan policy are a real possibility. The March 26 warning from Beijing that it could not sit idly by if there was instability on Taiwan may be a first manifestation of internal differences over Taiwan. China's leaders must confront the reality that political opinion in Taiwan on cross-Strait relations has moved significantly away from its "one China" framework. President Chen has more explicitly rejected "one China" as a precondition for dialogue, but refusing to talk with his administration for four more years will only give Chen



reason and room to consolidate support on Taiwan for a stronger Taiwanese national identity. Beijing will likely press the U.S. more strongly to constrain Chen, but that alone is not a policy for cross-Strait relations. Premier Wen's National People's Congress work report reiterates the importance Beijing is likely to place on expanding cross-Strait economic and cultural ties. Beijing needs to reconsider its missile deployments and its uncompromising opposition to Taiwan's participation in international organizations, because these have fed rising Taiwanese nationalism, which is the greatest threat to China's interests.

President Chen faces specific choices on cross-Strait negotiations, constitutional reform, the three links, and defense spending. The larger question is how far can he push his personal mission for strengthening Taiwan's national identity without damaging relations with the U.S. and provoking a conflict with the PRC. His choices will shape the climate of cross-Strait relations. Perhaps Chen's most crucial issue is whether in pursuing constitutional reform he will seek to redefine the status of Taiwan and its relations with China. He said different things at different times and to different audiences during the campaign on this issue. In an interview with the *Washington Post* published March 30, Chen stated that his pursuit of constitutional reform would not challenge the status quo. However, he made clear that the status quo that he was referring to was that Taiwan was a sovereign independent state that was not part of the PRC. Hence, the status quo means one thing to Chen and quite another to the U.S. when it calls on both sides not to unilaterally change the cross-Strait status quo that relates Taiwan to China. In the same interview, Chen also said that he had adhered to his 2000 inaugural commitments to the "five noes" in promoting his referendum and implied that the same commitments would apply in promoting constitutional reform. A key indicator of the limits on constitutional reform will be how Chen restates the "five noes" assurances in his forthcoming inaugural address.

Cross-Strait transportation is the issue on which meaningful discussions are most likely to occur in Chen's second term. The amendments to Taiwan's statute on cross-Strait relations adopted last fall and Beijing's policy statement in December on the three-links create a framework under which private associations could be authorized to negotiate agreements if both sides choose politically to pursue the issue. Taipei senses the priority Beijing places on expanding economic ties and may choose to exploit its leverage to get political concessions. Chen's handling of this issue will be another indicator of his approach to cross-Strait relations.

### **Economic relations**

Cross-Strait trade relations continued to expand rapidly in late 2003 and early 2004. According to Beijing's Ministry of Commerce, cross-Strait trade expanded 30.7 percent in 2003 to reach \$58.4 billion, with China's exports to Taiwan growing 36.7 percent and its imports from Taiwan growing 29.7 percent. While the Mainland Affairs Council's comprehensive statistical analysis on cross-Strait trade for 2003 is not yet published, Taipei's Board of Foreign Trade's figures put 2003 cross-Strait trade (excluding Hong Kong re-exports) at \$46 billion, with Taiwan's exports up 20.0 percent and its imports up

37.9 percent. By either count, Taiwan's exports to China grew rapidly in 2003, but not as rapidly as the 40 percent overall growth of China's imports. Japan, Korea, and ASEAN all saw their exports to China grow by 40-plus percent in 2003, outpacing Taiwan's performance. The trend of Taiwan's exports to China growing more slowly than China's overall imports is continuing in the first two months of 2004.

## **Hong Kong**

Since the beginning of 2004, Beijing has taken a harsh policy on Hong Kong's future constitutional development under the "one country two systems" framework. In January, China instructed Chief Executive Tung Chee-hwa to delay discussion on future electoral arrangements until the central government had addressed the issue. In February, Beijing's *Xinhua New Agency* ran stories recalling 20 year-old statements by Deng Xiaoping stating that Hong Kong should be governed by "patriots." In March, *Xinhua* labeled the Hong Kong Alliance in Support of the Patriotic Democratic Movement in China as unpatriotic and Beijing's vice minister of commerce labeled former Democratic Party leader Martin Lee a traitor for his testimony before the U.S. Congress. On March 26 *Xinhua* said the NPC Standing Committee would shortly issue an interpretation of Hong Kong's Basic Law to make clear Beijing's position on whether changes to the existing arrangements for the selection of the Chief Executive could be made in 2007.

Taipei was so preoccupied with its campaign and the fallout from the election on March 20 that these Hong Kong developments received scant attention in the Taiwan media or public debate. In private, however, many in Taipei were aware of Beijing's moves. Opinions in Taipei were pessimistic about the prospects for democratic development in Hong Kong. In his *Washington Post* interview, President Chen stated that Beijing's moves were a clear warning to Taiwan and only strengthened the consensus in Taiwan that the "one country, two systems" formula is unacceptable.

At the same time, statements by pro-Beijing elements in Hong Kong and by Chinese observers in Washington indicate that Beijing's hardline approach to constitutional development in Hong Kong was being influenced by the growth of Taiwanese nationalism in democratic Taiwan and by perceptions of the instability following the March 20 election. Hence, developments in Hong Kong and Taiwan were each eliciting policy responses in Beijing that were complicating Beijing's handling of policy in the other area.

The U.S. will again be caught in the middle with both Beijing and Taipei seeking to maneuver Washington to their advantage. With both Beijing and Taipei lobbying the U.S., Washington may have unprecedented opportunities to encourage constructive cross-strait dialogue and a strong national interest in taking advantage of those opportunities. Washington's most difficult challenge will be to dissuade Chen from pushing his Taiwanese nationalist mission too far. If Chen's policies appear to be heading toward conflict, Washington will need to make clear that if Taipei chooses a course that is not consistent with U.S. policy, then Taipei cannot expect unqualified American support.

## **Chronology of China-Taiwan Relations January-March 2004**

**Jan. 3, 2004:** Chen's campaign manager, Chiou I-jen, says referendum may become campaign liability.

**Jan. 7, 2004:** Beijing instructs Hong Kong to delay consideration of constitutional development.

**Jan. 7, 2004:** President Chen tells American group he will abide by "five noes."

**Jan. 8, 2004:** *China Daily* analysis expresses worries about pan-blue policies.

**Jan. 10, 2004:** PRC Gen. Guo Boxiong says U.S. should do more to oppose referendum.

**Jan. 10, 2004:** Association for Relations Across the Taiwan Strait sends Straits Exchange Federation a message concerning arrest of Taiwan spies.

**Jan. 15, 2004:** Chen says he will go ahead with referendum even if it hurts his reelection.

**Jan. 16, 2004:** Chen announces referendum questions.

**Jan. 16, 2004:** PRC presents accused Taiwan spies to press; has them criticize Chen.

**Jan. 16, 2004:** Secretary Colin Powell says President Chen appears to have shown some flexibility.

**Jan. 17, 2004:** TAO criticizes Chen's plan for referendum.

**Jan. 19, 2004:** Vice Premier Tang Jiaxuan sharply criticizes Chen's referendum.

**Jan. 27, 2004:** President Hu visits France, President Chirac criticizes referendum.

**Jan. 30, 2004:** Deputy Secretary Armitage in Beijing; expresses reservations about referendum.

**Feb. 3, 2004:** TAO's Chen Yunlin in Washington; urges U.S. to take strong position against referendum.

**Feb. 4, 2004:** Taiwan Legislative Yuan delegation in Washington to assess U.S. position on referendum.

**Feb. 6, 2004:** Deputy Assistant Secretaries Schriver and Lawless testify to Congress.

**Feb. 8, 2004:** On eve of visit by Hong Kong Chief secretary, Beijing asserts sovereign right to determine pace of democratization in Hong Kong.

**Feb. 9, 2004:** Vice Foreign Minister Zhou urges firmer U.S. opposition to referendum.

**Feb. 10, 2004:** *Xinhua* states that “patriots” must lead Hong Kong.

**Feb. 11, 2004:** Secretary Powell tells Congress U.S. sees no need for referendum.

**Feb. 14, 2004:** *Xinhua* republishes 1984 Deng Xiaoping talk on “one country, two systems.”

**Feb. 21, 2004:** In second presidential debate, Chen rejects “one China,” Lien is equivocal about “one country, separate interpretations.”

**Feb. 24, 2004:** Foreign Minister Li calls Secretary Powell for reassurances on referendum.

**Feb. 28, 2004:** Lee Teng-hui leads the Taiwan Solidarity Union and the Democratic Progressive Party in a national collaborative “228 hand-to-hand” campaign rally in Taiwan. Two million Chen supporters form human chain along the length of the island.

**March 1, 2004:** *Xinhua* declares Hong Kong Alliance for Democracy is “unpatriotic.”

**March 4, 2004:** In U.S., Martin Lee says Hong Kong Democrats oppose independence for Taiwan.

**March 5, 2004:** Premier Wen’s NPC report uses moderate, nonthreatening language on Taiwan.

**March 5, 2004:** PRC Vice Minister of Commerce An calls Martin Lee a traitor.

**March 9, 2004:** KMT’s Lien Chan says talks will be difficult if Beijing insists on “one China” precondition.

**March 10, 2004:** PRC Vice Foreign Minister Dai in Washington to discuss Taiwan.

**March 13, 2004:** At NPC press conference, Premier Wen takes moderate line on Taiwan.

**March 16, 2004:** Japanese Prime Minister Koizumi tells Vice Minister Dai Japan does not support moves toward Taiwan independence.

**March 19, 2004:** President Chen and Vice President Lu shot in Taiwan.

**March 20, 2004:** President Chen wins reelection; referenda fail to pass.

**March 20, 2004:** In victory speech, Chen calls for negotiations on basis of equality.

**March 20, 2004:** Foreign Minister Li Zhaoxing calls Secretary Powell regarding Chen's election.

**March 21, 2004:** TAO statement says referendum was a failure.

**March 26, 2004:** TAO warns that China cannot sit idly if there is instability in Taiwan:

**March 26, 2004:** White House statement on Chen's reelection.

**March 26, 2004:** *Xinhua* announces that NPC will issue interpretation of Basic Law.

**March 29, 2004:** Beijing announces that Dominica has recognized PRC; Taipei breaks relations with Dominica.

**March 30, 2004:** President Chen gives interview to *Washington Post*.

## North Korea – South Korea Relations: Marking Time

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As in the final quarter of 2003, the start of a new year saw no dramatic developments in inter-Korean ties, either positive or negative. The quarter's main event was multilateral rather than bilateral, as a second round of six-party talks – the two Koreas, the United States, China, Japan, and Russia – at last convened in Beijing in late February. The hoped-for semi-institutionalization of this multilateral forum – assuming it happens and deepens over time, both of which are big ifs – is bound to impact on all the bilateral relationships tracked by *Comparative Connections*.

Yet inter-Korean ties look likely to preserve their special character as two halves of a divided nation – hence, technically, neither Korea regards them as foreign relations. That does not mean, however, that they will necessarily deepen; if they do, it won't be very fast. The nuclear crisis will not prevent cooperation, but it will continue to limit it from Seoul's side, in part due to pressure from the U.S. to go easy on the carrots while the North remains in nuclear defiance. From Pyongyang's side, several actions seemed a reversion to old-style game-playing, or at best suggested that North Korea has no immediate wish to further develop North-South ties, but will continue to milk the relatively one-sided and shallow (though regular) channels of contacts that now exist.

### **Biting the hand**

Ministerial talks – monthly at first, but now quarterly – are the highest regular level of contact in the new inter-Korean relationship. (Despite this title, Unification Minister Jeong Se-hyun leads the ROK side, but the DPRK team is headed by Kim Ryong-song, described obscurely as a “senior Cabinet councillor”). The 13th round since the June 2000 summit, held in Seoul on Feb. 3-6, was preceded by Pyongyang's announcement that it would attend a second round of six-party talks in Beijing later that month. But hopes that this would lift the nuclear shadow from the talks proved vain. In what was acknowledged as a “war of words,” South Korea urged the North to negotiate seriously on nukes this time. Kim Ryong-song riposted by accusing the South of slowing inter-Korean cooperation on U.S. orders, while from Pyongyang came a threat to close the Mt. Kumgang tourism project if the South remains lukewarm.

Such rudeness to his hosts did not play well in Seoul. The press were cross, while negotiators were perplexed as to how Pyongyang could seriously expect even more carrots – while itself remaining unyielding on the nuclear issue and much else. The final six-point joint statement mainly covered familiar ground: fixing the next meeting (May 4-7 in Pyongyang); agreeing to allow the first family reunions in six months for end-March; and pledging to “continue discussions on flood prevention in the Imjin river basin, the effectuation of the Inter-Korean Marine Transportation Agreement, the cessation of broadcasts against each other, and other problems that each may raise.” As the wording implies, these are all matters nominally agreed already, but not yet implemented due to Pyongyang’s foot-dragging. They also agreed to “promote in earnest the first-stage development of 1 million *pyong* (3.3 million square meters) in the Kaesong Industrial Complex at an early date, and positively cooperate in developing a 10,000 *pyong* demonstration complex during the first half of this year.” (More on Kaesong below.)

### **Soldiering on?**

The highlight, for Seoul, was agreement to “hold a military authorities’ meeting at an early date to ease military tensions on the Korean Peninsula.” As critics have noted, in post-summit inter-Korean ties the crucial security dimension has been largely absent: there has been just one visit in September 2000 by the DPRK defense minister, who would only talk cross-border railways. While that project plods on (see below), including military talks when needed, Pyongyang has consistently refused to engage in bilateral security discussions per se with Seoul. Despite this new pledge on paper, as of early April no date had yet been fixed, so it does not seem too cynical to doubt whether this will happen any time soon, or perhaps ever.

### **Six-party talks: axis of carrot?**

The second round of six-party nuclear talks, held in Beijing on Feb. 25-28, was a mixed success. An anodyne chairman’s statement by China as host replaced a joint final statement, which North Korea torpedoed by demanding last-minute changes. The main gain is agreement to meet again, sooner – by end of June, as opposed to the six-month gap between the first and second rounds – and to establish working groups to this end, hopefully also serving as a permanent channel to expedite progress between plenary meetings. Ever optimistic, Seoul foresaw these groups getting to work within the month, but by early April there was no sign of them.

Among the many bi-, tri-, and quadrilateral permutations within this framework (and associated shuttle diplomacy), the inter-Korean dimension does not loom large, as it has its own regular meetings elsewhere. Still, a 90-minute North-South meeting was among several bilateral talks held on the sidelines before the six-party talks. Overall, one might conclude that in this forum South Korean “progressives” plea to transcend the Cold War has come true. At one level it is five against one: as in the closing ceremony, where the other five waited for several minutes (on live TV) for the DPRK delegation to appear. But within the five, South Korea, China, and Russia form what might be termed an “axis of carrot”: favoring continued dialogue above all and opposing undue pressure on

Pyongyang. By contrast, the U.S. and Japan are inclined to be more skeptical and tougher – but not right now, in a U.S. election year. Thus, at the talks Seoul reportedly offered energy aid to the North, in exchange for freezing its nuclear facilities. Russia and China agreed to join South Korea in this, with apparent U.S. and Japanese approval. Such balls may indeed have been kicked around in discussion, but nothing came of it.

### **Trying triangle**

There are several ways of reading Seoul's stance. One is as good cop, bad cop. This might be a charitable way of interpreting ROK President Roh Moo-hyun's typically frank comment on March 3: "The U.S. wants us to join it in severing dialogue and exchanges with North Korea and put pressure on the North ... We, however, think it is more favorable for us to adopt a strategy of dialogue and engage North Korea concurrently." A week earlier, he had opined that "We need to give something (to North Korea) to make further progress and help each other save face" – while adding that Pyongyang too must make concessions. But the differences are real enough, at least tactically. In Beijing, South Korea reportedly shared China's frustration at the U.S. mantra of CVID (complete, verifiable, irreversible disarmament) as an upfront rather than an ultimate goal, and its unwillingness to meet Pyongyang halfway. Importantly too, in Seoul no less than in Washington, North Korea policy is a work in progress – as seen in the sacking in January of the foreign minister, Yoon Young-kwan, followed by the national security adviser, Ra Jong-yil (since appointed ambassador in Tokyo). While this row was mainly about handling ROK-U.S. relations, policy on North Korea is obviously one of the main bones of contention.

In a seemingly hardened stand, on March 12 Foreign Minister Ban Ki-moon, fresh back from Washington and Tokyo, said that "Our position is that North Korea should get rid of all its nuclear programs and all its nuclear materials." Taken literally, that would include the Korean Peninsula Energy Development Organization (KEDO)'s light water reactor (LWR) project at Kumho: currently suspended, and viewed as dead by the U.S., but which Seoul has professed to hope to see resurrected – not least because it has spent about \$1 billion here, with smaller ROK contractors now facing ruin as North Korea has impounded their equipment on-site. The current suspension of Roh Moo-hyun as president while he faces impeachment proceedings, even if it proves short-lived, may see a more cautious line in Seoul toward the North. On the other hand, if the pro-Roh Uri Party wins April 15 parliamentary elections, as polls predict, this will boost Roh's pro-engagement approach as against the hawkish main opposition Grand National Party (GNP), hitherto the largest party in the assembly. Then again, the new GNP leader – Park Geun-hye, daughter of Park Chung-hee, the dictator (1961-79) who launched the ROK's economic development – may soften this line: last year she was Kim Jong-il's dinner guest in Pyongyang, which must have had both dads rolling in their graves.



### **Business: hardly fast-track**

As usual, economic talks followed the inter-Korean ministerial meeting. Again it was Seoul's turn to host the eighth meeting of the Economic Cooperation Promotion Committee, on March 2-5. The DPRK team, headed by Vice Minister of Construction Choe Yong-gon, flew on regular services via Beijing rather than direct from Pyongyang. As in February, host reminded guest that what it can offer depends on nuclear compliance, and once again the guest took no notice.

Papering over the cracks, the talks produced a seven-point agreement, which (again as usual) reprised the various projects under way and pledged to expedite them. On the Kaesong special zone, they agreed to pass detailed regulations and resolve management issues in March, while "efforts shall be made on providing electricity and telecommunications on a commercial basis and in a timely manner." Reportedly, North Korea demanded that the South install power and telecoms at once – as in due course it no doubt will, but Seoul noted the political impossibility of doing this on a large scale while Pyongyang remains in nuclear defiance.

On the other (related) main project, cross-border road-rail relinking, it was agreed to test-run sections of the two rail corridors "within this year," and to complete paving the two roads "as soon as possible." This is hardly Chollima speed, to use an old DPRK slogan (Chollima, like Pegasus, is a mythical winged horse). By contrast, April 1 saw South Korea's bullet train, the KTX, come into service. With over 100 trains a day streaking from Seoul to Pusan or Mokpo at up to 300 kmph, the ROK press looked forward to the day when KTXs would also head for Beijing or even Moscow and on to Europe. The sober reality is that North Korea squats in the way, and seems in no hurry even for cross-border links, much less the massive upgrade of its own decrepit track and system which Seoul's (and Moscow's) grand visions will require.

### **Pyongyang plays games**

March's talks also set dates for later full and working-level meetings, plus a flood control survey of the Imjin river in April. An exchange of economic missions "shall be made at an early time" – meaning no date was agreed. North Korea has sent two such teams to the South, but is less keen to reciprocate. Indeed, reversion in March to old-style game-playing suggests the North is in no real hurry for any of this, despite its economic dire straits. On March 15, its team failed to show up at the border for a working meeting in Paju, north of Seoul; a day earlier its delegation head demanded (via Radio Pyongyang) that the venue be switched to the DPRK city of Kaesong, since "anarchy" after the impeachment of President Roh made South Korea unsafe. The South obviously was not having that, nor did it appreciate other Northern comments on the impeachment, including predictably blaming the U.S.

In another negative sign, on March 17, South Korea reported that the North suddenly wants a much higher rent for land in the Kaesong zone, making it less competitive for Southern firms to set up there. After a welcome realism on wage levels and other issues,

this is a dismaying return to negative tactics. Kaesong has to be commercially viable or it will have no takers. Such recidivism is all the more depressing since earlier meetings made steady practical progress. Thus in late January, the DPRK accepted an ROK demand for jurisdiction over any of its business visitors accused of an offense in the Kaesong or Kumgang zones, while in late February, railway talks agreed on track maintenance arrangements and building an asphalt plant. The hope in Seoul is that Pyongyang's new negative mood is just a temporary ploy.

### **Don't mention the South**

Disappointing, too, was March 25's one-day session of the Supreme People's Assembly (SPA), North Korea's rubber-stamp Parliament. As usual, the SPA heard the budget speech – without a single real number, just a few percentages – and a report on the economy by the premier, Pak Pong-ju. Pak had impressed South Koreans on a 2002 visit as part of an economic team (he was then chemicals minister). While calling for more trade in general, Pak did not see fit to mention Kaesong – North Korea's best hope – or any other inter-Korean projects.

Meanwhile, the ROK Unification Ministry (MOU) reported that inter-Korean trade, after a record year in 2003 when it grew by 12.9 percent to \$724 million, is currently falling. The total for the first two months of 2004, \$65 million, was down 26.4 percent on the same period last year. But, as MOU noted, this mainly reflects a sharp drop in non-business transfers, such as materiel for KEDO. Stripping this out, true trade actually rose 5.9 percent: still very small beer compared to cross-Strait or indeed ROK-China trade, both measured in billions. Pyongyang's recent antics are hardly calculated to make the flows grow. In a similar vein, on March 22, the North postponed working meetings on flood control and relinking railways until after ongoing joint U.S.-ROK military exercises, themselves routine, as are Pyongyang's annual protests.

### **Family reunions: still on-off, and one-off**

The end of the quarter saw a further round of limited family reunions: the ninth in the series since the June 2000 summit, and the first in over six months. On the now familiar pattern, 492 South Koreans crossed the DMZ by bus March 29 to Mt. Kumgang for three days of brief, once-only reunions with 100 relatives that they had not seen nor heard from in half a century. On their return, a second group of 100 South Koreans was due to repeat the exercise. No subsequent contact is allowed, not even by phone, letter, fax, or email. In South Korea the lucky 100 are chosen by lottery; in the North they are selected from elite or trusted families, who – to their kin's dismay – dutifully laud the great and dear leaders for their beneficence.

While acceptable as a first ice-breaker, to maintain a ritual so limited in quality and quantity hardly implies a sincere humanitarian concern in Pyongyang. In the South, 123,000 people had applied for reunions; so far only 8,051 have been lucky, while 20,000 have died – as will most of the rest, at this snail's pace. Seoul wants a larger and freer program, including visits to hometowns. But all the North has conceded is a permanent

reunion center to be built at Kumgang (the ROK is paying for it), due by 2005 if continuing arguments can be solved. Hopefully this will enable more and better meetings in future, but there are no guarantees.

### **Bum rap: Seoul frowns on Hoonnet's gamble**

But then South Korea, alas, has contact hang-ups of its own. In January, it revoked the inter-Korean business license of Hoonnet, a Southern IT firm, for refusing to close its Pyongyang-based joint venture online gaming sites: *jupae.com*, *mybaduk.com*, and *dklotto.com*. It also blocked access to the sites. Hoonnet's offense was twofold: not only is gambling illegal in the ROK, but Jupae's bulletin board offered a unique, yet technically illicit, chance for ordinary North and South Koreans to chat. Hoonnet, which also runs Pyongyang's first Internet café, employs a dozen female college graduates, working in shifts around the clock. Beyond site-related queries, they proved willing to discuss safe topics – such as China's claim, iniquitous to Koreans, that the ancient Korean Koguryo kingdom was Chinese – and even give out their MSN messenger addresses. Some 14,000 messages had been posted to the site since May 2002.

Hoonnet's founder, Kim Bum-hoon, says that Seoul knew of his plans to set up gaming sites, which he claims he cannot close since they are a joint venture. He may be a chancer: who else would do business in North Korea? Yet his defense of being a pioneer of reunification is hard to dispute: spending \$1 million to install what he says is Pyongyang's first public server (most other so-called DPRK sites are physically located elsewhere, in China or Japan) and cable it to the Chinese border. To persuade North Korea to allow even a few of its citizens email contact with the South is remarkable; for South Korea to be the one to shut this window is deplorable. Protests have flooded in to the Unification Ministry and other government websites, noting, for instance, that no attempt is made to block access to gaming sites in the U.S. and elsewhere. To its credit, reporting this story at least one online Seoul daily, *The Korea Times*, boldly gave hyperlinks to the offending sites – worth a visit, if not a flutter, for their quaint English alone – and other banned DPRK outlets like *dprkorea.com* and the official newsagency, *kcna.co.jp*

### **Discordant Song**

If North Korea is looking for excuses to keep its distance from the South, the fate of Song Du-yul – see last issue for further details – may provide a pretext. On March 30, the Seoul Central District Court sentenced the well-known dissident and long-time exile to seven years in jail for violating the National Security Law (NSL). A long-time resident in Germany (whose citizenship he now has), the philosophy professor at Munster University visited North Korea 22 times, and is a senior member of its ruling Korean Workers Party (KWP) (he claims this was a formality foisted upon him). Both prosecutors, who had demanded 15 years, and the defense are to appeal.

This case thus looks set to remain divisive on several levels: North-South ties, relations with Germany, and within South Korea. A few days earlier, Song had been awarded the third Ahn Joong-keun peace prize, named for a patriot who in 1909 assassinated Ito Hirobumi, the first Japanese resident-general (governor) of a newly-colonized Korea. One can only wonder why Song returned to Seoul at all without doing some prior plea-bargaining, unless it was to court martyrdom, as part of a lifelong quixotic quest to challenge Korea's division. Equally, a wise government could just have deported him, rather than risk stirring up continuing controversy.

South Koreans' divided attitudes toward North Korea, and indeed the U.S., are illustrated in a survey by the daily *Korea Times*, published on April 1. Asked about aid to the North, almost half (46 percent) said the present level is right, 17 percent said aid should increase, while 33 percent wanted it reduced. Those in their 20s, students and white-collar workers, tended to favor assisting North Korea, whereas the over 60s, blue-collar workers and the less educated were more hardline. These numbers roughly parallel the 70/30 split between opponents and backers of President Roh Moo-hyun's impeachment. In a more even divide, 43 percent of respondents said U.S. troops should remain in South Korea, while 45 percent believed they should be gradually withdrawn.

### **Box-office ghosts**

If not strictly bilateral, a key factor on the Southern side is changing, albeit still controversial, perceptions of North Korea and past attitudes thereto. Not confined to politics as such, these evolving currents also emerge on the cultural front. Thus early 2004 saw South Korea's film box-office records shattered twice over. In February, *Silmido*, which tells the hitherto hidden story of a secret ROK unit formed in 1968 to assassinate Kim Il-sung, became the first South Korean film ever to attract 10 million viewers, which it did in 58 days. Named after the bleak island where the commandos, picked from criminals and misfits, underwent brutal training, *Silmido* tells how they revolted when their mission was aborted in 1971 (as North-South ties improved), killed their trainers, sailed to the mainland, and died in battle with regular troops. Having until recently denied the whole story, the Defense Ministry is now investigating, and surviving instructors (none of the commandos lived) are suing for compensation.

*Silmido*'s record was swiftly overtaken by *Taegukgi*, which looks at two brothers' relations during the 1950-53 Korean War and hit the 10 million viewer mark on March 14, just 39 days after its release. Not everyone is pleased. In February, conservative members of the National Assembly accused both films of portraying North Korea too positively and the South too negatively. Whatever the movies' merits, politically the risk does exist that as South Koreans rightly acquire a fuller picture and re-evaluate the ROK's tough and turbulent past, some may react with the wrong conclusion: that the North Korean threat was and is imaginary, a figment of a reactionary Cold War mentality, to be overcome by peace, love, and brotherhood. If only.

## **Safe as houses, or Northern exposure?**

While films are straws in the wind, investment decisions are more solid pointers. In the past developers shunned the northern side of Seoul close to the DMZ – just in case. But on March 18, days after North Korea claimed that the satellite city of Paju north of Seoul was unsafe to meet in, one of the ROK's biggest joint ventures, LG Philips, the global leader in TFT-LCD flat screens, broke ground in Paju for what will be the world's most advanced plant in this field. Investing a planned massive \$21 billion over the next 10 years, evidently LG Philips does not expect the KPA's tanks to roll into town anytime soon.

The same day, in New York, former U.S. ambassador to the UN Richard Holbrooke hosted a breakfast meeting, for the likes of Citigroup et al, to introduce the Asia Center Trade Tower. Pitched as South Korea's first "Trump Tower" (though Donald T. is not involved), combining hotel, office, and luxury residential occupancy, this spectacular 65-story skyscraper is part of the first phase of New Songdo City, a planned \$190 billion waterfront venture near the port of Incheon. Occupancy is expected in 2008. Here again, the U.S. and ROK investors – who include the steelmaker POSCO – evidently feel no qualms about erecting so tempting a missile target so close to the North Korean border. Perhaps Kim Jong-il has first offer on the penthouse suite?

## **Chronology of North Korea- South Korea Relations\*** **January-March 2004**

**Jan. 2, 2004:** South Korea Unification Minister Jeong Se-hyun sets priorities for the new year. These include: constructing the Kaesong Industrial Complex, improving transparency in aid distribution, and opening a channel of military dialogue North Korea

**Jan. 5, 2004:** North Korea and KEDO announce a meeting Jan. 14-16, to discuss materials and equipment at the light-water reactor (LWR) site at Kumho. Since KEDO suspended this, the DPRK has frozen these, causing losses to ROK construction firms.

**Jan. 6, 2004:** ROK Unification Ministry (MOU) announces a new three-year draft strategy to enhance its capacity to educate the Southern public on reunification issues.

**Jan. 8, 2004:** Unification Minister Jeong says his ministry is considering using government funds from the South-North Exchange and Cooperation Fund to help small- and medium-size firms (SMEs) involved in inter-Korean trade or setting up in the Kaesong Industrial Complex.

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\* The author is deeply grateful to earlier compilers, whose chronologies he has liberally plundered to construct this one; in particular the ROK Ministry of Unification's "Chronicles" ([www.unikorea.go.kr](http://www.unikorea.go.kr)) and Tom Tobback's indispensable [www.pyongyangsquare.com](http://www.pyongyangsquare.com).

**Jan. 9, 2004:** Officials from the ROK defense and foreign ministries, the national intelligence service, and other agencies hold their eighth meeting on prisoner-of-war issues, focusing on how to help those still trickling out of North Korea half a century after the Korean War.

**Jan. 13, 2004:** MOU reports that North Korean defectors to the South totalled 1,281 in 2003, an increase of 12 percent from 2002.

**Jan. 15, 2004:** MOU reports that inter-Korean trade grew 12.9 percent in 2003, to reach \$724 million. North Korea exported goods worth \$289 million, mostly agro-fishery and textile products. ROK “exports,” totalling \$434 million, were mainly noncommercial aid.

**Jan. 15-17, 2004:** DPRK and ROK Red Cross organizations meet at Mt. Kungang to discuss further the construction of a family reunion center, but fail to agree.

**Jan. 18, 2004:** South Korean media reports the appearance of Pyongyang’s first commercial billboards: six large advertisements (10m x 4m) for two Fiat car models assembled in Nampo by a joint venture of Pyonghwa Motors.

**Jan. 18, 2004:** South Korea says it will help the North preserve relics of the Koguryo kingdom (37BC-668AD), which occupied northern Korea and part of northeast China. A UN body is considering Koguryo sites in the DPRK and China for world heritage site status, amid a drive by China to claim it as part of Chinese rather than Korean history.

**Jan. 19, 2004:** Unification Ministry rescinds permission for Hoonnet, a South Korean firm, to engage in inter-Korean business. Hoonnet refuses to end unauthorized activities, notably its Pyongyang-based joint venture online gaming sites ([www.jupae.com](http://www.jupae.com)).

**Jan. 20, 2004:** ROK Ministry of Maritime Affairs and Fisheries says that inter-Korean sea transport fell slightly by 8,000 tons in 2003 compared to 2002. South Korea carried cargoes totalling 841,000 tons to the North, which sent 207,000 tons to the South.

**Jan. 21, 2004:** MOU reports that the international community gave 38 percent less aid to North Korea in 2003 than in 2002. South Korea increased its contributions by 17 percent to a total of \$160 million.

**Jan. 23, 2004:** North Korea attacks recent U.S.-ROK agreement to relocate U.S. forces to a line south of Seoul as “a product of the master-servant relationship between the U.S. and South Korea,” and claims this is a preparation for a war against the DPRK.

**Jan. 24, 2004:** ROK court for the first time recognizes DPRK notarial deed, ruling for a South Korean publisher who, having brought out a Northern book on medicine under contract with the original DPRK publisher, sued the Seoul publisher of a pirate edition.

**Jan. 27, 2004:** Seoul-based Inter-Korea Economic Association says it is completing an IT complex in Pyongyang, and several ROK IT companies will move there in March.

**Jan. 27, 2004:** ROK National Police Agency reports that there exist 31 websites that propagandize for the DPRK. Eight are directly operated by Pyongyang.

**Jan. 27-29, 2004:** Working-level inter-Korean economic talks held in Kaesong to discuss settlement and clearance systems and other practicalities. Immigration procedures for Southern business people visiting the Kaesong and Mt. Kumgang special zones are agreed: ROK will have jurisdiction over its nationals who offend while on business there.

**Jan. 30, 2004:** ROK President Roh Moo-hyun replaces National Security Adviser, Ra Jong-yil. As in the sacking of FM Yoon a fortnight earlier, this reflects tension in Seoul between Roh's desire for a more "independent" foreign policy and the U.S.-ROK alliance – including differences over how to handle North Korea.

**Jan. 30, 2004:** DPRK defectors in the ROK say they will set up an Internet broadcasting radio station, Free North Korea Broadcasting, starting in April. Its aims are "to improve human rights in the DPRK and help democratize the country."

**Feb. 2, 2004:** MOU says that Hwang Jang-yop has set up an NGO dedicated to democratizing the DPRK, the North Korea Democratization Union, and is its chairman.

**Feb. 3, 2004:** KCNA announces second round of six-party talks will start Feb. 25 in Beijing.

**Feb. 3-6, 2004:** 13th North-South ministerial talks are held in Seoul. They mainly focus on economic projects, but also argue over the nuclear issue.

**Feb. 6, 2004:** ROK Foreign Ministry says it has created a special task force for the nuclear crisis.

**Feb. 6, 2004:** Inter-Korean ministerial talks end with agreement to hold bilateral military talks, to cooperate on finding a peaceful solution to the nuclear crisis, and to continue construction of the Kaesong Industrial Park. They fail to agree on flood prevention measures for the Imjin River and a joint entrance at the 2004 Olympics.

**Feb. 11, 2004:** ROK Ambassador to the U.S. Han Sung-joo says the DPRK must discuss its uranium enrichment nuclear program at the six-party talks, now that revelations from Pakistan have confirmed its existence.

**Feb. 12, 2004:** South Korea accepts the North's revised proposal to hold a ninth round of family reunions at Mt. Kumgang from March 29 to April 3.

**Feb. 24-25, 2004:** 100 professors from the South-North Academic Exchange Association fly direct to Pyongyang for a conference on recovery of common cultural assets stolen by Japan during its 1910-45 colonization of Korea.

**Feb. 25, 2004:** Northern and Southern delegations announce in Athens that they will begin discussions on fielding a unified team for the 2004 Olympics in Greece in August.

**Feb. 25-26, 2004:** At railway talks in Kaesong, the Koreas agree on maintenance for cross-border railways, building an asphalt factory, and provision of necessary materials.

**Feb. 25-28, 2004:** Both Koreas participate, with the U.S., China, Japan and Russia, in a second round of six-party talks on the North Korean nuclear issue, held in Beijing.

**March 2-5, 2004:** Eighth inter-Korean Economic Cooperation Promotion Committee meeting in Seoul. It ends with a seven-point agreement to expedite cooperative projects.

**March 3, 2004:** President Roh admits differences with U.S. on how best to tackle the North.

**March 5, 2004:** KCNA reports that the Presidium of the Supreme People's Assembly (SPA), North Korea's Parliament, adopted a decision on regulations on the management of foreign currency and advertisements in the Kaesong Industrial Zone on Feb. 25.

**March 5, 2004:** South Korea's Vice Finance Minister Kim Kwang-rim says over 1,500 South Korean companies want to move into the Kaesong Industrial Park.

**March 9, 2004:** ROK says the North has agreed to authenticate origins of goods exported to the South, which are duty-free, to prevent abuse by mislabelled Chinese products.

**March 9, 2004:** A KEDO delegation arrives in Pyongyang to discuss the removal of materials – mainly belonging to ROK contractors – from the LWR site at Kumho.

**March 11, 2004:** Echoing a South Korean diplomatic campaign, KCNA says that the sea east of the peninsula should be called East Sea or Korea Sea, instead of Sea of Japan.

**March 12, 2004:** ROK FM Ban Ki-moon, after visiting Washington and Tokyo, calls on the DPRK to “get rid of all its nuclear programs and all its nuclear materials.”

**March 14, 2004:** Pyongyang calls impeachment of ROK President Roh “a coup in the Parliament unprecedented in the history of world politics, which betrays the backwardness of South Korean politics.” It blames the U.S. for inciting this.

**March 15, 2004:** Northern officials fail to show up for working-level inter-Korean economic talks in Paju, South Korea following the DPRK chief delegate Choe Yong-gon's demands on Radio Pyongyang that the venue be changed to the Northern city of Kaesong, citing the “anarchy” in the ROK caused by the impeachment of President Roh.

**March 17, 2004:** South Korean officials say the North wants a much higher rent for land in the Kaesong Industrial Zone, making it less attractive to South Korean firms.



**March 18, 2004:** DPRK attacks the new ROK security doctrine, which defines the North as a “direct threat” (but no longer the “main enemy”), as “an unpardonable anti-national, anti-reunification crime and an intolerable insult to the army and people of the DPRK desirous of national cooperation.”

**March 21-28, 2004:** Annual joint U.S.-ROK military exercises, *Foal Eagle* and *RSOI*, held. North Korea pulls out of inter-Korean meetings on flood control and relinking railways while these wargames take place.

**March 25, 2004:** The DPRK Supreme People’s Assembly (SPA) meets for a single day to hear the budget speech and an economic report by the prime minister. There is no mention of inter-Korean relations or projects.

**March 25, 2004:** MOU says inter-Korean trade in the first two months of 2004 fell 26.4 percent on the year to \$65 million, due to a steep fall in noncommercial trade (such as materials for KEDO and other aid projects). Commercial transactions were up 5.9 percent.

**March 30, 2004:** Song Du-yul, a dissident scholar long exiled in Germany, receives a seven-year jail sentence in Seoul for close contacts with and frequent visits to North Korea.

**March 29 - Apr. 3, 2004:** A ninth round of family reunions is held at Mt. Kumgang.

## China-South Korea Relations: Can China Unstick the Korean Nuclear Standoff?

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China's hosting of the second round of six-party talks in Beijing at the end of February marked the high point of China's Korea diplomacy in the first quarter, stimulating a flurry of follow-up diplomatic contacts and shuttle diplomacy involving China and the two Koreas. PRC Foreign Minister Li Zhaoxing made his first visit to Pyongyang on March 25-27, further extending high-level contacts with the top DPRK leadership that now seem to occur about once per quarter. The ROK's newly appointed Foreign Minister Ban Ki-moon visited Beijing on the heels of Li's visit to Pyongyang in an exchange that has enmeshed the PRC as a critical intermediary in peninsular affairs, which is part of China's more assertive mediating role in the six-party talks. But to what end will China play this more active role?

In the meantime, an extended squall over competing interpretations of the historical significance and attachments of the Koguryo kingdom has heated up amid competing attempts by China and the DPRK (backed by South Korean scholarship and the ROK government) to claim the kingdom as part of its history. And competition over raw materials is introducing a new element of competition between South Korea and the PRC over procurement and import of raw materials such as iron ore and other primary items that fuel economic growth in both countries. Despite South Korea's increasing dependence on expanded exports to China for growth, China is competing with South Korea as both an export competitor and an importer of raw materials in third-country markets.

### **Middle Kingdom mediation: a new stage for the PRC or diplomatic quagmire?**

Chinese diplomats declared victory following the second round of six-party talks in Beijing, having succeeded in actually holding a second meeting and extracting a pledge to continue the dialogue in spite of perceived recalcitrance from both Pyongyang and Washington. This meeting and the release of a chairman's statement – not even a joint statement among the parties – apparently constituted success in Beijing's eyes, although some reports suggested that the respective positions of the United States and the DPRK may have widened during the course of the meeting. In a ceremony set to be carried live on Chinese television, PRC Foreign Minister Li Zhaoxing was to announce a joint statement among the parties agreeing to working-level talks and to a third round of six-party talks by the end of June. The statement affirmed the interest of all parties in a

peaceful settlement of the issue through dialogue and committed their efforts to achieve a “nuclear-weapon-free Korean Peninsula,” but failed to include a commitment to “complete, verifiable, irreversible disarmament” by the DPRK, which insisted that it should be allowed to continue development of nuclear energy for peaceful purposes. A last-minute objection by the DPRK side kept Foreign Minister Li and the other delegations cooling their heels, delaying the closing ceremony for several hours. North Korean objections caused the joint statement to be reduced to a chairman’s statement, but that didn’t stop the Chinese from declaring the second round of talks as a major diplomatic success.

There have been a number of suggestions that the six-party talks could become a standing Northeast Asian dialogue on regional issues – if only the principal parties could stand to actually meet and resolve issues with each other. Neither Washington nor Pyongyang has behaved as Beijing had hoped, but China’s professional diplomats soldiered on in their affirmations of China’s indispensable (and now inextricable) mediating role. Despite the humiliation of waiting to preside over the closing ceremony, Foreign Minister Li got right back into action with a late March round of shuttle diplomacy to Pyongyang for follow-up meetings with Chairman Kim Jong-il and a subsequent meeting in Beijing with the ROK’s new foreign minister, Ban Ki-moon. The primary agenda for Li’s consultations with both Koreas was how and when to begin the working-level round of six-party talks, which had once again been delayed by DPRK hesitancy despite agreement at the plenary session to move forward. Working-level talks are likely to begin next quarter, but it is already doubtful that a plenary would follow as pledged in June.

China’s mediation efforts have become the safety net that provides reassurance to all the parties: as long as the six-party talks exist and are inching forward, regional perceptions are that a process is underway and that the second North Korean nuclear crisis can be resolved through negotiation, no matter how intransigent the positions of the parties may appear. However, the initial expectations of Beijing’s new leadership that the talks are part of a more modern, assertive, and constructive regional diplomatic initiative are probably higher. The talks have been a vehicle for substantive cooperation with the U.S. on nonproliferation and for involving Beijing in intensive diplomatic activity with both Pyongyang and Seoul, enhancing Beijing’s stature in the region and avoiding any economic spillover from an escalation of tensions over North Korea’s nuclear program.

Beijing’s once-distant and irregular diplomacy with Pyongyang has become considerably more active as Beijing has sought to address tensions on the Korean Peninsula. After a lengthy period during which there was virtually no exchange with the DPRK at senior levels, Jiang Zemin made his first visit as PRC president to Pyongyang in September of 2001. But former Foreign Minister Qian Qichen’s visit in the first quarter of last year marked a shift in the direction of regular senior-level visits by PRC officials to Pyongyang. Since Qian’s visit, CCP Party Liaison Dai Bingguo, Chairman of the Supreme People’s Assembly Wu Bangguo, and now Foreign Minister Li have all met and personally discussed the North Korean nuclear issue with North Korea’s Kim Jong-il within the past year.

Ironically, the second North Korean nuclear crisis has intensified and regularized high-level contacts between the DPRK and the PRC, despite the likelihood that these two former fraternal socialist brothers no longer see eye-to-eye on very much. China-DPRK trade relations have been stable and are arguably more important to North Korea's survival than they were last year, as the DPRK's procurement of high-end items from Japan has dried up due to stricter Japanese border controls and restrictions on DPRK vessels. A more active PRC diplomacy toward North Korea – and China's strong efforts to involve the DPRK in two rounds of six-party talks, have also been accompanied by Chinese pledges to provide significant economic and energy assistance, including a reported pledge to build a \$50 million bottling plant in Pyongyang. The PRC has stepped up other forms of economic assistance to North Korea as an incentive to keep North Korea coming to the talks, even while contributing to Pyongyang's isolation as it pursues its nuclear program.

The PRC and South Korea have maintained parallel positions toward North Korea's nuclear development efforts, agreeing that the DPRK must give up its nuclear program but focusing on making a deal with North Korea to give up its nuclear weapons development efforts. In this respect, South Korea's position is closer to China's than that of the U.S., but this similarity has not yet driven South Korea and China to jointly pursue their objectives, as South Korea continues to work in the context of trilateral coordination with the U.S. and Japan. The administration of ROK President Roh Moo-hyun appreciates Beijing's constructive role as host and intermediary of the six-party talks, but may secretly harbor some jealousy of China's mediating role, a task that some Roh advisors had aspired to play prior to President Roh's election and inauguration. Another factor that has distanced Beijing and Seoul has been sporadic differences over China's handling of North Korean refugees, most recently dramatized by reports that some refugees were staging hunger strikes in Chinese detention facilities to protest their imminent forced return to North Korea. China's economic and political influence have increased considerably over the course of the past year, as South Koreans believe that China is likely to be the most important country to the future of the Peninsula.

### **Contending national histories over who 'owns' Koguryo**

With the establishment in March of the South Korean government-funded Research Center for Koguryo History, there are now competing state-funded efforts in China and South Korea, respectively, to claim the Koguryo Dynasty (37 B.C.-A.D. 667) and the Manchurian Balhae (Bo-hai) Kingdom (698-926) as part of Korean and Chinese national historical narratives, respectively. The Chinese-sponsored five-year "Northeast Asia History Project" was launched in February 2002. This controversy was originally triggered by a North Korean request to UNESCO seeking to add Koguryo mural paintings to the World Cultural Heritage list in 2001. While the DPRK request has been held up due to questions about the condition of the murals, the PRC requested UNESCO recognition for Koguryo-era castles and tombs in spring 2003. PRC efforts drew a strong South Korean public reaction and criticism from South Korean NGOs regarding the South Korean government's failure to stop the PRC from claiming Koguryo as part of its own history. NGO criticisms were heightened following comments from Culture Minister

Lee Chang-dong that this is a matter that should be dealt with through academic, not political channels. The Seoul Museum of History hosted an international conference on the Koguryo-era artifacts at the end of March to examine the various claims and condition of the materials in question.

There is historical argumentation on both sides to make the case for Koguryo as a part of either Chinese or Korean history. This dispute is made more complex by the fact that the modern concept of the nation-state is very different from the way that these states related to each other in earlier periods, before there was even a unified Chinese or Korean rulership. The historical significance of tributary relationships between the old Korean dynasties and their Chinese counterparts may ultimately have little bearing on the current situation, and is not likely to be decisive in determining territorial legitimacy today. Nonetheless, Chinese historical projects have been deemed useful as a way of enhancing the legitimacy of China's claims in areas such as Tibet where ethnic minorities are dominant and there is a historical call for self-determination. Although ethnic Koreans have been referred to as one of China's model minorities, periodic irredentist claims by Korean nationalists based on the geographical coverage of Koguryo or Parhae archaeological relics have clearly gotten under the skin of Chinese authorities from time to time. Whether the Chinese claim to Koguryo is a reaction to a particular strain of Korean nationalism or a preemptive strike on an issue that could be considerably more contentious if the Korean Peninsula were to be unified again, a historical battle royal has been joined, to the benefit of Chinese and Korean historians and archaeologists who will now be funded at much more generous levels than might have otherwise been the case!

### **China's raw material imports: a new economic threat to Korea**

2003 was a banner year for South Korean exports to China, which surpassed the U.S. as South Korea's number one export market. China was also the number one destination for South Korean FDI, with \$2.49 billion invested. The bad news is that the 47 percent rise in exports to \$35.1 billion accounted for 98 percent of South Korea's GDP growth. South Korea's trade surplus with the PRC increased to a record \$13.2 billion. Without China as an export market, South Korea's economic growth would have been virtually flat.

South Korean overdependence on China for its economic growth is raising a variety of concerns. First, China's leadership is trying to keep its economic growth from spinning out of control, and efforts to slow the pace of growth in China will have negative implications for South Korea's GDP. Second, China's role as a global manufacturing center continues to contribute to a hollowing out among South Korean small- and medium-sized firms, many of which are relocating to China to maintain competitiveness of labor costs. Third, China is increasingly becoming a competitor with South Korean exports in third-country markets.

Finally, China's voracious demand for raw materials to fuel its own economic growth is leading to supply shortages and forcing up the prices of raw materials on world markets, with implications for South Korean cost competitiveness and ability to obtain the imports

for its industrial growth and exports. China's demand for iron ore, the key ingredient in steel manufacturing, grew by over 18 percent to over 407 million tons, accounting for 30 percent of global trade. China's consumption of cement and coal represented one-half and one-quarter of global demand, respectively. The resulting shortages have driven increases in the price of iron ore, coal, lumber, oil, and other raw materials that are also influencing the cost of finished steel products, as major steel producers scramble to secure their own long-term supply contracts to avoid future shortages and governments impose restrictions on exports of critical industrial materials in light of China's increased demand.

The price hike in raw materials driven by China's growth has mixed effects on Korea. On the one hand, the increased cost of raw materials is driving manufacturing and steel import costs up in sectors such as automobile manufacturing and shipping, leading to cost overruns. Steel prices for shipbuilding increased by about 30 percent last year, partly as a result of the raw materials supply squeeze, narrowing profit margins for some delivery contracts. On the other hand, China's increased import demand for such products underlies Korea's record export growth. In the shipbuilding sector, demand from China and new orders for double-hulled oil tankers and LNG tankers have driven record growth in the Korean shipbuilding sector, which represented 40 percent of the global market and is fully booked through 2006.

China's rapid economic growth in 2003 and its establishment as a key manufacturing center driving the global economy is likely to have implications that Korea, like the rest of the world, is only beginning to comprehend. China is surpassing the U.S. as a market for exports from Korea, Japan, and other Asian countries. The implications of a Chinese slowdown would have global reverberations as China becomes a critical piece of the global supply chain.

### **Chronology of China-South Korea Relations January-March 2004**

**Jan. 7, 2004:** Comments by Culture Minister Lee Chang-dong that the debate over the history of the Koguryo dynasty should be handled through private means ignite strong criticisms from Korean NGOs that the ROK government is failing to defend Korea's position and history.

**Jan. 29, 2004:** ROK Ministry of Finance and Economy announces that China was Korea's preferred foreign investment destination, with investments of \$2.49 billion representing 45.8 percent of South Korea's total overseas investment.

**Feb. 10, 2004:** Korea Industrial Technology Foundation forecasts that China will narrow its technology gap with South Korea in mobile phones and flat-panel displays within the next six years.

**Feb. 12, 2004:** ROK Financial Supervisory Commission and the China Banking Regulatory Commission sign an MOU to promote cooperation in regulating Korean and Chinese banks that establish overseas branches in each other's countries.

**Feb. 13-15, 2004:** PRC Vice FM Wang Yi consults with South Korean officials including ROK FM Ban Ki-moon in Seoul in preparation for the second round of six-party talks.

**Feb. 25-28, 2004:** Second round of six-party talks is held in Beijing.

**March 1, 2004:** South Korea's state-funded Research Center for Koguryo History is established with an annual budget of \$9 million.

**March 6, 2004:** PRC FM Li Zhaoxing mentions at a press conference that a possible visit to South Korea by President Hu Jintao is being discussed by the two governments.

**March 14, 2004:** Korean authorities in Cheju Island seize six PRC fishing boats for operating in Korea's exclusive economic zone.

**March 19, 2004:** PRC officials release freelance photographer Seok Jae-hyun on parole. Seok had been jailed in the PRC for 14 months on charges of assisting in "human trafficking" as part of an effort to send North Korean refugees by boat from Yantai, China to South Korea.

**March 23-25, 2004:** PRC FM Li travels to Pyongyang to meet with senior DPRK leaders, including National Defense Commission Chairman Kim Jong-il.

**March 25, 2004:** Reports indicate about 100 North Korean refugees launch a hunger strike at a Chinese detention facility in the border city of Tumen.

**March 26-27, 2004:** International conference on historical interpretations and artifacts from the Koguryo Dynasty held in Seoul.

**March 28-30, 2004:** ROK FM Ban meets with Chinese FM Li in Beijing to discuss progress in dealing with the North Korean nuclear crisis.

## Japan-China Relations: Dialogue of the Almost Deaf

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It was not quite all Yasukuni all the time, but close. Set off by Prime Minister Koizumi Junichiro's Jan. 1 visit to the shrine, Yasukuni served as the leitmotif for extensive high-level political and diplomatic exchanges over the first quarter of the year. Neither the prime minister and his political proxies nor China's political leaders gave any ground. As the quarter ended, Koizumi, determined to continue his visits to the shrine, seem resigned to not visiting China if the Chinese did not want him to visit, while the Chinese made it clear that Yasukuni was the problem.

In the meantime, the Self-Defense Forces deployed to Iraq, raising back-to-the-future concerns in Beijing, and a landing by Chinese activists on the Senkaku Islands at the end of March raised nationalist sentiments in both countries. In Japan, suits brought by Chinese nationals seeking compensation for wartime forced labor kept alive the issues of history. At the end of March, for the first time, the Niigata District Court ruled in favor of Chinese plaintiffs in a case brought against both the Japanese government and a private company.

The good news, as both Koizumi and Chinese Prime Minister Wen Jiabao agreed, was economic. Commercial relations rapidly expanded during the quarter, stimulating Japanese growth rates. As a result, Japanese views of China were shifting from "threat" to "market opportunity" as China's consumers continued to consume made-in-Japan electronics and machine products.

### **Postscript and preview**

As 2003 drew to a close, the Japanese media reviewed the state of Japan's relations with China.

In mid-December, the *Yomiuri Shimbun* released the results of a *Yomiuri*-Gallup poll conducted in Japan and the U.S. during the previous month. In both countries respondents were asked to select, which country, will be their respective country's most important trading partner. Fifty-three percent of respondents in both Japan and the U.S. picked China. In Japan, only 27 percent picked the U.S.; meanwhile China's standing increased 26 percentage points among Japanese respondents. At the same time, Japanese



judged that the U.S. will remain more important from a political perspective: 53 percent vs. 30 percent for China. As for the current state of Japan's relations with China, Japanese opinions divided with roughly 28.4 percent viewing them as very good/good; 31.5 percent as bad/very bad; and 30.4 percent unable to judge; 9.7 percent did not answer.

The *Yomiuri*, on Jan. 13, published the editorial "China's Responsibilities as an Economic Great Power." The editorial found much to praise in China's emergence in the 25 years since Deng Xiaoping opened the country to market forces – and much to be concerned about: insolvent financial institutions, excessive budget deficits, disparities in income between coastal and inland provinces, energy and food shortages and the continuing authoritarian rule of the communist party.

To advance China's development, the editorial noted that good relations with its neighbors were indispensable and emphasized that, as a responsible Great Power, China must contribute to regional peace and stability. At the same time, the *Yomiuri* observed China's rise as an economic great power, as reflected in its yearly double-digit increases in defense spending, the modernization of its nuclear and missile forces and the increasing military might, was a source of concern to China's neighbors. What is required of China is greater international cooperation, which in turn would dispel fears of a China threat.

Prime Minister Koizumi in his Jan. 19 policy address to the Diet referred to Japan's relations with China as one of Japan's "two most important" and expressed the intention of his government to work with China's new leadership to develop a future-oriented relationship. Ever-closer economic relations based on the expansion of trade investment would mutually benefit not only Japan and China but allow them cooperatively to contribute to the resolution of regional and global issues.

In looking toward the future, however, the prime minister also demonstrated that he could turn a blind eye to the past.

### **Back to Yasukuni**

At year's end, political and media speculation over the timing of a Koizumi visit to Yasukuni swelled. The critical question was not whether to go, but when. At play were both political considerations – the upcoming July Upper House elections, the need to solidify the Koizumi-Liberal Democratic Party (LDP) base, and the prime minister's April 2001 pledge, made, as candidate for the LDP presidency, to visit the shrine on Aug. 15 – and diplomatic desires: Koizumi's long-cherished invitation from Beijing for an official visit. (Koizumi had visited the shrine on Aug. 13 in 2001, April 21, 2002, and Jan. 13, 2003; each time, Beijing had protested vigorously.)

The prime minister put an early end to speculation by visiting the Yasukuni Shrine on New Year's Day. Koizumi signed the visitor's book as prime minister and donated ¥30,000 as an offering. Afterward, he told reporters that he had prayed for "peace and

prosperity” at the shrine. The prime minister argued that visiting shrines was a Japanese New Year’s Day custom and went on to observe that he “did not think people in any country will criticize others for paying respect to their history, traditions, and customs.” He also argued that Japan’s present-day peace and prosperity “are not solely thanks to the people who are alive now” but stand “on the precious sacrifices of people who lived and died during the war against their will.” Koizumi asked for the understanding of other countries and expressed his belief that “gradually he will be able to gain China’s understanding.”

The Chinese reaction was almost instantaneous. Three hours later, Vice Foreign Minister Wang Yi called in Japan’s charge d’affaires Harada Chikahito to express “strong indignation” at the visit and strongly protested actions, which “wounded the feelings of those who had suffered as a result of war.” The next day, *The People’s Daily* charged Koizumi not only with “rubbing salt in the wounds of the war’s victims” but also “damaging Japan’s diplomacy.” A Chinese Communist Party source was quoted to the effect that “China could no longer expect a strengthening of relations with Japan under Koizumi and that reciprocal visits of the political leadership would probably not take place this year.”

The visit also produced a reaction in Japan. On Jan. 3, in a letter to the prime minister, the Japan-China Friendship League protested the visit along with the pending deployment of the Self-Defense Forces (SDF) to Iraq as a “reckless violation” of the principles inherent in Japan’s Peace Constitution. Later, Keidanren chairman Okuda Hiroshi warned that the visit would probably affect commercial relations with China, in particular Beijing’s pending choice of technology for the Shanghai-Beijing high-speed railroad.

Nevertheless, both the LDP and the prime minister made clear that visits to Yasukuni would continue.

Addressing the issue of Class-A war criminals enshrined at Yasukuni and his visits to the shrine, the prime minister told the House of Representatives Budget Committee on Feb. 10 that he “did not recall a sense of resistance – other countries saying don’t do this or don’t do that.” Koizumi went on to announce that he had “absolutely no intention to change his feelings on the matter.” Afterward, he told reporters that postwar generations must not forget to pay respects to those who fell in the war – he would not trifle with war criminal distinctions. The prime minister considered his visits to Yasukuni as embracing all those who fell in the war, and accordingly he asked for understanding from China and Korea.

In Beijing, Foreign Ministry Spokesperson Zhang Qiyue pointed out that Yasukuni “honors Class-A World War II criminals who had committed grave atrocities against the people of China and other neighboring Asian countries.” China, accordingly “firmly” opposed the visit of Japanese leaders to the shrine.

On March 6, in a wide-ranging press conference during China’s National People’s Congress, Foreign Minister Li took up the issue of China-Japan relations. Li defined

“mainstream” relations as “good.” Exchanges and bilateral trade continued to expand, as did cooperation in regional and international affairs. Li also noted that Japan had extended the largest amount of assistance during the 2003 SARS epidemic. Now, however, the “prominent” issue was Yasukuni. The foreign minister said that visits to the shrine by Japan’s political leaders had “deeply wounded the feelings of the people of China and other Asian countries.” “This”, he continued, “is not acceptable in any way.” China hoped that Japan “can put themselves (sic) in the shoes of other people, show sincerity, and not letting the issue of history become their own burden, but rather take history as a mirror and draw lessons from it...”

Koizumi’s rebuttal came three days later when he announced that he visits Yasukuni because it feels appropriate. The prime minister’s remarks set the stage for another Yasukuni go around. Addressing relations with Japan before the National People’s Congress on March 14, Premier Wen Jiabao observed that political, cultural, and commercial relations continued to expand but that the major obstacle remained the continuing visits to Yasukuni by “some leaders.” The next day Koizumi observed that Japan and China are enjoying a good relationship and hoped that the trend would continue, even if he continued to visit Yasukuni. Later Koizumi told reporters that he did not have to visit China “when it does not wish for me to visit.” He went on to make the point that he had met with China’s leaders in various overseas venues and that his visits to the shrine appeared to have little impact on the development of economic relations.

### **SDF deployment to Iraq ... and collective self-defense**

As much as the prime minister’s visits to Yasukuni raised concerns in China about Japan’s understanding of history, his decision to deploy Self-Defense Forces to Iraq was viewed in China as a potential back-to-the future curtain raiser.

During a Jan. 20 press conference, in response to the question, “What should Japan do to relieve the vigilance of regional countries, including China,” spokesperson Zhang Qiyue made clear that China was “concerned with this move.” To calm fears, Zhang advised Japan to “abide by the road of ‘exclusive defense’ and adhere to the road of peaceful development.” In light of Japan’s frequently expressed commitment to peaceful development, China hoped that Japan “can truly win trust from the international community and the people of Asia and truly honor its commitments.”

On Feb. 4, the day after the GSDF deployed to Iraq, Zhang pointed out that “historically, Japan’s military conduct has been a sensitive issue for the countries and people of Asia and that “in recent years Japan’s activities in military and security affairs have been noticeable.” Zhang noted that the deployment to Iraq will likewise “arouse suspicions and concerns.” Thus, it was important for Japan “to come to grips with history; taking the road of peaceful development is not only in Japan’s interest but supports regional peace and stability.”

At the same time, as the issue of amending or reinterpreting Japan's postwar constitution to allow for the right of collective self-defense gathered momentum in Japanese political circles, Chinese analysts offered preemptive visions. Pang Zhongying, head of the Nankai Global Studies Institute, opined that if Japan "fully abandoned Article 9 that kind of new Japan would find it difficult to have more constructive relations with China, the Koreans, and even the United States." In such circumstances, Pang predicted that the Koreans and China would form a "de-facto bloc against Japan" and eventually "the nature of the U.S.-Japan alliance would be changed under a nationalism-oriented Japan."

In March, Liu Hong Cai, deputy director of the CCP's External Liaison Department, visited Japan. During a March 12 meeting with JDA Director General Ishiba Shigeru, Japan's deployment to Iraq came up, with Ishiba explaining that SDF activities, developing water supply and improving the condition of hospitals, were aimed at enhancing the welfare of the Iraqi people. Interestingly, Liu expressed his understanding of Japan's commitment to the deployment of missile defenses, finding it in "in line with defense-purpose principles."

### **High-level visits**

Concerns over history, Yasukuni, the SDP deployment to Iraq, and North Korea served as the leitmotif of high-level exchanges in the January-March period.

On Jan. 8, Senior Vice Foreign Minister Aisawa Ichiro traveled to Beijing, where he met with State Councilor and former Foreign Minister Tang Jiaxuan, Vice Foreign Minister Wang Yi, and Executive Vice Foreign Minister Dai Bingguo. The meetings focused on the SDF deployment to Iraq and Japan's security policy. In these matters, Wang told Aisawa that concerns in Asia were high. Acknowledging that the decisions were fundamentally domestic political matters in Japan, Wang nevertheless observed that views expressed in the debate were different from those previously voiced. He asked that Aisawa adequately explain the decisions to Japan's neighbors, which the senior vice foreign minister committed to do.

After a hiatus of three years, the vice minister-level Japan-China defense dialogue resumed in Beijing on Jan. 9-11, when Vice Minister of Defense Moriya Takemasa met with Xiong Guangkai, deputy chief of staff of the PLA. Touching on the again postponed reciprocal ship visits, Xiong expressed his regrets for the decision but made clear the necessity of creating the "proper political environment," code words for the Chinese perceived lack of it following Koizumi's visit to Yasukuni. Xiong also expressed China's concerns over Japan's decision to join the U.S. in deploying missile defenses. Moriya explained that systems were defensive in nature and aimed at protecting Japan's citizens and industry. Before meeting with Xiong, Moriya called on Defense Minister Cao Guangchuan to whom he extended an invitation to visit Japan, which Cao favorably received. After emphasizing the need to advance the Japan-China defense dialogue, Cao took the opportunity to ask Moriya to appreciate the "anger in China and other Asian countries" generated by Koizumi's Yasukuni visit.

On Jan. 12, the LDP's Nukaga Fukushima and New Komeito's Kitagawa Kazuo, chairmen of their respective party's Policy Research Council met China's Vice President Zeng Qinghong in the Great Hall of the People. Nukaga explained the SDF deployment to Iraq as humanitarian in nature; while expressing understanding, Zeng added that China's historical experience had made it "sensitive to Japan's overseas dispatch of the SDF." Zeng also made clear that, while it was natural to respect culture and tradition, neither China nor other countries victimized by the war could condone visits to Yasukuni. Kitagawa, in turn, raised the possibility of building a separate national facility for memorial services and prayer, an idea that Zeng saw as one option.

Also in mid-January, former Prime Minister Nakasone Yasuhiro traveled to Beijing to attend a meeting of the Asia-Pacific Parliamentarians Forum. On Jan. 14, Nakasone met with President Hu Jintao in the Great Hall of the People. Chinese television reported that Hu advocated a strengthening of the bilateral relationship, but, indirectly addressing the Yasukuni issue, cautioned that "leadership in both countries should refrain from actions which do not serve to advance friendly relations between the two peoples." Back in Tokyo, Nakasone proposed that spirits of Class-A war criminals be venerated in a shrine for the war dead separate from Yasukuni, thus allowing the prime minister and emperor to visit Yasukuni.

To coordinate policy with regard to the six-party talks in Beijing, Vice Foreign Minister Wang Yi traveled to Japan. Wang met with Asia Bureau Director General Yabunaka Mitoji on Feb. 10 and Foreign Minister Kawaguchi Yoriko the following day. While meeting with Kawaguchi, Wang voiced displeasure over Koizumi's remarks on Yasukuni to the Lower House Budget Committee, finding the words, "very regrettable indeed."

At the same time, New Komeito representative Kanzaki Takenori led a party delegation to China for a three-day visit, Feb. 10-12. Prior to departure, Kanzaki met with the prime minister and received a personal letter addressed to President Hu Jintao, in which Koizumi expressed his hope for the realization of a Japan-China summit. In his meetings with China's leaders, including President Hu on Feb. 11, Kanzaki focused on the upcoming six-party talks and asked for China's cooperation in resolving the abductee issue. His Chinese interlocutors, however, focused on history and Koizumi's visits to the Yasukuni shrine.

Asked to comment on reports that the prime minister's Yasukuni visit was hurting Japan's chances for the Shanghai-Beijing high-speed rail contract, Foreign Ministry Spokesman Takashima Hatsuhiza, replied that "As far as the government of Japan is concerned, we believe that this visit has nothing to do with any of the other issues between Japan and China..." On March 6, Foreign Minister Li said that "we welcome Japanese entrepreneurs to join the competition on a leveled playing field."

### **Territorial nationalism: the Senkakus...**

On Jan. 14, 20 Chinese activists departed Xiamen in two fishing boats bound for the Senkaku (Daiyutai) Islands, between Okinawa and Taiwan. The following day, Japanese Coast Guard ships intercepted the ships and prevented the activists from landing. The intercept marked the third attempt, in the last seven months, by Chinese activists to land on the disputed islands. *The People's Daily* reported that the Chinese ships were "attacked" by 10 Japanese warships using water cannons.

Two months later on March 24, seven Chinese activists successfully landed on Uotsuri Island in the Senkakus and, shortly afterward, were taken into custody by the Okinawa Prefectural Police for violating the Immigration Control and Refugee Recognition Law, the first time Chinese citizens have been arrested for landing on the Senkakus. Protests erupted in Beijing where crowds gathered before the Japanese embassy and burned Japan's national flag. Both sides asserted sovereignty over the islands.

At the same time, political leaders and foreign ministries in both countries urged calm and worked to defuse the situation. In relatively short order, the Japanese government decided to deport the activists rather than turn them over to the prosecutor's office; they left Japan on the evening of March 26. LDP Vice Secretary General Amari Akira, also secretary general of the Japan-China Parliamentary Friendship League, explained "the government wanted to avoid putting China in a politically difficult position."

### **Return of Chinese research ships**

After a quiet 2003, Chinese research ships returned to Japan's exclusive economic zone during the quarter. Through March 8, the Japan Defense Agency reported 11 instances of illegal research activities – in 2003, only eight such operations had been detected. Because the ships were found in areas not related to the exploration of undersea natural resources, the JDA speculated that the ships might be exploring passages for Chinese submarines.

The *Yomiuri* reported that the Foreign Ministry had asked Beijing to cease research activities of the Chinese vessel initially detected on Feb. 17 by P-3C aircraft of the Maritime Self Defense Force. On March 8, Vice Foreign Minister Takeuchi told reporters that such activities "are extremely regrettable" and urged China to "act in accordance with the United Nations Convention on the Law of the Sea." (The convention requires six months prior notification of the intention to undertake such activities. Tokyo and Beijing agreed in early 2001 to a prior notification regime of two months.

### **And security cooperation**

On Feb. 27, the *Asahi* reported that Japan and China had agreed to work together to tighten export restrictions in an effort to stop the proliferation of weapons of mass destruction to countries like North Korea. On its part, Japan will provide China with detailed know-how on items to be subjected to export restrictions. A March 5 export

control seminar launched the cooperative effort – the first such export control initiative that Japan has undertaken with a foreign government. Director-level officials from Economic Ministries and Police officials as well as representatives of 100 Chinese firms participated. Attention focused on electronics, missile, nuclear, and chemical weapons components.

### **Six-party talks**

As 2003 came to a close, hopes were high for an early return to Beijing and resumption of the six-party talks on the fate of North Korea's nuclear weapons program. For Japan, the fate of the abductees and the return of their families was a major political issue that played into the six-party diplomacy. For China, being able to proclaim "success" at the conclusion of the Beijing meeting was a central diplomatic objective. Beijing viewed Tokyo's insistence on raising the abductee issue in the six-party context as inviting a strong North Korean reaction and threatening the "success" of the talks.

Accordingly, Chinese officials took every opportunity to counsel visiting Japanese political leaders. On Feb. 4, China's Vice President Zeng Qinghong told visiting former Prime Minister Murayama Tomiichi, currently honorary advisor to the Japan-China Friendship Association and Association Chairman, Hirayama Ikuo, that the "nuclear issue will take center stage at the six-way talks" and that China "wanted to see the abduction issue discussed between Japan and North Korea."

Two days later, Foreign Ministry Spokesperson Takashima told reporters that Japan would "convey our intention to seek a comprehensive resolution during the six-way talks," "comprehensive" being code word for the inclusion of the abduction issue during the Beijing talks. When asked whether Japan would raise the issue "regardless of what China says" Takashima replied "my understanding is that our basic position has always been known by the other parties, including China." On Feb. 12, Foreign Minister Kawaguchi, addressing the abduction issue, told visiting Vice Minister Wang Yi that during the six-party talks, "we'd like you to cooperate with us."

During a Feb. 27 press conference, in response to a question if there had been "any change" in China's attitude on raising the abduction issue during the talks, Takashima replied "my understanding is that the Chinese side fully understands the Japanese position that without there being a complete resolution of the abduction cases as part of a comprehensive solution of North Korean issues..., Japan cannot participate in any sort of final solution which includes economic cooperation to North Korea." Takashima went on to say that "we do not see any sort of change in the attitude of the Chinese side between the last session and the current round."

### **Overseas Development Assistance (ODA)**

On Feb. 4, the *Nihon Keizai Shimbun* reported that the Koizumi government had decided to cut ¥20 billion from the China ODA account, reducing yen loans to China to an approximate ¥100 billion. If implemented, the decision would mark the third consecutive

reduction in ODA assistance to China. The decision was formally approved on March 10 at a meeting of LDP's foreign affairs councils.

Playing into the government's decision were Japan's own financial condition, the government's commitment to Iraq reconstruction, the surging growth of China's economy, as recently exemplified by China's manned space flight, and China's own development aid programs. When asked in a *Mainichi Shimbun* public opinion survey, published Jan. 5 and taken Dec. 12-13, whether ODA to China should be "continued in the future or stopped," 36 percent supported continuation; 51 percent supported termination.

### **The courts and bilateral relations**

On Jan. 8, Fukuoka police served an arrest warrant on Wei Wei, a former Japanese language student on trial for robbery for his alleged participation with two other Chinese then resident in Japan in the murder of a Fukuoka family in June of last year. Wei's alleged accomplices are under arrest in China and will be tried there because Japan does not have an extradition treaty with China. The case has been marked by cooperation between Japanese and Chinese law enforcement officials.

On Feb. 14, *Kyodo News Service* reported that earlier in the month the Chinese District Court of Shenyang had sentenced a 61 year-old Japanese citizen to death for attempting to smuggle 1.25 kilograms of stimulants from China into Japan. The sentence is now under appeal. *Kyodo* also reported that 11 other Japanese nationals were detained in China on charges of drug smuggling during 2003.

On March 26, the Sapporo District Court dismissed a suit against the government and six Japanese companies filed by 43 Chinese nationals seeking ¥860 million in compensation for injuries suffered as a result of wartime forced labor. While acknowledging that the plaintiffs suffered under wartime conditions, the court ruled that the 20-year statute of limitations had expired. The next day, however, the Niigata District Court found in favor of the plaintiffs and order both the state and the Niigata-based Rinko Corporation to pay ¥88 million in a similar suit seeking compensation for wartime forced labor. The decision marked the first time that a Japanese court had ordered both the state and a private company to pay such compensation. The judge in the case, Katano Noriyoshi, dismissed the government's argument that the 20-year statute of limitations had expired and found wartime forced labor to be an "illegal act." A Justice Ministry official labeled the ruling "unacceptable" and indicated the government would appeal.

### **Finally the good news: business and economics**

In the on-going debate over the implications for Japan of China's emergence as an economic power, whether China represented a threat or a market opportunity, first quarter figures continued to move the debate toward the latter. Overall, China's real GDP grew at a rate of 9.1 percent in 2003, shaking off the impact of SARS to post 1 percent increase over 2002.



In 2003, Japan's exports into the booming Chinese economy grew 33.8 percent and totaled ¥6.6 trillion, led by machinery and electronics, while imports from China grew 13.0 percent, amounting to ¥8.73 trillion. Economists attributed much of Japan's strong 2003 fourth quarter growth to brisk exports to China.

In Japanese eyes, China is transitioning from a low-cost manufacturing base with an abundant supply of cheap labor to a booming consumer market for Japanese exports, with consumer electronics leading the way. A senior NEC executive was quoted as saying that "China is the most important market in the world for cellular phones." NEC manufactures all its cellular phones in China – 5 million in 2003 – but currently sells only 1 million in China. NEC aims to increase that percentage to nearly 50 percent in the near future, while increasing overall production.

Similarly, Japanese automobile makers are targeting the China market with Toyota planning to increase annual production from 30,000 to 50,000 units and capture at least 10 percent of the market by 2010. At the same time, with the 2008 Beijing Olympics and 2010 Shanghai World Expo fast approaching, China's demand for construction machinery has served to sustain Japanese manufacturers hard hit by the government's public works cut backs. Japan's shipping building industry has also benefited from China's surging demand for bulk carrier and container ships, with overall orders tripling in 2003 to 13.4 million tons. Meanwhile, big four steel makers, Nippon Steel, JFE Holdings, Sumitomo Metal Industries, and Kobe Steel attributed 2003 prosperity to strong demand from China.

Efforts were also made to attract Chinese investment to Japan. In mid-February, Japan External Trade Organization hosted a Japan Investment Discussion in Shanghai. Government officials representing Tokyo, Osaka, and Kobe attended and attempted to explain Japan's investment climate. Meanwhile, Chinese planning officials from China's rust-belt northeast (former provinces of Japanese-ruled Manchuria) were inviting representatives of Japanese banks, manufacturers, and trading companies on business promotion tours of the region.

On March 5, *The Japan Times* lead editorial "Opportunity for mutual prosperity" asserted that "in the not so distant future, China will probably eclipse the United States as Japan's largest trading partner." The editorial declared that Japan-China economic relations had "reached a new stage" with the business community recognizing that "Japan needs the Chinese market to keep its economy growing, as much as China needs Japan to continue its rapid growth." The editorial concluded with the observation that "China's ascendancy is likely to have a significant impact not only on bilateral trade but, ultimately, on Japan's foreign and security policy as well."

## **Chronology of Japan-China relations January-March 2004**

**Jan. 1, 2004:** Prime Minister Koizumi visits Yasukuni Shrine; Vice Foreign Minister Yang calls in Japanese ambassador to protest.

**Jan. 1, 2004:** Chinese officials begin to disperse ¥300 million compensation from Japan for August poison gas incident in Qiqihar.

**Jan. 7-9, 2004:** Senior Vice FM Aisawa Ichiro visits China, meets with Vice FM Dai Bingguo, Vice FM Wang Yi, and State Councilor Tang Jiaxuan.

**Jan. 8, 2004:** Fukuoka police serve arrest warrant on Chinese student Wei Wei in connection with June 2003 murder of Fukuoka family.

**Jan. 9-11, 2004:** Japan-China vice ministerial defense dialogue resumes in Beijing after three-year hiatus; Vice Minister of Defense Moriya Takemasa meets with Defense Minister Cao Guangchuan and PLA Deputy Chief of Staff Xiong Guangkai.

**Jan. 10, 2004:** Japan, China, South Korea meet in Bangkok at ASEAN-plus-Three conference on terrorism and crime prevention.

**Jan. 10-13, 2004:** LDP Policy Research Chief Nukaga and New Komeito policy chief Kitagawa visit China, meet with former FM Tang, Vice President Zeng Qinghong, and Vice FM Wang Yi.

**Jan. 14, 2004:** Former PM Nakasone meets President Hu Jintao in the Great Hall of the People.

**Jan. 14-15, 2004:** Chinese activists attempt to land on disputed Senkaku (Daioyutai) Islands and are turned back by Japanese Coast Guard ships.

**Feb. 4, 2004:** China's VP Zeng Qinghong meets with former PM Murayama Tomiichi, currently honorary advisor to the Japan-China Friendship Association and Hirayama Ikuo, chairman of the association.

**Feb. 4, 2004:** Japanese Foreign Ministry announces that, beginning April 1, visas will no longer be required of short-term visitors from Hong Kong.

**Feb. 5, 2004:** Former FM Komura Masahiko becomes chairman of Diet's Japan-China Friendship League.

**Feb. 9, 2004:** Kono Yohei, former LDP secretary general and former foreign minister, currently speaker of the House of Representatives and chairman of the LDP's Asia-Africa Research Group, meets in Tokyo with China's ambassador Wu Dawei.

**Feb. 9, 2004:** Tokyo High Court rejects appeal from seven Taiwanese for official apology and ¥70 million compensation for being forced to serve as comfort women for the Imperial Japanese Army.

**Feb. 10, 2004:** Ninth Japan-China Security Dialogue held in Tokyo. Foreign Ministry and Defense delegations are led by Japan's Deputy FM Tanaka Hitoshi and China's Vice Minister of Foreign Affairs Wang Yi.

**Feb. 10-12, 2004:** Vice FM Wang travels to Japan to meet with Foreign Ministry Asia Director General Yabunaka to coordinate on upcoming six-party talks; meets with FM Kawaguchi on Feb. 11 and with LDP Secretary General Abe and Chief Cabinet Secretary Fukuda on Feb. 12.

**Feb. 10-13, 2004:** Kanzaki Takenori leads New Komeito Party delegation to China, meets with President Hu Jintao, former FM Tang, and other Chinese leaders.

**Feb. 17, 2004:** Chinese ships detected carrying out illegal research activities in Japan's EEZ.

**Feb. 17-20, 2004:** Former PM Hata Tsutomu, currently senior advisor to Japan's Democratic Party, visits China, meets with former FM Tang.

**Feb. 20, 2004:** Lower House member Noda Takeshi, chairman of the Japan-China Society, meets in Beijing with China's VP Zeng.

**Feb. 23-24, 2004:** Senior Vice FM Aisawa Ichiro, at invitation of China's Academy of Social Science, visits China to attend symposium on China-Japan Economic Relations in the 21st Century; also meets with Vice FM Wang Yi and FM Li.

**Feb. 25, 2004:** LDP Policy Research Chairman Nukaga meets with China's Minister to Japan Cheng Yonghua at LDP headquarters to set up an LDP-Komeito-Chinese Communist Party consultative committee to exchange views on history and economic relations.

**Feb. 27, 2004:** Osaka District Court dismisses a suit seeking compensation brought by 631 petitioners who argue that Koizumi's visit to the Yasukuni Shrine in August 2001 violates the constitutional separation of church and state.

**March 2-4, 2004:** Japanese Foreign Ministry asks Beijing to cease activities of Chinese research ships in Japan EEZ.

**March 6, 2004:** FM Li addresses Yasukuni in NPC press conference; Koizumi replies March 9.

**March 8, 2004:** Vice FM Takeuchi brands Chinese research activities in Japan's EEZ as "extremely regrettable."

**March 10, 2004:** LDP approves ODA reduction for China.

**March 11, 2004:** Liu Hong Cai, deputy director of the CCP's External Liaison Department, visits Tokyo meets with JDA Director General Ishiba; former PM Nakasone, former LDP VP Yamasaki, President of the Democratic Party of Japan Kan, and Social Democratic Party leader Fukushima.

**March 12, 2004:** LDP panel proposes expansion of tour group visas for Chinese visitors to Japan to include provinces of Jiangsu, Zhejiang, Shangdon, and Liaoning. At present such visas are only issued to tour groups from Beijing, Shanghai, and Guangdong provinces.

**March 14-15, 2004:** Vice FM Dai Bingguo meets with FM Kawaguchi and Vice FM Takeuchi in Tokyo. Subjects for discussion include North Korea and the prime minister's hoped-for an invitation to make an official visit to China.

**March 16, 2004:** Matsuyama District Court dismisses suit claiming that Koizumi's visit to the Yasukuni Shrine in August 2001 violates the constitutional separation of church and state.

**March 17, 2004:** Japanese immigration authorities deny permission to enter Japan to 150 Chinese students suspected of holding forged papers to study at Japanese-language schools in Tokyo; police suspect owner of school of taking bribes and using school as pretext to find employment for Chinese nationals.

**March 19, 2004:** FM Kawaguchi announces early April visit to China

**March 24-27, 2004:** Seven Chinese activists land on Uotsuri Island in Senkakus and are arrested by Okinawa Prefectural Police. Vice FM Takeuchi calls in China's ambassador Wu Dawei on March 24 to protest. Activists are deported to China on March 27.

**March 26, 2004:** Sapporo District Court rules against Chinese plaintiffs seeking compensation for wartime forced labor.

**March 27, 2004:** Niigata District Court rules against government and Japanese company in suit brought by Chinese nationals seeking compensation for wartime forced labor.

**March 27, 2004:** FM Kawaguchi telephones FM Li asking that China prevent a recurrence of the Senkakus landing and protests the burning of the Japanese flag at the Japanese embassy in Beijing.



Japan-Korea Relations:  
**Happy Birthday, Mr. Kim**

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Japan-DPRK relations show no progress on abductions. In the meantime, the Japanese have passed new sanctions legislation as a birthday gift to Kim Jong-il. Japan-South Korea free trade agreement (FTA) talks gain momentum, as do historical animosities. Finally, the quarter saw Japanese and South Korean contributions to the Iraq reconstruction effort. The size and substance of this support show that the scope of both these American alliances in Asia has effectively expanded beyond Asia to embrace global issues of common interest.

**Abductions - staying on message**

The New Year opened with hopeful signs of progress on the abductions issue. Two different Japanese delegations made trips to Pyongyang in mid-January. One official with ties to the Japanese Foreign Ministry Secretariat for Abductee Affairs sought to devise some mutually agreeable formula for bringing together the relatives (still in North Korea) of the five abductees (currently residing in Japan). Another four-member Foreign Ministry delegation held meetings over abductees as well as a case regarding the detention of a Japanese national in North Korea on drug smuggling charges. The first trip by Japanese government officials in over one year sparked hopeful expressions by Japanese Foreign Ministry officials, but talks proved fruitless. North Korea apparently floated a proposal to allow the relatives to meet with the abductees, provided that the abductees flew to Pyongyang. The Japanese government insisted on reinstating a bilateral government negotiation on the issue, as well as demanded a fuller account of pending abduction cases.

In the runup to the six-party talks in Beijing, North Korea's Deputy Foreign Minister Kim Kye-gwan first protested Japanese statements that it would include the abductions issue in the six-party agenda on the grounds that this was a bilateral Japan-DPRK issue, but then remarkably resisted Japanese agreement and subsequent entreaties to start such a bilateral dialogue before the six-party meetings in Beijing. Senior Vice Foreign Minister Aisawa Ichiro later stated Japan's hope that the bilateral dialogue would start prior to the six-party working-group talks, but the frustration on the Japanese side became clear by the end of the quarter. Prime Minister Koizumi Junichiro publicly criticized two Liberal Democratic Party (LDP) officials (Yamasaki Taku, former secretary general

and lawmaker Hirasawa Katsuei) for going outside regular diplomatic channels to meet with North Koreans in Dalian in hopes of jumpstarting talks. At the end of the quarter, Tokyo's priority remains the desire to start bilateral government talks on the abductions, but internally, it is important that government officials stay "on message" with regard to these wants with their DPRK interlocutors.

### **Tightening the noose: happy birthday, Mr. Kim**

The most substantive activity of the quarter in Tokyo-Pyongyang relations related to Japan's incremental steps toward putting together the infrastructure, legislation, and public support for a harder line toward the North if it becomes necessary. On Jan. 29, the Lower House of the Diet passed legislation that would enable Japan to impose economic sanctions against North Korea more effectively. The legislation, which is an amendment to the foreign exchange law, did not name North Korea specifically, but the target of the legislation was clear. The bottom line of this legislation is that it would allow Japan to cut off financial remittances or impose an import ban on North Korea without a UN resolution (this was not possible under existing legislation). The Upper House passed the bill in early February prompting North Korean 1) accusations that the legislation violated the Pyongyang 2000 summit declaration between Kim and Koizumi; 2) charges that Japanese sanctions would be an act of war; and 3) demands that Japan be excluded from the next round of six-party talks. The proximity of the date of the legislation's enactment to DPRK leader Kim Jong-il's birthday prompted wry informal responses from Japanese officials about not forgetting the "Dear Leader's" special day.

If this was not enough of a birthday present, a related piece of legislation was put up for Diet deliberation in mid-March aimed at providing the legal infrastructure to impose a ban on port calls by ships flying flags of foreign carriers. Such a ban could be announced by the prime minister on grounds of national security with Diet approval within 20 days of the decision. During the quarter, METI also imposed a three-month export ban on Meishin, a Japanese trading company, for the attempted transfer of three devices controlling electric currents, which could also be used for enriching uranium, to the DPRK through Thailand in April last year without government approval. In February, a Japanese court ordered Meishin to pay a fine of ¥2 million (\$19,000) and sentenced its president, Kim Hak-chun, to one year in prison. Happy Birthday, Kim Jong-il.

Premier Koizumi made clear that, despite these actions and new legislation, Japan had no intention to impose sanctions on North Korea in the near future. Nevertheless, if this were to come to pass, there is little denying that such sanctions would have teeth. The *ManGyongBong-92* ferry, for example, remains one of the few direct channels of cash into the North from Japan. It was estimated last year that some \$1.8 million went to Pyongyang through this boat. If this were stopped, along with other sanctions, the North Korean leadership's already shrinking purses would feel the pinch.

### **Historical spats occur....**

Seoul-Tokyo relations experienced their usual spats over history-related issues this past quarter. The calendar in many ways foreordained this since the first quarter of 2004 meant that there would be a New Year visit by Koizumi to Yasukuni Shrine and an address by the South Korean head of state to commemorate the March 1, 1919 uprising. Neither Seoul nor Tokyo disappointed in this regard. The South Korean Foreign Ministry lodged a protest in Seoul with the Japanese ambassador over Koizumi's visit to Yasukuni Shrine, complaining that it was his fourth visit in only three years. ROK President Roh Moo-hyun in his address to the nation on March 1 dug into Koizumi by remarking that "a national leader should not behave like a thoughtless person or a politician hungry for popularity," and called on Japanese to be more sensitive to their history in Asia.

Historical animosity was also evident in a controversy surrounding a new South Korean postage stamp that depicted the disputed Tokto/Takeshima Islands as Korean. The stamps were hugely popular in Korea, selling out almost immediately upon their issuance. Japanese Foreign Minister Kawaguchi Yoriko asked that the decision to issue the stamp be reconsidered, albeit unsuccessfully.

### **...but economics thrives**

These historical spats, however, pale in comparison to a variety of watershed events on the Seoul-Tokyo economic front. First, in a quiet but significant event, Nissan Motors set up a wholly owned sales company in South Korea this past quarter as it prepares to enter the Korean market in 2005. Nissan would be the third major Japanese automaker to enter the market (following Honda and Toyota). Both Nissan's and Honda's actions and the larger growth of the Japanese foreign car market in Korea symbolize the maturation of the bilateral relationship beyond historical issues. South Koreans are confident enough today to fully lift the ban on Japanese car imports (lifted in 1999), and welcome the competition.

Of potentially greater significance this past quarter were the continuing discussions on a free trade agreement between Seoul and Tokyo. A second round of FTA negotiations was completed in Tokyo. The first round of talks in December 2003 led to the establishment of six committees: commodity trade, nontariff measures, investment and service trade, other trade issues, and dispute settlement. The second round of talks focused in greater depth on trade liberalization in agriculture, commodities, and services. The ROK and Japan are scheduled to hold a third round of talks in April 2004 with the goal of an FTA by 2005.

### **FTA fever**

In addition to the 2005 target for the Korea negotiations, Japan previously had only one FTA, with Singapore (2001). But Tokyo is in the midst of final negotiations with Mexico, hopes to conclude FTAs with Thailand, Malaysia, and the Philippines by the end of 2004,



and has begun talks with Indonesia. What is the likelihood of successful negotiations? Why Japan's interest in FTAs?

The new-found enthusiasm for FTAs within Japan is a function of two factors. First, China's aggressive push for negotiating bilateral FTAs throughout the region has awakened Japan to its unfavorable position. Beijing's pacts with 10 countries in Southeast Asia, including some of Japan's most important trading partners, created a fear in Japan of "missing the bus" on FTA pacts. Second, it appears as though the domestic politics of FTAs in Japan are finally being won by free-traders over once-powerful agricultural constituencies. Given the Japanese economy's comparative advantages, any FTA likely translates to an import of cheaper agricultural goods contrary to the interests of the 2 million-plus powerful farmers' lobbies in Japan. Japan's only FTA in this regard (with Singapore) expressly excluded agricultural products. Increasing competition from China, however, appears to have created political courage to reduce agricultural trade barriers and move forward with FTAs in a reasonably proactive fashion.

Japan's FTA negotiations with Mexico will be an important indicator of the likelihood of a successful FTA with Korea. The Mexico talks are expected to be completed in June and, if successful, will be the first test of how willing Japan will be to reduce trade barriers (the same would hold true for Korea's equally protective agricultural sectors). One press report quoted METI's positive attitude – "What is most important [with the Mexico FTA talks] is that for the first time, Japan was able to free so many farm and industrial products," said Hayashi Hirokazu, head of the trade policy bureau at the Ministry of Economy, Trade and Industry. "The agreement would likely give a huge push to ongoing FTA talks with Malaysia, Thailand, the Philippines, and South Korea."

A second indicator of success will be whether bureaucratic proposals to streamline Japan's ability to negotiate FTAs bear fruit. The Japan Business Federation (Nippon Keidanren), for example, has called for a special two-year ministerial task force, led by the prime minister, to facilitate economic collaboration with East Asian economies. Citing the lack of coordination among ministries and agencies in the Mexico FTA talks, Keidanren recommended that such a streamlining would significantly enhance Japan's ability to conclude these pacts over the next two years. One thing is for certain – the political leadership in Japan is putting itself out in front on the issue. Koizumi stated that such FTAs would promise at least \$18 billion in increased Japanese output and over 250,000 new jobs.

### **Trilateral relations**

Trilateral Coordination and Oversight Group (TCOG) meetings among the Americans, Japanese, and South Koreans during the quarter largely dealt with coordinating messages to the North Koreans at the six-party talks in Beijing. Deputy Secretary of State Richard Armitage made strongly supportive statements during the quarter about U.S. willingness to back Tokyo on the abductions issue in both six-party and Japan-DPRK bilateral negotiating fora. Regarding the North Korean nuclear problem, the most substantive

accomplishment of the quarter among the three capitals was Tokyo and Washington obtaining Seoul's commitment to the "CVID" (complete, verifiable, and irreversible dismantlement) formula. The end of the quarter saw moderate confidence expressed on all three sides about a working group meeting to start in April, as agreed to at the six-party talks.

### **Global war on terrorism – Asian style**

The quarter saw a major policy address on terrorism by President George W. Bush on the one-year anniversary of the war against Iraq. In the speech, the U.S. president singled out both Japan and South Korea for their "historic commitments" of troops and materiel to the war against terror. Japan pledged \$5 billion to promote the reconstruction of Iraq, including grants to the UN Development program, World Bank, and other nongovernmental organizations. These monetary contributions amounted to the second largest only behind the United States. In a truly historic step, a contingent of Ground Self-Defense Forces arrived in the southern Iraq city of Samawah in February. Air Self-Defense forces also flew humanitarian supplies into Iraq for the first time (including soccer balls!). A total deployment of about 550 troops, the group's primary mission is to repair local infrastructure and provide water and medical services.

In February, the South Korean national assembly voted overwhelmingly (155-50-7) to approve the dispatch of 3,000 troops to northern Iraq. The ROK contingent would be the third largest contingent behind the Americans and the British in Iraq. (The last time the ROK sent combat forces overseas was nearly 40 years ago to Vietnam where ROK forces were the second largest battle contingent after the U.S.) A battle contingent of 800 troops that were initially scheduled to go to Kirkuk was postponed at the last minute as Seoul wanted to reevaluate the volatile situation in the northern Iraq city. ROK officials made clear at the end of the quarter that the last-minute cancellation did not mean Seoul was reconsidering their troop dispatch.

President Bush's praise of Seoul and Tokyo was not exaggerated. In both cases, America's two most prominent Asian allies have shown their support for establishing stability in the Middle East – Japan with the second largest monetary contribution, and South Korea with the third largest contribution of manpower. Who said America's Asian alliances were only about Asia?

## **Chronology of Japan-Korea Relations January-March 2004**

**Jan. 1, 2004:** PM Koizumi visits Yasukuni Shrine. ROK Foreign Ministry lodges protest.

**Jan. 13, 2004:** Japanese four-member official delegation makes secret trip to Pyongyang for negotiations aimed at creating government-level dialogue on abductions issue.

**Jan. 13, 2004:** Kanagawa prefectural police arrest a Japanese businessman on suspicion of illegally exporting to the DPRK a machine that could be used for nuclear development.

**Jan. 13, 2004:** ROK Foreign Minister Yoon Young-kwan rejects plea by Japanese Foreign Minister Kawaguchi Yoriko to halt production of a stamp rendering image of Tokto/Takeshima Island.

**Jan. 21-22, 2004:** TCOG meetings in Washington. The ROK was represented by deputy foreign minister Lee Soo-hyuk, Japan by director general of Asian and Oceanian Affairs Yabunaka Mitoji, and hosted by Assistant Secretary for East Asian and Pacific Affairs Jim Kelly.

**Jan. 21, 2004:** *North Korean Central News Agency* broadcasts accuse Japanese missile defense activities as part of a preemptive war strategy.

**Jan. 29, 2004:** Japan Diet Lower House passes an amendment to the foreign exchange law enabling Japan to take sanctions against North Korea if necessary.

**Jan. 31, 2004:** *Korean Central News Agency* blasts Japan for sanctions bill.

**Feb. 3, 2004:** Two-day Japan-U.S. Strategic Dialogue led by Japanese Vice Foreign Minister Takeuchi Yukio and U.S. Deputy Secretary of State Richard Armitage. Japan agrees to CVID formula for North Korea (complete, verifiable, and irreversible dismantlement). U.S. says willing to support Japan on abduction issue within context of six-party talks.

**Feb. 9, 2004:** House of Councilors passes amendment to the foreign exchange law, enabling Japan to take sanctions against DPRK if necessary without a UN resolution.

**Feb. 9, 2004:** *Korean Central News Agency* broadcasts report calling for Japan to be excluded from upcoming six-party talks in Beijing in response to sanctions bill.

**Feb. 10, 2004:** Japan's FM Kawaguchi rebuffs in press conference KCNA broadcast attempting to bar Tokyo from six-way talks.

**Feb. 12, 2004:** NHK reports that Japanese delegation including Deputy Foreign Minister Tanaka Hitoshi, Yabunaka Mitoji, head of the ministry's Asian and Oceanian Affairs Bureau, and three other ministry officials go to Pyongyang for bilateral talks.

**Feb. 18, 2004:** Japan's ruling coalition shelves consideration of a bill banning DPRK ships until after conclusion of the six-party talks at the end of February.

**Feb. 22, 2004:** Director General Yabunaka arrives in Seoul for trilateral coordination talks with Deputy FM Lee and Assistant Secretary Kelly in advance of six-party talks.

**Feb. 24, 2004:** North Korean Deputy FM Kim Kye-gwan demands that abduction issue should not be on the agenda of upcoming six-party talks.

**Feb. 25-28, 2004:** Six-party talks on North Korea's nuclear disarmament held in Beijing.

**Feb. 26, 2004:** Japan and South Korea complete second round of FTA talks in Tokyo. Third round is scheduled for April 2004 in Seoul.

**Feb. 29, 2004:** PM Koizumi says Japan will remain firm in the six-party talks and expresses satisfaction that both the talks and a working group are likely to continue.

**March 1, 2004:** On the anniversary of the March 1, 1919 movement, ROK President Roh Moo-hyun calls on Japanese leaders to be more cognizant of historically insensitive comments about Japan's occupation of Korea from 1910 to 1945.

**March 3, 2004:** PM Koizumi states that sanctions against North Korea are not on the immediate horizon in response to queries by Diet officials.

**March 7, 2004:** FM Ban Ki-moon meets with counterpart in Japan to discuss six-party talks working group, FTA, and visa-exemption agreements.

**March 10, 2004:** Deputy Chief Cabinet Secretary Hosoda Hiroyuki urges North Korea to come up with a date for bilateral talks, as agreed during the six-party talks.

**March 11, 2004:** Senior Vice FM Aisawa Ichiro says Japan hopes resumption of bilateral talks with the DPRK on abductions will take place in advance of the six-party working group.

**March 11, 2004:** Japanese newspapers report that a South Korean man linked to a North Korean spy ship that sank off Amami-Oshima Island after being shot by the Japan Coast Guard in December 2001 received deposits of several million yen from transactions related to North Korean drug smuggling.

**March 16, 2004:** Nissan Motor Co. sets up sales company in South Korea in preparation for its bid to enter market in mid-2005

**March 17, 2004:** Japanese Foreign Ministry officials express hope that working-level group on North Korean nuclear disarmament will start in April.

**March 17, 2004:** Officials of the LDP and its ruling bloc partner, New Komeito, reach final agreement on legislation allowing Japan to ban port calls by North Korean ships.

**March 20, 2004:** President Bush, in speech at one-year anniversary of war against Iraq, singles out Japan and South Korea for their efforts to help fight the war on terrorism.

**March 23, 2004:** ROK Deputy FM Lee meets in Seoul with Japanese counterpart Yabunaka to discuss the working group on North Korea's nuclear disarmament.

**March 29, 2004:** METI statement imposing three-month export ban on Meishin trading company for attempted export of dual-use technologies to North Korea.

China-Russia Relations:

## Presidential Politicking and Proactive Posturing

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With the exception of Russian President Vladimir Putin, the first quarter of 2004 was tough, turbulent, and tricky for players of presidential “Survivor.” Within 10 days in March, South Korean Roh Moo-hyun was impeached (March 12); Taiwan’s President Chen Shui-bian barely edged out his opposition, thanks to an “assassination” attempt (March 19), real or staged; and President Bush’s reelection is being battered by “shock and awe” as a result of “Iraqi Intelligencegate,” as former White House antiterrorist “czar” Richard Clarke went public with his criticism of the Bush administration (March 21). All this occurred against the backdrop of unprecedented diplomatic posturing by China and Russia in the first quarter: the Shanghai Cooperation Organization (SCO) was inaugurated and the second round of six-party talks on the Korean nuclear issue was held. Meanwhile, the Russian military conducted its largest exercises in 22 years on the eve of NATO’s unprecedented expansion to the Russian border and the People’s Liberation Army went to high alert when Taiwan’s presidential politicking moved to hyper mode.

### Unleash the diplomats

The onset of the first quarter witnessed diplomacy at all levels: ministers, deputies, and bureau chiefs. Shortly after the New Year, China’s Ambassador at Large Ning Fukui traveled to Moscow and held talks with director of the Russian Foreign Ministry’s First Department of Asia, Yevgeny Afanasyev. For the Russians, China became “the first country with which Russia will hold diplomatic consultations in the new year,” and Moscow “deems a regular dialogue with China, which is Russia’s strategic partner, on the situation in the Korean Peninsula to be of special importance.” Ning and Afanasyev worked on a China-drafted proposal for setting up a working-level group representing all six parties. The document was to be discussed in the second round of six-party talks in late February and the Russians fully supported the Chinese proposal. The two sides coordinated their policies all the way to the eve of the second round, when Deputy Foreign Minister Wang Yi held talks with Russian counterpart Alexander Losyukov in Beijing before meeting with representatives of the four other parties.

In mid-January, Russian Foreign Minister Igor Ivanov visited Beijing and tried to map out bilateral interactions in the new year with his Chinese counterpart Li Zhaoxing. The heads of state would meet three times in 2004, including Putin’s official visit to China in October marking the 55<sup>th</sup> anniversary of the establishment of diplomatic relations

between China and Russia/Soviet Union. The other two summits would take place in multilateral fora: the SCO in May-June and the Asia Pacific Economic Cooperation (APEC) meeting in October. Additionally, China's Premier Wen Jiabao and Parliamentary Chairman Wu Bangguo will pay official visits to Russia in late 2004. The two foreign ministers also decided to designate 2004 as "Sino-Russian Youth Friendship Year."

Ivanov's visit coincided with the official opening of the SCO Secretariat in Beijing, when foreign ministers of all six member-states gathered. The regional security arrangement was formally established in 2001, based on the former Shanghai Five that began in 1996 to help establish confidence-building measures in the border regions and fight regional terrorism, religious extremism, and separatism.

When Ivanov was visiting Beijing, Russian Deputy Foreign Minister Anatoly Safonov and his Chinese counterpart Sheng Guofang held the fourth session of the Russian-Chinese antiterrorist working group. A joint statement was issued and China pledged to support Russia's fight against Chechen terrorists. In his February speech to an enlarged meeting of the State Duma International Affairs Committee, the Russian foreign minister said that "relations between Russia and China have achieved the best level ever in history."

Far away from both Russia and China, Russian Defense Minister Sergei Ivanov, while visiting India in late January, speculated about tripartite discussions between Russian, Indian, and Chinese diplomats in 2004 to examine ways to enhance security in the Asia-Pacific region. President Putin, too, made it public that Russia's relations with China were "a key priority of Russia's foreign policy." "Our relations have never been marked by such profound mutual trust as today," Putin told China's Ambassador Liu Guchang in the Kremlin Jan. 22. Later, China's Foreign Minister Li Zhaoxing echoed Putin's assessment of China-Russia relations when he told reporters that "China and Russia are major neighboring states. To be forever friends and never to be enemies is the correct choice for our two countries."

In early March, Director of the Western Asia and North Africa department of the Chinese Foreign Ministry Zhang Jung, and Russian Deputy Foreign Minister Losyukov discussed in Moscow the issues of Iraq and the UN role. On the eve of Taiwan's presidential election, Chinese special envoy and Vice Foreign Minister Dai Bingguo visited Moscow and had separate meetings with Russian Security Council Secretary Igor Ivanov, Foreign Minister Sergey Lavrov, and First Deputy Foreign Minister Valery Loshchinin. Dai and the Russian officials discussed the Taiwan Strait situation and the Korean nuclear issue. Dai also delivered a letter from Chinese President Hu Jintao to the Russian side. While Dai was still in Moscow, Foreign Minister Li called his Russian counterpart Sergey Lavrov and discussed "topical bilateral and international issues in the context of the

forthcoming top level and high level contacts.” Upon returning to Beijing, Dai held consultations with First Deputy Foreign Minister Valeri Loshchinin on the issue of coordinating policies between Commonwealth of Independent States (CIS) and SCO members.

### **Cash in on ‘Putin the Great’**

Winning a second term did not seem to need any survivor skills. The Russian president simply cruised into his second term with 71.31 percent of the popular vote. Putin was so sure of his second term that he reshuffled his Cabinet five days before the elections on March 15. Beijing, too, dealt with Moscow with the assumption that Putin would get his second term. Despite this dull election, Chinese leaders remained keen observers. Immediately after Putin’s reelection, President Hu and Chairman of the Central Military Commission (CMC) Jiang Zemin were among the first foreign leaders to congratulate Putin. While Hu talked to Putin over the phone, Jiang’s message to Putin in the capacity of China’s powerful CMC chair warrants particular attention.

There are at least three reasons for the Chinese leaders to be concerned with Putin’s second term and Russia’s future policies toward China. The first are those of a short-term nature: the pressing need for both sides to synchronize policies for the Korean and SCO issues. While the SCO inauguration was pre-scheduled, the Korean nuclear talks would have to be pushed forward to keep momentum, as well as to achieve more tangible results. Perhaps the most urgent factor is the fluidity and uncertainty of the Taiwan issue. The Taiwan ruling party’s proposed referendum, to be conducted five days after the Russian presidential election, was seen by China as a disguised and decisive move toward independence.

In the medium-term, current bilateral relations, though defined as “strategic,” need to be energized and Putin’s second term should be a good time for input by the Russian president. The two sides need to develop a higher degree of sustainability in their interaction. There have been plenty of high-profile summit meetings in recent years. The two societies and peoples, however, have yet to develop any intimacy. Bilateral economic relations, too, remain the “weakest link” as a percentage of total trade volume and this is despite years of government intervention to promote trade and other economic activities.

Last but not least, the long-term stability of the China-Russia relationship is at stake if it is not further promoted in Putin’s second term. Of all the neighboring states, Russia has the longest land border with China; the modern history of interactions between the two continental powers is complex and has largely been, until recently, zero-sum. Despite the recent stability and “strategic partnership” between Beijing and Moscow since the mid-1990s, the number of “good years” (26 years: 1949-59 and 1989-2004) has yet to surpass the “bad” ones (29 years: 1960-89) in the 55 years since the establishment of diplomatic relations. Putin’s second term may reverse that.



China's fourth generation of leaders have their own concerns. If their predecessors (Jiang, etc.), who were educated in Russia, managed to stabilize and promote relations with a weak and declining Russia under Yeltsin, the fourth generation of Chinese leaders, which is also the least-Russianized generation of political elite in the past 100 years, will have to deal with a Russia recuperating and rebuilding its power and status after a decade of decline. Immediately after the election, the Chinese press saw the landslide victory giving Putin "a supreme grip on Russia." (*Xinhua News Agency's* headline). And the Russian president, perhaps more than any other Russian/Soviet leader in the past century, deserves to be addressed as "Putin the Great."

All this has to be factored into a broader international and historical context: the two large continental powers are interacting in the age of preemption and unilateralism. Dealing with the hyper-power of the U.S. remains the daunting task for leaders of both countries. Beyond that, there are heavy workloads for both sides in the short- and medium-term: managing the routines of their strategic partnership; adjusting their vital interests in volatile central Asia as they interface through the SCO; soft-landing the Korean nuclear crisis; and dealing with a normal Japan, which – perhaps more than any other "normal" state with the exception of the U.S. – is willing and able to apply its freedom of action and already impressive military power in handling external affairs. A stable China-Russia relationship "plays an important role in the maintaining of peace, stability, and development in the entire world," said President Hu.

For these reasons, a prominent Chinese analyst urged China to develop "a highly selective special relationship with certain countries," particularly with Russia. In this regard, "widening our vision and emancipating our mind is at least as important as caution and care."

It might be a coincidence that the eighth round of China-Russia military consultations was held on March 15-18 in Beijing, between the Russian and Taiwan presidential elections (March 15 and 20). The session was chaired by Deputy Chief of the PLA General Staff Xiong Guangkai and the First Deputy Chief of Staff of the Russian Armed Forces Col. Gen. Yuriy Baluyevskiy. Their discussion focused on "the entire range of problems relating to strategic stability and also the state of military cooperation," as well as "sensitive military issues," according to Russian sources. The Taiwan issue, too, was believed to dominate the consultation. With broad consensus reached during the session, both sides called for "expansion" of military cooperation. Baluyevsky indicated that the Russian "supreme military and political leadership" intends to pay even greater attention to strengthening the strategic partnership between Russia and China, and that, once re-elected, Putin would pay more attention to boosting the strategic cooperative partnership between Russia and China. During the working session, PLA Chief of the General Staff Liang Guanglie and Chinese Defense Minister Cao Gangchuan met with Baluyevskiy and called for boosting relations between the Chinese and Russian militaries.

Incentives for promoting military-military relations came from both sides and from multiple sources. For the Chinese, Russian arms sales and technology transfers constitute an indispensable part of the PLA's modernization, particularly in the areas of "mechanization," or hardware (ships, planes, missiles, etc.). Meanwhile, China's surging IT industry seems to provide greater inputs to the PLA's "informationization," which is part of the PLA's "dual mission." For the Russians, it is imperative to keep China as one of its major markets for Russian military hardware. Meanwhile, Moscow is well aware that Beijing is actively seeking other sources. The EU's current deliberation on lifting arms embargos against China would be a major diversion from Russian products.

### **Regional dynamism: SCO and Korea**

The intensive diplomatic activities and strategic coordination between Beijing and Moscow centered on two regional arenas: the SCO's official inauguration and the six-party talks on the Korean nuclear issue. Both multilateral diplomatic games were played out in Beijing during the first quarter of 2004. On Jan. 15, SCO foreign ministers held an ad hoc meeting in Beijing for the official opening of the SCO Secretariat. Eight years after its inception, the regional security mechanism finally made its debut. President Hu and State Councilor Tang Jiaxuan met with the SCO foreign ministers. Zhang Deguang, former Chinese vice foreign minister and former ambassador to Russia, was appointed the first secretary general of the SCO. Three deputy secretary generals were also appointed. Representatives from the UN, EU, APEC, ASEAN, and Mongolian Foreign Minister Luvsangiin Erdenechuluun participated in the opening ceremony.

The establishment of the SCO Secretariat was decided at the SCO summit in May 2003 in Moscow. Its main functions are to provide organizational and technical guarantees for the SCO's activities, to participate in the research and implementation of documents of various departments, and to set forth suggestions for the organization's annual budget.

SCO foreign ministers also agreed to hold a session of the Council of Heads of State in the second quarter, when the executive committee of the Regional Anti-Terrorist Structure was to be officially inaugurated in Tashkent, the capital of Uzbekistan. A communiqué signed by the foreign ministers states that the prime mission of the organization is to push forward concrete cooperation among all member states in all areas in line with the SCO Charter. Emphasis is given to promoting and developing economic cooperation within SCO. SCO will also make efforts to undertake exchanges, dialogue, and cooperation with other international organizations and countries.

Upon its debut, SCO's Secretariat set out to coordinate the June summit in Tashkent. Secretary General Zhang paid a three-day trip to the Uzbek capital in early March. There, he met with Uzbek Foreign Minister Ilkham Zakirov, President Islam Karimov, and the Acting executive director of the SCO Regional Anti-terror Center, Maj. Gen. Vyacheslav Kasymov. Meanwhile, representatives of the SCO members worked on regulations for observer status. While visiting Tashkent, Zhang made clear that SCO has no plan to set up a military alliance. He nevertheless commented that events in Afghanistan did affect the security interests of SCO member states.

While the SCO was making steady efforts to maintain its vitality, Russian and Chinese diplomats also began to envision broader coordination beyond the SCO. In late March, Russian Deputy Foreign Minister Loshchinin traveled to Beijing and discussed with Deputy Foreign Minister Dai Bingguo the possibility of coordinating policies between SCO and the CIS. In late May, Russia and China plan to hold their first ever consultations on the situation in Central Asia and the CIS areas at the level of first deputy foreign ministers in late May. "Every aspect of cooperation on CIS territory arouses interest in China and, generally, worldwide," said Loshchinin.

As Moscow and Beijing consolidated their grip on the SCO and Central Asia, they also closely coordinated positions regarding the Korean nuclear issue. A large part of the active diplomacy between Russia and China centered on the second round of six-party talks in late February in Beijing. From the first days of the new year to the eve of the Beijing talks, diplomats of the two countries at all levels frequented each other's capital.

Both Moscow and Beijing support a nuclear-free Korean Peninsula. Neither seems to be sure that the DPRK is nuclear-capable. All believed that North Korea has legitimate security concerns that need to be addressed, particularly by the United States. Each is willing to provide energy aid to the North once the DPRK freezes its nuclear activities. Beyond these overlapping policies, divergences do exist in Russia and China's approaches to the issue.

Russia recognized its limited interest and stake in the Korean nuclear issue. Ranking Russian diplomats described China as "a locomotive" driving the six-party dialogue, while Russia is willing to play "whisper diplomacy." Russia's policies toward North Korea, however, were proactive. This includes Russia's supply of 40,000 metric tons of wheat to North Korea for 2004 under the UN World Food Program. Meanwhile, Russian-DPRK trade was growing, and Russia is actively involved in renovating the DPRK rail system. According to DPRK sources, the chairman of the Russian Supreme Court and Federation Council Speaker Sergei Mironov would visit North Korea, and the DPRK public security minister and several North Korean delegations would visit Russia. The Russian side also believed that good personal relationships and close associations between Russian and North Korean leaders would be useful in resolving the nuclear issue.

Russia's real impact on North Korea, however, is not as strong or as weak as it appears. For the DPRK, Russia is a useful card in the six-party game. It was no surprise, therefore, that at the onset of the six-party talks in Beijing (Feb. 25), Pyongyang chose to reveal to the Russian representative (Russian chief negotiator Alexander Losyukov), not the Chinese host, that the North was ready to abolish its nuclear weapons program while retaining a nuclear program for peaceful purposes. At the end of the second round of talks, the DPRK's chief delegate, Vice Foreign Minister Kim Kye-kwan, admitted that the DPRK did sell missiles to Pakistan for hard currency but publicly denied that his country possesses a uranium-based nuclear weapons program. Not only did such a statement make the issue more opaque and more confusing, but also it was a mockery of all the efforts and investments made by China in crisis resolution. In early March, a North

Korean source in Moscow told *Itar-Tass* that Pyongyang was not satisfied with the results of the Beijing talks.

For their part, the Chinese also continue to offer economic aid to the DPRK. It was reported that in his visit to the DPRK last October, Chinese parliamentary chief Wu Bangguo offered Pyongyang a new economic aid package involving \$50 million to buy heavy oil and food in exchange for Pyongyang's participation in the second round of talks. In late March (23-25), Chinese Foreign Minister Li paid a rare visit to North Korea, the first in five years. Li held talks with top DPRK leaders, including a 90-minute meeting with Kim Jong-il. The two sides reportedly reached extensive consensus over a wide range of international and regional issues, including setting up a working group for future formal talks.

Regardless of the inconsistent messages coming from the DPRK, China continues to pursue a multi-dimensional diplomacy, now moving toward a more institutionalized "working group" between formal talks. Soon after Li returned to Beijing, Li met with Russia's First Deputy Foreign Minister Loshchinin and South Korean Foreign Minister Ban Ki-moon. Meanwhile, "China is preparing for all eventualities. If China feels that North Korea's methods go against China's fundamental national interests, then of course China will take a tougher stance," remarked Zhao Huji, a North Korean expert at China's State Council Development Research Center.

In both the SCO and Korea, China remains the center of these multilateral diplomatic activities.

### **End of the pipeline game?**

While diplomacy was the focus for both Russia and China in the first quarter, economic relations were not completely out of the picture. In early January, Deputy Chairman of Russia's Central Bank Viktor Melnikov, who also co-chairs the Russian-Chinese Sub-Commission on Interbank Cooperation, was in Beijing to work out issues affecting ruble and yuan convertibility in border areas. The two countries started an 18-month experiment from early 2003 in a transactions zone covering the Blagoveschensk-Heihe area. The practice offers great convenience for border trade since businessmen and vendors would use cash in their transactions without going through banks. The two sides are actively considering extending the currency convertibility practice to all the Russian and Chinese border regions, while working out a mechanism to minimize money laundering.

The overall economic dimension, however, appeared less encouraging than the political and strategic areas of bilateral interaction. Despite some occasional optimistic expectations from the Chinese side, it became increasingly clear during the first quarter that Russian oil may never flow to China through the long-anticipated Angarsk-Daqing pipeline. Japan's \$7 billion bid for the Angarsk-Taishet-Nakhodka oil pipeline to Russia's Pacific coast is simply too attractive for cash-tight Russia to ignore. With the exception of the Russian oil giant Yukos, whose former CEO Mikhail Khodorkovsky is at odds

with Putin's government, no Russian oil company favors the Angarsk-Daqing project. Indeed, the Taishet-Nakhodka project is the only project upon which the Russian firm Transneft is currently doing feasibility studies.

In late January, the prospect of the Angarsk-Daqing pipeline became dimmer as the Russian and Japanese deputy foreign ministers, Alexander Losyukov and Tanaka Hitoshi, expressed satisfaction at their talks in Moscow. "We are actively considering possibilities of realization of project to build the Angarsk-Nakhodka oil pipeline. The implementation of it would help to solve the task of providing the whole region with energy resources," said Losyukov. Ultimately, Russia "will give priority to its own interests when selecting which option to follow in the construction of an oil pipeline system in East Siberia," Losyukov insisted.

As a move to minimize the impact on China of the decision to proceed with the Angarsk-Nakhodka oil pipeline, President Putin authorized railroad ministry and transportation companies to increase oil exports to China. A contract signed between Yukos and the Russian Railways (RZD) on March 27 indicates that Yukos will ship to China 6.4 million metric tons of crude oil in 2004, 8.5 million tons in 2005, and up to 15 million tons in 2006.

Russia's move would meet at least part of China's growing need for energy, and seemed to signal the coming of Russia's final decision in favor of the Taishet-Nakhodka (Japan) line. Three days after the Yukos-RZD contract to ship oil to China by rail, China's ambassador to Moscow Liu Guchang made a strong public appeal in Moscow to urge the Russians to implement the Angarsk-Daqing pipeline.

At a press conference held for Russian and Chinese Russia-based reporters in Moscow on March 30, Liu stressed that China's development is not a challenge, much less a threat, but an opportunity for Russia. He maintained that China will never depend on external expansion to make the country rich and strong. Even if China becomes strong one day, it will not engage in expansion or pose a threat to any country, including Russia. A strong and economically developed China will provide all countries, especially its biggest neighbor, Russia, with a wider market and more opportunities for cooperation. It will also provide Russia with the peaceful and stable international and regional environments necessary for achieving Russia's development and rejuvenation. Russia's development, in turn, he argued, also represents an important opportunity for China. A developing, stable, prosperous, and strong Russia is advantageous to China, to Sino-Russian relations, and to the world.

Liu then turned to the pipeline issue by stating that China's development requires the import of massive quantities of oil. Rich in oil resources, Russia needs China's vast market. China is Russia's closest and most stable market and is Russia's most reliable partner. For Russia to supply oil to China, the most sensible and economic mode of transport is to build a pipeline. Liu said that the leaders of the two countries have had an in-depth exchange of views on numerous occasions on strengthening energy cooperation, including the building of an oil pipeline to China, and reached a common understanding.

He expressed the belief that the two governments, with the joint efforts of the industrial and commercial circles in the two countries, will ensure that Sino-Russian energy cooperation, including cooperation in the pipeline project, has a bright future.

It remains to be seen if China's ambassador's public plea is too little, too late, as decisions now seem to be driven by Japanese money and Russia's enduring uneasiness about a rising China.

### **Chronology of China-Russia Relations January-March 2004**

**Jan. 5-6, 2004:** China's Ambassador at large Ning Fukui and director of the Russian Foreign Ministry's First Department of Asia Yevgeny Afanasyev holds talks on the North Korean nuclear issue in Moscow.

**Jan. 14, 2004:** FM Li Zhaoxing meets with Russian counterpart Igor Ivanov in Beijing to plan for bilateral ties, regional, and international issues in 2004. They decide to designate 2004 as "Sino-Russian Youth Friendship Year."

**Jan. 15, 2004:** Russian Deputy Foreign Minister Anatoly Safonov and his Chinese counterpart Sheng Guofang hold the fourth session of the Russian-Chinese antiterrorist working group. A joint statement was issued.

**Jan. 15, 2004:** SCO holds ad hoc foreign ministers' meeting in Beijing for the opening ceremony of the SCO Secretariat. Zhang Deguang, former Chinese vice foreign minister and former ambassador to Russia, is appointed first secretary general of the SCO.

**Jan. 19, 2004:** After 10 years of negotiations, Russia's Transaero Airlines launches a direct chartered flight between Taipei and Moscow to meet growing tourism demand. The Russian company provides two flights per month with an additional flight during the Lunar New Year festival.

**Jan. 22, 2004:** President Putin tells China's ambassador to Russia Liu Guchang that relations with China are a key priority in Russia's current foreign policy and that "Our relations with China have never enjoyed such a high level of mutual confidence and understanding."

**Feb. 7, 2004:** President Hu Jintao sends a message of condolence to Putin after the Moscow metro bombing, which killed 39 people and wounded more than 130 others. Li also sends a message of condolence to his counterpart Igor Ivanov.

**Feb. 12, 2004:** Moscow police round up 300 Chinese business booths in the city's "Emila" market and confiscate merchandise worth \$30 million. Chinese embassy in Moscow presents notes to the Russian Foreign and Interior Ministries, requesting that Russian governmental agencies protect the interests of Chinese businessmen in Russia.

**Feb. 23, 2004:** Deputy Foreign Ministers Alexander Losyukov and Wang Yi hold talks in Beijing before the second round of six-party talks to be held in Beijing on Feb. 25-27.

**Feb. 25, 2004:** Deputy FM Aleksandr Saltanov and Chinese ambassador Liu discuss the Taiwan issue in Moscow.

**Feb. 25-28, 2004:** Six-party talks on the Korean nuclear issue in Beijing.

**March 1, 2004:** Director of the Western Asia and North Africa department of the Chinese Foreign Ministry Zhang Jung visits Moscow for talks with Deputy FM Losyukov.

**March 5, 2004:** Chinese Premier Wen Jiabao sends a congratulatory message to Mikhail Fradkov, who won confirmation as Russia's new prime minister.

**March 9-12, 2004:** SCO Executive Secretary Zhang Deguang visits the Uzbek capital Tashkent. The Moscow SCO summit in May 2003 decided to move the Executive Committee of the SCO Regional Anti-terror Center from Bishkek to Tashkent. The executive committee has begun in the Uzbek capital since November 2003.

**March 15, 2004:** President Hu sends telegram to Putin congratulating him on a landslide re-election. Hu also spoke with Putin on the phone, and they reportedly discuss Taiwan.

**March 15-18, 2004:** China and Russia hold eighth round of military consultations in Beijing between deputy chief of the PLA general staff Xiong Guangkai and the First Deputy Chief of Staff of the Russian Armed Forces Col-Gen Yuriy Baluyevskiy. They discussed "issues which the military regards as sensitive ... such as the military and political situation in the Asia-Pacific Region." Baluyevskiy and the PLA's Chief of the General Staff Liang Guanglie also hold staff-level talks. Chinese Defense Minister Cao Gangchuan also met with Baluyevskiy.

**March 16, 2004:** President Hu and predecessor Jiang Zemin send messages to Putin on his reelection as president.

**March 16-19, 2004:** Chinese special envoy and vice foreign minister Dai Bingguo visits Moscow and has separate meetings with Security Council Secretary Igor Ivanov, Foreign Minister Sergey Lavrov and First Deputy Foreign Minister Loshchinin. Dai and the Russian officials discuss the Taiwan Strait situation and the Korean nuclear issue.

**March 19, 2004:** FM Li initiates a phone call with Russian counterpart Lavrov. They touched upon "topical bilateral and international issues in the context of the forthcoming top level and high level contacts."

**March 24-26, 2004:** Chinese Vice FM Dai Bingguo holds consultations in Beijing with first deputy FM Loshchinin on coordinating policies between CIS states and SCO members. Loshchinin also holds talks with SCO Executive Secretary Zhang Deguang, FM Li, and China's State Councilor Tang Jiaxuan, who supervises foreign policy.

**March 29, 2004:** Deputy FM Alexander Saltanov meets Chinese Ambassador Liu and stresses that "Russia is against Taiwan's independence in any form," and that Russia would not congratulate the elected Taiwan leaders by any means, nor would it send delegates to the "inauguration" ceremonies.





## U.S.-Taiwan Relations: Four Years of Commitment and Crisis

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U.S.-Taiwan relations over the four years of Chen Shui-bian's first term shifted unevenly between commitment and crisis. The Democratic Progressive Party's (DPP) rise to power initially frightened U.S. policymakers, who feared the radicalism of a party long identified with independence. They discovered that Chen could be pragmatic and willing to accept guidance from the U.S. Under both the Clinton and Bush administrations, Taiwan accordingly received significant support for reform and expansion of its military capabilities; support which sometimes exceeded what the DPP and the Taiwan military were prepared to accept. With the advent of the Bush administration, Taiwan enjoyed an era of unprecedented friendship in Washington, experiencing policies that accorded it more respect and dignity as well as greater access and a higher profile. Chen, however, pushed the limits by taking several initiatives considered provocative by China and the U.S. without prior consultation with his U.S. supporters. The result has been anger and friction with uncertain implications for the future.

The election of Chen Shui-bian as president of Taiwan in March 2000 brought the decades-old Kuomintang (KMT) monopoly of power on the island to an end. This peaceful transition from one political party to another signified passage of an important milestone in the achievement of full democracy and was greeted with enthusiasm in the United States. Washington's pleasure with the growth of democratic institutions, however, was offset somewhat with trepidation as to what a DPP presidency would mean for peace and stability in the Taiwan Strait. Thus the U.S. encouraged and warmly welcomed Chen's inaugural address in which he pledged his four "No's" and one "Would-Not": no declaration of independence, no change in the name of the government, no placing the two-state theory in the constitution, and no referendum on self-determination. At the same time, he would not eliminate the National Unification Council and Guidelines. Indeed in the weeks before the inauguration, Chen persuaded Taiwan supporters in the U.S. Congress to put aside plans to press for passage of the controversial Taiwan Security Enhancement Act. Generally, he sought to broadcast a moderate image abroad and at home as a pragmatic, conciliatory lawyer rather than a pro-independence firebrand. Members of the Clinton administration, who had found the final months of Lee Teng-hui's presidency alarming and difficult, began to relax.

## **Signs of promise**

Although the (DPP) had long been identified with the cause of independence, the first months of the new presidency heralded no sharp shifts in Taiwan's cross-Strait or American policies. The new DPP administration was notable for its inexperience in governmental affairs, particularly foreign relations, and it readily sought advice from Washington. U.S.-Taiwan relations improved and initially the well-worn route from Taipei through Congress to the executive branch was in less prominent use. This approach seemed to yield early returns such as a transit stop for Chen Shui-bian in Los Angeles in August 2000.

Taipei's posture toward China, to Washington's consternation, seemed somewhat more erratic. In part, this followed from Beijing's fluctuation between a "wait and see" approach and pressure on Chen to accept its "one China" principle.

Although China did not trust Chen, Vice Premier Qian Qichen first privately in the summer of 2000 and then publicly on Jan. 22, 2001, broadened and moderated the definition of "one China" to which Taipei had always objected. Appearing to dispense with the insistence that one-China equaled the PRC, he stated that in reality Taiwan and the mainland are both part of "one China" and China's sovereignty is indivisible. On the other hand, Beijing did not take up Chen's offers to move toward talks and Taiwan viewed China's initiative warily. The DPP administration downplayed but did not disavow Lee Teng-hui's two-states theory, and challenged the existence of a 1992 consensus on separate interpretations of "one China" that Beijing had revived in the spring of 2000 to get talks going.

In a more constructive vein, as one of his four "No's" Chen pledged not to put state-to-state relations in the constitution. Tsai Ing-wen, the designated head of the Mainland Affairs Council and a Lee holdover, urged the U.S. to expedite talks by mediating between China and Taiwan. In his New Year's message of 2001, Chen raised the possibility that economic integration might lead gradually to some variety of political integration. Whereas Washington abjured mediation, it hailed the concept of political integration. Americans, and perhaps Chen himself, envisioned the DPP president as a potential Richard Nixon with the credibility on all sides to hammer out a deal with Beijing. This profile, however, proved far too optimistic. Neither Chen nor China seemed willing to bend far enough to initiate a sincere dialogue.

## **A new administration, a new atmosphere**

The advent of the George W. Bush administration accelerated the upgrading of U.S.-Taiwan relations. Not only had Bush made clear during the campaign that he viewed China as a strategic competitor and so would not favor China over Taiwan, but several senior officials in the administration believed that the time had come to put more emphasis on friends and allies in the region. And Taiwan may also have benefited from the U.S.-China clash over the April 1, 2001 collision of a Chinese fighter aircraft with a

U.S. reconnaissance plane and the subsequent detention of the U.S. crew. Taiwan soon found that a new attitude governed the conduct of affairs, with greater respect and fewer restrictions facilitating intercourse.

The most startling indicators that a different approach to Taiwan would characterize the Bush presidency involved security for the island. On April 23, 2001, the administration announced the largest arms sales package for Taiwan following the 1992 F-16 deal, including four *Kidd*-class destroyers, a dozen *P-3 Orion* antisubmarine aircraft, torpedoes, minesweeping helicopters, and amphibious assault vehicles. The most controversial item on the list, however, was the eight diesel submarines the U.S. had denied Taiwan for decades, arguing that they were offensive weapons, both unnecessary and too costly for Taiwan. Even though the U.S. did not actually build diesel submarines and the government did not know whether it could find a country or countries willing to endure Beijing's wrath to fill the contract, Taiwan was thrilled and China furious. Finally, although Bush denied sale of even more sensitive *Aegis*-equipped destroyers, he indicated that if China's missile buildup threatening Taiwan continued, he might reverse that decision. If Washington had argued that the 1982 arms sales communiqué had not expired in 1992, surely it died in 2001.

Just two days later, on April 25, President Bush further escalated tensions when, being interviewed on an early morning news show, he remarked that the U.S. had an obligation to defend Taiwan and he would do "whatever it took." Administration efforts began immediately to explain that Bush's words had not changed U.S. adherence to the "one China" policy, and that the emphasis remained on peaceful resolution. Nevertheless, the phrase transmitted greater strategic clarity on U.S. policy in line with views expressed in the campaign and after. Finally, at the same time, the administration ended the anomalous Taiwan arms sales process, folding marketing and decision-making into the same institutional mechanisms that all other foreign purchasers used. Decision-makers hoped this would dampen publicity, eliminate opportunities for interference, as well as render budgeting in Taiwan more predictable.

Beyond these headline-grabbing changes, the Bush administration also picked up some of the innovations of the Clinton administration in the security sphere. Washington and Taipei had embarked, following the 1996 Taiwan Straits crisis, on a so-called software initiative that sought to raise the level of military training, planning, logistics, coordination, and strategic thinking among units under the Ministry of National Defense. Chen's administration continued these programs, pursuing the defense consultations at Monterey as well as utilizing U.S. assistance in domestic military reform. Similarly the Bush administration used Americans to assist in the professionalization of the Taiwan military services, integration of new weapons into the existing array of defense capabilities, and conduct continuing studies and evaluations of various aspects of defense requirements.

## Taiwan's tight purse strings

Taiwan's professed pleasure in the Bush administration's expansive view of its TRA arms sales commitment, however, existed in an uneasy combination with resistance to producing a defense budget adequate for acquiring the weapons suddenly available. Not only was the Legislative Yuan unwilling to vote the money, but the Chen administration was uncertain about whether it wanted to buy the hardware. In part this was because threat assessments in Taiwan and the U.S. had begun to diverge and some members of the Chen administration no longer believed that China would dare attack the island. The fiscal year 2003 defense budget released in September 2002, for example, sank to the lowest level since the mid-1990s and did not include sufficient funds for the weapons offered in April 2001. This decision became public, moreover, at the same time as the U.S. Congress in the Foreign Relations Authorization Act for fiscal year 2003 (H.R. 1646) declared Taiwan a "non-NATO ally" so that it would be eligible to acquire dual use military and industrial equipment.

Grumbling about Taipei's ingratitude was increasingly matched by discontent with its preference for allowing the U.S. to do its fighting. U.S. officials would doubtless have become cynical in any case, but the Sept. 11, 2001 terrorist attacks altered American priorities worldwide. Subsequently, the war against terrorism replaced a rising China as the primary strategic threat for Washington and expectations rose for Taiwan to assume more of the burden for its own security. The U.S. did not abandon Taiwan. The 2002 *National Security Strategy* mentioned the island and the Pentagon's *Nuclear Posture Review*, which was leaked in the spring of 2002, described the Taiwan Strait as a contingency for which U.S. nuclear forces must be prepared. But Taiwan's reluctance to do the work Taiwan could handle and endure the domestic political repercussions of unpopular military projects rankled. Dissatisfaction finally spilled into the open at the U.S.-Taiwan Defense Industry Conference in February 2003. There Deputy Assistant Secretary of Defense for Asia and the Pacific Richard Lawless warned that U.S. support could not be "a substitute for [Taiwan] investing the necessary resources in its own defense." His words were immediately echoed by Randall Schriver, deputy assistant secretary for East Asia at the State Department.

Efforts by the Bush administration to restore greater respect and dignity to the U.S.-Taiwan relationship produced smoother access for Taipei to higher level officials in the U.S. government. In May 2001, Chen Shui-bian transited New York City with a return from Latin America through Houston in June and met with members of Congress, local officials, Chinese Americans, and others in well-publicized activities that contrasted sharply with the narrow constraints of his August 2000 stay in Los Angeles. In March 2002, Deputy Secretary of Defense Paul Wolfowitz and Assistant Secretary of State for East Asian and Pacific Affairs James Kelly held unprecedented informal meetings with Taiwan's Defense Minister Tang Yiao-ming at a convention of the U.S.-Taiwan Business Council in Florida.

Other small, but significant, cues characterized the early months. AIT chairman Richard Bush spoke out against Beijing's demand that Taipei accept the "one China" principle as a precondition for dialogue across the Strait, bolstering Taiwan's position that this pre-determined the outcome of the talks. Soon after, while preparing for his February 2002 trip to Asia, Bush spoke of Taiwan as a friend. Enroute, several gestures reinforced his support. In speaking to the Japanese Diet, Bush reaffirmed the U.S. commitment to the people of Taiwan. In China, where no previous U.S. president had done so, he publicly talked about the U.S. commitment to the TRA but never mentioned the three communiqués and only declared allegiance to the "one China" policy in response to a question at Tsinghua University. Congress got into the act as well, forming an 85-member Taiwan Caucus in the House of Representatives on April 9, 2002 (the Senate would finally create its own Taiwan caucus in 2003 but could only muster 10 founding members).

### **Chen blindsides the U.S.**

In view of the positive developments in the ways Washington and Taipei worked with each other, it came as a considerable shock when on Aug. 3, 2002 President Chen blindsided the administration with an incendiary policy initiative. He declared, without consultation or forewarning, that there was "one country on each side" of the Taiwan Strait. He added that if Taiwan's future had, someday, to be determined formally that choice should be the result of a popular referendum. Chen delivered this "*yibian yiguo*" message to DPP sympathizers in Japan. The outcry was instant and damage control crucial. Members of his government denied that Chen had asserted Taiwan independence or that he would repeat it. Chen himself subsequently explained he had only been emphasizing Taiwan's equal sovereignty with China. Washington's surprise and anger made meetings for Taiwan officials with U.S. interlocutors frosty for months. Chen had not, in fact, acted totally without prior signals. In July, he had demonstrated his growing frustration with Beijing's refusal to respond to any of his conciliatory gestures when he told the DPP annual convention that Taiwan "would not rule out the possibility of going its own way." Nevertheless, even his own government was unprepared for his August statement.

Washington made its displeasure public to deter similar developments in the future and to reassure Beijing that the U.S. had not been involved in Chen's actions. When Presidents Bush and Jiang Zemin met at the Bush ranch in Crawford, Texas on Oct. 25, the U.S. president disavowed involvement in *yibian yiguo* and also told reporters, for the first time in his tenure, that the U.S. does not support independence for Taiwan. China had been moderate in its response to Chen, being preoccupied with preparations for its 16<sup>th</sup> Party Congress, and preferring to pressure the U.S. to restrain Taiwan. At Crawford, Jiang privately suggested that China would be willing to withdraw some missiles from the coast opposite Taiwan if the U.S. would reduce its arms sales to the island. Whether meant as a conciliatory gesture, it certainly had the potential of dividing Washington and Taipei. But, the offer apparently was made in such a cursory fashion that Americans

initially missed its significance and it had to be reiterated subsequently in other venues. Nevertheless, Washington rejected the idea, urging Beijing to talk directly to Taipei and not use the U.S. as an intermediary.

### **Domestic politics intrudes**

During the spring of 2003, with a presidential election looming in 2004, the DPP administration faced harsh realities. Taiwan's economy had been doing poorly since 2001 (and would not pick up until late 2003), partly as a result of a prolonged U.S. and international recession, but also due to policy mistakes and an inability to push laws through the Legislative Yuan at home. Chen had replaced Lee Teng-hui's "go slow, be patient" mainland economic policy with "active opening, effective management" with no significant payoff. Accession to the World Trade Organization on Jan. 1, 2002 proved great for morale, but not a solution for economic difficulties. The ruling party remained inexperienced in many sectors, charges of corruption had surfaced against the DPP, and efforts at political reform had stalled. In the crucial realm of cross-Strait relations there had been no progress.

The political front was equally grim for the DPP leadership. Chen's opponents Lien Chan of the KMT and James Soong of the PFP had banded together into a pan-blue alliance and polls showed them ahead by as much as 10 points. To activate the DPP core and turn out large numbers of all voters, Chen's advisers began talking about holding a referendum in conjunction with the presidential balloting. At first, the measures proposed concerned membership in the World Health Organization (WHO), which had become a sensitive issue because of the SARS crisis, and whether the government should go ahead with building a fourth nuclear power plant. Beijing objected to any plebiscites because of the precedent that would be set for future votes on sovereignty issues. To try to restrain Chen, the PRC turned to the Bush administration.

Initially Washington found the referendum issue troubling because the U.S. did not relish opposition to a fundamental practice of a democratic state. At the same time, the Bush administration did not support a deliberate challenge by Taipei to China's claims of sovereignty over Taiwan and a vote on the WHO question would do just that. Taipei might have had reason to complain about Beijing's delay in permitting assistance to reach the island in the winter of 2003, but Washington did not see this as the way.

U.S. sympathy for Beijing's position, however, remained muted until Sept. 28, when Taiwan's president declared his intention to craft a new constitution for Taiwan by 2006, one that would, he added on Oct. 4, make Taiwan a "normal, complete, great state." This draft constitution would then be approved by the people through referendum and enacted in 2008 at the end of Chen's second term. The provisions he envisioned covered simplification of Taiwan's governing structure, but indications were that the new constitution might also redefine geographical boundaries or change the name of the state. In any case, by discarding the 1947 constitution which links Taiwan to China, it would be

intolerable to Beijing. Washington objected to the idea of a new constitution, and was angered that once again Chen had announced his confrontational policy without any prior consultation.

Members of the administration began to speak out publicly against any unilateral alterations of the status quo in the Taiwan Strait. This included National Security Advisor Condoleezza Rice who also reiterated Washington's adherence to a "one China" policy. The administration's message was adulterated, however, by Chen Shui-bian's November transit through New York City. During the Taiwan president's stay in the city, he received a human rights award at a gala dinner attended by thousands and televised, despite State Department objections. Chen's delight with the treatment he had received escalated when the Chair and Managing Director of AIT Theresa Shaheen told him that the party responsible was his "secret guardian angel" George W. Bush. After Chen leaked the news, his pan-blue opponents privately told many Americans that Bush had voted for Chen.

### **Chen ups the ante**

Chen used what he chose to see as U.S. endorsement to raise the stakes, announcing that he planned to hold a "defensive referendum" March 20 in conjunction with the presidential balloting. The pan-blue alliance had tried to derail the plebiscite by legislating a circumscribed Referendum Law on Nov. 27, but it included a provision permitting a special referendum in the event of a crisis threatening Taiwan's sovereignty. Chen simply claimed that China's missiles arrayed along the Fujian coast opposite Taiwan constituted such a threat. Running out of options to deter Chen since increasingly outspoken public comments were not working, the Bush administration sent NSC Asia Director Jim Moriarity on a secret visit to Taipei with a message from Bush. But Chen defied even this, telling a campaign rally just 7 days later, on Dec. 8, that the referendum would be held. Bush responded with a harsh reproof. On Dec. 9, standing together with Chinese Prime Minister Wen Jiabao in the Oval Office, Bush told the press that unilateral actions by either China or Taiwan were unwelcome but "the comments and actions by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose." Further, Bush not only failed to correct Wen upon his statement that Bush had said he opposed Taiwan independence, but nodded in agreement

Even as many Taiwan supporters in the U.S., grudgingly agreed with Bush's sentiments, they criticized the president for chastising Chen in Wen's presence. In Taipei, however, Chen largely dismissed the incident. Election politics more-or-less required him to do so, but Chen reacted in his own unique way, spinning the warning against provocation into an endorsement. Whether Chen deliberately ignored U.S. criticism or heard too many contradictory messages remains unclear. Similarly, while pan-blue attacked his foreign policy judgment, pointing out that he had managed to alienate China and the U.S. at the same time, Chen declared that Taiwan must act in its own interests being neither a province nor a state of any country, simultaneously disparaging Beijing and Washington for trying to manipulate Taipei. The remaining months of the campaign season severely strained the patience of the Bush administration.



No one could have imagined the dramatic final hours of the presidential contest or the tense aftermath. Although pan-blue's substantial lead of the previous year had diminished, in the days before the balloting it appeared that the Lien-Soong ticket would score a solid victory in spite of the lackluster campaign that they had carried out. Chen and his vice president Annette Lu had had few achievements to run on. But, if Chen and the DPP had not yet figured out how to implement a presidency, they knew how to win votes. Chen controlled the agenda throughout the election, he ran on a pro-Taiwan, anti-China platform, characterizing pan-blue as unpatriotic, he organized a referendum to excite his base without alienating moderates who long since had concluded that having him as president would not mean war and he had Lee Teng-hui openly in his corner. But, as it turned out, the decisive factor may well have been the botched assassination attempt on the eve of the election. The sympathy vote clearly made a big difference and probably won the election for him. Rather than concede, however, pan-blue asserted voter fraud, ballot tampering, and even maintained that the shooting had been staged. Over subsequent days, huge rallies questioned the credibility of Chen's triumph and threatened peace and stability on the island, giving Beijing an opening to declare "We will not sit by unconcerned should the post-election situation in Taiwan get out of control."

Washington initially hesitated to congratulate Chen as the winner lest it be perceived as interfering in the election outcome. Many U.S. election monitors proclaimed that the polling had been carried out fairly, that ballots had been carefully scrutinized, that the 337,000 damaged ballots had been part of a "Naderite" anti-party protest and that, although a large number of military personnel had not been able to vote, the total had been exaggerated by partisan commentators. Nevertheless, questions and accusations lingered over the shooting and the U.S. government waited until the Taiwan Central Election Commission officially declared Chen's victory March 26. Even then, it noted that legal challenges were underway and that both Taiwan and China must act with restraint during the ensuing period of uncertainty. Above all, U.S. officials underlined the triumph of democratic institutions in Taiwan and congratulated the more than 80 percent of the Taiwan people for exercising their voting privileges.

Although Bush administration officials moved cautiously on the election itself, the administration plunged ahead with a contrary message. On March 31, as contention over the election continued to rage, the Pentagon announced it would sell a package of two long-range early-warning radars to Taiwan totaling \$1.8 billion. Part of a plan initially approved in 1999 to provide Taiwan improved defenses against China, these radars could one day play a role in a theater missile defense system were one to materialize. Beijing objected bitterly both at the sophisticated system and at the poor timing of the announcement, urging the U.S. not to "send the wrong signal to Taiwan's independence [seekers]."

Beijing's response to the election result reflected dismay in Chen's victory offset somewhat by pleasure in Chen's likely weakness in his second term. Confronted at least until December 2004 with a hostile pan-blue majority in the LY, Chen can not expect much progress on his political priorities. At the same time, Beijing declared triumph at the failure of the referendum, which called for China to withdraw its missiles and the

public to voice its support for Taiwan missile purchases. But although the referendum did not get enough votes to pass, more people supported its two propositions than voted for Chen. A precedent for future plebiscites, perhaps on independence, has been set.

### **The return of ambiguity?**

Someone other than Chen Shui-bian might have been chastened by the tight victory of March 2004, assuming that moderate policies and conciliation of the opposition and Washington, perhaps even Beijing, would be a high priority. Instead, Chen has appeared to believe that he emerged from the election with a mandate to move ahead with his agenda despite a mere 0.228 percent margin over pan-blue. He explained this by emphasizing how much his support had grown from 39 percent in 2000 to 50 percent of voters in 2004. Chen also evinced a messianic turn of mind regarding his second term after surviving the assassination attempt. This combination may foretell a rough road for U.S.-Taiwan relations in the next few years marked by eroding trust and continued misunderstanding. This would be a startling departure from the halcyon days of Chen's first years as president when both Bill Clinton and George Bush sought to work with him and build a better relationship between Washington and Taipei.

But irritation in Washington, even anger at Chen Shui-bian, does not necessarily mean that the U.S. is ready to give up on Taiwan. There are still ties that bind, including the TRA and the concern of many in the administration and Congress for its 23 million people. Instead, Washington may fall back upon its policy of strategic ambiguity, reminding both Taiwan and China that peace is the key U.S. national interest in the Strait and the region. Therefore, Taiwan cannot assume that the U.S. will defend it under any and all circumstances, nor can China assume that the U.S. will not be involved should it decide to attack Taiwan.

## **Chronology of U.S.-Taiwan Relations**

### **March 2000-March 2004**

**March 18, 2000:** Taiwanese voters end half a century of Nationalist Party rule and elect opposition leader Chen Shui-bian to the presidency.

**April 17, 2000:** The Clinton administration approves the sale of a package of high-tech weapons to Taiwan, including sophisticated air-to-air and anti-ship missiles as well as a "Pave Paws" long-range radar system. Consideration of the sale of four destroyers equipped with Navy's advanced *Aegis*-radar systems is deferred.

**Apr. 27, 2000:** Citing Chen's views, U.S. Senate Republicans defer action on the Taiwan Security Enhancement Act (TSEA).

**May 5, 2000:** MAC-designee Tsai states that Taipei will no longer talk of "state-to-state" relations.

**May 12, 2000:** *Washington Post* reports MAC-designee Tsai wants U.S. to mediate cross-Strait dialogues.

**May 12, 2000:** U.S. spokesman reiterates that Washington will not mediate.

**May 20, 2000:** President Chen's inaugural address mentions the "four no's" of his policy toward Beijing and talks of a "future 'one China.'"

**May 20, 2000:** PRC's Taiwan Affairs Office criticizes Chen's speech, calls for talks based, in part, on return to the 1992 consensus.

**May 29, 2000:** MAC Chairwoman Tsai questions whether there was agreement on 1992 consensus.

**June 20, 2000:** Chen proposes a reconciliation meeting without preconditions; PRC says talks are only possible on the basis of "one China."

**July 8, 2000:** Under Secretary of State John Holum tells PRC that the U.S. will not rule out providing Taiwan with theater missile defense (TMD).

**July 12, 2000:** PRC Defense Minister Chi tells U.S. Defense Secretary Cohen PRC will not attack Taiwan; Cohen urges dialogue with Taipei.

**Aug. 13, 2000:** President Chen makes a transit stop in Los Angeles on his way to Central America.

**Aug. 26, 2000:** Taiwan delegation reports Vice Premier Qian used flexible formula that "Taiwan and mainland are both parts of 'one China.'"

**Oct. 27, 2000:** Premier Chang announces decision to cancel Taiwan's fourth nuclear plant.

**Oct. 31, 2000:** KMT launches presidential recall drive.

**Nov. 10, 2000:** President Clinton signs into law the Foreign Operations, Export Financing, and Related Programs Appropriation Act of 2001 which requires the U.S. administration to consult with Congress on the sale of weapons to Taiwan.

**Dec. 18, 2000:** DoD releases the unclassified "Report to Congress on Implementation of the Taiwan Relations Act."

**Dec. 31, 2000:** President Chen's New Year's address speaks of "political integration."

**Feb. 6, 2001:** First ship from Xiamen visits Jinmen under "mini three links."

**March 8, 2001:** Secretary Powell reiterates "six assurances" in Congressional hearing.

**April 23, 2001:** The Bush administration approves several billion-dollar arms sales package to Taiwan, including eight diesel submarines, four 1970s vintage *Kidd*-class destroyers, a dozen antisubmarine *P-3 Orion* aircraft, as well as minesweeping helicopters, amphibious assault vehicles, and submarine and surface-launched torpedoes.

**April 25, 2001:** In an interview with the *Washington Post*, Bush declares that he will scrap the annual review of arms sales to Taiwan and instead use an as-needed basis.

**April 25, 2001:** In a taped ABC-TV morning show, President Bush says he will do “whatever it takes” to help Taiwan defend itself from an attack by China.

**April 25, 2001:** White House releases statement reiterating U.S. “one China” policy and opposition to independence for Taiwan.

**May 21, 2001:** Chen in transit through New York; meets U.S. congressmen.

**June 4, 2001:** Chen transits Houston; is hosted by congressmen.

**Sept. 11, 2001:** U.S. is attacked by terrorists in New York and Washington D.C. changing security priorities around the world.

**Oct. 23, 2001:** On campaign trail, Chen equates acceptance of “1992 consensus” with treason.

**Dec. 1, 2001:** Taiwan holds legislative elections; the DPP becomes largest party.

**Jan. 1, 2002:** Taiwan joins the WTO and looks ahead to “constructive cooperation” with China.

**Jan. 24, 2002:** Statement by PRC Vice Premier Qian Qichen separates DPP leaders from the rank-and-file, welcoming all but the independence activists to China in order to divide the party. Also refers to unexplained “economic cooperation mechanism” with Taiwan.

**Jan. 28, 2002:** American Institute in Taiwan (AIT) Chairman Richard Bush gives talk in Taipei voicing support for view that “one China” should not be precondition for dialogue.

**Feb. 6, 2002:** CIA Director George Tenet warns Congress that over the past year China has increasingly honed its operational military skills to be better prepared to deal with possible military action in the Taiwan Strait and to deter the U.S. from defending Taiwan in case of a mainland attack.

**March 10-12, 2002:** U.S.-Taiwan Business Council meeting in Florida. U.S. Deputy Secretary of Defense Paul Wolfowitz and Assistant Secretary of State for East Asian and Pacific Affairs James Kelly meet informally with Taiwan’s Defense Minister Tang Yiao-ming.

**April 9, 2002:** U.S. Congressional Taiwan Caucus is inaugurated by co-Founders and co-Chairs: Reps Robert Wexler, Steve Chabot, Sherrod Brown, and Dana Rohrabacher. Ambassador C.J. Chen, Representative of Taipei Economic and Cultural Representative Office, and a 14-member delegation from the Legislative Yuan, led by Hon. Trong R. Chai, also attend.

**April 9, 2002:** On the 23<sup>rd</sup> anniversary of the Taiwan Relations Act, the U.S. Congressional Taiwan Caucus is inaugurated with 85 members. The Caucus is founded by Democrat Reps Robert Wexler (D-Fl.) and Sherrod Brown (D-Oh.) and Republicans Dana Rohrabacher (R-Ca.) and Steve Cabot (R-Oh.).

**May 11, 2002:** House of Representatives passes Defense Appropriations Bill with provisions calling for report concerning joint military activities with Taiwan.

**July 12, 2002:** Department of Defense releases *2002 Annual Report on the Military Power of the People's Republic of China*, which highlights threat to Taiwan.

**July 24, 2002:** Press reports U.S. DoD has expressed concern to visiting Taiwan delegation that Taipei is not doing enough for its own defense.

**Aug. 3, 2002:** Chen makes video conference remarks about “one country on each side.”

**Aug. 5, 2002:** Taiwan Affairs Office (TAO) warns Chen is leading Taiwan to disaster.

**Aug. 5, 2002:** Mainland Affairs Council (MAC) Chairperson Tsai Ing-wen issues four-point statement that cross-Strait policy has not changed.

**Aug. 7, 2002:** State Department reiterates U.S. “one China” policy and non-support for independence.

**Sept. 4, 2002:** Taipei’s 2003 draft defense budget is lowest in eight years.

**Sept. 30, 2002:** President Bush signs into law the Foreign Relations Authorization Act, Fiscal Year 2003, which contains language favoring closer security ties between the U.S. and Taiwan.

**Oct. 25, 2002:** Presidents Bush and Jiang meet in Crawford, Texas. Jiang talks about reducing missiles opposite Taiwan in exchange for arms sales reductions.

**Nov. 22, 2002:** President Jiang meets former Defense Secretary Perry, mentions missile-arms sales idea.

**Nov. 22, 2002:** Taiwan’s FM Eugene Chien says this proposed deal is an “unfair” “ploy.”

**Dec. 6, 2002:** Unnamed U.S. official says “missiles for arms sales” deal is “unthinkable.”

**Feb. 12-14, 2003:** U.S.-Taiwan Defense Industry Conference 2003 held in San Antonio, Texas.

**March 9, 2003:** Press reports National Intelligence Officer for East Asia, Mary Tighe, in Taipei for talks on missile defenses.

**May 21, 2003:** HHS Secretary Tommy Thompson expresses U.S. support for Taiwan at World Health Assembly.

**May 31, 2003:** President Bush signs new legislation about Taiwan in WHO.

**June 1, 2003:** President Bush meets President Hu Jintao at G-8 and reiterates non-support for Taiwan independence.

**June 22, 2003:** Taiwan FM Chien meets Vice President Cheney at American Enterprise Institute forum in U.S.

**July 15, 2003:** House of Representatives unanimously approves a measure calling on China to dismantle missiles aimed at Taiwan, urges President Bush to approve the sale of the *Aegis*-class destroyers battle management system to Taipei, and directs Bush to seek from China an immediate renunciation of the use of force against Taiwan. The bill is approved as an amendment to the State Department Authorization bill that funds State Department programs for fiscal 2004.

**Sept. 1, 2003:** Taiwan begins issuing new passports including name “Taiwan.”

**Sept. 17, 2003:** Taiwan Caucus formed in the Senate. Ten initial members, Sen. George Allen and Tim Johnson as the co-chairs.

**Oct. 19, 2003:** Presidents Bush and Hu meet at APEC; Bush expresses opposition to Taiwan independence.

**Oct. 31, 2003:** Chen transits New York; receives human rights award.

**Nov. 1, 2003:** AIT’s Shaheen tells Chen that Bush is his “secret guardian angel.”

**Nov. 3, 2003:** Chen and Secretary Powell shake hands at Panama ceremony.

**Nov. 11, 2003:** Chen tells Brookings delegation he hopes to draft constitution by 2006, and submit it to referendum and implement by 2008.

**Dec. 1, 2003:** NSC’s James Moriarty makes discreet visit to Taipei with message from Bush.

**Dec. 8, 2003:** Chen announces topics for “defensive referendum” to be held on March 20.

**Dec. 9, 2003:** President Bush meets with PRC Premier Wen Jiabao in the Oval Office and publicly declares that he “opposes comments and actions made by the leader of Taiwan” that “indicate that he may be willing to unilaterally change the status quo, which we oppose.”

**Dec. 10, 2003:** Chen ignores Bush warning and says the referendum will proceed as planned.

**Feb. 6, 2004:** Deputy Assistant Secretary of State Randall Schriver tells Congress it is “extremely important” for Taiwan to appropriate a sufficient defense budget.

**March 19, 2004:** Chen and VP Annette Lu shot while campaigning in Tainan.

**March 20, 2004:** Chen wins razor-thin election victory. U.S. congratulates people of Taiwan for exercising democratic voting rights. Chen’s controversial referendum fails to get enough votes.

**March 26, 2004:** Central Election Commission certifies Chen as winner. U.S. congratulates Chen, although acknowledges results still being contested.

## About The Contributors

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