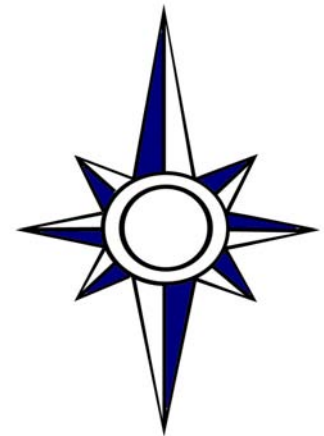




P a c i f i c F o r u m C S I S



Comparative Connections



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

edited by

Brad Glosserman
Vivian Brailey Fritschi

3rd Quarter 2003
Vol. 5, No. 3
October 2003

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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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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

Table of Contents

Regional Overview:.....1
Multilateral Approaches Prevail . . . For Now!
by Ralph A. Cossa, Pacific Forum CSIS

The United States turned multilateralist this quarter, sitting down in a six-party setting to discuss North Korea’s nuclear program even as a U.S.-instigated 11-nation group was practicing how to prevent Pyongyang from exporting weapons elsewhere. More quietly, Australia’s “coalition of the willing” is restoring some semblance of order in the Solomons. U.S. military restructuring plans in South Korea moved ahead slowly as did any progress in obtaining Aung San Suu Kyi’s release in Burma, while a failed mutiny indicated that serving as a “second front” in the war on terrorism is not the only challenge facing President Arroyo’s beleaguered government. Speaking of beleaguered, President Bush went back to the UN to seek international help in securing the peace in Iraq, while trade negotiators hope that next quarter’s APEC Leaders’ Meeting avoids being the disaster that this quarter’s WTO gathering in Cancun proved to be.

U.S.-Japan Relations:.....21
The Primacy of Politics
by Brad Glosserman, Pacific Forum CSIS

It has been a quiet quarter for the U.S.-Japan relationship. The dispatch of troops to Iraq notwithstanding, there have been no serious, specific bilateral problems for the two governments to address. While they have diverged on some multilateral questions, the goodwill accumulated over the last two years has bridged those differences. In both countries, domestic politics dominated decisionmaking. Prime Minister Koizumi focused on re-election as LDP president; having won that campaign he now turns to the general election expected in early November. President Bush has begun to concentrate on the 2004 campaign with U.S. voters increasingly concerned about their economic prospects. Attention now turns to the Oct. 17 summit. It should go well: U.S.-Japan relations are one of the few unquestioned successes for both administrations.

U.S.-China Relations:.....33
The Best since 1972 or the Best Ever?
by Bonnie S. Glaser, Consultant on Asian Affairs

Continued cooperation on security matters, especially the challenge posed by North Korea’s nuclear weapons programs, bolstered U.S.-China relations this quarter. Washington lauded China’s vigorous diplomatic efforts that culminated in the six-party talks in Beijing at the end of August. China formally joined the Container Security Initiative, agreeing to permit U.S. Customs and Border Protection officials to work side-by-side with their Chinese counterparts to target and pre-screen cargo containers destined for the U.S. Washington publicly rebuked Beijing for not living up to promises made last December to make progress on specific human rights issues. Treasury Secretary John Snow failed to persuade Chinese officials to appreciate the RMB. The Department of Defense released its annual report on July 30 on Chinese military power.

U.S.-Korea Relations:.....47
The Ups and Downs of Multilateral Diplomacy
by Donald G. Gross, Akin, Gump, Strauss, Hauer & Feld

China brokered the first round of six-party talks on the North Korean nuclear issue during this quarter. North Korea used the talks to rattle its nuclear saber and otherwise threaten the U.S. On the margins of the meeting, North Korean diplomats met bilaterally with U.S. officials, but their discussion did not foster any apparent progress. U.S. and South Korean military officials continued to fine-tune the redeployment of U.S. troops. The talks were characterized by mutual agreement on the redeployment plan and transfer of military missions to South Korea, but differences over its timing. Finally, South Korea challenged the U.S. decision to impose penalties on semiconductor exports. South Korea will appeal the decision to the WTO.

U.S.-Russia Relations:.....57
Energizing the Relationship
by Joseph Ferguson, The National Bureau of Asian Research

If you must pick one event that is truly indicative of the tenor of U.S.-Russia relations, you need not look to Camp David or the palaces around St. Petersburg, the sites of the last two presidential summits. Instead, look to the gasoline station on the corner of 10th Avenue and 24th Street in NY; the first Lukoil station to be opened in the United States. The U.S.-Russian effort to push energy ties is taking precedence over most other aspects of the relationship. The two sides continue to agree to disagree about Chechnya, Iran, and Iraq. NATO and Central Asia are still sore points. Trade issues and human rights to this day raise tensions. But the energy relationship is global and strategic and it continues to grease the squeaky spots of this post-Cold War “partnership.”

U.S.-Southeast Asia Relations:.....65
Terrorism Perpetrated and Terrorists Apprehended
by Sheldon W. Simon, Arizona State University

Acts of terrorism, arrests of terrorists, and judicial convictions dominated the Southeast Asian political scene this past quarter. The Jakarta Marriott bombing, the capture of Hambali – Jemaah Islamiyah’s (JI) most notorious fugitive – and the conviction of several of the Bali bombers as well as JI’s spiritual leader, Abu Bakar Bashir, capped a tumultuous three months during which the Philippine government put down an abortive military mutiny, ASEAN and U.S. relations with Burma further deteriorated, and new efforts to improve security collaboration within the region were made. U.S. intelligence played a significant role in terrorist apprehensions; however, Washington’s unwillingness to give Southeast Asian authorities access to terrorists in U.S. custody somewhat soured relations with regional allies.

China-Southeast Asia Relations:.....79
On the Inside Track
by Lyall Breckon, CNA Center for Strategic Studies

China continues to consolidate the “insider” role it is assuming in Southeast Asia, and to foster economic and other forms of interdependence with members of ASEAN. China-ASEAN trade showed major gains, and China’s non-energy investments in Southeast Asia were on the rise. China called for follow up to last December’s Declaration on Conduct in the South China Sea, and renewed a proposal for joint development of disputed areas there. Beijing suggested linking counterterrorist efforts in Southeast Asia with those of the Shanghai Cooperation Organization. High-level visits advanced China’s cooperation with Malaysia and Thailand. Burma’s military junta, under international pressure to release imprisoned democracy leader Aung San Suu Kyi and institute political reforms, sought China’s blessings for its unresponsiveness, and got them.

China-Taiwan Relations:.....89
Pernicious Presidential Politics
by David G. Brown, The Johns Hopkins School of Advanced International Studies

The initiative on cross-Strait issues this quarter has been centered in Taiwan. Preoccupied with other issues, Beijing has taken no initiatives and concentrated on countering Taipei’s moves. Chen Shui-bian’s efforts to arrange referendums, to heighten Taiwan’s national consciousness, and to manipulate the cross-Strait transportation issue have all been shaped with an eye to the coming presidential election campaign. In these circumstances, there has been no breakthrough on either the political or economic aspects of cross-Strait relations and none is likely in the foreseeable future. While Beijing has been very restrained, Chen’s electioneering could well heighten tensions in the Strait.

North Korea-South Korea Relations:97
Never Mind The Nukes?
by Aidan Foster-Carter, Leeds University, UK

The past quarter saw sustained and brisk exchanges on many fronts, seemingly regardless of the looming nuclear shadow. Between North and South Korea it is back to business as usual – or even full steam ahead. One can easily imagine scenarios in which this process may come into conflict with U.S. policy. Should the six-party process fail or break down, or if Pyongyang were to test a bomb or declare itself a nuclear power, then there would be strong pressure from Washington for sanctions in some form. Relinking of cross-border roads and railways, or the planned industrial park at Kaesong (with power and water from the South), are examples of initiatives which might founder, were the political weather around the Peninsula to turn seriously chilly.

China-Korea Relations:.....113
Middle Kingdom Diplomacy and the North Korean Nuclear Crisis
by Scott Snyder, The Asia Foundation

The quarter started with the first ever meeting between ROK President Roh Moo-hyun and PRC President Hu Jintao, and unfolded with assertive Chinese mediating efforts to deal with North Korean nuclear tensions. The PRC utilized its long-standing relationships with Pyongyang to maximum effect to get North Korea to the negotiating table. The only thing more intense than China-Korean consultations over the nuclear issue is the boom in China-South Korean trade, which has averaged over 20 percent growth year-on-year. This quarter may see the PRC emerge as South Korea’s number one trading partner, surpassing the trade volume of the U.S. for the first time. Still, as South Korean industry moves its manufacturing to China, the Roh administration’s initiative to turn South Korea into a regional economic hub appears to be ringing hollow.

Japan-China Relations:.....119
Bridges to the Future, Reflections on the Past
by James J. Przystup, Institute for National Strategic Studies

In anticipation of the 25th anniversary of the Japan-China Friendship Treaty, both Tokyo and Beijing worked to normalize political relations. Japan’s chief Cabinet secretary and defense minister traveled to China, while China’s foreign minister and the chairman of the National People’s Congress visited Japan. Prime Minister Koizumi had yet to secure the invitation for an official visit to China. Aug. 15 brought the customary end of war remembrances as well as lectures about history. History intruded as the unearthing of chemical weapons abandoned by the Imperial Army led to the hospitalization of over 30 construction workers and the death of one. Tokyo dealt with the issue, offering “sympathy” compensation to the families. Economic relations continued to expand as two-way trade skyrocketed. At the same time, domestic economic pressures were building in Japan to seek a revaluation of China’s currency.

Japan-Korea Relations:.....129
What a Difference A Year Makes....
by Victor D. Cha, Walsh School of Foreign Service, Georgetown University

Last September, Japan-DPRK relations looked to have made a major breakthrough with the unprecedented visit of Japanese Prime Minister Koizumi Junichiro to Pyongyang. *Rodong Sinmun* marked the anniversary this year by warning about an “unavoidable” war between the DPRK and Japan. Tokyo’s insistence on bringing the abductee issue to the table at the six-party talks irritated Pyongyang, which has said it may push to exclude Japan during the next round. The Trilateral Coordination and Oversight Group (TCOG) remained active this quarter prior to and in the aftermath of the six-party talks over the DPRK’s nuclear weapons. Japan played a “starring role” in Proliferation Security Initiative (PSI) exercises in the Coral Sea.

China-Russia Relations:.....137
The Russian-Chinese Oil Politik
by Yu Bin, Wittenberg University

The specter of oil is haunting the world. Oil, or lack of it, is clogging the geo-strategic “pipeline” between the world’s second largest oil producer (Russia) and second largest oil importing state (China) as they haggle over the future destination of Siberia’s vast oil reserves. Russia’s energy realpolitik has led to such a psychological point that for the first time, a generally linear, decade-long emerging Russian-Chinese strategic partnership, or “honeymoon,” seems arrested and is being replaced by a routine, boring, or even jolting marriage of necessity in which quarrels and conflicts are part normal. Nonetheless, China-Russia relations during the third quarter were marked by dynamic interactions and close coordination over multilateral issues of postwar Iraq, the Korean nuclear crisis, and institution building for the Shanghai Cooperation Organization.

About the Contributors.....147

Regional Overview:

Multilateral Approaches Prevail . . . For Now!

Ralph A. Cossa
President, Pacific Forum CSIS

The United States turned multilateralist this quarter, sitting down in a six-party setting to discuss North Korea's nuclear weapons threats even as a U.S.-instigated 11-nation group was practicing how to prevent Pyongyang (among others) from exporting weapons of mass destruction (WMD) elsewhere. More quietly, Australia's "coalition of the willing" seems to be restoring some semblance of order in the Solomon Islands, even as another island's leader – Taiwan's Chen Shui-bian – unilaterally stirred up cross-Strait tensions with talk about referendums, constitutional changes, and the irrelevance of "one country, two systems" following the Hong Kong Anti-subversion Bill controversy. U.S. military restructuring plans in South Korea moved ahead slowly as did any progress in obtaining Aung San Suu Kyi's release from "protective custody" in Burma.

Meanwhile, a failed military mutiny in the Philippines indicated that serving as a "second front" in the U.S.-led war on terrorism is not the only challenge facing President Gloria Macapagal-Arroyo's beleaguered government. Speaking of beleaguered, President Bush went back to the United Nations this quarter, not to apologize for bypassing the hamstrung UN Security Council in invading Iraq but to seek greater international help in securing the peace, while still offering the UN only limited involvement in the management of postwar Iraqi affairs. And, trade negotiators are hoping that next quarter's premier regional multilateral economic event – the Asia Pacific Economic Cooperation (APEC) Leaders' Meeting – avoids being the disaster that this quarter's World Trade Organization (WTO) gathering in Cancun proved to be.

Six-Party Talks: Little Progress Expected or Achieved

Score one for Washington. Its argument that the North Korea nuclear crisis was a multilateral issue (vice a matter between itself and North Korea alone) has prevailed, at least for the moment. While Pyongyang initially continued to demand direct dialogue only with Washington or at most another trilateral round – with China serving either as host (North Korea view) or active participant (U.S. stance) – Washington, Tokyo, and most importantly Seoul stood by their previous agreement, reached at a series of summits in the previous quarter, that the presence of the ROK and Japan at future talks was "essential." Chinese support for this stance and a bit of arm-twisting by Beijing (and

Moscow?) helped finally bring the North to the negotiating table for the first round of Six-Party Talks on Aug. 27-29.

The addition of Russia was at Pyongyang's request, as the North sought another potentially friendly (or at least less hostile) face at the table. It also reflected Kim Jong-il's apparent growing annoyance at Beijing, which has become less hesitant to put pressure on Pyongyang – remember the three-day oil cut-off? The Dear Leader reportedly asked Russia to host the talks (instead of China), but Moscow was not about to buy into this transparent attempt to play Moscow and Beijing against one another (a game Pyongyang excelled at during the Cold War).

The North went into the talks demanding a “fundamental switchover” in Washington's attitude, insisting that the Bush administration conclude “a legally binding non-aggression treaty and establish diplomatic relations.” All Pyongyang was willing to do in advance was to “declare its will to scrape its nuclear programme.” Monitoring and inspection could only come later, after the treaty was signed and diplomatic relations established (and Pyongyang had been “compensated for the lack of electricity” caused by Washington's “hostile policies”). The U.S. insistence that North Korea dismantle its nuclear program in advance of dialogue (or rewards) was, in Pyongyang's eyes, “little short of demanding that the DPRK surrender to it.”

Before, during, and after the talks, Washington steadfastly rejected the bilateral non-aggression pact proposal for a variety of reasons, not least of which is because it cuts Seoul out of the Peninsula peace-making process, a long-time DPRK objective that all previous ROK and U.S. governments have wisely rejected. (For a detailed discussion on why a bilateral pact is unacceptable, see, “North Korea: Digging Deeper Holes,” *PacNet* No. 37, Sept. 2, 2003. [<http://www.csis.org/pacfor/pac0337.htm>])

Given the going in position of the two primary protagonists, it came as no surprise that the first round resulted in little except a possible promise (twice recanted by Pyongyang) that all would sit down for another round of talks at an undetermined date (possibly November). Hardly a coalition of the willing, North Korea was apparently both bribed and cajoled into coming to the first meeting, but even Beijing's considerable leverage could not convince Pyongyang to demonstrate any flexibility once it arrived (or even to promise unequivocally to return).

Washington reportedly did show some flexibility at the Beijing talks, indicating that a “phased approach” might be considered once North Korean compliance had been assured. In the days leading up to the talks, Washington had also hinted that some type of multilateral security assurances might be provided in lieu of a bilateral pact. While Assistant Secretary of State James Kelly's talking points have not been released, the Chinese representative, Vice Foreign Minister Wang Li, stated that Kelly assured Pyongyang that “the U.S. had no intention to threaten North Korea, no intention to invade and attack North Korea, no intention to work for regime change in North Korea.” These assurances notwithstanding, Washington stuck to its demand for a “full, verifiable, irreversible” end to the North's nuclear weapons program, a demand the other participants reportedly echoed.

Faced with firm resistance from the other five parties regarding its “so-called nuclear weapons program,” Pyongyang came another step closer to coming completely out of the nuclear closet by reportedly acknowledging at the talks that it not only had a “nuclear deterrent force” but planned to increase it. North Korea’s representative, Vice Foreign Minister Kim Yong-II, also reportedly indicated that Pyongyang was “prepared to prove that it could successfully deliver and explode” nuclear weapons. (On a slightly positive note, Kim apparently did not repeat an earlier threat to also export such weapons.) While the other five continued to talk about multilateral approaches to addressing North Korea’s security concerns, Pyongyang declared that any collective security guarantee would be “meaningless.”

Despite repeated references to its “nuclear deterrence force,” North Korean spokesmen still profess to a certain amount of ambiguity as to whether or not Pyongyang actually has nuclear weapons and the other five remain in various states of denial on this subject, since few seem prepared to take the steps that would be necessitated by unambiguous proof that the North is not bluffing. Should Pyongyang formally declare that it is a nuclear weapons state or, worse yet, conduct a nuclear test, this would leave Washington with little option other than to push for UN Security Council action against Pyongyang and, most importantly, would give Seoul, Beijing, and Moscow little option other than to finally support this course of action – all currently think going to the UNSC is “premature.” Even if it does not yet possess actual usable weapons, Pyongyang’s claims that it has reprocessed its spent fuel rods make it impossible to overlook the proliferation threat caused by any reprocessed plutonium or highly enriched uranium that may now be in its hands.

Future Prospects for Korean Talks: Neither Hopeful nor Hopeless

The current impasse does not mean that long-term prospects are hopeless. There are several points on which all six already agree. First is that a war on the Peninsula serves no one’s interests. While North Korea issues threats of nuclear Armageddon almost daily, it realizes that the outcome of any major confrontation (nuclear or not) will be the destruction of the North Korean state. Nor does Washington seek a military solution, given its preoccupation elsewhere and the high costs (in terms of human lives lost) should the military option be exercised. While few would shed tears if Kim Jong-il were to be eliminated tomorrow – Beijing and Moscow see the utility of a North Korean buffer state remaining but not necessarily under Kim’s rule – the uncertainty and costs involved in bringing about regime change in North Korea, at least at present, are higher than the presumed benefits. As a result, all seem prepared to live with an outcome that leaves the current North Korean regime in place.

Finally, all six (North Korea included) reportedly agreed in Beijing to seek a nuclear weapons-free Peninsula. If negotiations are to succeed, Washington, Seoul, Tokyo, Beijing, and Moscow must insist, with one voice and at a minimum, that North Korea fully, verifiably, and irreversibly freeze its various nuclear weapons programs as a precondition to further negotiations. This requires a return of International Atomic

Energy Agency (IAEA) inspectors and the placing of spent fuel canisters (and any extracted plutonium) back under observation. In return, the other members must be prepared to guarantee that no military strikes will be made against North Korean facilities or its leadership as long as negotiations continue in good faith. Washington should also be prepared, in close consultation with Seoul and Tokyo, and with Moscow and Beijing's concurrence, to lay out a clear roadmap of what it is prepared to offer, and when, in return for North Korea's verifiable cooperative actions (rather than just pledges to act).

A six-party nonaggression pact – or, better yet, a North-South Peace Treaty co-signed by Washington and Beijing (the other primary combatants during the 1950-53 War) and endorsed by Moscow and Tokyo – should be the long-term goal of the current process. The first step in this process, however, must be a complete, verifiable, irreversible end to Pyongyang's nuclear weapons programs. This can only occur if North Korea realizes that its long-term security – if not the current regime's very survival – rests upon its willingness to give up its nuclear aspirations in return for the multilateral security guarantees that remain there for the asking.

Proliferation Security Initiative

While Washington remains committed to a diplomatic solution to the North Korea nuclear stand-off, this does not mean that it is prepared to stand idly by and allow Pyongyang, or other possible proliferators, to place weapons of mass destruction into the hands of others who may be less easily deterred from using them. To this end, the U.S.-instigated Proliferation Security Initiative (PSI) picked up considerable steam this quarter, with planning meetings taking place in Brisbane and Paris and a major, highly publicized, interdiction exercise being held in the Coral Sea.

The PSI, first laid out by President Bush in May 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, is “a global initiative with global reach,” under which coalition members agreed, on July 9-10 in Brisbane, “to move quickly on direct, practical measures to impede the trafficking in weapons of mass destruction (WMD), missiles, and related items.” The Brisbane meeting focused on “defining actions necessary to collectively or individually interdict [WMD shipments] at sea, in the air, or on the land.” The Paris meeting, on Sept. 3-4, “continued work on the modalities for interdiction, in particular effective information sharing and operational capabilities for interdiction.” The 11 participants also agreed in Paris on a Statement of Interdiction Principles “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.”

Despite the continued stress on activities consistent with legal frameworks, Beijing, for one, has expressed some concern regarding this effort, noting that “some countries of the world [meaning China] have doubts over the legality and effectiveness of the measure.” Pyongyang was considerably less subtle in its condemnation on this “international blockade strategy,” claiming that any action directed against North Korea would be a

“wanton violation” of its sovereignty and a “prelude to nuclear war.” Beijing is likewise (but considerably less hysterically) concerned that PSI efforts specifically focused on North Korea could be counterproductive (even though it has stated that China would not allow itself to be a conduit for illegal North Korean shipments).

While participants have been quick to point out that the PSI is targeted at proliferation *per se* and not at any particular country, a State Department spokesman did note that Pyongyang “might find itself affected by this initiative” if it continued to “aggressively proliferate missiles and related technologies.” “Unnamed Pentagon officials” were also quick to point out that the first major PSI exercise, dubbed Pacific Protector and held in the Coral Sea off the coast of Queensland on Sept. 13, was aimed at sending “a sharp signal to North Korea.” The Pentagon reportedly wanted to identify the target ship in this interdiction exercise as a North Korean vessel, but the Australian organizers, responding at least in part to Japanese concerns, elected instead to develop a scenario where a simulated Japanese freighter (played by a U.S. destroyer) suspected of carrying contraband chemicals was stopped and boarded by the Japanese Coast Guard backed up by Australian, U.S., and French Navy and Coast Guard ships (with the other seven members sending observers). This was the first of a series of 10 sea, air, and ground interdiction training exercises that will take place over the coming year.

The coalition plans to meet again in October in London. The long-term objective, according to Under Secretary of State for Arms Control and International Security John Bolton, is “to create a web of counter-proliferation partnerships that will impede trade in WMD, delivery systems, and related materials.” The plan is to “seek eventually to broaden participation in the PSI to include all like-minded states.” Taiwan, while not a member of the PSI, has already demonstrated its like-mindedness. On Aug. 12, acting on a U.S. request, Taipei seized about 150 barrels of dual-use chemicals from a North Korean freighter when it stopped in Kaohsiung to refuel. Earlier in the year, several other ships bound for North Korea also had dual-use cargo (aluminum tubing and chemicals) confiscated, as Pyongyang’s actions have caused greater international attention to be focused on shipments to and from North Korean ports. (Tehran’s actions have placed Iran in this same category.)

The PSI provides yet another example where institutionalized multilateral mechanisms are being bypassed in favor of ad hoc enforcement regimes. While the Statement of Principles cites a UNSC Presidential Statement as part of its legal justification, many see the Initiative as being necessitated by a failure of the UNSC to act: “Regrettably, the United Nations Security Council’s record on defending nonproliferation standards is patchy at best,” asserted Australian Foreign Minister Alexander Downer at the July Brisbane meeting, building on a familiar theme. In a late June speech, Downer had criticized the UN as “a synonym for an ineffective and unfocused policy involving internationalism of the lowest common denominator,” thus necessitating the creation of “coalitions of the willing” to deal with specific security threats.

The Solomons: the Not-So-Happy Islands

As reported last quarter, Canberra also took the lead in forming a down-under “coalition of the willing” to provide immediate assistance to the Solomon Islands to prevent deteriorating conditions from turning the so-called “happy islands” into a haven for terrorists and drug smugglers and to protect key institutions from intimidation by criminal elements. Fiji, New Zealand, Papua New Guinea, Samoa, and Tonga provided about one-third of the Aussie-led 2,225 member intervention force which included police as well as military forces. The Australian decision to act came after several earlier attempts by the Solomons to obtain UNSC assistance had fallen on deaf ears – the Solomon Islands is one of a handful of countries that recognizes Taiwan, making China’s rejection of peacekeeping support a near certainty (and reinforcing Downer’s “lowest common denominator” charge).

A July 10 vote by the Solomon Islands Parliament backing Prime Minister Allan Kemakeza’s earlier request for outside support provided the political cover for Operation Helpem Fren (a Pidgin phrase meaning “to assist or support a friend”) to commence. It helped to mute, but did not totally drown out, charges of “neocolonialism” being hurled at Australian Prime Minister John Howard. “This is not some kind of colonial hangover exercise by Australia,” Howard asserted, “it is a response to a request of a friend.” This did not prevent the opposition from accusing him of “trying to look hairy-chested,” however (even though the operation itself enjoys generally broad bipartisan support in Australia).

Canberra seems prepared for a long-term commitment to the Solomons. The deployment has been described as “the first stage of the Regional Assistance Mission to the Solomon Islands, a longer-term ‘cooperative intervention’ to address the crisis of development and governance in the Solomon Islands.” The first task was to restore some semblance of law and order, and Operation Helpem Fren can already claim some limited success in this effort. On Sept. 23, Australia amended its travel advisory, downgrading earlier advice to “defer all travel” to the Solomons. Travelers are now advised to “exercise caution” and consult the High Commission in Honiara if planning to travel outside the capital. Tour groups are already starting to return.

Ironically, Foreign Minister Downer as recently as this past January had stated that Australian involvement in the Solomons would be “folly in the extreme.” Now he says “What we are doing in the Solomon Islands is, in many ways, a model. It deserves the support of the international community as a whole, including the battered UN system.” Prime Minister Howard has acknowledged that his “cooperative intervention” policy represents a new stance: “We recognize that such an action represents a very significant change in the way we address our regional responsibilities and relationships,” Howard said in a July 1 speech at the Sydney Institute, “but our friends and neighbors in the Pacific are looking at us for leadership and we will not fail them.”

Others – especially Papua New Guinea (hereafter PNG), which has its own internal problems – have expressed concern about how far and eagerly this new “cooperative

intervention” model might be applied. PNG Prime Minister Sir Michael Somare issued several warnings to Canberra not to attempt to “disrupt” his nation’s sovereignty after Australia expressed concerns about how effectively its roughly US\$220 million in aid – 20 percent of PNG’s annual revenue – was being spent. At quarter’s end, however, PNG had agreed to accept a force of 200 Australian federal police plus other advisors “as soon as possible” (most likely by January 2004) in return for continued aid. The police would serve in a training and advisory capacity while civilian advisors would also work side by side with PNG counterparts in various government ministries, adding a new dimension to Australia’s evolving “cooperative intervention” policy.

Iraq: Coalition of the Unwilling

Australia was also a willing partner in Washington’s uncooperative intervention in Iraq and continues to provide forces to help win the peace in the face of isolated but growing resistance to the U.S.-run post-war occupation. Washington has found others, including some traditional security partners, to be less than eager to contribute forces to the pacification effort, however, absent some form of United Nations authorization or endorsement.

With this in mind, President Bush went to the UN on Sept. 23 to call on “all nations of good will” to step forward and help build democracy in Iraq. Bush expressed no regret in leading the ad hoc coalition against Saddam, stating that the UN had been right to demand compliance with UN resolutions, thus implying that the U.S. was equally right to act when Saddam refused: “The Security Council was right to vow serious consequences if Iraq refused to comply. And because there were consequences, because a coalition of nations acted to defend the peace, and the credibility of the United Nations, Iraq is free.” The U.S. was not acting just to bring freedom to the Iraqi people, Bush asserted, but to defend the UN’s credibility as well. This argument failed to win the hearts and minds of the assembled nations of good will and, at quarter’s end, Washington had still failed to gain its desired UN Resolution supporting the U.S. occupation, due primarily to disagreement over how fast authority would be turned over to a civilian Iraqi government and what role, if any, the UN would have in managing Iraqi postwar affairs until that time.

The UN shares President Bush’s stated goal: “self-government for the people of Iraq, reached by orderly and democratic process.” Both would also agree that “the United Nations can contribute greatly to the cause of Iraq self-government.” But, President Bush asserts that “This process must unfold according to the needs of Iraqis, neither hurried, nor delayed by the wishes of other parties,” rejecting UN time lines as unrealistic. He may have a point. As Secretary of Defense Donald Rumsfeld pointed out in a Sept. 25 *Washington Post* editorial, while the UN seeks an accelerated time table in Iraq, “four years after the war, the United Nations still runs Kosovo by executive fiat Decisions made by the local elected parliament are invalid without the signature of the UN administrator. And still, to this day, Kosovar ministers have UN overseers with the power to approve or disapprove their decisions.” It’s time for some flexibility and realism on both sides of the argument.

President Bush also used his UN “bully pulpit” to call for support of his Proliferation Security Initiative. He challenged the UN to adopt a new antiproliferation resolution calling on all members “to criminalize the proliferation of weapons of mass destruction, to enact strict export controls consistent with international standards, and to secure any and all sensitive materials within their own borders.” Until then, Washington’s ad hoc coalition would continue to pursue this objective independently.

Much has been made of UN Secretary General Kofi Annan’s speech that immediately preceded President Bush’s General Assembly remarks. The secretary general argued forcefully that when states go beyond their “inherent right of self-defense” and decide to use force to deal with broader threats to international security, “they need the unique legitimacy provided by the United Nations.” Otherwise, such actions could create a precedent that might lead to “a proliferation of the unilateral and lawless use of force, with or without justification.” No names were mentioned but it was pretty clear who he had in mind. But Annan had some words for the other Security Council members as well: “It is not enough to denounce unilateralism, unless we also face up squarely to the concerns that make some States feel uniquely vulnerable, since it is those concerns that drive them to take unilateral action. We must show that those concerns can, and will, be addressed effectively through collective action.” The words were perhaps more polite and indirect, but Annan, no less than Bush, was warning the UNSC that its credibility is at stake if it continues to fail to act in the face of growing security challenges.

U.S. Force Realignment Plans Moving Slowly but still Causing Anxiety

Among the nations waiting for a UNSC Resolution on Iraq are allies like South Korea and Japan and other friendly nations such as India, that desire (require?) political cover in order to respond more favorably to U.S. requests for troops to help in Iraqi pacification and reconstruction efforts. The request to South Korea is particularly sensitive since the ROK government is in the midst of a domestic political crisis, as President Roh Moo-hyun’s party disintegrated around him this quarter even as North Korea failed to make his life much easier. Further complicating matters for Roh is the Pentagon’s determination to move forward with its force restructuring plans on the Korean Peninsula, despite Blue House warnings that the time may be less than ripe for such movement.

As described in detail last quarter, the U.S. and ROK established a “Future of the ROK-U.S. Alliance Policy Initiative” (FOTA) earlier this year aimed at developing a coordinated future force restructuring plan on the Peninsula (as part of a broader global U.S. effort). Agreement has been reached on a two-phase consolidation plan. Under the first phase, forces north of the Han River (which runs through Seoul) will consolidate in the Camp Casey and Camp Red Cloud areas (which are also north of Seoul). Phase two will involve consolidation of forces around two “key hubs” south of Seoul over the next three to five years.

The third FOTA meeting was held in Hawaii on July 22-23 and the fourth in Seoul on Sept. 3-4. At the Hawaii meeting, the two sides reaffirmed the basic aims of the Initiative: to further strengthen the ROK-U.S. Alliance and its combined defense

capabilities, to provide a stable long-term stationing environment for U.S. forces, and to ensure a robust alliance for the future. The two sides agreed to a target date of 2006 for the relocation of the Yongsan Garrison (currently in the heart of Seoul) and also reached agreement on the transfer of some military missions from U.S. to ROK forces. While specifics were not revealed in the Joint Communiqué, ROK sources later revealed that this included the transfer of responsibility for guarding the truce village of Panmunjom to South Korea by late 2004 or early 2005. Given that the Armistice was signed by North Korea, China, and the U.S., without South Korea, this will have significant political and diplomatic, as well as military, implications. The ROK reportedly also agreed to the repositioning of the U.S. 2nd Infantry Division southward by the target year of 2006, instead of 2009 (as initially desired by Seoul).

Both sides agreed on “the need to promote the awareness of the Korean public on this relocation’s value to ROK security,” an acknowledgment of the political sensitivity and suspicions in the minds of many in the South regarding Washington’s motives and commitment. No reference was made to any cutback in the number of U.S. troops in Korea. The contentious issue of combined command relationships was kicked down the road, with both sides agreeing to continue to study the issue over the mid- to long-term to come up with tangible results by the 2005 Security Consultative Meeting.

An official report on the results of the fourth meeting has not yet been published, but press reporting indicates that the two sides have begun to sketch a new unified agreement to operationalize the Yongsan relocation, acknowledging that the old division of responsibility (and costs) originally allocated in the early 1990s needed updating. Discussions apparently focused on how much land would be returned and when, plus housing and other support for the roughly 1,000 U.S. troops that will reportedly remain in the Seoul area after the Yongsan relocation. The roles and missions debate no doubt also continued. A fifth round of talks was scheduled for early October in the expectation that all details could be worked out before the next Security Consultative Meeting in Seoul. This meeting, involving the respective defense ministers, will also commemorate the 50th anniversary of the alliance.

Other Troubled and Troubling Areas of Concern

A number of other developments taking place during this quarter deserve at least brief mention due to their potential impact on U.S. and broader regional security interests.

Taiwan Politics. As a democratic leader facing re-election (and currently behind in the polls), Taiwan’s President Chen Shui-bian has taken a few steps during this quarter that may shore up his domestic political base but seem sure to annoy both Beijing (the intended target) and possibly Washington (the law of unintended consequences applies here). These include renewed references to “one country on each side of the Strait” – a 2002 formulation that prompted angry responses from Beijing but also compelled Washington to strongly reaffirm its own “one China” policy – plus calls for referendums

on several domestic issues and an expressed desire for a new constitution, which constitute new ways of irritating Beijing (while increasing Washington's discomfort level as well).

As David Brown points out in his cross-Strait discussion elsewhere in this journal, Chen's actions appear aimed at drawing an overreaction from Beijing that can then be used to attack Chen's opponents in a wave of anti-mainland sentiment, if Beijing is foolish enough to take the bait (so far it hasn't). But he also risks alienating his supporters within the Bush administration, whose unequivocal support for Taiwan – remember President Bush's "whatever it takes" pledge – was based at least in part on Chen's "five noes" and subsequent promise of "no surprises." Chen's recent remarks stretch (if not break) the limits of his earlier assurances to Washington. The Bush administration seeks close ties with both Beijing and Taipei. If Taipei is seen as purposefully putting the former in jeopardy, it may end up damaging the latter instead.

Hong Kong Anti-subversion Law. President Chen, with some justification (but too much delight), also pointed to the controversy in Hong Kong over the government-proposed Anti-subversion Bill as proof that "one country, two systems" not only does not apply to Taiwan but is breaking down in Hong Kong as well. But, when a demonstration of 500,000 Hong Kong citizens can force Chief Executive Tung Chee-hwa (and by extension the PRC) to back down and return to the drawing board on proposed legislation (as happened on July 1), this represents good news indeed. Nonetheless, as Bill Overholt has pointed out ("One Country, Two Systems": An Inch from Victory," *PacNet* No. 30, July 17, 2003 [<http://www.csis.org/pacfor/pac0330.htm>], Hong Kong's Basic Law requires the enactment of some type of anti-subversion legislation. The real test will be the ability of the Hong Kong government and legislature to find an approach acceptable both to the people of Hong Kong and to the mainland. This will require compromise and clear thinking by both sides.

Manila Mutiny. Clear thinking apparently did not prevail among those responsible for a failed mutiny – some would call it a coup attempt – in the Philippines in late July. The government of President Gloria Macapagal-Arroyo deserves some plaudits first for uncovering the plot in sufficient time to respond against it and then for bringing a 19-hour siege – during which the rebels took control of an apartment/shopping complex in the Makati business district – to a peaceful conclusion.

The mutineers, led by Navy Lt. Antonio Trillanes (who had written a scorching report on corruption in the Philippine Navy in 2002), claimed that they were not trying to take over the government. "We are not attempting to grab power," Trillanes told reporters who flocked to the scene of the siege in downtown Manila, "we are just trying to express our grievances against the government and against the chain of command of the armed forces of the Philippines." Others suspected the hand of deposed former President Joseph Estrada and/or coup veteran Sen. Gregorio ("Gringo") Honasan behind the well-meaning but misdirected military officers, whose grievances cannot be easily dismissed. These include charges of widespread corruption (a widely recognized problem among the poorly paid military), including accusations of military officers in the southern

Philippines selling Muslim rebels there the guns and ammunition that were being used to then kill Philippine troops trying to defend the country against the separatists.

While this latest attempt at “people power” failed to win public support (as the rebels clearly hoped), it was successful in calling attention, once again, to the serious corruption and morale issues that continue to plague the Philippine Armed Forces and make them less than a highly effective force in defending the country in the south or elsewhere. While President Arroyo pledged to fully prosecute all involved in this lawless act, she also promised at her State of the Union address on July 28, a day after the mutiny was defused, to appoint an independent commission to investigate the complaints of the rebellious officers. The fact that several of the 70 officers who led the 300-man revolt were members of two elite rapid reaction forces chosen by the Pentagon for antiterror training last year indicates that this event could also have a dampening effect on activities along Washington’s “second front” in the war on terrorism.

Constructive Interference in Burma. At the ASEAN Meeting in Phnom Penh in mid-June, the assembled foreign ministers said they “looked forward to the early lifting of restrictions placed on Daw Aung San Suu Kyi and the NLD [National League for Democracy] members.” They are still waiting. The best that the ruling junta would do was to move Daw Sui Kyi from an undisclosed location back to house arrest (after a gynecological operation) and to allow International Red Cross representatives and UN special envoy Razali Ismail to visit her to dispel rumors that she had been injured during the May 30 melee that resulted in her being placed under “protective custody.”

The ASEAN ministers had also urged Rangoon “to resume its efforts of national reconciliation and dialogue among all the parties concerned leading to a peaceful transition to democracy.” There is no progress to report on this front. Burma’s behavior will move from being a mere embarrassment to ASEAN to much worse in another year, when Rangoon is scheduled to take over the rotating ASEAN chair. Already, Burma’s intransigence has “affected our credibility,” bemoaned Malaysian Prime Minister Mahathir Mohamad

This prompted a July 20 warning from the outspoken Mohamad (who will retire at the end of October after 22 years at Malaysia’s helm) that ASEAN may be forced, as a last resort, to expel Burma if Rangoon continued along its current path. “We will have to examine every avenue before we take such drastic actions,” said Dr. Non-Interference, but “in the end, it may have to be that way.” Dr. Mahathir’s comments were followed by a strong statement several days later by the assembled Asia-Europe Meeting (ASEM) ministers in Bali calling on Burma “top immediately release Daw Aung Sang Sui Kyi and other NLD members and ensure them freedom of political activities.” ASEM (which does not include Burma among its membership) also called on Rangoon “to resume its efforts toward national reconciliation and democracy.” Expect to see still more constructive interference in Burma’s internal affairs, beginning with the early October annual ASEAN summit meeting in Bali.

Cancun Fails Miserably . . . While multilateral security efforts (at least of the ad hoc variety) enjoyed some success this quarter, the same cannot be said for the world's premier multilateral economic gathering, this quarter's fifth World Trade Organization (WTO) Ministerial Meeting on Sept. 10-14 in Cancun. The U.S., EU, and other rich "free traders" drew the lion's share of the blame by refusing, more for domestic political than for economic reasons, to ease up on their own agricultural subsidies and other protectionist practices. But it also seemed clear, as the Rushford Report's Greg Rushford observed, that "too many politicians from poor countries were more interested in scoring political points against the rich countries than in participating in setting the stage for genuine negotiations to come later." The big question for East Asia is what Cancun portends for the region's upcoming premier multilateral economic event, the Oct. 20-21 Asia Pacific Economic Cooperation (APEC) Leaders' Meeting in Bangkok.

. . . Can APEC Succeed?* A number of economic dynamics are in play that could have an interesting impact on the 11th APEC Leaders' Meeting. First is the controversy over exchange rate policy, which emerged during Secretary John Snow's first trip to Asia in early September. Some analysts believe the U.S. concern over revaluation of the *yuan* to be purely motivated by pre-election pandering and warn of the disastrous consequences to Asia of U.S. protectionism; others argue just as forcefully that global economic imbalances necessitate not only a *yuan* appreciation, but a yen appreciation and a dollar depreciation in tandem. Although APEC finance ministers revealed a hands-off approach to U.S. exchange rate concerns at their meeting in September, the U.S. may well try again for a G-7 type endorsement of a commitment to market-driven, as opposed to managed, exchange rate policies, leaving specific currencies unmentioned. The U.S. may have to concede a pledge to "free and fair trade" to assuage concerns about protectionism, but this shouldn't be a problem since "fair trade" has emerged as the new catch-all phrase.

APEC members cannot allow Cancun to poison the atmosphere for these key trading relationships. U.S. Trade Representative Robert Zoellick may well have pledged to deal only with "can do" countries in his "competitive liberalization" approach (suggesting priority would go to bilateral free trade agreements). But in the end, the U.S. should also use APEC to try and reinvigorate multilateral trade talks. Fortunately, APEC members managed to avoid incurring the worst of U.S. wrath in Cancun. Even though many sided with the Group of 22 demands, they either chose not to play leadership roles (China) or to hide behind G-22 positions (Japan) quietly hoping for failure. Some of the smaller APEC economies, however, may have learned a new assertiveness from the G-22 and could inject their positions more confidently into the APEC agenda.

In this light, there will be an important if small outcome from APEC 2003 in the form of a new agreement to foster cross-border opportunities for microenterprises and the SME sector (small and medium enterprises). Although this sounds like one of those "paper" agreements that APEC is so famous for, this Thai initiative builds on an innovative and successful Thai economic strategy to invigorate domestic demand by strengthening domestic businesses. Malaysia and the Philippines have recently adopted similar strategies, and this is precisely the cure Southeast Asia needs to deal with competitive

* Economic discussion prepared by Pacific Forum CSIS Director for Programs Jane Skanderup.

pressures from China. This agreement won't make the headlines, but demonstrates real leadership from the Thai hosts.

Regional Chronology July-September 2003

July 1, 2003: About 500,000 Hong Kong citizens protest draft Anti-Subversion Bill.

July 1, 2003: Southeast Asian Counter-Terrorism Center opens in Malaysia.

July 1, 2003: DPRK warns any U.S.-led naval or aerial blockade or sanctions against North Korea would be met with "merciless retaliatory measures."

July 1, 2003: Australian PM Howard talks of "cooperative intervention" in the Solomons.

July 2-3, 2003: China and Russia block a U.S.-proposed statement condemning North Korea for reviving its nuclear weapons program in a meeting of the UN Security Council's five permanent members.

July 7, 2003: Indonesia Parliament approves direct presidential elections in 2004.

July 2, 2003: Assistant Secretary of State James Kelly hosts TCOG meeting with Korean and Japanese counterparts.

July 3, 2003: U.S. announces sanctions on DPRK firm for sales of missile technology to Iran.

July 5, 2003: The WHO declares the SARS virus is contained in Taiwan.

July 7-10, 2003: ROK President Roh Moo-hyun visits PRC; meets with President Hu Jintao and Premier Wen Jiabao.

July 7, 2003: Philippines indicts alleged leader of Jemaah Islamiyah (JI) Hambali and seven others for the 2001 Manila bombing.

July 9, 2003: ROK National Intelligence Service (NIS) reportedly testifies that the DPRK has reprocessed some number of its spent fuel rods and has tested devices used to trigger atomic explosions.

July 9-10, 2003: Second Proliferation Security Initiative (PSI) meeting, in Brisbane, to develop practical ways to prevent the global spread of WMD.

July 9-12, 2003: Eleventh Inter-Korean Ministerial Meeting in Seoul; both sides agree to pursue "appropriate dialogue" to resolve nuclear weapons dispute.

July 10, 2003: DPRK and U.S. resume talks in Bangkok on recovering remains of U.S. servicemen killed in the Korean War.

July 10, 2003: Solomon Islands Parliament approves Australian intervention to restore order.

July 10, 2003: Taiwan legislature refuses to pass referendum law.

July 14, 2003: ROK says it has “no scientific evidence” to confirm earlier reports of DPRK reprocessing.

July 14, 2003: Yang Bin (appointed by DPRK to administer a free-trade zone in North Korea) convicted of fraud and sentenced to 18 years in prison by China.

July 14, 2003: Convicted JI terrorist Rohman al-Ghozi escapes from jail in Manila.

July 14, 2003: Bomb explodes in Indonesia’s Parliament.

July 17, 2003: ROK and DPRK exchange machine gun fire along the DMZ.

July 17-20, 2003: President Roh and PM Howard agree to cooperate fully to resolve the nuclear standoff during summit meeting in Seoul.

July 18, 2003: IAEA Chief ElBaradei says DPRK represents biggest nuclear weapons threat.

July 19, 2003: Tung Chee-hwa visits Beijing to discuss Hong Kong’s political crisis. Premier Wen issues strong endorsement of Tung’s leadership.

July 20, 2003: Malaysia PM Mahathir warns that ASEAN may be forced, as last resort, to expel Burma.

July 21, 2003: Russian Deputy FM Losyukov urges U.S. and DPRK to start talks, warning that their standoff was boiling over.

July 21, 2003: North Korea demands the U.S. drops its “hostile policy” and legally commit itself to a nonaggression pact.

July 21-23, 2003: UK PM Blair visits President Hu and Premier Wen in Beijing; meets Tung Chee-hwa and pro-democracy legislators in Hong Kong.

July 23, 2003: Reuters reports DPRK is prepared to declare itself a nuclear state unless the U.S. responds positively to its proposals by the Sept. 9 anniversary of the DPRK’s founding.

July 23, 2003: U.S. International Trade Commission approves antidumping duties on catfish imports from Vietnam and countervailing duties on computer memory chips from the ROK.

July 23-24, 2003: Fifth Asia-Europe Meeting (ASEM) in Bali, includes call for Aung San Suu Kyi's immediate release.

July 24, 2003: Presidents Bush and Roh agree by phone to keep pushing for multilateral talks on DPRK's nuclear program.

July 24, 2003: International Maritime Bureau reports that international piracy has risen 37 percent (234 attacks) in the first six months of 2003.

July 24, 2003: A U.S. Marine arrested by Okinawan police in June pleads guilty to charges of rape.

July 25, 2003: President Bush visits Korean War Veterans Memorial; DPRK demands U.S. apologize for the Korean War, dismissing the U.S. and ROK commemoration of the 50th anniversary of the Korean War truce as a "disgusting farce."

July 25, 2003: U.S. imposes sanctions on DPRK firm for export of missiles to Yemen last December.

July 26, 2003: Japanese Upper House approves a controversial law allowing the dispatch of Japanese troops to Iraq in what could be the nation's biggest overseas military deployment since World War II.

July 26, 2003: Philippines President Arroyo orders arrest of nearly 70 rogue junior officers suspected of plotting a coup.

July 27, 2003: Rebels officers storm a major commercial center in Manila's financial district; accuse the government of corruption but deny they are part of a coup. 19-hour siege ends peacefully.

July 27, 2003: Cambodia holds its third democratic election, for the 123-seat National Assembly; Cambodian People's Party party wins 47 percent of the votes, short of the amount required to form a government. Rival parties refuse to join a coalition with PM Hun Sen.

July 27, 2003: China reports one new SARS death in Beijing, raising the mainland death toll to 349.

July 28-29, 2003: Under Secretary of State John Bolton visits Beijing for second session of U.S.-China security dialogue.

July 28, 2003: President Bush calls PM Koizumi to welcome Parliament's vote to authorize sending Japanese troops to Iraq.

July 28, 2003: President Bush signs bill banning Burma imports; issues executive order freezing assets of senior officials and prohibiting virtually all remittances to Burma.

July 29-31, 2003: Under Secretary of State John Bolton visits South Korea.

July 29, 2003: Red Cross officials meet Aung San Suu Kyi.

July 29, 2003: U.S. and China sign Container Security Initiative agreement. U.S. inspectors will work with Chinese officers to screen U.S.-bound cargo containers before they leave Chinese ports.

July 30, 2003: President Bush speaks by telephone to President Hu Jintao and encourages Hu "to stay involved in the process of discussion" with DPRK leader Kim Jong-il.

July 30-31, 2003: Under Secretary Bolton visits Seoul, describes DPRK leader Kim Jong-il as a "tyrannical dictator."

July 30, 2003: Defense Department report to Congress claims China is boosting military spending and deploying increasing numbers of ballistic missiles opposite Taiwan.

July 31, 2003: The Russian Foreign Ministry announces the DPRK favors six-sided talks, with Russian participation, to ease tensions over Pyongyang's nuclear program.

July 31, 2003: Philippines government officials announce leaders of the failed coup face a maximum penalty of 40 years in jail; 321 soldiers held for court-martial.

July 31, 2003: China and Russia issue statement calling for a quick start to talks to ban weapons in space.

July 31, 2003: U.S. Senate approves Singapore Free Trade Agreement.

Aug. 1, 2003: Under Secretary Bolton visits Tokyo.

Aug. 1, 2003: China denounces Pentagon report on Chinese military saying Washington was making excuses to sell advanced weapons to Taiwan.

Aug. 1, 2003: Suicide bomber destroys Russian military hospital near Chechnya, killing 50.

Aug. 3, 2003: Pyongyang calls Under Secretary Bolton "human scum" for his criticism of Kim Jong-il.

Aug. 4, 2003: Chung Mong-hun, a Hyundai Group executive implicated in the transfer of \$500 million to the DPRK, commits suicide.

Aug. 5, 2003: Car bomb explodes outside Marriott Hotel in Jakarta.

Aug. 6, 2003: Indonesian General Damiri sentenced to three years for failing to prevent violence in East Timor and for gross human rights violations.

Aug. 6, 2003: Taiwan spokesman says executive branch will authorize referendum if legislature does not.

Aug. 6-12, 2003: Shanghai Cooperation Organization (SCO) conducts joint antiterrorism exercise.

Aug. 7, 2003: Bali bomber Amrozi is found guilty and sentenced to death.

Aug. 7, 2003: ASEAN Plus Three finance ministers meet in Manila.

Aug. 8, 2003: ROK Navy fires warning shots on three North Korean boats that cross the Yellow Sea boundary.

Aug. 8, 2003: Region-wide protests mark the 15th anniversary of the fall of the pro-democracy movement in Burma, amid calls for the immediate release of Aung San Suu Kyi.

Aug. 12, 2003: Taiwan seizes dual-use chemicals from North Korean freighter.

Aug. 12, 2003: President Chen repeats “one country on each side of the Strait” formulation.

Aug. 13-14, 2003: TCOG meeting in Washington – U.S., ROK, and Japanese officials final coordination prior to six-party nuclear talks with the DPRK in Beijing.

Aug. 14, 2003: U.S. officials announce joint operation by Thai anti-terrorism forces and the CIA has resulted in capture of Nurjaman Riduan Isamuddin, known as Hambali, an al-Qaeda top strategist and key figure in the 2002 Bali bombing.

Aug. 15, 2003: ROK President Roh, on the 58th anniversary of the Korean Peninsula’s liberation from Japan, promises DPRK economic help for ending its nuclear program.

Aug. 16, 2003: Nearly 2,000 students and activists hold rally demanding an end to ROK-U.S. alliance and the withdrawal of U.S. troops. Nearby, 500 demonstrators march in support of the U.S.

Aug. 18-27, 2003: Russian military stage largest exercises in 15 years in the Far East under the leadership of Navy Commander in Chief Vladimir Kuroyedov. The exercises involve 70,400 servicemen and civilians, 61 ships, and 72 aircraft and helicopters to cope with crisis and conflict on the Korean Peninsula that results in a large number of Korean refugees to Russia. Japan, ROK, and U.S. ships and aircraft participated and China sent observers.

Aug. 20, 2003: A delegation of North Korean athletes arrives in South Korea for the World University Games.

Aug. 22, 2003: U.S. special envoy for North Korea Jack Pritchard resigns.

Aug. 25, 2003: Burmese Cabinet changes announced: intelligence chief, Gen. Khin Nyunt becomes PM; five ministers and two deputies retire; Gen. Than Shwe remains head of state.

Aug. 26, 2003: ROK National Security Advisor Ra Jong-yil states that his government would stop all economic assistance to North Korea if “suspicions of nuclear weapons are confirmed.”

Aug. 27-29, 2003: Six-party talks take place in Beijing.

Aug. 28, 2003: Additional U.S. trade sanctions against Burma go into effect, closing the U.S. market to Burmese imports; could force the closure of textile factories across Burma.

Aug. 28, 2003: Indonesia President Megawati criticizes Burma over Aung San Suu Kyi’s detention.

Aug. 29, 2003: Philippine Defence Secretary Reyes resigns and issues warning of well-organised effort by unnamed forces to topple the government.

Aug. 30, 2003: Russian submarine carrying a crew of 10 sinks in the Barents Sea while being towed to a scrapyard, killing nine.

Aug. 30, 2003: The Hong Kong government announces GDP shrank by 3.7 percent from April to June, due to SARS-related loss of economic activity in air travel, tourism, and hotel industry. Forecasters expect economic growth to rise in second half of 2003.

Aug. 30, 2003: North Korea claims “disinterest” in future six-party talks; cites “practical measure to beef up nuclear deterrent force.”

Sept. 2-3, 2003: U.S. Treasury Secretary Snow visits Beijing, meets Premier Wen, Vice-Premier Huang, Central Bank Chief Zhou Xiaochuan, and Minister of Finance Jin Renqing; urges China to abandon its fixed currency and let the *Renminbi* float.

Sept. 2, 2003: An Indonesian court sentences cleric Abu Bakar Bashir, the spiritual leader of Jemaah Islamiyah, to four years in prison for treason.

Sept. 3, 2003: ASEAN Plus Three economic ministers meet in Phnom Penh

Sept. 3, 2003: Indonesian VP Hamzah Haz calls the U.S. the “terrorist king” during speech.

Sept. 3-4, 2003: Third PSI meeting in Paris. Statement of Interdiction Principles issued.

Sept. 4, 2003: President Bush calls China’s currency policy “unfair.”

Sept. 4, 2003: China notes that “some countries” have concern about PSI’s legality.

Sept. 4, 2003: Taiwan stages annual military wargame “Han Kuang 19” to demonstrate its defense capabilities.

Sept. 4, 2003: SCO foreign ministers meet in Tashkent.

Sept. 4, 2003: The Dalai Lama in U.K. newspaper interview announces his willingness to return to Tibet if China allows him to go back without preconditions.

Sept. 5, 2003: Hong Kong government postpones consideration of controversial anti-subversion bill until more public consultations are held.

Sept. 6, 2003: Former Taiwan President Lee Teng-hui at independence rally, initiates “Calls Taiwan Taiwan” campaign.

Sept. 10-14, 2003: The fifth annual WTO Ministerial conference is held in Cancun, Mexico.

Sept. 10, 2003: An Indonesian court sentences Imam Samudra to death for masterminding the Bali bomb attacks.

Sept. 10, 2003: A South Korean activist commits suicide in anti-capitalism protest at WTO meeting.

Sept. 11, 2003: President Bush meets with the Dalai Lama.

Sept. 12, 2003: U.S. Marine convicted of beating and raping an Okinawan woman; sentenced to 3.5 years in prison.

Sept. 13, 2003: PSI interdiction exercise “Pacific Protector” held in Coral Sea.

Sept. 13, 2003: Typhoon Maemi strikes South Korea, killing 85 people and causing at least \$1 billion in damage.

Sept 14, 2003: Author proposes to Louanne Petronio on the Ponte Vecchio in Florence; July wedding planned.

Sept. 15, 2003: North Korea calls PSI exercise “a prelude to nuclear war.”

Sept. 18, 2003: Bali bomber Ali Imron sentenced to life in prison.

Sept. 18, 2003: ROK National Security Council chief Ra Jong-yil states the UN’s role in postwar Iraq would be a vital factor in Seoul’s decision on sending combat troops.

Sept. 18, 2003: PNG agrees to accept an Australian police “cooperative intervention” force “as soon as possible.”

Sept. 19, 2003: President Bush phones Japanese PM Koizumi to seek support for reconstruction efforts in Afghanistan and Iraq.

Sept. 20, 2003: PM Koizumi is re-elected as head of the LDP by large majority.

Sept. 20, 2003: President Putin says Russian troops will not serve in Iraq.

Sept. 20-25, 2003: Eighth divided families reunion held at Mt. Kumgang, North Korea.

Sept. 22-26, 2003: The United Nations 58th General Assembly meets in New York, President Bush addresses the assembly and calls for support to Iraq.

Sept. 23, 2003: SCO prime ministers meet in Beijing.

Sept. 24, 2003: In press conference, President Roh links the deployment of ROK troops to Iraq to stability on the Korean Peninsula.

Sept. 27, 2003: DPRK describes Secretary Rumsfeld as “politically illiterate” and a “psychopath.”

Sept. 27-28, 2003: Presidents Putin and Bush meet at Camp David, Maryland, issue joint statement calling on DPRK and Iran to end their development of nuclear weapons. Putin states that a negotiated settlement with North Korea should include security guarantees.

Sept. 28, 2003: President Chen says his party will push for new constitution in 2006.

Sept. 29-30, 2003: TCOG meeting in Tokyo.

**U.S.-Japan Relations:
The Primacy of Politics**

Brad Glosserman
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It has been a quiet quarter for the U.S.-Japan relationship. The dispatch of troops to Iraq notwithstanding, there have been no serious, specific bilateral problems for the two governments to address. While they have diverged on some multilateral questions, the goodwill accumulated over the last two years has bridged those differences.

In both countries, domestic politics dominated decisionmaking. Japan Prime Minister Koizumi Junichiro focused on re-election as Liberal Democratic Party (LDP) president; having won that campaign he now turns to the general election expected in early November. U.S. President George W. Bush has begun to concentrate on the 2004 campaign with U.S. voters increasingly concerned about their economic prospects. Fortunately for Japan, in this context, China looms larger in the American mind. Attention will now turn to the Oct. 17 summit between the two men. Both governments will do their best to ensure the meeting goes well. It should: U.S.-Japan relations are one of the few unquestioned successes for both administrations.

Mr. Koizumi Wins Again

To no one's surprise, Prime Minister Koizumi won a second term as LDP party president. In the Sept. 20 ballot, he claimed 399 of 657 votes – 60.7 percent of the votes cast, swamping his three challengers. His new term as party president runs until September 2006. The victory has important repercussions for Japanese party politics – at least the structure of power in the LDP. (For more on this, see “Koizumi's Reelection and Its Implications for U.S.-Japan Relations,” by Yuki Tatsumi, *PacNet* 40A.) For our purposes, the victory means that U.S.-Japan relations will continue on their current track. Key figures carried over into the new Cabinet: Defense Agency head Ishiba Shigeru maintains his old portfolio, as does Foreign Minister Kawaguchi Yoriko. Of equal importance – and to be discussed in more depth below – Takenaka Heizo continues to serve as economic czar.

The prime minister and his party will now turn their energies to the upcoming general election, which is anticipated to be held Nov. 9. The government will benefit from a spike in public approval ratings that followed the appointment of the new Cabinet: A *Yomiuri Shimbun* survey put its support rate at 63.4 percent (up from 57.7 percent three weeks

earlier, but still down from the 75 percent approval rating garnered by the first Koizumi Cabinet). Mr. Koizumi cannot assume that all will be smooth sailing, however: while 54.7 percent believe that the new government should focus on boosting growth, more people – 56 percent – doubt that the new Cabinet will do much for the economy. The prime minister and the LDP can take some solace: 38.5 percent of those surveyed preferred the LDP to govern, while 10.8 percent supported the party to be formed from the merger of Minshuto (Democratic Party of Japan) and Jiyuto (Liberal Party).

Backtracking on Iraq?

While the election results promise a continuation of current Japanese policies toward the alliance, they have thrown a shadow over one facet of bilateral cooperation with the U.S. The prospect of casualties forced the prime minister to backtrack from his pledge to send Japanese forces to support nation-building in Iraq. No government wants to contest an election as it dispatches soldiers to a free-fire zone; in Japan the allergy is even more acute.

Tokyo's reluctance to dispatch forces has obliged U.S. officials to step up their "urgings" of Japan to take action as Washington tries to demonstrate international support for its policies there. The *Asahi Shimbun* reported that Mr. Bush has called Mr. Koizumi several times requesting forces, U.S. Ambassador Howard Baker has been similarly insistent, and Deputy Secretary of State Richard Armitage is said to regularly remind Japanese visitors of the need for Tokyo to put "boots on the ground." The *Asahi* says that Mr. Koizumi has decided to dispatch a small military and air force contingent to Iraq – no more than 100 army engineers and some C-130 military transports – although the actual announcement may not come until after the election. Tokyo decisionmakers are thought to worry that a failure to act promptly will force them to increase future financial contributions. The historic dispatch, the first deployment of Japanese troops overseas without UN authorization since World War II, was made possible by legislation that passed both houses of the Diet early in the quarter.

For the record, Mr. Armitage has said that he applauds the prime minister's decision "to stand on the ground as a player rather than staying in the stands as a spectator," and remains "certain" Japan will make a "generous" offer to support Iraqi reconstruction. Even if reports of U.S. pressure are exaggerated, there is a widespread perception in Japan that this is so.

According to the *Nihon Keizai Shimbun*, Ambassador Baker asked Foreign Minister Kawaguchi for \$1 billion. Then-Chief Cabinet Secretary Fukuda Yasuo responded saying Japan is ready to bear "a due share" to help rebuild Iraq, but did not specify an amount. Expect a figure to be revealed during President Bush's Oct. 17 visit to Tokyo.

Oil and Atoms in Iran

Mssrs. Bush and Koizumi are likely to spend a bit of time during that meeting discussing the Middle East. In addition to Iraq, Iran is an issue of concern. The discovery by the International Atomic Energy Agency (IAEA) of traces of enriched uranium in Iranian centrifuges supported allegations that the country has a clandestine nuclear weapons program. Washington has long warned that Tehran has nursed nuclear ambitions and the IAEA reports provide independent confirmation of those fears.

The news poses an acute dilemma for Japan. Tokyo has been looking to Iran to diversify its energy suppliers. In particular, Japan had hoped to win exclusive rights to develop the Azadegan oil field, thought to contain some 26 billion barrels of reserves. But a consortium of Japanese firms failed to reach agreement on a deal with Tehran by a June 30 deadline, and Iran has announced that it will seek bids from other firms.

The primary obstacle to a deal – the largest supply of oil that Japan has ever had access to – is U.S. concern over the prospect of financing Iran’s nuclear program. Japan had maintained that the two issues were separate, but Nakagawa Shoichi, the new minister of economy, trade and industry, announced at his inaugural press conference that “Iran’s nuclear issue is not a matter that Japan can overlook,” and that the government would deal with it “in its totality taking into consideration all these aspects.” He emphasized that “We will not pursue the project at all costs just because an oil field is expected to be discovered.”

Mr. Nakagawa denied that U.S. pressure had influenced Japanese policy. That is hard to credit, given consistent reports of U.S. displeasure at Tokyo’s apparent readiness to go ahead with the deal only a month before. Nonetheless, nuclear nonproliferation has been a centerpiece of Japanese foreign policy and to dismiss the importance of antinuclear sentiment out of hand – in this or any other issue – would be a mistake.

Eye to Eye over North Korea

When it comes to the third member of the terror trifecta – North Korea – there was no daylight between Washington and Tokyo. The two governments worked closely with Seoul to coordinate positions ahead of the six-party talks that were held in Beijing during Aug. 27-29. The U.S. was Japan’s strongest supporter before and during the talks, arguing that Tokyo deserved a seat at the table and standing behind Tokyo’s demand for the release of the families of the five Japanese kidnapped by North Korean agents and who are still being held in the North. For its part, Tokyo has resolutely backed the U.S. demand for the “complete, verifiable and irreversible” elimination of North Korea’s nuclear weapons program. The two governments showed the strongest solidarity among all the nations participating in the talks. The bilateral consultation and coordination has continued after the first round of talks.

Japan showed its displeasure – and gladdened the hearts of nonproliferation hawks in Washington – by stepping up inspections of the *Mangyongbong-92*, the North Korean ferry that operates between the two countries and is thought to be a conduit for the supply of money and technology to North Korea. North Korea protested the moves, calling them harassment and temporarily suspended the visits. They have since resumed.

Japan has also been a supporter of the U.S.-led Proliferation Security Initiative (PSI), currently an 11-nation “coalition of the willing,” that is designed to thwart the proliferation of weapons of mass destruction (WMD). During the quarter, Japan participated in a four-nation maritime exercise to intercept and board vessels suspected of smuggling WMD. The Coral Sea drill included the U.S., France, and Australia, along with observers from the other seven PSI members, and used 800 personnel, ships, and aircraft.

Off the Fence with Missile Defense

The North Korean threat also galvanized Japanese thinking about missile defense. North Korea’s bluster and fiery rhetoric and a missile flight time of less than nine minutes have escalated Japanese fears and sense of vulnerability. After several years of hemming and hawing, Prime Minister Koizumi has finally decided to go ahead and deploy a missile defense system to protect Japanese cities in the case of attack. The government’s plan envisions a multilayer-shield consisting of *Aegis*-equipped destroyers deployed at sea and advanced Patriot missile batteries on land. The proposal would cost about \$1 billion a year over four years, and will require significant legislation, perhaps even a constitutional amendment. The *Asahi Shimbun* also reports that the Defense Agency wants to link Japanese fighters to a U.S. satellite-guided bombing system to facilitate the use of precision-guided munitions and has requested some \$110 million to do so. U.S. missile defense advocates took heart from Japan’s decision, and touted it as proof that fears that U.S. deployment would alienate friends and divide alliances were exaggerated.

Never Too Soon to Start Campaigning

Prime Minister Koizumi wasn’t the only leader obliged to factor electoral considerations into foreign policy thinking this quarter. Mr. Bush is being forced to look ahead to next year’s campaign. Since the conventional wisdom is that voters vote their pocketbooks – although Iraq may assume real salience in the 2004 ballot – that means increasing attention to economic issues.

Even though the recession is officially over, U.S. voters are not happy. And with good reason: if current trends continue, Mr. Bush will be remembered for presiding over the greatest loss of jobs – 2.7 million – since the Great Depression. The losses are especially high – and likely to be permanent – in the manufacturing sector, giving rise to claims of unfair competition and in particular, currency manipulation to retain competitiveness.

China is the biggest target, given its \$103 billion trade surplus and the “made in China” label attached to most consumer goods sold in the U.S. And indeed, according to Japan’s

Ministry of Finance's August statistics, that country's surplus with the U.S. narrowed for an eighth straight month, to ¥474.7 billion, the lowest level since August 1996. Exports to the U.S. fell 7.8 percent and imports dropped 10.2 percent.

The question is whether it is possible to complain about China's currency being artificially undervalued at its current peg to the dollar and ignore Japan's unprecedented intervention in foreign exchange markets to halt or slow the rise in the value of the yen. The answer seems to be "yes." The U.S., primarily in the person of Treasury Secretary John Snow, continues to applaud Japan's progress in reform and says nothing about the apparent inconsistency of its position. Japan does not appear ready to help resolve the dilemma.

While Japan signed the G-7 statement issued on Sept. 20 that called for market determination of exchange rates, it has not hesitated to intervene to protect the value of its own currency. By one estimate, Japan has spent more than ¥13 trillion (\$117.6 billion) this year – more than the GDP of Ireland – in a fruitless attempt to keep the yen from escalating in value. It continues to rise, hitting three-year highs this quarter.

There are two explanations for Japanese action. The first, and most obvious, is the desire to improve the competitiveness of its exports. The second rationale is novel: The Bank of Japan is hoping that higher import prices will help inflate the economy. With interest rates already at zero, traditional monetary tools are useless. Its ability to print endless amounts of yen to buy dollars allows it to compensate for that. Richard Jerram, chief economist at ING Barings in Tokyo, has put it quite nicely: "With interest rates at zero, Japan can simply create as much yen as is needed to satisfy world demand. So if the foreign exchange market has developed a sweet tooth for yen, the BOJ has a chocolate factory with infinite capacity to meet that demand."

The G-7 statement has had no impact on Japanese behavior. After taking his place in the new Cabinet as finance minister, Tanigaki Sadakazu said the government would continue to intervene. He even said that the language of the statement – that "foreign exchange rates reflect economic fundamentals" – justified Japanese action.

The Urgency of Real Reform

Unfortunately for Mr. Tanigaki, by that standard, the strengthening yen might just be accurate. In its monthly assessment of the nation's economy, the BOJ in August upgraded its evaluation of Japan, crediting expanding exports. The unemployment rate in August fell to 5.1 percent, a two-year low. More significant, data released in September showed the Japanese economy grew a blistering 3.9 percent in the second quarter (on an annualized basis), the fastest growth in two and a half years, making Japan the best performer in the G-7.

While Tokyo's support for U.S. foreign policy has made criticism of its economic policies off limits, a recovering Japan might be called upon to shoulder more international economic burdens, especially if the U.S. continues to founder. That is in line

with Japanese notions of burden sharing, but Tokyo's behavior this quarter didn't show a readiness to step up. In addition to flouting the G-7 agreement, there have been criticisms of Japanese contributions to the world trade negotiations that were held in Cancun, Mexico in September. Quite simply, Japan appeared more concerned with protecting its agricultural sector than working to reach a trade deal. While that is neither new nor unique behavior, it does raise questions about Tokyo's readiness to play a "leadership role" on international economic issues, its natural area of competence. If trade becomes an electoral issue, Tokyo could find itself the target of unwanted attention, albeit in a new way.

There is another reason why Tokyo might be slow to pick up the burden: its "recovery" might not be real. The jobless figures are open to question because much of the fall in unemployment can be attributed to a shrinking labor force. The surge in second quarter growth is primarily the result of strong capital spending, which increased over 20 percent, but the volume is exaggerated because the price of capital goods has dropped dramatically. In other words, the Japanese economy remains fragile, the "recovery" potentially a phantom.

Mr. Koizumi Stays the Course

Yet the U.S.-Japan alliance, and the international economy, cannot afford another several years of Japanese stagnation – and certainly not if the U.S. remains in the doldrums and Europe succumbs to its version of "the Japanese disease." This underscores the importance of a renewed commitment to reform on the part of the Japanese government.

To his credit, Mr. Koizumi appears to understand what is expected of him. Upon announcing his new Cabinet, the prime minister said that its members were picked to help forward his "commitment to reform. ... It is a reform Cabinet, and we will not make a policy shift." Indeed, "it is time for us to pursue structural reform even more aggressively."

The problem is that there are good reasons to be skeptical about its members' ability to deliver. The new METI minister, Mr. Nakagawa, has raised doubts about his commitment to weeding out weak and noncompetitive companies, arguing that "when companies are engaged in activities that have value, we should be able to keep them." Shortly after taking his portfolio, Public Management Minister Aso Taro expressed doubts about proceeding with the prime minister's plan to privatize the postal service. Mr. Koizumi countered by giving that assignment to Minister of Economy and Financial Services Takenaka Heizo.

Mr. Takenaka is probably the most controversial figure in the Cabinet. Many LDP members wanted him removed when Mr. Koizumi shuffled posts, but the prime minister remains committed to him, perhaps because he serves as a convenient lightning rod – and his replacement would have signaled quite plainly Mr. Koizumi's retreat from a reform agenda. When asked about the reappointment, Mr. Koizumi said, "I believe that the

direction of his economic policy is correct.” Mr. Takenaka’s continued presence was intended to demonstrate that the prime minister has “no intention of altering my reform path.”

Yet the Koizumi government’s journey down that path has been a winding one, Mr. Takenaka’s guidance less than inspiring. While there are signs that (some) companies are restructuring, there is little indication of a genuine political commitment to reform. Banks are still pressured to support marginal and failing businesses. When they don’t, the government steps in. Privatization of semigovernmental entities is proceeding fitfully at best. The bureaucracy continues to facilitate the restructuring of industry and businesses. The foreign exchange interventions reveal a reluctance to let market forces do their work.

None of these questions will be raised Oct. 17 when Mr. Bush and Mr. Koizumi meet. Instead, they will focus on issues much closer to home – how best to deal with North Korea – and applaud the strength of their partnership. Each man will also have one eye on the electoral calendar and if they are honest with each other, they will admit that events in Iraq may hold both of their fates hostage.

Chronology of U.S.-Japan Relations July-September 2003

July 2, 2003: Mitoji Yabunaka, head of Foreign Ministry’s Asian and Oceanian Affairs Bureau, meets with U.S. and South Korean counterparts in Washington to discuss a U.S. proposal on a UN Security Council statement on the North Korean nuclear issue.

July 2, 2003: Deputy Secretary of State Richard Armitage expresses U.S. concerns about Japan’s oil development plan in Iran to visiting Deputy Cabinet Secretary Yachi Shotaro.

July 2-3, 2003: Japan and U.S. hold Status of Forces Agreement (SOFA) negotiations in Tokyo and TCOG discussions (with ROK) in Hawaii.

July 3, 2003: Diet lower house committee on Okinawa adopts resolution calling for a revision of SOFA and other measures to prevent crimes by U.S. forces.

July 3, 2003: *Asahi Shimbun* reports that JDA will withdraw an *Aegis* missile destroyer from the Indian Ocean to keep an eye on North Korea.

July 4, 2003: Richard Lawless, deputy assistant secretary of defense for East Asia and the Pacific, states Japan should make contributions that match its national strength in supporting Iraq’s postwar reconstruction.

July 4, 2003: Japan announces that it will suspend official development assistance (ODA) unless the Burmese junta releases Aung San Suu Kyi.

July 4, 2003: House of Representatives passes SDF Iraq dispatch bill.

July 4, 2003: Kobayashi Takeru wins for a third time the annual *Nathan's Famous Hot Dog Eating Contest* in Coney Island, NY eating 44 ½ hot dogs in 12 minutes.

July 8, 2003: Japanese prosecutors indict U.S. Marine Lance Cpl. Jose Torres on rape charges.

July 10, 2003: Chief Cabinet Secretary Fukuda announces Japan will implement a permanent law enabling SDF support as well as international contributions by officials and citizens to allied forces.

July 11, 2003: Japan sends two Air Self-Defense Force C-130 transport aircraft carrying 41 Self-Defense Force members to Jordan as part of a UN humanitarian effort to help Iraq. Japan has dispatched C-130 transport planes 29 times since 1992 for PKO.

July 11, 2003: JDA introduces a “layered missile defense system,” combining the ground-based PAC-3 and a sea-based SM3 into four *Aegis* destroyers and one Air Defense Missile Group with a budget of ¥200 billion over the next two years.

July 11, 2003: U.S. and Japan hold a working-level meeting in Washington, D.C. on SOFA.

July 13, 2003: Matsui Hideki, Suzuki Ichiro, and Hasegawa Shigetoshi named as members of American League All-Star team.

July 14-15: KEDO begins working-level talks in New York to discuss suspension of nuclear reactor power project by U.S., Japan, ROK, and the EU.

July 15, 2003: U.S., Japan, and South Korea agree that the UN Security Council should adopt a resolution denouncing North Korea's nuclear weapons development if multilateral talks are rejected.

July 15, 2003: U.S. Deputy Assistant Secretary of Defense Donald Keyser meets with Deputy Chief Cabinet Secretary Shinzo Abe and FM Asia Bureau Chief Yabunaka in separate working-level meetings in Tokyo. They agree to enforce stronger measures related to North Korea's illegal drugs trafficking, missiles trade, and money counterfeiting.

July 15, 2003: WTO rules that Japan's quarantine restrictions on U.S. apple imports violate WTO rules.

July 16, 2003: *Yomiuri Shimbun* poll indicates that 31 percent are in favor of the dispatch of SDF to Iraq, while 43 are opposed and 24 percent undecided.

July 17, 2003: U.S. Central Command asks Japan to send and base its Self-Defense Forces (SDF) in “trouble spot” Balad, Iraq. Chief Cabinet Secretary Yasuo Fukuda states that it would be “difficult” due to security concerns.

July 24, 2003: Trial begins for U.S. Marine Lance Cpl. Torres in Okinawa.

July 24, 2003: Deputy Assistant Secretary of Defense Lawless and Japanese officials meet in Honolulu to review criminal procedures for U.S. military personnel accused of crimes in Japan.

July 24, 2003: A Gallup poll commissioned by Japan's Foreign Ministry reveals that 67 percent of Americans and 91 percent of opinion leaders regard Japan as a "dependable ally and friend."

July 25, 2003: Bill allowing dispatch of SDF to Iraq passes with 136 votes in favor, 102 votes against despite a no-confidence motion against PM Koizumi in the Lower House.

July 27, 2003: Japanese journalist Kazutaka Soto is assaulted and detained by U.S. soldiers after taking pictures in Baghdad of a U.S. military raid.

July 30, 2003: Japan and U.S. hold working-level talks in Washington concerning SOFA revisions; Japan proposes that U.S.-selected interpreters be present during interrogations of accused military personnel conducted by the Japanese police.

July 31-Aug. 1, 2003: Japan and the U.S. officials fail to reach agreement by Aug. 2 deadline concerning criminal procedures for U.S. military personnel accused of crimes in Japan.

Aug. 1, 2003: Japan raises its tariff on beef imports from 38.5 to 50 percent despite U.S. and Australian protests.

Aug. 1, 2003: Under Secretary of State John Bolton meets with Japanese officials in Tokyo as the last leg of his Northeast Asia trip to discuss North Korea's nuclear issue.

Aug. 5-10, 2003: Economic Minister Takenaka Heizo meets with Federal Reserve Board Chairman Alan Greenspan, U.S. Treasury Secretary John Snow, and other U.S. economic officials during a five-day trip in the U.S.

Aug. 5, 2003: Japan's 2003 White Defense Paper is released. It emphasizes North Korea's nuclear issue, peacekeeping operations, and supporting U.S.-led military coalitions.

Aug. 6, 2003: Hiroshima Mayor Tadatoshi Akiba remarks that the U.S. "worships nuclear weapons as God," during the 58th annual Peace Declaration; Chief Cabinet Secretary Fukuda states that Japan would not pursue such weapons itself.

Aug. 20, 2003: Japan cancels an official fact-finding mission and announces delays in the deployment of SDF until 2004 after the bombing of the UN Headquarters in Baghdad.

Aug. 22, 2003: Japanese FM Kawaguchi Yoriko speaks with Secretary Colin Powell via telephone and assures Japan's continued support to rebuild Iraq.

Aug. 23, 2003: JDA announces plans to upgrade all four of its *Aegis*-equipped destroyers over four years to equip SDF with U.S.-made missile defense systems and to install the Patriot Advanced Capability-3 (PAC-3) antimissile system for its Air SDF.

Aug. 26, 2003: Mitoji Yabunaka, director general of Japan's FM's Asian and Oceanian Affairs Bureau, ROK Deputy FM Lee Soo Hyuck, and Assistant Secretary of State James Kelly meet at the ROK embassy in Beijing to discuss the six-party talks.

Aug. 30, 2003: Deputy Secretary of State Armitage asks Japan's envoy for Middle Eastern Affairs Arima Tatsuo that SDF be sent to Iraq at an early date and not to "walk away" from the task of reconstruction.

Sept. 1-2, 2003: Treasury Secretary Snow meets with Japanese Finance Minister Shiokawa Masajuro and PM Koizumi in Tokyo to discuss Japan's economy and the Chinese *yuan*'s peg to the dollar.

Sept. 2, 2003: Deputy Chief Cabinet Secretary Abe states that a nonaggression treaty between the U.S. and North Korea would nullify the U.S.-Japan Mutual Security Treaty.

Sept. 4-5, 2003: Deputy Secretary of State Armitage holds talks with Japan's Vice FM Takeuchi Yukio in Washington, D.C. to discuss Iraq and North Korea.

Sept. 9, 2003: U.S. Marine Corps Brig. Gen. Timothy Larsen states that Japan should not consider becoming a nuclear power even though the current North Korean nuclear crisis is causing instability in Northeast Asia.

Sept. 10, 2003: An online Harris poll states that 32 percent of Americans regard Japan as "a close ally" in the Iraqi war – an increase from 28 percent of the previous year.

Sept. 12, 2003: Marine Torres is found guilty of violent rape and sentenced to 3 ½ years in prison in Naha District Court, Okinawa, Japan.

Sept. 12, 2003: Under Secretary of State Bolton meets with family representatives of Japanese abducted by North Korea in Washington, D.C.

Sept. 12-14, 2003: The U.S., Japan, Australia, and France send ships to the Coral Sea as part of "Pacific Protector" multilateral naval exercise; 7 other nations are observers.

Sept. 14, 2003: *Tokyo Shimbun* quotes a U.S. DOD official saying "Why don't you shape up?" expressing frustrations regarding Japan's delay in sending the SDF to Iraq.

Sept. 17, 2003: FM Kawaguchi announces that a U.S. Navy air wing will be transferred from Yokohama to Misawa city, Aomori Prefecture in October.

Sept. 19, 2003: President Bush and PM Koizumi affirm that both nations will cooperate to reconstruct Iraq; Japan prepares \$1 billion in financial aid for 2004 in response to U.S. request.

Sept. 20, 2003: PM Koizumi wins re-election as LDP president with 399 votes (60 percent) of the 657 votes cast, he says that he will continue with economic reform.

Sept. 20, 2003: Suzuki Ichiro becomes the third player in MLB history and the first in 56 years to record 200 hits in each of his first three seasons for the Seattle Mariners.

Sept. 21, 2003: PM Koizumi appoints Abe Shinzo secretary general, No. 2 in the party.

Sept. 23, 2003: A *Yomiuri Shimbun* poll shows, 63.4 percent of respondents approve the new Cabinet, although about 56 percent doubt it would be able to help the economy.

Sept. 23, 2003: FM Kawaguchi and Secretary of State Powell meet at the UN and agree to continue cooperation on North Korean nuclear issue.

Sept. 25, 2003: The U.S., Japan, the E.U., and the United Arab Emirates announce an international trust fund for postwar reconstruction in Iraq, which will be managed by the World Bank and the United Nations Development Programme.

Sept. 26, 2003: U.S. Ambassador to Japan Howard Baker says the U.S. expects Japan's SDF to be a part of Iraqi reconstruction effort. Deputy Secretary of State Armitage says he is "certain" Japan will contribute "generous" financial support; PM Koizumi states he will carefully consider the situation in Iraq before sending SDF.

Sept. 26, 2003: Japan's investigation team arrives in Iraq to assess the security situation for the sending of its SDF.

Sept. 28, 2003: Secretary General Abe states on a TV *Asahi* program that Japan's SDF should join a multinational force in Iraq if under a U.S.-proposed UN resolution.

Sept. 29-30, 2003: James Kelly, Japanese Consul General Yabunaka Mitoji, and ROK Deputy Foreign Minister Lee Soo-hyuk meet in Tokyo to discuss the North Korean nuclear situation.

U.S.-China Relations:

The Best since 1972 or the Best Ever?

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Continued cooperation on security matters, especially the challenge posed by North Korea's nuclear weapons programs, bolstered U.S.-China relations this quarter. Washington lauded China's vigorous diplomatic efforts that culminated in the holding of six-party talks in Beijing at the end of August. China formally joined the Container Security Initiative (CSI), agreeing to permit U.S. Customs and Border Protection officials to work side-by-side with their Chinese counterparts to target and pre-screen cargo containers shipped from Shanghai and Shenzhen destined for the United States. U.S. officials publicly rebuked Beijing for not living up to its promises made last December to make progress on specific human rights issues. Treasury Secretary John Snow visited Beijing and tried, but failed, to persuade Chinese officials to appreciate the renminbi (RMB). The Department of Defense released its annual report on July 30 on Chinese military power.

Cooperation on North Korea Boosts Bilateral Ties

U.S.-China relations are on a steady upward trend. This quarter, U.S. and Chinese officials were effusive in their praise of the bilateral relationship. In a foreign policy speech delivered at George Washington University in early September, Secretary of State Colin Powell observed that "U.S. relations with China are the best they have been since President Nixon's first visit." In a question-and-answer session the previous month at the Asia Society Forum in Sydney, Australia, Deputy Secretary of State Richard Armitage declared that the Bush administration is "absolutely delighted with the state of our relations with the People's Republic of China and the direction we're going." He also revealed that Chinese President Hu Jintao has privately characterized bilateral ties as the best they have ever been.

The shared upbeat evaluation of U.S.-Chinese relations is in large part a result of close cooperation between Beijing and Washington to cope with the challenge posed by North Korea's nuclear weapons programs and continued collaboration in the war on terror. The Bush administration welcomed China's decision to assume a more active role on the North Korean issue and credited Beijing with persuading Pyongyang to participate in the six-party talks, which China hosted at the end of August. Speaking about the accomplishment of forging a multilateral framework for resolving North Korea's nuclear

weapons programs, Powell emphasized Beijing's contribution to the diplomatic effort in his George Washington University speech. "We very much appreciate the leadership role that the Chinese have played in trying to find a solution to this problem," he asserted. Another U.S. official commented privately that "U.S.-China relations are pretty darn good these days because we are working together on issues like North Korea."

North Korea was a major focus of U.S.-Chinese interaction this quarter. Chinese Vice Minister Wang Yi visited Washington D.C. in early July for discussions with his U.S. counterparts that covered many areas in the bilateral relationship, but concentrated on the North Korea nuclear weapons problem. Later that month, Chinese Vice Minister Dai Bingguo flew to the U.S. on short notice to brief U.S. officials on his four-day visit to Pyongyang, where he met with North Korean leader Kim Jong-il. Dai was welcomed at the White House by Vice President Richard Cheney and NSC adviser Condoleezza Rice, held a lengthy meeting with Secretary of State Powell, and also met with Secretary of Defense Donald Rumsfeld at the Pentagon. Dai presented a letter from Chinese President Hu addressed to President Bush. The State Department spokesman noted that Powell had expressed appreciation to Dai "for the tremendous effort China has put into this matter." Subsequently, Under Secretary of State John Bolton visited Beijing for the second round of China-U.S. security talks that included discussions of arms control, non-proliferation, and North Korea's nuclear weapons. In a press conference held during his visit, Bolton acknowledged China's endeavors to get multilateral negotiations underway and noted that the U.S. deemed those efforts "very important."

Frequent phone conversations also took place between U.S. and Chinese presidents and between Secretary Powell and Chinese Foreign Minister Li Zhaoxing to exchange views on bilateral matters and especially to coordinate and keep each other informed of developments in handling the North Korean nuclear weapons issue. In one phone call, President George W. Bush emphasized the importance of including Japan, South Korea, and Russia in the talks and urged Hu "to stay involved in the process of discussion" with DPRK leader Kim Jong-il.

Both the U.S. and China termed the first round of six-party talks a good beginning, despite statements by North Korean officials immediately following their conclusion that Pyongyang was "no longer interested" in six-way talks and was, instead, accelerating its nuclear weapons program. Reports that Chinese Vice Foreign Minister and representative to the six-party talks Wang considered the U.S. the "main obstacle" to settling the nuclear issue peacefully, were taken in stride by U.S. officials. One U.S. official privately portrayed Wang's comments as "understandable" in the context of China's role to prevent North Korea from feeling too isolated and persuade Pyongyang to remain in the dialogue process. It was apparent, however, that in addition to being irritated with the North Koreans for issuing threats and insults during the three days of talks in Beijing, the Chinese were also disappointed that the U.S. had not shown greater flexibility. China welcomed Assistant Secretary of State James Kelly's assurances that "the U.S. had no intention to threaten North Korea, no intention to invade and attack North Korea, and no

intention to work for regime change in North Korea,” but bemoaned Washington’s unwillingness to offer Pyongyang written security assurances and incentives to give up its nuclear weapons programs.

Chinese officials continue to urge the Bush administration to offer a concrete road map to induce North Korea back to the negotiating table and promote a peaceful settlement. This was one of the messages conveyed by Chinese Foreign Minister Li when he met with President Bush, Vice President Cheney, NSC Adviser Rice, Secretary of State Powell and Secretary of Defense Rumsfeld in the third week of September. China’s official news agency quoted President Bush as telling Li that “U.S.-China relations are full of vitality, and this is important for both sides.” In addition, Bush praised Beijing’s constructive role on major international affairs, including the North Korea nuclear and Iraq issues. Other topics discussed during Li’s visit included Taiwan, U.S.-China trade and economic ties, human rights, nonproliferation, and bilateral military relations.

Progress was also made in U.S.-Chinese cooperation in the war against terrorism this quarter. China formally joined the Container Security Initiative, fulfilling a pledge that former Chinese President Jiang Zemin had made to President Bush during his visit to Crawford, Texas in October 2002. U.S. and Chinese Customs officials signed a declaration of principles initiating joint efforts to target and pre-screen cargo containers shipped from the ports of Shanghai and Shenzhen destined for U.S. ports. Under the agreement, the U.S. Customs and Border Protection will station small teams of officers at those ports to work with Chinese customs officials to inspect any containers identified as posing a potential terrorist risk. U.S. Customs and Border Protection Commissioner Robert Bonner declared at the signing ceremony in Beijing that “The CSI security blanket is now expanding and strengthening as it encompasses the ports of Shanghai and Shenzhen” and expressed appreciation for President Hu’s continued support of the CSI.

U.S. Charges China not Meeting Human Rights Commitments

Even as the U.S. and China forge closer cooperation on security matters, they are not papering over their differences on other issues. In a signal of Washington’s growing displeasure about China’s human rights policy, Deputy Assistant Secretary of State for East Asia and the Pacific Randall Schriver publicly disclosed in mid-July that Beijing had pledged progress on four specific human right issues in pressing the Bush administration not to introduce a resolution condemning China at the Geneva Human Rights Commission, but had not lived up to its side of the bargain. In an interview with Radio Free Asia, Schriver indicated that China had promised to respond positively to U.S. government requests that the Chinese government declare that minors are entitled to religious instruction, allow the International Committee of the Red Cross to open a permanent office in China, permit regular visits by UN rapporteurs, and conduct parole reviews for some political prisoners.

The Chinese apparently made these commitments in a session of the bilateral U.S.-China human rights dialogue last December and reiterated them privately to U.S. officials in March. By divulging that the U.S. had based its decision to not criticize China’s human

rights performance at the Geneva forum on the expectation that Beijing would follow through on its promises, Schriver was unquestionably warning the Chinese that in the absence of progress, the U.S. would seriously consider sponsoring a resolution criticizing China next year. He urged the Chinese government to “do more right away” to follow through on its promises. In August, the State Department’s top human rights official, Assistant Secretary of State Lorne Craner, expressed U.S. disgruntlement to the *Washington Post*. “As far as we’re concerned, the Chinese have not done well, and it’s disappointing,” he stated. The drumbeat of criticism continued in September when Ambassador to China Clark T. Randt made China’s unsatisfactory human rights performance this year the centerpiece of a speech delivered at the Nitze School of International Studies in Washington, D.C. There have been “no results to speak of, quite frankly,” he observed. Later that month, Secretary Powell also berated China for not doing enough to improve its human rights record during Li Zhaoxing’s visit.

A U.S. State Department spokesman also denounced China’s backsliding on human rights, citing a number of “troubling incidents” since the beginning of the year, including the execution of a Tibetan without due process; the arrests of a number of democracy activists, harsh sentences handed down to internet essayists and labor protesters; the forced repatriation of 18 Tibetans from Nepal in contravention of UN practices; the muzzling of media outlets reporting on politically sensitive issues; the failure of PRC authorities to respect due process rights of those accused of political crimes; and the lack of access for U.S. diplomats and family members to trials of those detained for political activities. China also promised to allow a U.S. Commission on International Religious Freedom to visit but the trip was postponed after Beijing insisted the group not visit Hong Kong.

The Chinese government did not deny that it had failed to fulfill promises made to U.S. officials, but did not explain the reasons why progress has not been made. U.S. officials privately suggested Chinese leaders had wrongly concluded that they do not have to address U.S. human rights concerns because the Bush administration needs Chinese cooperation in other areas, especially in dealing with North Korea in the counter-terrorism campaign.

More Sanctions for Alleged Transfers of Missile Technology

The U.S. continued to quietly ratchet up pressure against Chinese companies for alleged sales of weapons of mass destruction (WMD) and missile technologies this quarter. In early July, the Bush administration slapped sanctions on five Chinese companies under the 2000 Iran Nonproliferation Act for assisting Tehran’s weapons programs. Most of the companies cited by the State Department do little business with the U.S. because of existing penalties against them and thus the practical effects of those sanctions will be minimal. One exception is the China North Industries Corporation (Norinco), a major supplier to the Chinese military that does billions of dollars of business in China and overseas. Norinco was punished in May for selling missile technology to Iran’s state-owned defense contractor that builds the country’s short- and medium-range missiles. At

the end of July, the U.S. imposed sanctions on another Chinese firm, the China Precision Machinery Import-Export Corporation, for alleged missile technology proliferation.

Additional sanctions were imposed on Norinco in September under a provision of the Arms Export Control Act and will ban all the company's products from entering the U.S. Some of these sanctions also apply to the Chinese government, including a prohibition on launches of U.S. satellites on Chinese rocket boosters. According to the notice published in the Federal Register, "The measures include a two-year ban on all export licenses and new U.S. government contracts for "all activities of the Chinese government relating to the development or production of missile equipment or technology and all activities of the Chinese government affecting the development or production of electronics, space systems or equipment, and military aircraft." A U.S. official anonymously quoted in *The Washington Times* warned that even more severe sanctions that cover other major Chinese companies were waived for one year and could be triggered if China continues to permit its companies to sell missiles to states with illicit WMD programs.

In an unusually detailed public appraisal of China's nonproliferation efforts, Paula DeSutter, assistant secretary of state for verification and compliance under John Bolton, told the U.S.-China Economic and Security Review Commission that Washington was employing sanctions to change the "cost-benefit analysis" for companies. "Companies round the world have a choice: trade in [weapons of mass destruction] materials or trade with the United States, but not both," DeSutter told the commission. U.S. efforts to alter Chinese behavior include high-level dialogue aimed at persuading the PRC to adopt national policies to enforce its commitments as well as measures to enhance deterrence of Chinese proliferation and make eschewing illicit behavior by Chinese companies more attractive, according to DeSutter. She voiced doubts about the Chinese government's stated commitment to controlling missile nonproliferation, claiming that Beijing's lack of enforcement suggests that it views nonproliferation "not as a goal in and of itself but as an issue that needs merely to be managed as part of its overall bilateral relationship with the United States." DeSutter called on China to enforce controls at its borders and establish a system of end-use verification checks to ensure that items approved for transfer are not diverted. Quoting Secretary Powell, DeSutter said that "China's fulfillment of its nonproliferation commitments would be crucial to determining the quality of the U.S.-China relationship."

Beijing strongly protested the U.S. imposition of sanctions on Chinese firms, insisting that it strictly controls weapons trade and firmly supports international antiproliferation efforts. A Chinese Foreign Ministry spokesman contended that the U.S. unreasonably forces its national policy and laws on others. Privately, Chinese officials expressed irritation that the U.S. had opted to levy sanctions without first informing the Chinese government of the alleged violations and allowing time to investigate. One MFA official warned that the repeated use of sanctions "can only slow down cooperation and harm trust between the two countries."

Pressure to Revalue the RMB and Other Sources of Trade Friction

Treasury Secretary John Snow visited Beijing in early September amid a surge of domestic complaints that China is keeping its currency deliberately undervalued to promote exports to the U.S. and is thus causing the loss of U.S. jobs. Snow failed, however, to persuade Chinese leaders that China's \$103 billion trade surplus with the U.S. and an undervalued RMB are giving Chinese exports an unfair competitive advantage and exerting a negative impact on the U.S. economy and the U.S. job market. Chinese officials refused to take any near-term steps to revalue the RMB and argued that a sudden move to float China's currency might cause financial instability in China and abroad. Beijing nevertheless sought to assuage U.S. concerns by affirming a long-term intention to allow the value of the *yuan* to be determined by market forces and promising to take interim steps to loosen restrictions on the financial system.

In his meeting with Snow, China's central bank governor, Zhou Xiaochuan, outlined a series of measures that he said would "allow the market to play a bigger role" in China's financial system. If implemented fully, these measures would amount to a concerted effort to respond to record inflows of foreign currency to China without a revaluation or appreciation of the currency. Among them are new regulations to permit foreigners to invest in *yuan*-denominated securities, and rules that allow some domestic investors to purchase securities abroad. In addition, Zhou told Snow that China planned to encourage Chinese companies to invest more overseas. This moderately conciliatory posture underscored Beijing's desire to be seen as addressing U.S. concerns and thus avoid the escalation of this issue as the U.S. presidential elections grow nearer.

At a press roundtable in Beijing following his talks, Snow expressed the Bush administration's abiding commitment to "a growing healthy and mutually beneficial trade relationship with China." He also noted persisting U.S. concerns about the Chinese economy, mentioning specifically the need for further progress with regard to the Chinese government's relaxation of ownership rules for financial services. The enforcement of China's intellectual property laws and the protection of the free flow of capital were also cited as among U.S. worries. Snow announced that the U.S. would appoint a Treasury attaché at the U.S. Embassy in Beijing to further promote the U.S.-China economic relationship. He also indicated that he had extended an "open invitation" to Chinese Vice Premier Huang Ju and other Chinese officials to come to Washington to continue joint efforts to address economic, financial, and trade issues.

The U.S. domestic debate about whether China should expand the band within which the RMB trades continued to heat up in the wake of Snow's visit. While proponents of a revaluation of the Chinese currency insisted that an appreciation of the RMB would help curb the mushrooming U.S. trade deficit with China, critics charged that Beijing was simply a convenient scapegoat for the loss of 2.7 million U.S. manufacturing jobs during the Bush administration. Even some economists who agreed in principle with Snow's contention that "market-determined floating currencies are really the key to a well-functioning international financial system," voiced worries that an abrupt shift from a Chinese *yuan* pegged in a narrow band of 8.2760 to 8.2800 to the dollar to a freely

floating currency could create more problems than it might solve. Some experts contended, for example, that it would hurt many large U.S. companies, whose Chinese subsidiaries are the source of most of the recent increase in Chinese exports, raise prices for U.S. consumers, and possibly destabilize the debt-laden Chinese banking system, which would cause reverberations throughout the global economy.

Beijing views the Bush administration's jawboning as largely a result of U.S. election maneuvering. Yuan Zhen, a Chinese analyst from the Institute of American Studies under the Chinese Academy of Social Sciences, was quoted in a Hong Kong newspaper as saying: "The 2004 U.S. presidential election will soon be held. The visit of the Republican old-hand Snow to China is nothing but a gesture intended for the small- and medium-size U.S. manufacturers and working class that have no investment in China that the Bush administration does care for their interests."

Nevertheless, the Chinese remain worried about the possibility that the U.S. may impose trade sanctions on China and their concerns are not completely unfounded. Following Snow's lack of success in convincing Beijing to let the RMB exchange rate float freely, President Bush said in an interview with CNBC that "we don't think we're being treated fairly when a currency is controlled by the government" and promised to "deal with it accordingly." The following week, a bipartisan group of U.S. senators submitted a bill to Congress urging it to impose an additional tariff of 27.5 percent on all products imported from China. The Chinese in turn warned that if China becomes subject to discriminatory and unfair treatment, it would be justified in retaliating and implored the U.S. to avert a trade war.

The U.S. further turned up the heat on China in a speech delivered by Commerce Secretary Don Evans to the Detroit Economic Club, which aligned the administration with U.S. manufacturers complaints about China's rampant piracy of intellectual property; forced transfer of technology from firms launching joint ventures in China; trade barriers; and capital markets that are largely insulated from free-market pressures. Promising that the Bush administration would "aggressively target unfair trade practices wherever they occur," Evans declared that "American manufacturers can compete against any country's white collars and blue collars but we will not submit to competing against another country's choke collars." In the growing crescendo of criticism of China's trade practices, other voices cast doubt on China's compliance with its World Trade Organization (WTO) obligations. A U.S. Chamber of Commerce report released on Sept. 16 stated that China's compliance record was "uneven and incomplete." And in comments prepared for delivery to the U.S. Trade Representative's office, U.S.-China Business Council President Robert Kapp warned Beijing about its "apparent loss of clear momentum" in implementing its commitments to the WTO.

Taiwan Remains on the Front Burner

Taiwan remained a central focus of U.S.-Chinese relations during this quarter in several ways. Taiwan President Chen Shui-bian's call in May to hold a national referendum on Taiwan's membership in the World Health Organization and continued efforts by Taiwan

legislators to push through enabling legislation that would allow referendums unnerved Beijing. China attacked the referendum proposal as “creeping independence” because it could set a precedent for a future referendum on Taiwan’s sovereignty. To underscore the seriousness of the matter to Beijing, China quietly dispatched the director of the State Council Taiwan Affairs Office Chen Yunlin along with his deputy Zhou Mingwei to Washington in late July to convey Chinese redlines to U.S. officials.

China Daily reported that Chen and Zhou told Deputy Secretary of State Armitage “that any referendum on the island is an unacceptable move that will lead to an eventual vote on independence.” In their private meetings, however, the Chinese officials emphasized that Beijing staunchly opposed any referendum held by Taipei that challenges the “One China” principle, but suggested that China would tolerate referenda on local public policy issues unrelated to national sovereignty. Thus, a referendum on whether to complete construction of the fourth nuclear power plant or downsize Taiwan’s legislature, also under consideration in Taiwan, if put to a vote, would not necessarily draw Chinese ire and a carefully worded referendum on Taiwan’s participation in WHO might also be finessed. U.S. officials reaffirmed that Washington would not support Taiwan independence and discouraged both Beijing and Taipei from taking any provocative actions. Yu Keli, director of the Institute of Taiwan Studies under the Chinese Academy of Social Sciences, told *China Daily* following the visit by the Taiwan Affairs Office officials that Beijing had “gained growing support from Washington on its clear-cut stand on the referendum issues.” Having obtained reassurances from the U.S. that Taiwan would not go beyond public policy issues to change Taiwan’s political status, Beijing seemed relieved. In its public stance, China has since remained firm, but not hysterical. After all, the Chinese learned from the 2000 Taiwan election that saber-rattling may backfire and bolster support for Chen Shui-bian.

The Department of Defense released its July 30 annual report on Chinese military power, which devotes a lengthy chapter to the security situation in the Taiwan Strait and highlights China’s accelerated production of short-range ballistic missiles being deployed opposite Taiwan. A potential conflict in the Taiwan Strait is cited as “the primary driver for China’s military modernization.” According to the report, which was delivered to Congress as required by law, the missiles are intended not only to coerce Taiwan, but also “to complicate United States intervention in a Taiwan Strait conflict.” China has deployed about 450 SRBMs with conventional warheads capable of striking Taiwan and is expected to expand that force by 75 missiles per year for the next few years, the report states. Assistant Secretary of State for East Asia James Kelly told the Senate Foreign Relations Committee on Sept. 11 that the Bush administration regularly tells China “clearly that its missile deployments across the Strait from Taiwan and refusal to renounce the use of force are fundamentally incompatible with a peaceful approach.”

In response to the release of the DOD report on Chinese military power, Beijing reiterated that Taiwan is an inalienable part of Chinese territory and emphasized that the Chinese government is doing its utmost to realize peaceful reunification. China’s foreign ministry spokesman accused some people in the U.S. of attempting to create a pretext for selling weapons to Taiwan by exaggerating Chinese military capabilities and

expenditures. The spokesman also claimed that the growth of pro-independence forces on the island constituted “the greatest threat to the stability of the Taiwan Strait.” In addition to voicing its objections to the DOD report, Beijing protested other actions taken by the U.S. government toward Taiwan during the quarter that it deemed to be a violation of the three joint communiqués between China and the U.S.. For example, the invitation of senior Taiwan officials to attend the celebration of U.S. Independence Day at the American Institute in Taiwan roused Beijing’s ire. In response, China made formal representations to the U.S. government and China’s Foreign Ministry spokesman urged the U.S. to recognize the importance and sensitivity of the Taiwan issue, abide by its promise, and stop upgrading its relations with Taiwan to avoid harming China-U.S. relations.

Establishing a Habit of Cooperation Augurs Well for the Future

China and the U.S. may quibble over whether their relationship is the best it has been since 1972 or the best ever, but they certainly agree that it is the best it has been in a very long time. Assistant Secretary James Kelly perhaps summed up best the reason for the recent sustained improvement in China-U.S. relations in his testimony to the Senate Foreign Relations Committee. “... Neither we nor the Chinese leadership believe that there is anything inevitable about our relationship – either inevitably bad or inevitably good,” Kelly asserted. “We believe that it is up to us, together to take responsibility for our common future.” Indeed, Beijing and Washington are both making concerted efforts to work together constructively, most notably on security issues. By doing so, they are establishing a habit of cooperation that may better equip both sides to manage prevailing as well as newly emerging problems. In addition, the two countries are creating a reservoir of positive achievements that may provide a cushion if – some would say when – unanticipated trials and tribulations arise to threaten what is at bottom still a fragile relationship.

Chronology of U.S.-China Relations July-September 2003

July 1, 2003: Chinese Vice Foreign Minister Wang Yi arrives in Washington D.C. for discussions with U.S. counterparts that focus largely on the North Korea nuclear weapons issue.

July 2, 2003: China and Russia block a U.S.-proposed statement condemning North Korea for reviving its nuclear weapons program in a meeting of the UN Security Council’s five permanent members.

July 3, 2003: The Bush administration imposes economic sanctions on five Chinese firms and a North Korean company that it said had made shipments to Iran that had “the potential to make a material contribution to weapons of mass destruction or missiles.” One of the companies charged is the China North Industries Corporation, Norinco, a major supplier to the Chinese military that does billions of dollars of business.

July 4, 2003: China strongly protests the U.S. imposition of sanctions on five Chinese firms for arms sales to Iran.

July 15, 2003: Deputy Assistant Secretary of State for East Asia and the Pacific Randall Schriver tells Radio Free Asia that Beijing has failed to fulfill its promises on four specific human rights issues that it made to the U.S., which formed the basis of the U.S. decision to not introduce a resolution condemning China at the UN Human Rights Commission this year.

July 15, 2003: House of Representatives unanimously approves a sweeping measure that calls on China to dismantle its missiles aimed at Taiwan, urges U.S. President George W. Bush to approve the sale of the *Aegis* battle management system to Taipei, and directs Bush to seek from China an immediate renunciation of the use of force against Taiwan. The bill is approved as an amendment to the State Department Authorization bill that funds State Department programs for fiscal 2004.

July 16, 2003: Chinese Foreign Minister Li Zhaoxing and Secretary of State Colin Powell discuss North Korea via phone.

July 17, 2003: Chinese Vice Minister Dai Bingguo arrives in Washington D.C. to brief U.S. officials on his four-day visit to Pyongyang, where he met with North Korean leader Kim Jong-il.

July 21, 2003: State Council Taiwan Affairs Office Director Chen Yunlin and his deputy Zhou Mingwei visit Washington, D.C.

July 23, 2003: The U.S. launches antidumping investigation against four Chinese companies following a determination by the U.S. International Trade Commission in June that the U.S. television industry had been materially harmed by low priced imports of certain color televisions from China and Malaysia.

July 24, 2003: Paula DeSutter, assistant secretary of state for verification and compliance, testifies to the U.S.-China Economic and Security Review that China has failed to fulfill its nonproliferation promises and continues to export banned weapons. She calls for China to tighten its controls over missile proliferation.

July 28, 2003: John Bolton, under secretary of state for arms control and International Security, visits Beijing for the second round of China-U.S. security talks that focus on nonproliferation, arms control, and the DPRK nuclear issue. He meets with Vice Foreign Ministers Wang Yi and Zhang Yesui, and FM Li.

July 29, 2003: U.S. Customs and Border Protection Commissioner Robert Bonner signs a declaration of principles with his Chinese counterpart, Mou Xinsheng, formalizing China's agreement to participate in the Containment Security Initiative.

July 30, 2003: President Bush speaks by telephone to President Hu Jintao and discusses SARS and the North Korea nuclear weapons issue. Bush encourages Hu “to stay involved in the process of discussion” with DPRK leader Kim Jong-il.

July 30, 2003: The Federal Register reports that the U.S. imposed sanctions on the China Precision Machinery Import-Export Corporation for alleged missile technology proliferation.

July 30, 2003: Department of Defense releases its annual report to Congress on China’s military power.

Aug. 3, 2003: The Chinese edition of Hilary Clinton’s autobiography, *Living History*, released in China with unauthorized changes removing commentary viewed as offensive to the Chinese government.

Aug. 7, 2003: The U.S. Trade and Development Agency announces a \$585,250 grant to China’s customs agency to partially fund a feasibility study on modernizing Chinese port operations and training Chinese port personnel on World Trade Organization (WTO) trading norms, fraud prevention practices, customs management, and international trade coordination.

Aug. 13, 2003: At the Asia Society Forum in Sydney, Australia, Deputy Secretary of State Richard Armitage states that the U.S. is “absolutely delighted with the state of our relations with People’s Republic of China and the direction we’re going.”

Aug. 21, 2003: *The Washington Post* reports that Assistant Secretary of State Lorne Craner says in a phone interview that China has not lived up to human rights commitments made to the U.S. in December 2002.

Aug. 29, 2003: FM Li and Secretary Powell exchange views over the phone on the six-party talks.

Sept. 3-4, 2003: Treasury Secretary John W. Snow visits China and pressures Beijing to allow its currency to trade freely on international markets.

Sept. 4, 2003: In an interview with CNBC, President Bush says “China’s currency policy was unfair and Washington would “deal with it accordingly.”

Sept. 5, 2003: A bipartisan group of U.S. senators introduces legislation that would impose an across-the-board tariff on Chinese imports if China does not increase the value of its currency relative to the U.S. dollar.

Sept. 5, 2003: Secretary Powell delivers a foreign policy address at George Washington University in which he characterized U.S.-China relations as the best they have been since President Richard Nixon’s visit to Beijing in 1972.

Sept. 8, 2003: By unanimous consent, the U.S. Senate passes a resolution honoring Tibet's Dalai Lama and welcoming him to the U.S.

Sept. 8, 2003: President Hu meets with former President Jimmy Carter and his wife at the Great Hall of the People.

Sept. 11, 2003: The Senate Foreign Relations Committee holds hearings on China-U.S. relations.

Sept. 11, 2003: Exiled Tibetan spiritual leader the Dalai Lama meets with President Bush during his 20-day visit to the U.S.

Sept. 15, 2003: President Bush submits to Congress the "World Major Narcotics Producing and Trafficking Countries Annual Report." China was included for the eighth successive time since the State Department began writing this annual report in 1996.

Sept. 15, 2003: Speaking to the Detroit Economic Club in Michigan, Commerce Secretary Don Evans says the Bush administration views China as falling short in meeting its trade commitments.

Sept. 16, 2003: At the International Atomic Energy Agency General Conference in Vienna, Austria, Secretary of Energy Spencer Abraham and Chairman of the China Atomic Energy Authority Zhang Huazhu sign a Statement of Intent covering the process for determining what nuclear technologies require government-to-government nonproliferation assurances and procedures for exchanging the assurances.

Sept. 17-18, 2003: The commerce departments of the United States and China co-host the "China-US Export Control Seminar" in Shanghai. The purpose of this seminar is to educate Chinese and U.S. businesses about export control policies, regulations, and practices of both countries.

Sept. 19, 2003: The U.S. imposes another round of sanctions on Norinco as well as on the Chinese government for allegedly selling advanced missile technology to an unnamed country.

Sept. 22, 2003: FM Li meets with President Bush on his two-day visit to Washington, D.C. Li subsequently visits New York to attend the 58th session of the UN General Assembly.

Sept. 22, 2003: The China Institute of Contemporary International Relations and the U.S. embassy in China co-sponsor a one-day seminar in Beijing to discuss security for the 2008 Beijing Olympic Games.

Sept. 22, 2003: The *USS Cowpens*, a Ticonderoga-class Aegis guided-missile cruiser, and a missile frigate the *USS Vandergrift* dock in the port of Zhanjiang, headquarters of the South China Sea Fleet of the PLA Navy, kicking off their five-day goodwill visit to China.

Sept. 24-25, 2003: The Congressional-Executive Commission on China holds hearings on whether China is playing by the rules regarding free and fair trade and its commitment to comply with WTO requirements.

U.S.-Korea Relations:

The Ups and Downs of Multilateral Diplomacy

Donald G. Gross
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After a period of diplomatic limbo and uncertainty in July, China brokered the first round of six-party talks on the North Korean nuclear issue during this quarter. North Korea used the late August multilateral talks to rattle its nuclear saber and otherwise threaten the U.S. On the margins of the general meeting, North Korean diplomats met bilaterally with U.S. officials, but their discussion did not foster any apparent progress. The main achievement of the talks was a tentative, as yet unconfirmed, agreement to meet for a second negotiating round in the fall.

U.S. and South Korean military officials continued during the quarter to fine-tune the redeployment of U.S. troops away from the Demilitarized Zone (DMZ) and from Yongsan Army Base in downtown Seoul. The talks were characterized by mutual agreement on the redeployment plan and transfer of military missions to South Korea but differences over its timing. Finally, South Korea challenged the U.S. decision to impose high tariff penalties on Hynix Corporation for its export of semiconductor chips to the United States. South Korea will appeal the U.S. decision at the World Trade Organization (WTO) and attempt to reverse it.

Harsh Rhetoric and Jitters on the Ground

As the quarter opened, the U.S. and North Korea sparred over the nuclear issue, while diplomats groped for a formula that would lay the basis for new multilateral talks. In early July, Pyongyang claimed that it had reprocessed 8,000 nuclear fuel rods and re-started its 4-megawatt nuclear reactor. If in fact carried out, the reprocessing would give North Korea the fissile material that is required to build a significant number of nuclear weapons. Shortly after Pyongyang made this claim, South Korea's Foreign Minister Young-kwan Yoon asserted that South Korea did not have sufficient evidence to substantiate it.

On July 9, North Korean vessels again violated South Korea's Northern Line Limit (NLL), causing border patrol boats to scramble. A few days later, North Korea said it would regard any naval blockade by the U.S. as an "act of war." In part, Pyongyang may have intended these provocations as a reaction to what it considered threatening U.S. moves: Washington's announcement that it would end the construction of a light-water reactor carried out through the Korean Energy Development Organization (KEDO); and

its ongoing threat to interdict North Korean ships involved in illicit missile exports or narcotics trafficking.

As for the KEDO project, the U.S. informed South Korea and Japan in early July that it would withhold a key component for on-going construction of the reactor, as of August, based on North Korea's violations of the Geneva Agreement. Regarding interdiction, the U.S. continued in the early part of the quarter to make progress on its so-called "Proliferation Security Initiative," designed to engender naval cooperation by U.S. allies to inhibit the ability of North Korea and other designated states to produce or export weapons of mass destruction.

Reflecting the unsettled state of U.S.-North Korean relations, former Defense Secretary William Perry wrote in the *Washington Post* on July 15 that the two countries were drifting toward war. Perry was particularly concerned that Pyongyang's apparent efforts to carry out reprocessing of spent nuclear fuel would lay the groundwork for manufacturing more nuclear devices and call for a harsh U.S. response.

A day later, Secretary of State Colin Powell reaffirmed that the diplomatic track with North Korea was "alive and well" thanks, in part, to China's efforts to broker a diplomatic compromise. In spite of Powell's reassurance, a rare exchange of rifle fire broke out between South and North Korean units along the DMZ and raised the level of tension on the Peninsula.

Near the end of July, with the prospects for multilateral talks still unclear, U.S. Under Secretary of State for Arms Control and International Security Affairs John Bolton visited Seoul for consultations. His visit was most noteworthy for the personal attack he publicly leveled at North Korean leader Kim Jong-il. In large part, Bolton gave voice to the views of many Bush administration conservatives about the North Korean head of state. These conservatives often criticized the Clinton administration for playing up to Kim Jong-il as part of their negotiating approach, despite his record as a ruthless dictator. On a tactical level, Bolton's personal attacks may also have been intended to so anger the North Korean leader that he would refuse to enter into multilateral talks.

When North Korea finally announced on July 30 that it would join another round of multilateral negotiations, it soon coupled that acceptance with a refusal to meet with any delegation that included Bolton. Pyongyang called Bolton "human scum" in distinguishing him and his administration supporters from the U.S. faction that sought to negotiate a diplomatic resolution to the nuclear crisis.

China's Important Diplomatic Role

China played a critical role in clearing away the last hurdle for another round of multilateral talks. On the one hand, Beijing cogently stressed to Pyongyang that it had far more to gain than lose by participating in these diplomatic negotiations. China presumably promised to give a significant measure of support to North Korea at the bargaining table in the course of playing its "honest broker" role. On the other hand,

China persuaded the U.S. to drop its opposition to a bilateral meeting with North Korea by arguing that any bilateral contact would take place within the multilateral framework that the U.S. had long sought. The Bush administration could still claim, China reportedly pointed out, that the president's singular focus on establishing a multilateral approach had been successful.

China's motivation for playing an honest broker role to facilitate and effectively lead the multilateral talks in Beijing was the subject of much speculation during the quarter. China's strong leadership was uncharacteristic for a country that in recent years has preferred to act passively and keep a low profile on most international diplomatic issues. It appeared that China's decision to actively seek a diplomatic solution to the nuclear issue was based on concerns that:

- The U.S. and North Korea were locked into "absolutist" negotiating positions and relations between the two countries could deteriorate rapidly.
- A conflict that might include a nuclear exchange could eventually break out on China's northeast border. This would likely cause destabilizing refugee flows into Northeast China and in an overall sense, jeopardize China's pursuit of economic development.
- Japan would react to North Korea's testing or further acquisition of nuclear weapons by "going nuclear" on its own account, thereby setting off a new arms race in Asia.
- China needed to assert itself in international diplomacy if it hoped to play a "great power" role on Northeast Asia security issues in the future.

U.S. and South Korean Reactions

From the U.S. standpoint, the first round of six-party talks on the North Korean nuclear issue was a fruit of the Bush administration's efforts to isolate and pressure Pyongyang. Washington long figured that it could exert more leverage on North Korea in a multilateral diplomatic context than it could through bilateral negotiations. This calculation fit well with conservatives' long-time critique of the Clinton administration's bilateral approach to dealing with Pyongyang. Conservatives argued that a bilateral approach unduly limited U.S. ability to put international pressure on North Korea and instead emphasized the range of material incentives that the U.S. would have to trade for North Korean concessions on security issues. The result of this diplomatic dynamic, in the view of the administration's hard line faction, was "appeasement." Moreover, the conservatives argued, North Korean promises in a bilateral context were worthless, as proven by Pyongyang's apparent pursuit of a covert uranium enrichment program in contravention of its obligations under the 1994 Geneva Agreement.

From a domestic political standpoint, President Bush could also champion the multilateral approach as a unique policy of *his* administration. In pursuing a policy toward North Korea that fit the political requirement of "anything but Clinton," the president acquired a personal and political stake in the success of the multilateral framework.

South Korea seemed pleased with the multilateral framework that the U.S. sought and China helped to implement. At the time of the previous multilateral talks between the U.S., North Korea, and China in early April 2003, domestic newspapers and political commentators severely criticized the government for agreeing to a diplomatic formula that excluded South Korea. Despite the South Korean Foreign Ministry's sincere argument that getting North Korea into negotiations was the highest immediate concern, and South Korea could join later, influential opinion-makers voiced anger and resentment at the country's exclusion. A six-country diplomatic framework, on the other hand, allowed South Korea to protect its interests and to further its policy of promoting South-North reconciliation while addressing key security issues.

Preparation for the Multilateral Talks

In the weeks leading up to the Aug. 27-29 multilateral talks, several countries signaled their negotiating positions and probed for flexibility. North Korea once again called for a legally binding nonaggression pact with the United States, which U.S. negotiators had formally rejected in the past. U.S. sources indicated that despite opposition to a nonaggression pact, the U.S. was looking for a way to provide a "security assurance" to North Korea. The interplay on this issue recalled the fall 2000 U.S. promise of "no hostile intent" in a joint-communiqué issued during the visit of North Korean Gen. Jo Myong-Rok.

South Korea focused in the pre-meeting diplomacy on lowering expectations. Various foreign policy and national security advisers stressed the difficulty of resolving the nuclear issue and the fact that the late August meeting was only the beginning of a long diplomatic effort. South Korean diplomats argued, in effect, that simply establishing an ongoing negotiating process to address the nuclear issue and related concerns was a success in itself.

Proceedings at the Multilateral Talks

When the six-party talks opened on Aug. 27, the various delegations stated their known positions on the resolution of the nuclear issue. North Korea expressed its hope for a nuclear-free Korean Peninsula, but justified its sovereign right to develop a nuclear deterrent force to protect the country's security. North Korea indicated its willingness to enter into negotiations on the dismantlement of its nuclear program, if its security concerns were met.

For its part, the United States called for North Korea to eliminate its nuclear program in a "complete, verifiable, and irreversible manner" and open itself to inspections for the purpose of verification. The U.S. held out the possibility of normalized diplomatic relations and even material assistance, if North Korea first acted to end its nuclear threat.

The only diplomatic breakthrough on the first day of the talks, albeit procedural in nature, was the bilateral meeting between the U.S. and North Korean delegations. This meeting represented the first time that the two countries had entered high-level bilateral

discussions since the fall of 2002, when North Korea allegedly admitted the existence of a uranium enrichment program to U.S. diplomats visiting Pyongyang. The North had pushed for months for a resumption of bilateral contacts, while the U.S. resisted and called for a multilateral format for talks.

According to news reports, North Korea used this bilateral meeting to warn the U.S. delegates that it might test a nuclear weapon to demonstrate its military capabilities and to become a declared nuclear weapons state. During the plenary session of the second day of multilateral talks, Pyongyang made the same threat to the assembled delegates.

As the talks ended, China expressed satisfaction that all the parties had agreed to continue the multilateral talks at a second round. Merely continuing the process of negotiation represented for China and South Korea, in particular, a diplomatic success, since it allayed the worst-case fears in both countries that the nuclear issue could deteriorate into military confrontation between North Korea and the United States.

Yet even this minimally successful outcome was thrown into doubt after the meeting ended, by remarks of the North Korean delegation as it was leaving Beijing airport and heading back to Pyongyang. The leader of the North Korean delegation read a statement denouncing the talks as worthless and said his delegation would not return for another round. The delegation said the U.S. negotiating position was just a “trick” to get North Korea to disarm and that even a “child” would not fall into this trap.

For the following few days, confusion reigned, as some commentators took the North Korean public remarks at face value and others said they amounted to no more than “posturing” and an attempt to gain a tactical negotiating advantage. Shortly after Chinese Vice Foreign Minister Wang Yi criticized *both* the U.S. and North Korean delegation for taking inflexible negotiating positions, North Korea announced that it would probably return for another round of multilateral talks.

On the assumption that a second round of multilateral talks occurs, the first round *does* signify diplomatic progress toward resolving the nuclear issue. The U.S. and China succeeded in bringing all relevant states to the negotiating table and they established a process for moving forward. The talks channel the respective policies of the U.S. and North Korea into a recognized and legitimate diplomatic arena for the immediate future, and give hope that a diplomatic solution to the problem may be achieved.

The multilateral talks are also precedent-setting, in the sense that they bring together all the relevant state-parties in the Northeast Asia region for the purpose of resolving, or at least managing, a critical security issue of concern to all. For years, one or more of these states have rejected just such a forum for discussing security issues. Their negative attitudes have given rise to pessimism that a regional security organization could ever arise to fill a power vacuum in Northeast Asia.

The multilateral forum affords the United States, in particular, room for maneuver that it would lack in bilateral negotiations with North Korea. For one thing, it permits the U.S.

to use its good relations with states other than North Korea to diplomatically isolate Pyongyang. Additionally, even though the U.S. refuses to provide material incentives to North Korea until North Korea dismantles its nuclear program, other states present at the negotiating table could provide such incentives. (Indeed, South Korea has already offered to give significant assistance to Pyongyang if it merely embarks on a course of dismantling its nuclear facilities). The presence of Russia could be especially helpful in supplying expertise to North Korea on nuclear dismantlement that it might otherwise refuse to accept from the United States or the IAEA.

One overriding U.S. concern is that North Korea might use the negotiations to play for time while developing its nuclear program. To deal with this problem, the U.S. may request North Korea to freeze its program for the duration of the negotiations. In return, the U.S. might offer to freeze the current level of its military deployments on the Peninsula.

U.S. Troop Redeployments in South Korea

At meetings in late July and early September, the U.S. and South Korea fine-tuned their plan to transfer guard duty on the DMZ to South Korea and generally redeploy U.S. troops southward. In late 2004 or early 2005, South Korean forces will replace the approximately 250 U.S. troops at the DMZ truce village of Panmunjom, although the United Nations Command (in which the U.S. plays a leading role) will maintain command and control over the Panmunjom area. By 2006, the U.S. garrison at Yongsan Army Base in downtown Seoul will be reduced to no more than 1,000 troops, with the balance relocated south of the Han River.

South Korea also agreed to the U.S. request that South Korea take over some critical military missions from U.S. forces. These missions include countering North Korean artillery, laying minefields, conducting decontamination operations against chemical or biological attack, and deterring North Korean naval infiltration. The time-table for transferring these responsibilities remains to be decided, with South Korea preferring a shift in 2009 and the U.S. arguing for mission transfers as early as 2006.

In the overall context of negotiations for South Korea to assume military roles and responsibilities from U.S. forces, President Roh called for South Korea to achieve a “self-reliant national defense within the next 10 years,” in his Armed Forces Day speech on September 30. He argued that a self-reliant national defense would remedy a long-time and inherent problem in South Korea’s security - that “we have not been able to assume the role of main actor in our own security matters and instead were swayed by developments in the external environment.”

Roh further cited South Korea’s greater role in international peace-keeping, its strong economy, and its need “to hold its own in the international community” as reasons for seeking a new defense capability. Roh said that his administration had increased the national defense budget by 8.1 percent for next year though he was aware that “this amount will not be sufficient.”

South Korea Appeals U.S. Tariff Decision

In late July, the South Korean government announced that it would appeal to the WTO the U.S. decision to impose penalties on the exports of Hynix Corporation's semiconductor chips to the United States. The U.S. International Trade Commission previously determined that the U.S. dynamic random access memory (DRAM) chip industry suffered "material injury" from Hynix's chip exports. Therefore, the ITC imposed "countervailing duties" of 44.71 percent on Hynix's DRAM exports for the next five years.

The strong and immediate South Korean action to challenge the U.S. decision stemmed from fears that such large penalties could drive Hynix out of the semiconductor business altogether and cause the loss of thousands of jobs. South Korea intends to argue that Hynix did not receive illicit government subsidies for semiconductor exports, as the U.S. alleged, but rather accepted government assistance to carry out necessary corporate restructuring.

Public Controversy over Dispatch of Troops to Iraq

At the end of the quarter, public debate mounted in South Korea over a U.S. request for South Korean combat troops to assist with U.S.-led reconstruction efforts in Iraq. Critics argued that the deployment would be costly, both in terms of lives and money, and that South Korea could subject itself to terrorist attacks by joining the coalition. It appeared that the South Korean government would respond positively to the U.S. request, however, to maintain its overall position within the U.S.-Korea alliance. Officials feared that the U.S. administration would react negatively to a rejection of the troop request and consequently, South Korea would lose leverage on critical security issues with North Korea.

Prospects

Despite a rocky start, the six-party multilateral talks on the North Korea nuclear issue seem headed for a second round in late October or early November. It is too soon to tell whether the talks will make significant progress but developments indicate the rise of a new diplomatic dynamic in the region.

With the support of the United States, China is now taking the leading role in furthering a diplomatic solution to the crisis with North Korea. China now has the ultimate responsibility for delivering a North Korean decision to dismantle its nuclear program. But unless China ensures that North Korea receives sufficient diplomatic benefits and material incentives from any agreement, it will likely lose its normal diplomatic leverage with Pyongyang.

Perhaps to guard against this possibility, China reportedly moved 150,000 troops to its border with North Korea in September to take over guard responsibilities from regular police units. As in late February when Beijing cut off oil supplies to North Korea for

several days, China appeared once again to be reminding Pyongyang that it could also impose significant pressure if North Korea does not show sufficient flexibility in diplomatic negotiations.

Chronology of U.S.-Korea Relations July-September 2003

July 1, 2003: North Korea warns it will take retaliatory measures if the U.S. imposes sanctions or a blockade.

July 2, 2003: Ambassador Thomas Hubbard says it will be difficult for U.S. to move forward with KEDO project due to North Korean violations.

July 2-3, 2003: At the Trilateral Coordination and Oversight Group (TCOG) meeting, U.S., Japan, and South Korea reaffirm multilateral negotiating strategy with North Korea.

July 7, 2003: U.S. endorses joint South Korea-China statement calling on North Korea to agree to multilateral talks on the nuclear issue.

July 8, 2003: North Korea claims in working-level talks with the U.S. that it has reprocessed 8,000 nuclear fuel rods and begun operation of a 4-megawatt reactor.

July 9, 2003: North Korean patrol boat briefly violates northern line limit (NLL).

July 9, 2003: ROK National Intelligence Service (NIS) reportedly testifies that the DPRK has reprocessed some number of its spent fuel rods and has tested devices used to trigger atomic explosions.

July 10, 2003: WTO declares that U.S. steel safeguard measures imposing tariffs on imported Korean and other steel violate WTO rules.

July 13, 2003: North Korea says it would regard a U.S. naval blockade as an act of war; South Korean FM Yoon discounts North Korea's claim of reprocessing fuel rods.

July 15, 2003: Former Defense Secretary William Perry says U.S. and North Korea are drifting toward war.

July 16, 2003: Secretary of State Colin Powell says diplomatic track with North Korea is "alive and well" following China's efforts to broker a negotiating compromise; North and South Korean soldiers exchange rifle fire at the DMZ.

July 19, 2003: *The New York Times* reports North Korea has built a second clandestine nuclear plant to reprocess fuel rods.

July 20, 2003: South Korean Commerce Ministry reports South Korea's trade surplus with the U.S. fell 35 percent in the first six months of 2003.

July 21, 2003: North Korea demands the U.S. drops its “hostile policy” and legally commit itself to a nonaggression pact.

July 22, 2003: South Korean health minister signs memorandum of understanding with U.S. Secretary of Department of Health and Human Services to coordinate health programs and research.

July 23, 2003: South Korea announces it will challenge U.S. ruling imposing punitive tariffs on Hynix Corporation at the World Trade Organization.

July 24, 2003: Presidents Bush and Roh agree by phone to keep pushing for multilateral talks on DPRK’s nuclear program.

July 24, 2003: U.S. and South Korea agree on transferring Panmunjom military mission to South Korea and on relocating U.S. troops south from Yongsan Army Base in Seoul.

July 27, 2003: President Roh says North Korea can get a “security guarantee” from the U.S. in future multilateral negotiations on the nuclear issue.

July 29-31, 2003: Under Secretary of State John Bolton visits South Korea.

July 29, 2003: U.S. Forces Korea agrees to pay about \$600,000 in disputed water bills to the Korean government.

July 30, 2003: North Korea agrees to accept six-way multilateral talks with South Korea, the U.S., Japan, China, and Russia.

Aug. 5, 2003: U.S. imposes punitive countervailing tariffs as high as 38.74 percent on imports of polyvinyl alcohol from South Korea.

Aug. 7, 2003: Radical Korean students disrupt U.S. military exercise on a shooting range near the DMZ.

Aug. 10, 2003: South Korean Prime Minister Goh Kun promises to reinforce security around U.S. military installations.

Aug. 12, 2003: North Korea demands a legally binding nonaggression pact from the United States.

Aug. 14, 2003: South Korean, Japanese, and U.S. officials meet in Washington to plan strategy for multilateral talks; South Korea files complaint with WTO regarding U.S. decision to impose duties on Hynix Corporation

Aug. 27-29, 2003: Multilateral talks in Beijing end with apparent agreement on new round of talks and on not taking actions to aggravate the pending nuclear crisis.

Aug. 30, 2003: Leaving Beijing, the North Korean delegate announces it has no need for “these kind of talks” and will not attend in the future.

Sept. 2, 2003: U.S. State Department spokesman expresses satisfaction with the progress made at the multilateral talks with North Korea.

Sept. 3, 2003: President Bush tells FM Yoon that that he strongly supports multilateral talks with North Korea; South Korea and U.S. finish meeting in Seoul on the relocation of U.S. forces.

Sept. 4, 2003: Deputy Assistant Secretary of Defense Lawless asks South Korea to send combat troops to Iraq to assist with maintaining security in the country.

Sept. 10, 2003: A South Korean activist commits suicide in anti-capitalism protest at WTO meeting.

Sept. 23, 2003: Secretary Rumsfeld addresses U.S. and ROK business leaders at the U.S./Korean Business Council Luncheon.

Sept. 25, 2003: Representatives of U.S., China, Russia, South Korea, and Japan meet at United Nations to discuss six-party talks with North Korea; FM Yoon calls for next U.S. proposal at six-party talks to address North Korea’s security concerns.

Sept. 27, 2003: DPRK describes Secretary Rumsfeld as “politically illiterate” and a “psychopath.”

Sept. 29-30, 2003: Officials from the U.S., Japan, and South Korea meet in Tokyo for trilateral meeting on North Korea nuclear issue.

**U.S.-Russia Relations:
Energizing the Relationship**

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If you must pick one event in the least several months that is truly indicative of the tenor of the U.S.-Russia relationship, you need not look to the wooded hills of Camp David, or the gilded halls of the palaces around St. Petersburg, which were the sites of the last two presidential summits. Instead, you should look to the gasoline station on the corner of 10th Avenue and 24th Street in Chelsea on Manhattan. It was there on the morning of Sept. 26 that Russian President Vladimir Putin dropped in for a cup of coffee – with skim milk of course – and a Krispy Kreme doughnut. The station in question was the first Lukoil station to be opened in the United States, and Putin was there for the ribbon cutting ceremony. The U.S.-Russian effort to push energy ties is taking precedence over most other aspects of the relationship. The two sides continue to agree to disagree about Chechnya, Iran, and Iraq. NATO and Central Asia are still sore points. Trade issues and human rights to this day raise tensions in certain areas. But the energy relationship is global and strategic and it continues to grease the squeaky spots of this post-Cold War “partnership.” To truly understand why business and political leaders in Moscow and Washington still drown out the noises of discontent, look no further than the gas station on 10th Avenue and 24th Street.

The Dividing Issues

As the summer began, the war in Iraq continued to cast a shadow on the U.S.-Russia relationship. Washington was unhappy with what it felt was a lack of Russian cooperation, particularly as some officials felt that Russian intelligence knew the whereabouts of Saddam Hussein but was withholding information. Putin refused to sanction U.S. actions in Iraq and took a position alongside France and Germany. Although the United States announced that it would allow Russian businesses to operate in Iraq, it was vague on the future of Iraq’s oil contracts, angering many firms in Russia with deep ties and long experience in Iraq. Furthermore, the U.S. occupation authorities initially refused to guarantee the safety of Russian diplomatic personnel in Iraq.

Iran also has proven to be a major bone of contention between Moscow and Washington. In fact, Iran was a major part of the agenda between President Bush and President Putin at the late September Camp David summit meeting. Putin refused to make any pledges about curbing Russia’s nuclear cooperation with Iran, and only promised to call for Iran to adhere to international standards and submit to inspections. Russia’s assistance in

helping Iran to build a nuclear reactor at Bushehr goes back years, but the Bush administration is particularly anxious about Iran's intentions and even more so given the huge U.S. military and administrative presence in neighboring Iraq.

Washington is growing weary about the operation in Chechnya, where the situation is not in any way improving either for Moscow or for the Chechens themselves. In a speech to the Helsinki Commission (of the Organization for Security Cooperation in Europe) Steven Pifer, U.S. Deputy Assistant Secretary of State for European and Eurasian Affairs, stated bluntly that Russia's actions in Chechnya, "[complicate] both the war on global terrorism and our attempts to improve relations with the Russian Federation." Upping the rhetoric, President Putin later went on record as saying that although he supports the global war on terrorism, the Bush administration was guilty of unleashing Islamic extremism in Iraq and of possibly committing human rights violations in the war both in Iraq and in Afghanistan. Supposed U.S. "designs" in Central Asia and the Caucasus are given much play in the Russian press. Russian citizens and leaders alike have generally been ambivalent about the U.S. presence there, although shrewder observers in Russia recognize that the U.S. agenda in Central Asia is not necessarily in opposition to Russia's strategy there.

Another issue causing sensitivity on both sides is the broader issue of human rights and press freedoms in Russia. With each closure of a television station or news outlet, the Western press (particularly U.S. and British) increases its critical tone of what it sees as an impending political crackdown in Moscow. U.S. diplomats reportedly have quietly broached the topic with Russian counterparts, only to be met with uncomprehending shrugs. But as long as Russian political leaders continue to give tacit approval to U.S. policy in the Middle East and Central Asia, the issue of press freedom, along with the Chechen issue, can be expected to elicit only *pro forma* protests from the U.S. government.

A recent crackdown on a certain Russian businessman, however, has served to raise eyebrows in Washington. The man in question is Mikhail Khodorkovsky, CEO of Yukos oil (now YukosSibneft) and a big proponent of strategic and economic cooperation with the United States. Although Khodorkovsky was never arrested, his business partner and closest confidante, Platon Lebedev, was and remains in custody to this day. The exact charges (corruption – which in Russia is equivalent to handing out speeding tickets at the Indy 500) are immaterial, but suffice it to say that the Kremlin has been unhappy with Khodorkovsky's high political profile, and he does not dance to the tune of the powers in charge. The issue is all the more intriguing and salient because Khodorkovsky oversees a vast energy empire whose network with the United States is growing ever larger. Khodorkovsky allegedly first reported Lebedev's impending arrest in July to U.S. Ambassador Alexander Vershbow, a personal friend of President George W. Bush. Officials in Washington have been following the Yukos affair closely and view it as a potential watershed for U.S.-Russian relations. An editorial in the *Washington Post* was an accurate barometer of how that city's political elite view the situation: "this affair should cause the administration to wonder whether Russia really is ready to be a stable

U.S. ally, as some believe, and whether it is correct to describe the country as a democracy, as is now customarily done.”

The late September summit at Camp David created little controversy, which is exactly what Putin wanted. As veteran Moscow columnist Pavel Felgenhauer wrote in the *Novaya Gazeta*, in preparation for the upcoming Duma and presidential elections in Russia, “Putin wanted a reiteration of warm relations...[however] the visit and the summit were supposed to confirm [the] independence of the president of Russia and his alliance with the leaders of France and Germany formed on the basis of their refusal to put up with the American aggression in Iraq.” Putin seems to have achieved both goals.

The Energy Element

Energy, however, continues to act as a balm for relations between Moscow and Washington. As a testament to this, throughout the summer U.S. officials and business leaders streamed to Sakhalin and Murmansk, Russia’s two major energy portals to the West. The second annual U.S.-Russia energy summit was convened in St. Petersburg in late September. There, American and Russian business executives and government officials were able to rub shoulders and dream up grand projects to further tie the two nations’ energy complexes together. “It’s not just oil,” said U.S. Deputy Energy Secretary Kyle McSlarrow during a visit to Murmansk, “natural gas is also going to be an important factor in our future energy relations.” Washington has been keen for decades to decrease its dependence on Middle Eastern oil, and Russia (like Mexico and the North Sea in the 1980s, and Africa and Central Asia in the 1990s) is seen as the best place to do so for the next decade or so. Russia’s oil reserves are vast; Russian natural gas deposits are even larger. The major problem is Russia’s deteriorated infrastructure. The peak extraction period in the Soviet Union was the late 1980s; now production capacity is sorely lacking. U.S. (and European) major oil companies have the pockets deep enough to modernize the energy complex in Russia. China and Japan have dreamed of doing so for several years, but the U.S. has clearly taken the lead (along with British Petroleum and Royal Dutch Shell).

At the St. Petersburg energy summit, U.S. Trade Secretary Donald Evans and Russian Economic Development Minister German Gref signed a joint statement pledging to enhance cooperation in the energy field by improving the investment climate. One of the boldest projects is to modernize the port of Murmansk and link it with pipelines running over 2,000 miles away to large oil and gas fields in Western Siberia. No less bold are the offshore projects off Sakhalin Island, and U.S. firms, including Exxon-Mobil, are developing some of these.

Both governments recognize the advantages of increasing energy cooperation and given the constitution of the current administration in the White House, it can be safely surmised that oil and gas will continue to be a major part of the bilateral cooperation between Moscow and Washington.

Although energy seems to be the most important issue on the agenda of U.S. and Russian leaders, two other areas continue to support the relationship. One of these is bilateral cooperation in the war on terrorism. A prime example of this cooperation was the arrest in New Jersey in August of a U.K. citizen, Hemant Lakhani, who tried to sell a Russian-made portable anti-aircraft missile to undercover FBI agents. The arrest was part of a sting operation that began in 2001 with a tip that Lakhani was seeking to buy weapons in St. Petersburg. Russian law enforcement authorities cooperated with FBI officials during the entire operation. Other cooperation in this war undoubtedly exists, only most of this information is classified and rarely, if ever, reaches the press.

U.S.-Russian cooperation in the nonproliferation field also continues, though there are hiccups such as the Iran case. In the summer it was announced that the U.S. and Russian governments approved a decade old deal that allows a key nonproliferation agreement to move forward. The 1993 Highly Enriched Uranium (HEU) Purchase Agreement requires the United States to purchase, over 20 years, 500 metric tons of highly enriched uranium (HEU) derived from Russian nuclear weapons. Russian firms will blend down the HEU to low-enriched uranium and ship it to the United States for use in commercial power reactors. Additionally the two governments cooperated in the repatriation of 14 kilograms of HEU from a Soviet-era reactor in Romania. This operation was part of the U.S. Department of Energy-funded Research Reactor Fuel Return (RRRFR) Initiative.

East Asian Insecurities

Moscow and Washington interests in East Asia tend to coincide, at least for the moment. Although Russian leaders are somewhat put-off by the overbearing attitude of the Bush administration, the majority of them recognize that the long-term strategic interests of Russia in East Asia dictate a smooth relationship with Washington in this region. Russian leaders are quite anxious about the situation on the Korean Peninsula and recognize that miscalculations could lead to a bloody conflict that would be disastrous for the Russian Far East. As such they are eager to act as intermediaries between Pyongyang and Washington. But at the same time, Russian leaders recognize that North Korea could be the key to Russia's diplomatic reemergence in the region. Russian diplomats, led by Deputy Foreign Minister Aleksandr Losyukov, were reportedly instrumental in getting the six-party talks launched.

Russia has demonstrated its desire to cooperate with the United States on the Korean Peninsula. The United States, long lukewarm on Russian participation in Korean security talks, has changed its tune of late. U.S. Ambassador Vershbow, in an address at a nonproliferation conference in Moscow, said the United States, "looks to Russia to help convince the North Koreans that there will be no business as usual in Russian-North Korean relations unless Pyongyang accepts complete, irreversible and verifiable elimination of its nuclear weapons program." At the Camp David summit, Presidents Bush and Putin called on North Korea to terminate its nuclear weapons program, "transparently and irreversibly." The *Wall Street Journal*, however, suggested that Putin "tweaked" Bush on North Korea, suggesting that Pyongyang be given security guarantees

in return for ending its weapons program, a step the Bush administration has so far been unwilling to embrace.

U.S. leaders have undoubtedly watched with great interest the competition between China and Japan over a Russian oil pipeline linking potentially rich Siberian oil and gas fields with the two nations' energy complex. China and Russia had originally signed a deal to begin cooperating in the laying of an immense pipeline infrastructure from Russian fields in Angarsk to the Chinese city of Daqing. But beginning earlier this year Japan began an intensive lobbying campaign, with promises of great financial incentives, were Russia to extend a pipeline instead to the pacific port of Nakhodka, south of Vladivostok. The economics (in short, not enough guaranteed oil) should dictate a Chinese route to Daqing. However, Japanese diplomats have been persuasive enough to catch the ear of Vladimir Putin and Russian Prime Minister Mikhail Kasyanov, who feel that a decision should not be rushed. This in and of itself should give some credence to the theory that Russian leaders are extremely anxious about China's growing economic and political might in Northeast Asia. Economics say Daqing; geopolitics say Nakhodka. *[Editor's note: for a different interpretation on this tug of war, see Yu Bin's assessment of China-Russia relations elsewhere in this journal.]* Chinese officials were upset that Kasyanov was unable to give a firm answer during his recent trip to Beijing. Meanwhile, as one Japanese diplomat confided to the *Wall Street Journal*: "We feel the wind from Russia is blowing our way now." In the words of Hong Kong journalist Frank Ching, Moscow must "walk a fine line" between the two.

The United States, like Japan, would also undoubtedly prefer a pipeline to Nakhodka, from whence Russian oil and gas could be transported all over the Asia-Pacific region, including the U.S. (and China). Either way, Washington will continue to develop its energy ties with Russia, both as an antidote to OPEC, and as a way to help bolster the beleaguered Russian Far East.

Chronology of U.S.-Russia Relations July-September 2003

July 2, 2003: Russian businessman Platon Lebedev is arrested and imprisoned in Moscow on charges of fraud and embezzlement. Lebedev is the deputy and confidante of Yukos (YukosSibneft) CEO Mikhail Khodorkovsky.

July 12, 2003: Ambassador Vershbow announces that Washington cannot guarantee the safety of Russia's embassy in Baghdad, prompting an angry response from Moscow. In April, Russian diplomats had allegedly been wounded by U.S. troops during the early days of the war. Vershbow also suggested that Russian diplomats in Baghdad might know the whereabouts of Saddam Hussein.

July 22, 2003: A high-level U.S. Energy Department delegation, led by Deputy Energy Secretary Kyle McSlarrow, visits Murmansk, the Russian port from which Washington eventually hopes to import Russian crude. Two days earlier McSlarrow signed a protocol

with Russian Deputy Energy Minister Oleg Gordeyev aimed at strengthening cooperation in oil field development.

July 24, 2003: Russian Deputy Foreign Minister Aleksandr Losyukov says that though Russia is not happy about the U.S. military presence in Central Asia, he thinks it is justified.

July 24-25, 2003: Deputy Secretary of State Richard Armitage meets in Moscow with Russian First Deputy Foreign Minister Vyacheslav Trubnikov for talks preceding the September summit of Presidents Bush and Putin at Camp David. Trubnikov announces, "The threat of terrorism is at the center of the Russia-U.S. dialogue."

Aug. 3, 2003: Chevron-Texaco announces that it is in talks to take a 25 percent stake in Yukos, Russia's second biggest oil company, in a deal worth up to \$6 billion. Speculation in Russia is that the Kremlin will scupper the deal, as it is unhappy with Yukos CEO Khodorkovsky. Eventually Yukos merges with the Russian oil company Sibneft.

Aug. 8, 2003: Secretary of State Colin Powell announces that the State Department has designated Chechen rebel leader Shamil Basayev a threat to U.S. security; a move long called for by the Russian government.

Aug. 12, 2003: In New Jersey, FBI agents arrest Hemant Lakhani, a U.K. citizen of Indian descent, trying to sell a Russian-made portable anti-aircraft missile, in a sting operation that began in 2001 with a tip that Lakhani was seeking to buy weapons in St. Petersburg. Russian law enforcement authorities cooperate with FBI officials during the operation.

Aug. 15, 2003: Sen. Richard Lugar, chairman of Senate Foreign Relations Committee, visits Moscow to promote the continuation of the Nunn-Lugar program to destroy Soviet-era nuclear weapons.

Aug. 19, 2003: U.S. F-15s and F-16s make their first appearances in Russian skies at the Moscow International Air Show. B-52 makes an appearance on the second day.

Aug. 20, 2003: State Department Spokesman Richard Boucher, says that Russian support for nuclear activity in Iran has decreased as a result of U.S. diplomatic efforts.

Aug. 27, 2003: First two of six Russian fighter aircraft arrive in Indonesia. The two *Sukhoi* Su-27s mark a swing for Indonesia from the U.S. as the country's main supplier of weaponry.

Aug. 26, 2003: A U.S. congressional delegation, led by Curt Weldon (D, PA), visits a production and storage site for Russian weapons-grade plutonium, an unprecedented visit to this top-secret nuclear facility.

Aug. 26, 2003: Under Secretary of State John Bolton meets with Nuclear Energy Minister Alexander Rumyantsev in Russia. Bolton also meets with Deputy Foreign Minister Sergei Kislyak; reportedly they exchange views about Iran and North Korea.

Aug. 27-29, 2003: Six-nation negotiations on Pyongyang's nuclear programs begin in Beijing.

Sept. 11, 2003: At a meeting of the 35-nation board of governors of the International Atomic Energy Agency, diplomats from the U.S., France, and Germany press Russia to back a UN nuclear resolution giving Tehran until Oct. 31 to prove it has no secret atomic weapons program.

Sept. 12, 2003: Former U.S. President George W.H. Bush meets with Putin at the Black Sea resort of Sochi during an informal trip to Russia.

Sept. 16, 2003: In a statement to the Helsinki Commission, Deputy Assistant Secretary of State for European and Eurasian Affairs Steven Pifer says the situation in Chechnya poses a serious challenge to the U.S.-Russian partnership.

Sept. 17, 2003: Bolton meets with Russian Deputy Foreign Minister Sergei Kislyak to discuss arms control issues primarily concerning Iran and North Korea.

Sept. 17, 2003: State Department announces sanctions on the Russian state-owned arms manufacturer Tula Instrument Design Bureau for alleged sales of hardware to Iran.

Sept. 21, 2003: Putin holds a four-hour round table interview with U.S. journalists in Moscow before his journey to the U.S.

Sept. 22-23, 2003: The second annual U.S.-Russia energy summit is held in St. Petersburg and is attended by U.S. Commerce Secretary Donald Evans, U.S. Energy Secretary Spencer Abraham, Russian Energy Minister Igor Yusufov, and 500 leading executives and officials from the oil and gas industry.

Sept. 25, 2003: Putin begins his three-day visit to New York and Camp David, Maryland. He gives speeches at the UN General Assembly, the New York Stock Exchange and Columbia University.

Sept. 27-28, 2003: At their summit meeting at Camp David, Putin tells Bush that he will not cancel Russia's lucrative contract to help Iran build a nuclear energy reactor, though he promises to convince Iranian leaders to abide by IAEA inspections and standards.

Sept. 30, 2003: First Lady Laura Bush visits Moscow on a "fence-mending mission." She discusses with Russian first lady Lyudmila Putin a campaign to promote literature and education.

**U.S.-Southeast Asia Relations:
Terrorism Perpetrated and Terrorists
Apprehended**

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Acts of terrorism, arrests of terrorists, and judicial convictions dominated the Southeast Asian political scene this past quarter. The Jakarta Marriott bombing, the capture of Hambali – Jemaah Islamiyah's (JI) most notorious fugitive – and the conviction of several of the Bali bombers as well as JI's spiritual leader, Abu Bakar Bashir, capped a tumultuous three months during which the Philippine government put down an abortive military mutiny, ASEAN and U.S. relations with Burma further deteriorated, and new efforts to improve security collaboration within the region were made. U.S. intelligence played a significant role in terrorist apprehensions; however, Washington's unwillingness to give Southeast Asian authorities access to terrorists in U.S. custody somewhat soured relations with regional allies.

JI's Most Notorious Operative Arrested in Thailand

Riduan Isamuddin – alias Hambali – reportedly Osama bin Laden's top lieutenant in Southeast Asia and the only Southeast Asian member of his inner circle, was seized by U.S. Central Intelligence Agency and Thai police officials in Ayutthaya, Thailand in mid-August. Immediately spirited away to an undisclosed location for interrogation by the United States, Hambali is considered the single most important catch in the U.S.-Southeast Asian anti-terror effort. Believed to be JI's chief of operations, responsible for a series of bombings in Indonesia including Bali in October 2002 and the recent Jakarta Marriott blast, Hambali allegedly supplied the financing and recruited the bombmakers in the Bali night club explosion that killed over 200 people. Based on the interrogation of other captured terrorists, U.S. officials believe that Hambali organized a pivotal meeting in January 2000 in Malaysia where the bombing of the destroyer *USS Cole* was planned and the Sept. 11 attacks discussed. Hambali has also been formally charged by the Philippines with the bombing of a commuter train in 2000 that killed 22 people. Additionally, Malaysia and Singapore want to question him about terrorist plans in their states.

At the time of his capture, intelligence officials believe the JI leader had been organizing recruits for future hijackings of commercial airliners. Hambali has been traveling through Southeast Asia and was apprehended with a large amount of cash that came from

confederates in Pakistan, according to intelligence officials. At an early 2002 meeting in Thailand, he presided over a decision to focus attacks on soft targets such as nightclubs, hotels, and schools.

Hambali's capture required collaboration among Cambodian, Thai, Indonesian, Malaysian, and U.S. authorities. Phnom Penh, Jakarta, and Kuala Lumpur provided tracking information while Thai and U.S. officials conducted the raid and arrest after the JI leader made the mistake of using his cellphone, thus pinpointing his location in an apartment house in Ayutthaya. Thai officials now acknowledge – after earlier denying – that their country had become a safe haven for transnational criminals involved in forged documents, narcotics, and weapons trafficking as well as being a transit point and planning venue for regional terrorists. After Hambali's capture, Prime Minister Thaksin Shinawatra issued two controversial executive decrees amending the Criminal Procedure Code and Anti-Money Laundering Act, meting out harsh punishments to perpetrators of terror offenses. Under interrogation, Hambali described plans to bomb the U.S., British, Australian, Israeli, and Singapore embassies in Bangkok.

Mutual congratulations for capturing Hambali have been somewhat dampened, however, because of U.S. unwillingness to make him available for either direct interrogation or trial in Southeast Asia. Indonesia, Malaysia, Thailand, the Philippines, Singapore, and Australia all want access to Hambali because he is believed to be the prime mover behind Islamist terror attacks throughout the region. Because U.S. officials believe he had a major role in the Sept. 11 attacks, they do not plan to turn him over to another country for a long time. While Washington is sharing some transcripts of Hambali's interrogation with Southeast Asian authorities, the JI leader remains *incommunicado*. The United States may also hope that sharing Hambali's information could be part of a *quid pro quo* by which Southeast Asian governments would be more forthcoming with their intelligence on terror groups.

U.S. reticence about providing access to Hambali has created some tension, particularly with Indonesia. When Abu Bakar Bashir – alleged spiritual leader of JI – was sentenced to only four years after a lengthy trial in Jakarta, Indonesian prosecutors stated they could have made a stronger case if they had been able to question Hambali about Bashir's role in JI. There has also been an unseemly scramble in Thailand by Thai police, intelligence, and military units to claim a \$10 million reward for Hambali's capture. As the reward's distributor, determining who should receive what amount created serious headaches for the CIA, though a distribution was made in September. Intense rivalries among Thai police, military, and intelligence mean that each closely watched how its counterparts were rewarded. The CIA wanted to insure that the rewards went to those units actually involved in Hambali's capture and were not siphoned off by senior officers.

Jakarta Marriott Bombed During Bali Bomber Trial

The Aug. 5 bombing of the Jakarta Marriott, believed to be one of the most secure Western hotels in the capital, showed once again how brazen Islamist terror has become in Indonesia. The Marriott was regularly used for U.S. diplomatic functions and was a

favorite venue for Western businesspeople. The attack occurred during the trials of the Bali bombers and followed an Indonesian law enforcement discovery of a massive cache of explosives in central Java. That JI could carry out such an operation in the heart of the city despite enhanced security suggests that the organization is capable of further attacks; both Indonesian and U.S. officials have warned that they are to be expected. Moreover, the Marriott explosion was the fifth bombing in Jakarta in 2003 – earlier attacks included the Parliament and the airport, none as devastating as the hotel explosion that killed 16 and wounded 150.

JI consists of many independent cells, each capable of mounting attacks. The attack on a Western institution in the heart of the capital seemed designed to create fear in the expatriate community and further undermine Indonesia's struggling economy. Indonesian President Megawati Sukarnoputri responded to the Marriott bombing by admitting at an ASEAN conference: "It has become clear that no single country or group of countries can overcome this threat alone." ASEAN should consider becoming a "full-fledged security community."

Despite the arrest of scores of terrorists in Indonesia in recent months, there are still several thousand Indonesians who have been trained in al-Qaeda camps in Afghanistan. Indonesian intelligence believes that JI has formed a special suicide squad of two dozen men. Documents found in July 2003 raids in central Java listed probable terrorist targets that include such U.S. companies as Halliburton, Exxon-Mobil, and Unocal. With 10,000 U.S. citizens living in Indonesia, half in Jakarta, terrorists will not lack for targets. Moreover, JI bombers now seem much more willing to cause casualties among fellow Muslims by choosing such soft targets as malls, hotels, and restaurants. Indonesians with ties to Americans are also considered fair game.

Even Vice President Hamzah Haz, linked to Indonesia's largest Islamic political party, who had branded the United States "king of terrorists," backtracked after the Marriott bombing. Insisting "we are not anti-American. In fact, we have to work together," Haz denounced the bombers as "having nothing to do with Muslims in Indonesia." While moderate Muslim leaders decry terrorism in the abstract, they have been loath to criticize JI specifically, arguing it is inappropriate for one Muslim to criticize another.

Meanwhile, the Indonesian courts convicted a number of the Bali bombers in August and September, attesting to JI's responsibility. Abu Bakar Bashir, the group's spiritual head, was sentenced to four years for a plot to overthrow the government but was not found guilty on the more serious charge that he was JI's leader. Nor was he charged with the Bali bombings. The possibility exists of bringing him to court again if any future police interrogation of Hambali implicates Bashir. However, there is no indication at this time that the United States is prepared to extradite Hambali to Indonesia. Information shared by the United States revealed, nonetheless, that Hambali authorized all terror bombings in Indonesia from the December 2000 church bombings through Bali and the Marriott. The cost for preparing the hotel blast was estimated at \$50,000.

One of the Bali bombers, during his trial, claimed that the atrocity was a “jihad” warning to the United States and its allies that a holy war was being waged against “infidels” who oppressed Muslims in Afghanistan and elsewhere. Indonesia’s Security Minister Susilo Bambang Yudhoyono warned that terror attacks across Southeast Asia are being planned despite the disruption of JI leadership and a number of its cells. These fears are apparently confirmed by information released by U.S. officials in mid-September based on the interrogation of Hambali. According to CIA reports, al-Qaeda had plans to attack two U.S.-managed hotels in Bangkok as well as commercial airliners using Bangkok’s vulnerable international airport. The attacks were planned to coincide with an Asia-Pacific Economic Cooperation (APEC) gathering scheduled for October in the Thai capital.

Thailand Commits to Antiterror Collaboration

Until June of this year, Thai officials had denied that any terrorist groups were active in the kingdom. Violence in the predominantly Muslim south was attributed to bandits. However, the June arrest of three Thai Muslims on charges of planning to bomb embassies and popular tourist sites in Bangkok during the forthcoming APEC meeting has led to a belated Thai recognition that JI operatives were, indeed, active in southern Thailand. U.S. officials wish to monitor these activities and have requested permission to open a consulate in the southern city of Hat Yai. Thai nationals were also arrested on terrorism charges in Cambodia in June. All of this prior to the August capture of Hambali in Ayutthaya make the case that JI operatives have settled in Thailand after fleeing crackdowns in Malaysia and Indonesia. Both Indonesian and Malaysian authorities have sent lists of known extremists who may have entered Thailand.

The Thai south could be fertile ground for JI. Southern Thai Muslims follow the *Wahabi* strain of fundamentalism, the same strict brand of Islam followed by Osama bin Laden. The region’s poverty and reputation for official corruption provide opportunities for wealthy patrons in Saudi Arabia to build Islamic schools and public health facilities, which in turn win converts. However, some critics of the government crackdown in the south believe the terrorist presence may be purposely exaggerated to curry favor with the United States in order to obtain economic rewards as supportive allies in the war on terror. In fact, much of the information on the terrorist network in southern Thailand has come from information provided by Indonesia, Malaysia, and Singapore intelligence. Thai intelligence has only limited knowledge about Thai Muslims who trained in bin Laden’s Afghan camps and who have moved throughout Southeast Asia planning terrorist attacks.

Prime Minister Thaksin also answered President Bush’s call for help in Iraq. Thailand plans to send several hundred military engineers, doctors, and military police; the United States will pay half the costs of deploying them. The Thai forces will focus on humanitarian and rehabilitation projects in Karbala, over 100 miles south of Baghdad and considered a relatively low risk area.

Finally, in mid-August by executive decree, Prime Minister Thaksin enacted new antiterrorism laws that included provisions for detention without trial, similar to laws on the books in Malaysia and Singapore. Opposition politicians and legal experts decried the amendments to the criminal code by administrative decree which bypassed the usual parliamentary process. Fears were expressed that the government would use its new powers to clamp down on Muslim activists in the south who were working for greater local democracy. Moreover, senior Thai officials complained that the U.S. was pushing them to arrest and interrogate terror suspects in ways that violated civil liberties under Thai law, including military-style abduction, detention without trial, and unrestricted wire tapping.

Washington is providing plenty of incentive for Thaksin to cooperate in counter-terrorism. Thailand's Army Corps of Engineers has been awarded multimillion dollar reconstruction contracts for Iraq; and when the Thai Parliament declined to allocate enough funds to cover several hundred Thai troops going to Iraq, Washington agreed to pay the difference.

Philippine Foibles Embarrass Arroyo Government

Long considered among Southeast Asia's most unpredictable polities, once again the Philippines lived up to its reputation. In mid-July, one of the region's most dangerous terrorists serving a long prison term, JI bomber Fathur Raham Al-Ghozi, managed to walk away from his jail cell unmolested and still has not been apprehended. The United States expressed disappointment, while the Philippine president's spokesman stated that U.S.-Philippine antiterrorist cooperation "should [not] be affected by this one single event."

Less than two weeks later, however, a cabal of junior military officers conducted a short-lived mutiny against President Gloria Macapagal-Arroyo, seizing an upscale Manila apartment and shopping complex for several hours. While no high-ranking officers either joined or endorsed the rebellion, the young mutineers complained about corruption in the armed services, poor equipment, low wages, and bad housing. Particularly discouraging to the United States was that several of the officers who participated in the mutiny were members of two elite rapid reaction groups selected by the Pentagon for antiterror training in 2002. President Arroyo is unpopular with younger officers because she has neither alleviated corruption in the top echelons of the military, nor permitted the armed forces to fully attack the communist and Muslim insurgencies plaguing the country. Among the allegations of the rebellious officers was that their superiors sold weapons and ammunition to Muslim guerrillas in Mindanao who are fighting for a separate Islamic state. In fact, when Abu Sayyaf leader Aldon Tilao was hunted down and killed last year, he possessed expensive night vision goggles that U.S. soldiers had provided the Philippine forces they had trained.

On the diplomatic front, the United States is cooperating with Malaysia to mediate renewed peace talks between the Moro Islamic Liberation Front (MILF) and the Arroyo government. President Bush in a forthcoming one-day October visit to Manila is expected

to propose a “mini-Marshall Plan” for the southern Philippines that would include a \$30 million development package premised on a peace agreement with an additional \$20 million promised for 2004. These allocations would be supplementary to the \$74 million already allocated by the U.S. Agency for International Development, most of which is also earmarked for the southern Philippines.

Less positive, however, was President Arroyo’s denunciation in early September of a U.S. District Court decision in Hawaii to stop the transfer of almost \$700 million in Swiss banks formerly held by the late dictator Ferdinand Marcos to the Philippine government. The U.S. court injunction results from its earlier ruling awarding nearly \$2 billion in damages against the Marcos estate in a class action suit filed by several thousand human rights victims of the Marcos regime. While President Arroyo has promised to use some of the recovered funds to compensate human rights victims, she denounced the U.S. court decision as an infringement of Philippine sovereignty. However, the U.S. court injunction claimed that the Philippines had reneged on a 1999 agreement with the court to pay at least \$150 million to the human rights victims. The U.S. court particularly singled out the Philippine Supreme Court for violating due process by vacating the 1999 agreement with no hearings and granting the entire Marcos proceeds to the government, leaving nothing for human rights claimants. The situation appears stalemated unless some new compromise can be struck, perhaps by the Philippine Congress enacting legislation that would stipulate that a portion of the Marcos funds be used for human rights victims.

Burma still a Thorn in U.S. Regional Relations

The continued incarceration of Burma’s Nobel laureate opposition leader Aung San Suu Kyi by the country’s military rulers led to even more stringent U.S. economic sanctions, including freezing Burmese government assets and new trade restrictions on top of earlier prohibitions against U.S. investment in Burma. Nevertheless, U.S. sanctions are more symbolic than of practical effect since economic relations with the United States have been at a low level for some time. More important are Burma’s economic ties with neighbors China, India, Thailand, and Bangladesh which continue to thrive – all having signed trade agreements with the junta in recent years. Rangoon benefits from exports of natural gas to Thailand, as well as timber, rubies, and seafood which go through Thailand and China to world markets. U.S. restrictions will primarily harm the textile industry which exports \$356 million worth of clothing annually, much of it to the United States.

Washington is particularly pressuring China to demand Aung San Suu Kyi’s release, both because of Beijing’s economic and military leverage on the junta and because Beijing is the only major power not to have denounced the Burmese regime’s actions. Even ASEAN, which as a matter of principle does not become involved in the internal affairs of its members, appealed to the junta in June to free Suu Kyi. In July, Malaysian Prime Minister Mahathir stated he would propose that ASEAN consider ousting Burma if Suu Kyi was not released. However, how this could be accomplished is uncertain because there are no ASEAN provisions for excluding a state once it has membership. Nor has any other ASEAN member reiterated Mahathir’s threat.

Cambodia and Vietnam Dominate Indochina Concerns

A U.S. Senate subcommittee displayed Congress' continued animus toward Cambodia in mid-July draft legislation preceding elections in that country. The draft prohibited any funding for U.S. military training or subsidation for any tribunal set up to try surviving leaders of the brutal Khmer Rouge regime unless the Cambodian government produced a credible list of individuals who ordered the 1997 attack on the opposition Khmer Nation Party, the coup that same year against Hun Sen's partners in a coalition government, and the violence that characterized subsequent national elections. (U.S. Senate subcommittee members assume that Hun Sen would have to implicate himself to comply.) Subsequent to the July 27 election, U.S. Sen. John McCain also warned Hun Sen against intimidating opponents and manipulating election results. By late September, although winning 73 of 123 National Assembly seats, Hun Sen is short of the two-thirds majority needed to create a government. Negotiations with both Sam Raimsey's party and Prince Ranariddh's have so far been unsuccessful. Both opponents insist that Hun Sen surrender the post of prime minister before they agree to a government run by his party.

U.S. economic and political relations with Vietnam constitute a mixed bag. While Vietnam's exports to the United States are burgeoning on their way to a projected \$3 billion for 2003, their very success has led to disputes over Vietnam's alleged dumping of shrimp and catfish fillets in the U.S. market. High retaliatory U.S. tariff levels on Vietnam's fish exports could cut into an aquaculture industry that generates 400,000 jobs and accounts for 20 percent of the U.S. frozen catfish market.

Politically, Washington is concerned about the religious persecution of unregistered Protestant churches in the northern and central highlands where hundreds of parishioners have been forced to renounce their religious affiliations. The U.S. Congress is threatening to link non-humanitarian aid to Hanoi's human rights record, while Vietnam's National Assembly warns that such action could jeopardize Vietnam's cooperation on antiterrorism and Washington's continued search for Vietnam War MIAs. So far, no legislation has been passed by Congress.

Conclusion: Whither Regional Security Cooperation?

Regional security cooperation advanced in July with the Malaysian inauguration of a Southeast Asian Antiterrorism Center funded by the United States but administered by Kuala Lumpur. The Center will monitor militant activities and provide training for regional officials. Among the concerns addressed by the Center are border defenses, immigration controls, financial safeguards, and customs enforcement. The Center's inaugural meeting in late August convened law enforcement and banking officials from across the Pacific to discuss ways of disrupting terrorist financial flows. Of particular interest at the meeting was the Islamic *hawala* system through which funds are distributed via trusted intermediaries leaving neither an electronic nor a paper trail. America's low profile in Center activities helps governments of countries with large Islamic populations (Indonesia and Malaysia particularly) avoid the appearance of being U.S. lackeys.

Not to be outdone by Malaysia's Antiterrorism Center, Indonesia is proposing an innovation of its own that appears to break entirely new ground for ASEAN, one of whose defining characteristics had been to abjure involvement in security issues. As the current chair of ASEAN, Jakarta has proposed the creation of an ASEAN Security Community (ASC) to combat terrorism. The proposal represents two new developments in Indonesian policy: one is a shift in priorities after the Bali bombing; the other seems to be an effort to seize once again a leadership role within ASEAN that had atrophied in the wake of the 1997-98 financial crisis and the end of the Suharto era.

The ASC would include centers for combating terrorism, peacekeeping training, cooperation on nonconventional threats, and regular ASEAN police and defense ministers meetings. The idea of an ASC has won cautious support within ASEAN, though Malaysia's Mahathir insists that it must not become a defense pact. After the August bombing of the Jakarta Marriott, President Megawati reiterated the need for the ASC and promised to raise the issue at the October Bali summit. Both Australia and the United States are expected to welcome the ASC if it is formed for it would further facilitate antiterror cooperation.

The August APEC forum also recommended a number of antiterrorism measures to its members, more importantly adherence to the 1999 International Convention for the Suppression of Financing of Terrorism and adoption of the Advance Passenger Information System that would require all APEC member airlines to forward passenger information to their destinations prior to arrival.

All of these measures comprise ways of reassuring foreign investors that by strengthening counterterrorism cooperation, ASEAN members are proactively seeking to reduce risks to business activity within Southeast Asia. Whether the new proposals are sufficient to provide reassurance remains to be seen.

Chronology of U.S.-Southeast Asia Relations July-September 2003

July 1, 2003: Southeast Asian Counter-Terrorism Center is opened in Malaysia, funded by the United States but managed by Malaysia.

July 2, 2003: U.S. State Department sharply criticizes Banda Aceh court for five-year prison sentence given to Muhummad Nazar for "exercising his right to peaceful political activity."

July 2, 2003: Philippine military releases statement that seized Moro Islamic Liberation Front (MILF) documents indicate support for MILF from abroad, bombing plots against potential targets, and evidence of organizing terrorist training in the south.

July 4, 2003: Pro-U.S. Filipinos face anti-American protesters condemning U.S. invasion of Iraq and demanding the pullout of U.S. troops training Filipino soldiers in the Philippines.

July 5-6, 2003: Burmese junta's official media issues statements against National League of Democracy (NLD) leader Aung San Suu Kyi accusing her of being a pawn of the United States.

July 7, 2003: Philippines indicts alleged leader of Jemaah Islamiyah (JI) Hambali and seven others for the 2001 bombing of Manila railway that killed 22.

July 8, 2003: Gen. Endriartono Sutarto issues statement that the Indonesian military offensive against rebels in the northern province of Aceh will last much longer than its original mandate of six months, possibly even a decade.

July 9, 2003: Human Rights Watch and Amnesty International issue report condemning alarming rise in numbers of Indonesians being jailed for their political views. The report alleges at least 46 prisoners of conscience have been jailed.

July 14, 2003: Fathur Rohman Al-Ghozi and two other suspected Abu Sayyaf members escape from Manila prison.

July 15, 2003: The U.S. Congress approves legislation that tightens economic sanctions against Burma and freezes the government's assets in the U.S.

July 17, 2003: U.S. Congress approves an amendment to block \$1 million through the International Military Education and Training (IMET) program destined for Indonesia in retaliation for lax investigation of an August 2002 attack in Papua that killed two U.S. citizens and an Indonesian.

July 23-24, 2003: ASEAN foreign ministers meet on the sidelines of the Asia-Europe Meeting (ASEM) in Bali, Indonesia, to discuss Burmese military's detention of Aung San Suu Kyi.

July 23, 2003: The U.S. International Trade Commission approves anti-dumping duties of nearly 64 percent on catfish imports from Vietnam.

July 24, 2003: U.S. Congress approves legislation for a Singapore-U.S. free trade agreement.

July 27, 2003: Rebel officers storm a major commercial center in Manila's financial district, allegedly holding the Australian ambassador, Ruth Pearce, and two Americans, and accuse the government of corruption. The 19-hour siege, which ended peacefully, marks the ninth army uprising in 17 years. The soldiers now face a court martial.

July 27, 2003: Cambodia holds its third democratic election in a decade for the 123-seat National Assembly. The front-runners are parties led by Prime Minister Hun Sen, a former Khmer Rouge fighter who has been in power since 1985; the royalist Funcinpec party of Prince Norodom Ranariddh; and the Sam Rainsy Party, named for a former finance minister and banker.

July 28, 2003: U.S. Sen. John McCain warns Cambodian Premier Hun Sen against intimidating opposition leaders in the wake of the July 27 election which requires his leading Cambodia People's Party to craft a ruling coalition with one of the opposition parties.

July 28, 2003: U.S. Ambassador to the Philippines Francis Riccardone states full support for President Arroyo's government in the wake of a failed mutiny by junior Philippine military officers.

July 28, 2003: President Bush signs a bill banning the import of products from Burma and issues an executive order freezing assets of senior Burmese officials and prohibiting virtually all remittances to Burma.

July 28, 2003: Indonesia's senior economic minister, Dorojatun Kuntjoro-Jakti, announces the government will not renew its program with the IMF when it expires in December but will accept post-program monitoring while it pays down its nearly \$10 billion IMF debt.

July 30, 2003: The Philippine military intelligence chief Brig. Gen. Victor Corpus resigns, following the failed coup. In a letter submitted to President Arroyo, Corpus warns the crisis surrounding the insurrection is far from over.

July 30, 2003: Indonesian prosecutors urge a court to sentence a U.S. freelance journalist, William Nessen, to two months in jail for violating immigration regulations in rebellious Aceh province.

July 30, 2003: Reports reveal U.S. equipment donated to the Philippine military was used in the July 26-27 failed mutiny against President Arroyo's government.

July 31, 2003: Government officials announce leaders of the failed coup face a maximum penalty of 40 years in jail; other participants face up to 12 years. A total of 321 soldiers are being held for court-martial.

July 31, 2003: The Cambodian National Election Committee announces the July 27 election results: the Cambodian People's Party wins over 47 percent of the votes in Cambodia's general elections, short of the amount required to form a government. Rival parties (the opposition Sam Rainsy Party over 21 percent and the royalist Funcinpec party won over 20 percent) refuse to join a coalition with PM Hun Sen.

July 31, 2003: Prime Minister Thaksin Shinawatra announces Thailand has repaid its outstanding IMF debts of \$17.2 billion following the 1997 Asian financial crisis.

July 31, 2003: U.S. Senate approves the Singapore Free Trade Agreement, America's first in Southeast Asia.

Aug. 5, 2003: A car bomb explodes outside a Marriott hotel in Jakarta killing 12 and injuring over 100. Vice President Hamzah Haz said it appeared the attack was directed at U.S. interests. Indonesian officials have warned of possible attacks by Jemaah Islamiyah some of whose members are on trial for the October 2002 Bali bombings.

Aug. 7, 2003: The Thai newspaper *Matichon* criticizes Sen. John McCain for allegedly urging Thailand to support Burmese ethnic insurgents against the military junta in that country. The paper decries this request as an effort to force Thailand to confront its neighbor.

Aug. 13, 2003: U.S. Ambassador Ralph Boyce warns the American community in Indonesia that future attacks comparable to the bombing of the Marriott hotel are probable.

Aug. 13, 2003: Indonesian police, in a raid on a JI house in June, find documents listing U.S. companies such as Halliburton, Exxon-Mobil, and Unocal as targets, according to the *Los Angeles Times*.

Aug. 14, 2003: U.S. announces that it has asked Thailand and the Philippines, among other countries, to send forces to Iraq to protect and carry out relief operations.

Aug. 14, 2003: Hambali, Southeast Asia's most wanted terrorist with reputed links to al-Qaeda, is arrested in Thailand. U.S. intelligence was involved in his apprehension.

Aug. 14, 2003: Singapore places five derelict World War II-vintage ships in the harbor at Changi Naval Base to protect U.S. ships moored there against terrorist ramming attacks.

Aug. 14, 2003: Thai PM Thaksin issues two antiterrorism decrees which become the legal basis for placing Hambali in U.S. custody.

Aug. 18, 2003: Indonesia seeks the extradition of captured terrorist mastermind Hambali, now in U.S. custody, who is suspected to be involved in several bombings, including those in Bali and the most recent Jakarta Marriott explosion.

Aug. 19, 2003: The Philippines formally requests access to captured Indonesian terrorist Hambali currently in U.S. custody at an undisclosed location.

Aug. 28, 2003: A contingent of 443 Thai army engineers scheduled to go to Iraq is delayed until September or October because of U.S. inability to transport them to Karbala in time.

Sept. 2, 2003: U.S. avoids comment on the conviction and four year sentence of radical Islamic cleric Abu Bakir Bashyir for attempting to overthrow the Indonesian government. He was found not guilty of the more serious charge of planning the Christmas 2000 church bombings in Indonesia.

Sept. 3, 2003: The U.S. State Department expressed deep concern over the well being of Burma prodemocracy leader Aung San Suu Kyi, who has reportedly undertaken a hunger strike. She was incarcerated by the ruling military junta in May.

Sept. 3, 2003: Indonesian Vice President Hamzah Haz calls the U.S. the “terrorist king” for its war in Iraq in a speech before Muslim schools in Java.

Sept. 4, 2003: Burmese junta claims Aung San Suu Kyi is well and contrary to U.S. allegations not engaged in a hunger strike.

Sept. 4, 2003: Indonesian Foreign Affairs Minister Hassan Wirayuda questions the U.S. commitment to fight terrorism because it has not permitted Indonesian authorities to interrogate captured Indonesian terrorist Hambali.

Sept. 4, 2003: An advance contingent of 21 Thai military engineers departs for Iraq to make arrangements for deployment of 430 additional personnel.

Sept. 5, 2003: The U.S. blocks the assets of 10 people allegedly associated with the JI group believed to be behind the October 2002 and August 2003 Bali and Jakarta Marriott bombings.

Sept. 5, 2003: Philippine President Arroyo denounces a U.S. Hawaii district court decision blocking the transfer of nearly \$700 million controlled by the late dictator Ferdinand Marcos from Swiss banks to the Philippine government. Arroyo calls the decision a violation of Philippine sovereignty.

Sept. 8, 2003: The U.S. State Department warns that terrorists will continue to threaten soft targets in Southeast Asia, such as shopping centers and places of worship. JI and al-Qaeda still operate in the region.

Sept. 15, 2003: 1,500 U.S. marines deploy to Subic Bay to participate in a weeklong joint exercise with Philippine forces.

Sept. 15, 2003: Two members of the International Red Cross visit detained Burma opposition leader Aung San Suu Kyi and find her in good health. She was not on a hunger strike as alleged by the U.S.

Sept. 23, 2003: Indonesian President Megawati Sukarnoputri speaking to the UN General Assembly criticizes the U.S. war in Iraq as creating more problems than it resolved.

China-Southeast Asia Relations: On the Inside Track

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China continued to make effective use of multilateral structures in Southeast Asia during the quarter to consolidate the “insider” role it is assuming in the region, and to foster economic and other forms of interdependence with members of the Association of Southeast Asian Nations (ASEAN). Chinese initiatives are wearing well in most ASEAN capitals, especially proposals designed to protect Asian economic security and promote growth. Figures on China-ASEAN trade during the quarter showed major gains, and China’s non-energy investments in Southeast Asia were on the rise.

On the security front, China called for follow up to last December’s Declaration on Conduct in the South China Sea, and renewed a proposal for joint development of disputed areas there. Beijing suggested linking counterterrorist efforts in Southeast Asia with those of China and Central Asian members of the Shanghai Cooperation Organization. High-level visits during the quarter advanced China’s particularly close cooperation with Malaysia and Thailand. Burma’s military junta, under heavy international pressure to release imprisoned democracy leader Aung San Suu Kyi and institute political reforms, sought China’s blessings for its unresponsiveness, and got them – at least for the public record.

China and ASEAN: Thirteen is a Lucky Number

Ministers of finance of the “ASEAN Plus Three” met in Manila Aug. 7 to review the progress of a range of regional financial initiatives underway, and discuss new measures to promote Asian economic recovery and growth. Ministers reported that bilateral currency swap arrangements under the “Chiang Mai Initiative” to protect Asian countries from speculative attacks, like the one on the Thai baht that led to the Asian economic crisis in 1997, had doubled from six to 12, with four more expected before the end of 2003. Total reserves covered by the swap agreements amount to \$31.5 billion. Ministers also agreed to push harder to develop an Asian bond market, to encourage central banks to invest in Asia, rather than in U.S. government and other extra-regional bonds, and provide a stable source of long-term capital for Asia’s private sector.

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

Chinese Commerce Minister Lu Fuyuan met separately with his ASEAN counterparts during a second annual ASEAN Plus Three meeting of economic ministers in Phnom Penh Sept. 3, to discuss ways to accelerate progress on the China-ASEAN Free Trade Area. He announced that China-ASEAN trade grew at an annualized rate of 45 percent in the first six months of 2003, despite the severe acute respiratory syndrome (SARS) crisis. The ASEAN Plus Three agreed on coordinated steps to encourage further trade liberalization at the World Trade Organization (WTO) Cancun meeting and other forums.

Following a meeting of senior officials of China and the 10 ASEAN countries in Wuyishan, Fujian province, Aug. 19, ASEAN Secretary General Ong Keng Yong called China's decision to be the first extra-regional power to sign ASEAN's confidence-building Treaty of Amity and Cooperation a "trailblazing" step. Other countries appear to be lining up on that trail: ASEAN sources told reporters Sept. 29 that India would also sign the treaty at the ASEAN Plus Three summit in Bali in October, and that Russia may do so as well.

China's Foreign Minister Li Zhaoxing, in Bali for the fifth Asia-Europe Meeting (ASEM) July 23-24, promised that China's new leadership would build on the "remarkable successes" Beijing had already achieved in expanding cooperation with its neighbors. In a reference to Iraq, Li found a receptive audience for his assertion that "Asia and Europe" favor a leading role for the United Nations in international affairs.

In Manila on Sept. 1, for the fourth congress of the Association of Asian Parliaments for Peace (AAPP) of which he is currently president, Wu Bangguo, chairman of the standing committee of China's National People's Congress, proposed two new security initiatives to his Philippine counterpart, House Speaker Jose de Venecia, Jr.

- On the vexed issue of overlapping claims to the Spratly Islands in the South China Sea, Wu proposed joint oil exploration and development, in the first instance between Chinese and Philippine companies, and later to include the other ASEAN claimants, Malaysia, Vietnam, and Brunei. Joint work could begin as early as November.
- On terrorism, Wu and Venecia told reporters Sept. 1 that the Philippines and China had agreed to form a counterterrorist alliance that will include Russia and four former Soviet republics in Central Asia (members of the Shanghai Cooperation Organization), as well as Indonesia and Malaysia. Wu and Venecia pointed out that terrorist linkages between Central Asia and Southeast Asia require greater interregional cooperation.

ASEAN Sides with Beijing on Currency Revaluation

Responding to bipartisan domestic pressure over China's rising bilateral trade surplus with the United States, which has overtaken that of Japan, the Bush administration launched a concerted effort in August to persuade China to increase the value of the *yuan*, either by raising the dollar peg or by letting the *yuan* float. Japan and the IMF backed the

U.S. pitch, made by Treasury Secretary John Snow in Beijing and at an Asia-Pacific Economic Cooperation (APEC) meeting in Bangkok Sept. 4.

ASEAN governments, especially those whose currencies are also pegged to the dollar, might have seen their interests as aligned with those of the United States – their exports would rise too if China’s became more expensive – but they chose to stay out of the fray. Malaysia, Thailand, and Vietnam indicated publicly they regarded the issue as one for Beijing to decide. They may have judged that increasing economic integration between China and ASEAN gave them a greater interest in a strong and growing Chinese economy than in gaining unilateral advantage for their exports.

Energy Resources

China joined the ASEAN 10 and Japan and the ROK in agreeing in early July to set up an “ASEAN Plus Three governing group” to study ways of ensuring a stable energy supply to meet growing demand. Among other things, it will consider how the 13 nations can cooperate in establishing an oil stockpile. Research programs will be funded by Japan and South Korea. Also on the energy front, China continued its penetration of the Indonesian petroleum sector with an initial \$5 million investment in seismic oil exploration in North Sumatra announced July 15. PT Sinopec, the Chinese company involved, indicated it would participate in production if large reserves are found.

In a related development, according to Singapore-based Channel News Asia, Beijing is hinting that in light of its energy security concerns, China may consider investing heavily in a project to build a canal across the Isthmus of Kra. The canal – if it came about – would offer an alternative to the Straits of Malacca for oil shipments from the Middle East to China (and, of course, other Asian customers). This \$20 billion project, which has arisen several times over the past two centuries but never gotten off the ground, has reportedly been resurrected by the Thaksin Shinawatra government in Bangkok, which has sought China’s involvement.

China’s Successes with ASEAN Generate Competition

China’s growing influence in Southeast Asia continues to help spark competitive interest in other capitals. Indian Prime Minister Atal Behari Vajpayee said in September that his government is considering building a railway route that would link with existing ASEAN rail plans and connect New Delhi with Hanoi (and not incidentally, with the pan-Asian rail system being pushed by China). Foreign Minister Jaswant Singh, addressing a prominent Singapore institute in August, noted that India’s “look east” policy is entering a new phase, with a task force already hard at work to produce a framework agreement for an India-ASEAN free trade area that could be signed at the October ASEAN Plus Three summit in October. Japanese and ASEAN officials agreed Sept. 3 to launch free trade agreement talks in January 2005. Even Russia, which has not been a player in Southeast Asia since terminating its lease on the naval base at Cam Ranh Bay, signed its first agreement with ASEAN in June, and – as noted – is considering adherence to the 1976 ASEAN Treaty of Amity and Cooperation.

China and Malaysia: Taking Relations to a New Level

Malaysian Deputy Prime Minister Abdullah Badawi – who will succeed Prime Minister Mahathir Mohamad in October – led a large delegation to Beijing Sept. 14-18 that included eight Cabinet ministers, chief ministers of four Malaysian states, three deputy ministers, as well as numbers of leading businessmen. Badawi, who met with China’s top leadership including President Hu Jintao and Premier Wen Jiabao, brought the message that Malaysia was confident that China would play a constructive role in Asia, and the new leadership would seek to deepen the bilateral relationship, especially in two-way investment and trade. Hu told Badawi that relations with Malaysia had entered “a new phase of development in all directions,” and thanked him for Malaysia’s active role in promoting China-ASEAN relations.

Badawi told reporters on his return that he and his Chinese counterpart had agreed on the goal of increasing bilateral trade to \$20 billion by 2004, from \$14 billion last year. Vice Premier Huang Ju and Badawi signed several agreements during the visit, on agriculture, outer space cooperation (including micro-satellites), and labor recruitment, among other subjects. The Malaysian leader-to-be invited the Bioway Biotech Co. of Beijing University to locate its operations in Malaysia and help develop that country’s nascent biotechnology sector, in which Malaysia (along with Singapore) is seeking to become a world-class competitor. Badawi said that going to China before he became prime minister had the advantage of meeting China’s leaders and getting to “know their expectations.”

China and Thailand: Security Cooperation Grows

Thai Deputy Prime Minister Chavalit Yongchayudh led a senior military delegation to China including the defense minister, national security advisor, and all three service chiefs Sept. 1-5. Chavalit told the press the consultations centered on security, terrorism, narcotics, and “the situation in Myanmar” (see below). He was received by President Hu, Premier Wen, and Central Military Commission Vice Chairman Cao Gangchuan, among others. Hu told him Thailand “is China’s important cooperative partner in Southeast Asia,” and noted that the two countries are “related by blood” – a frequent theme in Chinese discussion of relations with Thailand.

China offered the Thais \$600 million in loans for weapons and spare parts. Thai Defense Minister Thammarak Issarangkura na Ayudhaya said on return to Bangkok that “since some weapons being sold by other countries are too expensive, we may have to turn to Chinese weapons.”

China and Burma: Unwavering Public Support

Whether or not the shift of top-level responsibilities by the ruling Burmese junta Aug. 26 – in which Prime Minister Gen. Than Shwe resigned, and was replaced by Intelligence Chief Gen. Khin Nyunt – represents potentially pragmatic change or simply “smoke and mirrors,” China appears to have been consulted, or at least closely informed, by Burma’s military leadership during the process.

Burma's second-ranking leader, Deputy Senior Gen. Maung Aye, visited Beijing with a 32-member delegation just prior to the announcement of the leadership change. It was the regime's most senior pilgrimage to China since its armed attack on democracy leader Aung San Suu Kyi and her entourage in Upper Burma on May 30. Maung Aye may have been seeking Beijing's help in overcoming the effects of reinforced U.S., European, and Japanese economic sanctions in response to the May 30 attack and the continued detention of Ms. Suu Kyi. He may also have been consulting China's leaders on the "roadmap" for political reform that the regime subsequently floated, ostensibly to move the country toward democracy. Whatever the case, President Hu told Maung Aye that China wished to continue close, brotherly relations with Burma.

At the Asia-Europe foreign ministers' meeting in Bali in July, China was able, along with several ASEAN members, to water down a declaration on the Burmese junta's detention of Ms. Suu Kyi, calling for her release instead of censuring Burma's leaders, as the Europeans had hoped to do.

Behind the unruffled façade, however, there were faint signs that China may be losing patience with Burma's rulers. As ASEAN leaders take an openly more confrontational stance toward Rangoon, and the United Nations demands Ms. Suu Kyi's release, China stands out more visibly as the holdout on political reform in that country. In the public record available to this writer, Hu evidently left it to State Councilor (and former Foreign Minister) Tang Jiaxuan to state directly China's opposition to foreign interference or sanctions against the junta. The president himself, according to *Xinhua*, told Maung Aye that "China hopes Myanmar will remain stable," and expressed belief that Burma's government "will make the situation in the country develop in a positive and constructive direction" – words that might be interpreted as admonitions. A *Xinhua* commentary on Sept. 16 presented a relatively objective account of the suppression of democracy in that country since 1988, concluding that the junta's new roadmap would not be easy to implement.

China and the Philippines: Manila Gets Aid but Worries about Trade

NPC Chairman Wu Bangguo's participation in the Manila AAPP congress entailed an official bilateral visit as well. Wu's meetings with President Gloria Macapagal-Arroyo and other Philippine leaders were followed by a joint communiqué highlighting several Chinese steps to assist the Philippines. These include a \$400 million preferential loan for a rail project linking central Luzon to the southeastern tip of the island. This rail line could significantly improve Philippines agricultural exports, whose poor competitive performance is due in part to high farm-to-port transportation costs. The communiqué also noted a \$100 million loan to be used for rice production using a high-yield variety developed in China.

Both governments agreed in their joint communiqué that the China-ASEAN Free Trade Area under negotiation would benefit all parties. Alone among the ASEANs, however, the Philippines remains concerned that lowering agricultural tariffs, the first step offered by China under the FTA, would damage their farm sector by opening the way for a flood

of cheap Chinese food products. “Gray market” food imports from China into northern Luzon are already undercutting Philippine farmers. The problems are systemic, and go beyond high transportation costs. China’s agricultural aid is smart and well directed – and timely, in light of the failure of the Cancun WTO talks over the issue of farm subsidies in developed countries – but will not alleviate deeply rooted structural problems on the Philippine side.

Outlook

Many of the themes in China’s relations with Southeast Asia this quarter will be showcased at the ASEAN summit meetings with China, Japan, and the Republic of Korea (“Ten Plus Three”) in Bali, Indonesia Oct. 7-8. Indian Prime Minister Vajpayee will be present in Bali as well, for a second ASEAN-India Summit. Regional observers are already characterizing these periodic meetings as an emerging East Asian Community, similar in concept to the East Asian Economic Group proposed 10 years ago by Malaysian Prime Minister Mahathir. Asian bond funds, currency bail-out arrangements, and multiple free trade areas could signal a shift toward greater regional autonomy and independence from international institutions. Japan, still Asia’s largest economy by far, appears unable to take the lead in setting Asia’s economic course for the future, leaving the initiative and the agenda largely to China – as long as its economy doesn’t stumble from failure of the banking system or other systemic problems.

The economic consequences of a more autonomous East Asian Community, to the extent they strengthen stability and reduce the likelihood of conflict, could be benign for the United States. The political agenda of such a Community, however, without U.S. participation or other external leavening, in the context of rising hostility to the U.S. especially in Muslim parts of the world since the occupation of Iraq, would offer a new front for harsh criticism of U.S. actions and policies. More effective and sustained efforts, going beyond public affairs programs, would be needed to demonstrate to Southeast Asian governments and people that U.S. interests go beyond rooting out terrorist networks.

Chronology of China-Southeast Asia Relations July-September 2003

July 2, 2003: China donates \$45,000 to Cambodia for protective equipment to prevent transmission of SARS.

July 3, 2003: China, together with Burma, Laos, and Thailand, sends a narcotics inspection team to investigate trafficking across the Mekong from Simao in Yunnan to Chiang Khong in Thailand, pursuant to a quadrilateral plan agreed on at a joint meeting in Chiang Mai last year.

July 3, 2003: Philippine Interior Minister Jose Lina says he will visit Beijing the following week to try to stem the flood of methamphetamine precursors into the Philippines, noting that most come from China.

July 14, 2003: King Norodom Sihanouk, of Cambodia, with Queen Monineath, returns to Phnom Penh after visiting China for medical treatment. Before departing Beijing Sihanouk meets with President Hu Jintao, who pledges that China will continue to work with Cambodia to promote friendship and cooperation.

July 23-24, 2003: China's Foreign Minister Li Zhaoxing attends fifth Asia-Europe Meeting in Bali, Indonesia.

July 24, 2003: Ministers responsible for narcotics control from Burma, China, India, Laos, and Thailand meet in Chiang Rai, Thailand, to discuss crop substitution, information exchange, and improving control of precursor chemicals.

July 25, 2003: Chinese FM Li Zhaoxing tells Singapore's leaders during a visit that China's new administration will continue to be its "good neighboring partner." According to *Xinhua*, Senior Minister Lee Kuan Yew, Prime Minister Goh Chok Tong, and others describe bilateral relations with China as "kindred relations," and tell Li they hope that younger generations in the two countries will further promote these relations.

Aug. 7, 2003: ASEAN Plus Three finance ministers meet in Manila.

Aug. 9, 2003: Tourism ministers from the 10 ASEAN countries as well as Japan and the ROK meet in Beijing to seek ways of reviving intra-Asian tourism in the wake of the SARS epidemic. ASEAN Deputy Secretary General Tran Duc Minh notes that tourism accounts for 10-15 percent of ASEAN GDP, and that China will be the biggest source of tourists in coming years. The ministers discuss mutual visa exemptions and reducing fees.

Aug. 19, 2003: Senior Foreign Ministry officials of China and the 10 ASEAN countries meet in Wuyishan, Fujian province.

Aug. 18, 2003: Vice Chairman of China's Central Military Commission Guo Boxiong tells visiting Burmese army commander Gen. Maung Aye that China views military-to-military relations as a major component part of the bilateral relationship between the two countries, and will work for more "friendly cooperation" in this area.

Aug. 21, 2003: Chinese Communist Party officials, participating in an economic management seminar in Hanoi, propose a number of institutional, economic, and regulatory reforms "in the new era" to their Vietnamese counterparts based on decisions of the 16th Congress of the Chinese party's Central Committee.

Aug. 22, 2003: 30 Burmese police officials begin anti-narcotics training in Yunnan, the second such course for Burmese police.

Aug. 27, 2003: China and Thailand agree on terms under which China will participate in construction of a large high-tech industrial zone in Chiang Rai province. China will provide 60 percent of the total of \$125 million investment needed for the project.

Aug. 28, 2003: China's vice minister of commerce tells a China-Malaysia trade seminar that Chinese companies should invest more in Malaysia and open processing factories in that country, as well as expanding exports. Malaysia is China's largest trading partner among the ASEAN countries, and seventh largest overall.

Sept. 1, 2003: National People's Congress Chairman Wu Bangguo, president of the Association of Asian Parliaments for Peace (AAPP), opens the fourth General Assembly of that body in Manila. Wu calls on delegations of the 35 member countries to create a new global political and economic order to replace the "unfair and unjust" system that prevails today, and to push for democracy in international relations.

Sept. 1-5, 2003: Thai Deputy Prime Minister Chavalit Yongchayudh leads a senior military delegation to China that includes Thailand's defense minister, national security advisor, and all three service chiefs.

Sept. 2, 2003: Director of Royal Railways Cambodia announces start of construction on last segment of rail link from Poipet on the Thai border to Phnom Penh, tying Cambodia's railways into a planned line from Singapore to Kunming in South China.

Sept. 3, 2003: ASEAN Plus Three economic ministers meet in Phnom Penh

Sept. 14, 2003: Chinese media announce that 40 young persons from Vietnam, Laos, Cambodia, Thailand, and Burma began studies at the Guangxi Zhuang International Youth Exchange Institute. The course is designed to "strengthen cooperation and deepen friendship between Chinese young people and their peers" in ASEAN.

Sept. 14-18, 2003: Malaysian Deputy Prime Minister Abdullah Badawi visits Beijing.

Sept. 15, 2003: Xinjiang Construction and Engineering Co. signs a memorandum of understanding with the Malaysian firm Jasatera Berhad to co-develop a mixed commercial area in Pahang State, with a combined investment of \$105 million.

Sept. 15, 2003: A senior Chinese delegation of defense technology officials meets with Indonesian Defense Department Secretary General Air Marshal Suprihadi to discuss the sale of military equipment and future cooperation in research and production of military systems. Indonesia is seeking alternatives to the U.S. military purchases in light of the current U.S. ban on sales to its armed forces and what it sees as the unreliability of U.S. supply arrangements that are subject to interruption on political grounds.

Sept. 17-19, 2003: Ministers from the six Greater Mekong Subregion (GMS) member countries – Burma, China, Cambodia, Laos, Thailand, and Vietnam – meet in Dali, Yunnan Province, to review 11 "key initiatives" centered on infrastructure and trade.

China has emphasized agricultural development and trade promotion in its aid programs under the GMS.

Sept. 19, 2003: Burma's Ministry of Industry-2 signs a contract with China's XJ Group Corporation of Henan Province to build a \$112 million diesel engine plant at Toungoo capable of producing 700 engines per year suitable for use in ships and generating facilities.

Sept. 22, 2003: Amnesty International expresses serious concern for the deteriorating health of Le Chi Quang, a Vietnamese journalist sentenced to four years in prison for criticism of Vietnam's 2002 land border agreement with China on the internet.

Sept. 23, 2003: China charges that Vietnamese gunboats fired on two of its fishing vessels in "traditional Chinese waters" in the Gulf of Tonkin, violating agreements on sovereignty and fishing activities in the Gulf. China demands an explanation, recalling that similar incidents have happened in the past, requiring Beijing "to repeatedly express its dissatisfaction to Vietnam." Hanoi denies having fired on the boats, but says it has one boat and its crew in custody in Haiphong.

**China-Taiwan Relations:
Pernicious Presidential Politics**

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The initiative on cross-Strait issues this quarter has been centered in Taiwan. Preoccupied with other issues, Beijing has taken no initiatives and concentrated on countering Taipei's moves. Chen Shui-bian's efforts to arrange referendums, to heighten Taiwan's national consciousness, and to manipulate the cross-Strait transportation issue have all been shaped with an eye to the coming presidential election campaign. In these circumstances, there has been no breakthrough on either the political or economic aspects of cross-Strait relations and none is likely in the foreseeable future. While Beijing has been very restrained, Chen's electioneering could well heighten tensions in the Strait.

Referendums Controversy

Near the end of the spring SARS (severe acute respiratory syndrome) outbreak on Taiwan, President Chen announced that Taiwan would hold referendums on World Health Organization (WHO) participation and the fourth nuclear plant before or at the time of the March 2004 presidential election. On both issues, Chen was positioning himself for the electoral campaign. Beijing's handling of the SARS outbreak had alienated people in Taiwan. Public opinion polls in May and August showed that, after declining gradually for several years, perceptions of PRC hostility toward Taiwan had increased. Knowing that perceptions of PRC hostility would buttress his campaign, Chen sees a WHO referendum as a means of keeping the WHO issue alive in the run-up to the election. A referendum on the nuclear plant would help consolidate support from the antinuclear forces that had backed his 2000 campaign and been disappointed by the DPP's inability to halt construction of the plant.

The Democratic Progressive Party (DPP) made a major effort to pass legislation authorizing referendums through the Legislative Yuan (LY) in July. However, in the face of opposition from the Nationalist Party (KMT) and People's First Party (PFP), the LY adjourned without adopting the necessary legislation. President Chen then announced that, in the absence of legislative authority, the government planned to conduct the referendums on the basis of regulations to be written by the Executive Yuan.

The planning for referendums was deeply troubling to Beijing. Despite DPP claims that it had no plans to hold referendums on sovereignty issues, the PRC viewed any referendum on Taiwan as a step toward a future referendum on independence. With no ability to influence DPP plans directly, the PRC appealed to Washington. President Hu Jintao had raised the issue with President Bush at the G-8 summit. In July, Beijing dispatched Taiwan Affairs Office (TAO) Director Chen Yunlin to Washington to lay out Beijing's concerns about any referendum on Taiwan. Two days later a delegation from Taiwan led by Presidential Office Secretary General Chiou I-jen arrived in Washington to explain DPP views.

The referendum issue catches the U.S. in a dilemma between sympathy for Taiwan's democratic rights and concern over steps that would heighten cross-Strait tensions. The fact that the DPP-promoted legislation in the LY contained provisions for possible future referendums on sovereignty issues factored into the administration's calculations. Washington was also conscious of the role China is playing on issues from Iraq to North Korea. Consequently, Washington decided to express its reservations about Taipei's plans. As Deputy Assistant Secretary of State Randall Schriver put it, Washington did not see a compelling need to conduct the referendums Taipei was considering – a point that was subsequently reiterated in September by Deputy Secretary of State Richard Armitage. PRC propagandists were quick to exploit these statements. In August, the *People's Daily* carried a long article recapping Beijing and Washington's "cooperation" to block Chen's referendum plans.

Raising Taiwan's National Consciousness

The referendum plans are only one of several cross-Strait related strategies Chen has been pursuing in preparation for the election. A more important element has been the growing DPP campaign to raise Taiwan's national consciousness. The campaign could have several benefits beyond appealing to the DPP's traditional supporters. It could provoke the PRC to the point of counterproductively threatening Taiwan voters yet again; exacerbating differences over the sovereignty issue could create tensions between the PFP and KMT, potentially splitting the pan-blue alliance; and in any event the campaign will create some facts which, if Chen should lose, his successors would have difficulty reversing.

In the midst of Taiwan's anger over Beijing's handling of SARS, the Chen administration decided that the word "Taiwan" in English would be added to the cover of Taiwan's new passports. The first of these revised passports was issued with great fanfare on Sept. 1. In August, Chen publicly repeated for the first time his controversial August 2002 statement that there is "one country on each side of the (Taiwan) Strait." The DPP subsequently announced that "one country on each side" would be a theme of Chen's re-election campaign. In August, Taiwan's supporters renewed for the 11th time the proposal to have Taiwan's UN membership considered by the UN General Assembly. In September, the Executive Yuan's Council on Cultural Affairs proposed that Taiwan should not have an official language. Instead, the Council proposed that each local government should be free to designate the languages it wishes to use to conduct business. Subsequently, the

Executive Yuan announced there would be no change of language policy and acknowledged that Mandarin Chinese is the most widely used language on Taiwan. Speaking at a DPP rally in September, Vice President Lu Hsiu-lian said Taiwan's challenge is to conduct thoroughgoing "de-sinofication" to establish the island's separate identity.

Through the summer former President Lee Teng-hui made a series of provocative proposals to promote Taiwan's separate status. Lee first pronounced that the "Republic of China (ROC)" no longer existed. He then called for the ROC to formally change its name to Taiwan and organized a demonstration of 150,000 to promote the campaign to "Call Taiwan Taiwan." Subsequently, Lee reiterated his call for a new constitution to be written to reflect Taiwan's separate status. Although these proposals are inconsistent with elements of the "five noes" President Chen enunciated at his inauguration in 2000 (and had subsequently reiterated), the DPP has quietly welcomed or encouraged Lee's activities. Chen has appeared jointly with Lee, and the DPP reported proudly that 30,000 of its members had participated in the "Call Taiwan Taiwan" demonstration.

At a DPP Rally in Taichung on Sept. 28, President Chen, endorsing Lee's views, expressed the hope that on the DPP's 20th anniversary in 2006 all of Taiwan would push for a new constitution. In the following days Chen repeatedly emphasized the importance of Taiwan writing a new constitution as a step necessary to make Taiwan a "normal, complete and great country."

All of this was deeply disturbing to Beijing, particularly the repetition of the "one country on each side" idea and language about making use a future referendum to endorse a new constitution that would make Taiwan a normal country. With little ability to influence Chen, Beijing has chosen a restrained response. Preoccupied with more urgent domestic and international issues, Beijing had devoted little attention to Taiwan issues other than Chen's referendum plans. Its propagandists criticized Chen's moves as "gradual independence," but did so during this quarter in low-key terms. PRC academics have expressed an awareness that a threatening posture by Beijing will only buttress Chen's re-election prospects. In late September a long commentary in the official *China Daily* concluded that Chen believes the key to re-election is to incite the mainland so that any overreaction by Beijing can be used to attack Chen's political opponents in a wave of anti-mainland sentiment.

Washington too generally has avoided commenting publicly on these campaign moves, while privately expressing its concerns. The State Department spokesman did state that the U.S. recalls President Chen's inaugural promises from 2000 and continues to take those statements seriously. Privately, the administration was quite concerned, particularly about Chen's resurrecting the "one country on each side" statement and about his call for a new constitution. There is no indication that Washington had been consulted in advance on these statements. Even when interpreted primarily as campaign rhetoric, these statements can not but harm Taipei's relations with the administration. However,

thus far Washington has made no significant effort to distance itself from Chen's rhetoric or to demonstrate to Chen that there will be costs to his relations with the U.S. if he continues to take provocative steps on cross-Strait issues.

Cross-Strait Transportation Controversy

In this charged pre-election atmosphere, President Chen significantly changed his approach to cross-Strait direct transportation issues. In a July 5 interview with the Japanese paper *Mainichi*, Chen said that Taipei could not authorize private associations to negotiate cross-Strait transportation on behalf of the government. This reversed a more flexible position on the role of private associations which he had adopted in the spring of 2002. In an interview published later in the *Far Eastern Economic Review*, Chen stated that economic relations with the mainland are close enough and that Taiwan's national interest must take precedence over the interests of business. Although these statements clearly reflected a harder line on cross-Strait transportation, President Chen baffled observers by describing shortly thereafter a three stage process – preparation, negotiation, and implementation – which he said would lead to opening direct cross-Strait transportation by the end of 2004. Beijing dismissed his comments as electioneering.

The day after this last statement by Chen, Taipei released the long awaited Mainland Affairs Council (MAC) study assessing the pros and cons of opening direct transportation links. Presented as an objective study, the report is in fact a highly political assessment laden with opinions that appeal to the DPP's traditional supporters. Consequently, the document, like other things Chen has done, may be intended more to consolidate electoral support from the party's base than to be a guide for policy. While acknowledging that direct links would have specific economic benefits, the report highlighted what it saw as a host of security, economic, social, and cultural costs associated with opening direct cross-Strait links. The report concluded that the task was to find a way to minimize the costs and maximize the benefits of direct links and that this required careful advance preparation of security, economic, social, and cultural countermeasures.

Opinions about the report on Taiwan predictably followed party lines. A week later a long *People's Daily* commentary analyzed the report as “a tool for Chen Shui-bian to obstruct direct cross-Strait transport” and concluded that “because of Chen Shui-bian's lack of sincerity, it is impossible to realize ‘direct cross-Strait transport’ within a short time.” A few weeks later a PRC Civil Aviation Administration of China official stated that any direct flights would have to be handled as domestic flights. If confirmed, this would represent a reversal of the more flexible position articulated two years ago by former Vice Premier Qian Qichen that such flights could be handled as “cross-Strait” routes.

While adopting this hard line, the DPP administration recognized the pressure from the domestic business community for steps to facilitate cross-Strait transport. This spring, following the path-breaking indirect charter flights arranged at Chinese New Year, KMT

Legislator Chang Hsiao-yan had proposed that arrangements be negotiated for indirect cross-Strait cargo charter flights. In September, the Chen administration decided to pick up on this suggestion. The MAC announced its authorization of a one-year trial program of 360 cargo charter flights between Taiwan and Shanghai flown indirectly via Hong Kong. This trial program had not been worked out through contacts with the mainland and involved only Taiwan carriers. Consequently, it was greeted by many outside the DPP as a political rather than practical proposal designed to prompt a negative response from Beijing. Beijing reacted predictably, though in a low key manner, rejecting the proposal but urging private associations to undertake contacts to devise a reciprocal arrangement including PRC carriers.

Hong Kong Anti-Subversion Controversy

The dramatic developments in Hong Kong this quarter concerning the article 23 Anti-subversion Bill have implications for cross-Strait relations. A key perspective is how these developments were perceived on Taiwan. In general, events were seen through the prism of the across-the-spectrum opposition in Taipei to acceptance of the “one country, two systems” arrangement for Taiwan. Chief Executive Tung Chee-hwa’s effort to push the Anti-subversion Bill through was seen as an effort by Beijing to deprive Hong Kong of its freedoms. Premier Yu Shyi-kun said Beijing’s effort deepened distrust of the “one country, two systems” idea. President Chen said the Anti-subversion Bill was a warning to Taiwan against uniting with China.

The mass demonstration in Hong Kong on July 1 against the Bill was applauded in Taiwan. A think tank affiliated with Lee Teng-hui invited prodemocracy Hong Kong legislators to a seminar in Taipei on the “one country, two systems” arrangement. An editorial in the official *China Daily* lambasted the Hong Kong legislators for participating, particularly for their comments that the people of Taiwan should have the right to determine their own future. The editorial said the legislators’ actions underlined the urgent need to pass the Anti-subversion Bill. (The Hong Kong secretary for security subsequently said that the legislators’ statements would not have violated the Anti-subversion Bill.) Tung Chee-hwa’s decision on Sept. 5 to withdraw the Anti-subversion Bill from further consideration was welcomed by the MAC in Taipei and seen as a victory for the people of Hong Kong. But it was not seen as an indication that the “one country, two system” arrangement, whatever its flaws, had provided the political system within which the Hong Kong people had been successful in asserting their views.

Economic trends

Cross-Strait trade has rebounded from the slowdown caused by the SARS outbreak. According to PRC statistics, cross-Strait trade during January-July 2003 reached \$30.6 billion, up 30 percent over the same period in 2002. In August, Taiwan’s global exports recorded their first double-digit growth since the SARS outbreak; exports to the U.S. decreased while those to China, ASEAN, and Europe accounted for the higher growth. Whatever the political tensions, cross-Strait trade could total \$50 billion in 2003.

Implications

Major elections or leadership transfers almost inevitable delay negotiations and policy implementation. So it is to be expected that there will be no prospect of progress on cross-Strait relations in the coming months. Unfortunately, the approach President Chen has taken thus far in the campaign increases the possibility that the electoral process will increase cross-Strait tension; what more the campaign season will produce remains to be seen.

With tensions possibly increasing and uncertainty about what Chen might do if re-elected, foreign investors will likely become more hesitant to make the investment commitments Taiwan's economy needs. To date, the PRC, while deeply concerned about the implications of Chen winning re-election, has avoided the threatening actions and statements that it took in the run-up to the 1996 and 2000 Taiwan presidential elections. As this quarter has shown, the U.S. has much at stake in the cross-Strait situation, but little ability to shape the way the campaign develops.

Chronology of China-Taiwan Relations July-September 2003

July 3, 2003: Premier Yu says Hong Kong protest shows that "one country, two systems" is not working.

July 5, 2003: President Chen tells *Mainichi* that Taiwan cannot authorize private associations to negotiate cross-Strait transport issue.

July 7, 2003: Hong Kong Chief Executive Tung Chee-hwa temporarily postpones consideration of Anti-subversion Bill.

July 10, 2003: Legislative Yuan (LY) session ends without adopting referendum legislation.

July 16, 2003: Taiwan Foreign Ministry criticizes Beijing effort to get foreigners born in Taiwan to list China as their place of birth on PRC visa applications.

July 18, 2003: President Chen says Beijing's imposition of Anti-subversion Bill is a warning to Taiwan against unifying with China.

July 21, 2003: Chinese officials urge Washington to dissuade Taiwan from holding referendums.

July 23, 2003: Taiwan delegation in Washington to explain views on referendums.

July 25, 2003: President Chen's interview with *Far Eastern Economic Review* published.

July 26, 2003: State Department says it sees no compelling need for Taiwan to hold referendums.

July 29, 2003: *People's Daily* commentary claims U.S. and PRC are cooperating to block referendums.

July 30, 2003: Pentagon releases annual report on PRC military.

Aug. 4, 2003: Former President Lee says closer cross-Strait economic ties will lead to Taiwan's enslavement.

Aug. 5, 2003: Taiwan supporters submit annual United National General Assembly resolution on Taiwan membership.

Aug. 6, 2003: Spokesman says Executive Yuan will authorize referendums if LY does not.

Aug. 11, 2003: Taiwan business delegation in Beijing to press for direct transportation links.

Aug. 12, 2003: President Chen reiterates view that there is "one country on each side of the Strait."

Aug. 13, 2003: President Chen says three-stage process can lead to direct transport in 2004.

Aug. 15, 2003: Executive Yuan releases report analyzing implications of "three links."

Aug. 17, 2003: Hong Kong prodemocracy legislators attend seminar in Taipei.

Aug. 23, 2003: Former President Lee declares the Republic of China no longer exists.

Aug. 25, 2003: KMT's Lien Chan says cross-Strait dialogue and direct transportation will be priorities if he is elected.

Aug. 26, 2003: Six PRC women drown in human smuggling tragedy.

Aug. 26, 2003: American Institute in Taiwan head Doug Paal urges Taiwan to close cross-Strait military gap.

Aug. 29, 2003: Premier Yu said to have told U.S. Taiwan will spend \$20.5 billion on military procurement over 10 years.

Sept. 1, 2003: Taiwan begins issuing new passports including name "Taiwan."

Sept. 5, 2003: Hong Kong chief executive indefinitely postpones consideration of Anti-subversion Bill.

Sept. 6, 2003: Former President Lee leads large “Call Taiwan Taiwan” demonstration.

Sept. 9, 2003: President Chen says steps for convenient cross-Strait transport will be taken by Oct. 19.

Sept. 10, 2003: MAC authorizes one-year trial program for indirect cross-Strait cargo flights starting Sept. 25.

Sept. 11, 2003: At military review, President Chen introduces slogan “long live Taiwan people.”

Sept. 16, 2003: PRC Foreign Minister Tang rejects indirect cargo charter proposal.

Sept. 17, 2003: UN again rejects considering Taiwan’s membership request.

Sept. 24, 2003: PRC TAO rejects indirect cargo charter proposal; says flights must be conducted as “domestic” routes.

Sept. 28, 2003: President Chen calls for new constitution in 2006.

North Korea-South Korea Relations: Never Mind The Nukes?

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Almost a year after charges that North Korea has a second, covert nuclear program plunged the Peninsula into intermittent crisis, inter-Korean ties appear surprisingly unaffected. The past quarter saw sustained and brisk exchanges on many fronts, seemingly regardless of this looming shadow. Although Pyongyang steadfastly refuses to discuss the nuclear issue with Seoul bilaterally, the fact that six-party talks on this topic were held in Beijing in late August – albeit with no tangible progress, nor even any assurance that such dialogue will continue – is perhaps taken (rightly or wrongly) as meaning the issue is now under control. At all events, between North and South Korea it is back to business as usual – or even full steam ahead.

While (at least in this writer's view) closer inter-Korean relations are in themselves a good thing, one can easily imagine scenarios in which this process may come into conflict with U.S. policy. Should the six-party process fail or break down, or if Pyongyang were to test a bomb or declare itself a nuclear power, then there would be strong pressure from Washington for sanctions in some form. Indeed, alongside the six-way process, the U.S. is already pursuing an interdiction policy with its Proliferation Security Initiative (PSI), which Japan has joined but South Korea, pointedly, has not. Relinking of cross-border roads and railways, or the planned industrial park at Kaesong (with power and water from the South), are examples of initiatives which might founder, were the political weather around the Peninsula to turn seriously chilly.

Summer of Sunshine

For now, however, it has been a summer of Sunshine, continuing into a warm fall. For the first time in three years of writing these quarterly reports, the density of inter-Korean interaction is such that one is conscious of omitting much. On any given day, on average, up to a thousand South Koreans are visiting the North: tourists, separated families, business people, nongovernmental organizations (NGOs) and aid workers, civic organizations, educators or other professionals, journalists, cultural figures, government officials, rail inspectors and technicians, nuclear engineers, and more. What was once newsworthy, because exceptional – such as direct flights between Seoul and Pyongyang, or land travel across the Demilitarized Zone (DMZ) – is becoming regular, even mundane. As a result, slowly but surely on the ground a normalization of North-South

ties is gathering pace – even though the broader political and security context remains anything but normal.

Six, But No Party

The six-party talks require comment; even if by definition they are not bilateral, and South Korea is hardly a core player like the original troika of North Korea, the U.S., and China. The best that can be said is that at least, and at last, they met. Though seemingly assembled ad hoc – the U.S. insisted on its Japanese and ROK allies, with Russia a late addition – this sextet is in fact the most logical multilateral combo, comprising both Koreas plus the four powers bound to the Peninsula by geography and/or history. In the past both Tokyo and Moscow – agreeing, for once – had proposed this format but were ignored; as for instance when they wanted in on four-way talks held (without result) between the Koreas, the U.S., and China in the late 1990s.

Despite a perhaps illusory sense of process (one can hardly speak of progress), it is unclear if or when the specially built hexagonal table will be rolled out again. With 48 interpreters this is a cumbersome format, so initial underachievement is pardonable. If one U.S. aim was for North Korea to be seen to put everyone's backs up, it succeeded. In what is becoming a habit, the DPRK delegation at one point hinted in an aside at having or testing nuclear weapons. It also accused Japan and even Russia of peddling U.S. lies. China as host was not amused, nor when after the event North Korea's foreign ministry condemned the talks, in which Beijing had invested much time and prestige, as "a stage show to force us to disarm ... not only useless but harmful in every aspect." Despite this Pyongyang later affirmed a commitment to further dialogue – but not with Japan, which in October it denounced as an unfit partner for bringing up extraneous issues such as abductions.

Most comment by the other five interpreted this as typical DPRK bluster: staking an extreme position ahead of talks, so as to win concessions by later trimming. Unification Minister Jeong Se-hyun concluded in mid-September that Pyongyang's fiery rhetoric was "a pressure tactic aimed at giving it an edge in future nuclear crisis talks" and that the DPRK would eventually return to the negotiating table. Yet despite predictions of a new round of six-way talks in November, there is no sign of these yet. No date was fixed at the first round, which could not manage even an anodyne agreed closing statement. All in all, it is far from clear whether the implicit sense of relief that at last a peace process is under way is warranted. On the contrary, even if its boasts of reprocessing are partly bluff, North Korea must be assumed to be pressing ahead untrammelled with its two separate nuclear programs. Even if talks do resume, progress will be very slow. Also unclear is whether next time the U.S. will be ready to offer the incentives it has consistently disavowed (as rewarding misbehavior), but which realistically are essential if any step by step progress is to be made.

The ROK continues to try to split the distance between the U.S. and the DPRK. During his keynote speech during the six-party talks, ROK chief delegate and Deputy Foreign Minister Lee Soo-hyeok said his country would make a sincere effort to persuade the

North to join international financial organizations and that large-scale economic cooperation projects are on the horizon after the nuclear issue is resolved. During the meeting, North and South held a 30 minute bilateral meeting so that Seoul could explain parts of the U.S. presentation that the North Korean delegates reportedly had difficulty understanding.

While sticking to the agreed formula that the North must abandon its nuclear weapons programs in complete, verifiable and irreversible manner, Seoul has also encouraged Washington to do more to meet Pyongyang's concerns. Minister Jeong explained that "North Korea is not a counterpart which has no possibility of changing its attitude through dialogue," but suggested that moderation would serve Washington well. "The U.S. will be able to lead (negotiations) at its own pace if it opens its mind slightly." Seoul will do its best to encourage North Korea to see the light during inter-ministerial talks to be held in Pyongyang Oct. 14-17. Seoul will try, said Jeong, to "persuade North Korea to make a more diligent and progressive attitude so that the DPRK nuclear issue can be resolved soon."

Switching Off

The formal framework for inter-Korean relations is set by Cabinet-level talks, held quarterly. The 11th such ministerial meeting since the 2000 North-South summit took place in Seoul July 9-12. It was agreed to hold an eighth round of family reunions around Chusok (the Korean harvest festival), and to expedite economic projects. A new proposal was to consider setting up a committee for social and cultural cooperation, whose agenda would include the cessation of mutual slanderous broadcasts. As socio-cultural cooperation is already booming, one suspects the broadcasts were the main point. On Aug. 1, Pyongyang pulled the plug on the Voice of National Salvation (VNS), thus admitting that what it had always claimed was an underground South Korean station in fact emanated from the DPRK. VNS had few listeners in the South, so this is doubtless a ploy to press Seoul to reciprocate – which is unlikely.

How far North Korea will push this is unclear. The ROK's Korea Broadcasting System (KBS) has forged good ties with the DPRK, including several co-productions. The latest of these was staged in August, when a long-running Southern amateur song contest TV show was held in Pyongyang, and broadcast simultaneously in both Koreas on Aug. 15 (Liberation Day). The Sunshine Policy means that ROK broadcasts to the North are no longer overtly propagandist, unlike the U.S.-financed Radio Free Asia. But were Pyongyang to press the issue, there are religious and other private broadcasters in the South who fear they might be leaned on.

Taegu: Playing Games

The dilemmas of Sunshine were seen in August, when North Korea joined 174 other states to participate in the Universiade (world student games) held in Taegu, South Korea's third city. Despite Taegu's conservative image – past military dictators had their political base there, and the southeastern Kyongsang region remains the heartland of the

main opposition Grand National Party (GNP), which controls the national assembly – the Northern visitors generally received a warm welcome. As at the Asian Games in Pusan a year ago [see “Nuclear Shadow Over Sunshine,” *Comparative Connections*, January 2003, Vol. 4, No. 4.], local public attention and media focused less on North Korea’s athletes – who, cheered on by the home crowds, performed creditably, finishing ninth in the medals ranking with 3 golds, 7 silvers, and 3 bronzes; South Korea came third – than on their support squad of comely cheerleaders and an all-female brass band. Once again the sports tabloids drooled.

Second time around, though, this circus lacked novelty. There were several hiccups, starting with the DPRK squad’s non-arrival. Having first claimed technical problems, Pyongyang then said it was pulling out because the South was unsafe: citing the burning of its flag and images of Kim Jong-il at a rightist rally in Seoul (in fact a regular occurrence). It took an expression of regret over this by President Roh Moo-hyun himself – predictably attacked by the opposition GNP for groveling – to appease the North: they flew in at the last minute. At the opening ceremony the two Koreas marched together behind a unity flag, but thereafter competed separately. At one point the cheerleaders did not appear for three days, in protest at hostile graffiti and other alleged provocations. In a rare unscripted glimpse into DPRK mentality, some of this squad tried to seize pictures, being waved by well-wishers, of the Dear Leader at the 2000 North-South summit, they complained tearfully of an insult: the sacred visage was being rained on.

Beaten Up by Both Koreas

In a more serious incident on Aug. 24, North Korean “journalists” (remarkably skilled in taekwondo for that profession) assaulted human rights protestors peacefully waving banners in Taegu. The police were slow to intervene, and the well-known campaigner Dr. Norbert Vollertsen was injured – for the second time. Days earlier, ROK police beat up the German doctor as he and other activists attempted to launch balloons carrying small radios across the DMZ: something South Korea itself did for decades, but now *verboden* on Sunshine grounds.

Much of the Seoul press dismissed the protestors as “extreme rightists,” intent on spoiling the nation’s party. While Dr. Vollertsen’s combativity is controversial, on this occasion he was the injured party – literally, and at both ROK and DPRK hands (or fists). As consolation, he was invited to testify at the National Assembly. One would hope for a more considered debate in Seoul about the pros and cons of the widespread official and public silence on DPRK human rights abuses, and the risk of Sunshine degenerating into wishful thinking or fellow-traveling.

Getting Down to Business

Seoul’s stance is that they have to prioritize, and there is no point riling the North now that, at long last, it really seems to be starting to open. Economic and business ties made both formal and substantive progress during the quarter. A working-level meeting held in Kaesong from July 29-31, to which the ROK delegates commuted daily from Seoul

across the DMZ, finally agreed to implement four agreements – on investment protection, dual taxation, settlement of payments, and dispute resolution – first drawn up as long ago as December 2000. In the event, after further delay due to the death of Chung Mong-hun (see below), documents were finally exchanged at Panmunjom on Aug. 20. The Kaesong meeting further agreed to certificate of origin procedures for inter-Korean trade, to prevent Chinese goods being passed off as North Korean to evade duties; it also designated specific banks on each side to clear inter-Korean accounts. But it failed to agree on procedures for using two new trans-DMZ land corridors.

A month later, the higher-level Economic Cooperation Promotion Committee (ECPC) held its sixth meeting in Seoul Aug. 26-28. The final 9-point joint statement is worth quoting in detail, to show how encouragingly concrete this cooperation has now become. (Being from the ROK Unification Ministry website, this uses the much-criticized new ROK romanization. Come reunification, one must hope that the DPRK's far more sensible spelling will prevail.)

1. The South and the North will actively pursue railway/road construction projects so as to first complete the Moonsan-Gaeseong route on the Seoul-Sinuiju Line, as well as track construction and road-bed work on the Jeojin-Onjeongri route of the Donghae Line, before the end of this year. To meet the goal, the South will endeavor to provide the North with construction materials and equipment at an early date.
2. The South and the North will inaugurate the construction work of infrastructure facilities as soon as the drawing up of comprehensive blueprints is completed for first-stage development zones at the Gaeseong Industrial Complex. The two parties will also swiftly move to draft and put into effect detailed regulations, and further cooperate so that the industrial complex will be developed in a way that is internationally competitive.
3. The South and the North will take necessary steps to reinvigorate the Mt. Kumgang tourism project, and cooperate so that agreements between the businesses on sea/overland tourism as well as tourist zone developments will be carried out smoothly.
4. The South and the North will take follow-up steps to the “four agreements,” which institutionally guarantee inter-Korean economic cooperation, and employ measures needed to put into effect the South-North maritime agreement and negotiate its appending agreement.

To further discuss the subject, the two Koreas will hold the 3rd meeting of the Inter-Korean Working-level Consultations on Economic Cooperation System, concurrently with the 3rd Working-level Contact for the South-North Maritime Cooperation, in early October.

5. The South and the North will also endeavor to reach an agreement on flood prevention measures along the Imjin River.
6. The South and the North will further expand the inter-Korean goods and processing-on-commission trades by way of direct transactions, and promptly take working-level steps to accommodate the effort, including the setting up of consultation channels.
7. The South and the North will endeavor to provide necessary assistance so that the visit of the South Korean delegation to the North for economic observation, as well as that of the North Korean delegation to the South, can take place at appropriate dates.
8. The South and the North will cooperate so that the South's food aid to the North, pursuant to the fifth meeting of the South-North Economic Cooperation Promotion Committee, along with inspection visits to food distribution sites, will be carried out smoothly. For the 100,000 tons of food aid already provided, there will be inspection visits in September to three distribution sites in the east and west coast regions of the North. The inspectors will number 5-7 for each visit.
9. The 7th meeting of the South-North Economic Cooperation Promotion Committee will take place in Pyongyang in late October.

Breaching the Border

Except for clause 5 on flood prevention – much talk, but no action to date – all of these refer no longer merely to pious hopes, but to projects actively under way. Space forbids a detailed account, but in particular road and rail reconnection are proceeding apace. Throughout the summer officials and technicians regularly crossed the border, both for meetings and for the practical tasks of construction and inspection. On Sept. 17, a military working meeting at Panmunjom agreed to start using the nearly finished newly built roads in both the Kyongui and Donghae corridors (west and east, respectively), instead of the temporary unpaved tracks used hitherto. Both roads may be completed this year, with the two railway lines similarly to be rejoined some time in 2004. Symbolically and practically, this will be momentous.

Each of these corridors is vital to a particular cross-border business project, both of Hyundai origin. The Kyongui route, which will connect Seoul to Pyongyang, is key for the Kaesong Industrial Zone, just north of the DMZ, whose groundbreaking ceremony was held June 30. After much DPRK hesitation, Kaesong is finally moving from vision to reality. Detailed regulations are being drawn up and applications invited, although the first ROK firms would not move in until 2006 at the earliest. In principle this could be Korea's Shenzhen. In practice it remains to be seen how far nuclear and other concerns will deter investors – or whether Washington will press Seoul to go slow on this, if the DPRK remains in nuclear defiance.

Hyundai: Death of a Dream

Meanwhile the east coast Donghae corridor is at last in use for Hyundai's Mt. Kumgang tours, cutting both travel time and costs compared to the old route by sea. After further delays owing to the North's draconian anti-SARS (severe acute respiratory syndrome) quarantine, this concession may come too late to save this project, which without subsidy is not viable owing to the vast fees (almost \$1 billion over six year) levied by Pyongyang. On top of this, covert payments by Hyundai of at least a further \$500 million for vague business rights – in reality to grease the path for the June 2000 summit – added up to more red ink than even the ROK's one-time largest conglomerate could handle.

This burden, plus a pending court case over illicit payments to Pyongyang, were too much for Hyundai chairman Chung Mong-hun. On Aug. 4, he jumped to his death from his 12th floor office at Hyundai's Seoul headquarters. This shock prompted much Southern soul-searching as to Sunshine's value, and its price. For its part the North accused the GNP, which pushed for a special prosecutor to probe what became known as the "cash for peace" scandal, of virtual murder. In September, Chung's six co-defendants, including an ex-minister, were convicted, but received only suspended sentences. The judge acknowledged that their payments to the DPRK, though illegal, were an act of state – and one from which the ROK had benefited.

Tourism: Fly Me by the Moon

Despite Pyongyang's posturing over Chung's death, just weeks later it began a venture which, while a further milestone in North-South ties, was a kick in the teeth for a now leaderless and beleaguered Hyundai. On Sept. 15, 114 Southern tourists flew directly from Seoul to Pyongyang on a DPRK Air Koryo plane for a five-day visit, in the first ever regular tourist trip between the two capitals. The organizers – an affiliate of the Pyonghwa Group, part of the Unification Church – plan several similar tours this year. This was a bitter blow to Hyundai, which reckons that the vast sums it has paid (above and below the table) to Pyongyang over the years had bought it legal and moral rights to a monopoly of Northern tourism. It is hardly surprising if most major *chaebol* – including the now separate Hyundai Motor, and Samsung, currently the leader of the pack – thus far disavow any intention of investing in the DPRK.

Faced with this new competition, Mt. Kumgang looks set to lose its luster. Why visit a scenic but largely artificial enclave, which some disgruntled visitors have likened to a zoo, if you can have the real thing in Pyongyang? And not only Pyongyang: it is reported that other Northern sites will be opened to Southern tourists – including Mt. Paekdu on the Chinese border, sacred to all Koreans, already visited by thousands of ROK tourists from the Chinese side. Perhaps in tacit recognition that Kumgang is fading, the (South) Korean National Tourist Organization (KNTO) has launched a new campaign to market Hyundai's Kumgang tours – to foreigners.

Seeming not to Sell

Despite his strongly anticommunist background and image, in fact the Rev. Moon Sun-myung, himself Northern-born, has cultivated North Korea for more than a decade; he met the late Kim Il-sung. The most tangible result is Pyonghwa Motors in Nampo, which builds Fiat autos imported as kits from Vietnam. In September, Pyonghwa was reported to have gotten permission to erect Pyongyang's first commercial billboards – after prolonged negotiations, where the main objection was that it looked as though they were trying to sell something.

Despite such coyness about capitalism in the “capital of revolution,” inter-Korean business has been brisk – if as yet but a fraction of its true potential. In the first eight months of 2003, North-South trade reached \$406 million, up 45 percent over last year's total. While the greater part of the \$245 million flows from Seoul were in effect aid rather than trade, the \$161 million of Northern exports were genuinely commercial: they included garments made to order, seafood, minerals, and more. Figures released in July show that in 2002 South Korea overtook China as North Korea's top export market, importing goods worth \$272 million. If this has been little noticed, it is because Seoul – perversely and misleadingly – excludes inter-Korean commerce (as ostensibly “internal”) from its figures for DPRK trade. That is Hamlet without the prince.

New Cabinet: Looking South?

What pass for elections in North Korea bear scant resemblance to the cut and thrust of politics in the South, or indeed in most other countries. Yet the ROK government was encouraged by the most recent of these five-yearly rituals. The DPRK's 12th Supreme People's Assembly (SPA), “elected” on Aug. 3 in the usual manner – a single list of candidates, 99 percent turnout, 100 percent yes vote – is younger than before. Almost 50 percent of members are new, including several figures prominent in North-South dialogue: Kim Ryong-song, Pyongyang's chief delegate to North-South ministerial talks; Song Ho-kyong, who as vice chair of the Asia-Pacific Peace Committee is in charge of projects with Hyundai; Pak Chang-ryon, head of the DPRK side in the Economic Cooperation Promotion Committee; Jung Un-up, chief of another North-South cooperation body; and Choi Seung-chol, who is in charge of inter-Korean Red Cross contacts.

Meeting on Sept. 3, the SPA reshuffled seven economic portfolios. Three of the newly promoted ministers had participated in an intensive two-week tour of South Korean industrial facilities, the first of its kind, last November. They include the new premier, Pak Pong-ju, at that time chemicals industry minister, whom his hosts recall as well-briefed and an assiduous note-taker; he lamented that he did not have several extra pairs of eyes to drink it all in. His companions included Pak Nam-gi, who moves from running the State Planning Commission (SPC) to chairing the SPA budget committee; and Kim Kwang-rin, promoted from SPC vice chairman to replace Pak. Hopes of pragmatic technocrats trouncing militant ideologues spring eternal, dating back to the premierships of Kang Song-san in the 1980s and Yon Hyong-muk, who as prime minister visited Seoul

four times during 1990-91. The subsequent dismissals of both men – though Yon remains a force in Pyongyang – suggests that caution is in order. Still, at least for now the leading figures in North-South ties appear to be flavor of the month in Pyongyang; which is arguably a hopeful pointer to the DPRK's policy direction more widely.

Family Reunions: More Brief Encounters

As agreed in July, the autumnal beauty of Mt. Kungang again witnessed poignant reunions of families separated for half a century and more. The eighth such event, held on Sept. 20-25, saw 556 elderly South Koreans briefly reunited with 346 of their Northern kin. The ROK visitors traveled overland rather than by sea, reducing the trip from four hours to one. In the past three years 8,051 people have met thus, briefly and once only: they cannot write, phone, or email thereafter. At this rate, most of the 122,000 aged South Koreans who have applied for reunions will die before their turn (chosen by lot) comes; 20,000 have already passed away.

Such pointless cruelty – for what, in truth, has Pyongyang to fear from enlarging this program and allowing continuing contact? – fuels suspicions that Sunshine is not the teleology that its advocates claim. Contrary to a much cited proverb *Sijaki banida* (the first step is half the journey), critics fear that for the DPRK the first step will also be the last step, with any opening strictly limited. In business, by contrast, there is more of a sense of real process, and of progress.

Song Remains the Same?

Even as North-South intercourse grows, come reminders of a fiercer past. In September, 34 ageing radicals, who had fled South Korea decades ago from the then military dictatorship, had an emotional homecoming. Most had cleared this with the government in advance; but for one, the charge (often a calumny) of working for the North may well be true. The best-known (or most notorious) returnee, Song Du-yul – a philosophy professor at Muenster University, a protégé of Habermas, and a German citizen after 36 years there – is accused (not least by the senior defector Hwang Jang-yop, who ought to know, as a former secretary of the DPRK's ruling Korean Workers' Party) of being a KWP Politburo alternate member under the alias Kim Chol-su. After questioning Song, the National Intelligence Service claimed to have confirmed this. As of early October debate raged in Seoul on what action to take. In the bad old days people were hanged for less, but deportation looks the likeliest outcome; although conservatives fume that a traitor is getting off lightly. Not a word has been heard so far from Pyongyang, maybe because Song has apparently now burned his bridges with the North.

The Road Less Open?

The quarter ended, not for the first time, on a note of ambiguity and warning. On Oct. 6 a thousand-strong Southern delegation is due to cross the DMZ by bus and head to Pyongyang for the opening of the Chung Ju-yung Gymnasium, yet another piece of Hyundai largesse to Kim Jong-il. This unprecedented caravanserai was to have included

members of the national assembly's cultural and tourist committee, which had voted to make a "policy inspection" of Pyongyang and Kaesong during Oct. 6-9. The DPRK's annoyance at such presumption was understandable, even if its language was typically overblown: "It is preposterous and impudent for the sycophantic traitorous political charlatans to dare... inspect the independent and dignified DPRK as they are bereft of any philosophy, dignity, and sovereignty."

Ominously, Pyongyang's statement warned that the newly reopened land routes "are available only for those persons and organizations that truly love the country and the nation." In a Sept. 27 telephone message to ROK Unification Minister Jeong Se-hyon, the head of the Northern delegation to the ministerial talks, Kim Ryong-song, further protested against this "intolerable mockery of the dignity of the DPRK" and demanded a formal apology; failing which there would be "irrevocably serious consequences to the inter-Korean relations." This may be bluff, but for the GNP-dominated Parliament to say sorry is unlikely; in which case North Korea might ban the bus convoy, or even suspend inter-Korean dialogue temporarily. That could mean canceling or postponing the 12th round of ministerial talks, due to be held in Pyongyang Oct. 14-17. Nonetheless, over time this slow, low-key, halting, but historic process of growing mutual reacquaintance looks set to continue – nukes notwithstanding.

Chronology of North Korea-South Korea* **July-September 2003**

July 1, 2003: South Korea's National Assembly adopts a resolution urging North Korea to improve its human rights situation. This is reportedly the first such motion ever passed.

July 2, 2003: North Korea agrees to take part in the Universiade (world student games) to be held in August in Daegu, ROK is the second time the DPRK has participated in an international sports meeting in South Korea, the first being last year's Asian Games in Pusan.

July 2-4, 2003: Third round of working meetings on linking crossborder railways and roads is held at Munsan, ROK. DPRK participants commute daily across the Demilitarized Zone (DMZ). A 5-point agreement and 6-point supplement set detailed tasks, including Southern inspections of progress North of the DMZ on July 15-17 (west coast) and July 22-24 (east).

* 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

July 3, 2003: A South Korean ship heads North with 3,000 tons of rice: a first consignment of 400,000 tons pledged by Seoul, and the first official aid under Roh Moo-hyun's presidency.

July 4, 2003: Kim Jin-ho, president of the ROK parastatal Koland, puts the price of leasing land in the Kaesong industrial zone at between 100,000 won (\$84.6) and 200,000 won per *pyeong* (3.3 square meters), plus development costs of around 390,000 won per *pyeong*.

July 4, 2003: South Korea's Ministry of National Defense (MND) reverts to defining the DPRK as the ROK's "main enemy." This designation was banned under the Kim Dae-jung administration (1998-2003), leading to suspension of the MND's annual defense white paper.

July 9-12, 2003: The 11th inter-Korean ministerial meeting held in Seoul, led by Unification Minister Jeong Se-hyun (ROK) and senior Cabinet councillor Kim Ryong-song (DPRK). It ends with a 6-point agreement, mostly reiterating earlier pledges and plans.

July 15, 2003: South Korea's National Assembly passes bill for a special prosecutor to further probe clandestine remittances to North Korean before the 2000 summit.

July 17, 2003: Korean People's Army (KPA) soldiers fire on an ROK guard post at the DMZ, which returns the fire. The incident does not escalate. No explanation or apology is offered.

July 28, 2003: Some 103 officials and supporters of Good Neighbors, a South Korean charity, fly directly from Seoul to Pyongyang to visit sites and projects aided by their organization.

July 29, 2003: About 120 members of a radical ROK teachers' union fly to Pyongyang for five days of meetings with DPRK educationalists, the first ever such event. On the same plane are civic activists, going to plan joint celebrations for Liberation Day (from Japan in 1945) on Aug 15.

July 29, 2003: Four days of working-level inter-Korean economic talks begin in Kaesong. The southern team commutes daily across the DMZ from Seoul, via the Kyongui corridor.

July 30, 2003: The DPRK says that the "Voice of National Salvation" radio, hitherto claimed to be an underground station within South Korea, will cease broadcasting on Aug. 1. It urges the ROK to discontinue Southern broadcasts targeted at the North.

July 30, 2003: A bipartisan group of 22 ROK lawmakers submits a resolution urging the signing of a Korean peace treaty, and opposing any new war on the Peninsula.

July 31, 2003: The two Koreas agree to implement four bilateral economic agreements (first drawn up in Dec. 2000) by exchanging ratified documents on Aug. 6. These cover investment protection, double taxation, dispute settlement, and payment clearance. Other agreements are made to confirm the origin of products, and to designate settlement banks for bilateral trade.

Aug. 4, 2003: Chung Mong-hun, chairman of the Hyundai group, commits suicide. He faced charges regarding illicit payments to North Korea, where Hyundai's projects have lost money.

Aug. 5, 2003: North Korea suspends plans to resume Hyundai's Mt. Kumgang tours, as a gesture of mourning following the death of Chung Mong-hun.

Aug. 5, 2003: Chung Mong-hun's elder brother Chung Mong-koo, head of Hyundai Motor, disavows any plans to pursue economic projects in the DPRK as not commercially viable. He calls on the ROK government, rather than private firms, to spearhead business in the North.

Aug. 5, 2003: The ROK Presidential Committee on the Northeast Asian Business Hub says it will inspect DPRK railways next year, to ensure they are suitable for inter-Korean traffic.

Aug. 6, 2003: South Korea accepts a Northern proposal to postpone ratification of the four economic agreements due to be exchanged today, in the light of Chung Mong-hun's death.

Aug. 11, 2003: Family members, Hyundai executives, and DPRK officials attend a memorial service for Chung Mong-hun at Mt. Kumgang. The ROK delegation crosses the DMZ by bus. Kim Jong-il sends a message of condolence.

Aug. 11, 2003: A popular long-running amateur song contest program of the ROK's KBS TV is held in Pyongyang for the first time, as a co-production with the North's Korean Central TV, with 30 DPRK entrants. It is broadcast simultaneously in North and South on Aug. 15.

Aug. 11, 2003: Hyundai Asan president Kim Yoon-kyu says that Samsung, South Korea's largest *chaebol* (conglomerate), plans to establish an electronics complex in the Kaesong industrial zone. Samsung immediately denies any plans to invest in the DPRK.

Aug. 13, 2003: Hyundai's cruise tours to Mt. Kumgang resume, after a lengthy suspension due to North Korea's draconian anti-SARS quarantine.

Aug. 14, 2003: A South Korean chartered plane flies 330 ROK civic leaders directly to Pyongyang for joint celebrations to mark Liberation Day (from Japanese rule in 1945).

Aug. 14, 2003: South Korea announces that the DPRK flag, technically illegal in the ROK, will be allowed to be flown during the Taegu Universiade.

Aug. 18, 2003: After initially saying their flight (due Aug. 17) was delayed for technical reasons, DPRK TV reports that its 500-member party will not attend the Taegu Universiade, claiming that South Korea has become dangerous because of anti-North demonstrations.

Aug. 18, 2003: The ROK Navy fires warning shots at a DPRK ship that briefly crossed the Northern Limit Line (NLL), the long-established West Sea boundary disputed by the North.

Aug. 18, 2003: The planned exchange of four ratified inter-Korean economic agreements at Panmunjom is canceled, as the Northern delegation fails to appear.

Aug. 19, 2003: ROK president Roh Moo-hyun expresses regret over a recent protest in Seoul, where the DPRK flag and a portrait of leader Kim Jong-il were burned. The opposition Grand National Party (GNP) criticizes this apology, but after the North agrees to reverse its boycott of the Taegu Universiade.

Aug. 20, 2003: Four DPRK airplanes fly into the ROK's Kimhae airport carrying 221 athletes and officials led by Chang Ung, a member of the International Olympic Committee; plus 302 supporters, mainly consisting of young female cheerleaders and an all-women brass band.

Aug. 20, 2003: The four countersigned economic agreements, originally drawn up in 2000, are finally exchanged at Panmunjom. They cover protection of investment, elimination of double taxation, settlement of commercial disputes, and clearance of payments.

Aug. 20, 2003: North and South Korea reportedly agree in principle to field a unified team at the 2004 Olympic Games in Athens. If true, this will be the first time ever. Despite marching together at the 2000 Sydney Olympics, they competed separately; and likewise in Taegu.

Aug. 20, 2003: Scholars from both Koreas meet in Pyongyang to discuss a weighty matter: why the English spelling was changed from 'Corea' to 'Korea', allegedly during the Japanese colonial era (1910-1945). A dastardly plot is suspected to give Japan alphabetical precedence.

Aug. 21, 2003: The third meeting of a task force on constructing a permanent reunion center for separated families at Mt. Kumgang is held at the Northern resort.

Aug. 21-23, 2003: A sixth inter-Korean working-level contact on connection of trans-border railways and roads is held at Kaesong. Southern delegates commute daily across the DMZ. A 6-point agreement covers signals, telecoms and power systems. The South

will design these systems, and is to send plans, materials and engineers to the North in the coming months.

Aug. 24, 2003: DPRK “reporters” assault peaceful anti-North protesters outside the Taegu Universiade media center. The German activist Dr. Norbert Vollertsen is injured. Pyongyang threatens to pull out of the games if Seoul does not take action to stop such demonstrations.

Aug. 25, 2003: A 256-member Southern delegation from Cheju, led by its governor, arrives in Pyongyang. The island province has donated tangerines and carrots to the DPRK in recent years. The group is allowed a rare trip to Mt. Paekdu, a sacred mountain on the DPRK-China border. Separately, a delegation from Pusan, South Korea’s second city, also visits the North.

Aug. 26, 2003: Upon his return from Pyongyang, a South Korean lawmaker says the DPRK has been constructing a massive tourism complex at Mount Paekdu on its border with China.

Aug. 26-28, 2003: The sixth meeting of the South-North Economic Cooperation Promotion Committee is held in Seoul. A 9-point agreement addresses, inter alia: the institutional framework for cooperation, relinking cross-border railways and roads, building the Kaesong industrial zone, and exchanging economic study group visits.

Aug. 27, 2003: The Korea People’s Army fires a shot at a South Korean border post in the DMZ. 80 minutes after the incident the South receives a phone message saying it was an accident.

Aug. 27-29, 2003: Six-party talks between the two Koreas, China, Japan, Russia, and the U.S. on the North Korean nuclear issue are held in Beijing. They end without a joint statement, or even an agreement to meet again.

Aug. 28, 2003: The DPRK cheering squad reappears at the Taegu Universiade, after three days of absence following the clash between human rights activists and DPRK reporters.

Aug. 29, 2003: ROK government asks the National Assembly for a \$17 million subsidy to support Hyundai’s Mt. Kumgang tours.

Aug. 31, 2003: The Taegu Universiade closes. Northern and Southern athletes jointly wave the Peninsula’s peace flag in the closing ceremony.

Sept. 1, 2003: Hyundai Asan resumes overland tours to Mt. Kumgang, suspended soon after they began in February. 15 buses bring 328 Southern tourists to the Northern resort, while 106 go by boat.

Sept. 2, 2003: Ex-KWP secretary Hwang Jang-yop, the highest-ranking DPRK official ever to defect to South Korea, is finally allowed to travel to the U.S., where he has longstanding invitations from conservative groups. The previous Kim Dae-jung government would not let him go, for fear of damaging North-South ties. As of Oct. 2 he had yet to make the trip.

Sept. 3, 2003: The South says it expects to open two immigration offices near the DMZ for the new east and west corridors, to handle cross-border personnel and economic exchanges.

Sept. 5, 2003: A scheduled meeting at Mt. Kumgang to discuss the construction of a planned permanent center for family reunions is canceled.

Sept. 7, 2003: The DPRK Red Cross requests 100,000 tons of fertilizer from its counterpart in the South. The ROK government says it will consult the National Assembly before deciding.

Sept. 14, 2003: Pyonghwa Motors, an affiliate of the Unification Church, which assembles Fiat cars in Nampo, is reported to have got permission to erect Pyongyang's first commercial billboards to advertise their wares – provided they do not appear to be selling anything.

Sept. 15, 2003: 114 Southern tourists fly directly from Seoul to Pyongyang on a DPRK Air Koryo plane for a five-day visit, in the first ever regular tourist trip between the two capitals. The organizers, another Pyonghwa group company, plan several further tours this year.

Sept. 17, 2003: Eighth North-South military working talks, held at Panmunjom, agree to start using the almost finished new roads in the Kyongui and Donghae trans-DMZ corridors, rather than the temporary tracks used hitherto; and to set up a hotline at Donghae (on the east coast).

Sept. 18, 2003: South Korea reports that inter-Korean trade during January-August rose 45 percent over the same period last year, to \$406 million. Southern exports (mainly aid goods) totaled \$245 million, while Northern exports (mostly commercial) reached \$161 million.

Sept. 18, 2003: South's unification minister says three 5-person teams of ROK inspectors will visit three Northern ports – Nampo, Heungnam, and Chongjin – later in September, as agreed at an earlier meeting, to check on the distribution of 400,000 tons of rice aid.

Sept. 20-25, 2003: An eighth round of family reunions is held at Mt. Kumgang. 556 elderly South Koreans are briefly reunited, after half a century, with 346 of their Northern kin.

Sept. 25, 2003: ROK unification minister announces that 1,000-member Southern delegation will travel overland by bus to Pyongyang on Oct. 6, using the Kyongui corridor across the DMZ, for the opening of the Chung Ju-yung Gymnasium built by Hyundai.

Sept. 26, 2003: A Seoul court convicts six former senior officials – including ex-unification minister Lim Dong-won, architect of the Sunshine Policy – of illicit payments to North Korea before the 2000 North-South summit, but suspends jail sentences as this was “an act of state.”

Sept. 29, 2003: Seoul announces, and starts implementing, procedures for verifying the origin of goods imported from North Korea, as agreed at an earlier meeting.

Sept. 29, 2003: Unification Minister Jeong Se-hyun leaves for the U.S., to speak on the South’s North Korea policy to business, academic, and ethnic Korean audiences. Though his itinerary includes Washington, he is not scheduled to meet any member of the Bush administration.

Sept. 30, 2003: 300 members of ROK civic organizations fly directly to Pyongyang for a five-day celebration of National Foundation Day, commemorating the mythical founding of Korea in 2333 BCE by Tangun – whose grave North Korea claims to have found, and has rebuilt.

**China-Korea Relations:
Middle Kingdom Diplomacy
and the North Korean Nuclear Crisis**

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The quarter started with the first ever meeting between South Korean President Roh Moo-hyun and PRC President Hu Jintao in Beijing, and unfolded with the most assertive Chinese mediating efforts yet to deal with North Korean nuclear tensions, including the hosting of an unprecedented six-party multilateral dialogue that included North Korea, the United States, Russia, Japan, and South Korea in late August. The PRC utilized its long-standing relationships with Pyongyang to maximum effect in an attempt to get North Korea to come to the negotiating table. Intensive China-South Korean consultations included a visit to South Korea by the head of China's Supreme People's Assembly Wu Bangguo and several meetings between the South Korean and Chinese foreign ministers to discuss next steps in capping tensions between North Korea and the United States over the North Korean nuclear development effort.

The only thing more intense than China-Korean political consultations over the North Korean nuclear issue is the continuing boom in China-South Korean trade, which has averaged over 20 percent growth year-on-year. This quarter may well mark the point at which the PRC emerges as South Korea's number one trading partner, surpassing the trade volume of the United States for the first time. South Korean investment and export growth continues apace, but as South Korean industry moves its manufacturing to China, Roh administration's initiative to turn South Korea into the economic hub of Northeast Asia also appears to be ringing hollow.

Mr. Roh Goes to Beijing

The China-South Korea summit meeting in Beijing was the first opportunity for two new leaders to review political and economic objectives in the region with an eye to enhancing the China-South Korean "comprehensive, cooperative partnership." Although President Roh returned from Beijing to mixed reviews over his vague public statements pressing for South Korea's participation in a multilateral dialogue to resolve the North Korean nuclear issue, there was a clear convergence of positions on the desirability of handling this issue through diplomacy. Both Seoul and Beijing have independently pressed the United States and North Korea through their own channels to show greater reasonableness and flexibility in their approaches to the nuclear standoff. China's success

in bringing North Korea to a dialogue that included South Korea has been welcomed in Seoul as a first step toward easing tensions on the Korean Peninsula and eased domestic criticism of President Roh's diplomacy surrounding the North Korean nuclear issue.

Both leaders agreed during their meetings in Beijing to enhance bilateral cooperation in the energy and high technology sectors such as information technology and biotechnology through the establishment of a Korea-China Industrial Cooperation Committee. The bilateral trade volume is predicted to more than double to \$100 billion within five years. At a business luncheon with Korean executives in Beijing, President Roh encouraged South Korean businesses to participate in building China's infrastructure, including projects related to the "Great West Development Project," the 2008 Beijing Olympics, and the 2010 Shanghai exposition. There was also discussion among the two ministers of environment about the need to apply environmental technologies to reduce the negative impact of "yellow dust," which affects the Korean Peninsula each spring.

Several sensitive political issues remained: first, Beijing pushed for a South Korean pledge to continue to deny the Dalai Lama a visit to Korea, contrary to the wishes of Korea's large Buddhist community. Second, Beijing pressed South Korea to recognize the Taiwan issue as "an internal affair of China." Third, the PRC appears to have resisted discussion of the disposition of North Korean refugees or South Korean citizens currently being tried for helping North Korean refugees. The Roh government was strongly criticized in some quarters for failing to obtain the release of South Korean citizens held in China for their efforts to assist North Korean refugees who want to come to Seoul. Finally, it was clear that China was unenthusiastic about Roh Moo-hyun's vision of Korea as a regional hub, given Shanghai's future aspirations and capacity to play such a role.

China's Mediating Role in the North Korean Nuclear Standoff

For Beijing, President Roh's visit to Beijing was the first step in an accelerated effort over the summer to prepare for the next phase of dialogue on the North Korean nuclear issue. Having assessed that it was in China's interest to make every effort to prevent a U.S.-DPRK military conflict following the U.S. war in Iraq, the PRC leadership determined that it could no longer afford to play a passive role in dealing with Korean Peninsular tensions. One fear among Chinese analysts was that a war on the Korean Peninsula might also indirectly serve to strengthen U.S. dominance and complete a military "encirclement" strategy designed to isolate or weaken the PRC.

In view of past ties with North Korea, it was determined Beijing had a "special" and "unique" role to play in resolving the nuclear issues. Although the PRC-DPRK relationship is no longer a relationship among socialist comrades but rather a normal state-to-state relationship, the PRC determined that it could play a credible mediating role. However, the PRC's independent interest in stability on the Korean Peninsula clearly places the avoidance of military hostilities as a higher priority than denuclearization, a significant point of difference between Washington and Beijing. The

PRC's unique diplomatic role includes using old relationships established through traditional party-to-party ties with the DPRK as a means of communicating effectively with the top DPRK leadership. The PRC apparently has also shown itself willing to utilize economic incentives of greater aid to North Korea as part of its strategy, possibly in combination with coercive measures. A notable development that has engendered some media speculation has been China's deployments of People's Liberation Army (PLA) troops at points along the border with North Korea.

Immediately following President Roh's visit to Beijing, Vice Foreign Minister Dai Bingguo, former head of the International Liaison Department of the Central Committee of the Chinese Communist Party, met with top North Korean officials on July 12-14, including six hours of meetings with DPRK Central Defense Commission Chairman Kim Jong-il. According to Chinese press reports, President Hu Jintao sent with Minister Dai his personal letter urging continued talks with the United States over the North Korean nuclear issue. President Hu's letter is reported to have promised China's sincerity in facilitating negotiations to resolve the U.S.-DPRK crisis, an increase in economic aid to the DPRK, and a promise to persuade the United States to make a nonaggression pledge to the DPRK in return for the denuclearization of the Korean Peninsula. It has not yet been revealed whether this message was also accompanied by any explicit Chinese threats of coercive diplomacy similar to the oil pipeline cutoff that occurred in early March, prior to the trilateral meeting hosted in Beijing with the United States and North Korea on April 24-26.

Chairman Kim Jong-il agreed during his meetings with Dai to resume the multilateral dialogue but that bilateral dialogue was a bottom line requirement for moving forward. With this message, Dai then traveled to the United States on July 16-18 to discuss arrangements for a six-party meeting to be held in Beijing, and also convinced the United States to allow a bilateral meeting on the side of the multilateral dialogue. After the PRC conveyed this assurance to Pyongyang, the North Koreans revealed their decision to participate in the talks, but made the announcement via the DPRK Embassy in Moscow on July 31, indirectly expressing their pique with Chinese pressure to accept the multilateral format.

Having successfully convinced all the parties to set a date for the meeting, the PRC continued its shuttle diplomacy with Pyongyang, sending CCP Central Committee member Xu Caihou and deputy head of the International Liaison Department of the CCP Central Committee Liu Hongcai to Pyongyang. On Aug. 19-22, Xu met with Gen. Jo Myong-rok and with Kim Jong-il, who expressed his unhappiness with the United States. In addition to these two delegations, President Hu is also reported to have sent a senior official on a secret mission to Pyongyang to speak directly with Kim Jong-il about his position. Kim is reported to have demanded a written pledge from the U.S. side, placing emphasis on the necessity of a bilateral understanding rather than a multilateral security guarantee. This successful shuttle diplomacy laid the groundwork for the first round of six-party talks held on Aug. 27-29 in Beijing.

Prior to the talks, there were hopes that the PRC might be able to fix a firm date and venue for the second round of talks or announce some form of joint statement, but in the end, the only result was a nonbinding chairman's statement from PRC Deputy Foreign Minister Wang Yi, emphasizing that the nuclear issue should be resolved peacefully, that the security concerns of the DPRK should be taken into consideration through that process, that all parties should avoid actions that might escalate tensions while the talks are ongoing, and that the process for resolving the nuclear issue should involve simultaneous steps.

DPRK frustration with the outcome of the talks has repeatedly been made evident through emotional public statements claiming that the North would not return to the negotiating table unless the United States shows its will to give up its hardline approach toward North Korea, but the DPRK did not take provocative actions as some had predicted on or before the Sept. 9 anniversary of the founding of the DPRK. Satellite evidence showed that the North had ceased operations of its reprocessing plant, but the DPRK subsequently announced that it had completed reprocessing of the spent fuel rods that had been stored under the Agreed Framework. These rods could provide enough plutonium to make 6-8 nuclear weapons. It is impossible to confirm independently the North Korean claim to have finished reprocessing or whether it is a tactic to shape the atmosphere for a second round of negotiations. The DPRK also rejected a visit planned for late September by PRC Supreme People's Assembly Chairman Wu Bangguo, who in early September had also visited South Korea. By the end of the quarter, no date for a second round of talks had been fixed, but despite DPRK rhetoric to the contrary, there were expectations that the next round of talks might take place in early November.

China-ROK Economic Growth in Overdrive

China fever has reached new heights among Korean firms seeking to maximize exports to meet continuously growing Chinese demand for high-end consumer technology goods, intermediary capital goods, automobiles and auto parts, steel, and petrochemicals. The Korea Trade-Investment Promotion Agency reports that on a month-to-month basis, exports to China outpaced exports to the United States for the first time in July, and is likely to displace the United States as South Korea's number one destination for exports by year-end. According to the Korean International Trade Association, South Korean semiconductor exports to the PRC topped \$757 million in January-July of 2003, compared to \$339 million during the previous year. Although the Kia Accent was the most popular small car in China during the first half of this year, selling over 21,000 units, Chinese auto production surpassed that of Korea this year and China's continued growth in capacity is perceived as a potential threat to jobs in the Korean automobile manufacturing sector.

A recent Merrill Lynch report states that "The emergence of the China factor seems to be rewriting the dynamics of the Korean economy." The report states that South Korean low-end consumer companies such as Nong Shim's Instant Noodles, Tong Yang Confectionary Corp. or Shinsegae department store are also benefiting from China's rapid economic growth by moving in to capture local market share. As China emerges as

South Korea's leading destination for exports, the South Korean economy is more immune to global downturns or U.S. economic slowdowns than before.

Another component of the expansion in bilateral trade is related to the South Korean relocation of manufacturing plants in China to maintain competitiveness and take advantage of lower labor costs. A survey by the South Korean Small and Medium Business Administration revealed that four out of 10 small- and medium-size companies are moving or planning to move their production facilities overseas. Eighty percent of the firms seeking to relocate overseas are targeting China.

Another threat to the Korean economy is enhanced competition from China. A flood of low-cost Chinese agricultural products such as garlic has already influenced the trade relationship in past years. Now, Chinese companies such as Haier, China's top electronics manufacturer, are beginning to enter the Korean consumer market. The import of Chinese home electronics into Korea between January and July jumped 22.8 percent from a year earlier, with imports of Chinese washing machines and refrigerators up three to four times the same period last year, according to the Electronic Industries Association of Korea. With expanded capacity now in place at Shanghai and other ports in China, China's economic growth is also threatening business at Busan Port as international shippers opt to ship directly to China rather than transshipping through Busan. The Korean Trade Commission reports that Korea has been the most common target of Chinese antidumping lawsuits in sectors such as optical fiber, stainless steel, cold-rolled steel plates, newsprint, and polyester, with 18 of 23 lawsuits focused on Korea.

Finally, recent discussions over the possible appreciation of the Chinese currency have led to speculation over the possible impact on the Korean economy. Economists predict a mixed impact for Korea, but the net effect appears to be the further strengthening of the China-Korean trade relationship and the further pushing of Korea into China's economic orbit. The LG Economic Research Institute predicts that Korea's trade surplus with China would widen by over \$1.2 billion and would boost Korean exports to the PRC by over \$2 billion, but other analysts worry that *yuan* revaluation might damage Korea's competitiveness in third country markets. The bottom line is that while the Korean dream of being a regional hub increasingly appears to have come too late to translate into reality, the benefits of riding on the back of a rising China may be more than enough to offset the disappointment – if indeed China's economy continues to rise.

Chronology of China-Korea Relations July-September 2003

July 7-10, 2003: ROK President Roh Moo-hyun visits Beijing and Shanghai for his first set of meetings with China's President Hu Jintao and senior Chinese officials.

July 12-14, 2003: Vice Foreign Minister Dai Bingguo visits Pyongyang for over six hours of talks with National Defense Commission Chairman Kim Jong-il regarding the prospects for dialogue regarding North Korea's nuclear program.

July 16-18, 2003: Vice FM Dai visits Washington to discuss prospects for dialogue regarding North Korea's nuclear program.

July 26, 2003: Taiwan's China External Trade Development Council announces that it would set up an office in Seoul in September.

July 31, 2003: DPRK Ambassador to Russia announces North Korea's willingness to participate in six-party dialogue to be held in Beijing.

Aug. 8-12, 2003: ROK Minister of Culture Lee Chang-dong makes his first visit to Beijing for ASEAN Plus Three Tourism Ministers meeting and to host a music concert featuring many leading K-pop celebrities.

Aug. 13-15, 2003: PRC FM Li Zhaoxing visits Seoul to brief FM Yoon Young-kwan on preparations for the six-party dialogue to be held in Beijing.

Aug. 18-22, 2003: Two PRC delegations headed by Xu Caihou, member of the secretariat of the CCP Central Committee and director of the General Political Department of the People's Liberation Army and Liu Hongcai, deputy head of the International Liaison Department of the CCP Central Committee, travel to Pyongyang for discussions in preparation for six party talks, including meetings with National Defense Commission First Vice Chairman Jo Myong-rok and a photo session with Kim Jong-il.

Aug. 21, 2003: The Korea Electric Power Corporation announces that it has finalized its first contract to build two 50,000-kilowatt power plants in China, at Henan Province.

Aug. 27-29, 2003: PRC hosts first-ever six-party multilateral dialogue on North Korea's nuclear program in Beijing.

Sept. 2-4, 2003: PRC National People's Congress Standing Committee Chairman Wu Bangguo visits South Korea at the invitation of National Assembly Speaker Park Kwan-yong and meets with ROK President Roh.

Sept. 6, 2003: The Chinese government is considering reducing its antidumping tariff for Korean steel products, Korea's Ministry of Commerce, Industry and Energy announces.

Sept. 8, 2003: At an IT ministers' conference on Cheju Island, South Korea, China, and Japan agree on joint research and cooperation in seven information technology fields as part of efforts to turn Northeast Asia into a global IT hub.

Sept. 9-12, 2003: National Security Advisor Ra Jong-il visits China for consultations on the North Korean nuclear issue and regional security matters.

Sept. 29-Oct. 2, 2003: Federation of Korean Industries departs for 50th anniversary celebration of All-China Federation of Industry and Commerce in Beijing and to discuss establishment of Korea-China business council conference.

**Japan-China Relations:
Bridges to the Future, Reflections on the
Past**

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In anticipation of the 25th anniversary of the Japan-China Friendship Treaty, both Tokyo and Beijing worked to normalize political relations. Japan's chief Cabinet secretary and defense minister traveled to China, while China's foreign minister and the chairman of China's National People's Congress visited Japan. But, at the end of the comings and goings, Prime Minister Koizumi Junichiro had yet to secure the long-coveted invitation for an official visit to China.

Aug. 15 brought with it the customary end of war remembrances as well as lectures about history and its proper understanding. History did, however, intrude on 21st century reality, as the unearthing of chemical weapons abandoned by the Imperial Army in northern China led to the hospitalization of over 30 construction workers and the death of one. The Koizumi government moved quickly to deal with the issue, offering "sympathy" compensation to the families affected.

Meanwhile, economic relations continued to expand. Two-way trade skyrocketed during the first half of the year, even as the SARS epidemic raged during the second quarter. By mid-July, most Japanese companies in China were operating on a "business as usual basis." At the same time, domestic economic pressures were building in Japan to push the Koizumi government to seek a revaluation of China's currency.

High-Level Contacts: Chief Cabinet Secretary Fukuda in Beijing

On Aug. 4, in an unexpected announcement, Chief Cabinet Secretary Fukuda Yasuo told reporters that, at Beijing's invitation, he would visit China the following week for ceremonies marking the 25th anniversary of the Japan-China Friendship Treaty. The trip was Fukuda's first as chief Cabinet secretary and the first to China by a chief Cabinet secretary since 1995.

The invitation and Fukuda's acceptance were viewed as a significant step in moving relations out the political deep freeze, to which China's leadership had consigned them following Prime Minister Koizumi's visits to the Yasukuni Shrine. (Fukuda's father was

prime minister when the Friendship Treaty was signed.) The Japanese press speculated that Fukuda's visit could pave the way for a Koizumi visit to China later in the year.

On Aug. 9, Fukuda met with China's President Hu Jintao in the Great Hall of the People. Repeating his father's words at the signing of the Friendship Treaty, Fukuda told Hu that the Friendship Treaty had turned the "rope bridge" of the normalization communiqué into a "bridge of iron" along which relations had advanced. Fukuda used the iron bridge reference to plug Japan's shinkansen technology in the international competition to build the Beijing-Shanghai high-speed railroad.

Among the issues discussed were the upcoming six-party talks on North Korea's nuclear challenge and the fate of Japanese abductees in North Korea. According to Japanese sources, Fukuda expressed Japan's appreciation for the role China had played in bringing the six-party talks to fruition and asked for China's understanding and support on the abductee issue. Hu described the six-party conference as an important first step down a long road that would require cooperation between China and Japan. (That evening, China's Vice Foreign Minister Wang Yi, who had just returned from Pyongyang, told reporters at a 25th anniversary reception that he thought it "difficult" to take up the abductee issue in the six-party format because the issue was essentially a bilateral one.)

As in his May 31 St. Petersburg meeting with Koizumi, Hu did not raise the Yasukuni issue with Fukuda. The Japanese press again headlined the absence of the "Y" word in the Hu-Fukuda dialogue. Fukuda also met with Wu Bangguo, chairman of the National People's Congress, who emphasized to the chief Cabinet secretary the importance attached to relations with Japan by China's new leaders.

The following day, Fukuda met with Chinese Premier Wen Jiabao for over one hour in the Zhongnanhai leadership compound. Fukuda told Wen that Prime Minister Koizumi had asked him to convey his best wishes as well as his determination to improve relations with China. Fukuda then invited Wen to visit Japan. In reply, Wen expressed hopes for an early resumption of high-level visits but noted the problem posed by the continuing visits to Yasukuni by Japan's leader. The premier observed that this was a "small problem compared to the problems encountered at the time of Japan-China normalization" and then expressed his expectation that leaders in both countries would be able to engage in reciprocal high-level visits in a "good atmosphere" and that "such a time could come before long."

High-Level Contacts: Foreign Minister Li in Tokyo

At the same time, China's Foreign Minister Li Zhaoxing visited Tokyo to commemorate the Friendship Treaty. (Li had been invited by Foreign Minister Kawaguchi Yoriko during the Asia-Europe meeting (ASEM) in June.) On Aug. 11, Li met with Kawaguchi and later with Prime Minister Koizumi.

In their meeting at the Prime Minister's Official Residence, Koizumi told the foreign minister that he looked for a comprehensive and peaceful resolution of the issues

affecting Japan's relations with North Korea. Li expressed his government's sympathies for the abductees and their families and his recognition of the importance of the issue to the Japanese people. Li noted that the prime minister had repeatedly stressed his commitment to Japan's war-renouncing constitution and his intention of never resorting to war again between the two countries. Li then expressed his commitment to work with Kawaguchi to create the conditions that would permit reciprocal visits of the two countries' leaders.

Li did not raise the Yasukuni issue with the prime minister. But, when Kawaguchi invited Premier Wen Jiabao to Japan, Li pointed out that visits to the shrine by Japan's leader made difficult the realization of the environment needed for reciprocal high-level visits.

The next day, Li called on the secretaries general of the three ruling parties. The foreign minister brought a three-part, good-news/bad-news message – a visa waiver for tourist and commercial travelers; doubts as to whether the abductees issue, a bilateral Japan-North Korea matter, should be raised in the six-party format; and findings that the Aug. 4 poison gas incident in Qiqihar, Heilongjiang Province, was caused by chemical weapons abandoned by the Imperial Army. While restating China's official position on visits to Yasukuni, Li also expressed his interest in bringing about a "better relationship through reciprocal visits" of the two countries' leaders.

Reviewing Li's visit, the *Yomiuri Shimbun* quoted a Foreign Ministry source to the effect that Li "was careful to separate his statements depending on who he was meeting." The diplomat went on to say that "although there is an aspect of being more flexible than ... Jiang Zemin, on the historical view issue there is no change in the principles and rules."

High-Level Contacts: Defense Minister Ishiba in Beijing

On Sept. 2, at the invitation of the Chinese government, Japan's Defense Minister Ishiba Shigeru began a three-day visit to China, the first by a Japanese defense minister in over five years. Ishiba's visit marked a resumption of high-level defense contacts that China had put on hold following Koizumi's visit to the Yasukuni Shrine in April of last year.

Ishiba spent Sept. 2 in Shanghai visiting a People's Liberation Army (PLA) Navy base, then traveled to Beijing, where on Sept. 3 he met with China's Defense Minister Cao Gangchuan. Topics for discussion included North Korea, the resumption of bilateral defense exchanges, and missile defense.

On North Korea, the ministers agreed that Pyongyang could not be allowed to possess nuclear weapons and on the need for continued diplomatic efforts. On missile defense, Ishiba explained that Japan's commitment to the program would not lead to military expansion. Cao, however, expressed concerns that a missile defense system could undermine the world's military balance and set off a new arms race. Turning to history, Cao noted that it would be difficult to turn around the bilateral relationship without addressing the past, as now exemplified by Yasukuni and school textbook issues. He also

told Ishiba that China viewed as a “serious” matter the problem of chemical weapons left behind in China by the Imperial Army.

According to a Japanese Foreign Ministry source, China was also concerned with steps taken by Tokyo since defense ministers last met – the adoption of Japan’s New Defense Guidelines, the Emergency Laws adopted earlier this year, as well as the special legislation on Iraq. Cao cautioned Japan to adhere to its defense-only policy. The ministers agreed to resume bilateral defense exchanges, suspended since Koizumi’s April 2002 visit to the Yasukuni Shrine. The exchanges will begin with reciprocal ship visits by the PLA Navy and Japan’s Maritime Self Defense Force, with the PLA Navy first visiting Japan.

Earlier, in mid-August, the *Sankei Shimbun* reported that China had sounded out Japan on the possibility of allowing colonel-level officers to study at Japan’s National Institute for Defense Studies (NIDS). On Sept. 12, *The People’s Daily* announced that Lt. Col. Meng Faming, an instructor at China’s National Defense University, had enrolled as a student at NIDS. Lt. Col. Meng is the first Chinese officer to study at NIDS since the end of World War II.

High-Level Contacts: Chairman of National People’s Congress in Tokyo

While Ishiba visited China, Wu Bangguo, chairman of China’s National People’s Congress traveled to Japan. On Sept. 5, Wu met with Koizumi at the Prime Minister’s Official Residence. History in its many facets was the centerpiece of the discussion.

While not directly addressing the prime minister’s visits to Yasukuni, Wu did make clear that to advance the bilateral relationship, both countries would have pay attention to the interests of the other party. Koizumi referred to his talks with Hu Jintao in St. Petersburg and his commitment to promote the Japan-China relationship while “learning lessons from history.” Wu also raised the chemical weapons incident in Qiqihar and asked that Japan deal with the matter as expeditiously as possible. In reply, Koizumi expressed his regrets and commitment to deal with the matter in good faith.

Wu told the prime minister that his visit to Tokyo should be understood as an expression both of the importance that China’s new leadership attaches to relations with Japan and of his own personal support for reciprocal high-level visits. Wu, however, did not extend an invitation to the prime minister to visit China.

Wu also met with leaders of Japan’s opposition parties, Doi Takako of the Social Democratic Party and Kan Naoto of the Democratic Party of Japan. The discussion with Kan focused on North Korea and the abductee issue.

History: Chemical Weapons

On Aug. 4, at a construction site in Qiqihar City, Heliongjiang Province, 36 workers were afflicted by poison gas leaking from canisters abandoned at the site by the Imperial Army; 29 were hospitalized. On Aug. 8, the minister at the Japanese Embassy in Beijing was called into the Foreign Ministry and asked that his government take “appropriate actions.” The following day, Tokyo dispatched a survey team to the Qiqihar site. On Aug. 11, Chief Cabinet Secretary Fukuda told reporters in Beijing that he would await the findings of the survey team and, if the results of the survey confirmed responsibility of the Imperial Army, the Japanese government would take “necessary actions.”

On Aug. 21, one of the victims died. The next day, the Japanese Foreign Ministry expressed its “heartfelt condolences” to the victim’s family and committed Japan “to respond sincerely to the accident in close cooperation with the Chinese side.” Chief Cabinet Secretary Fukuda told reporters that the government recognized Japan’s “responsibility” and was exploring ways to express its sincerity.

Two weeks later, on Sept. 3, Japanese Foreign Ministry Officials, led by China Country Director Horinouchi Hidehisa traveled to Beijing in an attempt to resolve the issue. The next day, the Japanese press reported that Japan would offer ¥100 million in compensation to the victims of the incident and that the offer would be discussed with Wu Bangguo during his visit to Japan in early September.

History: August 15

As usual, the summer months leading to the Aug. 15 anniversary of Japan’s surrender at the end of World War II raised a number of sensitive issues. On July 13, Liberal Democratic Party (LDP) faction leader Eto Takami issued another denial of the Nanjing Massacre. Speaking at an LDP meeting, Eto called the massacre a “complete fabrication” and went on to bad mouth both Chinese and Korean residents of Japan.

The next day, China’s Foreign Ministry spokesperson corrected Eto’s characterization, calling Nanjing an “unspeakable crime,” documented by the “unmovable” proof of history. Four days later, in response of a report that Tokyo Gov. Ishihara Shintaro, had slandered China, advocated a cut in Japan’s official development assistance (ODA) program for China, and suggested that Chinese residents in Japan be deported, the Foreign Ministry expressed China’s “strong indignation and condemnation” to the “blatant and slanderous attack on China.”

The issue of Koizumi’s visiting the Yasukuni Shrine on Aug. 15 came up again in conjunction with the September LDP presidential election. Previously, in the spring of 2001, Koizumi, then a candidate in the party’s presidential election, promised to visit the shrine on Aug. 15 – no matter the criticism. This time the issue was whether he would include such a promise in his re-election campaign manifesto. Meeting with reporters, Koizumi told the press that the promise to visit the shrine was made two years ago, and

that, taking various facts into consideration, it was best for the prime minister to avoid Aug. 15. Five ministers of the Koizumi government, however, visited the shrine on Aug. 15.

Although China's Foreign Ministry had characterized the development of good-neighborly relations with Japan as an "irreversible historical trend" and predicted that any attempt to reverse the trend was "doomed to failure," the *Yomiuri Shimbun* reported that on Aug. 15 at least a counter trend was alive and well. Noting that on successive days the Chinese press had opposed Japan's bid to supply shinkansen technology for the Beijing-Shanghai railroad and featured the poison gas incident in Qiqihar, the *Yomiuri* concluded that on the popular level at least "anti-Japanese sentiment is as strong as ever." There were also stories on Japan's military modernization and Tokyo's interest in developing long-range strike capabilities. Although the *Yomiuri* was unable to find evidence of a centrally directed anti-Japan campaign, it did conclude that a "strong anti-Japan tone" permeated China's media.

New Thinking?

At the same time, the *Yomiuri* noted that China's new leadership had placed a high priority on the development of relations with Japan. Both the *Yomiuri* and the *Asahi Shimbun* reported on the continuing appearance of "new thinking" articles on Japan in Chinese journals, the latest being "An Argument for New Thinking Toward Japan," by Fu Shookei (phonetic) of China's Japan Research Institute.

Fu advanced five principles for new thinking, the first being that national interest is the highest principle. This argued against emotionalism in considerations of policy. Fu went on to assert that economic interests should be placed at the core of China's national interests. Accordingly, global and regional peace and stability are prerequisites for China's economic success. In this context, it is the responsibility of China's Communist Party to develop the leading ideas for policy toward Japan. Finally, Fu argued that successful development of bilateral relations requires cooperation of both countries.

Looking at recent developments in Japan, in particular passage of Japan's Emergency Legislation, Fu contended that the law did not pre-sage the revival of militarism in Japan; rather he saw postwar Japan as continuing to choose the path of peaceful development. Indeed, Fu argued that Japan's emergence as a major international actor would encourage Japan to seek greater independence from the United States, thus contributing to China's own objective of creating a multipolar world. As for Koizumi's visits to the Yasukuni Shrine, Fu pointed out that, despite China's continuing criticism, the prime minister had consistently opposed "China threat" theories and supported broad-based, mutually beneficial economic cooperation.

China-North Korea-Japan

As in last year's Shenyang Incident, asylum-seeking North Koreans again complicated Japan's relations with China. On Aug. 11, the Japanese NGO, The Society to Help Returnees to North Korea, announced that nine North Korean citizens, planning to seek asylum at the Japanese consulate in Shanghai along with four other individuals, including Yamada Fumiaki, a professor of Economics at Osaka University and head of the NGO, were taken into custody by Chinese authorities. Later that day, the Foreign Ministry confirmed Yamada's detention by the Shanghai authorities. Two weeks, later, on Aug. 28, the detainees were deported from China.

Business and Economics: the SARS Effect?

On July 11, during a meeting with a delegation from the Japan-China Friendship Association, Wu Bangguo, told his visitors that China's GDP in the first half of 2003 grew 8.3 percent over the same period in 2002. First quarter growth hit 9.9 percent; second quarter growth, however, fell to 6.7 percent, reflecting the impact of severe acute respiratory syndrome (SARS). Despite the spread of the epidemic, private sector and joint public-private sector investment grew 35 percent during the second quarter, much of it going into the overheated real estate market.

On Aug. 21, Japan's External Trade Organization released figures for the first six months of 2003. Again, trade with China continued to skyrocket. For the first six months of 2003, Japan-China trade increased at a rate of 33.9 percent over the same six-month period in 2002, amounting to \$60.4 billion. Exports to China, \$25.7 billion, grew 49.4 percent, while imports from China amounted to \$34.6 billion, a 24.3 percent increase, in large part the result of imported computer parts now manufactured by Japanese companies in China. For the fifth consecutive year total volume for all of 2003 is projected to set a new all-time high of \$120 billion.

Reflecting the increasing importance of Japan's trade with China, the Foreign Ministry on Aug. 20 announced the outline of a reorganization plan that would make the economic section in the China Affairs Division into an independent organization, to be designated the Japan-China Economic Affairs Office. The reorganization plan was submitted with the Ministry's 2004 budget request, with implementation scheduled for July 2004.

Business and Economics: Shinkansen Technology

Chief Cabinet Secretary Fukuda was not the sole government salesman for Japan's shinkansen technology in the international competition to build the Beijing-Shanghai railroad in time for the 2008 Olympics. On Aug. 4, Japan's then Minister of Transportation Ogi Chikage traveled to China to meet with Beijing's mayor and China's director of tourism. In making her pitch for the shinkansen, the minister emphasized the safety factor – 40 years of service, carrying 700,000 passengers without an accident. With the Chinese government now evaluating proposals from France and Germany as

well as Japan, Chinese officials were noncommittal. At the same time, officials from Beijing's Planning and Research Office told the minister that the city was interested in Japan's electro-magnetic, linear motor car technology for transportation within the city.

With the transport minister failing to elicit more than an "under consideration" response from Chinese officials, a high-powered Keidanren delegation decided on Aug. 8 to postpone its mid-August shinkansen-promotion visit to China. At the same time, the *Yomiuri* reported a strong, anti-shinkansen nationalist sentiment rapidly spreading across China's internet.

Business and Economics: Yuan Revaluation

Finance ministers of the ASEAN Plus Three met in Manila on Aug. 7. Discussions centered on steps necessary to create a regional bond market. But, Japan's Finance Minister Shiokawa Masajuro took the opportunity to tell his Chinese counterpart, Jin Renqing, that the yuan should be revalued upward. At a press briefing afterward, Jin ruled out any revaluation. After returning to Japan, Shiokawa told reporters that Jin had expressed his "understanding" and a willingness to consider the possibility of revaluation. Japan's push for yuan revaluation resumed on Sept. 4 during the APEC Finance Ministers meeting in Phuket, Thailand.

Japanese Behaving Badly

Reports of a Japanese sex orgy in a hotel in the city of Zhuhai in southern Guangdong province surfaced in the Chinese media at the end of September. A tour group of approximately 400 Japanese between the ages of 16 and 37 was reported to have engaged Chinese prostitutes for a two-day spree, Sep. 16-17. China's Foreign Ministry Spokesman labeled the incident "extremely odious," while China's increasingly active internet gave the story heavy and lurid anti-Japanese play.

Japan-China Relations – Looking Ahead

During the July-September quarter both governments worked to normalize political relations and to impart forward momentum to the bilateral relationship. In large part, they succeeded: however, Koizumi's hoped for invitation for an official visit to China remained captive of the past and his visits to the Yasukuni Shrine. Commercial and business relations also continued to promise a brighter future. But the past, in the shape of chemical weapons canisters, remained very much a part of the present, while popular anti-Japanese sentiment demonstrated enduring strength. Overall, it was two steps forward. 0.5 steps backward during the quarter.

Chronology of Japan-China Relations July-September 2003

July 7, 2003: Japanese and Chinese finance ministers meet at Bali, Indonesia to discuss formation of an Asia regional bond market.

July 11, 2003: Wu Bangguo, chairman of the National People's Congress, meets delegation from the Japan-China Friendship Association.

July 13, 2003: LDP faction leader Eto Takemi denies Nanjing massacre.

July 14, 2003: China's Foreign Ministry "corrects" Eto's statement.

July 23, 2003: Premier Wen Jiabao meets with Japanese parliamentary delegation of the Japan-China Friendship League in the Great Hall of the People. Discussion focuses on North Korea.

July 23-24, 2003: Japanese and Chinese economic ministers meet in Dalian, China to discuss trade-related matters in the context of the Asia-Europe Meeting (ASEM).

Aug. 4, 2003: Japan's minister of transportation travels to China to plug shinkansen technology.

Aug. 4, 2003: Thirty-six workers injured at construction site in Qiqihar, Heilongjiang Province as a result of chemical weapons abandoned in China by the Imperial Army.

Aug. 7, 2003: ASEAN Plus Three finance ministers meet in Manila, Philippines.

Aug. 8, 2003: China requests Japan to take appropriate actions to deal with chemical weapons injuries.

Aug. 9, 2003: Japan dispatches survey team to Qiqihar chemical weapons site.

Aug. 9, 2003: Chief Cabinet Secretary Fukuda meets President Hu Jintao in Beijing.

Aug. 9, 2003: Fukuda meets with Wu Bangguo.

Aug. 10, 2003: Fukuda meets with Premier Wen.

Aug. 10, 2003: China's FM Li meets with FM Kawaguchi in Japan.

Aug. 11, 2003: FM Li meets with PM Koizumi.

Aug. 11, 2003: Japanese NGO reports arrest in Shanghai of Japanese national working to support North Korean refugees planning to seek asylum in Japanese Consulate.

Aug. 12, 2003: FM Li meets with secretaries general of three ruling parties.

Aug. 15, 2003: Five members of Koizumi Cabinet visit Yasukuni Shrine.

Aug. 18, 2003: *Sankei Shimbun* reports that China has inquired about PLA officer attending classes at Japan's National Institute for Defense Studies.

Aug. 21, 2003: Chinese victim of chemical weapons exposure dies.

Aug. 22, 2003: Japan expresses condolences on death of construction worker.

Aug. 24, 2003: Former LDP Secretaries General Nonaka and Koga meet with State Councilor (and former foreign minister) Tang Jiaxuan to discuss upcoming six-party talks in Beijing and to ask China's help in resolving the abductee issue. Tang also used the occasion to convey China's indignation over the poison gas incident in Heilongjiang.

Aug. 28, 2003: North Koreans detained in Shanghai on Aug. 11 deported from China.

Sept. 2, 2003: PLA officer enrolls in Japan's National Institute for Defense Studies.

Sept. 2, 2003: Japan's Defense Minister Ishiba Shigeru visits China.

Sept. 3, 2003: Ishiba meets with China's Minister of Defense Cao Gangchuan.

Sept. 3, 2003: Japanese Foreign Ministry officials travel to Beijing to resolve chemical weapons issue.

Sept. 4, 2003: Wu Bangguo travels to Japan, meets with PM Koizumi and leaders of Japan's opposition parties.

Sept. 4, 2003: APEC finance ministers meet in Phuket, Thailand. Finance Minister Shiokawa is unable to attend and replaced by Vice Minister for International Affairs Mizoguchi Zenbe.

Sept. 8, 2003: Minister for Reform suggests that China's lack of appreciation for Japan's ODA efforts is cause for reconsideration of China ODA program.

Sept. 12, 2003: JAL and ANA announce post-SARS increase in weekly flights to China.

Sept. 16-17, 2003: 400 Japanese reported to have participated in two-day orgy with Chinese prostitutes in city of Zhuhai.

Sept. 29, 2003: Tokyo district court awards ¥190 million in compensation to group of Chinese claiming injury from chemical weapons abandoned in China by the Imperial Army at the end of World War II.

**Japan-Korea Relations:
What a Difference A Year Makes...**

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Last September, Japan-DPRK relations looked to have made a major breakthrough with the unprecedented visit of Japanese Prime Minister Koizumi Junichiro to Pyongyang. *Rodong Sinmun* marked the anniversary this year by warning about an “unavoidable” war between the DPRK and Japan. The Trilateral Coordination and Oversight Group (TCOG) remained active this quarter prior to and in the aftermath of the six-party talks over the DPRK’s nuclear weapons. Japan played a “starring role” in Proliferation Security Initiative (PSI) exercises in the Coral Sea.

Japan-DPRK Relations

What a difference a year makes. Last September, Japan-DPRK relations looked to have made a major breakthrough with the unprecedented visit of Prime Minister Koizumi to Pyongyang. North Korean leader Kim Jong-il hosted Koizumi for hours of discussions and the joint declaration (known as the Pyongyang Declaration) committed both leaders to resume long-suspended normalization talks. Japan made a statement of regret regarding the colonial past, while the DPRK boldly admitted, and apologized for, several abductions of Japanese nationals in the past. Even the most skeptical analysts had to admit that this was a watershed event that potentially spelled positively for future Tokyo-Pyongyang relations.

The watershed summit’s one-year anniversary (Sept. 17, 2003) could not have been a more vivid example of how fluid East Asian relations can be. The newspaper of Pyongyang’s ruling Korea Workers Party, *Rodong Sinmun*, marked the occasion by warning about an “unavoidable” war between the DPRK and Japan. Since the summit, Koizumi has suspended food aid and humanitarian assistance to the DPRK, overseen the budgetary go-ahead for missile defense, and been an active participant in the PSI exercises in the region.

On virtually every indicator of bilateral relations, Japan-DPRK relations have sunk to new lows. Bilateral trade has dropped dramatically as a result of nuclear tensions with North Korea and continued Japanese anger over the abductions cases. Exports to the DPRK in the first two quarters of 2003 are down 31 percent and imports down 18.5

percent from the prior year's period. By May 2003, Japanese exports to the DPRK recorded their lowest total in eight year (¥8 billion).

Part of this decline is symptomatic of the overall state of relations, but it is also consonant with the Japanese political decision (beginning in earnest last quarter but dating back to the first quarter of 2003, see "Contemplating Sanctions," *Comparative Connections*, April 2003, Vol. 5, No. 1) to heighten customs inspections and surveillance of DPRK ships ferrying to Japan. The cargos of these ferries have been the subject of great speculation as many believe the North imports numerous "dual-use" products, missile parts, and illicit funds through this channel. Japan continued with operations begun last quarter to monitor these ships in an unprecedented strict fashion.

In August, the DPRK ferry *Mangyongbong-92* made its first port call at Niigata in seven months. Because of tighter safety and customs procedures by Japan as well as angry protests at the port, the North Koreans protested by recalling the ship on at least two occasions prior to the August visit. The sorts of activities that surrounded this obscure ferry's journey from Wonsan to Niigata offer a case study in not only the state of political relations, but also the diligence of the Japanese in tightening the screws. The ferry, upon its arrival in Japan, was secured by 1,500 police as both demonstrators against and supporters of the ferry's arrival (the latter from the Chosen Soren) were in attendance.

The vessel subsequently underwent an eight-hour Port State Control inspection by Transport Ministry officials that revealed a number of safety violations, and then underwent another set of inspections to ensure that the proper repairs had been made. Coterminous with these inspections, there was also a thorough inventory and inspection of the cargo and passengers. Japanese authorities blocked the ship from leaving port for the return trip to Wonsan until the safety repairs were confirmed. The ship returned to Japan in September ferrying supplies and goods in preparation for the DPRK's 55th anniversary celebrations, again meeting with scrutiny by transport authority officials for safety violations, inspections of cargo by 100 customs officials, and protests in Niigata from groups shouting "go home" and "give our children back." Such scrutiny is a far cry from past practices when the *Mangyongbong-92* made nearly 30 trips annually between Wonsan and Niigata as the only direct link between the two countries and received little attention regarding its cargo or passenger manifests.

Japanese Participation in PSI

The customs and safety inspections undertaken by Japanese officials with the *Mangyongbong-92* represents, in theory, one aspect of the U.S.-led PSI that focuses on the "import" side of stopping the transfer of weapons of mass destruction (WMD) materials. The 11-member PSI seeks to create practices, to enhance coordination (police and military), and to synchronize domestic legal procedures in order to restrict the potential transfer of WMD materials. There are three critical stages to this initiative: 1) export controls; 2) import controls; and 3) interception in-transit. Until this past quarter, of these three activities, Japanese officials publicly and privately were comfortable with

all but interception activities (particularly in the absence of a UN resolution). Practices at Niigata confirmed that the Japanese did not hesitate to scrutinize the import and export stages.

But the past quarter saw Japan play a very prominent and active part in PSI exercises designed to practice the interception of vessels. The first of these PSI exercises, known as Pacific Protector, took place Sept. 13-14 in the Coral Sea near Australia. The exercises simulated the interception and boarding of vessels suspected of smuggling WMD materials through international waters. United States, French, and Australian naval vessels and aircraft participated in the drill and seven other nations acted as observers. But the big story was Japan. As the *Asahi Shimbun* reported (Sept. 15, 2003), Japan played a “starring role” in the maritime exercise. A Japanese Coast Guard patrol ship (*Shikishima*) pursued the suspect vessel and in coordination with other participants succeeded in blocking an attempted escape. Helicopters from the Japanese Coast Guard vessel then dropped commandos aboard the ship in a search and seizure exercise. The DPRK predictably criticized these exercises but singled out Japan in particular with its rhetorical salvos. By the end of this quarter, Pyongyang claimed that Japan was now “banned” from the six-party nuclear talks started in Beijing in August.

Japan’s central role in these PSI exercises, despite its stated ambivalence for interdiction and significant domestic legal obstacles to doing so (e.g., the Japanese coast guard cannot board ships that do not fly Japanese flags, for the purpose of the exercises, the suspect vessel was tagged as a Japanese ship), attests not only to the poor state of Japan-DPRK relations, but also the degree to which Japan is willing to pursue sanctions against North Korea. Nowhere was this more apparent than toward the end of this quarter when Japanese newspaper reports had the government speaking openly about the type of sanctions it would pursue in the event of a DPRK nuclear test: 1) banning port calls by DPRK ships; 2) suspending financial remittances to the DPRK through Japanese financial institutions; 3) support a UN Security Council resolution for wider economic sanctions.

Japan’s Han (unredeemed resentment) on the Korean Peninsula

Japan’s resoluteness stems not only from the continued nuclear and missile threats posed by the DPRK, but a deep anger that exists within the Japanese public and government over the abduction issue. As this column has alluded to in the past, Kim Jong-il’s decision in September 2002 to admit to several cases of Japanese abductions did little to alleviate the political obstacle this issue posed to normalization talks. Instead, it sparked widespread anger in Japan that has still not yet abated. This anger is rooted in the fact that some of these abductees died while in North Korea, and that the children of the returned abductees still remain in the North.

But the anger is also a form of Japanese self-flagellation. For decades, Japanese society dismissed claims by its own citizens about such kidnappings, basically relegating these people to the Western equivalent of “I was kidnapped by Martians” stories that adorn the

covers of periodicals at the checkout stands of grocery stores. The North Korean leader's public admission in this sense gave rise to shame and anger among many Japanese. The point is that this multi-tiered anger will continue to be vented against North Korea. Even if Pyongyang were to return the remaining children of the abductees (as they had implied in the runup to the six-party Beijing talks), this would not in my estimation end the anger as Japanese would then want answers to the hundreds of other suspect cases of abduction. The public mood is so unforgiving that at 55th anniversary DPRK celebrations at the pro-DPRK Chosen Soren headquarters in Japan, no Japanese government officials were present. As James Brooke of *The New York Times* reported, "in the past, power brokers from the governing Liberal Democratic Party would sweep into founding day banquets. But tonight, not even congressional representatives from the Communist Party of Japan dared be seen at a DPRK event." In this sense, the abduction issue has become Japan's unrequited resentment (or "han" in Korean) vis-à-vis the Korean Peninsula.

Japan-ROK Relations

Relative quiet in Seoul-Tokyo relations this quarter. Much of the activity between these two was dominated by three-way coordination with the United States in dealing with North Korea. In a nod to a younger generation of more confident South Koreans, the Seoul government lifted final import barriers against Japanese pop culture, music, and video games. While this was long overdue, it did show how confident the ROK has become with regard to its own pop culture (i.e., the Korean Wave) which has become the rave throughout Asia.

The other quiet but significant area of cooperation took place not in Seoul or Tokyo, but in Cancun, Mexico. On the sidelines of the World Trade Organization (WTO) meetings in Cancun, Trade and Industry Minister Takeo Hiranuma and ROK Trade Minister Hwang Doo Yun agreed that their two governments held similar views on a range of critical issues being discussed at the global gathering. The two countries wanted forestry and marine products to be exempted from proposed tariff cuts. They wanted to proceed with discussions on agriculture, market access to nonagricultural products, and the "Singapore" issues (i.e., trade facilitation, investment rules, transparency in government procurement, and competition policy). This cooperation in such global economic fora is symptomatic of the deeper cleavages between the developed and developing world more than it is something explicit to Japan-South Korea bilateral relations.

Trilateral Coordination and Oversight Group

The quarter saw active trilateral consultations among Seoul, Tokyo, and Washington on North Korea. TCOG meetings in mid-August provided opportunities for the three allies to coordinate strategies in advance of the six-party nuclear talks with North Korea in Beijing. These consultations helped minimize gaps in the three countries' positions during the Beijing meetings (despite the fact that the South Korean delegation chose not to stay in the same hotel as the U.S. and Japanese delegations). Following the six-party talks in Beijing, a TCOG meeting in Tokyo at the end of September focused in particular

on exploring the format of an international inspection regime in North Korea that might include collaborative efforts between the three allies and the International Atomic Energy Agency. The three parties, led by Mitoji Yabunaka, head of the Japanese foreign ministry's Asian and Oceanian affairs bureau, the ROK Deputy Foreign Minister Lee Soo-Hyuck, and James Kelly, U.S. assistant secretary of state for East Asian and Pacific affairs, also discussed the outlook for a second round of six-party talks as well as possible different formulae for security assurances to the North. These discussions did not take place with some apparent breakthrough anticipated in DPRK attitudes on stepping back from its nuclear programs, rather they constituted preparatory discussions in the eventuality (however remote) of such a move by Pyongyang.

The six-party meetings in late-August in Beijing offered another opportunity for Japan and the DPRK to exchange demarches, both of which remained basically unchanged from previous discussions. Following closely to the U.S. line, in Japan's opening statement at the meeting, Yabunaka Mitoji, the Foreign Ministry's director general of Asian and Oceanian Affairs Bureau, reiterated that economic and energy assistance would be forthcoming to the DPRK if it first took conciliatory steps on the nuclear and missile threat and on the abductions issue. The Japanese held a bilateral session with the North Koreans outside of the plenary sessions, and in these meetings reportedly placed strong emphasis on North Korean concessions on the abductions issue as a critical indicator of Pyongyang's good faith in resolving tensions with Tokyo. The North Koreans responded with little that could be considered positive, instead arguing that the Japanese had reneged on promises to return the five abductees who were allowed to visit Japan. Anger in Japan in response to this outcome on the abductions issue prompted numerous responses from public officials in Japan. Most notably, Tokyo Gov. Ishihara Shintaro called on the government to begin implementing economic sanctions against the DPRK to compel the regime to become more responsive in resolving the abductions issue.

Following the six-party talks in Beijing, a TCOG meeting in Tokyo at the end of September focused in particular on exploring the format of an international inspection regime in North Korea that might include collaborative efforts between the three allies and the International Atomic Energy Agency. The three parties, led by Yabunaka, the ROK Deputy Foreign Minister Lee Soo-hyuk, and James Kelly, U.S. assistant secretary of state for East Asian and Pacific affairs, also discussed the outlook for a second round of six-party talks as well as possible different formulae for security assurances to the North. These discussions did not take place with some apparent breakthrough anticipated in DPRK attitudes on stepping back from its nuclear programs, rather they constituted preparatory discussions in the eventuality (however remote) of such a move by Pyongyang.

Chronology of Japan-South Korea Relations July-September 2003

July 2, 2003: U.S., Japanese, and South Korean officials meet for informal talks on the DPRK and efforts to end the stalemate over its nuclear weapons programs.

July 8, 2003: Japan, the ROK, and the U.S. agree in trilateral informal talks to halt the construction of light-water reactors in the DPRK if the DPRK fails to drop its nuclear ambitions.

July 14, 2003: The *Mainichi* newspaper reports that Japan-DPRK relations remain deadlocked despite contacts in mid-June aimed by Japan at pushing for multilateral talks to resolve both the nuclear and abductee issues, while the DPRK insisted on one-on-one talks with the U.S. first.

July 15, 2003: Japan and the U.S. agreed to tighten measures to crack down on the DPRK's drug smuggling, missile-related trade, currency counterfeiting, and other illegal activities.

July 16, 2003: DPRK drops its opposition to multilateral talks on its nuclear weapons program if the U.S. guarantees not to undermine the Kim Jong-il government.

July 22, 2003: PRC and the ROK protest against remarks by a senior Japanese politician playing down the Nanjing Massacre and Japan's annexation of the Korean Peninsula.

July 31, 2003: Russia expresses the DPRK's support for "six-sided talks" on resolving the complex situation on the Korean Peninsula.

July 31, 2003: Ten people believed to be DPRK asylum seekers take refuge at the Japanese embassy in Bangkok

Aug. 4, 2003: U.S. and Japan consider forming a nuclear inspection team for the DPRK that comprises weapons experts from the two countries, as well as the PRC, the ROK and Russia.

Aug. 4, 2003: DPRK intimates an interest in allowing families of returned abductees to visit Japan.

Aug. 1, 2003: Japan plans to raise the abduction of its citizens by the DPRK at six-way talks to be held in Beijing on the crisis over Pyongyang's nuclear ambitions.

Aug. 12, 2003: Japanese report says worrying about the threat from the DPRK's nuclear weapons and missile programs, Japan may seek an anti-missile system in place within three years.

Aug. 13-14, 2003: TCOG meeting in Washington – U.S., ROK, and Japanese officials final coordination prior to six-party nuclear talks with the DPRK in Beijing.

Aug. 16, 2003: Korea International Trade Association reports that Japan-DPRK bilateral trade has dropped sharply in the first half of 2003 as bilateral relations have suffered because of the abductee and nuclear issues.

Aug. 18, 2003: DPRK says that Japanese insistence on raising the abduction issue could lead to a scuttling of the upcoming six-party talks in Beijing.

Aug. 19, 2003: Japanese and German leaders reaffirm their commitment to peacefully address Pyongyang's nuclear arms program, with Berlin expressing support for Tokyo's efforts to resolve DPRK's past abductions of Japanese.

Aug. 19, 2003: *Nihon Keizai Shimbun* reports that Pyongyang demands Tokyo pay ¥1 billion (\$8.44 million) for the return of each abductees' child to their families now residing in Japan.

Aug. 20, 2003: *Tokyo Shimbun* reports that the DPRK offers to return the children of the five Japanese abductees in exchange for food aid from Tokyo and a commitment to close the abduction issue between the two countries.

Aug. 22, 2003: Japanese newspapers report that the Defense Agency will make a budget request of \$1.19 billion for the 2004 fiscal year in large part to introduce U.S. missile defense systems to defend Japan against the DPRK missile threat.

Aug. 24, 2003: DPRK *Mangyongbong-92* ferry makes first port call in Niigata, Japan in seven months.

Aug. 23-25, 2003: Japan and South Korea participate in naval military exercises hosted by Russia off the Russian Pacific Coast.

Aug. 27-29, 2003: Six-nation talks over the DPRK's nuclear weapons in Beijing.

Sept. 4, 2003: Japan's FM Kawaguchi Yoriko announces that Japan will seek bilateral talks with DPRK on the abduction issue, even outside the six-nation framework to resolve the nuclear problem.

Sept. 4, 2003: *Mangyongbong-92* arrives in port at Niigata and is met by anti-DPRK protestors.

Sept. 5, 2003: *Mangyongbong-92* is cleared to depart from Niigata, returning to North Korea after inspection of cargo and meeting safety requirements.

Sept. 8, 2003: Chosen Soren in Japan hold celebrations of 55th anniversary of DPRK. No Japanese government officials are present in a departure from past practice.

Sept. 11, 2003: Tokyo Gov. Shintaro Ishihara in a speech in Nagoya criticizes Deputy Foreign Minister Hitoshi Tanaka for appeasing North Korea.

Sept. 11, 2003: On the sidelines of the WTO conference in Cancun, Japanese Economy, Trade and Industry Minister Takeo Hiranuma and ROK Trade Minister Hwang Doo Yun agree that their governments hold similar views on a range of issues being discussed at the meeting.

Sept. 13-14, 2003: Proliferation Security Initiative exercises take place in the Coral Sea involving the U.S., France, Australia, and Japan and seven other nations as observers.

Sept. 15, 2003: Japanese newspapers report that the Japanese Defense Agency is interested in incorporating into missile defense plans a new radar technology with improved detection capabilities for the DPRK's Nodong ballistic missiles.

Sept. 15, 2003: DPRK *Korean Central News Agency* (KCNA) criticizes the maritime exercises, warning that Pyongyang would "further increase its nuclear deterrent force."

Sept. 15, 2003: *Yomiuri Shimbun* reports that the Japanese government is considering a range of economic sanctions if the DPRK undertakes a nuclear test.

Sept. 16, 2003: South Korea announces the lifting of import barriers for Japanese movies, pop songs, and video games from 2004.

Sept. 17, 2003: One year anniversary of the Koizumi-Kim summit in Pyongyang

Sept. 23, 2003: FM Kawaguchi in speech before the UN General Assembly calls on the DPRK to abandon its nuclear weapons program and resolve the abduction issue before Tokyo could normalize relations with Pyongyang.

Sept. 26, 2003: DPRK's *Rodong Sinmun* commentary warns that Pyongyang declaration between Kim and Koizumi last year is almost meaningless and that the two countries are inching toward war.

Sept. 29, 2003: TCOG meeting in Tokyo.

China-Russia Relations:

The Russian-Chinese Oil Politik

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The specter of oil is haunting the world. The battle of oil, however, is not just being waged by oilmen from Texas and done with “shock-and-awe” in the era of preemption. Nor does it have anything to do with the billion-dollar contract awarded to the U.S. firm Halliburton for the reconstruction of postwar Iraq. This time, oil, or lack of it, is clogging the geostrategic pipeline between the world’s second largest oil producer (Russia) and second largest oil importing state (China) as they haggle over the future destination of Siberia’s vast oil reserves.

To be sure, the “oil politik” between Moscow and Beijing is far from a full-blown crisis. Indeed, China-Russia relations during the third quarter were marked by dynamic interactions and close coordination over multilateral issues of postwar Iraq, the Korean nuclear crisis, and institution building for the SCO (Shanghai Cooperation Organization).

Russia’s energy realpolitik, however, has led to such a psychological point that for the first time, a generally linear, decade-long emerging Russian-Chinese strategic partnership, or honeymoon, seems arrested and is being replaced by a routine, boring, or even jolting marriage of necessity in which quarrels and conflicts are part normal.

Business still as Usual

Unlike the more turbulent and/or spectacular second quarter, the post-Iraq and post-SARS (severe acute respiratory syndrome) third quarter seemed normal for Russia and China, at least on the surface. All border checkpoints were reopened with busier transactions to make up for the losses suffered during the SARS epidemic. Regular flights between the two countries resumed. Despite the impact of SARS, bilateral trade increased by 20 percent for the first seven months and is expected to reach \$13-\$14 billion vs. \$12 billion last year. High-level contacts continued, and joint working groups for policy cooperation/coordination by the two bureaucracies kept expanding and deepening.

Prior to the eighth prime-ministerial meeting in Beijing in late September, eight out of the nine sub-commissions (the energy sub-commission, which was supposed to meet Aug. 25 was canceled by the Russian side) between the two governments – trade, science and technology, transportation, nuclear energy, space, banking, communication and information technology, and humanitarian (education, culture, health, sport, and tourism)

– routinely met to prepare for the two prime ministers’ annual gathering. By the time Russian Prime Minister Mikhail Kasyanov found himself in Beijing, six documents – including a joint communiqué and a unspecified protocol on improving trade of “sensitive products” – were ready to be inked by the two heads of government.

In early August, Sergei Mironov, speaker of the Russian Federation Council (Upper House of the Russian Parliament), paid an official visit to China. In late August, the “Week of China” unfolded in St. Petersburg where a 300-member Chinese delegation provided Russia’s “cultural capital” (and Putin’s hometown) with a Chinese cultural extravaganza of folk music shows, acrobatic performances, model shows, photo exhibitions, and other types of cultural activities.

Friendship and Friendly Deal?

Notwithstanding the growing interactions, by the time of the eight prime-ministerial meeting, it became clear, particularly for China, that there would be another delay of Russia’s decision on the oil pipeline to China. Prime Minister Kasyanov and his Chinese counterpart Wen Jiabao tried to be upbeat for the photos and the signing of lucrative commercial deals. Russia’s indecision on the oil pipeline to China, unfortunately, remained the real concern and dominant theme for the premiers’ talks.

Part of the problems derived from Russia’s protracted feasibility study of a 2,400 kilometer, \$2.5 billion oil pipeline from Russia’s Siberia city Angarsk to Daqing in northeastern China (Manchuria). The project was initiated by former Russian President Boris Yeltsin in 1994 when the two neighbors started to adjust to each other’s domestic developments and to a rather chilly post-Cold War world increasingly dominated by the United States.

During a near-decade long feasibility study of the pipeline, Russia, particularly under Putin, has largely recovered from the post-Soviet free-fall in its economy, thanks to its growing oil exports. Meanwhile, China reversed its status: it is no longer an oil exporting country but is a net importer. By 2002, a quarter of China’s oil consumption (200 million tons) came from foreign sources; China had surpassed Japan to become the second largest oil importing nation in the world. A stable, close, and reasonably priced oil supply from Russia is paramount for China’s future development. It is reasonable, at least according to Beijing, that such a mutually beneficial deal would be facilitated by a strategic partnership jointly cultivated by two generations of Russian and Chinese leaders (Yeltsin-Jiang and Putin-Hu) since the early 1990s.

At a minimum, the issue is one of credibility. In the past decade, numerous documents were signed at various bilateral interactions – summit communiqués, bureaucracy papers, oil companies, etc., including the two most recent summits (Putin-Jiang in December 2002 and Putin-Hu in May 2003). All reaffirmed the intention and willingness, though

not necessarily binding or final, of both sides to proceed with the construction of the pipeline with an annual capacity of 20-30 million tons of oil from resource rich Russia to energy thirsty China.

Between Credibility and Interests

Over time, however, the pipeline deal with China has become less urgent and less attractive for Russia as the former communist military superpower turned itself into an oil super dealer. In April 2002, some Russian officials started to question whether the pipeline deal with China was in Russia's strategic interests. As the era of preemption is increasingly and even irreversibly influenced by the control of oil, Russia's vast petroleum deposits quickly assumed a strategic dimension, or became a strategic instrument in the pursuit of Russia's strategic goals.

It was against this backdrop that Japan's sudden and intense lobbying for a Russian pipeline to Russia's Pacific-coast city of Nakhodka started to lure Russia away from China. Beginning in late 2002, scores of Japanese VIPs frequented Moscow and Russia's Far East cities, offering billions of dollars of Japanese credit and other incentives, including offers to renovate entire cities along the proposed Angarsk-Nakhodka oil pipeline (3,700 kilometers). Prime Minister Koizumi Junichiro traveled twice to Russia in five months (January and May) to win over Russia.

For some in Russia, the Angarsk-Nakhodka pipeline has several advantages, including total Russian control, numerous jobs for port and shipping businesses and flexibility in accessing a larger market (China, Japan, South Korea, U.S., etc.). Perhaps the most attractive is the \$5 billion Japanese financing offer for the construction of the pipeline, plus \$1 billion for renovating Russian cities along the pipeline leading to Nakhodka. For many poverty-ridden Russian cities in Siberia and along the Pacific coast, Japan's offer is extremely appealing. Further, Japan offered another \$7.5 billion for oil exploitation in East Siberia.

In contrast, earlier documents signed with China (before July 2003) required each side to construct its own portion of the pipeline (1,452 and 920 kilometers for Russia and China, respectively). Accordingly, Russia would have to find \$1.7 billion for constructing its portion of the Angarsk-Daqing line. And Russia would have only one end user (China).

This one end user, however, is Russia's largest neighbor with whom it shares a 4,000 kilometer border and a bumpy history. China's strategic tilt toward the West during the last two decades of the Cold War contributed, at least partially, to the weakening and final collapse of the Soviet system. The current normalcy and stability in bilateral relations, therefore, has strategic implications for Russia's long-term interests.

Despite the extremely hard choice between being "strategically correct" (staying with China) and "economically sound" (switching to Japan), Russian elites were determined to have their cake and eat it, too. A compromise third route was proposed by the Russian

government in March 2003. A branch line would run to China's Daqing from the middle of the Angarsk-Nakhodka line to the Pacific coast. The proposal, however, was rejected by Japan. At the technical level, the compromise proposal, which was designed to reach out to both Japan and China, may not even work because east Siberia may not be able to produce enough oil for the two.

Oiling Russian Politics

Japan's latest intervention into Russian-Chinese oil politics, however, is by no means the only reason for Russia's indecision. Nor does oil only affect war and peace in world politics. In post-Soviet Russia, oil, perhaps more than any other single economic item, is deeply entangled with Russian domestic politics.

Even a strongman like Vladimir Putin had to assure the business tycoons, after assuming the presidency in 2000, that he would not reverse the scandal-ridden privatization that enriched the few and deprived many. The condition was that the new Russian business elite would take their hands off politics. The deal, however, has had a hard time working in Russia as the market and politics never really were separate. The latest episode was the arrest in early July of Platon Lebedev, the chairman of Menatep, the financial group that owns 61 percent of Yakos. Publicly, the arrest was on fraud and embezzlement charges. It also happens that Yakos is not only the largest, and only private, oil company in Russia, but also the lone champion for the China pipeline route.

The cardinal sin of the Yakos oligarches was believed to be the company's invisible or potential role in shaping Russian politics prior to the December parliamentary election and the presidential ballot in March 2004. Curiously, major political parties in Russia have yet to produce their economic platforms. Maybe they are all torn by the business lobbies in Moscow, domestic or foreign, as are Prime Minister Kasyanov and even President Putin, warring over the big economic issues. Kasyanov's claim in Beijing that environmental concerns were the main cause of Russia's delayed decision on the pipeline is far from convincing. Nor was Kasyanov's insistence in Beijing that the Russian oil business was "95 percent privatized" and the government was simply unable to impose its will on the private sector. According to Sergei Grigoriev, vice president of Transneft, Russian oil firms, public or private, "simply wait for the government to pronounce its decision on the route ... Until the government makes its final decision, nobody can say what route will be chosen."

Both China and Japan may have to wait until next spring when Russia finishes its presidential election.

SCO: Keep Going and Growing

Unlike the oil clog in bilateral relations, Moscow and Beijing worked closely in multilateral areas. The third quarter witnessed two major, specific developments in the institution building of the Shanghai Cooperative Organization (SCO), the six-nation

regional security network (Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). In late August, SCO member states (without Uzbekistan) conducted antiterrorist military exercises in the border areas of Kazakhstan and China. The joint exercise, code-named “Interaction-2003,” was approved by the SCO defense ministers meeting in Moscow in May with a goal of developing and testing the “military component” of SCO antiterrorist cooperation.

The two-stage exercise began in Kazakhstan on Aug. 6-8 when an airplane was intercepted and forced to land before the hostages were rescued and terrorists captured by 500 military servicemen (from Russia, Kazakhstan, and Kyrgyzstan). The second part of the drill was staged in northwestern China’s Xinjiang-Uygur autonomous region on Aug. 11-12. A united staff made up of ranking Chinese, Russian, Kazakh, Kyrgyz, and Tajik officers commanded over 1,000 men (from China and Kyrgyzstan) in an operation to destroy a terrorist base. In both stages, mechanized units were closely coordinated with air power.

Although the drill did not necessarily mean that the SCO plans to create collective mobile forces on a permanent basis, the first SCO joint exercise was evidence of the regional security organization’s deepening integration processes. Col. Gen. Alexander Baranov, commander of Russia’s Volga-Urals Military District, led the Russian unit (one company). Chinese Defense Minister Cao Gangchuan observed the exercise.

In late September, the SCO got a further boost when the prime ministers of SCO states met in Beijing to finalize four accords (SCO’s 2004 budget of \$3.8 million, staff and salary for SCO’s institutions, and other technical issues for the initiation of permanent institutions) to establish the SCO Secretariat in Beijing and Antiterrorist Center in Tashkent by January 2004. After years of preparation, the SCO will finally set up permanent institutions.

The central task of the premiers meeting in Beijing, however, was to promote regional and multilateral economic cooperation among SCO member states for the final goal of forming a SCO free-trade zone, or a modern Silk Road, according to Wen Jiabao, China’s premier. For this goal, the heads of the six governments signed the “Outline of Multilateral Economic and Trade Cooperation of the SCO” to facilitate economic transactions by gradually reducing and eliminating trade barriers, by standardizing transportation, border crossing, inspection and quarantine procedures, and by cooperating in the areas of transportation, energy, environmental protection, telecommunication, home electronics, and agriculture. Already, SCO states have set up regular ministerial meetings for economic/trade and transportation.

China’s enthusiasm for shaping the SCO into a free trade zone was not equally shared by other member states, given China’s fast growing economic weight in the region. The consensus, however, seemed to favor such a move into low-politics (meaning economic cooperation) in order to expand and deepen their cooperation in the more sensitive geo-strategic and security areas. This new economic thrust would give the SCO a “well-

rounded development” after its initial two-year development stage, according to the Chinese Foreign Ministry.

Living with Normalcy: Strategic Partnership and Pragmatic Bargaining

At the end of the day, Russia may still tilt toward strategic correctness by choosing the Chinese route, as promised by Prime Minister Kasyanov in Beijing and his government would honor its commitment to the Russia-China oil-pipeline project. Meanwhile, Moscow and Beijing seemed to adjust to the post-honeymoon bilateral relations in which strategic maneuvering and serious bargaining are part of the routine.

Throughout the third quarter, the Russian side, including Prime Minister Kasyanov and Russia’s Upper House Speaker Seigei Mironov, expressed strong interest in selling to China finished products in the areas of machine-building, aircraft industry, space technology, and nuclear power generation. “Russia is interested in scaling down the volume of raw materials, semi-finished products and military products in its exports to China, and increasing the share of mechanical engineering, power engineering, civil aviation, and other high-tech branches,” said Mironov.

The Chinese side, however, did not seem equally concerned with the current trade structure and still believed that bilateral economic relations were largely complementary, and that there was nothing seriously wrong with the structure of trade in which Russia’s raw materials are main items. Nevertheless, Russia’s efforts seemed to be working, as the joint communiqué for the eighth prime ministerial meeting in Beijing prioritized these areas of cooperation as the most important (item #1) over the energy issue (item #6). A linkage strategy was apparently pursued by Russia to utilize the pipeline decision to force other economic concessions from China.

In the medium-term, Moscow hoped that China would facilitate Russia’s entry into the World Trade Organization, or at least China would refrain from putting forward additional conditions on Russia’s membership. In the longer run, Russian and Chinese officials no longer hide differing interpretations and expectations regarding their strategic partnership. China seems to still believe that strategic partnership should correlate with other areas of the relationship, at least without too much deviation. In this regard, a contract delayed is a contract denied. And such a delay should not occur between two strategic partners.

In his meeting with Kasyanov, Chinese Premier Wen stressed that the two sides “should cherish the strategic partnership of cooperation and make efforts to realize the bilateral cooperative goals set by the two governments.” This would “ensure the continued expansion of cooperation, mutual trust, and diverse cooperation,” adding that it complied with Russia’s strategic policies and the interests of the Russian government and people.

In a separate meeting with Kasyanov, Chinese President Hu echoed the strategic theme by stressing that deepening the China-Russia strategic partnership coincided with the

fundamental interests of the two peoples. Hu stated that stronger and deeper strategic cooperation was the common choice and complied with the fundamental interests of the two peoples, which was conducive to regional and world peace, stability, and development. China would, according to Hu, strictly follow [emphasis added] the China-Russia Treaty of Good-Neighborliness, Friendship, and Cooperation, and other important documents, and join with Russia to push forward the strategic partnership.

For Russia, once the strategic relationship is forged, it should be stretched to its limit to ensure maximum freedom of action. According to Deputy Foreign Minister Alexander Losyukov in July, “the treaty did not mean a union, but expressed a mutual wish to develop very close, long-term relations.” Further, “the treaty does not exclude varied interests or differences between Russia and China, but its spirit implies the settlement of contradictions in a friendly way,” according to Losyukov.

In this regard, China certainly overreacted to (or politicized) a largely business and technical issue. For many, if not all, Russian officials, China’s displeasure over the pipeline delay was “quite groundless.” “It is necessary to discuss the Angarsk-Daqing oil pipeline project in a normal and calm atmosphere,” said a Russian official traveling with Prime Minister Kasyanov to Beijing. In the symposium on 10 years of Russian-Taiwan relations in early July in Moscow, a Russian scholar on Asian affairs (Vladimir Yakubovsky) strongly argued – in front of an audience of officials, businessmen, and academics from both sides – for Taiwan’s participation in the Japan pipeline route (Angarsk-Nakhodka line).

In China, there are more challenges to the view that insists on adhering to the strategic dimension of the bilateral relations. The growing interactions between the two societies also generated frictions of various kinds. A more liberal press under the Hu-Wen administration is less willing to censor the less glowing stories regarding China-Russian relations. In addition to rather saturated media coverage and internet chat room discussion on the pipeline issue, stories about racial discrimination, police arbitrariness and brutality, and growing crimes against Chinese nationals in Russia appeared regularly in the Chinese media, including official outlets. And the third quarter was full of such incidents.

From April to July, Moscow authorities closed 10 of 30 “Chinese” apartment buildings, citing sanitary reasons during the SARS epidemic. Thousands of Chinese residents were either relocated or homeless, even if not a single SARS case was found. In July, a Chinese young woman from Hong Kong traveling through Moscow was murdered in the city’s outskirts. In August, the Chinese government and embassy in Moscow warned Chinese nationals traveling to or living in Russia to be on guard and prepared for any unexpected inspection by Russian police and growing random and/or racially motivated crimes against Asians. In late August, 50 Chinese passengers transiting Moscow from Europe were stranded in the airport for 20 hours without any rearrangements by the Russian airline. Meanwhile European and Japanese passengers were reportedly quickly offered alternative flights. In mid-September, a Chinese military attaché in Moscow went

as far as to request meetings with Moscow's internal security officials, urging them to take effective measures to reverse the ill treatment of Chinese nationals in Russia, particularly in Moscow's international airport.

On the eve of Prime Minister Kasyanov's September visit to Beijing, the website of the official Chinese *RMRB (People's Daily)* ran a story twice from the same author (Yi Aijun) regarding an edited book published in Germany describing how President Putin initiated and manipulated the second Chechen War for his own political needs. It remains to be seen how the two sides can manage their post-honeymoon bilateral relations, in which conflicts of interests and disparities in perceptions and policies are routine and even normal.

Chronology of China-Russia Relations July-September 2003

July 1, 2003: Bilateral trade increased 25 percent in the first six months of 2003, reaching \$6.8 billion, with a \$2.6 billion surplus for Russia.

July 3, 2003: China's First Deputy Foreign Minister Dai Bingguo held consultations on the North Korean nuclear program in Moscow with Russian Deputy Foreign Minister Alexander Losyukov. Dai also met with Foreign Minister Igor Ivanov.

July 6, 2003: Chinese President Hu Jintao sent condolences to Russian President Vladimir Putin over the terrorist bombing incident on July 5 at Tushino Airport in Moscow. Hu reiterated China's firm opposition to terrorism.

July 21-27, 2003: The seventh meeting of the Russian-Chinese intergovernmental commission for nuclear issues was held in Moscow, chaired by Russian Atomic Energy Minister Alexander Rumyantsev and his counterpart Zhang Yuchuan, chairman of Chinese National Defense Science, Technology, and Industry Committee. The two sides discussed issues regarding cooperation in the peaceful use of nuclear energy, including in the areas of experimental fast reactor, nuclear power units for spacecraft, and floating nuclear power plants.

July 28, 2003: President Putin receives Deng Rong, deputy chairwoman of the China Association for International Friendly Contacts, deputy chairwoman of the China-Russian Committee for Friendship, Peace and Development, and daughter of the late Chinese leader Deng Xiaoping. She visited Moscow to present the Russian version of the second volume of her book: *My Father Deng Xiaoping in the Cultural Revolution – Years of Tests*.

Aug. 4-6, 2003: Russian Federation Council (Upper House) speaker Sergei Mironov visits Beijing, at the invitation of Wu Bangguo, chairman of China's National People's Congress (NPC); meets President Hu and Premier Wen Jiabao.

Aug. 6-12, 2003: Five member states (Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan) of the Shanghai Cooperation Organization (SCO) conduct a joint antiterrorist military exercise “Interaction-2003.” Uzbekistan did not take part. Col. Gen. Alexander Baranov, commander of Russia’s Volga-Urals Military District and head of the Russian military delegation, visits Beijing after the exercise and meets with China’s Defense Minister Cao Gangchuan.

Aug. 11-15, 2003: Chinese Minister of Commerce Lu Fuyuan visits Russia and holds talks with Russian Economic Development and Trade Minister German Gref.

Aug. 18-27, 2003: Russian military stage largest exercises in 15 years in the Far East under the leadership of Navy Commander in Chief Vladimir Kuroyedov. The exercises involve 70,400 servicemen and civilians, 61 ships, and 72 aircraft and helicopters to cope with crisis and conflict on the Korean Peninsula that results in a large number of Korean refugees to Russia. Japan, ROK, and U.S. ships and aircraft participated and China sent observers.

Aug. 20-28, 2003: China stages “Week of China” in St. Petersburg, a 300-member delegation offers Chinese folk music shows, acrobatic performance, model shows, photo exhibitions, and other cultural activities.

Aug. 21, 2003: FM Igor Ivanov talks by telephone with FM Li Zhaoxing on the Korean issue.

Aug. 25, 2003: Russian Energy Minister Igor Yusufov informs China that it will postpone the session of the subcommittee for energy cooperation of the intergovernmental commission scheduled to be held in Moscow Aug. 27-29. In mid-June, Prime Minister Kasyanov announces the decision regarding the Russian-China oil line would be made in September.

Aug. 27, 2003: Russian-China bilateral working commission on transportation meets in Shanghai. The sides deal with issues regarding automobile, ocean, river, rail, and air transport, including unifying the port charges for Russian and Chinese vessels in Amur River ports, opening a new transport corridor from China to Russia, and increasing licenses for Russian international auto carrier.

Aug. 28, 2003: The Russian-Chinese sub-commission on trade and economic cooperation meets Beijing. Russian Deputy Economic Development and Trade Minister Vladimir Karastin and China’s Deputy Commerce Minister Liu Fuyuan chair the session.

Aug. 29, 2003: China and Russia hold fourth meeting of the astronavigation sub-committee with the Joint Commission for the Regular Meetings of Heads of Government of China and Russia in Beijing; chaired by Luan Enjie, director general of the China National Space Administration, and Yuri N. Koptev, director general of the Russia National Aviation and Space Agency.

Sept. 1-4, 2003: The Russian Interior Ministry hosts a delegation of China's armed police, led by Lt. Gen. Chen Chuankuo, for a four-day visit.

Sept. 4, 2003: SCO foreign ministers meeting held in Tashkent, Uzbekistan.

Sept. 10, 2003: The fifth session of the Russian-Chinese Committee for Friendship, Peace and Development meets in Beijing and is co-chaired by Li Guixian, vice chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), and Russian President's Representative to the Siberian federal district Leonid Drachevsky.

Sept. 11, 2003: A high-level Chinese government delegation, led by Ma Kai, director of the National Development and Reform Commission, visits Russia to lobby for the Angarsk-Daqing oil pipeline.

Sept. 16, 2003: Russian and Chinese Public Health Ministries sign cooperation program in Beijing after the fourth Session of the China-Russia Cooperation Committee on Education, Culture, Health, and Sports co-chaired by the Russian Vice-Premier Galina Karelova and Chinese State Councilor Chen Zhili. Four agreements are signed including one regarding sharing virus samples to study infectious diseases such as SARS.

Sept. 22-23, 2003: Chinese Vice Premier Wu Yi and Russian Deputy PM Viktor Borisovich Khristenko hold seventh meeting of the Committee for the Regular Meeting of the Prime Ministers of China and Russia; both agree Russia would export 4.5 million to 5.5 million tons of oil to China from 2004 to 2006.

Sept. 23, 2003: Russia Foreign Ministry refuses entry visa for the Dalai Lama for reasons of "national interests" and "international commitments," such as the Russia-China Treaty of Good-Neighborliness, Friendship, and Cooperation. The Dalai Lama visited Russia several times between 1982 and 1992, but was denied an entry visa in 2001 and 2002.

Sept. 23, 2003: SCO prime ministers meet in Beijing and sign six documents regarding economic cooperation, SCO budget for the year 2004, an agreement on the operation of the antiterrorism institution, and a joint communiqué.

Sept. 24-5, 2003: PM Kasyanov visits Beijing to attend the eighth regular meeting of heads of government of the two countries.

Sept. 25, 2003: China's Defense Minister Cao meets in Beijing with Mikhail Dmitriyev, Russia's Deputy Defense Minister and head of the Russian Committee for Military and Technological Cooperation with Foreign Countries and PM Kasyanov.

Sept. 25, 2003: President Putin said in Columbia University speech that he would find "a mutually acceptable solution" to organize Dalai Lama's visit to Kalmykia (Russian constituent republic with a mainly Buddhist population).

About The Contributors

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