

Regional Overview

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

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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 relived 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 not 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 gleaned 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.