



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



Comparative Connections



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

edited by

Brad Glosserman
Vivian Brailey Fritschi

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Pacific Forum CSIS

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

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

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

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

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

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Six-party talks about North Korea’s nuclear weapons programs dominated the multilateral agenda this quarter. A series of meetings constituted as much movement as had been seen since the standoff began in October 2002; whether this equates to real progress was not clear. Meanwhile, Washington’s efforts to develop a broader global consensus in support of its campaign against WMD saw some progress, even as the regional implications of its Global Posture Strategy were beginning to be felt. Throughout Asia, the democratic process moved forward, albeit unevenly, with elections in Taiwan, the Philippines, India, Indonesia, and Mongolia. Events in Burma and Hong Kong were less encouraging. There was a flurry of other multilateral activity, including two major track-two events that were boycotted by the PRC. Asia continues to be the most dynamic area in the global economy. Finally, President Bush promised to “stay the course,” as sovereignty was handed over to a new UN-arranged government in Iraq.

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by James J. Przystup, Institute for National Strategic Studies

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The second quarter of 2004 marked the beginning of Russian President Vladimir Putin's second term and the second year in office for China's Hu-Wen team. Normal consultations and exchanges remained dynamic at all levels, particularly over the issues of Iraq, Korea, and Central Asia. Beyond the high-level exchanges, Moscow and Beijing pursued their respective policies and interests in different ways. While Putin maintained his high profile (attending the G8 summit and the 60th anniversary of the Normandy landing), Beijing leaders seemed to soft-pedal the Russian factor: there was more attention to problem solving, particularly in economics; less rhetoric about the China-Russia strategic partnership; more attention to nations around Russia; less "major-power" politics of the Jiang-Yeltsin style; and more attention to areas outside Moscow, though not necessarily neglecting Moscow's central role in Russian politics.

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In Remembrance

It is with great sadness that we note the sudden death of long-time Comparative Connections contributor and Center for Naval Analysis researcher Lyall Breckon, who died of a heart attack while on a trip to Singapore in mid-June. Our thoughts and prayers, and we know those of Lyall's many friends and faithful readers, go out to his family; we share their grief over his untimely passing.

Regional Overview:

Multilateralism and Democracy March On, To Many Different Drummers

Ralph A. Cossa
President, Pacific Forum CSIS

Six-party talks about North Korea's nuclear weapons programs dominated the multilateral agenda this quarter. The two working-level and one senior officials meetings in May/June constituted as much movement as had been seen in the entire 21 months since the stand-off began in October 2002. Whether this movement constituted real progress was still not clear at quarter's end, however. Meanwhile, Washington's efforts to develop a broader global consensus in support of its campaign against weapons of mass destruction (WMD) saw some progress with the passage of a United Nations Security Council (UNSC) resolution and the convening of a first anniversary Proliferation Security Initiative (PSI) plenary session, even as the regional implications of its Global Posture Strategy were beginning to be felt.

Elsewhere in Asia, the democratic process moved forward, albeit unevenly. Taiwan President Chen Shui-bian's reelection was certified, as was Philippine President Gloria Macapagal-Arroyo's, and a subsequently unimpeached President Roh Moo-hyun saw his preferred Uri Party win a majority of seats in the ROK National Assembly. A huge upset took place in India and perhaps in Mongolia as well. Meanwhile, Indonesia's largely peaceful parliamentary elections set the stage for its first direct presidential election in July, demonstrating that democracy is alive and well in Jakarta. Events in Burma were less encouraging. Despite promises to the contrary, Aung San Suu Kyi remained under house arrest in Rangoon, making Burma's constitutional convention an even bigger sham than it otherwise promised to be, and China's leaders took one step backward regarding the introduction of more representational democracy in Hong Kong.

There was a flurry of other multilateral activity, including an ASEAN Regional Forum (ARF) ministerial at quarter's end. Several major track-two events were boycotted by the PRC, demonstrating that its "fourth no" still applies, despite conciliatory gestures from Chen Shui-bian during his May 20 inauguration address.

In economic developments, Asia continues to be the most dynamic area in the world, with a forecast annual growth of 6.8 percent for 2004. Confidence remains high despite concerns over the regional impact of China's attempts to curb overheating and the region's growing thirst for oil.

Finally, in the Middle East, President Bush promised to “stay the course” in Iraq, even as the U.S.-installed governing coalition was replaced at quarter’s end by a UN-arranged new sovereign entity, thus opening the door for broader global participation in the effort to reconstruct and democratize Iraq. NATO took a small step toward joining the “coalition of the reluctant” but how many, if any, additional Asian nations would be willing to walk through this door remained to be seen.

Six-Party Talks: Some Good, Some Bad, Some Ugly

A significant upswing in diplomatic activity surrounded the six-party process as China, Japan, North and South Korea, Russia, and the United States attempted to deal with the North Korea nuclear weapons challenge this past quarter. As agreed at the second plenary session in February, the parties set up a working group to help lay the groundwork for subsequent more senior-level plenary meetings. The first working-level session was held in Beijing from May 12-15. Little progress was expected or reported, beyond allowing each party “a chance to clarify its positions.” According to U.S. Assistant Secretary of State James Kelly, in June 2 testimony before the House International Relations Committee, working group participants at the May meeting “began exploring the structure of a resolution – a structure that would involve concrete actions by North Korea with corresponding measures taken by other parties in a coordinated fashion.” This testimony reaffirmed Washington’s willingness, despite earlier resistance, to accept a step-by-step approach to handling the crisis, as previously proposed by Seoul.

The second working group meeting took place on June 21-22 but was largely overshadowed by the third plenary session that followed immediately June 23-26. According to the Chairman’s Statement issued at the end of these back-to-back meetings, the parties had “constructive, pragmatic and substantive discussions” that “reaffirmed their commitments to the goal of denuclearization of the Korean Peninsula and stressed the need to take first steps toward that goal as soon as possible.” The statement stressed the parties’ support for “a step-by-step process of ‘words for words’ and ‘action for action’” – an earlier DPRK formulation – but provided few specifics, other than to say that “proposals, suggestions and recommendations were put forward by all parties.” Informally, a Chinese Foreign Ministry spokesperson was more specific (and enthusiastic), claiming at a media briefing that “All the parties involved reached a crucial political consensus that a verifiable nuclear freeze should be the first step toward the fundamental goal of a nuclear-free Korean peninsula.” (The Chinese hosts had apparently wanted a more formal Joint Statement but had to settle for another Chairman’s Statement, reportedly because “the U.S. does not want to take part in the time-consuming work needed to draw up a joint statement.”)

U.S. spokesmen described the results of the meeting as “some good, some bad, some ugly,” noting that no breakthroughs occurred and that, most disturbingly, Pyongyang still refuses to admit that its clandestine highly-enriched uranium (HEU) program exists. Given past meetings, however, when the most that could be agreed upon was to meet again, it was encouraging that both Washington and Pyongyang put serious proposals on

the table, more clearly defining their respective positions and what could potentially be gained from a decision to move forward.

It's unlikely that either will accept the other's offer as stated – going-in positions rarely survive the first round of debate – but forward progress now at least seems possible: Pyongyang agreed that its proposed “freeze for rewards” would be a first step toward dismantlement of all its nuclear weapons programs – a consistent U.S. demand – and the U.S. agreed that rewards could come early in the process, at least from the other parties . . . and Seoul, Beijing, Moscow, and even Tokyo seemed amenable to front-loading some energy and economic assistance if a verifiable freeze process could be initiated.

While details of both sides' proposals are sketchy, the DPRK reportedly promised to “freeze all of our nuclear facilities and reprocessed nuclear materials,” provided that the U.S. “takes corresponding measures.” These reportedly included removing Pyongyang from its list of terrorist-sponsoring countries and lifting economic sanctions. “If the conditions were met,” a North Korean spokesman said in a press briefing, “we will no longer produce, test or transfer nuclear weapons.” One possible hang-up: Pyongyang seems to be insisting that Washington directly participate in the proposed provision of 2 million-kilowatts of energy aid – not coincidentally the amount of energy that would have been provided by the two light-water reactors promised under the now-defunct 1994 Agreed Framework. Washington had earlier made it clear that, while it would not object to others participating in step-by-step incentives, the Bush administration would not be providing “rewards” in advance of the complete, verifiable, irreversible dismantlement (CVID) of all the North's nuclear weapons programs. Nonetheless, an administration spokesman said Washington would “seriously consider” Pyongyang's proposal.

For its part, Washington reportedly put forth a detailed, seven-page proposal that laid out in specific terms the steps North Korea needed to take to dismantle its nuclear weapons program and, most significantly, what Washington and its allies were prepared to do in return. While much of this had been said before, it was laid out more clearly and, reportedly, in softer terms. CVID was not specifically mentioned, given the political baggage associated with this acronym, even though it remains the only acceptable long-term outcome. As a Chinese colleague mentioned at a recent Council for Security Cooperation in the Asia Pacific (CSCAP) meeting, “can anyone believe that Washington (or anyone else) would be willing to accept an incomplete, unverifiable, easily reversed dismantlement?” Assistant Secretary Kelly also held closed door bilateral talks with his North Korean counterparts and, for the first time since contacts began at the April 2003 three-party “talks about talks” in Beijing, press reports indicated there was evidence of real give and take.

The North Korean delegates said Pyongyang would give “careful consideration” to the “constructive” U.S. proposal. It's a bit early to break out the champagne, however. Washington's detailed offer had been demanded by the others as a demonstration of the Bush administration's willingness to move forward. It was seen as a win for the “engagers” over administration “neocons” who wanted to continue to squeeze Pyongyang, despite the obvious damage this tactic was having on its negotiating partners.

Pressure by Japanese Prime Minister Koizumi Junichiro at the June 8 G8 summit was seen as instrumental in convincing President Bush that Washington had to be more forthcoming in this round of talks – Koizumi had stated publicly that he came away from his May 22 second summit meeting in Pyongyang convinced that North Korean leader Kim Jong-il was prepared to deal away his nuclear weapons programs. He reportedly urged Bush to “stress the advantages that would flow to Pyongyang if it dismantled its weapons.” China and South Korea had also been calling for a more detailed, flexible plan from Washington. It remains to be seen, however, if Washington is prepared to really take “yes” for an answer if Pyongyang is smart enough to give this response.

Pyongyang’s answer will be a real test of North Korean willingness to seriously negotiate now, rather than wait and hope for “regime change” in Washington come November, as many suspect is its current tactic. How Pyongyang shapes its response will provide the best indication of its sincerity. Will it see Washington’s gesture as opening a window of opportunity that it should seize upon, or as a sign of weakness to be further exploited?

From Washington’s perspective, the chief impediment to progress, both before and after this quarter’s round of meetings, remains North Korea’s refusal to admit that its HEU program exists, despite overwhelming evidence – including Pakistani nuclear scientist and proliferator extraordinaire A.Q. Khan’s public confession – and its own (since recanted) October 2002 admission which initiated the crisis. Washington continues to insist that any freeze (and eventual dismantlement) must include Pyongyang’s clandestine uranium enrichment program as well as its acknowledged plutonium-based reprocessing efforts.

The temptation for Pyongyang to continue to stonewall is high. Prior to the June talks, Beijing openly challenged Washington’s contention that the North’s HEU program exists – presumably to exert pressure on the Bush administration to be more flexible and to demonstrate its “even-handedness” to Pyongyang – and Seoul has suggested that the uranium issue could be set aside and dealt with later. Such reactions almost certainly guarantee a prolonged crisis. As long as Pyongyang believes that its denial can drive a wedge between Washington and its negotiating partners, it will consider it to be in its strategic interest to continue to deny the program’s existence. China’s response is particularly disheartening, if not disingenuous; given its “special relationship” with Pakistan, it’s hard to believe that China is not fully aware of A. Q. Khan’s dealings.

The other parties know – or should realize – that President Bush cannot yield on this point: to turn a blind eye toward the HEU program now does more than “reward bad behavior”; it says that the whole crisis was unnecessary in the first place. Both election-year politics and sound strategic reasoning preclude such a step. Turning a blind eye toward Pyongyang’s major indiscretion would almost certainly guarantee future crises, even if this one were somehow temporarily defused. Likewise, a repetition of the North’s new politically unacceptable demand that Washington take part in the initial round of rewards, if repeated, would demonstrate that it is more interested in driving wedges than in defusing the crisis, especially if Beijing, Seoul, and others once again play into Pyongyang’s hands.

But, can North Korea recant and still save face? History says that it can. After decades of denying that it was kidnaping Japanese citizens, Pyongyang suddenly fessed up, “discovering” that some rogue intelligence elements had been carrying on this program unbeknownst to the central government. This type of “implausible denial” defense was later used by Islamabad when, much to its declared shock and dismay, it discovered that the father of its bomb was running a nuclear WalMart, selling technology and components to all comers (Pyongyang included). Perhaps its time for Pyongyang to discover an A. Q. Kim in its own midst, so we can finally move forward toward a resolution of the problem. Waiting until November is like playing Russian roulette . . . and there is no guarantee that a Kerry administration, if there was to be one, would be any more flexible on this point, or that Congress would allow it to be.

The diplomatic process is expected to continue next quarter with all six parties agreeing to a fourth plenary in Beijing by the end of September 2004. At the June meeting, the senior officials also approved a concept paper that will guide the future efforts of the working group and authorized the working group “to convene at the earliest possible date to define the scope, duration and verification as well as corresponding measures for first steps for denuclearization, and as appropriate, make recommendations to the fourth round of the talks.” Meanwhile, all eyes will be on the July 2 ASEAN Regional Forum (ARF) ministerial meeting in Jakarta, which will provide a rare opportunity for Secretary of State Colin Powell and DPRK Foreign Minister Paek Nam Sun to directly discuss the U.S. proposal and Pyongyang’s eagerly anticipated response . . . if they choose to hold such a conversation. *[Note: The two did meet, but preliminary press reports indicate neither went much beyond repeating previously stated positions.]*

PSI and other WMD Coalitions of the Willing Continue to Expand

While the six-party process continues to search for a diplomatic solution to the North Korea nuclear problem, Washington’s counter-proliferation “coalition of the willing” continued to focus on preventing the spread of weapons of mass destruction, by North Korea or others, through the ever-expanding Proliferation Security Initiative (PSI). The PSI had first been suggested May 31, 2003 by President Bush during a speech in Krakow, Poland. On the first anniversary of that speech, the 14 core participants – Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, the UK and the U.S. – meet in Krakow to celebrate the transformation of the PSI “from a vision into an active network of partnership and practical cooperation.”

Most significantly, a 15th country, Russia, joined the core. Russia, like China, had initially reserved judgment on the PSI, both out of concern for its possible impact on North Korea and over concerns that it would encourage U.S. extralegal unilateral military actions. Moscow’s endorsement further isolates Beijing, which seems to be moderating its own stance against the PSI but does not yet appear ready to enter the coalition.

All told, over 60 countries sent senior representatives to the Krakow meeting, “highlighting the worldwide support of the PSI and its [Sept. 2003] Statement of Interdiction Principles.” The Chairman’s Statement stressed that the PSI “is an important element in responding to the growing challenge posed by the proliferation of Weapons of Mass Destruction (WMD), their delivery systems, and related materials to or from states and non-state actors worldwide.” It further stressed that “PSI activities had to be consistent with national and international law and frameworks.” To this end, it highlighted the unanimous adoption, on April 28, 2004, of United Nations Security Council Resolution 1540, which calls upon all states “to take cooperative actions to prevent illicit trafficking in nuclear, chemical or biological weapons, their means of delivery and related materials.”

As noted in previous *Comparative Connections* overview chapters, this resolution grew out of President Bush’s September 2003 challenge to the UN to act more forcefully and effectively against WMD proliferation. It was directly linked, at least in Washington’s mind, to the PSI even though Russia and China prevented a direct reference to this U.S. initiative from appearing in the final version of UNSC Resolution 1540. While the resolution does not include penalties for noncompliance, it was adopted under Chapter VII of the UN Charter, which makes it obligatory for all members and thus could allow for eventual sanctions or the use of force against those who flaunt the resolution.

Of note, with Russia’s entry, all G8 members are now among the PSI’s core participants. Despite continued differences with Washington over Iraq, their commitment to countering WMD proliferation is clear. At their June 8 summit in Sea Island, Georgia, the G8 leaders endorsed an Action Plan on Non-Proliferation and agreed on a one-year ban on the transfer of equipment and technology for uranium enrichment and reprocessing. As noted last quarter, President Bush had been calling for a total ban as part of his broader nonproliferation program. G8 members also supported the further strengthening of the PSI and pledged to work together to address the threat posed by the DPRK and by Iran.

The PSI’s effectiveness – and ability to work effectively within the framework of international law – was further enhanced in April by a bilateral arrangement between the U.S. and Panama, similar to one reached in February with Liberia, which established procedures that allow interdiction of vessels flying its national flag. These two agreements alone subject nearly 15 percent of the world’s roughly 50,000 large cargo ships to being boarded and inspected on short notice. One area of future focus for the PSI will be to increase the number of such agreements. If all 62 nations represented at the Krakow meeting fully cooperated with the PSI interdict effort, it would allow for the rapid consent for searches of roughly 46 percent of the world’s shipping fleet.

The political and strategic implications of PSI for Asia were hotly debated at a CSCAP working group meeting in Hanoi in late May. While most participants acknowledged the need for more effective nonproliferation regimes, many expressed suspicions about the PSI’s legality or Washington’s commitment to act strictly in accordance with international law. One participant decried PSI as a violation of the UN Charter and

international law, calling it a “device to isolate the DPRK and check its peaceful economic activities.” Another worried whether actions taken in the name of the PSI would always be consistent with freedom of navigation.

There was widespread agreement that PSI should be consistent with international law and, in point of fact, all PSI activities to date have been. While some chose to focus on concerns about extra-legality or unilateralism, others pointed to the need, above and beyond UNSC 1540, to further strengthen or modernize international law. Plainly, the threat and danger posed by WMD proliferation is as great (if not greater) than that posed by piracy, slavery, or drug smuggling, areas where interdiction protocols already exist.

CSCAP participants pointed out that U.S. credibility vis-à-vis maritime interdiction would be enhanced if Washington were to formally ratify the 1982 UN Convention on the Law of the Sea. The Senate Foreign Relations Committee unanimously endorsed ratification in February 2004 with support from both the Defense and State Departments but Senate conservatives continue to block its movement toward a vote, demonstrating that the ghost of Jesse Helms (the treaty’s primary antagonist over the years) still walks those hallowed halls.

Another hotly-debated topic at CSCAP and other forums was the U.S.-generated proposal for a Regional Maritime Security Initiative (RMSI), which grew out of congressional testimony by U.S. Pacific Command Commander Thomas Fargo in late March. Asian press summaries of Fargo’s comments alleged (incorrectly) that he was planning on sending Marines into the Malacca Strait to counter piracy, causing immediate expressions of outrage throughout the region and especially from Indonesia and Malaysia. U.S. spokesmen subsequently described RMSI as a means of assisting regional navies to help them better patrol their own waters against pirates, terrorists, or an unholy alliance between the two. Such clarifications have done little to quell the uproar, however, especially among those who believe that any initiative emanating from the U.S. must somehow be illegal, immoral, unilateral, or all of the above.

Global Posture Strategy Hits Korea

One year ago, the regional overview chapter, anticipating future U.S. military overseas force adjustments, was entitled “Everything Is Going To Move Everywhere . . . But Not Just Yet!” Well, the time has apparently arrived. As the current Bush administration draws to a close – and regardless of who wins in November there is likely to be new leadership and new teams at DoD, as elsewhere – the sense of urgency to get the post-Cold War military structure in place has increased. This is manifesting itself most immediately and dramatically in Germany and South Korea, where major force posture adjustments are reportedly planned.

According to DoD, five considerations are shaping the process: strengthening relations with allies and building new partnerships; building in maximum flexibility and agility; including a regional, as well as a global, focus; emphasizing speed, that is, making the assets as rapidly deployable as possible; and focusing primarily on capabilities, rather

than on numbers. As a result, the reductions planned for Germany and Korea will not result in reduced capabilities or a reduced defense commitment, but only in fewer numbers of forces on the ground. For example, two army divisions are likely to be withdrawn from Germany in favor of fewer, lighter, more mobile troops with enhanced firepower and “cutting-edge capabilities.”

Korea: Oversensitive or Insensitive? Similar arguments have been made regarding the planned reduction in Korea, where some 12,500 troops – about one-third the number of forces currently deployed in the ROK – are scheduled to be redeployed off the Peninsula by the end of 2005. As spelled out in more detail in the U.S.-Korea chapter, 3,600 troops comprising the 2nd Brigade of the 2nd Infantry Division will depart this July en route to a year’s duty in Iraq. While the army has not confirmed that this unit will not return, it is broadly assumed that this represents the first step in the planned reduction.

As in the German case, DoD spokesmen argue that while numbers will decrease, firepower will increase as a result of a \$11 billion defense modernization plan, including the deployment of Patriot *PAC-3* air defense missiles and the army’s new Stryker brigade to the ROK. Nonetheless, there is growing suspicion in Korea, and among administration critics in Washington, that the reduction is retribution for growing anti-Americanism in Korea; that it is driven by a fit of pique rather than long-range defense planning by Rumsfeld and company. While no one has ever accused me of being a Rumsfeld cheerleader, this charge seems ridiculous. In fact, I would argue just the reverse. It is not the Pentagon’s over-sensitivity to what’s going on in Korea that is driving the decision and its timing but a general insensitivity to the fact that, inconveniently, the Cold War has not ended on the Peninsula and that the timing of such announcements, while making sense in the global context, are disruptive to current North-South and internal ROK dynamics. Regardless of motives, there is a growing, and one fears not totally inaccurate perception that “consultations” seems to equate, in Pentagonese, to the U.S. decides and allies are expected to agree. Style matters and DoD needs to pay more attention to how it accomplishes the task of developing its Global Posture Strategy.

Democracy Continues to Spread, not Always with Predictable Results

Throughout Asia, the democratic process moved forward, albeit unevenly. Two incumbents, Taiwan President Chen Shui-bian and Philippine President Gloria Macapagal-Arroyo survived close calls (and earlier predictions of defeat) to have their reelection certified and a subsequently unimpeached President Roh Moo-hyun saw his preferred Uri Party win a majority of seats in the ROK National Assembly. The biggest upsets took place in India, where Sonia Gandhi led her Congress-I Party to a largely unanticipated victory over Prime Minister Atal Behari Vajpayee’s Bharatiya Janata Party (BJP), and in Mongolia, where the ruling party lost its near-total control over Parliament and, pending a recount, might even go down in defeat against a coalition that previously held only four legislative seats. Indonesia’s parliamentary elections in April also served as a wake-up call for the ruling party while setting the stage for the country’s first direct presidential election in July. In Burma, Aung San Sui Kyi remained under house arrest, despite government promises (or at least hints) to the contrary, making Burma’s

constitution convention an even bigger sham than it otherwise promised to be, and China's leaders took one step backward regarding the introduction of more representational democracy in Hong Kong.

Taiwan: Olive Branches Rejected? After several months of threats and demonstrations, the pan-blue opposition begrudgingly accepted – or at least tolerated – President Chen's inauguration for a second term on May 20. A recount showed a small increase in Chen's razor-thin margin of victory over Lien Chen during the March 20 elections but did little to solve the mystery and lingering suspicions behind the election eve unsuccessful assassination attempt against President Chen and Vice President Annette Lu.

Just prior to the inauguration, Beijing warned that Chen needed to abandon his "dangerous lurch toward independence" and follow a more cooperative path. Message received! Chen's inauguration address was filled with olive branches; he even expressed understanding as to why China cannot relinquish its insistence on the "One China Principle," while leaving himself open to some new formulation of this policy: "We would not exclude any possibility," Chen promised, "so long as there is consent of the 23 million people of Taiwan." Chen's remarks addressed all of Beijing's (and Washington's) major concerns, including a reaffirmation of the promises and pledges made in his 2000 inaugural address. Regrettably, China's initial response has been *déjà vu* all over again. Beijing accused Chen of "insincerity" while demanding that Taiwan accept its rendition of "One China" as the only way forward. With crucial Legislative Yuan elections coming up in December, it is doubtful that Beijing will be more flexible toward Chen and his Democratic Progressive Party "splittists" in the near term. President Chen has taken the first step. Some pro-active diplomatic gestures by Beijing could now play a major role in setting the tone for future cross-Strait cooperation, if Beijing has the political courage and foresight to wave olive branches rather than sabers toward Taiwan.

Philippines: Arroyo Wins but Poe Refuses to Concede. Filipinos went to the polls on May 10 to elect a new president but it was many weeks before the Philippine Senate finally certified that the unelected incumbent president, Gloria Macapagal-Arroyo – the former vice president who assumed office after then-President Joseph Estrada was removed following "people power" demonstrations in 2001 – had beaten her main rival, Fernando Poe – an immensely popular movie actor with no political experience and close ties to fellow actor Estrada (who remains under detention while awaiting trial for corruption) – by just under 1 million votes. At quarter's end, Poe had still refused to concede, threatening a people power demonstration of his own. Protests notwithstanding, President Magapagal-Arroyo took the oath of office for her first (hopefully) full term in office June 30 as the 14th president of the Philippines, promising to create up to 10 million jobs in the next six years, balance the budget, improve tax collection, provide cheap medicine for the poor and unite a nation that has not quite settled down since it ousted the dictator Ferdinand E. Marcos almost two decades ago. This will be no easy task! As she was being inaugurated, Fitch Ratings warned the Philippines of a possible ratings downgrade if Mrs. Magapagal-Arroyo failed to raise taxes and solve financial problems at National Power Corporation, the state-owned and debt-ridden utility.

ROK Elections: Rough Road Ahead for Washington? The South Korean political landscape changed dramatically, and one must assume irreversibly, as a result of the April 15 National Assembly elections. The torch was indeed passed to a new generation; that much is clear. What is less clear is what this means, both in the near and long term, for ROK-U.S. and South-North relations. The April 15 vote, which handed the pro-Roh Uri Party a majority of seats in the National Assembly, was clearly seen as a vote of confidence in Roh Moo-hyun and against those who had voted in March to impeach him. It lent credence to the subsequent decision by the Constitutional Court to overturn President Roh's impeachment on May 14.

Upon his return to office, President Roh quickly proclaimed his continued faith in the ROK-U.S. alliance and his continued insistence that North Korea give up its nuclear weapons ambitions if it wants to normalize ties with the ROK (and the world in general). While the far left of center Democratic Labor Party – which, with 10 seats, now becomes the third largest party – threatened to block the deployment of an additional 3,000 ROK soldiers to Iraq, Roh held firm on his pledge, even after Washington announced that it was redeploying 3,600 ROK-based forces to Iraq in July.

In the near term, there will likely be less change than many anticipate (or fear). The long-term impact is harder to assess. For the first time in his troubled presidency, President Roh has a mandate to lead, but it is not clear what direction he wants to go in the foreign policy arena (his domestic political and economic reform agenda is much clearer and of a higher priority). Ironically, many of the U.S. force structure changes and realignments being pushed by Washington seem to coincide with Roh's and the Uri Party's desires. But how Washington goes about attaining this mutual goal of a reduced footprint (if not reduced presence) and enhanced leading role for the ROK in its own defense will be increasingly important. Seoul will have to be seen more and more as the driver of this train rather than the caboose being pulled along by Washington.

India: Gandhi Returns, then Steps behind the Scenes. Mrs. Sonia Gandhi, the Italian-born widow of slain Prime Minister Rajiv Gandhi, led her Congress-Party to an upset victory in India's 14th general elections. While many expected Mrs. Gandhi to accept the prime ministership which the party was willing and eager to bestow upon her, she elected instead to remain behind the scenes, tapping Manmohan Singh, a highly-respected economist, widely heralded as the architect of India's budding economic resurgence in the '90s. In his first speech to the nation, the new prime minister highlighted reform of agriculture and government civil service as his top goals.

As regards foreign and defense policy, Dr. Arun R. Swamy of the Asia Pacific Center for Security Studies, predicts the Congress-led government may cut defense spending, retreat slightly from India's activist international efforts under the previous BJP-led coalition government, focus on ties with South Asian regional states such as Sri Lanka and Nepal, pursue the peace process already under way with Pakistan, and lower the priority given to relations with the U.S, while refocusing attention on traditional relationships with the Middle East and Russia. On a positive note, Prime Minister Singh quickly endorsed

globalization, while further asserting that continued improvement of relations with the United States was a fact of life for India.

Mongolia: Record Turnout, Surprise Victory for Democrats. In Mongolia, conventional wisdom pointed to an easy victory for the incumbent Mongolian People's Revolutionary Party (MPRP). The MPRP held 72 of 76 seats in the Great Ikh Hural (Parliament) and had dominated election advertising, maintaining tight control over the largely state-controlled airwaves and most available billboard space in Ulaan Baatar. But the MPRP, composed of former communists, failed to provide a promised social safety net and a record 80 percent of the electorate demonstrated anew during June 27 elections the unpredictability of the democratic process. While results were not finalized at quarter's end and both sides were claiming voting irregularities, it appears that the Motherland Democracy Coalition – comprised of the Mongolian Democratic Party, Mongolian New Socialist Party, and Civil Courage-Republican Party – won at least 36 seats and perhaps could count on 3 more from unaffiliated parties, giving them one more than half the votes. If validated, their 39 seats will wrest control of the Parliament and government from the MPRP.

According to Intellibridge Vice President Steve Noerper, the challenge for whoever is ultimately declared the winner lies in establishing performance-based legitimacy, which saw the ushering out of the democrats four years ago and which checked the ruling MPRP in this poll this time around. The electorate also apparently saw the wisdom in having a more balanced Parliament. The old ruling party had limited debate on land reform – vital in Mongolia – and other issues, given its legislative domination. A more vibrant, though not necessarily more effective or efficient, democracy lies ahead for Ulaan Baatar.

Indonesia: Democracy Coming of Age? As in Malaysia last quarter, moderate Islam prevailed in Indonesia's early April parliamentary elections, but the same could not be said for President Megawati Sukarnoputri's ruling Indonesian Democratic Party of Struggle Party (PDI-P), which finished second to the previous ruling Golkar Party (21.58 percent and 128 seats versus 18.53 percent and 109 seats). Meanwhile, former coordinating minister for politics and security, Gen. Susilo Bambang Yudhoyono's new Democratic Party obtained 7.54 percent of the vote and 57 seats, allowing him to run for the presidency under his own party's banner.

At quarter's end, Yudhoyono held a commanding lead in the polls but his level of support still was below the 50 percent needed to claim victory on the first ballot. Gen. Wiranto, the candidate of the Golkar Party, was running neck and neck with President Megawati for second place and a place on the run-off ballot. The election will be the first direct vote by Indonesians for their president, an important milestone in the movement toward democracy after the collapse in 1998 of three decades of authoritarian rule by President Suharto; in 1995 and 1999, the election took place within the People's Consultative Assembly. None of the candidates represents a political party that favors introducing an Islamic state. One party that does, the Justice Party for Prosperity, received enough votes in the legislative election to run a presidential candidate but chose not to. Megawati and

Wiranto each chose running mates from the largest Muslim organization, Nahdlatul Ulama, in an effort to attract support from voters concerned about keeping Islam as an underlying element of Indonesian life.

Burma: A Growing Embarrassment to ASEAN. In Burma, hopes that Aung San Suu Kyi would be released in time for her and her National League for Democracy (NLD) to participate in the mid-May National Convention to discuss a new constitution were dashed by the ruling junta (the State Peace and Development Council, or SPDC), which announced that the NLD was welcome but not Daw Suu. Not surprisingly, the NLD refused to participate prompting the U.S. (among others) to say that the convention “lacks legitimacy.” An official State Department statement May 21 stated that “a convention that does not include [the NLD] cannot make any real progress towards democracy or national reconciliation, nor can it help Burma repair its international reputation,” while announcing that U.S. sanctions against Burma were being extended for another year. Meanwhile, ASEAN’s policy seems to vacillate between “get tough” and “stay soft” but, with Burma scheduled to assume the ASEAN Chair in 2006, a lack of progress will be an embarrassment not just for the SPDC – which has demonstrated that it is not easily embarrassed – but for ASEAN as well.

Hong Kong: One Country, One System? On April 6, the Standing Committee of China’s National People’s Congress issued a major ruling on how Hong Kong chooses its leaders, saying the territory must submit proposed political reforms to Beijing for approval. The ruling came in the form of a much-anticipated but nonetheless controversial reinterpretation of the Basic Law, Hong Kong’s mini-constitution. Chinese officials said the committee’s interpretation was necessary because certain political factions in Hong Kong were “misinterpreting” the Basic Law, giving the NPC Standing Committee “no option but to come out and exercise legislative interpretation.”

Demonstrating that the art of spin control is not unique to the West, Qiao Xiaoyang, Standing Committee deputy secretary general, claimed that the decision actually benefitted the territory. “We have not only not impeded the democratic process in Hong Kong, but we have promoted democracy in Hong Kong’s political system through our interpretation,” Qiao said. Others believe that the reinterpretation effectively ties the hands of the Hong Kong government by allowing only Beijing to ultimately approve reforms — control that pro-democracy activists have vehemently lobbied against. Opposition lawmakers in Hong Kong, predicted a massive backlash, saying that the ruling “will definitely intensify the tension between Hong Kong and the central government.” Meanwhile, Chinese officials in Hong Kong warned that any motions in the Hong Kong legislature to voice discontent with the NPC’s ruling are “against the law as well as the constitution.”

Both the U.K. and U.S. expressed concern over the ruling, with the U.S. State Department stating it was “seriously concerned that Beijing has decided to issue an interpretation of the Basic Law on this important issue before the Hong Kong people have fully aired the issues.” Saying that it “strongly supports the Hong Kong people’s desire for democracy, electoral reform and universal suffrage in Hong Kong,” the

department reminded Beijing that “It is important that the people of Hong Kong be permitted to determine the pace and scope of constitutional developments.” While perhaps premature, critics were already decrying the death of “one country, two systems” and, with it, China’s credibility vis-à-vis Hong Kong and the 1997 agreement with London.

[Note: On July 1, 350-400,000 Hong Kong residents turned out on the anniversary of the territory’s reversion to China to protest the NPC decision and to demand the “high degree of autonomy” and democratic right to chose its own leaders promised in the Basic Law. In the past, demonstrations have focused on Tung Chee-hwa, Hong Kong’s chief executive. But this time, Tung was barely mentioned as protesters showed a new boldness in denouncing mainland China for banning general elections and, in their view, trying to intimidate democrats.]

Multilateralism Marches On!

There was a flurry of multi- and mini-lateral meetings this quarter. In addition to the economic gatherings described later in the article, the Trilateral Coordination and Oversight Group met twice, allowing the U.S., ROK, and Japan to coordinate their views and approaches toward dealing with Pyongyang, and the Shanghai Cooperation Organization – involving China, Russia, and four Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) – held both a foreign ministers meeting and a leaders summit. The highlight of the latter was the creation of a counter-terrorism center in Uzbekistan. China also hosted the third annual Asia Cooperation Dialogue – a Thai-initiated gathering of foreign ministers from throughout the region and beyond (including several Middle East and South Asian nations) – plus their own Bo’ao Forum on Hainan Island – an Asian version of the influential annual Davos World Economic Forum aimed at strengthening regional economic exchanges and cooperation. ASEAN foreign ministers also met in Jakarta on June 29-30, in advance of the more inclusive ASEAN Regional Forum plus various ASEAN Plus Three and ASEAN Plus One meetings.

ASEAN Security Community. High on the list of topics for the ASEAN foreign ministers to discuss was Indonesia’s proposal for an ASEAN Security Community (ASC), which had been generally accepted “in principle” during last fall’s ASEAN summit but garnered only lukewarm support. Indonesia had laid out more than 70 specific proposals, including the creation of a regional peacekeeping force, plus the promotion of human rights and a commitment to free and regular elections and greater openness and transparency. The ASC is seen by many in ASEAN as a bridge too far and as a heavy-handed attempt by Indonesia to force its agenda on its neighbors – this after many years of lamenting the lack of leadership within ASEAN caused by Indonesia’s internal political turmoil.

ARF Becoming More Institutionalized. At its Senior Officials Meeting (SOM) in Yogyakarta, Indonesia in May, the ASEAN Regional Forum took a modest step toward becoming more institutionalized when agreement was reportedly reached to create a “unit” within the ASEAN Secretariat to serve as an ARF Secretariat. The new unit will

provide logistical, administrative, and other assistance to the rotating ARF chair. It will serve as the ARF's "institutional memory" by acting as a central archive and clearing house for ARF information, documents, and data. Once formally established at this year's ARF Ministerial (in Jakarta on July 2), this quasi-secretariat could allow the ARF finally to move forward toward its forecasted preventive diplomacy mission. It could help invigorate the recently established but as yet generally inactive Experts and Eminent Persons Group (EEPG). The senior officials apparently also decided to invite Pakistan to become the ARF's 24th member and second participant from South Asia (after India). Support was apparently also voiced for a Chinese proposal to establish a defense officials forum at the deputy minister level under ARF sponsorship. If approved in July, the first meeting will likely be held in China this fall.

Taiwan: Odd Man Out . . . or In? The Chinese proposal to create a defense officials forum within the ARF is seen by many (this author included) as aimed, in large part, at countering the track-two, nongovernmental Shangri-La Dialogue sponsored by the London-based International Institute for Strategic Studies (IISS). The annual IISS meeting in Singapore brings together, in an unofficial setting, senior-most defense officials – the U.S. was represented this year by Defense Secretary Rumsfeld; his deputy, Paul Wolfowitz was at the first two meetings – with leading scholars and security specialists. Scholars from Taiwan, as elsewhere, participate in conference sessions in their private capacity, but are excluded from the separate "officials only" side meetings and working lunches. The presence of one Taiwan scholar at the June 5-6, 2004 IISS meeting was apparently enough to keep the PRC from attending. Since the IISS format reinforces rather than violates China's "three no's" policy, one can only conclude that a fourth no – do not do anything that might be seen as giving Taiwan an inch – remains in effect, despite President Chen's conciliatory tone during his inauguration address.

Beijing also boycotted the May 31-June 3 ASEAN ISIS Asa-Pacific Roundtable in Kuala Lumpur due to the presence of a handful of Taiwan security specialists despite the strictly track-two nature of this annual gathering. It is to IISS' and ISIS' credit that neither yielded to intense Chinese pressure to uninvite Taiwan scholars. Taiwan was less fortunate in its bid to be an observer at the World Health Organization's World Health Assembly in Geneva in May. Taipei once again asked to attend as a "health entity," a formulation that reinforces China's official stance, which theoretically permits Taiwan participation in international forums if issues of sovereignty are not involved.

Since Chen Shui-bian first came to power in 2000, China has become increasingly inflexible and heavy-handed in trying to deny Taiwan "international breathing space," refusing to participate and/or walking out of academic meetings in which scholars from Taiwan had been invited to participate. Almost every think tank in East Asia has experienced Chinese bullying in this regard as Beijing has even tried to block bilateral academic exchanges between Taiwan institutes and their counterparts in Southeast Asia and elsewhere. Through such actions, Beijing not only fails to set a more positive tone for cross-Strait relations, but also undermines its own diplomatic efforts to prove that it is a good, responsible neighbor.

Regional Economic Trends: Growth is Returning.*

The Asian Development Bank (ADB) and International Monetary Fund (IMF) biannual economic growth outlook reports released this quarter forecast regional growth will increase from about 6.3 percent in 2003 to 6.8 percent in 2004, making Asia the most dynamic region in the world. Economic performance in 2003 was particularly strong in China, India, Thailand, and Vietnam, and first quarter domestic demand picked up in places where it was previously weak, notably Hong Kong, South Korea, Singapore, and Taiwan. The ADB believes that strong domestic demand is one of the two most notable economic developments in the region over the past two years, with the other notable factor being – you guessed it – the emergence of China as a major engine of intraregional trade. Despite the debate raging in economic circles about the regional impact of China’s attempt to cure overheating and whether it can achieve a soft landing, most forecasts observe that an expanding middle class and relatively young populations throughout Asia are altering consumption behavior and will compensate for any export sluggishness. “Overall,” says the ADB, “confidence is high in the economic outlook for the region.”

Analysts are watching for vulnerabilities, however, including China’s thirst for oil, a key factor in the highest oil prices this quarter since 1983. Japan is still eager to see China develop a strategic petroleum reserve, putting this on the agenda at the Sixth Meeting of APEC Energy Ministers in Manila on June 10. Acknowledging that “our diversity of views is the foundation for meaningful dialogue,” the 21 ministers – coming as they do from producer and consumer nations – continue to call on the Energy Working Group to forge agreements that can increase energy security. Of note, Indonesia imported more crude oil than it exported this quarter for the first time ever, reflecting troubled management of the country’s oil and gas resources.

Finance ministers bond. At the seventh ASEAN Plus Three Finance Ministers’ meeting in Jeju, South Korea on May 15, another step on the road toward developing regional bond markets was taken with the creation of AsianBondsOnline, an informational clearing house for the growing sovereign and corporate bond markets in the region. It may not grab headlines, but finance ministers can take credit for taking action to solve a cause of the Asian financial crisis; over-reliance on high savings rates and bank loans for economic growth. This regional move complements individual countries’ efforts to develop this important source of capital for governments and corporations alike.

APEC, Ole! Meanwhile, Asia Pacific Economic Cooperation (APEC) members are gearing up for the 2004 APEC Leaders meeting in Santiago, Chile on Nov. 20-21. On June 5, APEC “ministers responsible for trade” (MRTs) met in Pucon, Chile. It was an opportunity for USTR Robert Zoellick to follow up on his world tour in February (which included Tokyo, Beijing, and Singapore) to drum up support for the Doha Development Round. WTO Director General Supachai Pantichpakdi attended as well, to help focus attention on Doha. The APEC MRTs gave unswerving support for finding a resolution to

* Economic analysis provided by Ms. Jane Skanderup, Pacific Forum CSIS Director for Programs.

agricultural trade disputes by the late July deadline to continue the Doha Round. They also discussed the impact of bilateral and regional free trade agreements (FTAs) on APEC's agenda, including on the Bogor goals and the multilateral trading system more generally. Senior officials were instructed to prepare a set of Best Practices. At a minimum, this is an acknowledgment of the potential the trade-diverting effects of FTAs as well as the more problematic attention-diverting effects that many believe have robbed APEC of its momentum.

It is as unclear what the Bush administration hopes to get out of APEC this year. One can expect a reduced Asian attendance given the travel distance to Santiago, but the U.S. doesn't want to see APEC's importance minimized given the new and, some would say, more powerful consensus arising out of ASEAN Plus Three. Time will tell.

Other regional economic news. The World Bank sponsored an important conference in Shanghai on May 25-27 entitled "Scaling Up Poverty Reduction: Lessons and Challenges from China, Indonesia, Korea, and Malaysia." The conference was widely praised in economic development circles for being practitioner-oriented, analyzing 70 case studies by local researchers on successful approaches to reducing poverty on a large scale. It is no small matter that, according to the World Bank, "In three decades, these four countries have lifted more people out of poverty than all other developing countries combined." Who says the Asian economic miracle was a mirage?

Finally, the new head of the IMF, managing director and Madrid-born Rodrigo de Rato, visited Tokyo, Beijing, Singapore, and Hanoi from June 21-26. Mr. de Rato neither said or did anything earth shattering, but the media questions he faced in all four countries reflected the on-going need for good public relations efforts by the IMF to engage the region. It seems even the IMF learned something from 1997/98.

Iraq: Staying the Course

While President Bush promised repeatedly during the past quarter that he would "stay the course" in Iraq, it became increasingly clear that some mid-course correction was needed since the current path, according to retired Marine Corp Gen. and former Central Command chief Anthony Zinni, was "taking us over Niagra Falls." That course correction took place at quarter's end when, on June 28, the U.S.-installed governing coalition was replaced by a UN-arranged and UNSC unanimously endorsed new sovereign entity, thus opening the door for broader global participation in the effort to reconstruct and democratize Iraq. The ceremony actually occurred two days earlier than promised, no doubt to catch those who might have otherwise tried to disrupt the ceremony off guard. Iraq's new interim prime minister, Iyad Allawi, calling it a "historical day," further asserted that "we feel we are capable of controlling the security situation," a statement made possible (but by no means assured) by the continued presence of 130,000 U.S. and other coalition troops in Iraq.

A full court press has now begun to find countries willing to provide additional military support to the new Iraqi government. In this regard, Bush's personal campaigning at the

NATO summit in Turkey resulted in an agreement by NATO to provide emergency military training for the new Iraqi government, with details to be worked out. This is not likely to result in a large influx of NATO troops to Iraq, however; Germany and France insisted that the agreement allow for training outside Iraq as a condition for their support. Nonetheless, it represented a small step toward gaining broader international support for Iraqi reconstruction and democratization. How many, if any, additional Asian nations will grasp this opportunity remained to be seen however.

The good news is that those currently providing troops seem willing to stay the course, with the ROK promising to honor its commitment to send 3,000 additional troops to Iraq in July despite the horrific beheading of a Korean citizen by Iraqi terrorists in June (and the earlier-mentioned dissent within the ranks of Roh supporters). Japan pledged to keep its forces in Iraq under the new UN-mandated (but still U.S.-led) multinational force that came into being at the time of transition and the Philippines, despite hints of rethinking its commitment (mostly made during the election campaign), seems committed to also helping the new, sovereign, interim Iraqi government. Others, like Mongolia, Thailand, and Singapore have had small units in Iraq, their symbolic value far outweighing their military significance, but deeply appreciated nonetheless. No word yet from the Asian countries with some of the world's largest armies: China, Vietnam, and North Korea. Would Washington be prepared to take "yes" for an answer in these cases? For the record, Washington did not ask, and is apparently not eager to accept an offer from, Taiwan to send troops although a brief suggestion from one U.S. congressman to this effect spurred a hot debate in Taipei over whether or not to honor this nonexistent request.

Unanswered is the broader question of what impact participation in what often appears to resemble a "coalition of the reluctant" will have on American alliances with countries where public opinion seems strongly against such involvement. Will "being a good ally" help strengthen U.S. bilateral alliances or will negative public reactions chip away at the base of public support necessary to sustain any alliance over the long term. The outcome of Japan's Upper House elections in July and the parliamentary elections anticipated some time this fall in Australia will help signal the answer.

Regional Chronology April-June 2004

April 1, 2004: China rejects Taiwan President Chen Shui-bian's offer to hold cross-Strait talks without preconditions.

April 1, 2004: Joseph De Trani, U.S. State Department Special Envoy for the DPRK issue, visits Beijing.

April 1, 2004: USTR issues annual trade report on China.

April 2, 2004: Taiwan court rules President Chen and opposition leader Lien Chan must agree to terms for a recount of presidential ballots.

April 2, 2004: China's Defense Minister Cao Gangchuan visits Thailand.

April 3, 2004: Chen and Lien agree to presidential ballot recount.

April 5, 2004: Indonesia parliamentary elections.

April 6, 2004: Chinese National People's Congress (NPC) rules Hong Kong may amend its election laws in 2007, but must obtain approval from Beijing, which has veto power over any changes.

April 6-7, 2004: In Washington, Russian DM Sergei Ivanov says that Russia will not give up its cooperation with the U.S. in the war on terrorism, but warns that deteriorating bilateral relations could bring on a "cold peace."

April 7-8, 2004: TCOG meeting in San Francisco to discuss working-level talks on DPRK nuclear crisis.

April 8, 2004: Seven South Korean church group members are taken hostage near Baghdad.

April 9, 2004: ROK hostages released.

April 9, 2004: 25th anniversary of the enactment of the Taiwan Relations Act (TRA).

April 9-16, 2004: U.S. Vice President Cheney visits Japan, China, and South Korea.

April 12, 2004: Chung Dong-young, the head of South Korea's Uri Party resigns following criticism for his statements that older voters should "stay at home" on election day.

April 12, 2004: Malaysian PM Abdullah Badawi and Thai PM Thaksin Shinawatra pledge to improve security along border.

April 12, 2004: China conducts PLA Navy Drill in the South China Sea.

April 13, 2004: Senior members of Burma's National League for Democracy (NLD), chairman Aung Shwe and party secretary U Lwin are released from house arrest.

April 10-13, 2004: VP Cheney visits Tokyo, Japan; says the U.S. is grateful for Japan's leading role in combating terrorism and helping stop the spread of WMD.

April 14, 2004: VP Cheney praises China's expanded cooperation on counterterrorism in Shanghai speech, but adds "the war on terror must never be used as an excuse for silencing legitimate dissent and expressions of opinion."

April 15, 2004: Pro-Roh Uri Party wins a record 152 seats in the 299-seat National Assembly.

April 15, 2004: UNCHR votes not to consider a U.S.-submitted draft resolution criticizing China's human rights practices.

April 15-16, 2004: VP Cheney visits South Korea, meets with Acting President Goh Kun and voices concern about North Korea's nuclear program.

April 19-21, 2004: DPRK leader Kim Jong-il meets with President Hu Jintao in Beijing.

April 20, 2004: The small Caribbean island of Dominica (population 70,000) switches its diplomatic recognition from Taiwan to China.

April 20, 2004: Chinese Premier Wen Jiabao holds talks with PM Hun Sen of Cambodia; outlines China's four suggestions on the future direction of China-Cambodia relations.

April 20-23, 2004: Russian DM Sergey Ivanov visits China.

April 21, 2004: Defense Secretary Rumsfeld meets Singapore's Deputy PM and Co-coordinating Minister for Security and Defense Tony Tan in Washington; they reaffirm the U.S.-Singapore commitment to fight terrorism.

April 22-23, 2004: SCO foreign ministers meet in Moscow.

April 22, 2004: A massive explosion occurs at Ryongchon railstation in the DPRK, hours after Kim Jong-Il transits area enroute home from Beijing; at least 150 people are killed and over 1,300 are injured.

April 22, 2004: Assistant Secretary of State James Kelly testifies before the U.S. House international relations committee; says, "We have very real concerns that our efforts at deterring Chinese coercion might fail if Beijing ever becomes convinced Taiwan is embarked on a course towards independence and permanent separation from China." "While we strongly disagree with the approach, it would be irresponsible of us and Taiwan's leaders to treat these statements as empty threats."

April 22, 2004: Taiwan presidential spokesman James Huang rejects U.S. warnings over plans for a new constitution and says President Chen plans to deepen the island's democracy rather than set a timeframe for Taiwan independence.

April 23, 2004: China's Ministry of Health confirms two people have been diagnosed with SARS and confirms one death due to SARS in early April.

April 23, 2004: ROK acting President Goh Kun offers aid to the DRPK and offers his condolences to the victims of the rail disaster.

April 23, 2004: ASEAN Plus Three Health Ministers meeting held in Penang, Malaysia.

April 24-26, 2004: Third Bo'ao Forum for Asia annual conference in Hainan, China.

April 26, 2004: Chinese Standing Committee rules out direct elections for the Hong Kong leadership in 2007 and for all legislators in 2008.

April 28, 2004: About 107 suspected militants are killed by Thai troops during attacks on security posts and police stations in the southern region of Pattani.

April 28, 2004: UNSC Resolution 1540 unanimously calls for measures to prevent WMD from falling into hands of non-state actors.

May 2-3, 2004: Japanese and North Korean delegates meet in Beijing for discussions on abduction issue and proposal for a visit by PM Koizumi to Pyongyang.

May 3, 2004: PM Thaksin orders over 700 more troops to southern Thailand to bolster security.

May 5, 2004: PRC warships enter Hong Kong's Victoria Harbor as a display of strength and to honor the PLA navy's 55th anniversary.

May 5, 2004: Results of April 5 election announced; Indonesian President Megawati's Indonesia Democratic Party-Struggle (PDI-P) wins 18.5 percent of the vote; the opposition Golkar party wins 21.6 percent.

May 5, 2004: President Bush meets Singapore PM Goh Chok Tong at the White House.

May 6, 2004: Vietnamese Agriculture Ministry announces deadly bird flu has infected another farm in southern Vietnam.

May 7, 2004: Vietnam marks 50th anniversary of the battle of Dien Bien Phu that ended French colonial rule.

May 8, 2004: Senior members of NLD meet with Nobel peace laureate Aung San Suu Kyi at her Rangoon home where she is under house arrest.

May 8, 2004: PRC official says expressions of discontent by Hong Kong legislature over NPC reinterpretation are against the law.

May 10, 2004: Philippines holds Presidential elections, sporadic violence results in the death of nearly 20 people.

May 10, 2004: Taiwan begins a recount of the presidential election vote.

May 10, 2004: An East Timor court issues arrest warrant for Indonesian military chief Wiranto for committing crimes against humanity in East Timor in 1999.

May 10, 2004: The U.S. and Malaysia signed a bilateral trade and investment framework agreement (TIFA) on May 10, according to an announcement released by the Office of the United States Trade Representative (USTR).

May 10-13, 2004: ASEAM Special Senior Officials Meeting (SOM), ASEAN Plus Three SOM, and ASEAN Regional Forum SOM held in Yogyakarta, Indonesia.

May 10-16, 2004: U.S. Treasury Under Secretary for International Affairs John Taylor travels to China, Japan, and Korea to discuss global and regional economic issues.

May 12-15, 2004: Six-party working group meetings held in Beijing.

May 13, 2004: Indian PM Vajpayee concedes defeat in Indian elections; congress party claims surprise victory.

May 13-17, 2004: Asian Development Bank Annual Meeting in Jeju, South Korea

May 14, 2004: ROK Constitutional Court dismisses charges against President Roh, overturning his impeachment.

May 14, 2004: Taipei announces its strongest growth in over three years during the first quarter of 2004, due to strengthened domestic demand and a rapid rise in exports; GDP expanded 6.28 percent over last year.

May 14, 2004: The NLD opts to boycott a planned constitutional convention after junta refused to release Aung San Suu Kyi and NLD vice chairman Tin Oo from house arrest.

May 15, 2004: National Security Adviser Condoleezza Rice meets President Putin in Moscow, delivers letter from President Bush.

May 15, 2004: President Roh returns to office; offers his apologies and accepts responsibility for illegal campaign funds scandal.

May 15, 2004: Seventh ASEAN Plus Three finance ministers meeting in Jeju, South Korea.

May 17, 2004: Junta convenes Constitutional Convention in Burma without NLD representation.

May 17, 2004: Beijing tells President Chen to drop drive for independence or be “consumed in his own flames,” but also offered economic and diplomatic benefits, including “international living space” if Taiwan embraces the “one China” principle.

May 17, 2004: Washington notifies Japan and South Korea that it plans a redistribution of nearly 3,600 troops from the 2nd Brigade of the 2nd Infantry Division from South Korea to Iraq.

May 17, 2004: President Bush telephones President Roh and offer his congratulations on his reinstatement. Roh tells Bush he accepts U.S. plans to shift troops from South Korea to Iraq.

May 17, 2004: Russian and U.S. Army officers begin a joint six-day command post exercise that is the first of its kind and aims at ensuring better cooperation in the war on terrorism.

May 18, 2004: The U.S. and Australia sign free-trade agreement.

May 18, 2004: Indonesia sentences Mohammed Rais to seven years in prison for transporting chemicals used in the Jakarta attack on the Marriot Hotel, which killed seven.

May 19, 2004: Taiwan’s opposition parties, the KMT, the People First Party (PFP), and KMT splinter group, the New Party, agree to merge.

May 20, 2004: Chen Shui-bian inaugurated as President of Taiwan for a second four-year term. In his inauguration speech, Chen offers a conciliatory tone toward China.

May 20, 2004: Premier Wen holds talks with Vietnamese Premier Phan Van Khai.

May 20, 2004: Under Secretary of State John Bolton visits Moscow to press Russian leaders to join the U.S.-led Proliferation Security Initiative (PSI).

May 20-21, 2004: Former President George H.W. Bush visits the Ukraine.

May 21, 2004: State Dept. says Burma Constitution Convention “lacks legitimacy,” announces extension of sanction.

May 21, 2004: Chinese state media rejects Chen’s conciliatory remarks as a sham” and denounces Chen as a “slippery politician.”

May 21, 2004: Russian news agencies report President Vladimir Putin favors a rapid approval of the Kyoto Protocol on global warming.

May 22, 2004: PM Koizumi visits Pyongyang for one-day meeting with North Korean leader Kim Jong-il.

May 24, 2004: Approximately 19 sets of remains believed to have been U.S. soldiers killed in the Korean war are uncovered in North Korea and repatriated to the U.S.

May 25, 2004: ROK PM Goh Kun resigns.

May 25-26, 2004: ROK and DPRK senior military officers hold talks to examine proposals to improve communications between their forces; agree to further talks in June.

May 25-27, 2004: World Bank Shanghai Conference on Scaling Up Poverty Reduction.

May 26, 2004: President Roh says U.S.-South Korea alliance is “solid.”

May 27, 2004: The U.S. and Russia sign accord to reclaim poorly guarded stockpiles of highly enriched uranium (HEU).

May 27-31, 2004: Malaysian PM Abdullah Badawi leads a high profile diplomatic and economic delegation to China to celebrate the 30th anniversary of bilateral ties between the two countries.

May 28, 2004: Indonesian government expels U.S. terrorism expert Sidney Jones, head of the Jakarta office of the International Crisis Group.

May 29, 2004: DoD issues annual *Report to Congress on PRC Military Power Pursuant to the FY2000 National Defense Authorization Act*. The report claims China is reassessing how to counteract the U.S. military in a potential conflict over Taiwan.

May 31, 2004: Russia joins Proliferation Security Initiative (PSI) at first anniversary meeting in Poland.

May 31, 2004: Military authorities in Burma arrest 10 democracy activists protesting the one year anniversary of Aung San Suu Kyi’s arrest and detention.

May 31, 2004: ASEAN ISIS Roundtable begins in Kuala Lumpur.

June 2, 2004: Asst. Secretary Kelly tells House subcommittee that the Bush administration will not ask Taiwan’s help in Iraq; praises regional democracies and China’s help in countering WMD.

June 3, 2004: Secretary Rumsfeld says “after Cold War, U.S. forces have been stationed in South Korea for too long.”

June 4, 2004: ROK and the DPRK agree to measures to ease military tension along their border, agreeing to adopt standard radio frequency and naval signaling system, to exchange data on illegal fishing, to establish an inter-government hot line, and end the broadcast of propaganda along the border.

June 4, 2004: In Hong Kong, tens of thousands hold candlelight ceremony marking the 15th anniversary of the Tiananmen Square massacre.

June 4, 2004: Deputy Assistant Secretary Randall Schriver says until China “honestly and candidly” reexamines events at Tiananmen Square, “China will not be able to realize its full potential as a member of the international community.”

June 4-5, 2004: Meeting of the APEC Ministers Responsible for Trade in Pucon, Chile.

June 5, 2004: Ronald Wilson Reagan, 40th president of the U.S., passes away at 93.

June 5-6, 2004: Third annual Shangri-La Dialogue in Singapore; Secretary Rumsfeld responds to this author’s “coalition of the reluctant” question by asserting “we do not go around putting pressure ... on countries to do something that is against their interest.”

June 7, 2004: The U.S. and China hold the fourth in a series of bilateral consultations on counterterrorism in Washington.

June 8-10, 2004: G8 summit on Sea Island, Georgia.

June 11, 2004: FM Li Zhaoxing attends former U.S. President Ronald Reagan’s funeral as a special envoy of Chinese President Hu Jintao and meets with Secretary Powell.

June 12, 2004: FM Li meets with President Bush in Houston.

June 13-14, 2004: TCOG talks in Washington prepare for next round of six-party talks.

June 13-15, 2004: World Economic Forum convenes East Asia Economic Summit in Seoul.

June 14, 2004: President Bush signs legislation to endorse and obtain observer status for Taiwan at WHO.

June 17, 2004: The SCO holds one-day summit in Tashkent, Uzbekistan, opening an anti-terrorism center.

June 18, 2004: Japan’s Cabinet approves a plan for Japanese troops now in Iraq to stay and join U.N.-authorized multinational force after handover to interim Iraqi government.

June 18, 2004: President Putin says Russian government warned Washington that Saddam Hussein’s regime was preparing attacks in the U.S. and its interests abroad.

June 18, 2004: U.S. Transportation Secretary Norman Mineta announces a landmark air services agreement between the U.S. and China to expand commercial aviation services.

June 21, 2004: Taiwan announces it will hold its annual “Han Kuang” (“Chinese Glory”) exercises in August to test Taiwan’s combat readiness.

June 21, 2004: About 10 foreigners including a South Korean held captive in Iraq.

June 21-22, 2004: Six-party working group discussions held in Beijing.

June 21, 2004: China-ASEAN Foreign Ministers’ Meeting in Qingdao; delegates agree to deepen cooperation, to push for the China-ASEAN FTA; China signals it will sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ).

June 21-22, 2004: Third Foreign Ministers’ Meeting of Thai-initiated Asia Cooperation Dialogue held in Qingdao, China.

June 21-26, 2004: IMF Managing Director Rodrigo de Rato travels to Tokyo, Beijing, Singapore, and Hanoi to hear perspectives of IMF’s work.

June 22, 2004: Seoul orders evacuation all of its nationals doing business in Iraq following execution of Kim Sun-il by Iraqi militants and restates it’s intention to dispatch troops to Iraq.

June 23-26, 2004: Six-party talks held in Beijing; U.S. and Pyongyang put detailed proposals on the table, hold separate bilateral discussion.

June 23, 2004: A joint session of the Philippine Congress officially proclaims that Gloria Macapagal-Arroyo wins the election, concluding a constitutional process that began with polling on May 10.

June 24, 2004: The U.S. Senate passes joint resolution renewing economic sanctions on Burma imposed by the Burmese Freedom and Democracy Act for an additional year.

June 27, 2004: Parliamentary elections held in Mongolia.

June 28, 2004: The U.S. and the Philippines announce joint military exercises and a counterterrorism training program to be held in the Philippines.

June 28, 2004: The OECD reports China surpasses the U.S. as recipient of foreign direct investment in 2003.

June 28, 2004: North Korea says six-party talks made “positive progress,” but rejects U.S. proposal to freeze its nuclear weapons program.

June 28, 2004: U.S. turns over sovereignty to new UN-endorsed interim government in Iraq

June 29, 2004: Author and Louanne Petronio exchange vows in private Honolulu ceremony, formal ceremony in NY in July.

June 29-30, 2004: ASEAN FMs meet in Jakarta in advance of ASEAN Plus Three and ARF ministerials, discuss security community proposal.

June 30, 2004: Chris Patten, Hong Kong's former colonial governor, criticizes China saying "there isn't a political problem in Hong Kong unless it's created from outside."

June 30, 2004: Gloria Macapagal-Arroyo inaugurated as 14th president of the Philippines.

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

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Relations between the United States and Japan were very good this quarter, even though a number of events threatened to derail the solid ties between the two governments. A hostage crisis in Iraq and the discovery of an alleged al-Qaeda network in Japan brought home to Japanese the reality of the war on terror. No longer could they disassociate themselves from events half a world away. By the end of the quarter, both governments could point to their relationship as an example of how an alliance is supposed to work; Prime Minister Koizumi Junichiro could finally make the case that his close relationship with President Bush paid tangible dividends. Not only was his strategy vindicated, but he could point to an outcome on a key policy that a majority of Japanese could support.

Jolts from Iraq

This quarter has been an emotional roller-coaster ride for Japan and the government of Prime Minister Koizumi. The jolts began with the seizure of three Japanese hostages by militants in Iraq in early April, confirming the worst fears of many that the Japanese government's decision to follow the U.S.-led coalition into Iraq would produce dangerous results for the nation. The three hostages, Takato Nahoko, an aid worker, Imai Noriaki, an 18-year old high school graduate, and Koriyama Soichiro, a 32-year old photo-journalist, were seized April 7 by the Islamic militant group Mujahideen Brigades, which threatened to kill them if Japan did not withdraw the Self-Defense Forces (SDF) providing humanitarian assistance in Iraq. The government refused to submit to the terrorists' demands and in one week the hostages were released unharmed. One day before their release, two more Japanese civilians were kidnapped, but they too were released unharmed three days later.

The Japanese media uniformly condemned the hostage taking. The *Yomiuri Shimbun* editorialized "We can never succumb to this despicable threat. We must deal with it with a firm attitude." The *Asahi Shimbun* agreed, saying, "an act of this kind should never be forgiven. ... The government should first make every possible effort to rescue them." Public opinion also supported the Koizumi government. According to an *Asahi* poll, 64 percent backed the government's handling of the crisis. Nearly three-quarters (73 percent) agreed with the government's rejection of the demand for the withdrawal of the SDF from Iraq. These results were somewhat surprising given the national debate over the dispatch of the troops. Only 50 percent of respondents in the same poll favored

continuing deployment of Japanese troops; 32 percent said the SDF should withdraw. (Curiously, there was a public backlash against the hostages, who were roundly criticized for putting themselves in harm's way irresponsibly.)

To the relief of all, the situation was resolved peacefully. It could have been catastrophic, however. Not only would the government have been held responsible for the bloodshed, but the kidnappers threatened to kill the hostages on the day that Vice President Dick Cheney was scheduled to make a major speech in Tokyo. Efforts to link the deaths to Tokyo's support for U.S. policy would have been inevitable. Peaceful resolution of the crisis was, thus, a net plus for the alliance.

The next lurch for Japan occurred a month later, on May 27, when Hashida Shinsuke, one of Japan's top freelance combat photographers, and his nephew Ogawa Kotaro were killed when unidentified assailants opened fire on their car. The deaths were another painful reminder of the risks that accompany the Iraq deployment. Here, again, the Japanese public did not indulge in breast beating nor did it demand a reconsideration of the deployment to Iraq. Apparently the country is reconciled to the dangers involved and understands the importance of its commitment to Iraq's reconstruction.

Al-Qaeda at Home?

The realities of the war against terrorism surfaced closer to home when officials acknowledged that Lionel Dumont, a French national believed to be a senior member of al-Qaeda, had been living in Niigata for more than year from July 2002. Dumont entered Japan on a fake passport and traveled abroad frequently even though he was hunted by Interpol. After leaving Japan in September 2003, he was arrested in Germany on suspicion of involvement in an attempted terrorist attack on the 1996 G8 summit in Lyons, France. After Dumont's arrest, eight foreign nationals were arrested in Japan on charges of immigration violations, and they are suspected of being involved in an al-Qaeda network operating in Japan. The *Yomuiiri Shimbun* editorialized that Tokyo "should squarely face the reality that Japan is also being targeted by international terrorist networks" and warned that the country "must not become the weakest link in the international alliance against terrorists."

Smooth Sailing at Sea Island

Koizumi was not going to let that occur. The prime minister set off a domestic tempest when he was reported to have told President George W. Bush at their June 8 meeting before the Sea Island G8 summit that the SDF would participate in the international force that will serve in Iraq after the transfer of sovereignty to the new government in Baghdad. On its face, that comment should have been uncontroversial, if not applauded. Japan's multilateralists should have been pleased that the UN Security Council voted unanimously June 8 to endorse the June 30 transfer of sovereignty to the Iraqi interim government and authorize a U.S.-led multinational force to keep peace there. In other words, they should have seen the move as a victory for UN-centered diplomacy.

But controversy followed as a result of domestic political concerns. The deployment of SDF, even under the UN flag, raises constitutional questions: would this be an exercise of the right of collective self defense, which successive Japanese governments have insisted is not permitted by the Japanese constitution? The prime minister said it wouldn't because the SDF would continue to limit its activities to humanitarian and reconstruction work. Other pundits disagreed and there was a flurry in the press, with Koizumi being attacked, among other things, for unflinching support for the U.S. president. He was quoted as calling the UN resolution "a victory for the cause of the U.S." The multilateralists would have preferred to see "the victory" as that of the UN. The government endorsed the prime minister's decision when it decided a week later to agree to the deployment.

The SDF decision was one on a long list of agenda items discussed by the two leaders during their 80-minute meeting. Recovery in both countries meant that economic issues got short shrift. The two men discussed the continuing ban on beef imports from the U.S. because of mad cow disease, with Bush urging Koizumi to lift the ban as soon as possible. (During their visits to Japan, other U.S. officials, such as Vice President Cheney and Secretary of Agriculture Ann Veneman, pressed the Japanese to resume beef imports, but to no avail. Growing pressure from the U.S. could force some movement as the election campaign heats up. A working-level panel is scheduled to be set up to work out a solution by summer's end.)

Other issues discussed during the bilateral summit included measures to reduce the concentration of U.S. bases on Okinawa – the two leaders agreed to consult closely on the matter – and Japan's bid to host the International Thermonuclear Experimental Reactor project in Rokkasho, Aomori Prefecture. Bush has backed Tokyo in its battle with France to win the project.

The Soga Saga

High on the agenda was the fate of U.S. Army Sergeant Charles Robert Jenkins. Jenkins allegedly defected from his post on the Demilitarized Zone in South Korea in 1965 and is now living in North Korea. Jenkins is married to Soga Hitomi, one of the five people that North Korea admitted to kidnapping from Japan in 1978. Soga was allowed to return to Japan on a visit in 2002 and then she refused to go back to North Korea (as did all of the abductees), leaving behind her husband and two daughters. Reportedly, Jenkins refuses to leave the North for fear of being arrested on desertion charges.

The Soga issue has taken on additional urgency in the wake of Koizumi's May 22 one-day visit to North Korea, a bid to jumpstart the stalled normalization talks. (For more on this, see Victor Cha's "Engagement from Strength" in this issue of *Comparative Connections*.) Koizumi secured the release of several family members of other abductees, but Jenkins is holding out, fearful of arrest and imprisonment. (In addition to the tangible benefits North Korea gains from reconciliation with Japan, the prospect of Jenkins becoming a wedge issue between Tokyo and Washington is one more reason for Pyongyang to appear conciliatory.)

Koizumi raised the Soga issue at his meeting with Bush (as have most Japanese officials when discussing the bilateral relationship with U.S. counterparts). President Bush is reported to have expressed “sympathy” over the situation, and then repeated the U.S. position that Jenkins is a deserter wanted by the U.S. Army. While leniency makes some sense – four decades in North Korea, separated from family and home, may well constitute punishment enough – U.S. officials are reluctant to let the case go when U.S. soldiers have committed punishable offenses in Iraq for fear of sending the wrong signal.

Fixing the SOFA

As the quarter began, alliance officials were focused on legal issues. In early April, the two governments reached agreement on revising the Status of Forces Agreement (SOFA). The treatment of U.S. soldiers accused of committing crimes in Japan has long bedeviled the bilateral relationship: Officials must balance constitutional protections afforded U.S. citizens serving in the nation’s military with respect for domestic legal procedures in Japan. (The problem is not restricted to Japan: it occurs in every country where the U.S. has deployed forces.)

According to the new agreement, which followed nine months of negotiations, suspects will be handed over to the Japanese police; previously only individuals charged with serious offenses were subject to this provision. The U.S. continues to reserve the right to decide whether to hand over the suspects. Japan agreed to allow U.S. officials to be present during informal questioning prior to handover. During interrogation, suspects will be given an interpreter and can be accompanied by a representative of the U.S. military and an additional official.

The agreements should help soothe bruised feelings brought about by U.S. refusal to hand over suspects. It is unlikely to placate Okinawans opposed to the U.S. presence under any circumstances. Some Okinawa newspapers protested the new agreement, saying it would “guarantee” another “special privilege” for the U.S. military, violating equality before the law.

Global Redeployment Echoes Through Northeast Asia

Regional security planners were taken by surprise by the U.S. announcement that it would move 3,600 troops from South Korea to Iraq. (The issue is discussed in detail in Donald Gross’ chapter in this issue of *Comparative Connections*, “Strains in the Alliance as the U.S. Offers a Nuclear Deal”). The shock was compounded by the subsequent report that the U.S. would permanently shift 12,500 troops from the Peninsula. These changes impact Japan’s security, as a Korean contingency is one of the main concerns of Japanese security planning as well as the focus of U.S. Marine deployments in Okinawa. The *Asahi* noted that changes in U.S. forces “directly affect Japan’s security and military base issues.” During his April visit, Vice President Cheney reassured audiences that the planned reorganization of the U.S. military would not diminish alliance security. Changes may be required, but they “will be a matter of modernizing and updating” the alliance.

Despite those calming words, nervousness was fed throughout the quarter by reports of associated shifts in Japan: in early April, for example, the *Nihon Keizai Shimbun* reported that the U.S. government was considering sharing bases between U.S. forces and the SDF and transferring part of the U.S. Army's headquarters functions to Japan. Japan has been reluctant to accept any new U.S. deployments, and has even been slow to facilitate changes agreed in the Special Action Committee on Okinawa (SACO), a process designed to lighten Okinawa's burden.

The new urgency attached to the global redeployments, part of Defense Secretary Donald Rumsfeld's agenda to transform the U.S. military, has created some tension in the relationship. SACO was the product of intense U.S.-Japanese consultation. But it also predates the Bush administration, which means that new plans will require new negotiations – and is likely to encounter Japanese reluctance to reopen the talks. The uproar last quarter over the reported decision to change the plans for the move of the Futenma Air Station – allegedly the result of Rumsfeld's flyover of the base – showed once again that process is as important as outcome when dealing with these issues. Consultation is key.

Quiet Contributions Continue

Largely unheralded during the quarter – as has been the case since the initial deployments – was the April 22 decision by the Japanese government to continue to extend Maritime SDF (MSDF) support to the coalition operating in Afghanistan for another six months. Less than one month later, on May 17, two MSDF ships set sail to assist in refueling warships in the region.

Three days later, the Lower House passed a package of seven bills that explain government powers in the event of a national emergency; the Upper House passed the bills June 14, which allowed them to become law. The bills supplement three laws passed last year that will help the government respond to an attack against Japan. The most recent legislation passed with support from the government, including the LDP alliance partner, the New Komei, and the opposition Minshuto (Democratic Party of Japan).

The bills facilitate U.S.-Japan cooperation in the event of an attack, and allow the SDF to supply provisions to U.S. forces. Other laws in the package deal with protection and evacuation procedures, procedures for ship inspections in and around Japanese waters, use of public facilities to deal with emergencies, protections for prisoners of war, restrictions on travel for foreign nationals, and the protection of cultural assets. Diet approval is required before the government declares a state of emergency.

From Pyongyang to Sea Island

The contingency bills, like the SDF deployment in Iraq, are proof that the U.S.-Japan alliance has entered new territory. There has long been talk of a more equal and more equitable partnership, but Japanese domestic politics often meant that was more rhetoric than reality (although Washington has also been a culprit at times). Prime Minister

Koizumi doesn't deserve all the credit for pushing the alliance into the 21st century, but he still deserves a lot. His political instincts and his ability to create and sustain a personal relationship with President Bush have been instrumental in elevating Japan to the foremost ranks of U.S. allies. As Vice President Cheney noted in his April speech in Tokyo, the alliance is now seen as truly global in scale and reach.

The new reciprocity in the relationship was evident this quarter in the attempts to get North Korea to abandon its nuclear weapons program. The Trilateral Cooperation and Oversight Group (TCOG) process continues, ensuring that the positions of Washington, Tokyo, and Seoul are well coordinated. But efforts to move the negotiations forward got a big boost this quarter from Prime Minister Koizumi himself.

In a bid to overcome the paralysis that had stalled normalization talks between Japan and North Korea, Koizumi on May 22 made a second one-day visit to Pyongyang to meet with "Dear Leader" Kim Jong-il. The trip was something of a gamble, although it was clear that the prime minister would not have gone if there wasn't some assurance of a payoff – in this case, the return of several of the family members of the abductees. Pundits feared the trip would open a wedge between Washington and Tokyo; they worried that Pyongyang would give Koizumi enough to break ranks with Bush. Officially, the U.S. "strongly supported" Koizumi's efforts to solve the abduction issue.

In a face to face meeting with Kim, the prime minister made it clear that the U.S. and its allies were serious about their commitment to North Korea's complete, verifiable, and irreversible dismantlement. Moreover, he argued that Pyongyang's willingness to cooperate would pay benefits for the North. In short, he argued that the U.S. was serious in a way that no one else could, save Bush or Secretary of State Colin Powell.

Koizumi reported on that meeting to the president at their sit down at Sea Island. He argued that Kim too was serious about making a deal and pushed for a credible U.S. proposal at the forthcoming six-party talks to test him – and to satisfy domestic Japanese critics who see the U.S. as the intransigent party in the negotiations.

Koizumi can claim that his close working relationship with Bush, forged on both a personal and policy level, helped move the U.S. on the North Korea issue. The resulting U.S. offer (detailed in Gross' chapter, "Strains in the Alliance as the U.S. Offers a Nuclear Deal") was fully backed by Tokyo and Seoul. The Japanese Foreign Ministry emphasized that a freeze must include 1) all nuclear programs, including uranium enrichment; 2) information on all Pyongyang's nuclear programs; and 3) verification. Japan is ready to offer international energy assistance "only if these conditions are satisfied and if this freeze is part of an agreement to dismantle North Korea's nuclear programs." Normalization will ultimately depend on settling all bilateral issues between Japan and the DPRK, including abductions and the missile issues. Furthermore, noted the Foreign Ministry, Japan will continue to work closely with the U.S. and other countries in anticipation of a fourth round of six-party talks.

It's currently unclear how much Koizumi influenced the subsequent U.S. offer at the Beijing talks, but history may well judge it – and the pressure from the ROK – as substantial, if not determinative. Japan's Foreign Ministry cited Kim Jong-il's statement at the May 22 summit with Koizumi when it described the progress of the six-party talks, noting that "Chairman Kim Jong-il also said that the first step of this denuclearization should be to freeze nuclear programs and this freeze will entail verification." This statement makes plain the linkage between Koizumi's diplomacy and the progress in Beijing.

As Japan heads into a July Upper House election campaign, Koizumi and the Liberal Democratic Party can argue that they have transformed the nature of the U.S.-Japan alliance. Events this quarter provide substantial backing for that claim. It is a remarkable accomplishment and one for which the prime minister deserves substantial credit – but it may not be enough to sway Japanese voters. We will soon find out.

Chronology of U.S. – Japan relations April-June 2004¹

April 2, 2004: - U.S. and Japan reach agreement on SOFA revisions. Those who can be handed over to Japanese police is expanded to suspects for any crime, although U.S. reserves the right to decide whether to comply, and during pre-handover questioning by Japanese police a U.S. official can be present.

April 3, 2004: U.S. and Japan celebrate 150th anniversary of Treaty of Kanagawa, the first treaty between the two nations.

April 5, 2004: A letter from U.S. Secretary of Agriculture Veneman to Japan complicates the lifting of the Japanese ban on U.S. beef, as the proposal for voluntary BSE testing by U.S. meatpacking firms is rejected.

April 6, 2004: Japanese Defense Agency announces suspension of GSDF Iraq activities outside Samawah camp given growing security concerns.

April 6, 2004: NY Mets leadoff batter Matsui Kazuo starts season with a home run in the first official pitch of his major league career, going 3 for 3 in a 7-2 victory over the Braves.

April 7, 2004: Informal talks between high-level U.S., Japanese, and South Korean officials on North Korea open in San Francisco.

April 8, 2004: Three Japanese civilians are kidnapped in Iraq. The captors threaten to burn the Japanese alive if Japan does not withdraw troops from Iraq within three days.

¹ Compiled by Tamara Renee Shie, Visiting Fellow, Pacific Forum CSIS.

April 8, 2004: ASDF Chief of Staff Gen. Tsumagari Yoshimitsu acknowledges the ASDF has airlifted U.S. armed military and civilians from Kuwait to Iraq, the first time the ASDF admits to carrying soldiers in addition to supplies.

April 10, 2004: VP Richard Cheney arrives in Japan on the first leg of his Asian tour to Japan, South Korea, and China, his first visit to these countries since taking office.

April 10, 2004: Families of three Japanese held hostage in Iraq urge Tokyo not to seek help from U.S. special forces to assist in the rescue.

April 10, 2004: Poll shows 45.2 percent disagree with Tokyo's rejection of the kidnapper's demands to withdraw troops vs. 43.5 who supported the decision. Support for the Koizumi Cabinet fell 3 percentage points from March to 48.4 percent; the disapproval rate is up 2.6 points to 39.3 percent.

April 12, 2004: In meetings with PM Koizumi, Cheney expresses appreciation for SDF reconstruction efforts and pledges U.S. assistance in resolving the kidnapping crisis.

April 13, 2004: In a Tokyo speech, Cheney urges Japan to lift the ban against U.S. beef, in place since last Dec. 24.

April 13, 2004: At a special lecture to honor the 150th anniversary of U.S. – Japan relations, VP Cheney characterizes the strategic relationship as far more than bilateral but a “global partnership” and one of the “great achievements in modern history.”

April 14, 2004: Two more Japanese nationals working in Iraq, a freelance journalist and a peace worker, are taken hostage.

April 15, 2004: Three Japanese nationals in Iraq are released after a week held hostage.

April 16, 2004: Secretary of State Colin Powell commends released Japanese hostages for their willingness to take risks for the “greater good” and PM Koizumi for not bowing to terrorist demands.

April 17, 2004: Second group of Japanese hostages released unharmed in Baghdad.

April 19, 2004: *Ashahi* poll reveals 64 percent of respondents support the Japanese government's handling of the hostage crisis and 73 percent support rejection of demands to withdraw SDF troops from Iraq.

April 21, 2004: Japan rejects U.S. claim that testing all cattle is unnecessary to protect against BSE and says the import ban against U.S. beef will remain in place until blanket testing is instituted.

April 22, 2004: Japan decides to extend Maritime SDF non-combat naval support to operations in Afghanistan another six months until November.

April 24, 2004: Japan and the U.S. officials meet for first formal negotiations on Japanese ban of U.S. beef since January. They agree to establish a working group to discuss the issue with the aim of lifting the ban by summer.

April 30, 2004: Minshuto (Democratic Party of Japan) leader Naoto Kan pledges greater SDF participation in Iraq as part of a UN-led multinational force during meeting with UN Secretary General Kofi Annan in New York.

May 3, 2004: Japanese troops resume full operations in Iraq after they were suspended by mortar attacks last month.

May 11-12, 2004: U.S. and Japan hold first round of technical meetings on resolving the dispute over BSE testing of U.S. beef and Japan's import ban.

May 11, 2004: *Asahi Shimbun* opinion poll indicates 73 percent of respondents favor maintaining the U.S.–Japan Security Treaty.

May 15, 2004: *Kyodo* reports Japanese Court orders Japanese government to pay the U.S. share of the noise pollution compensation to Okinawa Prefecture after the U.S. government failed to pay its half.

May 17, 2004: Two MSDF ships leave Japan for the Arabian Sea to support coalition operations in Afghanistan, primarily for refueling of warships in the region.

May 20, 2004: A package of seven security-related bills intended to strengthen war-contingency laws enacted last year passed the Lower House of the Japanese Diet. The bills include provisions for closer cooperation between the SDF and U.S. military.

May 22, 2004: State Department issues statement welcoming the results of PM Koizumi's visit to North Korea.

May 25, 2004: Japan raids 10 locations around the country to search for alleged Al-Qaeda operatives connected with suspected French terrorist Lionel Dumont whose phone records indicate he called 13 individuals in Japan after leaving the country.

May 27, 2004: Two Japanese journalists killed in Iraq in an attack on their vehicle.

June 2, 2004: Osamu Akiyama, director general of the Cabinet Legislation Bureau, tells Diet committee SDF can join a planned multinational force in Iraq as long as the purpose and mission do not involve the use of force.

June 3, 2004: Japanese police arrest eighth foreigner suspected of having links to French al-Qaeda operative Lionel Dumont in a nationwide crackdown.

June 5, 2004: At Asia security conference in Singapore, Defense Minister Ishiba Shigeru assures neighbors that Japan's U.S.-developed ballistic missile defense system will not lead to an Asian arms race.

June 8, 2004: In a bilateral meeting with President Bush before the G8 Summit in Sea Island, Georgia, PM Koizumi pledges full support for U.S. in Iraq and to keep SDF troops in the country after the transfer to Iraqi power at the end of June.

June 13, 2004: *Japan Times* reports during last month's talks between PM Koizumi and North Korean President Kim Jong-il, Kim told Koizumi he desperately wants to hold talks with the U.S. Koizumi passed the message on to Bush at the G8 Summit.

June 14, 2004: Seven bills designed to enhance last year's war contingency legislation pass Upper House of the Japanese Diet to become law.

June 15, 2004: Japan pledges to strengthen measures to stop human trafficking after a U.S. State Department report slams Japan's efforts to combat the problem.

June 15, 2004: Under Secretary of State John Bolton says he hopes Japan will reconsider a deal to develop the Iran's Azadegan oil fields should the IAEA bring a case to the UN regarding Iran's alleged nuclear arms ambitions.

June 23, 2004: Speaking at a memorial service to commemorate the 59th anniversary of the end of the Battle of Okinawa, PM Koizumi pledges to reduce the burden of U.S. military bases on the people of Okinawa.

June 28, 2004: During Japan-U.S. Strategic Dialogue Meeting, Vice FM Takeuchi Yukio and Deputy Secretary of State Richard Armitage discuss Iraq, peace in the Middle East, North Korea, U.S.-Japan security arrangements, and UN reform.

June 29, 2004: Defence Agency head Ishiba and visiting U.S. Asst. Secretary of State James Kelly reaffirm commitment to ending North Korea's nuclear ambitions.

U.S.-China Relations:

Anxiety About Taiwan Hits New Highs

Bonnie S. Glaser, Consultant on Asian Affairs
and Jane Skanderup, Pacific Forum CSIS

Vice President Dick Cheney made a long-awaited visit to China this quarter and engaged in strategic dialogue with China's top leaders, who underscored the dangers of Taiwan independence in the aftermath of the re-election of Taiwan's President Chen Shui-bian. Despite U.S. efforts to allay Beijing's fears, Chinese dissatisfaction with U.S. policy toward Taiwan spilled over into other policy arenas, influencing its handling of Iraq and North Korea. This quarter also saw a host of activity in the economic realm, with the convening of the 15th U.S.-China Joint Commission on Commerce and Trade, June visits to China by U.S. Secretary of Labor Elaine Chao and U.S. Secretary of Commerce Don Evans, and the signing of numerous bilateral economic agreements.

Vice President Cheney Visits China

In mid-April, one year after postponing a planned trip to Asia to stay close to the White House during the Iraq war, Vice President Dick Cheney arrived in Beijing for a three-day visit. The unexpected rescheduling of the vice president's trip was enthusiastically welcomed by the Chinese leadership, which considers Cheney to be a crucial influence on President Bush and a hardliner on both Taiwan and North Korea, the two most delicate issues in China-U.S. relations. Topics discussed during Cheney's meetings with senior Chinese leaders included Taiwan, North Korea's nuclear weapons, antiterrorism, Iraq reconstruction, and bilateral issues including economic and trade cooperation.

The re-election of Chen Shui-bian on March 20 to a second four-year term as president of Taiwan raised alarm bells in Beijing and put the subject of forestalling Taiwan independence at the top of China's agenda for Cheney's visit. During separate sessions, Chinese President Hu Jintao, Central Military Commission Chairman Jiang Zemin, Premier Wen Jiabao, and Vice President Zeng Qinghong, all devoted the majority of time expounding China's stance on the Taiwan question and underscoring concern over U.S. policy toward Taiwan.

President Hu told Cheney that separatist activities by Taiwan independence forces pose the greatest threat to peace and stability in the Taiwan Strait. Zeng reminded Cheney that there is only one China in the world, Taiwan is a part of China, and the election results on Taiwan would not change that fact. He demanded that the U.S. stop selling weapons to

Taiwan. Jiang also urged the U.S. to adhere to its commitments on the Taiwan question and not send the wrong signals to pro-independence elements on the island. Reiterating a proposal that he had made to President Bush in October 2002, Jiang suggested that China would be willing to pull back its short-range ballistic missiles deployed along China's coast if the U.S. stopped selling advanced weapons to Taipei. Moreover, Jiang told the vice president, if the Taiwan issue were handled well, China-U.S. ties would have more room for development.

In his replies, Cheney reaffirmed Washington's continued adherence to the "one China" policy based on the three China-U.S. joint communiqués, non-support for Taiwan independence, and opposition to acts that unilaterally change the status quo in the Taiwan Strait, but he did not provide the Chinese with the firmer commitment to oppose Taiwan independence moves that they had hoped for. The vice president told his hosts that he "understood" their opposition to U.S. arms sales, but argued that such sales were directly linked to China's buildup of missiles and other forces to threaten Taiwan. Cheney also expressed concern about Beijing's recent moves to restrict Hong Kong's efforts toward self-rule and that people in Taiwan might view China's handling of the situation in Hong Kong as a bellwether of China's commitment to its "one country, two systems" formula for the former British colony and an indicator of Beijing's intentions toward Taiwan.

On the day Cheney departed China, a Chinese Foreign Ministry spokesman demanded that the U.S. clarify reports by Taiwan media on pending U.S. sales to Taiwan of submarines, *Patriot-III* anti-missile systems, and anti-submarine planes. The spokesman charged that U.S. arms sales to Taiwan violate the three China-U.S. joint communiqués, interfere with China's internal affairs, and "may lead to further tension in the situation across the Taiwan Straits."

For Cheney, North Korea's growing nuclear arsenal and the lack of progress toward the shared U.S. and Chinese objective of eliminating those weapons assumed top priority. After conveying U.S. appreciation for Beijing's active efforts to rid the Korean Peninsula of nuclear weapons, the vice president stressed Washington's angst about North Korea's expanding nuclear capability. According to reports, Cheney passed on to Chinese leaders new information, obtained from a top Pakistani nuclear scientist, suggesting that North Korea had at least three nuclear devices and is capable of making weapons from both plutonium and enriched uranium. "Time is not necessarily on our side . . . We think it's important to move forward aggressively," Cheney was quoted saying to his Chinese interlocutors. The Chinese remained unconvinced, however, both about the reliability of the intelligence on North Korea's nuclear arsenal and whether Pyongyang has a highly enriched uranium program. They cited Washington's inflexible stance in the six-party talks as an impediment to a diplomatic resolution of the issue and urged the U.S. to offer concrete inducements to North Korea to give up its nuclear weapons.

Both Chinese leaders and Vice President Cheney positively appraised progress in China-U.S. relations in recent years. Zeng Qinghong noted that the two countries share wide-ranging common interests and a cooperative basis, whether in safeguarding the peace and stability of the Asia-Pacific region and the whole world and promoting regional and

global economic development, or in dealing with terrorism, weapons proliferation, transnational crimes, and diseases. Zeng indicated that China is willing to work with the U.S. to further promote the bilateral constructive and cooperative relationship, which he characterized as having greater common interests than differences. Cheney also talked of shared strategic interests, but warned that “it would be a mistake for us to underestimate the extent of the differences.”

During his 46-hour whirlwind visit to Beijing, Cheney and the Chinese leadership agreed to strengthen high-level strategic dialogue and contacts, promote military exchanges, and further enhance cooperation on antiterrorism, trade, and law enforcement. The fourth round of consultations between both countries’ antiterrorism experts was announced and subsequently took place in early June. Cheney also visited Shanghai where he delivered a speech at Fudan University that was broadcast on Chinese state television, and attended a lunch meeting sponsored by U.S. businessmen.

Chinese Anxiety About Taiwan Spills Over

Chinese concern about the danger of Taiwan independence spiked this quarter, despite assurances from Cheney and from President Bush in phone conversations with President Hu that the U.S. “one China” policy remained intact. A series of incidents intensified Beijing’s doubts about Washington’s determination to rein in what China sees as Chen Shui-bian’s pro-independence gambit. At the end of 2003 and during the first quarter of 2004, the Chinese believed that shared U.S.-Chinese apprehension about President Chen’s antics and common China-American interests in averting war in the Taiwan Strait could provide the basis for achieving an understanding and even for the pursuit of limited cooperation between Beijing and Washington to restrain pro-independence forces in Taiwan. Last December, Bush had publicly rebuked the Taiwan leader for seeking to change the status quo and U.S. officials had worked to dissuade Chen from holding referendums challenging Chinese sovereignty over Taiwan. In testimony to the House International Relations Committee on April 21, Assistant Secretary of State James Kelly called for President Chen to be responsible and restrained. Kelly explicitly declared that there are limitations to what the U.S. will support as Taiwan considers possible changes to its constitution and warned Taipei to not interpret U.S. support as a blank check to resist cross-Strait dialogue.

Following these positive moves, however, there were worrisome signs of U.S. backtracking that heightened Chinese suspicions of U.S. intentions. In mid-May, Washington actively lobbied and voted in favor of a proposal to invite Taiwan to participate in the World Health Assembly (WHA) as an observer. The following month, President Bush signed legislation authorizing Secretary of State Colin Powell to initiate a plan to facilitate Taiwan’s gaining observer status in the WHA. U.S. officials also privately told Beijing that in the coming year it would support observer status for Taiwan in the Organization of American States, which recently voted to accept China as an observer.

Although Beijing silently welcomed U.S. pressure on the Taiwan leader that successfully elicited a recommendation by Chen in his May 20 inaugural address that the forthcoming constitutional revision steer clear of matters involving sovereignty, territory, and independence vs. reunification, it condemned Washington's praise for Chen's speech as "constructive and responsible" and even "statesmanlike." From Beijing's perspective, the entire speech was replete with the notion that Taiwan is an independent country. Moreover, Chen's policies in his first term in office and his campaign promise to draft a new constitution that would be voted on by referendum in 2006 and enacted in 2008 rendered him untrustworthy.

Additional actions by Washington that China viewed as likely to embolden President Chen to continue down an independence path further incensed Beijing. Immediately following Chen's inauguration, the U.S. permitted Taiwan Vice President Annette Lu to transit the U.S. on her way to Central America. Lu used the opportunity of her stopover to call for the re-naming of the Republic of China to "Taiwan, ROC." A senior Taiwan delegation led by the powerful head of the Legislative Yuan, Wang Jin-pyng, visited the U.S. in June to discuss the weapons package President Bush approved in April 2001, which includes anti-missile Patriot batteries, submarine-hunting jet fighters, and submarines. The fact-finding mission will aid the legislators in determining whether they should approve a special budget of \$18.2 billion to procure the weapons. U.S.-Taiwan military ties appeared to be elevated to higher levels with reports that preparations are underway for an unprecedented visit by a flag officer, Brig. Gen. John Allen, this summer and the first joint U.S.-Taiwan simulated war game next year.

Chinese analysts are busy compiling evidence that Washington has shifted its target of concern from Taipei to Beijing and is resuming a policy of encirclement and containment of China. The release of two reports this quarter – the Pentagon's annual publication on Chinese military power and the Congressional U.S.-China Economic and Security Review Commission's annual report – were harshly criticized by Beijing as intended to promote the "China threat theory." Chinese media articles accused the U.S. Department of Defense of deliberately exaggerating China's military strength and defense budget to provide a justification for selling arms to Taiwan and to incite friction between China and its neighbors. U.S. global military maneuvers involving seven U.S. aircraft carrier battle groups and the fleets of U.S. allies that will reportedly rendezvous in the Pacific within striking distance of China's coastline in July have also unnerved the Chinese leadership.

Toward the end of the quarter, China's simmering dissatisfaction with U.S. policy toward Taiwan spilled over into other policy arenas. In late May, Beijing launched unprecedented efforts at the United Nations Security Council to restrain U.S. unilateralism in Iraq, proposing major amendments to the U.S.-British draft resolution. In a three-page paper, China called for a strict time limit on the stay of the U.S.-led multinational force as well as the granting of full sovereignty to the Iraqi interim government in the political, economic, security, judicial, and diplomatic areas after the June 30 handover of power. When President Bush phoned President Hu to express his hope for continued U.S.-Chinese cooperation on Iraq, Hu underscored the need for Iraq "to resume the exercise of its sovereignty in an all-round way" and for democratic and

fair elections to be held as early as possible. The following week, China and all the other UNSC members agreed on compromise language and unanimously passed a new resolution.

Two weeks later, Beijing signaled its intention to abstain on a UN resolution giving the U.S. immunity from the new International Criminal Court (ICC). China had supported granting a year's exemption the past two years, but this year voiced objections along with seven other members of the UN Security Council. Chinese Ambassador to the UN Wang Guangya publicly declared that the prisoner abuse scandal in Iraq had made it very difficult for Beijing to support the exemption. "My government is under particular pressure not to give a blank check to the U.S. for the behavior of its forces," he maintained. China's position was especially unusual because Beijing has not signed or ratified the court's treaty. Recognizing that it was unlikely to gain the nine "yes" votes required to adopt a resolution, the U.S. dropped the effort to extend immunity from ICC prosecution for its troops.

China-U.S. friction over Taiwan also cast a shadow over the six-party talks on the North Korean nuclear crisis on the eve of the opening of the third round in the third week of June. Chinese Deputy Foreign Minister Zhou Wenzhong told *The New York Times* that Beijing had doubts about the Bush administration's claim that Pyongyang is enriching uranium to make nuclear fuel. Zhou also criticized Washington's insistence on the complete, verifiable, irreversible dismantlement of North Korea's nuclear programs and expressed sympathy with Pyongyang's desire to maintain a peaceful nuclear program.

China's remarks were undeniably an attempt to exert pressure on the Bush administration to be more flexible and to demonstrate its "even-handedness" to Pyongyang. At the same time, however, the choice of Zhou as the messenger, who has responsibility for relations with the U.S., not East Asia, was likely intended to convey Beijing's growing unhappiness with President Bush's failure to take concrete steps to restrain Taiwan independence. Moreover, Chinese diplomats reportedly told CNN that it is difficult for Beijing "to do business with Washington over North Korea" because the Bush administration has repeatedly let China down over the issue of reining in Taiwan separatism.

Despite U.S.-Chinese differences over the best approach to achieving their shared objective of eradicating nuclear weapons on the Korean Peninsula, a rift was averted and small progress was achieved in the latest round of the six-party talks. A U.S. offer of political and economic incentives for North Korea to scrap its nuclear facilities was welcomed by Beijing. After the talks concluded, the Chinese praised the discussions as "constructive, pragmatic, and substantive," but cautioned that differences and mistrust persist between Washington and Pyongyang.

In another sign of Chinese irritation with U.S. policy toward Taiwan spreading into other policy realms, the government-controlled Chinese media, which has muted attacks on U.S. "hegemony" in recent years in the interests of avoiding confrontation with the U.S., adopted a more strident, anti-American tone this quarter. The *People's Daily*, the

Chinese Communist Party mouthpiece, charged the U.S. with pursuing a “world-domination strategy” and implementing “unilateralist and preemptive strategies” that run contrary to the “trends of today’s world nationalism, multi-polarization, and economic globalization...” An opinion piece in the official English language newspaper *China Daily* accused the U.S. of “wielding the big stick of economic and military sanctions to coerce the DPRK, Iran, and Libya into abandoning their nuclear programs, while at the same time accelerating an upgrade of its own arsenal to pursue absolute security and hegemony.” A signed article in the official *New China News Agency* issued a rare attack on the U.S. leadership by name, noting that “some people regard Bush, Cheney, and Rumsfeld as the ‘axis of evil.’”

Resisting Political Temptations: Steady Progress in Economic Relations

Economic issues beat a steady rhythm this quarter, but, officials on both sides adapted well to rising trade and investment, demonstrating a kind of “active engagement, calm management” of the myriad issues. The U.S. presidential contest threatened to infect officials with the seasonal silliness that comes with placating needed voting blocs. Yet the Bush team mostly suppressed these instincts and tried to lay healing hands on the political problems emanating from China’s trade surplus, pegged currency, and the perceived job loss they create.

The strategy for the Bush team that came into focus this quarter is to show visible and unwavering dedication to get China to play by the rules while resisting protectionist moves. The Bush economic team has also stated it will use leverage to move China forward by dangling hopes that the U.S. will designate China as a “market economy,” which is a priority for the Chinese in order to reduce the number of anti-dumping cases brought against it. On June 3, the Commerce Department concluded that it would retain China’s non-market status (as the European Union did later in the month). In Beijing, Secretary of Commerce Don Evans argued before the U.S. Chamber of Commerce on June 23, “China must significantly reduce government micromanagement of its economy and introduce a far higher level of transparency – among other changes – before it can achieve a full transition to a market-driven economy.”

U.S. tries to resist protectionist pressures. The surprise decision by President Bush on April 28 to refuse petitions filed by labor and manufacturing leaders to impose duties on some Chinese goods was made all the more startling by the unusual unity among the four Cabinet officials at the press conference, which included the U.S. trade representative and the Treasury, labor, and commerce secretaries. The decision was stunning; the path of least resistance would have been to launch a study that would postpone any decision until after the November election. In the first of many utterances of what has become President Bush’s campaign rhetoric, USTR Bob Zoellick argued that the “road of protectionism is the road of isolation ... we won’t go down that path.”

Perhaps we can chalk up this bold decision to the successful April 21 meeting of the 15th China-U.S. Joint Commission on Commerce and Trade (JCCT), which marked the most senior dialogue on trade since China joined the World Trade Organization (WTO) in

December 2002. The Chinese delegation was headed by China's "iron lady" of trade policy, Vice Premier Madame Wu Yi, who led China's WTO negotiations, and included the equally formidable Madame Ma Xiuhong. On the U.S. side, Secretary Evans was joined by State Department veteran Grant Aldonis and Hank Levine, former consul general in Shanghai. These individuals have hands-on experience grappling with China's WTO compliance problems, and one can hope that their workman-like tone will seep through on both sides. The JCCT agreed to set up six working groups and signed two agreements, one on dual-use high-tech exports and another on intellectual property, both of which were high on the U.S. agenda.

But, the Bush team couldn't completely resist anti-dumping pressures. On June 21, the U.S. Department of Commerce announced it would recommend duties of up to 198 percent on Chinese-made wooden furniture (the Carolinas' votes are up for grabs), and the U.S. Commission on International Trade is expected to rule on this issue before the end of the year. This followed actions by the U.S. in early June to raise the average duty on Chinese-made plastic shopping bags from 18.43 percent to 23.6 percent, and in May to impose tariffs ranging from 5.22 percent to 78.45 percent on Chinese imports of color TVs. China, meanwhile, imposed anti-dumping tariffs of up to 46 percent on optical fiber imported from the U.S. (and Japan and the ROK). All of these actions are being disputed at the WTO, which notes that even though overall anti-dumping cases declined in 2003, those against China by the U.S. have steadily increased.

Exchanges and agreements abound. In addition to the JCCT, this quarter saw a number of visits by senior economic officials on trade, financial, labor, and health issues, and a handful of new agreements. From June 19-24, Secretary Evans conducted extensive meetings in China. Accompanied by an eight-member team from the President's Export Council (a group of 28 business executives to advise on trade matters), Evans met with Premier Wen Jiabao, Vice Premier Wu Yi, Vice Premier Zeng Peiyan, and Minister of Commerce Bo Xilai, among other officials. Echoing the Bush election-year strategy, Evans pointedly said "We are going to continue to look American workers in the eye, all across this country, and tell them we are going to be tough when it comes to enforcing our trade laws ... and China is certainly right there at the top of the list." Evans also carried the message of reform to Chinese youth. At the Harbin Institute of Technology, a burgeoning business school in China's northeast, Evans argued "your future as entrepreneurs and business leaders is directly linked to your government's economic reforms." At the trip's conclusion, Evans oversaw the signing of various business deals by half a dozen companies.

Secretary of Labor Elaine L. Chao kicked off her meetings in China with the June 21 signing of four letters of understanding between four senior labor officials and their counterparts at the Ministry of Labor and Social Security and the State Administration of Work Safety to expand cooperation in the areas of pension programs, wage laws, occupational hazards, and worker health. The same day, Chao announced a \$3.5 million grant to support workplace-related HIV/AIDS education programs. The delegation went on to tour the Rule of Law Project, a mine health and safety project, a women's migrant training facility, and an American-funded orphanage, concluding its visit on June 24.

The most significant opening of bilateral air traffic regulation since 1999 was concluded this quarter. On June 21, Transportation Secretary Norman Mineta announced a new accord to expand cargo and passenger air service between the U.S. and China from 54 flights a week to 249 weekly flights by 2010. Carriers will eventually be free to serve any city in the two countries: Chinese carriers are currently limited to 12 U.S. cities and American carriers to five Chinese cities. The deal also allows carriers to set up cargo-shipping hubs in the other country. Fed Ex stock anyone?

Currency issues create constant static. While U.S. officials never miss an opportunity to prod China toward a fully convertible exchange rate, Chinese officials remain adamant that retaining the peg is crucial for economic growth.

On April 13, Secretary of Treasury John Snow made the unusual announcement that a new post of “economic emissary” was being filled by Ambassador Paul Speltz, current U.S. representative to and Vice President of the Asian Development Bank (he will retain that post). Speltz’s mandate is to engage with China on the Technical Cooperation Program between the U.S. and China, which was created to “cooperate on issues that will facilitate a move to a market-based exchange rate regime in China,” said Snow. Coincidentally, a week later at the Third Bo’ao Forum for Asia held on Hainan island, Madame Wu Xiaoling, deputy governor of the People’s Bank of China (PBOC), made a passionate defense of PBOC monetary policy. According to Morgan Stanley’s Stephen Roach, who chaired a session at which Madame Wu spoke, “A leading Chinese central banker put the world on notice that China’s policy makers mean business – and did so in the most direct and fiery language I have ever heard from any member of this normally reticent species.” According to the translation provided by Roach, Wu responded to a drumming on the currency question from the media (including Chinese media) during the Q&A. She asserted, “The People’s Bank of China is focused on one thing – stability, and in establishing a mechanism to insure that stability. If you want to gamble with us, watch out! Speculators will be punished.” Clearly “stability” is at the forefront of Chinese leaders’ thinking on all matters economic – as well as political.

The U.S. showed its determination to sustain attention to the currency issue with a trip to Beijing by Treasury Under Secretary for International Affairs John Taylor on May 10-11, accompanied by Ambassador Speltz. This trip preceded the announcement on June 8 that China signed a memorandum of understanding with the Chicago Mercantile Exchange – a leading futures exchange and financial products market – to conduct technical cooperation to further develop China’s currency derivatives market, one of many necessary steps prior to exchange rate liberalization. Secretary Snow heaped praise on the agreement, calling it a “milestone,” an “outstanding example” of technical cooperation, and illustrative of “the seriousness” of China’s reform efforts.

The Bottom Line: How Sound is the Bilateral Relationship?

China-U.S. spats over important, sensitive issues – especially Taiwan – do not mean that the bilateral honeymoon is over. Beijing is clearly signaling its displeasure with U.S. policy toward Taipei, but China remains committed to the preservation of good relations

with Washington and still views the U.S. as a critical external check on Taiwan independence. Rather than a fundamental shift in China's strategic orientation, this quarter has seen a greater willingness by China to modulate its cooperation with the U.S. to get the Bush administration's attention and increase Chinese leverage. For the U.S., cooperation with China is still a priority as well. In addition to the extensive and intricate web of economic ties, security cooperation continues to develop on the antiterrorism, law enforcement, and nonproliferation fronts. U.S.-Chinese relations remain as complex as ever.

Chronology of U.S.-China Relations April-June 2004

April 1, 2004: Joseph De Trani, U.S. State Department Special Envoy for the DPRK issue, visits Beijing.

April 1, 2004: The Bush administration imposes sanctions on 13 foreign companies and individuals in seven countries that it says have sold equipment or expertise to Iran that could be used in WMD programs. Included are five Chinese companies.

April 6, 2004: General Administration of Civil Aviation of China and U.S. Trade and Development Agency sign Memorandum of Understanding on aviation cooperation.

April 13, 2004: U.S. Trade Representative (USTR) Robert Zoellick announces a new and expanded Office of China Affairs, covering the PRC, Taiwan, Hong Kong, Macao, and Mongolia, and headed by Charles Freeman with the new title of acting assistant U.S. trade representative (AUSTR) for China.

April 13-15, 2004: Vice President Dick Cheney arrives in China for a three-day visit.

April 14, 2004: Treasury Secretary John Snow announces Ambassador Paul Speltz will fill new post as Treasury's economic emissary to China.

April 15, 2004: 60th session of the UN Commission on Human Rights votes not to consider a U.S. draft resolution criticizing China's human rights practices.

April 19-21, 2004: Robert Mueller, FBI head, visits Beijing to open the FBI's legal attaché office and promote law enforcement cooperation.

April 21, 2004: President Bush meets Chinese Vice Premier Wu Yi at the White House.

April 21, 2004: Commerce Secretary Don Evans, USTR Robert Zoellick and Chinese Vice Premier Wu Yi chair the U.S.-China Joint Commission on Commerce and Trade.

April 21, 2004: Assistant Secretary of State for East Asian and Pacific Affairs James Kelly delivers testimony on Taiwan to the House International Relations Committee.

April 21, 2004: Secretary of Agriculture Ann Veneman and Chinese Minister for the General Administration of Quality Supervision, Inspection, and Quarantine Li Changjiang sign agreement establishing a consultative mechanism on food safety and animal and plant health issues.

April 28, 2004: U.S. turns down requests by labor and industry groups to consider duties on Chinese goods over alleged violations of labor rights and Beijing's currency policy.

May 10, 2004: China's special envoy for DPRK issues Ning Fukui arrives in Washington to consult with U.S. in advance of six-party working group meeting in Beijing May 12.

May 10-16, 2004: Treasury Under Secretary for International Affairs John Taylor travels to China, Japan, and Korea to discuss global and regional economic issues. Economic emissary Speltz joins him in Beijing.

May 23, 2004: FM Li and Secretary Powell discuss Iraq and Taiwan on the phone.

May 23, 2004: U.S. Secretary of Energy Spencer Abraham and Vice Chairman of China's National Development and Reform Commission Zhang Guobao sign Memorandum of Understanding to launch the U.S.-China Energy Policy Dialogue.

May 25, 2004: Deputy USTR Josette Shiner leads high-level team to Beijing to press for swift implementation of trade reform commitments by the PRC.

May 28, 2004: China joins the Nuclear Suppliers Group, an unofficial organization of nuclear capable countries exercising control on nuclear exports.

May 29, 2004: President Hu and President Bush discuss Iraq and Taiwan on the phone.

May 29, 2004: Annual DoD report on Chinese military power, required under the FY2000 National Defense Authorization Act, is released.

May 31, 2004: FM Li and Secretary Powell hold a phone conversation to discuss the draft resolution on the Iraq by the UNSC and issues in bilateral relations.

June 3, 2004: Commerce Department concludes that it will retain China's "nonmarket" status, inviting expected rebuke by Chinese officials.

June 5, 2004: Minister of Commerce Bo Xilai meets with USTR Zoellick at APEC ministerial meeting in Pucon, Chile.

June 7, 2004: FM Li and Secretary Powell hold phone conversation on Iraq and Taiwan.

June 7, 2004: China and U.S. hold fourth antiterrorism consultation in Washington D.C. Li Baodong, director general of the International Department of the Chinese Foreign Ministry and Ambassador Cofer Black, State Department coordinator for counterterrorism, head respective delegations to the consultation.

June 8, 2004: Treasury Secretary Snow praises new memorandum of understanding between China and the Chicago Mercantile Exchange to help develop China's currency derivatives market.

June 9, 2004: State Councilor Zhou Yongkang meets in Beijing with Thomas Collins, commandant of the U.S. Coast Guard to discuss cooperation between the Chinese Ministry of Public Security and the Departments of Homeland Security, Justice and State.

June 11, 2004: FM Li attends former President Ronald Reagan's funeral as a special envoy of Chinese President Hu Jintao and meets with Secretary Powell.

June 12, 2004: President Bush and VP Cheney meet with Chinese FM Li in Houston.

June 14, 2004: President Bush signs legislation authorizing the secretary of State to initiate a plan to endorse and obtain observer status for Taiwan at the annual summit of the World Health Assembly.

June 15, 2004: The U.S.-China Economic and Security Review Commission, a bipartisan review commission established by Congress in 2000 to assess economic and national implications of the U.S.-China relationship and provide policy recommendations to Congress, releases annual report to the public.

June 18, 2004: Transportation Secretary Mineta announces landmark air services agreement between the U.S. and China promising a substantial expansion of commercial aviation services between the two countries.

June 18, 2004: Department of Commerce imposes preliminary anti-dumping duties of up to nearly 200 percent on \$1.2 billion of wooden bedroom furniture imported from the PRC, but said most PRC companies would escape the highest duties.

June 19-24, 2004: Secretary of Commerce Evans visits China.

June 21-24, 2004: Secretary of Labor Elaine Chao visits China and announces a \$3.2 million grant for HIV/AIDS workplace education in China. Four letters of understanding are signed to expand cooperation in the areas of pension programs, wage laws, occupational hazards, and worker health.

June 24, 2004: U.S. House of Representatives' International Relations Committee passes resolution reaffirming Congress's unwavering commitment to the Taiwan Relations Act as the cornerstone of U.S. relations with Taiwan.

U.S.-Korea Relations:

Strains in the Alliance, and the U.S. Offers a Nuclear Deal

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North Korea conducted an impressive diplomatic campaign during this quarter to improve its relations with China, South Korea, and Japan, and thus strengthen its position in the six-party talks. In late June, under pressure from South Korea and Japan, the Bush administration made its first detailed negotiating proposal on the nuclear issue since taking office. The proposal called for a three-month freeze of North Korea's nuclear program, accompanied by energy aid from South Korea, China, and Japan, as well as a "provisional security guarantee." If North Korea readmits inspectors to verify compliance and meets specific deadlines for nuclear dismantlement, the U.S. would agree to continue energy assistance, provide permanent security guarantees, and take a variety of other steps to normalize relations.

The pressure on the U.S. from Japan and South Korea to negotiate seriously with Pyongyang enabled the State Department's moderates to overcome the internal paralysis that has long marked U.S. policymaking on North Korea. Whether the neo-conservative hardliners, located mainly in the White House and Defense Department, will now abandon their efforts to torpedo the six-party talks and to seek regime change in North Korea remains to be seen.

North Korea reacted to the U.S. proposal by characteristically demanding more energy assistance, more time for implementation, greater security assurances, and more incentives of other kinds. But it expressed a willingness to "compromise" and "show flexibility" on the U.S. proposal if the Bush administration increases the incentives and specifically gives energy aid of its own.

The U.S.-South Korea alliance suffered serious strains during this quarter, as the U.S. announced, with little forewarning, that it would send a brigade of 3,600 troops from the Demilitarized Zone to Iraq and withdraw a total of 12,500 troops from South Korea by the end of 2005. The proposed withdrawal represents about one-third of the approximately 37,000 troops that the U.S. now keeps on the Korean Peninsula. South Korean officials felt blind-sided by the announcement, although they stuck to their plan to send 3,000 South Korean troops to Iraq, at U.S. request, to bolster U.S.-led coalition forces.

Friction continued in U.S.-South Korea trade relations during this quarter over Washington's efforts to improve Seoul's enforcement of intellectual property rights

(IPR). South Korea expressed “regret” at the U.S. decision to keep it on the “priority watch list” for countries that do not adequately protect IPR. Despite this ongoing dispute, the U.S. and South Korea were able to resolve a contentious internet issue and appeared to make progress on the problem of “screen quotas” that has held up completion of a Bilateral Investment Treaty for several years. After months of resistance, South Korea’s minister of culture said his ministry would re-examine the screen quota system, drawing a harsh response from the South Korean film industry.

Developments on the Nuclear Issue

On the critical nuclear issue with North Korea, Vice President Richard Cheney pressed South Korea, Japan, and China early in the quarter to achieve the U.S. goal of complete, verifiable, and irreversible dismantlement (CVID) of North Korea’s nuclear program.

In his week-long tour of Asian nations, Cheney stressed that the six-party talks should resolve the nuclear crisis as quickly as possible, since the U.S. feared that North Korea already possesses nuclear weapons. He reportedly gave China additional evidence that Pyongyang had been working to develop nuclear weapons through a secret uranium-enrichment program.

Cheney’s visit seemed to pay off a few days later, when North Korean leader Kim Jong-il visited Beijing for meetings with President Hu Jintao and other senior Chinese officials. The Chinese told Kim that North Korea had to be more forthcoming in the six-party talks in order to settle the nuclear question. According to press accounts, Kim responded that North Korea would participate actively and “with patience” in the nuclear negotiations.

Shortly after Kim crossed back into North Korea on his return trip, a massive explosion killed more than 150 people and injured more than 1,300 in the town of Ryongchon on April 22. The U.S. responded with \$100,000 in aid for victims and said it was also prepared to provide medical supplies and equipment as well as a team of specialists in emergency medicine. A conciliatory White House statement noted that the U.S. provides “all humanitarian aid in disasters based on need without regard to political concerns. As one of the largest providers of emergency food aid to North Korea, we have consistently demonstrated our concern for the people of that county.”

In retrospect, Kim Jong-il’s visit to China appears to be the beginning of a two-month diplomatic offensive to improve North Korea’s negotiating position at the next round of six-party talks. At the China meetings, the North Korean leader reportedly told Chinese officials that his country was intent on pursuing Chinese-style economic reforms, something that China had been seeking for years. China promised new material incentives to North Korea to keep it involved in the six-party talks, whose breakdown would show a failure of Chinese diplomacy.

At the six-party working-level talks in mid-May, North Korea aggressively explored with the U.S. and other delegations the dimensions of a new deal on its nuclear program. North Korea’s representative at the working-level talks also probed for any U.S.

flexibility in supplying the light-water reactors promised under the now suspended 1994 Geneva Agreed Framework.

Soon after the working-level talks ended, Seoul began an effort to convince Japan and the U.S. to support the main principles that Pyongyang had proposed – an initial *freeze* of its nuclear program, accompanied by energy assistance and security assurances that would lead to further steps toward nuclear dismantlement. About the same time, U.S. government spokesmen dismissed the possibility that the U.S. might supply North Korea with any light-water reactors to facilitate either a freeze or ultimate dismantlement.

North Korea continued its diplomatic offensive in late May when Japanese Prime Minister Koizumi Junichiro visited Pyongyang for a summit meeting with Kim Jong-il. The public focus of the meeting was an agreement to return five family members of Japanese nationals abducted decades ago to North Korea. More broadly, the summit improved Japan-North Korea relations, resulting in Japan's pledge not to impose future economic sanctions and to provide food and medical aid, in exchange for North Korea's promise to resolve the nuclear issue at the six-party talks and to continue its missile test moratorium.

Shortly after the Japan-North Korea summit, which drew praise from South Korea for "improving security" on the Korean Peninsula, North Korea met long-standing South Korean requests for enacting "confidence building measures" to lower military tensions. In the first ever military-to-military talks at the general officer level, the two Koreas agreed to implement a hotline to reduce the chance of naval confrontations and to dismantle propaganda facilities along the Demilitarized Zone. Approximately two weeks later, President Roh announced that South Korea would provide North Korea with massive economic assistance once it resolved the nuclear issue at the six-party talks.

The full diplomatic impact of North Korea's two month-long efforts to improve relations with China, Japan, and South Korea first became publicly evident on June 19 when Japanese media revealed that Tokyo would offer energy assistance to Pyongyang if North Korea froze its nuclear program. Japan's positive decision signified that all the participants in the six-party talks, with the exception of the U.S., were on record favoring a nuclear freeze in return for energy aid as an intermediate step toward ultimate dismantlement. For the first time, the U.S. became isolated diplomatically in its official view that nothing less than complete, verifiable, and irreversible nuclear dismantlement was required *before* Pyongyang became eligible for promised aid or security assurances.

Facing this ironic turn of events in talks meant to isolate North Korea, the Bush administration reacted remarkably quickly with a new and cohesive diplomatic position. Modifying an earlier South Korean plan, the U.S. laid out a few days later, at the opening of the six-party talks, its first detailed step-by-step proposal for resolving the nuclear issue. The very fact that the U.S. made a concrete offer to North Korea showed that the State Department had prevailed bureaucratically in its view that the U.S. should negotiate a diplomatic resolution of this dispute. By relying predominantly on support from South

Korea and Japan, State Department moderates overcame (at least temporarily) the long-time opposition of U.S. hardliners who believed the diplomatic track would fail.

According to press reporting, the U.S. proposal calls for Kim Jong-il to commit to dismantle North Korea's nuclear weapons program in exchange for receiving immediate energy assistance from China, South Korea, and Japan. At the time of this commitment, Washington would also give Pyongyang a "provisional security guarantee" not to attack North Korea and not to seek a change in its regime. The U.S. would also begin direct bilateral talks with North Korea aimed at lifting the remaining economic sanctions and removing North Korea from the list of countries that support terrorism.

Following this first step, North Korea would have three months for a "preparatory period of dismantlement" to freeze its nuclear program by shutting down and sealing its facilities.

After the three-month period has run, continuation of energy assistance and provision of a more enduring security assurance would depend on North Korea meeting specific deadlines for declaring completely its nuclear programs, shipping nuclear materials out of the country, and admitting international inspectors. Additional incentives that could be negotiated at this point would include assistance to North Korea to develop "safe energy" sources and an agreement to normalize diplomatic relations with the United States.

In an initial bilateral meeting with the U.S. on the second day of the six-party talks, North Korea argued that the Bush administration plan requires Pyongyang to move too quickly to complete dismantlement of its facilities and does not provide sufficient up-front incentives. North Korea also continued to deny the existence of any uranium enrichment program. A day later, the North Korean delegation read a statement expressing a willingness to "compromise" and "show flexibility" if the U.S. increased the overall amount of energy aid to North Korea and gave some energy assistance of its own.

Because the U.S. offer to North Korea was both complex and unexpected, it was not surprising that the talks ended with a simple "Chairman's Statement," which did little more than underline the importance of a "step by step" diplomatic process and call for a new round of talks by the end of September 2004. One senior U.S. official described the two sides as "far from agreement" and said "there are no breakthroughs."

In fact, this round of talks showcased a major "breakthrough" in U.S. policy toward North Korea. With the State Department's moderates in control, the U.S. laid the groundwork for a diplomatic resolution of the nuclear issue. It was only to be expected that North Korea would ask for more aid and more time leading up to nuclear dismantlement as a *quid pro quo* for joining a compromise.

U.S.-South Korea Relations

U.S.-South Korea relations suffered a series of jolts during this quarter. In mid-May, Washington informed Seoul that it would withdraw the 2nd Brigade of the 2nd Infantry

Division – a total of 3,600 troops – from the Demilitarized Zone and send them to Iraq. In public comments at the time, the U.S. reaffirmed its commitment to the U.S.-South Korea alliance and denied that the troop shift would undermine deterrence or otherwise harm South Korea's security.

Approximately two weeks later, U.S. officials indicated that the transfer of troops to Iraq was part of an overall withdrawal of 12,500 troops from South Korea consistent with the Global Defense Posture Review (GPR) that would be completed by the end of 2005. The U.S. decision came as a surprise to the South Korean government, although Washington claimed it gave a briefing to Seoul about the GPR in February 2004 at the seventh meeting of the Future of the Alliance (FOTA) talks.

After newspapers reported the U.S. decision, South Korean conservatives condemned the Roh administration for not adequately protecting the country's interests and merely accepting a "unilateral" action by the United States. They further accused the government of allowing the U.S. to "downgrade" South Korea's status as a U.S. ally in comparison to Japan. In their view, U.S. military bases in South Korea would be classified somewhere between a "Power Projection Hub" (PPH) and a "Main Operation Base" (MOB) under the GPR. By contrast, Japan would be classified as a PPH.

Some newspaper editorials took issue with statements by Lt. Gen. Charles C. Campbell, commander of the U.S. Eighth Army, in which he suggested that the new GPR would permit South Korean and U.S. combined forces to act as a "mobile force" to perform future peacekeeping and humanitarian missions in Northeast Asia. South Korean critics argued that Campbell's view would "unilaterally expand" the combined forces command beyond the Korean Peninsula, and thereby "not only infringe on Seoul's military sovereignty" but also "trigger [a negative reaction] from neighboring countries, including China and North Korea."

In response to the criticisms of Campbell and the GPR as a whole, the Pentagon expressed "strong regret" to South Korea's Foreign Ministry about the portrayal of the GPR in the media, saying that the classifications in the GPR were "evolving terms" and reaffirming the U.S. commitment to a robust U.S.-South Korea alliance. U.S. officials also went to some pains to stress that the U.S. would not remove any military equipment from South Korea.

Despite the Defense Department's effort to downplay the significance of both the withdrawal and the shift in the U.S. strategic concept for the region, the damage was done. The manner in which the information was released and the lack of in-depth, advance consultations played to South Korean fears of being abandoned by the U.S. on the one hand, and being treated as a lackey of the U.S. on the other. As Tae-hyo Kim, an expert at South Korea's Institute of Foreign Affairs and National Security, put it, "it is a pity that South Korea and the U.S. lacked an apparatus or system to consult on such an important bilateral issue."

Discussions of U.S. plans for redeployment of forces took place in a markedly new political environment following South Korea's April 15 parliamentary elections. For the first time, President Roh and his Uri Party gained control of the National Assembly in what was widely interpreted as a "generational shift" toward younger and more liberal voters. Following weeks of political limbo, President Roh returned to office May 15 after this strong vote of confidence facilitated a high court decision dismissing the impeachment charges against him.

Despite its left of center composition, the Uri Party's moderate platform generally allayed concerns among U.S. observers that the election could weaken the U.S.-South Korea alliance. Shortly after resuming his official duties, President Roh reaffirmed the centrality of the alliance and said South Korea would go ahead with the deployment of 3,000 troops to Iraq to support coalition forces.

The number of South Korea's forces will put it in third place, after the U.S. and Britain, in the size of its deployment to Iraq within the U.S.-led coalition. The South Korean troops will be located at two sites in the Kurdish-controlled town of Irbil in northern Iraq and assist in a variety of rehabilitation projects.

Although the dispatch of troops was originally scheduled for late April, it was delayed during the quarter by the worsening security situation in Iraq and the growing number of opponents within the South Korean public. The dispatch hit a further snag in late June after terrorists kidnapped and then brutally beheaded Sun-il Kim, a 33-year-old South Korean national who was serving as an interpreter for a South Korea company. Some segments of South Korean public opinion blamed the Iraqi resistance movement; other factions used the incident to amplify their calls for suspending the dispatch plan.

The one divisive alliance issue that seemed to be resolved during the quarter was of where to locate a new U.S. embassy complex. South Korean activists had condemned the original plan to build a new 15-story building and residential compound near a historic site in downtown Seoul. When Vice President Cheney visited South Korea in April, he told Acting President Goh Kun that the U.S. would be satisfied to build a new complex in a corner of the large Yongsan base in central Seoul. Goh accepted the proposal in early May.

On the larger question of relocating troops of the Yongsan Garrison outside of Seoul, U.S. and South Korean negotiators still were unable to reach agreement at the ninth round of FOTA talks in early June. The major sticking point in the negotiations was the amount of land that would be allotted on the Yongsan base for a reduced number of headquarters troops that remain after the bulk of forces are redeployed southward. The U.S. is requesting 1,190 hectares while South Korea says it can only provide 1,090 hectares. Given the closeness in their positions, it is likely that negotiators will resolve the issue at the next round of FOTA talks in late July.

U.S.-South Korea Trade Issues

South Korea's Ministry of Foreign Affairs and Trade expressed "regret" at the beginning of the quarter over the U.S. Trade Representative's (USTR) continuing criticism of South Korea's enforcement of intellectual property rights. The ministry claimed that "Korea has made significant progress in the IPR protections over the past year."

In its "Special 301" annual report, issued at the end of last quarter, USTR said that "despite several positive steps over IPR protection last year, the U.S. government remains seriously concerned that modern copyright protection continues to be lacking in important areas." The USTR criticism underscored its decision in January 2004 to once again elevate South Korea to the "Priority Watch List" for countries that fail to provide adequate protection for IPR.

Although USTR's primary concern continues to be online music piracy and piracy of U.S. motion pictures, it also highlighted weaknesses in South Korea's legal regime in the areas of temporary copies protection, Internet Service Provider liability, reciprocity provisions for database protection, and copyright term extension.

Finally, USTR raised several new IPR-related trade issues in commenting that "concerns have arisen over continuing book piracy in universities, street vendor sales of illegally copied DVDs, counterfeiting of consumer products, protection of pharmaceutical patents, and lack of coordination between Korean health and IPR authorities on drug product approvals for marketing."

Despite continuing friction between the U.S. and South Korea over a variety of trade issues, the two governments reached agreement in late April over a contentious internet issue, and seemed to be moving closer on the difficult problem of "screen quotas." At working-level talks on April 21-22, the two governments compromised on Seoul's earlier effort to authorize a single standard for wireless internet platforms. South Korea argued that it could require mobile carriers to use a locally developed "wireless Internet platform for interoperability" (WIPI), although this measure would effectively exclude U.S. platform makers, such as Qualcomm, from the market. The compromise allows South Korea to promote the use of WIPI so long as U.S. companies can compete in the market with their own wireless internet platforms.

The long-simmering question of South Korea's "screen quotas" has held up conclusion of a Bilateral Investment Treaty (BIT) between the two countries for several years. To protect its domestic film industry, South Korea requires its movie theaters to show domestically made movies at least 146 days a year. Responding to pressure from the U.S. Motion Picture Association, USTR has objected strenuously to the South Korean requirement.

In early June, South Korea's minister of culture, Chang-dong Lee, himself a prominent filmmaker, said for the first time that the ministry would "examine a reduction, alteration and change" in the screen quota system. His remarks appeared to be influenced by the

view of President Roh that the screen quotas for the country's now thriving movie industry ought to be reduced so the BIT could move forward.

Perhaps not surprisingly, South Korean movie industry supporters harshly criticized the minister of culture's new position. One organization, "Film People for Alternative Measures," threatened that "if the government bows under the pressure of the U.S. and doesn't maintain the current screen quota, then we will fight the decision by any means possible."

Prospects

Driven by strategic needs to realign global military forces and to bolster U.S. troops in Iraq, the U.S. decision to reduce forces in South Korea took a serious toll on alliance relations this quarter. Washington's ham-handedness in implementing its policy change was highlighted by the negative reactions of South Korean officials, among whom were many strong supporters of the U.S.-South Korea alliance. At the very least, the U.S. did not sufficiently consult with South Korea in advance on this major redeployment, as it has often promised to do.

The disruptive impact of the troop reduction may not be long-lasting, however, if Washington moves forward with its proposal for a diplomatic settlement with North Korea on the nuclear issue. Although the U.S. has adopted a more conciliatory policy largely out of diplomatic necessity in the six-party talks, the U.S. will find that it reaps significant rewards in South Korean public opinion if it is seen as a peacemaker, rather than simply as an antagonist of North Korea. In so doing, Washington will strengthen U.S.-South Korea relations for the long term.

Moving toward a diplomatic resolution of the nuclear issue will require Washington to keep faith with its close allies in Asia in following up on its offer to North Korea. By bargaining seriously – providing the necessary incentives and security assurances while showing some flexibility on the timetable for compliance – the U.S. should be able to achieve its goal of eliminating North Korea's nuclear weapons program.

As always, the biggest wild card in the nuclear talks is North Korea. Now that Pyongyang's diplomatic campaign has resulted in greater easing of inter-Korean tensions, stronger support from China, and an improvement in relations with Japan, North Korea could demonstrate the flexibility it professes to have and reach a compromise on the U.S. proposal. But Pyongyang will have to come clean on its secret program to produce highly-enriched uranium for nuclear weapons if it expects to reach an agreement with the United States.

There is always the danger that North Korean hardliners will gain the upper hand and argue that Pyongyang should wait until after the U.S. elections to settle the nuclear issue. The flaw with this approach, of course, is that the six-party talks are a fragile diplomatic instrument and a failure to reach a breakthrough at the upcoming September round could lead to their collapse altogether.

Chronology of U.S.-Korea Relations

April-June 2004

April 7-8, 2004: TCOG meeting in San Francisco to discuss working-level talks on DPRK nuclear crisis.

April 12, 2004: Chung Dong-young, head of South Korea's Uri Party, resigns following criticism for his statements that older voters should "stay at home" on election day.

April 15, 2004: South Korea's parliamentary elections result in a resounding victory for the progressive Uri Party.

April 16, 2004: In Seoul, Vice President Cheney meets with Acting President Goh Kun and voices concern about DPRK nuclear program.

April 19, 2004: DPRK leader Kim Jong-il begins visit to China to meet top officials.

April 28, 2004: South Korean FM Ban Ki-moon reaffirms that South Korea will send troops to Iraq to support coalition forces.

May 8, 2004: ROK military officer, Shin Il-soon, deputy commander of the South Korea-U.S. Combined Forces Command, is arrested on embezzlement charges.

May 12, 2004: Six-party working group talks open in Beijing.

May 14, 2004: ROK Constitutional Court dismisses charges against President Roh, overturning his impeachment.

May 15, 2004: President Roh returns to office, offers apologies, and accepts responsibility for the illegal campaign funds scandal.

May 17, 2004: President Bush telephones President Roh to explain U.S. decision to redeploy 3,600 U.S. troops to Iraq.

May 18, 2004: USFK officials say U.S. decision to deploy U.S. troops to Iraq will not harm South Korea's security.

May 19, 2004: President Roh calls for accelerating South Korea's "self-defense system" in response to U.S. decision to dispatch U.S. troops from South Korea to Iraq.

May 22, 2004: U.S. State Department welcomes results of Japanese PM Koizumi's one-day summit with North Korean leader Kim Jong-il.

May 24, 2004: Approximately 19 sets of remains believed to have been U.S. soldiers killed in the Korean War are uncovered in North Korea and repatriated to the U.S.

May 25, 2004: ROK PM Goh Kun resigns.

May 26, 2004: President Roh says U.S.-South Korea alliance is “solid.”

May 30, 2004: U.S. expresses “strong regret” over South Korean media reports saying U.S. is attempting to “downgrade” U.S.-South Korea alliance.

May 31-June 1, 2004: Assistant Secretary of Defense Richard Lawless and Kim Sook, head of the South Korean Foreign Ministry meet in Seoul for talks on reducing the number of U.S. troops based the ROK.

June 1, 2004: Former President Kim Dae-jung says South Korea should take advantage of U.S. troop reductions to lower hostility on the Peninsula.

June 6, 2004: At Future of the Alliance talks in Seoul, U.S. representatives inform South Korea that the U.S. will withdraw 12,500 troops by end of 2005.

June 7, 2004: DPRK calls for the U.S. to completely pull its troops from South Korea.

June 10, 2004: South Korea’s NSC announces 3,500 troops will be dispatched to Irbil as part of Iraq deployment.

June 13-14, 2004: TCOG meeting in Washington to prepare for six-party talks.

June 14, 2004: President Roh offers new program of comprehensive aid to North Korea if it resolves nuclear issue.

June 17, 2004: ROK Defense Ministry confirms that South Korea will send 900 troops to Irbil, Iraq in August, as first installment of its deployment.

June 20, 2004: President Roh confirms that South Korea will send 3,000 troops to Iraq despite the abduction of South Korean Kim Sun-il by terrorists.

June 22, 2004: Iraqi terrorists behead hostage Kim Sun-il, causing national shock.

June 23, 2004: U.S. presents detailed proposal for resolving nuclear issue at opening of six-party talks in Beijing.

June 26, 2004: Six-party talks end with chairman’s statement calling for a new round of talks by September.

June 28, 2004: President Roh rejects shake-up of foreign policy team until inquiry into terrorist killing of Korean hostage is completed.

June 29, 2004: Incoming Prime Minister Lee Hai-chan calls for “stable ties between South Korea and the United States.”

U.S.-Russia Relations:

A Spring Thaw after a Freezing Winter?

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As noted in last quarter's edition of *Comparative Connections*, "Elections Bring Tensions," U.S.-Russian relations experienced a trying winter in 2003-2004. This spring seemed to offer some hope that relations could be brought back onto a more conciliatory track. At the G8 Summit on Sea Island, Georgia, both Presidents Bush and Putin expressed a determination to continue the partnership in the war on terror and in non-proliferation efforts. Prior to the Sea Island summit, Russia endorsed the U.S.-U.K.-sponsored UN Security Council resolution on Iraqi sovereignty. Additionally, Putin seemed to give Bush a shot in the arm with his revelation that Russian intelligence had passed information on Iraqi plans to attack U.S. targets before the March 2003 invasion. Nevertheless, there are still serious obstacles for the bilateral relationship in the months ahead, particularly as neither nation seems to be able to get a grip on its respective "occupation" duties in Chechnya and Iraq.

Eternal Factors of Discord

The Sept. 11 attacks breathed new life into the bilateral relationship, but, as repeatedly pointed out in *Comparative Connections*, many of the same issues continue to irritate leaders in both countries. NATO expansion, human rights, Chechnya, Iran, nuclear forces, and a number of other issues highlight the differences dividing the leadership and peoples of both nations. These issues continue to carry great weight in the bilateral relationship.

The latest round of NATO expansion has left Russians again wondering whether in fact they have anything to fear from the West. In late March, the three Baltic Republics joined the alliance and almost immediately NATO fighter jets (in this case Belgian) were granted basing rights only miles from Russia's westernmost borders. The latest expansion also completed the encirclement of the Russian enclave of Kaliningrad, north of Poland. In an editorial in *The New York Times*, Russian Defense Minister Sergei Ivanov wrote of Russia's concern about NATO expansion, suggesting that this could bring about a "cold peace." Great concern was also expressed in the Russian press about U.S. intentions concerning basing rights in Bulgaria and Romania. It was speculated in the Moscow daily *Trud* that the U.S. wanted to turn the Black Sea into an American lake where it could control the flow of Caspian resources and divert them up the Danube River into Europe. As sensationalist as some of the reporting is, there is an element of truth to U.S. designs on bases in the Balkans, a traditional Russian sphere of influence. Russian

Foreign Minister Sergei Lavrov attended the late June NATO summit in Istanbul, but President Vladimir Putin was conspicuously absent.

In May, the U.S. State Department issued two reports that included both praise and criticism for Russia. In the report *Global Terror Trends 2003*, Russia's antiterror effort was lauded. But just after the issue of this report, the State Department issued its annual report on human rights in May, and as usual, Russia received criticism (justifiable) in the areas of press freedom, civil society, and on the war in Chechnya. The Russian government responded in prompt fashion, denouncing the report. To add fuel to the fire, much play was given in the Russian press to a report issued by the CIA that speculated on the potential for the disintegration of Russia within the next decade. As is often the case, the information was taken out of context. Most of these government-sponsored reports give any number of scenarios, and undoubtedly one of them was the emergence of a revitalized Russia. But the Russian press (as elsewhere around the globe) was quick to grab hold of the most sensationalist aspect of the study. Several members of the Russian Duma took time out on the floor to denounce this study. In a similar vein, President Putin delivered a speech in May where he warned about the agenda of Russian NGOs, and suggested that NGOs sponsored by foreign interests could become agents of those same foreigners.

The U.S. and Western press is still very much focused on the case of the Russian oil company Yukos and the trial of its erstwhile CEO, Mikhail Khodorkovsky in Moscow. State proceedings against Khodorkovsky for tax evasion, fraud, and illegal profiteering got under way in June. Critics of the Russian government's case against Khodorkovsky were widespread and vocal, and extended to the floor of the U.S. House of Representatives, where Tom Lantos and Christopher Cox sponsored a resolution calling for the banishment of Russia from the G8 until it got its internal human rights issues in order.

Russia's efforts to bring to a conclusion to the war in Chechnya received two major blows in the spring. On May 9, a bomb in Grozny killed the Russian-installed president of the Chechen Republic, Akhmad Kadryov. It was hoped in Moscow that Kadryov, once a bitter opponent of Russia, could bring some sort of order and stability to Chechnya, but his death showed that this was mere fantasy. In June, rebel forces (some Chechen, but not all) attacked Russian border guard facilities and the Ministry of the Interior in the neighboring Republic of Ingushetia, killing more than 90 people. Again, it became clear to all that the conflict in Chechnya is no closer to a resolution than it had been in the fall of 1999, when this latest round of fighting began. Although the Bush administration has tried to turn a blind eye to this conflict, it is less and less able to do so, and the pressure to denounce Moscow could grow greater with the presidential election looming in the fall. An editorial in the daily *Nezavisimaya Gazeta* speculated that the tacit "agreement" in which Moscow supports the U.S. war on terrorism and in Iraq in exchange for a free Russian hand in Chechnya has reached its limits. The author, Nikolai Zlobin, also speculated that this "agreement" will become a hot-button item in the presidential election in the fall.

Russia and the U.S. have attempted to work together in Georgia, and the peaceful conclusion of the standoff in the Georgian republic of Abkhazia was due in part to U.S.-Russian cooperation. Nevertheless, the U.S. (and the Georgian government) has made it clear that it wants all Russian forces currently in Georgia to depart. Russian Defense Minister Ivanov said that to do so Russia would need \$300 million to offset the costs of the move. The U.S. has also made it clear that it desires a Russian withdrawal from the Black Sea Republic of Abkhazia, where separatist forces (pro-Russian) are battling the government, northeast of Romania's border. U.S. officials point out that these Russian troop deployments are in violation of the Conventional Forces in Europe (CFE) Treaty. So far, no resolution has presented itself.

Iran continues to divide the leadership of both countries. In Iran the U.S. sees a potential threat, while Russia sees an opportunity. Although Moscow has agreed to hold off on the further development of the \$1 billion project at the Bushehr nuclear facility, it has made it clear that it wants to become very active in Iranian commercial affairs. Meanwhile, on May 6 a resolution passed by the U.S. House of Representatives condemned Iran's nuclear program. In addition to urging Europe and Japan to cut commercial and energy ties with Iran, the resolution called on Russia "to suspend its nuclear cooperation with Iran and refrain from making an agreement on the supply of nuclear fuel to the reactor in Bushehr," until Iran halts all activities potentially associated with a nuclear weapons program. Russia has been cooperative in recent months, but it is clear that Russian, Chinese, Japanese, and European companies are itching to do business in Iran, in spite of U.S. demands to the contrary.

Spring Relief?

Several events in the spring suggested that the long winter months in U.S.-Russia relations could be headed for a warming period. The G8 Summit on Sea Island, Georgia proved to be a cordial venue for George Bush and Vladimir Putin. As mentioned, Putin brought a gift in the form of Russian approval of the U.S.-U.K.-sponsored UN Security Council resolution on Iraqi sovereignty at the end of June. Russia's approval of the resolution, along with the other 14 members of the UN Security Council, lent tremendous international support and credibility to the U.S.-led coalition's June 28 handover of sovereignty to the interim Iraqi government. Putin called the resolution "balanced and good," and said that he hoped it would lead soon to democratic elections.

In another development in the war on terror, Defense Minister Ivanov announced in his May visit to Washington, D.C. that Putin personally intervened and assisted the U.S. in setting up military bases in Central Asia after the Sept. 11 attacks. Ivanov explained that, "immediately after the Sept. 11, 2001 [terrorist attacks in the U.S.], President Vladimir Putin contacted several heads of state in Central Asia, and recommended that they provide their bases to the U.S. for the purposes of supporting the anti-terrorist operation in Afghanistan." Although it is understood that Russia was initially not opposed to the U.S. deployment in Central Asia, this was the first public acknowledgement that Russia had been diplomatically involved in the process of convincing the heads of states in the region to allow the introduction of U.S. forces. Ivanov, however, said that he does not

approve of the idea of U.S. servicemen staying in Central Asia on a permanent basis. Furthermore, to hedge against an overabundance of U.S. influence in their backyard, Russian leaders made strong diplomatic overtures toward Tajikistan and Uzbekistan in the month of June, even trumpeting a “strategic partnership” between Moscow and Tashkent (Uzbekistan).

Putin gave Bush perhaps his biggest boost in months when it was revealed by the Russian government that it had passed information on to the U.S. government about Iraqi intentions to support terror attacks against the U.S. between the Sept. 11 attacks and the March 2003 U.S.-led invasion of Iraq. This was a boon to the Bush administration, which has been under fire for allegedly having misled the U.S. public about the extent of the Iraqi threat. The Russian press was awash in stories speculating as to the timing of the revelation. One story in the daily *Vremya Novosti* suggested that the Kremlin had cast its vote for Bush in the upcoming election. The daily *Kommersant* speculated that Putin wants Bush to defeat Kerry because a Democratic president would more apt to criticize Russian actions in Chechnya. Whatever the motivation, the story has caught much less attention in the U.S.

The energy partnership has taken something of a step backward since the heady days of 2002-2003 when both sides trumpeted the emerging “energy axis.” A long article in the *Wall Street Journal* in April highlighted the difficulties that many U.S. and multinational firms still face in Russia, even in the energy sector. This sector is supposedly the most investor friendly, and ostensibly the most protected in a legal sense with the passage of several laws on production-sharing agreements (PSAs) over the past few years. The focus of the article was on the Exxon-Mobil and Chevron-Texaco Corporations, which had won exploration rights for a Sakhalin offshore oil field 10 years ago (the Sakhalin-3 project). Recently the Russian government announced that the tender was no longer valid and indicated that it would hold a new bidding process. Additionally, it was announced that the Sakhalin-3 project did not qualify as one of the projects benefiting from the tax-advantageous status of the PSAs. U.S. Secretary of Energy Spencer Abraham personally traveled to Moscow in late May to lobby on behalf of U.S. companies. Abraham reportedly asked for an increase in Russia’s oil output to counter the rapidly growing price of oil, which reached the \$40 level in the spring. Abraham’s visit was followed by a visit to Moscow in early June by U.S. Deputy Secretary of Energy Kyle McSlarrow. McSlarrow also lobbied for increased oil output and stressed America’s interest in seeing through the completion of a “Northern Pipeline” linking the western Siberian oil fields with Murmansk, where supplies could be shipped westward. Also of note during McSlarrow’s visit was the “special interest” (according to officials from the state-owned pipeline company Transneft) he showed toward the Pacific pipeline project that would link eastern Siberian fields with the port of Nakhodka. This is the pipeline favored by the Japanese. Washington has given no public hint of its stance toward this issue that has proven so divisive between Beijing and Tokyo.

U.S.-Russian nonproliferation efforts continue. During Abraham’s May visit to Moscow he also met with his Russian counterpart Alexander Rumantsyev to sign an accord on the retrieval and storage of unsecured Russian nuclear fuel. Under the accord, whose aim is

to help Moscow recycle its vast stocks of Cold War-era warheads, Russia will ship to the U.S. half a billion dollars worth of commercial uranium this year. Shortly after Abraham's visit, Russia officially joined the Proliferation Security Initiative, something the U.S. government had been urging it to do for months. Although the cooperative non-proliferation efforts have continued in fits and starts, there remains a lot of work to be done.

Far Eastern Issues

President Putin's visit to the Russian Far East to observe the large-scale *Mobility-2004* military exercises was a clear sign of Putin's continuing commitment to revitalize Russia's position in the region. Besides visiting Vladivostok, Putin visited Kamchatka as well. While there Putin visited Rybachiy, the headquarters of the 16th nuclear submarine squadron, where he met with the Pacific Fleet command. Putin said that the Pacific Fleet would be developed as "one of the most important elements" of Russia's security architecture. Commenting on the *Mobility-2004* exercises, Putin gave a very positive assessment and pledged to conduct more such exercises in the future. According to the Russian television stations *ORT* and *RTR*, the *Mobility-2004* exercises simulated an attack on the Russian Maritime Provinces "by separatists from an Oriental country."

Moscow remains committed to the six-party talks on Korean Peninsula security issues. After the Bush administration floated its most recent trial balloon in an attempt to engage Pyongyang, Moscow announced that it was ready (along with Beijing) to extend additional security and economic guarantees to North Korea if Washington's guarantees failed to satisfy Pyongyang.

In a potentially interesting development, it was speculated in the *Washington Times* that officials from Russia, Taiwan, and the U.S. were engaged in negotiations over a deal in which the U.S. would buy eight Russian-manufactured *Kilo-class* submarines, outfit them with U.S. electronic and propulsion systems, and then sell them to Taiwan. Reportedly, Putin signed off on the deal, saying that it doesn't matter to him what the U.S. does with the submarines once Russia sells them. If this unconfirmed report turns out to be true, there would be serious repercussions for China-Russia relations.

Japanese-Russian diplomatic relations continue to dance around the awkward territorial issue. Japanese Foreign Minister Kawaguchi Yoriko traveled to Moscow in late June to meet with counterpart Sergei Lavrov to discuss bilateral matters and a planned visit by President Putin to Japan in early 2005. Although Kawaguchi repeatedly raised the territorial issue, Lavrov was studiously evasive, only promising to work so that both countries could move past the issues dividing them (i.e., forget about the territorial dispute and step up economic relations). The *Sankei Shimbun* described her trip as a big disappointment in that she was unable to arrange a meeting with Putin, and failed to coax any kind of response from Lavrov. Quoting an unnamed Japanese diplomatic source, the *Sankei* called the trip a "bad omen" for Putin's planned visit to Japan in early 2005.

U.S.-Russian relations, though far from ideal, have by no means been as strained as U.S. relations with NATO allies (except Great Britain) since the war in Iraq. Nevertheless, 2003 and early 2004 have been a tough period for the relationship, and it is unclear if events in both nations over the coming months, as well as the war on terror, will bring the two nations closer together or will divide them even further. The bet here is that the two nations, regardless of the leadership, will see it in their strategic interests to maintain a cordial (if distant) relationship.

Chronology of U.S.-Russia Relations April-June 2004

April 1, 2004: U.S. House of Representatives Committee on International Relations adopts a resolution calling on President Bush to call for the exclusion of Russia from the G8. U.S. Ambassador to Moscow Alexander Vershbow scoffs at the resolution and describes Russia as a “vital partner” to the U.S.

April 6, 2004: Russian academic researcher Igor Sutyagin is found guilty of spying for U.S. intelligence after a lengthy court trial that attracted international media attention.

April 6-7, 2004: On an official visit to Washington, Russian Defense Minister Sergei Ivanov says that Russia will not give up its cooperation with the U.S. in the war on terrorism, but warns that deteriorating bilateral relations between Moscow and Washington could bring on a “cold peace.”

April 8, 2004: U.S.-Russia Energy Working Group (EWG) concludes two days of talks in Washington by signing two agreements that enhance U.S.-Russia partnership on energy-related projects.

April 13, 2004: Russian government urges all its citizens to leave Iraq after unidentified captors release eight employees of a Russian construction company who had been kidnapped and briefly detained in Baghdad.

May 5, 2004: The tense stand-off in southern Georgia ends when the rebel leader of the province of Adzharia flees into exile in Russia. Both Moscow and Washington announce their satisfaction with the peaceful resolution of the situation.

May 6, 2004: U.S. House of Representatives passes resolution condemning Iran’s nuclear program, and calls on Russia to halt its assistance to Teheran.

May 9, 2004: Grozny bomb blast kills the Russian-installed president of Chechnya, Akhmad Kadryov.

May 10, 2004: Two Russian workers are kidnapped and a third is killed in Iraq. The Russian Duma blames the U.S. for the incident.

May 15, 2004: National Security Adviser Condoleezza Rice meets with Russian President Putin in Moscow to discuss Iraq.

May 17, 2004: Russian and U.S. Army officers begin a joint six-day command post exercise that is the first of its kind and aims at ensuring better cooperation in the war on terrorism.

May 17, 2004: U.S. State Department releases annual report on human rights and, as in years past, Russia's record is deemed suspect.

May 20, 2004: Under Secretary of State John Bolton visits Moscow to press Russian leaders to join the U.S.-led Proliferation Security Initiative (PSI).

May 20-21, 2004: George H.W. Bush, Sr., the father of President George W. Bush, visits the Ukraine.

May 27, 2004: Energy Secretary Spencer Abraham visits Moscow and meets with counterpart Alexander Rumantsyev to sign an accord on the retrieval and storage of unsecured Russian nuclear fuel.

May 31, 2004: Russia officially joins the PSI.

June 2, 2004: Secretary of State Colin Powell calls for Russia to remove all its military bases from Georgia.

June 5, 2004: Ronald Wilson Reagan, 40th president of the U.S., passes away at 93.

June 6, 2004: Vladimir Putin becomes the first Russian or Soviet head of state to visit Normandy, on the occasion of the 60th anniversary of the Allied invasion of Europe in 1944.

June 8, 2004: U.S. Deputy Secretary of Energy Kyle McSlarrow visits Moscow to meet with Russian counterparts and with executives from the Russian oil industry. McSlarrow reemphasizes the U.S. interest in seeing a "Northern Pipeline" to transport crude oil from western Siberia to the port of Murmansk.

June 8-10, 2004: Summit of G8 nations takes place on Sea Island, Georgia.

June 17, 2004: Summit of the Shanghai Cooperation Organization (SCO) held in Tashkent, Uzbekistan.

June 18, 2004: While on a visit to Kazakhstan, Putin confirms to reporters that between the Sept. 11, 2001 terrorist attacks and the commencement of military operations in Iraq, Russia's special services intelligence agencies received information "that official organs of Saddam's regime were preparing terrorist acts on the territory of the U.S. and beyond its borders, at U.S. military and civilian locations." Putin explains that he passed this information on to President Bush.

June 21-25, 2004: Russia launches massive *Mobility-2004* military exercises across Siberia and the Russian Far East. These are the largest since the Soviet era.

June 23, 2004: President Putin arrives in Vladivostok for *Mobility-2004*. In a speech he stresses the importance of Russia's Pacific Fleet to national defense.

June 24, 2004: Japanese FM Kawaguchi travels to Moscow to meet with FM Sergei Lavrov to discuss bilateral matters and a visit by President Putin to Japan in early 2005.

June 27, 2004: Secretary of Defense Donald Rumsfeld on a visit to Moldova, on his way to a NATO summit in Istanbul, urges Russia to uphold its obligations and withdraw troops from Moldova to help settle a 13-year-old dispute between the former Soviet state and its breakaway trans-Dnestr region. Rumsfeld is the first high-ranking Cabinet official to visit Moldova.

June 27-29, 2004: NATO heads-of-state summit in Istanbul, Turkey. President George Bush makes an appearance, but President Putin declines to attend. FM Lavrov represents Russia.

U.S.-Southeast Asian Relations: Pausing for Politics

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A combination of domestic political preoccupations in Southeast Asian countries, the presidential election campaign in the United States, and continuing sensitivities over the U.S.-led intervention in Iraq meant that U.S. relations with Southeast Asia were essentially on hold during the second quarter of 2004. Nevertheless, ongoing concerns, including terrorism and piracy as well as the increasingly crowded calendar of regular regional meetings, ensured that activity and dialogue continued at a relatively intense pace throughout the quarter.

Terrorism and Security Cooperation

Terrorism remains the primary shared concern of the governments of Southeast Asia and the U.S. But unease over American military dominance and skepticism in the region (especially but not exclusively among Islamic populations) over the Iraq intervention are such that cooperation with the U.S. in the “war on terrorism” is a very delicate matter for many regional governments. This sensitivity was most dramatically highlighted during the quarter after U.S. Pacific Commander Adm. Thomas Fargo, in testimony on March 31 to a Congressional Committee, outlined a U.S. Regional Maritime Security Initiative (RMSI) – as an operational element of the administration’s Proliferation Security Initiative (PSI) designed to counter threats of terrorism, piracy, and trafficking at sea. Fargo mentioned the Strait of Malacca, between Indonesia and Malaysia, a key passageway transited by nearly one-third of the world’s commerce, as a specific area of concern.

Adm. Fargo had been speaking about the desirability of such an initiative in forums involving Southeast Asian officials for nearly a year, but formal government-to-government discussions had been limited. His testimony focused attention on the initiative, and created the unintended impression that the U.S. might dispatch forces to the Malacca Strait, even unilaterally, to respond to the threat. Regional governments, most particularly those of Malaysia and Indonesia, reacted brusquely to what they interpreted as a threat of U.S. unilateral military intervention, and within a week publicly rejected the initiative, insisting that their forces were fully capable of policing the Strait. U.S. military and diplomatic officials, including Fargo, spent much of April and May clarifying U.S. intentions and emphasizing the preliminary and collaborative nature of the concept. However, on a visit to Singapore to attend the Shangri-la Dialogue, a regional security conference on June 4, Defense Secretary Donald Rumsfeld reiterated the

seriousness of U.S. concern over terrorist threats, including in the Malacca Strait, leaving no doubt that the subject will remain on the U.S. agenda for the region. But discussions at the ASEAN meetings in late June reaffirmed overwhelming opposition among the Southeast Asian governments to direct participation by U.S. forces in new cooperative security operations in the Strait.

The Philippines and Indonesia: Electoral Limbo

In the Philippines and Indonesia, the quarter was totally dominated by hotly contested and highly uncertain presidential election contests. Filipinos went to the polls on May 10, but President Gloria Macapagal-Arroyo's narrow reelection was not confirmed until just before the scheduled inauguration on the last day of the quarter. In Indonesia, national parliamentary elections took place April 5, which was followed by formation of five competing president/vice president tickets and a month-long campaign before a first round of presidential voting on July 5. Many questioned whether President Megawati Sukarnoputri would even qualify for the runoff between the top two first-round finishers that is set for Sept. 20. Inevitably, electoral politics inhibited incumbents in both countries from taking actions in politically sensitive areas such as relations with the United States.

Beyond the similarity of their electoral situations, however, the underlying U.S. relations with the two countries differ markedly. Philippines-U.S. security cooperation is very close, including U.S. support for the Philippines' military campaign against Islamic terrorists in the southern Philippines. A major annual joint exercise concluded in March, and a further joint counterterrorism training exercise was announced at the end of June. Arroyo has been among the strongest regional supporters of U.S. policy in Iraq, including providing a modest Philippines contingent of peacekeepers and humanitarian workers, which the U.S. would like increased. Mindful of public opposition to her support of the U.S. on Iraq, however, on April 14 Magapagal-Arroyo said that the Philippines might withdraw its small force if security conditions continued to deteriorate. Nevertheless, after a Filipino civilian contract worker in Iraq was killed April 29, Magapagal-Arroyo said the Philippines would not withdraw its troops.

U.S. relations with Indonesia remain far more complicated and troubled, and Megawati's relatively weak leadership style and dim prospects in the presidential election virtually rule out any significant moves in the bilateral relationship during the remainder of her term. The Bush administration wants to work with the Indonesian government to enhance its antiterrorism capabilities, but is constrained by human rights-based legislation dating from 1999 prohibiting assistance to the Indonesian military. Thus anti-terrorism cooperation focuses on the Indonesian police force, still suffering from its position as the stepchild of the security services through most of Indonesia's independent history. Fuller restoration of security cooperation awaits more fundamental changes in Indonesia's armed forces.

Nevertheless, the Indonesian government continued through the quarter to pursue suspected terrorists and to prosecute those involved in the 2002 Bali bombings and the 2003 Jakarta bombing. Under strong U.S. pressure, on April 30 *Jemaah Islamiyah* (JI) leader Abu Bakar Bashir was rearrested immediately on his release from an 18-month term for immigration violations and charged with terrorism. The Indonesian police developed a substantial dossier to support a further trial of Bashir for involvement in the Bali bombings. (The Indonesians have argued, reasonably, that this process would have been significantly aided had the U.S. granted them direct access to JI operations leader Hambali, now in U.S. custody.)

In the meantime, a series of tangled human rights issues, combined with the general weakness of Indonesian government structures, continue to frustrate efforts to put the relationship on a more stable and positive course. The inability or unwillingness of the Indonesian legal system to hold senior military officers accountable for human rights violations in East Timor and elsewhere is illustrative of the problem.

The murders in August 2002 of two American schoolteachers at Timika in Papua, on which successive investigations produced clear suggestions of military involvement but no charges, have increasingly acquired the status of a litmus test for improvement in U.S.-Indonesian relations. Strong U.S. pressures led to involvement of the FBI in the Indonesian investigation and finally, to the indictment on June 24 by a U.S. grand jury of a leader of the Papuan separatist movement for the crime. But by that time U.S. human rights activists simply refused to accept the inference that the Indonesian military was not involved, so the case will continue to be an irritant in the relationship.

The expulsion from Indonesia in early June of Sidney Jones, Indonesian representative of the International Crisis Group and a respected American Indonesia scholar and human rights activist, further underscored the basic distrust of the Indonesian government in U.S. human rights circles. The expulsion was never clearly explained by the Indonesian authorities, but was presumed to have been due to Jones' unblinking criticism of Indonesia's security and human rights performance. On June 2, the State Department released a statement criticizing the Indonesian action as inconsistent with the country's recent record of democratization.

Indonesian policies in dealing with insurgencies in Aceh and Papua are another issue in the relationship, particularly for human rights groups and some members of Congress. On June 28, in a letter to UN Secretary General Kofi Annan coordinated by the U.S.-based East Timor Action Network, 19 U.S. senators called for the appointment of a UN Special Representative on Aceh and Papua. The fact that this appeal came in the middle of the Indonesian presidential election process and the reality that there was no possibility of constructive discussions on the subject before a new president was chosen in September clearly were not major considerations for those who initiated or endorsed the letter. And given the fundamental intractability of the conflicts both in Aceh and in Papua, this issue will not be readily or quickly removed from the agenda of U.S.-Indonesian relations.

Malaysia and Singapore: Transitions

The U.S. relationship with Malaysian Prime Minister Abdullah Badawi continued to be relatively smooth during the quarter, solidifying a more civil version of the combination of criticism and cooperation that had characterized relations under Badawi's colorful predecessor Mahathir Mohamad. Badawi has maintained Malaysian criticism of U.S. policies in Iraq and the Middle East, though not with the same edge as Mahathir. (As if to emphasize the contrast, in May Mahathir broke his self-imposed moratorium on political statements to urge Muslims to withdraw funds deposited in the U.S. as a weapon to weaken U.S. support for Israel.) A special meeting of the Organization of the Islamic Conference (OIC) on Iraq on April 22 (called by Malaysia, as chair) predictably provided a forum for such criticism and produced a communiqué calling for a change in Washington's approach on Iraq and Israel. Meanwhile, negotiations on a U.S.-Malaysian trade and investment framework agreement (TIFA) proceeded, leading to signature of the TIFA on May 10.

The Malaysian government joined Indonesia in rejecting a U.S. proposal for maritime security cooperation in the Malacca Strait in advance of a visit to Malaysia by U.S. Pacific Commander Fargo in late June. Deputy Prime Minister Najib Abdul Razak expressed the government's willingness to further discuss the maritime security initiative. On June 15 the government announced the formation of a new paramilitary maritime force to enhance security in Malaysia's territorial waters. Further, on May 28, the Malaysian authorities arrested B.S.A. Tahir, a Sri Lankan businessman said to have been a key official in the international nuclear trafficking network led by Pakistan's Abdul Qadeer Khan, demonstrating Malaysia's determination to follow the trail opened by the revelation in February of involvement by a Malaysian firm in providing uranium centrifuge equipment to Libya. And in mid-April, U.S. experts conducted a counter-terrorism workshop at the new regional counter-terrorism center in Kuala Lumpur.

In Singapore, the long-anticipated handover of power from Prime Minister Goh Chok Tong to founding PM Lee Kuan Yew's son and political heir Deputy PM Lee Hsien Loong has been put off for an indeterminate period, according to a statement by Goh to a party gathering on April 24. But whatever stylistic individuality the younger Lee may bring to the office, there is virtually no chance that this transition will have any substantive impact on U.S.-Singapore relations, however, which continue to be as close, collaborative, and unabashed as ever. Singapore was the only one of the three Malacca Strait littoral countries to welcome the U.S. initiative for enhanced security in the Strait. In early May, Goh paid a five-day visit to Washington, which included his third meeting with President Bush in a year. On May 24, a joint U.S.-Singapore sponsored regional disease response center opened in Singapore, and June 1 saw the start of a 10-day joint naval training exercise in Singapore water, and Singapore become the first country to join the U.S. Coast Guard's International Port Security Program.

However, a telling indication of the discomfort that even a committed supporter such as Singapore can feel over the current U.S. international posture came at the Shangri-la dialogue, a senior security conference in Singapore in early June – attended by Secretary

Rumsfeld. In his remarks to the conference, Goh urged the delegates to remember that “America is not the enemy; the terrorists are the enemy.” And while stressing the need for the U.S. to fulfill its commitments in Iraq, Goh also criticized Washington for its position on Israel, commenting that “The U.S. is essential to the solution, but it is part of the problem.”

Thailand: Political and Civil Turmoil

Thailand’s assertive and energetic prime minister, Thaksin Shinawatra, is facing a series of problems at home that could threaten his party’s political prospects in the general elections to be held by February 2005. Factional infighting, scandals, and policy mistakes are eroding the government’s public standing, but the most serious problem is an ongoing series of violent incidents in Thailand’s Muslim southern provinces that began in January 2004. The most serious of these to date occurred April 28, when 113 insurgents, many of them lightly armed youths, were killed in simultaneous attacks on police posts in the southern region. Thaksin’s credibility further suffered when he initially attributed this incident to criminal drug traffickers rather than acknowledging the apparent resurgence of Islamic separatism.

Among other things, Thaksin’s domestic difficulties have complicated his commitment of Thai troops to the reconstruction effort in Iraq. On April 10, Thaksin stated in his weekly radio address that he would bring the troops home if security conditions in Iraq prevented them from conducting their humanitarian mission. Similarly, Thaksin’s government, while supporting U.S. intelligence and technical assistance to enhancing security in the Malacca Strait, joined Malaysia and Indonesia in rejecting active involvement by U.S. forces as unnecessary. For its part, the U.S. government continued to provide assistance to Thailand in dealing with both the renewed insurgency in the south and continuing drug trafficking in the north. But Thailand reportedly turned aside an American offer of more direct assistance in the antiterrorism campaign in the south.

Burma, Cambodia, Vietnam, and Laos: Human Rights Leads

U.S. relations with Burma and Cambodia remain at an impasse, and issues relating to human rights in Vietnam (treatment of religious communities) and Laos (treatment of ethnic Hmong people and restrictions on religious and political freedoms) assumed greater prominence in those relationships during the quarter. In each case positions held by the Bush administration are powerfully reinforced, and even strengthened, by Congressional advocacy groups and individual members. One powerful Republican senator has been the major force in sustaining sanctions on trade with Burma and restrictions on assistance to Cambodia.

In the case of Burma, the administration has supported continued and even strengthened sanctions in view of the regime’s refusal to allow opposition leader Aung San Suu Kyi to participate in the political process. On Cambodia, U.S. bilateral assistance has been suspended since 1997 except for limited humanitarian programs, due to the authoritarian practices of the Hun Sen regime. This limits the ability of the administration to respond

in graduated ways to positive developments such as the conclusion at the end of June – after 11 months of stalemate – of an agreement between the Hun Sen government and the principal opposition party on the formation of a coalition government. This in turn will likely lead to legislative approval of an arrangement negotiated with the United Nations for trials of former Khmer Rouge leaders for human rights violations. In an election year there is no political incentive or prospect for introducing more flexibility into the U.S. position and therefore little practical room for negotiation with either regime.

The U.S. relationship with Vietnam is more complex than those with the other three mainland Southeast Asian countries, and despite problems over human rights issues the consolidation of normal U.S.-Vietnamese relations proceeds apace. Noteworthy events during the quarter were: a joint military conference on HIV/AIDS awareness and prevention in mid-April and the subsequent (June 23) inclusion of Vietnam in a special U.S. presidential funding program for combating AIDS; the April 26 announcement by United Airlines of plans to resume direct flights to Vietnam (the first since 1975); a relatively favorable U.S. decision on May 12 on quota levels for imports of Vietnamese textiles; agreement on June 15 (after two years of negotiations) on U.S. access to Vietnamese military files for purposes of locating remains of American servicemen; and approval on June 21 by the Vietnamese for a third U.S. bank to open a branch in Vietnam, with which the U.S. is now the largest trading partner.

Institutions

Regardless of fluctuating political atmospherics, the intense and basically institutionalized network of regular exchanges between the U.S. and the Southeast Asian governments was clearly demonstrated at a series of ASEAN-sponsored meetings in Jakarta at the end of June. These were the 37th Annual Ministerial Meeting (AMM) of foreign ministers June 29-30; Post-Ministerial Consultations (PMC) with 12 “dialogue partner” ministers July 1; and the ASEAN Regional Forum (ARF) meeting on July 2. Security issues including terrorism dominated the discussions at all these meetings. The AMM produced various declarations and agreements, including a reassertion of the ASEAN states’ intention to maintain control over the interrelated dialogue processes, and an announcement that Indonesia, Malaysia, and Singapore will launch coordinated patrols of the Strait, as an alternative to the U.S. RMSI. The PMC meetings saw conclusion of a counter-terrorism agreement between the 10 ASEAN members and Australia, Canada, New Zealand and Russia, an initiative welcomed by Powell but which the U.S. is not a party.

However, little progress was made at the ASEAN meetings or elsewhere during the quarter on some more controversial institutional questions. These include an Indonesian proposal launched at the previous ministerial for an ASEAN Security Community and a proposal by China, Japan, and South Korea for an “East Asian Summit” with the ASEAN states in 2005. The ASEAN representatives also essentially ducked the question of human rights concerns in Burma, whose position as 2006 ASEAN Chair will cause it to host some of next year’s meetings; an action that could, in turn, lead to non-attendance by the U.S., Europe, and other ASEAN dialogue partners. The most noticed event at the

ARF meeting seem to have been an informal side meeting between Powell and his North Korean counterpart, as a preliminary to an impending round of the six-party talks in Beijing on the North Korea nuclear issue, and a boffo performance by Powell at the now-traditional hair-down entertainment the last night of the meeting. Thus, the Southeast Asian regional institutions continue to serve more effectively as discussion forums (including outside the formal meetings) than as instruments for coordinating actions on regional problems.

Conclusion

The events of the quarter provide a glass half-full/half-empty picture of the state of U.S. relations with Southeast Asia. The relationships are (in almost all cases) multidimensional and self-sustaining. The shadow of the Iraq adventure hangs heavily over even the closer and longer-standing relationships, and in a political season both in the region and in the U.S. the interests in cooperation can easily be overshadowed or even undermined by more ephemeral considerations. There is always a possibility that damage to credibility and trust may be hard to restore, and that current difficulties may lead Southeast Asian governments to attempt to reduce the intensity and relative importance of their relationships with the U.S. But there is also recognition on the part of most participants of the underlying mutual interests and the need to move forward at whatever pace is achievable. So the business of the relationships will go on, punctuated by specific differences but driven by the imperatives of the calendar and increasing, inescapable interdependence.

Chronology of U.S.-Southeast Asian Relations April-June 2004

March 31, 2004: Adm. Fargo, Commander of U.S. Pacific Command, proposes a regional maritime security initiative to help guard the strategic Malacca Strait against terrorist attacks. Malaysia and Indonesia oppose the plan.

April 5, 2004: Indonesians vote in parliamentary elections.

April 5, 2004: Singapore confirms talks with U.S. over possibility of U.S. forces protecting the Strait of Malacca from terrorists; advocates a cooperative effort and financial contribution from all nations using the Strait.

April 5, 2004: U.S. embassy in Kuala Lumpur refutes reports of U.S. plan to deploy U.S. forces in the Strait of Malacca.

April 6, 2004: Malaysia and Indonesia reject U.S. proposed Regional Maritime Security Initiative to help patrol in the Malacca Strait.

April 10, 2004: In radio address Thai PM Thaksin Shinawatra indicates for the second time in two days he will bring Thai troops home from Iraq if the security situation continues to deteriorate.

April 13, 2004: Burmese government releases two senior members of the opposition National League for Democracy (NLD) party, who have been under house arrest for more than a year, ahead of the National Convention aimed at drafting a new constitution to be held in May. NLD leader Aung San Suu Kyi remains under house arrest.

April 15, 2004: U.S. and Vietnamese military officials meet for the first-ever joint conference aimed at increasing HIV/AIDS awareness and prevention.

April 19, 2004: U.S. experts from the justice department, FBI, and customs and border control begin a four-day workshop to train Southeast Asian counterparts in counterterrorism techniques.

April 19, 2004: Vietnam allows tourists eight-day trip to visit Spratly Islands.

April 21, 2004: Former Indonesian armed forces leader Wiranto, one of seven Indonesian military officials indicted by the UN on war crimes in East Timor in 1999, wins Golkar party presidential nomination.

April 22, 2004: At a special meeting of the Organization of Islamic Conference Malaysian PM Badawi criticizes U.S. strategy in Iraq and regarding Israel. Representatives issue a communique urging Washington to end support for Israel's plan.

April 26, 2004: Singapore Defense Minister Teo Chee Hean warns of insufficient patrols in the Malacca Strait to ward off a terrorist attack and assistance from outside sources is necessary to ensure the security of the Strait.

April 26, 2004: United Airlines announces plan to begin direct flights to Vietnam, the first U.S. carrier to do so since 1975.

April 29, 2004: State Department releases the *2003 Patterns of Global Terrorism* Report, which identifies the Asia-Pacific region in general and Southeast Asia in particular, as "an attractive theater of support and logistics" for al-Qaeda, and "a theater of operations" for Jemaah Islamiyah (JI).

April 30, 2004: Indonesian authorities re-arrest Muslim cleric Abu Bakar Bashir on terrorist charges immediately after his release from prison where he has served 18 months on immigration violations.

May 3, 2004: Singapore PM Goh Chok Tong kicks off five-day visit to Washington to meet with President Bush, the Senate Foreign Relations Committee, and other top U.S. government officials; it is the third meeting between PM Goh and Bush in a year.

May 5, 2004: Indonesian National Election Commission confirms Golkar's first-place finish in April 5 parliamentary election.

May 6, 2004: Philippine security forces expose JI cell and arrest suspect.

May 10, 2004: Filipinos vote in elections for presidential, congressional and township posts. More than 90 are killed in election violence.

May 10, 2004: U.S. and Malaysia sign the Trade and Investment Framework Agreement, (TIFA), paving the way for a bilateral free trade agreement.

May 10, 2004: Speaking in Jakarta, Assistant Secretary James Kelly emphasizes Indonesia and Malaysia are more than capable of safeguarding the Malacca Strait.

May 12, 2004: Four civilian Filipino contract workers are killed in a mortar attack on a U.S. air base in Iraq.

May 12, 2004: At ASEAN Regional Forum (ARF) senior officials meeting in Yogyakarta, Indonesia, U.S. proposes plan to increase maritime security cooperation in the Asia-Pacific region. ASEAN members welcome the initiative but emphasize the U.S. would not be given operational patrolling duties.

May 14, 2004: Assistant Secretary James Kelly visits Hanoi for the U.S.-Vietnam Annual Political Dialogue.

May 18, 2004: President Bush criticizes Burma's leaders for their handling of constitutional talks and says Burma's "actions and policies pose a continuing unusual and extraordinary threat to the national security and foreign policy of the United States."

May 28, 2004: Malaysian authorities arrest Buhary Syed Abu Tahir, allegedly the most senior official of A.Q. Khan's nuclear trafficking network to be arrested thus far under a security law allowing for indefinite detention without trial.

May 28, 2004: State Department releases statement urging Burma to release democracy leader Aung San Suu Kyi and move towards greater democratic rule.

May 31, 2004: U.S. terrorism expert Sidney Jones, working with the International Crisis Group, receives expulsion notice from Indonesian government allegedly on visa violations.

June 1, 2004: Malaysian PM Badawi says worsening security conditions in Iraq and Palestinian territories alienate Muslims, creating a new generation of anti-American terrorists.

June 1, 2004: The U.S. and Singapore navies begin a 10-day joint training exercise in Singapore waters emphasizing threats from air and submarines.

June 1, 2004: Singapore becomes first country to join the U.S. Coast Guard's International Port Security Program.

June 2, 2004: U.S. State Department calls Indonesian expulsion of policy analyst a disappointing reversal of democratic trends and recent positive moves against terrorists in the country.

June 3, 2004: Philippine President Arroyo says her country's troops will remain in Iraq but will probably redeploy to safer areas after three Filipino soldiers were wounded in June 1 ambush.

June 4, 2004: Defense Secretary Rumsfeld in Singapore to attend an international security conference warns Asian governments against underestimating terrorist threat.

June 5, 2004: Adm. Fargo says U.S. plans to enhance maritime security in Asia by sharing information that could lead to inspections of ships carrying suspicious cargo in the Strait of Malacca.

June 7, 2004: The members of the Five Powers Defence Arrangements (FPDA), a regional Southeast Asian defense alliance composed of Australia, the UK, Malaysia, Singapore, and New Zealand, agree to increase training to prevent terrorist attacks in the Strait of Malacca; move seen as an alternative to U.S. proposal.

June 9, 2004: Malaysia's Deputy PM says it would be counterproductive to have a strong presence of foreign troops or assets in the region, but his country is ready to further discuss the U.S. maritime security initiative.

June 15, 2004: Malaysia announces the formation of a new paramilitary maritime force to patrol its territorial waters after international pressure to increase maritime security in the region. The force is to begin operations next March.

June 16, 2004: U.S. announces \$5.6 million in aid to Cambodia to help stem human trafficking to neighboring countries to work as forced laborers, prostitutes, and beggars.

June 17, 2004: Indonesia's naval chief announces his country will form a special maritime force to coordinate patrols in the Malacca Strait after Indonesian pirates conduct yet another attack in the area.

June 18, 2004: U.S. State Department calls upon Burma's military rulers to release Aung San Suu Kyi and fellow democracy leader U Tin Oo immediately and unconditionally.

June 19, 2004: Hundreds of pro-democracy activists protest in Rangoon on NLD leader Aung San Suu Kyi's 59th birthday and demand her release.

June 21, 2004: Vietnam's central bank grants the U.S.-based Far East National Bank approval to open a branch in Ho Chi Minh City - the third U.S. bank with a branch in Vietnam – as the U.S. is now Vietnam's largest trading partner.

June 21, 2004: Malaysian Deputy PM Najib Abdul Razak says Malaysia and the U.S. will work together to boost maritime security, but will not undertake joint patrols in the Strait of Malacca.

June 22, 2004: Indonesia and Malaysia agree to conduct joint military patrols in the Malacca Strait to stem piracy and maritime terrorist threats.

June 23, 2004: U.S. announces Vietnam will become the 15th country to receive money to combat AIDS under the President's Emergency Plan for AIDS Relief (PEPFAR). Vietnam is the sole Asian country named in the program.

June 23, 2004: During a visit to Malaysia, Adm. Fargo denies reports that Washington wanted U.S. forces to help patrol the Strait of Malacca: says cooperation would focus on sharing intelligence and offering to help build the capacity of countries in the region to face the threat themselves.

June 23, 2004: President Bush dismisses criticism of decision to make Vietnam eligible for funds under a global AIDS initiative.

June 24, 2004: U.S. Senate approves bill to renew sanctions against Burma.

June 24, 2004: U.S. grand jury indicts Anthonius Wamang, alleged operational commander of the separatist Free Papua Movement, for the 2002 murder of two U.S. schoolteachers in the Indonesian province of Papua. Wamang remains at large.

June 26, 2004: Thailand expresses support for the U.S. plan to enhance technical and intelligence assistance to Southeast Asian countries to guard the Strait of Malacca against piracy and terrorism, but emphasizes that the deployment of U.S. troops is unnecessary.

June 27-30, 2004: Adm. Fargo meets Defense Secretary Eduardo Ermita and Philippine Armed Forces Chief of Staff General Narciso Abaya, while attending the inauguration of President Macapagal-Arroyo.

June 29, 2004: U.S. delivers refurbished helicopters to Thailand to help it fight Muslim militants in the south and guard against drug trafficking in the north.

June 30, 2004: Macapagal-Arroyo begins new six-year term as Philippine president.

June 30, 2004: The two main parties in Cambodia, the Cambodian People's Party of PM Hun Sen (CPP) and the Funcinpec party led by Prince Norodom Ranariddh, sign agreement on a coalition government, ending 11 months of political deadlock.

China-Southeast Asia Relations: Smoothing the Wrinkles

Ronald Montaperto
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If 2003 was the year during which Beijing laid the foundation for a new relationship with the nations of Southeast Asia, 2004 may emerge as a period of fine tuning and adjustment. During the second quarter, as during the first, Beijing focused on the details of agreements already in place rather than offering bold new initiatives. China's quest to achieve increased respectability and influence in Southeast Asia by following a two-pronged strategy that focuses on ASEAN for dealing with the region as a whole while dealing with nation-specific issues on a bilateral basis was readily apparent throughout the quarter. In some ways, the balance may have shifted slightly toward the bilateral arena.

The South China Sea and various areas along the Mekong River drew Chinese and regional attention, as did ever-present issues of trade and finance. However, these do not appear to have slowed the pace of Beijing's political progress through the region, much less obstructed it. China's relations with ASEAN remain positive, although Beijing must be disappointed with the lack of progress in such areas as the ASEAN Free Trade Area (AFTA), security discussions, and the effort to establish multilateral mechanisms for securing unhindered passage through the Strait of Malacca.

Close to Home

During the quarter, Chinese diplomacy clearly paid special attention to the less developed members of ASEAN that share borders with China: Cambodia, Laos, and Burma. In addition to assessing the progress of agreements with these nations signed in March, the Chinese demonstrated concern about Beijing's image as a major power interacting with smaller nations and focused on the perceived strategic imperative to cement good relations with immediate neighbors.

Those concerns and the need to establish a framework for managing the frictions produced by China's dam and new port construction activities on the Mekong River obliged China and Cambodia to affirm their close ties. They also discussed the scope and the content of their future bilateral relations with an eye toward anticipating and preempting the kinds of issues noted above. Similar high-level discussions were held between Chinese and Lao officials in Shanghai during April.

Relations with the government of Burma, already the beneficiary of Beijing's considerable economic and political support, continued to develop with an emphasis on professional and cultural exchanges. There was also progress on the plan to liberalize trade in agricultural products. Beijing and Rangoon agreed to begin to adopt and implement some of the provisions of the China-Singapore-Thailand Early Harvest Programme Acceleration Agreement that will eventually eliminate tariffs on all fruits and vegetables. Finally, the Chinese and their relatively well-off Thai neighbors likewise intensified their efforts to implement the provisions of the Acceleration Agreement and searched for new areas and means of cooperating on economic and infrastructure development. Thailand further cemented its already strong relations with China by continuing its highly vocal support for Chinese interests in the Taiwan Strait.

China's relations with Vietnam remained complicated. The quarter began with yet another acrimonious exchange over Hanoi's plan to schedule and stage a "tourist cruise" through the area of the South China Sea over which both nations claim sovereignty. In response, Beijing staged yet another naval exercise. However, and probably reflecting the decision by both sides not to allow the territorial dispute to prevent progress on important economic issues, the respective legislatures of the two nations approved the Beibu Gulf Demarcation Agreement defining the maritime border between China and Vietnam. This event assumes added significance as an indicator of the tenor of China-SRV relations when it is recalled that the agreement had been signed and awaiting ratification by the two sides since December, 2000.

Given Chinese and Vietnamese sensitivities and resentments produced by centuries of friction, relations between the two sides are not likely to become totally free of stress. Still, both nations appear committed to working out a *modus vivendi* that will permit progress despite the residual difficulties. Issues of this sort likely formed a major portion of the agenda of the May meeting between Chinese President Hu Jintao, Premier Wen Jiabao, and Vietnam's Prime Minister Phan Van Khai. It is also likely that the preceding summitry made it possible for the two nations to make considerable progress in joint efforts to work with the UN to control cross-border human smuggling and narcotics traffic, an issue that had been the source of some embarrassment and not a little rancor.

Meanwhile, in Kuala Lumpur..

A major event of the quarter was the visit of the new prime minister of Malaysia, Abdullah Ahmad Badawi, to Beijing, ostensibly to celebrate the 30th anniversary of the establishment of diplomatic ties between China and Malaysia. Actually, the visit provided an opportunity for the Malaysian prime minister to reacquaint himself with the Chinese leadership and to take their measure. The Chinese had great interest in meeting and assessing Badawi as well.

As with the Cambodians, the Chinese seemed eager to construct a framework for relations that would both anticipate potential problems and provide a means for dealing with them. During the visit, Chinese Premier Wen Jiabao met with his counterpart and made a number of proposals for broadening and deepening China-Malaysia relations.

These emphasized the complementarities of bilateral interests in terms of economic development, the need to maintain a stable external environment, the potential for joint efforts to maintain the integrity of sea lines of communication through the Strait of Malacca, and, given Beijing's own problems with Islamist extremists, a shared interest in dealing with terrorism. The Malaysians remained cool to proposals for cooperation in the Strait of Malacca owing to their concerns about sovereignty, but they did keep the door open by describing their efforts to integrate and coordinate the efforts of various components of the Malaysian government concerned with sea lane security and their plans for the creation of a new Malaysian Coast Guard.

From the perspective of Malaysia, China's greatest significance inheres in potential as the driver of regional economic growth and, therefore, as a potential challenger of Malaysian economic interests. Although Malaysia remains suspicious about Chinese intentions in the longer run, it understands that it must adjust to the reality of growing Chinese economic power and, that such an adjustment requires expanded political relations.

It was therefore difficult for Prime Minister Badawi to discourage Chinese involvement in safeguarding the security of the Strait of Malacca. It is also difficult for the Malaysians to downplay the significance for China of perceived Islamist extremist groups. In this sense, the major result of the Badawi visit was to acknowledge the importance of bilateral relations with China to Malaysia and to define acceptable parameters within which the relationship should grow and develop. From Beijing's perspective, the challenge was to confirm for the Malaysians that Chinese economic development works to their advantage too and that Beijing's gain is not necessarily Kuala Lumpur's loss. Whether the two nations were successful in their attempt to establish a mutually satisfactory framework for extending the scope and pace of their bilateral ties remains to be seen.

...and Singapore

With respect to Singapore, Chinese diplomacy has apparently been successful in disarming the concept of China as a military threat, at least temporarily. No less an authority than Senior Minister Lee Kwan Yew signaled the changed perception of Singapore's "China problem" by declaring the dynamics of the relationship to be centered on China as Singapore's "main challenger" in economic competition. For awhile at least, Singaporean concerns about Chinese military intentions have publicly been put on hold, although Singapore will continue quietly to recognize and cultivate the U.S. military presence as a counterweight to Beijing's emerging military capabilities.

In fact, Lee simply confirmed what politically relevant Singaporeans had been saying for nearly two years. Nonetheless the senior minister's ukase is likely to clear the way for an economic relationship that is even more vibrant than that at the present time. This is particularly likely given the acknowledgement of the government of Singapore that the long and embarrassingly unprofitable Xuzhou Industrial park, built with largely Singaporean investment as a gesture of confidence in Beijing's economic reforms, has at last turned the corner and entered the black.

The groundwork for Lee Kwan Yew's statement had probably been laid earlier during discussions in Beijing in mid-May between Singapore's Deputy Prime Minister Lee Hsien Long and President Hu Jintao and Deputy Premier Wu Yi. Although the meeting with Hu was largely ceremonial, Wu and Lee convened the first meeting of the China-Singapore Joint Council for Bilateral Cooperation and tabled a number of proposals for expanded bilateral cooperation. Later, in May at a separate venue, the two sides formally agreed to cooperate on a series of measures intended to enhance environmental protection and sustainable development. Later events included Singapore's accession to the China-Thailand Early Harvest Programme Acceleration Agreement which, as noted above, is intended to eventually end tariffs on all fruits and vegetables and nearly 500 additional agricultural products. The present positive cycle was completed when China's Council for the Promotion of International Trade opened its regional office in Singapore. This action is intended to ease the problems of trade between Chinese and other companies in the region.

Dancing with ASEAN

Consolidating close relations with ASEAN continues to pose a challenge for Chinese diplomacy. Statements by Chinese leaders through the first and early second quarters assuring the region about Beijing's long-term intentions under the rubric of "Peaceful Rise" seemed to resonate positively within the region. However, President Hu Jintao's substitution of the term "Peaceful Development" for the term peaceful rise at the April Bo'ao Forum on Hainan Island suggested to Southeast Asian analysts that the Chinese leadership had doubts about the appositeness of the concept.

Subsequent events and press statements revealed the existence of a debate within the Chinese Communist Party and the Chinese government about the appropriateness of the term. Some felt that it might mislead outsiders into thinking that Beijing was foreclosing its option to use military force in the Taiwan Strait and/or in other circumstances that might arise. While it was always clear to Southeast Asian observers that the debate in China involved the fine points of terminology rather than a choice between adopting peaceful as opposed to nonpeaceful policies, the discussion served as yet another reminder of the need for caution as Southeast Asian leaders craft both ASEAN and bilateral China policies. Despite remarkable Chinese progress in disarming the concerns of regional leaders, Beijing still has some distance to travel before securing its objectives.

Nonetheless, the journey continued, albeit at a somewhat slower pace than during the last year. For example, Beijing clearly appears to have scored significant gains in its campaign to consolidate and expand the role and impact of the ASEAN Plus Three process. In April, the ASEAN Plus Three health ministers met in Malaysia to discuss further the initiatives on SARS, controlling the spread of AIDS, and cooperating to control narcotics trafficking that were tabled at discussions during the first quarter and the previous year. This process is likely to continue, adding yet another dimension to the scope of China-ASEAN interaction.

Similarly, in May the labor ministers of China, Japan, and the Republic of Korea met with their ASEAN counterparts at the end of the 18th ASEAN Labor Ministers Meeting held in Brunei Darussalam. China used the session to establish increased solidarity with its Southeast Asian counterparts by emphasizing the differences between the respective positions of Asian developing nations and Western developed nations on matters related to labor rights, working conditions, and labor discipline. Beijing's effort was undoubtedly aided by the fact that these issues have been a consistent source of friction between Asian and Western nations for many years.

May also saw the convening of the seventh meeting of the ASEAN Plus Three finance ministers in the Republic of Korea. In contradistinction to labor issues, the finance meeting proved to be more of a challenge for Beijing owing to the fact that its economic and commercial interests diverge from those of Seoul, Tokyo, and the nations of ASEAN in a number of important respects. Beijing appears to have been forced into something of a defensive crouch owing to widespread regional concerns about the potential (under) valuation of the *renminbi*, fears of the inevitable negative consequences that would emerge if the present rapid pace of China's economic expansion, which many believe to be out of control, were to slow or come to an end, and, of course, the ever-present worries about Chinese competition throughout the region. The nations of ASEAN have correctly concluded that across-the-board competition with China is doomed to failure and that it is better to develop niche markets in areas of comparative advantage. The problem, from the Southeast Asian point of view, arises from the difficulties involved in assessing the likelihood that Chinese technological progress might eventually neutralize or destroy ASEAN comparative advantages and niches.

Beijing sought to allay concerns by citing the various measures it has taken to control and slow the pace of economic expansion. These include curbs on borrowing and reducing commodity prices by proscribing investment in so-called saturated areas such as manufacturing capacity, and simply assuring its neighbors of its positive intentions. However, in this area above all, the devil will be in the details. Finance and trade issues may well prove to be the greatest challenge to the continued development of the ASEAN Plus Three process.

As the quarter entered its final month, the ASEAN Plus Three energy ministers met in Manila for the announced purpose of forging an energy partnership. All of the parties present were united in their recognition of the seriousness of the problem but little emerged in the way of concrete proposals. A subtext for the meeting was the general concern that China's ever-growing economic machine is placing major stress on the supplies of energy available to the nations of the region, each of which have their own concerns.

All in all, during the second quarter, Beijing made positive gains through the ASEAN Plus Three process. Despite the obvious difficulties involved with finance and energy, the process continued and was strengthened. That is very much in accord with the well-known ASEAN concern for process as well as result. That said, if finance (economic) and energy trends continue to move along their present trajectories, results are bound to

become an issue for all concerned. That eventuality, if it comes to pass, is likely to be the acid test for ASEAN, China, Japan, and the Republic of Korea.

China's relations with ASEAN as a whole during the quarter present a similarly mixed picture. Reporting on May 21 indicated that Beijing and ASEAN were about to come to agreement on the China-ASEAN Free Trade Agreement. However, on June 23, ASEAN Secretary General Ong Keng Yong admitted that China and ASEAN were likely to miss the first deadline on their joint negotiations over trade liberalization issues. Ong attributed the delay to difficulties within ASEAN: the six more developed members could not agree on the list of goods to be scheduled for liberalization. Additional reporting claimed that Indonesia and the Philippines were the sources of difficulty. Clearly the ASEAN requirement for consensus was a factor provoking the delay in that the six were unable to come to a common position. But, given the obvious economic and political value of an agreement to both sides, it is probably only a matter of time before they achieve success. Indeed, Secretary General Ong said as much when he described ASEAN ties with China as "... rosy, positive, and wonderful"

Ironically, the announcement of the breakdown of negotiations came just days after the conclusion of a China-ASEAN Foreign Ministers Meeting in Qingdao. The foreign ministers reportedly agreed to build upon the gains of the last year or so and broaden and deepen ties in a variety of areas, including security cooperation, new health initiatives aimed at SARS and AIDS, and maintaining the security of sea lines of communication. The AFTA was to be the keystone of the new effort and the broader relationship.

Building Confidence

Perhaps as a sweetener and a confidence builder for the future, Beijing seized the occasion of the meeting to announce its intention to sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ). ASEAN had long sought such agreement from China. Moreover, it is likely that the decision, which actually costs Beijing very little and simultaneously enables it to compare itself favorably to the U.S., will be seen in Southeast Asia as confirmation of China's new, more assertively cooperative position on containing the spread of nuclear and other weapons of mass destruction. In fact, joining the Protocol, along with China's role in the six-party talks on the Korean Peninsula, its new regulations on the export of dual-use technologies, its membership in the Nuclear Suppliers Group, and its continuing interest in joining the Missile Technology Control Regime (MTCR), will enable Beijing to leverage its position as a responsible nuclear power. In light of concerns about a nuclear India and its at times troubled relations with China, this will also do much to alleviate ASEAN concerns about the spread of nuclear weapons into Southeast Asia.

However, Beijing's gains in the area of nuclear proliferation were offset at least in part by the cool reception accorded to a number of other Chinese proposals in the security sector. For example, a June 25 proposal at a China-ASEAN forum in Singapore for cooperation in providing maritime security ran into considerable if muted skepticism among the ASEAN audience. Mindful as it is of Malaysian concerns about sovereignty, the

organization is reluctant to open what might become a Pandora's Box that could affect Singapore and Indonesia as well. It is worth noting that similar proposals by the United States Pacific Command have been greeted with identical skepticism. It would appear that while the concerned nations of ASEAN clearly recognize the potential problems with their sea lines of communication, they are also suspicious of the motives of external powers who wish to operate there.

Finally, in another display of the ASEAN approach to security that may prove to have significant consequences for Beijing's efforts to integrate itself into the regional security dynamic, the closing days of June brought a proposal by the Senior Ministers of ASEAN to convene a first summit with Russia next year in Kuala Lumpur. The meeting also approved a proposal to create an ASEAN Security Community (ASC).

Depending on how they are implemented, these two proposals are bound to complicate Beijing's effort to nurture its security ties with ASEAN. The first proposal is a manifestation of the ASEAN conviction that regional security is best achieved if there is a stable balance of power involving a number of external powers. ASEAN is glad for the U.S. presence, but it also has welcomed China and, in an economic sense, Japan. And now it would seem that the region's leaders hope to invite Russia in as well.

Similarly, if ASEAN is able to overcome the strongly held conviction that members should refrain from involvement within one another's internal affairs and if it is possible to overcome the technical problems involved, the ASC could lead to an improvement in the capabilities of the ASEAN nations to provide for their own security. This would reduce the incentive to seek external assistance with such challenges as maritime security.

More significantly, it could also alter the security dynamic of the sub-region as its constituent states gradually increase their ability to arbitrate and adjudicate issues of national security on their own. Deficiencies in Russian military power notwithstanding, if Beijing had to deal with yet another external power in the sub-region, and if ASEAN itself were to evolve into a more solidly integrated security actor, Beijing would be forced to recalibrate its strategies still further. The events of the second quarter suggest that such a challenge might be on the horizon.

China-Southeast Asia Chronology **April-June 2004²**

April 1, 2004: Thai Deputy PM Chavalit Yongchaiyudh reiterates Thailand's support for "one China" policy.

April 2, 2003: Liang Guanglie, chief of the General Staff of the Chinese People's Liberation Army (PLA), meets commander of the Philippine Air Force Nestor R. Santillan in Beijing.

April 2, 2004: China's Defense Minister Cao Gangchuan visits Thailand.

April 5, 2004: Le Cong Phung, special envoy of Vietnam's prime minister, meets with China State Councillor Tang Jiaxuan in China; says Vietnam would like to enhance consultation and cooperation with China.

April 12, 2004: China conducts PLA Navy Drill in the South China Sea.

April 19, 2004: Vietnam pushes through with controversial eight-day tourist trip to the disputed Spratly Islands despite warnings from China.

April 20, 2004: Chinese Premier Wen Jiabao holds talks with PM Hun Sen of Cambodia; outlines China's four suggestions on the future direction of China-Cambodia relations.

April 21, 2004: State Councilor Tang meets with PM Hun Sen of Cambodia; expresses appreciation for Cambodia's adherence to "one China" policy.

April 22, 2004: Yang Chonghui, senior advisor to the government of Yunnan province, says bilateral trade between Myanmar and China will reach \$1.5 billion by 2005.

April 22, 2004: China's VP Zeng Qinghong meets Singaporean Senior Minister Lee Kuan Yew.

April 23, 2004: ASEAN Plus Three Health Ministers meeting held in Penang, Malaysia.

April 24-26, 2004: Third Bo'ao Forum for Asia annual conference in Hainan, China.

April 26, 2004: Thai FM Surakiart Sathirathai holds a phone conversation with FM Li Zhaoxing; the two sides exchange views on enhancing cooperation.

April 27, 2004: Chinese FM Li meets with Lao Deputy PM and FM Somsavat Lengsavat, and Vietnamese FM Nguyen Dy Nien at 60th Session of ESCAP in Shanghai.

² Compiled by Ronald A. Rodriguez, Vasey Fellow, and Tamara Renee Shie, Visiting Fellow, Pacific Forum CSIS.

May 1, 2004: Singapore PM Goh Chok Tong stresses cooperation with China and India for common development.

May 12, 2004: China's Administration of Customs says China imported from ASEAN 1.06 billion yuan (about \$128 million) worth of products enjoying zero tariff in the first quarter of 2004.

May 14, 2004: ASEAN Plus Three Labor Ministers meet in Bandar Seri Begawan, Brunei Darussalam in conjunction with the 18th ASEAN Labor Ministers Meeting.

May 14, 2004: President Hu Jintao meets Singaporean Deputy PM Lee Hsien Loong in China.

May 14, 2004: Vice Premier Wu Yi holds talks with Singaporean Deputy PM Lee Hsien Loong for the first meeting of Joint Council for Bilateral Cooperation; puts forward concrete proposals on how to advance bilateral cooperation.

May 15, 2004: Finance Ministers of ASEAN, China, Japan, and the Republic of Korea (ASEAN Plus Three) convene seventh meeting in Jeju, Republic of Korea.

May 15, 2004: Singapore's Deputy PM Lee Hsien Loong announces that Singapore and China will start negotiations on a bilateral free trade agreement (FTA) in November 2004.

May 17, 2004: Seventh meeting of China-Singapore Joint Steering Council in Suzhou.

May 20, 2004: *Thai News Agency* reports that Thailand's trade surplus with China reached \$1.26 billion in the first quarter of this year.

May 20, 2004: Premier Wen holds talks with Vietnamese Premier Phan Van Khai.

May 21, 2004: The China-ASEAN Free Trade Area (FTA) Negotiation Committee says China-ASEAN FTA talks will conclude ahead of schedule.

May 21, 2004: Chinese President Hu tells visiting Vietnamese PM Phan Van Khai that the two countries should increase mutual trust and sincere cooperation.

May 21, 2004: China and ASEAN reach basic consensus on FTA.

May 27-31, 2004: Malaysian PM Abdullah Ahmad Badawi leads high profile diplomatic and economic delegation to China to celebrate 30th anniversary of bilateral ties.

May 28, 2004: Premier Wen holds talks with Malaysian counterpart Abdullah Ahmad Badawi; makes five proposals for expanding and deepening China-Malaysia relations.

May 29, 2004: Chinese President Hu meets with Malaysian PM in China.

May 30, 2004: China boycotts 18th Asia Pacific Roundtable in Kuala Lumpur because of presence of Taiwan scholar.

May 30, 2004: Malaysian PM Badawi proposes an East Asia Summit; says Malaysia and China should cooperate in setting the agenda for a new era of regional cooperation not only in security matters but also in socio-economic areas.

June 3, 2004: Singapore accedes to “China-Thailand Early Harvest Programme Acceleration Agreement” at the sidelines of APEC Ministers Responsible for Trade meeting in Pucon, Chile. The Agreement will eliminate tariffs on all fruits and vegetables.

June 4, 2004: Beijing boycotts Shangri-la security conference in Singapore because of presence of Taiwanese think-tank delegate.

June 4, 2004: China announces the opening of 14 additional border ports between Yunnan province and neighboring Laos, Myanmar, Thailand, Vietnam, and Cambodia by 2010 to facilitate increasing economic trade between Southeast Asia and China.

June 7, 2004: Third Annual ASEAN-China Business Council Meeting and 16th ASEAN-Chamber of Commerce and Industry Conference & 61st Council Meeting held in Myanmar.

June 9, 2004: ASEAN energy ministers and their counterparts from China, Japan, and South Korea vow in Manila to forge closer energy partnership to face the challenges in the energy sector in Asia amid highly volatile world oil prices.

June 10, 2004: China’s Council for the Promotion of International Trade (CCPIT) opens regional office in Singapore to promote greater cooperation between China and regional companies.

June 15, 2004: Vietnam’s General Assembly ratifies agreement with China defining maritime borders in the Gulf of Tonkin.

June 15, 2004: Myanmar and China begin early trade liberalization activities under the Early Harvest Plan (EHP), an advanced program of the ASEAN-China FTA that covers 596 agricultural products.

June 18, 2004: The Indonesian government says its exports to China could double in three years following the gradual implementation of a FTA.

June 20, 2004: In a televised interview, Singapore Senior Minister Lee Kwan Yew calls China Singapore’s “main challenger” for economic competition.

June 21, 2004: China-ASEAN Foreign Ministers' Meeting in Qingdao agrees to deepen cooperation, and to push for realization of the China-ASEAN Free Trade Agreement; China also signals it will sign the Protocol to the Treaty of the Southeast Asia Nuclear Weapon-Free Zone (SEANFZ).

June 21, 2004: Premier Wen meets with Thai PM Thaksin Shinawatra on the sidelines of the Third Foreign Ministers' Meeting of Asia Cooperation Dialogue; expresses thanks for Bangkok's understanding and support for China on Taiwan, Tibet, and human rights.

June 23, 2004: UN special envoy to Myanmar Razali Ismail says he will seek China's assistance to break the political stalemate in the country when he visits as part of a Malaysian delegation.

June 23, 2004: ASEAN Secretary General Ong Keng Yong says ASEAN and China are likely to miss the first deadline on the ASEAN-China FTA negotiations.

June 23-25, 2004: Vietnam's FM Nguyen Dy Nien pays an official visit to China.

June 24, 2004: Senior Col. Wang Zhongchun, deputy director in Beijing's National Defense University, proposes that China and ASEAN join forces to safeguard maritime security in the region.

June 24, 2004: ASEAN and China will likely miss a 30 June deadline to decide on liberalizing the trade of goods and products, an essential first step in ongoing free trade negotiations. Currently, the agreement is being stalled by ASEAN member countries who are having problems defining the categorization of goods and products. Once completed, the ASEAN- China trade bloc could encompass nearly two billion people and an estimated two trillion dollars of combined GDP by 2010.

June 25, 2004: The 10th Standing Committee of the National People's Congress (NPC) approves the Beibu Gulf demarcation agreement between China and Vietnam.

June 28, 2004: Yunnan province announces annual scholarships to students from Vietnam, Cambodia, Laos, Myanmar, and Thailand to strengthen cooperation with neighboring countries.

June 28, 2004: Sheng Huaren, vice chairman and secretary general of the Standing Committee of the National People's Congress, meets in Beijing with a delegation from the Vietnamese National Assembly Office led by Chairman Bui Ngoc Thanh.

June 30, 2004: China's FM Li attends inauguration ceremony of Philippine President Gloria Macapagal-Arroyo.

China-Taiwan Relations: Deadlocked but Stable

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In his second inaugural address, President Chen Shui-bian explained revised plans for constitutional reform and his desire for cross-Strait dialogue without preconditions. Beijing, which had predictably reiterated its “one China” precondition for talks, criticized Chen’s speech as disguised separatism and threatened to crush Taiwan independence whatever the price. Cross-Strait political relations thus will remain deadlocked, but stable, for the rest of the year as Chen’s Democratic Progressive Party (DPP) focuses on winning a majority in the December Legislative Yuan (LY) election and Beijing delays difficult decisions on how to deal with Chen until it can assess that election outcome.

Chen’s Inaugural Address

In the two months from the March 20 election to his inauguration May 20, President Chen was under immense pressure to lay out the agenda for his second term in ways that took into account the views of different factions within the DPP, former President Lee Teng-hui’s Taiwan Solidarity Union (TSU), the U.S., and Beijing. In the end, Chen chose to focus the inaugural address on domestic political issues. Importantly, in laying out plans for constitutional reform, Chen abandoned his campaign proposal to effect reform through an unconstitutional referendum procedure and instead stated explicitly that reform would be accomplished using the amendment procedures in the current constitution, which require a three-quarters majority in the National Assembly. Chen proposed that the future constitution contain a provision for amendments through referenda. Assuming Chen adheres to the current constitutional procedure – and the pressures to reverse course may increase after the LY election – the super-majority requirement will constrain Chen’s ability to pursue an independence agenda through constitutional reform.

In another important statement, Chen acknowledged that there was no consensus within Taiwan on sovereignty issues and, therefore, he proposed that such issues including the national name, flag, and territorial definition should be excluded from the constitutional reform process. This statement was clearly designed to be reassuring to Chen’s domestic opposition, Washington, and Beijing. Predictably it has been criticized by fundamentalists within the DPP and by the TSU.

However, avoiding sovereignty issues will not be easy if, as is clear, Chen's intention is to write a new constitution rather than to amend the existing one. The inaugural address avoided the term amendment, using most often the terms "constitutional review" and "constitutional reengineering." However, where the English translation intended for American audiences at one point mentions "a new version of the constitution," the Chinese text uses the term "new constitution." Since the inaugural, Chen has made clear at various times, including in an address to graduates of the military academy, that he intends, as stated frequently during the campaign, to complete a "new constitution" by 2006.

Chen also used the inaugural to reiterate his desire for cross-Strait dialogue without preconditions. He made clear that his campaign proposal for a new "peace and stability" framework for cross-Strait relations would be the focus of his efforts to restart cross-Strait dialogue. This proposal was earlier rejected out of hand by Beijing because it did not address the "one China" issue. The proposal is a wish list of things Taipei wants from Beijing – an exchange of representative offices (implying recognition), withdrawal of missiles, and renunciation of the use of force – with nothing offered in exchange of interest to Beijing. Hence, cross-Strait political talks will remain deadlocked. The three links, an issue upon which progress may be possible on a non-political basis, is mentioned in the inaugural only in passing, giving no indication that it will be a priority in the second Chen term.

Washington and Beijing: Contrasting Reactions

After the election, Washington was extremely concerned about what the inaugural speech would say. Assistant Secretary of State for East Asian and Pacific Affairs James Kelly set forth Washington's concerns in remarkably straight-forward terms in congressional testimony on April 21, warning Taipei to deal with constitutional reform cautiously, not to underestimate Beijing's determination, and not to risk Taiwan's prosperity and peace. The administration reportedly was even blunter in private, warning that pursuing an independence agenda would distance Taiwan from the U.S. and risk losing U.S. support. Presidential Office Secretary General Chiou I-jen visited Washington in early May for consultation on the speech. After his departure, administration spokesmen told the press they had not been reassured.

Nevertheless, once briefed on the planned content of the inaugural address, Deputy Secretary of State Richard Armitage commented positively to *Phoenix TV* the day before that the speech would not raise cross-Strait tensions. On May 21, the White House spokesman described the address as "constructive" and subsequently administration spokesmen have praised the address and commented that it provided ideas that could provide a basis for dialogue. Reportedly, Washington was relieved that the address had avoided the most provocative language – for example it did not explicitly mention Chen's "one country on each side" theory – and was pleased that Chen had included some unspecified suggestions that Washington had made. Hence, to encourage Taipei to heed future U.S. advice, Washington chose to respond positively to the speech.

Beijing, which was even more concerned by Chen's campaign proposals and reelection, saw little positive in the address. While acknowledging that some language had not been included, Beijing viewed the address as riddled with separatist ideas, the promotion of Taiwan identity, and Taiwan's quest for international recognition. Beijing remains suspicious of Chen's plans for constitutional reform and, as expected, focused on the fact that Chen had failed again to accept the "one China" principle. The official Taiwan Affairs Office (TAO) commentary on the speech used the metaphor of Chen still "not reining in his horse at the brink of the precipice" – the metaphorical warning sent to the U.S. in 1950 before China intervened in the Korea War.

Beijing's Interim Policy

With no expectation that the inaugural address would be positive, Beijing chose to enunciate its policy in advance. On May 17, the TAO issued a policy statement that was said to reflect the views of the party's central leadership. The statement had a soft side embodied in seven points on which cross-Strait progress could be made if Taipei accepted the "one China" principle and a hard side threatening that Beijing would pay any price if necessary to crush Taiwanese separatism. The statement focused more on deterring separatism than on promoting unification. Jiang's eight points and the "one country two systems" formula, both of which relate to unification, were not mentioned. On June 17, Politburo Standing Committee member Jia Qinglin said explicitly that deterring separatism and preserving peace in the Taiwan Strait are Beijing's current priorities.

The hard aspect of the statement seemed aimed at pan-green leaders in Taipei who believe that internal and external constraints will prevent Beijing from using force against Taiwan regardless of what Taiwan does to achieve *de jure* independence. The harsh rhetoric in the statement appears to be part of Beijing's effort to persuade them of Beijing's willingness to use force if necessary. While the soft aspect of the statement contains moderate formulations that might be useful in cross-Strait dialogue, the expected firm reiteration of the "one China" precondition means that a basis for conducting negotiations does not exist. As such, the statement is not a practical guide for Beijing's policy in the months ahead. Where the policy statement may be useful is domestically within China, where advocates of a harder line on Taiwan and those favoring greater flexibility seem to be contending for influence. The statement gives each side something but appears to postpone real decisions on how to deal with Chen until after the LY elections.

Another indication of the domestic debate on Taiwan policy underway in China was Premier Wen Jiabao's statement in London that China was considering adopting a Unification Law. The current status of this law is uncertain. TAO officials state that they do not have a draft of the law. Its purpose is reportedly two-fold: to deter Taiwan separatism and to deal with the promotion of separatism domestically. What such legislation may contain is a matter of concern in Washington, Hong Kong, Taiwan, and elsewhere. If it contained language establishing timetables or deadlines for unification or

setting conditions for the use of force, the legislation could exacerbate cross-Strait tensions or create new nationalistic pressures on the Beijing leadership.

In late May, the TAO also stated that Taiwan businessmen who support Chen's independence agenda are not welcome in China. Beijing had made similar statements in 2000 after Chen's first election. At that time, the attention to pro-independence businessmen petered out quickly as China's interest in Taiwan investment took precedence. This year, the TAO statement was followed by a front-page *People's Daily* personal attack on Hsu Wen-lung, president of Chi Mei Industries. How far the campaign will go is uncertain. The TAO recently clarified that few businessmen would be affected and that the PRC still actively encourages Taiwanese investment.

Economics

Cross-Strait trade and investment have continued to grow at double digit rates this spring. Taipei's Board of Foreign Trade has reported that cross-Strait trade increased 33.5 percent during January-April 2004. The PRC campaign to moderately cool China's overheated economy does not yet affect the sectors of the Chinese economy in which Taiwan is active. With strong growth in the U.S. and Japan economies, the prospects for the continued expansion of cross-Strait trade and investment appear good.

The dichotomy between the domestically focused Chen administration and Taiwan's globally focused business leadership became more evident. Pan-green leaders are focused on domestic political issues. President Chen's inaugural barely mentions economics; promoting economic growth is the fourth and last of the president's priorities for his second term. The administration did give approval in June for TSMC's investment in an 8-inch wafer plant in China. However, negotiating direct cross-Strait transportation was mentioned only in passing in the inaugural, and many pan-green leaders, deeply skeptical about the effects of increased cross-Strait economic ties, are more interested in the "effective management" than in the "active opening" of cross-Strait trade and investment.

By contrast, Taiwan's business leadership is globally focused and acutely aware of the mutual benefits of closer cross-Strait economic ties. *Business Week's* listing of the 100 leading global information technology companies included 15 companies from Taiwan, including Quanta Computer (3), Hon Hai Precision Industries (4), Acer (25) and TSMC (55) and three PRC companies, headed by China Mobile (12). In May, the Chinese Ministry of Commerce published a list of the 200 largest exporting firms in China: 28 of the 200 were Taiwan affiliates, including the top three export firms, which were the local affiliates of Taiwan's Hon Hai Precision Industries, Quanta Computers, and ASUSTEK Computers. The Taiwan business community has long been the strongest advocate of expanding cross-Strait economic ties. Vincent Siew, the chairman of the cross-Strait Common Market Foundation, authored an article in May calling on the administration to develop a strategy for strengthening Taiwan's global competitiveness, a part of which would be closer cross-Strait economic ties. In May, the Taipei American Chamber of Commerce's annual White Paper stated that Taipei's reluctance to open direct transport links with China is harming the Taiwan economy. AMCHAM leaders have said that in

the past year many U.S. firms in Taiwan have shifted the focus of their operations to the Taiwan domestic market because the absence of direct travel and transport links with China has made it inefficient to run regional operations from offices in Taiwan.

Taiwan's Defense Procurement Issues

On June 2, the Executive Yuan approved the long-anticipated NT\$610.8 billion (\$18.35 billion) 15-year defense supplemental procurement bill and forwarded it to the Legislative Yuan. The supplemental would cover the purchase of Patriot PAC III missiles, *P3-C* aircraft, and eight submarines, all systems approved by the Bush administration in 2001. The supplemental predictably ran into a storm of opposition from members of the DPP and its TSU allies, from the KMT-PFP opposition, and from a wide range of civic leaders. The criticisms were that the prices were too high, that the systems and terms were being dictated by the U.S. rather than by Taiwan's defense needs, and that the proposal was an expensive "insurance policy" being bought to assure Washington's continued support for Taiwan's defense. President Chen has publicly called for passage of the supplemental.

In late June, LY President Wang Jin-pyng led a multi-party LY delegation to the U.S. to discuss the supplemental and review the systems to be purchased. On leaving for Washington, Wang urged the U.S. "not to treat us as rich dupes." The delegation was well received in the U.S., as Washington's main goal is to persuade the LY to approve the supplemental. In meeting the group, Deputy Defense Secretary Paul Wolfowitz reportedly said that the U.S. could not take Taiwan's defense seriously if Taiwan did not demonstrate that it took its own defense seriously by procuring needed systems. On returning to Taipei, Wang told the press that the fate of the supplemental depended upon new price quotations from the U.S. Others in the group acknowledged that Taiwan would need to change its insistence that six of the eight submarines be built in Taiwan if that aspect of the package was to go ahead.

A few days before the EY approval of the defense procurement supplemental, the U.S. Department of Defense released its annual report on PRC military power. The report documented the improvement of PLA capabilities and concluded, "The cross-Strait balance of power is steadily shifting in China's favor." The report was critical of Taiwan's declining defense spending and opined that the level of defense spending would be the best indicator of Taiwan's commitment to addressing its own defense requirements.

In discussing Taiwan's options for countering PRC capabilities, the report states that the Taiwan Air Force already has the ability to conduct air strikes against China and says that proponents of strikes against "urban population" or "high-value targets, such as the Three Gorges Dam" believe that the credible threat to conduct such operations will deter PRC military coercion. This inflammatory language was offered without any qualifying comments, leaving the impression that the report's authors at least sympathize with such reasoning. Given the overall U.S. interest in deterring military solutions to Taiwan Strait

issues, it is irresponsible and contrary to U.S. interests to include such speculation in an official U.S. government document.

Recently, Beijing has been expressing increasing concern about U.S. military ties with Taiwan. In its internal debate, the view is reportedly growing that Chen's separatist agenda will eventually force Beijing into a military response. PRC officials have repeatedly expressed concern that U.S. military ties with Taiwan are encouraging President Chen's separatist agenda or, at a minimum, are conveying mixed messages that contradict Washington's stated opposition to independence. Against this background, the DOD report was interpreted by some Beijing scholars as U.S. encouragement of Taiwanese attacks on China and fed an increasingly jingoistic tone of some media commentary.

Policy Implications

The fundamental differences between Beijing and the Chen administration over the "one China" principle will prevent the resumption of political dialogue for at least the remainder of this year. Similarly, there is no evidence that President Chen will invest the political capital needed to overcome resistance within the DPP to opening talks on cross-Strait transportation issues this year. Hence, cross-Strait issues will remain deadlocked. Nevertheless, while concern continues about whether the constitutional reform process will increase tensions next year, the situation in the Strait will likely remain stable in the coming months. After the December LY election, Beijing will need to thoroughly reassess its approach to Taiwan issues, and there is evidence of considerable debate within China on how to deal with a DPP government that will likely be strengthened in those elections.

Chronology of China-Taiwan Relations April-June, 2004

April 1, 2004: In *Wall Street Journal* interview, President Chen calls for more active U.S. role in promoting cross-Strait dialogue.

April 1, 2004: Pentagon announces sale of \$1.8 billion Pave Paws radar to Taiwan.

April 2, 2004: Taiwan court rules President Chen and opposition leader Lien Chan must agree to terms for a recount of the presidential election ballots.

April 3, 2004: Chen and Lien agree to presidential ballot recount.

April 7, 2004: NPC Standing Committee releases interpretation of Hong Kong Basic Law.

April 7, 2004: American Institute in Taiwan Chairperson Theresa Shaheen submits resignation.

April 8, 2004: Mainland Affairs Council and Democratic Progressive Party spokespersons denounce PRC for constraining Hong Kong's democratic development.

April 12, 2004: Mark Chen Tan Sun named Taipei's foreign minister.

April 13, 2004: Vice President Cheney in Beijing; host Vice President Zeng Qinghong urges Washington not to send wrong signals to Taiwan separatists.

April 15, 2004: Taiwan Affairs Office's Li Weiyi blasts Chen's plan for new constitution as a timetable for independence.

April 21, 2004: Assistant Secretary James Kelly gives congressional testimony on Taiwan policy.

April 23, 2004: DoD Deputy Assistant Secretary Richard Lawless testifies on PRC military threat.

April 27, 2004: Presidential Office Secretary General Chiou I-jen in Washington for consultations on inaugural.

April 27, 2004: NPC Standing Committee issues decision denying Hong Kong direct elections in 2007.

April 30, 2004: Executive Yuan (EY) gives TSMC approval to export 8-inch wafer plant to PRC.

May 2, 2004: First PRC naval flotilla visits Hong Kong.

May 11, 2004: In London, PRC Premier Wen Jiabao says PRC considering a Unification Law.

May 14, 2004: *Far Eastern Economic Review* reports senior U.S. official has given Taipei a stern warning concerning inaugural.

May 14, 2004: Taipei announces its strongest growth in over three years during the first quarter of 2004, due to strengthened domestic demand and a rapid rise in exports; GDP expanded 6.28 percent over last year.

May 17, 2004: TAO issues policy statement on Taiwan.

May 17, 2004: World Health Organization again votes not to consider Taiwan's application for observer status; U.S. and Japan vote for consideration.

May 18, 2004: U.S. delegation led by Rep. Leach arrives in Taipei for Chen inaugural.

May 20, 2004: President Chen's inauguration and second inaugural address.

May 21, 2004: White House spokesman describes Chen's address as "constructive." Chinese state media rejects Chen's conciliatory remarks as "a sham" and denounces Chen as a "slippery politician."

May 24, 2004: TAO spokesman criticizes Chen's address as disguised separatism; says PRC will "pay any price" to block independence.

May 24, 2004: TAO spokesman says pro-independence Taiwan businessmen not welcome.

May 28, 2004: *People's Daily* article attacks Taiwan businessman Hsu Wen-lung.

May 28, 2004: Vice President Lu transits Las Vegas.

May 29, 2004: DoD releases annual report on PRC military power.

May 31, 2004: Taipei Amcham White Paper says delay in direct links hurting Taiwan.

June 2, 2004: EY sends \$18.35 billion defense supplemental bill to Legislative Yuan.

June 3, 2004: Presidential Office tells Taipei press Brig. Gen. Allen will visit Taiwan in July.

June 7, 2004: Vice President Lu transits San Francisco.

June 7, 2004: State Dept. spokesman says U.S. supports Taiwan membership in OAS.

June 11, 2004: *Taiwan Daily* editorial attacks AIT representative Douglas Paal as Beijing mouthpiece.

June 12, 2004: *Liberty Times* editorial attacks AIT's Paal as a pro-Beijing representative.

June 14-19, 2004: Taiwan military holds six-day computer-simulated war game of possible Chinese invasion. According to the defense ministry approximately 60 U.S. military officers and experts monitored the exercise.

June 15, 2004: TAO spokesman says PRC still encourages Taiwan investment.

June 16, 2004: U.S.-China Economic and Security Commission Annual Report released.

June 17, 2004: Jia Qinglin of PRC Politburo Standing Committee says curbing separatism is highest priority.

June 20, 2004: LY delegation led by Wang Jin-pyng in Hawaii; visits *Aegis*-equipped frigate; tells press U.S. considering sale of *Aegis* system.

June 21, 2004: President Chen awards medal to former AIT Chairperson Shaheen.

June 21, 2004: People First Party Chair James Soong ridicules Chen for giving medal to an “arms broker.”

June 21, 2004: Taiwan announces it will hold its annual “*Han Kuang*” (“*Chinese Glory*”) exercises in August to test Taiwan’s combat readiness.

June 22, 2004: Wang’s LY delegation meets Defense Deputy Secretary Paul Wolfowitz.

June 24, 2004: FM Mark Chen visits New York.

June 28, 2004: FM Chen in Rome.

June 29, 2004: Wang Jin-pyng says fate of defense supplemental hinges on new price quotes from U.S.

North Korea – South Korea Relations: The Real Deal?

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After the relative lull of the previous two quarters, spring brought new growth to inter-Korean relations, with a spate of meetings in many fields. In particular, South Korea finally obtained its long-sought goal of direct North-South military talks at general level, who in turn swiftly agreed to communications steps to prevent naval clashes like those of 1999 and 2002. In a highly symbolic move, on June 15 – the fourth anniversary of the June 2000 Pyongyang summit – each side turned off its propaganda loudspeakers, terminating decades of noise pollution across the Demilitarized Zone (DMZ).

Multilaterally too, Seoul played a key role in the latest, and most hopeful so far, six-party nuclear talks in Beijing. For the first time, the U.S. presented a detailed and phased plan, including incentives for Pyongyang – based on a South Korean draft. Yet many obstacles remain on this front. Bilaterally too, while North-South progress looks encouraging, the exact mix of symbolism and substance in this process remains arguable. Nonetheless Seoul seems set on sticking with Sunshine, whatever might transpire on other fronts.

Talks are Now Institutionalized

Four years after the June 2000 Pyongyang summit, itself much celebrated this quarter, a pattern in Peninsula relations is emerging. Especially in the past two years, since North Korea abandoned its perverse practice of cancelling inter-Korean meetings to signal its displeasure with the U.S., North-South dialogue has become relatively institutionalized or even routinized. By and large, each quarter brings ministerial talks (the highest level of normal dialogue) and a meeting on economic exchange and cooperation; these alternate between Seoul and Pyongyang. In addition there are usually several lower-level working talks on detailed matters, like cross-border road and rail links or the planned Kaesong industrial zone. These are often held near the border – at Kaesong or the Mt. Kumgang resort in the North, Paju or Mt. Sorak in the South – with the other side crossing the DMZ to participate: a prospect unimaginable until recently. There is usually one family reunion per quarter at Mt. Kumgang, arranged by the two sides' Red Cross bodies. Also, Southern delegations of various kinds – academic, civic, aid-giving – now regularly visit the North, but are rarely able to cross the border directly. Traffic in the other direction is much less.

The Nuclear Shadow

Those (especially in Washington, but some in Seoul too) who look askance at all this new bonhomie have two fears: in general, mistrust of Kim Jong-il, and in particular, the still unresolved nuclear crisis. The Sunshine riposte – now rebranded as the “policy for peace and prosperity” under President Roh Moo-hyun, who has bounced back from the attempt to impeach him and is now buoyed since April’s elections by the parliamentary majority that eluded his predecessor Kim Dae-jung – has several strands. First, inter-Korean ties are a special case, due to national division. Second, South Korea is best placed to lure the North out of its shell. Third, far from being soft on nukes, Seoul takes every opportunity to harangue Pyongyang on this issue (while wishing the U.S. would meet them halfway).

Indeed, the 14th ministerial talks, held in Pyongyang on May 4-7, were reportedly much taken up by such arguments. They almost broke up without agreement, except to meet again in August. The ROK team, headed by Unification Minister Jeong Se-hyun, got no joy on its idea that each side establish permanent liaison offices in each other’s capitals. He faced a new counterpart: Kwon Ho-ung, in his 40s, is younger than Kim Ryong-song whom he replaces, but like him bears the rather opaque title of “Cabinet councillor.”

Seoul Stands its Ground

A longstanding major goal in South Korea’s *Nordpolitik* is to hold inter-Korean military talks, regularly and at senior level. This reflects both a recognition that other cooperation is vulnerable, if not meaningless, while both states remain officially at war and tensions persist, and suspicion that Pyongyang still regards the U.S. as its sole proper counterpart for serious security discussions, implying that Seoul is a mere puppet. A more immediate aim is to prevent any more fatal naval clashes like those in 1999 and 2002, after DPRK crab fishing boats crossed the Northern Limit Line (NLL) in the Yellow (West) Sea.

Nominally, North Korea accepted the South’s demand for bilateral military talks already at the 13th ministerial meeting back in February – but nothing happened. In May, Seoul pressed again, while Pyongyang riposted by reverting to its hoary old demand for an end to joint ROK-U.S. military exercises. The South stood its ground through four gruelling days, and was ready to leave empty-handed. At the last minute, in an unscheduled extra session, Kwon informed Jeong that “our military have agreed” to security talks. (Some reports suggest this was an 11th-hour change of heart by Kim Jong-il personally.)

Peace in our Time?

At all events, thereafter matters moved swiftly. The first ever general-level inter-Korean military talks were held at Mt. Kumgang on May 26. In view of its mainly maritime initial agenda, South Korea was represented by a navy man, Commodore Pak Jong-hwa; his Northern counterpart was a Korean People’s Army (KPA) major general, An Ik-san.

By normal inter-Korean standards, the two military men did brisk business. After this first one-day meeting, a return match was held a week later over two days at a Southern

resort near the border, Mt. Sorak (in the same mountain range as Mt. Kumgang). This duly produced the deal Seoul had sought. The North agreed to regular naval contacts, via a military hotline and a shared radio frequency, ostensibly to monitor Chinese fishing boats intruding on Korean waters. (Because North Korea officially does not recognize the NLL, the UN-imposed de facto sea border for the past half-century since the 1953 Armistice, one would not expect inter-Korean cross-border intrusions to be formally mentioned; but a hotline is a hotline, and the two sides have agreed not to square up to each other.)

Since then, with the crab season well under way, peace has held. But it has not all been plain sailing. On the very day the agreement was signed, the North's *Korean Central News Agency* (KCNA) accused ROK ships of violating DPRK waters, reaffirmed non-recognition of the NLL, and warned the South not to "run riot." Thereafter Pyongyang mostly failed to pick up the phone, answering only three of 14 of Seoul's daily calls. On June 30, when a small Northern fishing boat crossed the NLL (blaming fog), the ROK Navy tried three times to contact their KPA counterparts, but got no reply. So they gave the trespassers a compass, and escorted them safely back to their side. It could be worse.

Speakers are Silenced

In return for Seoul's naval deal, Pyongyang demanded an end to the war of words at the DMZ. For decades each side has blasted propaganda at the other all along the front, but at midnight on June 15, as agreed, the speakers fell silent. Their parting messages showed the gulf that still remains. The North declared that "from June 15 all kinds of propaganda activities within the DMZ area are being stopped, which is entirely the shining result of General Kim Jong-il's great unification ideology and guidance." The South just said: "We believe ... that we have faithfully served you who work near the Military Demarcation Line in our effort to open you up to the outside world by broadcasting various useful information and delightful music since we launched our program in 1962."

The next step, which has already begun, is to dismantle the whole apparatus of speakers and signboards by Aug. 15, a holiday in both Koreas, marking liberation from Japanese rule in 1945. While nobody mourns the raucous din at the DMZ, one may regret the end of the news reports – far less propagandist, latterly, than in the high Cold War era – with which South Korea had sought to lighten the North's darkness. There are also some nasty side-effects. Pyongyang specifically sought the closure of a new internet radio station in Seoul, run on a shoestring by ex-DPRK defectors for an hour a day. Seoul did not yield, but "Free NK" has suffered both verbal and physical threats, and faces eviction. Yet few South Koreans seem perturbed by this. Though the ROK is now ruled by those who boast of their own struggle against dictatorship in the 1980s, it would appear that free speech must be sacrificed to inter-regime amity on the Peninsula. Is the game worth the candle?

Six-Party Talks: the U.S. Picks up a Seoul Ball, at last

Multilaterally, the six-party process plods on. A third round of full-dress talks was held in Beijing on June 23-26, preceded by working groups (which also met, to no visible effect, on May 12-15). Defying pessimistic prior expectations, the U.S. for the first time tendered a detailed seven-page phased proposal for North Korean nuclear disarmament, including incentives such as energy aid starting with the first phase. While the full plan was not published, it was said to be based on an ROK draft. South Korea, like China, Russia, and latterly even Japan, had pressed the U.S. to go beyond its usual mantra of simply demanding CVID (complete, verifiable, irreversible dismantlement of nuclear programs).

While large gaps remain, North Korea – which also tabled its own proposals, typically demanding to get much before giving little – did not reject this out of hand. During the four-day meeting the chief ROK delegate, Lee Soo-hyuck, had several unofficial talks with his DPRK equivalent, Kim Kye-gwan, including over dinner. They seemed to hit it off. According to Lee, Kim thanked him for his efforts, “even pressing my hands hard.” In Washington, any gratitude (if only at State) for such mediation is tempered by a sense that Seoul has its own agenda, which it will pursue even absent serious nuclear progress.

Business Beckons

National sentiment aside, at least part of that agenda is economic. With China snapping at its heels as a competitor, South Korea is keen to fight back using cheap Northern labor. Even Bank of Korea (BOK) Gov. Park Seung – a man, like most of his ilk, not given to sentimentality – now calls for North Korea to open to Southern firms as a matter of urgency. Hitherto a suspicious Pyongyang has been painfully slow to respond.

Hence the ninth meeting of the North-South Committee for the Promotion of Economic Cooperation, held in Pyongyang from June 2-5, saw Seoul pressing for faster progress. A seven-point statement agreed to open the pilot phase of the Kaesong Industrial Zone (KIZ) – the key project – this year, using electricity and telecoms from the ROK; a management office for KIZ will also be set up. Cross-border links are vital for this project: two trans-DMZ roads are to due open in October (subject to military guarantee), as are trial train runs, with full rail service to follow next year. Similar deadlines have slipped before.

As ever, there was not a little reiteration of matters already agreed on paper previously. An economic cooperation office should open “as soon as possible,” and a sea transport agreement, already signed and exchanged, should be implemented. No such delay for aid: as in the past, South Korea gave the North 400,000 tons of rice, supposedly as a loan.

Full Steam Ahead?

The maritime agreement shows the snail's pace of progress. Adopted back in September 2001, with four rounds of working talks since then, this classifies inter-Korean sea routes as domestic, opens seven new ports on each side to the other's ships, and pledges equal treatment for each others' vessels plus cooperation in case of accidents. Once effected, it will create a legal framework for direct sea trade, instead of depending on third-country-flagged ships as hitherto. Yet this still awaits ratification by each side's Parliament. Why?

Tragedy Breeds Charity

The huge railway explosion on April 22 at Ryongchon, near the DPRK-China border, led through tragedy – the official death toll was 154, plus 1,300 injured – to some progress in North Korea's opening to the wider world, including South Korea. Seoul at once offered to send an aid convoy, but Pyongyang rejected this, insisting that ROK relief goods come by sea. The first boat did not reach Nampo until April 29. But a day later the DPRK let an ROK cargo plane fly in with 70 tons of aid, in the first ever inter-Korean direct flight for humanitarian purposes. Not until May 7 did they permit an overland convoy, which had to unload just across the border in Kaesong. By this stage, the cargo was equipment and materials to rebuild schools and other destroyed facilities. (In June, a visiting ROK Red Cross delegation photographed a large gleaming yellow Hyundai excavator amid the ruins, watched by North Koreans wielding only shovels.) Useful as this is, Pyongyang's initial delay meant that the chance to save burn victims – for whom time is crucial – was lost.

Summit Anniversary: Time to Reflect

June 15, the fourth anniversary of 2000's first ever North-South summit in Pyongyang, was duly celebrated on either side of the DMZ. It suits both regimes to treat this as the start of détente, even though that elides a whole long history of earlier efforts, similarly hailed in their day as breakthroughs: 1972's joint statement and subsequent Red Cross talks; 1984's flood aid (from North to South), ushering in political and economic talks; and above all, the 1990-92 premiers' meetings that led to accords on wide cooperation and denuclearization, neither ever implemented (last year Pyongyang formally repudiated the latter). However one evaluates the admittedly unprecedented progress made since the 2000 summit, no serious reckoning can simply suppress this earlier history of false starts.

Might Kim Jong-il Visit, at last?

To mark this anniversary, a rare senior Northern emissary visited Seoul in mid-June. Ri Jong-hyok's obscure title – vice chairman of the Asia-Pacific Peace Committee (APPC) – belies his role as a key confidant of Kim Jong-il. Since the death last year of the APPC's chairman, the veteran diplomat Kim Yong-sun, Ri looks to have succeeded Kim as North Korea's point man on relations with the South. A former head of DPRK missions in Paris (UNESCO) and Rome (FAO), fluent in French and German, Ri is one of Pyongyang's most effective and urbane envoys. (This writer met him several times in Europe in the 1980s.)

In Seoul, Ri met President Roh Moo-hyun as well as Kim Dae-jung. He carried a personal message from Kim Jong-il, prompting speculation that the “Dear Leader” may at last fulfil his promised but long-delayed return visit southward – as South Korea’s ruling Uri Party appealed to him to do on July 1. What the U.S. would think of that, with the nuclear issue still unsettled, is unclear, but it would no doubt be pitched as a mediation effort by Seoul. In any case, so far this remains mere rumor.

Keeping Score

South Korea’s Unification Ministry used the fourth anniversary of the summit to sum up and quantify progress since then. Including the summit, the past four years have seen 111 official inter-Korean meetings: 47 economic, 27 military (but usually about cross-border road and rail links), 19 political, and 18 “humanitarian and athletic.” Visitors from South to North – excluding Hyundai’s tours to Mt. Kumgang, which have taken some 680,000 visitors since 1998 – have more than doubled, from 7,280 in 2000 to 15,280 in 2003. Traffic in the other direction has been smaller, predictably, and more zig-zag: plunging from 706 in 2000 to 191 in 2001, jumping to 1,052 in 2002, then back to 1,023 last year.

It is not clear if the above figures include the nine rounds of brief reunions of separated families, initially held in Seoul and Pyongyang, until North Korea insisted they all take place at Mt. Kumgang. Participants so far from both sides have totalled 9,020, and again progress has been erratic: 2,394 met in 2000, 1,242 in 2001, 1,724 in 2002, 2,691 in 2003 and only 969 so far in 2004. At this rate, most of the elderly involved will never meet their kin; out of 120,000-odd South Koreans who first applied, 20,000 have since died.

Inter-Korean trade has risen too, eventually. From \$578 million in 2000 it in fact fell for the next two years, before rising to \$724 million in 2003. This year, January-May’s total of \$256 million is up 22 percent on 2003. Vital to Pyongyang (especially as much is really aid, not trade), this is peanuts to Seoul, and tiny by today’s regional standards; contrast the huge flows between China and Taiwan, whose trade began at the same time in the 1980s.

Reunions: Postponed to Punish?

Unusually, the past quarter saw no reunions of separated families. In May, the Unification Ministry website predicted that a 10th round of these would be held around June 15, to mark the summit anniversary; but none transpired. (This has since been fixed for July.)

Maybe Pyongyang was punishing Seoul for a gaffe at the last round, held from March 29 through April 3. On April 1, a junior ROK official, on his first visit to the North, joked to a Northern counterpart that one of the giant slogans carved into the rock at Mt. Kumgang, which referred to Kim Jong-il as “a great commander sent from heaven,” could also if in Chinese characters imply that the “Dear Leader” was illegitimate. Thus might one banter in Seoul, but no one had briefed young Mr. Lee about the risks of *lèse-majesté* in the

North – even on April Fool’s day. The North immediately suspended the reunions, resuming only for a brief two hours on April 3, the final day, after Seoul sent a written apology.

Pro-Am Switch at Unification Ministry

While amateurism in the ranks is undesirable, at the top it is surely unthinkable. And yet, as the quarter ended, South Korea changed its unification minister. Jeong Se-hyun, whose whole career was in this field, was the sole ministerial survivor from the Kim Dae-jung administration. By any standards he has done a sound job. Yet he was ousted in favor of a parvenu, albeit an important and ambitious one. Chung Dong-young used to chair the ruling Uri Party; he was a TV anchor before entering politics, and is seen as a presidential contender in 2007. President Roh’s June 30 mini-reshuffle replaced two other ministers too; the main aim seemingly to promote Uri grandees. Having a key Roh confidant in this post is meant to impress Pyongyang, but Jeong’s experience and expertise will be missed. (At a lunch in the U.S. just before his promotion, Chung reportedly denied that the DPRK has a nuclear weapons program, and looked blank at mention of the 1991 North-South denuclearization accord. This is the kind of thing that rings alarm bells in Washington.)

Kaesong Zone: Ground Broken, Again

Also on June 30, yet another ground-breaking was held for the Kaesong Industrial Zone (KIZ). 350 dignitaries from both sides took part. This time, the ceremony was to launch the first phase of the project: a mini-complex of 92,400 square meters, due for completion in November. This will house 15 small ROK firms, employing 5,000 DPRK workers at a monthly wage of \$50 plus \$7.50 welfare costs, and undercutting China. The main first phase of the KIZ, covering 2.31 million sq. m, is scheduled to open at the end of 2006. Much is riding on this, as small ROK firms in particular seek an alternative to shifting to China.

Yet much remains to be done at Kaesong. An investment pact is needed to dispel worries, including over security. Free entry and exit have yet to be guaranteed. Above all, much of the infrastructure – transport, power, and communications – has yet to be built. As a new round of working talks on cross-border road and rail links began at Mt. Kumgang on June 30, it was noted that after four years (and much ROK aid) the Northern side of these links remains incomplete, while the South’s is ready to go. The October deadline will be a test of how serious Pyongyang truly is about inter-Korean business and other cooperation.

Marching as One

Talks in Beijing between the two Koreas’ Olympic committees, which Seoul called “a huge success in a very friendly mood,” agreed on June 24 that in the opening ceremony for the Athens Olympics on Aug. 13, the two Koreas will march together, behind a flag of the Peninsula and to the strains of the folksong “Arirang” instead of their own national anthems. They did all this at Sydney in 2000 and at subsequent sports meetings in Pusan and Taegu, plus Aomori in Japan. This time, however, the full teams – some 400 from the

ROK and 70 from the DPRK – will participate. In Sydney, numbers were equal, excluding most of the Southern athletes – which did not improve warm compatriotic sentiments.

Such symbolism is easy. More challenging would be to compete as a single team, which is said to be under discussion for the 2008 Beijing games. Yet it already happened over a decade ago, at two events in 1991: the world youth soccer championships in Portugal, and the world table tennis championships in Japan – where a pair from North and South won the women’s doubles. Even in relatively uncontentious areas like sport, inter-Korean progress is not merely plodding but is often a case of one step forward, two steps back.

A Flurry of Diplomacy

On July 1 the two Koreas’ foreign ministers met at the ASEAN Regional Forum (ARF) in Jakarta. As on a previous such meeting at the ARF in 2000, they issued a joint statement: pledging support for the UN, the six-party process, the June 15, 2000 joint declaration and other worthy causes. Reportedly, the ROK’s Ban Ki-moon also passed the DPRK’s Paek Nam-sun an invitation for Kim Jong-il to attend the Asia-Pacific Economic Cooperation (APEC) summit, to be held in Pusan in November 2005. Ban proposed too that the two Koreas install a permanent channel for direct diplomatic dialogue, beyond the existing hotline at the Unification Ministry. Paek’s response is not known: his is a decorative role, the heavy hitters being his nominal deputies, vice ministers Kang Sok-ju (who negotiated the 1994 U.S.-DPRK Agreed Framework) and Kim Kye-gwan (chief delegate to the six-party talks).

Even fixing this tête-à-tête between Ban and Paek had to be done indirectly, via UN and Indonesian channels. Paek went on to meet briefly over coffee with the U.S. Secretary of State Colin Powell; again, they had met thus at a previous ARF session. After the ARF, Russian Foreign Minister Sergei Lavrov flew to Seoul for talks with President Roh, then on to Pyongyang where he was expected to meet Kim Jong-il. There was speculation in Seoul that he may have a message for the “Dear Leader”, although surely these days the two Koreas have sufficient channels for direct contact to no longer need foreign go-betweens.

The GNP Ventures North

Back in 1985, in one of several earlier rounds of inter-Korean dialogue now consigned in Seoul to prehistory, there were contacts to arrange mutual visits by parliamentarians. This kind of political exchange is one dimension oddly absent from the otherwise multilayered post-2000 mix. On June 30, the floor leader of South Korea’s ruling Uri Party suggested a bipartisan trip to Pyongyang by leaders of Uri and the conservative Grand National Party (GNP), the main opposition, which could lead to a North-South parliamentary meeting.

But the GNP is not waiting for Uri's say-so. On July 2, 29 of its 121 assembly members headed North for the weekend: not to Pyongyang but Mt. Kumgang, where they planned to commemorate the July 4, 1972 Declaration, the first ever inter-Korean joint statement, now largely ignored. They had hoped to meet DPRK officials, but Pyongyang – which regularly blasts the GNP as traitors – declined. The new mood in Seoul puts the GNP in a quandary: to the young in particular, anticommunism is just so last century. Some think the party must adapt, but diehards resist this. The GNP's leader, Park Geun-hye, has it both ways: the daughter of dictator Park Chung-hee, president from 1961 to 1979, she has also – unlike President Roh – visited Pyongyang and dined *à deux* with Kim Jong-il.

Party on

Meanwhile at Mt. Kumgang, the GNP group joined a 1,000-strong party to celebrate the opening of a hotel refurbished by Hyundai. For the first time North Korea now allows its citizens to work there; hitherto Hyundai had to hire Chinese-Koreans. After five years of losses, business is picking up: over 65,000 visited in January-May this year, compared to 77,683 for the whole of 2003. The Mt. Kumgang beach now has powerboats, water skiing, and jet skiing, while the hotel will soon offer karaoke, a night club, and massage. Its Hyundai manager noted how much more relaxed the North has become. Hyundai Asan's president Kim Yoon-gyu lauded all this as “not simply a leisure business but a platform for increased economic exchanges and trust between the two Koreas.”

One of the GNP visitors, Rep. Jeon Jae-hee, added that “we remain watchful on security issues, but we believe that strengthened economic ties and a greater exchange of people between the two sides are essential to make the nation a major economic force in North-east Asia.” For the GNP's youngest lawmaker, 33-year old Kim Hee-jung, “We belong to the generation of reunification, not that of confrontation.” Such, in 2004, are the voices of South Korea's conservative opposition, decried by the “progressive” government as out of date and hardline on the North. As a great prophet said: the times they are a changin'.

Chronology of North Korea - South Korea Relations* **April-June 2004**

April 1, 2004: North Korea denounces Seoul court's conviction of South Korean officials involved in the illegal transfer of money to Pyongyang before the June 2000 summit.

April 1, 2004: North suspends the ninth family reunions at Mt. Kumgang after a Southern official makes a joke about Kim Jong-il. They resume briefly April 3 after Seoul apologizes.

* The author is deeply grateful to those whose chronologies he has liberally plundered to construct this one, especially Tom Tobback's indispensable www.pyongyangsquare.com. Unfortunately the ROK Ministry of Unification (www.unikorea.go.kr) seems not to have updated its useful “Chronicles” lately.

April 6, 2004: ROK Unification Ministry proposes to resume inter-Korean talks in Kaesong. The North had postponed these to protest joint U.S.-ROK military exercises.

April 7, 2004: Hyundai Asan and the parastatal Korea Land Corp. (Koland), co-developers of the Kaesong Industrial Zone, say that the DPRK and ROK have agreed a lease price of \$16 million for the zone's 3.3 sq. kilometers. This includes the cost of demolishing existing facilities.

April 8-10, 2004: The two Koreas agree in Kaesong on trans-DMZ train operations. The 16-clause agreement includes details on operation schedule, wireless communications, and more.

April 14, 2004: Seoul says some 1,600 ROK firms have applied for the first phase of the Kaesong Industrial Zone. There will be room only for 250.

April 15, 2004: UN Human Rights Commission in Geneva passes EU-sponsored resolution on DPRK human rights 28 to 8. South Korea and 15 other countries abstain.

April 15, 2004: Parliamentary elections in South Korea give a narrow majority to new center-left Uri Party, which backs impeached President Roh. Pyongyang hails result.

April 20, 2004: South Korea says it will deliver electricity for the Kaesong Industrial Zone across the DMZ. At a later stage it plans to build a sub-station at Kaesong, with safeguards to prevent the North from diverting power elsewhere.

April 20, 2004: Hyundai Asan president Kim Yoon-kyu says Kim Jong-il wants to build a DPRK Silicon Valley at Mt. Kumgang, hitherto a tourist resort.

April 20-22, 2004: Working-level economic talks, which were suspended by the DPRK, resume in the ROK city of Paju. The agenda includes accounts settlement procedures.

April 21, 2004: ROK Bank of Korea (BOK) values the DPRK's industrial plant in 2000 at 19 trillion Southern won (\$16.45 billion): less than 1 percent of South Korea's. The technology gap varies from 10 years in non-ferrous metals to 30 years in autos and textiles.

April 22, 2004: Huge explosion at Ryongchon, a railway junction near the DPRK-China border. 154 are killed and some 1,300 injured. South Korea offers aid.

April 26, 2004: The ROK Red Cross says the DPRK rejected its offer to send rapid relief goods for Ryongchon overland via the DMZ, insisting instead that they be shipped. The first such ship reaches Nampo on April 29.

April 30, 2004: ROK cargo plane flies to Pyongyang with 70 tons of emergency aid for Ryongchon. This is the first ever inter-Korean direct flight for humanitarian purposes.

May 4-7, 2004: 14th inter-Korean ministerial meeting held in Pyongyang. The sole item agreed is to hold direct military talks, a key ROK demand, and to meet again in August.

May 7, 2004: North Korea finally allows a South Korean aid convoy to cross the DMZ by land. Its cargo of school supplies is handed over to the North in Kaesong.

May 12, 2004: An internet radio station in Seoul critical of the DPRK, run by Northern refugees, reportedly risks eviction after verbal and physical threats accusing its staff of being “unpatriotic.”

May 12-15, 2004: Six-party working group meetings held in Beijing.

May 14, 2004: South Korea’s Constitutional Court dismisses the National Assembly’s motion to impeach President Roh, so reinstating him with immediate effect.

May 21, 2004: The ROK Unification Ministry says the Mt. Kumgang tours made a slight profit in March and April, for the first time ever, as tourist numbers increased to around 16,000 per month.

May 25, 2004: On Buddha’s birthday, South Korea amnesties six of those convicted last year of sending secret payments to Pyongyang before the June 2000 summit.

May 25-31, 2004: Hyundai Asan hosts DPRK economic officials on a trip to special economic zones in Shanghai and Shenzhen, to learn lessons for the soon to open Kaesong Industrial Zone.

May 26, 2004: The first ever inter-Korean general-level military talks are held at Mt. Kumgang. The ROK proposes naval liaison, to avoid clashes; the DPRK calls for an end to propaganda.

May 29, 2004: North Korea announces six extra sets of regulations for the Mt. Kumgang tourist zone, bringing the total to eight. The latest rules cover foreign currency, labor, and advertising. An earlier set dealt with entry, residence and exit procedures, customs, and zone management.

May 31, 2004: Korea Trade-Investment Promotion Agency, the ROK’s trade and investment promotion agency, reports that a Seoul businessman has set up an e-commerce site, NK Mall, to sell DPRK farm produce in South Korea.

June 4, 2004: A second round of senior military talks held at the ROK’s Mt. Sorak; parties agree on steps to avoid sea clashes, including a hotline. They also agree that cross-border propaganda at the DMZ will cease, with all loudspeakers and signboards to be dismantled by Aug. 15. Separately, on June 3 both Korean navies trade accusations of intruding in each others’ waters.

June 3-5, 2004: Ninth inter-Korean economic talks are held in Pyongyang. Agreements include to press on with cross-border roads and make test runs on two trans-DMZ railways in October; to set up a joint agency to run the Kaesong Industrial Park, headed by a South Korean; and for Seoul to “lend” 400,000 tons of rice. A maritime agreement is also signed, but has still to be ratified.

June 4, 2004: South Korean construction company imports 1,000 tons of sand from the North by truck across the DMZ, the first time any imports have been allowed overland.

June 5, 2004: Koland selects the first 15 firms to set up in Kaesong Industrial Zone. They include a watchmaker, an apparel firm, and a kitchen and bath fixture manufacturer. Criteria for selection included financial soundness, labor-intensivity, and small scale.

June 8, 2004: The two Koreas’ Red Cross bodies agree to hold 10th round of family reunions July 11-16.

June 10-12, 2004: Working-level military talks on the recent agreement are held at Kaesong.

June 14, 2004: The ROK and DPRK navies communicate by wireless for the first time since the 1953 Armistice, in five areas near the Northern Limit Line (NLL), using standard international radio frequencies (156.80 and 156.60 MHz).

June 15, 2004: Propaganda loudspeakers on both sides of DMZ are switched off, as agreed.

June 15, 2004: A 7-member DPRK delegation visits Seoul for the fourth anniversary of the June 2000 Pyongyang summit. Its head, Ri Jong-hyok, brings a message to President Roh from Kim Jong-il, prompting rumors that he may visit Seoul. A large-scale “Meeting of our Nation” is held in the ROK port of Incheon, uniting civic groups from both Koreas.

June 15, 2004: For the first time, the ROK and DPRK navies share information about Chinese vessels fishing illegally in Korean waters in the West Sea (Yellow Sea).

June 23-24: Meeting in Beijing, ROK, and DPRK Olympic committees agree that both sides’ athletes will march together, with a neutral flag and anthem, at the opening ceremony for the Athens Olympics in August; but they will compete separately. All this is as per Sydney in 2000.

June 23-26, 2004: A third round of full six-party talks on the North Korean nuclear issue is held in Beijing, preceded by working talks on June 21-22.

June 24-25, 2004: A second-round working-level consultative meeting on construction of the Kaesong Industrial Zone is held in Kaesong in the DPRK. At the same time, a meeting of the two sides’ foreign trade banks initials an agreement on clearing payments.

June 26, 2004: Both Korea's central bank chiefs, Park Seung (ROK) and Kim Wan-soo (DPRK), meet for the first time in Basel at the Bank for International Settlements (BIS) annual assembly. Park had urged the BIS to invite North Korea to this meeting.

June 30, 2004: A ground-breaking ceremony is held at the Kaesong Industrial Zone for the first pilot phase of the project. 350 dignitaries from both sides attend.

June 30, 2004: In a mini-reshuffle in Seoul, Chung Dong-young, ex-head of ruling Uri Party, is appointed unification minister, replacing Jeong Se-hyun who has held the post for two years.

June 30, 2004: The floor leader of South Korea's ruling Uri Party suggests a bipartisan visit to Pyongyang by leaders of Uri and Grand National Party (GNP), the conservative main opposition, which could lead to a North-South parliamentary meeting.

June 30-July 2, 2004: Working talks on road and rail links are held at Mt. Kumgang.

China-Korea Relations:

Mr. Kim Goes to Beijing . . . and More Six-Party Talks

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The wheels of dialogue continue to spin between China and the Korean Peninsula, thanks to Beijing's generous quarterly hospitality to participants in the six-party talks. China's efforts kindly assure that we at *Comparative Connections* always have something to write. The talks occurred on schedule following assurances of North Korea's top leader himself during his visit to Beijing that the talks could be a desirable vehicle for addressing the dispute over North Korea's nuclear weapons program. Kim Jong-il's third visit in four years to Beijing breathed new life into the dialogue (combined with his consultations with Prime Minister Koizumi Junichiro in Pyongyang) and provided at least some impetus for another round of talks – and an actual U.S. proposal to settle the crisis – during the last week in June. Beijing's shuttle diplomacy with Pyongyang and Washington has yielded enough progress to say that diplomacy has not failed yet. Meanwhile, the protracted nuclear crisis remains the primary focal point of China's diplomacy toward the Korean Peninsula.

Aside from six-party talks, the stellar growth of the China-South Korean economic relationship has slowed as Beijing tries to rein in its own economy, inducing the first “China shock” in the Korean equity market and underscoring Korea's dependence on exports to China as the primary driver for the country's current economic growth. The usual negative aspects of the relationship – refugees, spoiled food imports, cross-Strait tensions – were also on display this quarter. There are an increasing number of regional economic and other consultations between China, Japan, and South Korea in various forums – from the Asian Development Bank, to energy security cooperation, to a gathering of foreign ministers. These contacts – quite aside from South Korea's own vision of itself as a regional hub in Northeast Asia – suggest potentially significant changes are in the works that may open up new forms of regional cooperation in Northeast Asia.

Beijing's Five-Star Hospitality

Any international visit by Kim Jong-il draws great curiosity from North Korea watchers. This visit drew particular interest, coming as it did in the midst of the protracted North Korean nuclear crisis. Coincidentally, Kim's visit to Beijing followed that of U.S. Vice President Dick Cheney by a week, adding to prospects that Kim could receive a clear understanding of U.S. intentions and level of commitment to resolving the North Korean nuclear issue. Despite the usual secrecy surrounding the visit, it has become increasingly

difficult for Beijing to keep the wraps on such visits; Kim was filmed in Beijing from a distance by South Korean TV cameras and the government officially announced the visit as soon as Kim left Beijing. In fact, the biggest surprise of the visit came on the day of Kim's return to Pyongyang in the form of a major explosion at the town of Ryongchon on the train route to Pyongyang, a humanitarian disaster that occasioned a flood of international humanitarian aid – and a flood of thus far unsubstantiated speculation as to whether the blast was accidental or intended for Kim Jong-il.

Kim's visit to Beijing provided his Chinese hosts with another opportunity to affirm their commitment as host of the six-party talks to the objective of maintaining a nuclear-free Korean Peninsula. There was no official announcement of additional aid from the PRC to the DPRK during this meeting, but Kim Jong-il's attention to official relations with the PRC over the past year shows that he is well aware of the DPRK's dependence on China's largesse for the survival and prosperity of his regime.

In meetings with PRC President Hu Jintao and other top Chinese leaders, Kim affirmed that he has strong interest and confidence in the six-party process as a mechanism for resolving the crisis and considers settlement of the nuclear issue as a high priority, pushing a "freeze for compensation" formula as the basis for further discussions. Although this formula falls far short of U.S. demands, it provided new momentum to the six-party talks. Kim maintained that he wants to have contacts with the U.S. side in order to reach a mutually satisfactory understanding, but that he still has concerns about the lack of mutual trust in the U.S.-DPRK relationship.

In combination with Kim's May meeting in Pyongyang with Japan's Prime Minister Koizumi (see "Engagement from Strength," Victor Cha's chapter on Japan-Korea relations in this issue), Kim Jong-il's talks in Beijing provided concrete data points for directly assessing Kim's intentions. One result of these data points is that it influenced the U.S. to provide a more concrete offer to North Korea as part of the third round of six-party talks held at the end of June. The U.S. presented a seven-page, three-stage offer to North Korea detailing some benefits that North Korea could expect from its good behavior. The process would begin with a three-month period during which North Korea would freeze its nuclear program and allow IAEA inspectors to return to the country, followed by provision of conventional energy assistance to North Korea, the removal of North Korea from the terrorist list, and other steps toward improved relations, ending with the "comprehensive dismantlement" of North Korea's nuclear weapons program. While making demands for energy supplies sufficient to fuel 2 million KW of energy production in North Korea, Pyongyang cooled its rhetorical blasts toward the U.S. and took the offer back to Pyongyang for further study. The term "CVID" was nowhere in evidence at this round, but U.S. expectations regarding the scope of dismantlement and accompanying verification measures remain "comprehensive."

No deal will go forward without Kim Jong-il's personal involvement behind the scenes, but the Bush administration abhors the prospect of direct contact with North Korea's key decision maker. Thus, the practical effect on the six-party talks is that progress can only be made to the extent that other parties find ways to secure Kim Jong-il's cooperation

behind the scenes. In the absence of a channel for direct contact with Kim, either Beijing enhances its leverage on Kim sufficiently to bring him completely under control and serves as a U.S. proxy to lay down the law on North Korea's nuclear weapons development (a potential tangible demonstration of a new level of trust between Washington and Beijing), or it will be necessary to hear Kim's thinking indirectly through multiple channels. Kim's meeting with Koizumi was useful in this regard, but he will need to step up his diplomacy with other countries if progress is to be made toward easing the North Korean nuclear crisis.

Conversations held with Kim in Beijing have resulted in a slightly revised Chinese assessment of North Korea's commitment to economic reforms. Close observers in Beijing now believe that Kim Jong-il has accepted the necessity of economic opening, including allowing some Chinese-style economic reforms to move forward. However, there is also awareness that the direct applicability of the Chinese reform model may have limited applicability to a smaller country like North Korea. Nonetheless, Kim's apparent acceptance of expanded marketization, including the establishment of scores of new markets even in Pyongyang, is regarded by some in Beijing as a turning point in North Korea's economic development. Kim appears to be seeking a model that would mix elements of a market economy with facets of North Korea's planned economy and is interested in pursuing economic reforms, starting with agriculture. Kim Jong-il's personal recognition of the positive effects of PRC reform and opening up are taken in Beijing as a sign that Kim is listening and interested in focusing on economic reform and that such reforms require a more positive relationship with other countries such as the U.S. and Japan, further necessitating the resolution of the nuclear crisis.

During the past year, Beijing has pursued an enhanced diplomatic role vis-à-vis North Korea as part of its mediation and hosting role for six-party talks. Beijing has mobilized its long-standing party-to-party and military ties with North Korea to assure regular direct contact with Kim Jong-il and the Chinese leadership through mutual visits in Beijing and Pyongyang, thereby enhancing China's influence in Pyongyang. Analysts in Beijing hope that a strengthened fraternal relationship at the party and military level may yield success in the six-party talks, but such ties may also be instrumental in assuring that China has sufficient understanding and influence to manage its relationship with North Korea even if the six-party talks fail. These ties also enhance China's ability to make its views known to North Korean counterparts through a wide variety of channels rather than depending only on strong personal ties with Kim Jong-il.

China Shock in the Korean Market

China's rapid growth has been a shot in the arm for Korean exports, which in recent months have grown by over 30 percent per year and are nearing all-time highs. However, Chinese concerns about economic overheating, and the announcement in Beijing of measures to curb China's economic growth in late April, had an immediate impact on the Korean equity market. The Korea Composite Stock Price Index (KOSPI) dropped by 8.4 percent during the week following China's announcement of "forceful measures" to rein in its economy as overseas investors sold over \$600 million in Korean stocks. The pace

of growth of Korean exports to China has dropped since the announcement from a 40-50 percent range to only around 20-25 percent year-on-year, with the steel, automobile, and petrochemical sectors facing the biggest losses. Restrictions on business loans imposed by the Chinese government in April are having an immediate impact on sales of such Korean export items as industrial equipment and automobiles. The pressing of the economic brakes in Beijing has served to underscore two key points in Korea: 1) while China's economic growth has been a major economic opportunity in South Korea, the South Korean economy is now more dependent on China's economic growth than ever before, and 2) in the absence of a recovery of domestic consumption, exports to China continue to be responsible for virtually all of Korea's growth in GDP.

Some interesting strategic developments in the automobile sector have occurred this quarter, all of which are focused on how best to enter the China market. On the one hand, DaimlerChrysler has decided to end its financial relationship as a significant stakeholder in Hyundai, preferring instead to invest directly in the manufacture of a Mercedes-Benz plant in China. Hyundai itself has already entered the China market in a big way, with expectations that its 50,000 annual unit production rate could increase to 150,000 by next year. However, the "China shock" has tempered these expectations as the steady growth of Hyundai's sales in China has temporarily gone flat this quarter due to new restrictions on personal loans for automobiles that have been imposed by the Chinese government. An alternative angle on the Chinese consumer market is being pursued by GM-Daewoo, which has found good success in producing knockdown units in Korea for assembly in China. Last year, GM-Daewoo exported over 46,000 knockdown units and has already attained the same level of exports in only five months this year, a good illustration of how China's demand continues to outstrip supply even despite the considerable investment in industrial production taking place there.

Longer-term Korean investments in China are continuing in industrial plant and factory production, but are now extending to the retail sector with the entry and expansion of E-mart, a low-cost competitor to Costco, Walmart, and Carrefours in Korea that has already opened one store in Shanghai. E-mart's expansion plans include 50 new stores by 2012, and there are desires to dramatically increase the ratio of Chinese goods available in E-mart stores. This expansion may indirectly help sustain Korean inroads with Chinese customers in the areas of cosmetics and pop culture, where substantial gains have also been made in the information technology sector as Korean online game products have captured over half the Chinese gaming market.

Refugees, Spoiled Food, Cross-Strait Headaches: More of the Same

This quarter saw the return of many of the negative issues in China-South Korean relations, including a warning to Korean football fans in May not to attend matches in China in view of violence by Chinese fans and Chinese failures to protect visiting fans. Most of these issues are still overshadowed by a focus on the China-South Korean economic relationship, but they also complete the public picture of China, adding a note of caution to an otherwise positive image.

First, China continues its dual-track policy on handling North Korean refugees, quietly transferring those refugees who successfully enter South Korean consulates or other diplomatic compounds to South Korea, while ruthlessly enforcing border controls and repatriation policies for refugees who are caught in the border areas, away from the public spotlight. In one case this quarter, Chinese border authorities are alleged to have shot and killed a North Korean refugee seeking to cross the Chinese border with Mongolia. There have been reports of hunger strikes by North Korean refugees awaiting repatriation in Chinese detention facilities on the border with North Korea. North Korean refugees once again entered the premises of a German school in Beijing seeking asylum, but this time some refugees were armed with knives as they approached Chinese guards, forcibly securing entrance to the compound. These new twists, along with continuing reports of North Korean refugee treks across China to seek refuge at Korean consulates in Southeast Asia and Indochina, demonstrate the continuing high risks that North Korean refugees are willing to take to avoid being returned to North Korea. China continues to deny the United Nations High Commissioner for Refugees (UNHCR) access to border areas or suspected North Korean refugees and to violate the UN international conventions on refugees that it has signed by allowing *refoulement*, the return of refugees to North Korea despite risks of persecution or death in North Korean detention camps.

Second, a new series of stories involving tainted food products from China have hit the Korean public, as some Korean dumpling manufacturers have been found using bad radishes from China. Increasingly, even Korean kimchi is made in China to lower costs, putting the Korean public at greater risk from poor Chinese food safety standards. The scandal led to the suicide of the CEO of one Korean company and evoked strong criticism among the Korean public. Stories of fake baby formula and other shocking failures by Chinese food manufacturers within China have also received significant play on Korean news broadcasts. There are continuing problems with imports to Korea of Chinese fish products laced with lead or other metal products to increase the weight – and value – of the shipments.

Third, Chinese officials have taken very strong measures against South Korean national assemblymen and other figures who traveled to Taipei for the May 20 inauguration of President Chen Shui-bian, announcing that they would be denied entry into the PRC. These measures have extended to include former President Kim Young-sam, and the application of this restriction to a former president has created consternation and some negative feelings among the South Korean public. PRC expectations for South Korea's adherence to limits on official contact with Taiwan are stricter than with many other countries, including Japan and the U.S., giving the impression that Beijing's expectation is for South Korea to return in its diplomacy with Beijing to a more traditional tributary relationship.

'Experts Discuss Power Sharing in Northeast Asia'

Indeed. *The Korea Herald* headline above draws attention to one among many new forms of regional cooperation that accompany intensified economic exchange in the region. In this case, "power sharing" is being discussed at a symposium on "Northeast Asian

Region Electrical System Ties,” designed to promote sharing of electricity and connection of power grids across national lines. The development of shared power grids would improve electricity access from Russia. The symposium even involved the rare participation of a North Korean representative in Seoul, who revealed that Russia and North Korea have already started to build a “power sharing system.” The Federation of Korean Industries has also proposed joint purchasing of oil with China as a means of enhancing leverage in negotiations with energy producing countries, and such cooperation has also been discussed through a meeting of energy ministers sponsored through the ASEAN Plus Three.

Aside from power sharing, new forms of regional cooperation including China, South Korea, and Japan are gaining impressive new momentum. The foreign ministers of Japan, China, and South Korea met in Qingdao for discussions in late June. At the Asian Development Bank meetings held in Jeju, South Korea, ASEAN Plus Three finance ministers met to discuss regional financing arrangements, including the progress of bilateral swap agreements (the Chang Mai Initiative) and the Asian Bond Market Initiative. The Northeast Asia Development Financing Council was also formed among the development banks from China, Japan, and South Korea. Government authorities from the three countries have agreed to cooperate to develop open source computer operating systems such as Linux. Korea Trade-Investment Promotion Agency has suggested the eventual adoption of a unified visa system for Japan, China, and Korea, similar to that adopted in Europe. The ROK Ministry of Information and Communications has even taken the lead in discussing standards for “home networking technologies” so that consumer electronics might be built to the same standards. If all these developments actually come to fruition, political power sharing may also be just around the corner.

Chronology of Events in China-Korea Relations April-June 2004

April 3, 2004: ROK Ministry of Information and Communications announces an agreement with Chinese and Japanese counterparts to work together to promote the development of open-source computer operating systems such as Linux.

April 6, 2004: The ROK Ministry of Foreign Affairs and Trade announces that China has promised to simplify handling of North Korean defectors and South Korean POWs who want to come to South Korea.

April 6, 2004: Samsung Electronics Company announces that it has moved all domestic microwave oven production facilities overseas, due to price competition from China.

April 8, 2004: The Korea Cosmetic Industry Association announces 31.5 percent growth in exports to China to over \$17 million, to make China Korea’s largest overseas export market in cosmetic products.

April 9, 2004: Internet game portal group NHN Corp. (ROK) and SeaRainbow Holding Corp. (PRC) sign a cooperative agreement whereby NHN would invest \$100 million to develop new game content for the global market, targeting China's over 80 million online subscribers.

April 19-21, 2004: DPRK Chairman Kim Jong-il makes unannounced visit to Beijing to discuss the nuclear issue and other matters with PRC President Hu Jintao and other Chinese leaders.

April 24, 2004: Sinochem Corporation, China's largest petrochemicals trader, selected as the preferred bidder for bankrupt Incheon Oil Refinery Company on a \$561 million offer to acquire the Korean oil refiner.

April 30, 2004: The Korea Composite Stock Price Index (KOSPI) falls 5.75 percent in response to "China shock," a PRC government announcement that it will take "forceful" measures to rein in excessive economic growth. ROK acting President Goh Kun convenes a meeting to monitor and prepare for other possible adverse measures connected with China's economic slowdown.

May 3, 2004: DaimlerChrysler AG decides to sell its \$940 million stake in Hyundai Motor Company and to open production of Mercedes-Benz luxury cars in the PRC.

May 4, 2004: Korean Football Association warns fans not to attend matches in China following incident in which "Red Devils" supporters were injured by debris thrown by Chinese fans.

May 12, 2004: ROK and PRC begin bilateral negotiations on South Korea's opening of its rice market as required under the WTO's Uruguay Round.

May 12-15, 2004: First round of working-level consultations for six-party talks held in Beijing.

May 15, 2004: Korean, Japanese, and China development banks sign a memorandum of understanding to establish a cooperative body to finance infrastructure projects in Northeast Asia.

May 15, 2004: Finance ministers of Japan, China, and South Korea meet on the sidelines of the Asian Development Bank meeting in Seoul to discuss enhanced regional financial cooperation measures, including establishment of currency swaps.

May 18, 2004: The International Symposium on Northeast Asian Region Electrical System Ties is held to discuss ways of connecting the power grids of six countries in Northeast Asia.

May 28-29, 2004: The Annual Congress of Korean History Societies discusses “historical disputes in an era of globalization,” featuring the confrontation between China and Korea over historical origins of the Goguryeo Kingdom (34 B.C.-A.D. 668).

June 7, 2004: Korea Trade and Investment Promotion Agency announces that mergers and acquisitions are emerging as a preferred vehicle for entering into the China market.

June 11, 2004: Korea Food and Drug Administration reveals that Chinese subcontracting factories for Korean dumpling manufacturers provided spoiled chopped radishes to Korean “*mandu*” manufacturers, creating a public uproar and backlash.

June 17, 2004: Sinsegae Co. unveils its plan to open 50 E-mart stores by 2012. One store has already opened in Shanghai, with a second planned to open next month.

June 17, 2004: ROK Ministry of Foreign Affairs and Trade reveals that seven North Korean defectors detained in PRC jails who had initiated a hunger strike were deported to the DPRK.

June 18, 2004: PRC, Japan, and Korea reach agreement to jointly develop home networking technology, promoting standards for interoperability among home-electronic devices, according to the South Korean Ministry of Information and Communication.

June 21-22, 2004: Second round of working-level consultations for six-party talks is held in Beijing.

June 23-26, 2004: Third round of six-party talks is held in Beijing.

Japan-China Relations:

Not Quite All about Sovereignty – But Close

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Issues related to sovereignty dominated the Japan-China political and diplomatic agenda. As the quarter began, politicians and diplomats were involved in the controversy generated by the landings of Chinese activists on Uotsuri Island in the Senkaku/Diaoyu Island chain. The quarter ended with politicians and diplomats dealing with Chinese efforts to test drill for natural gas in the East China Sea bordering the Japan-China demarcation. Tokyo was concerned that extraction could tap resources on the Japanese side of the demarcation line. In the interim, the issue of Chinese maritime research ships operating, without prior notification, in Japan's Exclusive Economic Zone (EEZ) kept the political-diplomatic spotlight focused on sovereignty claims.

At the same time, issues of history repeatedly surfaced. In April, the Fukuoka District Court ruled that Prime Minister Koizumi Junichiro's visits to the Yasukuni Shrine were tantamount to religious activity and violated the constitution. However, in May, the Osaka District Court, while not addressing the constitutional issue, found the visits to be private in nature, not the official action of a government officer. In either case, the prime minister made clear that he would continue to visit the shrine, and his foreign minister returned from China again without the prime minister's long-sought invitation for an official visit to China. In northeast China, chemical weapons abandoned by the Imperial Army again affected Chinese construction workers in Qiqihar.

Senkaku/Diaoyu Claims

Disputed sovereignty claims over Senkaku/Diaoyu Islands again riled bilateral relations, when, on March 24, seven Chinese activists landed on Uotsuri Island and were arrested by the Okinawa Prefectural Police. Rather than turn the activists over to the Office of the Prosecutor, Tokyo instead chose to deport them. The activists left Japan on the evening of March 26.

In Beijing, Chinese protesters burned the Japanese flag in front of the Japanese Embassy, while other Chinese activists announced plans for future trips to the islands. Chinese protests caused both governments to cancel bilateral talks on the United Nations Law of

the Sea Treaty, scheduled for the end of March. Tokyo had planned to use the talks to raise the issue of Chinese maritime research ships operating without prior notification in Japan's EEZ.

At the same time, the Japanese Diet moved to address the issue. On March 30, the Security Committee of the Lower House passed a resolution aimed at "preserving (Japan's) territorial integrity" and requesting the government "to take all possible precautionary and security steps" toward that end. The resolution went on to advise the government that it "should more forcefully promote all sorts of measures, including diplomatic efforts" to assure Japan's territorial integrity. Passage of the resolution marked the first time that the Diet had addressed the Senkakus as an issue of Japan's territorial integrity.

The government, in the person of Chief Cabinet Secretary Fukuda Yasuo, was initially cool to the resolution but, on the condition that language that might excessively irritate China be removed, acceded to its adoption by the committee as opposed to the Diet as a whole.

Beijing wasted no time in replying. On April 1, Foreign Ministry spokesperson Kong Quan, in responding to a question on the resolution, pointed out that the Diaoyu Islands have been Chinese territory since "ancient" times and the China had "indisputable sovereignty over them no matter in terms of history or international law." China's determination to "safeguard the integrity of the motherland is firm and unwavering." The spokesperson went on to assert that efforts by Tokyo "to enhance control" over the islands would be "illegal and null."

Meanwhile in Tokyo, on April 7, members of the Liberal Democratic Party (LDP) and Minshuto (DPJ) came together to establish the Association of Members of the Diet to Defend Japan's Territorial Integrity. The LDP's Morioka Masahiro was elected the first chairman. Earlier, on April 3, Land Minister Ishihara Nobuteru, in a speech delivered in Beppu, called on the government to build a lighthouse or heliport in the Senkakus to demonstrate Japanese sovereignty.

Chinese Maritime Research Ships and Japan's EEZ

The postponed March meeting on the UN Convention on the Law of Sea took place three weeks later, on April 22, in Beijing. The Japanese delegation raised the issue of Chinese activities in Japan's EEZ. Under a 2001 agreement, both countries had committed to advance notification of maritime research activities in the other country's EEZ. In 2003, Japan had detected eight incidents of Chinese ships operating in Japan's EEZ without prior notification; in the period January-April 2004, 11 such incidents had already been identified. The Beijing meeting focused on definitions under the Law of the Sea Convention, with Chinese officials insisting that Japan's southernmost island, Okinotori, is not an island but rocks, thus disallowing Japan's EEZ claim measured from that point and allowing the activities of maritime research vessels near Okinotori. Near half of the 11 violations of Japan's EEZ have taken place in the area north of Okinotori.

Despite the Beijing meeting, Chinese activities continued in the area claimed by Japan as belonging to its EEZ. On May 7, the Japanese Coast Guard found the Chinese research ship *Number 7 Fen Dou* operating, without advance notification, in Japan's EEZ near Uosturi Island in the Senkakus. Later that day, the Foreign Ministry asked the Chinese Embassy to end the survey activities. On May 13, the Foreign Ministry protested the activity. Chinese Foreign Ministry spokesperson Liu Jianchao made clear that "the waters where the Chinese vessel entered is disputed" and "not the EEZ of Japan," accordingly, "it is absolutely normal for Chinese vessels to conduct scientific research in the waters." On May 13, however, the Chinese ship left the area claimed by Japan.

At the end of May, the Japanese press reported that China had started construction of an exploration facility in the Chunxiao natural gas field, an area of the East China Sea near the demarcation line between China and Japan. The Japanese government confirmed press reports on June 7. Four days later, the LDP's Working Group on Maritime Interests, chaired by Takemi Keizo, issued a report advocating the creation of an intergovernmental committee, under the prime minister, to deal with maritime-related issues. The report also called on the government to develop a comprehensive national strategy and to begin immediately to survey natural resources on the Japanese side of the demarcation line. The report offered nine proposals for dealing with the illegal Chinese maritime research activities.

On June 9, a *Yomiuri Shimbun* editorial asserted that Chinese activities risked damage to Japan's interests and called on the government to protest. Failure to address the issue was attributed to the government's excessive concern toward China. The *Yomiuri* returned to maritime issues in a June 19 editorial, "China's Offensive Actions Require Urgent Plan." The commentary reviewed recent developments: illegal landings in the Senkakus, research ships operating in Japan's territorial waters, natural gas exploration in the East China Sea; found Japan to be slow in responding – due to the influence of pro-China forces and the "why bother?" attitude of the Foreign Ministry; and called on the Prime Minister's Office to exert strong leadership on the issues.

On June 21, Foreign Ministers Kawaguchi Yoriko and Li Zhaoxing met in Qingdao on the occasion of the Asia Cooperation Dialogue. A major topic of their discussion was China's natural gas exploration. Reflecting Japanese concerns that China's exploration might result in the tapping of natural gas fields in Japan's EEZ, Kawaguchi asked her counterpart for data relating to China's test sites. Li declined, but instead proposed joint development of the natural gas fields. The *Yomiuri* reported that sources accompanying the foreign minister were skeptical about the proposal, citing sovereignty concerns with respect to the Senkakus and that Tokyo would continue to request exploration data from Beijing, while reviewing Li's proposal.

Following a Cabinet meeting on June 29, Economic, Trade and Industry Minister Nakagawa Shoichi, told reporters that China had failed to respond adequately to Japan's requests for data regarding its exploration of the Chunxiao natural gas field. Nakagawa went on to say that he wanted to conduct a survey on the Japanese side of the demarcation line in the first half of July.

Despite sovereignty concerns in the East China Sea, Japan and China were able to demonstrate a willingness to cooperate on maritime security issues. From May 29 to May 31, a Chinese patrol ship, the *Haixun 21*, participated in a joint exercise conducted by the Japanese Coast Guard and focused on counter-terrorism, piracy and smuggling.

High-Level Contacts

On April 1, Chinese Foreign Ministry spokesperson Kong Quan announced that Japan's Foreign Minister Kawaguchi would travel to Beijing to meet Foreign Minister Li and State Councilor and former Foreign Minister Tang Jiaxuan, and held open the possibility that Kawaguchi would meet with other Chinese government leaders.

The spokesperson previewed the agenda for the meetings. Issues of history, he observed, "must be taken seriously" visits to Yasukuni being "in particular, a highly serious issue." Kong went on to reiterate China's long-standing policy of "taking history as a lesson and facing the future." He also used history as the basis for addressing the issue of the Diaoyu Islands, asserting that the islands and surrounding territory are "China's inherent territories," based on "compelling evidence from both history and international law." The spokesperson reiterated both China's "unshakable resolve on maintaining our sovereignty" and China's intention to resolve the issue peacefully through negotiations.

Previewing the Japanese approach to the foreign minister's visit and the likely agenda, a "senior Foreign Ministry official" was quoted by the *Nihon Keizai Shimbun* as saying that "Japan will have to put up strong resistance." The paper also went on to quote Prime Minister Koizumi's remarks on Yasukuni to a senior government official to the effect "China is really a different country. Historical issues are certainly important, but I wonder why that nation is always belly-aching."

Premier Wen Jiabao addressed the Yasukuni issue in a 50-minute meeting with the foreign minister on April 3. The premier referred to his meeting last April with her, when he urged Japan to "take history as a mirror while facing the future" as a principle for governing the relationship. He also returned to his meeting last October with Koizumi, when he asked for the prime minister's wisdom in dealing with bilateral issues. Yet, Wen found himself again having to ask that the prime minister refrain from visiting the shrine.

As for the disputed islands, Wen asserted Chinese sovereignty, while Kawaguchi characterized the illegal landings as "extremely regrettable" and asked China to prevent similar incidents of "unlawful entry." When Kawaguchi invited Wen to visit Japan as a step in preparing the political environment for a future visit of the prime minister to China, the premier responded that he hoped to visit Japan when the environment was "favorable," making clear that at the present it was not. The premier also refrained from extending to Koizumi the long-hoped-for invitation for an official visit to China.

In the afternoon, Kawaguchi met with Foreign Minister Li. *The Yomiuri Shimbun* reported that, over the course of the nearly two-hour meeting, the greater part was devoted to statements of principle on the territorial issue. When Kawaguchi asked her counterpart to take steps to prevent future unlawful entries, Li, responded that the Diaoyu Islands were Chinese territory. As for Yasukuni Shrine, the *Yomiuri* quoted Li as describing Koizumi's visits as a "sacrilege of history."

Kawaguchi also met State Councilor and former Foreign Minister Tang. The meeting was a replay of the meetings with Wen and Li, with Tang expressing China's concerns over Yasukuni, the Diaoyu Islands, and Taiwan, and the foreign minister repeating her talking points. Kawaguchi also invited Tang to visit Japan during the summer. Tang expressed his appreciation for the invitation but refrained from accepting.

Throughout the meetings, however, both sides expressed satisfaction with their cooperation in addressing North Korea's nuclear challenge and committed to working toward the early realization of the six-party working group. Afterward, Kawaguchi told reporters that China had agreed to meet with Japan and South Korea on regularly scheduled once a year basis. The trilateral dialogue will be in addition to the trilateral meetings that take place on the sidelines of ASEAN meetings.

While in Beijing, Kawaguchi met with Zhao Qizheng, the director of the State Council Information Office, and raised the issue of anti-Japanese sentiment on the Chinese internet. Zhao acknowledged the problem but pleaded the difficulty of controlling the content of websites and internet discussions. He did explain that China is "not necessarily" caught up in anti-Japanese sentiment. To deal with the issue, the foreign minister proposed a joint study to examine images projected by the media in both countries.

With the exception of meetings at international conferences, the foreign minister's visit was the first high-level visit between the two governments since the August 2003 visit of Fukuda Yasuo, then chief Cabinet secretary.

The Courts and Yasukuni

During the first quarter, District Courts in Osaka and Matsuyama dismissed Yasukuni-related suits seeking compensation on the grounds that the prime minister's visits to the shrine violated the constitutional separation of church and state. Without ruling on the constitutional question, the courts ruled that the petitioners' freedom of religion had not been infringed upon by the prime minister's visits and denied compensation.

In contrast, on April 7, the Fukuoka District Court ruled the visits to the Yasukuni Shrine unconstitutional, finding them tantamount to religious activity, prohibited by the Constitution. The court, however, rejected plaintiffs' demands for compensation.

The decision set off an uproar within the LDP. Koga Makoto, former LDP secretary general and chairman of the Bereaved Families Association told reporters that he “did not at all think that the prime minister’s visit to the Yasukuni Shrine violates the Constitution” and expressed his appreciation of Koizumi’s determination to visit the shrine.

Former LDP Vice President Yamasaki Taku quoted the prime minister as saying that visits to the shrine “do not constitute a violation of the constitution. Whenever I visit shrines around the nation, I enter my name as prime minister... I cannot understand why I am only accused regarding my visits to Yasukuni Shrine.” Koizumi also told reporters that his visits to the shrine were “personal and based on his personal beliefs.” Later the prime minister said that he visited the shrine “as an individual who is prime minister” and that he did not understand the “public-private distinction.” Koizumi went on to question “What is wrong with a Japanese individual visiting the Yasukuni Shrine?” He also made clear that he would continue to visit Yasukuni.

The next day, China’s Foreign Ministry spokesperson Kong Quan observed that “a correct perception of and approach to that period of history is the political basis of the China-Japan relationship and a key for Japan to truly win trust from Asia and the world.”

A month later, on May 13, the Osaka District Court found the prime minister’s visits to the shrine to be private in nature and dismissed a suit seeking compensation. Presiding judge Yoshikawa Shinichi ruled that “the visits cannot be identified as an official action by the prime minister as a state official. The visits did not force anything on plaintiffs or disadvantage them.” The court, however, did not address the question whether the prime minister’s visits violated the constitutional ban on religious activities by the state.

Chemical Weapons

On April 22, Japan and China reached final agreement on construction of facilities to manage the destruction of chemical weapons abandoned in China by the Imperial Army at the end of World War II. On May 25 the *Xinhua News Agency* reported that on the evening of the May 24, eight workers in Qiqihar city were hospitalized as a result of exposure to fumes escaping from canisters found at a construction site. PLA chemical weapons experts determined the canisters to contain chemical weapons abandoned by the Imperial Army. (In August 2003, a similar incident in Qiqihar resulted in the death of one worker and the hospitalization of 43 others.)

On June 6, Foreign Ministry spokesperson Liu Jianchao announced that diplomatic representation had been made to Tokyo and that Japanese chemical weapons experts, admitted to the site, had identified the canisters as belonging to the Imperial Army. Liu used the occasion to urge that Japan “take practical steps to accelerate the destruction process.” On June 25, the Japanese Embassy in Beijing reported that a Japanese chemical-weapons team had completed clean-up of the site.

Overseas Development Assistance (ODA)

In early April, the Japanese press reported that the government would finalize the March 10 decision of the LDP's foreign affairs councils to reduce ODA loans to China. The cut of ¥20 billion to an approximate ¥96.7 billion marked the third consecutive year of reductions in the ODA program for China and the first time in 14 years that total would fall below ¥100 billion.

Addressing the issue April 6, Foreign Ministry spokesperson Kong Quan characterized ODA as “an important symbol of Japan’s friendly policy” and noted that it had played a “positive role for years in promoting economic and trade cooperation ... on the basis of equality and mutual benefit.” While expressing understanding that the reduction was the result of Japan’s own domestic circumstances, Kong took exception to Japanese warnings of a “China threat” and concerns with a “lack of transparency of China’s military expense.” He labeled the accusations as “totally untrue” and went on to say that China “cannot accept linking these remarks with the decision made by the government.”

North Korea: Six-Party Talks and the Abductees

On April 22, China’s ambassador to Japan Wu Dawei delivered an address in Tokyo on Korea-related issues. Wu criticized the United States for what he considered its antagonistic stance toward Pyongyang and made clear that China would continue to support North Korea’s development with economic assistance. (He also took the opportunity to take a shot at the Yasukuni issue, expressing both the hope that the Japanese government would shed this “burden” and his concern that it would not.)

On April 28, Beijing announced that the six parties had agreed to a meeting of the working group and set the date for May 12. Also that day, the Japanese Foreign Ministry announced that China’s special ambassador to the nuclear talks with North Korea, Ning Fukui, would visit Japan May 6 to coordinate positions in advance of the May 12 meeting of the six-party working group. In Tokyo, Ning met with Yabunaka Mitoji, the director general of the Foreign Ministry’s Asian and Oceanic Affairs Bureau, and Vice Foreign Minister Takeuchi

At the same time, the Japanese government let it be known that Yabunaka would soon travel to Beijing to meet with North Korean officials to discuss the return of the abducted Japanese citizens

On May 22, Prime Minister Koizumi traveled to Pyongyang to meet with Kim Jong-il on the abductees issue and returned with five of the remaining eight family members. The next day, Foreign Minister Kawaguchi telephoned Foreign Minister Li to brief him on Koizumi’s visit to Pyongyang. She also sounded him about the possibility of using China as a site for a meeting between Soga Hitomi and her husband Charles Robert Jenkins, a U.S. army deserter, and their two daughters. Li reportedly told Kawaguchi that China “will play a constructive role to improve relations between Japan and North Korea.”

(*Kyodo News Service* later reported that, during Kim Jong-il's visit to Beijing in mid-April, China had offered to host a meeting of the Soga family.)

Reports of Beijing being proposed as a site for a Soga family reunion elicited a strong reaction from factions within the LDP. On May 27, the press counselor at the Chinese Embassy in Beijing, Huang Xingyuan, told the *Asahi Shimbun*, that, while his government was pleased to consider the Japanese government's request for a site for the Soga family meeting, he found subsequent remarks from certain Japanese political leaders regarding a Beijing site to be "regrettable."

Soga was also reported as having qualms about a meeting in Beijing, given China's close relations with North Korea. On May 30, Deputy Chief Cabinet Secretary Sugiura Seiken met with Soga. Afterward, Soga told the press she wanted to meet her family "in a place other than Beijing" and had conveyed her "true intention to Cabinet Secretariat official Nakayama Kyoko who had accompanied Sugiura. In June 16, the Japanese Foreign Ministry announced that the family reunion would take place outside China.

Business/Economy

In April, the Finance Ministry released 2003 trade statistics. The numbers for China, both Japanese exports to and imports from, set new records. Imports from China increased 13.3 percent to ¥9.01 trillion, surpassing Japan's imports from the United States for the second consecutive year. Meanwhile, Japan's exports to China increased 28.6 percent to ¥6.97 trillion. Overall, the numbers underscored the ever-expanding commercial ties.

The China-focused activities of Japanese auto, steel, electronics, convenience, and service industries also speak to the extent to which Japanese manufactures see China not only as a source of low-cost labor but also a booming consumer market for Japanese products.

- The June Beijing auto show attracted Japan's "Big Three," each eager to highlight environment-friendly models to China's ever-increasing number of motor enthusiasts.
- Japan's steel industry continued to benefit from China's surging growth and demand for steel. Yonezawa Toshio, executive vice president of Nippon Steel, observed that the pace of growth in China's demand for steel, 20 percent annually for the past three years, "is beyond our expectations."
- NEC, Matsushita, and Sanyo, leaders in Japan's cell-phone market, are developing products aimed at the world's largest, and fastest growing, market for mobile phones. According to a Fuji Economic Research survey, 270 million mobile phones are in use in China. This figure represents a six-fold increase in the past four years, and projections are for sales to increase by 100 million in subsequent years.

- Japan's Seven-Eleven opened its first store in Beijing in April, marking the start of a five-year plan aimed at opening 500 stores across China. Family Mart, a Seven-Eleven rival, announced plans to set up a joint venture in Shanghai to operate convenience stores in the region; the joint venture aims at opening 300 stores in the next three years. Supermarket leader Ito-Yokado announced a joint venture with Beijing Wangfujing Department Store Group, with a spring 2005 date for the opening of a Beijing store.
- Daiwa Securities became the first Japanese security company to open for business in China receiving in June approval from the China Securities Regulatory Commission to set up a joint venture with Shanghai Securities Company.

On June 2, a White Paper report compiled by the Ministry of Economy, Trade, and Industry, in conjunction with three other government ministries, made it official – China is increasingly viewed more as a market than simply a production base.

Chronology of Japan-China Relations April-June 2004

March 24-26, 2004: Chinese activists land on Uotsuri Island in the Senkakus, are arrested and deported.

March 30, 2004: Security Committee of Lower House passes resolution affirming Japanese sovereignty over Senkakus and requesting government to take all possible measures to protect Japan's territorial integrity.

March 30, 2004: China, citing Vice Foreign Minister Wang Yi's "tight schedule," cancels planned signing ceremony for Japan's yen loans. The loan was signed March 31.

April 1, 2004: Yamasaki Taku, former vice president of the LDP, and Hirasawa Katsuei, LDP member of the Lower House, travel to Beijing to meet with North Korean officials on abductees issue.

April 3, 2004: Minister of Land Ishihara Nobuteru urges government to build a lighthouse or heliport in the Senkakus to demonstrate Japanese sovereignty over the islands.

April 3-4, 2004: FM Kawaguchi travels to Beijing, meets with FM Li Zhaoxing, Premier Wen Jiabao, and State Councilor Tang Jiaxuan.

April 7, 2004: Members of LDP and Minshuto establish Association of Members of the Diet to Defend Japan's Territorial Integrity.

April 7, 2004: Fukuoka District Court rules prime minister's visit to Yasukuni unconstitutional.

April 20, 2004: Wen Jiabao meets with visiting former PM Hashimoto in the Great Hall of the People.

April 22, 2004: Japan-China meeting on Law of the Sea Convention takes place in Beijing.

April 22, 2004: Japan and China reach final agreement on construction of facilities to manage destruction of chemical weapons left in China by the Imperial Army

April 23, 2004: Rightwing Japanese activist rams loudspeaker truck into main gate of Chinese Consulate in Osaka; Chinese Foreign Ministry protests the “unscrupulous” act and expresses strong dissatisfaction with police protection.

April 28, 2004: Dalian Court sentences Japanese national, arrested in October 2003 and charged with intent to smuggle approximately 1kg of amphetamines from China to Japan, to indefinite confinement.

May 6, 2004: China’s ambassador for six-party talks, Ning Fukui, visits Japan to coordinate positions in advance of May 12 meeting.

May 7, 2004: Chinese maritime research ship detected operating without prior notification in Japan EEZ; Japan asks Chinese Embassy to end ship’s survey activities

May 9, 2004: Chinese female trainees of Tokushima gardening company report video cameras in their dormitory; Chinese Foreign Ministry orders consul general in Osaka to interview students and meet with local police.

May 12-15, 2004: Six-party working group meets in Beijing.

May 13, 2004: Japan protests activities of research ship to China’s Foreign Ministry.

May 13, 2004: Chinese research ship leaves area claimed by Japan as its EEZ.

May 13, 2004: Osaka District Court rules prime minister’s visit to Yasukuni Shrine as private in nature.

May 14, 2004: Finance Ministry announces discovery of counterfeit 500 yen coins sent in mail from China.

May 15, 2004: ASEAN Plus Three Finance Ministers meet in South Korea to discuss multilateral framework for currency swap issues.

May 17, 2004: Japan supports Taiwan entry as observer in World Health Organization.

May 18, 2004: Council on East Asian Community established in Tokyo; former PM Nakasone named chairman. The Council is aimed at building support in Japan for the development of an East Asian economic community.

May 18-21, 2004: Tokyo Gov. Ishihara Shintaro visits Taiwan for inauguration of President Chen Shui-bian (May 20); meets with Chen. Both agree to develop Japan-Taiwan relations.

May 18, 2004: First Shinkansen high-speed bullet train shipped to Taiwan; it is the first model built for overseas use and will connect Taipei and Kaohsiung. Japan is still awaiting China's decision on a high-speed train to connect Beijing and Shanghai.

May 18, 2004: Professor Koh Se-kai of Providence University Taiwan, appointed Taiwan unofficial representative to Japan.

May 23, 2004: FM Kawaguchi briefs FM Li on Koizumi's May 22 visit to Pyongyang.

May 24, 2004: Chemical weapons incident in Qiqihar.

May 25, 2004: Shinkansen train unloaded in Kaohsiung.

May 28, 2004: Japanese press reports that China has begun construction of a natural gas drilling facility in an area Tokyo considers to be within Japan's EEZ.

May 29-31, 2004: Chinese patrol ship, *Haixun 21*, participates in a joint exercise conducted by the Japanese Coast Guard and focused on counterterrorism, piracy, and smuggling.

June 1, 2004: Chinese FM spokesperson Liu Jianchao, touching on the Soga family, tells reporters that China is prepared "to play a constructive role" in improving Japan-North Korea relation but China does "not have a position" on the site for a meeting.

June 9, 2004: Japan communicates concern to China that construction of drilling sites for natural gas in East China Sea violates Law of the Sea Convention.

June 9-10, 2004: Japan, China, and South Korea energy ministers attend joint meeting with ASEAN counterparts meet during APEC meeting in Manila to discuss energy issues. This is the first energy ministerial of the ASEAN Plus Three.

June 10, 2004: LDP China Study Group is established; Kakuga Fukushi is appointed chairman of the approximately 20-member group.

June 11, 2004: LDP Working Group on Japan's Maritime Interests issues report calling on government to begin exploration of natural resources on Japan side of the Japan-China EEZ border and development of a comprehensive strategy to deal with issue, including the creation of an intergovernmental committee to deal with related issues.

June 17, 2004: Japan's Health Ministry lifts import restrictions on frozen spinach from China. In May 2003, the ministry asked Japanese companies voluntarily to restrict spinach imports from China because inspections had detected pesticide residue. In November, China responded by implementing a new inspection regime.

June 17, 2004: *Sankei Shimbun* and *Fuji Television* report Chinese construction of a second natural gas drilling test site.

June 21-22, 2004: Foreign ministers of China, Japan, and South Korea meet on the sidelines of Asian Cooperation Dialogue in Qingdao. Kawaguchi-Li, in June 21 bilateral, take up China's gas exploration in East China Sea.

June 23, 2004: Economic, Trade, and Industry Minister Nakagawa Shoichi confirms China natural gas exploration following observation from Coast Guard airplane.

June 25, 2004: Japanese Embassy in Beijing reports Japanese experts conclude chemical weapons clean-up in Qiqihar.

June 25, 2004: Japan Defense Agency sources report Chinese maritime research ship seen operating within Japan's EEZ.

June 22-26, 2004: Six-party talks on North Korea in Beijing.

June 28, 2004: Chinese court sentences Noguchi Takayuki, a member of Japanese NGO Life Funds for North Korean Refugees, to eight months in prison for helping North Korea refugees in China seek refuge in third countries. Noguchi was arrested in December and will be deported upon completion of sentence in August, having been credited with time already served in custody.

June 29, 2004: METI Minister Nakagawa tells reporters that China has failed adequately to respond to Japan's requests for data regarding exploration of the Chunxiao natural gas field and makes clear his intention to conduct survey on the Japanese side of the demarcation line in July.

June 30, 2004: Aichi Prefectural Police arrest Chinese national residing in Gifu City for counterfeiting and selling foreign residency documentation.

Japan-Korea Relations: Engagement from Strength

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The big news for the quarter was the May summit between Japanese Prime Minister Koizumi Junichiro and North Korean leader Kim Jong-il. Contrary to the pundits' assessment, the results of this summit were not half-bad (and not fully appreciated until after the six-party talks in June). They represented moderate successes for a U.S.-Japan strategy of engaging North Korea from a position of strength, not weakness.

The Summit

The big news of the quarter was Japanese Prime Minister Koizumi's second summit meeting with North Korean leader Kim Jong-il in Pyongyang (May 22). Like the first meeting in September 2002, the announcement came as a surprise. The key issue related to abductees, but unlike the first summit, this one had marginally positive results. These results could be measured along three dimensions: 1) inching closer to restarting Japan-DPRK normalization dialogue; 2) validation of Japan's firmer stance toward Pyongyang; and 3) the strength of Washington-Tokyo consultations on the nuclear problem.

The Japanese prime minister's 10-hour day in Pyongyang produced the return of two children of Kaoru and Yukiko Hasuike and the three children of Yasushi and Fukie Chimura, ending the 19-month separation after the repatriation to Japan of the abductees. According to de-briefings of the summit's proceedings, Kim Jong-il agreed to reopen investigations into 10 other disputed cases (eight were initially reported as dead and Pyongyang denied involvement in two others). The North Korean leader also agreed to maintain a moratorium on missile test launches.

In return, Japan committed to providing 250,000 tons of food aid to the UN World Food Program appeal for North Korea (the first such disbursement since 2001), as well as \$10 million worth of medical supplies. Koizumi urged Kim to accept international inspections of all its nuclear weapons programs and Pyongyang's return to the Nuclear Non-Proliferation Treaty regime. He renewed Japan's (perennial) request for the extradition of leftist radicals who defected after hijacking a Japan Airlines (JAL) plane in 1970, and may have been involved in other abduction cases involving Japanese nationals. Japan also provided assurances of Tokyo's continued adherence to the 2002 Pyongyang Declaration, which in operational diplomatic terms means Japan had no intention of imposing sanctions on the DPRK.

Koizumi's return from Pyongyang was received by many in Washington, Seoul, and Tokyo as nothing short of underwhelming. Critics blasted Koizumi's inability to secure the release of all of the relatives of the Japanese abductees (discussed below), while giving millions in medicines, humanitarian aid, and food. Moreover, the lack of any more definitive commitment by Kim to dismantle his nuclear weapons programs disappointed many observers. The token restatement of mutual adherence to the principles of the 2002 Pyongyang Declaration, critics argue, only highlighted the absence of any substantive progress on the issue. The *Yomiuri Shimbun* editorial, for example, decried the summit as making "no headway in resolving the abduction, nuclear, missile or any other issues related to Northeast Asia's peace and security." The *Mainichi Shimbun* blasted Koizumi for playing Japan's "trump card" (i.e., a second visit) and getting nothing in return. Okada Katsuya, head of the Democratic Party of Japan (DPJ), criticized Koizumi's pledge to Kim that Japan would not implement economic sanctions as "a major diplomatic blunder."

But appearances can be deceiving. Koizumi's trip earned him a moderate (but not major) popularity boost domestically, with all three major Japanese dailies reporting some 60 percent public approval of the effort. Koizumi's inability to secure the release of all the abductees' relatives was not for lack of trying. Preparatory meetings in April took place involving unofficial talks in Beijing with Yamasaki Taku, former vice president of the Liberal Democratic Party, and Lower House member Hirasawa Katsuei. In May, this was followed by bilateral talks involving Yabunaka Mitoji (director general of Asian and Oceanian affairs) and Deputy Foreign Minister Tanaka Hitoshi in Beijing. Both sets of talks did much of the heavy lifting for the summit's results. Success in convincing LDP Secretary General Abe Shinzo (a hawk on North Korea) shortly after Tanaka and Yabunaka returned from Beijing to accept the provision of food aid (May 17) was another critical step in fostering the summit's outcome. Although criticisms came from certain circles for not getting more on the abductee issue (see Soga-Jenkins discussion below), there is no denying that the summit moved the ball forward on this huge impediment in Japan-DPRK relations.

Second, the one lesson the U.S. and Japan should take away from the summit is that moderate pressure on the Pyongyang regime works. Why? Since Kim Jong-il's ill-fated confession in September 2002 to his country's abductions of Japanese nationals, Tokyo has been pressing for the release of these individuals and their relatives. Japan's suspension of rice aid to North Korea (effective since 2001 when Japan provided \$104 million through the World Food Program) remained firm in no small part because of this unresolved issue.

Criticisms of Japanese weakness at the recent summit, therefore, may be inaccurate. Critics should not be asking why Koizumi reinstated food aid (which has been strictly held in abeyance as a result of the abductee issue), instead they should be asking why North Korea agreed *this time* to return the relatives when they had previously spurned Tokyo's entreaties.

The answer lies not in weakness, but in the *firmer stance* adopted by both the U.S. and Japan in curtailing North Korean illicit activities. In January 2004, the Diet passed foreign exchange legislation that would allow Japanese authorities – without a UN resolution – to cut off financial remittances to the North or to impose an import ban on North Korean goods. Shortly thereafter, a second piece of legislation banning North Korean port calls was deliberated on, accompanied by a three-month export ban on domestic trading companies potentially selling “dual-use” uranium enrichment materials to the North. Furthermore, Tokyo played a central role in recent maritime exercises in the Coral Sea by the U.S.-led Proliferation Security Initiative (PSI), which aims to curtail the illicit transfer of weapons of mass destruction–related materials. In short, the food provided by Koizumi was always there for the taking if Kim Jong-il wanted it. What elicited the North’s release of some of the detainees were not just U.S. and Japanese carrots, but their sticks.

From Washington’s perspective, the fact that the summit’s results were not wildly applauded by the Japanese public is not entirely a bad thing. The public’s ambivalence with this trip pales in comparison to Koizumi’s first trip to Pyongyang in 2002, which boosted his approval ratings by some 30 points to nearly 70 percent according to some media polls in Japan. The lukewarm public reaction is good because it solves the “moral hazard” problem of DPRK diplomacy and the abductee issue – i.e., it ensures that Koizumi will not be tempted by short-term domestic-popularity gain to move too far afield from the U.S. position of “complete, verifiable, irreversible dismantlement” (CVID). It would have been much more worrying for the U.S. if Koizumi’s summit produced the same results to resounding applause in Japan because this would have created greater incentives for Japan to be more flexible with the North without receiving much in return.

Engagement from Strength, Not Weakness

The net effect of Koizumi’s trip to North Korea, therefore, was far less problematic than many in media have reported. Pyongyang’s efforts to drive a wedge in the U.S.-Japan relations with the summit were unsuccessful. On the contrary, the summit proved that the U.S. and Japanese allied engagement strategy based on not just carrots but also sticks is effective in eliciting DPRK flexibility.

Japan’s summit with North Korea therefore represented a position of engagement based on strength, not weakness. The fact that the Diet passed key legislation allowing Japan to ban port calls by the DPRK ferry *Mangyongbong-92* to Niigata the week after the Pyongyang summit only reiterated the point. This form of muscular engagement had the effect of making the messages brought by Koizumi to President Bush at the G8 summit in Sea Island that much more credible. According to press reports, Koizumi recounted to the president that he posed stark choices for Kim Jong-il. The prime minister reportedly told Kim that DPRK gains from nuclear weapons pale in comparison to the gains to be had from dismantling all such programs. A Japanese premier who poses these choices as his Parliament prepares legislation allowing sanctions is infinitely more credible than one

who rationalizes engagement with North Korea as necessary because it cannot afford another crisis with the regime (sound familiar, Seoul?).

Koizumi relayed to President Bush that he believed North Korea was truly ready for talks (rather than bluster only). The fact that this advice registered with the president not only attests to how much Bush trusts Koizumi's judgment, but also was arguably the key factor that prompted the U.S. to move forward with its proposal at the six-party talks in Beijing. Indeed, the similarity in Japan's talking points to the U.S. position is manifest: (1) North Korea must freeze all nuclear programs including uranium enrichment programs; (2) North Korea must disclose information on all of its nuclear programs; (3) This freeze must entail efficient verification; and (4) Japan is ready to contribute to international energy assistance for North Korea only if these conditions are satisfied and if this freeze is a part of an agreement to dismantle North Korea's nuclear programs.

The Dog that Didn't Bark on Abductees

The big non-event for the quarter regarding abductees was the unconsummated reunion between one of the abductees returned to Japan, Soga Hitomi and her husband Charles Robert Jenkins. Although the saga of the marriage between this Japanese abductee and U.S. Army defector has been recounted *ad nauseum* in Japanese media, this column has not indulged (until now). Jenkins was a U.S. Army sergeant conducting patrols on the DMZ in January 1965 when he apparently defected to North Korea. According to a recent *Los Angeles Times* report, Jenkins was heard shortly after his disappearance on DPRK propaganda broadcasts claiming he had defected to "paradise" in North Korea. Jenkins later appeared in other DPRK films where he was often utilized as a symbol of legitimacy for the North's superiority to imperialist America. When Kim Jong-il made the bombshell admission in his September 2002 summit with Koizumi that Pyongyang had been involved in abductions, one of the named abductees (Soga) was revealed to be the spouse of Jenkins. Since Soga's return to Japan, speculation has swirled over whether the U.S. would grant Jenkins a pardon and allow him and their two daughters to be reunited with Soga.

With the announcement of Koizumi's second trip to Pyongyang this quarter, many surmised that Japan would again request the U.S. allow a pardon (and not request extradition for court martial) of Jenkins so that he might be one of those returning with the prime minister. Pundits speculated that while a return of some of the abductee's children would score well, the return of Jenkins and family would constitute a "home run." Prior to the second Kim-Koizumi summit, newspapers recounted that Japan-DPRK negotiations on arranging a third-country reunion of the family was a critical prerequisite to restarting normalization dialogue. At one point in April during Kim Jong-il's trip to Beijing, the Chinese offered to host a reunion. At another moment in June, Malaysia offered to host such a reunion. Indonesia was also considered because it has diplomatic relations with the DPRK and does not have an extradition treaty with the United States. Hong Kong was considered (because Soga requested a place where English was spoken). To add to the melodrama, Koizumi sent a personal letter to Jenkins inviting him to reunite with his family.

The issue, frankly, got blown way out of proportion. While the individual story of Soga's separation from her family is sad, it pales in comparison to the other abduction cases that remain unresolved as well as the unexplained deaths of the confirmed cases (to his credit, Koizumi secured some assurances on the latter). A resolution of the Jenkins case, moreover, might make for great headlines, but would do little to drain the reservoir of mistrust between the U.S. and the DPRK on the nuclear dismantlement talks. Finally, one imagines that there must be more to U.S. obstinance than meets the eye. Unconfirmed reports that Jenkins may have participated on behalf of the DPRK in interrogations of captured U.S. servicemen during the *Pueblo* seizure in 1968 and other similar activities may help explain U.S. inability to look past a four-decade old army desertion.

War on Terror

The quarter saw significant events by both Japan and South Korea in the war on terror. All of South Korea suffered through the detainment and eventual murder of Kim Sun-il at the end of June by terrorists. At the end of the quarter, blame was being levied at the Foreign Ministry and then the Blue House for failing to follow up earlier inquiries by foreign press about the possible detainment of a South Korean. While this certainly requires investigation, the larger and unfortunate point remains that earlier knowledge would not likely have made a difference in negotiations with terrorists. To Seoul's credit, the government of President Roh Moo-hyun beat back public emotional outcries to renege on its troop commitments to Iraqi reconstruction. This deployment of 3,600 troops to northern Iraq looks likely in August. To reconsider the decision would not only encourage terrorists to continue such abhorrent practices, but also would go against South Korean national interests as a major world power that seeks stability and some form of representative government and societies in the middle east. The latter point was not lost on many South Koreans as the demonstrations against the troop dispatch after Kim's murder were matched by counter-demonstrations calling for Korea not to cower in the face of terrorism as experienced in Iraq.

The quarter saw Japan's efforts in the war on terror continue. In mid-May two Maritime Self-Defense Forces destroyers quietly left for the Arabian Sea. The 7,250-ton destroyer *Kongo*, equipped with the *Aegis* advanced air-defense system, and the 4,550-ton destroyer *Ariake* will support operations to refuel U.S. and other foreign warships involved in operations in Afghanistan. On the domestic front, Japanese police arrested a ring of foreigners believed to be linked to an al-Qaeda suspect. A number of these were Bangladeshi, Indian, and Mali workers who had violated immigration laws and were suspected of ties to a French individual visiting Japan whom the U.S. has connected with al-Qaeda.

The U.S. again acknowledged in high-profile statements the contributions of allies Seoul and Tokyo in the global war on terror. Carrying forward the theme raised by President Bush in his one-year anniversary speech on the invasion of Iraq in March when he specifically cited the Japanese diplomat Oku Katsuhiko's death while working with the Coalitional Provisional Authority in Iraq, Vice President Cheney during his April swing

through Seoul and Tokyo highlighted the role played by Korea. Cheney referred to the ROK decision to send troops as “brave” and framing this dispatch in the context of a history of fighting together in Korea and Vietnam, he stated that “[Koreans] have been steady in their determination to protect freedom and democracy and you are doing so now ... America and South Korea are once again making sacrifices side by side.”

Seoul-Tokyo Relations Steady

Relations between the allies, Japan and South Korea remained steady during the quarter. President Roh met with Foreign Minister Kawaguchi Yoriko and gave much credit to Koizumi’s efforts at cultivating the DPRK in May and for the U.S. proposal at the six-party talks in June. Arguably a crisis in trilateral coordination was averted as the absence of a U.S. proposal might have prompted the South Koreans, desperate for a breakthrough, to try something outlandish in hopes of breaking the deadlock.

Improvements in Seoul-Tokyo relations have been somewhat derivative of the status of each country’s relations with the common ally, the United States. Because Tokyo’s relations with Washington are quite close now, South Korea actively seeks Japanese counsel as it tries to manage its own troubled relationship with the U.S.

On history issues, this column has maintained that cooperation (or lack thereof) between Seoul and Tokyo should not be measured only in the number of times the two tangle over a historically based issue, but more importantly by the number of times the two governments consciously *avoid* confrontation over such issues. The quarter saw the latter form of cooperation take place when Japanese Coast Guard vessels turned back an attempt by ultra-rightwing nationalist groups to land a ship on the disputed Tokdo/Takeshima rocks and claim Japanese sovereignty.

Chronology of Japan-Korea Relations April-June 2004

April 1, 2004: DPRK officials caution Japan not to enact legislation banning port calls by DPRK ships during unofficial talks in Beijing with Yamasaki Taku and Lower House member Hirasawa Katsuei.

April 4, 2004: Japan Foreign Minister Kawaguchi Yoriko announces Japan will hold trilateral talks with the ROK and Japan on the sidelines of the ASEAN Regional Forum in July.

April 6, 2004: ROK FM Ban Ki-moon and Japanese counterpart Kawaguchi hold phone conversation to discuss working level six-party talks on North Korea.

April 7, 2004: Fukuoka District Court rules that Prime Minister Koizumi Junichiro’s August 2001 visit to Yasukuni Shrine was unconstitutional.

April 7-8, 2004: Trilateral Coordination and Oversight Group (TCOG) meeting in San Francisco to discuss working-level talks on DPRK nuclear crisis attended by Yabunaka Mitoji, director of the Asian and Oceanian Affairs Bureau of Japan's Foreign Ministry, South Korean Deputy FM Lee Soo-hyuck, and U.S. Assistant Secretary of State for East Asian and Pacific Affairs James Kelly.

April 9-16, 2004: Vice President Cheney Asia tour to Japan, China, and South Korea.

April 20, 2004: Korean Peninsula Energy Development Organization (KEDO) head Charles Kartman visits Japan to discuss the suspended project to build two light-water nuclear reactors.

April 22, 2004: Jong Thae-hwa, DPRK chief negotiator on Japan, calls for the return of the Japanese abductees to North Korea.

April 29, 2004: State Department annual report on global terrorism mentions abduction issue for the first time as part of the context in which the DPRK remains on the state sponsors of terrorism list.

April 30, 2004: 4,000 rally in downtown Tokyo calling for Japanese government to take a harder line on DPRK abduction issue.

May 2-3, 2004: Japanese and North Korean delegates meet in Beijing for discussions on abduction issue and proposal for a visit by Koizumi to Pyongyang.

May 6, 2004: Japanese Coast Guard turns back Japanese ultraconservative group's attempt to land on disputed Tokdo/Takeshima rocks.

May 7, 2004: DPRK ferry *Mangyongbong-92* arrives at Niigata port amid protests by abductee's groups (third visit of the year by the ferry).

May 10, 2004: NGO advocates on behalf of abductees in Japan protest rumored visit of Koizumi to North Korea.

May 12-15, 2004: Six-party working group meetings held in Beijing.

May 13, 2004: *Kyodo News* reports that number of claims by overseas atomic bomb survivors has increased from 112 to over 800 this year after a 2002 court ruling in favor of an ROK atomic bomb survivor seeking government compensation with treatments.

May 20, 2004: DPRK ferry *Mangyongbong-92* leaves Niigata for Wonsan with 80 tons of humanitarian relief supplies for victims of April 22 train explosion in the DPRK.

May 20, 2004: Chief Cabinet Secretary Hosoda Hiroyuki announces that Koizumi will not meet abductees before his summit with North Korean leader Kim Jong-il. Says he will meet them when he returns.

May 22, 2004: PM Koizumi visits Pyongyang to meet North Korean leader Kim Jong-il.

May 23, 2004: ROK FM praises Koizumi's meeting with Kim for helping reduce tensions on the Peninsula and in the region.

May 24, 2004: Japan-ROK fishing vessel altercation off Japan's Tsushima Islands.

May 26, 2004: Yabunaka Mitoji, director general of Asian and Oceanian Affairs Bureau, states in sessions of Foreign Affairs Committee that if North Korea conducts a missile test, Japan would not provide food aid promised at the Koizumi-Kim summit.

June 1, 2004: Diet bill banning port calls by North Korean ships passes House of Representatives transportation committee with the support of the ruling coalition and the largest opposition party.

June 2, 2004: *Nihon Keizai* reports that ROK officials believe North Korean *No-dong* missile deployments can strike anywhere in Japan, including Okinawa where U.S. forces are deployed.

June 3, 2004: *Kyodo News* reports that Beijing offered to host reunion of Soga family in China as an attempt to spur a breakthrough in Japan-DPRK talks.

June 4, 2004: FM Kawaguchi expresses hope to hold sideline meeting on abductee issue with North Korean counterpart Paek Nam Sun at July ARF meeting in Jakarta.

June 7, 2004: Yabunaka meets with PRC and ROK counterparts at Hakone, says six-party talks could be delayed until July.

June 7, 2004: In interview with *The New York Times*, Koizumi says that he told Kim Jong-il that North Korea must dismantle its nuclear weapons program and resolve abductions issue if it wants normalization with Japan and economic support.

June 8, 2004: President Bush and PM Koizumi hold working-level lunch at Sea Island prior to G8 summit. Bush praises Koizumi's efforts on the economy and on supporting multilateral process with North Korea.

June 10, 2004: G8 summit chairman's statement expresses support for Japanese efforts to resolve abductee problem with North Korea.

June 11, 2004: *Kyodo News* reports that a senior member of the pro-DPRK *Chosen Soren* residents' association in Japan will participate with the North Korean delegation for normalization talks with Japan.

June 14, 2004: Diet enacts legislation authorizing ban on port calls by ships deemed to pose a security threat, specifically targeting DPRK vessels.

June 15, 2004: FM Kawaguchi expresses hope that North Korea's negotiating position at upcoming six-party talks will reflect the forward-leaning stance of Kim Jong-il during his May 22 summit with PM Koizumi.

June 16, 2004: North Korean ferry *Mangyongbong-92* arrives at Niigata.

June 21-22, 2004: Six-party working-level talks begin in Beijing on DPRK nuclear crisis.

June 23-26, 2004: Six-party talks on DPRK nuclear dismantlement held in Beijing.

June 24, 2004: Japanese envoy Yabunaka and DPRK Vice FM Kim Gye Gwan hold bilateral talks on the sidelines of the six-party talks to discuss the family reunion of former abductee Soga Hitomi.

June 28, 2004: ROK President Roh Moo-hyun in luncheon with Japanese lawmakers commends Koizumi's efforts as critical to the marginally better prospects at the end of the third round of six-party talks.

June 29, 2004: Pacific Forum President Ralph Cossa ties the knot!

China-Russia Relations: Geo-economics for Geo-politics

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The second quarter of 2004 marked the beginning of Russian President Vladimir Putin's second term and the second year in office for China's Hu-Wen team. Normal consultations and exchanges remained dynamic at all levels, particularly over the issues of Iraq, Korea, and Central Asia. The meetings included the Putin-Hu mini-summit during the Shanghai Cooperative Organization (SCO) annual meeting in the Uzbek capital of Tashkent in June, the official visit of China's Parliament leader, Wu Bangguo, to Russia in May, and Russian Defense Minister Sergei Ivanov's visit to China in April.

Beyond these high-level exchanges, Moscow and Beijing pursued their respective policies and interests in different ways. While Putin maintained his high profile (attending the G8 Summit and the 60th anniversary of the Normandy landing), Beijing leaders seemed to soft-pedal the Russian factor: more attention to problem solving, particularly in economics, less rhetoric about the China-Russia strategic partnership; more attention to nations around Russia, less "major-power" politics of the Jiang-Yeltsin style; and more attention to areas outside Moscow, though not necessarily neglecting Moscow's central role in Russian politics.

Substance over Form

In late April, Chinese Foreign Minister Li Zhaoxing paid a three-day working visit (April 21-23) to Moscow and met with Russia's new foreign minister, Sergei Lavrov. Although Li's visit was timed for the SCO conference of foreign ministers (April 23), Li met with President Putin and Russian Security Council Secretary Igor Ivanov. The Li-Lavrov talks covered a wide range of issues including Iraq, Afghanistan, Korea, "new threats and challenges" for both nations, and bilateral economic relations. They also touched on Russia-China-India trilateral ties, a topic Moscow seems never tires of pursuing. "Interaction of Eurasia's three largest states can become a weighty factor of consolidation of international and regional stability and of counteraction to new threats and challenges of the modern epoch," said Russian Foreign Ministry spokesman Alexander Yakovenk.

China's top diplomat, however, appeared more interested in getting tangible results within the bilateral framework, particularly in "*fulfilling* [emphasis added] the consensus reached by the two heads of state and the China-Russia Treaty on Good Neighborliness, Friendship, and Cooperation (GNTFC)." Meanwhile, the Russian president had "plans" for his official fall visit to China to review "the entire complex of relations between the

two countries.” Foreign Minister Li concurred with the importance of the Russian president’s role in shaping bilateral relations by noting that Putin’s October visit to China “will be a landmark event of cooperation between our countries.”

When the two heads of state did meet in Tashkent for the SCO annual summit meeting in June, the Chinese president opted for more attainable goals. He proposed that the two sides: (1) make an outline on implementing the GNTFC as soon as possible with the aim to strengthen cooperation on major projects; (2) increase investment in the other side and expand local cooperation; and (3) handle any trade problems with the spirit of mutual benefit, mutual concession, and friendly consultation. In response, Putin pledged that Russia would give “full consideration” to China’s interests when making decisions on any projects related to China.

Hu’s proposals on specific steps for building a strategic relationship with Russia reflect a broad trend toward pragmatism and problem solving in China’s foreign relations under the fourth generation of leaders. This is not only with regard to bilateral relations with Russia, but also in other issues such as China’s policies toward Korea, ASEAN, India, the U.S., etc.

China’s efforts toward specific outcomes in relations with Russia make sense. Having signed the GNTFC in July 2001, it is time to put some flesh on the bones of the grand legalistic framework. Meanwhile, the end of the Jiang-Yeltsin era also led to a major review of the overall relationship with Moscow by China’s new leadership. A consensus seemed to have been reached that strategic partnership with Russia may not live up to its name if it remains without substance. The proliferation of inter-governmental commissions, subcommissions, and working groups since the 1990s – though reliable communicating and interfacing mechanisms – has yet to generate fresh impetus in real issue areas and therefore appears to be window-dressing. On the issue of the forever delayed oil pipeline project, the Chinese side views some Russian bureaucracies as obstacles rather than problem solvers.

There is no quick fix to these problems. Pragmatism, particularly in economic areas, may be the only possible approach to validate the China-Russia strategic partnership. Hu’s specific suggestions for working on economic issues, therefore, was part of China’s economic offensive.

Wu’s ‘Long March’ to Moscow from Siberia

For the same reason, Wu Bangguo, chairman of the Standing Committee of the National People’s Congress (NPC), conducted his first official visit to Russia on May 22-29. During his visit, Wu attended the China-Russia Forum on Border and Regional Cooperation and unveiled his own four-point proposal for strengthening bilateral economic relations: improving the trade commodity structure by increasing the technical content and added value of commodities; expanding investment; promoting border trade and regional cooperation; improving the cooperation environment by promptly resolving problems that arise in the course of economic and trade exchanges. In his talks with

Russian Prime Minister Mikhail Fradkov, Wu made two additional suggestions: enhancing the legal and regulatory ability of the government and economic cooperation among SCO member states.

Wu's week-long trip to Russia not only focused on substance, but also included an official visit to Russia's Far Eastern cities of Khabarovsk (May 22) and Irkutsk (May 23), where he mingled with local officials and businessmen and explored specific measures for economic cooperation. Wu's stopover marked the first visit to the region by a high-level Chinese leader. Both Russian cities are crucial for overall relations between Beijing and Moscow. While the former is Russia's key border city with China, the latter will be the beginning of the Angarsk-Daqing oil pipeline – which had been in question because of Japan's recent effort to build an oil pipeline to the Pacific coast – and a gas pipeline from the Kovyktinskoye field in the Irkutsk region. Wu's stopover in the Siberian cities is expected to promote these energy projects vital for China's long-term energy security.

Wu apparently did not act only as a salesman. In meetings with Russian lawmakers, Wu also made a three-point proposal for overall bilateral relations and a five-point proposal for enhancing parliamentary roles in promoting bilateral relations.

The Russians seemed to have a receptive ear to all these Chinese suggestions – although some may be too much for the other side to digest. In almost all cases – the Hu-Putin meeting, Wu's meeting with various Russian leaders, etc. – Russian leaders would agree with China's proposals, which essentially called for respect for the law of the market and to create a favorable environment for business. Russian officials may not be able to disagree because these specific issues are real and should be addressed, even if just to advance Russia's own interests. This leaves the onus on Russia before Chinese Premier Wen's visit to Moscow and Putin's official visit to China in the second half of the year.

China's diplomatic activities did not focus exclusively on Moscow as the center of Russia or on Russia as the center of the Eurasian landmass. NPC Chairman Wu Bangguo's visit to Russia not only started from Siberia, but part of his trip included Europe – Bulgaria, a former Eastern bloc nation. Before Hu Jintao's mini-summit meeting with Putin during the SCO annual meeting in Tashkent, the Chinese president traveled to Poland, Hungary, Romania, and Uzbekistan, all “peripheral” nations of Russia. In late June, Politburo member Li Changchun traveled to Kazakhstan, Ukraine, Greece, and France.

The second quarter also witnessed a stream of VIPs from Kazakhstan, the largest central Asian state, visiting China. They included Kazakh President Nursultan Nazarbayev and his defense, foreign affairs, transport, and communication ministers. Their visit led to several major deals in oil and gas, railroad construction, military assistance (\$1 million of unconditional aid), and confidence building measures. Without progress on the Russia-China oil pipeline, China has worked hard to secure energy, transportation, and other deals with Central Asian states.

Lubricate SCO with Commerce and Cash

The second quarter of the year is the SCO's "working quarter," which includes annual ministerial meetings that culminate in a summit.

The foreign ministers annual meeting in Moscow on April 22-23 did preliminary work for the SCO summit in June. Foreign ministers worked on setting up a multi-tier mechanism for consultations, including regular meetings between SCO permanent envoys at the UN; accepting Mongolia for observer status and Afghanistan's presence at the upcoming summit; India's request for SCO membership, etc. The foreign ministerial meeting was followed by a working session of the Executive Committee of the SCO Regional Antiterrorist Structure (RATS) in the Uzbek capital of Tashkent on April 30. Participants worked out a plan for the RATS executive committee for 2004-2006.

In late May, SCO economics and trade ministers met in Tashkent, to focus on the feasibility of a Central Asian common market for regional economic cooperation. China proposed to set up a regional cooperation development fund, a business forum, and an SCO website. A working group was formed to promote the development of transport and transit mechanisms. The ministers gave preliminary approval to 143 investment projects of mutual interest. Final approval will be given at a Moscow meeting of SCO prime ministers in September.

At the June summit, the SCO Regional Antiterrorist Structure was officially "launched" following the official debut of the SCO Secretariat in Beijing in January. Thus, after three years of focusing on construction of its basic structure and its legal foundation, the regional forum began full-scale cooperation with 12 meeting mechanisms, including meetings of its heads of state. The Tashkent summit also admitted Mongolia as an observer and accepted guest status for Afghanistan (Afghanistan Transitional Government President Hamid Karzai). Other documents signed included the convention on SCO privileges and immunities, an agreement on cooperation in the struggle against the illegal trafficking of narcotics, psychotropic substances, and their precursors, and a resolution to introduce Shanghai Cooperation Organization Day as a special annual public event. The Tashkent summit also approved the set up of a development fund and a business council (an entrepreneurs committee), and invited international organizations in the Asia-Pacific region to establish working relations with the SCO.

SCO expansion, however, was not without dispute. While Russia favors India's membership, others – China, Uzbekistan, and Kazakhstan – preferred a more cautious approach to admitting new members. Of the four countries that applied to participate in the June 2004 Tashkent summit, India and Pakistan were not accepted. The annual summit, however, did generate some fresh momentum. Kazakh President Nazarbayev suggested that the SCO should find better ways to implement relevant agreements and cooperative documents. Tajik President Emomali Rakhmonov proposed to fully exploit the role of the SCO Secretariat and the Regional AntiTerrorist Structure. Russian President Putin proposed to establish a liaison mechanism between the SCO and Afghanistan. Uzbek President Islam Karimov proposed to establish a Central Asia

Common Market. Kyrgyz President Askar Akayev said members should strengthen cooperation in areas of energy and transportation.

The most significant move for SCO development was made by Chinese President Hu Jintao, who offered \$900 million in preferential buyer's credit loans to the other five members. Hu believed that economic cooperation and the fight against three forces of terrorism, separatism, and extremism were two key areas the SCO should work on. Hu also suggested that the SCO operationalize, as soon as possible, the five specialized working groups concerning e-commerce, customs, quality inspection, investment promotion, and transportation facilitation. He noticed the "high complementary economy among members and the rich natural resources" and called on them to "start cooperation in various forms."

President Putin welcomed China's initiative to earmark soft trade loans to SCO member states. China's move, however, also challenged Russia's traditional hold, direct or indirect, on the Central Asia states. An immediate question was what Russia will and can do for the regional organization. Although Putin indicated that Russia was also in the position to provide such loans to SCO member states, he also implied that Russia was already providing economic assistance to those Central Asian states with low-price energy and other resources. In other words, Russia may not try to match China's offer. Moscow "would not like other participants in the organization to use Russia or China as donors," said Alexander Ivanov, head of the Asian Affairs department of the Russian Foreign Ministry. Instead, Russia prefers a more traditional role for major powers including China in Central Asia, that is, "maintaining stability in the region, non-admission of deterioration of the situation..."

Work on Economics

For all the political and diplomatic maneuvering, economics remains the basis of, and a barrier to, the China-Russia strategic partnership; this is particularly true for the delayed and troubled pipeline project. Although Chinese officials redoubled their efforts to get more energy deals from other sources (Central Asia, etc.), they did not give up on the Angarsk-Daqing route. Russian companies, however, reportedly started "surveying jobs" in May 2004 for constructing power supply installations for pumping stations for the Taishet-Nakhodka oil pipeline (favored by Japan). This is being done even if an official decision by the Russian government will not be made until late 2004 or early 2005. All seven Russian localities through which the pipeline is to pass – Irkutsk, Amur, Chita, the Jewish regions, the Republic of Buryatia, Khabarovsk, and the Maritime Territories – have already approved the project. The only remaining question is whether to construct a spur line to China. As a preliminary move, Chinese Ambassador Liu Guchang was informed on June 30 that the consensus among Russian officials is that the Taishet-Nakhodka route was feasible as a trunk line, pending final decision in the fall of 2004. Once this is done, Russia will work with China for a spur line to Daqing, China. The Taishet-Daqing Pipeline, therefore, is still on the agenda.

While Russian oil is hard to come by, growing economic interaction also produced growing disputes. In late April, Russian customs declared it would apply discriminatory measures against commodities from China. A tariff hike adding no less than \$3.5 per kg of goods imported from China would boost the retail price for Chinese commodities in Russia by 50 percent. Further, Russian customs had orally told ports to tighten control over commodities imported from China without formally informing China of the decision. The discriminatory tariff was still in place at the end of June despite a formal inquiry by the Chinese side.

Not everything was negative, however. In April, the first land fiber-optic cable connecting Moscow and Beijing via Ulaan Baatar opened. China's Heilongjiang Province started importing electricity from Russia; the project is expected to import a total of 15.4 billion kilowatt hours of electricity over 10 years. In June, a Russian-Chinese investment forum in Khabarovsk led to the signing of 13 contracts worth more than \$1.7 billion. A few days later, another 30 contracts worth \$2.5 billion were signed at the 15th international fair in Harbin.

Meanwhile, the two sides tried to work out long-term projects and expand mutual investment. Russia's Far East Federal District and China's three northwest provinces – Liaoning, Jilin, and Heilongjiang – started a trade fair in Khabarovsk on April 14. Five days later, the ninth Russia-China forum on economic, trade, and investment cooperation between the two countries' regions, sponsored by the Chinese People's Society of Foreign Friendship, was held in Beijing. China and Sakhalin Energy of Russia are working on a project to supply liquefied natural gas to China.

Two Sides of Military-Military Relations

The second quarter was busy with military exchanges, starting with Russian Defense Minister Sergei Ivanov's trip to China in late April and the PLA Chief of Staff Liang Guanglie's visit to Russia in late May.

These visits occurred against a backdrop of heightened tension during Taiwan's presidential election, which produced dramatic results leading to a second term for pro-independence President Chen Shui-bian. Ivanov's visit was considered by his Chinese hosts – Chairman of the Central Military Commission (CMC) Jiang Zemin, Premier Wen Jiabao, Defense Minister Cao Gangchuan, PLA Chief of Staff Liang, and Deputy CMC Chairman Guo Boxiong – as very important.

The talks between Ivanov and his Chinese counterpart Cao covered a wide range of issues, such as the international situation, the Korean Peninsula, the SCO, Iraq, etc. The two, however, spent most of their time on collaboration among their armed forces and the "*framework* [emphasis added] of cooperation in military technology." This meant Ivanov was not to discuss military-technology issues with his Chinese host, which will be the topic for the 11th session of the Russian-Chinese commission for military-technological cooperation in December.

The two defense ministers, however, had quite a lot to cover, sometimes in Russian (Cao is a graduate of the Soviet Artillery Engineering Academy, 1956-1963). Their meeting in Beijing coincided with the launch for the PLA Navy of the latest destroyer in St. Petersburg and a diesel submarine that was to be sea-tested by the Krasnoye Sormovo plant in Nizhniy Novgorod shortly after (in May). A delegation of PLA sailors arrived in St. Petersburg to take part in the ceremony. The Russian military-industrial complex was kept busy by orders from China, which usually account for 40 percent of what Russia produces for export. Total deliveries to China in 2004 are estimated to exceed \$2 billion, up from \$1.5 billion in 2003. Meanwhile, thousands of Chinese students are studying at Russian military academies. Back in Beijing the defense ministers told reporters that they tried to figure out “how to raise the two countries’ military-technical cooperation to a qualitatively new level,” including a joint exercise, code-named *Frontier-2004*, in the summer within the SCO framework.

China-Russia military exchange continued in May when the PLA Chief of Staff Liang visited Russia. In addition to talks with Russian counterpart Gen. Anatoly Kvashnin, Defense Minister Ivanov, and other Russian officials, Liang visited Russian military facilities and units, including the airbase at Kubinka near Moscow, a motorized brigade stationed in the Moscow region, a Baltic Fleet warship at Baltiysk in the Kaliningrad region, and met with faculty and cadets of the Naval Academy in St. Petersburg.

The extensive military-to-military (mil-mil) relationship between the two nations is only part of the story. In retrospect, there has been an asymmetry in the two main areas of China-Russia mil-mil relationships. In the area of border demarcation, territorial security, and confidence-building measures, Moscow and Beijing have gone a long way toward converting what was once the world’s longest militarized border into one of peace, stability, and commerce. When it comes to Russian arms sales and technology transfers to China, however, Moscow has so far refrained from treating Beijing as a “normal customer.” Its arms shipments to China have been inferior to those for other nations such as India, despite the fact that both Asian nations are Moscow’s “strategic partners.”

In the past decade, Russia has been China’s principal supplier of military hardware and technology. Some of the major items to China include 50 *Su-27SK* fighters (licensed production of 200 *Su-27s*), 40 *Su-30 MKK* fighters, 4 *Kilo-class* submarines (8 more are being built), *S-300 Tor-M1 SAM* missile systems, 2 *Sovremenny-class* destroyers (two more are being built), *T-80* main battle tanks, etc. These weapons systems are at least 20 years ahead of China’s aging inventory. For its part, China has also contributed to the survival of the Russian arms industry as Russia’s domestic demand shrank during the post-Soviet years. In the 1990s, Beijing purchased more than \$4 billion of Russian arms. Current accounts show \$5 billion worth of existing contracts.

The current asymmetry in mil-mil relations between Beijing and Moscow is perhaps natural given the enduring geopolitical games nations play. In the absence of other major arms supplier(s), Beijing has no choice but to accept second best. That said, the current state of affairs in Russia’s military sales to China may have been the function of asymmetrical expectations between Beijing and Moscow. While “friendly pricing” may

be China's hope for being a strategic partner with Russia, the latter seems to want to be both "friendly and pricey." Without the ideological coating to arms sales to China, as was the case in the Sino-Soviet honeymoon of the 1950s, Russia's interests-based policy toward its strategic partner in the south could overplay its hand in the long run. It has forced China to actively search for alternative sources, as in the case of Russia's indecision on the oil pipeline.

China's predicament may not change significantly in the near future due to U.S. pressure on the Europeans and Israelis not to lift their arms embargoes. From early 2004, active deliberation by the European Union, particularly the French and Germans, to end the embargo has put psychological pressure on Russia to alleviate its "discrimination" against China. Mutual visits by high-ranking civilian and military officers in the second quarter may indicate that both sides are ready for higher level mil-mil relations. It remains to be seen how the arms deals between the two nations will evolve from China's massive purchases of weapons, which now account for 70 percent of total military transactions, to a higher percentage for licensing and joint development of new hardware. At the end of the second quarter, Russia and India are considering inviting China to join the joint research and development of the fifth generation multi-role fighter aircraft.

Chronology of China-Russia Relations: April-June 2004

April 12, 2004: Premier Wen Jiabao sends a condolence message to Russian Prime Minister Mikhail Fradkov over the April 10 mine blast in Siberia.

April 14, 2004: China and Russia open first land fiber-optic cable via Mongolia. The 7,500-km, 622 MPS link supplements existing undersea cable and communication satellites.

April 15, 2004: Delegation of Moscow government headed by Vice Mayor Vladimir Shantsev visits Beijing to strengthen contacts between Beijing and Moscow.

April 19, 2004: Ninth Russia-China annual forum on inter-regional cooperation, dealing with economy, trade, and investments, held in Beijing.

April 20-23, 2004: Russian Defense Minister Sergei Ivanov visits China for talks with counterpart Col. Gen. Cao Gangchuan, Chairman of the Central Military Commission Jiang Zemin, Premier Wen Jiabao, Deputy Chairman of the Central Military Commission Col. Gen. Guo Boxiong, and Chief of the PLA's General Staff Col. Gen. Liang Guanglie.

April 21-23, 2004: Chinese Foreign Minister Li Zhaoxing visits Moscow and meets DM Lavrov, President Putin, and Russian Security Council Secretary Igor Ivanov. Li joined the SCO conference of foreign ministers on April 22-23.

April 23, 2004: Russian Communist Party Chairman Gennady Zyuganov visits China and meets with Li Changchun, member of the Political Bureau Standing Committee of the CCP Central Committee.

April 27, 2004: Boris Gryzlov, chairman of the State Duma and leader of the One Russia party, holds talks with a delegation of the CCP headed by Wang Lequan, Political Bureau member and secretary of the Xinjiang Uygur Autonomous Region.

April 28, 2004: Russian Deputy FM Sergey Razov and PRC Assistant FM Li Hui hold talks in Beijing to discuss “topical issues of international relationships.”

April 30, 2004: Executive Committee of SCO Regional Antiterrorist Structure (RATS) meets in Uzbek capital of Tashkent.

May 6, 2004: Chinese President Hu Jintao sends Putin a congratulatory message on his second presidential term.

May 10, 2004: Hu sends condolences to Putin after an explosion on May 9 in the capital of the Chechen Republic. Hu reiterates China’s opposition to any form of terrorism.

May 14, 2004: Russian First Deputy FM Eleonora Mitrofanova ends visit to China: she was invited by Deng Rong, the daughter of Deng Xiaoping.

May 15-19, 2004: Hong Kong’s chief secretary Donald Tsang pays an official visit to Russia and meets with acting Russian FM Lavrov. They discuss bilateral cooperation in economics, transport, culture, and tourism.

May 17-23, 2004: Chinese Chief of General Staff Liang visits Russia for talks with Russian counterpart Gen. Anatoly Kvashnin, DM Ivanov, Russian Security Council Secretary Ivanov, and Russian Vice Premier Zhukov.

May 22-29, 2004: Wu Bangguo, chairman of the Standing Committee of the Chinese National People’s Congress, arrives in Russia for a seven-day visit to four Russian cities (Khabarovsk, Irkutsk, Moscow, and St. Petersburg). Wu meets with Putin, PM Mikhail Fradkov, Chairman of the Federation Council of the Federal Assembly of Russian Federation Gergei Mironov, and Chairman of Russian State Duma Boris Cryzlov.

May 24, 2004: Li and Lavrov talk over the phone on a UN Security Council resolution on Iraq.

May 28, 2004: Meeting of economics and trade ministers of SCO member states in Tashkent produces memorandum and a protocol. China proposes a regional cooperation development fund, a business forum, and an SCO website. A working group is formed to promote development of transport and transit.

June 9-30, 2004: Russian military conducts its largest exercise in 15 years, code-named *Mobilnost-2004*, in the Far East and border areas with China. A total of 5,000 servicemen and 600 pieces of hardware are involved. Russia notified China of the exercise.

June 16-17, 2004: SCO annual summit in Tashkent with a ceremony at the opening of antiterrorist center. Chinese and Russian presidents talk on the summit sidelines.

June 23, 2004: Military delegation from China's Jilin Province visits Sakhalin as part of plan to implement cooperation agreement between the Pacific Border Guard Directorate of Russian Federal Security Service and China's border guards' department.

June 30, 2004: Chinese ambassador Liu Guchang informed that the consensus among Russian officials is that the Taishet-Nakhodka pipeline route is feasible, pending final decision in the fall of 2004.

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