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An Oasis of Stability

by Brad Glosserman, Pacific Forum CSIS

It has been another peaceful quarter for U.S.-Japan relations. That the bilateral relationship could be so calm despite the tumult in international diplomacy is testimony to the strength and stability of the alliance. Prime Minister Koizumi’s surprise visit to Pyongyang and the U.S.’s full court press to get the international community to take action against Iraq have provided ample opportunities for friction. Success could prove temporary, however. At the best of times, the U.S. and Japan have very different approaches to international problem solving. The Bush administration’s muscular foreign policy and its fixation on “regime change” in Iraq threaten to put the alliance under serious strain. Fortunately, in this context, managing relations with Japan demands no more of Washington than which the U.S. should provide the international community more generally: convincing evidence that underpins U.S. concerns and respect for the views of others.

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Playing up the Positive On the Eve of the Crawford Summit

by Bonnie S. Glaser, Consultant on Asian Affairs

Preparation for the U.S.-China October summit between Presidents George W. Bush and Jiang Zemin in Crawford, Texas proceeded smoothly this quarter. Washington endorsed China's claim that at least one separatist group in Xinjiang has links to the al-Qaeda terrorist network and announced that its assets in the U.S. would be frozen. The Chinese in turn released new rules on the export of missile technology and a missile technology control list. Both countries signaled their growing satisfaction with bilateral cooperation in the counterterrorism arena. A crisis was averted over Taiwan President Chen Shui-bian's Aug. 3 statement that there is "one country on each side" of the Taiwan Strait. Overall, relations improved as both Beijing and Washington advanced their respective interests by emphasizing the positive elements of their relationship.

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After the Koizumi-Kim Summit, Nothing is the Same

by Donald G. Gross, Yonsei University Graduate School of International Relations

This quarter began with a serious naval confrontation between North and South Korean patrol vessels on Korea's West Sea. It ended with the surprising diplomatic breakthrough in Japan-North Korea relations at the Koizumi-Kim summit in mid-September and the ensuing U.S. decision to send Assistant Secretary of State James Kelly to Pyongyang for consultations. Through it all, the Bush administration watched warily, postponing its special envoy's planned trip to Pyongyang in July, but cautiously welcoming the results of the summit meeting. Strategists planning the next U.S. diplomatic move now have to pay greater attention both to Japanese policy and South Korean public opinion, especially given growing anti-American sentiments in the ROK, stimulated by the death of two South Korean girls during a U.S. military training accident.

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A Trying Summer for the New Partnership

by Joseph Ferguson, The National Bureau of Asian Research

At the beginning of the quarter, the U.S.-Russian antiterror coalition seemed in fine shape. In public appearances Russian leaders continued to insist that their country stood firmly behind the U.S. and was committed to closer integration with the West. But as the summer wore on it became apparent that the partnership had its limits. Two issues became major irritants. One was an old one that came back onto the radar screen – Chechnya, or in this case Chechen fighters operating in the Pankisi Gorge over the Georgian border. Another was an even older one – Iraq. Meanwhile Russia's flirtations with Iran and North Korea seemed directly in contravention of the U.S. policy of isolating the "axis of evil." In both Russia and the U.S. voices clamored for a realistic reassessment of the relationship. As autumn began it was unclear where the relationship was headed as the partnership weathered a stormy first anniversary.

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A Challenging Strategic Landscape

by Marvin Ott, National Defense University

The U.S.-led war on terrorism continued to be the focus of attention. Several U.S. embassies in the region were closed on Sept. 11, underlining the emergence of the region as a major arena in the new global battleground. Long established political and economic issues also began to reassume their prior salience. In Burma recently freed opposition leader Aung San Suu Kyi was finally allowed freedom of movement but was unable to initiate a serious political dialogue. In Indonesia the restive region of Aceh produced a steady and depressing drumbeat of violence. The annual ASEAN Ministerial Meeting held in Brunei along with the ASEAN Plus Three (China, Korea, and Japan) and ASEAN Regional Forum meetings restored the ASEAN process to center stage. This resulted in the Joint Communiqué calling for increased cooperation to counter international terrorism and an ASEAN-U.S. Joint Declaration for cooperation.

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Beijing Pushes “Asia for the Asians”

by Lyall Breckon, CNA Center for Strategic Studies

The annual ASEAN Ministerial Meetings in Brunei gave Beijing multiple opportunities to argue for its version of multilateral security and economic cooperation and to empathize quietly with sensitivities bruised by superpower leadership. ASEAN’s failure to agree on a code of conduct for the South China Sea permitted China to appear benign and forthcoming, without actually accepting any constraints on its activities. China’s decision to award a large natural gas contract to Australia was a sharp disappointment to Jakarta, tempered by the offer of a less lucrative deal. The Indonesian military announced it would consider buying weapons from China to avoid U.S. embargoes. Hanoi resumed demarcating its border with China, but remains on the defensive about charges that it gave too much to Beijing in a 1999 boundary agreement. Taiwan aggressively exploited its economic leverage during the quarter to try to upgrade the level of contacts with several Southeast Asian governments.

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Chen Muddies Cross-Strait Waters

by David G. Brown, The Johns Hopkins School of Advanced International Studies

President Chen Shui-bian’s Aug. 3 remark that there was “one country on each side” of the Taiwan Strait caught Taiwan government officials, Washington, and Beijing by surprise. Taipei quickly sent out assurances that policy has not changed, Washington reiterated that it did not support independence, and Chen refrained from repeating this remark publicly. Chen’s statements have complicated the prospects for progress on cross-Strait economic issues, although minor steps continue to be taken to ease restrictions on rapidly expanding cross-Strait economic ties. Beijing had other priorities this summer, with leadership transition maneuvering dominating the annual Beidaihe retreat amid preparations for the 16th Party Congress. Beijing had little time for Taiwan issues and no interest in new tensions in the Strait. There is no prospect of significant movement toward cross-Strait dialogue on economic issues until after the Party Congress in November.

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No Turning Back?

by Aidan Foster-Carter, Leeds University, UK

A quarter that began with the Northern navy sinking a Southern patrol boat – and Kim Dae-jung’s Sunshine Policy with it, or so it seemed – ended with soldiers from both sides clearing mines in the Demilitarized Zone to relink cross-border road and rail routes. On Sept. 29, athletes from both Koreas marched behind a unity flag to open the 14th Asian Games in Pusan: the first time the North has ever joined in a sporting event in the South. But past precedent counsels caution. From next February, a new South Korean president may take a harder line; especially if claims that Seoul paid for the 2000 North-South summit poison the atmosphere. Or a U.S. attack on Iraq – particularly if not under UN auspices – could spoil things. Japan’s opting for engagement leaves Washington’s tougher stance more isolated. Moves toward economic reform buttress hopes that this time the North really is trying to change, and that progress may prove enduring.

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Happy Tenth for PRC-ROK Relations! Celebrate While You Can, Because Tough Times are Ahead

by Scott Snyder, The Asia Foundation

The PRC and Republic of Korea celebrated a decade of normal relations on Aug. 24, with mutual commemorative events and academic workshops. There is much to celebrate. Bilateral trade has grown from \$3 billion in 1991 to over \$30 billion in 2001 and social, cultural, and political ties have grown robustly: dramatic evidence of how the end of the Cold War has allowed the development of new relationships in Northeast Asia. However, the gathering dark clouds posed by the North Korean refugee issue, illegal drug imports, migrant workers, “yellow dust,” and occasional squalls driven by China’s direct challenge to Korea’s global economic competitiveness are now being directly felt. It is time to post a warning to South Korea of impending damage from a Chinese economic typhoon that could be at least as unsettling to the economic and political landscape Asia as Typhoon Rusa, the worst typhoon to hit the Korean Peninsula in four decades.

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Toward the 30th Anniversary

by James J. Przystup, Institute for National Strategic Studies

The quarter ended on a high note with ceremonies in Beijing commemorating the 30th anniversary of the normalization of relations between Japan and China. Senior Foreign Ministry officials and over 50 political figures represented Japan. Conspicuously absent, however, was the prime minister. Over the course of the summer the past continued to intrude on the present. A Tokyo District Court was the first to rule that Japan had engaged in biological warfare in China during the war. The court, however, rejected the Chinese plaintiffs suit for compensation. Visits by members of the Koizumi Cabinet to Yasukuni Shrine on Aug. 15 drew traditional censure from Beijing. Japanese concerns with China’s on-going military modernization and its perceived lack of gratitude for Japan’s development assistance foreshadowed a looming debate over future official development assistance. Nevertheless, commerce continued to expand as joint ventures multiplied, and Japanese investment continued to flow into China.

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Mr. Koizumi Goes to Pyongyang

by Victor D. Cha, Walsh School of Foreign Service, Georgetown University

The big news for the quarter was Prime Minister Koizumi’s meeting with DPRK leader Kim Jong-Il on Sept. 17. The discussions were described by officials as “frank talks” on difficult issues of concern. In pre-summit negotiations, the Japanese established up front that they wanted a satisfactory and definitive accounting on the unresolved claim of past abducted Japanese nationals. Tokyo also wanted the North to address security issues (including missiles, the 1994 Agreed Framework, the Nuclear Non-Proliferation Treaty, and the North-South Basic Agreement), and moreover maintained that there would be no explicit in-kind compensation by Japan for this meeting. Koizumi’s trip added to a regional momentum toward engagement, encouraging even the Bush skeptics to see whether, this time, there is really any substance behind the warm wind blowing from Pyongyang.

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One Year Later: Geopolitics or Geoeconomics?

by Yu Bin, Wittenberg University

Two one-year anniversaries – the Russia-China friendship treaty and the Sept. 11 attacks – were very much in the minds of Russian and Chinese leaders during the third quarter. Both China and Russia publicly expressed satisfaction with the historic treaty that “legalizes” bilateral interactions. Beyond that, Russian President Putin’s Bismarckian diplomatic dexterity seemed to make Russia not only an eagerly sought member within the major power club, but also to position it in a crucial point between the West and the so-called “axis of evil” states. Meanwhile, China’s strategic and diplomatic constraints were somewhat alleviated by its sustained economic growth. Between China and Russia, the much alluded to friendship treaty appeared only to offer another round of strategic maneuvering and mutual adjustment at the dawn of a new U.S. military doctrine of preemption that would displace deterrence.

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Regional Overview

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by Ralph A. Cossa
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Concerns and complaints about Washington's Iraq policy and its broader approach toward the ongoing war on terrorism, and speculation regarding North Korea's diplomatic overtures dominated East Asia security dialogue during the last quarter. This time last year, the world had rallied behind the U.S. in the wake of the horrific Sept. 11 attacks. Much of that support and goodwill has dissipated, however. The reasons vary and are complex but two words are central to any explanation: Iraq (and more specifically "regime change") and preemption; the latter being put forth not only in the Iraqi context but as the basis of a new national security strategy. Their long-term impact on U.S.-East Asia (and broader) relationships remains unclear; China-U.S. relations in particular could be challenged – or strengthened – depending on how the UN Security Council debate over Iraq plays out. Equally unclear is the impact of the DPRK's recent "smile diplomacy," which has seen an unprecedented effort by Pyongyang simultaneously to improve relations with Seoul, Tokyo, and Washington. Meanwhile, multilateralism seems to be thriving in East Asia, both with the U.S. (ASEAN Regional Forum) and without (ASEAN Plus Three).

"We're All Working on Iraq"

I recently talked with a senior U.S. official deeply involved in U.S.-DPRK relations. "Well," I said, "as hectic as your life has become, there's one consolation: at least you're not working on Iraq." His response: "We're all working on Iraq." Iraq – or more specifically, what the U.S. plans to do about Saddam Hussein – looms large in almost any discussion of security issues in East Asia, regardless of the stated topic of the dialogue. As a result, this quarter's regional overview begins with commentary on an issue far removed geographically from East Asia but foremost in almost everyone's mind.

When it comes to dealing with Saddam Hussein, President George W. Bush's Sept. 12 speech to the United Nations General Assembly appeared finally to put the ball where it belongs: squarely in the United Nation's court. How the UN acts will largely determine how Saddam and ultimately the Bush administration responds. This is especially true after Saddam announced that he would let UN inspectors back in; a move no doubt aimed at dividing what had been a growing international consensus behind a more intrusive inspection resolution, this time with enforcement mechanisms.

The U.S. now faces a formidable diplomatic challenge; one made more difficult by its own earlier actions. The White House's initial response to the Sept. 11 attacks had been generally well-received in Asia and globally. It was deliberate, carefully thought out, and fully coordinated with a growing international coalition that saw almost all the nations of the world contribute in some manner to the war on terrorism's initial prosecution. Much of that support and goodwill has been squandered, however, as the administration (or at least many of its more vocal hawks) seemed to take their eye off the ball in their eagerness to spread the war in Iraq's direction. Meanwhile, talk of regime change and preemption took attention away from the problem – Iraq's continued flaunting of the UN and Saddam's growing weapons of mass destruction (WMD) capability – and placed it on the nature of the cure rather than on the disease.

President Bush's management style seemed to allow loose cannons to fire at will as hawks and doves engaged in an increasingly public debate over Saddam Hussein's fate. While President Bush repeatedly said that he had not decided on a military option, regime change (which one should recall was a stated objective of the Clinton administration as well) became synonymous with military action, which in turn became synonymous with a U.S. march on Baghdad – one that many uninformed members of the media were declaring to be imminent, despite the lack of approved war plans or combat and logistic support forces on the ground.

Regime Change vs. Disarming Saddam. Presidential leadership and focus over the Iraqi debate were a long time in coming but have been increasingly apparent since the Sept. 12 UN speech. White House pronouncements since that time have wisely stressed disarmament, not regime change (even though the latter clearly remains the preferred long-term outcome). “I'm willing to give peace a chance to work,” Bush has said, “[Saddam] has got a choice: he can disarm.” War is neither preferable nor inevitable, President Bush now seems to be saying, even though “the use of force may become unavoidable” if Saddam persists in his defiance of UN resolutions. (Secretary of State Colin Powell added an interesting bit of spin to the regime change debate in an Oct. 3 interview with *USA Today*, saying that if new intrusive inspections can certify that Iraq has truly disarmed, “then, in effect, you have a different kind of regime no matter who's in Baghdad.”)

Ball is in UN's Court. The question now is, how will the UN Security Council (UNSC), respond? For those – the Chinese foremost among them – who have long argued that a multilateral approach (through the United Nations) rather than unilateralism was the proper way to proceed, President Bush has finally thrown down the gauntlet. “All the world now faces a test and the United Nations a difficult and defining moment,” Bush asserted. Is the UN prepared to enforce resolutions or only to make them? In Kosovo, then-President Bill Clinton and the U.S.'s NATO allies let the UN off the hook by presuming that it would not respond and proceeding based on that assumption. The old fortune cookie admonition to “be careful what you wish for because you might get it” now applies. Some UNSC members may now be secretly wishing Bush had proceeded alone – it is much easier to criticize Washington than to make tough decisions.

This provides China with a golden opportunity to become part of the solution, rather than be seen (as many of its detractors claim) as part of the problem. Will Beijing back a new intrusive inspection regime and also be prepared to enforce it when Saddam tests it, as history says he will? Or will Beijing confirm the suspicion of those who charge that China's enthusiasm for multilateralism is all talk, no action? The same questions apply to the other UNSC members (the obvious exception being the UK, which has steadfastly supported the U.S. position), and especially to the Russians and the French, whose willingness to turn a blind eye to past Iraqi indiscretions has emboldened Saddam to continue to defy and thus denigrate the UN. As this quarter ended, there were already signs that some UNSC members were backing away from a resolution with teeth, which would allow Saddam to repeat his previous games and delay the process of holding Iraq accountable.

The big question before the international community today is not "will (or when will) the U.S. attack?" but will the UN Security Council finally act forcefully to restore its own credibility . . . and with it the credibility of those in Washington and elsewhere who have long argued that Washington must remain on a cooperative, multilateral, internationalist path? Or will the members of the UNSC prove the unilateralists right?

Preemption as the New National Security Strategy?

If President Bush's Sept. 12 speech was seen as a positive step in the direction of multilateralism, this was quickly countered by the release of *The National Security Strategy of the United States of America* (NSS) eight days later. In Section III, which describes the war on terrorism, the report notes that terrorist organizations of global reach and terrorists or state sponsors of terrorism attempting to gain or use WMD will be the immediate focus of the war on terrorism, and that the U.S. "will not hesitate to act alone, if necessary, to exercise our right of self-defense by acting preemptively against such terrorists, to prevent them from doing harm against our people and our country." This point is reemphasized in Section V, which focuses on the WMD threat. In both instances (and these are the only references to preemption in the 30-plus page report), preemption is put strictly in the context of preventing the use of WMD by terrorists or their sponsors.

Interestingly, Iraq drew only one specific reference; the report cites "irrefutable proof" that Iraq possesses or seeks chemical, biological, and nuclear weapons. Likewise, North Korea, "the world's principal purveyor of ballistic missiles," is dealt with briefly as one of those nations suspected of developing its own WMD arsenal. It is refreshing to note that the term "axis of evil" appears nowhere in the document.

Press coverage of its release notwithstanding, the NSS report is not just (or even primarily) about preemption. Building on themes outlined in President Bush's June 1 West Point commencement address (see "Powell Speaks ... Was Anyone Listening?" *Comparative Connections*, Vol. 4, No. 2, July 2002), the NSS report stressed the importance of growing major power cooperation, devoting an entire section (VIII) to cooperative action with the other major centers of global power: Russia, China, and India, plus NATO and U.S. allies in Asia. Like previous editions (the last NSS report was

issued by the Clinton administration in December 1999), it affirms the importance of Washington's bilateral alliances and U.S. forces based overseas: "one of the most profound symbols of the U.S. commitments to allies and friends." It also devotes entire sections to the need for economic growth through free markets and trade, building the infrastructure of democracy, and promoting human dignity.

The report spends at least as much time extolling the continued importance of deterrence – a strategy *The New York Times* declared "all but dead" in its own analysis of the NSS – as it does the need to be prepared for preemptive action against those who might not be deterred. It also notes that the U.S. "will not use force in all cases to preempt emerging threats, nor should nations use preemption as a pretext for aggression." Nonetheless, legitimate concerns have been raised that others might be tempted to follow the Bush administration's lead in legitimizing preemptive action: Russia against Georgia, India against Pakistan, and perhaps even an Israeli preemption against Saddam immediately come to mind.

DPRK: Underestimating Koizumi . . . and Kim Jong-il

The NSS spends little time discussing East Asia regional issues and concerns, beyond stating the need for continued deterrence on the Korean Peninsula. Nonetheless, events on the Peninsula certainly attracted Washington's attention during this past quarter. Most dramatic was the successful Sept. 17 Koizumi-Kim meeting in Pyongyang, which demonstrated just how much critics underestimated both Japanese Prime Minister Koizumi Junichiro and North Korean leader Kim Jong-il. Both demonstrated a considerable amount of diplomatic skill – and political courage – during this historic one-day meeting, which appears to have accomplished Tokyo's stated objective of getting the normalization process back on track.

Most pundits agreed that the meeting would be considered a failure if Koizumi did not achieve at least a partial accounting of the missing Japanese citizens believed to have been abducted by North Korea several decades ago. I had even suggested that the North Korean leader, in response to Koizumi's expected apology for Japan's colonial transgressions, acknowledge in return that the unresolved state of hostility had resulted in occasional unfriendly acts by the North against Japan as well. But even the most optimistic could not have expected a full confession and apology from Kim Jong-il for the "regrettable" actions that had occurred against the backdrop of "decades of hostile relations." While attributing the kidnaping to "blind heroism" on the part of "misguided" military intelligence officials, Kim asserted that "after I came to know about this, the persons responsible have been punished," promising further that "it will never be allowed to happen again."

Prime Minister Koizumi's perseverance on the abduction issue should be applauded. Previous Japanese leaders allegedly were prepared to sweep it under the rug in return for forward progress. Some accused Koizumi of being prepared to go down this same path while others recommended that he should. Some even tried to make the case that the abductions never happened at all. But Koizumi hung tough and demonstrated that North

Korea will respond positively when it understands that core issues are at stake; a lesson others should learn when dealing with Pyongyang.

The Bush administration – or at least those within it who see the wisdom of not opening up a third front to complicate its ongoing campaigns against international terrorism and Saddam Hussein – should be delighted with the outcome. Kim Jong-il’s indefinite continuation of the North’s missile test moratorium avoids a potential impending crisis in U.S.-DPRK relations, given the previous January 2003 scheduled end date. Expressions of Pyongyang’s commitment to “abide by international agreements regarding nuclear weapons” could also indicate a willingness to begin the process of coming into full compliance with the International Atomic Energy Agency (IAEA) – a future stumbling block in the implementation of the U.S.-DPRK Agreed Framework – although much remains to be done here.

Some critics are warning that Pyongyang may be playing its time-honored game of trying to pit Washington, Seoul, and Tokyo against one another through this latest overture. But, unlike past initiatives, Pyongyang seems prepared to move forward with all three simultaneously; its talks with Seoul continue apace and Kim Jong-il asked Koizumi to pass a message to President Bush that “the door is open for dialogue” with Washington as well. (As the new quarter began, the Bush administration sent its own high-level emissary, Assistant Secretary of State for East Asian and Pacific Affairs James Kelly, to establish the framework for future U.S.-DPRK dialogue. No breakthroughs were expected – and preliminary reporting indicates none occurred – but at least the dialogue process has begun.)

During their meeting, Kim Jong-il indicated to PM Koizumi that the Japanese Red Army terrorists who hijacked an aircraft to North Korea in 1970 and still remain there have “expressed their intention to go home,” and that North Korea would help them do so soon. When and if this occurs, Washington will face the difficult decision of whether or not to remove one of the charter members of the “axis of evil” from the State Sponsors of Terrorism List – Pyongyang’s continuing harboring of these aging hijackers, and the need to support Tokyo’s demand for information on the kidnap victims, have been the primary stated reasons for not removing North Korea from the list. A failure to do so once these conditions are met will be seen as proof by many U.S. critics (especially in the ROK) that the Bush administration still seeks confrontation rather than reconciliation on the Peninsula.

Asian Multilateralism Rolls On Amid Preparations for APEC

The NSS report also expresses the conviction that “multilateral institutions can multiply the strength of freedom-loving nations” and further states that the U.S. will build upon the stability provided by institutions such as ASEAN and the Asia Pacific Economic Cooperation (APEC) forum “to develop a mix of regional and bilateral strategies to manage change in this dynamic region.” In fact, multilateralism seems to be thriving in East Asia, both with the U.S. (APEC and the ASEAN Regional Forum, or ARF) and without (ASEAN Plus Three). The July 31 ARF meeting was particularly important and

rewarding to Washington. Secretary Powell attended and also presided over the signing of an ASEAN-U.S. anti-terrorism declaration along the sidelines of the broader ARF meeting. The ARF Chairman's Statement included repeated references to the need to combat international terrorism in the wake of Sept. 11, citing its own Workshops on Financial Measures Against Terrorism and the Prevention of Terrorism plus the establishment of both an Inter-sessional Meeting on Counter-Terrorism and Transnational Crime and an ARF Work Programme on Terrorism. In addition to Brunei, Secretary Powell also visited five other ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), underscoring continued U.S. interest in the region in its own right as well as its importance as a "second front" in the war on terrorism. Of note, the ARF meeting also provided the opportunity for an "informal chat" between Secretary Powell and DPRK Foreign Minister Paek Nam-sun, which helped to set a positive tone in advance of the Kelly visit to Pyongyang.

A meeting of ASEAN Plus Three (China, Japan, South Korea) foreign ministers also took place in Brunei as preparations continued for their annual summit meeting, scheduled for Nov. 5 in Phnom Penh. Japan, in particular, appears to be trying to play a more active leadership role in this forum, perhaps to counter (or at least match) earlier Chinese efforts to guide this multilateral effort. At the first ASEAN Plus Three Senior Officials Meeting on Energy (SOME) in Indonesia in July, officials agreed to Japan's initiative to organize the ASEAN Plus Three Oil Security Workshop in March 2003 in Malaysia. Japan's leadership on this issue is positive but is also to be expected. As Pacific Forum CSIS economic analyst Jane Skanderup points out, Japan is the only Asian country with adequate strategic oil reserves, and Japan's worries about energy interdependencies during a crisis have only risen as China's oil imports have steadily increased. As a result, Tokyo believes it is high time for the region's energy consumers to start reading from the same script, especially since APEC has been slow to move on energy security issues, as discussions get bogged down over oil producers' concerns. In this sense, Japan has utilized the ASEAN Plus Three mechanism perfectly.

Japan also hosted an ASEAN Plus Three Initiative for Development in East Asia (IDEA) meeting in Tokyo on Aug. 12 to promote regional cooperation on development issues. Assembled ministers agreed that "multitiered regional cooperation and interdependence would help the region deal with the challenges of globalization" and acknowledged the significance of maintaining adequate official development assistance (ODA) "as a tool for strengthening regional cooperation." Given that Tokyo is the region's principal ODA provider, this meeting was apparently aimed, at least in part, at highlighting Japan's continued economic relevance in the region, despite its festering domestic economic problems.

Heads of state and government (or their designated representatives) from 10 Asian countries also met with 15 European counterparts plus the president of the European Commission at the fourth Asia-Europe Meeting (ASEM) in Copenhagen on Sept. 23-24. ASEM involves a series of task force and ministerial meetings (primarily but not exclusively on economic issues) in addition to once every two year summits, aimed at developing closer cooperation between Europe and Asia. This year's meeting featured a

Cooperation Programme as well as a Declaration on Cooperation Against International Terrorism as well as a Political Declaration for Peace on the Korean Peninsula which endorsed North-South dialogue and called for a resumption of talks between Washington and Pyongyang as well. Iraq was also a focus of discussions with Chinese Premier Zhu Rongji reportedly warning of “severe consequences” if the U.S. were to launch strikes without authority or mandate from the UN. An ASEM task force meeting on combating terrorism is scheduled for next year in Beijing with the next summit to take place in Hanoi in 2004.

Preparations also continued during this past quarter for the 12th APEC Leaders’ Meeting on Oct. 26-27 in Mexico, which will mark the first time that one of APEC’s Latin American members will host APEC. At the senior officials and finance ministers meetings in August and September, respectively, the themes of financial cooperation on antiterrorism and support of the Doha Development Agenda remained strong.

As this year’s APEC theme, Mexico has chosen “Expanding the Benefits of Cooperation for Economic Growth and Development: Implementing the Vision.” While this may sound like typical APEC-speak, Jane Skanderup argues that the Mexican hosts aim to energize implementation of already agreed upon trade, investment, and financial policies, to “make things happen after the meeting” as Mexico’s President Vicente Fox has repeatedly said. Two other principal themes, said to be of personal interest to President Fox, are focusing on the SME (small and medium size enterprises) sector and involving youth and women in APEC to a greater degree.

But perhaps the greatest impact of the Mexican hosts on this year’s meeting will be the passion that President Fox has exhibited about the importance of APEC. At a time when bilateral negotiations and the various ASEAN “Plus” dialogues seem so much more central to Asia’s destiny than the strange, compromised beast of burden that APEC has become, President Fox is a true believer in APEC joining forces to deal with common challenges. Mexico has none of the allergy to binding agreements that Asia feels, and the Fox team seems intent on advocating result-oriented actions and policies to their APEC counterparts. It will be interesting to see how the APEC body responds to this infusion of Latin spice blended with healthy doses of pragmatism.

Regional Chronology July-September 2002

July 1, 2002: Japanese Prime Minister Koizumi Junichiro meets with ROK President Kim Dae-jung in Tokyo; reaffirms the importance of cooperation.

July 2, 2002: East Timor and Indonesia establish formal diplomatic ties.

July 2, 2002: U.S. withdraws offers to North Korea to resume security talks.

July 2-6 2002: East Timor's President Gusmao visits Indonesian President Megawati in Jakarta.

July 2, 2002: Seoul halts rice shipments to North Korea following June 29 Yellow Sea naval clash.

July 10, 2002: Malaysia's highest court unanimously rejects an appeal by former Deputy Prime Minister Anwar Ibrahim to overturn his 1999 conviction.

July 10, 2002: U.S. presents payment to North Korea to help finance searches for the remains of U.S. soldiers missing in action from the Korean War.

July 10-12, 2002: Kim Yong-nam, the head of North Korea's Parliament, visits Indonesia.

July 12, 2002: Pentagon releases report on China's military capabilities.

July 15, 2002: U.S. Congressional Commission report on China released.

July 19, 2002: First public reports emerge that North Korea is scrapping its decades old rationing system and instituting price reform.

July 21, 2002: Taiwan President Chen Shui-bian takes over as ruling party chairman.

July 25, 2002: North Korea issues statement of regret over June 29 naval clash.

July 26-Aug. 3, 2002: Secretary of State Colin L. Powell visits India, Pakistan, Thailand, Malaysia, Singapore, Indonesia, the Philippines, and Brunei.

July 30, 2002: ASEAN Plus Three Foreign Ministers meet in Brunei.

July 30-31, 2002: Energy Secretary Abraham visits Moscow.

July 31, 2002: Secretary Powell attends ASEAN Regional Forum (ARF) meeting in Brunei, hold informal talks with North Korean Foreign Minister Paek, the first high-level contact between the U.S. and DPRK in two years.

Aug. 2, 2002: Secretary Powell on visit to Jakarta announces U.S. will resume military training as part of U.S. counterterrorism assistance.

Aug. 2, 2002: Malaysian PM Mahathir and Australian FM Downer sign counterterrorism pact in Kuala Lumpur.

Aug. 3, 2002: Taiwan President Chen Shui-bian raises the possibility of a referendum on independence, states there is one country on each side of the Straits.

Aug. 5, 2002: Taiwan Premier Yu transits U.S. through Los Angeles and New York en route to Latin America.

Aug. 5, 2002: Taiwan Mainland Affairs Council chairperson issues statement that President Chen's remarks do not signal a policy change.

Aug. 5, 2002: Japan's FM Kawaguchi visit Burma, meets with Gen. Than Shwe and pro-democracy activist Aung San Suu Kyi.

Aug. 7, 2002: State Department special envoy Jack Pritchard attends ceremony in North Korea commemorating the first pouring of concrete in the KEDO project.

Aug. 12, 2002: Japan hosts ASEAN Plus Three meeting to address overseas development assistance.

Aug. 12, 2002: Philippine Defense Secretary Angelo Reyes meets with Secretary of Defense Donald Rumsfeld at the Pentagon. New five-year plan for stepped-up U.S. military assistance to the Philippines announced.

Aug. 18-19, 2002: Malaysian PM Mahathir visits Burma.

Aug. 20-21, 2002: APEC senior officials meet in Acapulco.

Aug. 20-23, 2002: DPRK leader Kim Jong-il visits Russia, meets Russian President Putin in Vladivostok.

Aug. 22, 2002: Seventh PRC-Russia Prime Ministers' meeting held in Shanghai.

Aug. 25, 2002: China's announces that the 16th Party Congress will be held Nov. 8.

Aug. 25, 2002: China issued new regulations on the export of missile technology.

Aug. 25-26, 2002: North Korea and Japan hold the first governmental talks since 2000 in Pyongyang.

Aug. 26, 2002: Deputy Secretary of State Armitage meets Vice President Hu in Beijing to finalize preparations for U.S.-China summit in October.

Aug. 27, 2002: PM Koizumi and Deputy Secretary Armitage meet in Tokyo; Koizumi informs the U.S. of his plan to visit North Korea Sept. 17.

Aug. 29, 2002: Undersecretary of State Bolton visits Seoul, defends President Bush's "axis of evil" comment.

Aug. 30, 2002: The two Koreas agree to restore road and rail links across the border, beginning on Sept. 18.

Aug. 30, 2002: Japanese PM Koizumi announces intention to meet with DPRK President Kim Jong-il in North Korea on Sept. 17.

Sept. 3, 2002: Russia announces intention to ratify the Kyoto treaty on global warming.

Sept. 3-15, 2002: Chinese National People's Congress Chairman Li Peng visits Thailand, Indonesia, and Philippines.

Sept. 6, 2002: APEC finance ministers meeting, Los Cabos, Mexico.

Sept. 6-7, 2002: Trilateral Coordination and Oversight Group (TCOG) meets in Seoul.

Sept. 9, 2002: The State Department announces U.S. Embassy in Jakarta and the U.S. consulate in Surabaya will close because of a threat of attack.

Sept. 9-14, 2002: PM Koizumi in the U.S.; meets President Bush and gives speeches at Harvard University, the United Nations, and the Council on Foreign Relations.

Sept. 11, 2002: The UN Sanctions Committee adds Xinjiang separatist group, East Turkestan Islamic Movement, to its list of terrorist organizations following U.S.-China request.

Sept. 11, 2002: Japan raises suspected North Korean spy-ship.

Sept. 11, 2002: Secretary Bolton arrives in Moscow for senior level talks.

Sept. 11, 2002: Russian President Putin threatens preemptive counterterrorism attacks against Georgia.

Sept. 12, 2002: President Bush addresses UN General Assembly, calls for intrusive inspections to halt Iraq's WMD programs.

Sept. 12, 2002: Pyongyang announces plans to set up a special administrative region in the northwestern city of Sinuiji on the Chinese border.

Sept. 13, 2002: Malaysian PM Mahathir Mohamad announces intention to resign from all elected posts after his planned retirement late next year.

Sept. 13, 2002: FM Tang vows before the U.N. General Assembly that China will never allow Taiwan to become independent.

Sept. 13-18, 2002: North-South Korea family reunions at Mt. Kumgang.

Sept. 14, 2002: ASEAN Plus Three Economic Ministers meeting, Brunei.

Sept. 14, 2002: China warns Singapore of “trouble” if it establishes an FTA with Taiwan.

Sept. 17, 2002: PM Koizumi visits Pyongyang. DPRK leader Kim-Jong-il apologizes for his country’s abduction of Japanese citizens.

Sept. 17, 2002: Singapore Senior Minister Lee Kuan Yew visits Taiwan after PRC visit.

Sept. 18, 2002: Reconstruction of railways and roads through Korean DMZ begins.

Sept. 20, 2002: Washington releases *The National Security Strategy of the United States of America*, which addresses need for preemption against WMD threat.

Sept. 20, 2002: Japan issues demand for compensation from North Korea for abducting Japanese citizens.

Sept. 20, 2002: Taiwan’s First Lady arrives in U.S. for a private visit.

Sept. 23, 2002: Pyongyang announces the establishment of a special administrative region near its border with China in the northwestern city of Sinuiju.

Sept. 23-24, 2002: Asia-Europe (ASEM) Meeting in Copenhagen.

Sept. 24-26, 2002: U.S. special envoy Pritchard meets with DPRK officials in NY.

Sept. 26, 2002: U.S. announces Asst. Secretary of State James Kelly will visit Pyongyang on Oct. 3.

Sept. 27, 2002: Indonesian FM Wirayuda visits Moscow to discuss preparations for President Megawati’s visit to Russia in early 2003.

Sept. 28, 2002: North Korea announces that foreigners will be allowed to enter the special administrative region without visas.

Sept. 29, 2002: Asian Games open in Pusan; North-South Korean athletes march under common flag.

Sept. 30, 2002: UN announces that donation shortfalls will force it to drastically reduce grain rations to North Korea.

U.S.-Japan Relations: An Oasis of Stability

by Brad Glosserman
Director of Research, Pacific Forum CSIS

It has been another peaceful quarter for U.S.-Japan relations. That the bilateral relationship could be so calm despite the tumult in international diplomacy generally is testimony to the current strength and stability of the alliance. Prime Minister Koizumi Junichiro's surprise visit to Pyongyang and the U.S.'s full court press to get the international community to take action against Iraq have provided ample opportunities for friction in relations between Washington and Tokyo. Although critics see tensions on the rise, the two governments seem to be keeping their differences at a manageable level.

Success could prove temporary. At the best of times, the U.S. and Japan have very different approaches to international problem solving; the Bush administration's muscular foreign policy – as made evident in the newly published *The National Security Strategy of the United States of America* (NSS) – may prove to be more than the Japanese public is willing to bear. Washington's fixation on “regime change” in Iraq threatens to put the alliance under serious strain. Fortunately, in this context, managing relations with Japan demands no more of Washington than that which the U.S. should provide the international community more generally: convincing evidence that underpins U.S. concerns and respect for the views of others.

Shoulder to Shoulder on Sept. 11

Prime Minister Koizumi was in the United States for the Sept. 11 anniversary and made several high-profile appearances during his stay. He set the tone for his visit in his speech to the Council on Foreign Relations (CFR) in New York City, the day before the commemoration services. He waxed enthusiastic, noting, “Our two countries, which fought a war only half a century ago, have built an exemplary alliance... [it] is the cornerstone for the peace and prosperity of not only the Asia Pacific region but the entire world.” He concluded that “Japan-U.S. ties are now closer and deeper than ever in our history.”

At a Sept. 13 press conference in New York City, Koizumi expressed his profound remorse for the senseless events of Sept. 11 in stark language. It was a powerful performance for a Japanese politician, but one we have come to expect from this prime minister. As he explained in remarks that the U.S. administration no doubt appreciated, he “realized once again the enormity of damage caused by terror attacks and I felt the deep sorrow of the bereaved families of the terror victims. I renewed my determination

that we should never allow such terror attacks to reoccur. I also felt that our fight against terror has not ended: Terrorists could strike us anywhere in the world today, so through cooperation with countries around the world, we should carry on our fight against terrorism.”

He continued along that line in words that provided much-needed support for Washington in its fight to win international opinion over against Iraq. “Iraq, in the first instance, needs to observe the numerous UN resolutions that have been passed in the past. So it is important that the Iraqis live up to those resolutions.” Koizumi made the same point to the United Nations, when he said, “The international community must stand together to prevent the spread of weapons of mass destruction. Iraq’s denial of inspection for such weapons is a great concern to the international community. ...We must maintain a resolute attitude through repeated diplomatic efforts. Iraq must comply with UN Security Council resolutions. It should allow immediate and unconditional UN inspection, and it should dispose of any weapons of mass destruction. Japan will pursue efforts in this endeavor together with the United States.”

Solidarity, but ...

The Bush administration is gratified by the strong support from its ally, but it is not unconditional. Koizumi also made clear that he expects all action to go through the UN. Speaking to the General Assembly, the prime minister explained that, “The current fight against terrorism has made progress precisely because the international community responded with solidarity and cooperation. Japan firmly believes that such unity and collaboration should be preserved.”

That approach is to be expected when speaking to the UN. But Koizumi stressed the same point in his remarks to the press before leaving. “In case the United States does act in its response to Iraq, the most important point is international cooperation, international coordination. This is a point that I stressed in my *tete-a-tete* meeting with President Bush.”

Looking for Wedges, Finding None

Another key issue in that meeting was Mr. Koizumi’s upcoming trip to North Korea, the first ever by a Japanese prime minister. News of the one-day visit was sprung on the world on Aug. 27 (for more details, see Victor Cha’s chapter on Japan-Korea relations, in this volume, “Mr. Koizumi Goes to Pyongyang.”). Analysts looked for signs of friction in the bilateral relationship, convinced that the U.S. had been caught offside by the announcement and was unhappy with the overtures to Pyongyang. In fact, the U.S. had been consulted as quickly as possible. The North Korea initiative had been kept secret from all but a handful of the prime minister’s closest aides; as soon as there was news to report, the Bush administration had it. In fact, the U.S. was informed ahead of the prime minister’s coalition partners.

Koizumi briefed President Bush personally on his anticipated trip. As he explained in the press conference, the trip was intended “to make a breakthrough in the process of establishing better relations between Japan and North Korea. I explained this to President Bush, and he expressed his very encouraging support.” The prime minister said he intended to raise questions about North Korea’s program to develop weapons of mass destruction as well as its nuclear weapons development program, two concerns the U.S. shares.

At a briefing after the Bush-Koizumi meeting, a senior administration official stressed the U.S. president’s support for the Koizumi visit. According to him, Bush said “it’s important that you talk to them ... that North Korea has to address the whole broad range of issues it has with the outside world, including conventional weapons, including weapons of mass destruction and their delivery vehicles, including its treatment of its own citizens.”

In his speech to the CFR, Koizumi pointed expressly to the need for U.S.-Japan cooperation to promote regional stability. Since “reducing tensions on the Korean Peninsula is crucial for the stability of East Asia,” the Japanese overtures fit neatly into the alliance framework. Speaking to the press before he returned to Japan, he framed the issue trilaterally: “The Japan-North Korea question needs to be addressed under close cooperation amongst our three countries: Japan, the United States, and the Republic of Korea. This is a point that I have stressed from time to time. And on my visit to North Korea next week, and also in our future response to North Korea, our three countries, Japan, the United States, and the Republic of Korea, will need to maintain such close cooperation.”

Cracks Appear

While all may have been sweetness and light prior to the visit, things became more complicated when Koizumi returned. The surprise admission by North Korean leader Kim Jong-il that the DPRK had in fact abducted more than a dozen Japanese (including one the Japanese didn’t even know about) was a stunning move. It effectively eliminated the major obstacle to normalizing relations with Japan and put the burden clearly on the U.S. to move forward on its own with Pyongyang. Ditto with Koizumi’s claim that Kim agreed to extend the missile testing moratorium and accept international nuclear inspections – although the exact meaning of those two statements is unclear. The reports that Koizumi had a message from Kim calling on Washington to open a dialogue added to the pressure.

For administration hardliners, the concessions were tactical moves by the North Korean leader to wrong foot the U.S. and gain the upper hand. Perhaps, but it seemed to work. Reportedly, it took the U.S. three days to accept a phone call from Koizumi to explain his trip – and deliver the message from Kim. At a minimum, the delay suggests confusion in the administration on how to respond; at worst, it is a rebuke to the Japanese for isolating the U.S. in dealing with the North. Notably, the U.S. agreed to send Assistant Secretary of State for East Asian and Pacific Affairs James Kelly to Pyongyang for talks in early

October. He will stop in Tokyo and Seoul on both legs of the trip to ensure that there is no confusion or lack of trilateral coordination.

Making Room for Japan in U.S. National Security Policy

The trans-Pacific partnership is a key element of the “National Security Strategy” released in September. The document makes it clear that the U.S.-Japan relationship will continue to play a central role in U.S. thinking about Asia. It applauded the “unprecedented” security cooperation offered by Japan in the aftermath of Sept. 11 and notes that the U.S. will “look to Japan to continue forging a leading role in regional and global affairs based on our common interests, our common values, and our close defense and diplomatic cooperation.”

At the same time, the NSS continues the gentle prodding of Japan on the economic front. The report argues that, “A return to strong economic growth in Europe and Japan is vital to U.S. national security interests. We want our allies to have strong economies for their own sake, for the sake of the global economy, and for the sake of global security.” It highlights the need for “Japan’s efforts to end deflation and address the problems of non-performing loans (NPLs) in the Japanese banking system.” The NSS also makes clear that the old days are gone. Rather than high-profile bashing, the U.S. will instead use regular consultations and the Group of Seven (G-7) to discuss economic policies.

Make or Break for Koizumi?

At the end of the quarter there were signs that the prime minister was preparing to take action on the economic front. During his CFR speech, Koizumi defended his economic record. “Since its inception, my administration has been doing all it can to pursue ‘structural reforms without sanctuary.’ ... We have decided to abolish or privatize special public institutions. We are transferring postal services to a public corporation next April, and will prepare for its future privatization ... My administration will rapidly push forward structural reforms to seek a streamlined and efficient government and a revitalized private sector, in order to achieve sustained economic growth led by private sector demand.”

Observers credit the prime minister with commitment to economic reform. Koizumi noted that, “The Japanese economy has considerable potential for growth.... Unless we carry out the necessary structural reforms, the revival of the economy will not happen.” He understands that “the revival of Japan’s economy, which accounts for 13 percent of the global economy, is itself the biggest contribution that Japan can make to the international community.”

In his meeting with President Bush, the prime minister explained that he thinks he is making progress, and that he had plans that he would soon be revealing to push reform more vigorously. Specifically, according to a senior administration official, he “expressed a determination to move on nonperforming loans.”

The first sign of those plans was revealed in the long-awaited Cabinet shuffle that came at the end of the quarter. Most significantly, he gave Takenaka Heizo, the economics “superminister,” the portfolio of the Financial Supervisory Agency (FSA), replacing Yanagisawa Hakuo. Yanagisawa was increasingly seen as an obstacle to a resolution to the NPL problem because of his opposition to the use of additional state funds to bail out the banks. Takenaka enjoys the prime minister’s confidence and seems to understand the need for action. He is not a politician and thus is thought to be free of the vested interests that might block real reform.

The problem is that it is not clear if the prime minister, or his team, has a grip on what is required. Speaking at an economics conference in Italy in early September, Takenaka confessed that “at this moment we do not have any clear plan regarding nonperforming loans.” “Honestly speaking, the pace of the writing-off of nonperforming loans has slowed and we need more radical action.” Takenaka also conceded that he doubts the economy will recover anytime soon. He expects growth of between zero and 0.5 percent a year for the period, and the brightest outlook is 2 percent growth in about three years.

In the last half of September, there were a flurry of proposals from all quarters, none of which inspired much confidence. On Sept. 18, the Bank of Japan (BOJ) announced plans to buy equities from commercial banks. This historic plan (the BOJ founding law does not permit such purchases and must be amended to do so) would help banks recover losses on assets that shrink their capital base and theoretically constrict their lending.

This was followed days later by a proposal by the FSA that the Resolution and Collection Corporation (RCC), a state-owned body set up to purchase the banks’ bad loans, be authorized to buy more bad loans at book value, effectively subsidizing the banks through the back door. It is not clear how serious this proposal is.

Nor was there much confidence following the Japanese performance at the meeting of G-7 finance ministers that was held in Washington during the last days of September. Finance Minister Shiokawa Masajuro and Ministry of Finance bureaucrats openly contradicted each other five times while explaining the contents of meetings between Shiokawa and his U.S. counterpart, Treasury Secretary Paul O’Neill. For his part, O’Neill expressed confusion at the point of Japanese policy – even when he could figure out what the policy was.

The U.S., primarily in the person of Council of Economic Advisors Chairman Glenn Hubbard, has continued to call on Japan to take active measures to combat deflation. The much promised antideflation package is now due out in October and, unfortunately, promises yet another grim discussion in next quarter’s analysis.

For many observers, this Cabinet shuffle is Koizumi’s last chance to prove his commitment to reform. His popularity is high after the visit to North Korea and he has outflanked the old guard by shuffling the Cabinet without going through factional leaders as was the tradition. A failure to move now would prove that Koizumi hasn’t the stamina or the tools to tackle the tough problems. Indeed, some observers question whether the

prime minister has his economic priorities straight. The recent focus on fiscal reform and trimming government spending – highlighted in his CFR speech – appears to be a repeat of the disaster that followed Hashimoto Ryutaro’s government in 1997, which choked off an economic recovery by imposing new taxes.

Takenaka has not yet endorsed a specific plan to get the banks back on their feet. He has outlined three principles to guide policy: 1) ensure loans are properly classified with sufficient bad-loan provisions; 2) ensure banks are properly capitalized; and 3) pay attention to bank governance. They make sense, but as always, the issue is how and when they will be implemented.

Seeds of Dischord?

Given the potential problems that the U.S.-Japan alliance faces, the good mood that currently prevails is remarkable. Given the concern in the international economy and the need for a Japanese recovery, the low-key U.S. approach to Japan’s economic ills should be considered astounding – at least by past standards. But as I have noted before, this is less the product of faith in Japan’s ability to get things right than resignation about the U.S. inability to do anything about the problem. It is unclear how continued unwillingness to make hard choices will affect U.S. thinking.

As long as Japan continues to stand with the U.S. on key issues, Washington will be patient. The appointment of Ishiba Shigeru as director general of the Defense Agency is a good sign. The Liberal Democratic Party legislator takes defense issues seriously and has said that he has been told to make the emergency response legislation tabled and then withdrawn during the last Diet session, a top priority. That is the sort of initiative that the U.S. is looking for in its ally.

Unfortunately, there are plenty of matters that could divide the two countries. The Bush administration’s unseemly rush to war against Iraq is one possible cause of contention. It is unclear how Japan will react if the U.S. parts ways with the UN in its attempts to bring about regime change in Baghdad. Similarly, the preemptive doctrine outlined in the NSS could worry any Tokyo government.

At the UN, Koizumi declared that “Japan will continue its efforts to realize a peaceful and safe world free of nuclear weapons as early as possible. Toward that end, we will propose a draft resolution titled, ‘A path to the total elimination of nuclear weapons’ at this session of the General Assembly, and will redouble our efforts to achieve the early entry into force of the Comprehensive Nuclear Test Ban Treaty.” Neither policy sits well with the U.S. administration; implementation of the NSS could well call for new nuclear tests. In other words, no matter how rosy the state of U.S.-Japan relations, there is nothing to be taken for granted.

Chronology of U.S.-Japan Relations July-September 2002¹

July 4, 2002: Universal Studios Japan (USJ) says it served expired food items from June 2001 to Feb. 2002.

July 6-7, 2002: *Mainichi Shimbun* reports Japanese Prime Minister Koizumi Junichiro's approval rate has recovered to 44 percent.

July 8, 2002: Tokyo extends deadline for retaliation against U.S. emergency tariffs on steel items to Aug. 31.

July 8, 2002: Deputy Secretary of State Richard Armitage and Japanese Ministry of Foreign Affairs (MOFA) Director General of the Asian and Oceania Affairs Bureau Tanaka Hitoshi meet in Washington and discuss Japan's North Korea policy.

July 12, 2002: Japanese Defense Agency (JDA) head Nakatani Gen announces Self-Defense Forces (SDF) integration plan.

July 15, 2002: Tokyo District Court rejects U.S. government lawsuit over Atsugi Air Base contract signed in the 1980s. The lawsuit was originally filed in 1994.

July 18, 2002: The National Governors Association demands the review of the Japan-U.S. Status of Forces Agreement (SOFA).

July 20-21, 2002: *Asahi* poll shows that 20 percent of voters favor Koizumi, 11 percent Tokyo Gov. Ishihara Shintaro, as next prime minister.

July 23, 2002: Liberal Democratic Party members establish a study group for revisions of U.S.-Japan SOFA.

July 24, 2002: U.S. and Japanese officials say Japan plans to station two Japanese SDF officials at the U.S. Central Command in Tampa, FL.

July 26-27, 2002: Japan and European Union agree to oppose cuts in farm tariffs and subsidies proposed by the U.S.

July 29, 2002: Tokyo and Okinawa prefecture agree to relocate U.S. Marine heliport in Ginowan to Nago, Okinawa.

Aug. 3, 2002: U.S. Secretary of State Colin Powell and Japanese FM Kawaguchi Yoriko meet at Brunei during ASEAN Regional Forum meeting.

¹ Chronology compiled by Pacific Forum Vasey Fellow Nakagawa Yumiko.

Aug. 6, 2002: 57th anniversary of Hiroshima atomic bombing. Hiroshima Mayor Akiba Tadatoshi denounces U.S. unilateralism and warns “[t]he probability that nuclear weapons will be used and the danger of nuclear war are increasing.” PM Koizumi repeats no-nuclear policy.

Aug. 8, 2002: MOFA Director General Tanaka visits Washington to consult on North Korea policy with the Bush administration.

Aug. 9, 2002: 57th anniversary of Nagasaki atomic bombing. Nagasaki Mayor Ito Itcho condemns U.S. nuclear policy. PM Koizumi repeats Japan’s no-nuclear policy.

Aug. 9, 2002: The Ginowan Municipal Assembly protests U.S. military training flights.

Aug. 12, 2002: The Okinawa Prefectural Assembly passes resolution to protest machinegun drills conducted by U.S. military, claiming they threaten Okinawa citizens.

Aug. 12, 2002: U.S. Department of Commerce and USTR announce that 30-40 percent of steel imports from Japan will be added to their list of exclusions from emergency tariffs.

Aug. 13, 2002: Kitty Hawk crew member is arrested on suspicion of robbery in Kanagawa.

Aug. 13, 2002: Washington announces it will add 37 steel imports from Japan to safeguard exemptions list.

Aug. 16-19, 2002: U.S. nuclear aircraft carrier Abraham Lincoln docks at Sasebo.

Aug. 16, 2002: Nasdaq Japan announces that it will terminate operations.

Aug. 20, 2002: Emergency simulation drill of a radiation leak from a US nuclear-powered submarine is held in Yokosuka, involving 400 local residents, SDF members, and Cabinet officials.

Aug. 22, 2002: *Asahi* reports that Tokyo will not sign a bilateral treaty with the U.S. to avoid handing over U.S. soldiers to the International Criminal Court, as has been requested by Washington.

Aug. 23, 2002: *Kyodo News* reports Kitty Hawk crew was arrested in early August for smuggling 4 million yen worth of marijuana.

Aug. 27, 2002: PM Koizumi and Deputy Secretary Armitage meet in Tokyo; Koizumi informs the U.S. of his plan to visit North Korea Sept. 17.

Aug. 28, 2002: *Asahi* and *Yomiuri* polls show that PM Koizumi’s support rate is 43 percent and 45.7 percent respectively, a 4-5 percent decline.

Aug. 29, 2002: U.S. forces participate in Okinawa Prefectural disaster preparedness drill for the first time.

Sept. 4, 2002: *Asahi* poll shows 77 percent of Japanese oppose a U.S. military attack on Iraq, while 32 percent of Americans oppose.

Sept. 6-7, 2002: Trilateral Coordination and Oversight Group (TCOG) meets in Seoul.

Sept. 9-14, 2002: PM Koizumi in the U.S.; meets President Bush and gives speeches at Harvard University, the United Nations, and the Council on Foreign Relations.

Sept. 10, 2002: Chief Cabinet Secretary Fukuda denies *Asahi* report on the prospect of a Japanese military role in Afghanistan.

Sept. 10, 2002: Japanese National Space Development Agency launches third H-2A rocket.

Sept. 11, 2002: Japan raises suspected North Korean spy-ship.

Sept. 13, 2002: U.S. Council for Economic Advisors (CEA) Chairman Glenn Hubbard urges the Bank of Japan to take action to fight deflation.

Sept. 17, 2002: PM Koizumi meets Kim Jong-il in Pyongyang.

Sept. 17, 2002: FM Kawaguchi meets National Security Advisor Condoleezza Rice and other senior officials in Washington.

Sept. 18, 2002: Bank of Japan Governor Hayami announces plan to buy bank equity holdings directly.

Sept. 23, 2002: *TV Tokyo* poll shows that PM Koizumi's approving rate reached 71 percent.

Sept. 23, 2002: USCEA Chairman Hubbard urges Tokyo to support the Bank of Japan's monetary policy to fight deflation.

Sept. 28-29, 2002: At G-7 finance ministers meeting, U.S. Treasury Secretary Paul O'Neill expresses confusion about Japan's recent policy. "I did not come away with understanding of how these particular interventions are going to contribute to a change."

Sept. 29, 2002: *Nikkei Weekly* reports that senior Liberal Democratic Party member Nakagawa Hidenao had discussed with leaders of ASEAN nations the possible relocation of the U.S. Marine bases in Okinawa to ASEAN nations.

Sept. 30, 2002: PM Koizumi reshuffles Cabinet; gives Financial Services portfolio to METI Minister Takenaka Heizo and replaces Defense Agency head Nakatani with Ishiba Shigeru.

U.S.-China Relations:
Playing up the Positive
On the Eve of the Crawford Summit

by Bonnie S. Glaser
Consultant on Asian Affairs

Preparation for the U.S.-China October summit between Presidents George W. Bush and Jiang Zemin in Crawford, Texas proceeded smoothly this quarter. During Deputy Secretary of State Richard Armitage's August visit to Beijing, the United States and China exchanged positive gestures. Washington endorsed China's claim that at least one separatist group in Xinjiang has links to the al-Qaeda terrorist network and announced that its assets in the United States would be frozen. The Chinese in turn released new rules on the export of missile technology and a missile technology control list. Both countries signaled their growing satisfaction with bilateral cooperation in the counterterrorism arena. A crisis was averted over Taiwan President Chen Shui-bian's Aug. 3 statement that there is "one country on each side" of the Taiwan Strait.

The mid-July release of two reports on China, one by the Department of Defense and the other by a bipartisan congressional commission, stirred concern in China. Overall, relations improved as both Beijing and Washington advanced their respective interests by emphasizing the positive elements of their relationship.

Armitage Visits Beijing for Summit Preparation

In late August, Deputy Secretary of State Armitage visited Beijing as part of a five-nation tour that included Sri Lanka, India, Pakistan, and Japan. He spent one day that was crammed with meetings with Vice President Hu Jintao, Vice Premier Qian Qichen, Foreign Minister Tang Jiaxuan, his host Vice Foreign Minister Li Zhaoxing, and Deputy Chief of the General Staff Gen. Xiong Guangkai. The primary objective of Armitage's Beijing stopover was to make preparations for the planned October summit meeting between Presidents Bush and Jiang. According to the deputy secretary, he discussed a wide range of bilateral and regional issues with Chinese officials, including counterterrorism cooperation, South Asia, human rights, missile proliferation, Iraq, and Taiwan.

In a press briefing following his discussions, Armitage delivered upbeat comments on virtually every topic in what seemed to be a deliberate effort to highlight the cooperative side of the bilateral relationship and the shared interests between the two countries. "I think the senior leadership of the United States is quite intent on developing a good, solid

relationship with the People's Republic of China," Armitage told reporters, dismissing the hawkish, skeptical stance of some in Congress and inside the administration. "There's enough mutual trust and confidence that we can disagree without being disagreeable." He also praised Beijing for its "strong commitment to standing with us in the international fight against terrorism." Issues on which the two sides took divergent positions were addressed in a "constructive as well as candid" manner.

In discussions on South Asia, Armitage thanked the Chinese side for its intensive efforts to ease tensions between India and Pakistan. He declared U.S. intention to continue to "consult closely" with the Chinese in managing the volatile situation in South Asia. On the issue of how to handle Iraq, Armitage also promised to confer with Beijing and emphasized that President Bush had made no final decisions about whether and when to use military force. In response to almost certain Chinese urging that the U.S. resolve the problem of Iraq and its weapons of mass destruction (WMD) programs through negotiations and dialogue within the framework of the United Nations, Armitage raised the negative consequences for the credibility of the United Nations as a body of permitting a nation to continuously defy United Nations Security Council resolutions.

In an effort to strengthen the bilateral relationship on the eve of the Bush-Jiang summit, both Beijing and Washington seized the opportunity presented by Armitage's visit to exchange positive gestures. The U.S. endorsed China's claim that at least one separatist group in Xinjiang has connections to the al-Qaeda terrorist network and announced that its assets in the United States would be frozen. Beijing in turn released new rules on the export of missile technology and a missile technology control list.

East Turkestan Islamic Movement Assets are Frozen

In a small, but significant, concession to Beijing, Deputy Secretary of State Armitage relayed to Chinese officials that the Bush administration had decided to freeze any U.S.-based assets of a group seeking independence for China's Muslim Xinjiang region. The group, called the East Turkestan Islamic Movement (ETIM), was placed under an executive order signed by President Bush after the Sept. 11 attacks that singles out groups deemed to pose a terrorist threat to Americans or U.S. interests. The ETIM was subsequently officially accorded the designation of a foreign terrorist organization. This constituted an important gesture to Beijing because the Bush administration had long resisted any linkage between the war on terrorism with China's efforts to crush separatist movements in its northwest region.

Armitage explained that the decision had been made after an independent U.S. investigation into Chinese claims that several Uighur groups were involved in terrorist activities. "After careful study we judged that it was a terrorist group, that it committed acts of violence against unarmed civilians without any regard for who was hurt," Armitage said in the press conference held in Beijing. He also indicated that pressing China to respect minority rights, particularly the Uighurs, remained a priority of Bush administration policy.

The announcement of Washington's decision was greeted with skepticism in many Western European capitals, however. Some Western diplomats and scholars alleged that the determination to freeze ETIM assets in the U.S. was a political favor to Beijing to win support for tougher action against Iraq and continued cooperation in the war on terror. Many voiced concern that the designation would be used by China to legitimize its crackdowns in Xinjiang. U.S. government officials adamantly denied these charges, insisting that ample evidence had been independently gathered that proved the involvement of the ETIM in international terrorism.

In September, the UN added the ETIM to its list of terrorists and terrorist supporters associated with Usama bin Laden and his al-Qaeda network in response to a request by the U.S., China, Afghanistan, and Kyrgyzstan. The U.S. Department of the Treasury welcomed the designation, which requires UN member states to freeze the group's assets and deny entry to its members, as "an important step toward greater cooperation in Central Asia against common terrorist threats and the instability and horror that they sow." In an effort to mollify its critics, the Treasury Department statement provided additional background information on the ETIM, including its close relationship with al-Qaeda and the Taliban as well as ETIM schemes to attack U.S. interests and nationals abroad.

New Export Control Regulations Advance Nonproliferation Cooperation

Just before Armitage's plane touched down in Beijing, China announced the signing into law of new regulations controlling the export of missile technology. The new rules do not explicitly ban any items from export, but they require companies that transfer technologies specified on a "control list" to acquire licenses and seek approval from government regulatory bodies for each transaction. They also require the companies to obtain guarantees from their foreign customers that the technology will not be misused or resold. The long-awaited issuance of export controls on missile technology – which had been promised by the Chinese government in November 2000 – aimed to address U.S. concerns about the transfer of sensitive equipment and technology to Middle Eastern nations, especially Iran.

Chinese diplomats had previously maintained that they would not publish the export regulations until the United States lifted restrictions barring U.S. companies from launching satellites on Chinese rockets. The Chinese government had also objected to sanctions imposed in Sept. 2001 on specific companies accused of exporting missile components to Pakistan. Beijing's decision to proceed with promulgation of the new regulations despite the U.S. refusal to concomitantly respond to Chinese demands was designed to bolster China-U.S. relations on the eve of President Jiang's visit to President Bush's Texas ranch in October.

The Chinese Missile and Missile Technology Control List is reasonably comprehensive, and generally follows the Missile Technology Control Regime (MTCR) Annex text. There are a few potentially significant omissions and differences with the MTCR Annex text, however, which may portend problems in the future. The Bush administration

welcomed the new regulations, but cautioned that enforcement and “actual reduction” in missile exports was needed. State Department spokesman Richard Boucher noted that continuing activities by Chinese entities in violation of international standards remained a problem and called on the Chinese government to “stop and curb those activities.”

After the release of the new regulations, China urged the United States to end the satellite ban and lift sanctions on Chinese companies accused of missile technology proliferation. Referring to U.S. sanctions, Director General of the Department of Arms Control and Disarmament in the Chinese Ministry of Foreign Affairs Liu Jieyi maintained, “first we believe they are not warranted and secondly we don’t believe that sanctions are appropriate for proliferation issues where cooperation is better.”

The issuance of the export control regulations paves the way for resumption of the bilateral nonproliferation dialogue. During the press conference in Beijing, Secretary Armitage said he hoped those talks would be convened in the “very near future” and would result in the granting of licenses for U.S. satellites to be launched in China. Bilateral discussions will also address other outstanding issues in the nonproliferation realm. The dispute over whether missile contracts signed by China prior to November 2000 are covered under the U.S.-China accord remains unresolved. The U.S. has also insisted that China reaffirm its agreement last November to refrain from assisting other countries to develop missiles capable of delivering nuclear weapons.

The sale of chemicals and related technology by China is another U.S. concern that produced new sanctions on Beijing in this quarter. Nine Chinese companies and an Indian businessman were sanctioned in July for selling goods or technology to Iran, where they were allegedly put to use by that country’s chemical and conventional weapons programs. The sanctions bar firms from doing business with the United States government, forbid them to export goods into the United States, and prevent U.S. companies from exporting certain items to them. Most of the sanctions will last two years, U.S. officials said. The sanctions were imposed under the Iran-Iraq Arms Non-Proliferation Act of 1992, which addresses transfers to Iran, and the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991. This is the fourth time the Bush administration has sanctioned Chinese companies for export-control violations.

Strengthening Counterterrorism Cooperation

In this quarter, China and the U.S. made progress in jointly fighting terrorism and both signaled their growing satisfaction with bilateral cooperation in the counterterrorism arena. In mid July, Beijing agreed to consider a request from Washington to place U.S. customs inspectors at Chinese ports to help inspect U.S.-bound sea cargo. The U.S. is eager to persuade China to join its Container Security Initiative (CSI), which so far includes the Netherlands, Belgium, France, Germany, Singapore, Japan, and Hong Kong. A decision to join the CSI pact would allow the exchange of information and collaboration between the U.S. and China to enable the identification, screening, and sealing of containers deemed high risk. If discussions proceed smoothly, Beijing may sign up in time for an announcement of the agreement at the Crawford summit.

At the invitation of U.S. Treasury Secretary Paul O'Neill, Chinese Finance Minister Xiang Huaicheng led an official delegation to the United States to co-chair the 15th session of the China-U.S. Joint Economic Committee (JEC) in early September. Among the items discussed was cooperation on terrorist financing and anti-money laundering. Both sides pledged to reinvigorate efforts to combat the financing of terrorism and money laundering, including improving international cooperation and placing greater focus on financing mechanisms outside the mainstream financial system. China clarified the role of its existing mechanism for fighting the financing of terrorism and its recently established inter-ministerial coordinating mechanisms for anti-money laundering.

In his press briefing in Beijing, Deputy Secretary Armitage summed up counterterrorism cooperation as a "pretty good picture for the U.S. and China." Chinese Foreign Minister Tang expressed similar gratification for the antiterrorism collaboration between the two countries. In an interview with the New York-based Chinese newspaper *Qiao Bao* in mid-September, Tang noted that the U.S. and China had established "a medium- and long-term antiterror exchange and cooperation mechanism" and "carried out fruitful consultation and cooperation on the basis of two-way cooperation, equality, and mutual benefit." Privately U.S. officials said that information sharing had increased and was being conducted reciprocally. There were reports that the U.S. had perhaps half a dozen Uighur suspects in custody at its naval base in Guantanamo Bay, Cuba and had shared the results of the prisoners' interrogation with Beijing.

Managing Differences over Taiwan

Taiwan President Chen Shui-bian's Aug. 3 statement that there is "one country on each side" of the Taiwan Strait aroused concern in Beijing, but the Chinese reacted mildly because they estimated that a forceful response could strengthen Chen's domestic position, harm China's international image, and trigger Sino-U.S. friction on the eve of the Bush-Jiang summit. Instead, Beijing looked to Washington to reproach President Chen. Initially, Beijing feared that Taiwan's president had consulted with the Bush administration in advance of delivering his remarks and were greatly relieved to be convinced that there was no such conspiracy. The U.S. National Security Council spokesman reaffirmed Washington's "one China" policy and reiterated that the U.S. does not support Taiwan independence. In a carefully worded, even-handed statement, the spokesman called on all parties to avoid steps that might threaten cross-Strait peace and stability, and urged the resumption of dialogue between Beijing and Taipei. Chinese officials welcomed the timely reaffirmation of U.S. policy, but were disappointed that U.S. officials refrained from directly criticizing President Chen and failed to point out the contradiction between Chen's remark and the U.S. "one China" policy. Many Chinese had hoped that Chen would be labeled a "troublemaker" as President Lee Teng-hui had been branded in 1999 following his claim that relations between Beijing and Taiwan were "special state-to-state relations."

Beijing voiced its objections to numerous developments in U.S.-Taiwan relations this quarter, but most of its protests were relatively mild. Beijing made "solemn

representations” to Washington about the presence in the United States of Taiwan’s Premier Yu Shyi-kun, who transited the U.S. en route to Latin America, and Tsai Ing-wen, chairwoman of Taipei’s Mainland Affairs Council, whose visit to Washington was hastily arranged to discuss President Chen’s Aug. 3 statement. Chinese officials also protested the visit to the United States by Taiwan’s Vice Defense Minister Kang Ning-hsiang. Yet another protest was precipitated by reports that the U.S. was considering delivering 120 AIM-120 Advanced Medium-Range Air-to-Air Missiles (AMRAAM) to Taiwan, which had been approved by the Bush administration last year under the condition that the missiles be stored in the U.S. and transferred to Taiwan only if there is evidence that China has similar missiles as part of its operational inventory. China reportedly test-fired AA-12 air-to-air missiles from its Su-30 fighter jets acquired from Moscow, but Beijing insisted that it had the right to develop new weapons.

Legislation signed by President Bush in early August also prompted a Chinese demarche. He Yafei, director general of the Department of North American and Oceanian Affairs under the Chinese Foreign Ministry, summoned Minister Michael Marine of the U.S. Embassy to protest the signing of the “U.S. 2002 Supplemental Appropriations Act.” The legislation treats Taiwan as equivalent to NATO allies and major non-NATO allies in some respects, exempting Taiwan from the provision denying military support for countries that participate in the International Criminal Court (ICC) and treating Taiwan military officers and elected officials as “covered allied persons” when it comes to preventing the ICC from acting against the U.S. or its allies.

When Chinese Foreign Minister Tang met with U.S. Secretary of State Colin Powell on the sidelines of the ASEAN Regional Forum meeting in Brunei at the end of July, he communicated Beijing’s concerns about closer U.S.-Taiwan relations and called on Washington to halt military contacts and arms sales to the island. “We have been seriously concerned about the upgrading of the U.S.-Taiwan relationship and strengthening of the military links between the United States and Taiwan,” Tang was quoted as saying by the Chinese press. Powell told the *Far Eastern Economic Review* that the Chinese government is constantly seeking reassurance from the U.S. about its policy toward Taiwan. “Arms sales to Taiwan are for the purpose of making sure that the Taiwanese are able to defend themselves and are in no way an attempt to move away from our ‘one China’ policy,” he asserted.

U.S. Reports on China Rattle Beijing

The mid-July release of two reports on China, one by the Department of Defense and the other by a bipartisan congressional commission, briefly rattled Beijing’s growing confidence that China-U.S. relations can be stabilized for a relatively prolonged period. An assessment of China’s military power was issued by the Pentagon, fulfilling a requirement legislated in the National Defense Authorization Act of 2000. The *2002 Annual Report on the Military Power of the People’s Republic of China* questioned China’s commitment to a peaceful settlement of its differences with Taiwan and detailed Chinese defense modernization efforts with an emphasis on developing capabilities to coerce Taiwan. The report estimated China’s military budget to be \$65 billion – more

than triple the official military budget of \$20 billion – and forecast a possible increase in real terms over three- to four-fold by 2020. China views the United States as posing “a significant long-term challenge,” according to the report, and is seeking “opportunities to diminish U.S. regional influence.”

Asked about the Pentagon report, Secretary of State Powell stressed that China’s defense modernization “is not in and of itself frightening” as long as Beijing is not pursuing a “new strategic purpose” or posing a threat to the region. In remarks made after his meeting with Australian Minister of Foreign Affairs Alexander Downer at the State Department, Powell told reporters that the United States believed it was important that China use the wealth that it is acquiring from greater participation in the international economic community to benefit its own people. The secretary of state noted that the U.S. would continue to closely monitor China’s military efforts and added that the Bush administration is anxious to have more military-to-military exchanges with the Chinese.

Only a few days following the release of the Pentagon’s evaluation of the Chinese military, the U.S.-China Security Review Commission issued its first annual report, which portrayed China as making economic and strategic advances against the United States and urged tougher policies to defend American interests. Among the report’s recommendations was the provision of authorization to the president to invoke economic sanctions against China if it is found to be proliferating weapons of mass destruction or related technologies. The report also proposed tightening access of Chinese firms to U.S. capital markets. Voting 11-1, the commission concluded that Chinese leaders view the U.S. as a declining power with critical military vulnerabilities that can be exploited. The report also maintained that the U.S. has contributed significantly, through trade and investment, to China’s rise as an economic power, and said this raises serious national security concerns. The lone dissenter, William A. Reinsch, a Clinton administration undersecretary of commerce, criticized the report for implying that China is a threat and advocating a more suspicious policy in place of engagement. “I think that’s the wrong way to go,” he observed.

The 260-page U.S.-China Security Review Commission report sparked concern not only in China, but also among business executives who worried that it could encourage congressional moves to limit business investment and trade with China. Sources on Capitol Hill, however, predicted that the report would have little impact on U.S. lawmakers focused on the war on terror, the possibility of a U.S. military action against Iraq, and corporate crime. Moreover, the hawkish tone of the report was unappealing to the moderates in Congress. Barring a new crisis in the China-U.S. relationship, most observers expected the report to be largely ignored.

Bush's National Security Strategy Evokes Ambivalence

On Sept. 20, the White House released *The National Security Strategy of the United States of America*. For several days following the publication, mainland China and Hong Kong newspapers notably refrained from issuing commentary on the document, confining their reports to summaries of the new strategy and U.S. domestic as well as foreign reaction. Initial reports by China's Xinhua News Agency and on the *People's Daily* web page, both in English, highlighted the substitution of the U.S. strategy of deterrence with a strategy of preemptive action. The Xinhua article maintained that the U.S. could now launch preemptive strikes against hostile states or terrorist groups when it sees fit. "The consequence of such a strategy has yet to unfold," the Xinhua reporter observed cautiously.

It is likely that Beijing views the "National Security Strategy" with ambivalence. On the one hand, Chinese leaders are probably relieved that President Bush's long-awaited strategy document does not present China's rising power as posing an inevitable challenge to U.S. preeminence, and instead explicitly states that the United States "seeks a constructive relationship with a changing China" and welcomes the emergence of a "strong, peaceful, and prosperous China." The stated U.S. objective of forging a global consensus among major powers and developing "active agendas of cooperation" will also meet with Chinese approval. On the other hand, Beijing is likely troubled by the administration's preemptive strike doctrine and worried about the possible abuse of U.S. military power. The Chinese leadership may also bristle at the sharp criticism of one-party communist rule and the contention that only "by allowing the Chinese people to think, assemble, and worship freely can China reach its full potential." The Chinese also likely find objectionable the mention of the U.S. "commitment to the self-defense of Taiwan under the Taiwan Relations Act" without a concomitant reference to the three China-U.S. joint communiqués and the U.S. "one China" policy.

Overall, the China policy section of the "National Security Strategy" is largely consistent with previous policy statements by the administration. It notably revives some of the themes that were raised by Secretary of State Powell in his speech to the Asia Society last June. Those themes include: 1) criticism of China's pursuit of military capabilities that can threaten its neighbors; 2) the existence of shared U.S. and Chinese interests (the Korean Peninsula, the future of Afghanistan, counterterrorism, HIV/AIDS, and environmental threats) concomitant with persisting differences (Taiwan, proliferation, and human rights); 3) the mutual benefit of free trade; and 4) a call for greater democracy in China. Indeed, on the latter point, the "National Security Strategy" quotes Powell's speech verbatim: "In time, China will find that social and political freedom is the only source of national greatness."

China-U.S. Relations and the Realities of Power

On the eve of China's 16th Party Congress, which will mark the beginning of the transition from the third- to the fourth-generation leadership, Chinese leaders are fixated on domestic concerns. Beijing's top priority in its relationship with the United States in this period and for the foreseeable future is the preservation of normalcy and stability. China's muted reaction to the "National Security Strategy" report reflects Chinese recognition of unprecedented U.S. supremacy in East Asia and the realities of the prevailing power gap between the U.S. and China. There is a consensus in Beijing that a confrontational policy toward the U.S. while it occupies a position of unparalleled strength would be counterproductive and should be avoided if possible.

The United States is in turn using the opportunity presented by its unmatched strength and influence in the world and China's domestic distraction to its advantage. The Bush administration is adroitly employing U.S. leverage over China to secure increased Chinese compliance with international norms and Beijing's acquiescence to Washington's global agenda. In addition, U.S. officials have effectively shifted the burden of creating a constructive and cooperative bilateral relationship to Beijing's shoulders, compelling the Chinese to undertake initiatives to improve ties. On the eve of the Crawford summit, Chinese institute analysts are debating not what concessions Beijing can extract from President Bush in late October, but rather what initiatives China can propose to sustain forward momentum in China-U.S. ties. Barring unforeseen developments, this pattern in China-U.S. relations may well persist for several years.

Chronology of U.S. - China Relations July-September 2002

July 12, 2002: The Department of Defense issues *2002 Annual Report on the Military Power of the People's Republic of China* to Congress.

July 15, 2002: The U.S.-China Security Review Commission, a 12-member bipartisan commission created by Congress to "monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China" releases its first annual report.

July 17, 2002: An eight-member team from the U.S. Army Central Identification Laboratory in Hawaii arrives in China on the first mission allowed by the PRC to search for the remains of U.S. soldiers who went missing in action during the Cold War.

July 19, 2002: State Department Spokesman Richard Boucher confirms a U.S. decision to impose two-year sanctions under the Iran-Iraq Arms Non-Proliferation Act of 1992 on eight Chinese companies for selling destabilizing arms and germ-weapons materials to Iran between September 2000 and October 2001.

July 22, 2002: The Department of State announces that the U.S. decided to stop a scheduled \$34 million U.S. contribution to the United Nations Population Program (UNFPA), shifting the money instead to its bilateral population programs administered by the U.S. Agency for International Development.

July 24, 2002: By a 420-0 vote, the House of Representatives passes a resolution calling on China to stop persecuting Falun Gong practitioners.

July 28-30, 2002: Secretary of Agriculture Ann Veneman visits Beijing for discussions with her counterpart Minister of Agriculture Du Qinglin on bilateral agricultural trade issues and a U.S. proposal to the World Trade Organization to phase out agricultural subsidies and tariffs.

July 31, 2002: Foreign Minister Tang Jiaxuan and U.S. Secretary of State Colin Powell hold talks on the sidelines of the ASEAN Regional Forum meeting in Brunei.

July 31, 2002: A delegation of general officers from the U.S. National Defense University headed by Gen. Robert Sennewald arrives in China.

Aug. 2, 2002: President Bush signs the “U.S. 2002 Supplemental Appropriations Act,” which includes provisions relating to Taiwan. The following day the Chinese issue a demarche.

Aug. 3, 2002: Taiwan President Chen Shui-bian raises the possibility of a referendum on independence and makes “one country on each side of the Taiwan Strait” comment.

Aug. 6-8, 2002: U.S. and Chinese officials gather in Hawaii for the first meeting of the military maritime and air safety working group for 2002-2003 under the China-U.S. Military Maritime Safety Consultation Mechanism.

Aug. 8-9, 2002: China issues two protests over a visit to the U.S. by Taiwan’s Premier Yu Shyi-kun and U.S. discussions with Tsai Ing-wen, chairwoman of Taiwan’s Mainland Affairs Council.

Aug. 23, 2002: The United States’ largest aircraft carrier USS Abraham Lincoln arrives in the Hong Kong Special Administrative Region from Japan for a routine port visit for 3-4 days.

Aug. 25, 2002: China issues new regulations to control the export of missile technology.

Aug. 25, 2002: China’s announces that the 16th Party Congress will be held Nov. 8.

Aug. 26, 2002: Deputy Secretary of State Richard Armitage visits Beijing to make preparations for the Oct. 25 summit meeting between Presidents George Bush and Jiang Zemin. He tells Chinese officials that the U.S. has added a Uighur minority separatist group to its list of designated foreign terrorist organizations.

Sept. 6, 2002: President Bush phones President Jiang, as well as other U.N. Security Council members, to discuss Iraq.

Sept. 9, 2002: The 15th session of the China-U.S. Joint Economic Committee concludes in Washington, D.C. with a joint statement in which the two countries “pledged to reinvigorate efforts to combat the financing of terrorism and money laundering.”

Sept. 11, 2002: Secretary of State Powell and Chinese FM Tang meet while attending the 57th session of the General Assembly of the UN in New York.

Sept. 11, 2002: In response to a request from the United States, along with China, Afghanistan, and Kyrgyzstan, a UN sanctions committee designates the Eastern Turkistan Islamic Movement (ETIM) as a financier of terrorism, requiring member states to freeze the group’s assets and deny entry to its members.

Sept. 20, 2002: Washington releases *The National Security Strategy of the United States of America*, which addresses need for preemption against WMD threat.

Sept. 20, 2002: China releases its most prominent advocate for AIDS patients, Dr. Wan Yanhai, after nearly a month’s detention by its state security apparatus.

Sept. 23, 2002: A delegation led by Deputy U.S. Trade Representative Jon Huntsman arrives in Beijing to discuss WTO trade issues.

Sept. 23-26, 2002: PRC Assistant Minister of Foreign Affairs Zhou Wenzhong visits Washington D.C. for talks with U.S. officials in preparation for the Oct. 25 Crawford summit.

Sept. 26, 2002: A Chinese government spokeswoman complains that a U.S. naval ship – the U.S.N.S. Bowditch, an oceanographic research vessel – had violated international law by operating inside China’s 200-mile exclusive economic zone.

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 United States and Taiwan.

U.S.-Korea Relations:

After the Koizumi-Kim Summit, Nothing is the Same

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This quarter began with a serious naval confrontation between North and South Korean patrol vessels on Korea's West Sea. It ended with the surprising diplomatic breakthrough in Japan-North Korea relations at the Koizumi-Kim summit in mid-September and the ensuing U.S. decision to send Assistant Secretary of State for East Asian and Pacific Affairs James Kelly to Pyongyang for consultations. Through it all, the Bush administration watched warily, postponing its special envoy's planned trip to Pyongyang in July, but cautiously welcoming the results of the summit meeting. Strategists planning the next U.S. diplomatic move now have to pay greater attention both to Japanese policy and South Korean public opinion to avoid weakening U.S. standing in the Northeast Asia region. This is especially true given growing anti-American sentiments in the ROK, stimulated by the tragic death of two South Korean girls during a U.S. military training accident.

The North-South Naval Clash and its Aftermath

In early July, it seemed that once again security relationships on the Korean Peninsula could revert to a state of Cold War hostility. In the aftermath of the West Sea naval incident on June 29 that left five South Koreans and an indeterminate number of North Koreans dead, both governments resorted to strong rhetorical attacks on the other. The U.S. administration, speaking through Defense Secretary Donald Rumsfeld, placed the blame for the naval confrontation squarely on North Korea.

In the days following the naval incident, the South Korean Defense Ministry argued that South Korea was too passive in responding to a North Korean provocation. The Defense Ministry and U.S. Forces Korea agreed to revise the "naval rules of engagement" so South Korean vessels could respond more aggressively in the future to questionable North Korea naval activity.

The diplomatic repercussions of the West Sea incident were felt immediately. The U.S. suspended its plan to send Assistant Secretary of State Kelly to Pyongyang later in July, saying that the current atmosphere was not conducive to beginning negotiations. (The Kelly meeting, when it occurs, will be the highest-level contact between North Korea and the United States since the Bush administration took office). While the administration's rationale for breaking off talks was not made public, it seemed that before resuming

negotiations, the U.S. wanted to assess whether North Korea had intentionally instigated the hostile activity.

The ASEAN Regional Forum, KEDO Ceremony, and Bolton Visit

For the following several weeks, until the meeting of the ASEAN Regional Forum (ARF) in late July, the status of U.S.-North Korea relations – and consequently, the plan to resume bilateral negotiations – remained in limbo. The atmosphere improved in the last week of July, when Pyongyang took the unusual step of issuing a statement of regret for the late June naval confrontation and said it would welcome a U.S. envoy's visit. Washington responded by noting with satisfaction the North Korean statement, and by agreeing to an informal meeting between Secretary of State Colin Powell and North Korean Foreign Minister Paek Nam-sun at the ARF talks. When this meeting finally took place on July 31, it was anticlimactic – a 15-minute chat over coffee – but Secretary of State Powell reaffirmed that the U.S. desired to resume negotiations with Pyongyang on security issues. He did not agree, however, to set a specific date for the visit of Assistant Secretary of State Kelly to North Korea.

Following this meeting, North Korea tried to create as much momentum as possible for the resumption of bilateral talks with the U.S. by proposing a meeting on security issues with the UN Command (whose delegation is led by a U.S. two-star general) at Panmunjom. On Aug. 6, the first such meeting in two years took place and the two sides cordially discussed procedures for preventing a recurrence of any naval confrontations in the future.

The ceremony held by the Korean Peninsula Energy Development Organization (KEDO) in North Korea on Aug. 7, to mark the initial pouring of concrete for the first light-water reactor it is constructing, was particularly significant in terms of U.S. policy. Earlier in the year, Bush administration conservatives said they aimed to use this “milestone” to force North Korea to accept early inspections by the International Atomic Energy Agency (IAEA) of its nuclear facilities. Without satisfaction from North Korea on this demand, they implied, the U.S. would declare a North Korean breach of the 1994 Agreed Framework and refuse to endorse the pouring of the concrete.

Instead of declaring a breach, however, U.S. officials led by North Korea Policy Coordinator Jack Pritchard attended the ceremony and, by their presence, lent support to the on-going construction of the light-water reactor under the KEDO agreement. Pritchard, nevertheless, made a strong statement stressing the importance of North Korea reaching agreement with the U.S. on the inspection issue in the near future.

From this outcome, it appears that the moderates and conservatives in the Bush administration in early August reached a tentative, if uneasy, truce on how to deal with the Agreed Framework, which conservatives still find highly problematic. For the moment, conservatives seemed to have acquiesced to the position that the KEDO project (strongly supported both by South Korea and Japan) should go forward. But the U.S.

hardliners put down a marker that the Agreed Framework is at severe risk if North Korea does not agree to the U.S. demand for early inspections.

When Under Secretary of State for Arms Control and International Security Affairs John Bolton visited South Korea in late August, his statements seemed to reflect this compromise. Known as perhaps the most hawkish member of the State Department on North Korea, Bolton has long criticized the Agreed Framework as a form of U.S. appeasement of Pyongyang. Both the South Korean government and the U.S. Embassy in Seoul registered early concern that if Bolton took too hard a line in his planned speech in Seoul, it could create a new breach in U.S.-North Korea relations.

In the final draft of his speech delivered in Seoul, Bolton reiterated President George W. Bush's characterization of North Korea as a member of an "axis of evil" and once again emphasized the need for North Korea to agree to early IAEA inspections of its nuclear facilities. In other respects, he reiterated the position taken by Secretary Powell at the ARF that the U.S. desired to resume bilateral negotiations with North Korea and supported recent improvements in inter-Korean relations.

The Koizumi-Kim Summit

The announcement on Aug. 30 that Prime Minister Koizumi Junichiro of Japan would visit North Korea in mid-September for a summit meeting with Kim Jong-il came as a major surprise. While Japanese and North Korean diplomats had met on several occasions over the summer (including a meeting of foreign ministers in late July at the ARF and a working meeting on current issues on August), no observers had predicted Koizumi would take this bold step.

Koizumi admitted publicly that if he was unsuccessful in resolving the most emotional issue dividing Japan and North Korea – the question of Japanese nationals that Pyongyang's intelligence service abducted during the Cold War – the trip would be "political suicide." The Japanese Foreign Ministry was also concerned that the prime minister would make progress not just on security issues of importance to Japan, but also on issues of mutual concern to the United States and South Korea – especially the nuclear and missile issues. Without such progress, Koizumi would have been open to an attack from conservatives in Japan and the United States for conferring prestige and presumably, the promise of future economic aid, on Pyongyang without gaining enough concrete concessions in return.

The official U.S. position on the Koizumi trip was reflected in the statement issued by the Trilateral Coordination and Oversight Group (TCOG) that met in Seoul on Sept. 6-7. The TCOG supported the prime minister's trip by stressing the importance of engaging North Korea in diplomatic discussions of security issues. Moreover, for the first time since the outset of the Bush administration, TCOG positively assessed Pyongyang's recent "constructive attitude" toward the international community. This comment presumably referred both to North Korea's statement of regret for the late June naval confrontation (which the South portrayed as an "apology" although it appeared not to go that far) and

its willingness to make progress on North-South issues (including family reunions, rail and highway links across the Demilitarized Zone, and the Mt. Kumgang project) at inter-Korean talks during August.

Prior to traveling to North Korea for the summit, Prime Minister Koizumi met with President Bush at the opening of the United Nations General Assembly in New York. Bush expressed support for Koizumi's trip and put to rest any speculation that the prime minister was proceeding without U.S. backing.

At the Pyongyang summit meeting on Sept. 17, the prime minister achieved several concrete concessions from North Korean leader Kim Jong-il. On issues specific to Japan, Kim apologized for and provided information about Japanese nationals that the North abducted during the Cold War period. He confessed to sending intelligence gathering vessels off the Japanese coast and promised that North Korea would not engage in future conduct that threatens Japanese security.

On the issues of greatest importance to the United States, North Korea: 1) promised to comply with all international agreements to obtain "an overall resolution of the nuclear issues on the Korean Peninsula" and 2) agreed to extend its moratorium on test launching of missiles beyond 2003, the deadline it previously indicated. There were also reports after the summit that the Japanese terrorists North Korea had long harbored would soon return to Japan. This would be a necessary step for the U.S. to remove North Korea from its list of states sponsoring terrorism.

Immediate reaction from Washington to Koizumi's achievements was positive but caveated by the need for "further study." A State Department official said anonymously "we welcome and support Prime Minister Koizumi's efforts. We note that he discussed matters of particular Japanese concern but also raised security issues of broad international interest on which the U.S. and Japan share concerns. We are actively considering what the next steps should be."

U.S. Ambassador to Korea Thomas Hubbard commented that the U.S. "is studying these developments very carefully, very closely... Our offer to have dialogue with North Korea remains on the table." Indeed, the biggest question following the summit was the extent to which it would facilitate direct U.S. talks with North Korea – and specifically the previously postponed visit to Pyongyang of Assistant Secretary Kelly.

From the U.S. standpoint, the summit results indicate a new desire and possible diplomatic flexibility in North Korea to negotiate a resolution of the nuclear and missile issues. North Korea's statement to Koizumi on nuclear matters signaled a willingness to negotiate early IAEA inspection of its nuclear facilities, and meet this core U.S. demand. Pyongyang's agreement to extend the moratorium on missile tests past 2003 demonstrated that North Korea seems willing to curb its missile development program (as well as its missile exports) as the price of normalizing relations with the United States. These summit results tend to strengthen the case that negotiations on "threat reduction"

with North Korea are likely to succeed. In that sense, they do pave the way for the resumption of bilateral U.S.-North Korea talks on security issues.

Whether Bush administration conservatives will continue to resist or impede full-blown diplomatic negotiations with North Korea is still an open question. Conservatives still view any North Korean promises and statements with deep skepticism and object to giving North Korea access to development assistance. Even if Japan's economic aid induced North Korea to engage in significant threat reduction, conservatives might regard the prospect of such a deal as a form of "appeasement" and object on ideological grounds. Nevertheless, the Bush administration decision in late September to send Assistant Secretary of State Kelly to Pyongyang for consultations opens an important line of communication with North Korea that could become the basis for significant negotiations in the future.

Growing Anti-Americanism in South Korea

During this quarter, anti-American sentiments continued to build within the South Korean public. The immediate cause of growing animosity toward U.S. soldiers, in particular, was the tragic death of two Korean girls in a spring training accident. In response to a public campaign and series of demonstrations led by Korean civic groups, the U.S. military command and U.S. Embassy issued sincere apologies, offered compensation to the families of the deceased girls, and promised that the soldiers would be prosecuted for negligent homicide before a U.S. military tribunal.

The core demand of the Korean activists was that the U.S. military should turn over the accused soldiers to the Korean court system for investigation and prosecution. The U.S. military rejected this demand, noting that the soldiers were carrying out official duties at the time of accident, and thus the U.S. would not allow the Korean authorities to assert jurisdiction under the U.S.-Korea Status of Forces Agreement (SOFA). (According to the SOFA, an off-duty U.S. soldier who commits a suspected rape or homicide is to be turned over to Korean officials for prosecution).

The activists' campaign to mobilize public opinion against the U.S. led to a serious incident on Sept. 14, when demonstrators apparently assaulted three off-duty U.S. servicemen in a subway train and then abducted one for several hours. Police "rescued" two of the servicemen but the activists apparently took the third to an outdoor rally, where he was forced to confess to the "errors" in the U.S. position on legal jurisdiction over U.S. soldiers. Later, police charged all three servicemen with attacking the Korean demonstrators.

After the U.S. military command and U.S. Embassy vigorously protested the actions of the Korean police and demonstrators, Korean prosecutors announced they would conduct an impartial investigation. The U.S. Embassy officially issued a warning to all U.S. residents in Korea following the incident.

Another contributing cause for anti-Americanism during the quarter was the continuing controversy over the location of new U.S. Embassy residential housing in downtown Seoul. Civic activists claim that the planned housing will be built on the site of a traditional Korean shrine and have sought to block issuance of a construction permit. The U.S. Embassy is pushing hard to begin construction, rather than look for a new site on the outskirts of Seoul.

Prospects

At the end of the quarter, the biggest question is how U.S. diplomacy toward North Korea will evolve in the aftermath of Prime Minister Koizumi's surprisingly successful visit to Pyongyang. Moderates in the Bush administration would clearly like to follow up the Japanese breakthrough by negotiating agreement with Pyongyang on early IAEA inspections of North Korea's nuclear facilities and on ending North Korea's exports and development program for missiles. They hope that North Korea will indicate some newfound flexibility on these issues in upcoming bilateral consultations with Assistant Secretary of State Kelly. In the course of its own negotiations to normalize relations with Pyongyang, Japan is also likely to press hard on these issues.

Bush administration conservatives who continue to argue for a hardline approach, no matter how well Japan's negotiations with North Korea proceed, now face a new dilemma. In South Korea, following the Koizumi-Kim summit, the public increasingly views the Bush administration as trying to block inter-Korean reconciliation and eventual Korean reunification. The U.S. alone, it is said, now seeks to threaten and isolate North Korea, while its closest regional allies – Japan and South Korea – seek a diplomatic resolution of security issues. The risks for the U.S. government of sticking to a hardline position regarding North Korea, especially given the generally high level of public anti-Americanism among the South Korean public, have thus significantly increased at the current time.

Chronology of U.S.-Korea Relations July-September 2002

July 2, 2002: U.S. rescinds offer to meet with North Korea the following week, following West Sea naval clash.

July 3, 2002: U.S. Defense Secretary Donald Rumsfeld says North Korea initiated naval clash.

July 19, 2002: First public reports emerge that North Korea is scrapping its decades old rationing system and instituting price reform.

July 20, 2002: U.S. military team enters North Korea to search for the remains of Korean war dead.

July 22, 2002: ROK Defense Ministry says it does not expect the U.S. to give up jurisdiction over two soldiers accused of negligently killing two girls in a training exercise.

July 25, 2002: North Korea proposes to resume talks with South Korea and expresses regret over June 29 naval clash.

July 26, 2002: North Korea says it is ready to receive a U.S. envoy to resume bilateral security talks. Washington welcomes Pyongyang's "apology" for the naval incident.

July 31, 2002: U.S. Secretary of State Colin Powell and North Korean Foreign Minister Paek Nam-sun meet at ASEAN Regional Forum (ARF) in Brunei.

Aug. 2, 2002: North Korea proposes military talks with U.N. Command to discuss June 29 naval incident.

Aug. 6, 2002: North Korean military officials meet with U.N. Command at Panmunjom for the first time in two years.

Aug. 7, 2002: Ceremony held in North Korea for the pouring of the first concrete at the Korean Peninsula Energy Development Organization (KEDO) reactor site.

Aug. 8, 2002: Yielding to U.S. demands, South Korea cuts special consumption tax on large cars up to 4 percent.

Aug. 12, 2002: Inter-Korean talks resume in Seoul on military, economic, and family reunion issues.

Aug. 13, 2002: North Korea threatens to withdraw from 1994 Agreed Framework.

Aug. 15, 2002: U.S. Under Secretary of Defense Zakheim requests more South Korean support for the war on terrorism.

Aug. 20, 2002: North Korean leader Kim Jong-il begins four-day visit to Russia.

Aug. 23, 2002: U.S. sanctions North Korea for selling missile parts to Yemen.

Aug. 25, 2002: Japan and North Korea begin two days of official talks in Pyongyang.

Aug. 29, 2002: U.S. Under Secretary for Arms Control and International Security Affairs John Bolton warns North Korea on need for early nuclear inspections to avoid U.S. rescission of 1994 Agreed Framework.

Aug. 30, 2002: Japan announces Prime Minister Koizumi Junichiro will visit Pyongyang Sept. 17.

Aug. 30, 2002: South and North Korea agree on cooperative projects, including cross-border rail construction.

Sept. 6-7, 2002: Japanese, South Korean, and U.S. diplomats meet in Seoul for Trilateral Coordination and Oversight Group (TCOG) meeting to discuss upcoming Koizumi visit to Pyongyang.

Sept. 7, 2002: TCOG statement reaffirms the importance of “engagement” of North Korea; recognizes North Korea’s recent “constructive attitude” toward international community.

Sept. 9, 2002: Civic groups charge Seoul city government ignored laws in issuing construction permit for new U.S. Embassy housing site.

Sept. 12, 2002: UN Command authorizes construction work on rail and highway links in the eastern portion of the Demilitarized Zone (DMZ).

Sept. 13, 2002: President George W. Bush expresses U.S. support for Koizumi trip to Pyongyang for summit meeting with DPRK leader Kim Jong-il.

Sept. 13, 2002: U.S. Forces Korea announces trial of two soldiers for negligent homicide in deaths of two Korean girls.

Sept. 14, 2002: Korean activists abduct off-duty U.S. soldier and force him to sign “confession” at public rally protesting death of two South Korean girls.

Sept. 17, 2002: Japanese prime minister holds summit meeting with North Korean leader Kim in Pyongyang.

Sept. 18, 2002: U.S. spokesman voices support for “positive results” of Koizumi-Kim meeting in Pyongyang; North and South Korea break ground for cross-border railway project.

Sept. 19, 2002: North and South Korea begin clearing mines in the DMZ to allow construction of rail and highway links following Sept. 18 ceremonies.

Sept. 24, 2002: North and South Korea connect a military hotline to discuss issues related to the construction of rail and highway links.

Sept. 25, 2002: PM Koizumi urges the U.S. to resume dialogue “at an early date” with North Korea.

Sept. 26, 2002: U.S. announces that Assistant Secretary of State for East Asian and Pacific Affairs James Kelly will visit Pyongyang for consultations in early October.

U.S.-Russia Relations:

A Trying Summer for the *New Partnership*

by Joseph Ferguson
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In the spring of 2002, the U.S.-Russian antiterror coalition seemed in fine shape. A bilateral summit between U.S. President George W. Bush and Russian President Vladimir Putin in May in St. Petersburg resulted in the signing of a dramatic arms reduction agreement. The trend continued through June and part of July. In public appearances Russian leaders continued to insist that their country stood firmly behind the United States and was committed to closer integration with the West.

But as the summer wore on it became apparent that the partnership had its limits. Two issues, in particular, became major irritants. One issue was an old one that came back onto the radar screen – Chechnya, or in this case Chechen fighters operating in the Pankisi Gorge over the Georgian border. Another issue was an even older one – Iraq. As U.S. leaders tried to convince their Russian counterparts that action was needed in Iraq as part of the global campaign against terrorism, Russian leaders tried to convince their U.S. counterparts that action against Chechen separatists operating out of Georgia was also related to the larger campaign. Meanwhile Russia’s flirtations with Iran and North Korea seemed directly in contravention of the U.S. policy of isolating the “axis of evil.” In both Russia and the United States voices clamored for a realistic reassessment of the relationship between the erstwhile antiterror partners. The successful energy summit in Houston in early October gives hope to many that cooperation between Russia and the United States will continue. But as autumn began it was unclear to most observers where the relationship was headed and the partnership weathered a stormy first anniversary.

Cracks in the Edifice

U.S.-Russian cooperation throughout the year had been extraordinarily close. Not only was Russia aiding U.S. efforts in the war against terrorism in Afghanistan and Central Asia, but the Putin administration had signed an arms control agreement and acquiesced to a U.S. military presence in Central Asia. Russian politicians had toned down their vociferous opposition to NATO expansion. And Russian oil companies were offering to be the suppliers of the first and last resort to the United States. This all led the *Washington Post* to speculate in July that the U.S.-Russian *rapprochement* left U.S. allies in Europe exceedingly nervous.

Nevertheless, it was already apparent to some observers that cracks were appearing in the edifice. President Putin came under increasing pressure at home to modify what was perceived as a policy of leaning over backward to appease the United States. In late July, the Russian government announced a plan to boost nuclear cooperation with Iran, beyond the controversial Bushehr nuclear plant deal. This raised eyebrows in Washington, particularly as it came on the eve of a visit to Moscow by U.S. Energy Secretary Spencer Abraham. Russian leaders shrugged off criticism by pointing out the importance of economic ties with Iran for their country. Russian leaders also were quietly letting it be known that they were not shutting the door on cooperation with Iraq. In a speech in Moscow in late July, U.S. Ambassador Alexander Vershbow warned that Russia's relationship with the three "axis of evil" governments threatened world security. Meanwhile the Russian Foreign Ministry's refusal to renew the visas of dozens of U.S. Peace Corps volunteers was read by some as yet another subtle sign of the shift in bilateral relations.

One of the most successful areas of cooperation for the last several years between Russia and the United States has been the Nunn-Lugar program. Although President Bush signed a waiver allowing the release of several million dollars to the program, this was merely a stop-gap measure. Funding issues in Congress are threatening to jeopardize the future of the program. U.S. plans to construct a plant in the town of Shchuch'ye to destroy thousands of tons of deadly chemical munitions from the old Soviet arsenal are in trouble unless Congress acts. The Pentagon needs \$230 million and unless it receives this amount sometime this fall, it will be forced to shut down the project. There is grave concern that some of the material will fall into the wrong hands if action is not taken promptly. The critics "don't realize how serious this situation is," Sen. Richard Lugar (R-Ind) was quoted as saying. "This is the kind of stuff, at Shchuch'ye, that (terrorists) are after. We have an opportunity to get rid of it, and we're not moving forward." What has been the model program for U.S.-Russian cooperation now seems to have reached a critical point.

By August the rapidly unfolding situation in the Pankisi Gorge in Georgia became the flashpoint in U.S.-Russian relations. Chechen separatists apparently have been able to utilize the relatively lawless northeastern region of Georgia as a sanctuary when the Russian military makes sweeps into the mountains of southern Chechnya. Somewhat similar to Vietnamese Army regulars and Vietcong that were able to utilize sanctuaries in Cambodia and Laos, the Chechen fighters have been able to go in and out of Georgia with relative impunity, and authorities in Tbilisi have all but admitted they are powerless to do anything. The U.S. Army has deployed advisors to help train Georgian Army regulars, partly because it was thought that al-Qaeda members were hiding in the Pankisi Gorge.

Soon the Russian Army demonstrated that it was willing to take the war to Georgia if necessary. On Aug. 23 Russian warplanes reportedly bombed targets 20 miles inside Georgia. The U.S. government indignantly protested. Although the Russian government denied that it had hit targets in Georgia, later Russian officials reportedly tried to convince U.S. officials that Russian troops should be allowed to secure Georgia's borders since the Georgian government seems unable to do so itself. At a NATO meeting in

Warsaw in late September Russian Defense Minister Sergei Ivanov stated that Georgia is more of a threat to Russian security than Iraq. Russian losses in Chechnya mounted again in the summer, including the downing of a military transport helicopter that claimed more than 110 lives in August.

The seemingly endless quagmire in Chechnya is beginning to wear on officials in the Bush administration. Where once U.S. leaders were willing to turn a blind eye in order not to damage the antiterror partnership, they are becoming more openly critical about Chechnya. Leaders in Moscow are undoubtedly worried about U.S. intentions in the Caucasus, and especially in Georgia. The massive U.S. military and political presence in Central Asia is seen as a worrying trend and the concern expressed by many in Russia is that the United States will move next into the Caucasus, hence such headlines as seen recently in the *Nezavisimaya Gazeta* in August: "Farewell, Caucasus!"

Playing the Iraq Card?

Iraq has also become an issue of great contention between Russia and the United States. Russia backs intervention in Iraq only under UN authorization. Russian leaders have stated publicly that they oppose unilateral intervention in Iraq (though they have not said they would veto any UN proposal to intervene militarily). Russian businesses, meanwhile, are hoping to cash in on what some estimate could be \$40 billion in contracts in Iraq if UN sanctions are lifted. Russia played host to Iraqi Foreign Minister Naji Sabri Ahmad al-Hadithi, who according to *Izvestia* came to seek Russian protection. In spite of the facade of Russian support for the regime of Saddam Hussein, there has been speculation (denied in both Moscow and Washington) that leaders in Russia are trying to convince counterparts in the United States that the Russian government will back a U.S. military intervention in Iraq in exchange for a free hand in Georgia. The *Washington Post* picked up on these rumors and ripped this "cynical suggestion of a *quid pro quo*." Later in a personal phone call to the Russian leader, President Bush failed to persuade President Putin to provide Russian backing for U.S. military intervention in Iraq.

Russia's connection to the "axis of evil" was not confined to the Middle East. As respected Russian analyst Pavel Felgenhauer wrote, "From the Black Sea to the Yellow Sea, U.S. and Russian policies place the two countries at loggerheads." Vladimir Putin resumed his ongoing dialogue with North Korean leader Kim Jong-il, who visited the Russian Far East in late August. It was the third summit meeting between President Putin and Kim since the summer of 2000. Russia is eager to try and cash in if North Korea is to open up. Russian companies might be in the best position to do so because much of North Korea's rotting infrastructure was at one time designed or built by Russian engineers. Russia also satisfies the condition of being "politically safe" for the North Korean regime.

The U.S. leadership is no doubt somewhat perturbed by Russia's flirtations with North Korea, but now the United States' closest ally in East Asia, Japan, has also made dramatic overtures to North Korea. In September, Japanese Prime Minister Koizumi Junichiro traveled to Pyongyang and met with DPRK leader Kim. Russian and Japanese leaders have applauded one another's initiatives to reawaken relations with North Korea. Russia also hopes for Japanese assistance in helping to develop the Trans-Siberian Railroad's link-up with the Korean Peninsula. Meanwhile Russian weapons manufacturers have continued to push for arms sales to both North and South Korea. Taking a cue, perhaps from Moscow and Tokyo, the Bush administration is slated to send State Department envoy James Kelly to Pyongyang.

China to the Rescue?

China-Russia relations have been influenced by the hiccup in U.S.-Russia relations. As mentioned before, many nations in East Asia tend to view trilateral relations from a zero-sum standpoint. In the eyes of many in China, the U.S.-Russian *rapprochement* had proven to be a major concern. Some in China worry that Beijing will be shut out of Central Asia, just as it had begun developing a serious diplomatic and economic agenda in the region. Therefore a falling out between Moscow and Washington is likely to please many among the leadership in Beijing. The summer witnessed several high-ranking visits to China by Russian officials (including Russian Prime Minister Mikhail Kasyanov). Although trade and economics were principal on the public agenda, a large part of the discussions no doubt was centered on the United States and the situation in Iraq and Central Asia. The China-Russia "strategic partnership" had all but been written off by analysts and pundits following the Sept. 11 attacks. The partnership, however, appears to have some life left in it. Two-way trade in 2001 reached its highest level ever (more than \$10 billion) and the Chinese Air Force (PLAAF) ordered yet more Russian-made Sukhoi Su-27 fighter aircraft in August.

Last quarter I questioned whether the United States was giving enough to the partnership to merit President Putin's dramatic decision to turn toward the West. (See "Growing Expectations: How Far Can *Rapprochement* be Carried Forward?" in *Comparative Connections*, Vol. 4, No. 2, July 2002.) It seemed a matter of time before domestic opposition in Russia would start to bring pressure on Putin to show results. The summer of 2002 might prove to have been that time.

Chronology of U.S.-Russia Relations July-September 2002

July 3, 2002: First shipment of Russian oil to the United States arrives in Houston. U.S. officials hail the delivery as a step toward reducing dependence on Middle East oil. Later, this event would be marred by judicial proceedings in Texas brought against the Russian oil company that delivered the oil, Yukos.

July 10, 2002: In an interview in the daily *Izvestia*, Russian Foreign Minister Igor Ivanov emphasizes that Russia's diplomatic priorities are to maintain a strong connection with the United States and Western Europe.

July 12, 2002: In an unprecedented meeting with 130 Russian ambassadors in Moscow, Russian President Vladimir Putin explains that the close relationship between Russia and the United States was the result of a "new reading of both countries' interests and a similar perception of the very character of modern global threats."

July 30-31, 2002: U.S. Energy Secretary Spencer Abraham and Undersecretary of State John Bolton in Moscow meet with Russian Energy Minister Igor Yusufov and Deputy Foreign Minister Georgii Mamedov. They discuss a proposed \$20 billion program financed by the Group of Eight nations to protect Russia's nuclear, chemical, and biological weapons arsenals.

Aug. 1, 2002: In response to rising tensions between Moscow and Tbilisi over Chechnya, the U.S. State Department issues a strong statement of support for Georgia's sovereignty and inviolability.

Aug. 7, 2002: U.S. President George Bush signs a temporary waiver permitting millions of dollars to be released to programs (the so-called Nunn-Lugar programs, or Cooperative Threat Reduction) aimed at reducing the threat posed by Russian nuclear, biological, and chemical weapons.

Aug. 23, 2002: In operations against Chechen separatists, Russian warplanes reportedly bomb targets 20 miles inside the border of Georgia. In a show of solidarity with the Georgian government, Washington rebukes Russian actions.

Aug. 23, 2002: Russian President Putin meets in Vladivostok with North Korean leader Kim Jong-il.

Aug. 22, 2002: American and Russian technical experts working with Yugoslav scientists and protected by heavily armed Serbian police and Yugoslav troops secretly fly more than 100 pounds of nuclear material considered at risk of being stolen or sold for use in producing nuclear weapons from the Vinca Institute of Belgrade, Serbia to Russia, where it will be processed for use in a commercial power plant.

Aug. 29, 2002: U.S. Sen. Richard Lugar (R-Ind) winds up a nine-day visit to Russia, where he toured and inspected nuclear facilities.

Sept. 2, 2002: Iraqi Foreign Minister Naji Sabri Ahmad al-Hadithi arrives in Moscow for two days of meetings with his Russian counterpart, Igor Ivanov, and other senior officials.

Sept. 11, 2002: On the anniversary of the terror attack that created the new U.S.-Russian partnership, U.S. Under Secretary of State Bolton arrives in Moscow in an effort to persuade the Kremlin to soften its strong opposition to a proposed U.S. military campaign against Iraq.

Sept. 11, 2002: President Putin issues a threat to take unilateral military action on Georgian soil if Tbilisi does not step up efforts to contain Chechen fighters operating in the Pankisi Gorge.

Sept. 13, 2002: The U.S. State Department announces a decision to impose sanctions on three Russian enterprises that allegedly sold military equipment to countries the United States says sponsor terrorism.

Sept. 18-20, 2002: Russian FM Igor Ivanov and Defense Minister Sergei Ivanov in Washington to meet with U.S. counterparts Secretary of State Colin Powell and Defense Secretary Donald Rumsfeld. They discuss a variety of topics, but foremost on the agenda are discussions about Iraq and Georgia.

Sept. 23, 2002: In a half-hour phone conversation President Bush fails to persuade President Putin to agree to U.S. military action against Iraq.

October 2-3, 2002: U.S. Energy Secretary Spencer Abraham leads energy summit in Houston. On day two, Abraham guides Energy Minister Igor Yusufov through a key section of the heavily guarded U.S. strategic petroleum reserve in Freeport, Texas, the first time a Russian official has been given such a tour.

U.S.-Southeast Asia Relations: A Challenging Strategic Landscape

by Marvin Ott
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The third quarter of 2002 was one in which the U.S.-led war on terrorism continued to claim the attention of regional policymakers and media. But it was also a period in which more traditional economic and political concerns began to reassume their previous prominence. In a number of countries, the war on terrorism adhered to patterns established earlier in the year. In a precautionary move reflecting information from a captured al-Qaeda source, U.S. embassies in Vietnam, Cambodia, Malaysia, and Indonesia were closed on the anniversary of Sept. 11. That action underlined the emergence of the region as a major arena in the new global battleground.

Counterterrorism Tops the Agenda

The Philippines remained the focus of U.S. military attention with U.S. military advisors assisting the Armed Forces of the Philippines (AFP) in counterinsurgency operations against Abu Sayyaf elements in the south. President Gloria Macapagal-Arroyo made it evident that she was determined to put U.S.-Philippines military relations on a robust and sustained footing. The president and her security advisors clearly viewed the violent Muslim separatists in the south as a primary threat to national security followed by an at least somewhat resurgent (communist) New People's Army. Manila's language with regard to both movements was belligerent and uncompromising. The appropriate instrument of state policy under such circumstances was the military. However, the AFP, long under-funded and under-equipped, was ill-prepared to implement the new hard line – much less deal with external challenges such as in the Spratlys. This is where U.S. assistance, first in the form of trainers and second in equipment, becomes essential.

The initial results in terms of counterinsurgency operations against Abu Sayyaf were encouraging. AFP jungle units demonstrated improved initiative and effectiveness and by the end of the quarter Philippine commanders were describing Abu Sayyaf as a “spent force.” Meanwhile, U.S. Congressional committees were earmarking monies for providing U.S. military equipment to the AFP. The final status of those appropriations remained in limbo pending the outcome of larger budget battles on Capitol Hill.

Judging from opinion polls, popular support for the renewed presence of U.S. forces in the Philippines remained high. Protest demonstrations were noisy but small by Philippine standards. The most prominent opponent of this *rapprochement* was the vice president and concurrently foreign secretary, Teofisto Guingona. Under pressure from President

Macapagal-Arroyo, he resigned as foreign secretary to be replaced by the avowedly pro-American Sen. Blas Ople.

In Singapore, the government announced a new round of arrests of suspected al-Qaeda operatives and fellow travelers. A formal agreement permitting U.S. customs inspectors to operate in Singapore examining U.S.-bound cargo was finalized. From all evidence the counterterrorism cooperation between the U.S. and Singapore remained close and virtually seamless.

The new climate of public collaboration between Malaysia and the U.S. engendered by terrorism concerns was strongly reaffirmed by Prime Minister Mahathir bin Mohamad's designated successor, Deputy Prime Minister Abdullah Badawi. The prospective selection of Defense Minister Najib Tun Razak as the next deputy prime minister promised to further consolidate this trend. Razak has close ties to the U.S. defense community. Malaysian security officials publicly noted the continued presence in the country of potentially dangerous Islamic militants. Meanwhile, the prime minister continued to be Islam's most articulate voice spelling out the grievances of the Palestinians and others on the one hand while exhorting Muslims to shake off the religious obscurantism that had condemned them to economic backwardness.

Indonesia continued to be the focus of regional concern due to the conviction of security officials in Singapore, Kuala Lumpur, Manila, and Washington that militant Muslim organizations and individuals with operational links to international terrorism were present and active in the country. Indonesian authorities acknowledged these concerns and declared they were investigating, but could not act without persuasive evidence. President Megawati Sukarnoputri was clearly loathe to risk a political backlash from Muslim organizations that commanded a substantial public following. The speaker of the Parliament publicly warned the president not to become the puppet of U.S. policy. Counterpressure from the U.S. came in several forms, but most notably in a six-nation visit by Secretary of State Colin Powell through the region that included consultations at the ASEAN ministerial meetings in Brunei.

Human Rights are Still an Issue

While terrorism remained prominently on the agenda, long established political and economic issues began to reassume their prior salience. In Burma (Myanmar) recently freed opposition leader Aung San Suu Kyi was finally allowed freedom of movement but was unable to initiate a serious political dialogue with the ruling junta. In Indonesia the restive region of Aceh produced a steady and depressing drumbeat of violence between separatists and security forces with innocent civilians often the victims. The carnage that followed East Timor's 1999 referendum on independence produced some long-delayed trials in Indonesia to affix responsibility. But the subsequent acquittal of relatively low-ranking military officers and the failure to even try more senior figures produced criticism in Europe and the U.S. – not to mention East Timor. Meanwhile a European Union (EU) delegation visited the region to assess political and electoral rights in Cambodia and human and religious rights in Vietnam – with the clear implication that EU aid to both countries might be curtailed if the findings were unfavorable.

Another major issue with human rights implications emerged when Malaysia decided to crack down on an estimated 1.6 million illegal aliens in the country – mostly undocumented construction and plantation workers from Indonesia and the Philippines. The result was a highly public roundup of Indonesian and Philippines nationals and their confinement in detention facilities pending early deportation (by the end of August). Laggards were threatened with judicial canings and conditions in the centers were often difficult. Not surprisingly, Malaysia's action produced lurid media accounts and angry protests in Jakarta and Manila reflecting wounded national pride in both capitals. The situation became sufficiently enflamed to require direct consultations by Prime Minister Mahathir with Presidents Megawati and Macapagal-Arroyo.

ASEAN Returns to Center Stage

The 35th annual ASEAN Ministerial Meeting held in Brunei along with the ASEAN Plus Three (China, Korea, and Japan), and the ASEAN Regional Forum (ARF) meetings restored the ASEAN process to center stage. The most significant outcome was language in the Joint Communiqué calling for increased cooperation to counter the threat of international terrorism through “concerted efforts and concrete initiatives at all levels.” The ministers also signed an ASEAN-U.S. Joint Declaration for cooperation in this effort. It represented a remarkable public alignment with Washington on a very high-profile security issue. The ministers also, *inter alia*, adopted “a code of conduct in the South China Sea [to] further peace and stability in the region.” But an attempt to mollify China by avoiding any direct reference to the Spratly Islands disputes meant the proposed code flirted with irrelevance. Nor was there any guarantee that China would sign even such a watered-down document.

Meanwhile, China pushed a multidimensional diplomatic initiative of its own calling for rapid implementation of an ASEAN-China Free Trade Agreement, cooperation on joint Mekong River Basin development projects, and the adoption of a new mutual security concept based on “trust, mutual benefit, and coordination.” If there was any doubt concerning the high priority Beijing accorded its relations with Southeast Asia, it was surely dispelled by a three-week official tour by China's parliamentary chief, Li Peng, to Thailand, Indonesia, the Philippines, and Australia, accompanied by a delegation of 120 officials.

Security to the Fore

As the quarter closed it seemed safe to predict that security issues would continue to loom large in the region. The major questions were: (1) whether the ASEAN countries generally, and Indonesia in particular, could find effective and sustainable means to neutralize radical Muslim elements and (2) whether the ASEAN countries could continue to build relations with China without suffocating in China's embrace – or giving way to Chinese claims in the Spratlys.

Security has loomed inordinately large in part because economics – the usual dominant issue – has required less urgent attention than in recent years. In general the ASEAN economies have weathered the most recent global downturn remarkably well. This has

been due in large part to increased intra-regional trade, growing domestic consumer demand, and the continued impressive growth of the Chinese economy. If these positives were to falter in conjunction with an accelerated softening of U.S. demand for ASEAN-origin exports, economics would quickly reassert its primary claim on the attention of the region.

By the end of the quarter the major questions associated with the terrorist challenge in the region had begun to assume sharper focus. They included the following: (1) Will the U.S. military commitment to assisting the AFP be sufficiently serious, substantial, and sustained to overcome the systemic weaknesses of the AFP? (2) Will the president and senior security officials in Indonesia become convinced that they face a threat of sufficient lethality to their own interests to initiate a determined and comprehensive response – including the use of military and intelligence agencies to cripple militant Muslim organizations and networks? (3) Will the U.S. (including Congress) decide that security concerns in Indonesia override reservations about the human rights record of some elements of the Indonesian armed forces (TNI)? If so, will Washington resume significant assistance to the TNI? In this regard, recent credible indications that local elements of the TNI were involved in the murder of two Americans and the wounding of several more in West Irian could effectively block any possibility of assistance unless strong measures are taken by Jakarta. (4) Can the leadership of the dominant Malay political party (UMNO) in Malaysia summon the will and the capacity to reverse the secular decline in its appeal to the Malay rural population without resorting to appeals to Malay ethnic chauvinism? This difficult question will be highlighted as Malaysia begins a transition from over two decades of dominant leadership by Prime Minister Mahathir.

Chronology of U.S.-Southeast Asia Relations July-September 2002

July 1, 2002: Burmese opposition leader Aung San Suu Kyi's first unhindered political trip outside the capital is "successful" according to National League for Democracy (NLD) officials. The trip constitutes the first real test of the ruling junta's promise that she would be able to travel freely.

July 1, 2002: Army Chief of Staff Gen. Ryacudu orders the army to disband all civilian militias in Indonesia as a threat to "public order and security."

July 2, 2002: East Timor and Indonesia establish formal diplomatic ties.

July 7, 2002: In testimony before the House of Representatives, Indonesian military chiefs describes a navy lacking ammunition and seaworthy ships and an air force with most of its planes grounded for lack of spare parts.

July 8, 2002: Philippine President Gloria Macapagal-Arroyo announces that the U.S. military will begin new exercises in the southern Philippines (on Sulu Island) upon completion of current exercises on Basilan Island.

July 10, 2002: Maj. Gen. Damiri, the highest ranking Indonesian military official indicted for the military rampage in East Timor in 1999, goes on trial for allowing the forces under his command to commit violence.

July 15, 2002: U.S. intelligence sources indicate that the Sept. 11 attacks were first conceived at a meeting in Malaysia of key al-Qaeda operatives.

July 17, 2002: U.S. and Philippines naval forces begin 11-day joint disaster-relief exercises at the former U.S. base in Subic.

July 17, 2002: President Arroyo selects opposition stalwart, Sen. Blas Ople, as foreign secretary replacing Vice President Guingona who had opposed the deployment of U.S. forces in the Philippines.

July 18, 2002: The U.S. Senate Appropriations Committee votes to drop restrictions on military aid to Jakarta.

July 22, 2002: A Thai security expert reports International Maritime Bureau believes al-Qaeda is responsible for increased piracy in the Malacca Straits and is targeting ships carrying radioactive materials. Last year, 649 cases of piracy were recorded in the Straits.

July 23, 2002: The U.S. Congress approve \$55 million in supplemental military assistance to the Philippines – \$30 million more than the Bush administration requested.

July 26-Aug. 3, 2002: Secretary of State Colin L. Powell visits India, Pakistan, Thailand, Malaysia, Singapore, Indonesia, the Philippines, and Brunei.

July 31, 2002: U.S. Secretary of State Colin Powell attends ASEAN Regional Forum.

Aug. 1, 2002: The new ASEAN secretary general, Singaporean diplomat Ong Keng Yong, observes that “the U.S. military presence in the region inspires confidence . . . so there is a healthy effect.”

Aug. 7, 2002: The U.S. and Thailand agree in principle to hold a U.S.-ASEAN summit in Thailand when Bangkok hosts the 2003 Asia Pacific Economic Cooperation summit.

Aug. 9, 2002: Burma’s military junta frees 14 political prisoners just days after opposition leader Aung San Suu Kyi called for the release of all dissidents as a precondition for national reconciliation. About 1,000 prisoners of conscience are estimated to remain behind bars in Burma.

Aug. 11, 2002: Indonesia’s Parliament adjourns a two-week session in which legislators introduced constitutional changes designed to shrink the military’s role in politics and boost presidential powers (by direct popular election).

Aug. 13, 2002: Former East Timor Gov. Jose Soares becomes first Indonesian official sentenced (three years imprisonment) for gross human rights violations in East Timor.

Aug. 30, 2002: U.S. establishes a joint operations center with the Thai Third Army in Chiang Mai to gather intelligence on drugs along the border.

Sept. 4, 2002: Deputy Secretary of Defense Paul Wolfowitz says the U.S. is “disappointed” with the apparent lack of will to vigorously prosecute human rights abusers within the Indonesian Armed Forces.

Sept. 6, 2002: The Pentagon notifies Congress of a possible sale of 18 F/A-18F fighters worth nearly \$1.5 billion to Malaysia.

Sept. 9-11, 2002: Vietnamese Foreign Minister Nguyen Dy Nien meets with senior U.S. officials and members of Congress to build a framework for long-term cooperation.

Sept. 10, 2002: U.S. Ambassador to Indonesia Ralph Boyce publicly advises U.S. investors in Indonesia to “wait for the government’s announced program of economic reforms to begin to show some signs of being implemented.”

Sept. 11, 2002: The ASEAN Inter-Parliamentary Organization meeting in Hanoi adopts a joint communiqué to fight terrorism, but opposes a unilateral, unprovoked attack on Iraq.

Sept. 16, 2002: U.S. Embassies in Malaysia and Indonesia that had closed on the anniversary of the Sept. 11 terrorist attacks, reopen as do consulates in Surabaya and Ho Chi Minh City. U.S. Embassies in Vietnam and Cambodia (which are physically vulnerable) remain closed.

Sept. 16, 2002: Singapore announces the arrest of another 21 suspects linked to al-Qaeda and Muslim separatists in the Philippines.

Sept. 17, 2002: U.S. Vice President Richard Cheney and Malaysian Deputy Prime Minister Badawi meet and agree to enhance cooperation against terrorism.

Sept. 18, 2002: Indonesia announces it will investigate allegations that Abu Bakar Baasyir and his organization Jemaah Islamiah are involved in global terrorism.

Sept. 20, 2002: Singapore and the U.S. agree to allow U.S. inspectors to screen U.S.-bound cargo for weapons of mass destruction.

Sept. 23, 2002: Burma’s military government releases 18 political prisoners, including 10 members of the opposition NLD.

Sept. 25, 2002: About 1,500 militant Muslims from Java and Sumatra attend a mass anti-U.S. rally in Surakarta and declare readiness to wage jihad against the U.S.

Sept. 26, 2002: Indonesian military chief Gen. Sutarto states that foreign terrorists had operated in two regions of Indonesia (Moluccas and Sulawesi), implicitly contradicting Indonesia's vice president and supporting the U.S. ambassador.

Sept. 30, 2002: Indonesia's chief security minister Yudhoyono announces that Jakarta will send a team of intelligence officials to the U.S. to discuss recent arrests in Java of terrorist suspects.

China – Southeast Asia Relations: Beijing Pushes “Asia for the Asians”

by Lyall Breckon
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The global campaign against terrorism presents China with a conundrum. Its own interests require that it support that campaign, which it is doing. At the same time, counterterrorism is expanding the U.S. military presence and involvement in the affairs of Southeast Asia, as in other regions on China’s periphery. China appears to have decided that the best course is to play for the long-term, and stress its comparative advantages.

The annual mid-year Association of Southeast Asian Nations (ASEAN) ministerial-level meetings in Brunei gave Beijing multiple opportunities to argue for its version of multilateral security and economic cooperation in Asia, and at the same time to empathize quietly with sensitivities bruised by superpower leadership. ASEAN’s failure to reach agreement on a code of conduct for the South China Sea permitted China once again to appear benign and forthcoming, without actually accepting any constraints on its activities. China’s decision to award a large natural gas contract to Australia rather than Indonesia was a sharp disappointment to Jakarta, tempered by the offer of a less lucrative deal in Fujian. The Indonesian military announced it would consider buying weapons from China to avoid U.S. embargoes. Hanoi resumed demarcating its border with China, but remains on the defensive about charges that it gave too much to Beijing in a 1999 bilateral boundary agreement. Taiwan aggressively exploited its economic leverage during the quarter to try to upgrade the level of contacts with several Southeast Asian governments.

China at the Annual ASEAN Meetings

China used the annual ASEAN series of ministerial meetings with its 13 dialogue partners July 29-Aug. 1 to argue that it, rather than “certain [unnamed] outside countries,” is the natural partner and leader for the rest of Asia in dealing with the challenges of the new century. Chinese Foreign Minister Tang Jiaxuan told ASEAN and other representatives that Asia is not unstable and riven with contradictions, as portrayed by outsiders. Instead it is “a force that can’t be ignored in the world” – an encouraging message for a region buffeted by prolonged economic stagnation, weak multilateral institutions, and mounting evidence of the presence of terrorist networks. Despite its confident tone, however, China’s message signaled concern that U.S. involvement in Southeast Asia was growing as a result of new antiterrorism priorities.

² CNA Corporation is a non-profit research and analysis organization. The opinions expressed in this article are those of the author.

China's most significant initiative toward ASEAN centered on its high-profile reiteration of its "New Security Concept" in the ASEAN Regional Forum (ARF), and its assertion that the ASEAN members and China should use the concept as the basis for reorienting regional security arrangements. Foreign Minister Tang argued that the concept's principles of mutual trust, mutual benefit, equality, and coordination and dialogue, rather than Cold War structures (implicitly including bilateral security alliances such as those between the United States and its Asian allies), are the correct means of dealing with today's more complex defense and security challenges.

The "10 Plus Three" meeting of ministers from ASEAN states and China, Japan, and the Republic of Korea on July 30 offered Foreign Minister Tang a structurally ideal forum to make his case that Asian security should be managed by Asians. "ASEAN Plus Three" is gaining momentum as a separate ASEAN mechanism, without U.S. participation. Up to now it has concentrated primarily on economic issues. Tang, in his ASEAN Plus Three address, proposed that this Asian-only forum expand its agenda to political and security cooperation. The response of at least some ASEAN representatives was positive, including Malaysia, which had made an effort to establish Kuala Lumpur as the home of a new ASEAN Plus Three Secretariat. (ASEAN deferred the secretariat proposal, but agreed to more frequent ASEAN Plus Three consultations.)

Another major Chinese initiative vis-à-vis ASEAN gained momentum, as negotiators agreed on a framework for the China-ASEAN Free Trade Area (FTA) proposed by Beijing last year. Economic ministers from the 11 countries, meeting in Brunei Sept. 13, set Jan. 1, 2004 as the deadline for beginning "early harvest" tariff reductions on a subset of goods yet to be identified, and making progress on other measures.

China's activism at the ASEAN meetings is aimed at preparing the ground for the projected ASEAN Plus Three summit in Cambodia in November, where it clearly expects further progress and possibly formalization of some of its economic and security proposals.

South China Sea: ASEAN Still in Disarray

ASEAN foreign ministers made another effort in Brunei to present a united front in demanding that Beijing sign on to a "code of conduct" for the South China Sea, and renounce expansion of military units in the islands or other efforts to try to achieve advantage in pressing sovereignty claims. Divisions among ASEAN members once again made it easy for China to reject the proposal, while claiming to favor the concept in principle. The ASEAN countries extended their deadline for putting a code of conduct in place until November.

Meanwhile, Philippine military sources reported that China continued to improve its military position in the Spratlys by modernizing military equipment in its garrisons and conducting exercises.

Fishing in the contested waters continued to provoke verbal conflict. The Chinese ambassador in Manila – according to Philippine press accounts – demanded on Sept. 20 that the Philippine government release some 122 Chinese fishermen being held in custody pending trial. Reportedly, his desk-pounding and “bullying” demands caused Justice Secretary Hernando Perez to ask the Department of Foreign Affairs to expel the ambassador forthwith. A presidential directive calling for silence on the matter apparently cooled tempers.

China and the Philippines

The atmosphere during Chinese National People’s Congress (NPC) Chairman Li Peng’s Sept. 12-15 visit to the Philippines was a marked contrast to this rhetoric. Li’s principal themes were the importance of counterterrorism, as undertaken by China in its western provinces, and ASEAN in its region; advancing “world multi-polarization” (i.e., balancing the United States as the sole superpower); cooperation rather than competition in economic development (i.e., China should not be seen as cornering the foreign direct investment that formerly went to ASEAN members); and peaceful resolution of territorial claims in the South China Sea. Li appeared to offer tacit acceptance for now of the growing U.S. military relationship with the Philippines that began with the training mission for the anti-Abu Sayyaf operation in Mindanao earlier this year, and Philippine President Gloria Macapagal-Arroyo’s open support for expanded military cooperation, including use of Philippine facilities if required.

Among the agreements signed by Li and Macapagal-Arroyo was a Chinese loan of \$29.2 million to expand and upgrade the fishing port of General Santos City in Mindanao. Perhaps not coincidentally, General Santos Port was one of the last large U.S. Agency for International Development (USAID) infrastructure projects in the Philippines in the 1980s, and some in the Philippines still claim that the United States funded the port as an eventual base for the U.S. Navy.

The plight of the detained Chinese fishermen did not spoil a visit of China’s Defense Minister Chi Haotian Sept. 25-28. Chi offered cooperation “in all fields on defense and the armed forces,” and said he wanted to learn how China could assist the defense department and armed forces of the Philippines.

China and Indonesia

China’s decision in early August to award a contract to supply liquefied natural gas (LNG) to Guangdong province, worth some \$13 billion, to Australia rather than Indonesia was a sharp blow to Jakarta. The Indonesian government had hoped for an early injection of capital to build the facilities, and large profits from the flow of gas beginning in 2005. Sectors of Indonesia’s economy tied to the global system remain stagnant five years after the Asian crisis of 1997, and foreign investment is staying out from fear of instability and worsening corruption, among other factors. The Indonesian government had courted China assiduously for the project, with President Megawati Sukarnoputri traveling to Beijing to make its case. In choosing the supplier, China evidently looked more at

market factors – price, reliability, and concern that the Indonesian gas field, off the troubled province of Papua, could be affected by fighting between separatists and government forces – than at the opportunity to gain political influence with ASEAN’s largest state.

At the same time, Beijing offered Indonesia a separate contract to supply LNG to Fujian province. Production under the deal, reportedly worth \$5 billion less than the Guangdong contract, would begin in 2008 at the earliest. Indonesia signed the Fujian contract in September, and will be looking for additional customers for its Papua gas field.

The peripatetic Li Peng, in Indonesia Sept. 8-12, reassured his hosts that China’s development would be good for Indonesia, and would not marginalize other Asian countries. With President Megawati out of the country, Li met Indonesian Vice President Hamzah Haz, who told China to get better control over the smuggling of Chinese consumer goods into Indonesia that is forcing Indonesian manufacturers out of business. (Whether the projected ASEAN-China FTA, which would put Indonesian small businesses in direct competition with China, came up in the discussion with Haz was not reported.) Li lauded the role of ethnic Chinese Indonesians in building Indonesia’s economy, and suggested they could be a bridge to increase friendship and cooperation with China.

Minister of Defense Chi also visited Indonesia during the quarter. After a meeting with Chi, Defense Minister Matori Abdul Jalil told the press that Indonesia is planning to purchase military equipment from China. Amplifying the reasons for doing so, Armed Forces Commander Gen. Endriartono Sutarto two days later told reporters that Indonesia needed to find alternative sources of weapons “outside the Western hemisphere, in particular the United States,” to avoid over-dependence on a single source, making his forces vulnerable to embargoes.

Vietnam-China: Border Problems Remain Troublesome for Hanoi

Evidence of popular resentment over Vietnamese concessions to China in the land border agreement signed by the two governments in 1999 mounted during the quarter. In July the two parties resumed planting markers implementing the agreement, after a hiatus since the first stone was put down last December, but protests by dissident Vietnamese, both at home and overseas, continue. The issue is a serious one for Vietnam. According to unconfirmed reports, police or paramilitary forces of the two countries clashed in May, while Chinese personnel were chasing criminals in Yunnan, possibly because the boundary lacked clear demarcation. Taking land border disputes off the agenda with China had been a very high priority for Hanoi through most of the 1990s, entailing the temporary sacrifice of other foreign policy objectives, but the problem refuses to fade into the background.

The second of 1,533 projected border markers was put in place at the western end of the border, opposite Lao Cai, July 13, with senior officials present to praise its national importance and peaceful symbolism. A third marker was planted July 26, and another Sept. 1. Sources in Hanoi reported that the government planned shortly to bring to trial journalist Le Chi Quang, who was arrested in February for criticizing the border agreement, on the criminal charges of distributing anti-government material.

Another round of border talks in Kunming during Aug. 22-25 led to little beyond affirming that land border demarcation would continue, and showing that two sides cannot agree on maritime boundaries. In September, in an effort to quell domestic objections, the Vietnamese government for the first time revealed the details of its land border agreement with China, in a lengthy interview with Deputy Foreign Minister Le Cong Phung, and by publishing – without announcement – the text of the 1999 agreement. In explaining the agreement, Phung pointed out that it was based on customary principles followed by all countries in settling border disputes, including maintaining the stability of the lives of inhabitants of border regions. He denied “scandalous accusations” by “reactionary forces and political opportunists” that Vietnam had turned over hundreds of square kilometers to China, including precious scenic sites.

Hanoi’s relations with China were further complicated by charges from human rights groups that three dissidents from China, including two permanent residents of the United States, had disappeared while trying to cross from Vietnam into China in June. Vietnamese officials said they had no knowledge of the three persons and were investigating.

Taiwan Launches Drive to Upgrade Relations in Southeast Asia

Taiwan, smarting at the loss of diplomatic relations in other parts of the world and under domestic political pressure, announced during the quarter that it was resuming a “Go South” program originally promulgated by former Taiwan President Lee Teng-hui in the 1990s. Most of the emphasis is on trade and investment. However, the “Go South” doctrine generated a stealthy trip by Vice President Annette Lu to meet senior members of the Indonesian government, and a bare-knuckle campaign to use the leverage gained from the presence of more than 300,000 Southeast Asian guest workers in Taiwan to force Indonesia, the Philippines, and Thailand to raise the level of contacts with the island.

Lu arrived in Jakarta Aug. 14 with a schedule of senior appointments, but was whisked off to Bali by Indonesian officials in response to sharp criticism from Beijing. The Indonesian Foreign Ministry announced the same day that Indonesia still hewed to the “one China” policy, and held that Taiwan is “an inalienable part of the People’s Republic of China.” Vice Premier Lu was able to return to Jakarta the following day for a series of low-key meetings, and called the visit a victory on her return to Taipei. China denounced it as a “farce.”

Thailand provoked the anger of Ms. Chen Chu, chairwoman of Taiwan's Council of Labor Affairs (CLA), by revoking her visa less than 24 hours before she was due to arrive for a conference on Thai workers in Taiwan. Despite efforts by Thailand and Indonesia to find a graceful exit from the impasse and move ahead with new labor agreements, Taiwan was refusing at the end of the quarter to lift a freeze on new hires of workers from these countries.

Taiwan's prolonged recession may make it easier at this moment to play the guest worker card. But given the stake Southeast Asian countries have in good relations with Beijing, and the productive charm offensive China has pursued in Southeast Asia over the past few years, Taiwan cannot realistically expect to do more with its economic clout than make life episodically uncomfortable for those governments.

China also protested Singapore's contacts with Taiwan, including a stopover by Senior Minister Lee Kuan Yew Sept. 17-20, following a visit to China, but the protest was more regretful than angry. Minister Lee continues to be a forceful advocate for economic cooperation between Southeast Asia and China. The minister was accompanied to Taipei by a Singaporean military delegation to discuss the "Starlight" program under which Singapore conducts military training in Taiwan. China has offered Hainan as an alternative. Agence France Presse reported in September that Singapore would move some of the training there.

Implications for the United States

Insofar as the themes of China's Southeast Asia diplomacy are directed against U.S. policies and goals, they are not likely to evoke much regional support. There is no prospect in the current environment that U.S. alliance relationships are threatened by the "New Security Concept." If that concept improves regional performance in dealing with nontraditional security problems like drug trafficking and environmental degradation, so much the better. "Hard security" issues remain, including some that might originate from China, and the region's desire to encourage a continuing U.S. military presence as insurance is not diminishing.

In the perception of many Southeast Asians, a worst case security scenario would be conflict across the Taiwan Strait. It could arise from accident, miscalculation, or the pressures of nationalism on either or both sides. For the moment, Southeast Asian leaders are not alarmed, and tend to see Taiwan's campaign for more regularized relations for what it is – rooted primarily in domestic Taiwan politics. If it appeared in the future to be escalating as a result of U.S. declaratory policies or actions, however, the level of alarm would rise precipitously.

Chronology of China-Southeast Asia Relations July-September 2002

July 4, 2002: Indonesia announces it will sign an agreement with China to curb the rampant smuggling of cut logs that is rapidly reducing its forests. The agreement, similar to one with Malaysia, apparently does not exclude the export of cut timber. Illegal Indonesian sawmills have reportedly turned to shipping cut timber as a way of circumventing bilateral agreements designed to protect the environment.

July 8, 2002: China announces it will send 100 Sichuanese rabbits to Thailand as part of a poverty elimination program, to replace “inferior Thai rabbits” that generate poor returns.

July 8, 2002: Vietnam’s Trade Minister Vu Khoan tells Zhang Xuewen, deputy governor of Guangxi province, that Vietnam will strengthen cooperation with Guangxi.

July 10, 2002: The Philippines opens a Consulate General in Shanghai.

July 11, 2002: East Timor Foreign Minister Jose Ramos Horta describes China as his new country’s “closest possible ally,” noting that East Timor wants China’s friendship as an “economic powerhouse,” and would not be lecturing Beijing on human rights violations.

July 11, 2002: Indonesian business people establish an Indonesia-China Business Council in Jakarta to strengthen trade ties between the two countries, and establish a more favorable trade balance for Indonesia, which is concerned that inexpensive Chinese imports are driving Indonesian enterprises out of business.

July 17, 2002: Malaysian Prime Minister Mahathir bin Mohamad meets with visiting Vice Chairman of the National People’s Congress Jiang Chunyun, and tells him that Malaysia will continue to pursue its foreign policy of friendship and cooperation with China. Jiang expressed appreciation for PM Mahathir’s role in promoting cooperation within the framework of ASEAN, the ASEAN Plus One, and ASEAN Plus Three forums.

July 17, 2002: Xinhua announces that Thailand is negotiating to participate in the construction of a hydroelectric project in Yunnan with a capacity of 5.5 million kilowatts. The plan is to share the power produced by the dam among Guangdong and Yunnan provinces in China, and Thailand.

July 18, 2002: China’s Defense Minister Chi Haotian receives a senior delegation from the Lao People’s Army, noting that the two countries still help each other and carry out close cooperation in national and military construction.

July 18, 2002: China and the Philippines trade accusations of unfair trade practices at a meeting of the Philippine-China Joint Trade Committee. They subsequently agree to improve the bilateral trade and investment structure through complementary product diversification and intensified two-way investments. They also discuss a proposed Manila-Clark railway system, which Chinese firms may build under a concessional loan.

July 21, 2002: Burma announces that it has opened three border trading points with China. According to Burma's figures, the value of border trade increased 25 percent from 2000 to 2001.

July 22, 2002: China announces the implementation of agreements with the Philippines to combat transnational crime and drug trafficking. The Philippines has been concerned at large quantities of "*shabu*" (methamphetamines) entering the country from China. *Shabu* is the most-abused drug in the Philippines.

July 26, 2002: China lifts the ban on travel to the Philippines that has been in place since August 2001, following kidnappings of Chinese nationals, some of whom were murdered. Philippine consular officials have been instructed to streamline visa procedures to encourage more Chinese tourists to visit the country. Tourism Secretary Richard Gordon states that the Philippines "must take advantage of the Chinese tourist market, as it is the largest growing market in the world."

July 31, 2002: Chinese sources state that Beijing will invest \$360 million to improve a 97-km section in Yunnan of the road linking Kunming and Bangkok

Aug. 9, 2002: The Malaysian naval ship *Kd Sriinderapura* arrives in Shanghai for a five-day goodwill visit.

Aug. 14, 2002: Burmese officials and representatives of the China Yunnan Corporation sign an agreement on construction of jute-based paper mills in northern Burma.

Aug. 14, 2002: Thailand announces that it plans to network its textile industry with that of China, starting with links to "Underwear City," a huge manufacturing base for undergarments, in Guangdong.

Aug. 21, 2002: Indonesia's Department of Immigration calls for reinstatement of tighter entry requirements for Chinese citizens, many of whom reportedly come on tourist visas but engage in business. Constraints on Chinese visitors were relaxed after the resignation of President Suharto in 1998.

Aug. 22-25, 2002: China and Vietnam hold round of border talks in Kunming.

Sept. 3, 2002: China's NPC Chairman Li Peng meets with former Thai Prime Minister Chuan Leekpai, and tells him China wishes to learn from Thailand how to manage its participation in the World Trade Organization. Li states that China is pleased that a Thai, Dr. Supachai Panitchpakdi, has taken over as WTO director general. Chuan thanks Li for China's refusal to devalue its currency since the Asian economic crisis began five years ago.

Sept. 4, 2002: Meeting with His Majesty Bhumibol Adulyadej, King of Thailand, and Princess Sirindhorn at the royal palace at Hua Hin, Li Peng commends Thailand's treatment of its ethnic Chinese subjects. The Thai monarch tells Li that he has encouraged members of his family to visit China to increase mutual understanding and friendship between the two peoples. In his meeting with Prime Minister Thaksin, Li announces the gift of a pair of pandas to the Thai nation to commemorate the birthdays of the King and Queen. Thaksin reaffirms Thailand's adherence to the "one China" policy.

Sept. 8-12, 2002: NPC Chairman Li Peng visits Indonesia.

Sept. 11, 2002: China's Vice President Hu Jintao meets with Phan Dien, a member of the Political Bureau of the Communist Party of Vietnam Central Committee, urging that China and Vietnam "earnestly push forward bilateral friendship and cooperation in the new century." Dien also meets with Chinese Vice Premier Qian Qichen.

Sept. 11, 2002: Indonesia announces that it will hold the first meeting of a China-Indonesia Energy Forum in Bali later in the month. Top leaders of China's public energy sector are expected to come to discuss cooperation in the power sector, coal production, development of a gas pipeline linking East Kalimantan and East Java, and a \$400 million Chinese soft loan to develop power plant in Sumatra.

Sept. 12-15, 2002: NPC Chairman Li Peng visits the Philippines.

Sept. 14, 2002: China warns Singapore of "trouble" if it establishes an FTA with Taiwan.

Sept. 16, 2002: A press release following the conclusion of the sixth China-Malaysia Economic and Trade Commission meeting in Kuala Lumpur states that total trade between the two countries from January to July this year stands at \$7.4 billion, making Malaysia China's largest trading partner among the ASEAN countries.

Sept. 17-20, 2002: Singapore Senior Minister Lee Kuan Yew visits Taiwan.

Sept. 22, 2002: Chinese Premier Zhu Rongji, meeting with Thai Prime Minister Thaksin on the margins of the fourth Asia-Europe Summit in Copenhagen, says that cooperation between the two countries has achieved remarkable results.

Sept. 25, 2002: China's Chief of General Staff Fu Quanyou meets with Cambodia's acting head of state, Senate President Chea Sim, and Prime Minister Hun Sen. Fu also meets with Cambodia's Co-Ministers of Defense Tea Banh and Prince Sisowath Sirirath.

Sept. 25-28, 2002: DM Chi visits the Phillipines.

China-Taiwan Relations: Chen Muddies Cross-Strait Waters

by David G. Brown
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On Aug. 3, President Chen Shui-bian told a video conference with independence supporters in Tokyo that there was “one country on each side” of the Taiwan Strait. Taiwan government officials, Washington, and Beijing were caught by surprise and concerned. Taipei quickly sent out assurances that policy has not changed, Washington reiterated that it did not support independence, and President Chen refrained from repeating this remark publicly. While no crisis occurred, the remarks appear in part to reflect Chen’s conclusion that Beijing’s cool response to Taipei’s goodwill offers means there is little near-term prospect for progress on cross-Strait issues. Taipei has pressed ahead with efforts to strengthen ties with the U.S., but its efforts to increase Taiwan’s international standing have suffered setbacks. Minor steps continue to be taken to ease restrictions on cross-Strait economic ties, which are again expanding rapidly.

“Three Links” in Limbo

This quarter opened with considerable attention on both sides of the Strait to ways the recently concluded extension of the Taiwan-Hong Kong Air Services Agreement could provide a model for how private groups might handle the opening of direct travel across the Strait – the so-called “three links.” President Chen seemed intent on opening direct travel before the 2004 presidential elections in order to demonstrate his ability to successfully manage cross-Strait relations. Bureaucrats in Taipei were working on the modalities for authorizing private groups to negotiate. Beijing was continuing to state its desire to move ahead on the “three links” without requiring private groups to accept the “one China” principle, while nevertheless insisting that such air and sea connections must be considered “domestic (*guonei*)” routes. This latter point is seen by the Chen administration as a back-door way to obtain Taipei’s indirect acceptance of the “one China” principle. Chen Yun-lin, the director of the Taiwan Affairs Office (TAO) had told Taiwan visitors in July that in November, after the Communist Party Congress, there could be a turning point on these economic issues.

Then in late July and early August, President Chen made statements – reminiscent of positions taken by former President Lee Teng-hui – that have complicated the prospects for progress on cross-Strait economic issues.

Chen Muddies the Water

On July 21, in one address to the Democratic Progressive Party (DPP) convention, President Chen had included a standard restatement of his administration's current cross-Strait policy based on his inaugural statement and the DPP's 1999 resolution on Taiwan's future. The following day, in his speech accepting the DPP party chairmanship, Chen took a noticeably harder line, urging Beijing to take an historic step toward better relations but threatening that, if Beijing did not respond to goodwill gestures, Taipei "would not rule out the possibility of going its own way." This harder tone sparked some comment and criticism from opposition politicians. What caused his change of tone? Many speculated that it was Beijing's signing the day before an agreement establishing diplomatic relations with tiny Nauru that had until then recognized Taipei. Chen apparently saw the timing of this announcement as a slap in the face.

Ten days later in a video conference address to independence supporters in Tokyo, Chen explained his administration's view of Taiwan's sovereignty saying that in effect "there is one country on each side" of the Strait. (In pinyin: *yi-bian, yi-guo*. In mandarin, the word *guo* was the same as used by former President Lee Teng-hui in his "state-to-state relations" statement.) Chen went on to underline the urgency of Taiwan adopting referendum legislation.

These remarks, particularly his use of the word "country," caught many by surprise and raised questions about whether President Chen was backing away from the commitments in his inaugural address to avoid actions that would increase tensions in the Strait, including holding a referendum. Mainland Affairs Council (MAC) Chairperson Tsai Ing-wen was one of those caught off-guard; President Chen's remarks had not been cleared within the government. Washington also had no advance knowledge and was concerned because it thought it had an understanding that there would be no repetition of the "surprise" former President Lee had sprung in his "state-to-state relations" statement in 1999. Washington quietly made clear its concerns and sought clarification, while publicly reiterating the U.S. "one China" policy and its non-support for Taiwan independence.

Sensing concerns from many quarters, Chen authorized MAC Chairperson Tsai to issue a four-point statement to the effect that there had been no change in policy on cross-Strait relations and that Taipei would continue efforts to open direct trade and travel. A few days later, Chen explained that all he had meant by his statement was to underscore that Taiwan and China had "equal sovereignty." Then, Tsai was hurriedly sent to explain Chen's remark to Washington, where her reception was cool. Subsequently, the DPP Legislative Yuan (LY) whip confirmed that passing referendum legislation was not one of the DPP priorities in this fall's LY session.

View from Beijing

Beijing had other priorities this summer, with leadership transition maneuvering dominating the annual Beidaihe retreat and preparations for the 16th Party Congress. Beijing had little time for Taiwan issues and no interest in new tensions in the Strait.

Beijing's initial reaction to Chen's Aug. 3 statement came at a relatively low level from a TAO official who sharply criticized Chen for leading Taiwan toward disaster. The propaganda barrage that followed from a wide variety of official publications for the first time criticized the president by name and likened him to China's *bête noire*, former President Lee. However, this initial reaction subsided quickly once Beijing had accepted assurances from Washington that it was not associated with nor supportive of Chen's remarks. Most Chinese observers commented that Chen's remarks only revealed his true colors as a "separatist." Privately, Chinese told visiting U.S. observers that henceforth Beijing would put pressure on Washington to restrain the president, promote closer economic ties to bind Taiwan to the PRC, and continue modernizing the People's Liberation Army (PLA). Once convinced that no immediate challenge was involved, the Beijing leadership has since devoted scant attention to Taiwan.

What Does it Mean?

It appears in retrospect that Chen's remarks do not represent a radical change in his policy toward the mainland. While the president has explained in press backgrounders that his remarks were deliberate, thus far he has chosen not to repeat the "*yi-bian, yi-guo*" phrase in public, perhaps a tacit acknowledgment that his choice of words was impolitic. This restraint is quite different from 1999 when former President Lee repeatedly explained his concept of "state-to-state" relations. Privately, Chen continues to assert that his statement accurately describes reality.

However, these remarks are consistent with a harsher tone that has surfaced in Chen's public posture toward the PRC and appear to reflect his growing frustration that the PRC has not responded positively to his goodwill gestures, including his important indication in May that private groups could play a role in negotiating the three links. Even before the Nauru episode, Chen had revived government promotion of former President Lee's 1990s "Go South" policy, a hortatory effort to encourage Taiwanese businessmen to invest in Southeast Asia rather than in the PRC. This is responsive to the concern of many in the DPP that Taiwan is becoming too dependent on the PRC market. Around the anniversary of Sept. 11, Chen gave speeches in which he tried to portray PRC military threats against Taiwan as a form of terrorism. At an Asian Democracy conference in Taipei, Chen called for Asian governments to join Taiwan in an effort to promote democratic change in China. The president has expressed his frustration privately to visiting Americans and indicated that his administration will continue with steps to strengthen Taiwan's identity and promote its place in the international community. At the same time, he has continued to pursue the goal of opening direct cross-Strait travel, though apparently with lower expectations of success. Chen used the anniversary of the Economic Development Advisory Conference (EDAC) to reiterate his commitment to expanding cross-Strait economic ties.

International Competition

The PRC agreement with Nauru reflects Beijing's determination to do everything possible to constrain Taipei's international space, particularly because of what Beijing sees as President Chen's efforts to promote "creeping independence." For the 10th year, Beijing easily blocked the inclusion on the UN General Assembly agenda of an item on Taiwan's participation. Likewise, Beijing ensured that Taiwan's large delegation to the UN summit on Sustainable Development in South Africa only participated in the unofficial activities on the margins of the conference. As if to underline how far the PRC is going to constrain Taiwan, Beijing successfully persuaded Lions International to unilaterally change the name of the ROC Lions organization as the price for the establishment of Lions chapters in China.

Taiwan did make some progress in expanding its ties with the U.S. The visit of Vice Minister of Defense Kang Ning-hsiang to Washington was the first such visit by an official in this sub-Cabinet position. In September, Madame Chen Wu Shu-chen was issued a visa for a first private visit to the U.S., which included a stop in Washington and meetings with members of Congress. President Chen has frequently underlined the importance he places on concluding free trade agreements with the U.S., Japan, and other major trading partners.

Defense Issues

U.S. contacts with Taiwan in the defense area continued actively. A U.S. team was in Taipei in July for consultations on the submarine deal. A session of defense consultations was held in Monterey in August. Vice Minister of Defense Kang visited Washington and CINCPAC in September.

One message from Washington in these meetings has been that Taipei needs to make a deeper commitment to respond to the growing challenge of PRC military modernization. One public expression of this concern was provided in a talk by David Cole of the National Defense College, who criticized the Chen administration and the LY for not appropriating adequate resources for defense and asked whether Taiwan had the will to resist PRC military pressure. In a move that could help explain such concerns, Taipei released in September the proposed defense budget for 2003, which totaled about \$7.6 billion at current exchange rates. In contrast to Beijing's published defense budget which has been rising at double digit rates in recent years, Taipei's 2003 budget declined again and was the lowest proposed appropriation in eight years. The budget included only \$510 million for new procurement, including a initial payment of four Kidd-class destroyers but no funds for any of the systems offered in the Bush administration's \$4 billion 2000 arms sales package.

Economic Ties Expanding

First-half trade figures show that in 2002 cross-Strait economic relations have resumed their rapid expansion, despite the lack of cross-Strait dialogue. According to PRC figures, cross-Strait trade reached \$19.6 billion in the first half, with PRC imports from Taiwan of \$16.8 billion, up 33 percent from the first-half of 2001. Taipei figures for the first five months report trade of \$14.9 billion, with Taiwan exports up 26 percent from a year earlier and accounting for 23.5 percent of all Taiwan exports. The initial indications last fall that the PRC had become Taiwan's largest market have been convincingly confirmed by these first half trade figures. This export growth in turn has been an important factor in the recovery of the Taiwan economy. Seen from Beijing's perspective, Xinhua reported that Taiwan is now the PRC's second largest source of imports.

Taiwan investment in the PRC continues apace. Beijing reported actual investment from Taiwan reached \$1.9 billion in the first half, up 47 percent from a year earlier. Taiwan's Ministry of Economic Affairs reported that investment approvals in the first eight months totaled \$2.3 billion, an increase of 35 percent over the same period last year, and this increase occurred in a period when Taiwan's other foreign direct investment declined 34 percent. Several recent surveys indicate that the overwhelming majority of Taiwanese firms planning overseas investment are planning to invest in China.

These trends have heightened concerns among some in Taiwan about over-dependence on the PRC market and lie behind the Chen administration's revival of the ineffectual "Go South" policy. Douglas Paal, the director of the American Institute in Taiwan, gave a speech in September urging Taiwan to overcome its phobia about economic ties with mainland China saying that these fears were hampering Taiwan's ability to compete effectively in the global economy.

In the absence of meaningful negotiations, Taipei has continued to take minor steps to ease restrictions on cross-Strait economic ties. Taipei and Beijing have adopted measures that will permit direct remittances between banks in the PRC and the off-shore banking units of banks in Taipei. Taipei has authorized investments in many service industries in the PRC and has issued new regulations that will make it easier for multinational firms to employ PRC citizen technical personnel in Taiwan. Under the "mini three links" program, a direct shipping route was opened between the Penghus and a port in Fujian. Both Taipei and Beijing have taken steps related to the opening of representative offices of Taiwan banks in the PRC. A further sign of change was the announcement in late September of a joint venture to produce Tsingtao Beer on Taiwan, with hopes that this famous Chinese beer would gain 20 percent of the beer market in three years.

In late September, the Executive Yuan completed draft legislation that will, if adopted, substantially liberalize the statute governing cross-Strait relations. The draft would shift from an approach of permitting only those activities which are explicitly authorized to one permitting all activities that are not specifically prohibited. In addition, the draft provides for authorizing organizations other than the Strait Exchange Foundation (SEF) to handle aspects of cross-Strait relations.

Policy Implications

There is no prospect of significant movement toward cross-Strait dialogue on economic issues until after the 16th Party Congress in November. Beijing officials state that, despite President Chen's recent remarks, Beijing still wishes private groups to negotiate the opening of direct trade and travel. After November, the question will remain whether Beijing will place higher priority on the economic benefits of strengthening cross-Strait economic relations or the political goal of getting Taipei to treat direct trade and travel as a "domestic" matter.

Chronology of China-Taiwan Relations July-September 2002

June 29, 2002: Taipei and Hong Kong sign aviation agreement extension.

July 2, 2002: New American Institute in Taiwan Director Douglas Paal arrives, thanks Taipei for reducing cross-Strait tension.

July 5, 2002: Chinese Vice Premier Qian Qichen calls for progress on "three links" as "domestic" routes.

July 9, 2002: Fire on floating dormitory dramatizes plight of PRC fishermen working for Taiwan.

July 10, 2002: Taiwan Ministry of Education announces decision to use *Tongyong Pinyin* romanization.

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 15, 2002: PRC repatriates shipwrecked Taiwan soldier to Matsu.

July 16, 2002: Taiwan Foreign Ministry says addition of words "issued in Taiwan" to passports will be postponed in response to Democratic Progressive Party (DPP) criticism.

July 17, 2002: U.S.-Taiwan defense talks in Monterey conclude.

July 21, 2002: PRC establishes diplomatic relations with Nauru.

July 21, 2002: Taiwan President Chen Shui-bian becomes chairman of DPP, gives speech saying that if PRC does not respond to overtures, Taiwan may have to "go its own way."

July 23, 2002: U.S. Navy delegation begins consultations on submarine sale in Taipei.

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.

July 25, 2002: Taipei Ministry of National Defense releases white paper on defense policy.

July 30, 2002: President Chen speech reiterates that Taipei won't change island's status if Beijing stops its threats.

July 31, 2002: U.S. Secretary of State Colin Powell and Chinese Foreign Minister Tang Jiaxuan meet in Brunei at ASEAN Regional Forum.

July 31, 2002: *People's Daily* commentary urges Taipei to begin talks on "three links."

Aug. 2, 2002: Taipei Ministry of Finance approves rules for cross-Strait financial transfers.

Aug. 3, 2002: President Chen makes video conference remarks about "one country on each side."

Aug. 5, 2002: Taiwan Affairs Office (TAO) official 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. 5, 2002: Taiwan Premier Yu transits U.S. through Los Angeles and New York en route to Latin America.

Aug. 6, 2002: After DPP meeting, Chen says Taipei and Beijing have "equal sovereignty."

Aug. 6, 2002: Various PRC publications criticize President Chen by name.

Aug. 7, 2002: State Department reiterates U.S. "one China" policy and non-support for independence.

Aug. 9, 2002: MAC Chairperson Tsai meets U.S. officials in Washington to explain Chen's remarks.

Aug. 11, 2002: Chen and former President Lee Teng-hui attend first anniversary celebration of Taiwan Solidarity Union (TSU).

Aug. 14, 2002: Taiwan Vice President Annette Lu, denied entry to Jakarta, flies to Bali.

Aug. 16, 2002: VP Lu flies back to Jakarta for private meetings, returns to Taipei.

Aug. 20, 2002: MAC eases regulations allowing multinational corporations in Taiwan to hire PRC nationals.

Aug. 21, 2002: Chinese VP Qian criticizes Chen by name and likens him to former President Lee.

Aug. 25, 2002: President Chen's strategy review at Tashee calls for free trade agreements (FTAs) with U.S. and Japan and for renewed effort to achieve "three links."

Aug 26, 2002: At Asian democracy forum in Taipei, Chen calls for promoting democracy in China.

Aug. 29, 2002: Chen says he is determined to normalize cross-Strait economic relations.

Sept. 2, 2002: Taiwan and Mongolia exchange unofficial offices.

Sept. 4, 2002: Taipei's 2003 draft defense budget released, shows lowest in eight years.

Sept. 9, 2002: Vice Minister of Defense Kang Ning-hsiang in Washington for talks.

Sept. 9, 2002: Taiwan press reports Chinese VP Qian has been in Fujian for Taiwan work conference.

Sept. 11, 2002: Chen describes PRC military threat to Taiwan as a form of terrorism.

Sept. 12, 2002: UN General Committee votes not to include Taiwan issue on UNGA agenda.

Sept. 13, 2002: FM Tang vows before the U.N. General Assembly that China will never allow Taiwan to become independent.

Sept. 14, 2002: PRC Ministry of Foreign Trade and Economic Cooperation Minister Shi warns Singapore against signing FTA with Taiwan.

Sept. 17, 2002: Singapore's Lee Kuan Yew in Taipei for meetings with President Chen and others.

Sept. 20, 2002: MAC orders visiting PRC delegation to curtail visit.

Sept. 20, 2002: Taipei Ministry of Foreign Affairs announces that next printing of passports will not have words "issued in Taiwan."

Sept. 23, 2002: *Taipei Times* reports Singapore will move some military training from Taiwan to Hainan.

Sept. 24, 2002: Beijing accuses hackers in Taipei of hacking into TV broadcasts for Falun Gong.

Sept. 25, 2002: Executive Yuan drafts major changes to statute on cross-Strait relations.

North Korea-South Korea Relations: No Turning Back?

by Aidan Foster-Carter
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Yet again, inter-Korean relations have confounded expectations. A quarter that began with the Northern navy sinking a Southern patrol boat – and Kim Dae-jung's Sunshine Policy with it, or so it seemed – ended with Korean People's Army (KPA) and Republic of Korea (ROK) soldiers jointly clearing mines in the Demilitarized Zone (DMZ) to relink two cross-border road and rail routes. On Sept. 29, athletes from both Koreas marched behind a unity flag to open the 14th Asian Games in Pusan, the first time the Democratic People's Republic of Korea (DPRK) has ever joined in a sporting event in the Republic of Korea. All this, and much more recounted below, is hopeful.

But past precedent inevitably counsels caution, lest seeming breakthroughs prove once again temporary rather than definitive. From next February, a new South Korean president may take a harder line; especially if new claims that Seoul paid for the 2000 North-South summit poison the atmosphere. Or noises off could spoil things, such as a U.S. attack on Iraq – particularly if not under UN auspices. Against that, Japan's opting for engagement, as in Prime Minister Koizumi Junichiro's sensational summit with DPRK leader Kim Jong-il, leaves Washington's tougher stance more isolated. Also moves toward economic reform, harder to reverse than diplomatic outreach, buttress hopes that this time North Korea really is trying to change, and that progress may prove enduring.

Sunshine Seemed Sunk

Much as events have moved on since then, the mood in July should not be forgotten. It is still unclear why the KPA chose to pick a naval fight: hypotheses include revenge for a similar incident in 1999, a rogue local commander, or to spoil Seoul's World Cup soccer party. The attack left the ROK Navy exposed to criticism; the defense minister was sacked soon after, and conservatives blamed Sunshine for sapping vigilance and morale. Playing to this view, in September opposition leader Lee Hoi-chang, current favorite to be the next ROK president, was still calling the incident a terrorist attack for which Pyongyang must apologize.

While hawks fulminate, others might be relieved that this incident, deplorable as it was, did not escalate but was swiftly contained: both militarily at the time and politically

thereafter. As in the 1999 clash, on the east coast Hyundai's cruise tours to Mt. Kumgang were unaffected. Three days later, 25 North Korean nuclear engineers arrived in Seoul as scheduled for safety training under Korean Peninsula Energy Development Organization (KEDO) auspices. Being multilateral, KEDO is partly insulated from North-South ups and downs; but its first test flight from Yangyang in South Korea to Sondok, near the light-water reactor (LWR) site at Sinpo, was put off by a week from July 13 to 20. This will become a regular route to ferry ROK personnel and materiel to Sinpo; hitherto they have gone by sea or flown the long way via Beijing and Pyongyang.

Back on Track

Although in early July Sunshine looked sunk, it did not take long for ties to get back on track. Oddly, just after the firefight Pyongyang congratulated the South on its successful hosting and performance in the soccer World Cup, in which the North had ignored entreaties to participate (although it did eventually broadcast edited versions of some matches, albeit without asking permission or paying for this in the normal way). It specifically praised Chung Mong-joon, who besides being in charge of the ROK side of the Cup is a Hyundai scion and independent lawmaker, and has since announced his candidacy for South Korea's presidential election on Dec. 19. Kim Dae-jung's successor takes office for five years from next February.

In mid-July, Seoul let its nongovernmental organizations (NGOs) contact their Northern counterparts about jointly celebrating Liberation Day – from Japan in 1945, a holiday in both Koreas – on Aug. 15, despite a row last year when a few Southern radicals visiting Pyongyang danced too keenly to the DPRK's tune. This time it was the North's turn to visit Seoul. But the real breakthrough came on July 25, when Pyongyang sent a message of "regret" for the "accidental" West Sea incident, and called for ministerial talks and other channels to be reactivated as soon as possible. After a few days' debate, the South accepted. In early August, talks at Mt. Kumgang – increasingly becoming a main center for North-South contact, besides its tourism role – agreed on a raft of exchanges: ministerial talks, Red Cross meetings on further family reunions, a unification festival, a soccer game, and the North's participation in the upcoming Asian games in Pusan. This last is the first time the DPRK has ever attended an international sports meet in the ROK.

All Systems Go

Since then it has been all systems go, with a greater density and range of inter-Korean events than at any time since the Peninsula's division; except perhaps the few months after the June 2000 summit. Thus mid-August saw two separate Northern delegations fly into Seoul: directly from Pyongyang by Air Koryo, the DPRK national carrier, rather than the roundabout route via Beijing. A 116-strong team, mainly of performing artists, came for the Liberation Day celebrations, where Seoul was careful to avoid a repeat of last year's fiasco. Southern radicals were excluded, and some strident Northern wording was toned down. All went well: one dazzling Northern female dancer has now become the subject of adoring Southern web sites.

If this was mainly symbolic, the serious business was a seventh round of ministerial talks, the first since last November. After an all-night session, these produced a 10-point agreement to hold a range of further meetings. Specifically, these were:

1. A second Inter Korea Economic Cooperation Committee meeting in Seoul, Aug. 26-29.
2. To seek military guarantees as soon as possible to enable relinking of railways and roads.
3. Working-level contacts for a joint inspection of the Mt. Kumgang Dam in mid-September.
4. Red Cross meetings Sept. 4-6, with a fifth round of family reunions soon after.
5. A meeting to activate Mt. Kumgang tourism at the resort, Sept. 10-12.
6. To promote full cooperation for North Korea to participate in the Pusan Asian games.
7. To promote full cooperation for an inter-Korean soccer game in Seoul, Sept. 6-8.
8. Exchange visits by taekwondo teams: South to North in September, vice versa in October.
9. A North Korean economic inspection team will visit the South in late October.
10. To hold the eighth ministerial level talks in Pyongyang from Oct. 19-22.

Despite this, there was disappointment in Seoul that item two was not more concrete. Northern delegates said they needed to go home and consult with the KPA before they could set a date for all-important military talks: essential if work is to proceed on road and rail links through the DMZ, which despite its name is the world's most heavily armed frontier. (The idea of military talks to discuss military matters as such, as opposed to transport links, is a more distant goal, and one in which Pyongyang has not yet evinced the slightest interest.)

By Boat or by Embassy

A reminder that the two governments cannot control all North-South intercourse came on Aug. 19 with the arrival in Incheon of 21 Northern boat people, the largest ever such group. The ship's engineer, whom the defectors had forced to take them, was later sent home via Panmunjom. This route is rare, North Korea's coast being almost as heavily defended as the DMZ. Meanwhile Northern escapees continued to seek refuge in foreign missions in China, including the ROK Embassy and a German school in Beijing. Those successful in this quest in due course were flown to Seoul via third countries; including on Sept. 12 a record 36 in one day, bringing this year's total of Northern defectors reaching the South to 771 so far.

The embassy escapes, aided by NGOs who explicitly seek Kim Jong-il's overthrow, make life worse for those left behind. Besides a general crackdown by China on its border with North Korea, refugees have been arrested en route to Beijing and while (boldly) demonstrating outside the Chinese Foreign Ministry. In August a South Korean priest jailed for helping DPRK refugees was deported from Inner Mongolia. The ROK is expanding its reception center for defectors, but is far from ready for the much larger flows that are quite conceivable. Under President Kim Dae-jung the plight of refugees

has been played down, like all North Korean human-rights issues. Opposition candidate Lee Hoi-chang says this will change if he is president, but that remains to be seen. The North aside, the realpolitik of not provoking Beijing looks set to constrain any ROK government.

Road and Rail Links

The renewal of official North-South dialogue continued with economic talks – the first since December 2000 – in Seoul in late August. As at the earlier ministerial talks, delayed sessions suggested hard bargaining. But this time South Korea got what it wanted: a timetable to open not one but two road and rail links across the DMZ. Besides the Kyongui line north of Seoul – agreed two years ago and almost complete on the Southern side; the North has barely begun – a second east coast (Donghae) corridor will proceed simultaneously. The first link actually to open, set for December, will be a temporary two-lane road on this eastern route: allowing land access to Mt. Kumgang, far cheaper than the present sea cruises. The western railway is due to be completed this year, with a four-lane highway alongside to be ready by next spring. The Donghae rail link will take longer, as there is a lengthy stretch of track that needs rebuilding.

Relatedly, it was agreed to reactivate the Kaesong Industrial Complex. This Hyundai project, now run by the ROK parastatal Korea Land Corp. (Koland), had been frozen along with the cross-border links essential for it to function. A prime site just north of the DMZ, it is planned to be a virtual new city of Southern firms using Northern labor to produce, ultimately, exports worth \$20 billion annually. (The DPRK's total yearly exports are currently less than \$1 billion.) Now a consultative committee is to meet in October (no date is set) to move this forward, with the South committed to provide infrastructure and the North pledging to pass the necessary legislation.

Waterworks and Other Practicalities

Besides all this, it was also agreed to hold talks on flood prevention on the Imjin River and a joint survey of the Innam (Mt. Kumgang) Dam, on the west and east sides of the Peninsula respectively. In both cases, Seoul is concerned at the effect of Northern waterworks on rivers that flow into the South. Dates were set for future meetings: a much-delayed DPRK economic survey mission will visit the South from Oct. 26, and the next session of the Inter-Korean Economic Cooperation Promotion Committee (to give it its official title, otherwise known as IKECPC) will be held Nov. 6-9 in Pyongyang. Both sides also pledged to ratify earlier agreements on double taxation, investment protection, and similar business practicalities. A consultative committee will be set up under IKECPC to establish the necessary institutional mechanisms, including for settling clearing and commercial disputes, and facilitating travel and communication. Finally, as usual there was an aid component: South Korea will supply 400,000 tons of rice – as a loan, in theory – and 100,000 tons of fertilizer, “in the spirit of fraternity.”

All this was revealed the same day as news of the Japanese prime minister's surprise plan to visit Pyongyang. The coincidence continued: on Sept. 18, the day after Koizumi's trip, work on the road and rail links began ceremonially – and for real a day later, as ROK troops broke barbed wire to enter the DMZ behind a German-built mine detector. Another day later, Pyongyang declared the northwestern border city of Sinuiju a special administrative region (SAR); run by a Chinese-Dutch billionaire, with almost no restrictions on foreign entry or economic activity. Such a week of startling news is unprecedented. Despite all the past false dawns, this time North Korea may irrevocably be opening. Economic changes, including drastic (albeit, typically, unannounced) price and wage reforms introduced in July, will be much harder to reverse than in diplomacy alone, where today's smile can swiftly revert to yesterday's snarl.

Hope and Hype

Even so, a hype detector remains an essential tool in matters inter-Korean. The iron silk road – a freight route linking South Korea to Europe via Siberia – touted by ROK President Kim and Russian President Vladimir Putin (who pressed Kim Jong-il on this in Vladivostok in August) is years away. Even if trans-DMZ railways are relinked, this would entail rebuilding the DPRK's entire clapped-out track at a cost of up to \$3 billion. And while Russia wants an east coast route to boost its run-down Far Eastern region, the logical and economic priority will be the western Kyongui line: linking Seoul to Sinuiju via Pyongyang, and on into China and thence to Siberia further west, via Manchuria. In any case the Donghae route is an irrelevant branch line, far from the ROK's industrial heartland. What Russia needs is a third route: the Kyongwon line, running from Seoul northeast to Wonsan. Curiously, there seems no talk of reopening this. As against these remoter prospects, the Kaesong zone could swiftly become as Shenzhen to Hong Kong: both a growth pole to its own hinterland, and cementing cross-border economic integration.

But where does the Sinuiju SAR, introduced so suddenly, leave Kaesong? If ROK businesses, already well established across the Yalu river in Dandong, get immediate access to Sinuiju, this bird in the hand may compete with a Kaesong that will not come on stream for several years. Sinuiju too seems full of hype, but on its face, it distracts from Kaesong. Even though both lie on a west coast corridor which in time will create its own synergy and become the economic axis of a unified Korea, the suspicion arises that for now Kim Jong-il may deem it less risky to open first toward China – and might again delay doing so with South Korea.

A Sporting Chance

Such doubts may seem curmudgeonly amid the current spate of pan-Korean *bonhomie*, which extends also to sport, politics, and culture. Despite having cold-shouldered the World Cup, in September a DPRK soccer team came south for a friendly match. The 0-0 scoreline, which sounds diplomatic, belied a hard-fought yet sporting game. This event was arranged by Park Geun-hye, daughter of the late president Park Chung-hee, when she visited the North in May. More exactly, and interestingly, both Ms. Park's trip and the

match were facilitated by the European Union Chamber of Commerce in Seoul. Other activities included a Southern taekwondo display team that went North in September: a return trip is planned for October. Cultural events included two concerts in Pyongyang: a joint performance by symphony orchestras from both sides, and a concert by pop singers considered old-fashioned in the South but still popular in the North.

Kim Yong-nam, North Korea's titular head of state, was in the audience and met the singers. He met too with six visiting ROK lawmakers, which may usher in North-South parliamentary exchanges for the first time since a brief period in the mid-1980s. The quarter also saw a fifth set of family reunions at Mt. Kumgang, timed for *Chusok*, the Korean harvest festival. More hopeful than these limited and all too public brief encounters for a few is an agreement to set up a permanent reunion center at the resort. How this will work remains to be seen; it is no substitute for the right to freely visit hometowns, soon, before all concerned die of old age.

But the crowning glory, whose start concluded the quarter, was the 14th Asian Games held in Pusan, South Korea's second city and main port. For the first time, all 43 eligible nations sent teams; including Afghanistan, East Timor, Palestine – and North Korea, which never before participated in an international sporting event held in the South; it boycotted the 1988 Seoul Olympics, even though its Soviet and Chinese allies (neither of whom then yet recognized the ROK) attended. The DPRK sent 311 athletes by two direct flights (the first ever) to Pusan's Kimhae airport, plus a 355-strong cheering group of artistes and others who arrived by boat. (Rumors that Kim Jong-il would attend the Asiad's opening for his much delayed return visit, seeing this as safer than a full-scale summit in Seoul, proved unsurprisingly to be unfounded.)

Flagging up Problems

At the opening ceremony on Sept. 29, athletes from both Koreas marched side by side behind a unified flag (a blue peninsula on a white background), to the strains of the folksong *Arirang* rather than either's national anthem. All this is as per the 2000 Sydney Olympics, as is the fact that in the actual events the two states are competing separately. This caused a legal headache, since the DPRK flag and anthem are banned in the ROK under the still unrepealed National Security Law (by which, for that matter, the 2000 summit and every inter-Korean contact ever could be deemed illegal). It was agreed to allow limited display of the flag; but this does not extend to the Asiad's web site, where the DPRK alone of the 43 is left flagless.

This seeming pettiness reflects the fact that Northern emblems remain a red rag to Southern hawks – such as war veterans who vowed to make a citizen's arrest of the Dear Leader, had he showed up. Pusan is a stronghold of the conservative main opposition Grand National Party (GNP); thus it will be interesting to see if a successful Asiad makes voters here and in the surrounding Kyongsang region any less hostile to the Sunshine Policy in December's election. Politics already reared its head: despite a declared willingness by the DPRK team to meet any South Korean politicians, including the GNP

candidate Lee Hoi-chang, when Lee called at their camp the entire contingent was said to be too busy training for anyone to see him.

Was the Summit Bought?

That rebuff is not exactly surprising, since lately Lee and the GNP have been playing hardball on North Korea. Predictably, DPRK leader Kim Jong-il's startling admission that the DPRK had kidnapped several Japanese, which it had long denied, brought criticism of President Kim Dae-jung for not even raising this issue on the inter-Korean agenda, despite the ROK having a far larger number of cases. The Unification Ministry tallies 3,790 Southern abductees since 1953, mainly fishermen, of whom 486 were never returned. But families and advocacy groups claim the true total runs as high as 80,000, including those forcibly taken North during the war as well as POWs who should have come home under the 1953 Armistice. (A very few are among recent escapees via China; most spent their lives as miners.) The Japanese precedent ensures this issue will have a higher profile henceforth; Lee Hoi-chang has pledged to make it a priority if elected.

That is his right, and the charge that Sunshine equals appeasement can be argued. Harder to understand, unless as electioneering, is Lee's recent statement that the June 29 naval incident was a terrorist attack for which Pyongyang must apologize. But potentially most damaging is the allegation by GNP lawmakers in late September that the June 2000 breakthrough summit, for which President Kim Dae-jung received the Nobel Peace Prize, was bought. The claim is that the state-owned Korea Development Bank lent over \$400 million to Hyundai Merchant Marine, the Hyundai group's shipping arm; which passed it to North Korea via the National Intelligence Service. All concerned deny the charge, seen as a GNP ploy to damage Chung Mong-joon in the upcoming presidential election. Chung, despite his Hyundai connections, supports a full probe; Seoul's Board of Audit and Investigation has said it will investigate.

There is disingenuousness and hypocrisy here. In 1990, when an earlier version of the GNP was in power, the huge coup of recognition by the then USSR was rewarded by a \$3 billion loan to Moscow: money which the ROK itself had to borrow. Only half was disbursed before Russia defaulted, and this remains unpaid. Nonetheless, if this new charge is confirmed it will harm not only President Kim Dae-jung's reputation and the ruling Millennium Democratic Party's already slim presidential chances – its candidate, the populist Roh Moo-hyun, shone earlier this year but now trails third in the polls – but also North-South ties, whoever the next ROK leader is.

Railroading Sunshine

At present Lee Hoi-chang looks the likely winner. Even before this latest turn, Pyongyang attacked him as a "traitor" for his criticisms of it and of the Sunshine Policy. At the very least, a Lee presidency might therefore see a cooling or suspension of bilateral ties, as happened with the DPRK and U.S. when George W. Bush succeeded Bill Clinton. For that matter, any U.S. attack on Iraq, especially if done outside the UN, may cause North Korea to go back into its shell all round. If the coming of Bush saw

Pyongyang freeze inter-Korean ties even with the friendly President Kim Dae-jung, *a fortiori* it may do the same toward the untried but hawkish Lee Hoi-chang.

But a more optimistic if cynical view would see Pyongyang's revival of the peace process as a last-minute ploy: both to extract maximum gains before Kim Dae-jung retires, and to lock Lee into Sunshine by making road and rail ties a *fait accompli* from which it will be hard to backtrack. For that matter, as already stated, North Korea's own radical changes, especially on the economic front, will make future retreat on the old pattern of "one step forward, two steps back" harder than hitherto. But until we know who is to be the next ROK president and what the U.S. will do to Iraq (or vice versa), we cannot be sure that the recent rewarming of inter-Korean ties will prove more lasting than previous false dawns. Yet the cross-border corridors, in particular, offer the best hope yet that North-South relations might now at last move on from endless fresh starts to a process that is sustained, substantial, and cumulative.

Chronology of North Korea - South Korea Relations July-September 2002

June 29, 2002: An inter-Korean firefight in the Yellow Sea sinks an ROK patrol boat, killing five. Northern casualties are estimated at 30. Each accuses the other of shooting first.

July 1, 2002: North Korea congratulates Chung Mong-joon, chairman of the ROK's football association, on South Korea's hosting of and performance in the just concluded World Cup.

July 2, 2002: Despite the inter-Korean naval clash three days earlier, 25 Northern engineers arrive in Seoul as scheduled under Korean Peninsula Energy Development Organization (KEDO) auspices for a month's nuclear safety training.

July 2, 2002: South Korea suspends rice aid to the North. Kim Dae-jung again demands an apology from Pyongyang for the June 29 naval clash.

July 4, 2002: North Korea invites Southern civic organizations to discuss joint celebration of Liberation Day (from Japan in 1945) on Aug. 15.

July 13, 2002: Because of the June 29 clash, South Korea postpones the start of a direct east coast air route for KEDO use from Yangyang in the South to Sondok in the North. A DPRK Air Koryo plane eventually inaugurates the route with a test flight on July 20.

July 15, 2002: North Korea faxes acceptance of a proposal by Southern civic groups for working talks in Pyongyang on July 20-24 to discuss holding joint events for Aug. 15.

July 21, 2002: South Korea says that satellite photos show that the North's Kumgangsan Dam, which was feared to be leaking, is being not only repaired but expanded.

July 23, 2002: At talks in Pyongyang, it is agreed that North Korea will send a (nominally) nongovernmental delegation by a direct flight to celebrate Liberation Day in Seoul.

July 25, 2002: South Korea says the North has agreed to back its international diplomatic campaign to have the name “Sea of Japan” officially changed to “East Sea/Sea of Japan.”

July 25, 2002: North Korea sends a message of “regret” for the “accidental” naval clash, and proposes working talks to discuss a resumption of intergovernmental North-South dialogue. After a delay of some days, Seoul accepts.

Aug. 2-4, 2002: Talks at Mt. Kumgang agree on a range of inter-Korean events, including ministerial talks, Red Cross meetings on further family reunions, a unification festival, a soccer game, and the North’s participation in the Asian Games in Pusan later this year.

Aug. 6, 2002: Seoul says it will give Pyongyang financial aid to take part in the Pusan Asiad.

Aug. 9, 2002: The DPRK officially announces its participation in the Pusan Asiad.

Aug. 12, 2002: North Korea’s 29-member delegation arrives in Seoul by a direct Air Koryo flight from Pyongyang for the seventh round of ministerial talks, the first in nine months.

Aug. 12, 2002: South Korea says it will allow limited flying at the Asian Games of North Korea’s national flag, whose display is illegal under the ROK’s National Security Law.

Aug. 14, 2002: A 116-strong Northern delegation of officials and performing artists arrives in Seoul, again by direct Air Koryo flight, for joint Liberation Day celebrations.

Aug. 14, 2002: Ministerial talks end with a 10-point joint press statement, presaging further meetings and cooperation. But to Seoul’s disappointment, no date is set for military talks.

Aug. 15, 2002: Joint Liberation Day festivities open in Seoul, after a delay due to arguments over wording and content. Thereafter they proceed smoothly, concluding on Aug. 16.

Aug. 18-20, 2002: Talks at Mt. Kumgang agree that North Korea will send 315 athletes, to compete in 16 sports, and 350 supporters to the Asian Games in Pusan, starting Sept. 29.

Aug. 19, 2002: Twenty-one defectors arrive in Incheon by boat, the largest ever group of North Korean “boat people.” The ship’s engineer, whom they tied up, is later returned via Panmunjom.

Aug. 24, 2002: A nine-strong ROK team visits Pyongyang to discuss broadcasting exchanges.

Aug. 26, 2002: Two ROK professors give a press conference in Seoul after returning from two months teaching computer science in Pyongyang. They rate their students as awesome.

Aug. 27, 2002: A 30-strong DPRK team arrives in Seoul for economic talks, via Beijing.

Aug. 27-30, 2002: The second North-South economic talks, the first since December 2000, are held in Seoul. Several formal sessions are delayed, including the final plenary.

Aug. 30, 2002: The economic talks end with a range of agreements, including a timetable to begin work almost at once on relinking two road and rail routes across the DMZ.

Sept. 6-8, 2002: Meeting at Mt. Kumgang, the heads of the ROK and DPRK Red Cross agree to create a permanent meeting place for family reunions at the resort.

Sept. 7, 2002: DPRK and ROK soccer teams play a friendly in Seoul. There is no score.

Sept. 12, 2002: Talks on reviving tourism to Mt. Kumgang end without agreement.

Sept. 12, 2002: The KPA and UNC sign an agreement at Panmunjom to allow work on a second road and rail corridor across the Demilitarized Zone (DMZ), near the east coast.

Sept. 12, 2002: Thirty-six DPRK defectors, who had sought refuge in foreign missions in Beijing, arrive in Seoul. This record for a single day brings the year's total to 771.

Sept. 13, 2002: South Korea sends a first shipment of 10,000 tons of fertilizer to the North. The remaining 90,000 tons are due to be shipped by mid-October.

Sept. 13-17, 2002: Working talks on road and rail links are held at Mt. Kumgang.

Sept. 13-18, 2002: A fifth round of family reunions is held at Mt. Kumgang. One hundred elderly South Koreans meet long-lost kin for three days, followed by 100 North Koreans.

Sept. 15, 2002: A South Korean MP claims that an electricity relay station has been secretly built close to the DMZ to supply power to North Korea.

Sept. 15-18, 2002: A South Korean taekwondo demonstration team visits North Korea. A return visit by a Northern team is expected in October.

Sept. 16, 2002: Railway logistics talks at Mt. Kumgang are delayed by disagreement over whether equipment provided by the South should be loaned or leased (and so returned).

Sept. 16, 2002: The ROK's state-owned Export and Import Bank announces an agreement with the DPRK's Foreign Trade Bank to lend \$110 million to pay for 400,000 tons of rice. After a 10-year grace period, repayment will be over 10 years at 1 percent annual interest.

Sept. 16-18, 2002: Talks on suspected safety problems at the Kumgangsan Dam fail; North Korea demands a Southern apology for casting aspersions. But they agree to meet again in October.

Sept. 16-22, 2002: Six ROK lawmakers spend a week in North Korea, traveling with the KBS symphony orchestra. They meet with Kim Yong-nam, the DPRK's titular head of state.

Sept. 17, 2002: The two Koreas exchange signed copies of a defense accord to prevent accidental clashes during work to reconnect cross-border rail and road links. This is the first ever official agreement directly between the two sides' military authorities.

Sept. 18, 2002: Four ceremonies are held to mark the start of reconnecting two rail and road links across the DMZ. Mine-clearing in the DMZ begins the next day.

Sept. 21, 2002: Northern and Southern orchestras give a joint concert in Pyongyang.

Sept. 23, 2002: The first group of 159 North Korean athletes arrive in Pusan for the 14th Asian Games by a direct Air Koryo flight, the first time an east coast route has been used.

Sept. 24, 2002: A North-South military hotline is opened for the cross-border road and rail projects.

Sept. 24, 2002: Lee Hoi-chang, ROK opposition leader and current favorite to be elected as the next president in December, says North Korea must apologize for past terrorism against the South and promise to release any abductees it is still holding, as it has done with Japan.

Sept. 25, 2002: A Southern opposition Parliament member claims that North Korea was secretly paid \$400 million for the June 2000 North-South summit. This escalates into a major political row in Seoul.

Sept. 27, 2002: A second group of 152 DPRK athletes flies into Pusan. A 355-strong support group of musicians and dancers arrives by boat the next day.

Sept. 27, 2002: South Korean popular singers and artistes hold a concert in Pyongyang. Some meet DPRK President Kim Yong-nam, who is in the audience.

Sept. 29, 2002: The 14th Asian Games open in Pusan, with North and South Korean athletes marching together behind a unity flag (although the two will compete separately). The DPRK wins its first match, beating Hong Kong 2-1 at soccer. The games continue until Oct. 14.

**China-Korea Relations:
Happy Tenth for PRC-ROK Relations!
Celebrate While You Can, Because Tough Times are Ahead**

by Scott Snyder
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The People's Republic of China (PRC) and Republic of Korea (ROK) celebrated a decade of normal relations on Aug. 24, with mutual commemorative events and academic workshops to mark the event. There is much to celebrate. With a bilateral trade relationship that has grown from \$3 billion in 1991 to over \$30 billion per year in 2001 and social, cultural, and political ties that have grown robustly in only a decade, this burgeoning relationship is dramatic evidence of how the end of the Cold War has allowed the development of new relationships in Northeast Asia. China has become South Korea's largest destination for foreign investment and for outward-bound South Korean tourists and has surpassed Japan as South Korea's number-two trading partner. The "Korean wave" in China marks South Korea's capacity to make a notable contribution to China's consumer culture and South Korea remains a model – and benchmark – for managing China's own economic development and political liberalization process.

However, the gathering dark clouds posed by the North Korean refugee issue, illegal drug imports, migrant workers, "yellow dust," and occasional squalls driven by China's direct challenge to Korea's global economic competitiveness are now being directly felt. It is time to post a warning to South Korea of impending damage from a Chinese economic typhoon that could be at least as unsettling to the economic and political landscape in Northeast Asia as Typhoon Rusa, the worst typhoon to hit the Korean Peninsula in four decades, leaving considerable damage in its wake.

Celebrating a Decade of Remarkable Economic Growth

Mutual economic opportunity and complementarity between a newly industrialized economy (South Korea) and a developing economy (China) have catalyzed a relationship that has grown at a double-digit pace over the past decade. Chinese leaders and technocrats have carefully studied South Korea's development experience through site visits to automobile, shipbuilding, and steel-making factories – sectors in which South Korea has established itself as a global leader. Even the financial crisis and South Korea's response have created opportunities both for learning and for new exchanges, such as the recently-announced cooperation between the Korean Asset Management Company (KAMCO), created to dispose of bad loans in the aftermath of the financial crisis, and the China Construction Bank.

When Korean businessmen seek economic opportunities in China, they must have a feeling of *déjà vu*. The bustling feel and particular needs of the PRC as a late-developing modernizer, the role of the state in ordering, brokering, and channeling economic opportunities, the lack of regulatory infrastructure, and the risks (corruption) and opportunities (entrepreneurship) that such an atmosphere provides, the combination of constraint on political expression and economic opportunism that permeates Chinese society – all these aspects of the business atmosphere in China are immediately recognizable to South Korean entrepreneurs, who almost instinctively understand how to work in an environment reminiscent of South Korea two decades ago.

South Korean companies have introduced new business and marketing techniques and have developed a variety of strategies for localizing their presence in China so as to take advantage of the China market. South Korean companies have introduced innovative after-sales service guarantees and financing arrangements into the Chinese market as a way of establishing themselves and gaining market share. The *chaebol* (industrial conglomerates) have adopted varying corporate strategies for entry into the China market, including viewing China as a “second internal market” for sales of its goods. These strategies have accelerated to take advantage of new business opportunities as China has entered the World Trade Organization (WTO) and lowered obstacles to market entry for foreign companies in certain sectors. Samsung has made the China market central to its own corporate development strategy, especially as it takes advantage of a rapidly expanding Chinese mobile phone market. LG is implementing an extensive localization strategy to carry out its distribution and marketing of consumer goods. SK Telecom claims to regard its affiliates as Chinese companies rather than as branches of a South Korean conglomerate. POSCO has sought to develop a partnership with Chinese steel producers rather than regarding them solely as competitors. (For further discussion of Korean corporate strategies in China, see Jeanyoung Lee, “Korea’s East Asian Cultural Diplomacy and the Korean Wave in China,” Korea Advanced Institute of Science conference, Aug. 23-24, 2002.)

With the growing popularity of South Korean TV dramas, movies, and popular music in China (known as the “Korean wave”), some South Korean companies have effectively used Korean TV stars to market their products and to expand the image of ROK products in China, have sponsored South Korean concert tours, and have built promotions around the positive image of South Korean pop stars and pop culture. The appeal of South Korean pop culture appears to be derived at least in part from its ability to “Asianize” Western pop influences in ways that are recognizable and appealing to audiences across Asia, and especially in China and Vietnam. Korean Trade Promotion Corporation (KOTRA) closely monitors Chinese consumer attitudes toward South Korean products, noting that South Korean consumer product images improved slightly following the World Cup, but are still regarded as expensive but good quality in the Chinese market.

The Chinese Challenge to Korea's Economic Competitiveness

Coinciding with the 10th anniversary of China-ROK relations has been the first concrete impact of China's increasing competitiveness as a low-cost producer in key third-country markets and industrial sectors in which South Korea has developed a reputation as a sectoral leader or carved out a significant market share. Due to China's low labor costs, the PRC has become a magnet for a flood of foreign direct investment (FDI) and has made China the global hub for low-cost production of consumer goods. Many South Korean companies in labor-intensive industries such as textiles and parts assembly for electronic goods have joined with the global trend. This year, China has surpassed the United States as South Korea's leading destination for foreign investment, as lower-end factory production functions in many labor-intensive South Korean industries are transferred to China.

Sector by sector, the impact of China's emerging competitiveness resulting from a steady flow of FDI from all over the world is beginning to make itself felt as China challenges the ROK's market share in third-country markets. The Federation of Korean Industries and the Ministry of Commerce, Industry, and Energy released a report in July that empirically demonstrated the impact of increasing Chinese competitiveness on South Korean exports in key industries, including electronics, steel, automobiles, textiles, petrochemicals, and shipbuilding. The PRC enjoyed double-digit growth in exports to the United States and Japan in these sectors (23.6 percent and 13.1 percent, respectively), while South Korea managed only single-digit growth (7.4 percent and 2.7 percent, respectively). The study projected that China would surpass Korea in the competitiveness of its auto parts and semiconductor industries by 2010, and that China was already competitive with South Korea in production of ordinary household appliances and electronics technology. Until recently, POSCO was the lowest-cost producer of cold-rolled steel sheets, but Chinese labor costs now undercut POSCO's efficiency advantages in the other areas of production, according to a report by World Steel Dynamics.

In the short term, the strong *won* has also hurt South Korean price competitiveness in international markets compared to their Chinese rivals, since the Chinese *yuan* remains fixed at a constant rate compared with the U.S. dollar. The Korea International Trade Association reports that South Korea for the first time has a trade deficit with China in the electrical goods sector and that Chinese home appliance and communications goods producers are seriously undercutting South Korea's position as a low-cost supplier in key global markets. This fact reflects China's labor price competitiveness and is inducing more South Korean firms to invest in China in order to competitively produce goods for sale in the local Chinese market.

Likewise, South Korean construction firms are losing business to Chinese firms in the international construction market on the basis of low labor costs and have not effectively developed higher-technology methods that might help make them competitive overseas or in China. According to the Korea Institute of Economics and Trade (KIET), from the beginning of this year the textile sector has also suffered a trade deficit with China. As multinational companies continue to use China as the world's low-cost production

platform across industrial sectors, South Korea will find itself pressed by China in an increasing number of sectors, and can only rely on advances in product quality rather than price if South Korean companies are to be able to hold on to market share. Although ROK companies have worked harder than most to get a share of China's rising consumer market, the costs in terms of lost exports to more efficient, lower-cost Chinese competitors in mature, third-country markets may in the end outweigh the gains of getting into the Chinese market.

The other costs of China's increased price competitiveness and over-production are being felt in the context of China's competitiveness at home in South Korea. There is no better example of this phenomenon than the notorious "garlic war" fiasco (see "Beijing at Center Stage or Upstaged by the Two Kims?" in *Comparative Connections*, Vol. 2, No. 2, July 2000 and "The Insatiable Sino-Korean Economic Relationship: Too Much for Seoul to Swallow?" in *Comparative Connections*, Vol. 2, No. 3, October 2000), through which South Korea agreed to buy large amounts of garlic at fixed rates to protect South Korean garlic producers from being outpriced by their Chinese competitors in exchange for the lifting of a Chinese retaliatory tariff on South Korean mobile phone and chemical exports to China. This past July, it was revealed that such import controls could not be extended beyond 2002 under a secret clause in the July 2000 agreement, subjecting South Korean garlic growers, a significant domestic constituency that represents over one-third of the Korean agricultural sector, to new international competition from next year. The revelation resulted in the firing of responsible economic advisors in the Blue House and the Ministry of Agriculture.

North Korean Refugees: an Ongoing Problem with No End in Sight

Despite an apparent understanding at the end of June between the Chinese and South Korean governments on how to manage passage of North Korean asylum-seekers in Beijing in a humanitarian way – in addition to newly-installed, ugly barbed wire fences in Beijing's diplomatic district and considerably increased police surveillance and repatriation efforts by Chinese security in provinces adjacent to the China-North Korea border – the stream of refugees through foreign diplomatic compounds and related facilities in Beijing has continued apace. Dozens of refugees continued to flow through the South Korean consulate and a German school this quarter, although there is now considerably less media information available regarding refugees until their arrival in Seoul. Chinese border guards and provincial security forces in Yanji and surrounding areas have been beefed up, with house-to-house searches yielding daily busloads of North Korean refugees who are repatriated to the North.

South Korean nongovernmental organization (NGO) workers who provide assistance to North Korean asylum-seekers are increasingly targets of the Chinese security crackdown on North Korean refugees. Rewards for tips leading to the discovery of North Korean refugees have been increased, as have fines levied on local Chinese Koreans for being caught assisting or providing shelter to North Korean refugees. South Korean Reverend Cheon Ki-won and other South Koreans active in organizing routes and accompanying North Korean refugees to safety in China have been detained for extended periods and

finally released upon payment of large fines, since South Korean diplomatic missions in Beijing are either so well-guarded or unreceptive to the pleas of North Korean refugee requests for assistance and/or passage to South Korea. South Korean aid workers have been detained while in transit from Jilin Province to Beijing with North Korean refugees, and North Korean refugees – with South Korean NGO support – have grown increasingly bold and/or desperate, organizing a demonstration outside the front door of the PRC Ministry of Foreign Affairs timed to coincide with the visit of U.S. Deputy Secretary of State Richard Armitage last August. The Chinese crackdown has dramatically tightened border controls, putting thousands of North Koreans at risk. At the same time, North Korean refugee issues have become a political concern in Washington, and Sen. Sam Brownback is now leading efforts to pass legislation that would allow North Korean refugees in China to request and receive political asylum in the United States.

South Korean Timidity and China-South Korea Political Cooperation

Perhaps one of the biggest dividends Beijing has reaped from a decade of normalization with South Korea has been Seoul's unswerving loyalty to the principle of avoiding any action that will make political ripples with China (*sadaejui*, modern style) – this despite a murky but gradually improving record of Chinese reciprocity when it comes to choices that affect North Korea. Yes, Beijing has cooperated to allow refugees to come to South Korea – if their cases become public – but the Chinese authorities continue to repatriate thousands of North Koreans who have sought refuge from privation in northeastern China. At the time of normalization a decade ago, Seoul unceremoniously dumped Taipei in a fashion from which neither side has been able to recover fully, as evidenced by Seoul's recent rebuff to Taiwan's First Lady, who was subsequently feted in Washington, D.C., on Capitol Hill in September. The Dalai Lama not only has never received permission to visit Seoul, but could not even buy a ticket on an Asiana flight to Ulan Bator, Mongolia.

The latest and deepest kowtow to Beijing occurred not at the national level, but at the municipal level, in the form of a canceled awards ceremony sponsored by the Seoul Metropolitan Government. The ceremony had been scheduled for Sept. 5 to honor the winner of an August cyber-essay contest to promote ways of improving urban development and quality of life in the city of Seoul. The winner of the contest turned out to be Xu Bo, a former Chinese dissident who was prominent in the Tiananmen democracy movement in 1989. He had come to Seoul in the year 2000 and petitioned for political asylum as a refugee to the ROK government, which has, for fear of offending China, not acted to grant him refugee status, despite the fact that he is recognized as such by the UN High Commission for Refugees. After canceling the ceremony, the Seoul city government officials wired the awards to the winners, but required Xu to come in and receive his award in cash to avoid leaving a paper trail! On the political front, a decade-long honeymoon between Beijing and Seoul is not yet over. With friends like these, who needs allies?

Multilateralism and U.S.-ROK Tensions: China's Political Prize on a Platter?

After initial resistance to joining multilateral institutions in Asia, China has successfully adopted and used multilateral institutions as a tool for supporting the types of regional cooperation that are supportive of its own interests in stability and prosperity, while steadfastly refusing to give consent to the consensus necessary to move forward in areas not clearly in China's interest. Interestingly enough, one of the by-products of the initial establishment of the Asia Pacific Economic Cooperation (APEC) was the development of diplomatic contacts between the PRC and South Korea that eventually led to diplomatic normalization. Likewise, the ASEAN Plus Three process has provided the nucleus for a sub-regional dialogue in Northeast Asia through regular trilateral meetings brokered by Seoul including the Chinese, South Korean, and Japanese heads of state. A similar annual process has been inaugurated this year at the foreign minister-level among China, South Korea, and Japan.

The Bush administration has shown relatively little public interest in multilateral dialogue or institution-building in Northeast Asia, and has also not offered opposition to the development of sub-regional dialogues that inevitably must develop as common transnational challenges make themselves felt in the region. The major exception to that rule, however, remains North Korea and the Korean Peninsula. During the surprising Koizumi-Kim meeting, Japanese Prime Minister Koizumi Junichiro called for a six-party dialogue including North Korea. This is an idea to which opposition South Korean presidential candidate Lee Hoi-chang has also lent his support. China certainly appears much more accepting than in the past of multilateral dialogue as a useful tool for pursuing regional interests, but there is still a resounding silence on these matters from a Bush administration that continues to struggle with public diplomacy on many issues globally and regionally, including its failure to combat the perception that it is not interested in supporting multilateral approaches to regional problems.

The newly-established Bush doctrine of preemption reinforces existing perceptions abroad that U.S. unilateralism disregards the opinions of allies in favor of an exclusive vision of U.S. security interests at the expense of the security of others. The Korean perception that the United States is capable of and willing to consider actions unilaterally that might actually diminish Korean stability and security is the primary factor that has engendered disappointment and frustration in Seoul. This perception is precisely the type of South Korean public view that may well unleash the healthy dose of Korean nationalism that Chinese analysts have privately counted on for several years as the easiest way to remove U.S. troops from the Korean Peninsula without having to lift a finger. How could they have known – and how could Americans with their decades of experience in South Korea fail to know – that America's greatest risk and China's greatest potential boon would be that South Korean public perceptions of U.S. heavy-handedness might help drive our allies right into the arms of Beijing?

Chronology of China-Korea Relations July-September 2002

July 9, 2002: Korea Asset Management Corp. (KAMCO) signs a memorandum of understanding with the Chinese Construction Bank to help it to dispose of bad loans.

July 17, 2002: The Office of Government Policy Coordination announces that ethnic Koreans from China may be hired to work in the service industry.

July 19, 2002: Senior Presidential Secretary for Economic Affairs Han Duck-soo and Vice Agriculture and Forestry Minister So Kyu-ryung resign to take responsibility for the government's alleged concealment of an agreement with China to open the Korean market to Chinese garlic imports from Jan. 1, 2003.

July 23-28, 2002: An eight-member delegation of the People's Liberation Army led by Lt. Gen. Zhang Wengtai visits South Korea to discuss bilateral military exchanges.

July 25, 2002: The ROK Ministry of Agriculture and Forestry announces that it will invest 1.8 trillion *won* into the local garlic farming sector over the next five years following a firestorm of criticism that the Korean government failed to act transparently during garlic negotiations with China, under which South Korea will be open to Chinese garlic imports from Jan. 1, 2003.

July 30, 2002: Korean Trade Commission Chairman Junn Sung-chull resigns to take responsibility for South Korean failures in negotiations over garlic imports.

July 30, 2002: ASEAN Plus Three meeting in Brunei. On the sidelines, PRC, ROK and Japanese foreign ministers agree to meet annually and to expand economic and human exchanges.

July 30, 2002: ROK Foreign Minister Choi Sung-hong attends ASEAN Regional Forum meeting in Brunei along with his Chinese and other East Asia counterparts.

Aug. 2, 2002: PRC Foreign Minister Tang Jiaxuan visits Seoul for meetings with ROK Foreign Minister Choi, to discuss how to enhance bilateral ties. The PRC approves the ROK's request to open a consular office in Shenyang.

Aug. 3, 2002: Eleven North Korean refugees who had claimed asylum at the South Korean Embassy in Beijing over the previous month arrive in Seoul.

Aug. 9, 2002: ROK National Fisheries Products Inspection Service announces that excess amounts of mercury were found in freshwater eels imported from China.

Aug. 24, 2002: PRC President Jiang Zemin and ROK President Kim Dae-jung exchange congratulations on the 10th anniversary of the normalization of China-ROK relations.

Aug. 25, 2002: Incheon International Airport announces that China surpassed Japan as the destination with the most flights from Korea during the peak summer season.

Aug. 26-31, 2002: ROK Vice Defense Minister Kwon Young-hyo visits China to discuss bilateral military cooperation and regional security.

Aug. 27, 2002: Two men are arrested at Incheon International Airport on charges of smuggling into Korea two kilograms of methamphetamine worth over \$5 million.

Aug. 27, 2002: ROK Ministry of Foreign Affairs and Trade opposes repatriation of seven North Korean defectors arrested for demonstrating in front of Chinese Foreign Ministry regarding their circumstances in China.

Sept. 2, 2002: Chinese security police ransack the home office of a *Chosun Ilbo* reporter for clues regarding South Korean NGOs that are assisting North Korean asylum-seekers.

Sept. 2-5, 2002: Opposition GNP presidential candidate Lee Hoi-chang visits China and meets with top leaders including PRC President Jiang, who pledges to solve the North Korean defector issue from a “humanitarian perspective.”

Sept. 3, 2002: Fifteen North Korean asylum-seekers take refuge at a German school. Negotiations ensue to determine whether the school qualifies as diplomatic property.

Sept. 5, 2000: Seoul Metropolitan Government award ceremony to honor winners of cyber-debate contest on how to solve city traffic and environmental problems is cancelled because it was discovered that the winner, Xu Bo, was a leader of the Tiananmen movement and applicant for refugee status in South Korea.

Sept. 6, 2002: Taegu District Public Prosecutors detain eight people on charges of smuggling 223,140 counterfeit Viagra tablets from China during a six-month period from February to August.

Sept. 10, 2002: PRC Ambassador Li Bin delivers a \$20,000 donation from the Chinese Red Cross to provide relief for Korean victims of Typhoon Rusa.

Sept. 12, 2002: Thirty-six asylum-seekers, including 15 who sought asylum at a German school and 21 who sought asylum at the South Korean consulate, arrive in Seoul.

Sept. 30, 2002: Chief of the General Staff of the PRC People’s Liberation Army Gen. Fu Zuanyou arrives in Seoul for a five-day bilateral exchange visit.

Japan-China Relations: Toward the 30th Anniversary

by James J. Przystup
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The quarter ended on a high note with ceremonies in Beijing commemorating the 30th anniversary of the normalization of relations between Japan and China. Senior Foreign Ministry officials and over 50 political figures represented Japan. Conspicuously absent, however, was the prime minister. Still under a Chinese cloud for his April visit to Yasukuni Shrine, Prime Minister Koizumi Junichiro decided in August not to attend the ceremonies.

Over the course of the summer the past continued to intrude on the present. A Tokyo District Court was the first to rule that Japan had engaged in biological warfare in China during the war. The court, however, rejected the Chinese plaintiffs suit for compensation. Visits by members of the Koizumi Cabinet to Yasukuni Shrine on Aug. 15 drew traditional censure from Beijing. At the same time, Japanese concerns with China's ongoing military modernization and its perceived lack of gratitude for Japan's development assistance largess foreshadowed a looming debate over the China official development assistance (ODA) program.

Nevertheless, commerce continued to expand as joint ventures multiplied, and Japanese investment continued to flow into China (although at reduced rates). At the same time, the safety of Chinese dietary supplements and pesticide residue on imported Chinese vegetables have triggered trade controversies.

High-Level Meetings

Foreign Minister Kawaguchi Yoriko met with her Chinese counterpart Foreign Minister Tang Jiaxuan on July 30 during the ASEAN Post-Ministerial Conference in Brunei. Looking ahead to the ceremonies marking the 30th anniversary of normalization of diplomatic relations, Kawaguchi announced that Japan, in "the spirit of taking history as a mirror and looking toward the future," planned to send 10,000 exchange visitors to China at the end of September. (China had sent 5,000 visitors to Japan in May.) Both sides regarded the exchange visits as important steps in promoting trust and mutual understanding. Tang saw the 30th anniversary as "an important new starting point for renewed development in the two countries' relations."

The Shenyang Incident and Koizumi's Yasukuni visits (See "The Good, the Bad and... Japan-China Relations," *Comparative Connections*, Vol. 4, No. 2, July 2002) again appeared as agenda items. With regard to Shenyang, Kawaguchi made clear that there had been "no change" in the Japanese government's position and restated requests for an apology for Chinese violations of Japanese sovereignty during the forceful removal of North Korean defectors from its consulate. China's position, as Foreign Minister Tang told reporters afterward, was that the incident had been settled diplomatically. Both ministers, however, agreed to hold further consultations at the deputy-minister level to prevent a recurrence of such incidents. While the Shenyang incident continued to rankle Tokyo, Yasukuni Shrine continued to play a similar role for Beijing. Tang, in his overview of China-Japan relations, noted that Prime Minister Koizumi's April visit to the shrine had "hurt the feelings of the Chinese people."

Kawaguchi also raised the issue of the safety of Chinese dietary products (see below) and was reassured by Tang that China attaches "great importance" to environment and food safety. Tang saw Japanese reporting on the issue as "somewhat exaggerated." Finally, it was agreed that Kawaguchi would visit China in early September.

The visit took place on Sept. 8-10, and Kawaguchi met with President Jiang Zemin, Vice Premier Qian Qichen and Tang. Again the problems of history and Yasukuni Shrine came up. Tang asked for a return to the common understanding of and expressed attitudes toward history that had been reached between China and Japan, and thus overcome the obstacles posed by the Yasukuni Shrine visits. Later that day, she met with President Jiang, who expressed China's support for Koizumi's initiative toward North Korea. Jiang did not touch on Yasukuni or raise the issue of the prime minister's visit to China.

The following day, in her meeting with Vice Premier Qian, Kawaguchi raised the issue of agricultural pesticides and asked that China take steps to better manage the problem. Qian told her that he had personally visited businesses related to vegetable production in Fukien province, where growers were quite upset with developments. The vice premier assured her that China's vegetables overwhelmingly met the requisite standards and asked that Japan not use the issue of pesticides as a pretext to restrict vegetable imports from China.

During September, Koizumi did meet with China's Premier Zhu Rongji at the Asia Europe Meeting (ASEM) in Copenhagen. Koizumi asked China to encourage North Korea toward international cooperation, and Zhu expressed China's support for Japan's opening to North Korea. As for Yasukuni, Zhu did not raise the issue directly, preferring instead to underscore the importance of history and the sensitivities of the Chinese people. Zhu also praised Koizumi for his reflections on history during Japan's Aug. 15 national memorial service. The issue of the prime minister's visit to China did not come up.

Toward the 30th Anniversary – Koizumi and Yasukuni

On April 21, the prime minister visited Yasukuni Shrine to honor Japan's war dead. The following week, Chinese President Jiang told a visiting delegation from the New Komeito Party that Koizumi's visit was "absolutely unacceptable." Following the prime minister's visit to China last autumn, which came in the wake of his controversial Aug. 13, 2001 visit to Yasukuni Shrine, Jiang told the group that he thought the issue had been laid to rest – only to find that the "unthinkable" had again occurred. Koizumi's April visit resulted in the postponement of the People's Liberation Army's (PLA) Navy's scheduled port call in Tokyo and in the postponement of the Defense Agency director general's visit to China. China's Defense Minister Chi Haotian told a visiting Japanese opposition party delegation at the end of June that, had China allowed such exchanges in the aftermath of the Yasukuni visit, the events would have drawn a negative reaction from the Chinese people.

On the evening of Aug. 8, Koizumi, after meeting with former prime ministers regarding his China trip, acknowledged to reporters that, as long as China remains stuck on Yasukuni, going to China would be difficult. The following day, the press reported that the prime minister had decided to postpone his autumn visit to China. Government sources explained that the decision had been made in part because China's leadership had, at that time, failed to set a date for the National Party Congress and in part because of the continuing criticism of the Yasukuni visit.

Later, Koizumi told reporters in Nagasaki that he had various problems to deal with in Japan's domestic affairs and that he was not wedded to a China visit this year. Instead, he thought it best to wait for circumstances to develop and a mutually agreeable time to emerge. On Aug. 11, the *Nihon Keizai Shimbun* reported that the prime minister had communicated his decision to Liberal Democratic Party (LDP) Secretary General Yamasaki Taku and asked him to visit Beijing on his behalf during the 30th anniversary celebration. The paper speculated that Yamasaki would carry a letter from the prime minister to President Jiang that would express his interest in visiting China at a mutually acceptable time.

In a Sept. 6 interview with a Chinese language Hong Kong weekly, as reported by the *Asahi Shimbun*, Koizumi addressed the 30th anniversary and the Yasukuni visit. In the prime minister's mind, Japan-China relations had not cooled as a result of his visit and, in fact, he expected the relationship to deepen as a result of the exchanges marking the 30th anniversary. As for Yasukuni, Koizumi told the interviewer that he made the visit to pay his respects to Japan's war victims and to underscore his pledge that Japan would never again resort to war. It was thus important to understand that his visit did not represent an attempt to justify or beautify war.

Beijing, however, was not entirely in sync with the prime minister's rosy scenario view of the relationship. The *Tokyo Shimbun*, on Sept. 11, reported that when, at the end of August, Koizumi attempted to call Jiang to brief him on his North Korea initiative, he was informed that Jiang was "unavailable." Having made clear its political pique, Beijing

was apparently prepared to return to business. That same day, the *Sankei Shimbun* reported that both governments were in the process of coordinating a four-day official visit by Koizumi to China, beginning Oct. 1. At a Sept. 24 news conference, the Foreign Ministry spokesman, Takashima Hatsuhide, announced that the two governments were working to find an “appropriate” time.

Thirtieth Anniversary

On Sept. 22, in the Great Hall of the People, President Jiang welcomed 13,000 Japanese guests to ceremonies marking the 30th anniversary of the normalization of relations. Jiang took the occasion to again underline the importance he personally attaches to China’s relations with Japan. There was no change in his long-held view in this regard. As regional leaders, closer harmony and cooperation between the two countries were essential for the prosperity of Asia. Jiang, did, however, not forget the past, noting that Japanese militarism had brought great misfortune to the Chinese people. To develop friendly relations, he again argued that it was necessary to use history as a mirror, while facing the future. Appearing with President Jiang was Vice President Hu Jintao.

Among the 13,000 Japanese in attendance were former Prime Minister Hashimoto Ryutaro and LDP Secretary General Yamasaki. Yamasaki handed Jiang a letter from Koizumi, which asked for China’s cooperation in setting up a six-party (Japan, China, Russia, the United States, and both North and South Korea) mechanism to deal with Northeast Asia.

Official Development Assistance (ODA)

In the aftermath of the Shenyang Incident and amidst subsequent calls from within the LDP for a review of ODA policy toward China, the prime minister’s advisory panel on development assistance submitted its report July 25. Recognizing Japan’s financial crisis, the panel argued that ODA policy could not be treated as an exception to the prime minister’s formula of “structural reform with no sacred cows.” With respect to China, the report called for further review and discussion of ODA policy. However, it noted that China’s stability was beneficial to Japan and recommended that appropriate assistance be continued. In this regard, the panel recommended that aid be provided to enhance business infrastructure leading to a revitalization of the East Asia business bloc; to promote energy development and environmental preservation; and to enhance China’s understanding of Japan, in particular through youth and student exchange programs.

Three days later, during a July 28 interview on *Fuji Television*, Foreign Minister Kawaguchi called attention to the debate going on within the LDP on the China ODA program. Of particular concern to Japan’s political leaders were China’s continuing military buildup and its practice of extending foreign aid to other countries even as it received assistance from Japan. Without transparency in China’s military program, continuing the ODA program would, she noted, be difficult. The foreign minister took a similar line in September with China’s Vice Premier Qian.

Also at the end of August, the Foreign Ministry submitted its ODA budget request for FY 2003, calling for a 13.9 percent increase over FY 2002. Nevertheless, as a Foreign Ministry official admitted during Kawaguchi's Sept. 8-10 visit to China, sentiments are strong in Japan for a reduction in the China program. He went on to acknowledge, "This year we can predict again substantial cuts in ODA to China."

Underscoring the growing public sentiment behind the spokesperson's remarks, the *Yomiuri Shimbun*, on Sept. 11, released the result of a nationwide opinion survey on Japan-China relations, conducted Aug. 24-25. Of the respondents, 55 percent said they could not trust China, while 37 percent felt they could. This marked the first time since the question began to be asked in 1988 that the percentage of negative answers topped the positive answers. By way of contrast in 1988, 78 percent of the respondents said they could trust China. As for ODA, 65 percent answered in the negative when asked if the results Japan had obtained from the ODA program were appropriate to the amount of assistance extended. When asked for the favored policy response, 43 percent called for further cuts in ODA, while 13 percent supported termination of the program.

History

The past again intruded on the present several times and in several ways during the course of the quarter.

- **Wartime Forced Labor.** On July 9, a Hiroshima District Court ruled against five Chinese plaintiffs seeking compensation for mental and physical suffering from the Nishimatsu Construction Company for wartime forced labor. The presiding judge recognized that the plaintiffs had in fact been made to work against their will, but ruled that, because of the lapse of time, they were no longer eligible to bring suit. The suit had been filed in 1998 for damages suffered in 1944-45.
- **Aug. 15.** To honor Japan's war dead, five members of the Koizumi Cabinet, including JDA Director General Nakatani Gen visited the Yasukuni Shrine in their private capacities on Aug. 15. The previous day, three other ministers visited the shrine. The prime minister defended their decisions as representing the freedom of individuals to choose how to honor the war dead. The prime minister did not visit the shrine but attended the national memorial service and vowed that he would "firmly uphold" the no-war pledge.
- **Aug. 15.** In Beijing, Foreign Ministry spokesperson Kong Quan addressed the visit of the five Cabinet members. The issue of the Yasukuni Shrine, he explained, is in reality how "to deal with the history of aggression of the Japanese militarism..." He went on to say that, "The Japanese side should honor in real deeds its commitment of having a correct attitude toward history and remorse of aggression instead of doing the contrary." As for Koizumi's restatement of the no-war pledge, China hoped that Japan "can bring reflection to its history of aggression...by drawing profound lessons and continue to commit itself to peace and development."

- **Chemical Weapons.** At the end of August, it was announced that work would resume on the recovery of chemical weapons abandoned in China by Japan's Imperial Army. Thirty-five members of the Defense Agency and 70 members of the PLA would participate in the recovery effort in Heilongjiang province.
- **Unit 731.** On Aug. 27, a Tokyo District Court for the first time acknowledged that Japan had conducted biological warfare in China during World War II. At the same time, the court rejected the claims of 180 Chinese plaintiffs who had filed suit in 1997 for compensation of ¥10 million (\$84,000 per plaintiff) for damages suffered from the actions of the Imperial Army's Unit 731. The court, however, dismissed the suit on the grounds that international law does not provide for suits against governments from private individuals seeking compensation from the state.

Economics and Trade

On Aug. 20, the Japan External Trade Organization (JETRO) released its figures on Japan-China trade for the first six months of the year. The figures showed that total trade increased 3.4 percent over the same period in 2001, to a total of \$45.1 billion. Overall, Japan's exports to China over the first half of 2002 increased 11 percent over the same period a year ago to a total of \$17.2 billion with electrical equipment, semiconductors, steel and autos leading the way. Imports from China, however, fell 0.8 percent. While imports of personal computers and office equipment from China showed a marked increase, textile imports fell approximately 10 percent. Still, 2002 will mark the third consecutive year in which total trade surpassed that of the previous year. On a year-end basis, total two-way trade in 2002 will top the \$90 billion mark.

Also at the end of August, China's Ministry of Trade and International Economic Cooperation released its figures on Japan's direct foreign investment in China for the first half of the year. According to the ministry's figures, Japan's investment, commitment based, increased 7.1 percent over the same period in 2001, to a total of \$3.1 billion; on an actualized basis, Japan's investment grew 8.8 percent, amounting to \$20 billion. While Japanese investment in both cases increased over the previous year, it failed to keep pace with the total investment flow from the world's other countries into China.

Given the rapid expansion in bilateral trade, there were bound to be bumps in the road, and over the summer issues related to the safety of imported Chinese dietary supplements and pesticide residue on imported Chinese vegetables became front-page news.

On July 19, the *Asahi Shimbun's* lead-story reported that over a 15-month period 64 people were taken ill and two died as a result of using Chinese dietary products. Testifying at an Upper House hearing, a Health, Labor, and Welfare Ministry official told the legislators that there are limits to what Japan could do under existing laws to deal with the sale of such products and called for cooperation from Chinese health authorities. Alongside the headline story, the *Asahi* also reported that the Guangdong provincial government had in fact tested 48 diet and health products and moved to prohibit the sale

of 20 of the tested products. Foreign Minister Kawaguchi took up the issue with her Chinese counterpart during the ASEAN foreign ministers' meeting at the end of the month.

Also in July, the Health, Labor, and Welfare Ministry reported the persistence of pesticide residues above Japan's legal limits on frozen spinach imports from China. On July 10, the ministry asked Japanese companies to restrict imports. Within a week, Ajinomoto and Nichiro, Japanese food companies, announced compliance with respect to spinach and other Chinese vegetables. Later in the month, on July 22, Japanese and Chinese officials met in Beijing to discuss the problem and agreed to regularize meetings and exchange information regarding the safety of imported vegetables from China. Officials met again in Beijing Aug. 14. The Chinese representatives argued that China's inspection standards surpassed international standards and asked the Japanese officials to reconsider taking government action on imported vegetables from China.

On Sept. 7, however, the revised Food Sanitation Law, passed earlier in the year, came into force, allowing the government to ban import of foods from countries that are recognized as having a substantial number of sanitary or health-related problems, such as residue of pesticides. Earlier, on Aug. 28, the Ministry of Health, Labor, and Welfare announced guidelines that would govern import prohibition decisions. Reaction in Beijing was to label Japan's position as protectionist and, under the pretext of food safety, discriminatory, while suggesting that China might take its case to the World Trade Organization.

Mystery Ship Breaks the Surface

On Dec. 22, 2001, the Japanese Coast Guard intercepted and exchanged fire with an unidentified ship operating within Japan's exclusive economic zone (EEZ). The unidentified ship fled into China's EEZ, where it went to the bottom. Raising the ship and determining its identity of the ship, almost immediately suspected of being a North Korean spy-ship from debris found floating in the water, quickly became a political issue in Japan and a diplomatic issue between Japan and China.

Over the next six months, Japanese diplomats worked to secure China's understanding, and, at the end of June, salvage operations began with China's tacit approval. China's request for compensation, for fishermen not able to work during the salvage operation and for possible environmental degradation resulting from oil spills or damage to the continental shelf, was accepted in principle but left for further discussion at the appropriate time. Initial expectations were for salvage operations to be completed by the end of July or early August.

Weather in the East China Sea, however, did not cooperate. In July and again in August, a series of typhoons hit the area causing repeated delays in the salvage operation, pushing recovery and identification of the vessel back into September. Salvage operations resumed on Sept. 11, with the hull of the ship being recovered later that day.

At the end of August, however, Prime Minister Koizumi announced his intention to visit North Korea in a high-wire attempt to resolve long-standing issues in Japan-North Korea relations. Subsequently, it was reported that, in light of the diplomatic sensitivities involved in the prime minister's North Korea initiative, identification of the vessel would be put off until after Sept. 17. A senior Foreign Ministry official was quoted to the effect that developments that could impede the pending Japan-North Korea dialogue had to be viewed from a national interest perspective.

Chronology of Japan-China Relations June-September 2002

July 3, 2002: Former Japanese Prime Minister Mori Yoshiro travels to China.

July 9, 2002: Hiroshima District Court dismisses wartime forced labor compensation suit of Chinese plaintiffs against Nishimatsu Construction Company.

July 10, 2002: Japan's Health, Labor and Welfare Ministry announces pesticide residue on vegetable imports from China; asks industry to restrict imports.

July 19, 2002: *Asahi Shimbun* lead story on health problems stemming from imported Chinese dietary supplements.

July 25, 2002: Prime minister's advisory panel releases report on development assistance. The report, while recommending that appropriate assistance to China should continue, calls for further discussion and review of the program.

July 30, 2002: Japanese Foreign Minister Kawaguchi Yoriko and Chinese Foreign Minister Tang Jiaxuan meet in Brunei at the ASEAN Regional Forum.

Aug. 9, 2002: PM Koizumi Junichiro decides against attending 30th anniversary ceremonies in Beijing.

Aug. 15, 2002: Five members of the Koizumi Cabinet visit Yasukuni Shrine in their individual capacities; visits draw criticism from Beijing.

Aug. 27, 2002: Tokyo District Court acknowledges for the first time that Japan's Unit 731 engaged in biological warfare in China during World War II, but dismisses claims for compensation for lack of standing.

Sept. 7, 2002: Revised Food Sanitation Law comes into force, allowing government to ban imports of foods from countries with health or sanitary-related problems.

Sept. 8-10, 2002: FM Kawaguchi visits China; meets with President Jiang, Vice Premier Qian Qichen, and FM Tang.

Sept. 11, 2002: *Yomiuri Shimbun* releases results of national public opinion survey conducted Aug. 24-25; survey shows declining trust in China among Japanese respondents.

Sept. 11, 2002: “Mystery ship” sunk by Japan on Dec. 22, 2001 is raised with China’s understanding.

Sept. 22, 2002: Ceremonies marking 30th anniversary of normalization take place in Beijing.

Sept. 24, 2002: PM Koizumi meets Zhu Rongji at Asia-Europe meeting in Copenhagen.

Sept. 29, 2002: Asahi released the results of poll conducted in China and Japan: 45 percent of Japanese respondents and 50 percent of Chinese respondents think Japan-China relationship is “not going well.”

Japan-Korea Relations: **Mr. Koizumi Goes to Pyongyang**

by Victor D. Cha
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The big news for the quarter was Prime Minister Koizumi Junichiro's meeting with DPRK leader Kim Jong-Il on Sept. 17. The two-and-a-half hours of discussions between the two leaders were described by officials as "frank talks" on difficult issues of concern to both sides. Tokyo went into the summit with a fairly stern attitude. In pre-summit negotiations at the end of August, the Japanese established up front that they wanted a satisfactory and definitive accounting by the North Koreans on the unresolved claim of past abducted Japanese nationals. In a break from Japan-DPRK agendas, Tokyo also wanted the North to address security issues in the Dear Leader's meeting with Koizumi (including missiles, the 1994 Agreed Framework, the Nuclear Non-Proliferation Treaty, and the North-South Basic Agreement), and moreover maintained that there would be no explicit in-kind compensation of any sort by Japan for this meeting.

The Summit and the Joint Declaration

The joint declaration emerging from the meeting addressed a range of issues. The most tangible accomplishment was a commitment by both leaders to resume long-suspended normalization dialogue between the two sides immediately (i.e., October 2002). There was an exchange of apologies: Japan made a statement of regret regarding the colonial past, while the DPRK offered a similar statement on the abductions issue. Tokyo acknowledged that economic assistance in the form of grants, long-term low-interest loans, and humanitarian assistance disbursements through international organizations would be offered to Pyongyang after a normalization settlement is reached (and upon this settlement, all pre-1945 historical claims would be waived by the North). In a nod to Japanese concerns that nonproliferation issues be addressed in the summit, the joint declaration contained a general statement regarding mutual agreement with regard to fulfilling "all related international agreements" pertaining to nuclear issues on the Peninsula, as well as an explicit North Korean commitment to extend the moratorium on missile launches beyond 2003.

Success or Failure?

The aftermath of the meeting has seen wide-ranging judgements on the success (or failure) of Koizumi's efforts. Some have criticized the Japanese premier's diplomatic initiative as a naked attempt to boost popularity and divert attention from domestic economic problems. Others have said exactly the opposite: Koizumi hopes to use the short-term popularity from the North Korea trip to press forward with difficult economic reforms at home. In a larger regional context, some have argued that Koizumi's visit to North Korea policy represents a reaffirmation, if not resuscitation, of the U.S.-Japan alliance as Japan was seen for the first time to take an active leadership role in the region, resonant with the vision of a strategic partnership laid out in the 2000 National Defense University study chaired by Richard Armitage and Joseph Nye. Yet others have argued the opposite: Koizumi's diplomacy marks a shift away from the alliance. Tokyo perceived Bush's ill-advised policies as not only entrapping Japan into confrontation with the North, but also undermining regional stability. Between these polar set of assessments, I believe, emerge four basic points about how to think about this summit.

First, the summit marks a watershed in Japan-DPRK relations. There have been other high-level attempts at dialogue in the past, most notably, planned Liberal Democratic Party (LDP) contacts with Pyongyang during the Tanaka Kakuei administration in 1972-1974; meetings between emissaries of Nakasone Yasuhiro and then-DPRK Foreign Minister Ho Dam in the mid-1980s; and LDP strongman Kanemaru Shin's meetings with Kim Il-sung in 1990-1991. These contacts, however, pale in comparison to the face-to-face high-level meeting in September. Another important contextual factor that sets the Koizumi-Kim meeting apart is that it takes place against a backdrop of protracted and serious normalization dialogue over the past two to three years whereas the previous diplomatic forays were stand alone events. Though normalization talks between Tokyo and Pyongyang date back to 1991, the 11 rounds of talks reached a critical stage at the end of 2000 when the general outlines of a package appeared to be in the making (See "Ending 2000 with a Whimper, Not a Bang?" *Comparative Connections*, Vol. 2, No. 4, January 2001). These efforts failed miserably in part because the North Koreans were focused on a possible visit by then U.S. President Bill Clinton at the time, but largely because the Japanese side inquired about the fate of the abductees. The North Korean delegation reportedly responded by abruptly walking out of the negotiating room and never returning. The abductions issue consequently remained a major political obstacle to forward movement on normalization talks that could only be dealt with by a high-level political push like the summit. Hence on Sept. 17, 2002, there is no denying that Japan-DPRK relations charted new ground.

Second, the domestic-political backlash over the supposed resolution of the abduction issue is significant. In many ways, Prime Minister Koizumi got more than he bargained for – the Japanese wanted a definitive statement from Kim Jong-il at the meeting rather than the vague past promises to "investigate" the cases. Kim subsequently not only admitted North Korean responsibility for these abductions, but also revealed that a substantial number of these were dead (and not due to old age). Thus, the strategic calculus at the government-elite level was that a major hurdle had been cleared in

normalization dialogue. The math on the street, however, was quite different. The domestic-political reaction was one of anger and despair at the deaths – rather than express satisfaction at Kim’s confession, the public expressed disbelief that a country could admit to kidnapping and possibly killing Japanese nationals and then be potentially showered with billions of dollars in economic assistance (pursuant to normalization).

In fairness to the Japanese government, news about the actual fate of the abductees reportedly was not released by the North Koreans until the immediate run-up to the summit meetings, but the net assessment is that the domestic anger is significant. The numbers don’t lie. *Gaimusho* (Ministry of Foreign Affairs) reported polling found that nearly 74 percent of Japanese remain dissatisfied with Kim Jong-il’s “apology,” and only 7 percent believe that the summit reflects a genuine change in the character and intentions of the DPRK regime. Japanese officials may contemplate a delay in the reopening of normalization talks (scheduled to start in October). The domestic backlash will also test the mettle of Koizumi’s political leadership in persuading public opinion to focus on the big picture of attaining that which is in the Japanese national interest *vis-à-vis* North Korea rather than fixating on this tragedy.

Third, in spite of the joint declaration’s inclusion of Japanese atonement for the colonial period and North Korean regrets for the abductions, apologies and for that matter, history, is far from resolved as an issue in the normalization of this relationship. Anyone even vaguely familiar with Japan-Korea relations would acknowledge this point. The primary empirical referent in this regard is South Korea. The Seoul-Tokyo relationship was filled with similar (and many more) apologies (the formula used for the Japanese statement of regret was similar to that used by previous Japanese premiers *vis-à-vis* South Korea), yet history remained far from settled after the 1965 settlement.

The counter-argument might be that history could pose less of a problem in Japan-North Korea relations in large part because the authoritarian nature of the regime enables Kim Jong-il to simply declare one day that Japan is no longer the hated historical enemy (one is reminded here of former Premier Kishi Nobusuke’s statements in the 1960s about the “convenience” of doing business with a one-man show in military ruler Park Chung-hee in South Korea). If Kim were to do this, however, who would the North Koreans hate? North Korean ideology, propaganda, and arguably components of its national identity are organized around an enemy-image that validates and legitimizes the self by delegitimizing the other. This is what Samuel Kim once referred to in the inter-Korean context as “competitive delegitimation.” During the Cold War, these enemies were plentiful, including the United States, South Korea, and Japan. In the aftermath of the June 2000 summit, DPRK propaganda regarding Seoul and Washington mellowed quite a bit, reflecting not merely rhetorical changes but also an internal revision of the political discourse on these two countries. As this mellowing occurred *vis-à-vis* the ROK and U.S., propaganda increased and focused with laser-beam intensity on Japan as the enemy. The point here is not that Kim Jong-il cannot gerrymander the discourse again to adjust to the new situation, but that this is an exercise that goes deeper than merely changing the rhetoric that blasts across the speakers at the DMZ. This reworking will take time, and in the interim, historical animosity will still be salient.

Finally, Koizumi's actions were critical to the U.S. decision to reinstate the visit by Assistant Secretary of State for East Asian and Pacific Affairs James Kelly to North Korea. This is not because the substance of the summit convinced anyone in the Bush administration of North Korea's benign intentions. On the contrary, neither Kim Jong-il's extension of the missile testing moratorium nor the vague statement on complying with nuclear agreements offered any real value-added for security-types in terms of transparency on the regime. The summit, however, was important in the Bush administration's decision to send Kelly in several respects. In some ways, Japan offers a more credible voice on the Korean Peninsula than South Korea these days. ROK President Kim Dae-jung has so much invested in the Sunshine Policy that entreaties to the U.S. to reengage with the North fall on deaf ears in Washington. But when the Japanese (who have been arguably more skeptical of DPRK intentions than the U.S. after the Taepo-dong test in August 1998) take such a dramatic step and personally communicate to the U.S. that engagement is worthwhile, then this registers. In addition, Koizumi's trip to Pyongyang capped off a series of rather radical actions by the North to steer its regional relations back on track in the aftermath of the June 29 West Sea clash. Even skeptics would have been hardpressed in June 2002 to predict that the North would have dialogued with Russian President Vladimir Putin, reinstated North-South contacts and family reunions, reached agreements on the inter-Korean railroad and demining, created a new special economic zone in Sinuiju, and invited the Japanese prime minister for talks (and then admit guilt and apologize for the abductions).

In this sense, Koizumi's trip added to a regional momentum toward engagement that was very difficult for even hawks in the Bush administration to oppose for the time being. Contrary to some press accounts, Koizumi did not convince the Bush administration to shift its policy on North Korea. Bush officials reengage with the North in the first week of October with the same degree of skepticism and suspicion of Kim Jong-il's intentions. The Japanese premier's efforts, however, arguably have done enough for even the Bush skeptic to see whether, this time, there is really any substance behind the warm wind blowing from Pyongyang.

Thinking Out of the Box

Whether Japan likes it or not, by virtue of the Koizumi-Kim meeting, it has established itself as a player on the North Korea issue (e.g., for the first time, Japan was the center of attention at the last Trilateral Coordination and Oversight Group meeting). Actions Tokyo takes on normalization dialogue with Pyongyang have consequence for U.S. concerns on security issues and vice versa. This new equation only heightens the importance of trilateral coordination.

One issue down the road of policy coordination will be the nature of a Japanese normalization package with North Korea. Admittedly, we are still far from a successful conclusion (let alone, restarting) of these talks. But there is one issue worth flagging as a topic of future discussion – the financial aspect of a potential normalization settlement. The template for such a settlement, as stated by Japanese officials, has been that a Japan-

DPRK pact would follow the same formula as the 1965 Japan-ROK pact. This would entail a combination of grants and low-interest loans that would total somewhere around \$10 billion in today's currency. Virtually everyone has accepted this as the working formula for the settlement, the primary argument being that this represents Japanese equitable treatment of the two Koreas.

One could legitimately question whether 1965 is the right template for Japan to be using in normalization discussions with the North. Though equitable in a bureaucratic sense, the situation surrounding Japan-ROK normalization and Japan-DPRK normalization is anything but similar. Normalization between Seoul and Tokyo took place under very unique and uncomparable terms. The pact was considered at the time a critical link between two allies of the United States (who subtly but strongly supported normalization) in Northeast Asia at the height of the Cold War. Japan provided inordinately large sums of economic assistance as part of a comprehensive security strategy to shore up a rickety and relatively weak ROK economy as a bulwark against communism on the peninsula. The specific formula of grants and loans that accompanied the treaty was only possible because of secret negotiations and close personal relationships between then Prime Minister Ohira Masayoshi and Kim Jong-pil. Though historical animosity existed and there were occasional confrontations at sea (over the unilaterally declared Rhee line against Japanese fisherman), South Korea neither kidnapped Japanese nationals, nor posed a direct military threat to Japan.

The Japan-DPRK pact takes place under wholly different circumstances. The DPRK poses a direct military threat to Japan with its Nodong missile deployments. Any logical extrapolation of DPRK strategic doctrine suggests these missiles are aimed at Japan as a deterrent to U.S. flowing reinforcements onto the peninsula. North Korea has test-fired at least two of these missiles at Japan (the Nodong in 1993 and Taepodong in 1998). They have kidnapped Japanese citizens and allowed them to die while in captivity. North Korea remains in default on loans from Japan (the first defaults were in the late-1970s) to a tune of \$11 billion.

In short, the funds that accompanied the Japan-ROK 1965 treaty settlement were critically tied to a larger geostrategic Cold War context in Asia between two key American allies. A pact today with North Korea would be one consummated with not an ally, but a country that directly threatens Japan's homeland, violates its sovereignty, and already owes it billions of dollars. How are these two situations comparable enough to warrant a similar template?

Japanese officials might justify the need to use the 1965 treaty as the empirical referent for North Korea because Tokyo feels obligated to offer atonement for the colonial period to both Koreas in equal fashion. If that is the rationale though, then the correct dollar amount to give North Korea should not be today's equivalent of \$500 million (i.e., \$10 billion or the 1965 package of \$200 million in ODA and \$300 million in commercial loans). Instead, it should be *today's equivalent of \$45 million*. In a little-known component of the 1965 treaty, this is the amount that Tokyo agreed to provide South Korea in colonial property claims over a 10-year disbursement period in addition to the

basic package of loans and grants (there was an additional \$300 million as a grant in aid consisting of Japanese products and labor for ROK economic development).

The circumstances surrounding Japan-ROK and Japan-DPRK are *sui generis*. They should be treated as such by Japan. To do otherwise, while bureaucratically convenient, does a disservice to the Japanese national interest and obligates Tokyo to pay the North a lot more money than they need to. A little out-of-the-box thinking by the bureaucrats and Prime Minister Koizumi might be in order.

Chronology of Japan-Korea Relations July-September 2002³

July 1, 2002: Japanese Prime Minister Koizumi Junichiro meets with ROK President Kim Dae-jung in Tokyo; reaffirms the importance of cooperation.

July 4, 2002: Japanese Foreign Minister Kawaguchi Yoriko removes Okazaki Kiyoshi as consul general in Shenyang for failing to deal appropriately with North Korean asylum-seekers at the consulate in May.

July 7, 2002: Japanese investigation team finds Korean writing on a suspected DPRK ship salvaged by Japanese authorities in the East China Sea.

July 9-10, 2002: The first meeting of the Korea-Japan Free Trade Agreement (FTA) Joint Study Group in Seoul.

July 10, 2002: Four aging Japanese Red Army members, who hijacked an airliner 32 years ago, complete official preparations in DPRK to return to Japan.

July 13, 2002: FM Kawaguchi holds talk with ROK counterpart Choi Sung-Hong in Seoul and discusses joint policy on the naval clash between DPRK and ROK patrol boats.

July 16, 2002: ROK and Japan hold fourth high-level economic council meeting in Tokyo.

July 18, 2002: DPRK decides to rescind its decades-long rice rationing system.

July 25, 2002: DPRK expresses regret over the June 29 naval clash.

July 30, 2002: South Korea's national tour operator says next month it will begin offering the first package tours from Japan to the DPRK's Geumgangsan.

July 30, 2002: Foreign ministers from the ROK, Japan and PRC agreed to expand economic and human exchanges, promising to hold three-way talks on a regular basis.

³ Chronology compiled with research assistance from Hyunsun Seo.

July 31, 2002: FM Kawaguchi and DPRK counterpart Paek Nam-sun meet in Brunei and agree to make a serious effort to realize the normalization of relations.

Aug. 1, 2002: DPRK devalues won to 1/70th of its former value as part of an economic reform drive, according to a Chinese media report.

Aug. 2, 2002: Korea, China, and Japan agree to cooperate closely on key financial market issues, including the stabilization of the region's foreign exchange markets in order to maintain financial stability.

Aug. 7, 2002: Concrete pouring ceremony is held at Korean Peninsula Energy Development Organization light water reaction construction site in the DPRK.

Aug. 12, 2002: ROK FM Choi meets Japanese counterpart Kawaguchi in Tokyo.

Aug. 14, 2002: UN International Hydrographic Organization agrees to consider ROK and DPRK proposal to rename the "Sea of Japan" the "East Sea/Sea of Japan."

Aug. 15, 2002: Ehime prefecture School board in Japan endorses nationalist textbook defending Japan's wartime aggression for use in three junior high schools.

Aug. 16, 2002: Japanese Red Cross society confirmed the survival in Japan of several Koreans missing since wartime.

Aug. 17, 2002: Japan proceeds with spy satellite plan; the areas to be subject to surveillance are China, Taiwan, the Korean Peninsula, Russia, and Japan.

Aug. 18-19, 2002: Japanese and DPRK Red Cross officials meet in Pyongyang. The DPRK pledges to make a serious effort to address the abduction issue.

Aug. 20, 2002: Japan launches diplomatic effort to foil the ROK's attempt to rename the body of water separating the two countries from "Sea of Japan" to "East Sea."

Aug. 24, 2002: North Korean vice minister of trade Kim Yong-sul makes 11-day unofficial visit to Tokyo to explain Pyongyang's new market-based reforms to Koreans living in Japan.

Aug. 25-26, 2002: Japan and the DPRK hold high-level talks in Pyongyang to pave the way for negotiations on establishing diplomatic ties. PM Koizumi sends a message to DPRK leader Kim Jong-il through the Japanese delegation and proposes a six-party forum.

Aug. 27, 2002: ROK welcomes Japan's proposal to establish a six-party security forum on Northeast Asia, which would also include DPRK, U.S., PRC and Russia.

Aug. 30, 2002: Japan announces PM Koizumi will visit North Korea on Sept. 17 for talks with Kim Jong-il. Koizumi holds phone talks with ROK President Kim and expresses full support for Sunshine Policy.

Sept. 1, 2002: Korea and Japan announce plans to resume joint exploration for oil and natural gas in the joint development zone on the Korea-Japan continental shelf after a 16-year halt.

Sept. 2, 2002: Japan decides to provide ROK with flood relief supplies worth 16.7 million yen (\$140,600).

Sept. 3, 2002: ROK FM Choi meets Japanese FM Kawaguchi in Johannesburg.

Sept. 5, 2002: Ten-day UN conference on geographical names concludes without addressing demands by two Koreas that the name for the body of water now called the Sea of Japan be changed.

Sept. 6, 2002: Japanese government decides to extend economic aid to the DPRK under the strict condition that resources not be used for military purposes.

Sept. 6-7, 2002: At the Trilateral Coordination and Oversight Group meeting in Seoul, the U.S. and ROK express “strong support” for PM Koizumi’s visit to Pyongyang.

Sept. 10, 2002: Six relatives of Red Army members who hijacked a Japan Air Line plane in 1970 arrives in Japan. Five are children of the hijackers who were born in the DPRK.

Sept. 10, 2002: Russian President Vladimir Putin asks PM Koizumi for Japanese participation in the Trans-Siberian and Trans-Koreas railroad projects.

Sept. 11, 2002: Japan Coast Guard raises suspected DPRK spy ship that sank in December.

Sept. 14, 2002: DPRK leader Kim Jong-il expresses willingness to normalize diplomatic relations with Japan in a written interview with Kyodo News.

Sept. 14, 2002: Suspected DPRK spy ship salvaged by the Japan Coast Guard arrives in Kagoshima Bay.

Sept. 15, 2002: ROK FM Choi and Japanese FM Kawaguchi hold talks in New York.

Sept. 17, 2002: Japanese PM Koizumi meets DPRK leader Kim Jong-il in Pyongyang. The two leaders make progress toward the normalization of relations. Kim acknowledges alleged abduction cases.

Sept. 18, 2002: PM Koizumi holds phone talks with ROK President Kim.

Sept. 19, 2002: U.S. government “welcomes” and “supports” the outcome of the summit meeting between PM Koizumi and DPRK leader Kim.

Sept. 20, 2002: PM Koizumi indicates that Japan may resume rice aid to North Korea before normalization of bilateral relations. He also says that the DPRK agreed to international inspections of its nuclear program at the landmark summit.

Sept. 21-22, 2002: Japan and North Korea held unofficial consultations in Beijing, with Tokyo demanding a thorough investigation into the abductions of its nationals.

Sept. 22, 2002: Japan and the ROK urge the U.S. to resume contacts with the DPRK.

Sept. 23, 2002: The DPRK designates Sinuiju as a special administrative region to stimulate foreign investment and names Yang Bin, a Chinese-born entrepreneur, as chief executive.

Sept. 25, 2002: Japan decides to send a team of investigators to the DPRK to gather information on the abduction of Japanese nationals.

China-Russia Relations: One Year Later: Geopolitics or Geoeconomics?

by Yu Bin

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Two one-year anniversaries – the Russia-China friendship treaty and the Sept. 11 attacks – were very much in the minds of Russian and Chinese leaders during the third quarter of 2002. Both China and Russia publicly expressed satisfaction with the historic treaty that “legalizes” bilateral interactions. Beyond that, Russian President Vladimir Putin’s Bismarckian diplomatic dexterity seemed to make Russia not only an eagerly sought member of the major power club, but also to position it in a crucial point between the West and the so-called “axis of evil” states (Iraq, Iran, and North Korea). Meanwhile, Beijing’s strategic and diplomatic constraints were somewhat alleviated by the country’s sustained economic growth. Between China and Russia, the much alluded to friendship treaty appeared only to offer another round of strategic maneuvering and mutual adjustment at the dawn of a new U.S. military doctrine of preemption that would displace deterrence.

Premiers’ Tough Talk: Profit First, Friendship Second

The quarter began with Russian Security Council Secretary Vladimir Rushailo’s visit to China on July 15-20 to celebrate the one-year anniversary of the friendship treaty. Rushailo met with almost all top Chinese leaders (President Jiang Zemin, Vice Premier Qian Qichen, Foreign Minister Tang Jiaxuan, Defense Minister Chi Haotian, acting State Security Minister Gen Huichang, and Public Security Minister Jia Chunwang). The seventh regular prime ministers’ meeting between Zhu Rongji and Mikhail Kasyanov in Shanghai on Aug. 21-23 was the most substantial high-level interaction for the third quarter. Compared with the previous meeting, the Zhu-Kasyanov meeting this time seemed to cover more issue areas (trade, energy, nuclear power, transportation, science-technology, space, banking, information technology, arms sales, aviation, humanities including education, culture, public health, sports, tourism, and media) but produced fewer tangible results. Only two commercial documents were inked: a two-year banking agreement for border trade settlement in using national currencies of Russia and China, and a \$200 million export credit for Russia.

In addition to addressing economic issues, the joint communiqué issued by the two prime ministers also called for international legal acts to ban space-based weapons and to combat terrorism. The two sides vowed to strengthen the Shanghai Cooperation Organization (SCO) and to support each other’s efforts to safeguard national sovereignty and territorial integrity over the issues of Taiwan, Tibet, and Chechnya.

In his interview with Chinese media, Prime Minister Kasyanov expressed “complete satisfaction” with the result of the meeting. The Russians, however, were somewhat disappointed that China, after years of feasibility studies, continued to sideline a Gazprom offer to supply China with gas from Irkutsk Oblast through Mongolia. Instead, China offered the Russian energy giant a 15 percent stake in the construction of its own west-east transit gas pipeline, together with similar shares for Royal Dutch/Shell Group and the Exxon Mobil Group. Meanwhile, China bargained hard for the highest possible transit fees for any oil shipment from Russia to a third country such as Korea.

China’s hesitation at gas deals with Russia was largely caused by its preference for liquefied natural gas (LNG), which Russia does not provide. Another factor may have been Beijing’s strong desire to minimize its dependence on imports. Gazprom’s option to provide China with 30-35 percent of its energy needs more than doubles China’s own projection of 15 percent. While negotiating with Russia, China separately reached two long-term, multi-billion dollar deals for LNG with Australia and Indonesia in the quarter.

Some in Russia perceived this failure to reach a deal with China as a “wasted opportunity,” costing Russia \$350-400 million annually. The Chinese side had its own complaints. One was the huge trade deficit with Russia, which was seen as the result of overpriced Russian military hardware. Beijing wants to offset this by exporting more civilian goods to the Russian market. Russia, however, demanded higher quality Chinese exports. At a certain point, Moscow even pursued a “linkage” policy for Russian arms sales, which meant Beijing would have to purchase Russian civilian aviation equipment in addition to buying Russian arms. The ongoing World Trade Organization (WTO) talks, too, seem to divide the two. While China considers its negotiation with Russia as a process to connect Russia with international standards and therefore normal, Russia sees it as a Chinese effort to take advantage of Russia’s weaker position.

Apparently, the bilateral friendship treaty does not necessarily mean friendly pricing in commerce. Pure commercialism, however, may be a sign of normalcy or even maturity in bilateral ties. At least it is a different mode from the highly politicized trade relations during the periods of “honeymoon” or open hostility.

Not everything was disappointing from the seventh prime ministers’ meeting. Russia was promised to expect China’s support in Russia’s bid for the WTO and China’s move to protect its market from unfair competition between metal makers would not affect Russian companies, at least for the current year. Meanwhile, China-Russia trade maintained its growth momentum for the first half of 2002, totaling \$5.45 billion, a 18.7 percent rise over the same period of 2001 which registered a record-high trade volume of \$10.67 billion. Major ongoing projects such as the 2,247-km long oil pipeline from Siberia to China’s northeastern part and the Tianwan nuclear power plants proceeded smoothly. The prime ministerial meeting also led to an agreement that China would now pay hard currency, not barter goods, for Russia’s arms transfers. Considering that a quarter of the annual trade now involves Russia’s arms sales to China, hard currency will significantly simplify the process.

At the end of the day, both sides seemed satisfied. After the meeting, Prime Minister Kasyanov stopped over at Beijing where Chinese President Jiang Zemin spoke highly of the “new, favorable phase” in bilateral relations as a result of the progress made by the two prime ministers.

Bear’s Diplomatic Solo: Around China

There was no question that the two sides worked hard to move forward their bilateral relations. The “legal” framework provided by the friendship treaty, however, by no means constrained Russia from taking diplomatic initiatives around China.

The biggest breakthrough of Russia’s diplomacy in the third quarter occurred in Korea. Following Russian Foreign Minister Igor Ivanov’s visit to both Koreas in late July, the Democratic People’s Republic of Korea (DPRK) leader Kim Jong-il met President Putin in Vladivostok on Aug. 23. This was soon followed by the historical visit to North Korea by Japanese Prime Minister Koizumi Junichiro on Sept. 17. The result of the North Korean-Japanese meeting perhaps even shocked the Russians as Kim acknowledged the abduction of Japanese nationals by North Korean agents and suggested the DPRK would extend the moratorium on missile tests. Prime Minister Koizumi reciprocated with an economic assistance package worth up to \$10 billion to North Korea.

Chinese media described the Russian move as a challenge to the U.S. hardline approach to the Korean issue. Foreign Minister Ivanov, however, seemed to take extra steps to calm other major powers with big stakes in the Peninsula by stating that Russia was not monopolizing Korean affairs. “We are not trying to put a spoke in anyone’s wheel,” said Ivanov. President Putin was less evasive when he tried to convince Russian local officials of the importance of Kim Jong-il’s visit to Vladivostok. If Russia failed to link its trans-Siberian railroad with those of the Koreans, said the Russian leader, “it will be done via the territory of our respected neighbor – the People’s Republic of China.” And “that is the very reason why the North Korean leader is here at my invitation,” added Putin.

For Russia, any diversion of part of the cargo flows from the Far East through the Trans-Siberian railway to Europe would help enliven the sleepy railroads and seaports in the Russian Far East. The project was originally addressed during Putin’s visits to North Korea in July 2000 and South Korea in February 2001. Feasibility studies for connecting North Korean and Russian rail systems started in the fall of 2001 and Russia offered a \$120 million credit for renovating part of the rail system inside North Korea. The Russian Railway Ministry proposed on Sept. 20 to rebuild the railway in North Korea at the expense of the former Soviet debt to South Korea, which exceeds \$1 billion. With the quickened pace of North-South reconciliation and breakthroughs between Pyongyang and Tokyo, financial inputs from Seoul and Tokyo may contribute a sizable part of the \$3-4 billion total cost for restoring the rail system in North Korea.

The implications of the Kim-Putin summit in August 2002 – the third since Putin came to power and second time DPRK leader Kim traveled to Russia in one year – extended beyond economics. North Korea's first family is historically more Russian than Chinese in its ideological roots. In the early months of 1950, former DPRK leader Kim Il-sung and Stalin worked out a war plan before selling it to Chinese Chairman Mao Zedong, who had a hard time persuading his colleagues to intervene after Gen. Douglas MacArthur's successful Inchon landing in September 1950. Now, half a century after the three-year bloody conflict in which China bore the brunt of the war, the two Koreas are working toward eventual reunification while Taiwan is drifting away from the mainland. After years of window-shopping for a panacea that would reform North Korea's dysfunctional economy, Kim Jong-il this time seemed to embrace the Russian model when he was quoted as saying that he was "1,000 percent" satisfied with his Vladivostok trip.

With a pending breakthrough in Northeast Asia, Russian Foreign Minister Ivanov flew directly from the Korean Peninsula to Macau and Hong Kong on July 28-29, the two special administrative regions of China. For Ivanov, getting investment, trade, and tourists to Russia was the priority in his meetings with local officials. Shortly before his arrival, Russia's largest air carrier Aeroflot announced it would launch a direct cargo flight between Moscow and Hong Kong.

While Russian airlines were reaching out to southern China in the third quarter, they also made breakthroughs with Taiwan. On Aug. 24, Taiwan's China Airlines made its first maiden flight from Taipei to Moscow; this was reciprocated by Russia's Transaero Airlines on Sept. 1. Although the Moscow-Taipei direct flight was well within the "unofficial" framework insisted on by China for any country with diplomatic relations with Beijing, the growing and deepening interactions between Russia and Taiwan during the third quarter did not delight China.

In July, a high-level trade delegation from Taiwan ended a 25-day fact-finding visit to Russia. The group included officials from Taiwan's Ministry of Foreign Affairs, the Council for Economic Planning and Development, and the Presidential Office. In August, a group of Taiwan legislators led by former Navy Commander-In-Chief Ku Chung-lien visited Moscow and met several leading Russian lawmakers and business people. In September, another high-level Taiwan delegation attended the 2002 Asia Pacific Economic Cooperation (APEC) forum's International Investment Expo in Vladivostok. The 27-member group was led by Secretary General Chang Chun-hsiung of the ruling Democratic Progressive Party and included Taiwan Minister of Transportation and Communications Lin Ling-san and Chairwoman of the Cabinet-level Council of Labor Affairs Chen Chu. The Taiwan media described the visit as a "breakthrough" in bilateral relations.

During the third quarter China and Taiwan intensified their diplomatic battle around the world. Taiwan President Chen Shui-bian declared in August that a country exists on each side of the Taiwan Strait. It seemed that Taiwan was determined to take the battle of diplomacy to the mainland's "backyard." On July 27, the Taiwan-Russia Association, a private organization for promoting Russian-Taiwan trade, debuted in Taiwan and Chen made the inauguration speech. In late August, the Russian chief representative in Taiwan declared that Russia was ready to cooperate with Taiwan in all fields, apart from the military sphere. Meanwhile, the island was frequented by Russian media, science, trade, and academic groups.

Last, but not least, Tibet also became an issue between Russia and Beijing during the quarter. In early July, Russian Deputy Foreign Minister Alexander Losyukov stated that Russia did not object to a visit to Russia by the Dalai Lama. Russia denied the Dalai Lama a visit in 2001, but this time Losyukov said, "We are ready to welcome the Dalai Lama and have nothing against his coming to Russia if it is a purely religious and not a political event." Other Russian foreign service officials went further adding, "We do not regard the Dalai Lama as an extremist, but have to take into account China's negative attitude on him as a political figure." By the time the Russian government decided to deny the Dalai Lama a visa in mid-August, the issue had become a hot potato in Russian domestic politics as religious groups demonstrated repeatedly against the denial.

A "China Threat" for Russia?

Russia's diplomatic initiatives around China's peripheries during the quarter can certainly be part of the overall Russian diplomatic offensive as President Putin continued his skillful realpolitiking around the world. Indeed, once Putin secured his place with major powers, particularly with the U.S. after Sept. 11, he seemed free to pursue his secondary goals, including Russia's relations with the so-called "axis of evil" states (Iraq, Iran, and North Korea). Seen in this light, Russia's historic friendship treaty with China may give President Putin the license to explore the limits of China's tolerance in dealing with thorny issues such as Taiwan, Tibet, religious freedom, etc.

There are limits, however, in making such an argument. Alternative interpretations examine the impact of ongoing debates in Russia about how to live and deal with China, whose power continues to rise regardless of the impact of the Sept. 11 attacks and China's apparent discomfort with the U.S.

Throughout the third quarter, top Russian officials kept reassuring domestic audiences that China was not a threat to Russia. On July 10, Foreign Minister Ivanov dismissed the claim by some Russians that China could pose a threat to Russia in 10 years. In late August, while inspecting Russian military units in the Chita Region in the Far East, Defense Minister Sergei Ivanov, too, claimed that China did not represent any military threat for Russia. In both cases, these top aides of the Russian president responded to questions regarding a perceived "invasion" by Chinese migrant workers to Russia's Far East. Both dismissed the necessity and feasibility of building a "high fence" or an "iron curtain" along the Russia-Chinese border to ward off Chinese migrant workers. Instead,

they highlighted the need to develop legal frameworks for accommodating the inflow of Chinese workers whose contribution to regional development should be welcomed.

The Russian foreign and defense officials appeared to be fighting a two-front war: one to maintain and develop friendly relations with China; the other to alleviate, to deflect or, if possible, to reverse growing domestic anxiety about a threat from Chinese migrant workers into the Far East of Russia. In part, the problem has been exacerbated by a continuous outflow of Russians from the Far East to other parts of the country. In the past decade, 1.2 million Russians left the region. Population losses in various regions in the Far East range from 10 to 57 percent (in the Magadan region). During the same period, Chinese nationals residing in the Russian areas bordering on China grew from 15,000 to 200,000 according to Russian estimates. Russian regional leaders attributed the outflow of Russians to the worsening economic conditions and higher than average heating and electricity costs in Russia's Far East.

The situation had deteriorated to such a degree that President Putin held a regional development conference in Vladivostok before he met North Korean leader Kim Jong-il on Aug. 23. "Russian citizens have almost been ousted from labor markets due to migration in the Far East," Putin told the audience. Shortly after President Putin returned to Moscow, the Russian president dispatched Secretary of the Security Council of the Russian Federation Vladimir Rushailo to lead a special group to tackle the "crisis situation" in Russia's Far East. According to Rushailo, the principal purpose of the tour was to ensure "national security and sustainable development of the region." For Russian leaders, economic development in this part of Russia had become a matter of national security. The group inspected the Russia-China border and observed the customs clearing formalities and passport control procedures. While local officials suggested attracting Russian-speaking people from Ukraine, Belarus, and other Commonwealth of Independent States countries, Rushailo called for special attention to the development of Russia's military equipment and to use the latest military equipment more effectively in order to ensure Russia's national security.

If there was indeed a "crisis" in this part of Russia due to a bad economy, the motivation behind Russia's outreach to North Korea, Taiwan, Hong Kong, and Macau became apparent. More economic interactions with these economic entities would bring the necessary inputs to the region. A more developed economy would in turn attract more Russian-speaking people.

While the Russian economy started to slow (GDP grew by 3.8 percent in the first six months as against last year's 5.4 percent), China's continued to boom. In late September, the country had for the first time surpassed the U.S. as the most attractive destination for foreign direct investment, according to an AT Kearney survey of senior executives of the world's largest companies.

Bilateral Asymmetries

If relations with the sole superpower are largely beyond their grasp, leaders of the two countries do not seem able to take for granted their respective domestic politics. Events during the third quarter indicated that certain internal issues, such as religion and migration in Russia, could seriously strain leaders' options. A year after the friendship treaty, the perception/misperception gap between Russia and China, particularly at the societal level, seems to be widening. While ordinary Chinese and media usually portray Russia in glowing terms, the average Russian and a significant portion of Russia's free media appear bewildered and troubled by the image, real or fantasized, of massive Chinese migration into Russia's thinly populated Far East. Whatever the case, Russian and Chinese national cultures seem always to be the opposite of one another. While the Chinese tend to see Russia's Far East as an opportunity, the Russians view it as deserted, bleak, and uninhabitable. During the third quarter, these cultural and behavioral differences, among other things, led to a sense of "crisis" at both national and regional levels in Russia. The friendship treaty, however, has 19 years to go.

Russia's sense of crisis was not shared by leaders in Beijing. The challenge was nevertheless of a different kind. A major leadership shakeup is under way in China and will lead to a quite different mix of political elites in the world's most populous nation and fastest growing economy. Although the changing of the guard in Beijing will not match Yeltsin's sudden exit from power a few years ago, Russia has its own "who is Hu?" problem in that the incoming generation of leaders in China are not Russian-speaking nor able to sing "Moscow Nights." Most of them were home grown and many have extensive experience in dealing with Western countries during the reform decades. These new faces in China belong to the same generation (post-World War II) as President Putin's colleagues. Their visions for China and the world – as well as their ability to steer the vast country into the post-post-Cold War world – have yet to be demonstrated.

Chronology of China-Russia Relations July-September 2002

July 3, 2002: Fu Quanyou, chief of General Staff of the Chinese military meets Victor Chechevatov, president of the Military Institute of the General Staff of the Russian Armed Forces in Beijing.

July 4, 2002: The bilateral committee on science cooperation under the Joint Commission for the Regular Meetings of Heads of Government of China and Russia convenes in Harbin, China. The two sides discussed cooperation between the two countries' national research institutes and former military technology.

July 8-10, 2002: Russia Nuclear Energy Minister Alexander Rumyantsev visits Beijing with a delegation of nuclear experts to attend the sixth meeting of the Russian-Chinese commission on cooperation in the nuclear energy field.

July 8-13, 2002: Chinese Finance Minister Xiang Huaicheng visits Russia and holds talks with his Russian counterpart Vice Prime Minister and Finance Minister Alexei Kudrin and Russian Central Bank President Sergei Ignatyev.

July 11, 2002: Chinese Foreign Ministry spokesman Liu Jianchao confirmed that Chinese and Russian signal units would conduct a joint exercise along the China-Russia border in mid-August in China's Inner Mongolia. Liu noted that this was the agreement in 1994 when the two sides signed an agreement on the prevention of dangerous military activities.

July 13, 2002: A high-level trade delegation from Taiwan ends a 25-day fact-finding visit to Russia. Its members included executives of Taiwan's leading enterprises and officials from Taiwan's Ministry of Foreign Affairs, the Council for Economic Planning and Development, and the Presidential Office.

July 15-20, 2002: Russian Security Council Secretary Vladimir Rushailo visits China and meets with Chinese President Jiang Zemin, Vice Premier Qian Qichen, Foreign Minister Tang Jiaxuan, Defense Minister Chi Haotian, acting State Security Minister Gen Huichang, and Public Security Minister Jia Chunwang.

July 16, 2002: Russian President Putin and Chinese President Jiang exchange congratulatory messages for the first anniversary of the "Sino-Russian Good-Neighborly Treaty of Friendship and Cooperation."

July 25, 2002: Russian Deputy Foreign Minister Anatoly Safonov and the Chinese First Deputy Foreign Minister Li Zhaoxing conclude in Moscow the second meeting of the Russian-Chinese Working Group on struggle against international terrorism.

July 27, 2002: Taiwan-Russian Association inaugurated to promote trade and investment between Taiwan, Russia, and the Commonwealth of Independent States.

July 31, 2002: Chinese delegation tours Russia for science and business cooperation. It includes 62 representatives from 10 central and regional state enterprises and 27 research centers, including China's leading shipbuilding, nuclear energy, aerospace and defense industry corporations, the research institute of defense industry, and major enterprises of China.

Aug. 1, 2002: Chinese Foreign Minister Tang Jiaxuan and Russian Foreign Minister Igor Ivanov hold talks on the sidelines of the ASEAN Regional Forum in Brunei. They discuss Korea, Iraq, Taiwan, and Putin's visit to China at the year end. Both call for the UN Security Council to take the lead in settling the issue of Iraqi weapons proliferation.

Aug. 8, 2002: The inter-ministerial working group for the formation of a regional antiterrorist center of the Shanghai Cooperation Organization (SCO) holds its first meeting in Bishkek, Kyrgyzstan. SCO comprises, China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

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Aug. 17, 2002: Russian President Putin extends birthday greetings to Chinese leader Jiang, who is described as "a longtime friend of the Russian people" and who "made an invaluable contribution" to the friendship of the two countries.

Aug. 19, 2002: Russian Vice Premier Viktor Khristenko and Chinese State Councilor Wu Yi hold the sixth session of the Russian-Chinese commission in Shanghai. A protocol was signed to prepare for a regular prime ministers meeting on Aug. 22.

Aug. 21-23, 2002: Russian Prime Minister Mikhail Kasyanov visits China for the seventh prime ministerial meeting with his Chinese counterpart Zhu Rongji Aug. 22. They discussed issues of trade, energy cooperation, military, and technical ties. A final communiqué and three documents are signed by the two prime ministers. After the Shanghai meeting, Kasyanov flew to Beijing to meet President Jiang Aug. 23.

Aug. 24, 2002: Taiwan's China Airlines launches a direct link between Taipei and Moscow. The Taiwan airline carries an 11-member of Russian journalists who returned to Russia Sept. 1 with Russia's Transaero air carrier's first flight to Taiwan (Aug. 31–Sept. 1). Regular Russia-Taiwan flights will be launched by the end of the year.

Sept. 1, 2002: Taiwan recognizes Mongolia.

Sept. 8-13, 2002: A high-level Taiwan delegation led by Secretary General Chang Chun-hsiung of the ruling Democratic Progressive Party completes its "successful" and "breakthrough" visit to Russia. Chang arrived in Vladivostok in his capacity as chairman of Taipei-Russia Exchange Association and as the head of a 27-member delegation to attend the 2002 APEC forum's International Investment Expo.

Sept. 9, 2002: Trade officials from the six SCO member states assemble at Xiamen in southeast China for the SCO investment forum held at the sixth China International Fair

for Investment and Trade.

Sept. 11, 2002: SCO issues a joint statement on the anniversary of the Sept. 11 attacks on the U.S. It calls for the new concept of international security under the principles of mutual confidence and equality as well as the full coordinating role of the United Nations for international peace and security.

Sept. 14, 2002: Russian Foreign Minister Igor Ivanov and his Chinese counterpart Tang Jiaxuan meet in New York during the 57th session of the UN General Assembly and discuss preparations for President Putin's Dec. 1-3 state visit to China.

Sept. 23-27, 2002: Head of the International Relations Department of the Chinese Communist Party Central Committee Dai Bingguo conducts five-day visit to Russia for talks with Russian Foreign Minister Ivanov, Russian Presidential Economic Adviser Andrei Illarionov and Russian Association of Entrepreneurs Organizations head Sergei Borisov.

About The Contributors

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