



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



Comparative Connections



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

edited by

Brad Glosserman
Vivian Brailey Fritschi

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Pacific Forum CSIS

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

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

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

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

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Regional Overview:

U.S.-Asia Policy: Better than it Sounds?

Ralph A. Cossa and Jane Skanderup
Pacific Forum CSIS

Someone once said that “Wagner’s music is better than it sounds.” The same can be said for the Bush administration’s East Asia policy. Save one, Washington’s relations with its Asia-Pacific neighbors generally ended the year better than they began. Even the North Korea situation, while far from positive, appeared more hopeful than at this time last year, when Washington was struggling to build a consensus while the other members of what is now the six-party talks were debating over who was more unreasonable, George W. Bush or Kim Jong-il. In South Korea, President Roh Moo-Hyun reaffirmed his support for the U.S.-ROK alliance on its 50th anniversary and agreed to send a second contingent of ROK forces to Iraq. Japan has also agreed, for the first time since the end of World War II, to put “boots on the ground” overseas, announcing the deployment of Self-Defense Forces (SDF) to Iraq. U.S.-PRC relations continue to be described as the “best ever” despite apparent efforts by Taiwan President Chen Shui-bian to stir the pot for domestic political reasons, causing a modest downturn in U.S. relations with Taipei (the “save one”).

Meanwhile, the U.S.-instigated Proliferation Security Initiative (PSI) continues to gain steam and support in the region, and U.S.-ASEAN relations, while fragile, were somewhat (albeit unevenly) enhanced by President Bush’s swing through Southeast Asia after the October APEC Leaders’ Meeting in Bangkok. A few hecklers notwithstanding, Bush’s trip “down under” demonstrated the solidarity of the U.S.-Australia alliance despite public opposition there (and almost everywhere else) to his decision to invade Iraq earlier in the year. Washington’s slightly bloodied nose in Iraq also seems to have relieved some regional anxieties about further U.S. “adventurism.”

Economically speaking, as the new year began, the economic forecast for East Asia seemed cautiously optimistic. Economic growth resumed for the U.S. and Asia in the third quarter as the Year of the Goat finally bucked sluggish recoveries caused by SARS and the uncertainty of the Iraq war. Fourth quarter estimates are also positive, raising hopes further as the Year of the Monkey approaches. Complicating economic forecasting is the possibility of another outbreak of SARS; the first case of the season was confirmed in southern China at year’s end.

On Again, Off Again Talks are On, at least in Principle

2003 began with North Korea's announcement that it was officially withdrawing from the Nuclear Non-Proliferation Treaty (having already thrown out International Atomic Energy Agency inspectors months before). Meanwhile, Washington was debating whether it would "talk" (but not negotiate) with Pyongyang, insisting – with little outside support or encouragement – that a multilateral solution was required, even as Pyongyang demanded one-on-one negotiations (and a bilateral nonaggression pact) with Washington. While things could have gone better – there should have been another round of the six-party talks this quarter but wasn't – Pyongyang has at least agreed "in principle" to continue the multilateral dialogue (also involving Seoul, Tokyo, Beijing, and Moscow), no doubt after receiving both pressure and incentives from Beijing – the latter in the form of new economic assistance and development programs announced during the visit to Pyongyang by China's number two party leader, Wu Bangguo, in October.

President Bush's offer to provide Pyongyang with written assurances that the U.S. does not intend to attack North Korea, announced during the APEC Leaders Meeting in Bangkok in late October, demonstrated some new U.S. flexibility, as did increased U.S. receptivity to a phased approach toward resolving the nuclear standoff (as opposed to its previous "all quids before any quos" stance). However, Washington's offer of security assurances remained "conditioned on verifiable progress" toward the dismantlement of North Korea's nuclear program and was couched in multilateral terms (as part of an agreement, short of a formal treaty) among all the six-party participants. The North's agreement "in principle" to return to the six-party talks was also conditioned, upon the U.S. "putting into practice the proposal for a package solution based on the principle of simultaneous actions."

On Dec. 9, as the ever-optimistic Korean press was predicting the imminent convening of round two of the six-party talks, North Korea made matters worse by stating that "What is clear is that in no case the DPRK would freeze its nuclear activities unless it is rewarded." This was broadly reported as "Bush Rejects North Korea Freeze Offer." But a quick read of the North Korean offer made the rejection both obvious and appropriate: "Measures such as the U.S. delisting the DPRK as a terrorism sponsor, lift of the political, economic, and military sanctions (and blockade), and energy aid including the supply of heavy fuel oil and electricity by the United States and neighboring countries should be taken in exchange for the DPRK's freeze of nuclear activities." North Korea had to assume that, couched in these terms, Washington had little choice but to reject the proposal (even though it could have been more diplomatic in the way it went about expressing its rejection).

At year's end, the North still had not dropped its demand for a "legally binding" bilateral U.S.-DPRK nonaggression pact. Nor has it agreed, in principle or otherwise, to accept multilateral security assurances as a substitute. Acceptance of multilateral security assurances will be an important test of Pyongyang's sincerity and intentions. If its current position is driven by genuine security concerns (as Beijing, Seoul, and others contend), a multilateral security guarantee seemingly would provide greater assurance to

North Korea than one underwritten by Washington's promises alone. But this would require Pyongyang, finally, to recognize Seoul as a legitimate interlocutor when it comes to issues of peace and security on the Peninsula, something it has steadfastly refused to do – the earlier four-party talks broke down in 1999 in large part over Pyongyang's refusal to agree to Seoul being a signatory on any Peninsula peace accord. The North has, of course, been more than willing to take the South's money (in the form of economic assistance and downright bribes). But, when it comes to Peninsula security issues, it demands to deal bilaterally (and exclusively) with Washington.

Both sides need to show more flexibility and creativity. President Bush's willingness to consider multilateral assurances – to find “other ways we can look at, to say exactly what I've said publicly, on paper, with our partners' consent” – is a first step in the right direction. It is now up to Washington to make Pyongyang an offer it can't refuse; one that is crafted jointly with Seoul and Tokyo and vetted and improved in advance by Beijing and Moscow, prior to being tabled at the next round of six-party talks. Some progress was reportedly made in this direction during the quarter, but it remains to be seen what a final proposal will actually consist of (and whether any form of multilateral proposal will be accepted by Pyongyang).

At year's end, it was still too soon to be overly optimistic even that the next round of talks will occur, much less that progress will be made. What seems certain is that the road ahead will be a long and difficult one, presenting challenges, as well as opportunities, for Washington and its Northeast Asian collaborators. But, in contrast with this time last year, there is at least a mechanism (and collaborators) in place and some hope for future progress.

ROK Relations Remain Rocky, but Afloat

Relations between Washington and Seoul are far from the “best ever” – the phrase commonly being used to describe Washington's ties with Tokyo and Beijing – but have not proven to be the disaster many were predicting last January following Roh Moo-hyun's election as the new ROK president. While it would be unfair to say that Roh ran for president on an anti-U.S. platform, he clearly capitalized upon growing anti-American sentiments during the campaign and promised not to “kowtow” to Washington. Roh subsequently received high marks for his efforts to reassert the primacy of the U.S.-ROK security alliance at and after his inauguration – and especially during his May summit meeting with President Bush in Washington – causing his core supporters to accuse him of “selling out.” President Roh insisted upon and largely has been given a more prominent role in dealing with the North Korea nuclear crisis. It was Washington, over Pyongyang's objection, that insisted that (unlike in 1994) Seoul have a formal seat at the negotiating table.

Meanwhile, the Trilateral Coordination and Oversight Group (TCOG) process (Clinton-initiated, to give credit where credit is due) was used effectively throughout the year to ensure that the U.S. and ROK (and Japanese) were singing from the same sheet of music. But, to overplay the analogy, not all the tunes coming from Washington and Seoul appear

in perfect harmony. The ROK government, like its electorate, remains divided on how best to deal with North Korea and the Roh administration is both politically weak and preoccupied with domestic issues. The ROK also remains much more tolerant and forgiving of Pyongyang than is the U.S. While President Roh has stated repeatedly that he “will not tolerate” nuclear weapons in the North and has threatened to end all economic assistance if North Korea pursues such a course, it is not clear what would constitute sufficient proof to trigger such an action.

While Washington and Seoul have also made great strides in agreeing on a way forward, there does not appear to be any common agreement (or even serious discussion) on what to do if, at the end of the day, North Korea simply fails to cooperate or deliberately makes matters worse. What are the red lines? And, what is the coordinated response if one is crossed? Developing the answers to these questions and following through if the situation dictates could add to already existing strains in U.S.-ROK relations.

Talks about U.S. force realignment and repositioning on the Korean Peninsula have also added to alliance tensions, as did demands for an additional contingent of ROK forces to support the pacification and reconstruction effort in Iraq. Many in both countries held their collective breath when Secretary of Defense Donald Rumsfeld made his first visit to Seoul in November for the Security Consultative Meeting commemorating the 50th anniversary of the alliance. The mercurial Rumsfeld was on his best behavior, however, with the official word being that how many and what type forces to be sent to Iraq was solely a ROK decision, which Washington would respect.

In December, President Roh (with more support from the opposition than from his own party) announced the deployment of 3,000 ROK troops (combat and noncombat) to Iraq. While this was less than Washington had hoped for – DoD was reportedly pushing for at least 5,000 combat troops (with some reports suggesting that twice that number had been requested) – the ROK military contingent in Iraq will still constitute the third largest foreign military force in that country, behind only the U.S. and UK.

Tokyo: in Lock-Step with Washington

If the North Korean nuclear crisis has served to divide Washington and Seoul, it has had the opposite effect as far as Washington’s relations with Tokyo are concerned. Tokyo has consistently taken a hard line on dealing with the North, not just because Japan sits within range of North Korea’s growing missile force (which many fear could be fitted with nuclear, chemical, or biological warheads), but also because of the emotionally charged abductee issue. The North Korea nuclear issue has allowed Prime Minister Koizumi Junichiro to move forward with his support and participation in Washington’s missile defense program – Tokyo announced this quarter that it would proceed with the development and deployment of missile defense, a significant step beyond its precious commitment to conduct joint research – and has also increased security awareness in Japan to the extent that many are now more willing to see Japan take a more active role in regional security affairs, much to Washington’s (and Koizumi’s personal) satisfaction.

More often than not, the two have also collaborated at the TCOG to strengthen Seoul's resolve.

On the negative side (at least as far as domestic politics is concerned), Koizumi has made no secret of the fact that wanting to keep Washington engaged and flexible in its dealings over Korea provided much of the incentive behind his largely unpopular decision, formalized in late December, to send Self-Defense Forces to assist in the rebuilding of Iraq, despite the fact that the situation there is far from settled, raising the possibility that these forces could be killed or involved in combat. Thus far, he has been able to weather this particular political storm – his coalition retained its majority in the Diet Lower House elections in November, despite significant gains by the main opposition Democratic Party – although many predict (myself specifically excluded) that a political crisis will ensue if Japanese forces in Iraq sustain casualties. Meanwhile, Koizumi's solid support for Bush's North Korea and Iraq policies has resulted in what both sides cheerfully acknowledge is the best bilateral relations in years, perhaps ever. This has helped paper over continuing differences over the pace and extent of Japan's economic reforms.

China: the Honest Broker?

After initial reluctance to become more actively engaged, China, under new President Hu Jintao, jumped into the diplomatic fray and is currently playing the role of honest broker between Washington and Pyongyang both by arranging and hosting the six-party talks and by otherwise serving as an intermediary. It is not clear if Beijing's involvement was motivated by North Korean actions that threatened Chinese interests (as well as regional stability) or reflect a desire by China's new leadership to play a more active role in regional geopolitics, or (most likely) both. China's leadership in helping to deal with this crisis, and its (belated but nonetheless seemingly genuine) endorsement of the multilateral approach favored by Washington has helped to improve relations between Washington and Beijing to the extent that officials in both countries are also proudly proclaiming relations to be "the best ever" – an impressive accomplishment given where relations were prior to Sept. 11, 2001. Of course, cooperation in the war on terrorism also helped but it seems clear that mutual concerns and overlapping near-term interests vis-a-vis North Korea have been a major factor in bringing the two potential adversaries closer than most would have predicted (while at least temporarily silencing the anti-China "blue team" in Washington). It has served to temper Washington's disappointment with Chinese objections to many aspects of Washington's war on terrorism, especially as regards Iraq.

The only thing that has risen faster than the level of Sino-U.S. cooperation has been the level of expectations in Washington regarding what China should be able to convince or compel North Korea to do. This provides the basis for future disappointment if China fails to deliver or appears to be tilting more toward its "close as lips to teeth" allies in Pyongyang than toward its new-found "partner in diplomacy" in Washington. As is the case with the ROK (and Japan and others), the current close cooperation could rapidly dissolve if North Korea takes actions (such as a nuclear test or even a formal declaration that it is a nuclear weapons state) that would force Washington to demand a tougher

approach, including a decision by the UN Security Council to impose sanctions. In short, how the nuclear crisis plays out on the Peninsula can either solidify or undermine the current close working relationship between Beijing and Washington; neither outcome is assured at this point.

Taiwan: Always the Wild Card

Taiwan has been closely – and nervously – watching along the sidelines as the nuclear crisis has evolved, with the nervousness centered primarily on the growing closeness between Washington and Beijing. For those who see Washington’s respective relationships with China and Taiwan as part of a zero-sum game – and at times that appears to be everyone in Taipei and Beijing – close Sino-U.S. collaboration vis-à-vis North Korea has been seen as a potential threat to Taipei’s “special relationship” with Washington. Many in Taipei express the fear that Washington will somehow “swap” North Korea for Taiwan; i.e., that in exchange for China’s help in neutralizing the North Korean nuclear threat, Washington will either stand back or even somehow contribute to Beijing’s absorption of Taiwan. A refusal by Washington to sell Taiwan arms is one concrete example cited by the worriers (notwithstanding the fact that Taiwan appears reluctant to purchase all the weapon systems that Washington has already agreed to sell). Taiwan’s anxiety becomes cause for greater concern if President Chen Shui-bian begins (or is seen as beginning) to take active steps to undermine Sino-U.S. relations as part of the zero-sum game.

President Chen seemed to be doing just that this quarter. Controversial references to constitutional amendments and referendums – two hot button cross-Strait issues – seemed aimed at provoking a crisis with the PRC in the run up to the March 2004 presidential elections in Taiwan. Domestic politics (and not Sino-U.S. relations *per se*) undoubtedly lay at the base of Chen’s comments, but the timing – immediately before Chinese Premier Wen Jiabao’s first visit to Washington – could not have been worse.

The main (and continuing) controversy centered around the referendum issue. The president’s Democratic Progressive Party (DPP) first tried to pass legislation that would authorize referendums as an “expression of democracy” to gain some political momentum against the rival Kuomintang (KMT)/People First Party (PFP) “pan-blue” coalition that controls the Legislative Yuan and presents a serious challenge to President Chen and his “pan-green” alliance (with the Taiwan Solidarity Union or TSU, headed by former President Lee Teng-Hui). Rather than fight this initiative, the Blues cleverly outmaneuvered the Greens by enacting legislation that severely limited the government’s ability to actually call referendums. The new law did, however, include a provision (article 17) allowing the president to call for a “defensive referendum” on national security issues in the face of an external military threat to Taiwan’s sovereignty or national security. In a game of political one-upmanship, Chen decided to invoke the defensive referendum clause due to the threat posed by Chinese missile forces opposite Taiwan, a clear subversion of the spirit and intent of the Referendum Law which left him open to the charge that he is putting domestic politics ahead of national security.

Chen Shui-bian's willingness to test Washington's patience seems to be based on one or more of the following assumptions: that Taiwan has a "green light" from Washington to push as far as it wants without consequences (an impression many in Washington seem eager to reinforce); that the "neocons" in Washington will come to Taiwan's rescue even if other elements of the Bush administration (perhaps even the president himself) become alienated; that the end (Chen's reelection) justifies any means, even if relations with Washington or Taiwan's national security are temporarily put at risk; and/or that some harsh words from Washington might actually play to Chen's advantage. It may be too much to imply that Chen was consciously trying to alienate Washington, but he certainly does not appear too concerned if this occurs.

Trying or not, he got President Bush's attention. During Chinese Premier Wen's visit to Washington, President Bush said: "We oppose any unilateral decision, by either China or Taiwan, to change the status quo." In other words: no use of force by Beijing and no declaration of independence from Taiwan. Nothing new here; this is long-standing U.S. policy. Bush then continued: "And the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally that change the status quo, which we oppose." Accusations from "friends of Taiwan" notwithstanding, Bush was not kowtowing to China; he was merely expressing U.S. policy in clear and plain language. Bush and Wen would have been perfectly content to make their ritualistic "one-China" comments and then move on. It was Chen's actions, immediately in advance of the Chinese premier's visit, that forced Taiwan to the top of the political agenda. President Bush clearly believes that his administration can enjoy close relations with both Beijing and Taipei and has little tolerance for attempts by either to undermine the other relationship. Beijing seems to have grasped this; Taipei apparently has not.

While the primary responsibility for the current controversy rests with President Chen, Beijing and Washington are not free of their share of the blame. China continues its diplomatic full press against Taipei, thus raising Chen's frustration level. Beijing's refusal to permit Taiwan's entry into the World Health Organization, even as a "health entity" – a status that reinforces China's "one China" claim – increases the "separatist" feelings China claims to be combating (and will likely become a heated issue again this year, especially if SARS returns). Beijing also seems to have concluded that if 100 missiles opposite Taiwan is a good thing, 500 must be five times as good. The point of diminishing returns has long since been passed. At some point, Washington will feel compelled to respond with more advanced missile defense systems (like AEGIS), which will then prompt Beijing to accuse Washington of emboldening Taiwan. Neither Taipei nor Beijing seems to understand the principle of cause and effect.

Meanwhile, comments by Taiwan advocates – in some cases reportedly taken out of context or spoken in what was believed to be private conversation – claiming that President Bush is Taiwan's "secret guardian angel" and that he did not "oppose" independence were enthusiastically interpreted in Taipei as a green light to push the cross-Strait envelope. While Washington remains officially neutral regarding the outcome of the March 2004 Taiwan presidential elections, Chen's supporters frequently cite such remarks as "proof" that Washington not only backs Taiwan democracy – which

it does – but also President Chen’s reelection bid. Bush’s comments should help correct this misperception.

By speaking up when and as he did, President Bush has changed the green light to yellow. The message: time to slow down and prepare to stop. Unfortunately, the more common response, especially among those inclined to drive recklessly, is to stomp on the gas and rush ahead. Chen seems intent on openly confronting and antagonizing Washington (as well as Beijing), apparently confident that a little bit of tension with Washington might also create Taiwan nationalist sentiments that would serve his near-term political interests. That they might harm Taipei’s long-term interests seems to matter little.

Bush Enters Southeast Asian Scene . . . and Mahathir Departs

One would be hard-pressed to describe U.S.-ASEAN relations in flowery terms but things are no all that bad either, especially after President Bush’s whirlwind trip through the region before and after the APEC Leaders Meeting in Bangkok, to “say thanks to a lot of nations ... for working with America to achieve common objectives.” In Manila, he became the first U.S. president since Eisenhower to address a joint session of Congress, while praising the Philippines as a “stalwart” ally in the war against terrorism. In Bangkok, he designated Thailand as a “major non-NATO ally,” allowing arms procurement on more favorable terms. In Indonesia, he met not only with President Megawati Sukarnoputri but also with a group of Islamic leaders in Bali, in an attempt to persuade them that America’s war on terrorism and its campaign against Iraq were not anti-Islamic. Most remained unconvinced but all agreed it was an important session in raising awareness on both sides.

In Singapore, Bush met with Prime Minister Goh Chok Tong, issuing a joint statement in which they agreed on just about everything, including “the need for a strong U.S. security presence in Asia” and “the important role played by Singapore as a major security cooperation partner.” One place he did not visit was Malaysia, although he and departing Prime Minister Mahathir did exchange views along the APEC sidelines in Bangkok. Depending on who’s version you choose to believe, Bush either scolded Mahathir for his earlier anti-Semitic comments (made at the Organization of Islamic Conference summit in Malaysia) or apologized for his harsh words about the good Dr. M. Few in the U.S. – other than journalists and pundits who could always count on him for good headlines – shed a tear at the end of October when the outspoken prime minister retired after 22 years at Malaysia’s helm. While Mahathir has been one of the few moderate Islamic leaders to speak out against terrorism, suicide bombing, and the like, he consistently managed to couch his remarks in terms sure to get under Washington’s skin. His more even tempered successor, Abdullah Badawi, is expected to be considerably less flamboyant, which should allow the generally unrecognized close behind-the-scenes cooperation between Washington and Kuala Lumpur to continue along a less rocky road.

Bush Down Under: a Meeting of Sheriffs

On his way home from Southeast Asia, President Bush also made a quick stop down under to visit his other stalwart ally in the war on terrorism, Prime Minister John Howard of Australia, who has faced strong domestic criticism for his support for the Iraq invasion. President Bush also spoke before the Australian Parliament, where he was heckled by a few Green Party members. Some pundits, in my view unfairly, compared Bush's performance with a less disruptive one the following day by visiting Chinese President Hu Jintao. No hecklers were present for this meeting, not so much because China is more loved or Aussie parliamentarians suddenly developed a case of good manners, but because the Chinese insisted that potential troublemakers be blocked from attending the session, a demand with which the Howard government complied. To his credit, Bush responded to the heckling by noting "I love free speech!," something that was conspicuously missing when Hu took the podium.

While the two leaders remain very close, Howard no doubt winced at President Bush's attempt at light-hearted humor during an interview with Asia journalists just before his trip. For some time now, Howard has been attempting to live down his infamous off-hand comment about Australia being Washington's "deputy sheriff." The press, not unsurprisingly, has refused to let it die. President Bush, when asked "does the United States actually see Australia as its deputy sheriff in Southeast Asia?" replied, to great laughter, "No. We don't see it as a deputy sheriff, we see it as a sheriff." While this comment was aimed at emphasizing that the two countries were "equal partners and friends and allies," the Indonesians and Malaysians in particular had a field day. Few in either country pass up an opportunity for a free shot against Howard's (or Bush's) government. Likewise, when Howard later voiced support for Bush's missile defense initiative, another loud round of complaints was heard, despite difficulty in envisioning how this statement would possible affect Southeast Asian security interests.

Full Steam Ahead for the PSI

The U.S.-instigated Proliferation Security Initiative continued to pick up speed – and two new Asia-Pacific members – this quarter. To briefly recap, the PSI was first laid out by President Bush in May 2003 and formalized at a 11-nation meeting (involving Australia, France, Germany, Italy, Japan, the Netherlands, Poland, Portugal, Spain, the UK, and the U.S.) in Madrid in June. Coalition members agreed, in Brisbane in July, "to move quickly on direct, practical measures to impede the trafficking in weapons of mass destruction (WMD), missiles, and related items." At the third plenary session, in Paris in Sept, a Statement of Interdiction Principles was issued "to establish a more coordinated and effective basis through which to impede and stop [WMD] shipments ... consistent with national legal authorities and relevant international law and frameworks, including the UN Security Council." The first major PSI exercise, dubbed Pacific Protector, was held in the Coral Sea off the coast of Queensland in Sept.

On Oct 9-10, a fourth plenary session was held in London. While noting that over 50 countries had already expressed support for the PSI's Statement of Principles, the 11

founders nonetheless called for a “coordinated outreach effort” to further broaden international understanding of and cooperation with the Initiative, with emphasis on increased Asian involvement and enhanced support from other multilateral fora. While President Bush presumably took this message to the APEC Leaders Meeting in Bangkok (Oct. 20-21), he got few takers; the Chairman’s Statement contained only a general statement against proliferation.

Nonetheless, when the original 11 participants convened for a PSI Operational Experts meeting in Washington on Dec. 16-17, two new Asia-Pacific partners, Canada and Singapore (along with Denmark, Norway, and Turkey) sent representatives. The meeting was intended “to enhance the operational capability of PSI participants to undertake air, maritime, and ground interdiction of WMD, their delivery systems, and related materials.” Participants examined the results of the Coral Sea exercise plus three additional exercises that took place earlier in the fourth quarter – an air interception command post exercise organized by the UK and two maritime interdiction exercises in the Mediterranean led by the Spanish and French, respectively.

The PSI’s primary architect, Under Secretary of State for Arms Control and International Security John Bolton, said the exercises are designed “to give the military people the experience of how to handle different scenarios when they get actionable intelligence about a particular shipment, whether it’s by sea or by land or by air.” The PSI itself, according to Bolton, has a twofold aim: “to reduce the quantities of WMD in the world and to raise the political and economic costs of trafficking in WMD.” Canada is slated to host the next meeting and at least a half dozen more exercises are planned in early 2004.

Lingering Implications of Iraq

The Dec. 13 capture of Saddam Hussein may have won the Bush administration some points at home but it has been the occupation force’s continued struggles that seem to have had the biggest impact in Asia. On the positive side – if one can use this term in describing a situation that has resulted in the deaths of far too many brave young soldiers and innocent civilians – the nations of East Asia now seem far less concerned about the next shoe dropping, in their neighborhood or elsewhere, given continued U.S. struggles on the ground in Iraq. Concerns about further preemptive operations that were prevalent earlier in the year – was North Korea, Iran, Syria, or [insert your favorite choice here] next? – have largely dissipated throughout the region, even if the U.S. president’s “shoot first, talk later” image remains. This positive may have a negative side affect, however. If North Korea was unnecessarily worried about a U.S. attack in the first half of the year, it now appears overconfident that U.S. preoccupation with cleanup operations in Iraq (and the upcoming presidential elections) gives it more wiggle room; the sense of urgency one perceived as emanating from Pyongyang in April also has dissipated along with the fear of preemption as a first resort.

Meanwhile, “the American occupation of Iraq” has joined the perennial “plight of the Palestinian people” as convenient, and all-too-often convincing, instruments in drumming up anti-American sentiment among Southeast Asia’s Moslem communities (as

elsewhere). This also brings us full circle to our opening comments. The complaints one hears about U.S. foreign policy when traveling through East Asia – accusations of unilateralism, arrogance, heavy-handedness, preemption, and the like – normally are ascribed to U.S. global policies or actions outside of Asia (and especially in the Middle East). While sour notes remain, there is considerably more harmony when one speaks exclusively about East Asia policies: the music here is better than it sounds.

Regional Economic Overview and 2004 Preview

Economic growth resumed for the U.S. and Asia in the third quarter as the year of the Goat finally bucked sluggish recoveries caused by SARS and the uncertainty of the Iraq war. Fourth quarter estimates are also positive, putting annual economic growth in more positive terms than posted in recent years for most economies. Yet the underlying economic dynamics tell a more cautious story, and the incoming Year of the Monkey may play mischievous tricks on policy planners who think the global economy has come to their rescue for good.

Upbeat Picture for 2003 Growth

Annual economic growth for the U.S., Japan, and the seven key East Asian economies was projected by year's end well above what had been forecast. Both the U.S. and Japan put in solid third quarter growth – 8.2 percent for the U.S., the strongest growth in 20 years, and 2.4 percent for Japan, the latter up from 0.9 percent forecast in July. For the seven key Asian economies – China, Indonesia, South Korea, Malaysia, the Philippines, Singapore and Thailand, which comprise 98 percent of East Asia's GDP – growth was expected to be 6.1 percent, up from 5.6 percent forecast in July. For most economies, growth was on the back of strong domestic demand and, for South Korea, strong export growth.

The growing importance of China as a driver of regional production and trade integration was demonstrated for a second year. In 2003, China replaced the U.S. as the largest export market for Japan and South Korea, and continued to be No. 1 for Taiwan. By mid-year, however, a steep rise in bank lending in China raised fears of overheating, demonstrated by estimates that annualized growth could come in at an unhealthy 10 or 11 percent, rather than the projected 8 percent. By year-end, the increase in reserve requirements announced in August was already taking effect with both reduced consumer demand and capital investment. A soft landing in 2004 will be good news for the region.

Cautious Optimism for 2004

The combined growth for the seven East Asian countries is estimated at 6.6 percent, according to the Asian Development Bank (ADB), while the U.S. forecast is for 4.2 percent, with Japan at 1.3 percent. Despite positive growth trends, there will be growing exchange rate concerns: the U.S. dollar is expected to continue to decline by 10 percent or more, and Asian currencies will have to adjust. Tokyo in particular will be well advised to let the yen appreciate in sync; it spent some \$186 billion in 2003 to support the

yen with little result. Asian economic officials should follow suit with a gradual appreciation of their currencies as well. A strong currency, of course, raises the relative price of exports, but promotes lower interest rates and stronger stock markets at home. This makes bond prices more competitive, which should become an increasing source of capital for corporate fund raising (instead of bank loans). Regional governments have clearly stated that they want to develop domestic and regional bond markets, and rising currencies will help foster this goal.

In addition, China's import demand for Asian goods is predicted to drop by as much as half compared to 2003 even with the best scenario of a soft landing after overheating in 2003. Other indicators suggest that China's 2004 economic growth will level off, including the important one of decreasing capital investment. Asian economic policy officials will have to adjust their policy tool kits to engineer new strategies to boost domestic demand and further restructure the corporate and financial sectors.

Expect discussions about the yuan's peg to the dollar to continue. Hopefully, this will occur in the framework of the U.S.-China bilateral group that was finally formed in the wake of the Bush team's ungainly efforts to force a premature Chinese response to the problem. And a problem it is, for all concerned. China needs a better mechanism to channel its high savings rate than to hoard \$400 billion in U.S. treasuries, and it certainly is not in China's interest to cede macroeconomic policy decisions to the U.S. Federal Reserve (which effectively happens with a dollar peg). It is also an issue for Asian economic growth and the world economy as a whole; a pegged yuan is becoming a greater drag on global economic growth. For the world economic equilibrium as a whole, a competitive, market-driven yuan exchange rate is a priority over the next three to five years. One can only hope that in the meantime, the U.S. and other countries can withstand domestic political pressures for protection from China's growing export prowess, despite the fact that lower cost imports are in the consumers' interests.

Finally, election politics in 2004 could adversely affect steady economic policies and prospects for growth. Presidential/head of state elections, not only in the United States, but in Australia, India, Indonesia, Malaysia, the Philippines, and Taiwan, as well as critical legislative elections in South Korea, Thailand, Hong Kong, and in Taiwan later in the year, could prove divisive for further restructuring.

APEC and the Proliferation of Economic Dialogues

The October 2003 APEC Leaders Meeting in Bangkok was noteworthy for delving into security issues. Meanwhile, economic dialogues and agreements outside the APEC framework continued apace. This was seen by many as evidence of APEC's further erosion as a real motivator for economic cooperation. In reality, however, the utility of APEC for some years has been the Leaders Meeting, and this has been even more so with President Bush. From early on, he seemed wary of seeing APEC solely as a tool for economic liberalization – why spend time on deals that are nonbinding? – and since Shanghai APEC in 2001, he has viewed the Leaders Meeting as a unique opportunity to generate commitment at the highest level to his antiterrorism agenda. It was not too

surprising, therefore, that the 2003 communique referred to cooperation on combating proliferation of weapons of mass destruction. Of course, as is typical of APEC statements, the fine print said little about actual mechanisms to accomplish this. Perhaps if we renamed APEC as the forum for “eclectic” regional cooperation, it will cease to disappoint those who still expect it to be a mini-WTO!

The region’s governments do seem to prefer subregional and bilateral dialogues and agreements for pursuing more practical applications of economic cooperation than APEC’s 21 members can provide. In this regard, China’s growing role as a driver of trade and production integration was reflected in an active diplomatic pursuit of economic agreements. Regional governments see this option as a hedge to keep dialogue channels open and active on potential problems that can arise with China’s economic emergence. In discussions in the region, it is clear that the ASEAN Plus Three dialogue, and its offshoot agreements, are not intended to compete for China’s attention nor to displace the important role of the United States (which is still recognized in the region). Instead, governments are adjusting to China’s growing role by further engaging it and each other to promote their own interests. As in the political and security arenas, the trend in East Asia has shifted from hedging *against* China to hedging *with* China.

The Oct. 7 “Joint Declaration of Tripartite Cooperation” among China, Japan, and South Korea at a separate Plus Three gathering along the sidelines of the broader ASEAN Plus Three summit is a natural evolution of annual meetings among the three since 1999, and is ambitious in its desire to “study, plan, coordinate, and monitor” a wide range of cooperative activities from environmental protection to energy to fisheries. Ministerial-level meetings will presumably be expanded to other areas from the present finance and trade ministers’ meetings. The Dec. 12 “Tokyo Declaration” signed by Japan and ASEAN during their bilateral meeting – the first ASEAN Plus One meeting to be hosted outside Southeast Asia – envisions a range of economic aid measures and other exchanges that Tokyo has indicated it will pursue as it struggles to avoid being left out in the cold in Beijing’s ever-increasing shadow.

It remains to be seen whether bilateral free trade agreements will achieve the “competitive liberalization” envisioned by USTR Robert Zoellick. On Jan. 1, 2004 the FTAs between the U.S. and Singapore and Chile take effect, as does the China-Hong Kong “Closer Economic Partnership Arrangement” (CEPA) largely aimed at improving Hong Kong’s sluggish economy and easing political critics’ concerns. Critics contend that the failure of the Japan-Mexico and South Korea-Chile negotiations are further evidence of the attempt to avoid the rigor of the WTO Doha liberalization in agriculture. Yet Chile and Mexico are hanging tough on full opening, and the Japanese and South Korean governments are gleaning from their negotiating experiences how to better manage and overcome resistance from their farming communities, both politically and economically, including a projected drop in rural incomes. At year end, both Japan and South Korea were pursuing new strategies to overcome, persuade, and convince the opposing constituencies; time will tell if they are successful. Meanwhile, Korea was disappointed that its next FTA target, Mexico, announced it would not seek further FTAs after Japan.

SARS Returns?

Unfortunately, the year ended on a potentially ominous note with the first new case of severe acute respiratory syndrome (SARS) since last summer being reported in southern China (other than two cases, in Taiwan and Singapore, involving medical researchers working with the virus). A 32-year old man in Guangdong, where last year's outbreak is believed to have started, was confirmed in mid-December to have the infectious respiratory illness (he has since reportedly recovered). The Guangdong patient is a television producer who has not been in contact with health workers or a laboratory; nor has he eaten or otherwise been in known contact with civet cats, a suspected source of the virus – the new strain detected in this latest victim is genetically similar to a strain found in the civet cat, a regional Chinese delicacy. China has already ordered the slaughter of all civet cats in restaurants, on farms, and in wild-animal markets. Hopefully, quicker action by China, the World Health Organization (WHO), and the rest of the international community will prevent another medical (and economic) SARS crisis in 2004.

Regional Chronology October-December 2003

Oct. 1-2, 2003: UN envoy Razali visits Burma; fails to secure the release of Aung San Suu Kyi.

Oct. 2, 2003: DPRK claims to have successfully finished the reprocessing of some 8,000 spent fuel rods; states “We (have) no intention of transferring any means of that nuclear deterrence to other countries.”

Oct. 2, 2003: Bali bomber organizer, Ali Ghufron, sentenced to death by firing squad.

Oct. 5, 2003: The ROK announces that China has officially become Korea's No. 1 export destination, surpassing the U.S. for the first time.

Oct. 5, 2003: JDA chief states that Japan is not dispatching Self-Defense Forces (SDF) to Iraq because it was requested to do so by the U.S., but because Japan's interests are involved.

Oct. 6, 2003: ROK Beijing embassy temporarily suspends consular operations due to the large number of DPRK refugees seeking asylum.

Oct. 6, 2003: President Chen Shui-bian issues strong condemnation of China, further declaring Taiwanese “walk our own road, our own Taiwan road.”

Oct. 7, 2003: DPRK rejects Japanese participation in future multiparty talks, U.S. rejects the rejection.

Oct. 7-8, 2003: ASEAN, ASEAN Plus Three, and separate Plus-Three summits held in Bali; ASEAN leaders sign “Bali Concord II” to create an ASEAN free trade zone and common market in 2020.

Oct. 8, 2003: Joint declaration on Strategic Partnership for Peace and Prosperity signed at China-ASEAN “Plus One” meeting in Bali.

Oct. 9, 2003: The PRC rejects DPRK’s call for Japan to be dropped from six-party talks.

Oct. 9, 2003: U.S. and Vietnam conclude comprehensive air services agreement.

Oct. 9, 2003: PM Koizumi announces the dissolution of the Lower House of Parliament.

Oct. 9, 2003: The IMF agrees to lend Indonesia the second tranche (\$493 million) of its \$5.2 billion loan program.

Oct. 10, 2003: In annual Taiwan National Day address, President Chen calls for a new constitution, by 2006.

Oct. 11, 2003: ROK President Roh rejects resignations offered by his Cabinet and members of his staff and vowed to pursue some form of referendum to test his mandate.

Oct. 12, 2003: Over 2,000 people including Australian PM John Howard attend ceremony marking the anniversary of the 2002 bomb attacks in Bali.

Oct. 13, 2003: North Korea strongly criticizes U.S. for efforts to impose international sanctions and maritime monitoring of North Korean shipments; U.S., Japan, and ROK meet to discuss future of KEDO.

Oct. 13, 2003: North Korean abductees mark one-year anniversary of their return to Japan.

Oct. 14-17, 2003: The 12th inter-Korean ministerial talks are held in Pyongyang.

Oct. 15, 2003: China successfully launches its first *taikonaut*, Yang Liwei, into orbit on board the *Shenzhou 5*.

Oct. 15, 2003: Japan announces Iraq aid package of \$1.5 billion.

Oct. 15, 2003: Putin leaves Moscow on a 10-day trip to Malaysia, Thailand, and Kyrgyzstan.

Oct. 15, 2003: Human Rights Watch calls for the immediate removal of six senior Indonesian military officers for gross human rights violations in Aceh.

Oct. 16, 2003: President Bush launches his Asia trip with a statement that Indonesia cannot let its Islamic community be defined by religious extremists.

Oct. 16, 2003: *KCNA*: “When the time comes, the DPRK will take steps to physically display its nuclear deterrent force.”

Oct. 16, 2003: In a speech at the Organization of Islamic Conference summit in Malaysia, PM Mahathir makes anti-semitic statements.

Oct 17, 2003: East Timor PM Mari Alkatiri asks the UN to extend its presence and for donor countries to reject aid reduction proposals.

Oct. 17-18, 2003: President Bush visits Tokyo, meets with PM Koizumi.

Oct. 18, 2003: President Bush visits Manila, addresses joint session of Congress, meets President Macapagal-Arroyo, praises the Philippines as a “stalwart” ally in the war on terror, and pledges to support Manila’s military modernization.

Oct. 18, 2003: ROK announces it will send additional troops to Iraq, but “will decide on the number, characteristics and timing of the dispatch after considering the U.S. request and public opinion.”

Oct. 18-21, 2003: President Bush visits Bangkok; attends APEC Leaders’ Meeting; holds bilateral meetings with President Roh and Chinese President Hu Jintao, among others; designates Thailand a “major non-NATO ally.”

Oct. 19, 2003: Tokyo announces its intention to send noncombat troops to Iraq.

Oct. 20, 2003: PM Koizumi and President Putin agree in Bangkok to fast-track talks on the feasibility of an oil pipeline through Nakhodka.

Oct. 20, 2003: Pyongyang test-fires a short-range missile.

Oct. 20-21, 2003: APEC leaders’ meeting in Bangkok, Thailand.

Oct. 21, 2003: President Bush visits Bali, speaks with moderate Muslim leaders and meets with President Megawati; then departs for Singapore, where he meets with PM Goh.

Oct. 21, 2003: North Korea rejects U.S. offer of written multilateral security assurances, calling it “laughable”; reportedly test fires another short-range missile.

Oct. 22, 2003: Two PLA Navy ships arrive in Guam for a four-day goodwill visit.

Oct. 22-23, 2003: President Bush visits Sydney/Melbourne, meets PM John Howard and addresses the Australian Parliament.

Oct. 24, 2003: President Hu visits Australia, addresses Parliament.

Oct. 24, 2003: Madame Chaing Kai-shek dies in New York at 105.

Oct. 25, 2003: North Korea says it is willing to accept President Bush's offer of security assurances if they are based on the "intention to coexist" and the U.S. offers "simultaneous actions."

Oct. 25, 2003: A Moscow court orders Mikhail Khodorkovsky, the head of Russian oil company Yukos, to be held without bail, following charges of defrauding the state.

Oct. 26, 2003: DPRK ready "to consider" a U.S. proposal of written guarantees not to attack Pyongyang in return for Pyongyang ending its nuclear weapons program.

Oct. 27, 2003: U.S. congressional visit to DPRK is postponed because of White House opposition.

Oct. 28, 2003: USTR Zoellick and Commerce Secretary Evans visit Beijing; Evans says China is moving "far too slowly" in its transition to an open, market economy.

Oct. 28, 2003: The U.S. Senate votes to restrict military aid to Malaysia in response to PM Mahathir's anti-Semitic statements.

Oct. 28, 2003: China's No. 2 leader Wu Bangguo visits North Korean leader Kim Jong-il who agrees "in principle" to continue to hold six-party talks.

Oct. 28-29, 2003: Chinese Ministry of Defense Cao visits Washington.

Oct. 29, 2003: President Chen proposes referendum law.

Oct. 29, 2003: Japanese students performance at Xian Northwest China University sets off Chinese protests.

Oct. 31, 2003: Abdullah Badawi is sworn in as Malaysia's fifth post-independence prime minister. Mahathir Mohamad steps down after 22 years in power.

Oct. 31- Nov. 1, 2003: President Chen transits N.Y., receives human rights award.

Nov. 2-3, 2003: Second annual Bo'ao Forum for Asia held on Hainan Island, China.

Nov. 3, 2003: Chen and Secretary Powell shake hands in Panama, drawing PRC protest.

Nov. 6, 2003: Indonesia extends martial law in Aceh for an additional six months. The U.S., Japan, and European Union issue statements of concern, which are dismissed as a "prelude to meddling."

Nov. 7, 2003: Former top civil aviation administrator and navy reserve officer seize the control tower at Manila airport in protest against corruption, and are later killed by the Philippine police.

Nov. 7, 2003: Philippine Armed Forces discovers new territorial markers with Chinese inscriptions on several unoccupied reefs and shoals in the Spratly Islands; monitors two PLA navy vessels operating since September near Mischief Reef.

Nov. 8, 2003: UN envoy Paulo Sergio Pinheiro meets with Aung San Suu Kyi, who is refusing to be freed from house arrest until 35 NLD colleagues are also freed.

Nov. 9, 2003: PM Koizumi's coalition wins with a reduced majority in Diet elections. The opposition Democratic Party makes significant gains.

Nov. 10, 2003: Defence Secretary Rumsfeld meets with his Vietnamese counterpart, Pham Van Tra, in Washington.

Nov. 14, 2003: Secretary Rumsfeld visits Japan, including Okinawa, where he is lectured by Gov. Inamine.

Nov. 17-18, 2003: Secretary Rumsfeld visits Seoul for U.S.-Korea Consultative Meeting. A joint communiqué affirms the solidarity of the alliance, calls on the DPRK "to completely, verifiably and irreversibly dismantle its nuclear weapons programs," and reaffirms the realignment of U.S. forces in the ROK

Nov. 18, 2003: The Philippine Supreme Court rules funds of nearly \$700 million held by late dictator Ferdinand Marcos in Swiss banks must be given to the government.

Nov. 18, 2003: Secretary Rumsfeld describes DPRK as an "evil regime," during visit to U.S. troops at Osan Air Base.

Nov. 18, 2003: Japan announces intention to sign ASEAN Treaty of Amity and Cooperation.

Nov. 19, 2003: ROK farmers protest against WTO trade liberalization of the Korean rice market.

Nov. 19, 2003: Koizumi Junichiro re-elected as Japanese PM.

Nov. 19-22, 2003: U.S Navy frigate *USS Vandegrift* visits Ho Chih Minh City, Vietnam, the first visit by a U.S. ship since the Vietnam war.

Nov. 21, 2003: KEDO's executive board officially declares one-year suspension of \$4.6 billion nuclear power plant project in DPRK beginning Dec. 1.

Nov. 23-24, 2003: Burma releases five top NLD leaders from house arrest.

Nov. 27, 2003: Taiwan Legislative Yuan adopts restrictive Referendum Law proposed by opposition coalition.

Nov. 29, 2003: DPRK describes the suspension of the KEDO project as overt defiance and demands compensation.

Nov. 29, 2003: Two Japanese diplomats are killed in ambush near Tikrit, north of Baghdad.

Nov. 30, 2003: Two South Korean civilian contractors are killed in Iraq.

Dec. 1, 2003: NSC's James Moriarty makes discreet visit to Taipei with message from Bush.

Dec. 3, 2003: Thailand announces it will keep its 433 medical and engineering troops in Iraq at least until March.

Dec. 3, 2003: PLA Gen. Peng says Chen is taking Taiwan "to brink of war," says PRC will "pay any price" to prevent independence.

Dec. 3-4, 2003: TCOG meets in Washington to prepare for next round of six-party talks.

Dec. 4, 2003: ROK Parliament overturns President Roh's veto of an independent investigation into the election funding scandal.

Dec. 4, 2003: U.S and Vietnam sign five-year aviation agreement.

Dec. 5, 2003: Suicide bombing on commuter train in southern Russia kills at least 40 people and injures 170.

Dec. 7, 2003: U.S., Japan, and South Korea reportedly reach agreement on joint statement for ending North Korean nuclear program.

Dec. 7, 2003: North Korea demands that the normalization of its ties with the U.S. be included in the draft of a joint statement for the next round of six-party talks.

Dec. 7, 2003: United Russia, a party backed by President Vladimir Putin, wins elections for lower house of Russian Parliament.

Dec. 8, 2003: President Chen announces topics for "defensive referendum" to be held March 20.

Dec. 8-10, 2003: Chinese Premier Wen Jiabao visits the U.S., President Bush describes U.S. and China as "partners in diplomacy"; Bush states "We oppose any unilateral decision by China or Taiwan to change the status quo. And comments and actions made

by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose.”

Dec. 9, 2003: Japanese Cabinet approves sending troops to Iraq.

Dec. 9, 2003: U.S. bars French, German, and Russian companies (and other non-supporters of the war) from competing for \$18.6 billion in reconstruction contracts in Iraq.

Dec. 9, 2003: A 10-member European Union delegation visits the DPRK to discuss human rights issues and the nuclear weapons crisis.

Dec. 9, 2003: Bomb explodes in Moscow near Red Square, killing six.

Dec. 9, 2003: *KCNA*: “What is clear is that in no case the DPRK would freeze its nuclear activities unless it is rewarded.”

Dec. 10, 2003: President Chen says he will proceed with referendum as planned; later calls on U.S. to adhere to its values and support Taiwan democracy.

Dec. 11-12, 2003: At Japan-ASEAN regional summit, PM Koizumi announces a \$3 billion aid package and promises to work with the region to bolster security ties, liberalize trade, and create a broad economic partnership.

Dec. 13, 2003: World Food Programme issues appeal for \$171 million to offset a drop in contributions for the DPRK.

Dec. 15, 2003: North Korea formally rejects U.S., Japanese, and South Korean proposal for ending its nuclear program.

Dec. 15, 2003: The U.S., Thailand, and Singapore begin 10th annual *Cope Thunder* air exercise with a command post component in Singapore. Subsequent flying will occur in Korat, Thailand, in February, involving some 89 aircraft.

Dec. 15, 2003: President Megawati visits Malaysia.

Dec. 16-17, 2003: Singapore and Canada attend their first Proliferation Security Initiative meeting in Washington.

Dec. 17, 2003: President Roh announces that the ROK will send 3,000 troops, including 1,400 combat soldiers, to assist coalition forces in Iraq.

Dec. 17, 2003: North Korea announced complex regulations for those who would do business in its Kaesong Industrial Zone.

Dec. 17, 2003: Two Chinese hotel workers sentenced to life in prison for organizing Sept. 2003 orgy involving hundreds of Japanese tourists.

Dec. 18, 2003: President Putin announces he will seek a second four-year term next March and dismisses suggestions he would change the constitution to stay longer.

Dec. 18, 2003: PM Koizumi approves dispatch of 1,000 troops to Iraq.

Dec. 19, 2003: Japan announces plans to purchase U.S.-made missile defense system and to conduct a review of Japan's defense capabilities.

Dec. 21, 2003: Bank of Korea calls for curbs on foreign ownership in the country's financial sector and urges the government to slow bank privatization and find local investors.

Dec. 22, 2003: Russia offers to write-off 65 percent of Iraq's \$8 billion debt after Baghdad signals that Moscow was in a good position to revive prewar oil contracts.

Dec. 23, 2003: The ROK Cabinet approves dispatch of 3,000 troops to the northern oil town of Kirkuk, Iraq as early as April.

Dec. 24, 2003: U.S. announces that it will send 60,000 metric tons of humanitarian food aid to North Korea.

Dec. 26, 2003: Japan sends advance team of 23 Japanese air force personnel to the Middle East to prepare for its troop deployment.

Dec. 30, 2003: President Bush signs proclamation authorizing implementation of the United States-Singapore Free Trade Agreement signed in Washington in May 2003.

U.S.-Japan Relations: **Mr. Koizumi's Mandate**

Brad Glosserman
Pacific Forum CSIS

Prime Minister Koizumi Junichiro's "victory" in Japan's Nov. 7 ballot was the big event in U.S.-Japan relations this quarter. The ruling coalition's win was a stamp of approval for Tokyo's support of the United States-led invasion of Iraq and the controversial decision to send Self-Defense Forces (SDF) to assist the postwar reconstruction of that country. The Japanese public is less than enthusiastic about U.S. policy in the Middle East, but the election results seemingly validated the prime minister's support for President George W. Bush and Koizumi's efforts to keep pushing the envelope on security policy. Thus, this quarter saw the Japanese Cabinet approve the controversial SDF deployment, the departure of the advanced guard of that group, a decision to deploy theater missile defense systems, and agreement to forgo some of Iraq's debt to Japan.

Astute readers will note the qualifications in this assessment. Still, there are few signs that the cooperation and the partnership will be troubled in the near future. There are indications of potential long-term difficulties, however. Fatalities during the Iraqi deployment could have a powerful effect on public sentiment and erode support for the alliance. Rising tensions on the Korean Peninsula could have a similar effect. In both cases, the United States could be seen as having dragged an overly compliant Japanese government into harm's way or Koizumi could be charged with sacrificing Japanese national interests to protect the U.S.-Japan alliance. The solution is not to avoid difficult situations; rather Tokyo needs to do a better job of selling its policies to the Japanese public. The government needs to use the language of national interest instead of merely saying that is acting "as a good partner should." There are signs that Tokyo is learning.

Koizumi's Stamp of Approval

Japanese voters went to the ballot Nov. 7 to deliver a verdict on Prime Minister Koizumi and his government. The prime minister can claim vindication, but the results were a less than heartening endorsement for the ruling coalition. It maintained control of the Lower House, winning 275 seats in the 480-member chamber. The Liberal Democratic Party (LDP) won 237 seats in the vote – 10 less than it had held – although that number has increased as election-day winners (re)joined the party. More worrisome for Koizumi was the showing of the opposition Democratic Party of Japan (DPJ): it won 177 seats, an increase of 40 from the previous assembly. While the DPJ did not reach its goal of 200 seats, it has emerged as the leading opposition party in Japan and might even pose a credible alternative to an LDP-led government.

Pundits have gushed over Japan's evolution toward two-party politics. In truth, it's hard to say what distinguishes the two parties. The most obvious difference is security policy. The DPJ has been far more critical of U.S. leadership in the war on terror. In particular, it opposes the SDF dispatch to Iraq, at least without a UN mandate. Still, DPJ head Kan Naoto has said that he supports the alliance even though he would not send forces to Iraq and wants the Marines to leave Okinawa. The election results show that voters see the DPJ as a suitable vehicle to register dissent against LDP policies, but they aren't upset enough or don't trust the party enough to give it the reins of power. (The low turnout rate suggests that the former is a better explanation – and lends itself to pessimism when talk turns to chances for reform.)

Standing Tall on Iraq

Tokyo continues to be one of Washington's best allies on Iraq. The Koizumi government agreed to send troops to Iraq last quarter, but avoided specifics given the controversy and the approaching election. The problems were three-fold. First, the deployment was not in response to any immediate security threat to Japan, thus leaving it open to constitutional challenge. Second, the fact that there were no "safe areas" in Iraq meant that the troops might be in danger, and the deployment itself violated rules that had guided previous dispatches. They specified that troops be sent to "noncombat zones." Unrealistic though it seems, Japanese forces are not authorized to transport other troops, protect them, or even fire except in self defense after being fired upon. The situation on the ground virtually guaranteed that they would be forced to break those rules. Finally, the absence of a UN resolution on Iraq denied the government some semblance of international or institutional legitimacy concerning the deployment. A UN vote could have given the government cover despite the first two objections, especially when previous deployments required UN approval to provide the veneer of "neutrality."

Nonetheless, on Oct. 9, the government announced that 100 Ground SDF troops (since raised to 550) would be sent to Nasiriya, Iraq. Six days later, Tokyo said that it would provide \$1.5 billion in postwar reconstruction grants in 2004 as part of a \$5 billion, five-year package. Tokyo also promised to back U.S.-led initiatives at the UN and would try to marshal Asian support for Iraq's reconstruction. Almost a month later Koizumi won his mandate at the polls. Yet the next day the government said it would delay the planned December dispatch because of safety concerns. (It is more likely that political calculations were foremost: delaying deployment altered the timetable for debate in the Japanese Diet.) A terrorist attack that killed 26 people, 19 Italian peacekeepers among them, in the same area to which Japanese forces would be deployed, reinforced the government's caution.

The risks of deployment were driven home two weeks later when two Japanese diplomats were killed in an ambush in Iraq. Koizumi remained steadfast in his commitment to send troops, however. He insists that the deployment is not unconstitutional and is part of Japan's responsibility as a member of the international community; in one controversial speech he even said it was required by the constitution on just those grounds. At the end

of December, Tokyo sent an advance team of 23 Air Self Defense Forces personnel to the region to prepare for the eventual full-scale deployment expected next year.

Just before the close of the year, Koizumi told U.S. special envoy James Baker that Japan – Iraq’s single largest creditor – would forgive a “vast majority” of Iraq’s prewar debt if other Paris Club members did the same. This policy flies in the face of Japan’s usual debt forgiveness policy – it believes that such measures encourage irresponsibility on the part of debtor governments and is a misuse of taxpayer money – but officials recognize that they shouldn’t block multilateral efforts to lighten Iraq’s load.

Many Japanese are asking what they get in return for this support. There is no doubt that Washington greatly appreciates Tokyo’s efforts. U.S. officials from President Bush on down have applauded Japan, even when Koizumi postponed plans. In concrete terms, Japan has been placed on the list of countries allowed to bid for Iraqi reconstruction contracts. Less tangibly, but equally important, some argue that Japanese support for the U.S. in Iraq is the price for U.S. support of Japan’s position when dealing with North Korea.

Pushing Pyongyang

That linkage is fairly widespread in Japan – but the logic is flawed. The U.S. should support Tokyo in dealing with Pyongyang because that is what allies do. Attempts to link the two issues explicitly would undermine confidence in the alliance. (When South Koreans argued that their deployment to Iraq should give it more influence over U.S. policy toward the North, Washington responded that alliances don’t work like that.)

U.S. support for Japan’s diplomacy has been unflinching. When North Korea argued that Japan’s demand to put the abductee issue on the agenda disqualified it from the six-party talks, State Department officials said that “Japan clearly must, and will, continue to be a participant” in the talks because of its “vital interests.” U.S., Japanese, and South Korean officials met repeatedly throughout the quarter to coordinate positions on the talks. Efforts to formulate a plan that would meet North Korean demands without appearing to reward blackmail have been frustrating. Of particular concern to Japan is the idea that any security assurances to Pyongyang could somehow undermine the U.S.-Japan security alliance. During his November visit to Japan, Defense Secretary Donald Rumsfeld said Washington would not make arrangements with any other country that would undermine the alliance.

On another front, Tokyo has been an enthusiastic participant in the Proliferation Security Initiative (PSI), which is designed to halt the proliferation of weapons of mass destruction (WMD). Koizumi made the case for the PSI to ASEAN governments during the organization’s summit in Bali, Indonesia. Tokyo has also been pushing export control initiatives with the U.S. and other Pacific Rim nations, and has emerged as a leader in the region on this front.

Missile Defense, at last

Supporters of missile defense (MD) took heart from Japan's December decision to spend \$1 billion on a theater missile defense system. The proposal calls for a two-layer system consisting of Standard Missile 3 interceptors deployed on AEGIS-equipped destroyers and ground-based advanced capability Patriot missiles. The Defense Agency estimates the system will cost ¥700 billion (\$6.5 billion) over five years, with ¥134 billion being set aside in the 2004 budget. The *Mainichi Shimbun* reported that the system is to be partially deployed in 2007 and fully operational by 2011, although the Defense Agency would not confirm the dates.

MD opponents object on several grounds. First, they worry that the move could set off an arms race in the region. Second, they claim the system is unconstitutional since shooting down a missile that isn't aimed at Japan constitutes participation in collective self-defense, which is not permitted under current interpretations of the constitution. Chief Cabinet Secretary Fukuda Yasuo defended the decision, arguing that missile defense "meets (Japan's) exclusively defense-oriented policy as the only effective method to counter attacks by ballistic missiles."

Japan will continue to work with the U.S. to develop a larger ballistic missile defense system. As one indication of the seriousness of that effort, Japanese officials now stress that the country will have to rethink its arms exports policy, which has banned the export of any materials that could be used for weapons. Since that could be used to block cooperation with the U.S. – Defense Agency head Ishiba Shigeru has called it a "key obstacle" – the policy is likely to be amended or revised.

The Southeast Asian Mirror

Another indication of the alliance's solidity is the U.S. attitude toward Japan's reinvigorated relationship with ASEAN. On Dec. 11-12, Tokyo hosted the Japan-ASEAN Commemorative Summit. The meeting, which marked 30 years of Japan's relations with ASEAN, was the first ASEAN summit to be held outside the ASEAN region. Apart from the financial aid Japan pledged and the promise of a rejuvenated economic relationship, one of the highlights of the meeting was Tokyo's agreement to join ASEAN's Treaty of Amity and Cooperation (TAC).

A decade ago, Tokyo's courting of ASEAN would have been viewed through a different prism. In the zero-sum thinking that prevailed then, the summit would have been taken as a sign of a reorientation of Japanese foreign policy toward Asia and away from the U.S. In particular, the readiness to join the TAC would have been seen as a willingness to subordinate U.S. strategic concerns to Japan's relations with Southeast Asia. There would have been cries about the creation of an East Asian bloc and the exclusion of the U.S. from an area of vital national interest.

Not this time. I could find no comment by a U.S. official on the meeting, even though some Japanese questioned whether joining the TAC would inhibit Japan's ability to

cooperate with the U.S. on security contingencies in East Asia. From a U.S. perspective, the summit is a welcome development. It signals Japan's readiness to re-engage with the region, despite its own economic difficulties, and to match China's aggressive "smile diplomacy." While there are plenty of questions about the effectiveness of Tokyo's initiative, the activist mindset is welcome in Washington.

Southeast Asia knows how much it has benefited during three decades of relations with Japan. The country has been an important source of capital, trade, know-how, and aid. That has created a substantial reservoir of goodwill that can be used to advance Japanese national interests as well as those of its partner, the United States. Indeed, one of the main challenges for the U.S.-Japan relationship is coming up with creative ways to share burdens and responsibilities. Southeast Asia is probably the most important arena for this bilateral cooperation.

Rumsfeld's Earful

The only real unpleasantness this month occurred during the visit of Defense Secretary Rumsfeld to Japan. His Tokyo stopover went well. Although Koizumi announced the delay of the dispatch of SDF forces only days before Rumsfeld's arrival, it was reported that the subject did not come up directly in their discussions.

The big issue during his visit was the much-discussed possibility of U.S. troop redeployments in the region. Rumsfeld, like all other U.S. officials, has stressed that no decisions have yet been made and that any plans will be developed in full consultation with allies. Japanese officials are of two minds: while they would appreciate any moves that lighten the load on Okinawa, which bears a disproportionate share of the U.S. military presence in Japan, they also worry that sudden changes might destabilize the region.

Okinawa's officials are apparently less burdened by the second concern. Rumsfeld's encounter with Okinawa Gov. Inamine Keiichi was uniformly reported to have been unpleasant, and with reporters present during much of the meeting, those reports are accurate. The governor's list of demands was long. It included consolidation of U.S. bases and a reduction in U.S. forces, a 15-year time limit on the marine air station that will be moved to Nago City, a review of the Status of Forces Agreement, a reduction in military aircraft noise, and a reduction in crime. (The governor didn't know then, but newly released statistics show that the number of crimes committed by U.S. service personnel topped 100 for the first time in nine years, and those figures don't include December.) By all accounts, the defense secretary did not enjoy being lectured to and ended the meeting abruptly.

Where's the Beef?

This quarter also marked the return of economic issues to the bilateral agenda. Although the problems were not major, they provided some friction. The most contentious was probably the tariffs that the U.S. had imposed on steel imports nearly two years ago to

protect domestic producers and shore up electoral support for the administration. The World Trade Organization ruled the tariffs illegal and after some initial hesitations – and the threat of reprisals against equally politically sensitive U.S. exports – President Bush withdrew the tariffs. Japan had threatened to impose a 30 percent tariff on U.S. steel exports and gasoline products, but retreated when the U.S. eliminated the tariffs.

The U.S. decision was eased by the dollar's tumble against foreign currencies. The U.S. currency closed the year by reaching record lows against the euro, and depreciated about 10 percent in value against the yen during 2003. As the dollar declined in strength, the prospects for U.S. exporters picked up. That is a critical development in the leadup to an election.

The yen's rise has been slowed by massive intervention by the Japanese government. According to year-end figures, the Ministry of Finance (MOF) spent ¥20.057 trillion on intervention in 2003, almost three times as much as the previous high of ¥7.641 trillion reached in 1999. The MOF has indicated that it will continue to intervene to halt the yen's climb, which punishes exporters, one of the few bright spots in the Japanese economy. (MOF has said that it is prepared to use some ¥240 trillion, an amount equal to the size of the U.S. current account deficit, to defend the yen in 2004.)

Plainly, the intervention is of limited effectiveness since the dollar has continued to slide and no one is expecting a reversal. But it does present a problem for the Bush administration. The U.S. has complained about Chinese attempts to artificially undervalue its currency (by way of a peg rather than overt intervention), and Japan has joined the chorus. It is difficult for Washington to demand that China relent and turn a blind eye to Tokyo's maneuvers. Prior to his October visit to Asia, President Bush criticized both governments for trying to manipulate exchange rates, but Tokyo has received considerably less heat than Beijing. (The consistency of Tokyo's position is even worse, but it doesn't seem to bother the Japanese.) Fortunately, U.S. trade problems with China overshadow America's trade relations with Japan, so Tokyo is spared serious scrutiny. Here too the goodwill created by support for U.S. policy in Iraq could be paying off.

The final economic issue – and one that might become serious – concerns Japan's ban on U.S. beef exports following the report of the first case of "mad cow" disease in the U.S. More than 30 countries banned U.S. beef after the news, but Japan is the number one market for U.S. beef exports, importing 122,142 metric tons of beef from the U.S. in the first five months of 2003, a 22 percent increase from the same time period the year before. The market is worth over \$1 billion annually. Despite quick U.S. moves to reassure consumers, the Japanese ban is likely to be lengthy. That is always bad news, but even more so for a government that is preparing to go to the polls. Still, there is little reason for economic matters to get out of hand.

Celluloid and Shortstops

A lot of the real work in solidifying the bilateral relationship occurs at the grassroots level. This quarter, several items reinforced positive images on both sides of the Pacific. While “Lost in Translation,” Sophia Coppola’s amusing portrait of cultural disorientation in Japan, was released in September, it acquired its buzz during the last quarter and garnered a Golden Globe nomination for best film. This reviewer gives it two thumbs up.

For those who wanted a more historical perspective and more of a hunk than Bill Murray, “The Last Samurai” opened with Tom Cruise in December. This film has generated heated controversy among Japan scholars who challenge its accuracy on just about every important detail. The general public is a lot less concerned: the film is set to take in \$100 million by the time this goes to print.

And ever seeking for balance, the New York Mets have their own Matsui now. The perennial heartbreakers signed Matsui Kazuo, former Seibu Lions shortstop, to a three-year, \$20.1 million contract. Matsui, the first Japanese to sign as a major league infielder, won his fourth Japanese Gold Glove award just before his press debut in New York. Last year, he hit .305 with 33 home runs and 84 RBIs. He may be not enough to make the Mets contenders, but Japanese baseball fans will now have two New York City teams to watch on a regular basis throughout the season.

Selling the Alliance

Everything is going well and is likely to stay that way for some time. The U.S. administration is full of people who believe in the U.S.-Japan alliance and see too much going right to focus on the trouble spots. And, given the troubles U.S. diplomacy has elsewhere in the world, those friends are worth protecting – especially when there are so many other potential trouble spots in the region. (See any of the other chapters in this issue for details ...)

In Tokyo, similar considerations are likely to prevail. Koizumi appears to genuinely believe in the alliance; if nothing else, it has given him an opportunity to push an equally important security agenda. With economic reforms stalled, he has to stick with the U.S. to show that his administration is doing something to safeguard Japan’s national interest. Given Japan’s relative lack of options in security matters, the alliance card is his only bet.

The question then is whether the Japanese public shares that view. Do they see the alliance as enhancing Japanese security or diminishing it? In November, a reported al-Qaeda tape said that Japanese SDF deployment to Iraq would make it a target. The killing of the two diplomats shortly after only underscored the risks involved.

It is unlikely that casualties will get the Japanese to cut and run. It could however play out in Japanese domestic politics. An Upper House election is scheduled for July. The House of Councilors is the weaker of Japan’s two chambers; its elections thus serve as a forum for protest votes against the government. A strong showing by the DPJ would signal increasing discontent with Koizumi: whether for domestic or foreign policy reasons is almost irrelevant. Either way the prime minister would be weakened; a

particular grim showing could encourage his own party, already bitterly divided, to dump him.

The prospect is not beyond reason. On the official level, relations between the two governments are good; things are different at the grassroots. According to a Yomiuri-Gallup poll, only 41 percent of Japanese think that U.S.-Japan relations are in good shape, down 13 percent from the previous year. If the U.S. is seen as putting Japanese soldiers and citizens in harm's way in Iraq or elsewhere in the world – by mismanaging crises on the Korean Peninsula or in the Taiwan Strait – the alliance could suffer.

The solution is not for Japan to back away from the alliance. Rather, the trick is for Japanese policymakers to convince the public that the alliance, even with its difficulties, is worth supporting. That means using the language of national interest. Too many Japanese officials explain tough decisions by saying they are required to help the U.S. That is *gaiatsu*, and its time has passed. The alliance is merely a means to an end – the realization of Japanese and U.S. national interests. Japanese need to think in those terms and justify their actions that way. Don't expect a turnaround in the quarter ahead, but keep an eye for signs of that kind of thinking in Tokyo.

Chronology of U.S.-Japan Relations^{*} **October-December 2003**

Oct. 5, 2003: Defense Agency chief Shigeru Ishiba states that Japan is not dispatching Self-Defense Forces (SDF) to Iraq because it was requested to do so by the U.S., but because Japan's interests are involved.

Oct. 6, 2003: U.S. Supreme Court rejects appeals from former prisoners of war seeking compensation from Japanese companies for World War II forced labor.

Oct. 7, 2003: Ambassador to Japan Howard Baker states the U.S. would carry out a "cautious" review of the U.S. military presence in Japan.

Oct. 7, 2003: PM Koizumi asks South Korea, China, and ASEAN neighbors to cooperate with the U.S.-led Proliferation Security Initiative (PSI) during ASEAN meetings in Bali, Indonesia.

Oct. 8, 2003: State Dept. spokesman Richard Boucher, in response to North Korea's decision to exclude Japan from nuclear talks, states that "Japan clearly must, and will, continue to be a participant" because it has "vital interests at stake."

Oct. 9, 2003: Japan announces that 100 Ground Self-Defense Forces (GSDF) will be deployed to Nasiriya, Iraq.

Oct. 10, 2003: Japan's Lower House clears a bill to extend noncombat support for U.S. antiterrorism efforts until November 2005.

^{*} Chronology compiled by Vasey Fellow Ah-Young Kim

Oct. 14, 2003: President Bush states that China and Japan should stop intervening in the currency markets to give themselves an unfair trade advantage during a press conference on his nine-day Asian trip.

Oct. 15, 2003: Japan announces \$1.5 billion in grants in 2004 for Iraq's postwar reconstruction; PM Koizumi states, "We just cannot afford to see Iraq's reconstruction end in failure." President Bush applauds Japan's "bold step" in a written statement.

Oct. 15, 2003: Japanese FM Kawaguchi tells Secretary of State Powell via telephone that Japan will support the new U.S.-drafted U.N. resolution on Iraq and urges other Asia-Pacific nations to cooperate in Iraq's postwar reconstruction.

Oct. 17-18, 2003: President Bush meets with PM Koizumi in Tokyo to discuss North Korean nuclear issue, Iraq's reconstruction, and foreign exchange rates.

Oct. 17, 2003: U.S. Trade Representative Zoellick and Japanese Trade Minister Nakagawa meet in Bangkok on the APEC sidelines to discuss joint efforts to urge China to enforce intellectual property rights.

Oct. 27, 2003: Suzuki Takashi, director general of METI's Trade and Economic Cooperation Bureau, chairs first meeting on export controls in Asia in Tokyo; Japan, U.S., China, South Korea, and other Pacific Rim nations agree to implement measures that prevent indirect exports of illegal products to North Korea.

Oct. 27, 2003: DPJ Leader Kan Naoto states that the U.S.-Japan alliance would remain firm, even if his party opposes the dispatch of SDF to Iraq.

Oct. 30, 2003: *Nihon Keizai Shimbun* reports that U.S. and Japan are revising a bilateral tax treaty that will go into effect 2005 – the first revision in 30 years.

Nov. 1, 2003: DPJ head Kan states that "security in the Far East can be maintained without U.S. bases in Okinawa and the marines stationed there," and will urge the marines to leave Okinawa if his party wins the Nov. 9 election.

Nov. 2, 2003: PM Koizumi says Japan's SDF in Iraq will need to be protected by U.S. and British coalition forces; he also indicated the need to review the country's constitution to "legitimize" the SDF as a "National Military."

Nov. 2-3, 2003: 40th Annual U.S.-Japan Business conference opens in Washington. Talks revolve around bilateral economic conditions, promotion of foreign direct investment, and economic recovery in Japan.

Nov. 5, 2003: U.S. supports PM Koizumi's "bold action" pledge of doubling Japan's foreign direct investment in five years.

Nov. 6, 2003: Maritime Self Defense Forces announces a 10-day, joint exercise drill with the U.S. Navy in the Sea of Japan, Pacific Ocean, and East China Sea.

Nov. 7, 2003: PM Koizumi's foreign policy advisor, Okamoto Yukio, meets with U.S. and Iraqi officials in Baghdad, Iraq to discuss Japan's role in postwar reconstruction efforts. Okamoto states "Japan cannot avoid becoming a target of terrorism unless we pull out of Iraq completely."

Nov. 9, 2003: In Lower House elections, DPJ raises its total by 40 seats to 177 while the LDP loses 10 seats from 247 to 237 seats. Koizumi's ruling coalition maintains control with 275 seats in the 480-member chamber.

Nov. 10, 2003: Japan decides to postpone December 2003 deployment of SDF to Iraq citing security concerns.

Nov. 11, 2003: Ministry of Economy, Trade, and Industry's head Nakagawa calls for the U.S. to "immediately terminate its steel safeguard measures in accordance with the recommendations of the (WTO) panel, and as upheld by the appellate body."

Nov. 13, 2003: National Security Advisor Condoleezza Rice states that the U.S. understands Japan's delay in sending its troops to Iraq and appreciates Japan's financial contribution to Iraqi reconstruction efforts.

Nov. 14, 2003: Secretary of Defense Rumsfeld meets with PM Koizumi in Tokyo to discuss Japan's troop dispatch to Iraq, while hundreds of demonstrators in Okinawa protest outside the U.S. Marine base calling for a withdrawal of U.S. forces in Iraq.

Nov. 15, 2003: Tokyo District Court sentences U.S. Navy serviceman Rick Miller to eight years in prison after being found guilty for robbery and battery.

Nov. 15, 2003: Secretary Rumsfeld meets with FM Kawaguchi to discuss North Korea, the U.S.-Japan security alliance, and criminal procedures under the U.S.-Japan SOFA.

Nov. 16, 2003: Secretary Rumsfeld visits U.S. troops in Okinawa and meets with Okinawa Gov. Inamine, who strongly urges that U.S. bases and troops in Okinawa be realigned and reduced.

Nov. 16-18, 2003: Assistant Secretary of State James Kelly meets with Japan's FM Asia chief Yabunaka Mitoji and FM Kawaguchi in Tokyo to discuss North Korea's nuclear arms program; Kelly also endorses Japan's plan to bring up the issue of abductions at the next round of six-party talks.

Nov. 19, 2003: Koizumi Junichiro re-elected PM of Japan, winning 281 votes from the 479 votes cast at the 480-seat House of Representatives; 186 votes went to DPJ head Kan, and nine to Shii Kazuo, head of the Japanese Communist Party, while 3 votes were left blank.

Nov. 20, 2003: U.S., Japanese, and Australian ambassadors for counterterrorism meet in Canberra, Australia to informally discuss a regional strategy against terrorism.

Nov. 21, 2003: Japan announces a 30 percent rise in tariffs on U.S. steel products and gasoline as retaliatory measures if the U.S. does not retract its steel import curbs that were declared “illegal” by the WTO.

Nov. 22, 2003: Hawaiian Gov. Linda Lingle and Ehime Gov. Moriyuki Kato sign a sister-state agreement in Honolulu to increase exchanges.

Nov. 25, 2003: FM Kawaguchi criticizes U.S. plan to develop small, low-yield nuclear weapons, saying that the program “must not interfere” with nonproliferation efforts.

Nov. 26, 2003: Chief Cabinet Secretary Fukuda welcomes the U.S. decision to revise its military posture in Japan “so that an envisaged new alignment will help improve peace and stability in the world.”

Nov. 27, 2003: Japanese Supreme Court dismisses an appeal by Okinawa landowners of a lower court ruling, which stated damages can’t be collected from the government, which forced them to lease their land to the U.S. military.

Nov. 29, 2003: Two Japanese diplomats killed in an ambush in Tikrit, Iraq.

Nov. 30, 2003: FM Kawaguchi tells Secretary Powell via telephone that Japan will continue to help the U.S.-led coalition on Iraqi reconstruction efforts, despite the death of two Japanese diplomats.

Dec. 2, 2003: A Ginowan city sponsored symposium adopts declaration calling for the return of land used by the U.S. Marine Corps’ Futenma Air Station to commemorate the spirit of the 1996 Japan-U.S. Special Action Committee on Okinawa.

Dec. 3-4, 2003: U.S., Japan, and South Korea meet in Washington, D.C. to prepare for the next round of six-party talks.

Dec. 4, 2003: Ambassador Baker praises PM Koizumi’s commitment to send Japanese troops to Iraq despite the recent deaths of two Japanese diplomats.

Dec. 5, 2003: Chief Cabinet Secretary Fukuda welcomes complete removal of U.S. steel tariffs, stating that Japan will withdraw its retaliation against \$100 million worth of U.S. goods on Dec. 17.

Dec. 5, 2003: *The Last Samurai*, a movie about 19th century Japan starring Tom Cruise, opens in U.S. theaters.

Dec. 9, 2003: U.S. Department of Defense announces that Japan and other countries that support U.S. efforts in postwar Iraq can bid for \$18.6 billion worth of 26 reconstruction projects in Iraq as prime contractors.

Dec. 9, 2003: Japanese Cabinet approves sending troops to Iraq.

Dec. 10, 2003: Matsui Kazuo, former Seibu Lions baseball shortstop, signs a three-year, \$20.1 million contract with the New York Mets.

Dec. 12, 2003: According to a *Yomiuri*-Gallup poll on U.S.-Japan relations, 54 percent of Americans and 41 percent of Japanese think relations are in good shape, a drop of 13 percent from a year ago in both countries. 71 percent of Americans think Japan can be trusted, down 7 percent from 2002 and 41 percent of Japanese trust the U.S., down 8 percent.

Dec. 17, 2003: Tokyo will spend nearly \$1 billion on missile defense in 2004. The proposed system will utilize Patriot missiles and intercept missiles deployed aboard Aegis-equipped destroyers.

Dec. 18, 2003: *Lost in Translation*, a film about two Americans visiting Japan, is nominated for best picture for the 2003 Golden Globe Awards.

Dec. 19, 2003: Japan announces plans to buy an American-made missile defense system and continued participation with the U.S. in the joint-development of a missile defense system. Partial introduction of the system will begin in early 2007 and be fully operational by 2011.

Dec. 24, 2003: Japan halts all U.S. beef imports after the U.S. Department of Agriculture (USDA) announced its first case of “mad cow” disease in the U.S.

Dec. 24, 2003: Okinawa Prefectural police announce that the number of crimes committed by U.S. military personnel or members of their families reached 103 from January through November, exceeding 100 for the first time in nine years.

Dec. 25, 2003: The U.S. Embassy in Tokyo announces that all U.S. beef imports to Japan are safe; Japan’s Vice Minister of Agriculture, Forestry and Fisheries, Watanabe Yoshiaki, states that a team will be sent in January to gather information on mad cow disease.

Dec. 26, 2003: Japan sends advance team of 23 Japanese air force personnel to the Middle East to prepare for the deployment of about 1,000 noncombat personnel in Iraq.

Dec. 29, 2003: PM Koizumi tells U.S. special envoy James Baker that Japan will forgive a “vast majority” of Iraq’s \$4.1 billion debt on the condition that other nations from the Paris Club do the same.

Dec. 29, 2003: USDA officials convene with their Japanese counterparts to discuss the first case of “mad cow” disease in the U.S.; the Japanese government rejects U.S. request to lift import ban on beef.

U.S.-China Relations:

Wen Jiabao's Visit Caps an Outstanding Year

Bonnie Glaser
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The year 2003 closed with two high-level visits. Chinese Premier Wen Jiabao toured three cities on the U.S. east coast and was received at the White House with a 19-gun salute. Wen cemented the visit's success and boosted his position back home when President Bush stood by his side and rebuked Taiwan President Chen Shui-bian for seeking to change the status quo in the Taiwan Strait. But there was little progress made on important issues such as China's burgeoning trade surplus with the U.S. and North Korea's nuclear weapons. Chinese Defense Minister and Vice Chairman of the Central Military Commission Cao Gangchuan was hosted by Defense Secretary Donald Rumsfeld. Presidents Bush and Hu Jintao met early in the quarter on the sidelines of the APEC summit.

A Victory on Taiwan

Chinese Premier Wen Jiabao, a former geologist who rose in the ranks of the Communist Party, was greeted in Washington D.C. with much fanfare. On the South Lawn of the White House, he and President Bush reviewed the troops, observed a colonial fife-and-drum performance, and received a 19-gun salute. Such high-level treatment for a number 2 official from abroad is without precedent since the Bush administration came to power.

In a speech before beginning closed-door talks with Wen, Bush hailed Chinese cooperation in countering global threats, saying the two nations are "working together in the war on terror" and "fighting to defeat a ruthless enemy." He termed the United States and China "partners in diplomacy working to meet with dangers of the 21st century." Wen also cited U.S.-Chinese cooperation in counterterrorism, among other issues, and said that China's relations with the United States have "stood the test of time." He noted, however, that relations between the two countries now stand at a "crucial juncture" and said further improvement in bilateral ties depends on continued U.S. adherence to the "one China" policy, under which Beijing holds that Taiwan is an inseparable part of China.

A series of events that transpired in Taiwan this quarter unnerved Chinese leaders and resulted in increased pressure on Washington to take action to restrain Taiwan President Chen Shui-bian from inciting a confrontation in the Taiwan Strait. Following the passage of a referendum law by Taiwan's opposition-controlled Legislative Yuan,

Chen invoked Article 17 of the law, which empowers the president to initiate a referendum on national security in the event of an external military threat aimed at compelling a change in Taiwan's political status. On Dec. 1, Chen cited the deployment by mainland China of 496 ballistic missiles opposite Taiwan as grounds for holding a "defensive referendum" on March 20, the same day as the presidential election.

U.S. officials viewed the holding of such a referendum as potentially provocative and took steps to dissuade Chen from proceeding with his plan. A senior official declared on background that the U.S. delivered the message to Taiwan through many channels "very clearly and very authoritatively" that "we don't want to see steps toward independence" or "moves taken, proposals made, that a logical outsider would conclude are really geared primarily toward moving the island in that direction." James Moriarty, senior director for Asian Affairs in the National Security Council, secretly traveled to Taiwan just days prior to Wen's arrival in the U.S., carrying a letter from President Bush to Chen urging him as a "personal favor" to not take actions that would increase cross-Strait tensions. In advance of Wen's meeting with President Bush, a U.S. official briefing reporters explicitly expressed the administration's opposition to Chen's proposed defensive referendum, saying "We're not clear what logical purpose it would serve."

President Chen opted to ignore Washington's warnings, however, and persisted in calling for a referendum. Chen insisted that the vote had nothing to do with the issue of unification vs. independence and was not aimed at changing the status quo. Instead, he maintained that as a democracy, Taiwan has the right to proclaim its opposition to Chinese missiles and the use of force against the island. Chen's intransigence provoked President Bush's ire and prompted a White House decision to openly rebuke Taiwan's president during Chinese Premier Wen's visit. Meeting with reporters following their private session, President Bush said in response to a question about the planned referendum, "We oppose any unilateral decision by either China or Taiwan to change the status quo. And the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally, to change the status quo, which we oppose."

President Bush remained mute when Wen expressed his appreciation for Bush's stance, which he said had been expressed on many occasions, including in their just concluded meeting, of the firm U.S. commitment to the three China-U.S. Joint Communiqués, the "one China" principle, and opposition to Taiwan independence. Privately, a senior administration official speaking on background later revealed that Bush underscored to Wen that the U.S. would "have to get involved" if China employs coercion or force against Taiwan, but this statement was not made publicly by the president to the press.

Wen had a whirlwind schedule in the United States, visiting New York and Boston as well as the nation's capital. In Washington D.C., in addition to his meeting with President Bush, the Chinese premier met with Secretary of State Colin Powell, Commerce Secretary Donald Evans, and congressional leaders. He delivered two speeches, one at Harvard University and the other at an event co-sponsored by nine American organizations in Washington, D.C. In the latter address, he outlined four ways to promote

constructive and cooperative relations between the U.S. and China: 1) continue high-level visits and strategic dialogue; 2) facilitate mutually beneficial trade and economic cooperation and establish a sound mechanism to address bilateral issues; 3) intensify coordination on major international and regional issues; and 4) expand people-to-people exchanges.

An opportunity was missed to win over the hearts and minds of the Taiwan people by portraying China as magnanimous to its brethren across the Strait in the Q&A following Wen's speech. Asked to elaborate on his statement in an interview with the *Washington Post* that Beijing "completely understand(s) the desire of the Taiwan compatriots for democracy," Wen opted to avoid taking any political risk by appearing tolerant, and instead lambasted Chen Shui-bian's scheme to hold a defensive referendum as a cover for separating Taiwan from the mainland. At Harvard University, Wen dashed hopes for early moves toward political reform when he told the audience that a "lack of education" in the rural areas meant the nation's 1.3 billion people "were not ready for democracy." A student claimed that such logic was flawed since the party is experimenting with elections only in the hinterland, not in the urban areas where education levels are substantially higher.

No Conciliatory Gestures on Trade and Economic Issues

Little progress was achieved during Wen Jiabao's visit on contentious trade issues. On China's surging \$120 billion trade surplus with the United States, Wen offered conciliatory words, but few concrete plans. In talks with U.S. officials, the premier indicated that his country doesn't seek a permanent surplus in its trade with the United States and proposed that the surplus be reduced through increasing U.S. exports to China rather than decreasing Chinese imports into the United States.

Ma Xiuhong, a vice minister of commerce and a member of Wen's delegation, said that beginning next year, her department would lead a series of delegations on buying trips to the United States. In November, China had signed deals with U.S. companies to purchase 30 Boeing 737 planes and 4,500 U.S.-made cars. Beijing had planned to dispatch additional purchasing missions to the U.S. prior to Premier Wen's visit, but postponed them when Washington slapped tariffs on Chinese imports of knit fabric, dressing gowns and robes, and bras imported from China following petitions filed by the U.S. textile industry. Wen's delegation blamed the relatively slow growth rate in American exports to China on the restrictions on hi-tech U.S. exports and urged Washington to lift them. "We believe the U.S. hasn't fully optimized its hi-tech exports to China," asserted Ma. "We believe this is one of the key reasons why U.S. exports to China aren't growing even faster."

The U.S. and China did agree to upgrade the long-standing Joint Commission on Commerce and Trade to a higher political level in an effort to invigorate efforts to reduce the trade deficit. The U.S. side made it clear that such a body would be used to send its message that free trade should be fair trade, that both sides play by the same rules, and that the Chinese market is as open to U.S. goods as the American market is to Chinese

goods. Beijing and Washington also agreed that consultations should be held as trade frictions arise. In a job at the Bush administration for escalating pressure on China on a range of economic matters as the U.S. presidential election nears, the Chinese side requested that economic and trade issues not be politicized.

On the divisive subject of China's currency, which the Bush administration has maintained is overvalued, no headway was made. President Bush reiterated his position that the most prosperous future is ensured by free markets, free trade, and a market-determined floating exchange rate. Wen restated his country's commitment to the goal of a freely floating exchange rate, which Chinese President Hu Jintao first proffered to President Bush at their meeting in Bangkok on the sidelines of the APEC summit in October. Bush and Hu agreed then to establish a joint experts group to study how China could quickly move toward the free float of China's currency, the yuan. A working-level team from the U.S. Treasury is scheduled to travel to Beijing in January to launch those discussions. Wen sought to dampen expectations in the United States that China might move anytime soon to fully liberalize its capital account, however. The transition to a market-determined exchange rate is "a complex process," he cautioned.

Human Rights Important, but Overshadowed

Human rights and religious freedom, although not high on the agenda of the Wen-Bush summit, nevertheless were raised, both publicly and privately. In a statement made at a dinner at the State Department, Secretary Powell noted that "the human spirit craves more than what is material. We also have a responsibility to future generations to find ways for all people to voice their views, by exercising their inalienable right to speak, assemble and worship freely." In his remarks on the South Lawn of the White House, President Bush suggested that the growth of economic freedom in China "provides reason to hope that social, political, and religious freedoms will grow there, as well," adding that such freedoms are "essential to national greatness and national dignity." In a background briefing following their private talks, a senior administration official maintained that President Bush "once again expressed his own deeply held convictions on the issue of religious freedom and urged the Chinese to move forward and grant greater religious freedom to their own people."

Two months prior to Wen's visit, China's human rights record was the target of vehement criticism in the annual report by the Congressional Executive Commission on China. Released in early October, the report revealed the Commission's finding that "human rights conditions in China have not improved overall in the past year" and charged the Chinese government with continued violations of its own constitution and laws as well as international norms and standards protecting human rights. It accused China of not keeping to international agreements on protecting workers' rights, continuing to ban independent trade unions, and practicing child and prison labor. Moreover, the report contended that "scores of Christian, Muslim, and Tibetan Buddhist worshippers have been arrested or detained during 2003." The Commission accorded special attention to the looming AIDS crisis in China and the failure of the Chinese government to take action to address the epidemic.

Continued Consultations on North Korea

Beijing and Washington remained in close contact this quarter as both sides attempted to arrange a second round of the six-party talks on North Korea's nuclear weapons. In addition to frequent phone calls between senior U.S. and Chinese officials, in November Chinese Vice Foreign Minister Wang Yi visited Washington and Assistant Secretary James Kelly traveled to Beijing in search of a consensus on which a new round of talks could be held. The U.S. reportedly relayed an offer of multilateral security assurances through China to North Korea that was rebuffed. The Chinese continued to play the role of intermediary, trying to narrow the differences between Pyongyang and Washington, instead of assuming the function of an active and involved player that the Bush administration insists is necessary to achieve a peaceful resolution. In mid-December, Beijing presented a draft joint statement that was unacceptable to Washington. As the year ended, agreement on a resumption date for the six-party talks remained elusive.

Privately, Chinese officials strongly urged U.S. officials to show greater flexibility and consider Pyongyang's demands to remove North Korea from the list of nations sponsoring terrorism, lift economic sanctions against the country, and supply electricity and fuel oil, all in exchange for a North Korean agreement to freeze its nuclear program. During Wen's visit to the U.S., President Bush rejected Chinese pleas to be conciliatory and emphasized that he would not support a freeze. Instead, the U.S. would accept nothing less than the complete, verifiable, and irreversible dismantlement of those programs, Bush told Wen. At the same time, Bush thanked the Chinese for the role Beijing is playing in promoting a peaceful resolution of the North Korea nuclear weapons challenge and quietly prodded Beijing to put more pressure on Pyongyang to make concessions.

U.S.-Chinese consultations on North Korea continued in mid-December with a visit to Beijing by Joseph R. De Trani, the newly appointed State Department special envoy on Korean affairs, but no further progress was made. After De Trani's visit, China's Foreign Ministry spokesman acknowledged that "the parties involved still had some differences in their stances and concerns" that prevented another round of the six-party talks being held before the end of the year. In recognition that dealing with North Korea's nuclear weapons could require constant shuttle diplomacy, China appointed its own ambassador in charge of the North Korea issue, Ning Fukui.

Bush-Hu Summit in Bangkok

On the sidelines of the 11th APEC summit meetings, Chinese President Hu met with President Bush on Oct. 19. Their talks were wide ranging, touching on North Korea, Iraq, counterterrorism, human rights, and trade and economic issues, including exchange rates. President Bush congratulated Hu on China's successful manned space launch the previous week in which the *Shenzhou 5* carried Chinese astronaut Lt. Col. Yang Liwei around the Earth 14 times.

In remarks to the press following their meeting, both presidents described the talks as constructive. President Bush thanked Hu for China's efforts to pass a resolution on Iraq in the Security Council and for hosting the Beijing talks on North Korea's nuclear weapons. Bush endorsed the provision of multilateral security assurances for North Korea, which the Chinese have been pressing for months. Chinese Foreign Minister Li Zhaoxing characterized the talks as "very good" and said Bush and Hu discussed "stepping up the two countries' strategic partnership." The meeting marked the second summit between the two leaders this year and their third in total.

First Chinese Defense Minister's Visit to U.S. in Seven Years

Cao Gangchuan, vice chairman of China's Central Military Commission, state councilor, and defense minister, visited Washington in late October after stopping at the Pacific Command in Hawaii and West Point Military Academy in New York. Although the visit was highlighted in the Chinese media as evidence of the great strides made in improving the bilateral relationship, Cao's presence in the U.S. capital received scant attention in the U.S. press. The Pentagon released a terse statement noting that Secretary Rumsfeld and Gen. Cao "discussed a wide range of global and regional security issues including the state of bilateral military relations between the U.S. and China" and described their talks as "productive and constructive." Maj. Gen. Zhang Bangdong, director of the Foreign Office of China's Ministry of National Defense, portrayed the visit to reporters in more upbeat terms, noting it was "positive, constructive and very fruitful." "The talks were in-depth, and the results were excellent," Zhang added.

At the Pentagon, in addition to his hour-long meeting with Rumsfeld, Cao met with Chairman of the U.S. Joint Chiefs of Staff Gen. Richard Myers. He also held separate meetings with Secretary Powell and National Security Adviser Condoleezza Rice. Deputy Secretary Wolfowitz hosted a dinner on the evening of Cao's arrival. The climax of the visit, at least from Beijing's perspective, took place when President Bush stopped by the meeting between Rice and Cao, and chatted with the Chinese defense minister for about five minutes. The Chinese side had insisted that Cao hold a face-to-face meeting with Bush, arguing that failure to grant the request would be a snub since Bill Clinton met with then Defense Minister Chi Haotian in 1996.

In his talks with senior U.S. officials, Cao delivered a tough message on Taiwan, warning the U.S. to not sell advanced arms or conduct military exchanges and cooperation with the island. North Korea's nuclear weapons and bilateral military ties were also discussed, and the two sides agreed to arrange further visits of their military leaders in 2004. After his meetings with U.S. officials, Cao paid a visit to the National Defense University, where he delivered a speech entitled "China's National Defense Policy."

Lending credibility to reports that Secretary Rumsfeld had objected to a U.S. visit by China's defense minister and agreed to host him only after several entreaties by President Bush, the defense secretary snubbed the Chinese by not showing up at a dinner banquet for Gen. Cao hosted by the PRC embassy. Rumsfeld sent Ryan Henry, a deputy under

secretary of defense instead. A Pentagon spokesman said the secretary had a prior engagement and was unable to attend.

In a further sign of the return to normalcy of U.S.-China military relationship, two PLA Navy ships made a goodwill visit to Guam this quarter. A *Luhai*-class guided missile destroyer and the replenishment ship *Nancang* made the first ever visit to the U.S. territory in the Pacific in late October. It was a return visit for a port call made by naval ships from the U.S. Pacific Fleet in September to Zhanjiang, the headquarters of the PLAN South Sea Fleet.

Looking Back and Forward

China-U.S. relations have achieved considerable progress in 2003. The two countries cooperated closely this year on a broad range of regional and international security issues, most notably on finding a diplomatic solution to the challenge posed by North Korea's nuclear weapons programs. On virtually every issue, including North Korea, trade, Taiwan, and nonproliferation, Washington and Beijing have shared interests, but also have important differences that must be managed. Perhaps the most critical looming uncertainty in the bilateral relationship is the implications of China's emergence as a great power. In his speech delivered in Washington D.C., Chinese Premier Wen reassured Americans that China's rise would be peaceful. "China will never seek hegemony and expansion even when it becomes fully developed and stronger," Wen declared.

Despite such assurances, the United States remains wary, just as China continues to be suspicious of American intentions toward China, especially once the war on terror is won or fades in importance. Secretary Powell hinted at U.S. apprehension about China's rise in his address at the George Bush School of Government at Texas A&M University in early November: "What China chooses to do with its wealth and increasing influence ultimately is for China to decide. The United States, with the rest of the world, will be watching China's actions closely to see whether or not they contribute to security, prosperity and human dignity both at home and abroad."

For observers of U.S.-Chinese relations, 2004 promises to be interesting, with a very rich agenda of problems to solve and opportunities to seize. The coming year will be a presidential election year in the United States and Taiwan, and Beijing will observe both elections intently, gauging their outcomes for U.S.-Chinese relations. North Korea will undoubtedly remain the most pressing security issue as well as a test of the ability of Washington and Beijing to work together effectively. In the bilateral U.S.-China relationship, high-level visits are planned, including a visit by Deputy Secretary of State Richard Armitage to China in late January and a visit by President Hu to the United States in the second half of the year. Military ties will also be further enhanced with a visit to China by Chairman of the U.S. Joint Chiefs of Staff Gen. Myers. Stay tuned.

Chronology of U.S.-China Relations October-December 2003

- Oct. 2, 2003:** Congressional Executive Commission on China releases its annual report.
- Oct. 3, 2003:** The Senate passes a resolution calling on China to release immediately and unconditionally Rebiya Kadeer, a prominent businesswoman from China's Xinjiang Uighur Autonomous Region.
- Oct. 9, 2003:** President Hu Jintao meets former U.S. President George Bush in Beijing.
- Oct. 12, 2003:** Chinese FM Li Zhaoxing exchanges views with Secretary of State Powell by phone on bilateral ties, North Korea, and Iraq.
- Oct. 15, 2003:** The Chinese spacecraft *Shenzhou 5*, carrying astronaut Lt. Col. Yang Liwei, blasts off from the Gobi Desert, orbits the Earth 14 times, and returns safely after a voyage of roughly 21 hours.
- Oct. 19, 2003:** President Bush sends Hu a letter congratulating China on the successful completion of its first manned space mission.
- Oct. 19-21, 2003:** U.S. Trade Representative Robert Zoellick travels to Beijing and Shenyang to discuss China's implementation of WTO commitments and the important role China plays in the regional and global economy.
- Oct. 20, 2003:** FM Li meets with Secretary Powell prior to the APEC forum meeting in Bangkok. The two sides agree to step up cooperation in all areas, including counterterrorism, and to increase bilateral trade.
- Oct. 20, 2003:** Secretary of Health Tommy Thompson meets his Chinese counterpart and announces the opening of an HIV-AIDS office to be run by officials from the U.S. Center for Disease Control.
- Oct. 21, 2003:** Presidents Bush and Hu meet on the sidelines of the 11th APEC forum meeting in Bangkok.
- Oct. 22, 2003:** Two PLA Navy ships arrive in Guam for a four-day goodwill visit. The fleet is commanded by Rear Adm. Xue Tianpei, deputy commander of the PLAN South Sea Fleet, and marks the first visit by the PLAN to the U.S. territory in the Pacific.
- Oct. 26, 2003:** Commerce Secretary Donald Evans arrives in China for a four-day visit. After traveling to Xian, he ends his visit in Beijing, where he meets with Chinese leaders and delivers a speech at the American Chamber of Commerce urging China to open its markets to U.S. companies and implement its WTO obligations.

Oct. 27, 2003: China deports a Chinese-born American who had been convicted of obtaining state secrets two years before his prison sentence expires. Fong Fuming, 68, a business consultant from West Orange, N.J., had been on a list of 13 prisoners that the United States government identified to China as priority cases.

Oct. 28-29, 2003: Defense Minister Cao Gangchuan meets separately with Secretary of Defense Rumsfeld, Secretary of State Powell, and NSC Adviser Condoleezza Rice, with the latter meeting including a five-minute drop-by by President Bush. Cao also visits the Pacific Command and West Point Military Academy during his trip.

Nov. 4, 2003: Alan Larson, U.S. under secretary of state for economic, business, and agricultural affairs, heads a delegation to Beijing to attend an economic development and reform dialogue between the Chinese State Development and Reform Commission and the U.S. State Department.

Nov. 4, 2003: Chinese Ministry of Labor and Social Security and U.S. Department of Labor sign an agreement on a labor law project. The two sides will carry out technical cooperation in labor legislation, law execution, labor law education, industry relations, and labor legal aid.

Nov. 4, 2003: FM Li and Secretary Powell talk by phone and reportedly agree to actively implement the consensus reached by their presidents in Bangkok to strengthen the China-U.S. relationship.

Nov. 5, 2003: Secretary Powell delivers a speech on China-U.S. relations at a conference at the George Bush School of Government and Public Service at Texas A&M University. Former Vice Premier Qian Qichen also attends the conference.

Nov. 6, 2003: Secretary of Commerce Evans says in remarks to the Minnesota and St. Paul Chambers of Commerce that the Bush administration opposes congressional proposals to repeal China's normal trade relations status and to impose a 27.5 percent tariff on Chinese exports to the United States.

Nov. 7, 2003: After accompanying National People's Congress Chairman Wu Bangguo to Pyongyang, Chinese Vice Foreign Minister Wang Yi visits Washington to discuss the North Korea nuclear weapons issue.

Nov. 13, 2003: China signs deals with U.S. companies to purchase 30 Boeing 737 planes and 4,500 U.S. made cars.

Nov. 15, 2003: Deputy USTR Josette Sheeran Shiner leads two U.S. delegations to China to discuss intellectual property rights protection and China's implementation of its WTO commitments.

Nov. 17, 2003: Committee for the Implementation of Textile Agreements (CITA) votes to invoke safeguard relief on knit fabric, dressing gowns and robes, and bras imported from China following petitions filed by the U.S. textile industry.

Nov. 19, 2003: Vice FM Zhou Wenzhong summons U.S. Ambassador Clark Randt to express concerns over the U.S. decision on imposing quotas on three types of textile products it imports from China.

Nov. 19, 2003: Vice FM Wang Yi meets James Kelly, U.S. assistant secretary of state for East Asian and Pacific affairs, in Beijing to discuss the possibility of holding another round of six-party talks.

Nov. 20, 2003: Ambassador Randt is summoned for a second time following Washington's decision to slap import quotas on PRC textile products, state press said. Vice Minister of Commerce Ma Xiuhong warns Randt that U.S. import quotas on textile products would negatively impact PRC-U.S. trade and harm U.S. domestic interests.

Nov. 20, 2003: Randall Schriver, deputy assistant secretary of state for East Asian and Pacific affairs, holds a press conference on U.S.-Taiwan-China issues.

Nov. 21, 2003: The *Washington Post* publishes an interview with Wen Jiabao prior to his departure for the United States.

Nov. 21, 2003: China delays the departure of an official trade delegation to the U.S. to buy agricultural products.

Nov. 24, 2003: The U.S. imposes dumping duties on color TVs imported from China.

Nov. 26, 2003: Gao Zhan, former researcher and human rights activist, pleads guilty of exporting sensitive technology to China and tax fraud. Gao faces up to 13 years in prison and will be sentenced on March 5, 2004.

Dec. 2, 2003: China's State Council Information Office publishes a white paper entitled "China's Non-Proliferation Policy and Measures."

Dec. 5, 2003: Chinese FM Li calls Secretary Powell to exchange views on Taiwan and the North Korean nuclear issue, according to a *Xinhua* report.

Dec. 4, 2003: The U.S. International Trade Commission (USITC) votes unanimously to impose antidumping duties on imports of malleable pipe fittings from China. President Bush must make the final decision on whether to accept the USITC recommendation.

Dec. 8-10, 2003: Premier Wen visits New York, Washington, and Boston.

Dec. 9, 2003: Yang Jiechi, China's ambassador to the U.S., and U.S. Assistant Secretary of State for Educational and Cultural Affairs Patricia de Stacy Harrison sign an executive plan agreeing on cultural exchanges from 2004 through 2006.

Dec. 9, 2003: U.S. and China sign a five-year bilateral maritime agreement that gives U.S. registered shipping companies the legal flexibility to perform an extensive range of new business activities in China.

Dec. 9, 2003: President Bush meets with Premier Wen in the Oval Office and declares that he "opposes comments and actions made by the leader of Taiwan" that "indicate that he may be willing to unilaterally change the status quo, which we oppose."

Dec. 11, 2003: Commerce Department initiates an antidumping investigation on imports of wooden bedroom furniture from China.

Dec. 15, 2003: FM Li and Secretary Powell hold a phone conversation in which they discuss Wen's successful visit to the United States, developments in Iraq, and efforts to convene another round of six-party talks to resolve the North Korea nuclear weapons issue.

Dec. 15, 2003: USITC determines that imports of certain ductile iron waterworks fittings from China are hurting U.S. producers. The commission will recommend remedies under which domestic producers can obtain relief.

Dec. 18, 2003: Newly appointed U.S. State Department special envoy on Korean Affairs Joseph R. De Trani arrives in Beijing for a visit.

Dec. 19, 2003: In an annual report to Congress, the USTR accuses China of dragging its feet on implementing its international trade commitments, saying the PRC "lost a significant amount of momentum" in 2003.

Dec. 21, 2003: President Hu tells President Bush in a late night phone call that he appreciated the U.S. reaffirmation of the "one China" policy and opposition to "the words and actions of Taiwan authorities aimed at altering Taiwan's status."

Dec. 22, 2003: A Chinese purchasing mission signed contracts with U.S. companies totaling \$320 million on importing aluminum from the United States. The mission also signed contracts totaling more than \$500 million on importing fertilizers.

Dec. 29, 2003: Special envoy James Baker arrives in Beijing to discuss with Chinese leaders the possibility of Beijing reducing or canceling the debts owed to China by Iraq.

U.S.-Korea Relations:

Now You See 'Em, Now You Don't: Elusive Six-Party Talks

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Looking toward a second round of six-party talks in mid-December, the U.S., South Korea, and Japan sparred with North Korea this quarter over the content of an agreed joint statement for the negotiations. Despite President George Bush's willingness to provide written multilateral security assurances and other unspecified benefits to North Korea in exchange for "coordinated steps" toward nuclear *dismantlement*, Pyongyang stuck to its familiar approach. North Korea offered merely to *freeze* its nuclear program if the U.S. offered security assurances, an end to sanctions, energy assistance, and removal from the U.S. terrorist list at the outset. After President Bush rejected North Korea's effort to negotiate a new version of the 1994 Geneva Agreement, the possibility of a December round of the six-party talks evaporated.

At the end of the quarter, the U.S. announced it would send 60,000 metric tons of food aid to North Korea as a humanitarian gesture and looked forward to a new round of talks in early 2004. For its part, North Korea confirmed on Dec. 27 that it would participate in a second round at an early date in 2004 "to continue the process for a peaceful solution to the nuclear issue." It now falls to China to use its diplomatic leverage to broker a joint statement for the second round of talks that will bridge the difference between the joint U.S.-South Korean-Japanese position and the North Korean position.

In order to strengthen the U.S.-Korea alliance and obtain greater influence over U.S. policy on the North Korean nuclear issue, South Korea agreed this quarter to dispatch 3,000 troops to assist U.S.-led coalition forces in Iraq. Although the official purpose of the deployment is to aid in Iraqi reconstruction, 1,400 of the troops will consist of combat forces whose mission is to protect the other members of the South Korean contingent.

In the context of overall U.S. efforts to redeploy the bulk of U.S. troops south of Seoul, the U.S. and South Korea could not agree on a plan to leave a garrison of about 1,000 U.S. troops in Seoul to man the United Nations and Combined Forces Commands. On the trade front, South Korea welcomed President Bush's decision to lift steel tariffs even as it appealed to the World Trade Organization (WTO) a decision by the

U.S. International Trade Commission to impose punitive tariffs on Hynix Corporation's semiconductor chips.

U.S. Shrugs Off North Korea's Nuclear Threats

In the weeks leading up to the Asia-Pacific Economic Cooperation (APEC) summit meeting on Oct. 20, the diplomacy surrounding the six-party talks on the nuclear issue with North Korea appeared to unravel. Ratcheting up its threats, North Korea proclaimed that it had finished processing approximately 8,000 spent nuclear fuel rods, providing it with the plutonium it needed to build a number of nuclear bombs. Pyongyang soon went a step further by announcing it was ready to demonstrate its nuclear capability, presumably by performing the test of a nuclear bomb.

On Oct. 6, North Korea attempted to undermine the diplomatic basis for the six-party talks themselves by demanding that Japan be excluded from any future rounds. This demand appeared to be a calculated effort to disrupt trilateral diplomatic coordination among the U.S., South Korea, and Japan that has effectively asserted diplomatic pressure against Pyongyang for the last several years.

For its part, the Bush administration shrugged off the North Korean reprocessing claim, questioning its credibility and downplaying its significance. In so doing, Washington attempted to diminish, as much as possible, the diplomatic leverage that Pyongyang could derive from its threat. To further underline North Korea's weakness, the U.S. quickly rejected Pyongyang's demand to exclude Japan, a position that China soon endorsed, partly out of its own need to keep China-Japan relations on a stable track.

Leading up to the APEC summit meeting, the U.S. administration stuck to its own game plan for shaping U.S.-Korea relations in general and the six-party negotiations on security issues in particular. One high priority for Washington was gaining a positive decision from Seoul on dispatching South Korean troops to Iraq to assist coalition forces.

In diplomatic exchanges before the APEC summit, South Korea told the U.S. that sending troops would be more acceptable to domestic public opinion if it was coupled with strong U.S. support for a diplomatic solution to the nuclear issue with North Korea. The U.S. appeared to accept this implicit linkage, although it is not clear that the two governments negotiated any actual bargain.

Shift in U.S. Negotiating Approach

Immediately prior to the APEC summit, President Roh announced that South Korea would send troops to Iraq to support the U.S. administration. U.S. Ambassador to South Korea Thomas Hubbard expressed gratitude to Seoul for this decision about the same time as President Bush told Japanese Prime Minister Koizumi that the U.S. administration recognized the importance of finding "ways to address North Korea's security concerns" in the six-party talks.

At the APEC summit meeting, Bush underscored Washington's continuing support for finding a diplomatic solution to the North Korean nuclear issue through the six-party talks. In recommitting the U.S. to "peacefully resolving the issue with North Korea," he offered to join China, Russia, Japan, and South Korea in providing written multilateral security assurances to Pyongyang.

This formula was something other than the bilateral "nonaggression treaty" with the United States that North Korea had earlier sought, but it would have the same practical effect. For the U.S., it represented a concession to North Korea, but in a way that strengthened the overall multilateral approach to negotiations that has become a trademark of the Bush administration. Conversely, it conveyed Washington's disapproval for any bilateral security guarantees of the kind that the Clinton administration had offered to North Korea in the past.

Both South Korea and China expressed support for President Bush's new approach. For Seoul, it represented an unambiguous U.S. endorsement of President Roh's long-standing insistence on achieving a negotiated solution to the nuclear crisis. For China, it constituted strong U.S. support for the six-party diplomatic process on which China has staked a good deal of its international prestige. Bush's statements expressed the kind of negotiating flexibility from the United States that is necessary for Beijing to successfully broker a negotiated agreement in the current talks.

North Korea's Reaction

North Korea initially scorned the change in the Bush administration approach. After conducting short-range missile tests on the day President Bush met with President Roh at APEC and on the day after, Pyongyang rejected the U.S. offer as "laughable." It appeared that this knee-jerk response was a continuation of North Korea's policy of ratcheting up its threats against the U.S., South Korea, and Japan.

When the APEC summit ended, China's parliamentary leader Wu Bangguo traveled to Pyongyang to explain the significance of President Bush's summit statement and to urge North Korea to reconsider its response. After high-level talks, at which China presumably put pressure on North Korea's leadership, North Korea suddenly changed its position. North Korea said for the first time that it was willing to "consider" President Bush's offer of written multilateral security assurances if they were based on the "intention to coexist" and the U.S. offers "simultaneous actions."

The emphasis on U.S. "intention" in the North Korean statement harkened back to its long-time demand for a declaration of "no hostile intent" from the United States. North Korea previously called for such a declaration in the context of a nonaggression treaty, but now showed some flexibility on the form of assurance it was willing to accept. So long as the "written multilateral security assurances" constituted a binding international legal obligation, they appeared to be acceptable to Pyongyang.

The insistence on “simultaneous actions” in the North Korean statement was more vague and more problematic. It referred to the “sequencing” of steps that North Korea and other countries in the six-party talks, particularly the United States, would have to take in order to resolve the crisis.

Until the October APEC meeting, the U.S. held the hardline view that North Korea would have to dismantle its entire nuclear program *before* the Bush administration would agree to provide security guarantees or any other benefits to Pyongyang. Senior officials traveling with President Bush to the APEC meeting softened this position, however, saying the U.S. could begin satisfying North Korean security concerns, once Pyongyang took some “concrete actions” to dismantle its nuclear program “on the ground.”

By its response, North Korea signaled that it expected the assurances and benefits it received to occur at the same time as it *agreed* to dismantle its nuclear facilities. This position was at odds with even the U.S. administration’s modified view, as advanced at the summit by President Bush.

Shutting Down KEDO

It appeared from President Bush’s policy statements at APEC that the moderates in his administration had gained the upper hand in determining its approach to negotiations with Pyongyang. Since the outset of the Bush presidency, moderates favoring a diplomatic settlement have been locked in an internal debate with conservative hardliners seeking the collapse of North Korea’s regime – leading to frequent policy paralysis on the issue, in the opinion of many outside observers.

The assessment of the moderates’ ascendancy proved premature, however, in light of the administration’s successful effort to press the Korean Peninsula Energy Development Organization (KEDO) to suspend its construction project for two light-water nuclear reactors in North Korea during early November. For years, U.S. hardliners severely criticized the KEDO project that the Clinton administration offered to Pyongyang in exchange for freezing its nuclear program in the 1994 Geneva Agreement.

South Korea’s unification minister quickly tried to soften the impact of the suspension by asserting it would only last for a year. But Ambassador Hubbard confirmed in mid-November that the U.S. would not revive the KEDO project, even if North Korea dismantles its nuclear program.

Preparing for the Next Round of Six-Party Talks

The tension between Bush administration moderates and conservatives continued into December in debates over the proposed joint statement that the U.S. would present for the second round of six-party talks on the nuclear issue with North Korea. The U.S. hoped to meet in mid-December in Beijing and timed the process for developing its proposal with that date and venue in mind.

After initially rejecting a draft Chinese joint statement as too generous to North Korea, the U.S. administration proposed a series of “coordinated steps” that would provide North Korea with written multilateral security assurances as North Korea progressively meets its obligations to dismantle its nuclear facilities. Influenced by its conservative wing, the administration apparently resisted pressure from South Korea to include explicitly any of the other benefits that North Korea had requested, including economic aid and removal from the U.S. terrorist list.

Once South Korea and Japan approved the text of the joint statement, it was transmitted to China for delivery to North Korea. Pyongyang initially responded by criticizing the trilateral proposal and offering its own version of the joint statement. North Korea’s Foreign Ministry called the trilateral proposal “greatly disappointing” because its purpose was to “completely eliminate our nuclear deterrent force by giving just a piece of paper called ‘written security assurances’” which was “no more than a commitment.”

Instead, North Korea called for the U.S. and other countries to immediately provide security assurances, energy assistance, and removal from the terrorist list in exchange for a “freeze” of its nuclear program. In doing so, North Korea reverted to the same pattern of diplomacy it used to obtain the 1994 Geneva Agreement.

Meeting with Chinese Premier Wen Jiabao at the White House on Dec. 9, President Bush summarily rejected the North Korean counter-proposal, saying that, “the goal of the United States is not for a freeze of the nuclear program. The goal is to dismantle a nuclear weapons program in a verifiable and irreversible way.” A few days later, North Korea formally rejected the U.S., South Korean, and Japanese proposed joint statement.

At the U.S.-China talks, President Bush offered Chinese Premier Wen Jiabao a U.S. statement strongly criticizing Taiwan’s President Chen Shui-bian for Chen’s alleged willingness “to make decisions unilaterally to change the status quo, which we oppose.” In retrospect, perhaps one effect of this statement – and the ensuing improvement in U.S.-China security relations – will be to encourage China to assert pressure on North Korea to begin dismantling its nuclear facilities.

Whether China does in fact bring North Korea to the negotiating table with an offer that is acceptable to the U.S. and its allies remains to be seen. U.S. Deputy Secretary of State Richard Armitage said in late December that the U.S. hopes “for an early resumption of talks sometime in January.” He made this statement about the same time as the State Department announced the U.S. will send 60,000 metric tons of food aid to North Korea to help avert hunger and starvation, a decision presumably supported by administration moderates who want to send a positive signal to Pyongyang. For its part, North Korea confirmed to a visiting Chinese diplomat on Dec. 27 that it was willing, in principle to hold another round of six-party talks in early 2004.

South Korea's Decision to Dispatch Troops to Iraq

After months of internal deliberations, the South Korean government decided in mid-December to send approximately 3,000 troops to Iraq to support the U.S.-led coalition. Although President Roh gave his commitment on Oct. 20 to President Bush that South Korea would dispatch additional troops to Iraq (beyond the 400 medical and engineering troops already there), he left open the “size, type, and form of the troops as well as the timing of the dispatch.” In the intervening period, Roh and his National Security Council weighed the nature of the dispatch in light of both the U.S.-Korea alliance and domestic Korean public opinion, which was heavily opposed to sending troops.

The deployment announced in mid-December will give South Korean troops an independent command and responsibility for a defined geographic area in northern Iraq. The troops' specific goal will be to conduct reconstruction projects and provide training on security-related matters. Some 1,400 combat-ready members of South Korea's special forces or marines will guard a perimeter within which the other South Korean troops operate. Once approved by the National Assembly, the actual deployment is expected to occur in early April 2004.

By emphasizing that the mission of the combat troops is to guarantee the safety of the forces engaged in reconstruction, Seoul hopes to stave off anti-Korean sentiment and terrorist attacks from Iraqis. The Blue House also found this formula appealing because it is more politically acceptable to the South Korean public than any other.

Difficult Negotiations over Relocating U.S. Troops

At the 35th session of the Republic of Korea-United States Security Consultative Meeting (SCM) on Nov. 17, South Korean Defense Minister Cho Young-gil and U.S. Secretary of Defense Donald Rumsfeld officially endorsed the transfer of 10 military missions from U.S. to South Korean forces. These missions include countering North Korean artillery, laying minefields, conducting decontamination operations against chemical or biological attack, and deterring North Korean naval infiltration.

More broadly, the defense ministers discussed plans to re-align U.S. forces within South Korea by moving them away from the Demilitarized Zone (DMZ) and the Seoul area to more southern locations within South Korea. Both governments had hoped to announce at the SCM an agreement on the residual deployment of approximately 1,000 troops in Seoul to support the United Nations Command and the Combined Forces Command. But they could not reach agreement during the quarter on this sensitive issue.

The major point of dispute concerned the amount of land that would be allocated to the U.S. forces remaining in Seoul. The U.S. sought approximately 110 hectares of land, about 34 percent of the area it currently occupies at Yongsan army base in Seoul, while South Korea offered approximately 67 hectares. The U.S. rejected the South Korean offer as too small. Under pressure from political conservatives in the National Assembly, who want to keep a U.S. security presence in Seoul, Korea raised its offer to

approximately 80 hectares. But the U.S. Forces Command also found this amount insufficient. At the end of the quarter, it appeared that the dispute over the garrisoning of U.S. troops in Seoul would not be resolved until after the South Korean elections in April 2004.

South Korea Welcomes Bush Decision on Steel Tariffs

In early December, South Korea's Foreign Ministry welcomed President Bush's decision to lift the "safeguard" tariffs on imported steel that the U.S. imposed in the spring of 2002. As a result of the tariffs, South Korea's exports of 13 steel products to the United States dropped approximately 54 percent, from \$650 million in 2002 to \$300 million in 2002. These exports are expected to drop even further to the \$200 million level in 2003.

Ironically, South Korea's steel companies now generally consider the U.S. market less attractive than in the past due to high logistics costs. Instead, the South Korean steel companies are concentrating on meeting the needs of the flourishing China market. China is now South Korea's single largest steel export market, accounting for 38.6 percent of South Korea's total outbound steel shipments, an increase from 27.2 percent in 2001. By contrast, the U.S. market in 2003 only absorbed approximately 6.1 percent of South Korea's steel exports, down from 15.4 percent in 2001.

In light of the increased focus on sales to China, South Korean steel industry sources indicate that President Bush's decision to abandon safeguards will not significantly boost South Korea's steel exports to the United States. However the Foreign Ministry said it expects steel exports to the U.S. will gradually recover to their previous levels, beginning in 2004.

In reaction to the controversial July 2003 U.S. International Trade Commission ruling to impose tariff penalties on the exports of Hynix Corporation's semiconductor chips, the South Korean government appealed to the WTO in late November. The WTO is expected to form a dispute settlement panel in early January 2004. In the context of a six-month long WTO investigation, the U.S. and South Korea will attempt to reach a negotiated resolution of the issue.

Prospects

Unless China uses its diplomatic leverage with North Korea and the United States, it is not likely that the six-party talks will proceed smoothly in early 2004. The impasse in negotiations that arose during December was largely foreseeable. North Korea offered a new version of the 1994 Geneva Agreement – trading a freeze in its nuclear program for various material benefits – while the U.S. (with agreement from South Korea and Japan) insisted on initial dismantlement of North Korea's nuclear facilities in exchange for multilateral security assurances. Each side found the other's offer unacceptable.

At this point, there is considerable room for China's expert and experienced diplomats to develop a compromise. North Korea now appears more willing to accept the multilateral

security assurances that President Bush offered in lieu of a “nonaggression treaty” at the APEC summit and is willing to contemplate a “package” agreement with several stages. The U.S. is now ready to provide security assurances (in multilateral form) and other benefits Pyongyang seeks, once North Korea takes some concrete action toward dismantling its nuclear facilities.

If China provides assurances and benefits of its own to Pyongyang (accompanied by the threat of unpleasant consequences if North Korea does not comply), it could induce North Korea to agree to a sequencing of nuclear dismantlement that would be acceptable to the United States. Even if the result of this negotiation were less than optimal from the U.S. standpoint, the Chinese government would likely obtain U.S. acquiescence by showing that China had done its utmost under the current circumstances. Now that President Bush, in his meeting with Chinese Premier Wen Jiabao, has tilted decisively toward China on the Taiwan issue, China has good reason to pursue this course.

Chronology of U.S.-Korea Relations October-December 2003

Oct. 1, 2003: U.S. requests South Korean troops to replace 101st airborne division in Mosul area of Iraq.

Oct. 2, 2003: DPRK claims to have successfully finished the reprocessing of some 8,000 spent fuel rods, states “We (have) no intention of transferring any means of that nuclear deterrence to other countries.”

Oct. 7, 2003: North Korea demands that Japan be excluded from future rounds of six-party talks; U.S. rejects the North Korean demand.

Oct. 13, 2003: North Korea strongly criticizes U.S. for efforts to impose international sanctions and maritime monitoring of North Korean shipments; U.S., Japan, and South Korea meet to discuss future of KEDO project.

Oct. 16, 2003: North Korean announces it is ready to demonstrate its nuclear capability.

Oct. 18, 2003: Ambassador Hubbard expresses U.S. gratitude to South Korean government for decision to dispatch troops to Iraq.

Oct. 20, 2003: President Bush and President Roh meet at APEC summit. North Korea test fires a short-range missile.

Oct. 21, 2003: North Korea rejects U.S. offer of written multilateral security assurances, calling it “laughable”; North Korea test fires another short-range missile.

Oct. 25, 2003: North Korea says it is willing to accept President Bush's offer of security assurances if they are based on the "intention to coexist" and the U.S. offers "simultaneous actions."

Oct. 29, 2003: South Korean navy patrol boat fires shots at North Korean fishing boat that crossed Northern Limit Line (NLL).

Nov. 2, 2003: Ambassador Hubbard reaffirms that U.S. will give written multilateral security assurances to North Korea and may accept package deal regarding nuclear issue.

Nov. 4, 2003: KEDO decides to suspend light-water reactor project for one year.

Nov. 6, 2003: South Korea's Unification Minister Jeong says KEDO light-water reactor project will resume in a year, following suspension.

Nov. 8, 2003: State Department spokesman expresses confidence in early resumption of six-party talks with North Korea.

Nov. 13, 2003: Presidential Spokesman Yoon Tae-young says Korea will send no more than 3,000 troops to Iraq to assist the U.S.

Nov. 13, 2003: Ambassador Hubbard says U.S. will not revive KEDO project even if North Korea dismantles its nuclear program. President Roh says South Korean government "is in middle of decision-making process" on dispatching troops to Iraq and may send more than 5,000.

Nov. 15, 2003: North Korea says it is willing to give up "in practice" its nuclear program if the U.S. drops its "hostile policy."

Nov. 17, 2003: Defense Secretaries Rumsfeld and Cho complete 35th Annual U.S.-ROK Security Consultative Meeting in Seoul.

Nov. 19, 2003: Assistant Secretary James Kelly meets with South Korean officials to discuss six-party talks.

Nov. 21, 2003: KEDO's executive board officially declares one-year suspension of \$4.6 billion nuclear power plant project in DPRK beginning Dec. 1.

Nov. 23, 2003: North Korean patrol boat briefly crosses NLL.

Nov. 25, 2003: Ambassador Hubbard says U.S. will move its command and UN Forces Command out of Seoul, while denying any diversion of South Korea-based troops to Iraq.

Nov. 30, 2003: Two South Korean civilian contractors are killed in Iraq.

Dec. 4, 2003: U.S. lifts safeguard tariffs on South Korean and other steel imports.

Dec. 7, 2003: U.S., Japan, and South Korea reportedly reach agreement on joint statement for ending North Korean nuclear program.

Dec. 8, 2003: North Korea says it will freeze its nuclear program in exchange for removal from U.S. terrorism list, end of U.S. sanctions, and energy assistance.

Dec. 9, 2003: President Bush rejects North Korea's proposal.

Dec. 15, 2003: North Korea formally rejects U.S., Japanese, and South Korean proposal for ending its nuclear program.

Dec. 16, 2003: Foreign Minister Yoon says six-party talks are not likely in December.

Dec. 17, 2003: President Roh announces that the ROK will send 3,000 troops, including 1,400 combat soldiers, to assist coalition forces in Iraq.

Dec. 22, 2003: President Bush thanks President Roh for South Korea's decision to dispatch troops.

Dec. 23, 2003: The ROK Cabinet approves dispatch of 3,000 troops to the northern oil town of Kirkuk, Iraq as early as April.

Dec. 24, 2003: U.S. announces that it will send 60,000 metric tons of humanitarian food aid to North Korea.

Dec. 27, 2003: North Korea confirms to a Chinese diplomat that it was willing to enter into a second round of six-party talks early in 2004.

U.S.-Russia Relations:
A Chilly Fall for U.S.-Russia Relations

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While leaders in the United States and Russia profess a continuing partnership in the war on terrorism and foster a growing energy relationship, strains have become apparent during the past three months. The first evidence of a rift came with the long-expected arrest in October of Russian oil magnate Mikhail Khodorkovsky, seen in both Moscow and Washington as a proponent of improved relations with the U.S. Another strain appeared after the December parliamentary elections in Russia, in which the pro-Putin United Russia Party gained a major victory. Two nationalist parties also scored big gains, while the two most Western-leaning, reformist parties suffered a crushing blow and failed to even gain the minimum 5 percent level of votes to assure proportional representation in the Duma. The U.S. government even went so far as to question the fairness of the elections. Other, more usual, complicating factors have caused some friction: Chechnya, Central Asia, and Iraq. But in three areas Russia and the U.S. continue to cooperate: nonproliferation, energy, and the war on terrorism. It remains to be seen how long the two nations can continue to smooth over frictions in the quest to cooperate on large-scale strategic issues.

Russia's Political Autumn

The two major political events of the fall in Russia were Khodorkovsky's arrest and the Duma elections. Khodorkovsky's arrest was carried out in the fashion of a Hollywood spectacle. Masked gunman burst onto the magnate's parked plane and drew weapons before putting him in handcuffs and dragging him into custody. In recent months Khodorkovsky, chief of Yukos Oil and Russia's richest man, had strongly championed democratic principles and openly questioned how far Russia had actually traveled down the road to democracy. In an interview with *Fortune Magazine* during the summer, he proclaimed, "I'm going to try to buy a democratic future for my country ... And I have enough money and energy to do that." At the same time the Kremlin began questioning the legality of Khodorkovsky's acquisition of wealth during the 1990s.

Following Khodorkovsky's arrest, the Western press strongly criticized the Russian government. Khodorkovsky was somewhat of a poster boy for many in the West. Articulate, charming, and open, Khodorkovsky was the antithesis of the typical Russian oligarch normally envisioned in the West. Khodorkovsky had spread some of his wealth around Washington, notably to lobbying services. He was seen by some as Washington's "most influential agent in Moscow." The reaction of the U.S. government has been

somewhat muted, although some criticism has filtered out. As usual, the actual situation in Russia is far less black and white than is often made out in the press. Khodorkovsky's wealth was in fact probably acquired using fairly dubious methods, and he publicly let on as much on several occasions.

Western-leaning politicians, and others within the Russian government are quite disturbed by the arrest and they warn of dark days for Russia. An official statement by the Union of Right Forces (not coincidentally one of the recipients of Khodorkovsky's largesse) said that, "It is obvious to us that the Khodorkovsky and Yukos cases are a political contract hit." The liberal Yabloko party joined in the criticism and its leader Grigory Yavlinsky bluntly said the government of President Vladimir Putin was nothing but a regime of "Stalinist capitalism." Even Communist leader Gennady Zyuganov said that Khodorkovsky was not being prosecuted for economic crimes, but for his political ambitions.

The official U.S. reaction was cautious, but concerned. U.S. Ambassador to Russia Alexander Vershbow said, "We won't comment on the legal basis for Khodorkovsky's detention, it would appear though, that the law is being applied selectively at the very least." State Department spokesman Richard Boucher added, "We are concerned about the potentially negative implications for the rule of law [in Russia]." Others in Washington are less concerned about diplomatic niceties, including Arizona Sen. John McCain who has warned of "a creeping coup against the forces of democracy and market capitalism in Russia." Both McCain and neo-conservative icon Richard Perle have called for the Bush administration to not invite Vladimir Putin to the G-8 summit scheduled for the spring of 2004 in the U.S. The American press has been equally vitriolic. A *Washington Post* editorial page asked the age-old question: "Who lost Russia?" The *New York Post* commented that there seemed to be "something rotten in Russia." A *Wall Street Journal* headline announced that the "Arrest of Yukos Chairman Imperils Russia's Revival."

The Bush administration has been somewhat reluctant to criticize its newfound strategic partner. In an editorial in the *Washington Post*, former U.S. ambassador at large for the Commonwealth of Independent States, Stephen Sestanovich, wrote about this dilemma: "White House and State Department (CIS) officials think they can't be totally silent as Russia takes an authoritarian turn, but they don't want to jeopardize President Vladimir Putin's support on front-burner national security problems."

The Dec. 7 Duma elections also raised eyebrows in the West. Europe's reaction to events unfolding in Russia has been particularly negative. The elections were monitored by the Organization for Security and Cooperation in Europe (OSCE). The OSCE polling agents suggested the vote was tainted because the Kremlin had allowed state resources to be released in order to support the United Russia Party, whose main ideology appears to be its loyalty to Putin. The Bush administration could not completely ignore the unfolding events. In reaction to the elections White House spokesman Scott McClellan said, "The OSCE ... expressed concerns about the fairness of the election campaign. We share those concerns." Russia's leaders were not immune to the criticism and they lashed out at the

West's "double standards" and "interference in Russia's internal affairs" (Foreign Minister Ivanov).

Other Problem Areas

Shortly after his return from the United States early in the fall, Putin granted a long interview to *The New York Times*, in which he spoke of the U.S.-Russian relationship. Although Putin spoke of the partnership as a natural fit, and said that it is a "strategic choice" for Russia, he went on to say that Russia did not agree with U.S. policy either in Iran or Iraq. A few days later during a visit to the U.S., Russian Defense Minister Sergei Ivanov let his hosts know how uncomfortable Russia feels about the U.S. military presence in Central Asia. He went on to state that the Russian government expects the U.S. to withdraw from bases in former Soviet republics in Central Asia once antiterror operations in Afghanistan are complete.

Furthermore, during Ivanov's visit, which was part of a summit of NATO defense ministers in Colorado, the Kremlin unveiled its new doctrine for Russian military preparedness in the 21st century. According to the new doctrine Russia announced that it is prepared to use preemptive strikes against *perceived* threats and will continue to mobilize its nuclear arsenal to deter instability along its own borders. Ivanov, however, pointed out that a large-scale war with the U.S. or other NATO members has "been excluded from the spectrum of the most probable conflicts." Upon his return, in an interview with the Moscow weekly *Moskovskiy Komsomolets*, Ivanov said that he felt Russia and the U.S. could not be called allies, though they are "certainly not enemies."

In an October interview with the Arab-language *Al Jazeera* network, Putin emphasized a "multipolar" world viewpoint, an obvious reference to Russia's displeasure with what is perceived around the world as a U.S. penchant to unilaterally manage global affairs. Shortly thereafter, however, Defense Minister Ivanov declared that Russia reserves the right to intervene militarily within the CIS in order to settle disputes that cannot be solved through negotiation. Putin added, in a similarly unilateral vein, that the pipelines carrying oil and natural gas to the West are Russia's prerogative to maintain in order to protect its national interests, "*even those parts of the system that are beyond Russia's borders.*" (Emphasis added.)

A headline in the Russian daily *Nezavisimaya Gazeta* suggested that Moscow and Washington are "No Longer Enemies, But No Longer Friends." A long, investigative article in the *Moscow Times* in late December speculated that Washington was unhappy with the growing power in Moscow of the *siloviki* (the group of former KGB agents now working close with Putin in the Kremlin). Furthermore, the article hinted that the *siloviki* hoped to leverage the new petro profits into a modern defense arsenal and that a new cold war could be imminent. The same idea was published in a Russian-language article in the on-line news service *Polit.ru*.

Early in the fall the U.S. government quietly opted not to renew a five-year agreement with Russia on the Nuclear Cities Initiative (NCI), a U.S. Department of Energy effort that has channeled \$87 million into business development at three once-secret cities devoted to nuclear weapons R&D. This program, which expired on Sept. 22, helped to steer thousands of Russian weapons scientists into civilian work. The decision to drop the program was made when U.S. officials expressed concern about legal issues with Russian civilians involved in the program. U.S. Secretary of Energy Spencer Abraham reaffirmed his department's desire to continue the program by releasing an additional \$9 million to pay for a medical imaging center at a former nuclear research site. Given that this was but a provisional arrangement, the program's days appear to be numbered.

The touchy issue of visas became again a source of strain in the U.S.-Russian relationship. The strict guidelines involved with the issuing of visas for Russian citizens hoping to visit the U.S. became even more complicated when the State Department announced that henceforth all applicants would have to be fingerprinted. In early December, more fuel was added to the mix when the United States decided to bar the businesses of nations opposing the U.S. operation in Iraq from participating in that nation's reconstruction. The biggest targets of this decision were France, Germany, and Russia. One press report suggested that Russia was woken up by a "slap in the face." This issue was particularly vexing for many Russian companies long involved in Iraq that were effectively barred from bidding on up to \$18.6 billion worth of contracts to rebuild Iraq. Many in Russia referred to the sanctions list as "Wolfowitz's list."

The Middle East, the Caucasus, and Energy

Friction notwithstanding, the United States and Russia continue to work together when it is strategically expedient. There are signs that Moscow is slowly changing its stance on Iran. Russian officials began pressuring leaders in Teheran to make good on promises to open their nuclear facilities to international inspection. The Kremlin also threatened to halt an \$800 million deal to build a reactor for a power plant if Iran refused to allow inspections. To the north of Iran in Georgia, there were also signs that the United States and Russia were prepared to cooperate. Leaders from the two countries worked behind the scenes to resolve Georgia's political crisis, especially as it became clear that Eduard Shevardnadze might be willing to shed blood in his effort to maintain power. Russian Foreign Minister Ivanov played a key role in mediating between the opposition and Shevardnadze, after weeks of protests over disputed parliamentary elections. As part of this effort Secretary of State Colin Powell spoke often by telephone with Ivanov.

Additionally, in November Moscow and Washington reached an agreement to collaborate in returning weapons-grade uranium to Russia from vulnerable nuclear reactors in the former USSR. The plan to repatriate the highly enriched uranium (HEU) coincides with their cooperation in the war on terrorism. HEU is attractive to terrorists because it can be fashioned into a crude nuclear device with relative ease.

The area of greatest collaboration between Moscow and Washington continues to be in the energy sector. U.S. Ambassador to Russia Vershbow termed the Russian-U.S. partnership in energy sector “almost ideal.” As mentioned in last quarter’s *Comparative Connections* article, “Energizing the Relationship,” the Russian oil firm LUKoil has opened a number of gas stations in New York and has plans to expand across the Mid-Atlantic states. New York Sen. Chuck Schumer was ebullient about the prospects of U.S.-Russian oil cooperation. Schumer trumpeted: “OPEC and Saudi Arabia have held New Yorkers in the palms of their hands for too long, jacking up our gas prices at will ... LUKoil’s huge investment in New York gives us a choice – an opportunity to cut our reliance on Middle East oil without having to drive our cars any less.”

East Asia

Putin continues to pay great personal attention to Russia’s policy in East Asia. During his lengthy visit to Malaysia and Thailand, Putin called on all APEC members to invest in Siberian and Russian Far East development. He particularly urged investment in Russia’s oil and gas complex, as this area is “strategically important for Russia.”

There is speculation that the Kremlin is playing Japan and China off one another in an effort to have a Far Eastern oil and gas pipeline financed. This indeed may be the case, but Russia should be given credit for pursuing positive relations with both nations. Although Chinese leaders have expressed frustration about the Russian decision to delay the start of the Angarsk-Daqing pipeline from Siberia to Northeastern China, Chinese-Russian trade has greatly increased and is expected to amount to \$14 billion in 2004. The bilateral trade level between the United States and Russia remains about \$10 billion annually. And Moscow continues to pursue a positive course in relations with Japan, in spite of the festering malaise of the territorial dispute. In a December visit to Tokyo, Russian Prime Minister Mikhail Kasyanov made a call for Japanese businesses to increase trade and investment in Russia. Although Japanese leaders urged Russia to abandon plans for a pipeline to China, and to expand energy ties with Japan instead, Kasyanov remained noncommittal. But he did stress that investment in Russia’s energy complex would benefit the entire Asia-Pacific region.

Putin’s visit to Southeast Asia for the APEC summit coincided with continuing efforts by the Russian military industrial complex to expand arms sales in the region. In August, Malaysia made an order for 18 *Sukhoi-30* aircraft worth more than \$400 million. In December Vietnam also reportedly signed a deal for \$100 million to purchase four *Sukhoi-30s*.

Russian diplomats continue to play an active role in the Korean Peninsula standoff, hoping that any settlement will be reached with Russian participation, which they hope will lead to some sort of financial gain for their country. They have remained firm in their support of the U.S. position that the DPRK must abandon any nuclear program. For the most part U.S. and Russian interests in the Asia-Pacific continue to be in alignment.

The year 2003 was a year in which the U.S.-Russian strategic partnership weathered some very tough spots, but the longer the framework remains in place, the more solid it is bound to become. As the upcoming Russian presidential election seems to be a foregone conclusion, the November 2004 U.S. presidential elections will set the tone for the U.S.-Russian relationship for the next few years to come. For now, it seems that the leadership of both nations is committed to staying the course, in spite of a few hiccups along the way. Strategic issues continue to trump disagreements about issues such as human rights and free elections. This could change after 2004.

Chronology of U.S.-Russia Relations October-December 2003

Oct. 6, 2003: Putin grants a long interview to *The New York Times* and speaks of the U.S.-Russian relationship, which he describes as a natural fit and says a “strategic choice” for Russia; he further says Russia does not agree with U.S. policy either in Iran or Iraq.

Oct. 8-9, 2003: Defense Minister Sergei Ivanov attends NATO Ministers of Defence meeting in Colorado. Participants review the Alliance’s transformation in the context of the future security environment at an informal meeting. During Ivanov’s visit, Kremlin unveils new doctrine for Russian military preparedness in the 21st century.

Oct. 4, 2003: According to a Public Opinion Fund survey only 29 percent of Russians believe President Putin’s September visit to the United States yielded important results.

Oct. 8, 2003: Moody’s Investor’s Service upgrades Russia to “Baa3” from “Ba2,” surprising the market and prompting a rally in Russian bonds and stocks.

Oct. 9, 2003: At a summit between Putin and visiting German Chancellor Gerhard Schroeder, Defense Minister Sergei Ivanov declares that Russia reserves the right to intervene militarily within the Commonwealth of Independent States (CIS) to settle disputes that cannot be solved through negotiation. Ivanov also says that his government expects the American military to withdraw from bases in two former Soviet republics in Central Asia once the mission in Afghanistan was completed.

Oct. 15, 2003: Putin leaves Moscow on a 10-day trip to Malaysia, Thailand, and Kyrgyzstan. During the trip Putin attends the APEC summit in Bangkok and calls on APEC members to invest in the development of oil and gas resources of Russia’s Far East and East Siberia.

Oct. 20, 2003: Putin meets with Japanese Prime Minister Koizumi in Bangkok to discuss North Korea and bilateral trade relations.

Oct. 25, 2003: Russian special forces arrest the head of Russia's largest oil producer, Mikhail Khodorkovsky, and prosecutors in Moscow charge him with tax evasion and fraud.

Oct. 27, 2003: In an interview in *Moskovskiy Komsomolets* Defense Minister Ivanov states that Russia and the U.S. cannot be called allies at this point.

Oct. 27, 2003: State Department spokesman Richard Boucher questions whether Russian laws were being enforced selectively following the arrest of Khodorkovsky.

Oct. 26, 2003: Ambassador to Russia Vershbow says, "We won't comment on the legal basis for Khodorkovsky's detention, it would appear though, that the law is being applied selectively at the very least." State Department spokesman Richard Boucher also adds, "We are concerned about the potentially negative implications for the rule of law [in Russia]."

Nov. 7, 2003: Moscow and Washington reached an agreement to collaborate in returning weapons-grade uranium to Russia from vulnerable nuclear reactors in the former USSR. In a brief meeting with Russian Atomic Energy Minister Alexander Rumyantsev and Secretary of Energy Spencer Abraham in the White House, President Bush calls for a continuation of U.S.-Russian programs in the sphere of nuclear materials security.

Nov. 8, 2003: U.S. and Russia agree to collaborate in returning weapons-grade uranium to Russia from vulnerable nuclear reactors throughout the former Soviet Union.

Nov. 18, 2003: FM Igor Ivanov criticizes U.S. "excessive" tendency to use force and said the violence raging in Iraq had confirmed that Russia was right in opposing the U.S.-led toppling of Saddam Hussein.

Nov. 20, 2003: After Nov. 2 election results are invalidated, Georgian President Eduard Shevardnadze leaves office in the face of wide public protests.

Dec. 7, 2003: Russian parliamentary elections yield an overwhelming victory for the pro-Putin political party United Russia. Large gains are also registered by two nationalist parties. The Bush administration joins European human rights officials in expressing concern about the fairness of the elections.

Dec. 8, 2003: In reaction to the elections White House spokesman Scott McClellan said, "The OSCE ... expressed concerns about the fairness of the election campaign. We share those concerns." FM Ivanov later lashes out at the West's "interference in Russia's internal affairs."

Dec. 9, 2003: U.S. bars French, German, and Russian companies (and other non-supporters of the war) from competing for 18.6 billion in reconstruction contracts in Iraq.

Dec. 10, 2003: U.S. Embassy officials start fingerprinting Russian citizens hoping to visit the United States, which exacerbates the already tense visa issue in U.S.-Russian relations.

Dec. 16, 2003: PM Mikhail Kasyanov arrives in Japan for a three-day visit. He meets with PM Koizumi, FM Kawaguchi Yoriko, and top Japanese officials on trade and energy issues.

Dec. 22, 2003: Putin tells a visiting Iraqi delegation that Moscow is ready to write-off more than half of the \$8 billion that Iraq owes Russia.

U.S.-Southeast Asia Relations:
**President Bush Presses Antiterror Agenda
in Southeast Asia**

By Sheldon W. Simon
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The Bush administration's most significant achievement following the president's October attendance at the Asia Pacific Economic Cooperation (APEC) summit and visits to Thailand, the Philippines, Singapore, and Indonesia has been to broaden APEC's agenda to incorporate security issues in parallel to trade and investment. The president praised Thai, Philippine, and Singaporean assistance for the reconstruction of Iraq and Afghanistan and promised additional military and economic aid to Bangkok and Manila. However, Indonesia and Malaysia continue to express concerns about U.S. policy in Iraq and the U.S. war on terror, seeing the latter as anti-Muslim and the former as unilateral, preemptive, and disproportionately military. Thus, U.S. security policy may be splitting ASEAN with respect to the war on terror.

Terrorism vs. Economics at APEC

In a whirlwind trip to Asia to attend the APEC Leaders Meeting in Bangkok on Oct. 20-21, President Bush also stopped briefly in the Philippines, Singapore, and Indonesia where he emphasized the U.S. antiterrorist agenda. His APEC counterparts, by contrast, seemed more concerned with trade and investment issues after the collapse of World Trade Organization (WTO) talks in Cancun the previous month. President Bush's discussion of security and terrorism in a forum that was conceived as an exclusively economic grouping elicited objections from outgoing Malaysian Prime Minister Mahathir Mohamed as well as officials from Indonesia and Vietnam. Nevertheless, the United States insisted that economic and security issues are inextricably linked and that terrorism cannot be divorced from trade. Economic fallout from the October 2002 and August 2003 Bali and Jakarta Marriott bombings has been severe, particularly in regional tourism but also in levels of foreign investment and capital flight. Thus, stopping terrorism goes hand in hand with APEC's goal of promoting economic prosperity.

APEC ministers agreed that security questions directly linked to economic matters were open for discussion; however, purely political issues such as Burma's treatment of Nobel laureate Aung San Suu Kyi, currently under house arrest, would not be placed on the agenda. APEC has agreed to fight terrorism within the framework of securing trade

in the Asia Pacific. Members pledged to cooperate to stem terrorist activities that threaten the flow of tourists, trade, and investment.

Among the specific actions APEC leaders recommended in the 2003 Bangkok Declaration are the imposition of controls on trade in shoulder-fired missiles (MANPADs) which can be used to bring down passenger aircraft, improved security management of shipping both at ports and on the high seas, and better monitoring of cross-border movements and terrorist financing. APEC leaders also agreed to the U.S. proposal for a new Asian Development Bank terrorism fund to help developing states strengthen port security and combat money laundering. In a press interview on the way to the APEC summit, Secretary of State Colin Powell stated that the United States hoped APEC would make counterterrorism “part of their continuing agenda ... for future conferences ... and make it part of the [APEC] work plans.” The U.S. proposal to control the manufacture and distribution of MANPADs constitutes a reversal of its previous resistance to formal international restrictions on the transfer of shoulder-fired missiles. Moreover, the Bangkok Declaration also welcomed the establishment by Singapore and the U.S. of a Regional Emerging Disease Intervention Center that would monitor and respond to health threats such as SARS or possibly biological terrorism.

The U.S. push for greater regional security efforts has raised concerns among Southeast Asian officials and business executives about the costs of these new requirements and whether complex shipping controls will impede freer trade. Major new investments in computing, ship monitoring, and port security are costly but are nevertheless becoming mandatory for commercial access to U.S. ports. The U.S. Bio-Terrorism Act, in force from mid-December, makes it harder for countries that do not use electronically sealed containers to export agricultural products to the U.S. Singapore and Thailand, among Southeast Asian states, have committed to the electronic container seals program. While shipping costs may increase, insurance rates might decline for shippers in the two states because of the enhanced security arrangements.

Bush Offers More Antiterrorist Support to the Philippines

In an eight-hour visit to the Philippines on Oct. 18, President Bush announced an additional \$340 million aid package which included more training for Philippine forces fighting the Abu Sayyaf kidnap-murder gang and al-Qaeda-linked operations in the southern Philippines. The president also renewed his support for Philippine President Gloria Macapagal-Arroyo’s efforts to reach a peace agreement with the Moro Islamic Liberation Front (MILF), promising development aid “when a lasting peace is established.” President Bush stated that the two countries had formalized a five-year plan to “modernize and reform” the Philippine military, though it was unclear how much of the cost would be borne by the United States.

Although he was the first U.S. president to address a joint session of the Philippine Congress since Dwight Eisenhower in 1960, several thousand protesters filled the streets near the Congress protesting the U.S. invasion of Iraq. While President Bush promised aid to reform and strengthen both the Philippine National Police and the armed forces as

well as a six-year program to aid education in the poorest areas of the country, endemic corruption in all of these institutions elicit skepticism about the future success of these programs. Last August, Philippine Armed Forces chief Gen. Narciso Abaya bemoaned the “graft and corruption at all levels,” including sales of military equipment on the black market and even to the MILF. American-supplied M-16s have been recovered in Abu Sayyaf camps.

U.S. forces have been engaged in joint maneuvers with Philippine forces on Luzon, but training in Mindanao to flush out Jemaah Islamiyah (JI) operatives has been put on hold this year because the “Terms of Reference” for this year’s exercises have not been agreed upon by the two sides. U.S. participation in actual combat is prohibited by the Philippine Constitution and the line between training, advising, and combat in Mindanao operations against Abu Sayyaf and JI may be hazy at best.

Thailand Upgraded, as Malaysia Balks at U.S. Plans

While in Thailand for the APEC meeting, President Bush upgraded defense relations with Bangkok to “non-NATO ally,” the second Southeast Asian state after the Philippines to win that designation. In recognition of the presence of several hundred Thai noncombat troops in Iraq, non-NATO ally status provides arms procurement from the United States on more favorable terms and additional military assistance for modernizing Thai armed forces. However, Thai critics of the new designation fear it will make the country a greater target for *ihadists*. President Bush praised Thai assistance in Afghanistan as well as Iraq, its role in East Timor, and its efforts to stem the drug trade. He also announced that the two countries would launch negotiations on a free trade agreement.

In Malaysia, however, outgoing Prime Minister Mahathir blasted the Bush administration for unilateralism in Iraq and “this idea about preemptive attacks” that sets a “terrible” example for the rest of the world. Mahathir’s farewell address to the Organization of the Islamic Conference, while condemning *ihadists*, also charged that Jews had survived and prospered at the expense of Muslims – an allegation that drew immediate condemnation from the Bush administration. The president branded the remarks “wrong and divisive.” Mahathir claimed, in turn, at a Malaysian press conference, that President Bush told him that he regretted having to use strong words and, Mahathir concluded, they were not a rebuke.

Tensions in U.S.-Indonesian Counterterrorism

President Bush’s Oct. 22 discussions with Indonesian Islamic leaders in Bali seemed to accomplish little in creating a meeting of the minds. In a public opinion poll published in Jakarta’s respected *Tempo* magazine, 60 percent of the respondents said they did not think the U.S. would reverse its policy on terrorism and Islam despite meeting with the clerics. Some of those attending the discussion came away with the view that the United States equated their religion with terror despite the president’s vigorous denials.

Talk of U.S. educational aid to Indonesian schools to promote a more modern and religiously tolerant curriculum was condemned by Din Syansuddin, secretary general of the Indonesian Council of Ulemas, as “a form of interference” in Indonesia’s sovereignty. USAID embarked on a new program that bypasses the national education department and works directly with local school districts to help modernize their curriculum and equipment: \$157 million has been earmarked for this program.

The U.S. seeks a stronger counterterrorism partnership with Indonesia, a country seen in Washington as a breeding ground for Islamist militants because of its weak government and social instability. The majority of JI’s membership attended Muslim schools in Indonesia. President Megawati Sukarnoputri was one of the first Muslim leaders to pledge support for the United States in the wake of the Sept. 11 attacks and received \$700 million in economic aid, including counterterrorism training for the police. However, military relations remain partially frozen because of the army’s human rights violations in East Timor and possible complicity in the 2002 killing of two U.S. citizens in Papua.

Indonesia’s defense white paper, released in December, puts terrorism just behind separatism as the main security threats to the country. Traditional security concerns such as external invasion or aggression are deemed unlikely. Separatism in Aceh and Papua, cross-border crimes, piracy, hijacking, and drug trafficking constitute the current threats facing Indonesia – all of which serve to justify a continued strong military based on territorial commands. Nevertheless, bureaucratic conflicts and resentments among the army, police, and national intelligence agency hinder coordination in dealing with these challenges.

Cooperation with the United States can be a two-edged sword in this environment. That is, U.S. support for one agency may fuel the resentment of others. Although U.S. aid to the military is constrained by Congressional statute, Washington is funding, training, and arming a specially screened Indonesian counterterror police unit of 400 designed to respond to terrorist incidents anywhere in the archipelago by 2005. With an initial grant of \$16 million, the new police unit will have up-to-date communications, night-vision gear, technical support, including sniper rifles, helicopters, and C-130 transport aircraft. All recruits are vetted to insure clean human rights records and that they have not served in East Timor. However, Washington is not ignoring the Indonesian military. Under a new \$17 million program that circumvents Congressional constraints, over 100 Indonesian military officers are taking up “counterterrorism fellowships” in the United States. This latter program constitutes American recognition that the fight against terrorism in Indonesia will still be dominated by its 279,000-strong army.

Although the United States declared JI a terrorist organization after the October 2002 Bali bombing and even though Indonesian political and religious leaders condemn terrorism, no Indonesian official nor any major cleric has publicly acknowledged the group’s existence. All political leaders depend on Muslim votes. President Megawati fears that strong condemnation of JI would drive many of her supporters into Muslim political parties.

The U.S. has commented on domestic Indonesian politics. Prior to embarking for Asia, President Bush warned that Indonesia must not be “defined” by Muslim extremists. U.S. diplomats in Jakarta urged former President Suharto’s Golkar party not to pick former armed forces commander Gen. Wiranto as its presidential candidate for the 2004 elections given his alleged role in the 1999 killings in East Timor. On Indonesian Army efforts to suppress separatists in Aceh and Papua, the U.S. president urged dialogue rather than force and promised funds for Aceh’s rehabilitation once the fighting ended.

Despite U.S. assistance to Indonesia’s antiterror operations in the wake of the Bali and Jakarta Marriott bombings, popular anti-U.S. sentiment is at an all-time high because of the U.S. occupation of Iraq. Even moderate Islamic leaders have branded the U.S. president a “criminal” and a “terrorist.” While U.S. forces remain in Iraq, it is unlikely these sentiments will significantly atrophy.

Singapore Security Cooperation Enhanced

During his Oct. 21 visit to Singapore, President Bush and Prime Minister Goh Chok Tong agreed to negotiate an expanded defense and security cooperation framework. Security collaboration between the United States and the Southeast Asian city-state has been close for many years with a small U.S. naval contingent permanently billeted and a harbor equipped to handle U.S. *Nimitz*-class aircraft carriers. The new framework specifies enhanced bilateral cooperation in counterterrorism, counterproliferation of weapons of mass destruction (WMD), joint military exercises and training, policy dialogues, and defense technology. Since the two states currently work together in all of these fields, the enhancement will presumably deepen and expand these activities.

President Bush thanked Singapore for its contribution to Iraqi reconstruction and commended the Singapore police for the training of their Iraqi counterparts in protecting critical installations. The joint statement commemorating the visit also pledged multilateral antiterror cooperation through the UN, ASEAN, and APEC. Curiously, the ASEAN Regional Forum (ARF) was omitted from the document, perhaps suggesting that APEC may be replacing the ARF as the preferred regional security cooperation forum.

Singapore has also become a participant in the U.S.-led Proliferation Security Initiative (PSI) – the first Southeast Asian state to do so. Dedicated to keeping weapons of mass destruction away from “state and non-state actors of concern,” PSI participants met Dec. 16-17 in Washington to discuss lessons learned from interdiction exercises held earlier in 2003. PSI joint exercises have simulated seizures of WMD from ships and aircraft and are designed, according to Under Secretary of State John Bolton, “to go beyond the national criminal provisions and the international export control regimes and engage in actual interdiction.” In short, PSI is counterproliferation in action. Over 50 countries have endorsed the statement of interdiction principles, though there are concerns about how well interdictions square with international maritime law and freedom of navigation. The United States and others are considering amendments to the Suppression of Unlawful Acts At Sea Convention to resolve the ambiguities.

Additional Terrorist Concerns in Southeast Asia

Ji, Southeast Asia's most prominent terrorist organization, still trains in parts of Indonesia and the southern Philippines, according to officials in both countries. To counter these activities, the CIA now has more agents in Southeast Asia than at any time since the Vietnam War. Most of the Ji recruits training in the southern Philippines come from Indonesia. The continued operation of the camps has led to stern messages by U.S. officials to President Arroyo that the Philippines is not doing enough to shut them down. Under interrogation, captured Ji operations leader Hambali stated that the MILF is a recipient of Ji funds and that Ji recruits train in MILF-protected camps. Meanwhile, the MILF denies any connection either to al-Qaeda or Ji. U.S. Ambassador to the Philippines Francis Ricciardone in early October warned that continuing links between the MILF and Ji would lead to the loss of millions of dollars in U.S. development aid to MILF areas in the southern Philippines. A MILF spokesman in a rejoinder invited the United States and other foreign governments to observe the situation in areas where the MILF is active to prove there are no links to Ji.

President Bush's Asia tour, emphasizing antiterror cooperation, pointedly skipped Malaysia where Mahathir's anti-Jewish remarks followed the prime minister's harsh criticism of the Bush administration's Iraq policy. Ironically, Malaysia follows precisely the trajectory that the U.S. hopes to see in other Muslim countries – a generally moderate religious populace successfully modernizing with a rising standard of living whose government harshly suppresses terrorists. For the ruling United Malay National Organization (UMNO) to sustain its popularity, however, it must court Muslim sensibilities and distance itself – at least rhetorically – from the U.S.

U.S.-Vietnam Relations Warm

Vietnam's desire for stronger diplomatic and business ties with the United States was apparent throughout the past quarter. An air services agreement was signed in mid-October allowing U.S. carriers to fly to Vietnam and permitting Vietnamese airlines access to five American cities. Hanoi is also exploring the possibility of purchasing passenger planes from Boeing. A month later Vietnam's defense minister met with Defense Secretary Donald Rumsfeld at the Pentagon where they discussed future security cooperation. Hanoi is particularly concerned about unexploded ordnance left over from the Vietnam War and health problems resulting from the American defoliant Agent Orange used to clear swatch of jungle during that period.

The U.S. Navy frigate *USS Vandegrift* visited Saigon from Nov. 19-23, the first U.S. warship to call since the end of the war in 1975. And Vietnam's Deputy Prime Minister Vu Khoan came to Washington in search of U.S. investors in early December. American business representatives gave him an earful of complaints about the obstructionism of the Vietnamese bureaucracy and lack of transparency with respect to rules and licenses. The U.S. House of Representatives also passed a resolution condemning Hanoi's abuses of religious freedom. So, although relations are definitely improving, the road to full amity is still strewn with significant potholes.

Conclusion

The most significant achievement from President Bush's October Southeast Asian tour has been to broaden APEC's agenda to incorporate security issues in parallel with trade and investment. The president acknowledged Thai and Philippine military deployments to assist in Iraq's reconstruction; and a new security framework agreement was announced with Singapore. Nevertheless, both Malaysia and Indonesia – the region's predominantly Muslim states – have expressed serious concerns with U.S. policy. Although both governments are committed to suppressing terrorism, they also condemn the U.S. occupation of Iraq. In early December, Indonesia's foreign minister claimed that U.S. policy in Iraq has made the world more dangerous, not less, as the Bush administration claims. By acting unilaterally, Foreign Minister Hasan Wirajuda insisted, the U.S. waged "an arbitrary preemptive war" and set a dangerous precedent for other countries. America's war in Iraq is widely seen in Indonesia and Malaysia as a war on Islam. Public opinion polls in Indonesia show that only 17 percent of the population holds a positive view of the United States – down from over 60 percent prior to the Iraq invasion. Unless the Bush administration can reverse this perception that it is now conducting its security policy preemptively, unilaterally, and primarily through the use of military force, American foreign policy in much of Southeast Asia will continue to be viewed with considerable distaste.

Chronology of U.S. Southeast Asia Relations October-December 2003

Oct. 1, 2003: U.S. Ambassador to the Philippines Francis Ricciardone warns that links between the Moro Islamic Liberation Front (MILF) and Jemaah Islamiyah (JI) jeopardize millions of dollars in U.S. aid to Mindanao.

Oct. 1, 2003: Philippine Vice President Guingona brands "unconstitutional" an "open skies" agreement reached with the United States that would permit U.S. airlines to fly more frequently to the Philippines. He insists that the agreement should be a treaty and, therefore, subject to Senate ratification.

Oct. 1-2, 2003: UN envoy Razali Ismail visits Burma; fails to secure the release of Aung San Suu Kyi.

Oct. 2, 2003: MILF spokesman denies that the MILF has ties to JI.

Oct. 2, 2003: Indonesian police demand direct access to captured JI terrorist Hambali in U.S. custody. While Washington has provided interrogation information, it has not yet permitted access by any Southeast Asian state to Hambali.

Oct. 2, 2003: In Congressional testimony, U.S. Deputy Assistant Secretary of State Matthew Daley said U.S. economic sanctions on Burma had led to the closure of 62 mainly garment factories, throwing 60,000 women out of work.

Oct. 5, 2003: Malaysian Deputy PM Badawi criticizes U.S. Customs for imposing new regulations on shipping containers without consulting shippers or governments.

Oct. 6, 2003: Philippine press reports that Manila will ask President Bush for 30 military helicopters and 30,000 M-16 rifles during the president's Oct. 18 visit.

Oct. 7, 2003: The ASEAN Bali summit led to the "Declaration of ASEAN Concord II" composed of three major themes: an ASEAN Security Community (ASC), ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community.

Oct. 9, 2003: Vietnam and U.S. agree to allow direct passenger and cargo flights between the two countries for the first time since the Vietnam War.

Oct. 9 - 23, 2003: U.S. Air Force pilots stationed in South Korea hold a two-week training exercise in Malaysia flying against Malaysian Mig-29s.

Oct. 10, 2003: Indonesian Police Chief Gen. Da'i Bachtiar says the U.S. will permit Indonesian authorities to question Hambali in the near future.

Oct. 14, 2003: President Bush calls Philippine President Arroyo "a strong leader" with "a strong agenda to run on" in a seeming endorsement of her candidacy for reelection in 2004.

Oct. 14, 2003: According to the *Miami Herald*, the U.S. military deployed surveillance planes to determine if guerrilla forces in southern Philippine jungles posed a threat to U.S. counterterrorist trainers.

Oct. 15, 2003: In an interview with a Jakarta-TV channel, President Bush downplays Indonesian requests for direct access to Hambali and promises to share interrogation information.

Oct. 16, 2003: President Bush launches his Asia trip with a statement that Indonesia cannot let its Islamic community be defined by religious extremists.

Oct. 16, 2003: In a speech at the Organization of Islamic Conference summit in Malaysia, PM Mahathir Mohamad makes anti-semitic statements suggesting the muslim world unite against the Jewish people.

Oct. 17, 2003: USTR Robert Zoellick praises China's free trade agreement with Southeast Asia as a recognition that "China's growth is a benefit to them." He predicts that U.S. bilateral FTAs in the region, when aggregated, would be worth even more.

Oct. 18, 2003: President Bush visits Manila, addresses joint session of Congress, meets President Macapagal-Arroyo, praises the Philippines as a "stalwart" ally in the war on terror, and pledges to support Manila's five-year plan to modernize its military.

Oct. 18, 2003: Secretary of State Powell in Bangkok states that APEC must link security issues with trade and investment in an age of terrorism.

Oct. 18, 2003: U.S. and Thailand sign bilateral air cargo agreement.

Oct. 18, 2003: President Bush visits Manila, addresses joint session of Congress, meets President Macapagal-Arroyo, praises the Philippines as a “stalwart” ally in the war on terror, and pledges to support Manila’s five-year plan to modernize its military.

Oct. 20, 2003: President Bush in Bangkok designates Thailand “a major non-NATO ally” as a reward for its antiterror cooperation.

Oct. 20, 2003: President Bush in Bangkok berates Malaysian Prime Minister Mahathir for his comment that Jews ran the world by proxy, labeling the prime minister’s remarks “divisive and wrong” and “squarely against what I believe in.”

Oct. 21, 2003: President Bush visits Bali, speaks with moderate Muslim leaders and meets with President Megawati; then departs for Singapore, where he meets with PM Goh.

Oct. 25, 2003: A high-level Indonesian police official states the U.S. has agreed to transfer Hambali to Jakarta for prosecution after the U.S. completes his interrogation. No specific time frame is mentioned.

Oct. 27, 2003: PM Mahathir brushes off a U.S. Senate threat to cut \$1.2 million in military aid over his anti-Semitic remarks.

Oct. 27, 2003: The U.S. State Department’s biannual report on Burma states that the country has made little headway in combating illicit narcotics. Burma is the world’s second largest producer of opium and a massive producer of methamphetamines.

Oct. 29, 2003: 400 U.S. marines based in Okinawa arrive in the Philippines for exercises with Philippine troops.

Oct. 31, 2003: Abdullah Badawi is sworn in as Malaysia’s fifth post-independence prime minister. Mahathir Mohamad steps down after 22 years in power.

Nov. 5, 2003: The U.S. will supply Advanced Medium Range Air-to-Air missiles to Thailand because of an “imminent threat” posed by Russian rockets offered to China and Malaysia.

Nov. 6, 2003: Indonesian National Police chief reports that the U.S. State Department’s Security Service is training top-flight Indonesian police units in antiterror skills and upgrading their equipment.

Nov. 6, 2003: Indonesia extends martial law in Aceh for an additional six months. The U.S., Japan, and European Union issue statements of concern, which are dismissed as a prelude to “meddling.”

Nov. 7, 2003: Former top civil aviation administrator and navy reserve officer seize the control tower at Manila airport in protest against corruption, and are later killed by the Philippine police.

Nov. 8, 2003: UN envoy Paulo Sergio Pinheiro meets with Aung San Suu Kyi, who is refusing to be freed from house arrest until 35 NLD colleagues are also freed.

Nov. 8, 2003: Malaysia deputy defense minister dismisses warning by the U.S. State Department to Americans about the dangers of travel in Sabah, Malaysia.

Nov. 10, 2003: Vietnamese Defense Minister Pham Van Tra meets Defense Secretary Rumsfeld in Washington, the first meeting in the U.S. since the Vietnam War ended in 1975.

Nov. 19, 2003: Missile frigate *U.S.S. Vandegrift* arrives in Ho Chi Minh City for a four-day visit, the first Navy ship to visit since the end of the Vietnam War.

Nov. 20, 2003: President Arroyo hints that U.S. forces may be invited to help the Philippine Army hunt down JI terrorists in Mindanao.

Nov. 21, 2003: U.S. criticizes Burma for failing to crack down on money laundering and is requiring U.S. financial institutions to terminate correspondent accounts with Burmese banks.

Nov. 23, 2003: U.S. plans to establish supply and air bases in Australia met with anger in Indonesia.

Nov. 23-24, 2003: Burma’s military government releases five top NLD leaders from house arrest.

Nov. 28, 2003: U.S. military advisers are training a 500-man elite Philippine commando force whose sole mission is to counter the JI terrorist network in the country.

Dec. 3, 2003: Thailand announces it will keep its 433 medical and engineering troops in Iraq at least until March.

Dec. 4, 2003: U.S. and Vietnam sign aviation agreement that authorizes direct flights between the two countries.

Dec. 8, 2003: Abu Sayyaf terrorist leader Galib Andany aka Commander Robot captured in the southern Philippines after a fire fight. The U.S. offered a \$5 million bounty for his apprehension and for four other Abu Sayyaf leaders.

Dec. 8, 2003: Indonesian Foreign Minister Hasan Wirajuda at a Jakarta CSCAP meeting criticizes the war in Iraq as unilateral, arbitrary, and preemptive, the results of which have made the world more dangerous and exacerbated terrorist actions.

Dec. 15, 2003: U.S. State Department criticizes Indonesia's decision to appoint a controversial police general to head the police force in restive Papua province. Brig. Gen. Timbul Silaen was indicted by UN prosecutors for his role in East Timor violence attendant upon the 1999 independence vote. Cleared by an Indonesian court, the UN indictment still stands.

Dec. 15, 2003: The U.S., Thailand, and Singapore begin 10th annual training *Cope Thunder* air exercise with a command post component in Singapore. Subsequent flying will occur in Korat, Thailand, in February, involving some 89 aircraft.

Dec. 16-17, 2003: Singapore attends Proliferation Security Initiative meeting in Washington, becoming first Southeast Asia PSI participant.

Dec. 18, 2003: After meeting with the U.S. ambassador in Phnom Penh, Cambodia agrees to destroy 200 Soviet-era surface-to-air missiles to prevent them from falling into terrorist hands.

Dec. 18, 2003: The U.S. agrees to take in about 15,000 Hmong refugees currently in Thailand who fled Laos after the communist takeover of that country in 1975. The Hmong fought alongside the Americans. It has taken almost three decades for the U.S. to reach this decision.

Dec. 30, 2003: President Bush signs proclamation authorizing implementation of the United States-Singapore Free Trade Agreement signed in Washington in May 2003.

China-Southeast Asia Relations: A New Strategic Partnership is Declared

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China's leaders made the most of the fall summit season in Southeast Asia, playing vigorous roles in the series of "ASEAN-plus" meetings in Bali in early October, and in the Asia-Pacific Economic Cooperation (APEC) summit in Bangkok later that month. China and the 10 ASEAN governments declared a "strategic partnership for peace and prosperity" in Bali, where China formalized its accession to ASEAN's Treaty of Amity and Cooperation, renouncing the use of force in the region in favor of negotiation and consultation. Strategic partnership is to include, among other things, ambitious new goals for increasing trade, and a new security dialogue among the 11 countries. Reacting to the perception that China is soaking up nearly all the foreign direct investment flowing to Asia, Beijing promised to increase its own investment in Southeast Asia, particularly in the energy and transportation sectors.

Some observers express heightened concern that China is replacing the United States in the region. This may be Beijing's ultimate aim, but for now, U.S. trade and security involvement in Southeast Asia, and improved U.S.-China relations overall, are necessary conditions for the climate of confidence in which China has achieved its striking gains in Southeast Asia.

Good Neighbor, Safe Neighbor, Enriched Neighbor?

The "Joint Declaration on Strategic Partnership for Peace and Prosperity" signed by the Southeast Asian governments and China at their summit in Bali Oct. 7-8 consolidates progress China has made since 1997 in establishing itself as an insider in ASEAN councils, and portraying itself as a benevolent regional partner sharing the values and goals of the 10 ASEAN states. Chinese officials observed that it is the first formalized "strategic partnership" for China with a regional organization, and a first for ASEAN as well.

"Strategic partnership" is an imprecise term, but in this case it is fleshed out by formal agreement to strengthen cooperation on political, security, economic, social, and regional issues. It sets the goal of increasing two-way annual trade to \$100 billion by 2005. On regional security, the ASEAN governments agreed in the declaration to hold a security-

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

related dialogue with China to “enhance mutual understanding” and promote peace and stability. ASEAN governments made clear in the declaration that they would use the security dialogue to push China to agree to convert last year’s watered-down South China Sea declaration into a binding “code of conduct.”

China and ASEAN stated that their strategic partnership was “non-aligned, non-military, and non-exclusive,” and would not limit ties with other countries, caveats meant among other things to make clear that the U.S. alliance and other military ties in Southeast Asia were not the target.

In a separate initiative, in October 2003, China became the first non-Southeast Asian nation to accede formally to ASEAN’s 1976 Treaty of Amity and Cooperation (TAC). This document pledges its signers to renounce the threat or use of force, resolve disputes through peaceful means, consult regularly, and form a High Council of ministers from all parties to the treaty to help in finding peaceful solutions, and – if all parties agree – play a direct role in settling potential conflicts. Outside parties like China can take part in the High Council if they are a party to the dispute under consideration.

ASEAN leaders welcomed this step as signifying “deeper political trust and a higher level of cooperation,” and announced they had agreed to cooperate with China in sustaining peace “while upholding the authority and central role of the UN” – clearly a reference to U.S. military action in Iraq. Chinese Premier Wen Jiabao pointed out that, “we Asian countries” need to strengthen solidarity in light of some negative global trends – the “new manifestation of power politics” and the “pressure brought about by the unfair and irrational international economic order.” China also committed itself to consult further on accession to the protocol to ASEAN’s 1995 Southeast Asia Nuclear Weapons Free Zone Treaty.

Chinese leaders, responding to the mounting alarm in ASEAN countries about China’s apparent absorption of most of the foreign direct investment that used to flow to their economies, countered by pointing out that China’s own investment in other Asian countries is growing at an annual rate of 20 percent. Premier Wen promised in Bali to encourage even greater Chinese direct investment in Southeast Asia, and told summit participants that China would increase its contributions to Mekong River basin development and to pan-Southeast Asian road and rail links. He also noted that China’s imports from ASEAN countries grew at the rate of 26 percent in the four years following the Asian financial crisis that began in 1997. Wen also used the Bali summit to reiterate China’s resistance to U.S. pressure to revalue China’s currency, calling his government’s approach a “prudent and responsible” one, aimed at preserving stability in Southeast Asia as well as in the world economy.

Summing up China’s approach for the press at the end of the Bali meetings, Foreign Minister Li Zhaoxing characterized it as “good neighbor, safe neighbor, and enriched neighbor.”

APEC Summit: Another Opportunity for China

The Asia-Pacific Economic Cooperation summit and the associated “CEO summit” of regional business leaders in Bangkok Oct. 19-21 provided President Hu Jintao another opportunity to elaborate China’s case for leadership in regional economic integration. He told the CEOs that China had set the goal of industrializing, and quadrupling its GDP to more than \$4 trillion, by 2020, but admitted that this would require solving a number of problems. To his fellow heads of government, Hu said that stability was the prerequisite for development, and enjoined them to “treasure the hard-won situation of peace and stability” in Asia and nurture it through mutual respect and trust. Hu called for greater cooperation in science and technology, and urged an end to protectionism and trade barriers.

Some Asian commentators asserted that Hu’s reassuring message – in essence, that China is now the status quo power in Asia – contrasted with regional perceptions of the United States as unilateralist, given to preemptive military action, and insistent in pushing an agenda that ignored Southeast Asian interests in favor of counterterrorism and non-proliferation. Hu did not highlight this contrast explicitly, and in fact said at APEC that the international community must intensify the campaign against terrorism, whose threat remains formidable. He pointed out that China is itself a victim of terrorism. China joined the consensus on a strong counterterrorism section in the APEC joint statement.

China’s Oct. 16 manned space shot was widely praised in ASEAN countries, adding to Beijing’s prestige just as President Hu was about to leave for the APEC summit. China announced in November that an Asia-Pacific Space Cooperation Organization would be established in Beijing next year, and would include Malaysia, the Philippines, and Thailand, as well as 10 other countries.

Bo’ao Forum for Asia: the Asian family?

The Bo’ao Forum for Asia, a gathering initiated by China and modeled after the annual Davos World Economic Forum in Switzerland, reportedly attracted more than 1,200 governmental, business, and other private delegates to its second annual meeting Nov. 2-3, in the eponymous resort town on Hainan island. Its board chairman, former Philippine President Fidel Ramos, described it as a reunion of the “Asian family.” The keynote speaker, Singapore Prime Minister Goh Chok Tong, told the meeting that China was playing a key role in managing the “stresses and strains” among Asian countries, but warned against any tendency to pursue an isolationist, “beggar my neighbor strategy.” Premier Wen told the forum that all countries in the region should develop a “deeply integrated Asia,” and should maintain peace by adopting China’s “new security concept,” featuring mutual trust, mutual benefit, equality, and cooperation.

A Higher Profile for Overseas Chinese

China’s improving image in Southeast Asia has paved the way for more extensive and open appeals by Beijing to the vast diaspora of ethnic Chinese citizens of the countries of

Southeast Asia. This growing dialogue is not a reprise of Mao-era efforts to assert a sovereign role vis-à-vis Chinese migrants – or even use them to seek “regime change” – but it appears to go somewhat beyond Beijing’s stated policy since the 1980s that the overseas Chinese should be good citizens of the nations in which they live. China has successfully sought for many years to attract investment from this group. This effort is increasingly pursued during visits by senior Chinese leaders to Southeast Asian capitals, for example by Hu Jintao in Bangkok Oct. 18, at a luncheon attended by more than 1,000 Chinese and Chinese-Thai. The Chinese government organized a “Global Get-together of Overseas Chinese and People of Chinese Origin in Vietnam, Cambodia, and Laos” in Guangzhou Nov. 25, reportedly attracting close to 1,000 guests. Senior Chinese leaders told them that Beijing would provide better service to overseas Chinese wishing to participate in economic, cultural, and scientific exchanges. They also stressed the importance for “all sons and daughters of the Chinese nation” to support Beijing on the Taiwan issue, and to “unite to fight for the great cause of the reunification of the motherland.”

China’s more open attention to Southeast Asians of Chinese descent may be helping to encourage the latter to stand up for their political rights where those rights are still threatened. In Indonesia, where ethnic Chinese have had a troubled and sometimes violent relationship with the Muslim majority, Chinese-Indonesian politicians have called on their community to use its voting power in the 2004 national elections to protect their interests.

Bad Conduct in the South China Sea?

Despite the year-old China-ASEAN Declaration on Conduct in the South China Sea – or in Taiwan’s case, perhaps because of it – more disagreements arose during the quarter over activities in those waters.

Taiwan, which – like Beijing – continues to claim most of the islands in the South China Sea, searched and expelled 11 Vietnamese fishing boats from the Spratlys in October. One of the incidents apparently took place just off Taiping Island (Itu Aba), which is occupied by Taiwan. The incidents prompted a sharp condemnation and warning from Hanoi, which reiterated its claim of “indisputable sovereignty ... confirmed by historical evidence.” Taiwan’s Foreign Ministry dismissed the Vietnamese statement on Nov. 2. Fishing disputes are common in the rich Spratly grounds, but Taipei may have seen the incident as a way to make clear its displeasure at having been excluded from the 2002 ASEAN-China Declaration.

Vietnam, for its part, announced in early October that it had decided to launch tourist visits to the Spratly archipelago, and to build a fisheries logistics center there next year.

Philippine media reported Nov. 7 that the Armed Forces of the Philippines had discovered new territorial markers with Chinese inscriptions on several unoccupied reefs and shoals in the Spratly Islands, and had monitored two PLA navy vessels operating since September at Mischief Reef – a particular thorn in the side of Manila since 1995.

The new markers were reportedly removed. It was not clear, however, that China had in fact violated the December 2002 declaration, and the Philippine Foreign Ministry dissuaded the government from formally protesting China's activities.

A few days later, Manila announced that the Philippine national oil company and the China National Offshore Oil Corporation would begin joint exploration in yet-to-be selected areas of the Sea. If the areas chosen cover disputed claims by China and the Philippines, the joint exploration would be a step forward in putting aside sovereignty issues in favor of economic cooperation.

China-Indonesia Relations

Developments in relations between China and Indonesia reinforced the view that interests of the two countries are converging and historic animosities are being put aside. Indonesian officials sought new contracts to sell natural gas to China during the quarter, meeting a receptive partner as China continued to seek to lock in access to Indonesian energy resources. PetroChina executives visiting Indonesia in late October offered to begin joint exploration efforts with Indonesia, and to help enhance oil recovery in existing fields.

Chinese officials also responded positively to Indonesian requests for new direct investment, and in early October offered a \$420 million export credit for building new electric power stations and other infrastructure projects, including a bridge between Java and the island of Madura. *The Jakarta Post* reported in October that the Central Java province administration planned to lease an offshore island to a Chinese city for the cultivation of unspecified tropical plants – a scheme that would have been difficult to imagine five years ago in light of the hostility with which the Indonesian armed forces then regarded the PRC.

China-Vietnam: Trade Competition, Chronic Border Issues

Vietnam announced in November that the United States had replaced China as the largest market for Vietnamese exports. As Vietnam's export sector gathers momentum, competition with China for overseas markets is likely to grow. Vietnam has become the second-largest exporter of textiles and clothing to the United States, rising from virtually nothing in this category in 2001. When the quota system of the international Multifiber Agreement expires in 2005, Vietnam – with lower labor costs than China – may take more of China's global market share in clothing and apparel. Nonetheless, Chinese investment in Vietnam is mounting. It more than doubled in 2003, even though China is still only 17th in terms of investment stock. Vietnam sent high-level emissaries to Beijing in search of new investment during the quarter, including Deputy Prime Minister Nguyen Tan Dung.

Border issues remained a problem. China's *Xinhua* news agency used unusually blunt language in reporting talks between China's Vice Premier Huang Ju and Nguyen Tan Dung Oct. 16, noting that Huang "demanded both sides tighten up their efforts in the

demarcation of land boundaries between China and Vietnam.” Hanoi appears caught between pressure from China to complete demarcating the border under a 1999 agreement, and dealing with domestic opposition to concessions made to China in that agreement. On Dec. 31 a second cyber-dissident who had criticized the 1999 agreement, Nguyen Vu Binh, was sentenced to seven years in prison on charges of espionage.

Implications

The themes China is bringing to its multilateral diplomacy in Southeast Asia – cooperative security, a greater role for the United Nations, “democratization” of international affairs, free trade and dismantling of protectionist measures, more attention to transnational issues including crime and narcotics, and noninterference in the domestic affairs of other countries – are highly attractive to Southeast Asian governments. Regional leaders are realists, unlikely to accept at face value China’s signature on a treaty foreswearing the use of force. The gesture has symbolic value, however. Like the Declaration on the South China Sea last year, it is a peg for further efforts to commit Asia’s rising giant to a peaceful course. Growing mutual economic interdependence between ASEAN states and China offers additional incentives for Beijing to be a peaceful neighbor. China’s burgeoning role in Southeast Asia is contributing to other important shifts in the region for which ASEAN governments can be grateful, including Japan’s renewed and vigorous economic diplomacy and India’s quickening interest.

A number of observers of China’s winning ways in Southeast Asia have concluded that the U.S. is being edged out of the region, and that China is claiming the role the U.S. has played for more than 50 years. But from the perspective of the ASEAN states, China’s regional rise does not mean an automatic decline in the importance of the U.S. If China is becoming the economic engine of Asia, American consumer demand is still the fuel. A substantial portion of ASEAN’s swelling exports to China consists of components for goods that are later exported to the U.S. Southeast Asian confidence-building with China is possible in large part because U.S.-China relations are currently good, and because the U.S. remains a military power in the region. On counterterrorism, where the U.S. message is sometimes seen as unpleasant or hectoring, ASEAN states realize that the terrorist threat to their interests is potentially devastating. They may differ on priorities, but most understand that there is no alternative to cooperation with Washington in rooting out terrorist networks.

China’s successes in Southeast Asia underline a more general message for Washington: success on counterterrorism, and hedging against a hostile China in the future, both require that the United States maintain a long-term, constructive involvement with the Southeast Asian governments, and with ASEAN as an organization, on a broad agenda of issues not limited to the immediate crises at hand.

Chronology of China-Southeast Asia Relations October-December 2003

Oct. 7-8, 2003: Chinese Premier Wen Jiabao and other senior Chinese officials participate in summit meetings with ASEAN heads of government, and with the ASEAN Plus Three – including Japan and the ROK – in Bali, Indonesia.

Oct. 8, 2003: Philippine Drug Enforcement Agency Chief Anselmo Avenido tells the press that China has provided information that led to the arrest of a major Chinese drug lord operating in the Philippines.

Oct. 10, 2003: Vietnamese business media report that Electricity of Vietnam will begin buying power from China in 2004, and will eventually invest in transmission lines capable of carrying from 100 to 400 MW from China. Interdependence in the region is growing: Vietnam currently buys electricity from Laos and sells electricity to Cambodia.

Oct. 10, 2003: Burmese electric power authorities sign a contract with the Sichuan Machinery and Equipment Company to provide a power transmission line between a new hydropower plant to be built in Ruili, in the northern Shan state, and Mandalay. Value of the project is \$35 million.

Oct. 16, 2003: China's *Xinhua* news agency uses unusually blunt language in reporting talks between China's Vice Premier Huang Ju and Nguyen Tan Dung Oct. 16, noting that Huang "demanded both sides tighten up their efforts in the demarcation of land boundaries between China and Vietnam."

Oct. 20-21, 2003: Chinese President Hu Jintao participates in the APEC summit meeting in Bangkok, and makes a state visit to Thailand.

Oct. 24, 2003: Cambodian Tourism Minister Veng Sereyvuth tells the press that China is his focus for increasing the number of visitors to Cambodia. In 2002, tourism generated 15 percent of Cambodia's GDP, according to *Xinhua*.

Oct. 25, 2003: Transport ministers from ASEAN and China meet in Rangoon to map out plans for building an integrated transport network linking southern China with mainland Southeast Asia.

Oct. 26, 2003: Gen. Phung Quang Thanh, chief of staff of the People's Army of Vietnam, meets in Beijing with Liang Guanglie, his Chinese counterpart.

Nov. 2-3, 2003: Second annual Bo'ao Forum for Asia held on Hainan Island, China.

Nov. 4, 2003: Malaysian Deputy Home Minister Datuk Chor Chee Heung tells the press that distribution of pamphlets in Malaysia by the Falun Gong religious group, banned in China, "smacks of political incitement," and notes that the government will pursue legal action against parties guilty of passing them out.

Nov. 6, 2003: Singapore Transport Minister Yeo Cheow, announces the opening of an airport management school in Xiamen province, jointly owned by Singapore Changi Airport and Xiamen International Airport Group.

Nov. 7, 2003: Philippine media reports the Armed Forces of the Philippines has discovered new territorial markers with Chinese inscriptions on several unoccupied reefs and shoals in the Spratly Islands and has monitored two PLA Navy vessels operating since September at Mischief Reef.

Nov. 10, 2003: Secretary of the Yunnan Communist Party provincial committee Bai Enpei leads a goodwill delegation to Cambodia and Vietnam.

Nov. 12-15, 2003: China and Laos hold a meeting in Luang Prabang to review border cooperation. Over the past year the two countries have refurbished 23 border markers between Yunnan and Lao territory.

Nov. 14, 2003: Thai and Chinese public health officials announce that they have jointly developed and tested an effective anti-AIDS medicine and will put it on the market later this year. The two countries have cooperated in research on cancer treatment, herbal medicine, and mental health.

Nov. 19, 2003: China and Singapore announce the launch of a joint council to promote political and economic cooperation, during a visit of Prime Minister Goh Chok Tong to Beijing. The council will focus on high-tech research, development of China's western region, and helping Chinese companies go global, among other issues. It will be co-chaired by Singapore Deputy Prime Minister Lee Hsieng Loong and Chinese Vice-Premier Wu Yi.

Nov. 21, 2003: The PLA navy missile destroyer Shenzhen and a supply vessel return to Zhanjiang Port after a 37-day cruise to Guam, Brunei – both PLA firsts – and Singapore.

Nov. 21, 2003: UN Secretariat announces that it will open the first UN regional office in China, the Asian and Pacific Center for Agricultural Engineering and Machinery, in Beijing. China contributed \$3.8 million to help establish the office.

Nov. 24, 2003: Gen. Xiong Guangkai, deputy chief of general staff of the People's Liberation Army of China, exchanges views on the international and regional situation with Gen. Chaisit Shinawatra, commander of the Royal Thai Army, during his visit to Beijing.

Nov. 25, 2003: The Chinese government organizes a "Global Get-together of Overseas Chinese and People of Chinese Origin in Vietnam, Cambodia, and Laos" in Guangzhou reportedly attracting close to 1,000 guests. Senior Chinese leaders announce Beijing will provide better service to overseas Chinese wishing to participate in economic, cultural, and scientific exchanges.

Nov. 30, 2003: Wu Quanxu, deputy chief of the PLA General Staff, leads a delegation to Burma, Bangladesh, and India.

Dec. 3, 2003: Da'i Bachtiar, chief of Indonesia's national police, meets with Chinese State Councilor Zhou Yongkang in Beijing. Bachtiar signs an agreement on police cooperation with China.

Dec. 8, 2003: Ten Lao law enforcement officers depart Kunming after finishing legal training at the Yunnan Provincial People's Court, under a bilateral agreement to increase judicial exchanges and cooperation.

Dec. 18, 2003: Manila sources report that the Philippines has decided to opt out of "early harvest" agricultural tariff cuts under the China-ASEAN FTA framework agreement. It will be the only ASEAN member to do so. They left open the possibility of joining later.

Dec. 19, 2003: China joins an ASEAN Plus Three meeting of environmental ministers in Rangoon.

Dec. 21, 2003: Philippine President Gloria Macapagal-Arroyo tells China's special envoy to the funeral of Foreign Minister Blas Ople that she appreciates China's valuable support and assistance to Philippine agriculture and infrastructure development, and believes that prospects for economic cooperation between the two countries are "vast."

China-Taiwan Relations: Strains over Cross-Strait Relations

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Taiwan President Chen Shui-bian continued to press his proposals for referenda and plans for a new Taiwan constitution in the campaign for the presidential election next March. Beijing tried to respond to his moves at a low level, but the prospect of Legislative Yuan (LY) adoption of a law permitting referenda on sovereignty issues forced Beijing to heighten its rhetoric and appeal to Washington to counter Chen's plans. Chen's decision not to keep Washington informed in advance of his moves heightened the Bush administration's concerns about Chen's long-term intentions. Washington's quiet diplomatic communications had little effect on Chen. So, when Chinese Premier Wen Jiabao visited, President Bush addressed the issue and made clear his concerns about possible steps by Chen to unilaterally change the cross-Strait status quo. Nevertheless, Chen announced he would proceed with his plan for a referendum next March. The campaign will continue to determine the temperature of cross-Strait relations and the outcome will have a major impact as the two candidates' approaches to China differ markedly.

A New Constitution: Taiwanese Nationalism and Political Reform

At the end of last quarter, President Chen had announced his goal of drafting a new constitution for Taiwan. Chen did this without consulting Washington or even his own administration. Chen said that the new constitution would transform Taiwan into a "normal, complete, and great" country. When the Democratic Progressive Party (DPP) announced its election platform, establishing a new constitution was put together with the rejection of the "one China" principle and promotion of the concept of "one country on each side (of the Strait)." The DPP subsequently outlined the procedural steps Chen envisages: an advisory committee would devise procedures for choosing a constitutional council that would meet in 2005 and complete drafting a new constitution by Human Rights Day in December 2006. The draft constitution would be submitted to a referendum in time for its implementation in May 2008 at the end of Chen's second term.

This package was designed to set forth a vision for Taiwan's future that would appeal to and mobilize support from the DPP's traditional base among "fundamentalist" advocates of Taiwan independence. Turning out these traditional supporters is essential to Chen's reelection. As many of the DPP's traditional supporters have been disappointed by Chen's performance, he cannot take their support for granted. At the same time, Chen has sought to explain and sell the need for a new constitution not explicitly in terms of

Taiwanese nationalism but as democratic political reform needed to address real problems in Taiwan's political system. This message is addressed to middle of the road voters whose support Chen needs if he is to expand his support beyond the 39 percent he won in 2000. The political reform theme resonates with these voters and builds upon the antipolitical corruption (black gold politics) theme Chen used so successfully in the 2000 presidential campaign.

Referendum Proposal ups Ante for Beijing

This summer after Beijing's callous handling of Taiwan during the SARS outbreak, Chen announced his intention to hold a referendum on World Health Organization (WHO) membership. There were both short-term and long-term goals behind Chen's push for referenda. The short-term objective was to use the referendum to play up PRC hostility toward Taiwan during the campaign. The long-term goal was to establish the practice of holding referenda so that referenda could be held in the future on sovereignty issues as the DPP had long advocated.

Having failed to get the LY to act earlier to provide a legal basis for referenda, the Executive Yuan (EY) proposed its own draft referenda legislation. As the draft had no limitation on the subjects of referenda, it accommodated both Chen's immediate and long-term goals. The opposition controlled legislature then passed a Referendum Law that strictly limited the topics and procedures for referenda, including a provision prohibiting the executive branch from initiating referenda. However, the new law did include a separate provision authorizing the president to conduct "defensive referenda" when the country faced a crisis threatening its sovereignty. With no other way for him to have the referendum he desired in March, Chen seized on this provision to announce that he would hold a defensive referendum at the time of the presidential election. After discussion within the DPP, Chen announced on Dec. 8 that the defensive referendum would call on Beijing to remove missiles opposite Taiwan and renounce the use of force in cross-Strait relations.

Throughout the summer and fall, Beijing was seriously concerned by Chen's referenda and constitutional reform proposals. Recognizing that a threatening reaction would play into Chen's hands, Beijing reacted in a restrained fashion and followed a policy of allowing no one other than the Taiwan Affairs Office (TAO) to comment on Taiwan issues. During October and November, the TAO issued a string of increasingly sharp comments and written statements warning that Chen's maneuvers would lead Taiwan to the brink of disaster.

At the same time, recognizing the limits of its own influence, Beijing urged Washington to block Chen's referendum plans. Beijing's concerns were conveyed to President Bush at the October Asia-Pacific Economic Cooperation (APEC) Leaders Meeting in Bangkok, in several telephone calls to Secretary Colin Powell, and through diplomatic channels. The LY's final consideration of the Referendum Law and the lead-up to Premier Wen Jiabao's visit to Washington in early December modified the restraint in Beijing's response. In a pre-departure interview with the *Washington Post*, Wen emphasized

China's commitment to a peaceful resolution of the Taiwan issue but warned against separatist forces in Taiwan and called on Washington to block Chen's referendum plans. On Dec. 3, PLA Gen. Peng Guangqian said Beijing would "pay any price" to prevent Taiwan's independence.

Washington Grapples with its Taiwan Policy

During the summer and fall, Washington was concerned that Chen's campaign initiatives could have potential long-term implications for the U.S. interest in preserving peace in the Taiwan Strait. For its own reasons and in response to Chinese requests, the Bush administration sought through diplomacy and public statements to convey its concerns to Chen. Shortly after Chen launched his constitutional proposal, National Security Advisor Condeleezza Rice at a press conference urged both Taipei and Beijing to avoid unilateral steps that would change the status quo. She reiterated the "one China" premise of Washington's policies and called upon all parties to adhere to "one China."

Washington's efforts to get its message through were complicated by existing plans for President Chen's transit of New York in early November. Despite Chen's campaign moves, the generous transit terms agreed to earlier that allowed Chen to receive a human rights award at a gala public ceremony in New York were not changed. Chen accurately portrayed his treatment in New York as better than allowed on previous transits. In short, Washington's courtesies to the leader of a friendly democracy undercut its messages of concern about President Chen's plans. To add to the confusion about Washington's message, Chairwoman Theresa Shaheen of the American Institute in Taiwan (AIT) privately commented to Chen in New York that President Bush was his "secret guardian angel." Chen publicized this unauthorized comment to convey the image that Washington supported him, and many in Taiwan began to believe that Chen was Washington's preferred candidate, despite official U.S. statements of election neutrality.

Premier Wen's Visit to Washington

After Chen announced his intention to hold a defensive referendum, Washington redoubled its efforts to get across its message about avoiding provocative steps or actions that would unilaterally change the status quo. The White House spokesman made this point publicly and a senior NSC official was more explicit in an interview to Phoenix TV in Hong Kong. Washington dispatched NSC Asia Director James Moriarty on a discreet trip to Taipei reportedly bearing a personal message to Chen from Bush. Nevertheless, on Dec. 8, Chen announced the missile withdrawal and non-use of force issues he would put to a referendum next March. At a campaign rally that day, Chen told supporters that he had successfully managed Washington on the referendum issue.

On Dec. 9, Premier Wen met Bush at the White House. In their brief press conference, President Bush restated the U.S. "one China" policy based on the three U.S.-China communiqués and the Taiwan Relations Act and recalled that the U.S. had urged both sides to avoid unilateral steps that would change the status quo. Bush then went on to say "the comments and actions by the leader of Taiwan indicate that he may be willing to

make decisions unilaterally to change the status quo, which we oppose.” While not a change of policy, this public presidential rebuke of Chen is the sharpest criticism of Taiwan voiced by any U.S. president since diplomatic relations were broken in 1978 and a clear indication of the current strains in U.S.-Taiwan relations. At the same press conference, Wen reiterated Beijing’s pursuit of a peaceful resolution of the Taiwan issue but warned that Beijing would not tolerate Taiwan independence. Wen also thanked Bush for telling him of his “opposition” to Taiwan independence. When Wen made this statement, Bush’s head was seen nodding in agreement – a confirmation that while public policy is that the U.S. “does not support” independence, the president has been telling Chinese leaders privately that he “opposes” independence.

Bush’s unusual criticism of Chen will not be the last words on U.S. policy. Chen subsequently reaffirmed his intention to hold the defensive referendum as planned. Despite the bluntness of the president’s statement, the Chen administration has with some success tried to put a positive face on developments. They have said, accurately, that the president’s statement is not a change in policy. Chen’s campaign has emphasized that U.S. support for Taiwan’s defense remains strong and thanked Bush for telling Wen privately that the U.S. would support Taiwan if Beijing used force. Although Washington officials have said they do not support a defensive referendum because it will unnecessarily raise tension in the Strait, Chen has commented that his planned referendum does not contravene Washington’s wishes because it does not seek to change the status quo.

Cross-Strait Transport and Lunar New Year Charter Flights

Against the backdrop of these major policy issues, there was some jockeying over practical cross-Strait issues. In response to public pressure for special cross-Strait travel arrangements at the coming Chinese New Year, Taipei’s Mainland Affairs Council (MAC) made proposals for a repeat of the special lunar New Year charter flights made last New Year. Unfortunately, the MAC proposals seemed designed to be rejected by Beijing because they excluded PRC carriers from participating in the arrangement. Beijing’s TAO responded to the proposals by reiterating that this year PRC carriers should participate and by calling for negotiations between airline associations to work out the arrangements. In response, the MAC said that it could be possible for PRC carriers to participate. However, although the recently passed amendments to Taipei’s Cross-Strait Relations Statute permit the government to authorize airline associations to negotiate such arrangements, the MAC stated that arrangements for PRC carrier participation would have to be negotiated between the quasi-official Straits Exchange Foundation (SEF) and its counterpart the Association for Relations Across the Taiwan Straits (ARATS). Taipei knew that this requirement would be unacceptable to Beijing.

In late December, MAC Vice Chairman Chen Ming-tung commented that it seemed unlikely that lunar New Year charters would occur. Chen’s comment – that the basic problem was Beijing’s unwillingness to recognize Taipei – was an indication that Taipei placed more importance on pressing Beijing for political benefit than working out

practical travel arrangements and that Chen saw campaign advantage in blaming Beijing for the failure to arrange charters.

In December, the TAO published a long report on the “three links” and cross-Strait transportation issues. The report was in part a response to and critique of the report on these issues released by the MAC during the summer. The TAO report restates Beijing’s strong desire to expand cross-Strait economic relations by resolving problems affecting cross-Strait transportation. The report reiterates that SEF-ARATS negotiations on these issues will only be possible on the basis of the “one China” principle. The report is important primarily because it lays out in considerable detail Beijing’s current views on how nongovernmental airline and shipping associations could negotiate transportation issues with the involvement of government representatives on each side. Taipei’s amended Cross-Strait Relations Statute would permit Taipei to negotiate in this manner, if Taipei should choose to do so. Progress on these issues will have to await the outcome of the Taiwan election.

Continued International Competition

With a couple of SARS cases reappearing in Taiwan and China, the prospect of another bitter contest over Taiwan participation in the WHO looms ahead. PRC spokesman have continued to state Chinese opposition to Taiwan’s participation in the WHO and unfortunately have shown no indication of flexibility on an issue that has come to symbolize in Taiwan perceptions of PRC hostility and has hurt China’s international image.

In October, after the fall of the Charles Taylor government, Beijing established diplomatic relations with Liberia and Taipei announced that its diplomatic ties had ended. In November, a change of leadership in Kiribati led to Kiribati’s decision to establish diplomatic relations with Taiwan. Because China had a satellite tracking facility important for its space program in Kiribati, Beijing did not immediately break its diplomatic relations but sought to have the decision reversed. Hence for a few weeks, tiny Kiribati was the only country able to maintain diplomatic relations with both Taipei and Beijing. However, on November 29, when it was clear that Kiribati’s decision was firm and when the satellite tracking facility had been removed, Beijing broke diplomatic relations.

Economic and other Developments

As has been the past pattern, cross-Strait economic relations have continued to grow rapidly despite political frictions. According to PRC statistics, cross-Strait trade through October was up 29.4 percent over the same period last year and was on course to exceed \$50 billion in 2004. This year Taiwan’s imports from China, which were up 36 percent, have grown more rapidly than Taiwan’s exports to China. Taiwan’s Ministry of economic affairs reported that Taiwan imports through September were \$7.7 billion and were likely to exceed \$10 billion this year.

Taiwan's investments also continued to grow despite repeated rhetorical efforts by the Chen administration to discourage them. Taipei's Investment Commission reported that Taiwan investment approvals for the mainland were up 17 percent through October and accounted for about 70 percent of Taiwan's total approved foreign direct investments.

In December, the Hong Kong media ran a story, subsequently confirmed in Beijing, that the PRC had broken up a ring suspected of spying for Taiwan, arresting 24 Taiwanese, mainly businessmen, and 19 PRC citizens. The day after the arrests were confirmed, Beijing hurriedly arranged for the heads of Taiwan Enterprise Associations around China to come to Beijing for a meeting with President Hu Jintao. According to the *Xinhua News Agency*, Hu spent most of his time reassuring the Taiwanese of China's support for Taiwanese investors. This is another indication of the importance Beijing places on encouraging investments from Taiwan.

For years, PRC fishing personnel working on Taiwan fishing boats in waters around Taiwan were not permitted to land on Taiwan. Instead, Taiwan fishing companies contracted for floating hotels where PRC fishing personnel could spend time between jobs. A disastrous fire in one floating hotel last year led to PRC protests and calls for reform. In December, Taiwan began permitting PRC fisherman to reside in hotels on shore, resolving one small practical problem in cross-Strait relations. In November, a Taiwan court found guilty and sentenced to death a Taiwanese smuggler responsible for a tragic incident in which illegal workers from China were pushed off a smuggling boat being pursued by the Coast Guard leading to the deaths of six Chinese women.

China's first manned space flight in October was front page news in many parts of the world and a source of pride for Chinese at home and overseas. However, in Taiwan, China's accomplishment received scant attention and inside page coverage. Media commentary, to the extent it was made in Taiwan, generally accentuated negative themes such as the military's role in the space program and the diversion of resources that might have been used for poverty alleviation. In the current highly politicized context of cross-Strait issues on Taiwan, particularly after the SARS controversies, it appears difficult for people in Taiwan to identify even with China's positive accomplishments.

Policy Implications

Campaign developments will continue to determine the temperature of cross-Strait relations. President Chen has shown himself determined to use a referendum next March to heighten perceptions of PRC threats and hostility toward Taiwan. What further impact the campaign will have on cross-Strait issues remains to be seen. The election outcome will be a major influence on future developments because the two contending candidates represent very different approaches to China.

Two years ago, U.S.-Taiwan relations were at a high point. President Chen's campaign maneuvers have now subjected relations between Taipei and Washington to the greatest strains seen since relations were broken 25 years ago. Ironically, these strains have now contributed to the improvement of relations between Washington and Beijing. While

President Chen has laid out plans for constitutional reform and hinted to his fundamentalist DPP supporters that this would change Taiwan's status, he has sought to reassure the U.S., though inconsistently, that he would abide by his inaugural pledges not to change the status quo. With such uncertainty about Chen's future intentions, the Bush administration has correctly moved to warn Chen against unilateral efforts to change the status quo. Unfortunately, even after the president's personal interventions, U.S. policy is still not accurately interpreted in Taiwan. Part of the problem is that Washington's unqualified support for Taiwan's defense tends to undercut the policy message that Washington has been endeavoring to convey to the Chen administration.

Chronology of China-Taiwan Relations October-December 2003

- Oct. 1, 2003:** *Xinhua* article calls Chen a "hopeless Taiwan independence element."
- Oct. 4, 2003:** Chen says Taiwan should become a "normal, complete, great state."
- Oct. 7, 2003:** In the *Washington Post*, Chen calls for end of "one China" concept and acceptance of "one country on each side."
- Oct. 8, 2003:** TAO spokesman says Chen statements extremely dangerous.
- Oct. 9, 2003:** LY adopts extensive amendments to Cross-Strait Relations Statute.
- Oct. 13, 2003:** Beijing establishes diplomatic relations with Liberia; Taiwan's relations end.
- Oct. 15, 2003:** First PRC manned space flight.
- Oct. 15, 2003:** NSC's Rice calls on both sides to avoid unilateral steps to change cross-Strait status quo and to abide by "one China" policy.
- Oct. 17, 2003:** Chen meets AIT Chairwoman Shaheen.
- Oct. 19, 2003:** Presidents Bush and Hu meet at APEC; Bush expresses opposition to Taiwan independence.
- Oct. 20, 2003:** KMT candidate Lien Chan in Washington.
- Oct. 24, 2003:** Hu Jintao addresses Australian Parliament, asks Australia to support unification.
- Oct. 26, 2003:** TAO spokesman says pursuit of independence will bring Taiwan to disaster.

Oct. 29, 2003: Cabinet proposes referendum law with no limit on issues subject to referenda.

Oct. 31, 2003: Visiting U.S. navy group estimates cost of submarines at \$8.6-11.7 billion.

Oct. 31, 2003: Chen transits New York; receives human rights award.

Nov. 1, 2003: AIT's Shaheen tells Chen that Bush is his "secret guardian angel."

Nov. 3, 2003: Chen and Secretary Powell shake hands at Panama ceremony.

Nov. 4, 2003: Chinese FM Li Zhaoxing calls Powell to protest his contact with Chen.

Nov. 5, 2003: Powell gives speech reiterating U.S. policy and adherence to "one China" policy.

Nov. 6, 2003: Beijing gives four PRC banks approval to set up offices in Taiwan.

Nov. 7, 2003: Taiwan establishes diplomatic relations with Kiribati; PRC does not immediately break relations until removal of satellite tracking station is complete.

Nov. 11, 2003: Chen tells Brookings delegation he hopes to draft constitution by 2006, and submit it to referendum and implement by 2008.

Nov. 12, 2003: TAO spokesman repeats that Chen is leading Taiwan to disaster.

Nov. 13, 2003: MAC's Tsai Ing-wen in Washington, describes democratic rationale for new constitution.

Nov. 15, 2003: *Agence France Presse* reports U.S. delivers *AIM-120* air-to-air missiles to Taiwan.

Nov. 17, 2003: TAO issues strong written statement warning Chen against separatism.

Nov. 18, 2003: Taiwan expels visiting PRC documents authentication delegation.

Nov. 19, 2003: State Dept.'s Randall Schriver repeats U.S. policy urging both sides to avoid unilateral steps to change status quo.

Nov. 21, 2003: Premier Yu Shyi-kun authorizes SEF to negotiate charter air flights for lunar New Year.

Nov. 22, 2003: MAC announces proposals for Taiwan carriers to fly lunar New Year charter flights.

Nov. 23, 2003: In *Washington Post*, Premier Wen calls on U.S. to block referenda in Taiwan.

Nov. 25, 2003: DPP publishes procedures for drafting new constitution.

Nov. 26, 2003: Taiwan court sentences to death human smugglers responsible for deaths of Chinese illegal workers.

Nov. 26, 2003: TAO says airline associations should negotiate lunar New Year charter flights.

Nov. 27, 2003: LY adopts restrictive Referendum Law proposed by KMT and PFP.

Nov. 29, 2003: Beijing officially ends relations with Kiribati.

Dec. 1, 2003: NSC's James Moriarty makes discreet visit to Taipei with message from Bush.

Dec. 2, 2003: Taipei permits PRC fishing personnel to reside in on-shore hotels.

Dec. 3, 2003: PLA Gen. Peng Guangqian says Chen is taking Taiwan "to brink of war," says PRC will "pay any price" to prevent independence.

Dec. 3, 2003: Vice FM Zhou Wenzhong calls on U.S. to stop upgrading relations with Taiwan.

Dec. 4, 2003: White House spokesman calls on both sides to avoid steps to change cross-strait status quo.

Dec. 5, 2003: Chen tells Sen. Jeff Bingaman (D-NM) he will abide by his inaugural pledges.

Dec. 8, 2003: Chen announces topics for "defensive referendum" to be held on March 20.

Dec. 9, 2003: Bush meets Wen, says U.S. opposes Taipei's effort to unilaterally change status quo.

Dec. 10, 2003: Chen says he will proceed with referendum as planned.

Dec. 10, 2003: ARATS calls for association negotiation on lunar New Year charter flights; says PRC air carriers must participate.

Dec. 11, 2003: MAC says PRC carriers can join lunar New Year charter flights, but SEF must be involved in negotiating arrangements.

Dec. 11, 2003: DPP Convention; campaign theme “Believe in Taiwan, Insist on Reform”; Annette Lu chosen as running mate.

Dec. 12, 2003: Chen calls on U.S. to adhere to its values and support Taiwan democracy.

Dec. 15, 2003: U.S.-Taiwan joint war game begins in Hawaii.

Dec. 17, 2003: TAO releases report on “three links.”

Dec. 18, 2003: Taiwan Vice Minister of Defense Lin Chong-pin visits Washington.

Dec. 19, 2003: DPP commissioned report recommends Taiwan develop missiles.

Dec. 22, 2003: KMT Chairman Lien says “one country on each side” an accurate description.

Dec. 22, 2003: President Chen comments that his “five noes” have ceased to exist.

Dec. 22, 2003: Cabinet Commission publishes “Taiwan in 2010” defense report.

Dec. 24, 2003: *Xinhua* announces arrest of 24 Taiwanese for spying.

Dec. 25, 2003: President Hu meets Taiwanese investor association representatives, gives reassurances on support for Taiwan investments.

Dec. 26, 2003: Former Japanese PM Mori Yoshiro conveys message from PM Koizumi Junichiro to Chen that Japan does not wish to see referenda in Taiwan.

Dec. 30, 2003: Taipei press reports TAO’s Zhou Minghui removed from office.

North Korea – South Korea Relations: Simulacrum or Substance?

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The final quarter of 2003 saw no dramatic developments in inter-Korean ties, either positive or negative. Rather, the picture was one of steady interaction across a now established range of contacts: political, economic, transport, social, cultural, and more. The chronology that accompanies this article tells its own story. There is far more going on now between the two Koreas than when *Comparative Connections* began to cover this bilateral relationship less than four years ago – let alone in the preceding half-century of hostility and minimal contacts.

Yet this new pattern is itself doubly remarkable. First, it suggests that at long last North-South relations have become institutionalized and firmly rooted. The on-off pattern of the past looks to have been superseded by permanent and continuous interaction, if still somewhat shallow. Secondly, this de facto normalization has occurred during, and despite, the still unresolved nuclear crisis. In the past, one side or the other would have used this as a reason or pretext to curtail or even break off ties. But depending on its outcome, this may yet pose an obstacle to deepening inter-Korean relations beyond the level reached at this relatively early stage.

Nuclear Events – and non-Events

Inevitably, nuclear matters did cast their shadow. Seoul pressed this issue at the 12th inter-Korean ministerial meetings, held in Pyongyang in mid-October with the result that no joint agreement was reached, except on the date of the next meeting. Otherwise the nuclear issue was mainly dealt with multilaterally, as busy shuttle diplomacy – in every permutation – tried to arrange a second round of six-party talks in Beijing before the end of 2003. Despite these efforts, that goal proved impossible; mainly because of continuing divisions between the U.S. and North Korea on who should move first, how far, and how soon. Hopes are now fixed on January, but at this writing neither a meeting nor its success are by any means assured.

Meanwhile, the efforts to reconvene the six-party talks continued to expose fault lines among allies. Ex-President Kim Dae-jung's call on both Pyongyang and Washington to compromise was echoed to a degree by the incumbent administration in Seoul. Thus the contentious issue of whether to commit further ROK troops to Iraq, eventually answered in the affirmative, was openly debated as a quid pro quo for the Bush administration easing up on Kim Jong-il. While Japan echoed the U.S. in taking a firm line, South

Korea seemed closer to the Chinese and Russian position: in effect, that there are two stubborn heads – one being its own ally and protector – that need cracking together, if the six-way process is to resume and go forward.

KEDO, RIP?

Another ramification of the nuclear issue, one directly impacting on inter-Korean ties, was the announcement in November by the Korean Peninsula Energy Development Organization (KEDO) that its light-water reactor (LWR) project at Kumho in the DPRK will be suspended for one year, effective Dec. 1. Although at one level this merely formalized the limbo into which this project – about one-third complete, with no critical parts yet delivered – had fallen in the year since the nuclear crisis arose, here again this revealed allies at odds. While South Korea expressed the hope that work could resume a year hence, the U.S. ambassador in Seoul said that he saw no future for the LWRs. (Personally, Tom Hubbard may well feel otherwise: under the Clinton administration he had been instrumental in helping to set up KEDO.)

For Seoul, even a suspension of the LWRs has immediate practical consequences. As main constructor and financier, the ROK has already poured almost \$1 billion into this project. Of the cumulative \$1.15 billion that South Korean firms have invested in the North since 1996, 83 percent relates to the LWRs; most of it is by KEPCO, the state-owned ROK electricity generator and distributor. (One may feel it is misleading to classify so patently political a project, by an arm of government, as a business investment, yet if this is removed, the quantum of private ROK investment in the DPRK over eight years is exiguous indeed.) Seoul does not want to see this money go down the drain, nor the hopes and symbolism also invested. More immediately, the several hundred Southern engineers who remain at Kumho are in principle vulnerable to any Northern reprisals. Pyongyang has threatened to take over the site; already many small ROK subcontractors are unable to retrieve equipment, and some may go bankrupt unless assisted.

Cross-Border Connections

Despite these nuclear difficulties, however, other inter-Korean projects forged ahead during the quarter. Plans to relink North and South by road and rail through two corridors across the Demilitarized Zone (DMZ) were the subject of many meetings at various levels. Not all went smoothly, but even the rows were of the constructive kind: how to solve real knotty practical problems, rather than stalling or grandstanding. Thus, security aspects of breaching what remains the world's most heavily armed frontier are obviously crucial. In December, at the third attempt, agreement was reached on where to put military guard posts to guarantee safe passage for construction and other traffic.

That traffic is growing, even on the temporary tracks that are all that exist so far. It is now routine for working-level meetings to be held in towns near the DMZ – Kaesong or Kumgang in the North, Munsan or Sokcho in the South – and for the other side to commute across the border. Hyundai tours also mainly go overland to Kumgang now.

Exceptionally, in October a 1,100-strong convoy in 28 buses drove from Seoul to Pyongyang, for the opening of another Hyundai gift: a \$56 million gymnasium. The visitors encountered market women selling souvenirs and art works for U.S. dollars and euros, with no fixed prices and much haggling. October also saw the first private sector trans-DMZ trucking trip. Korea Express (KorEx), the ROK's largest logistics operator, carried 100,000 roof tiles to Kaesong, the first batch of 400,000 donated by Southern Buddhists to help restore a temple in this ancient capital city.

Kaesong Takes Shape

At some levels, North Korea is undoubtedly changing. Yet it is hard to imagine the hermit Kimdom allowing free passage across the DMZ. Even the planned Kaesong Industrial Zone, where hopes of becoming to Seoul what Shenzhen is to Hong Kong hinge on luring Southern firms to invest there, has yet to agree on the unimpeded movement of people and goods that is essential if investors are to turn a profit. Still, Kaesong is making progress. In December, the DPRK Supreme People's Assembly promulgated detailed residence, customs, and management regulations for the Zone. Some wording raised eyebrows: those banned from entry include "international terrorists, drug addicts, [and] lunatics." There is also concern at a ban on taking out "printed materials ... films, photos, cassettes and video tapes, records [and] compact disks," items that firms will obviously need to carry back and forth.

But subject to this being eased, in general Seoul welcomed these very detailed rules as a sign that Pyongyang is serious about making a go of Kaesong. A basic monthly wage of \$57.50 for a 48-hour week, and a corporate tax rate half the South's (14 percent as against 27 percent), are also seen as encouraging. Yet obstacles remain. In December, the ROK Commerce, Industry, and Energy Ministry (MOCIE) said that high-tech manufacturing, classified as strategic and of potential dual use for military purposes, will not be allowed to move to Kaesong for fear of violating the Wassenaar Convention and other treaties restricting transfers to rogue states. Permitted sectors are thus of lower grade: farm produce, foodstuffs, textiles, fabrics, and simple electronics appliances.

Another problem, noted by the (South) Korean Chamber of Commerce and Industry (KCCI), is that many countries impose high tariffs on goods from North Korea, which has few most favored nation (MFN) agreements. To get around this, MOCIE suggests using Kaesong to make parts and intermediate goods, with final production in the South as country of origin. If adhered to, both these security and commercial restrictions will surely inhibit Kaesong from attaining its full potential – let alone the depth of business integration that now exists between China and Taiwan, despite the inherent security risk to the latter in transferring advanced technologies to the mainland. Still, all this is some way down the road. Kaesong is not due to come on stream until 2007, although a pilot project may get off the ground in 2004. A joint office to handle practical problems is also scheduled to open in the new year.

Main Market, but not Making Money

Other business links are gathering pace. Inter-Korean trade in 2003 is expected to reach \$700 million, making the South the North's second largest partner, close behind China, and its main export market. Although flows from South to North are more aid than trade, overall the proportion of genuine commerce is rising. A survey by the Korea Development Institute (KDI), a leading official think tank, found both experts and firms united in expecting North-South business to grow in 2004 – even though barely 40 percent of the latter said they made any money from it. That must change or Kaesong will have few takers. Hyundai, whose decline and fall from being Korea's biggest conglomerate was in no small part due to throwing cash at Kim Jong-il, stands as a dire warning of the risks of a loss-leader approach to the North.

More generally, is the inter-Korean glass half-full or half-empty? The trickle is picking up, yet it is little and late. A mere \$700 million in bilateral trade, after 15 years, contrasts with the multibillion dollar flows between China and Taiwan, whose business thaw began around the same time. Likewise on investment: the aforementioned \$1.15 billion cumulative total over eight years is puny, and minuscule if the LWR project is stripped out. Of the under \$200 million remaining, \$150 million is by Hyundai, a figure that evidently excludes both the crippling \$938 million paid over six years to license the Mt. Kumgang tours (on top of which Hyundai has had to build all its own infrastructure), and \$500 million (at least) sent covertly just before the June 2000 summit, allegedly for further vague business rights. That leaves just \$50 million, half of which is Pyonghwa Motor's car assembly plant at Nampo. As an affiliate of the Unification Church, Pyonghwa is not looking to make money any time soon. What then remains is a handful of tiny projects, with the big *chaebol* – seeing how Hyundai got burned – conspicuously absent. In sum, serious South Korean investment in the North has yet to begin.

Playing Games, Unsportingly

As ever, inter-Korean intercourse has its seamy side. South Korea's island province of Cheju has forged its own links with North Korea, mainly by gifts of tangerines. In October, Cheju hosted a Korean Peace Festival, nominally unofficial. North Korea agreed to send some 400 participants, including the glamorous cheerleaders and female brass band seen at the Asian Games in Pusan and the Taegu student games last summer. Claims by the opposition Grand National Party that North Korea was being paid for this were indignantly denied. At the last minute Pyongyang halved its delegation, excluding the "cheerbots" (as cynics call them) and band. The 190 who did come, by direct flight, arrived late. Cheju put on a brave face, and the show went on – but at the end the Northern squad refused to leave unless paid in full, despite not fulfilling their side of the deal. That let the cat out of the bag. Unification Minister Jeong Se-hyun admitted deceiving the National Assembly when he denied knowledge of any payment to the North over Cheju. Despite acknowledging his perjury, Jeong remains in post.

While an overtly commercial arrangement to hire the DPRK's services would be acceptable, it beggars belief that such backhanders and official dishonesty still persist,

with no lessons learned from the “cash for peace” scandal (when it transpired that the June 2000 summit was preceded by illicit transfers of \$500 million to Pyongyang by Hyundai, of which at least \$100 million was from the ROK government). In December, in the most severe sentence yet meted out for this, Park Jie-won, once Kim Dae-jung’s chief of staff and closest adviser, was jailed for 12 years, his offense being to take a \$13 million bribe from Hyundai for facilitating this transaction and other services. So it is dismaying that some in Seoul have yet to learn the difference between sunshine and moonshine, or to grasp how badly the latter can corrode the former. Now that inter-Korean contacts are an established fact, there can be no conceivable excuse for charades and secret payments. Full disclosure and transparency are crucial.

Tours Pause: Cause?

It goes without saying that inter-Korean progress is anything but steadily cumulative. Our last issue reported the first ever tours of Pyongyang for South Koreans (organized by Pyonghwa, an affiliate of the Unification Church), with direct flights from Seoul. After a mere six weeks, North Korea suspended these in late October, citing “tourist safety problems during the winter and the fatigue of local tour guides.” Operations are due to resume next April. We shall see: one imagines that Hyundai may have protested at this plum route being awarded to a rival.

Center Agreed, but no Reunions

In November, the two Koreas finally agreed to build a dedicated facility for family reunions at Mt. Kumgang. Work on a 20,000-sq. meter building – not as big as the North wanted, but larger than the South thought necessary – will start in April, for completion in 2005. Seoul will of course pay, with Pyongyang providing materials and labor. Hopefully this will permit larger and more frequent reunions than hitherto. The past quarter saw none at all, yet elderly Koreans who yearn to see their loved ones after half a century apart are rapidly dying off.

Seeking Sanctuary

As ever, the warmth of Sunshine clashed with the odd chilly wind. Twice in October South Korea’s embassy in Beijing suspended consular services as it was overwhelmed by North Koreans camping out there while waiting to leave for Seoul. After 2002’s highly publicized dashes for sanctuary by would-be defectors to various diplomatic missions in China, this has now settled into a routine. Despite a strong security presence to stop them, a steady trickle of North Koreans succeed in gaining sanctuary, often with forged documents. Once inside, they are allowed to leave for Seoul – eventually. The much larger numbers outside get no official support or encouragement from the ROK, whose priorities are not to upset either China or the DPRK regime. Just occasionally Seoul is shamed into action, as in November when an elderly man arrested in China with false papers turned out to be one of their own: a South Korean prisoner of war, illegally detained by North Korea for half a century, with his wife.

With ever rising numbers – 1,047 in 2003 as of Nov. 11, 10 percent more than in 2002 – the ROK Unification Ministry’s reception facility, Hanawon, has had to be extended. It also emerged in October that since 1993, 10 military facilities near the DMZ have been designated to serve as temporary shelters in the event of a possible mass influx of refugees. It is believed, and to be hoped, that South Korea has many such secret contingency plans if it has to cope with scenarios less benign than the soft landing that official policy seems to take for granted.

Well outside the new Seoul consensus, ironically, is former Korean Workers’ Party (KWP) secretary Hwang Jang-yop, the most senior DPRK defector in the ROK. Under Kim Dae-jung, Hwang was forbidden to travel to Washington for fear his outspoken hostility to Kim Jong-il (whom he once tutored) would upset Pyongyang. But Roh Moo-hyun relented, and in October Hwang finally made the trip. Despite rumors that he would seek asylum in the U.S. or try to create a government in exile, Hwang’s impact was relatively muted.

Song Sung Blue

More controversial was the continuing sorry saga of Song Du-yul. This radical dissident, long resident in Germany where he teaches philosophy and has citizenship, posed a problem by returning to Seoul in September after 36 years of exile. Hwang Jang-yop has accused him of being an alternate member of the KWP Politburo under the alias Kim Chol-su. Song denies this, but admits using the alias and taking money from North Korea, which he claims was for promoting Korean studies in Europe. In October, after much voluntary questioning, Song was arrested and formally charged under the ROK’s National Security Law. His case continues to divide South Koreans, exposing the faultlines (largely generational) between old hawks, to whom he is a traitor, and young doves who see him as a victim of a now outmoded history. It is puzzling why the government did not simply deport him to avoid prolonged controversy.

The Sound of One Hand Giving

Even if Song was, as he claims, a well-meaning free-floating intellectual who tried to bridge and transcend the North-South divide, he seems at best naïve. Yet he is not alone in woolly thinking. However much one yearns for Korea’s reunification, the outlook behind the new orthodoxy in Seoul begs as many questions as the old Cold War stance whose mirror image it is. A simplistic nationalism views inter-Korean ties as the belated reconciliation of two halves of one nation, cruelly sundered by foreigners over half a century ago. Yet even at the outset Koreans fought each other not solely as pawns of the superpowers, but because they differed violently over what kind of society they wished to create in their newly liberated land. The Cold War, red-hot in Korea, was neither simply pointless nor wholly imposed from outside.

This aspect now seems largely forgotten in Seoul, where better ties (or a simulacrum thereof) with the North sometimes appear to have become an end in themselves. Yet this risks eliding many vital issues: continued security threats (nuclear and otherwise) to the

ROK; the stability and motives of the Kim Jong-il regime; the DPRK's appalling human rights record, which it is deemed bad form to raise; and the real likelihood or otherwise of the soft landing for which Seoul prays. In a word, wishful thinking risks prioritizing form over substance. Then there is moral hazard, as in the lies and charades of the Cheju "peace festival" discussed above. In a society as well educated as South Korea, one would hope for a wiser evaluation in the future of the pros and cons of particular modes of engagement with North Korea. To adapt the old Zen paradox, the sound of one hand giving can only make for unsound policy in the end.

Chronology of North Korea-South Korea Relations¹ **October-December 2003**

Oct. 1, 2003: ROK Unification Minister Jeong Se-hyun says that the North has undertaken meaningful reforms toward a market economy, and that its army-first policy is intended to protect social stability in the DPRK.

Oct. 1, 2003: The DPRK publishes tax and labor rules for the Kaesong Industrial Zone. Corporate income tax will be 14 percent of annual profits (vs. 27 percent in the ROK), payable in U.S. dollars. The minimum monthly wage will be \$57.50 for a 48-hour working week.

Oct. 1, 2003: South Korea cancels a parliamentary visit to Pyongyang after North Korea restricts the size of the delegation to 10.

Oct. 2, 2003: Seven North Korean feature films are to be shown at the Pusan International Film Festival. A South Korean film, *Arirang*, is shown in Pyongyang.

Oct. 3, 2003: A 300-strong Southern civic delegation participates in joint national Foundation Day celebrations in Pyongyang. A "scientific seminar" is held on Tangun, the legendary founder of Korea, whom the DPRK regards as a historical figure.

Oct. 3, 2003: Prosecutors in Seoul question Song Doo-yul, a ROK-born German philosophy professor and long-time activist in exile, who denies he is an alternate DPRK Politburo member.

Oct. 4, 2003: North Korea accuses the South of a confrontational stance with its recent large Armed Forces Day ceremony and military parade in Seoul (its first in five years), where high-tech weapons including missiles were displayed. Recent parades in Pyongyang, despite predictions to the contrary, have been low-key events devoid of similar hardware.

¹ The author is deeply grateful to earlier compilers, whose chronologies he has liberally plundered to construct this one; in particular the ROK Ministry of Unification's "Chronicles" (www.unikorea.go.kr) and Tom Tobback's indispensable (www.pyongyangsquare.com).

Oct. 5, 2003: Unification Ministry (MOU) says that as of end-August, 538,132 South Koreans have visited the Mt. Kumgang resort since tours began in November 1998.

Oct. 6, 2003: In the largest movement across the DMZ since the Korean War, 1,100 South Koreans in 28 buses drive from Seoul to Pyongyang for the opening of a \$56 million dollar gymnasium, built by Hyundai.

Oct. 6, 2003: The ROK embassy in Beijing suspends consular activities, as it is full of North Korean refugees. China says it will expedite processing to allow them to leave for Seoul. A total of 249 North Koreans have reached the South by gaining sanctuary in ROK overseas missions, plus a further 88 via other countries' embassies, almost all in China.

Oct. 7, 2003: A Southern opposition lawmaker claims the North is being paid \$1 million to take part in a sports festival on the island province of Cheju.

Oct. 8, 2003: ROK lawmaker says DPRK defectors plan to set up a government in exile.

Oct. 9, 2003: In its first comment, Pyongyang denies any links with Prof. Song Doo-yul.

Oct. 10, 2003: ROK decides to loan the DPRK materials and equipment worth up to \$60 million to expedite reconnecting two cross-border railways and road corridors.

Oct. 11-12, 2003: A third round of working-level economic and maritime cooperation talks is held in the ROK border city of Munsan; DPRK delegates cross the DMZ by bus. They agree to establish a joint commercial arbitration committee to handle business disputes; its decisions cannot be challenged by courts in either state.

Oct. 13, 2003: A day before inter-Korean talks start, the South announces a gift of 100,000 tons of fertilizer to the North, worth \$26.6 million.

Oct. 14, 2003: Two ROK bodies, the Korea Federation of Small and Medium Business and the Korea Technology Credit Guarantee Fund, agree on arrangements to help small South Korean firms do business in the DPRK.

Oct. 14, 2003: KCCI says it will be difficult to develop the Kaesong Industrial Zone (KIZ) as an export base for ROK firms, since products made in the DPRK are subject to heavy tariffs in many markets.

Oct. 14-17, 2003: The 12th inter-Korean ministerial talks are held in Pyongyang. The South's delegation, led by Unification Minister Jeong, flies directly from Seoul. The nuclear issue proves divisive, and the final joint statement agrees only on the date of the next meeting.

Oct. 19, 2003: At the APEC summit, ROK President Roh Moo-hyun tells Chinese counterpart Hu Jintao that South Korea will help the North maintain its regime and

proceed with reforms and opening – if Pyongyang abandons its nuclear weapon programs.

Oct. 21, 2003: Officials in Seoul say they believe North Korea has reprocessed about 2,500 of the 8,000 spent fuel rods from its Yongbyon nuclear site.

Oct. 22, 2003: Song Doo-yul is arrested and charged with violating ROK National Security Law.

Oct. 23, 2003: Hwang Jang-yop, former KWP secretary who defected in 1997, is at last allowed to accept an invitation to speak in the U.S., Hwang leaves for Washington Oct. 27.

Oct. 24, 2003: ROK Defense Ministry says 496 former South Korean soldiers are still held in the DPRK, over half a century after being captured during the Korean War.

Oct. 24, 2003: Seoul reports 1,281 inter-Korean shipping operations during Jan.-Sept. 2003, 18 percent more than last year; carrying 699,560 tons of freight, a rise of 45 percent over 2002.

Oct. 23-27, 2003: A 190-strong Northern team – half the agreed size, minus cheerleaders and brass band – arrives, late, by two direct flights from Pyongyang for the Korea Peace Festival on Cheju island.

Oct. 27, 2003: In the first private sector trans-DMZ trucking trip, the ROK's largest logistics operator, Korea Express (KorEx), conveys 100,000 roof tiles to Kaesong.

Oct. 27, 2003: ROK's Pyonghwa Air Travel Agency says the DPRK has suspended its tours of the North, which started Sept. 15, due to "tourist safety problems during the winter and the fatigue of local tour guides." The tours are due to resume next April.

Oct. 28, 2003: ROK Defense Ministry reveals that since 1993, 10 military facilities near the DMZ have been designated as temporary shelters for a possible mass influx of refugees.

Oct. 28, 2003: MOU says 25 Southern firms have invested a total of \$1.15 billion in the DPRK since 1996, 83 percent of this relates to KEDO's LWR project.

Oct. 30, 2003: ROK navy fires warning shots at a DPRK patrol boat that briefly crosses the Northern Limit Line (NLL), which the North does not recognize, off the west coast.

Oct. 31, 2003: ROK embassy in Beijing again suspends consular services because of an influx of North Korean refugees.

Nov. 3, 2003: ROK Unification Minister Jeong admits lying to National Assembly when he denied knowledge of any payment to the North to participate in the Cheju festival.

Nov. 4-6, 2003: Red Cross officials from both Koreas, meeting at Mt. Kumgang, finally agree to build a family reunion center there. Construction will start in April for completion in 2005. South Korea is footing the bill.

Nov. 5, 2003: ROK is to deploy U.S.-made missiles with a range of 300 km, putting most of the DPRK within reach. ROK missiles were previously restricted to a range of 180 km.

Nov. 5-8, 2003: Seventh meeting of the Inter-Korean Economic Cooperation Promotion Committee is held in Pyongyang. A 7-point agreement is reached, covering railways, the Kaesong Industrial Zone, payment systems, shipping, and flood control. An office will be opened early next year to handle practical problems arising at Kaesong and elsewhere.

Nov. 12, 2003: Chang Sun-Sup, ROK representative to KEDO, says that the LWR project can be resumed if the nuclear crisis is resolved. A day later Ambassador Thomas Hubbard insists the U.S. has no plan to revive the project under any circumstances.

Nov. 13, 2003: MOU says inter-Korean trade in the first 10 months of 2003 reached \$587 million, 33 percent more than in the same period of 2002. ROK imports totaled \$233 million, mostly agro-fisheries and textiles. "Exports" of \$353 million were mostly aid.

Nov. 14, 2003: The two Koreas hold ninth working-level military talks at Panmunjom, to discuss establishing guard posts in the DMZ at the sites of the two cross-border railways.

Nov. 14, 2003: DPRK accuses the ROK of breaching the June 2000 inter-Korean declaration by deploying new U.S.-made missiles.

Nov. 20, 2003: Former South Korean POW, who escaped from the DPRK with his wife, is arrested in China for using false passports. ROK embassy belatedly takes up case.

Nov. 21, 2003: KEDO formally announces its decision to suspend LWR construction for one year from Dec. 1, saying conditions to continue the project are not being met by the DPRK.

Nov. 24, 2003: ROK Navy vessel fires warning shots at a DPRK patrol boat which crossed the NLL, Pyongyang calls this a serious armed provocation.

Nov. 26, 2003: ROK charges a Northern defector, Nam Soo, who returned to the North and later re-entered South Korea, with violating the National Security Law. Nam is accused of providing DPRK intelligence with tips on South Korean spy agencies.

Nov. 26, 2003: South Korea announces delivery of 350 tons of TNT to the North, for blasting bedrock as part of the work to build the two cross-border roads and railways.

Nov. 27, 2003: "Pororo the Little Penguin," a cartoon series jointly produced by South Korea's Hanaro Telecom and the North's Samcholli General Corp., debuts on ROK TV.

Nov. 27, 2003: Hyundai says that from next year it will employ DPRK citizens at a hotel in Mt. Kumgang. The agreed monthly minimum wage will be \$57.50, the same as planned at Kaesong. Hitherto Hyundai has hired Korean-Chinese.

Nov. 28, 2003: Tenth military working-level talks at Panmunjom fail to agree on details of guard posts in the DMZ for cross-border railway and road corridors.

Dec. 2, 2003: Song Du-yul pleads not guilty in Seoul to most of the charges against him, including membership (under an alias) of the DPRK's ruling KWP Politburo.

Dec. 2-5, 2003: Working-level talks on relinking railways are held in Sokcho, near the DMZ in eastern South Korea. Signals, communications, and electric power systems are discussed. It is agreed to begin the final phase of construction in April 2004. Two DPRK delegates return home overland.

Dec. 3, 2003: Korea Development Institute reports less than 40 percent of Southern businesses trading with the North turn a profit. Nonetheless, businessmen and experts overwhelmingly predict trade will grow in 2004.

Dec. 5, 2003: The two Koreas open a second military hotline, along the eastern railway line.

Dec. 6, 2003: South Korean NGO claims that China is forcibly repatriating around 100 DPRK refugees every week.

Dec. 9, 2003: MOU reports that South Korea is expected to overtake China and Japan as the largest importer of North Korean goods. In the first 10 months of 2003, ROK imports from the DPRK were worth \$233 million, up 30 percent from 2002.

Dec. 10, 2003: ROK Commerce, Industry, and Energy ministry (MOCIE) says it will ban high-tech manufacturing facilities from being transferred to the Kaesong Industrial Zone, to prevent potential dual use.

Dec. 11, 2003: MOU says Southern aid to the North during Jan.-Nov. 2003 totaled \$125 million, including food aid, fertilizer, medical equipment, and more.

Dec. 12, 2003: A Seoul court sentences Park Jie-won, presidential chief of staff under Kim Dae-jung, to 12 years in jail and a Won 14.7 billion fine for organizing illegal money transfers to Pyongyang before the June 2000 summit, and taking a 15 billion won bribe from Hyundai.

Dec. 15, 2003: Shipment of 4,800 tons of rice completes this year's Southern rice aid to the North, totaling 400,000 tons. ROK officials have made 12 site visits to monitor distribution.

Dec. 17, 2003: DPRK publishes detailed entry and customs regulations for the Kaesong Industrial Park, as adopted by the Supreme People's Assembly (SPA) Dec. 11.

Dec. 17-20, 2003: Inter-Korean working-level economic talks in Pyongyang fail to agree on procedures for jurisdiction over South Koreans who visit or work in projects in the North, such as Mt. Kumgang and Kaesong.

Dec. 22, 2003: MOU says it expects inter-Korean trade to top \$700 million this year for the first time, with South Korea likely to replace China as the North's main export market.

Dec. 23, 2003: The two Koreas agree to set up four guard posts within the DMZ, 250 meters from the Military Demarcation Line (MDL) on either side within each of the two new cross-border road and rail corridors, to be responsible for the safe passage of construction traffic.

China-Korea Relations:

No Shows, Economic Growth, and People Problems

Scott Snyder
The Asia Foundation

With APEC and ASEAN Plus Three holding their annual meetings in October or November, the last quarter of the year has become a period when one can expect more intensive high-level exchanges than usual across the region. Add a boost in diplomatic business surrounding planning for six-party talks, a post-SARS bump, and a 40 percent rise in bilateral ROK-PRC trade and 2003 becomes a banner year for China-ROK high-level exchanges and trade relations. Booming economic growth in the PRC has driven and in some cases overtaken the Korean economy, benefiting South Korean exports in the short run. As a result, China has become the de facto regional hub for Northeast Asian and Korean trade despite Korea's aspirations to play that role.

The quarter also saw the emergence of a number of areas in which individuals or groups got caught on the wrong side – or the dark side – of the burgeoning trade relationship, or were just in the wrong place at the wrong time. Many of these incidents raise questions about whether the bureaucrats of the two countries are capable of managing diplomatic hot potatoes and protecting the vulnerable or disadvantaged while going after cheaters and swindlers. Even history became contested as Beijing began to rewrite history in a bid to challenge Korean historical claims.

Six-Party No Shows and the Difficulties of Collecting Payment in Advance

As the second North Korean nuclear crisis celebrates its first anniversary, the six-party drama has taken on characteristics of a Dickens penny novel – if only the stakes weren't so high and the situation real. This diplomatic potboiler left-off last quarter with North Korea rejecting a visit by the PRC and a parliamentary Chairman Wu Bangguo, ostensibly due to press leaks in the South Korean media. However, the visit for early September made its way back onto Chairman Wu's schedule for the end of October. The Wu visit was deemed important because it was sufficiently high-level to assure an audience with Kim Jong-il during the trip. President Bush had stated at APEC in mid-October that he would support a multilateral security guarantee for North Korea, although there was no change in the administration's position that the prerequisite for such an assurance was the "complete, irreversible, verifiable" dismantling of the North Korean nuclear program. During Wu's visit, the PRC followed up with DPRK counterparts on the Bush statement, suggesting an exchange of nonaggression assurances for a North Korean pledge to give up its weapons of mass destruction (WMD) program as part of the diplomatic strategy to convince the Dear Leader to send DPRK representatives to a

second round of six-party talks. Following a series of meetings that included discussions with Kim Jong-il, Chairman Wu's delegation ostensibly secured a DPRK pledge to participate in a new round of talks widely expected to take place by year's end.

Having been assured that the North Koreans would actually participate in the meeting, the Chinese turned to the task of trying to ensure a substantive outcome for the talks. The challenge for the PRC was to avoid the establishment of an empty process along the lines of four-party talks from the late 1990s, a diplomatic stalemate, or failed diplomacy à la Iraq, especially since the logical result of a failure in negotiations would be to refer the matter for consideration to the UN Security Council.

Recognizing that there would likely be little progress at the formal sessions and with the failure to get a joint statement from the August round of talks fresh in their minds, the PRC attempted to pre-negotiate an agreed statement among the six parties primarily focused on an exchange of assurances between the DPRK and the United States. This exchange of drafts occurred during the first two weeks of December, at which point it became clear that it would be impossible to close the gap in wording in the DPRK and U.S. positions in time for a year-end round of negotiations anticipated for Dec. 17-18. Much of the gap was in whether to describe the process of moving forward as a "coordinated" or "simultaneous" process. Although there was disappointment in many quarters that the talks were unable to take place by the end of the year, soon after Christmas, the PRC vice foreign minister was back in Pyongyang for consultations with DPRK diplomats, and New Year's Eve heralded news reports of round of track-two diplomacy involving American private citizens and members of the Senate Foreign Relations Committee. Stay tuned for the next installment of Beijing's shuttle diplomacy and the latest in the second North Korean nuclear crisis!

Paydirt in Economic Relations

The China-ROK bilateral trade relationship averaged about 40 percent growth throughout 2003, allowing China to pass the U.S. as South Korea's number one trade partner and investment destination. China is reported to have been the destination of over three-quarters of South Korea's foreign direct investment in 2003. China's enormous economic expansion continues to have both an upside and a downside for Korea. Chinese economic growth has been a wonderful driver for Korean exports buying Korean cars, semiconductors, automobiles, telecommunications equipment, and many other products. For instance, expanded production in China has paid off for Hyundai and Kia, making possible record production plans for 2004. (Estimates are that Korean exports to China will continue to grow at around 25 percent next year.)

But China's advantages as a global manufacturing hub are hollowing out Korean industries, many of which are moving to China. For instance, Korean heavy machinery manufacturers are actively transferring operations to the PRC. Chinese companies are producing exports in sectors such as kitchen appliances that are increasingly competitive in Korean markets, challenging Korea's market share in head-to-head competition in third-country markets. An expansion of China's steel production facilities may affect

Korean steel makers in the mid- to long-term, but is not perceived to pose an immediate threat. Shanghai and Shenzhen ports have grown at double digits surpassing Pusan as the third and fourth busiest ports in the world. Korean textile exports dropped to a 13-year low in 2003 of \$15.2 billion as a result of increased international competition from China, according to industry sources.

A new trend exemplifies China's challenge and possible economic dominance in the future: Chinese firms seeking Korean technology and experience are beginning to invest in Korea in strategic industrial sectors. In December, the Nanxing Group, a Chinese national chemical company, beat out more established potential buyers in the automobile sector to sign a memorandum of understanding to acquire Ssangyong Motor Corporation. In 2002, China's BOE Technology bought a division of Hynix Semiconductor that makes flat panel displays, and several Chinese companies are seeking to acquire Orion PDP, a maker of plasma display panels. While Korea benefits from in foreign investment and a first-rate performance in niche markets, China's acquisitions are feeding fears that the PRC will close the technological gap with Korea within the next few years by acquiring the strategic jewels that are likely to determine Korea's future economic growth prospects and further undermine Korea's competitiveness in global markets.

The Wrong Person at the Wrong Place at the Wrong Time

Ethnic Korean Chinese temporary workers without legal work permits – representing over half of the approximately 200,000 illegal foreign workers resident in Korea – have been part of an ongoing saga over ROK government attempts to introduce a new work system for foreign laborers in Korea, especially those who have illegally stayed in South Korea to work and earn a living. Many of those individuals risk being abused by Korean employers who might abuse illegal workers who have no recourse or might face deportation under Korean law if they are caught. The situation is especially complex for ethnic Koreans from China, who have been at the center of a constitutional debate over a law that had promised special rights for ethnic Koreans who returned from overseas to the Republic of Korea. Since that law excluded ethnic Koreans who had left Korea prior to the establishment of the ROK in 1948, thus indirectly discriminating against ethnic Koreans who had emigrated to the PRC or Russia, it was declared unconstitutional several years ago. However, despite opposition from the PRC government, several ROK lawmakers have continued to seek ways to extend these special rights to Koreans in the PRC and Russia. This issue has become entangled with the ROK government's attempts to overhaul its law governing illegal foreign workers by revising a permit system and giving special amnesty to illegal workers who voluntarily depart Korea prior to the initiation of a crackdown and new regulations this year. Ethnic Korean Chinese have protested these and other issues in recent months. They have received continuous support from South Korean NGOs who focus on supporting the rights and welfare of ethnic Koreans from China.

Several South Koreans found themselves in the wrong place at the wrong time in China, with their returns delayed for months if not years. One is Jeon Yong-il – former ROK prisoner of war who remained along with 40,000 South Korean POWs in North Korea –

who escaped North Korea and sought asylum at the South Korean embassy unsuccessfully on several occasions. Since Jeon was listed by the MND as dead rather than as a prisoner of war, those attempts to seek asylum were rejected. He was detained in mid-November by Chinese authorities for trying to use a fake South Korean passport to seek asylum in South Korea and sent to Tumen in preparation for return to North Korea. But media attention due to pleas from human rights activists finally motivated the South Korean Foreign Ministry to take action on his behalf, and the Chinese authorities pragmatically allowed Mr. Jeon to return to Seoul on Christmas Eve to reunite with his family, who had given him up for dead. Following Jeon's return, it was revealed that there may be several other former South Korean POWs in China who have been seeking to return to South Korea.

Seok Jae-hyun, a freelance photographer for *The New York Times* who accompanied North Korean refugees in China who attempted to smuggle themselves out to South Korea, lost his appeal of a two-year prison sentence for helping the refugees, and remains in a Chinese prison. Separately, Rev. Choi Bong-il was reported to have been sentenced to nine years in prison for helping North Korean refugees in Yanji, Jilin Province. These cases renew serious questions about the competency of the South Korean government to protect and advocate for its own nationals. And there is plenty of reason for South Korean citizens to be outraged on the latter point: yet another visa-selling scandal was revealed in which a South Korean consular official was arrested for selling 265 South Korean visas to Chinese citizens who had already been determined ineligible to enter South Korea, in collaboration with two South Korean brokers. A separate investigation involves a high-ranking Ministry of Justice official responsible for immigration affairs who is also alleged to have assisted illegal brokers.

Battle over the Sinicization of Korean History

Korean historians and diplomats have begun to react to news that the Chinese Academy of Social Science is conducting a five-year "Northeast Asia Project" that is reputedly aimed at strengthening the PRC's historical claims to the region by integrating into Chinese historical narrative the history of the Goguryeo Dynasty (37 B.C. to A.D. 668), which occupied the northern part of Korea and Manchuria during the period known in Korean historiography as the Three Kingdoms period. Chinese scholars have argued that the Goguryeo Dynasty was a peripheral state founded by ethnic minorities in ancient China, long before the consciousness of the concept of the nation-state ever existed in Asia. The issue has also been catalyzed by China's challenge to a bid by the DPRK to have Goguryeo tomb murals placed on the UN World Heritage List at the International Council of Monuments and Sites, a UNESCO subcommittee. This move has drawn the attention of South Korean civic groups, including the Korean Ancient Historical Association and the Korean Archaeological Society, which wants the South Korean government to support the North Korean bid. The Korean response may well be drawn from China's active attempts in past years to "sinicize" Tibetan history and to occupy ethnic autonomous territories with a majority of Han Chinese settlers. The implementation of this policy in recent years has apparently been underway not only in

Tibet, but also in the Yanbian Autonomous Prefecture of China that is home to most of China's Korean minority.

The initiation of the CASS history project, which essentially seeks to appropriate the history of the Goguryeo dynasty as part of China's own history, may be a Chinese reaction to perceived concerns that a unified Korea would lead to irredentist territorial claims stretching into China's northeastern provinces. A few nationalist Koreans have from time to time attempted to claim large parts of Manchuria as rightfully Korean territory and Ministry of National Defense educational curricula emphasize Goguryeo's historical dynastic territory, possibly as justification for a future Korean territorial claim in China. This issue could become a serious test of China-Korean relations at a later date. Beyond the nuclear crisis, six party talks, or a booming trade relationship, the task of settling "history" between Korea and China may go a long way toward shaping the future of the China-Korean relationship.

Chronology of China-South Korea Relations October-December 2003

Oct. 5, 2003: The ROK Commerce Ministry announces that China has officially become Korea's No. 1 export destination, surpassing the U.S. for the first time.

Oct. 7, 2003: Leaders of China, Japan, and South Korea meet in Bali at ASEAN Plus Three gathering and agree to expand cooperation beyond economic fields to security and broader exchanges.

Oct. 12, 2003: China lifts its ban on the import of Korean livestock, nearly a year and a half after a few cases of foot-and-mouth disease were reported in the country.

Oct. 20, 2003: The Korea Trade-Investment Promotion Agency urges the government and private companies to be better prepared against copyright infringement in China targeting Korean intellectual properties from music albums to telecom brand names.

Oct. 21, 2003: Barclays Capital reports that a collapse of North Korea's regime will not necessarily lead to a downgrade in Korea's sovereign credit ratings, and may in fact turn the Korean Peninsula into a new Asian economic power.

Oct. 26-28, 2003: Donald Tsang, chief secretary for the Hong Kong Special Administrative Region, meets with ROK National Assembly Speaker Park Kwan-yong and others during a three-day visit to Seoul he stressed Hong Kong's role as a strategic partner for South Koreans doing business on the Chinese mainland.

Oct. 28, 2003: North Korean leader Kim Jong-il and China's Wu Bangguo "agreed in principle to continue to hold six-party talks."

Nov. 9-12, 2003: Chinese Deputy Foreign Minister Dai Bingguo arrives in Seoul for a four-day visit to consult the South Korean government on ways to facilitate six-party talks over Pyongyang's nuclear weapons program.

Nov. 10-14, 2003: South Korea's Joint Chiefs of Staff chairman Kim Jong-hwan makes a five-day trip to China for talks on North Korea's nuclear program.

Nov. 14, 2003: Amidst pending ROK government plans to deport illegal workers, more than 5,000 Korean-Chinese, most of whom are illegal residents, present a petition to the Constitutional Court, calling for the government to grant them Korean citizenship.

Nov. 16, 2003: The Ministry of Information and Communication announces that Korea and China have agreed to join hands in developing fourth-generation mobile communication technology.

Nov. 19, 2003: North Korea and China sign "a treaty of cooperation in the enforcement of civil and criminal laws."

Nov. 29, 2003: The Justice Ministry announces that it would accept applications for Korean citizenship by all Korean-Chinese whose names remain on the domestic family registry in response to protests by Korean-Chinese in the context of new labor laws designed to crack down on illegal workers.

Nov. 29, 2003: President Roh Moo-hyun visits protesting ethnic Korean Chinese and expresses sympathy for their plight on the 16th day of an illegal hunger strike by over 2,400 ethnic Koreans at eight churches in Seoul.

Dec. 6, 2003: The Justice Ministry announced that it has no plans to grant Korean citizenship to ethnic Korean-Chinese who are currently residing in the ROK and who have lodged a constitutional petition to demand they be granted legal status in South Korea.

Dec. 12, 2003: South Korean pastor Choi Jong-il is sentenced to nine years in prison in China for trying to assist North Korean refugees to defect to Seoul from Yanji, Jilin Province.

Dec. 12, 2003: Yonhap reports that the ROK government is planning to launch an international study group on the historical origins and role of the Goguryeo Dynasty in response to Chinese claims that the dynasty was established by one of China's ethnic minorities. South Korean civic groups also demand that the ROK government support North Korea's bid to include Goguryeo tomb murals on UNESCO's list of world heritage sites.

Dec. 18, 2003: Seoul District Prosecutor's office arrests Lee Jung-jae, former ROK consul general in Hong Kong, for participating in a visa selling ring that illegally sold 265 South Korean visas between March 2000 and Feb. 2001 for approximately \$227,200.

Dec. 20, 2003: Ssangyong Motor Company's creditors approve China's Nanxing Group, a company specializing in the chemicals industry, as the preferred bidder to take a 55.4 percent stake in the company despite the Nanxing Group's lack of experience in automotive production.

Dec. 23, 2003: A Chinese appeals court upholds a lower court ruling in Yantai sentencing Seok Jae-hyun to two years in prison, a 5,000 yuan fine, and confiscated photography equipment for attempting to smuggle North Koreans out of China.

Dec. 24, 2003: Former South Korean prisoner of war 72-year old Jeon Yong-II is sent to Seoul by Chinese authorities following his arrest for using a fake passport in an attempt to gain asylum in South Korea.

Dec. 30, 2003: The Korean Veterans Association calls on the government to bring to Seoul three North Korean escapees in China who are reportedly former South Korean soldiers taken prisoner by northern troops during the Korean War.

Japan-China Relations: Cross Currents

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In October, Japanese Prime Minister Koizumi Junichiro met with China's Premier Wen Jiabao and President Hu Jintao. On each occasion, the leaders renewed commitments to enhance cooperation in the bilateral relationship, and, at the leadership level, cooperation – on North Korea, energy, banking and finance, and conservation – defined the relationship over the final quarter of the year. China's leaders, however, made clear that a proper understanding of history is central to the development of bilateral relations

Economic and financial relations continued to expand and diversify, almost on a daily basis. But Japan's rapidly expanding private sector presence on the mainland had to deal with Chinese national sensitivities and the burdens of history. In one instance, Toyota had to pull an advertisement for its SUV in response to a groundswell of Chinese protests and internet threats of a boycott.

Meanwhile, the repercussions of a Fukuoka murder committed by Chinese students; of the September Zhuhai sex orgy involving a Japanese business tour group; and of a Chinese rampage at Xian's Northwest China University following a dance performed by Japanese students resurfaced nationalist sentiments in both countries. At the same time, the August Qiqihar chemical weapons incident and a series of compensation cases brought in Japanese courts by Chinese survivors of wartime forced labor kept history in the forefront of the relationship.

Japanese Behaving Badly: Zhuhai

At the end of September, Chinese media reported that authorities in Zhuhai were investigating allegations of a three-day sex orgy, Sept. 15-18, involving 300 to 400 touring Japanese businessmen and 300 local prostitutes and nightclub hostesses at the five-star International Conference Center Hotel and the three-star Yuehai Hotel. On Sept. 30, China's *Xinhua* news service quoted local authorities to the effect that the "difficult case" required careful investigation; details were not made available at the time. Chinese media, however, noted that the sex spree took place on the eve of the 72nd anniversary of Japan's invasion of Manchuria in 1931, and China's active internet gave the story heavy and lurid anti-Japanese play.

A month later, Japan's *Kyodo* news service identified the Japanese businessmen as employees of the Osaka-based Kooki construction company. *Kyodo* also reported that the firm had failed to report over ¥400 million in taxable income over the past four years

and had been hit with a tax penalty surcharge of approximately ¥75 million. For its part Kooki declined to comment on the tax case but denied any involvement in “systematic prostitute buying.” Kooki maintained that the trip had been organized “to commend employees as part of a company campaign.”

On Oct. 9, Zhang Qiyue, the Chinese Foreign Ministry’s spokesperson, told reporters that the incident had “aroused the great indignation of the Chinese people” and expressed the hope that Japan would “educate its citizens to be more law abiding abroad so as to safeguard the image of Japan.”

On Dec. 12-13, a closed-door trial, involving 14 Chinese defendants, was conducted before the Zhuhai Intermediate Court; two defendants received life sentences, while others received terms from 2 to 15 years. At the same time, *Xinhua* reported that Beijing had asked Interpol to circulate warrants for the arrest of three Japanese citizens involved in the affair. In Tokyo, Chief Cabinet Secretary Fukuda Yasuo acknowledged that the government had received a request for cooperation from Beijing but made clear that Japan would deal with the matter “in line with domestic law” and that the government cannot detain individuals solely on a request from Interpol. Police authorities made clear that they are unable even to investigate unless a Japanese law is broken. The *Asahi Shimbun* speculated that Beijing well understood that, as a matter of principle, Japan does not extradite its citizens but raised the issue purely for domestic political purposes.

Chinese Behaving Badly:

Xian ...

On Oct. 29, three Japanese exchange students and a professor, wearing fake genitalia, red brassieres, and t-shirts that proclaimed that Japan loves China, performed a dance routine during a cultural affairs festival at Xian’s Northwest China University. The performance set off two days of protest and unrest. *Reuters* reported that over 1,000 Chinese students participated in anti-Japanese demonstrations. At the university, Chinese students entered the foreign students dormitory, attacked two Japanese students, and demanded an apology. The police later transferred all foreign students from the dormitory to a local hotel. The following day, although expressing remorse in a written statement, the three students were expelled from the university and the professor suspended.

The unrest soon spread from the campus and involved the local citizenry. Japanese shops in Xian were set upon, and the arrest of Chinese demonstrators only added fuel to the fire. On Oct. 31, the director general for Consular Affairs in China’s Foreign Ministry called in Minister Takahashi Kunio from the Japanese Embassy. Takahashi was told that the students’ action ran against Japanese government policy, which called on its citizens to respect Chinese customs and sensitivities. Takahashi was also informed that demonstrations were spreading beyond the university. That evening, the remaining Japanese students explained to university authorities that they had no intention of having their skit insult their fellow Chinese students.

As negotiations between the Japanese students and university authorities continued over the wording of an apology, reports of spreading unrest reached Tokyo. The *Asahi Shimbun* reported that the Foreign Ministry and the embassy in Beijing had discussed the issuing of travel warnings for Xian, if demonstrations did not subside by Nov. 2. However, the students' statement of reflection and remorse, issued Nov. 1, and steps taken by local Chinese authorities shortly restored order.

Fukuoka...

Two Chinese exchange students suspected of involvement in a June 20 Fukuoka robbery and murder case were arrested in China; Fukuoka law enforcement authorities traveled to China to attend the interrogation of the two Chinese suspects. A third Chinese suspect is under arrest in Japan. According to the Oct. 3 affidavit, the students targeted the victim and his family for their money, clothes, and foreign car. The former Japanese language students confessed to the crime and to disposing the bodies by driving the car into the ocean.

The Fukuoka case soon surfaced anti-Chinese sentiment in Japan, with Kanagawa Gov. Matsuzawa Shigefumi observing that all Chinese on student visas were "sneak thieves." The governor later amended his remarks to not "all." In December, in part prompted by the Fukuoka incident, the government announced a tightening of visa requirements for foreign students. A *Japan Times* report on the decision noted that "applicants from China, in particular, will be targeted, as 80 percent of students who overstay their visas are Chinese."

Chemical Weapons: Qiqihar

On Aug. 4, at a construction site in Qiqihar city in Helionjiang Province, 36 workers were exposed to poison gas leaking from canisters abandoned by the Imperial Japanese Army. One worker died and 30 were hospitalized as a result of the exposure. Beijing demanded that Tokyo take "appropriate" actions, and discussion between the two governments soon turned to finding a mutually agreeable sum. In early September, initial press reports from Tokyo cited a Japanese figure of ¥100 million.

As the talks between Beijing and Tokyo continued, the families of the construction workers engaged legal representation to negotiate compensation with the Japanese government, with a view to taking the issue to court should discussions prove unavailing. (The families may have been encouraged by a Sept. 29 Tokyo District Court ruling on similar poison gas cases. See below: Japanese Courts and Chemical Weapons.) On Oct. 3, the lawyers addressed a petition asking for an apology and compensation to Prime Minister Koizumi, while making known to the press that the workers and their families were suffering "economic and emotional" harm as a result of the incident.

Taking his turn with the media, Chief Cabinet Secretary Fukuda told reporters that China, in the Normalization Communiqué of 1972, had waived claims to future compensation resulting from the war and that the Chinese government also bore some responsibility.

Fukuda questioned whether or not it could be said that China was completely in the dark with respect to Japan's chemical weapons. Before resolving the issue, he wanted to hear from the experts, whom the government had dispatched to the Qiqihar site. Fukuda also told reporters that, because the incident was a matter between the two governments, he saw no need for the lawyers of the Qiqihar victims to meet with the prime minister. Meanwhile, on Oct. 3, Foreign Minister Li Zhaoxing called in Japanese Ambassador Anami Koreshige, to express China's dissatisfaction with the speed of Tokyo's response.

On Oct. 13-15, the director of the China Office in the Ministry of Foreign Affairs traveled to Beijing for meetings on the issue. On Oct. 19, hours before a scheduled meeting between Prime Minister Koizumi and China's President Hu at the APEC conference in Bangkok, the two governments reached agreement. Japan upped the sum to ¥300 million, while China agreed to accept money as "cooperation" funds rather than "compensation." A final letter of agreement was exchanged in Beijing between Masatsugu Sumimaru, minister to the Japanese Embassy and the director of the Chinese Foreign Ministry's Office for Abandoned Chemical Weapons, Ge Guangbiao. The cooperation funds are to serve as sympathy money for the victims' families and to promote steps to prevent future incidents.

A national public opinion poll, conducted by *China Youth Daily* from Sept. 7 through Oct. 5 and published on Nov. 9, reported that 83 percent of the respondents (average age of 28, with 70 percent between 19-35) held that the Qiqihar incident had damaged the image of Japan; only 8 percent said that it had not. As for the then unresolved compensation issues, 86 percent saw it as evidence of Japan trying to escape its war-related responsibilities.

Japanese Courts and Chemical Weapons

On Sept. 29 a Tokyo District Court, ruling in favor of 13 Chinese plaintiffs who represented victims and family members who had died or suffered injury as a result of exposure to Japan's chemical weapons abandoned in China, ordered the Japanese government to pay ¥190 million in compensation. The court was acting on cases brought from incidents that had occurred in 1972, 1982, and 1995. Judge Katayama Yoshiro ruled that the Japanese government had failed to provide China with information regarding the abandoned chemical weapons and thus had failed to take steps necessary to prevent injury. Katayama rejected the government's claim that China had waived all claims to future compensation with respect to war damage at the time of normalization of relations.

Katayama's decision contrasted with the ruling in a similar case, adjudicated in May, which held that because Japanese sovereignty did not extend to China and the recovery of weapons there, it was difficult to find that the government was avoiding damages. While Katayama accepted that Japan's sovereignty did not extend to China, he reasoned that had the government provided China with information on the weapons, the incident could have been avoided. Katayama also rejected the government's argument with respect to the 1974 case that the 20-year statutory limit for the filing of a suit had expired, ruling that the government's position went against the principles of justice.

Two days later, on Oct. 2, two of the Chinese plaintiffs met with Foreign Minister Kawaguchi Yoriko in the Diet building and asked her not to appeal the decision. The previous day, in a letter delivered to Koizumi's official residence, two plaintiffs made a similar request to the prime minister. On Oct. 1, as the prime minister was passing through the Diet building, they called after him asking for a meeting; Koizumi, however, did not stop and was hustled away by his security detail. Later, Koizumi told reporters that he would wait to hear the results of discussions between the Justice and Foreign Ministries before making a decision on an appeal.

In November, the *Asahi* reported that 10 residents of Chongqing who had suffered from Japanese bombing during the war had expressed the intention to seek compensation against the Japanese government in the Tokyo District Court. The Chinese press reported that as many as 309 Chinese may join the lawsuit, which seeks a total of approximately ¥400 million in compensation.

Japanese Courts and Wartime Forced Labor

On Dec. 8, previously classified Foreign Ministry documents detailing the use of forced labor during the war were submitted to the Fukuoka High Court as evidence in a suit brought by survivors of forced labor in Fukuoka Prefecture.

Last year, the Fukuoka District Court ordered Mitsui Mining Company to pay damages of ¥165 million to 15 Chinese survivors of forced labor. The court, however, rejected their demands for compensation from the Japanese government, upholding the government's position that the claims fell under the Meiji Constitution, which was in effect from 1890 to 1947. In bringing suit, the plaintiffs seek to overturn the District Court judgment on the grounds that "the government's illicit activities have continued into the postwar era." (The Foreign Ministry's report was compiled in 1946 and the government acted in 1960 to keep the report secret.) The pending appeal challenges both the 20-year statute of limitations and previous court rulings that postwar governments cannot be held responsible for wartime actions.

The Courts and Japanese War Orphans

Also bringing suit for compensation, this time in a Sapporo District Court, were 80 Japanese orphans who had been abandoned in China at the end of the war. Following repatriation, the orphans, lacking adequate Japanese language skills, have been hard pressed to make a living in Japan. The suit asked for an apology from the government and individual compensation of ¥330,000, yielding a total of ¥26.4 million. Japan's Welfare Ministry determined that the total number of such orphans in country at the end of October stood at 2,470, of whom 65 percent had been on welfare in a 1999 survey.

On Nov. 26, the Welfare Ministry confirmed the identity of an additional 10 war orphans of Japanese ancestry in China; the orphans are scheduled to return temporarily to Japan next February to conduct interviews in a search for relatives.

High-Level Contacts

On Oct. 7, Prime Minister Koizumi met with China's Premier Wen Jiabao on the island of Bali on the occasion of the ASEAN Plus Three meeting. Wen told the prime minister that the development of China-Japan relations served the interests of both peoples; for that reason reciprocal high-level visits are essential. Thus, he looked forward to a visit by Koizumi at an appropriate time. However, Wen also told Koizumi that for that visit to take place it was essential to create a good atmosphere and, in this regard, it was important to deal correctly with history. Speaking indirectly to Koizumi's visits to the Yasukuni Shrine, Wen told the prime minister that he wished to benefit from his wisdom in this matter. History, the premier noted, was a "sensitive" issue between the two countries, but placed responsibility "upon the militarists of the past," while recognizing that the Japanese people too were "its victims."

Koizumi told Wen that he wanted to expand cooperation with China in all fields and that he looked forward to a visit by Wen to Japan. Koizumi also appreciated the role played by China in the search for a comprehensive resolution of the nuclear, missile, and abduction issues posed by North Korea and asked China to continue to exert its influence with Pyongyang. Wen expressed China's commitment to a peaceful resolution of the nuclear issue, but, while expressing his understanding of the abduction issue, told Koizumi that China thought the issue best resolved by bilateral discussions between Tokyo and Pyongyang.

Koizumi also expressed his sincere determination to resolve the Qiqihar incident in a mutually satisfactory way and his appreciation for China's cooperation in the arrest of the Chinese students involved in the Fukuoka murders.

Later, when asked by reporters whether he would continue to visit Yasukuni, Koizumi responded that he thought he would; moreover, he did not think the visits would prove to be an "obstacle" to improving Japan-China relations, asserting that he and the Chinese understood that paying respect at the shrine did not signify a revival of militarism. China's Foreign Ministry Spokesperson Zhang Qiyue had a different take on the issue. Commenting on the Wen-Koizumi meeting, Zhang told reporters that Wen had "stressed that to understand and treat history correctly is the key to the development of bilateral relations." China hoped that "the Japanese side will treat the question of the Yasukuni Shrine in such a spirit."

Two weeks later, on Oct. 20, Koizumi met with China's President Hu Jintao during the APEC meeting in Bangkok. Koizumi again expressed his regard for China's role in evolving the six-party talks with respect to North Korea and asked for China's cooperation in resolving the abductee issue. In reply, Hu echoed Wen, expressing sympathy but advising resolution on a bilateral Japan-North Korea basis. Addressing China-Japan relations, Hu again echoed Wen (and former President Jiang Zemin), advising that the two countries "face the future using history as a mirror." The president told Koizumi that "the issue of history should be handled carefully, and that things that

would harm the feelings of war-victim countries should never be done again.” Looking to the future, Koizumi and Hu agreed to the formation of a “Japan-China Friendship Committee of the 21st Century” to promote the development of friendly relations.

At the end of December, *The Japan Times* reported that Koizumi is considering an Aug. 15 visit to Yasukuni in accordance with his 2001 campaign promise to visit the shrine on Aug. 15. The report quoted one of the prime minister’s aides as saying “If he is criticized no matter when he visits, it would be more upright to visit as pledged.” Earlier, on Dec. 25, *Kyodo* reported from Beijing that Kono Yohei, speaker of the House of Representatives, had accepted an invitation to visit China in April. Chinese sources were reported as saying that China wanted more contact with Japan but has not welcomed Koizumi “due to his repeated visits to Tokyo’s Yasukuni Shrine.” On Dec. 23, in an online forum, China’s Foreign Minister Li addressed the issue and noted that individual Japanese political figures “lack correct understanding of history” with respect to Yasukuni.

Cooperation...

The commitment of the political leadership in both countries to expand cooperation across the board was evidenced in a number of areas:

On Oct. 7, on the occasion of the ASEAN Plus Three meeting in Bali, China and Japan joined with the Republic of Korea to issue the first ever Joint Declaration on the Promotion of Tripartite Cooperation. The Joint Declaration focused on cooperation on the promotion of peace and stability in the region, including the denuclearization of the Korean Peninsula and antiproliferation measures, as well as cooperation in the fields of trade, investment, health (SARS research), the environment, information, and communication technologies.

On Oct. 23, working-level discussions on energy cooperation were held in Beijing. Agenda items included Japanese support for China’s efforts to develop a petroleum reserve, measures to deal with electrical shortages, and technological cooperation in the utilization of natural gas. The meeting was the seventh in a series dating from 1996, but the first to focus on comprehensive energy cooperation, including electricity.

On Oct. 24, the governor of the Bank of Japan, Fukui Toshihiko, met in Beijing with his Chinese counterpart. Discussions focused on common problems such as the clean up of bad loans and the potentially deflationary impact of international price competition. Neither side spoke to the exchange rate issue. Three days earlier, however, Finance Minister Tanigaki Sadakazu and China’s Ambassador to Japan Wu Dawei agreed to exchange information on China’s currency. Both officials saw the exchange as the start of a dialogue through existing government channels.

On Oct. 27, the two governments agreed on a long-term conservation program for the crested ibis. The program will run through 2010, with China providing assistance in the

breeding of the birds, which today are found only in the wild in China, and Japan extending financial and technical support.

On Nov. 24, telecommunication authorities announced that the two countries would launch a three-year project aimed at joint experimentation on the use of next-generation, internet-capable phones for high-speed data transmission between Japan and China. The project will involve several universities and companies, including Kyoto University, Beijing University, and Fujitsu Ltd.

And Competition in Southeast Asia

Prior to the ASEAN Plus Three meeting in Bali, it was reported that ASEAN leaders had expressed concern with Tokyo's policy toward the region, comparing Japan's seeming lethargy to China's active courting of ASEAN as underscored by Beijing's proposal for a China-ASEAN Free-Trade Area by the year 2010. During the meetings, ASEAN leaders had invited Japan to accede to the Treaty of Amity and Cooperation (TAC), ASEAN's founding document. (Both China and India signed the document during the Bali Summit.)

Koizumi initially declined, explaining that the Treaty might not be compatible with Japan's obligations under the U.S.-Japan Security Treaty. Three weeks later on Nov. 4, following criticism that Japan was losing out to China in Southeast Asia, Chief Cabinet Secretary Fukuda told reporters that the government was studying the downside of TAC accession. On Nov. 18, Japan announced its intention to sign the treaty during the December Japan-ASEAN Summit in Tokyo.

While Foreign Minister Kawaguchi dismissed concerns about China's growing influence in Southeast Asia, a Foreign Ministry official was quoted in the *Sankei Shimbun* to the effect that "we want to strengthen ties with ASEAN nations to counter China." During the ASEAN summit, however, Koizumi told reporters that he saw China's growth "not as a threat, but rather an opportunity," benefiting both Japan and ASEAN countries.

ODA

From an allocation of ¥134.2 billion in 2002, ODA for China had fallen to ¥120 billion in 2003, and the political incentive for further reductions in FY 2004 was only increased by China's successful October launch of a manned space vehicle as the ODA budget was being formulated. At the political level, the chief Cabinet secretary told reporters that China "has now gained economic strength" and that the time had come "from the perspective of overall Japan-China relations" to take "a second look at the current way we provide economic assistance to it."

In the face of building political pressures, China's ambassador on Oct. 21 called on Finance Minister Tanigaki to request continuation of the ODA program in 2004 and beyond. Tanigaki less than reassuringly replied that he would "like to discuss the matter based on the new ODA charter." In early November, the *Nihon Keizai Shimbun* reported that the Ministry of Finance would cut the 2004 ODA budget for the fifth consecutive

year; the ODA allocation for China again was earmarked for reduction. On Dec. 16, the Ministry of Finance and the Foreign Ministry reached basic agreement on an overall 4.8 percent reduction in Japan's ODA budget for 2004.

SDF Deployment to Iraq

The Koizumi government's Dec. 9 announcement of the decision to deploy Japan's Self Defense Force to Iraq was quick to draw comment from Beijing. The Foreign Ministry's Deputy Spokesperson Liu Jianchao told reporters that China hoped that Japan would "protect its policy of self-defense only" and "hold fast to the path of peaceful development." Doing so would "benefit Japan's own self-interest and contribute to both regional as well as global peace and stability." *Xinhua* was less diplomatic, asserting that the deployment testified to Japan's interest in again becoming a military power and securing oil interests in the Middle East.

Business and Economics

Commercial and financial relations continued to broaden and deepen – almost on a daily basis. All was not completely smooth sailing, however. In mid-November, it was reported that Kumamoto Prefecture was considering submitting a petition to Japanese customs authorities to suspend importation of Chinese tatami, suspected of being grown from illegally obtained or pirated seeds. Kumamoto producers had registered the brand name "hinomidori" in 2001 and are looking to profit from the high-quality mats produced from the "hinomidori" plants. Also, in November, Honda sued two Chinese motorcycle companies for trademark infringement, claiming that the Chinese trademark "Hongda" is easily mistaken for its own; in a similar case brought by Toyota, a Chinese court on Nov. 24 ruled that the Japanese and Chinese trademarks were "clearly distinct."

Toyota also found itself apologizing over an advertisement for its Prado GX SUV run in Chinese magazines. The advertisement showed a Prado driving past two Chinese stone lions, one portrayed as bowing and the other as saluting; the copy read "You cannot but respect the Prado." China's internet response was nationalistic and anti-Japanese, finding the lions similar to those at the Marco Polo Bridge. A second advertisement showed a Toyota Land Cruiser towing a broken-down military vehicle across a frozen Tibetan landscape, which Chinese critics saw as disrespecting the People's Liberation Army. Bombarded by criticism and with threats of a boycott moving across the internet, Toyota on Dec. 5 announced that it was pulling the controversial ads.

Economic relations will continue to flourish and serve as an anchor for the historically troubled Japan-China political relationship. Prime Minister Koizumi's continued visits to the Yasukuni Shrine – and Beijing's response – make it difficult to be optimistic about the bilateral political relationship in the months ahead. Adding stress to the relationship will be Japan's deployment of the SDF to Iraq, the coming presidential election in Taiwan, and the North Korean nuclear issue, where cooperation may be affected as a result of political strains at the leadership level.

Chronology of Japan-China Relations October-December 2003

Sept. 29, 2003: Tokyo District Court rules in favor of Chinese seeking compensation for exposure to poison gas incidents in 1972, 1982, 1995.

Oct. 2, 2003: Chinese plaintiffs meet with FM Kawaguchi and ask that government not to appeal decision.

Oct. 3, 2003: Affidavit filed on Chinese students involved in June 20 Fukuoka murders.

Oct. 3, 2003: Lawyers for Chinese injured in August Qiqihar poison gas incident petition PM Koizumi for compensation and apology; China's foreign minister calls in Japanese ambassador to protest lack of resolution of Qiqihar claims.

Oct. 7, 2003: Japan-China-ROK working level discussions on North Korea at director-general level during ASEAN Plus Three meeting in Bali.

Oct. 7, 2003: PM Koizumi meets Premier Wen Jiabao at ASEAN Plus Three in Bali; Japan, China, and South Korea issue Joint Declaration on the Promotion of Tripartite Cooperation.

Oct. 9, 2003: Itochu Shoji, together with Chinese joint venture partner Ting Hsin, announce that Family Mart convenience store will open its first store in Shanghai by the end of 2003. Family Mart rival Lawson's, which opened in Shanghai in 1996, had 129 stores in operation as of Sept. 30. Seven-Eleven is planning to open its first store in Beijing.

Oct. 9, 2003: Boats carrying Chinese activists enter Japanese territorial waters and approach Senkaku Islands.

Oct. 9-11, 2003: Shenyang authorities arrest Chinese citizens involved in kidnapping former Japanese businessman.

Oct. 10, 2003: The official *China Daily* reports that Minolta will transfer all digital camera production to China.

Oct. 13-15, 2003: Japanese Foreign Ministry officials travel to Beijing to discuss Qiqihar compensation.

Oct. 17, 2003: Suntory announces construction of a second soft-drink plant in Shanghai to be completed by 2005.

Oct. 19, 2003: Settlement is made on Qiqihar incident.

Oct. 20, 2003: PM Koizumi meets with President Hu during APEC meeting in Bangkok.

Oct. 21, 2003: Japanese male citizen and woman claiming to be his sister seek asylum in Japanese Consulate General in Shenyang. Consultations between Tokyo and Beijing initiated.

Oct. 21, 2003: China's Ambassador Wu Dawei to Japan calls on Finance Minister Tanigaki to request continuation of Japan's ODA program for China.

Oct. 23, 2003: Working-level discussions on energy cooperation held in Beijing.

Oct. 24, 2003: Bank of Japan Gov. Fukui meets with Chinese counterpart in Beijing.

Oct. 27, 2003: Bilateral agreement on crested ibis conservation program is announced.

Oct. 29, 2003: Japanese students performance at Xian Northwest China University sets off Chinese protests.

Oct. 30, 2003: Japanese students involved in performance are expelled from Xian Northwest China University.

Oct. 31, 2003: Chinese Foreign Ministry calls in Japanese Minister on Xian Northwest China University incident.

Oct. 31, 2003: Tibet's Dalai Lama arrives in Japan at the invitation of a supra-party parliamentary league; China protests visit as aimed "at splitting China."

Nov. 3, 2003: Fujitsu announces opening of a chip design center in Shanghai.

Nov. 6-7, 2003: Japanese and Chinese business leaders meet in Osaka to discuss bilateral and Asian economic issues.

Nov. 7, 2003: Japanese citizenship established, female asylum seeker in Shenyang Consulate is repatriated to Japan.

Nov. 12, 2003: JMSDF P-3C finds Chinese Ming-class attack submarine on surface in international waters off the coast Satamisaki.

Nov. 12-16, 2003: China's Vice Foreign Minister Dai Bingguo begins five-day visit to Japan for consultations on North Korea; meets with Vice Minister Takeuchi Yukio, former LDP Secretary General Nonaka Hiromu; FM Kawaguchi, PM Koizumi, and LDP Secretary General Abe Shinzo.

Nov. 12, 2003: Mitsubishi Rayon announces plans for a new plant in Guangzhou and its intention to join Royal Dutch Shell in the first petroleum-chemical combine in China.

Nov. 14, 2003: Presidents of 16 Japanese, Chinese, and Korean electronic and software companies meet in Osaka to discuss cooperation in the development of a common operating system for computer and family electronic products.

Nov. 18, 2003: Japan announces intention to sign ASEAN Treaty of Amity and Cooperation, signed by China during ASEAN Plus Three Bali Summit.

Nov. 20, 2003: Nissan and its Chinese joint venture partner Dong Fang announce plans to produce medium and heavy trucks in China.

Nov. 23-25, 2003: Keidanren Chairman Okuda Hiroshi leads Japanese delegation to China to lobby for China's adoption of Shinkansen technology in the Beijing-Shanghai high-speed railway to be built for the 2008 Beijing Olympics. The delegation met with Premier Wen Jiabao in the Great Hall of the People.

Nov. 23, 2003: Chinese authorities release Chinese resident of Japan, Luo Rong (Kaneko Yoko) detained in May 2002 for Falun Gong activities.

Nov. 24, 2003: Toyota President Nakamura Kotsuki announces that the Toyota joint venture with China's FAW is aiming to produce 620,000 automobiles in China by 2007, a doubling of 2003 production.

Nov. 25, 2003: Japan's Sumo Association announces plans for June 2004 goodwill visit and exhibitions in Beijing and Shanghai.

Nov. 27, 2003: Foreign Ministry Director General for Asia and Oceanic Affairs Yabunaka Mitoji travels to Beijing to meet with Chinese counterpart Fu Ying on North Korea-related issues.

Dec. 1, 2003: Hitachi Home and Life Solutions announces it will purchase Chinese-manufactured refrigerators for sale in Japan under the Hitachi brand name.

Dec. 2, 2003: Japan's Democratic Party announces that Secretary General Okada Tetsuya will lead a parliamentary delegation to Beijing Dec. 23-26.

Dec. 2, 2003: Mizuho Bank President Saito Hiroshi announces plans for a significant expansion of banking operations in China, seeking to double the number of Mizuho branches there. Mizuho is already operating in Shanghai, Dalian, Beijing, and Shenzhen. Future activities are focused in Taijin, Guangzhou, Wuxi, Qingdao, and Chongqing.

Dec. 3, 2003: Japan's Tore announces plans to transfer elements of its research facilities to China as part of its overall strategy to expand its presence in the China market.

Dec. 4, 2003: Beijing protests Japanese plans to celebrate the emperor's birthday at Japan's unofficial Interchange Association on Taiwan scheduled for Dec. 12. The Foreign Ministry argued that private organizations should not hold celebrations usually

conducted by embassies. Over 600 of Taiwan's leading political and business leaders, including cabinet officials are expected to attend.

Dec. 5, 2003: Japan defeats China in the opening day soccer match of the East Asian Football Championship in Tokyo.

Dec. 5-7, 2003: First meeting of Japan-China Friendship Commission held in Dalian.

Dec. 8, 2003: Previously classified Foreign Ministry documents submitted by Chinese plaintiffs to Fukuoka District Court in suit against government involving compensation for wartime forced labor.

Dec. 9, 2003: Koizumi government announces Cabinet decision to deploy Self-Defense Forces to Iraq; China expresses concerns.

Dec. 12-13, 2003: Zhuhai Intermediate Court hears case relating to Zhuhai sex scandal; fourteen Chinese citizens sentenced.

Dec. 18, 2003: *Xinhua* posts pictures of Japanese involved in planning of Zhuhai orgy.

Dec. 18, 2003: Bank of Japan office opens in Beijing.

Dec. 18, 2003: The Bank of Japan announces the opening of a Beijing office, the seventh overseas office, established since the opening of the Washington office in March 1991.

Dec. 21-22, 2003: Democratic Party of Japan Secretary Okada Tetsuya leads party delegation to Beijing; meets with CCP and government officials.

Dec. 24, 2003: Nippon Steel joins Baoshan Iron and Steel and Arcelor S.A. of Luxembourg to set up a joint venture in Shanghai to produce high quality sheet steel.

Dec. 25, 2003: Former Japanese PM Mori Yoshiro visits Taiwan; meets with President Chen Shui-bian and former President Lee Teng-hui.

Dec. 26, 2003: China protests Mori visit to Taiwan.

Japan-Korea Relations:

It's the Economy (and Culture), Stupid

Victor Cha
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The real action in Japan-South Korea relations this past quarter was not over North Korea but in the realm of economics and culture where a number of positive developments emerged. Meanwhile, the protracted nadir in Japan-North Korea relations has permanent, lasting effects on Japan's future security profile in the region.

Japan-South Korea Relations: Culture and Economics

Seoul and Tokyo's continued coordination of policies on North Korea this past quarter was evident not only at the highest levels in meetings between President Roh Moo-hyun and Prime Minister Koizumi Junichiro and those between their subordinates, but also in Seoul and Tokyo's (ultimately unsuccessful) efforts at forging a consensus on a draft joint statement for the second round of six-party talks hoped for in December. Though the goals for Seoul and Tokyo are the same (nuclear disarmament of the North), the difference in tactics became clearer. A public indication of such differences became evident at meetings between Japanese and ROK defense chiefs in November. ROK Defense Minister Cho Young-kil stressed the importance of patience in dealing with the North, while Japanese Defense Agency Chief Shigeru Ishiba (reinforcing similar remarks made in U.S.-Japan bilaterals during the quarter) highlighted the need for "pressure" to complement diplomacy and to effect any real change in DPRK behavior.

Historical animosity reared its ugly head once again in bilateral relations this past quarter. Tokyo Gov. Ishihara Shintaro never fails to disappoint. This time he made a historically indelicate comment about Koreans seeking Japan's occupation at the turn of the century as the least worst of a bad set of alternatives for the small nation at the time. As will be addressed next quarter, Prime Minister Koizumi's "surprise" visit to Yasukuni Shrine at the beginning of the New Year elicited the predictable protests from the South Koreans (and North Koreans).

The real story this part quarter in Japan-South Korea relations, however (and refreshingly), had little to do with North Korea or history. Instead, it related to developments on the economic and cultural fronts. Most important, Seoul and Tokyo started negotiations in earnest about a free trade agreement (FTA). Agreed to by Roh and Koizumi during the Asia-Pacific Economic Cooperation (APEC) summit meetings in Bangkok, the concept of a free trade agreement dated back to March 2002 when then-President Kim Dae-jung agreed with Koizumi in principle to pursue such an arrangement.

A study group composed of academics, government officials, and business representatives was then assembled in July 2002, which presented findings in October 2003 (somewhat predictably) calling for the two governments to begin negotiations on a comprehensive FTA. These talks were launched officially at the end of the quarter (December 2003) with a target date of 2005 for their successful conclusion.

Bilateral FTAs are a new endeavor for both countries. South Korea and Japan have only one with Chile and Singapore, respectively (Japan-Mexico FTA negotiations broke down over Japan's agriculture sector). According to officials at the first set of talks hosted in Seoul, the expansive negotiations will span the ministries of finance, economy, commerce, agriculture, and energy and will include some 80 officials with each delegation led by Kim Hyun-jong, deputy minister for trade, and Fujisaki Ichiro, deputy foreign minister for economic affairs. The first set of meetings largely dealt with agenda-setting and timetables, which clearly leaves the hard work ahead. Meetings are scheduled to take place on a bimonthly basis (next talks are scheduled for the end of February in Japan), and will include negotiations on tariffs, unofficial trade barriers, the service sector, investment, government subsidies, and technology exchanges. The goal, as stated by both Roh and Koizumi, is comprehensive and substantive trade liberalization arrangements conforming with the rules of the World Trade Organization.

Such an agreement would not only enhance the prospects for economic cooperation and growth of trade and investment between the two countries, but also would be an important political milestone in the maturation of this difficult bilateral relationship. The vision of the two most democratic states in Northeast Asia becoming economically linked through an FTA would create an unprecedented Asian market-democratic bulwark. But it will not be easy. Japan's FTA negotiations with Mexico failed largely because of the politics surrounding the small, but still politically influential agricultural sector in Japan. This is little different from Korea, where the one FTA Seoul negotiated with Chile has run into substantial opposition in the National Assembly. The reason? Pears, grapes, and an agricultural sector that represents only 6 percent of the population but is represented by some 20 to 30 percent of the national legislature.

Cultural Contamination

Japan-ROK FTA talks are a positive development in the relationship, nonetheless. In addition, the South Korean government agreed to lift a ban on Japanese cable and satellite television programs. To the ordinary eye, such a ban may seem absurd for a vibrant democratic OECD country like South Korea, but such bans were symptomatic of how irregular and scarred the relationship remained from its colonial past. The South maintained these bans out of concern for "cultural contamination." Steps away from this xenophobic mentality started during the Kim Dae-jung government when Seoul agreed in 1998 to a program aimed at repealing many of these policies. The removal of such restrictions this past quarter is a small but significant step toward the normalization of the relationship (a similar ban on Japanese popular music was lifted earlier).

Finally, to the delight of regular travelers in Asia, the two governments also agreed to establish shuttle flights between the two countries from their main domestic airports in

Seoul and Tokyo (Kimpo and Haneda, respectively). Operated by Korean Air, Asiana Air, Japan Airlines, and ANA, the arrangement was used during the 2002 World Cup. Arrangements such as these can only serve to promote even more exchange between the two countries, contributing to a “dynamic density” that will serve to deepen and enrich the relationship.

Iraq

The quarter saw announcements from both Japan and South Korea on troop commitments to the occupation in Iraq. The South Korean decision was released in mid-December, committing 3,000 troops to be dispatched in the spring. These troops would supplement the nearly 700 troops already sent to Iraq last year, and would be a mix of engineering and combat troops. In the same month, the Japanese announced the schedule for the dispatch of its 1,000 troop commitment. Japanese Self Defense Forces (SDF) would focus on distinctly nonmilitary activities and humanitarian assistance, restoring water services, and rebuilding schools in southern Iraq. At the end of December, James Baker’s trips to the region as U.S. special envoy, focused on obtaining commitments of Iraq debt relief particularly from Japan. Japan’s official debt with Iraq stood at \$4.1 billion (the highest among of the 19 Paris Club members).

How North Korea Shapes Long-term Change in Japan

Japan-DPRK relations remained poor this past quarter. With each day that the nuclear issue and abduction issue remain unresolved, the more clear becomes the link between the DPRK threat and Japan’s changing political-military profile. Few would have imagined Japan putting military satellites into orbit, firing on ships trespassing Japanese waters, or participating in search and seizure naval exercises. And yet North Korea’s threat has prompted all these actions by Japan. Critics might respond that the growing threat from China would have evoked such a response from Japan. Such a counterfactual (though plausible) is hard to prove. Moreover, there is no denying that both the timing and shape of Japan’s incremental military “normalization” are a linear function of the DPRK’s actions. There is also no denying that, even with the eventual disappearance of the DPRK threat, such changes in Japan are not likely to be rolled back.

The past quarter saw the continuation of this basic dynamic. In a significant (though understated) decision, Japan announced that it would build a missile defense system. Following a period of joint research with the United States, the decision laid to rest speculation about Japan’s political readiness to commence such a program. The reason explicitly cited in the Prime Minister’s Office statements was defense against North Korea. There are two chances, however, of Japan dismantling such a system, once erected, in the face of a future de-fanged North Korea: slim and none. No specific plans have been officially announced, but Japanese media reports a sea-based system that calls for refitting four Aegis-class destroyers with anti-missile rockets and advanced Patriot anti-missile batteries. *Kyodo News* reported that the new system will be likely deployed between 2007 and 2011 at a total cost of \$4.67 billion.

Meanwhile Japan is cutting a leadership profile in the export controls arena. This has not only been evident in Tokyo's cooperation with the Bush administration's Proliferation Security Initiative, but also in the Ministry of Economy, Trade, and Industry's (METI) convening of a regional meeting on export controls this quarter. Suzuki Takashi, director general of METI's Trade and Economic Cooperation Bureau, chaired the meetings in Tokyo attended by director general-level officials in charge of export control policies from Australia, China, Hong Kong, Singapore, South Korea, Thailand, and the U.S. The seven countries agreed to cooperate at national and subnational levels to monitor and stop the illegal trade of dangerous technologies and goods that might be used for weapons or terrorist purposes. Though many countries already have some export controls, the effort led by Japan – the first of its kind in the region – is largely aimed at streamlining and coordinating these individual sets of laws in a more effective manner.

The Diet is also likely to undertake deliberations on legislation seeking revision of foreign exchange laws that would enable Japan to impose economic sanctions on North Korea more effectively. This legislation, supported by the LDP-New Komeito bloc, is also looked on favorably by the Democratic Party which would make its passage highly likely.

These initiatives by the Japanese political leadership and bureaucracy go largely unopposed within Japan. Otherwise controversial government actions for Japanese society receive at worst grudging support because of the level of residual anger among Japanese with regard to the abduction issue. Indeed the continuing saga of these abductees and their families, combined with the almost daily revelations of other suspected cases of North Korea abductions of Japanese citizens, has created a civic-societal “mood” (if not movement) highly antagonistic toward North Korea. The Investigation Commission on Missing Japanese Probably Related to North Korea (COMJAN), established in January 2003, has investigated at least 370 missing person cases. Such groups have also lobbied Diet members, the National Police Agency, and the Defense Agency to undertake investigations into missing persons cases in which it is possible that many individuals may have been taken to North Korea.

One implication of this “North Korea-phobia” is that Japanese authorities can announce stepped-up monitoring of *Chosen Soren*-affiliated groups in Japan (as they did this past quarter) in conjunction with increased surveillance of Islamic groups, and few in Japan push back. This is a far cry from the 1970s when the Japanese government and society refused on civil liberty grounds to undertake restrictions against the *Chosen Soren* despite threats and protests from South Korea to break off diplomatic relations.

The North Koreans lately are fond of telling Americans that the U.S. and Asia should grow accustomed to the prospects of living with a nuclear North Korea. Such an outcome is undesirable and hopefully untrue. But the statement underscores an alternate proposition: as a result of North Korean intransigence, Asia will have to live with the permanent reality of a militarily more “normal” Japan that is not deterred from initiating punitive actions against others, and is also unlikely to ever roll back these capabilities.

Chronology of Japan-Korea Relations¹

October-December 2003

Oct. 2, 2003: A bilateral study group commissioned during the Kim-Koizumi summit in March 2002 advocates Japan-ROK free trade arrangements.

Oct. 2, 2003: Japan's Defense Agency decides to develop a new type of radar with improved detection capabilities by fiscal 2006 as part of its plan to build a missile defense system.

Oct. 3, 2003: Deputy Chief Cabinet Secretary Yamazaki condemns North Korean claims that it has almost finished reprocessing 8,000 spent nuclear fuel rods.

Oct. 7, 2003: DPRK says it will not allow Japan to participate in any new multilateral talks aimed at curbing Pyongyang's nuclear weapons programs; Chief Cabinet Secretary Fukuda dismisses North Korea's demands.

Oct. 8, 2003: PM Koizumi praises China's role in promoting talks to resolve the North Korea nuclear crisis during ASEAN summit in Bali; Japan, China, and South Korea sign first joint declaration pledging security dialogues to promote peace and stability in Asia.

Oct. 9, 2003: PRC rejects DPRK's call for Japan to be dropped from talks on the DPRK nuclear standoff.

Oct. 13, 2003: Police in southern Japan arrest several used car dealers over the export to the DPRK of a large trailer that could be used for launching missiles.

Oct. 16, 2003: Cabinet-level talks between the DPRK and the ROK over the nuclear crisis. DPRK insists that Japan be excluded from any future nuclear crisis negotiations.

Oct. 16, 2003: At the UN, DPRK officials accuse Japan of forcing 200,000 Korean women to serve as sex slaves during World War II.

Oct. 17, 2003: President Bush and PM Koizumi meet in Japan in advance of APEC summit in Bangkok where discussions include policy on North Korea.

Oct. 20, 2003: PM Koizumi and ROK President Roh Moo-Hyun agree at a meeting during APEC summit in Bangkok to start formal negotiations this year toward a free trade agreement.

Oct. 21, 2003: Japanese government investigates unconfirmed reports that the DPRK test-fired a second short-range missile towards the Sea of Japan (East Sea).

¹ Tianjing Zhang provided research support for the chronology.

Oct. 27, 2003: Japan's METI hosts first region-wide meeting on export controls of sensitive military and dual-use technologies.

Oct. 28, 2003: Japanese woman seeks asylum in the DPRK after swimming across a river from the PRC.

Nov. 1, 2003: Tokyo Gov. Ishihara claims that Koreans "chose" Japanese rule rather than face Chinese or Russian governance when Japan annexed the Korean Peninsula in 1910.

Nov. 4, 2003: A DPRK diplomat at the UN refers, in English, to the Japanese as "Japs" during a General Assembly discussion of its nuclear program.

Nov. 5, 2003: Japan protests DPRK diplomat's use of the term "Japs."

Nov. 6, 2003: Japan agrees to exempt visa requirements for ROK students on school excursions to Japan from March at the latest.

Nov. 11, 2003: Japan's Justice Ministry turns down request for refugee status by a former North Korean agent, overturning an earlier recommendation by the Tokyo regional immigration bureau.

Nov. 12, 2003: Chief Cabinet Secretary Fukuda states that any bilateral talks over compensating North Korea for Japan's colonial rule must include the abduction issue.

Nov. 18, 2003: Defense Agency chief Ishiba in meetings with Assistant Secretary of State Kelly states that "pressure" is necessary to ensure peace with North Korea

Nov. 18, 2003: DPRK wants Japan to pay \$40 billion in war compensation. DPRK deputy ambassador to the UN asks Japan to stop what he termed "terrorist" acts, referring to harassment of pro-Pyongyang Korean residents in Japan.

Nov. 18, 2003: North Korean ferry *Mangyongbong-92* arrives at Niigata port amid protests by abductee groups.

Nov. 19, 2003: *Korean Central News* reports that Japanese rightist are raising terrific outcries for "Japan-U.S. security alliance" under the pretext of the DPRK military threat. The commentary accuses Japanese rightists of intending to reinvade with U.S. backing.

Nov. 20, 2003: ROK, U.S., PRC, Russia, and Japan agree in principle that the six-party talks should be regularly held until DPRK nuclear problem is entirely solved.

Nov. 21, 2003: Mongolian Prime Minister Enhbayer says that he has conveyed to the DPRK's leaders that Japan is placing top priority on resolving the issue of abductions of Japanese citizens, and is seeking a comprehensive solution to security issues.

Nov. 26, 2003: ROK Defense Minister Cho and Japan Defense Agency chief Ishiba hold consultations on North Korea.

Nov. 27, 2003: Terakoshi Akio, whose father disappeared while fishing in the Sea of Japan in 1963, files a criminal complaint with prefectural police against a North Korean agent whom he claims murdered his dad and dumped his body.

Nov. 28, 2003: Japanese Foreign Ministry official states that Japan might be willing to put a higher priority on resolving North Korea's nuclear issue over the abduction issue in advance of a possible second round of six-party talks.

Nov. 28, 2003: Trade Ministry official states that Japan has prioritized Mexico, South Korea, and ASEAN in its strategy for negotiating free trade agreements.

Nov. 30, 2003: Japan fails to launch rocket carrying spy satellites.

Dec. 3, 2003: U.S. warns the DPRK not to delay or postpone six-party talks, after Pyongyang balked at Japan's bid to keep the abduction issue on the agenda.

Dec. 4, 2003: ROK and Japanese negotiators meet ahead of a three-way meeting involving the United States.

Dec. 9, 2003: U.S. Congressional Research Service report surmises that Japanese funding to DPRK in conjunction with diplomatic normalization, could be used for Kim Jong-il's regime and military.

Dec. 17, 2003: Japanese announce that South Korean trade deficit with Japan rose to a record \$16.72 billion in 2003.

Dec. 17, 2003: ROK Foreign Minister Yoon Young-Kwan says publicly for the first time he had effectively given up on hopes for resuming six-party talks this year.

Dec. 18, 2003: Senior Vice FM Abe says it may not be necessary to complete a joint statement for six-party talks before participants meet for the next round.

Dec. 19, 2003: A senior U.S. official says it is too early to say diplomatic efforts had failed.

Dec. 19, 2003: *Kyodo News* reports at least 50 documented incidents in more than 20 countries since 1976 link the DPRK to drug trafficking.

Dec. 19, 2003: Chief Cabinet Secretary Fukuda releases a statement officially announcing that Japan will build a missile defense system.

Dec. 21, 2003: Press reports state that six-party talks unlikely in December as Japan, the ROK and the U.S. are unable to reach agreement with the DPRK and PRC over the outlines of a joint statement.

Dec. 22, 2003: South Korea and Japan launch first round of government-level negotiations aimed at reaching a bilateral free-trade agreement.

Dec. 23, 2003: Japan's Justice Ministry says it will maintain vigilant surveillance of the pro-Pyongyang General Association of Korean Residents in Japan (*Chongryun*) as part of its heightened antiterrorism campaign.

Dec 27. 2003: Pro-North Korean Chosen High School in Osaka for the first time plays in the national high school rugby championship tournament in Japan.

Dec. 30, 2003: South Korea announces it will lift its ban on Japanese cable and satellite TV programs.

China-Russia Relations: Living With Normalcy

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By any standard, relations between Moscow and Beijing in the last months of 2003 were uneventful and unenthusiastic. This “normalcy” was in sharp contrast to the more memorable events in the first half of the year (Moscow summit, Shanghai Cooperative Organization gathering, and St. Petersburg’s celebration). The world, too, was relatively quiet without Saddam or SARS. Chinese Foreign Minister Li Zhaoxing mentioned Russia only in passing in his year-end review of China’s diplomacy, while relations with India and Pakistan were given more significant space. Even the Korean nuclear crisis became less alarming, as Washington was absorbed by the bloody peace in Iraq and the beginning of the presidential race at home.

Without eye-catching events, attention was given to secondary issues in social, economic, and cultural areas. Meanwhile, top leaders from both countries tried to find ways to inject new momentum into the otherwise normal relationship between the two “strategic partners.”

Managing the Trivial

Beyond the strategic dimension of China-Russian relations, there were plenty of non-political issues and developments. The last quarter of the year was particularly full of law enforcement concerns.

In November, a group from the Shanghai Public Security Office visited St. Petersburg. A delegation of Moscow policemen traveled to Beijing for the fifth anniversary of the cooperation agreement between the two cities. At the national level, a delegation of the Russian Border Guard Service (RBGS) led by Col. Gen. Vladimir Pronichev, first deputy director of the Russian Federal Service of Security and director of the Russian Federal Border Service, traveled to China. The RBGS group was joined in Beijing by Col. Gen. Pavel Tarasenko, chief of the Russian Pacific Regional Border Department of the Federal Security Service, who was visiting China on a separate tour. An agreement was signed for cooperation in curbing international terrorism, illegal migration, and smuggling. While in Beijing, the Russian border guard group was received by Defense Minister Cao Gangchuan and met Gen. Qian Shugen, deputy chief of the PLA’s General Staff. Maj-Gen Boris Shtokolov, head of the International Cooperation Directorate of the Russian Interior Ministry, also held talks with Chinese officials from the Ministry of Public Security in Beijing. The two sides agreed to expand their cooperation, including the next round of regular consultation in Harbin, according to an accord for 2004-2005. The “law-

and-order” quarter ended with China’s National People’s Congress approving the “Treaty on the Transfer of Convicted Criminals between the People’s Republic of China and the Russian Federation,” and the seventh session on Russian-Chinese border regulations was held in Beijing. This expert-level session tried to redefine and expand the current accord, signed in 1994, into a more comprehensive one covering all changes and developments in the past decade.

Law and Disorder?

Part of the reason for the higher level of cooperation in the legal area was the growing need to deal with more legal and criminal cases as interactions between the two societies broadened and deepened.

Accidents, too, highlighted the imperative nature of the issue. On Nov. 24, 11 Chinese students died, two went missing, and 41 were wounded in a huge fire in a dormitory in the Patrice Lumumba Peoples’ Friendship University in Moscow. The fire occurred at a time of rapid growth in the number of Chinese students in Russia: from 1,000 in 1993 to more than 10,000 in 2002. Most of these students paid their own tuition and outnumbered government-sent students by 30 to 1. Despite the size of the fire and damage, the rescue and its damage control were not seen as properly done.

The tragic fire occurred also at a time when crimes committed by foreigners in Russia and those against foreigners in Russia rose sharply in 2003, by 10 percent and 9 percent, respectively. In both categories, the Chinese topped the number of crimes as initiators and targets among non-Commonwealth of Independent States nationals. A group of Russian skinheads, who were under suspicion of setting the fire, even went to the same area on campus as the fire a few days later and beat up nine foreign students.

From the Chinese account, there were more than just crimes against Chinese nationals in Russia. Throughout 2003, there was a sharp rise of cases involving mistreatment of Chinese nationals, irresponsible behavior by Russian law enforcement officers, and even racially motivated actions against Chinese in Russia. (For details of these cases, see “The Russian-Chinese Oil Politik,” *Comparative Connections*, Vol. 5, No. 3, October 2003.) [www.csis.org/pacfor/cc/0303Qchina-rus.html]

The Moscow fire seemed to have caused sufficient alarm among top Chinese leaders regarding growing “disorganized” violence against Chinese nationals in Russia. It also provided an opportunity for China to address the issue in a more serious manner with Russia. On Nov. 29, Beijing dispatched to Moscow a joint working group of officials from the foreign and education ministries. In their meetings with Russian officials, members of the working group urged their counterparts to try their utmost to save the lives of the wounded, to help survivors in their daily life and studies, and to assist family members of the Chinese students during their stay in Moscow. The Chinese side also raised the issue of compensating victims. Russia was not forthcoming.

Economics: Promising and Problematic

Economic issues also attracted more attention, for better or worse. Bilateral trade reached about \$15 billion, up from \$12 billion in 2002. The volume, though much smaller than China's trade with some of its largest trade partners, was actually larger than Russian-U.S. trade (less than \$10 billion for 2003) and ranked number two among China's European trading partners (after Germany and ahead of the UK).

Financial transactions between the two countries also showed signs of closer cooperation. In early October, Chinese and Russian currencies became partially convertible in border areas without first being converted to U.S. dollars. In late November, the second China-Russian Financial Forum, sponsored by the Chinese Monetary Society and the Association of Russian Banks, was held in Beijing with more than 200 specialists and government officials attending. Participants urged more cooperation and exchanges of information. They examined the possibility of jointly granting loans to Russian enterprises that make exports to China. The two sides already had taken measures to standardize funds settlement in an effort to facilitate border trade. Russian and Chinese insurance firms, Ingosstrakh and the People's Insurance Company of China (PICC), also signed an accord to expand participation in each other's reinsurance programs.

Slow but steady progress was made in nuclear power. The first unit of the Russian-built nuclear power plant in Tianwan, eastern China, started testing and will be launched and reach its rated capacity in 2004. Meanwhile, China intends to obtain technologies for the production and assembly of reactor equipment in its next round of construction of nuclear power plants. The Russian side tentatively agreed to provide the technologies if it would be contracted to build another four units in Tianwan in the future. In early November, the Russian and Chinese Nuclear Societies signed a cooperation agreement in Beijing. By 2003, a uranium-enriching facility yielding 500 tons of nuclear fuel annually had been built in China in cooperation with Russia. An experimental fast-neutron reactor was also being built. China was also showing considerable interest in Russian nuclear power plants for spacecraft.

Despite this progress in bilateral economic relations, the oil pipeline to China (Angarsk-Daqing) remained uncertain, and the "decision" deadline continued to be extended, now to sometime in 2004. In the last quarter of the year, the Russian side sent more nuanced, if not necessarily positive, signals. President Vladimir Putin's economic adviser Andrei Illarionov said in Beijing that the detention of Russian oil tycoon Mikhail Khodorkovsky on fraud charges on Oct. 25 would not affect Russia's cooperation with China in the sphere of energy supplies. In an effort to lessen China's anxiety, Illarionov insisted that Russia was "guided by economic expediency ... rather than by geopolitical considerations" in making final decisions regarding the route of Russia's oil pipeline. He went as far as to say that Russia was willing to construct oil pipelines to both China and Japan, and even a third line to South Korea, "if economic necessity and expediency arise."

While Illarionov's words may aim at comforting Beijing without any specific commitment to the Angarsk-Daqing pipeline initiated by Russia 10 years ago, Russian Prime Minister Mikhail Kasyanov's trip to Japan at the year-end shed some light on Russia's energy diplomacy. For the first time, the joint statement contained a reference about a pipeline project, though it did not specify its beginning and end. Meanwhile, Kasyanov tried to untangle the two oil pipeline projects. "The construction of an oil pipeline from Angarsk to Nakhodka is a strategic one, while its Chinese branch to Daqing is a tactical project," said Kasyanov. In the Japan case, Russia would like to have a "broader" and "comprehensive" energy project, which covers not only the construction of a pipeline but also exploration and development of oil deposits in eastern Siberia. "Transporting oil from Western Siberia to the Pacific coast is not economically expedient," said Kasyanov. Meanwhile, the tactical project to China would pump existing oil from Russia's western Siberia to Daqing. In a press conference following the last Cabinet meeting on Dec. 25, Kasyanov reiterated the "dual-track" approach and that "the crude oil to fill the pipeline to Daqing is already available. For the time being it is exported to China by train," while the Angarsk-Nakhodka pipeline project "[w]ill require the development of oil reserves in East Siberia."

The "Kasyanov doctrine," however, has yet to be finalized and may have to wait until the Russian presidential election in March 2004. Meanwhile, various interest groups in Russia continue to compete for their own projects.

As early as October, the Japanese side was said to agree to an investment of \$15 billion for pipe-laying and construction of an oil terminal as well as prospecting for oil deposits in East Siberia. It is not clear how Japan would operationalize Russia's grand strategy with a massive influx of Japanese capital for both the pipeline and oil fields, when the two sides are technically still at war, or without a peace treaty after World War II. Moscow will continue to be torn between the competing projects, but intends to milk them for as much foreign input as possible.

Moscow's Concern for its Strategic Partner

Russia's indecision on the oil pipeline issue reflected its mixed perception of China, and is rooted in a muted but serious concern with regard to a rising China. Although the Russian economy has stabilized and grown well above the world average in the past three years, it continues to be dwarfed by the galloping Chinese economy. Many in Russia think that an oil pipeline to China would further fuel China's almost unstoppable rise.

The "China threat" perception is particularly strong in Russia's Far East, where the Russian population in the past decade declined 1 million, or 13 percent, to 6.7 million. Meanwhile, booming China has 100 million people in the three provinces of Manchuria alone. This led to a rather exaggerated fear about the influx of Chinese into Russia, particularly to Siberia. While the actual numbers of Chinese in Siberia were about

200,000, according to Russian official account, the Russian public feared that the figure may well be above 1 million.

Russian President Vladimir Putin may not share this concern. His envoy to the Far East Federal District Konstantin Pulikovskiy was in Beijing in early October, actively soliciting China's economic input, both labor and capital, into his vast region. Pulikovskiy, however, may represent the minority, and less alarming, view regarding the Chinese presence in Russia's Far East. Local officials seem overwhelmingly "anti-China." Top officials even prefer to take immigrants from North Korea over those from China. Although in Beijing he repeatedly dismissed fears about Chinese migration into Russia, Pulikovskiy at home strongly favors the Japan route for the oil pipeline and lobbies hard for it. In the past few years, Russia's Khabarovsk region repeatedly turned down a \$250 million Chinese investment for a paper pulp mill, citing various excuses.

Russia's attitude toward China reflected a dual reality in Russia's Far East. On the one hand, the region is closely related to China economically: 80 percent of the consumer products in Russia's Far East comes from China and 10 percent of regional economic growth was linked to the region's trade with China, now constituting 50 percent of Russia's total exports to China. On the other hand, the shadow of territorial disputes remains long and heavy, contributing to distrust and biases against Chinese.

Concerns about a rising and threatening China may come from those sectors of the Russian society that have had close relations with the Chinese. The Russian military, which has supplied China with billions of dollars of weaponry every year in the past decade, was said to mount the strongest opposition to an oil pipeline to China. The Russian General Staff reportedly vetoed the Angarsk-Daqing line because it would give China access to Russia's strategic fuel. Indeed, the aim was not to build another pipeline "but to prevent a pipeline to China from being built," according to a Russian source.

While Beijing was eager to figure out the political and strategic motivations behind the arrest of Russian oil tycoon Khodorkovsky and its implications for the Russian-Chinese pipeline deal, Putin seems to have a broader strategic blueprint in mind. He wants to use energy as strategic leverage in Russia's relations with the Asia-Pacific region. During the annual Asia Pacific Economic Cooperation (APEC) meeting in Bangkok, Putin outlined the role of Russia as "a connecting link between East and West." "This is predetermined by its very geographical location as a bridge between different civilizations, cultures, and religions." In his speech to 19 other heads of state, Putin described how Russia would become, in the near future, "one of the most dynamic strategic resources in the Asia-Pacific region's development" in three areas: energy, transport, and fundamental science. He then listed various energy projects, real and considered, with China, Japan, and South Korea as part of the long-term plan to assist Asia-Pacific development. In his mind, China is only part of this grand strategy that establishes Russia as the linchpin for regional development.

Making a Good Thing Better: Mission Impossible?

Unless one is a perfectionist or needs a strategic overdose from time to time, much of the China-Russian elbowing in the quarter is quite normal among major powers. To be more precise, there was nothing particularly wrong between Moscow and Beijing. The two sides cooperated in various international fora and over key issues such as Iraq and Korea. The Shanghai Cooperative Organization (SCO) worked out its last organizational details and is ready to be fully operational in January 2004. Chinese Defense Minister Cao Gangcuan's year-end visit to Russia led to another major development in China-Russian military relations. In the words of Russian ambassador to China Igor Rogachev, 2003 had been a year of "very good, warm personal relations" with frequent high-level exchanges. Their foreign ministers met 12 times and held 10 telephone talks; 70 Russian and 40 Chinese delegations of deputy minister level or above visited each other's country. In the last few days of the year, physicist Valentin Danilov, former head of the Center for Thermal Physics in Krasnoyarsk, was acquitted of spying for China. When China's new ambassador Liu Guchang arrived in Moscow in November, he described Chinese-Russian relations as "at the highest level in the history of bilateral relations." And he was afraid to say how he would be able to further promote an already excellent relationship.

In non-political areas, Russian-China interactions are far more extensive than at any other time in recent history. Russian educational institutions, despite their substandard facilities, attract far more Chinese students than at the peak of the China-Soviet honeymoon in the 1950s. Russian language centers in Beijing, Shanghai, and Harbin routinely organize language contests and attract more and more students.

Other "ordinary" developments included the opening of the Russian Literature Hall in the Shanghai State Library in late October; Russia's renowned Igor Moiseyev Folk Dance Company and jazz orchestra under conductor Georgiy Garanian toured China; and a Russian translation of a biography of Mao written by his daughter Li Min was published. Li was educated in the former Soviet Union during the 1950s. Even Putin's daughters are interested in China: one is currently learning the Chinese language and the other *Wushu* (marshal arts).

With these "normal" developments, the question was how to resolve those "normal" problems discussed earlier. Both sides seemed eager to do something. In their first meeting after the May Moscow summit at the annual APEC meeting in October, President Hu expressed his concerns about the general orientation of China's relations with Russia. "Experiences from many years of cooperation between our two countries have shown that so long as we proceed from the overall situation of the China-Russian strategic partnership of cooperation and from the fundamental interests of both sides, so long as the principles of mutual benefit, reciprocity, and good faith are followed, and the concerns of the other side are accommodated and taken into consideration, any new scenarios and new problems emerging in bilateral cooperation can be addressed properly." Putin agreed with Hu's views, saying that the 2001 friendship treaty laid a

legal foundation for their strategic partnership. “There are no irresolvable issues or obstacles in Russia-China relations,” Putin added.

As soon as he returned home from the APEC summit, Putin ordered an increase in Russia’s oil deliveries to China. “In any case, we will develop relations with our traditional partners ... Whatever route we choose, we will increase delivery of crude oil to China. This may be done either by laying a direct pipeline to Daqing, or by adding a side branch to the pipeline that goes to Nakhodka, or by increasing the delivery by railway,” said Putin.

Putin’s statement also appeared to be part of an advanced and calculated move to minimize the impact of the arrest of Khodorkovsky a week later, whose Yukos oil company is responsible for half the oil deliveries to China. In retrospect, the arrest was to prevent a forthcoming sale of a major share of Yukos to ExxonMobil, and to keep Russian tycoons out of election politics.

In the last months of the year, Putin and his advisors seemed to have worked out a “dual-track” or “strategic-plus-tactical” plan for pipelines to Japan and China, respectively. In broader terms, the separation of the two pipelines makes more sense in that the last thing Putin wants is for his energy-politik to turn China into an enemy again. If Soviet power and current U.S. power cannot stop the rise of China, the most meaningful strategy is to keep China as a friendly nation. A compromise solution remains the most attractive goal for Putin.

To drive home his positive message to China, Putin called President Hu on Dec. 19, a day after China’s defense minister’s visit to the Kremlin, to inform him of his “concept for next year’s high level exchange,” while praising the results of the Russia-China Joint Committee on Cooperation in Military Technology that concluded on Dec. 18 in Moscow. By any standard, Putin’s initiative was quite unusual.

How much Putin’s approach to bilateral relations will impact these normal yet difficult issues in the coming year remains to be seen. One thing seems certain: Putin’s hand, which is already strong, will be further enhanced if he wins a second term as Russian president in early 2004. There will also be plenty of issues for the two sides to discuss when presidential elections will be held in both the U.S. and Taiwan.

Chronology of China-Russia Relations October-December 2003

Oct. 8-10, 2003: Konstantin Pulikovskiy, presidential envoy to the Far East Federal District, visits China. He meets with Deputy FM Dai Bingguo, Vice Premier Wu Yi, and Li Guixian, vice chairman of the National Committee of the Chinese People's Political Consultative Conference in Beijing to discuss economic cooperation, investment, border trade, and immigration.

Oct. 11, 2003: FM Li Zhaoxing exchanges views with Russian counterpart Igor Ivanov over the phone on bilateral ties, the Korean nuclear issue, and Iraq.

Oct. 12, 2003: Vice FM Wang Yi holds consultations in Moscow with Russian counterpart Alexander Losyukov on Asian issues, including the Korean nuclear issue.

Oct. 14, 2003: Deputy FM Yuri Fedotov and his Chinese counterpart Shen Guofang discussed by telephone how to cooperate in the UN on Iraq.

Oct. 14, 2003: Putin meets with departing Chinese Ambassador Zhang Deguang, describing Zhang as "a perfect specialist and a friend to our country." Zhang will become the SCO executive secretary.

Oct. 16, 2003: FM Li telephones Russian and French foreign ministers to exchange views on the UN Security Council's new draft resolution on Iraq.

Oct. 19, 2003: Putin holds talks with Hu Jintao during the annual APEC meeting in Bangkok.

Oct. 27-29, 2003: SCO's Council of National Coordinators meets in Tashken. Agreement reached on the distribution of posts in the SCO Secretariat and Regional Antiterrorist Structure (RAS) according to contributions to the SCO budget. SCO Secretariat in Beijing and the RAS in Tashkent are to be fully functional Jan. 1, 2004.

Oct. 27-28, 2003: Russia and China hold in Beijing the third meeting of the bilateral working group on scientific and technical cooperation in electronic-information industry. They discuss cooperation in radar techniques, earth satellite navigation systems, laser, medical equipment, communications systems household electrical appliances, and software.

Nov. 3, 2003: Russian and Chinese Nuclear Societies sign agreement to expand cooperation in nuclear energy and research, including the construction of nuclear power plants.

Nov. 3, 2003: Chinese Vice Premier Zeng Peiyan meets with Russian presidential economic advisor Andrey Illarionov in Beijing.

Nov. 5, 2003: 100 young Russian scientists join the “Forum of Young Chinese and Russian Scholars” in Beijing.

Nov. 5-6, 2003: Andrei Illarionov participates in a two-day conference of the World Economic Forum in Beijing.

Nov. 12, 2003: Kung Xianming, head of Shanghai Public Security Office, visits St. Petersburg with a group of public security specialists. Talks focus on illegal migration, drug and weapons contraband, as well as economic and tax crimes.

Nov. 14, 2003: China’s new ambassador to Russia, Liu Guchang, arrives in Moscow.

Nov. 15–17, 2003: Delegation of Moscow policemen, led by deputy head of Moscow Main Interior Directorate Aleksandr Ivanov, visits Beijing.

Nov. 16, 2003: A three-country consortium (Russian, Chinese, and South Korean) concludes three-year feasibility study on the \$11 billion project for transporting gas from eastern Siberia to the Korean Peninsula through China and the Yellow Sea. A final decision is expected in 2004.

Nov. 17, 2003: Director of Russian Foreign Ministry’s 1st Asia department Yevgeniy Afanasyev holds talks with counterpart Fu Jing in Beijing to prepare for second round of six-party talks on the North Korean nuclear problem. The two sides were said to have positions that “virtually coincide or are very close both on strategic and tactical objectives.”

Nov. 18-24, 2003: Col. Gen. Vladimir Pronichev, the first deputy director of the Russian Federal Security Service and chief of the Border Service, visits China for talks with Chinese officials of the Public Security Ministry and the Chinese Border Service. He meets Chinese Defense Minister Cao Gangchuan and representatives of the General Staff of the PLA.

Nov. 24, 2003: Eleven Chinese students killed, 40 wounded and two missing in a fire in a dormitory of the Patrice Lumumba Peoples’ Friendship University in Moscow.

Nov. 27, 2003: Maj. Gen. Boris Shtokolov, head of the International Cooperation Directorate of the Russian Interior Ministry, visits Beijing and signs a cooperation protocol with China’s Ministry of Public Security for 2004-2005.

Nov. 27-8, 2003: The Chinese Monetary Society and the Association for Banks in Russia sponsor second meeting of the China-Russia financial cooperation forum in Beijing. More than 200 people attend. Agreement is signed to further bilateral cooperation in banking.

Dec. 15-22, 2003: Minister of Defense Cao travels to Russia to attend Russian-Chinese intergovernmental commission on the military-technical cooperation. A working protocol was signed on bilateral military-technical cooperation for 2004 with a total sales value of more than \$2 billion. Putin and Prime Minister Kasyanov meet Cao Dec. 18.

Dec. 19, 2003: Presidents Putin and Hu talk on the phone. They stress that military-technical cooperation “is an important component of strategic partnership between Russia and China.” They also discuss Iraq and Korea.

Dec. 26, 2003: Russia and China held in Beijing the seventh round of talks about the Russian-Chinese agreement on border regulations.

Dec. 27, 2003: China’s Parliament approves “Treaty on the Transfer of Convicted Criminals between the People’s Republic of China and the Russian Federation.”

Dec. 29, 2003: The Krasnoyarsk regional court in Russia acquits scientist and former chief of the Krasnoyarsk Thermal Physics Center Valentin Danilov, accused of spying for China.

U.S.-India and India-East Asia Relations: Delhi's Two-Front Diplomacy

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The past two years have been especially full for India's diplomacy – both toward the United States and East Asia. Toward the U.S., India, by mobilizing hundreds of thousands of troops along the international border with Pakistan following an attack on the Indian Parliament in December 2001, was engaged in “coercive diplomacy” aimed at getting Washington to pressure Pakistan to halt cross-border infiltration into Kashmir. For much of 2002 and half of 2003, U.S.-India relations were preoccupied with getting Pakistan to carry through on its commitments, preventing further escalation or miscalculation of the crisis, initiating a political process in Jammu and Kashmir, and nudging India-Pakistan relations toward dialogue. Simultaneously, the U.S. and India worked to implement the “big idea” of the Bush administration to transform U.S.-India relations through enhanced defense cooperation, improved trade, and wider political and security consultations. On both these counts, the U.S. and India achieved some progress – though not smoothly.

India in 2003 was also pursuing an improvement in relations with its rapidly growing neighbor, China, while building on the past few years of steady improvement with Southeast Asia, and to a lesser extent Japan. While no dramatic events or breakthroughs have occurred, an incremental but steady focus by India on East Asia has been maintained despite severe India-Pakistan tension during all of 2002 and the first half of 2003.

This article, building on earlier reviews of U.S.-India (see “U.S.-India Relations: Visible to the Naked Eye,” *Comparative Connections*, Vol. 3, No. 4) and India-East Asia Relations (see “India-East Asia Relations: The Weakest Link, but not Goodbye,” *Comparative Connections*, Vol. 3, No.1, January 2003), examines U.S.-India and India-East Asia relations in 2002-2003 and 2003 respectively.

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U.S-India Relations: Mixed Masala

Notwithstanding the notable improvements in long-contentious and difficult areas of U.S.-India relations during the first several months of 2001, in the wake of Sept. 11, the revived U.S.-Pakistani relationship, and terrorist attacks on the legislative assembly in Jammu and Kashmir (Oct. 1, 2001) and on India's Parliament in New Delhi (Dec. 13, 2001), U.S.-India relations became overshadowed by a new set of challenges exceedingly difficult to extricate and calibrate with the original big idea to transform relations.

In 2002 and through the first half of 2003, U.S.-Indian relations were preoccupied with the massive mobilization of first Indian and then Pakistani troops along their mutual border, intense U.S.-centered diplomacy to keep India-Pakistan tension from spilling over into war, and sharp Indian expressions of disappointment with Washington. Simultaneously, however, Herculean efforts were made both by Washington and Delhi to stay on track in terms of intensifying and expanding the U.S.-India dialogue and making concrete progress in areas such as defense and economic ties. A huge number of high-level exchanges conveyed the impression of progress in bilateral ties.

The Choreography of Kashmir Crises: From Bad to Worse to Better

By the end of 2001 and the start of 2002, tensions in the subcontinent had reached a high pitch. Following the Dec. 13, 2001 attacks on India's Parliament, India recalled its envoy to Pakistan for the first time in three decades, ended air and rail links between the two countries, and initiated a massive mobilization of troops along the border with Pakistan. Despite India's complaints about Washington's unwillingness to label Pakistan a terrorist state, "highly selective" approach to naming foreign terrorist organizations (FTOs), and calls for restraint and dialogue, the fact is that India's post-Dec. 13, 2001 coercive diplomacy has brought numerous changes in tone and substance to U.S. positions regarding Kashmir that are favorable to U.S.-India relations. First, the U.S. has characterized the Kashmir issue as a terrorist problem, placing less emphasis on the human rights and other problems there. Second, the U.S. moved to put certain organizations that India has long deemed as terrorist outfits on its own Foreign Terrorist Organizations (FTOs) list. Third, the U.S. moved to squarely place a degree of responsibility on Pakistan and its leadership to halt infiltration across the Line of Control (LoC).

Nevertheless, U.S.-India relations again dipped low in the wake of an attack on an Indian army camp on May 14, 2002 that killed over 40 persons, including women and children. Indian Home Minister L. K. Advani, in an address to Parliament four days later, expressed "deep disappointment" over what he alleged was Washington's "encouragement" to Pakistan by making it a key ally in the international war against terrorism. With India-Pakistan tensions on the rise again, U.S. efforts centered on getting Pakistan to enforce commitments it had made earlier to stem infiltration across the LoC, and to keep India from escalating the crisis further. President Bush weighed in May 25 while meeting Russian President Vladimir Putin in St. Petersburg, saying that "It's very important that [Pakistan's] President Musharraf...does what he said he was going to do in

his speech on terrorism and that is to stop the incursions across the border.” Washington’s dispatch of Deputy Secretary of State Richard Armitage to the subcontinent in June led to further progress. Following a visit to Islamabad, Armitage came to New Delhi armed with a commitment from President Musharraf to “end permanently cross-border, cross-LoC infiltration.” Washington’s crisis management efforts did not end Indian officials’ criticisms. India’s new Foreign Secretary Kanwal Sibal, in a speech to the Confederation of Indian Industry (CII), harshly criticized Washington for exaggerating the threat of nuclear war, issuing travel warnings to India, and rewarding Pakistan despite its sponsorship of terrorism.

With the immediate prospect of hostilities having abated, U.S. attention turned to Indian plans for elections in Jammu and Kashmir in the fall of 2002. While visiting India in late July, Secretary of State Colin Powell appeared to suggest conditions for those elections when he said that “[w]e look forward to concrete steps by India to foster Kashmiri confidence in the election process. Permitting election observers and freeing political prisoners would be helpful.” Powell’s comments provoked sharp rejoinders in New Delhi with Indian Deputy Prime Minister L.K. Advani saying that [w]e do not need any certificate [of free and fair elections] from outsiders.” But the U.S. also issued warnings against interference and violence in these elections from Pakistan and militants.

Elections were held in Jammu and Kashmir over a period from Sept. 16 to Oct. 8. Almost 800 persons were killed during the election campaign and voter turnout was over 40 percent. On Oct. 10, State Department spokesman Richard Boucher called the Jammu and Kashmir elections “successful” and “credible,” but characterized them as “the first step in a broader process” and called for “an early resumption of diplomatic dialogue [between India and Pakistan] on all outstanding issues...” This statement also “welcome[d] the Indian government’s commitment to begin a dialogue with the people of Jammu and Kashmir and...hope[d] this dialogue will address improvements in governance and human rights.” A major U.S. objective came closer to realization as India, in mid-October, following the elections, announced that it would pull back troops from along its international border with Pakistan while maintaining readiness and vigilance along the LoC in Kashmir itself. By late December 2002, White House spokesman Ari Fleischer declared “there is now a markedly diminished point of tension” between India and Pakistan.

With the prospects of war receding and Jammu and Kashmir elections completed with a modicum of viability, U.S.-India relations over Kashmir shifted attention to calls for talks between India and Pakistan. Again, there was considerable acrimony over this matter, though progress in the end was achieved. In early March, using unusually harsh language, Indian Prime Minister Atal Behari Vajpayee complained that “[i]f the United States can’t make Pakistan keep its promise [to halt cross-border infiltration], it shows its weakness” and “[i]f assurances given to us are not honored, we will factor this in while formulating our policy in future.” President Bush called Vajpayee the next day – though White House spokesmen denied any link between the comment and the phone call. After yet another violent incident resulting in the death of 24 Hindu villagers in Kashmir in late March, India’s Foreign Minister Yashwant Sinha rejected U.S. calls for an India-Pakistan

dialogue, saying “[a]dvice to India about resuming dialogue with Pakistan in the aftermath of the killings of Hindus in Kashmir this week was just as gratuitous and misplaced as we asking them to open a dialogue with Osama bin Laden and Saddam Hussein.” And he followed up in April with the comment that “India has a much better case to go for preemptive action against Pakistan than the U.S. has in Iraq.”

Notwithstanding India’s continued complaints about what it perceived (or at least sought to cast) as Washington’s unwillingness and/or inability to rein in Pakistan’s support for terrorism in Kashmir, India moved to normalize relations with Pakistan – again a move in line with Washington’s objectives. On April 8, 2003, during a speech in Srinagar, Prime Minister Vajpayee offered a “hand of friendship” to Pakistan. In early May, India and Pakistan agreed to restore diplomatic ties and air links, just a week before the arrival on the subcontinent of Deputy Secretary Armitage. Further progress toward the long-sought U.S. goal of de-escalation and normalization occurred in the remainder of 2003. In November, Pakistan offered a ceasefire in Kashmir, which was accepted by India. In early December Vajpayee officially confirmed that he would attend the South Asian Association for Regional Cooperation (SAARC) meeting in Islamabad, Pakistan scheduled for January 2004. And on Dec. 18, 2003 Pakistan President Pervez Musharraf said he was ready to put aside, conditionally, Pakistan’s demand for a referendum in the disputed territory of Kashmir.

The sustainability of India-Pakistan efforts at normalization is open to question. Whether, as the snows melt, and the viability of greater militant infiltration and military action increases, the two sides can keep from ratcheting up tensions again remains to be seen. But from the point of view of U.S.-India relations, the past two years have witnessed verbal acrimony and disagreement about how to handle the issue of Kashmir and terrorism. On the ground, however, progress has been achieved toward preventing war, re-establishing a political process in the disputed territory, and opening the way for renewed India-Pakistan engagement, and possibly dialogue.

U.S.-Indian Defense Relations: Developing Day by Day

The difficulties posed to U.S.-India bilateral relations by the ongoing preoccupation and differences regarding Pakistan, Kashmir, and terrorism did not halt progress in the defense cooperation efforts begun in 2001. India’s Naval chief, Adm. Madhvendra Singh, who visited Washington in Sept. 2002, aptly described U.S.-Indian defense ties as “developing day by day.”

In January 2002, Indian Defense Minister George Fernandes met with Secretary of Defense Donald Rumsfeld in Washington and signed a bilateral general security of military information agreement (GSOMIA), paving the way for greater technology cooperation and military sales between the United States and India. Another important step was an amendment to U.S. law, facilitated by the support of the Bush administration, “requiring congressional notification of all applications for export to India of items on the U.S. munitions list.” As a result of the modification, in U.S. Ambassador Robert Blackwill’s words, beginning from “Oct. 24, 2002, only those Major Defense Equipment

(MDE) items above \$14 million now require congressional notice. This modification puts India in the same category with American treaty allies such as South Korea and Japan.” Even earlier, in April 2002, India had leased and purchased its first major U.S. weapons system in decades when agreement was reached to buy eight AN/TPQ-37 counter-battery artillery radar sets and related equipment valued at \$146 million.

Throughout 2002 and 2003 the U.S. and India conducted joint military exercises and exchanges that would not have been broached before. As Ambassador Blackwill recalled in May 2003, “[f]rom virtually no interaction in January 2001, the United States and India today have completed seven major military exercises, including *Geronimo Thrust* in Alaska, yet another first-ever endeavor, which involved Indian forces and aircraft on American soil. Other significant milestones were the first USAF-IAF airlift interoperability training operation, *Cope India 02*, in Agra; and the first and largest peacekeeping command-post exercise ever held in South Asia, co-hosted by the Indian Army and U.S. Army Pacific.”

Another area of defense cooperation on which there was some forward movement was missile defense. India’s Defense Secretary Yogendra Narain and U.S. Under Secretary of Defense for Policy Douglas Feith, during the May 2002 Defense Policy Group meetings in Washington, reached agreement to conduct a joint study of India’s missile defense needs. There also has been some movement on loosening restrictions on high-technology cooperation between the U.S. and India. Following the November visit to Delhi of Under Secretary for Commerce Kenneth I. Juster, the two countries agreed to establish a joint “high technology cooperation group.” Following further consultations, in February 2003 the U.S. and India signed a *Statement of Principles for U.S.-India High Technology Commerce*. Overall, steady, incremental progress was made on expanding military and defense contacts between the two countries over the past two years.

Nuclear Nonproliferation Concerns Fade but Don’t Disappear

Despite moving beyond the nuclear narrative in U.S.-India relations during 2001, it is clear that the issue has not disappeared. Speaking to the Confederation of Indian Industry on May 14, 2002, Assistant Secretary of State for South Asia Christina Rocca noted, “Nonproliferation remains an important item on our bilateral agenda...” President Bush reiterated this point in his *National Security Strategy* when he observed that [d]ifferences remain, including over the development of India’s nuclear and missile programs...”

Still, the overall tenor of the nuclear dialogue between Washington and New Delhi had changed considerably. In September 2002, U.S. Assistant Secretary of State for Non-Proliferation John Wolf and India’s Joint Secretary for Disarmament S.K. Sharma held talks on nonproliferation in New Delhi. According to a joint statement released after the talks, the U.S. “expressed its readiness to broaden relations in civilian space cooperation” and “[t]he two sides also exchanged views on civilian nuclear cooperation. To this end, the two sides identified proposals which could be operationalized in the near term.” Concurrent with the ongoing talks about high-technology cooperation, a degree of civilian nuclear cooperation now became a possibility. The visit of U.S. Nuclear

Regulatory Commission (NRC) Chairman Richard Meserve to India in February 2003 set the stage for resuming nuclear safety cooperation, though at a basic level. In September the U.S. NRC met with Dr. K. Sharma, vice chairman of the Atomic Energy Regulatory Board of India, and a six-person Indian government delegation for discussions on five project areas in civilian nuclear power, which had been approved by the respective governments. An NRC press release carefully noted that technical discussions were “based on publicly available information.”

U.S.-India Economic Relations: Still Searching for the Missing Piece

U.S.-India economic relations during this period remained, in the words of Ambassador Blackwill, the “missing piece” of the relationship. Apart from low levels of bilateral trade and investment, more fundamental differences remain regarding India’s economic reforms. President Bush, in his *National Security Strategy*, specifically mentioned the “the pace of Indian economic reform” as a source of difference between the two countries. During the past two years, the economic reform process slowed down further, even in the assessment of outside observers. Anne O. Krueger, first deputy managing director of IMF and former Stanford University professor, told a Washington audience in late 2002 that “[t]here is good and bad news on the Indian reforms front ... The pace of disinvestment, power and labor reforms, and bankruptcy law is good. But the bad news is that reforms have slowed down over the last two years.”

U.S. officials and businessmen were blunter about their disappointments in the development of U.S.-India economic relations and the source of those problems. Ambassador Blackwill stated that “[i]f India wants to be granted the most favored nation status by the U.S. for greater trade and economic ties, then it has to open up much more and speedily for American firms to come and invest in the Indian market ... Our problem is not how much India exports to the U.S., be it services or goods, but what prevents American companies from thriving in the Indian market.” In a Nov. 22, 2002 speech to the Confederation of Indian Industry, visiting U.S. Treasury Secretary Paul O’Neill criticized the Indian economy as “most restrictive” by “various indices” and said a lack of “good governance, corruption, and bribery are widespread, frightening away honest businessmen and investors.” And Intel Chief Executive Officer Craig Barrett stated that his “assessment is that you [India] still need to make improvements in basic infrastructure, everything from logistics, transportation, power etc., to be competitive with some of the other Asian countries for manufacturing.”

Indians, however, tended to be unbothered about such criticism. Prime Minister Vajpayee responded to complaints by saying that “[t]he Indian economy is often identified with the elephant. I have no problem with this analogy. Elephants may take time to get all parts of their vast bodies moving forward in unison. But once they actually start moving, the momentum is very difficult to divert, slow down, stop, or reverse. And when they move, the forest shakes.”

The situation on the economic front had become sufficiently worrying by late 2002 that Standard & Poor's downgraded India's *rupee* debt. Additional negative news was India dropping from seventh to 15th position as a foreign direct investment destination. In this environment, Indian Finance Minister Jaswant Singh traveled to Washington in September 2002 to meet with U.S., IMF, and World Bank officials to calm concerns.

Meanwhile, a backlash in the United States against outsourcing encompassed India, where a number of call centers and other intermediate technology jobs had been moving during the past few years. Similarly, in India, efforts at privatization of loss-making government enterprises ran headlong into domestic difficulties as the rightwing elements of the ruling Bharatiya Janata Party (BJP) called for "weeding out" pro-reform elements of the government and "sacking" of all of those who are against *swadeshi* (economic self-reliance).

U.S.-India Relations: Conclusions

Overall, U.S.-India relations remained manageable during the past two years. Steady improvement in military contacts, some progress on high-technology cooperation, including in the sensitive nuclear and space realms, and hundreds of high-level exchanges and the initiation of new dialogues (e.g., "global issues forum") gave the perception of a dynamic and flourishing relationship. But the shadow of Kashmir, Pakistan, and terrorism continued to hang heavy over bilateral ties. The effort on both sides to play to the positive is evident in their handling of serious differences regarding the Iraq War. India was squarely opposed to it, but pulled its punches in objecting to its start and criticizing its progress. The U.S., meanwhile, seeking Indian troops for Iraqi stabilization duties, responded mildly when informed that ultimately Delhi had decided not to dispatch forces. The U.S. and India will have to work hard and carefully to manage differences while pushing the envelope on areas of possible cooperation. It will not be an easy or swift task.

India-East Asia Relations: Still Looking East

India & China: Rearranging Relations

The year 2002 had seen mutual accusations of border violations, yet another round of working group talks on resolving the border dispute, and Indian accusations of Chinese support to Pakistan's nuclear and missile development. One bright spot in the relationship was growing economic ties. China-Indian trade has grown rapidly in the past decade from about \$247 million in 1991 to \$4.3 billion in 2002. No particular expectations hung over China-Indian relations at the beginning of 2003.

A January 2003 visit by India's Lok Sabha (Lower House) Speaker Manohar Joshi to Beijing came off reasonably well, but without any concrete agreements. He echoed a standard Indian policy line for early settlement of the border dispute while President Jiang Zemin responded by expressing hope that Prime Minister Vajpayee would accept one of the "numerous invitations" he had received to visit China. Later that same month,

two important Indian speeches, one by Foreign Minister Yashwant Sinha, and the other by Defense Minister Fernandes suggested that India was amenable to improved ties. The foreign minister spoke tough about “deep concern” regarding “reliable and widespread reports of Chinese nuclear and missile proliferation to Pakistan” and “a sense of disappointment over the pace of improvement in the relationship [between India and China].” But he also noted that “[e]conomic integration and an overall improvement in relations has not been held hostage to differences over specific issues, however important those issues be.” More surprisingly, Defense Minister Fernandes, known for having characterized China as India’s “potential enemy number one” following Delhi’s nuclear tests in 1998, was even more upbeat, saying the time had come to “rearrange” mutual relations.

The next month, however, in a sign of ongoing internal Indian lack of consensus about China, Arunachal Pradesh government spokesman and State Education Minister Takam Sanjay told journalists that “[o]ur chief minister, Mukut Mithi, recently called on Defense Minister George Fernandes and informed him that the Chinese army has restarted the construction of roads along the international border.” Notwithstanding the internal Indian debate, in April Fernandes journeyed to China – his first visit and the first by an Indian defense minister in a decade. In the course of talks, the two countries agreed to step up military-to-military exchanges, hold a counterterrorism dialogue, and increase confidence-building measures to maintain peace along the Line of Actual Control. Fernandes’ visit also paved the way for the visit of Prime Minister Vajpayee to China in June.

One important landmark of the visit was an agreement to appoint mutual special envoys “to explore from the political perspective of the overall bilateral relationship the framework of a boundary settlement.” A second was Beijing’s *de facto* recognition of New Delhi’s control over the state of Sikkim and New Delhi’s pledge to oppose the activities of Tibetan separatists on Indian soil. These latter “concessions” were incomplete. As became clear in subsequent months, while Beijing was prepared to signal *de facto* Indian sovereignty in Sikkim (by agreeing to cross-border trade and hence implicitly recognizing Indian control), it was not prepared to formally grant India sovereignty. India, meanwhile, had made promises about curbing the Dalai Lama’s political activities before, and as became clear after the visit had no intention of asking him to leave India. But it did mark the first time India had agreed to have such assurances written into a bilateral declaration. Nevertheless, the mood soured a bit in the following month as India and China traded charges of border intrusion across the Line of Control in the northeast sector.

At the October 2003 ASEAN summit in Bali, following a meeting between Prime Minister Vajpayee and his Chinese counterpart Wen Jiabao, Indian Foreign Secretary Kanwal Sibal announced that Beijing had removed Sikkim as an “independent country” from the official website of the Chinese Foreign Ministry. However, in the following weeks, a Chinese Foreign Ministry spokesperson clarified that “[t]he Sikkim dispute is still to be resolved” and that “Sikkim is an enduring question ... We have to respect history. We have to take into consideration realistic factors, too.” Where this left progress

on border issues was unclear. The Oct. 23 first meeting of the special envoys of India and China to discuss border issues concluded with no announced progress.

On the military front, India and China exchanged numerous delegations over the year, and even held a one-day basic naval exercise off the coast of Shanghai. In July, a high-level Chinese air force delegation visited the Jodhpur airbase in the northwestern Indian state of Rajasthan. And in November, Lt. Gen. Mohinder Singh, commander of the 4th Corps of the Eastern Military Region of the Indian Armed Forces, led a delegation to Tibet and held meetings with Gen. Wu Quanxu, deputy chief of general staff of the People's Liberation Army. The visit to Chinese facilities in Tibet was the first since the Chinese defeated India in a 1962 border war. These confidence-building efforts appear to have had only limited effect however. In the same month, Chief of Army Staff Gen. N.C. Vij, delivering the General BC Memorial lecture in Pune University on "India's Security Concern," warned the defense forces not to be too complacent saying "Though India and China share good relations, we should not turn a blind eye to the rapid development of road and rail infrastructure in the mountain terrains in the border areas of China."

India and Southeast Asia: Bridging Bilateralism and Multilateralism

India-Southeast Asia relations during 2003 were focused on enhancing trade and antiterrorism cooperation, signing extradition treaties, and solidifying both bilateral relations with regional countries and cementing relations with ASEAN. On all these counts India achieved some notable gains. Indeed, in the 2003 ASEAN Chairperson's Statement, "ASEAN Leaders expressed satisfaction at the rapid development of ASEAN-India relations and cooperation within a short period of two years as an ASEAN dialogue partner." India's accession to the TAC [Treaty of Amity and Cooperation] was a highlight of India's 2003 engagement with ASEAN. It gave confidence to ASEAN that India would help contribute to peace and stability in the region, while meeting India's objective of strengthening its relations with ASEAN as a whole. India and ASEAN also signed a Framework Agreement on Comprehensive Economic Cooperation to strengthen and enhance economic, trade, and investment cooperation between the two sides. To further spur economic ties, India and ASEAN signed an "open skies" agreement. The two sides also held talks on the issue of terrorism and agreed to enhance cooperation in fighting terrorism. Both India and ASEAN adopted the Joint Declaration for Cooperation to Combat International Terrorism. One rough patch of India-ASEAN relations occurred over Pakistan's inclusion in the ASEAN Regional Forum (ARF). While ASEAN had favored such a move, India was able to raise procedural objections during the ARF meeting to keep Pakistan out.

Apart from India-ASEAN relations, India pursued improved ties with key regional partners in Southeast Asia – particularly Thailand and Singapore. Thailand and India, for example, established a committee to exchange information about international terrorists. And India also pursued free trade agreements with both countries. Some caution in the region was still evident about India's economic reforms. For example, Singapore Prime Minister Goh Chok Tong praised the pace of economic reforms in India but also sounded a note of caution, saying "[f]oreign investors are watching closely what is going on in

India. It is important to send the right signals. If investors sense that the political will for reforms is lacking, they will move to other parts of Asia. India's Deputy Prime Minister L. K. Advani, meanwhile, expressed appreciation for "what Singapore has done to strengthen bilateral ties and to promote our relations with ASEAN nations."

India also consolidated ties with Burma. From Jan. 19-24, Burma's Foreign Minister Win Aung visited India – the first trip by a Burmese foreign minister in 15 years. One of Win Aung's main aims was to boost bilateral trade. Win Aung also proposed a regional summit of the countries involved in the regional grouping – the Bangladesh, India, Burma, Sri Lanka, and Thailand Economic Cooperation (BIMST-EC) – to include China. According to one press report, the visit was seen as part of a new diplomatic offensive by Burma's generals, reflecting the fact that talks with opposition leader Aung San Suu Kyi have stalled. Analysts believe the Burmese government is preparing to withstand tougher economic sanctions from the West by strengthening economic ties with its Asian neighbors. For India, ties to Burma have paid-off in concrete terms. In July, for example, Burmese army troops attacked the base of a faction of National Socialist Council of Nagaland (NSCN) – a group fighting an insurgency campaign against India. Another high point of the year in India-Burma relations was the visit of India's vice president in November. The vice president was the highest-ranking Indian leader to visit Burma in 16 years, since Rajiv Gandhi came to Rangoon in 1987.

Some India-Southeast Asia bilateral relations had a tough time moving forward. In mid-May 2003, Malaysian Minister of Works Samy Vellu, who had been sent to India as a special envoy, reported following a one-day visit to India that "the Malaysian Cabinet will discuss outstanding bilateral issues hindering relations with New Delhi." He said the issues included ratification of a long pending extradition treaty, India's proposal for a procedure for import of labor, opening of Indian banks branches in Malaysia which was earlier denied, adequate contracts for Indian companies, Malaysia's stand on Pakistan's desire to get international support on the Kashmir issue, a trade agreement with ASEAN, and in general the reciprocal growth of cordial bilateral relations between the two countries.

India and Japan: New Loans, No Nukes

In January 2003, Japanese Foreign Minister Kawaguchi Yoriko traveled to India where she announced the end of a four-year freeze on Overseas Development Assistance (ODA) enforced in the wake of the May 1998 Indian nuclear tests and extended \$900 million for developmental projects. Japan had lifted the restrictions on yen loans to India in the wake of the Sept. 11 terrorist attacks, but the announcement was significant because it was the first time Tokyo had extended new loans since then.

Both Japanese and Indian foreign ministers expressed concerns over Pakistan's alleged role in transferring nuclear technology to North Korea. The Japanese foreign minister suggested that such reports could have an impact on Tokyo's ties to Islamabad. Kawaguchi also appeared to go beyond Japan's earlier positions in calling for Islamabad to dismantle the "terrorist bases" on its territory. She also noted that Japanese naval ships

had used Indian facilities last year when they were sent to the Arabian Sea to assist the U.S. and British navies during Washington's campaign to oust the Taliban regime in Afghanistan.

On other issues, however, India and Japan remained far apart. Speaking at the Federation of Indian Chambers of Commerce and Industry (FICCI), she said, "I look forward eagerly to India's early signature to the CTBT, in order that two nations can work cooperatively for nuclear disarmament and nonproliferation." And on whether Japan supported India's entry into the United Nations Security Council as a permanent member, Kawaguchi said, "First, we need to agree on the numbers."

The director general of the Japanese Defense Agency, the first Defense Agency head to visit India, followed up Kawaguchi's visit in May.

India-East Asia Relations: Conclusions

In 2003, relations with China dominated India's East Asia diplomacy. Clearly, progress had been made in terms of high-level diplomacy, minor mutual concessions regarding long-standing issues such as Sikkim and Tibet, building economic cooperation through administrative decisions such as relaxing visa restrictions on businessmen, and gingerly starting military exchanges. Still, the overarching character of China-Indian relations remains troubled, not least because of the unresolved border disputes – which are exceedingly complex to unravel – but also because of China's relationship with Pakistan. How these will play out in the coming years remains to be seen.

But India did not ignore Southeast Asia, which was originally, and continues to be, the focus of India's "look east" policy. Ties with Thailand and Singapore were, in particular, strengthened. India also continued its engagement with Burma, and expanded efforts to interact with countries such as Indonesia and the Philippines. India-Japan also achieved some progress with the initiation of new loans for India and the first-ever visit by a Defense Agency director general. But there was little closing of gaps on nuclear proliferation with Tokyo continuing to call on Delhi to sign the CTBT, and India politely declining to do so. Still, Tokyo and Delhi have come a long way from their post-1998 relations, which were acutely strained by India's nuclear tests.

U.S.-India and East Asia Relations: the Twain Meets?

One of the components of the Bush administration's "big idea" for U.S.-India relations was to consider relations with India in the wider strategic context of Asia. With India's more active diplomacy and fuller links with East Asia, the prospect of doing so becomes more viable. India's greater links with East Asia are not inconsistent with American interests. India is today improving ties with many of the United States' own "allies and friends" in the region. It has niche capabilities that are symbolically, and to a lesser extent, operationally useful, such as helping to escort high-value shipping through Southeast Asian waterways. India's growing economic ties to Southeast Asia may help it move forward with economic reforms – long a goal of the United States. India and much

of Southeast Asia share concerns about terrorism and India could be brought in to cooperate as the U.S. increases its counterterrorism cooperation with Southeast Asia. India's improved relations with Beijing follow in line with improvement in U.S.-China relations, while a reservoir of caution remains.

There are limits to India's ability to play a role on issues of key concern to the U.S. in East Asia, however. India has interests related to North Korea's behavior regarding the transfers of missile and nuclear technology and could be counted on to watch these transfers carefully. But India has little imaginable role in helping to settle the North Korean crisis. Similarly, India has a range of interests regarding the cross-Strait stalemate – not unlike the international community – but little leverage or incentive to take an active role. Another limit are the continuing difficulties with Pakistan – not only because they detract Indian attention, energies, and resources from other regions and issues, but because they complicate relations with the United States, particularly in light of the post-Sept. 11 renewed relationship between Washington and Islamabad. All in all, India can continue to make progress on both fronts of its diplomacy, with the United States and East Asia, but it will be some time yet before India assumes an important role for U.S. interests in wider Asia.

Chronology of U.S.-India Relations December 2001-December 2003

Jan. 8-12, 2002: Indian Home Minister L. K. Advani meets President Bush in Washington. He says he has “a measure of assurance” that the American government will stand by its promises to oppose terrorism against India.

Jan. 16-20, 2002: Indian Defense Minister Fernandes meets Secretary of Defense Rumsfeld in Washington and signs a bilateral general security of military information agreement (GSOMIA), paving the way for greater defense and technology cooperation.

Jan. 17-18, 2002: Secretary of State Powell travels to India for discussions with Indian leadership.

Jan. 21-22, 2002: The India-U.S. Joint Working Group on Counterterrorism meets for the fourth time.

April 17, 2002: India purchases its first major U.S. weapons system in decades when agreement is reached to buy eight *AN/TPQ-37* counter-battery artillery radar sets and related equipment valued at \$146 million.

May 14, 2002: An attack in Kashmir on a bus and Indian army camp kills nearly 40 persons hours after U.S. Assistant Secretary of State for South Asia Christina Rocca arrives in India.

May 14-16, 2002: U.S. Special Operations Forces and Indian paratroopers hold the largest-ever joint army and air exercises called *Balance Iroquois* near Agra.

May 14, 2002: Assistant Secretary of State Rocca affirms that “non-proliferation remains an important item on our bilateral agenda...”

May 18, 2002: Home Minister Advani, speaking in Parliament, expresses “deep disappointment” over what he says is Washington’s “encouragement” to Pakistan by making it a key ally in the international war against terrorism.

May 19, 2002: India, “for the sake of parity of representation,” orders Pakistan High Commissioner in New Delhi to return to Islamabad.

May 20-23, 2002: India’s Defense Secretary Yogendra Narain and U.S. Under Secretary of Defense for Policy Douglas Feith hold annual Defense Policy Group (DPG) talks aimed at increasing U.S.-India military cooperation. Agreement is reached to conduct a joint study of India’s missile defense needs.

May 21, 2002: National Security Advisor Condoleezza Rice says, “We take the assurances and the commitments that President Musharraf made, not just to the President but in an open speech, that they would end activity across the Line of Control from the territory of Pakistan [and] they would deal with the infrastructure of terrorism. We take those quite seriously, expect them to be fulfilled. We expect the Indian Government to recognize that war will help no one here...And we recognize the statesman-like stance that India has taken in recent months, starting with the attack on Indian Parliament.”

June 4, 2002: Indian PM Vajpayee, in Almaty, Kazakhstan for the 16-nation Conference on Interaction and Confidence-Building Measures in Asia, and responding to Washington’s call for de-escalatory steps, says that “[India] have repeatedly said that we are willing to discuss all issues with Pakistan, including Jammu and Kashmir, but for that, cross-border terrorism has to end.”

June 7, 2002: Deputy Secretary of State Richard Armitage, in New Delhi after a visit to Islamabad, says that “President Musharraf clearly told me he is intent on doing everything he can to avoid a war consistent with the honor and dignity of Pakistan...*The commitment to the United States* [emphasis added] of President Musharraf was to end permanently cross-border, cross-LoC [line of control] infiltration.”

June 11-12, 2002: Secretary of Defense Donald Rumsfeld in India says that “We feel that there are steps being taken which are constructive and I must say that the leadership here in India has demonstrated their concern and their interest in seeing that things are resolved in an appropriate way.” He also says there is no proof of al-Qaeda presence in Kashmir – rejecting Indian suggestions to the contrary.

June 14, 2002: India's Cabinet Committee on Security (CCS) decides to study the possibility of U.S. technical assistance on electronic sensors along Kashmir's Line of Control (LoC) to monitor cross-border infiltration. The CCS rejects the start of a dialogue with Pakistan on Kashmir until infiltration ceases, and reiterates that foreign troops will not be allowed to patrol the LoC.

July 8, 2002: India's new foreign secretary Kanwal Sibal, in a speech to the Confederation of Indian Industry, harshly criticizes Washington for exaggerating the threat of nuclear war, issuing travel warnings to India, and rewarding Pakistan despite its sponsorship of terrorism.

July 11-12, 2002: U.S. and India hold fifth meeting of the Joint Working Group on Terrorism.

July 19, 2002: Assistant Secretary of State Rocca says the U.S. does not favor a plebiscite in disputed Kashmir – a position long-held by India. An Indian Ministry of External Affairs (MEA) spokesperson responds that “The statement from Washington vindicates our stand.”

July 23, 2002: *The Washington Post* reports that the State Department opposes the sale by Israel of the Arrow weapon system, which allows Israel to defend against short-range and medium-range ballistic missiles, to India.

July 27-28, 2002: Secretary of State Powell visits India and then Pakistan. In India he says “[w]e look forward to concrete steps by India to foster Kashmiri confidence in the election process. Permitting election observers and freeing political prisoners would be helpful.”

Aug. 23, 2002: Deputy Secretary of State Richard Armitage arrives in India for talks with Indian officials.

Sept. 8-10, 2002: Secretary of State Powell and Indian Minister of External Affairs Singh meet in Washington to prepare for PM Vajpayee's upcoming trip to the U.S. Secretary Powell reiterates warning against Pakistan interference in scheduled Jammu and Kashmir elections.

Sept. 10-15, 2002: PM Vajpayee visits U.S. for Sept. 11 memorial, the United Nations General Assembly meeting, and consultations with President Bush.

Sept. 7-18, 2002: Indian Navy chief Adm. Madhvendra Singh visits Washington for talks with U.S. officials. He describes U.S.-Indian defense ties as “developing day by day.”

Sept. 16-Oct. 8, 2002: Elections take place in Jammu and Kashmir. Over 800 are killed during the period, and overall election turnout is estimated at 44 percent.

Sept. 20, 2002: President Bush releases *The National Security Strategy of the United States of America* in which he calls for a transformation of bilateral relations with India but notes differences over India's nuclear and missile programs, and the pace of India's economic reforms.

Sept. 23-24, 2002: U.S. Assistant Secretary of State for Non-Proliferation John Wolf and India's Joint Secretary for Disarmament S.K. Sharma hold talks on nonproliferation in New Delhi. The U.S. "expressed its readiness to broaden relations in civilian space cooperation" and "[t]he two sides also exchanged views on civilian nuclear cooperation. To this end, the two sides identified proposals which could be operationalized in the near term" according to a joint statement.

Sept. 26-30, 2003: Assistant Secretary of State Rocca holds talks in New Delhi.

Sept. 29-Oct. 2, 2002: U.S. and India conduct the fourth in the "Malabar" series of naval exercises – the previous three were held before U.S. sanctions were imposed on India after its 1998 nuclear tests.

Sept. 29-Oct. 2, 2002: U.S. and Indian air forces begin two-week exercise code-named *Geronimo Thrust* in Alaska – their first joint exercise in 40 years.

Sept. 30, 2002: India's Finance Minister Jaswant Singh says that each country has the right to take preemptive action to protect itself.

Oct. 10, 2002: State Department spokesman Richard Boucher calls Jammu and Kashmir elections "successful" and "credible," but characterizes them as "the first step in a broader process" and calls for "an early resumption of diplomatic dialogue [between India and Pakistan] on all outstanding issues..." The statement also "welcome[s] the Indian government's commitment to begin a dialogue with the people of Jammu and Kashmir and...hope[s] this dialogue will address improvements in governance and human rights."

Oct. 16, 2002: India's CCS decides to pull back troops from positions along the international border with Pakistan.

Oct. 20-26, 2002: U.S. and Indian Air Forces hold joint exercise *Cope India 02* near Agra.

Oct. 29, 2002: Director of State Department's Policy Planning Staff Richard Haass consults with Indian officials in New Delhi.

Oct. 29, 2002: U.S. Ambassador Robert Blackwill delivers a strong critique of India's economy in a speech to the Federation of Indian Chambers of Commerce and Industry.

Oct. 30, 2002: U.S. Special Envoy for Afghanistan Zalmay Khalilzad travels to New Delhi for discussions about the situation in Afghanistan.

Oct. 30, 2002: Under Secretary for Global Affairs Paula Dobriansky and Foreign Secretary Kanwal Sibal hold the first U.S.-India “global issues forum.”

Nov. 6, 2002: The U.S. pledges \$120 million over five years to combat HIV/AIDS in India.

Nov. 7, 2002: Alan Larsen, U.S. under secretary for economic, business and agricultural affairs, initiates the U.S.-India economic dialogue on finance, trade, commerce, and energy as well as cooperation in curbing money laundering and combating terror funding.

Nov. 12-13, 2002: The U.S. and India agree to establish a joint “high technology cooperation group” following Under Secretary for Commerce Kenneth I. Juster’s talks in New Delhi.

Nov. 22, 2002: In a speech to the Confederation of Indian Industry, Treasury Secretary Paul O’Neill criticizes the Indian economy as “most restrictive” by several “various indices” and said lack of “good governance, corruption, and bribery are widespread, frightening away honest businessmen and investors.”

Nov. 25, 2002: Militants storm Raghunath Temple in Jammu killing 12 persons and wounding 50.

Dec. 4-7, 2002: India and the U.S. hold the seventh in a series of Executive Steering Group (ESG) meetings in Honolulu, Hawaii to plan further defense cooperation.

Dec. 26, 2002: India becomes one of 14 countries to sign an agreement with the U.S. under which they agree not to send each other’s nationals to an international criminal court.

Feb. 2, 2003: U.S. Army Chief Eric Shinseki arrives on two-day visit to India, the first by a U.S. army chief.

Feb. 3, 2003: India and the U.S. hold second meeting of their joint Global Issues Forum. This session focused on a range of issues including environment; health and infectious diseases, with an emphasis on HIV/AIDS; human rights and democracy-related issues.

Feb. 5, 2003: U.S. and India sign a *Statement of Principles for U.S.-India High Technology Commerce* during Indian Foreign Secretary Kanwal Sibal’s three-day visit to Washington.

Feb. 27, 2003: U.S. Nuclear Regulatory Commission Chairman Richard A. Meserve and Indian nuclear officials agree to resume nuclear safety cooperation with the country.

March 3, 2003: Using unusually harsh language, Indian PM Vajpayee says “[i]f the United States can’t make Pakistan keep its promise [to halt cross-border infiltration], it shows its weakness” and “[i]f assurances given to us are not honored, we will factor this in while formulating our policy in future.” President Bush calls PM Vajpayee the next day.

March 20, 2003: India’s Foreign Ministry spokesman tells reporters that “[t]he military action begun today [against Iraq] thus lacks [United Nations] justification” and suggests it was “avoidable.”

March 28, 2003: Indian foreign minister rejects U.S. calls for India-Pakistan talks after a March 23 massacre in Kashmir, saying, “[a]dvice to India about resuming dialogue with Pakistan in the aftermath of the killings of Hindus in Kashmir this week was just as gratuitous and misplaced as we asking them to open a dialogue with Osama bin Laden and Saddam Hussein.”

April 3, 2003: Indian foreign minister says “India has a much better case to go for pre-emptive action against Pakistan than the U.S. has in Iraq.”

May 10, 2003: Deputy Secretary of State Richard Armitage holds consultations in India with his counterparts.

June 8-10, 2003: Deputy PM Advani visits Washington for a range of talks with U.S. officials, but gives no assurance on Indian troops for stabilizing Iraq.

July 14, 2003: India rejects dispatch of troops to help stabilize Iraq despite what India’s foreign minister says is “our growing dialogue and strengthened ties with the U.S.”

Aug. 6-7, 2003: U.S.-India Defense Policy Group meets in Washington, D.C.

Nov. 23, 2003: Pakistan offers ceasefire in Kashmir.

Nov. 24, 2003: India matches Pakistan’s ceasefire offer and offers to extend it to Siachen Glacier in the north.

Dec. 18, 2003: Pakistan President Pervez Musharraf says he is ready to put aside its demand for a referendum in the disputed territory of Kashmir.

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Jan. 7, 2003: Chinese President Jiang Zemin meets Indian Lok Sabha Speaker Manohar Joshi in Beijing.

Jan. 7-8, 2003: Visiting Japanese FM Kawaguchi announces the resumption of fresh *yen* loans to India.

Jan. 8, 2003: Singapore President S.R. Nathan visits Hyderabad, India to encourage high-technology business ties.

Jan. 19-24, 2003: Myanmar's Foreign Minister Win Aung visits India to bolster bilateral cooperation – the first visit in 15 years.

Jan. 30-Feb. 5, 2003: Deputy PM L.K. Advani visits Thailand and Singapore to strengthen economic relations and counterterrorism cooperation.

Feb. 12, 2003: Arunachal Pradesh state education minister Takam Sanjay tells journalists “Our chief minister, Mukut Mithi, recently called on Defense Minister George Fernandes and informed him that the Chinese army has restarted the construction of roads along the international border.”

Feb. 14, 2003: Thai FM Surakiart Sathirathai and Indian counterpart Yashwant Sinha led delegations to meeting of the Joint Commission, held after a gap of seven years.

April 8, 2003: Singapore PM Goh Chok Tong visits Delhi to launch talks on a Comprehensive Economic Cooperation Agreement (CECA) that will include a Free Trade Agreement.

April 22, 2003: Chinese Premier Wen Jiabao meets Indian Defense Minister Fernandes in Beijing.

May 4, 2003: Shigeru Ishiba becomes the first Japanese Defense Agency director general to visit India.

June 22-27, 2003: PM Vajpayee visits China, the first Indian PM to do so in a decade.

July 2, 2003: A 58-member high-level Chinese air force delegation visits Indian airbase.

July 18, 2003: Thailand's Ambassador to India Chirasak Thanasant identifies India as a hub for its “enhanced economic co-operation in South Asia.”

July 25-28, 2003: India and China trade charges of border intrusions across the Line of Actual Control in the northeastern sector of the disputed border.

Sept. 2, 2003: Indonesian FM Hassan Wirayuda and Indian counterpart Sinha co-chair inaugural meeting of India-Indonesia Joint Working Group.

Sept. 5, 2003: Speaking to the first-ever India-ASEAN Business Summit in New Delhi, PM Vajpayee calls for India-ASEAN trade to increase to \$15 billion over the next two years and to \$30 billion by 2007.

Sept. 26, 2003: A Singapore-India joint statement announces the two countries have reached the “mid-point” in their negotiations for a comprehensive economic agreement that includes a free- trade agreement.

Oct. 2, 2003: Visiting Indian Army Chief Gen. Nirmal Chander Vij and Philippine counterpart Lt. Gen. Gregorio Camiling agree to boost bilateral military exchanges and cooperation.

Oct. 6-8, 2003: PM Vajpayee attends ASEAN Summit in Bali, Indonesia.

Oct. 6, 2003: South Korean President Roh Moo-hyun and PM Vajpayee meet on sidelines of the ASEAN Summit.

Oct. 7, 2003: India and the Philippines agree to exchange information and intelligence to combat terrorism and to sign an extradition treaty on the sidelines of the ASEAN Summit.

Oct. 8, 2003: Following a meeting between PMs Vajpayee and Wen, Indian Foreign Secretary Kanwal Sibal announces that Beijing has removed Sikkim as an “independent country” from the official website of the Chinese Foreign Ministry.

Oct. 9-12, 2003: PM Vajpayee becomes the first Indian PM to visit Thailand in a decade and the first foreign leader to address the Thai Parliament. India and Thailand announce completion of a free trade agreement.

Oct. 23, 2003: Indian and Chinese special representatives hold talks on the resolution of the boundary dispute.

Oct. 28, 2003: Destroyer and missile corvette from the Indian Navy arrive in Malaysia for a three-day goodwill visit.

Nov. 3-8, 2003: Indian VP Bhairon Singh Shekhawat travels to Myanmar to push for closer economic ties.

Nov. 10-14, 2003: Indian naval ships make port call in Shanghai prior to a one-day joint exercise “aimed at ensuring the safety of maritime trade and improving coordination in search-and-rescue at sea.”

Nov. 16-23, 2003: Lt. Gen. Mohinder Singh, commander of 4th Corps of the Eastern Military Region of the Indian Armed Forces, leads delegation to Chinese military facilities in Tibet.

About The Contributors

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