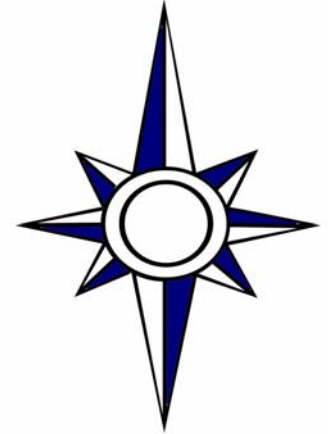




Pacific Forum CSIS



Comparative Connections



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

edited by

Brad Glosserman
Vivian Brailey Fritschi

4th Quarter 2004
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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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Volume 6, Number 4
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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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2004 ended on a tragic note, as the death toll from the Dec. 26 tsunami approached the 150,000 mark and continued to climb. Humanitarian assistance reached unprecedented proportions and the tsunami made many of the region’s man-made challenges fade into the background, even as some argued the relief effort provided the U.S. with an opportunity to improve its image in Asia after a rough first four years. In retrospect, 2004 had its ups and downs for Washington, with the derailing of Six-Party Talks and a slight cooling of China-U.S. relations being the biggest disappointments. On the positive side, it was a banner year for democracy in Asia; the system worked, time and time again, even if the results were not always predictable. Multilateral cooperation was also on the rise and economic forecasts, issued before the tsunami struck, were generally positive and were not expected to be too negatively affected by the tragedy.

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by Joseph Ferguson, Princeton University

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by Aidan Foster-Carter, Leeds University, UK

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by Scott Snyder, Pacific Forum CSIS/The Asia Foundation

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Regional Overview:

Tsunami Brings Us Together; Provides Perspective

**Ralph A. Cossa and Jane Skanderup
Pacific Forum CSIS**

2004 ended on a tragic note, as the death toll from the Dec. 26 tsunami off Indonesia's coast approached the 150,000 mark and continued to climb. The level of humanitarian assistance reached unprecedented proportion as nations put political differences aside to help the afflicted. The tsunami made many of the region's man-made challenges fade (at least temporarily) into the background, even as some argued the relief effort provided the next Bush administration with an opportunity to improve its image in Asia after a rough first four years. In retrospect, 2004 had its ups and downs for Washington, with the derailing of Six-Party Talks and a slight cooling of Sino-U.S. relations being the biggest disappointments. On the positive side, it was a banner year for democracy in Asia; the system worked, time and time again, even if the results were not always predictable. Multilateral cooperation was also on the rise and economic forecasts, issued before the tsunami struck, were generally positive and were not expected to be too negatively affected by the tragedy.

Washington, and the World, Lend a Helping Hand

The full impact, in lives and livelihoods lost, is still being assessed in the wake of the underwater 9.0 earthquake and resulting tsunamis that struck with such devastation in Southeast and South Asia on Dec. 26. Indonesia's Aceh Province appears to have been the hardest hit, but the damage touched nations near and far from the epicenter. No attempt will be made here to summarize the extent of damage; figures were still changing too rapidly at year's end and the aftermath could prove equally tragic, as potable water and food were in scarce supply and distribution of the tons of aid already made available was being hampered by infrastructure (and, to a lesser extent, bureaucratic) problems amid fears of disease amidst the devastation.

Admirably, the international community responded with unprecedented generosity. At the start of the new year, the United Nations had already collected over \$2 billion in pledges from some 40 nations and hundreds of nongovernmental organizations (NGOs). The government of Japan pledged \$500 million in grant aid and quickly joined together with the U.S., Australia, and India as a core group to better coordinate their respective aid efforts.

Washington pledged at least \$350 million with more coming from U.S. corporations, NGOs, and individuals. The U.S. military was among the region's first responders, sending ships, aircraft, and helicopters filled with relief supplies (the substantial cost of which not being included in the above aid figure). Washington has also offered to help in developing a regional tsunami warning system to avoid or at least minimize the impact of future tragedies. The accusation by some critics (led by *The New York Times* and by a UN official who later claimed to have been misquoted) that the U.S. was not quick enough or initially generous enough were, in our opinion, misguided. American embassies in affected countries offered assistance within hours of the disaster and immediately began the damage and needs assessments required to determine the extent and nature of an effective response. Overextended U.S. military troops, including an aircraft carrier task force, a Marine Expeditionary Unit, and a Maritime Prepositioned Squadron, set out on long trips into the disaster zone over the holiday season. As initial estimates of 8-10,000 killed increased 5-, 10-, and then 15-fold, so too did the level of U.S. pledged aid and on-the-scene support.

Once the extent of the disaster was clear, President Bush decided to send his brother, Jeb – who, as governor of Florida, is no stranger to natural disaster relief efforts – and Secretary of State Colin Powell to the region to further assess the near and long-term humanitarian relief requirements and provide further reassurance of U.S. support. He also asked former presidents Bill Clinton and George H.W. Bush to head a nationwide charitable fund-raising effort. Unfortunately, but all-too-predictably, the fact that President Bush waited until Dec. 29 to personally express America's grief and support – already expressed by countless officials, whose words were already being backed up by extensive relief actions – seemed somehow more important to the critics than the immediate, continuing, sustained, and still growing effort by the U.S. Government and by Americans in general to help those most in need.

As the new year began, some pundits were speculating whether the U.S. relief effort, “despite its slow start,” would help Washington's image in Asia and in the Muslim world. Hopefully it will, although those who are quick to find fault with anything that Washington does will no doubt continue to stress the negatives here as well. But the broader point should not be missed: Americans responded with open hearts and with open wallets – at the governmental, corporate, NGO, and individual level – not because it was demanded or would somehow buy future good will, but because that's what Americans do when tragedy strikes, at home or abroad.

2004: Not a Great Year for Washington, but Not Bad Either!

Last January's regional overview began with the assertion that “Washington's relations with its Asia-Pacific neighbors generally ended the year better than they began.” One is hard-pressed to make the same claim for 2004, even though the pluses generally outweighed the negatives.

2004 began with hopes that the Six-Party Talks would lead to a defusing of tensions on the Korean Peninsula and significant progress toward North Korea's eventual

denuclearization; some now question if the talks will ever be resumed. Nonetheless, the six-party framework remains intact and Pyongyang, while still playing hard to get, has not officially walked away from the talks.

China-U.S. relations were cited by both sides at the beginning of 2004 as “the best ever,” a phrase still used occasionally by Washington but rarely anymore by Beijing, which believes that Washington prematurely eased its pressure on Taiwan and remains insufficiently concerned about the “splittist” tendencies of reelected Taiwan President Chen Shui-bian. Meanwhile, U.S.-Taiwan relations, which had experienced a downturn in 2003, continued to flounder as the March presidential and December legislative elections saw domestic politicking that had negative impact on Taipei’s relations with both Washington and Beijing.

Elsewhere in Northeast Asia, relations with Japan remained solid – truly “the best ever” – and U.S.-ROK relations, while always rocky, were buoyed at year’s end by Seoul’s decision to extend its troop presence in Iraq for another year. In Southeast Asia, the election of Gen. Susilo Bambang Yudhoyono (SBY) as Indonesia’s first directly elected president raised hopes for stronger leadership both in Jakarta and in ASEAN, along with hopes of improved relations with Washington. How well SBY responds to the tsunami disaster will do much to define his presidency and future credibility at home and abroad.

Overall, developments during this last quarter of President George Bush’s first term in office generally followed trend lines established over the last four years. Major departures from current policy during the next four years are not anticipated, absent major stimulants.

North Korea: Playing Hard to Get, or Playing with Fire?

Last quarter’s speculation that Pyongyang might see the run-up to the November U.S. presidential election as an opportune moment to cut a deal with Washington proved to be mere wishful thinking. Claiming that it was America’s “hostile attitude” and not who was president that was the problem, Pyongyang continued to ignore calls to return to the negotiating table, even when they came from the highest levels, such as during the various bilateral summit meetings held along the sidelines of the Nov. 20-21 Asia Pacific Economic Cooperation (APEC) Leaders Meeting in Santiago, Chile.

During the quarter, Pyongyang continued to blame everyone but itself for the stalemate. Washington, of course, still gets the lion’s share. But, in a remarkable demonstration of Pyongyang’s willingness to constantly bite the hand that feeds it, Seoul has also become a target, given its “secret nuclear experiments” that have “destroyed the foundation” for the talks, its overt “war preparations” (any time there is a ROK-U.S. military exercise), and its wanton “kidnapping” of North Korean refugees. Japan’s audacity to conduct DNA tests on remains alleged (inaccurately, although one hesitates to say deliberately) to be those of a kidnapped Japanese citizen, resulted in threats of sanctions from Tokyo and counter-threats of war from Pyongyang, which hinted that it might refuse to come to the Six-Party Talks (that it was already boycotting) if Japan continued to be a member.

At quarter's end, ROK spokesmen were still optimistically predicting that the North would return to the negotiating table and that progress would be made during 2005. One wants to believe that this will prove to be true . . . but it's not going to happen quickly or easily.

Washington and Seoul: in Lock-Step *and* Totally Out of Sync!

ROK President Roh Moo-hyun's various pronouncements during the quarter demonstrated that Washington and Seoul were in lock-step regarding how to deal with the North . . . or that the two sides were 180 degrees out of sync . . . depending on which speech one listened to. The meeting between Presidents Roh and Bush in Santiago resulted in a joint assessment of the need for Pyongyang to respond to Washington's June 2004 offer and to return to the negotiating table with haste. President Roh even offered his personal assessment that President Bush was indeed committed to a peaceful resolution. His comments during a subsequent summit meeting in London with Prime Minister Tony Blair were equally uplifting; Roh added the observation that a North-South summit (then a pervasive rumor) would be premature and counterproductive until the nuclear issue was satisfactorily resolved.

However, in Los Angeles prior to the APEC summit and in Paris after the Blair meeting, President Roh sounded a much more critical note, blaming hardliners in Washington for the stalemate and calling on the U.S. to be more flexible in advance of the next round of talks, despite clear signals from Washington – delivered most forcefully by Secretary Powell in Seoul in October – that Washington was not going to engage in public debate and preemptive concessions prior to the resumption of talks. Roh's statement about a North-South summit was also later “corrected” by his minister of unification, whose primary job appears to be ensuring that nothing is said – by anyone, anywhere – that might possibly offend Pyongyang. (Minister Chung Dong-young frequently follows up firm pronouncements with a softening of tone toward Pyongyang and a harder stance regarding the need for more flexibility from Washington.)

Regardless of what one thinks about the current degree of flexibility being demonstrated by Washington, it seems naive to think that Pyongyang would come back to the table as long as its stonewalling results in pressure by Seoul (and others) against the U.S. rather than against the only party currently refusing to sit down and talk.

Time for Seoul to Take the Initiative?

What Seoul has done right during the last quarter is continue to set an example on how best to deal with allegations of nuclear mischief. Following revelations this summer by Seoul that a few ROK scientists, apparently operating without government knowledge or approval, had done some uranium enrichment experimentation of their own four years ago and that the government had also conducted some limited plutonium-based experiments in the early 1980s, Seoul welcomed International Atomic Energy Agency (IAEA) inspectors to fully examine its past procedures and activities. After four of its teams conducted thorough examinations, the IAEA Board of Governors, on Nov. 26,

issued a mild rebuke to the ROK but spared Seoul the embarrassment of being taken before the UN Security Council, given its commendable degree of cooperation and its corrective measures (including tightening controls over nuclear materials and special training for atomic scientists).

Since North Korea insists that the South's nuclear programs be examined at the next round of Six-Party Talks, President Roh should formally ask Beijing to arrange another round of talks *as soon as possible* to allow Seoul to fully explain the nature and extent of its past nuclear programs and the steps it is taking, including full cooperation with the IAEA, to ensure that they are verifiably ended. Beijing should then set a date for this meeting, making it clear that the meeting will proceed as scheduled, even if not all parties choose to attend. This would help put an end to the current game, in which Pyongyang continues to hold out until receiving sufficient "incentives" merely for attending.

And the Winner is . . . Democracy!

The democratic process outsmarted and baffled the pundits throughout 2004. In Taiwan, incumbent President Chen Shui-bian was supposed to be soundly defeated in March, but won (albeit by the slimmest of margins). Predictions of Philippine President Gloria Macapagal-Arroyo's demise – she was running against a hugely popular former movie star – also provided wide of the mark. Conversely, in India, incumbent Prime Minister Atal Bihari Vajpayee was supposed to win big, but was soundly defeated. In Korea, the Uri Party, which did not exist at the time of last year's inauguration, became the new ruling party in April, giving the subsequently unimpeached President Roh Moo-hyun his long-sought mandate.

In Indonesia, Gen. Susilo Bambang Yudhoyono's upstart Democratic Party obtained less than 8 percent of the vote in April Parliamentary elections. But this was enough to allow him to run for the presidency under his own party's banner. He won! SBY was inaugurated Oct. 20. On Dec 19, he also won control of the Parliament when the Golkar Party – which under its former head, former parliamentary speaker Akbar Tandjung, threatened to lead formidable opposition – elected SBY's running mate, Vice President Jusuf Kalla, as its new head, bringing Golkar into the ruling coalition.

In Hong Kong, democrats made modest advances but fell far short of expectations (or at least hopes) in the September LEGCO elections, causing Beijing to breath a sigh of relief and resulting in the announced resignation, in November, of Democratic Party Chairman Yeung Sum. In Mongolia in June, the ruling Mongolian People's Revolutionary Party went from 72 of 76 seats in the Great Ikh Hural (Parliament) to a power-sharing arrangement with a resurgent Motherland Democratic Coalition (after several months of stalemate and negotiations).

Nor did support for Washington's unpopular war in Iraq provide disastrous for two of Washington's closest allies. In Japan, Prime Minister Koizumi Junichiro weathered a close Upper House election in July which saw the opposition Democratic Party of Japan make new inroads but not enough to force Koizumi's resignation. Meanwhile, in

Australia, close ally John Howard was expected to win a fourth term as prime minister at best by a slim margin during Oct. 9 national elections. While polls and pundits proclaimed the race “too close to call,” Howard’s Liberal Party/National Party Coalition won handily, increasing its majority in the House of Representatives and gaining control of the Senate for the first time, while giving the rival Labor Party one of the worst drubbings in its history. The victory owed more to the strength of Australia’s economy than to Howard’s foreign policy, although the vitriolic attacks against Washington (and President Bush personally) by opposition leader Mark Latham clearly bothered many Aussie voters.

Even in the U.S., many voters went to sleep on election eve confident, as a result of exit poll predictions, that “regime change” had occurred in Washington, only to awake to four more years of the Bush administration. In short, the year was filled with election surprises and missed forecasts.

Taiwan: Yet Another Fuzzy Crystal Ball

Memo to Taiwan’s Democratic Progressive Party (DPP): “welcome to the club.” Immediately prior to the Dec. 11 Legislative Yuan elections, pundits were already discussing what President Chen and his pan-green coalition (the DPP plus former President Lee Teng-hui’s even more independence-oriented Taiwan Solidarity Union or TSU) were going to do following what appeared to be an impending certain victory. Not so fast! This time it was the pan-blue’s turn to squeak out a victory. The Kuomintang/People First Party (KMT/PFP) coalition won 113 seats in the 125-seat LY (114 if the New Party’s single victorious candidate is added), with several of the 10 winners from independent parties also leaning in the blue direction.

The biggest changes were actually within the coalitions. The PFP lost significant ground to its pan-blue KMT allies – the PFP went from 46 to 34 seats while the KMT went from 68 to 79. President Chen’s DPP actually enjoyed a modest two-seat gain (to 89) while its more radical TSU partner lost a seat (from 13 to 12). The DPP could take some solace in retaining its position as the largest party, but given its earlier bold predictions of a coalition victory, had to see the results as an overall setback.

Parties rarely lose (or win) elections based on a single issue or factor, but it seems clear that President Chen’s brand of “in your face” politics, which in the past has successfully fueled nationalistic sentiment (and votes), backfired this time around. While claiming to still be honoring his pledge not to formally change the Republic of China’s name to Republic of Taiwan (a de facto declaration of independence and deliberate crossing of a presumed Chinese red line), he continued to push this envelop by “informally” substituting Taiwan for the ROC every chance he got – he even pledged that next year’s Quixotic quest to join the United Nations would be under the name Taiwan. While this was likely to cost Taipei votes at the UN, he was banking on it gaining him votes at home. Apparently not!

Swing voters (and even some DPP supporters) reportedly saw President Chen's pre-election directive that "Taiwan" would henceforth be used instead of "China" in the title of state-owned firms (like China Airlines) as unnecessarily antagonistic; many feared serious economic and political repercussions from Beijing. Chen's pledge to change the name of Taiwan's overseas missions also caught Washington by surprise, causing another public rebuke condemning this "unilateral change in the status quo" (thereby offering the Bush administration a rare opportunity to call someone else a unilateralist).

But, will President Chen see the election as a warning that he scale back his confrontational approach? If he chooses not to, the results are easy to predict: continued cross-Strait tensions, combined with increased economic and political (and perhaps even military) pressure from Beijing; a continued deterioration in Taipei's relations with Washington; and continued political deadlock at home as the KMT flexes its new-found muscles. What's harder to predict are the consequences if President Chen decides that a kinder, gentler approach is in order.

The new leadership in Beijing has demonstrated remarkable flexibility and creativity in its approach to many domestic and international issues, but seems locked into its previously unsuccessful "just say no" policy regarding any overture from Chen Shui-bian. The election setback opens a window of opportunity to move forward, now that Beijing can rest somewhat easier that no major constitutional change is likely to be pushed through the LY during the remainder of Chen's term in office. But whether or not Chinese President Hu Jintao will be bold enough to put forth a new initiative remains to be seen, as is Chen's ability or willingness to accept such an offer if made.

Meanwhile, it remains easy to find staunch Taiwan supporters in Washington, both inside and outside the Bush administration, who remain eager to tell Taiwan what it wants to hear. But the president himself seems increasingly fed up with Chen's antics, witness his December 2003 public rebuke of Taiwan's leader (during Chinese Premier Wen Jiabao's visit to Washington) and the most recent series of pointed criticisms against Chen's name-change initiatives. Positive steps, not lame excuses, will be required to restore Washington's confidence in the DPP leadership.

Domestically, one would hope that KMT leader Lien Chan would see this victory as an ideal opportunity to move forward . . . or perhaps even to finally step aside in favor of the next generation of KMT leaders, to increase his party's prospects for regaining the presidency in 2008. The impending vote on the \$18 billion arms package will be a test case. Will the pan-blue put national security first and support an arms package that it would have no doubt pursued had it been in power but now seems intent on blocking just because it can? The sad fact is that, just as the DPP has found it difficult to make the transition from being the perennial opposition to actually governing (even after more than four years of practice), it has been even more difficult for the KMT, after 50 years in power, to figure out how to act as a responsible opposition.

Those who feared, rightly or wrongly, that a DPP election victory would result in a further deterioration in cross-Strait and trans-Pacific relations and/or the demise of the

KMT were no doubt breathing easier at quarter's end. Those hopeful that the election results will open the door for improved cross-Strait relations, renewed trust between Taipei and Washington, and more cooperative, predictable domestic politics on Taiwan remain to be convinced.

Implications of President Bush's Reelection

It is too soon to make firm predictions regarding the Bush administration's Asia policy during its second term, but it appears safe to say that, as a general rule, continuity will remain the order of the day. The replacement of Deputy Secretary of State Richard Armitage and Assistant Secretary for East Asia James Kelly will more likely represent changes in style than in substance (although style clearly matters in Asia and both will be sorely missed). Many Asians (not to mention Americans, Europeans, and others around the globe) will be disappointed to see Secretary Powell leave in mid-January, but his designated replacement (pending Senate confirmation), Dr. Condoleezza Rice, is likely to pursue the same policies she coordinated and supported over the past four years as President Bush's national security advisor. Her close personal relationship and established credibility with the president should ensure that State Department views get serious consideration during the next administration, something that did not always appear to be the case during the past four years.

Korea (North and South) remains the greatest challenge. President Bush has already pledged to continue a diplomatic approach to resolve the standoff with the DPRK. Washington currently seems willing to accept a change in attitude or approach, rather than regime change per se, when it comes to dealing with Kim Jong-il. Of course, there are steps that Pyongyang could take to change this: an outright rejection of further talks would force discussion of "other means"; if Pyongyang were caught trying to export nuclear weapons or fissile material, an economic embargo (or worse) would seem inevitable; and a nuclear test could (indeed, should) force others, especially Seoul, to rethink (and presumably end) economic and political support for the Kim regime. Meanwhile, U.S.-ROK relations will continue to require greater attention, consistency, and finesse than previously demonstrated by either side during the past four years.

Washington's "cooperative, constructive but candid" relationship with China should continue as it keeps a watchful eye on how Beijing and Taipei relate to one another and to the U.S., although the Bush administration's expectations regarding Chinese cooperation on North Korea and other global issues are expected to rise. The new Bush team is also likely to be supportive of Japan's quest to become a more "normal" nation as its predecessor, although here the reassuring voice and behind-the-scenes expertise of Deputy Secretary Armitage will no doubt be missed.

In Southeast Asia, the immediate focus will be on helping Indonesia and other afflicted nations recover from the tsunami disaster. While Washington needs a more multidimensional approach to the ASEAN states, both individually and collectively – see [PacNet 53](#) and [PacNet 53A](#) for recommendations emanating from the Asia Foundation's "America's Role in Asia" task force – it is likely to focus its long-term effort, first and

foremost (but not exclusively), on Southeast Asia's role as "the second front" in the global war on terrorism.

Despite continued charges of unilateralism and its clear preference for ad hoc "coalitions of the willing," the Bush administration is likely to also continue its firm support for East Asian institutionalized multilateral mechanisms such as APEC and the ASEAN Regional Forum (ARF) and will remain generally supportive of, while nonetheless keeping a watchful eye on, multilateral efforts that exclude the U.S., such as ASEAN Plus Three (APT) initiatives involving the 10 ASEAN states plus China, Japan, and the South Korea.

Multilateralism Marches On, with and without Washington

Among the regional multilateral meetings held during the last quarter, arguably the most important, and clearly the most publicized, was the annual APEC Leaders Meeting in Santiago, Chile on Nov. 20-21, which drew at least as much attention for its important side meetings (the previously mentioned bilateral summits) and its security declarations (on counterterrorism and nonproliferation) as for its stated economic objectives. Earlier in the quarter, the ARF conducted its first senior-level defense officials meeting (with little or no fanfare). Meanwhile, ASEAN and APT leaders held summits in Vientiane, Laos in late November, proclaiming the formation of an East Asia Community as a long-term goal (membership yet to be fully defined), while moving forward on a number of individual free trade agreements (FTA) as well.

Also in the "largely overlooked" category, the quarter opened with the biennial Asia-Europe Summit (ASEM), on Oct. 7-9 in Hanoi. ASEM grew to 39 members during its fifth meeting, with the admission of the 10 new European Union (EU) member states plus Cambodia, Laos, and (most controversially) Burma/Myanmar. The participation of the latter (identified by both names in ASEM official pronouncements) was accepted with the expectation that its participation would be at lower than head-of-state level and that its human rights situation would be addressed. This concession by the EU did not prevent it from imposing new sanctions on Rangoon later in the month after the (once again) promised release of Aung San Suu Kyi failed to materialize.

First ARF Security Policy Conference

As mentioned last quarter, ARF ministers endorsed a Chinese proposal to establish an ARF defense officials forum at the deputy minister level during the 11th annual ARF Ministerial meeting in Jakarta in early July. The first ARF Security Policy Conference took place in Beijing on Nov 4-6, with Indonesia's Deputy Defense Minister Sudrajat serving as the chair. Military representatives from all 24 ASEAN countries participated. Subsequent meetings will be convened back-to-back with the annual ARF Senior Officials Meeting (SOM), and hosted by the rotating (within ASEAN) ARF Chair.

This annual gathering of senior military officials is meant to "open new channels of dialogue and exchange among defense officials," according to Chairman Sudrajat. Details of the meeting have yet to make their way to the ARF website (maintained by the

ASEAN Secretariat), but press reports indicated that the objective was “to promote the participation of national defense officials in the ARF, enhance mutual trust and understanding, and improve and enrich the ARF process.” Participants reportedly reviewed the international and regional security situation, briefed each other on their own security policies, and discussed the role defense departments play in dealing with “nontraditional security threats,” defined by Chairman Sudrajat to include “terrorism, drug-trafficking, money-laundering, and weapons smuggling.”

The U.S. was represented by Assistant Secretary of Defense for International Security Affairs, Peter Rodman, who reportedly noted that the group still faces the challenge of reducing tensions in a region of military build-ups and long-standing sources of potential tension. “The regional system, in our view, needs to reinforce the restraints on the use or threat of military force,” Rodman said at the meeting, according to a text released by the U.S. Embassy in Beijing. Many view this Chinese initiative as an effort to undercut and eventually supplant the annual, unofficial Shangri-La Dialogue in Singapore sponsored by the London-based International Institute of Strategic Studies (IISS), which continues to draw a much more senior crowd, last year including U.S. Defense Secretary Donald Rumsfeld.

APEC’s Economic Agenda

Despite media reports that U.S. security concerns have come to dominate the dialogue, the 12th APEC Leaders Meeting made clear that the 21 members have regional economic issues at the forefront of their agenda. As co-author Jane Skanderup noted in “The APEC Santiago Declaration: Steady Progress, New Challenges,” *PacNet* 51, Dec. 6, 2004 [link], the “Santiago Declaration” is noteworthy for workman-like attention to economic issues great and small: attending to developing country concerns about capacity-building and access to the “knowledge society,” while also committing members to a successful completion of the World Trade Organization (WTO) Doha Development Round.

The Santiago Declaration endorsed cooperation on a broad range of topics: HIV/AIDS and the life sciences, new initiatives on anticorruption and e-commerce for small businesses, continued work on the APEC Energy Initiative, and numerous workshops on all these issues hosted by just about every APEC economy.

In the big trade picture, the “Santiago Initiative for Expanded Trade in APEC” seeks greater coherence among the WTO negotiations, members’ progress toward the APEC Bogor liberalization goals, and the plethora of free trade agreements and regional trade agreements (FTAs/RTAs) within APEC. Critics of such agreements will lament that the Declaration embraced these deals as “constructive in accelerating liberalization in the region,” but it also adopted “best practices” guidelines to promote greater transparency in their effectiveness, scope, and consistency with WTO rules.

Trade ministers are tasked throughout the year to consistently review progress toward the Doha Development Round in preparation for the Hong Kong WTO Ministerial in December 2005. It was not lost on leaders that this critical WTO meeting will convene

just one month after the next APEC summit in November 2005 in Pusan, South Korea, and APEC will be under pressure to demonstrate leadership in more than just words. To this end, the first mid-term evaluation of progress toward the Bogor goals was also scheduled for the next trade ministers' meeting in mid-2005.

Economic Regionalism: Peaceful co-existence of APEC and ASEAN Plus Three

Within a week of APEC's annual meeting in Santiago, many of the same leaders and officials landed back in Asia for the annual APT summit meeting in Vientiane, Laos on Nov. 29-30 (with India in attendance for the second year and Australia and New Zealand participating for the first time). The outcomes of these meetings demonstrate a high degree of complementarity. Worries about the region-only process outshining interest in APEC seem premature; while fomenting better ties in the neighborhood is necessary, it is as critical to cultivate regionwide deals that are more global in scope and impact.

The APT "Vientiane Action Plan" centers on narrowing development gaps both within ASEAN and with the "Plus Three" countries. In addition, economic ministers were mandated to create an experts group to study an East Asia Free Trade Area (EAFTA)—APEC ministers chose not to implement a similar recommendation. Participants agreed, reportedly over Indonesian objections, to hold the first official East Asian Summit in Malaysia in 2005, with a May 2005 meeting of foreign ministers in Kyoto, Japan planned to discuss "the concept and modalities." (One of the modalities is who will be included. Former Malaysian Prime Minister Mahathir took strong exception to the presence of Australia and New Zealand at the Vientiane meeting, suggesting that they were European nations despite their Asia-Pacific location.)

Complimenting these multilateral activities were a number of bilateral/subregional FTA side agreements outlined or agreed upon along the sidelines of the Vientiane meeting:

ASEAN: ASEAN fast-tracked removal of tariffs on goods to 2010 for the six more developed members, and 2015 for the four less developed. It also agreed to advance the timetable on 11 key sectors – comprising 50 percent of intra-ASEAN trade – to 2007 for the six and 2012 for the other four.

ASEAN-South Korea: South Korea stepped away from its previous skepticism and agreed to begin negotiations for an FTA in early 2005 and conclude within two years. By 2009, tariffs on at least 80 percent of all items will be abolished. South Korea concluded FTA negotiations with Singapore on Nov. 29.

ASEAN-Japan: Talks will begin in April 2005 to eliminate tariffs on goods by 2012.

ASEAN-China: The first solid evidence of the FTA declaration signed two years ago was an agreement to eliminate tariff and nontariff barriers on a range of agricultural and manufactured goods by 2010; a dispute settlement mechanism was also created.

ASEAN, Australia, New Zealand: The current “partnership agreement” was upgraded to start FTA negotiations in 2005, with the aim of doubling trade and investment by 2010. Australia has FTAs with Singapore and Thailand and is working on one with Malaysia.

ASEAN-India: Agreed to a blueprint for an FTA by 2011 with five members and 2016 for the other five. Two-way trade is expected to double by 2007 to \$30 billion. Other cooperation plans include an ASEAN-India high-speed broadband optical-fiber network.

2004 Regional Economic Overview and 2005 Preview

In 2004, East Asia turned its best economic performance since the 1997 financial crisis, with average GDP growth of 7.6 percent, compared with 6.9 percent in 2003. A rapid increase in exports – fed by a solid recovery in the U.S. and steady improvement in Japan – coupled with strong domestic demand in most countries were the key factors driving growth. Capital inflows also reached post-crisis highs across the region; in South Korea, investment in manufacturing quadrupled from 2003, perhaps indicating that at least some corporate strategies to compete with China by focusing on higher-end quality are paying off. Other highlights included a tremendous rebound in Singapore, which recovered from just over 1 percent growth in 2003 to more than 8 percent in 2004. Most of the region withstood what turned out to be a temporary hike in energy prices, yet this did seem to scare governments into more forward-looking thinking about diversification of energy resources.

Amid an overall positive rebound in global economic growth this year, there were steady warnings to not become complacent about meeting national economic challenges that could erode the positive momentum if left ignored. Analysts called on the U.S. to address its fiscal and current account balances, and for Asian countries to continue to press forward on restructuring, particularly in the financial and service sectors, and on exchange rate flexibility.

China’s continued efforts to ease overheating appeared to take effect toward the end of the year, overcoming fears that Beijing’s failure to halt the overheating could create a “hard landing” with a deep drop in demand. China was widely praised for its end-October hike in interest rates – the first in nine years – which indicated growing confidence by the government to rely on market mechanisms rather than “administrative measures” that amounted to ineffective arm-twisting. At the same time, the government liberalized interest rates, a move analysts said would force China’s banks to assess different rates based on risk, which will help move loans into the productive private sector and away from the sink hole of state-owned firms.

The Tsunami’s Economic Impact

It is still too early to estimate the Dec. 26 tsunami’s economic toll. However, without minimizing the tremendous human and social costs of the disaster, the devastation in the 11 countries appeared mostly to affect communities that are marginal to their national economies’ productive capacity, and the initial forecast for the impacted countries were

either unchanged or, for those areas reliant on tourism, modestly lowered. Yet many questions still loom large: how soon local livelihoods can be restored, whether fishing and farming are still viable, and how national coffers can support longer-term aid and reconstruction.

The political challenges of recovery promise to be as great as the economic ones. Governments in the impacted countries are already being severely tested to effectively distribute aid, particularly in Indonesia where newly elected President Yudhoyono ran on a pledge to root out corruption. An estimated 30 percent of the country's budgetary funds are lost to graft annually, according to Indonesia Corruption Watch, and is worst in disaster-stricken Aceh province. Disaster response has always been a litmus test for effective government, particularly in developing countries where provincial institutions are politically weak. Already, survivors and aid officials complain that government response in India and Indonesia is confused, with Thailand and to some degree Sri Lanka better organized. The political lessons central governments take from this disaster will be as important to monitor as the economic recovery.

One surprising outcome could be a reexamination of environmental policies. Coastal mangrove forests and reef systems that could have cushioned the tsunami's impact are being steadily destroyed by shrimp farming; the flat land and brackish water that mangroves inhabit are ideal for creating the crater-like shrimp farms. The required chemicals for shrimp cultivation also damage reef systems and eventually pollute even the shrimp, causing farmers to move on and decimate more mangroves. Notably, Thailand is the world's largest shrimp exporter, with Indonesia and India not far behind. In Aceh, mangroves are sold as timber to Singapore and Malaysia, leaving naked the shoreline. If mangroves had been left standing, human settlements would be further inland, which could have limited damage. In the Maldives, officials say that the extensive reef system helped to smother the tsunami; the loss of life on this island chain (only five feet above sea level) could have been much worse. As one Thai environmentalist argued, "Coral reefs save lives." The need for central governments and aid officials to apply sustainable development policies, so coastal villages don't literally remain in the world's backwaters, is only one of the many enormous tasks that lie ahead.

Preview for 2005: Economic downturn, China's currency, New WTO Leadership

The consensus view is for regional growth to drop to (a still respectable) 6.5 percent as domestic demand across the region weakens, growth in the U.S. and Japan slows, and the global electronics sector softens. "The key policy challenge facing East Asia over the next year or two," the Asia Development Bank (ADB) notes, "is to sustain robust growth at a time when U.S. interest rates and domestic inflation are on an upward path." The policy response should be tighter fiscal and monetary policies, greater exchange rate flexibility, and structural reforms to invigorate private investment.

With the dollar declining 16 percent from its early 2002 peak, calls for greater exchange rate flexibility will take center stage in 2005; they will focus on the Chinese yuan's peg to the dollar. Many analysts predict this will be the year for the "shoe to drop," or rise as

the case may be. As Morgan Stanley's Steve Roach observes, "While China would prefer to wait until it is 'ready' on this score, the rest of the world may not be nearly so patient. This underscores an increasingly critical juncture in China's extraordinary journey – the need to strike a better balance between its domestic objectives and the global implications of its remarkable transformation." Analysts still debate whether a free float or a widening of the peg's band would be best, but the market already has built in considerable investor speculation, betting on a move sooner rather than later.

Finally, the WTO Doha Development Round could turn eventful toward mid-year. The term of the current WTO Secretary General Supachai is up Aug. 31, and the new leader will have to usher along the glacial negotiations if the 147 members are to meet the test posed by the Hong Kong ministerial in December 2005.

The Crisis that Hasn't Occurred . . . Yet!

Finally, a few words about the crisis that has not occurred; namely the fear that the current avian flu virus, responsible for killing millions of birds throughout East Asia, might mutate and begin spreading from human to human, causing a pandemic of disastrous proportion. Dr. Shigeru Omi, the World Health Organization's regional director for Asia and the Pacific, got the region's (and the world's) attention on Nov. 29 when he said that if a pandemic should strike – an outcome he termed "very, very likely" – the death toll "may be 20 million or 50 million, or in the worst case, 100" million. (The WHO had previously estimated the potential death toll at 2-7 million.) Dr. Omi said governments should be prepared to close schools, office buildings, and factories to slow the rate of new infections, and work out emergency staffing to prevent a breakdown in basic public services. WHO officials in Geneva said later that they had not received an advance copy of Dr. Omi's remarks and did not know the basis for his estimates and why he believed a pandemic was so likely. The WHO "is not trying to scare the planet," a spokesman explained, it is merely "trying to raise concern because we're concerned."

Regional Chronology October-December 2004

Oct. 1, 2004: G-7 finance ministers meet in Washington, hold a special session with Chinese Finance Minister Jin Renqing.

Oct. 1, 2004: Russian Cabinet approves Kyoto Protocol.

Oct. 1, 2004: Indonesian police identify Australian embassy bomber.

Oct. 2, 2004: North's KCNA news agency states "It will be impossible to expect any development of the inter-Korean relations unless the truth about South Korea's secret nuclear experiments is probed."

Oct. 4, 2004: Thailand reports 11th death from bird flu.

Oct. 4, 2004: Indonesian election commission reports President-elect Susilo Bambang Yudhoyono (SBY) wins 60.6 percent of the vote over incumbent Megawati Sukarnoputri.

Oct. 4, 2004: *Kyodo News Agency* reports the PRC has confirmed to other parties in the Six-Party Talks its assessment that the DPRK has a uranium enrichment program.

Oct. 4-6, 2004: Pres. Roh Moo-hyun makes first visit to India by a South Korean leader.

Oct. 6, 2004: The U.S. agrees to extend the withdrawal of 12,500 U.S. troops from the ROK: 5,000 will depart in 2004; 3,000 in 2005; 2,000 in 2006; and 2,500 in 2008.

Oct. 7, 2004: Pres. Bush telephones Pres. Hu to discuss Beijing's exchange rate policy, Taiwan, and efforts to defuse the North Korean nuclear crisis.

Oct. 7, 2004: King Norodom Sihanouk of Cambodia abdicates, ending a reign of 63 years. His youngest son, Prince Sihamoni, is selected the new king.

Oct. 7, 2004: ROK and DPRK hold mil-mil talks to discuss rail and road links through the DMZ.

Oct. 7-9, 2004: The 5th ASEM summit is held in Hanoi; 38 leaders from Asia and Europe attend and call on Burma to pursue democratic reforms.

Oct. 8, 2004: *KCNA* says the six-party talks can be resumed right now if the U.S. "makes a switchover in its hostile policy."

Oct. 8, 2004: IAEA chief ElBaradei says the ROK's work with uranium and plutonium does not appear to be part of a weapons program.

Oct. 9, 2004: Australian PM Howard wins fourth term; his ruling coalition increases its majority in the House and captures the Senate.

Oct. 10, 2004: Taiwan Pres. Chen proposes resumption of cross-Strait talks based upon "1992 meeting in Hong Kong."

Oct. 11, 2004: EU imposes tougher sanctions after the military junta in Burma fails to meet Oct. 7 deadline to release Aung San Suu Kyi.

Oct. 12-13, 2004: Deputy Secretary of State Armitage visits Tokyo; attends int'l donors' conference on Iraq.

Oct. 13, 2004: China rejects Taiwan's call for peace talks: "When Chen Shui-bian says he wants to ease tensions, it is false. When he says he wants independence, it is true."

Oct. 13, 2004: IAEA reports experiments were carried out during Taiwan's brief revival of a nuclear weapons program in the 1980's that has since been abandoned.

Oct. 14, 2004: Remains believed to be those of U.S. soldiers recovered in the DPRK are returned home via the DMZ.

Oct. 14, 2004: *JoongAng Ilbo* poll shows 65 percent of Koreans have favorable opinion of U.S. but 72 percent felt unfavorable toward President Bush.

Oct. 14-16, 2004: Pres. Putin pays a state visit to China.

Oct. 15, 2004: 20 North Korean asylum-seekers enter the South Korean Consulate in Beijing.

Oct. 18, 2004: Pres. Bush signs North Korean Human Rights Act, which authorizes humanitarian aid to refugees and provides nearly \$24 million a year to nonprofit organizations to support human rights, democracy, rule of law, and the development of a market economy in North Korea. DPRK calls Act a “declaration of war.”

Oct. 18-20, 2004: DPRK No. 2 leader, Kim Yong-nam visits Beijing; says the DPRK still regards six-nation talks as the best way to reach a solution.

Oct. 19, 2004: Burma PM Khin Nyunt is placed under house arrest on corruption charges and retired from office.

Oct. 19, 2004: Russian security services seize two containers filled with highly radioactive material at a scrap yard in central Russia.

Oct. 20, 2004: SBY inaugurated first directly-elected president of Indonesia.

Oct. 21, 2004: ROK court blocks government plan to move the capital from Seoul, saying this decision can only be approved by referendum.

Oct. 21, 2004: State Dept. denounces deposed Burma Gen Khin Nyunt’s successor, Lt. Gen. So Win, as the officer responsible for the May 2003 attack on Aung San Suu Kyi’s caravan.

Oct. 22, 2004: 29 North Koreans seek asylum in a South Korean school in Beijing.

Oct. 22, 2004: Russian Duma ratifies the Kyoto Protocol.

Oct. 22-26, 2004: Secretary Powell visits Japan, China, and South Korea.

Oct. 24, 2004: Chief of the PLA General Staff Gen. Liang visits U.S., meets Secretaries Rumsfeld and Powell, and NSC Adviser Rice.

Oct. 24-29, 2004: Burma’s Senior Gen. Than Shwe visits India – the first Burmese head of state to visit India in nearly 25 years.

Oct. 25, 2004: Sec. Powell tells *Phoenix TV* and *CNN* that “reunification” between Taiwan and China is the eventual outcome that “all parties are seeking” and that Taiwan is not an “independent” country and “does not enjoy sovereignty as a nation.”

Oct. 25, 2004: 78 Muslim men die in southern Thailand during transit to Thai military barracks following a demonstration.

Oct. 26, 2004: Proliferation Security Initiative naval exercise held in waters off Tokyo Bay; North Korean UN amb. protests exercise as a violation of the UN Charter.

Oct. 27, 2004: TCOG meets in Seoul. U.S., ROK, and Japan agree on need to hold a new round of Six-Party Talks by the end of 2004.

Oct. 27, 2004: Japanese citizen, Shosei Koda, is taken hostage in Iraq and subsequently beheaded.

Oct. 28, 2004: Indonesian government re-opens trial of Jemaah Islamiyah leader and cleric Abubakar Basyir.

Oct. 31, 2004: Thai King Bhumibol urges PM Thaksin to use more restraint in troubled southern provinces.

Nov. 1, 2004: South Korean warship fires warning shots at DPRK boats that entered ROK waters.

Nov. 1, 2004: *Xinhua* reports martial law imposed in Henan province due to ethnic unrest.

Nov. 1, 2004: IAEA Chief ElBaradei says DPRK represents a grave challenge to nuclear weapons proliferation.

Nov. 1, 2004: *China Daily* publishes an article entitled “U.S. Strategy to be Blamed,” by former Vice Premier Qian Qichen, that harshly criticizes President Bush’s foreign policy.

Nov. 2, 2004: President Bush wins re-election.

Nov. 2, 2004: DPRK’s *KCNA* accuses ROK of “grave provocation” following Nov. 1 naval clash.

Nov. 2, 2004: U.S. Army Sgt. Charles Jenkins found guilty of desertion, and sentenced to 30 days confinement and a dishonorable discharge.

Nov. 4-6, 2004: First ARF Security Policy Conference held in Beijing.

Nov. 5, 2004: PM Thaksin warns Muslim separatists provocations could worsen violence in the south.

Nov. 5, 2004: Putin signs Kyoto protocol, which will allow the treaty to come into force in 2005.

Nov. 9, 2004: Japanese newspaper reports U.S. sets a “red line” against North Korean export of nuclear materials.

Nov. 9, 2004: Korean Air and Asiana to resume regular flights to Taipei that had been suspended since the ROK’s diplomatic recognition of the PRC in 1992.

Nov. 10, 2004: Taipei releases 10-point plan for cross-Strait relations; statement reaffirms nonnuclear policy.

Nov. 10, 2004: Japan’s MSDF goes on alert after unidentified submarine is found in Japanese waters.

Nov. 10-13, 2004: Japan and DPRK hold new talks in North Korea on Japanese abductees.

Nov. 11, 2004: IAEA says ROK scientists illegally conducted secret nuclear tests on a larger scale than Seoul had previously declared.

Nov. 12, 2004: In Los Angeles speech, Pres. Roh rules out military option for dealing with DPRK.

Nov. 12, 2004: Gas explosion at a coal mine in Henan, China kills 33.

Nov. 15, 2004: PM Koizumi expresses dissatisfaction with DPRK explanations about Japanese abductees.

Nov. 15, 2004: Pres. Chen says he will seek to join UN as “Taiwan.”

Nov. 15, 2004: Russian FM Lavrov says government intends to follow the declaration that was concluded with Japan in 1956, which stipulates handing over two of the Kuril Islands (Habomai and Shikotan) to Japan.

Nov. 17, 2004: Taiwan Affairs Office denounces Taiwan’s constitution reform efforts; dismissing President Chen’s conciliatory remarks as rhetoric.

Nov. 17-18, 2004: APEC Ministerial Meeting in Santiago, Chile.

Nov. 19, 2004: Thai King Bhumibol offers second appeal for peace in the south and for restraint on the part of the police and military.

Nov. 19, 2004: DPRK denies portraits of Kim Jong-il have been taken down and calls reports a U.S. plot to overthrow its government.

Nov. 20, 2004: Burma's military junta releases 4,000 prisoners.

Nov. 20, 2004: DPRK says ROK nuclear efforts pose a "great threat to peace."

Nov. 20-21, 2004: APEC Leaders meeting in Santiago, Chile. President Bush holds bilateral summits with PM Koizumi, Presidents Roh, Putin, and Hu to pressure DPRK to resume Six-Party Talks.

Nov. 24, 2004: DM Juwono Sudarsono says Indonesia has elected to enter into military cooperation with Russia and China.

Nov. 25, 2004: Burma's military junta says it will release an additional 5,000 prisoners.

Nov. 26, 2004: IAEA Governors rebukes South Korea for conducting undeclared illegal nuclear experiments, but refrain from referring the matter to the UNSC.

Nov. 28, 2004: Asian health ministers meet in Thailand to discuss bird flu.

Nov. 29, 2004: ROK concludes FTA negotiations with Singapore.

Nov. 29, 2004: Burma's opposition leader Aung San Suu Kyi's house arrest extended.

Nov. 29, 2004: WHO official says bird flu pandemic could kill 20-50 or even 100 million people.

Nov. 29, 2004: ASEAN and ASEAN Plus Three summits in Vientiane, Laos; India, Australia and New Zealand leaders invited.

Nov. 29, 2004: State Dept. warns Pres. Chen about a referendum on independence; reaffirms importance of Chen's "four noes" pledge.

Nov. 29, 2004: DPRK calls Pres. Bush an "incorrigible ignoramus."

Nov. 29-Dec. 1, 2004: Dalai Lama visits Russia.

Nov. 30, 2004: Pres. Chen publicly reaffirms his commitment to "four noes."

Nov. 30, 2004: Flash floods and landslides in the Philippines kills more than 300.

Dec. 1, 2004: Main East Sea Road connecting North and South Korea officially opens.

Dec. 4, 2004: DPRK says it will not return to Six-Party Talks until the new U.S. administration clarifies its position.

Dec. 5, 2004: Pres. Chen calls for changing names of state corporations and overseas offices to use "Taiwan."

Dec. 7, 2004: Indonesian authorities arrest governor of Aceh, Abdullah Puteh, for alleged involvement in corruption.

Dec. 8, 2004: Tokyo expresses “extreme regret” that DNA tests show that remains provided by the DPRK do not match those of a missing Japanese woman, Yokota Megumi.

Dec. 9, 2004: Deputy National Security Adviser Stephen Hadley says a goal of U.S. policy is the “transformation” of North Korea.

Dec. 9, 2004: PM Koizumi announces Japan will maintain its troops in Iraq for another year.

Dec. 9, 2004: United Airlines launches first daily commercial flights from U.S. to Vietnam since 1975.

Dec. 10, 2004: Japan approves the “National Defense Program Guideline for FY 2005 and After,” which will allow an enhanced security partnership with the U.S.

Dec. 11, 2004: Taiwan’s ruling party suffers surprise defeat in parliamentary elections to the opposition pan-blue coalition, which wins 114 of 225 legislative seats

Dec. 11, 2004: Burma’s military junta announces release of additional 5,070 prisoners, bringing the total number of prisoners recently released to over 14,000.

Dec. 15, 2004: Unification Minister Chung Dong-young leads a delegation to the Kaesong Industrial Zone. He is cold-shouldered by the DPRK’s far more junior delegation head, and Northern media do not report his presence.

Dec. 16, 2004: DPRK warns Tokyo that sanctions would be “an act of war.”

Dec. 17, 2004: Japan and U.S. sign MOU to improve cooperation in missile defense programs.

Dec. 17, 2004: *Xinhua* reports China will introduce anti-secession legislation for deliberation during its Dec. 25-29 session of the Chinese Parliament.

Dec. 17-18, 2004: PM Koizumi and Pres. Roh hold a “working summit” in Ibusuki, Japan.

Dec. 18, 2004: Taiwan condemns China’s anti-secession law.

Dec. 19, 2004: VP Kalla elected Golkar Party chairman, giving Indonesian ruling party a parliamentary majority.

Dec. 20, 2004: Pres. Bush says U.S. is not seeking regime change in North Korea and is committed to six-party dialogue.

Dec. 20, 2004: Dep. Sec. Armitage remarks that Taiwan is biggest “land mine” in the U.S.-China relationship; says Washington is not required to come to Taiwan’s defense if attacked by China.

Dec. 20-24, 2004: PM Abdullah Badawi of Malaysia visits India to promote “some form of free trade agreement” and “to build new bridges.”

Dec. 21, 2004: Japan issues visa for former Taiwan President Lee Teng-hui sightseeing trip despite protests from China.

Dec. 22, 2004: PM Thaksin says Thai officials were negligent in the deaths of 78 Muslims that died in army custody in October and will be punished.

Dec. 23, 2004: Taiwan officials downplay Secretary Armitage’s remarks: “Armitage was very clear. U.S. policy toward Taiwan has not changed.”

Dec. 24, 2004: Japan and U.S. agree on joint use of U.S. military bases in Japan.

Dec. 26, 2004: Massive 9.0 earthquake erupts in the ocean floor off Sumatra, causing tsunami across the Indian Ocean, killing over 150,000 in coastal areas in South and Southeast Asia.

Dec. 27, 2004: China releases Defense White Paper that says the military will crush any major Taiwanese move toward independence. Taiwan responds, accusing Beijing of escalating tensions.

Dec. 27, 2004: DPRK blames the South for the rupture in North-South ties, accusing it of systematically harming relations by various actions over the past two years.

Dec, 27-Jan 2, 2004: Former Taiwan president Lee Teng-hui visits Japan.

Dec. 29, 2004: Pres. Bush announces that the U.S., Australia, Japan, and India will form an international coalition to lead tsunami relief efforts.

Dec. 30, 2004: Taiwan’s High Court rejects appeal to nullify March 20 presidential elections results.

Dec. 30, 2004: Taiwan celebrates official opening of the world’s tallest skyscraper, known as “Taipei 101,” at 1,679 feet tall.

Dec. 31, 2004: Pres. Hu praises China’s strong economic growth, calls for Beijing to play a larger role in world affairs in 2005, and vows never to allow Taiwan to become independent.

Dec. 31, 2004: Russian government gives long-awaited approval for a major oil pipeline to the Pacific, enabling exports to Japan and the U.S., and finally dropping the idea of a route to China.

Dec. 31, 2004: ROK National Assembly approves extension of ROK troop mission in Iraq for another year by a vote of 161-63, with 54 abstentions, just before the previous mandate's midnight expiration.

U.S.-Japan Relations: Planning Ahead

Brad Glosseman
Pacific Forum CSIS

The final quarter of 2004 was uneventful, at least as far as U.S.-Japan relations were concerned. I don't dwell on this tranquility to fill space; it's revealing of the maturity and solidity of the relationship and a welcome change from the turbulence of the 1990s. This period of calm permits the two governments to focus on future planning rather than alliance management. To their credit, they are doing just that.

Highlights of this quarter include a public discussion of the meaning of the "Far East" clause in the U.S.-Japan security treaty, a topic that fits into a broader national security debate that is taking place in Japan, Japan's hosting of a Proliferation Security Initiative (PSI) exercise in Sagami Bay, and approval of the National Defense Program Guidelines (NDPG), which outline Japan's future security posture. The quarter closed with the terrible earthquake in Indonesia and the tsunami it created; Prime Minister Koizumi Junichiro was quick to respond, both to deploy Japan's formidable assets to help combat the devastation, and to demonstrate his country's ability to play a vital regional and international role.

Debating Security

For over a decade, Japan's security thinking and posture have been changing. Much of that evolution has been traced in these pages. While Japan has moved incrementally toward a more realistic security strategy, this has largely been an ad hoc process in which Tokyo responds to external events. In this quarter, however, the intellectual debate caught up with reality. Three publications – the report of the Prime Minister's Council on Security and Defense Capabilities (better known as the Araki Commission), the NDPG, and the Mid-term Defense Buildup Plan – laid out Japan's visions for the future and its security strategy.

The Araki Commission report was presented in October and it anticipated many of the issues that would be discussed in the NDPG. It identifies two security goals: preventing a direct threat from reaching Japan and reducing the chances of threats arising in parts of the world that could reach Japan or harm Japanese interests. Three approaches are available to Japan: self defense, cooperation with the United States, and working with the international community.

While those goals and options have existed, the Araki report is notable for stressing the need for an “integrated security strategy” that is more flexible and outward looking than the self-defense approach that prevailed throughout the Cold War. It calls for “bolstering the credibility of the Japan-U.S. alliance” and continuing to rely on extended deterrence provided by the U.S. This, the report continues, obliges Japan to acquire effective ballistic missile defense systems in cooperation with the U.S. More generally, Japan “must continually upgrade arrangements for cooperation to deal with these types of situations, and strive to enhance the reliability of Japan-U.S. cooperation in actual operations.” In practical terms, that means Japan must relax its ban on arms exports, at least to the U.S. so that it can fully participate in the development and deployment of an antiballistic missile system.

A similar logic guides thinking when the commission turns to “preventing the emergence of threats by improving the international security environment.” Given their shared values, it is obvious that Tokyo and Washington should work together – both consulting and cooperating – to maintain peace and prevent conflict. The report even goes so far as to call the U.S.-Japan alliance “a public good” for countries in Asia. A closer strategic dialogue is one way of clarifying the appropriate roles for each country and creating a framework for action.

In practical terms, the report calls on Japan to embrace the “Multifunctional Flexible Defense Force concept” which would allow the Self-Defense Forces (SDF) to be more versatile and take on a wider range of functions. It also outlines the structural reforms in decision making and information management that are needed to bring the integrated security strategy into being. [For more on the Araki Report, see Yuki Tatsumi, [“Japan’s First Step Toward a National Security Strategy: Assessing the Araki Commission Report,” PacNet #47A, Oct. 22, 2004.](#)]

While the Araki Commission’s conclusions will seem unexceptional to outside observers, they did trigger controversy in Japan. The left complained about the call for lifting the arms export ban and worried about increasing integration between the U.S. and Japanese militaries. Conservatives generally applauded the report for its realism but were disappointed that specific threats – China in particular – were not mentioned.

Realignment and Redefinitions

Japan was denied the luxury of contemplating the implications of those plans. Shortly after the Araki Commission report was released, U.S. and Japanese officials met in Tokyo for regular talks on security strategy. A key agenda item was U.S. plans to realign U.S. forces in Asia. Three items have dominated public discussion: the transfer of functions of the Fifth Air Force from Yokota Air Base to the headquarters of the 13th Air Force in Guam (this would permit joint civilian-military use of Yokota); the transfer of the Army I Corps headquarters from Washington state to Camp Zama; and the relocation of the Marine Corps Futenma Air Station and some Marines in Okinawa to the Japanese mainland or out of Japan. Lightening Okinawa’s burden has long been a demand of island residents. The crash of a Marine helicopter last August increased concern and the

sense of urgency. This quarter, Prime Minister Koizumi acknowledged the need for some movement.

The talks appear to have bogged down; the mayors of two towns bordering Camp Zama have protested any expansion of the base. Deputy Secretary of State Richard Armitage confessed that the two governments may have approached the problem in the wrong way. They should have first talked about the broader mission of the alliance – and their forces – rather than the particulars of deployment. “We started talking about individual items or locations, rather than starting from a philosophical discussion about how the U.S. and Japan see our alliance in 10, 15, or 20 years.” Armitage also said that the purpose of the U.S. realignment would be “to lessen the burden on the Japanese people” and enhance deterrence.

The problem is that any discussion of realignment of U.S. forces and new missions or responsibilities for Japan ultimately requires a hard look at Article 6 of the U.S.-Japan Security Treaty, which stipulates that the purpose of U.S. forces stationed in Japan is to maintain peace and security in the Far East. But what is the Far East? Does it include, for example, the Taiwan Strait? To date, Japanese security planners have gone out of their way – and used impressive verbal gymnastics – to avoid a firm answer to that question. Part of the reason is a reluctance to anger neighbors – China in the case of a Taiwan Strait crisis – but there are also constitutional concerns. Military activity in a situation that does not involve an attack on Japan could violate Article 9. Critics allege that allowing the U.S. to move I Corps HQ to Japan would entangle Japan in activities well beyond the scope of national defense – reaching perhaps as far as the Middle East – and violate the constitution.

The Japanese government’s response has been mixed. Defense Agency chief Ono Yoshinori told an Oct. 15 press conference that it would be difficult to limit the command based on territory but he also said that the two governments had long ago agreed on the meaning of Article 6. He also called for the two countries to evaluate their alliance to reflect current cooperation that aids the region and the world. Four days later, Prime Minister Koizumi said that any discussion of changes in U.S. forces in Japan “should be discussed from the viewpoints of the security treaty and the Japan-U.S. alliance in the global context.” Foreign Minister Machimura Nobutaka weighed in saying both countries need to be “flexible” when discussing U.S. redeployments while chief Cabinet secretary Hosoda Hiroyuki ruled out a redefinition of the alliance or a review of the treaty.

National Defense Program Guidelines

The December publication of the long-awaited “National Defense Program Guideline for FY 2005 and After” may provide some clarity. This is only the fourth time that Japan has revised its defense guidelines and this document for the first time identifies by name regional threats – China’s military and nuclear modernization program and North Korea.

The NDGP repeats the two security policy objectives identified by the Araki Commission, appears to confirm the shift toward a regional and international emphasis, and endorses the multifunctional, flexible approach explained in the Araki report. It notes that Japan will “on its own initiative engage in strategic dialogue with the U.S. on wide-ranging security issues such as role sharing between the two countries and the U.S. military posture...” Japan will also “actively promote intelligence exchange, operational cooperation including that in the ‘situations in areas surrounding Japan,’ cooperation on ballistic missile defense, equipment, and technology exchange, and efforts to make the stationing of U.S. forces in Japan smooth and efficient.” Chief Cabinet secretary Hosoda also confirmed that the Japanese government will exempt items related to ballistic missile defense from the arms export ban. Tokyo will decide on a case-by-case basis whether to further cooperate with the U.S. on arms development and production and to export defensive equipment to countries in support of their efforts to fight terrorism or piracy.

The document got a predictable reception. The opposition Democratic Party of Japan said the guidelines reflected bureaucratic compromises and had no guiding philosophy. Critics from the left said it signaled the abandonment of the Pacifist Constitution and would make it easier for the government to send the SDF overseas. China was angered by the idea that it might constitute a threat to Japan. North Korea produced its own blistering riposte. Little attention was paid to the fact that the budget that followed publication of the NDGP decreased defense spending for the third consecutive year.

Tokyo hosts the PSI

A taste of what Japan’s new security posture might entail was evident in the Proliferation Security Initiative (PSI) exercise that Japan held Oct. 26-28 in Sagami Bay. This was the 12th such exercise, the first ever hosted by Japan. Forty-four observers from 18 countries watched the drill, which involved ships from the Japanese, Australian, French, and U.S. navies, and included the interception and search of a vessel suspected of transporting sarin gas. Japan provided nine vessels and six aircraft. From his front-row seat, John Bolton, U.S. under secretary of state for arms control and international security, called the event “another momentous occasion” in the U.S.-Japan relationship and another case of Japan proving “yet again its commitment to the global war on terrorism by demonstrating its ability and willingness to use naval assets to counter proliferation.”

Nuts and Bolts

Throughout the quarter there was the usual alliance interaction. U.S. Secretary of State Colin Powell met with his counterpart, Foreign Minister Machimura in early October in Washington and again at the end of the month in Tokyo, at which time Powell also met Koizumi. The two foreign ministers covered a range of topics, from Afghanistan to United Nations reform. They tackled U.S. force realignment and the resumption of U.S. beef exports to Japan, suspended because of the discovery of mad cow disease in the U.S. They also agreed on the need to resume the Six-Party Talks on the North Korean nuclear crisis, and urged Pyongyang to return to the negotiating table. Japan promised continuing support for reconstruction in Iraq and Afghanistan.

Once again, Japan's efforts to assist in the reconstruction of Iraq ended in tragedy. Koda Shisei, a 24 year old, was taken hostage by Islamic radicals when he went to Iraq. They then demanded that the Japanese government withdraw the SDF from Iraq; when Tokyo refused Koda was killed. This incident had little effect on Japanese opinion. Koda had been denied a visa to Iraq when he applied in Amman Jordan, but apparently that had no effect. He journeyed on, unprepared, into the arms of the extremists.

While that drama was unfolding, the Japanese Cabinet agreed to extend for another six months (until May 1, 2005) the logistical support provided by the SDF to "Operation Enduring Freedom" in Afghanistan. This support was initially established by the terms of the Anti-Terrorism Special Measures Law that was passed by the Diet in October 2001. Since November 2001, when the support began, until Oct. 12, 2004, the Maritime SDF has completed 430 refueling operations, providing 100 million gallons of fuel. The Air SDF has completed 252 transport missions in Japan and overseas. At the Oct. 26 Cabinet meeting, the government also agreed to permit the MSDF to provide fuel to other countries, in addition to the U.S.

Closing a messy remnant of the Cold War, U.S. Army deserter Charles Robert Jenkins was found guilty of deserting his post on the Demilitarized Zone Jan. 5, 1965 and was sentenced to 30 days in jail, demoted from sergeant to private, forced to forfeit all back pay and benefits, and given a dishonorable discharge. Jenkins is the husband of Soga Hitomi, a Japanese woman abducted by North Korean agents and forced to live in that country. She was returned to Japan following the September 2002 summit between Koizumi and North Korean leader Kim Jong-il but her family – Jenkins and two daughters – remained in the North. Pyongyang may have hoped that U.S. treatment of Jenkins – the Pentagon had refused to ignore his desertion – would focus Japanese ire on the U.S. and provide a wedge issue that it could exploit between the two allies when dealing with the North. Instead, the Army apparently reached agreement on a relatively lenient sentence and handled the case accordingly. Jenkins was eventually released a week ahead of schedule. Of course, 40 years in North Korea is punishment enough.

Warm and Fuzzy

As in the past, the bilateral relationship took its cues from the top. President Bush and Prime Minister Koizumi continued their close consultations. On Nov. 8, Koizumi called Bush to congratulate him on his election victory. (During the U.S. campaign, some Japanese politicians came perilously close to stepping over the line with their comments about the election. Koizumi said that while he didn't want to interfere in another country's politics, he "was acquainted with President Bush [and] wanted him to carry on." Liberal Democratic Party Secretary General Takabe Tsutomu went a step further, saying that he thought "there would be trouble" if Bush wasn't re-elected. Koizumi calmed the tempest that followed by saying that the alliance is vital and therefore U.S.-Japan relations would stay on course no matter who won.)

At the Santiago APEC Leaders Summit, Bush and Koizumi met for 35 minutes to discuss the usual issues: North Korea, Iraq, the economy, and the redeployment of U.S. forces.

Both men confirmed their commitment to the six-party process in North Korea and the denuclearization of North Korea. Koizumi reportedly emphasized the importance of maintaining the U.S. deterrent after redeployment and the need to lighten the burden imposed on Japanese communities by U.S. bases. Bush is said to have praised the prime minister as “a man of clear vision and inner strength” and reportedly invited Koizumi to visit the U.S. in 2005.

Tragedy and Opportunity

The quarter closed with the 9.0 earthquake in Indonesia and the resulting tsunami that killed some 150,000 people on two continents (the death toll continues to climb) and left millions homeless. As the scale of the disaster became clear, governments worldwide mobilized to provide aid and relief. President Bush announced the formation of an aid group that included the U.S., Japan, Australia, and India. A week later, the group was disbanded and leadership in the aid effort was turned over to the United Nations.

For his part, Prime Minister Koizumi seized the opportunity provided by the disaster to push Japan to the forefront of international aid efforts. He attended the Jakarta emergency summit in early January that provided a focus for relief efforts. Tokyo has pledged \$500 million in aid and is reportedly considering some form of debt relief, most likely by suspending payments of affected countries. Japan has mobilized every branch of the SDF to provide assistance: 800 GSDF troops are being sent to Aceh and other hard hit areas, ASDF planes are flying in emergency supplies, and MSDF ships are providing supplies and troops. It is the biggest Japanese emergency relief operation in history and marks the first time that the country has deployed all three branches of the SDF simultaneously in such efforts. Tokyo has pledged to back development of a regional tsunami early warning system and put its substantial knowledge in development and disaster prevention and relief to work on behalf of the region.

Koizumi has said that he will use this tragedy to demonstrate what Japan is capable of contributing to the region and the world and will use it to buttress Japan’s bid for a permanent seat on the UNSC. At the same time, deployment of the SDF is designed to shape domestic and regional perceptions of Japan’s military, showing that it can be used for pressing humanitarian and relief operations and thereby defusing criticism, such as that which has followed the deployment to Iraq. The framework for such action is newly available; the trick will be doing that in a way that doesn’t appear overly cynical and opportunistic. Stay tuned.

U.S.-Japan Chronology October-December 2004*

Oct. 1, 2004: Prime Minister Koizumi Junichiro appoints former Liberal Democratic Party (LDP) Vice President Yamasaki Taku and former Foreign Minister Kawaguchi Yoriko as assistants to help on diplomatic and national security issues.

Oct. 2, 2004: Over 3,000 Okinawans call for closure of U.S. Marine Corps base in Futenma.

Oct. 4, 2004: Koizumi comments on possible shift of U.S. bases in Okinawa to other parts of Japan.

Oct. 4, 2004: Prime Minister's Defense Advisory panel (Araki Commission) presents "The Vision for Future National Security and Defense Capabilities." It recommends bolstering U.S. ties, easing arms exports, and enacting a permanent law on Self Defense Force (SDF) deployments overseas.

Oct. 4, 2004: *Keidanren* calls on the government to ease weapons export ban.

Oct. 6, 2004: Chief Cabinet Secretary Hosoda Hiroyuki proposes U.S. move some military units out of Okinawa.

Oct. 6-7, 2004: New Foreign Minister Machimura Nobutaka makes first official visit to Washington to meet Secretary of State Colin Powell. They reaffirm U.S.-Japan alliance and the realignment of the U.S. troops in Okinawa.

Oct. 7, 2004: U.S. forces in Okinawa resume *F-15* training flights after Oct. 4 *F-15* midair collision.

Oct. 8, 2004: Koizumi raises possibility of relocating U.S. troops from Okinawa to overseas bases.

Oct. 11, 2004: Japan decides to develop components for interceptor missiles for antiballistic missile system with the U.S. According to *The Japan Times*, Japan will have to pursue a "politically sensitive review" of its ban on weapons exports.

Oct. 12, 2004: U.S. and Japanese officials meet for regular talks on U.S.-Japan security strategy. Items include U.S. force realignments North Korea and reconstruction of Iraq.

Oct. 12, 2004: Japan approves restart of U.S. *CH-53D* helicopter flights, ending ban that followed August crash in Okinawa.

* Compiled by Lena Kay, Vasey Fellow, Pacific Forum CSIS.

Oct. 12, 2004: U.S. Deputy Secretary of State Richard Armitage and Japanese Vice Foreign Minister Takeuchi Yukio reconfirm that the Six-Party Talks are the best way to resolve the crisis over DPRK's nuclear ambitions, and DPRK must return to the Talks without conditions.

Oct. 13-14, 2004: Japan hosts 3rd Donor Committee Meeting for Iraq in Tokyo.

Oct. 13, 2004: Okinawa assembly adopts resolution protesting *F-15* accident.

Oct. 13, 2004: Cities hosting Camp Zama oppose plan to relocate U.S. forces.

Oct. 14, 2004: Japan unofficially proposes relocation of U.S. Marine Corp artillery unit from Okinawa to Hokkaido.

Oct. 16, 2004: LDP Secretary General Takebe Tsutomu says there will be trouble if Kerry wins U.S. presidency.

Oct. 16, 2004: Koizumi provokes tempest from Japan's opposition parties with comment that he is close to Bush and "would like him to do well."

Oct. 20, 2004: Chief Cabinet secretary Hosoda says Japan intends to maintain a clause in security alliance that limits operations of U.S. forces stationed in Japan to the Far East.

Oct. 21, 2004: Defense Agency chief Yoshinori Ono says that relocating the headquarters of a U.S. military unit to Japan would not violate the Japan-U.S. security treaty – even if the range of the unit's activity goes beyond the Far East.

Oct. 21-22, 2004: Japan and U.S. consult on the bovine spongiform encephalopathy (BSE) issue related to the resumption of U.S. beef exports to Japan.

Oct. 24-25, 2004: FM Machimura meets Secretary Powell in Tokyo.

Oct. 25, 2004: Powell said the U.S. has "never asked Japan for any change in the interpretation of the Japan-U.S. Security Treaty Article 6" (the "Far East" clause).

Oct. 25, 2004: Japan agrees to partially resume imports of U.S. beef from animals with birth records of up to 20 months after a 10-month ban.

Oct. 26, 2004: House of Representatives Speaker Yohei Kono expresses concern about U.S. military command transfer to Japan.

Oct. 26-28, 2004: Japan hosts Proliferation Security Initiative (PSI) Maritime Interdiction Exercise. Japan, U.S., France, and Australia participate in the exercise while 18 other countries send observers.

Oct. 27, 2004: The government decides effective Nov. 1 to extend the current deployment of MSDF vessels in the Indian Ocean until May 1, 2005, under an antiterror special measures law.

Oct. 27, 2004: Japan refuses terrorists' demand to withdraw SDF from Iraq even though terrorists have threatened to behead 24-year-old Shosei Koda, a Japanese hostage.

Nov. 1, 2004: Japan condemns brutal slaying of Koda, but vows to keep SDF in Iraq.

Nov. 1, 2004: Rocket attack on Japanese forces in Samawah.

Nov. 2, 2004: U.S. Army Sgt. Charles Jenkins found guilty of desertion, and sentenced to 30 days confinement and a dishonorable discharge.

Nov. 4, 2004: Democratic Party of Japan leader Okada Katsuya tells U.S. Ambassador to Japan Howard Baker of party's opposition to SDF presence in Iraq.

Nov. 5, 2004: SDF camp in Iraq comes under attack again; no injuries sustained.

Nov. 9, 2004: Koizumi says troops in Iraq are still in a "noncombat zone," despite the Iraqi government declaring a state of emergency for most of the nation. (The noncombat zone designation is a prerequisite for SDF troops to operate in Iraq under a special law authorizing the mission.)

Nov. 9, 2004: Japan says U.S. hasn't asked it to keep the SDF in Iraq, following comments by Ambassador Baker in which he said the U.S. hopes Japan will keep its troops there.

Nov. 18, 2004: U.S. dollar hits seven-month low against yen (USD \$1= ¥104), after Treasury Secretary John Snow's says that the U.S. government is comfortable with the dollar's decline. Japanese officials warned they would take action against the yen's excessive rise against the dollar.

Nov. 19, 2004: Defense head Ono meets with Secretary Rumsfeld, Vice President Cheney, and Deputy Secretary Armitage in Washington to discuss security issues. Ono tells Cheney that there is a close relationship between Japan's review of the National Defense Program Outline and the transformation of U.S. forces.

Nov 20, 2004: Japan proposes easing of weapons export ban to allow exports of weapons jointly developed and manufactures with either the U.S. or a multinational project centered on the U.S.

Nov. 20, 2004: Koizumi and Bush discuss military realignment, strong dollar, Iraq, and North Korea during APEC summit in Santiago.

Nov. 28, 2004: U.S. deserter Sgt. Charles Jenkins released ahead of Dec. 3 scheduled release date.

Nov. 28, 2004: Defense Agency chief Ono hints SDF could be out of Iraq by December 2005.

Dec. 10, 2004: Japan Security Council and Cabinet approves of the “National Defense Program Guideline for FY 2005 and After” (the new NDPG) and the “Mid-Term Defense Build-up Plan (FY2005-FY2009)”(the new MTDBP).

Dec. 13, 2004: Deputy Secretary Armitage urges Japan to avoid economic sanctions on North Korea because Pyongyang could use such a move as a tool to “outmaneuver” its adversaries.

Dec. 14, 2004: U.S. Ambassador Howard Baker backs Japan’s bid for United Nations Security Council seat with veto power.

Dec. 16, 2004: Cabinet and coalition approve extension of SDF deployment in Iraq for one more year.

Dec. 17, 2004: Japan adopts new National Defense Program Outline to pursue “multifunctional, flexible and effective” defense buildup to deal with terrorism and weapons of mass destruction as well as other threats to security.

Dec. 17, 2004: Ambassador Baker says he is “stepping down and would leave Japan Feb. 17, 2005.”

Dec. 17, 2004: Japan and the U.S. sign MOU to improve cooperation in their missile defense programs and related projects. The agreement was signed by the Japanese defense chief, Yoshinori Ono, and the U.S. ambassador, Howard Baker.

Dec. 20, 2004: Japan agrees to contribute \$60 million (¥66 billion) as additional support for the Middle East peace process.

Dec. 20, 2004: Japan to reduce defense spending by 1 percent next fiscal year, marking the third annual cut in a row, while increasing investment in the development of a U.S.-led missile defense system.

Dec. 21, 2004: Japan and U.S. hold meeting of working-level officials in Tokyo to discuss realigning U.S. Forces Japan.

Dec. 24, 2004: *Daily Yomiuri* reports that Japan and U.S. agree on joint use of U.S. military bases in Japan by the U.S. military and SDF. Details of what the phrase “transfer of jurisdiction” entails will depend on future bilateral consultations.

Dec. 26, 2004: Defense Department's Defense Security Cooperation Agency reports that Japan is No. 2 arms buyer for U.S. Foreign Military Sales program. Japan spent \$1.3 billion (about ¥135 billion) on U.S. arms last year.

Dec. 29, 2004: FM Machimura and Secretary Powell agree in a telephone conversation to establish a structure for international cooperation to help victims of the powerful earthquake and tsunamis.

Dec. 29, 2004: President Bush announces that the U.S., Australia, Japan, and India will form an international coalition to lead relief efforts after the devastating earthquake and tsunami that claimed more than 150,000 lives. The U.S. has already pledged \$35 million and sent its navy to help the aid effort.

U.S.-China Relations: Slips of the Tongue and Parables

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The quarter opened with a visit by Secretary of State Colin Powell to Beijing, as well as Seoul and Tokyo, that did little to jumpstart the stagnant Six-Party Talks or revive the dormant dialogue between Taiwan and China. Controversy erupted over statements Powell made to the media that endorsed peaceful reunification of the two sides of the Strait and declared that Taiwan does not enjoy sovereignty. Hu Jintao and George W. Bush talked by phone in October and November, and then met on the sidelines of the 12th APEC summit in Santiago, Chile. Although cooperation predominated between Washington and Beijing, differences persisted on numerous issues, including China's proliferation activities, U.S. refusal to return to China exonerated Uighurs held in Guantanamo Bay, the European Union arms embargo on China, Iran's nuclear programs, China's human rights practices, China's currency, and the mushrooming bilateral trade deficit.

Powell Kicks off the Quarter with a Visit to Beijing

In early October, Secretary Powell traveled to China, marking his fifth visit in four years and the fifth face-to-face meeting this year with his counterpart, Chinese Foreign Minister Li Zhaoxing. Prior to his departure, Powell told the *Far Eastern Economic Review* that he was "particularly proud of our relationship with relationship with China," adding that "no cliché" can capture the relationship because it is "too complex." After meeting with Chinese President Hu Jintao, Premier Wen Jiabao, and Foreign Minister Li, Powell told the press that the range and scope of the issues he discussed "reflect the increasingly global nature of interaction between China and the United States" and both countries are showing that "we can move forward together." He added that the areas in which the two sides agreed surpassed areas of disagreement and expressed appreciation for China's continued actions in the global war against terrorism and Beijing's leadership in the Six-Party Talks.

On two important issues on Powell's agenda – Taiwan and North Korea – little headway was made, however. He failed to persuade Chinese leaders that they should view Taiwan President Chen Shui-bian's Oct. 10 speech as conciliatory and seek to restart cross-Strait dialogue on the basis of the 1992 meeting in Hong Kong as Chen proposed. Convinced that Chen is a separatist, the Chinese told Powell that the U.S. should pay less attention to

the Taiwan leader's words and take concrete steps to stop his ever more blatant actions to promote Taiwan independence. Hu Jintao also expressed China's resolute opposition to U.S. arms sales to Taiwan and the inclusion of Taiwan in the planned U.S. missile defense system.

Powell's approach to enlisting Chinese help in putting greater pressure on North Korea to return to the Six-Party Talks was suggested in subsequent remarks that he made in a press conference and in media interviews. The pitch likely opened with praise for China's important role in creating and sustaining the six-party framework and followed with encouragement for China to play a more active role as a full participant in the process, not just as a convener of the talks. A discussion of the nature of the threat likely came next, with Powell underscoring that China's neighbors are the most proximate targets of a North Korean nuclear attack. He no doubt also mentioned China's considerable influence with North Korea that derives from the substantial assistance that Beijing provides. Finally, Powell probably underscored that time is of the essence, and China should convince North Korea to return to the talks as soon as possible with a response to the proposal that the U.S. presented last June.

Chinese press reports on the meetings suggested that although Beijing reiterated its commitment to the elimination of North Korea's nuclear weapons through the Six-Party Talks and promised to do its utmost to convene another round, the Chinese side nevertheless voiced dissatisfaction with Washington's approach, which it perceived as too rigid. According to the official *New China News Agency*, Li Zhaoxing told Powell that "we wish the U.S. side would go further to adopt a flexible and practical attitude" during the North Korean negotiations.

Consultations between Washington and Beijing on North Korea continued throughout the quarter. In early December, U.S. special envoy for North Korea Joseph DeTrani stopped in Beijing to bolster U.S.-Chinese coordination and explore the possibility of reconvening the Six-Party Talks. He reportedly conveyed U.S. dissatisfaction with China's frequent contention that "mutual distrust" is the main barrier to settlement of the North Korean nuclear issue because the term implies that Washington bears blame for the lack of progress. Detrani allegedly urged Chinese officials to refrain from using the phrase in the future.

A Storm over Sovereignty

Before Powell departed Beijing, controversy erupted over an interview he granted to Hong Kong-based *Phoenix TV*. After reiterating the U.S. position that both China and Taiwan should not take any unilateral actions to change the status quo, Powell encouraged both sides "to look for ways of improving dialogue across the Strait and move forward toward that day when we will see a peaceful unification." He also maintained that there is only "one China" and that Taiwan is not independent and does not enjoy sovereignty as a nation. Uproar ensued in Taipei, where the United States was charged with surprising Taiwan with a sudden shift in U.S. policy that inflicted grave harm on its interests.

The U.S. State Department spokesman insisted that U.S. policy had not changed and that the secretary had not broken “new ground” on Taiwanese sovereignty. The endorsement of peaceful unification of Taiwan and the mainland was subsequently corrected, however, when Powell himself told *CNBC* that the “term of art” is peaceful resolution and “that is our policy and remains our policy.” The statement regarding the existence of “one China” and Taiwan’s lack of sovereignty was left standing, even though it ran counter to decades of U.S. policy that merely acknowledges, but does not accept, Beijing’s claim that there is “one China,” and maintains that Taiwan’s sovereignty remains unsettled. Officials in Taipei and Washington were left guessing whether the secretary of state had misspoke or intended to fire a warning shot at Chen Shui-bian for taking unnecessarily provocative actions.

A less-noticed message that Powell conveyed in the *Phoenix TV* interview was that the U.S. does not support the acquisition by Taiwan of medium-range missiles that could be used to strike the mainland. Asked about Taiwan Premier Yu Shyi-kun’s call for obtaining the capability to attack Shanghai with missiles, Powell termed such rhetoric “unfortunate” and linked it to the desire of some in Taiwan to move toward independence, which the U.S. does not support. He maintained that the only technology the U.S. is providing to Taiwan is “technology that will allow for their self-defense. We don’t want them to have an offensive capability,” Powell added.

A comment by another senior U.S. official in an interview two months later once again drew objections from Taiwan and raised questions about U.S. policy. Responding to a query from PBS’s Charlie Rose about whether the U.S. would defend Taiwan from an attack by China, Deputy Secretary of State Richard Armitage veered radically from President Bush’s statement in April 2001 that he would do “whatever it took” to help Taiwan defend itself. Instead, Armitage explained that under the Taiwan Relations Act, the U.S. is obligated to maintain sufficient forces in the Pacific to deter an attack, but is “not required to defend” Taiwan. The decision to go to war resides with Congress, he told Rose, and then stated that “we all agree that there is but ‘one China’, and Taiwan is part of China.” It was quite likely a slip of the tongue, although it could also have been Armitage’s parting shot aimed at providing greater assurance to Beijing that the U.S. does not support Taiwan independence. In any case, no correction was forthcoming.

An Election Eve Surprise

Washington was stunned on the eve of the U.S. election when Beijing’s official English-language newspaper *The China Daily* published a scathing critique of the Bush administration’s foreign policy penned by former Chinese Vice Premier Qian Qichen. The article defined a “Bush doctrine” that “advocates the U.S. should rule over the whole world with overwhelming force, military force in particular.” In language not very dissimilar from that used by European leaders, but seldom expressed by senior Chinese officials, it condemned U.S. unilateralism and charged that “Washington’s anti-terror campaign has already gone beyond the scope of self-defense.”

The timing of the publication of the article provoked the Bush administration's ire and some American experts accused Beijing of seeking to curry favor with Democratic presidential candidate John Kerry on the incorrect supposition that he would win the election. The Chinese Foreign Ministry spokesman tried to distance the Chinese government from the article, insisting that Qian Qichen had not accepted an interview from *China Daily* nor had written an article for the newspaper. There was no effort made to reject or temper Qian's analysis of U.S. foreign policy, however. Indeed, the former vice premier's denunciation of the Bush administration's "preemptive strike" against Iraq and its unilateralist tendencies likely represents the views of mainstream Chinese officials and scholars.

China was nonetheless relieved by the reelection of President George W. Bush for a second four-year term. Despite Beijing's misgivings about many U.S. policies, the Chinese have reached a comfort level with President Bush and were relieved to not have to undertake the task of reeducating yet another U.S. president about the strategic importance of China-U.S. relations and the dangerously volatile Taiwan issue. In a letter of congratulations, Hu Jintao noted that "major progress" had been made in many areas of cooperation between China and the U.S. since Bush assumed the presidency and said he looked forward to working together to further promote development of "China-U.S. constructive cooperative relations."

Hu Meets Bush in Santiago

Presidents Bush and Hu met on the sidelines of the 12th Asia-Pacific Economic Cooperation Leaders' Meeting in Santiago, Chile, Nov. 20-21, 2004. In a relatively brief but fruitful discussion, the two leaders discussed the economic and security issues in the bilateral relationship as well as Taiwan and North Korea. China's president urged joint efforts to enrich the contents of the constructive and cooperative relationship and to further promote the steady development of bilateral ties. He called for sustaining high-level exchanges, strengthening strategic dialogue, and intensifying cooperation in antiterrorism, law enforcement, health, and the environment on the basis of mutual benefit. President Bush asserted that U.S. relations with China are among Washington's most important bilateral ties, and depicted China as a great country that is "a source of stability, trade, and economic development." The two presidents exchanged invitations to visit each other's countries.

Preempting the Chinese president, Bush initiated discussion of Taiwan and reaffirmed that the U.S. maintains a consistent "one China" policy, based on the three China-U.S. communiqués, the Taiwan Relations Act, and opposition to unilateral changes in the status quo. He pressed U.S. concerns over China's missile deployments, urged Beijing to act with restraint, and insisted that the resolution of differences between the two sides of the Strait be achieved peacefully. Going a bit further than in the past, Bush assured Hu that he is well aware of the sensitivities of the Taiwan issue and promised that he would not send inconsistent messages to Taiwan that could be misconstrued as backing for independence. Reflecting the administration's tilt toward a slightly more proactive

stance, President Bush also encouraged Hu to look for opportunities for cross-Strait dialogue.

Hu urged Bush to fully understand President Chen's unremitting commitment to Taiwan independence and the danger posed by his planned constitutional reform. In what Chinese officials characterized as blunter language than was used by Hu's predecessor Jiang Zemin, Hu told Bush that "Taiwan independence will ruin the peace in the Taiwan Strait and undermine peace and stability in the Asia-Pacific region." In support of his claim that Taipei is engaging in provocative actions, Hu mentioned that "Taiwan authorities" had threatened to attack Chinese cities and even the Three Gorges Dam. President Bush sighed and suggested to Hu that he shouldn't take such threats too seriously, likening them to a mosquito attacking an elephant.

Hu emphasized that Beijing would seek to rely on its policy of peaceful reunification and "one country, two systems" to resolve its differences with Taiwan. He also voiced appreciation for Bush's adherence to the "one China" policy and his call for cross-Strait dialogue, raising hopes that the resumption of talks between Beijing and Taipei might be realized in 2005. Portraying Taiwan independence as a danger to both Chinese and U.S. interests, he appealed to the U.S. president to work together with China to stop the Taiwan independence forces' separatist activities.

Discussing North Korea, the two leaders affirmed their commitment to the elimination of North Korea's nuclear weapons and to the Six-Party Talks process, but little progress was made toward setting a date for the next round of talks. Hu Jintao told Bush that China had informed the North Koreans that their interests would be best served by opting for the path of eliminating their nuclear weapons through multilateral dialogue. At the same time, however, Hu insisted that the nuclear issue on the Korean Peninsula is "complicated," and requires that all parties concerned "show patience, flexibility and sincerity in resolving this issue." By implication, this meant not only North Korea, but also the United States.

Dealing with Differences Candidly

Even as senior U.S. and Chinese officials agreed that cooperation and shared interests between their two countries outweighed differences, there were nevertheless a number of issues (in addition to Taiwan) on which there was apparent continued discord. Secretary Powell noted in his press conference held in Beijing that "when we disagree, we do so candidly, openly, and in the spirit of trying to find a solution to the disagreements." The prominent areas of persistent disagreement this quarter included the following:

Proliferation

In early December, the U.S. slapped sanctions on four Chinese entities for selling either weapons or cruise and ballistic missile technology and equipment to Iran. Two of the four companies had previously been cited for violating U.S. law and had sanctions imposed on them. The latest sanctions, among other things, bar U.S. government

agencies from procuring goods, technology, or services from those companies, and instantly terminates any defense contracts with them. In September, seven Chinese entities were also sanctioned for violating the Iran Nonproliferation Act of 2000.

U.S. concerns about assistance provided by Chinese entities to Iran were also evidenced in the unclassified report on the acquisition by foreign countries of technology used in the development or production of weapons of mass destruction in the second half of 2003 that was submitted to Congress this quarter by the Director of Central Intelligence. The report cited Chinese-entity ballistic missile-related aid that helped Iran move toward its goal of becoming self-sufficient in the production of ballistic missiles. In addition, it charged Chinese firms with providing dual-use chemical weapons-related production equipment and technology to Iran and dual-use missile-related items, raw materials and/or assistance to Iran, Libya, and North Korea. Highlighting progress at the governmental level, the report noted that Beijing had “improved its nonproliferation posture through commitments to multilateral nonproliferation regimes, promulgation of expanded export controls, and strengthened oversight mechanisms,” but observed that “the proliferation behavior of Chinese companies remains of great concern.”

Guantanamo Uighurs

The U.S. determination that more than half of the 22 Uighurs captured in Afghanistan and subsequently detained at Guantanamo are eligible for release created a new subject of U.S.-Chinese controversy. In response to the prisoners’ expressions of concern that they would be persecuted if returned to China, the U.S. government quietly began the search for a third country willing to accept them, but most, if not all, the European countries approached by the Bush administration declined, fearing retribution from China. Beijing cried foul, insisting that the Uighurs are terrorists and should be sent back to China to demonstrate the U.S. commitment to fighting terrorism around the world. A Chinese Foreign Ministry spokesman warned that relations between Washington and Beijing could be harmed if the U.S. sent any Uighurs to a third country. During Secretary Powell’s October visit to China, Chinese leaders strongly urged him to return their citizens, but the matter remained unresolved. Prior to Powell’s departure for Beijing, he told the *Far Eastern Economic Review* that any resolution would have to be consistent with U.S. obligations under international law and the Geneva Convention. The Pentagon was reviewing the matter, Powell said, adding that, “we haven’t been able to work out a solution yet that we’re comfortable with.”

The EU Arms Embargo and an Israeli Deal

Washington continued to press members of the European Union this quarter to not lift the arms embargo that was imposed in June 1989 in tandem with the United States in response to the Chinese government’s brutal repression of protestors calling for political reform. From the U.S. perspective, the embargo should be maintained for three reasons: serious human rights abuses persist in China; ending the embargo would have a negative impact on Asian regional and cross-Strait stability; and no mechanisms are currently in

place to prevent China from transferring technology and lethal weaponry to other, less stable regions of the world or to use it for internal repression.

Despite intense pressure from China to lift the arms embargo, EU members failed to reach a consensus at the China-European summit held in the Hague in December. The Europeans indicated, however, that the embargo might be removed in 2005 if member states could agree on a strengthened code of conduct on weapons sales. The Pentagon warned that lifting the embargo could have a negative impact on U.S. defense cooperation with EU members.

The Bush administration also blamed Israel for undermining its sustained diplomatic efforts to persuade Europe not to resume sales of arms and military technology to China. Israeli-manufactured drones that were sold to China in 1994 were recently returned for technological upgrading, prompting strong U.S. objections. Increasing the effectiveness of the “Harpy” drones, which the PLA has been using for electronic warfare, airborne early warning and ground attack roles, as well as reconnaissance and communications relay, could upset the military balance between China and Taiwan, U.S. officials claimed. China’s Vice Premier Tang Jiaxuan, who was dispatched to Israel to recover the Harpy UAVs, publicly criticized U.S. interference, calling the American action “groundless and unreasonable.”

Iran’s Nuclear Program

Amid U.S. efforts to take Iran before the UN Security Council (UNSC) because of an alleged attempt to secretly develop nuclear weapons under cover of its civilian atomic energy program, Chinese Foreign Minister Li visited Tehran in early November. In a press conference with Iranian Foreign Minister Kamal Kharazi, Li opposed referring Iran to the UNSC, saying that such a step “would only make the issue more complicated and difficult to work out.” Praising the Iranian government’s positive attitude in its cooperation with the International Atomic Energy Agency (IAEA), Li voiced China’s support for a solution in the framework of the IAEA. Key European nations that shared Beijing’s desire to avoid UNSC action subsequently drafted a resolution that commits Iran to a total suspension of uranium enrichment and all related activities. Secretary Powell welcomed the resolution, but highlighted the stipulation that if there is any future indication that Iran is not meeting obligations set by the IAEA, “action will be forthcoming.”

Human Rights

In mid-December the House of Representatives Committee on International Relations held hearings on China’s human rights policies. Michael Kozak, acting assistant secretary for democracy, human rights and labor, noted the continuation of serious human rights abuses in China, including use of the war on terror to justify its crackdown on minority Uighur Muslims and religious leaders and arrests of individuals for expressing their views on the Internet. Kozak defended the Bush administration’s policy of addressing concerns through dialogue, rather than by punitive action, however.

The Bush administration took the opportunity afforded by the many high-level meetings with Chinese leaders this quarter to express its concerns about China's human rights practices and raise specific cases of individuals that have been detained without due process. At the Santiago summit, President Bush reminded Hu Jintao that human rights and religious freedom are important issues to him and, in that context, mentioned the Dalai Lama's dialogue with the Vatican. During Secretary Powell's visit to Beijing, he told Chinese leaders that China had been "moving backward" on human rights "with respect to detention of journalists, with respect to other individuals who have not been able to move about as freely and participate in civil society as freely as we would like to see." Powell specifically queried Chinese Foreign Minister Li about the detention in September of a *New York Times* researcher, Zhao Yan, on suspicion of divulging state secrets. "We did have a pretty candid exchange on the subject," Powell said after the meeting, but admitted that the foreign minister only promised to look into the matter and reminded his U.S. counterpart that Zhao Yan was a Chinese citizen who was being dealt with according to Chinese law.

Also during Powell's visit, the two sides agreed to explore the possibility of resuming the bilateral human rights dialogue. The talks on human rights broke off in early 2004 because of Chinese anger over a resolution the Bush administration sponsored last April at the U.N. Human Rights Commission in Geneva condemning China's human rights practices. A Chinese delegation was scheduled to visit Washington D.C. in the first week of January to work out a roadmap on human rights that could pave the way for the resumption of the higher level bilateral dialogue in 2005.

China's Currency and the Trade Deficit

The U.S. continued efforts this quarter to prod Beijing to move to a flexible exchange rate. In Washington's view, the Chinese currency's dollar peg artificially lowers the cost of Chinese exports – making them more competitive – while increasing the cost of imported goods in China. President Bush reminded Hu Jintao of his country's commitment to move toward a market-based flexible exchange rate in a phone call in early October and the two presidents discussed the matter again in Santiago, where the Chinese president renewed that pledge and also promised to bolster protection of intellectual property rights.

Chinese officials cautioned, however, that moving toward greater exchange rate flexibility will take place slowly and must be preceded by reforms of China's banks and financial markets. The deputy governor of the People's Bank of China, in an interview with the *Financial Times*, warned the U.S. not to blame Beijing for the ballooning bilateral trade deficit, which is likely to exceed \$120 billion in 2004. He insisted an appreciation of the Chinese currency would not solve the U.S.'s structural problems. If the United States would lift its restrictions on technology exports to China, the Chinese maintain, the trade deficit would narrow. In a speech delivered at Beijing University on Oct. 19, Alan Larson, under secretary of state for economic, business and agricultural affairs, blamed the burgeoning trade deficit on Chinese "trade-inhibiting regulations" and its unwillingness to open up many sectors of the Chinese market to foreign competition.

Looking Ahead to 2005

China-U.S. relations closed out the year on a mostly positive note. 2004 witnessed an unprecedented degree of interaction between the two nations on bilateral, regional, and global issues. The bilateral relationship expanded both in breadth and depth in many arenas. Disagreements persisted and remained largely unresolved, but in a few instances differences were narrowed. Both sides highly appraised the development of bilateral ties and pledged to enhance their strategic dialogue and expand cooperation in the year to come.

There will be no shortage of opportunities for strategic dialogue between U.S. and Chinese leaders in 2005. In May, both presidents are scheduled to be among the 50-odd national leaders visiting Moscow to attend the 60th anniversary celebrations of victory over Nazi Germany in World War II. In October, there will be a gathering of state leaders in New York to mark the 60th anniversary of the signing of the United Nations Charter. The APEC Leaders' Meeting will be held in Seoul in November. And if schedules permit, Hu Jintao and George W. Bush may visit each other's capitals as well.

Chronology of U.S.-China Relations October-December 2004

Oct. 1, 2004: China's central bank president Zhou Xiaochuan and Minister of Finance Jin Renqing join a special meeting of the Group of Seven (G-7) industrialized countries.

Oct. 1, 2004: Department of the Treasury releases a joint statement on the proceedings of the 16th Session of the U.S.-China Joint Economic Committee held Sept. 30. U.S. and Chinese delegates discussed topics, including macroeconomic policy, financial sector issues, and efforts to combat terrorist financing and money laundering.

Oct. 5, 2004: Congressional-Executive Commission on China releases 2004 Annual Report on China assessing developments in China's human rights conditions and the rule of law.

Oct. 6-15, 2004: At the invitation of the Supreme Court of the United States, Chinese Supreme People's Court President and Chief Grand Justice Xiao Yang visits the U.S., the first such visit in nearly 20 years.

Oct. 7, 2004: President Bush telephones Hu Jintao and they discuss Beijing's exchange rate policy, Taiwan, and efforts to defuse the North Korean nuclear crisis.

Oct. 19, 2004: Under Secretary of State for Economic, Business and Agricultural Affairs Alan Larson visits China as part of U.S. delegation to discuss agricultural issues and market access and delivers a speech at Beijing University.

Oct. 24, 2004: Chief of the PLA General Staff Gen. Liang Guanglie arrives in the U.S. and meets with Chairman of the Joint Chiefs of Staff Richard Myers, Secretary of Defense Rumsfeld, Secretary of State Powell, and National Security Adviser Rice. He also visits the U.S. Joint Forces Command, Air Combat Command, Joint Task Force Civil Support, U.S. Army Infantry Center, and the Air Force Academy.

Oct. 25, 2004: Powell stops in China on a three-day swing through Northeast Asia.

Oct. 25, 2004: Powell gives interviews to *Phoenix TV* and *CNN* following talks with Chinese leaders. His comments include the statement that “reunification” between Taiwan and China is the eventual outcome that “all parties are seeking” and Taiwan is not an “independent” country and “does not enjoy sovereignty as a nation.”

Oct. 28, 2004: State Department spokesman says the U.S. will not repatriate Uighurs alleged to be “East Turkistan” terrorists that have been detained in Guantanamo, Cuba to China, and that it was preparing to settle them in a third country to the northwest of China instead.

Nov. 1, 2004: *China Daily* publishes an article entitled “U.S. Strategy to be Blamed,” by former Vice Premier Qian Qichen, that harshly criticizes President Bush’s foreign policy.

Nov. 5, 2004: Representatives of foreign affairs departments from China and the U.S. sign a protocol in Beijing to install a telephone hotline between two foreign ministers in the near future.

Nov. 5, 2004: Chinese Foreign Minister Li Zhaoxing talks by phone with Secretary Powell on strengthening coordination and mutually beneficial cooperation in fields such as economy and trade, antiterrorism, the DPRK nuclear issue, and law enforcement, and on how to resolve the Iranian nuclear issue.

Nov. 8, 2004: FM Li talks with National Security Adviser Rice by phone about bilateral relations and the Iranian nuclear issue.

Nov. 8, 2004: Presidents Bush and Hu Jintao exchange views by phone on the eve of their planned bilateral meeting at APEC and Hu congratulates Bush on his reelection.

Nov. 12, 2004: U.S. Trade Representative Office rejects a petition filed Sept. 30 under Section 301 of the Trade Act of 1974 on the issue of China’s currency.

Nov. 15, 2004: Under Secretary of State for Global Affairs Paula Dobriansky and Chinese Assistant Minister of Foreign Affairs Shen Guofang discuss proposed “U.S.-China Global Issues Forum” aimed at strengthening bilateral cooperation on transnational issues and exploring new possibilities for joint work on a global basis.

Nov. 18, 2004: FM Li meets Secretary Powell on the sidelines of the APEC Leaders’ Meeting in Chile.

Nov. 20, 2004: Presidents Bush and Hu meet on the sidelines of the APEC summit in Santiago, Chile.

Dec. 1, 2004: U.S. imposes sanctions on four Chinese entities for violations of the 2000 Iran Nonproliferation Act, including a state-run firm, and one North Korean company for selling weapons or cruise and ballistic missile technology and equipment to Iran.

Dec. 1-3, 2004: Vice Foreign Minister Dai Bingguo visits Washington, D.C. for wide-ranging discussions with U.S. officials on bilateral, regional, and global issues as a follow-on to the Bush-Hu talks at the Santiago APEC summit.

Dec. 2, 2004: Sun Laiyan, the head of China National Space Administration visits NASA headquarters where he discusses with counterpart Sean O’Keefe cooperation on the use of space, geoscience, and space science, and agrees to establish a regular exchange mechanism to promote bilateral contact and understanding.

Dec. 3, 2004: Treasury Department releases semi-annual currency report that urges China to move to a flexible exchange rate as soon as possible, but stops short of issuing a formal finding that Beijing is manipulating the exchange value of the yuan.

Dec. 6-7, 2004: U.S. special envoy on North Korea Joseph DeTrani travels to Beijing, then to Tokyo and Seoul, to promote early resumption of the Six-Party Talks. He meets with Vice Foreign Minister Zhou Wenzhong, Director General of the MFA’s Asia Affairs Department Cui Tiankai, and Ambassador for North Korean Affairs Ning Fukui.

Dec. 6, 2004: FM Li exchanges views by phone with Secretary Powell on the consensus reached by the Chinese and U.S. presidents at APEC in Chile.

Dec. 7, 2004: Vice Foreign Minister Dai Bingguo unexpectedly returns to Washington to continue talks with U.S. officials that focus on Taiwan.

Dec. 14, 2004: U.S. House of Representatives Committee on International Relations holds hearings on China’s human rights policies.

Dec. 17, 2004: Department of Energy Secretary Spencer Abraham arrives in China where he meets with Ma Kai, chairman, National Development Reform Commission, holds discussions with Vice Premier Zeng Peiyan, tours the Qinghua-MIT Modular Pebble Bed Reactor Project, and delivers a speech at Qinghua University.

Dec. 20, 2004: In an interview on PBS, Deputy Secretary of State Richard Armitage explains that the U.S. is not required to defend Taiwan and the decision to go to war resides with Congress. He adds “all agree that there is but one China, and Taiwan is part of China.”

Dec. 27, 2004: China issues white paper entitled “China’s National Defense in 2004.”

U.S.-Korea Relations:

South Korea Confronts U.S. HardLiners on North Korea

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With the reelection of President George W. Bush, South Korea embarked on an unusually aggressive diplomatic campaign this quarter to prevent neo-conservative hardliners in the Bush administration from obtaining a dominant role in U.S. policymaking toward North Korea. During speeches in Los Angeles and several European capitals, President Roh Moo-hyun ruled out using military options or taking other “forceful action” against Pyongyang in resolving the nuclear issue. Roh asserted the “leading role” of South Korea in the Six-Party Talks and rejected “regime change” as a policy approach for dealing with Pyongyang.

During talks with Roh on the sidelines of the APEC summit meeting in late November, Bush reiterated the U.S. policy of promoting a peaceful, diplomatic solution to the nuclear issue. The most notable U.S. reaction to Roh’s diplomatic initiative came from incoming National Security Adviser Stephen Hadley, who stressed the U.S. favored the “transformation” of North Korea by economic means, and not harsh measures that would bring about the collapse of the Kim Jong-il regime.

The Six-Party Talks on North Korea’s nuclear program remained in an impasse this quarter, as North Korea protested a naval exercise of the U.S.-sponsored Proliferation Security Initiative (PSI) and resisted a new negotiating round until seeing the shape of U.S. policy after the presidential election. U.S., South Korean, and Chinese efforts to convene a six-party meeting in late December sputtered, and officials increasingly focused on the possibility of continuing the negotiations in early 2005.

After an extensive investigation, the International Atomic Energy Agency (IAEA) criticized South Korea, this quarter, for not reporting nuclear experiments in 1982 and 2000, but did not refer the matter to the United Nations Security Council. Following the IAEA announcement, Seoul offered to explain its nuclear experiments to North Korea at the next round of Six-Party Talks. Pyongyang had previously cited the secret experiments as one reason for resisting a new round of multilateral negotiations.

The U.S. and South Korea reached agreement on a plan to delay withdrawing one-third of U.S. troops from the Korean Peninsula, as part of the global realignment of U.S. forces. Under the agreement, the U.S. will withdraw only 5,000 troops by the end of 2005,

including the 3,500 already redeployed to Iraq, and gradually pull out an additional 7,500 by 2008.

Responding to South Korea's desire for a Free Trade Agreement (FTA) with the United States, a senior U.S. trade official expressed interest in beginning negotiations as soon as Seoul "shows it is willing to take some tough decisions to resolve outstanding trade disputes." Among the current issues in contention between Washington and Seoul are South Korea's "screen quota" (which limits the showing of Hollywood films), pharmaceuticals, automobiles, intellectual property rights, telecommunications, and agriculture.

In mid-December, South Korea inaugurated the opening of its Kaesong Industrial Zone, which is under construction in North Korea, 40 miles north of the demilitarized zone. Still under discussion with the United States, however, is a modification to existing U.S. export control law and policy that would permit South Korean companies to use desk-top computers in the new industrial zone.

A New Push for Convening the Six-Party Talks

At the outset of the quarter, participants in the Six-Party Talks tread water while awaiting the outcome of the U.S. presidential election. Perhaps hoping that Democratic candidate John Kerry would prevail and adopt a policy emphasizing direct bilateral negotiations, North Korea continued to put obstacles in the way of a new multilateral round. In mid-October, Pyongyang asserted that several conditions had to be met before it would again join the Six-Party Talks: the U.S. had to drop its "hostile policy" toward North Korea and agree to compensate it for shutting down its nuclear activities, and South Korea had to fully disclose the nature of its own recently reported nuclear experiments.

North Korea's policy hardened further, later in the month, when it delivered a protest to UN Secretary General Kofi Annan over naval exercises designed to stop proliferation-related transfers. Pyongyang's ambassador to the UN, Park Gil-yon, argued that the training exercise of the Proliferation Security Initiative, held off the shores of Japan, "constitutes a breach of the Charter of the United Nations and a dangerous act that could entail global instability." He said that the exercise could "create an obstacle" to the resolution of the nuclear dispute.

North Korea's diplomatic initiative was striking not so much for its opposition to the multilateral naval exercise, but rather in attempting to use the UN Charter and UN process as an instrument for challenging the United States. In the past, the U.S. threatened to seek Security Council sanctions against North Korea, which Pyongyang said would amount to an "act of war."

Following the reelection of President Bush, the U.S. joined with South Korea, Japan, China, and Russia in seeking to schedule a new round of Six-Party Talks for mid to late December. South Korea's Foreign Minister Ban Ki-moon announced that these countries

“believe the fourth round of...talks should be held this year and will have bilateral and multilateral discussions to that end.”

China and Russia’s foreign ministries called for restarting the stalled talks in the near future and urged Pyongyang to return to the negotiating table. U.S. Secretary of State Colin Powell said the United States hoped North Korea would respond to the “good proposal” that the U.S. had presented at the previous round of talks in June.

Less publicly, the U.S. set a new “red line” on North Korean nuclear activities, deciding that any effort Pyongyang made in the future to transfer nuclear materials to third parties would call forth strict countermeasures. The new red line represented a hardline administration consensus that the U.S. would not allow North Korea to take advantage of the impasse in the Six-Party Talks to sell nuclear materials to other countries or terrorist organizations. The U.S. administration did not announce its new decision publicly, instead leaking news of the action to a leading Japanese newspaper, *Yomiuri Shimbun*.

President Roh Attacks U.S. Neo-Conservatives

The combination of President Bush’s election victory and news of the new U.S. red line gave rise to serious fears in South Korea that the administration’s neo-conservatives would become dominant in U.S. policymaking on North Korea. This would effectively put in peril President Roh’s “peace and prosperity” policy seeking reconciliation with North Korea. During November, President Roh conducted a remarkable diplomatic campaign to blunt and preempt the neo-conservatives’ influence. In a seminal speech in Los Angeles, Roh warned that taking a new hard line on the North Korean nuclear issue could have “grave consequences.” He emphasized that, “Koreans, who haven’t gotten over the trauma of the Korean War half a century ago, do not want another war on the Peninsula... [A peaceful resolution to the nuclear crisis] is our strong wish for the people of the U.S., the only ally of South Korea, and will be the most important factor in strengthening our friendship.”

Roh ruled out taking any “forceful action,” including military measures or economic sanctions, against Pyongyang and said Seoul, which had a “leading role” in the Six-Party Talks, could not cooperate with anyone seeking “regime change” in North Korea. He stressed that North Korea understandably justifies its nuclear program as a means of “safeguarding” the country from the United States. Roh implied that in the absence of a U.S. threat Pyongyang would agree to negotiate away its nuclear weapons capability.

Within South Korea, the opposition Grand National Party attacked Roh’s remarks as “pro-Pyongyang” while other observers saw them as a risky but necessary means for asserting Seoul’s important role in the Six-Party Talks. Heading into the Nov. 20 summit meeting with President Bush on the sidelines of the APEC meeting in Santiago, Chile, South Korea’s professional diplomats reportedly were deeply anxious about the U.S. reaction to Roh’s Los Angeles speech.

In fact, neither President Bush nor his advisers took any noticeably confrontational position during the Santiago summit talks. The two presidents confirmed their mutual commitment to solving the nuclear crisis with North Korea through peaceful and diplomatic means. South Korean National Security Adviser Kwon Jin-ho described the meeting as bringing the “most outstanding outcome ever” in terms of establishing personal trust between the two leaders. Other diplomats expressed relief that the U.S. did not take issue with Roh’s “hardline” LA speech and Foreign Minister Ban predicted that “the bilateral alliance is now on a smooth path.”

Following the Santiago summit, through the end of November, President Roh continued his diplomatic campaign for a peaceful and flexible approach to the North Korean nuclear issue. In his meeting with Chinese Premier Wen Jiabao and Japanese Prime Minister Koizumi Junichiro at the ASEAN Plus Three summit in Laos and during his follow-on meetings in Europe with leaders of Britain, France, and Poland, Roh argued for continued diplomatic dialogue with North Korea, without employing any threats against Pyongyang.

In Warsaw, Roh made the notable comment that “I know that, different from the official position of the U.S. administration, there are a number of people in the United States favoring hardline approaches. Whoever takes charge of the problem will first have to take the Korean people’s safety and prosperity as a major concern. They cannot pursue only nuclear dismantlement at the cost of leaving the Korean Peninsula torn into pieces.”

In retrospect, Roh’s diplomatic campaign, from Los Angeles to Santiago to several European capitals, successfully laid down a South Korean marker that it would resist any post-election shift in U.S. policy toward a purely hardline approach favored by administration neo-conservatives. Having said that, it is by no means clear that President Bush acquiesced to Seoul’s new position or is prepared to abandon the threat of military action or economic sanctions against North Korea. At the Santiago summit meeting with Roh, Bush did no more than reiterate what Roh later called in Warsaw the “official position” of the U.S. government, favoring a peaceful and diplomatic resolution of the nuclear issue. Bush made much the same statement during his summit meeting with Roh in Washington during the spring of 2003.

The most significant U.S. administration response to Roh’s remarks came in early December when the incoming national security adviser, Stephen Hadley, told visiting South Korean legislators that U.S. policy sought the “transformation” of North Korea, rather than “regime change.” NSC Senior Director for Asian Affairs Michael Green elaborated that Washington would like to see North Korea “transformed” by major shifts in its economic policies.

For the moment, Roh’s attack on the neo-conservative proponents of “regime change” strengthened the hand of U.S. officials who favor a more moderate, long-term transformation in North Korea, brought about largely by economic means. It will allow administration moderates to argue more vigorously in the future that taking a harder line

against North Korea, by threatening economic sanctions or military action, risks seriously alienating the Roh government and weakening the U.S.-South Korea alliance.

More broadly, by shifting the focus from “regime change” to “transformation” in North Korea by economic means, President Roh may have struck a sympathetic chord among administration conservatives. U.S. hardliners regularly assert that development of a free market economy, brought about by greater international trade and investment, creates the foundations for democracy and individual freedom in totalitarian countries. Rather than seeing economic incentives for Pyongyang as a form of “appeasement,” these conservatives may instead come to view them, under Hadley’s formulation, as a means for furthering the changes they seek in North Korea.

Seoul Avoids Sanctions for Nuclear Experiments

In late November, the International Atomic Energy Agency strongly criticized South Korea’s failure to report scientific experiments, in 1982 and 2000, with weapons-grade plutonium and uranium that could potentially be used in nuclear bombs. But the Agency decided not to send the matter to the UN Security Council, sparing Seoul the possible imposition of sanctions.

Throughout the IAEA’s investigation, which began in September, Seoul stressed that the experiments were the independent actions of curious scientists and not part of any nuclear weapons program. IAEA Director General Mohamed ElBaradei called the laboratory experiments “legal,” in early October, but said they should have been reported to the nuclear agency. While South Korean officials expressed relief at the outcome of the IAEA investigation, they recognized that the controversy bolstered suspicions in neighboring countries that Seoul had embarked on a secret nuclear weapons development program. In the aftermath of the IAEA announcement, Seoul offered to explain its nuclear experiments to North Korea at the next round of Six-Party Talks.

Six-Party Talks Delayed Until the New Year

Despite strong efforts by the United States, South Korea, and China, North Korea refused to commit to a new round of talks through December. Even a plan pushed by South Korea to hold an “informal” meeting of heads of delegations in Beijing to discuss “scheduling” of future rounds was not successful.

Pyongyang told the U.S. and China that it wanted to wait to see the shape of the Bush administration’s new policies before reengaging in the multilateral negotiations. China reportedly resisted U.S. requests to put more pressure on North Korea, arguing that it would be ineffective. For its part, the U.S. insisted that the “ball is in North Korea’s court,” and called for North Korea to make a “positive gesture” in response to the proposal that the U.S. presented at the June round of talks.

By mid-December, the postures of the leading parties to the talks – the U.S. and North Korea – underscored the current impasse in the negotiations. Each side was waiting for

the other to make a move and neither was willing to offer the slightest concession to get the Six-Party Talks back on track.

South Korea sought to put the best face on this difficult situation by shifting the focus to future developments in 2005. Visiting Beijing as a presidential envoy, South Korea's Unification Minister Chung Dong-young said "the North's nuclear issue will be at a crossroads next year. We expect North Korea, the United States and other participants in the six-way talks to make a historic choice and decision."

U.S. officials emphasized that their patience would not last indefinitely. In Washington, U.S. ambassador to South Korea Christopher Hill urged North Korea to return to the Six-Party Talks soon and warned "without putting a deadline on it, I think it's fair to say that time is not limitless." Another unnamed senior official told *Reuters* that the U.S. may consider calling a future round of negotiations *without* North Korea. A continuing impasse in the Six-Party Talks, he said, would also lead to the administration's "fundamental reappraisal of where we are in the process." By direct implication, some U.S. officials will argue for putting more pressure on Pyongyang if the Six-Party Talks do not move forward.

U.S. and South Korea Agree to Delay Troop Withdrawal

In early October, Washington and Seoul reached agreement on a plan to delay the previously announced cut of U.S. troops from the Korean Peninsula. Last May, Washington shocked Seoul with its decision to cut 12,500 troops, one-third of the approximately 37,500 U.S. troops in South Korea, by the end of 2005. With the new agreement, the U.S. will pull back only 5,000 troops by the end of 2004, including the 3,500 already redeployed to Iraq, and gradually withdraw the remainder by 2008.

The Defense Department originally justified the withdrawal as part of its global realignment of U.S. forces, but agreed to the delay based on Seoul's argument that additional U.S. troops were still needed to deter an attack by North Korea. Seoul also stressed that while it is ramping up the nation's self-defense capability to become less dependent on the U.S., it needs more time to complete the transition.

As part of the redeployment of U.S. forces *within* Korea, South Korea's Defense Minister Yoon Kwang-ung signed an agreement in late October with the commander of U.S. Forces Korea, Gen. Leon LaPorte, to relocate the headquarters of the UN Command and the Combined Forces Command from Yongsan Army Base in Seoul to Pyongtaek, south of the capital. The agreement also included a return to South Korea of U.S. bases located near city centers in other areas of the country. The agreement needs to be ratified by South Korea's National Assembly to take legal effect.

On another defense-related issue, Seoul asked Washington, during the annual Security Consultative Meeting in late October, to reduce the amount South Korea currently pays to maintain U.S. forces on the Korean Peninsula. In 2004, Seoul paid approximately \$623 million to the U.S. for so-called "burden-sharing" and the U.S. previously requested

about a 9 percent increase for 2005. At the end of the quarter, the two sides had not yet reached a resolution of this issue.

Movement on a U.S.-South Korea Free Trade Agreement

Since arriving in Seoul this past summer, U.S. Ambassador Christopher Hill has regularly voiced support for a U.S.-South Korea Free Trade Agreement. U.S. government officials previously viewed a FTA as unobtainable given current disputes between the two countries on South Korea's screen quota (which limits the days Hollywood films may be shown in domestic cinemas) and other tariff barriers. Hill's strategy has been to link rhetorically South Korean concessions on its screen quota and other trade issues to making progress on the FTA that Seoul seeks. The ambassador's efforts seemed to begin paying off in mid-October, when South Korea's Fair Trade Commission called for scrapping the screen quota altogether. For this decision to take effect, South Korea's National Assembly must give its approval.

Reflecting Hills' views, a senior official with the office of the U.S. Trade Representative (USTR) reportedly told U.S. business representatives in mid-December that USTR is poised to begin negotiations on a FTA with South Korea "provided that South Korea shows it is willing to take some tough decisions to resolve outstanding trade disputes" in the areas of pharmaceuticals, automobiles, intellectual property rights, telecommunications, and agriculture. The official voiced appreciation and support for South Korea's new minister of trade, Kim Hyun-chong, saying the U.S.-educated Kim is "someone we feel we can work closely with."

Finally, in mid-December, South Korea's Unification Minister Chung Dong-young presided over the opening ceremony for the Kaesong Industrial Zone, which is under construction in North Korea, 40 miles north of the demilitarized zone. Former South Korean President Kim Dae-jung agreed with North Korean leader Kim Jong-il during their historic June 2000 summit meeting to build this complex, which is envisioned to host 300 South Korean companies by 2006.

Currently, South Korea is seeking an exception to the U.S. export control laws and regulations that forbid South Korean companies from shipping desktop computers to North Korea for use in the Kaesong complex. The 13 companies now approved by South Korea for setting up operations at Kaesong will produce low-tech items such as kitchenware, garments, shoes, and plastic goods, but at least some of them will need computers to control production and business operations. As of late December, the two governments had not yet resolved this outstanding issue.

Prospects

At the end of this quarter, the prospects for a new and successful round of Six-Party Talks do not look very good. At the heart of the negotiating impasse is a deep and abiding mutual mistrust between North Korea and the United States, which prevents them from engaging in a process of accommodation. To Washington and Pyongyang, the Six-Party

Talks increasingly appear to be a zero-sum game, where an advance for one is perceived as a defeat for the other. This is much the same psychology that prevailed between South and North Korea until South Korean President Kim Dae-jung changed the dynamics in June 2000 at his summit meeting with Kim Jong-il.

One idea gaining currency in Washington among the proponents of a diplomatic solution to the nuclear crisis is that external events, not directly related to the substance of the nuclear discussions, will be required to change the perceptions on both sides. Some observers argue that mutual gestures of goodwill by the U.S. and North Korea could have the effect of changing the zero-sum game mindset in which both governments are caught. This, in turn, could have a positive effect on the atmosphere of the Six-Party Talks, without either side having to offer premature concessions on security issues.

Taking its justification from the North Korean Human Rights Act of 2004 – which encourages the Bush administration to focus on the well-being of ordinary North Koreans – the U.S. could announce a program of substantial medical assistance to North Korea. This program would provide desperately needed medical equipment, supplies and medicine to many people suffering from horrendously poor medical care, while improving the delivery of health services.

For its part, North Korea could announce a considerable increase in manpower and resources to assist in repatriating the remains of U.S. servicemen who were unaccounted for at the end of the Korean War. North Korea regularly guides U.S. military officials to remote sites where U.S. soldiers died and helps recover their remains and personal effects.

In the face of a significant expression of American goodwill, Pyongyang would be hard put to accuse the U.S. yet again of maintaining a “hostile policy.” And by ramping up its program to repatriate the remains of U.S. soldiers, North Korea would reap the goodwill of a majority of Americans, who would perceive it as a friendly and forward-looking gesture. The U.S. administration would undoubtedly react with an expression of sincere appreciation and gratitude.

At the end of the day, the United States and North Korea, as well as the other participants in the Six-Party Talks – South Korea, China, Russia, and Japan – have much to lose if this multilateral negotiating forum proves unable to advance a solution to the North Korea nuclear issue. The chance of a military confrontation in Northeast Asia will grow and the Six-Party Talks, which could form the nucleus of a future regional security system in the volatile Northeast Asia region, will self-destruct. That outcome is not in any of the participating countries’ best interest.

Chronology of U.S.-Korea Relations October-December 2004

Oct. 4, 2004: U.S. Ambassador Chris Hill says if South Korea scraps its film quota, it could lead to a free trade agreement.

Oct. 6, 2004: U.S. agrees to delay withdrawal of 12,500 troops until 2008.

Oct. 11, 2004: South Korean Ministry of Culture proposes to end the screen quota.

Oct. 18, 2004: President Bush signs the North Korean Human Rights Act of 2004 into law.

Oct. 22, 2004: North says it will attend a new round of Six-Party Talks if the U.S. drops its “hostile policy,” agrees to compensate Pyongyang for shutting down nuclear activities and if South Korea agrees to fully disclose the nature of its nuclear experiments; the U.S. and South Korea begin annual defense consultation in Washington.

Oct. 26, 2004: Secretary of State Colin Powell visits Seoul for consultations; U.S. and South Korean military officials sign agreement for relocation of Yongsan Army Base.

Oct. 27, 2004: At trilateral talks in Seoul, South Korea, Japan, and the U.S. agree on the need to hold a new round of Six-Party Talks by the end of the year.

Oct. 28, 2004: North Korean ambassador to the UN protests Proliferation Security Initiative naval exercise as a violation of the UN Charter.

Nov. 1, 2004: U.S. and South Korean negotiators meet to discuss South Korea’s financial contribution to stationing U.S. troops in the country.

Nov. 3, 2004: Meeting North Korean officials in New York, U.S. representative Joseph DeTrani says the U.S. seeks a new round of Six-Party Talks “without preconditions.”

Nov. 9, 2004: Japanese newspaper reports U.S. sets a “red line” against North Korean export of nuclear materials whose violation could result in military action; the U.S. and South Korea begin quarterly trade talks in Seoul.

Nov. 12, 2004: In a Los Angeles speech, President Roh rules out a military option for dealing with North Korea.

Nov. 20, 2004: At the APEC summit in Santiago, President Bush and President Roh agree to cooperate to hold the next round of Six-Party Talks at an early date.

Nov. 26, 2004: IAEA criticizes South Korean government for keeping nuclear experiments secret but does not refer the matter to the UN Security Council; KEDO announces its nuclear reactor construction project will be extended until Dec. 1, 2005.

Nov. 29, 2004: At ASEAN Plus Three summit, Japan, China, and ROK call for greater trilateral cooperation to obtain a peaceful solution to the North Korea nuclear issue.

Dec. 2, 2004: Unification Minister Chung says South Korea is willing to explain its reported nuclear experiments to North Korea at the next round of Six-Party Talks.

Dec. 3, 2004: U.S. representative DeTrani meets again with North Korean officials in New York.

Dec. 4, 2004: In Warsaw, President Roh says North Korea will not collapse suddenly.

Dec. 5, 2004: In Paris, President Roh rejects calls for “regime change” or the collapse of North Korea’s government.

Dec. 7, 2004: State Department spokesman says the U.S. is ready to join a new round of Six-Party Talks with North Korea, without preconditions; the U.S. and South Korea open two days of talks on burden-sharing in financing U.S. military presence; the U.S. and South Korea conduct visa talks in Seoul.

Dec. 8, 2004: Deputy U.S. Representative to the Six-Party Talks, DeTrani and ROK officials, meeting in Seoul, agree to push North Korea to accept a new round of negotiations.

Dec. 9, 2004: Deputy National Security Adviser Stephen Hadley says a goal of U.S. policy is the “transformation” of North Korea. Ministry of Foreign Affairs says working level talks with the U.S. on a proposed free trade agreement will begin in early February.

Dec. 15, 2004: Kaesong industrial complex opens and one company begins production.

Dec. 24, 2004: North Korea says it will not return to Six-Party Talks unless Japan is excluded, based on Japan’s threat of economic sanctions.

U.S.-Russia Relations: Elections Highlight Deepening Divide

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As autumn came many pundits began speculating about how the presidential elections would negatively influence U.S.-Russia relations. A presidential election did indeed negatively influence U.S.-Russia relations – except that it was not the election here in the United States. It was the election that occurred about 3,000 miles away from Washington in the Ukraine. Many press reports in the United States and Russia billed the Ukrainian presidential election as a struggle between Moscow and Washington for the soul of that country. Although this is far from the truth, it nevertheless put a crimp in the already strained relationship between the U.S. and Russia.

Two Presidential Elections

In the early fall, much attention was given, and justifiably so, to the impending U.S. presidential election and its impact on the future of relations between Moscow and Washington. In the past two presidential elections U.S. policy toward Russia was a barb often employed by the contender against the incumbent administration. There was much speculation in the Russian press about how the Kerry team would attack the Bush administration's "soft" policy toward Vladimir Putin and the Kremlin. There has been much discussion, in fact, in the United States about Bush's relationship with Putin, and the tendency of the U.S. government to "overlook" Putin's penchant to suppress domestic opposition, and to look past the mess in Chechnya. The *Los Angeles Times* editorial page summed up this perception with an article entitled, "Bush's Buddy Vladimir."

In Russia there was speculation about which man would make the best U.S. president for the interests of Russia. Putin seemed to come down on the side of the majority when he openly admitted that he wished to see Bush re-elected. What makes this all the more interesting is that Bush is commonly listed as the foreign statesman least liked and respected by the Russian people, and yet the specter of an overbearing Democratic White House – harping on Russia's human rights policies and lack of a civil society – seems to give Russians even more room for pause.

In the United States there was little debate between the candidates about Russia policy, as most of the discussion centered on domestic issues and the war in Iraq. There has been more discussion, however, since Bush's victory about Russia and how the administration should shape policy over the next four years. Although much of this discussion has been

centered in the press and academic circles, there appears to be some discussion in the administration about a new tack in Russia policy. It remains to be seen whether the United States will decide to become more vocal in its criticism of Russia, or whether it will maintain its policy of quiet support for its strategic ally in the war on terror.

The Ukrainian presidential election, which was closely followed in Russia, only burst onto the radar screen in the U.S. when it became apparent in late November that the vote was blatantly rigged to assure the victory of Prime Minister Viktor Yanukovich. The opposition candidate, Viktor Yushchenko, is much adored in the West and has the firm support of the United States. It was revealed that government-sponsored and private organizations in the U.S. provided financial support to the opposition, as the Russian government had provided both financial and logistical support to the government's candidate. It also came to light that Yushchenko might have been the victim of an assassination attempt through poisoning, and has a grossly disfigured face to prove it. Suspicions even centered on the possible complicity of the Russian special services in this sordid affair. Meanwhile, Putin criticized the U.S. government for meddling in the internal affairs of Ukraine.

After the Ukrainian Supreme Court ruled the Nov. 21 runoff election was invalid, a new vote took place Dec. 26, which resulted in a solid victory for Yushchenko. The West trumpeted his victory as an advance for democracy in Eastern Europe, while Russians lamented the "loss" of yet another part of the traditional Russian/Soviet empire. The widely read Russian newspaper *Argumenty i Fakty* stated that the "crisis in Kiev is a well-planned strike primarily directed at Russia," suggesting that Washington was behind it all. The fact that the western half of the country supported Yushchenko, and the eastern half supported Yanukovich added to the tension. People from the western half of the Ukraine are predominately Catholic and look toward Poland and the West as natural patrons, while the eastern half is predominately Orthodox, and a large Russian-speaking population there looks to Moscow for guidance. It was pointed out that Samuel Huntington's fault line of civilizations crosses through the middle of the country.

Russia has grudgingly accepted the new situation in the Ukraine, but it is yet another issue that adds to the festering feeling of betrayal and isolation from the West that Moscow has felt since the first round of NATO expansion was announced in the early 1990s.

Russia's Domestic Situation and the West

The ongoing drama behind the arrest of the leadership of the Russian oil giant Yukos and the breakup of that company is indicative of Western perceptions of how Russia's democratic experiment is progressing. Not only is Putin seen as crushing domestic opposition, but he is also threatening to alienate foreign investors with his iron-fisted breakup of one of Russia's most successful companies. The truth is always a shade grayer than people claim, but Putin's – and Russia's – image has taken a significant blow because of this episode, and other less publicized events. Yukos' management filed bankruptcy proceedings in a Houston, Texas court in an attempt to protect its assets,

which are being carved up and doled out, primarily to government-controlled energy firms like Rosneft. The Texas court ruled in late December in Yukos' favor, but since the beneficiary of Yukos' breakup and of the Yuganskneftegaz auction is Rosneft, a state-owned firm, it seems unlikely there will be any major repercussions from the ruling.

Putin's response to the Beslan tragedy is another issue that has clouded relations. As alluded to in last quarter's column, the Russian government's reaction has been to clamp down further on civil liberties, and Putin announced his intention to appoint regional governors rather than have them directly elected. There has also been an alarming tendency in Russia for opponents of the government, whether in the legislature or the mass media, to be silenced or emasculated. So powerful has the Kremlin become that the liberal bloc and the Communist party briefly flirted with the idea of forming a coalition.

These trends, along with the setbacks in attempts at energy cooperation and in joint counterterrorism efforts, have caused some rethinking in Washington. As the *Washington Post* wrote, "Bush and his team are evaluating their approach to Putin." During the APEC summit in Santiago, Chile, President Bush felt enough pressure from critics in the United States to talk to Putin about "democratic values," and reportedly pressed Putin on political reform. Secretary of State Colin Powell also publicly chided Moscow for its interference in the Ukrainian election. Powell's replacement, however, may be more hesitant to voice displeasure with Moscow. It has been speculated whether Condoleezza Rice's move to the State Department will herald a new shift in relations with Moscow. Many, however, are doubtful Rice will steer the change in course. "Condoleezza Rice is probably too pragmatic to sanction such a key ally as Russia for democratic backsliding," wrote a columnist for *RIA Novosti*.

Strategic Relations and Eurasia

U.S.-Russian strategic relations have reached a crossroads. In this column this author has argued that since 2001 the two governments have been skating over their differences in order to forge a bond against terrorism and the specter of a rising China in the Far East, which has left the leaders of both countries with a sense of disquiet. But the actions of the Kremlin both at home and in Chechnya have alienated many potential supporters in Washington, while Washington's seemingly endless game—at least in Russian eyes—of null reciprocity (NATO expansion, ABM withdrawal, the establishment of military bases in Central Asia, etc., without offering Russia any sort of *quid pro quo*) has left many in Russia with an image of the United States as a patronizing "friend" with no sense of compassion.

Perhaps in partial response to this, Vladimir Putin announced a serious upgrade of the Russian strategic nuclear arm in November. This includes a modernization program for the dilapidated strategic missile system and the construction of three new nuclear submarines. An analysis in *Moskovskie Novosti* expressed a typical Russian explanation:

“Strategic missiles remain the only chance to make the world respect Russia in the near future.”

Pulling out an old card, the Russian government has also announced a series of large-scale military exercises with China in 2005. The attempt to bolster relations with China goes hand in hand with attempts to reenergize relations with India as well. There is even talk of a “strategic triangle” that former Prime Minister Evgenii Primakov was so fond of. In a December visit to New Delhi, Putin said that he felt cooperation among Russia, India, and China “would make a great contribution to global security.” Also while in New Delhi he warned that unilateralism was a dangerous trend for the world, an obvious reference to the United States. Although India and China are somewhat lukewarm toward the idea of an axis, they both continue to buy large numbers of sophisticated weapons systems from Russia.

Moscow also aspires to play the energy card to gain leverage in Asia. The Russian government finally announced that it would go ahead with a Taishet-Nakhodka route for the oil pipeline to the Pacific, a route that favors Japanese interests. China had lobbied strongly for a pipeline to Daqing in northeastern China, and is no doubt disappointed with the decision. But to help ease the sting it has been announced by the Russian government that the China National Petroleum Corporation (CNPC) will be allowed to take a 20 percent interest in the Yukos subsidiary Yuganskneftegaz, which was recently auctioned off by the government. The Yuganskneftegaz auction was controversial. It was widely expected that a state firm – either Gazprom or Rosneft – would gain a controlling share, and that seems to have transpired when mysterious shell company Baikal Finance won the bid. The details of this transaction are still being sorted out, but it appears that Rosneft was the winner.

In spite of the announcement of a pipeline to the Pacific port of Nakhodka, Russia’s diplomatic relations with Japan have been thorny. Putin announced on two different occasions over the past few months that the Russian government was prepared to honor the 1956 Japan-Soviet Joint Declaration that stipulated the handover to Japan of two of the disputed islands north of Hokkaido after the signing of a peace treaty. As in the past, Japan did not bite. During the APEC summit in Santiago, Prime Minister Koizumi Junichiro told Putin during a brief meeting that Japan’s demands for all four islands had not changed. Putin’s proposed visit to Japan in early 2005 seems to have been pushed into the Spring, and it remains to be seen whether it will actually come off. Russia’s attempt to play an active role in Korean Peninsula security issues has stalled along with all diplomatic activity there.

For the past four years the Bush administration has periodically chided Russia for its policies at home and in Chechnya, while touting the strategic partnership. It now appears there is domestic and international pressure for the United States to either sit at the table or leave. 2005 could be a watershed year for U.S.-Russian relations. It will be up to the Bush administration to decide whether it wants to maintain the strategic partnership with Moscow in its current form, or whether Bush and his team will opt to become constructive critics of Vladimir Putin and the “New Russia.” Whichever decision the

Bush administration makes, it will have a profound impact on the international system in East Asia, where China looms as a giant both physically and in the minds of people of all nations. At this point it is too early to say whether the triangular relationship among Beijing, Moscow, and Washington will become a zero-sum relationship, but the potential for it to become so is certainly there, given the vicissitudes of U.S.-Russian relations.

Chronology of U.S.-Russia Relations October-December 2004

Oct. 3, 2004: Russian Finance Minister Alexei Kudrin visits Washington, where he meets with U.S. and international business leaders to discuss trade and investment in Russia.

Oct. 11-12, 2004: Russian Foreign Minister Sergei Lavrov visits Tehran to meet with Iranian leaders.

Oct. 18, 2004: Russian President Vladimir Putin, in an interview, admits he would prefer U.S. President George Bush re-elected, rather than having a Democratic administration.

Oct. 19, 2004: U.S. State Department says that it is concerned about the proposed sale of a unit of the Russian oil company Yukos, saying that it is being done under “coercion.”

Oct. 26, 2004: Deputy Secretary of State Richard Armitage leads a U.S. delegation to Moscow and Kazakhstan to discuss cooperation in the war on terror. In Moscow, Armitage meets with Russian Deputy Foreign Minister Sergei Kislyak.

Oct. 29, 2004: The Russian government summons the U.S. chargé to protest a Pentagon claim that Russian soldiers spirited away hundreds of tons of explosives from a site in Iraq just before the U.S. invasion.

Oct. 31, 2004: The first round of presidential elections in Ukraine takes place and Prime Minister Viktor Yanukovich and opposition candidate Viktor Yushchenko survive to the second round runoff.

Nov. 2, 2004: George Bush re-elected president.

Nov. 7, 2004: In an interview on Moscow television U.S. Ambassador to Russia Alexander Vershbow reiterates the concern of the U.S. government about the prosecution of the Russian oil company Yukos and its leadership.

Nov. 19, 2004: Martin Malia, brilliant Russian historian at the University of California-Berkeley, dies.

Nov. 20, 2004: In a 40-minute meeting at the Asia-Pacific Economic Cooperation (APEC) summit in Santiago, Chile, President Bush expresses concern to Vladimir Putin about the progress of democracy in Russia.

Nov. 21, 2004: The Russian government agrees to a deal to wipe out up to 80 percent of the debt owed by Iraq to the Paris Club creditor nations, of which Russia is a member.

Nov. 21, 2004: Second round of the presidential election in Ukraine results in a victory for PM Yanukovich, but the results are disputed by international observers and the Ukrainian Supreme Court annuls the elections and calls for a new round.

Nov. 23, 2004: Russian government accuses the U.S. government of “unprecedented interference” in the domestic affairs of Ukraine after the U.S. protests the results of the second round of the Ukrainian presidential elections.

Dec. 3, 2004: Putin begins a four-day trip to India and Turkey to discuss energy cooperation and potential arms deals.

Dec. 15, 2004: Yukos files for bankruptcy protection in a Houston, Texas court in the hope of preventing the forced sale of its main subsidiary.

Dec. 23, 2004: Speaking at a Kremlin news conference Putin criticizes the West for its “double standards” in speaking about the political situation in Russia and Ukrainian elections, and suggests that the U.S. election system is also flawed.

Dec. 26, 2004: Opposition leader Viktor Yushchenko, seen as pro-West, wins Ukraine’s presidency with over 52 percent of the popular vote, in the second runoff. The U.S. government hails his victory.

Jan. 1, 2005: The Texas Longhorns defeat the Michigan Wolverines 38-37 to win the 91st Rose Bowl in Pasadena, California.

U.S.-Southeast Asia Relations: Elections, Unrest, and ASEAN Controversies

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While congratulating President Bush on his reelection, Southeast Asian leaders warned that the U.S. war on terror and its Middle East policy must be altered to demonstrate that the U.S. is not attacking Islam. Washington welcomed S.B. Yudhoyono's election as president of Indonesia as a vibrant demonstration of democracy and applauded his cooperation in fighting terrorism. Nonetheless, the continued U.S. arms embargo is leading Jakarta to seek military equipment from Russia, Eastern Europe, and possibly even China. Washington has also expressed concern over southern Thai Muslim deaths at the hands of the military. Indonesia and Malaysia are stepping up maritime security cooperation, while the United States offers technical assistance. Meanwhile, ASEAN struggles with Burma's abysmal human rights record and looks forward to an East Asian summit covering Northeast and Southeast Asia in 2005, a gathering that does not include the United States.

Mixed Reactions to President Bush's Reelection

Southeast Asian reactions varied to President Bush's re-election victory, primarily reflecting each country's evaluation of the U.S. war on terror and each state's desire for U.S. assistance. In the election campaign, neither candidate featured Southeast Asia, though President Bush mentioned the Philippines in the first presidential debate as a location where the United States is "helping ... to bring al-Qaeda affiliates to justice. ..." Philippine officials welcomed the president's statement, highlighting U.S. military training in the south and its civic action programs in Basilan "which was the former hotbed of the Abu Sayyaf." A prominent Thai economist, Sarasin Viraphon, voiced concern over Sen. Kerry's proposal to reduce the outsourcing of U.S. jobs, warning Southeast Asian economies could be harmed if the Kerry plan was adopted.

Former Malaysian Prime Minister Mahathir Mohamad, a long-time critic of U.S. policy toward the Muslim world, urged Muslims living in the United States to vote President Bush out of office. In a hyperbolic "Open Letter to American Muslims," Mahathir accused the Bush administration of "oppression and humiliation [toward] the Muslims and their countries ... as never before in the history of Islam." In a more even-handed assessment, Singapore Senior Minister Goh Chok Tong endorsed U.S. military leadership in the war on terror but emphasized that the United States was in no position to take the ideological lead because it is not a Muslim country. Goh went on to lament that, "there's

no clear leader amongst the Muslim countries in tackling this problem,” though he cited Turkey’s potential if it succeeds in joining the European Union as well as Malaysia under Prime Minister Abdullah Badawi. Goh concluded that from ASEAN’s point of view, the best U.S. election outcome would be a president who will continue the fight against terrorism but is also sensitive to Muslims and does not create the impression that all Muslims are suspects.

After the U.S. election, Southeast Asia’s most effusive praise came from Philippine President Gloria Macapagal-Arroyo who associated her country with the U.S. “in defending the ramparts of freedom” (although all Philippine troops had been withdrawn from Iraq last July to save a kidnapped Filipino truck driver). U.S. forces continue to train and provide equipment to their Philippine counterparts in their efforts to suppress terrorists in Mindanao. Indonesia’s Foreign Ministry emphasized the high voter turnout in the United States as a successful model of democracy, noting that the two countries now “share democracy as a common trait,” a basis for future relations.

Commentators in Indonesia noted, however, that President Yudhoyono had to deal with a complex domestic political situation in which cooperation with the United States against jihadist groups in Indonesia had to be balanced to accommodate the interests of Muslim political parties that are part of the Indonesian president’s coalition. Jakarta’s ambassador to the U.S. looked forward to future cooperation in education as pledged by President Bush during his Bali visit. The ambassador also hoped that military relations with the United States would be restored since the FBI cleared the Indonesian armed forces of involvement in the killing of an American teacher in Papua. Such a change in U.S.-Indonesia military relations remains improbable, however, as long as Indonesian officers responsible for the 1999 East Timor atrocities are not convicted in Indonesian courts. The Indonesian ambassador also urged the U.S. to relax its strict visa rules so that students from Muslim countries would once again be better able to study in the United States.

In congratulating the U.S. president, Malaysian Prime Minister Badawi urged him to make a deeper commitment to resolve the Middle East crisis. He also emphasized that good relations between the two countries were the norm. Thailand promised continued cooperation in the war on global terrorism, though it has not asked for U.S. assistance to cope with Muslim unrest in the south (discussed below).

Indonesia: Democracy and Terrorism

The United States enthusiastically welcomed Susilo Bambang Yudhoyono’s Oct. 4 victory as president in Indonesia’s first popular election for the office. Generally peaceful and with a high voter turnout, the election was important to Washington both because it demonstrated the compatibility of Islam with democracy and because SBY’s background in national security portended a more vigorous campaign against Islamic militancy than his predecessor, Megawati Sukarnoputri. Under Megawati, Indonesia’s efforts against terrorism were uncoordinated and sporadic with military and police units

often fighting each other as much as they fought the militants. Human rights abuses drew criticism from several Western governments, including the United States.

If the Indonesian security situation improves and Yudhoyono is able to reestablish military ties with the United States, foreign direct investment – essential for the country's economic growth – may also pick up. Indonesia experienced an FDI outflow of almost \$600 million in 2003. It sorely needs more investment in factories and industry to create jobs, as nearly 40 million people, or 40 percent of Indonesia's labor force, are either jobless or underemployed. The precipitous investment drop has also resulted in Indonesia becoming a net energy importer for the first time. Investment is required to restore oil and gas field productivity.

Indonesia's new defense minister, Juwono Sudarsono, has emphasized the need to reestablish military ties with the United States, though that goal may be difficult to achieve because of Jakarta's failure to meet international demands for heavy sentences for officers guilty of human rights abuses. The United Nations charged the Indonesian military and militias under its control with the murder of 1,400 people during East Timor's 1999 independence vote. Subsequently, the U.S. Congress sharply reduced military assistance to Jakarta until Indonesia provides accountability for the atrocities.

President Yudhoyono is emphasizing Indonesia's role as a leader among Islamic moderates. Sponsoring an early December International Dialogue on Interfaith Cooperation in Yogyakarta, the president urged world leaders of all religions to rise up against the scourge of terrorism and demonstrate that faith can be a force for peace. Muslims, Christians, Jews, Buddhists, Hindus, and Confucians represented 13 Asia-Pacific countries at the conference, though Malaysia was absent from the meeting. Indonesia's Minister of Foreign Affairs Hassan Wirayuda stated that the gathering was part of a long-term effort to empower religious moderates.

Illustrative of SBY's efforts to bring Indonesian terrorists to justice is the new trial of alleged Jemaah Islamiyah (JI) spiritual leader Abu Bakar Bashir, who is now charged with possession of explosives that implicate him in the 2003 bombing of the Jakarta Marriott. Bashir and his attorneys accuse the Indonesian government of caving into pressure from the United States and Australia to convict the radical cleric. The current indictment against him claims that while at a JI training camp in the southern Philippines, Bashir read a message from Osama bin Laden calling on JI recruits to kill Americans and their allies. A problem for Indonesian prosecutors, however, is that the key witnesses against Bashir are in U.S. custody at secret locations, and the Bush administration has barred Indonesian investigators from interrogating them. One, Hambali, captured last year in Thailand, is a top JI operative and a high-level al-Qaeda member who, the U.S. claims, has told them that Bashir gave him his marching orders. It will be hard for Indonesian prosecutors to use this information unless Hambali is made available for the trial. A senior American official said the decision not to turn Hambali over to the Indonesians was made by the White House.

Several key Muslim leaders representing moderate Islam have visited Bashir in jail and protested his rearrest. They view him as a scapegoat and blame interference from the United States and Australia for his trial.

Meanwhile, President Yudhoyono has said he is willing to submit legislation to Parliament proscribing JI but only if “proof” is provided that the organization even exists. In effect, the conviction of Bashir could well be that “proof.” On the other hand, the cleric’s exoneration may further entrench the political and legal limbo that JI inhabits—its de facto terrorist operations alongside its legal invisibility. With three major terrorist attacks in Indonesia and 100 of its members incarcerated, it is almost incomprehensible that the government is still so cautious about JI’s “existence.”

The five-year hiatus in U.S. military relations with Indonesia has led Jakarta to discuss defense cooperation with both China and Russia as potential arms suppliers. A U.S. demand in late November that Indonesia suspend military officers suspected of rights violations served to further hamper efforts to rebuild military ties. The Indonesian defense minister responded that these matters “should be handled by the Indonesian courts and should not involve demands from other countries.” Moreover, if the United States continues its embargo on defense equipment, “we will have to turn to other countries and develop military relationships with them.”

At an Indonesian defense exhibition in late November, Russian defense industries were prominently represented. The chief of staff of the Indonesian armed forces stated that the military would buy more *SU-30MK* and *SU-27SK* aircraft as well as anti-aircraft systems and naval hardware. Russian small submarines, capable of patrolling shallow areas and straits, are of great interest to the Indonesian navy. For fiscal year 2005, the government has allocated \$2.3 billion for defense. In addition to Russian suppliers, a number of Eastern European companies have shown interest. Last year’s purchase of two *SU-30s* and two *MI-35* assault helicopters constituted the first purchase of Russian weapons since 1965. Critics claim, however, that much of Indonesia’s defense budget is squandered because of rampant corruption in the armed forces. These same analysts say that more than 70 percent of the military’s funds come from “off-budget” operations, including protection, extortion, illegal exploitation of natural resources, prostitution, gambling, and narcotics trafficking.

Muslim Unrest in Southern Thailand Raises Concern

The past year has witnessed the revival of what seem to be separatist attacks in the Thai south sufficiently serious that the Thaksin government has placed three provinces – Pattani, Yala, and Narathiwat – under martial law. After armed attacks in January and April on security checkpoints and state-run schools to which the military responded with overwhelming force on Oct. 25, Thai troops killed 9 protestors at Tak Bai, arresting 80 others who suffocated after being piled in army trucks. For Malay-speaking Muslims in southern Thailand, there is a strong belief that their ethno-religious identity is under siege. While Thai security officials have cooperated with their Malaysian counterparts to arrest separatist leaders on both sides of the border, the large number of southern Thai

Muslim deaths in 2004 have caused dismay in neighboring Malaysia and raised concerns throughout Southeast Asia as well as the United States that Muslim unrest in the region could become a new breeding ground for JI involvement. Hundreds of Malaysians demonstrated outside the Thai embassy in Kuala Lumpur after the October incident, and the prominent Thai newspaper, *The Nation*, cited a Thai intelligence report that fingered the Malaysian Islamist opposition party, PAS, as supporting southern Thai violence. Former Malaysian Prime Minister Mahathir's suggestion that Bangkok grant political autonomy to the south was equally unhelpful.

Unfortunately, with one exception, Thaksin's government has stonewalled international inquiries about the southern turmoil. At an ASEAN Regional Forum (ARF) meeting of defense representatives in Beijing on Nov. 4, Thai representatives declined to discuss the situation with their Indonesian colleagues, declaring it was an internal matter. At the annual APEC summit in mid-November, Secretary Powell expressed concern over the Tak Bai incident and at the same meeting demurred from endorsing Thai Foreign Minister Surakiart for the next UN Secretary General after Kofi Annan's term expires in two years. Diplomats in Bangkok have reduced Surakiart's chances of winning the UN post after a number of Muslim countries and the UN Human Rights Commission criticized the government's heavy-handed tactics in the south. The single exception to Thailand's general disregard of international opinion is Bangkok's request that Malaysia send moderate Islamic teachers to Muslim religious schools (pondoks) in the Thai south. As current leader of the Organization of the Islamic Conference, Malaysia is also in a position to explain Bangkok's actions to the global Muslim community. In sum, the situation in the Thai south promises to be a serious test for ASEAN solidarity.

Malaysian Opposition to U.S. Foreign Policy

Both the Malaysian opposition and the government continued to snipe at U.S. foreign policy in the Middle East and the U.S. war on terrorism. In early December, Foreign Minister Syed Hamid Albar stated that the attack on the U.S. consulate in Jeddah, Saudi Arabia, as well as the heavy tempo of terrorist operations in Afghanistan and Iraq show that U.S. efforts in the Middle East are not succeeding. Recently released from prison, popular Malaysian politician Anwar Ibrahim also weighed in, stating the President Bush's actions and "arrogance" had created a deeper rift between Muslims and the West. Anwar averred, "It is simplistic for President Bush to suggest the world is a safer place because certainly Iraq is not a safer place today. Terrorist cells are actually increasing, mushrooming....I am not aware in modern times of an American leader so much resented and hated abroad." Anwar then offered to undertake a bridging role to facilitate dialog between Islam and the West. Finally, Malaysia's opposition party, PAS, offered the most bizarre interpretation of the U.S. war on terror when its Youth chief claimed in early October that the bombings in Bali and Jakarta were perpetrated by the CIA to discredit Muslims and that captured JI and al-Qaeda leader Hambali was also on the CIA payroll. After all, the PAS youth leader observed, "These kind of sophisticated bombs could only be bought by the U.S."

Maritime Security, APEC, and ASEAN Meetings Dominate Regional Affairs

Last quarter's U.S.-Southeast Asia *Comparative Connections* article discussed Indonesian and Malaysian objections to a direct U.S. role in patrolling the Malacca Strait, insisting that task was the responsibility of the littoral states. In October, the Indonesian and Malaysian navies conducted a six-day antipiracy joint training exercise that also reportedly covered counterterrorism. The Indonesian commander of the Western Fleet stated the exercise "aims to show the outside world that we have a commitment to secure the Strait of Malacca from crime and the threat of terrorism." The Malaysian navy chief, Commodore Muhammad Som, agreed, saying that, "Three of our warships are mobilized from the tip of Langkawi (Island) to Singapore 24 hours a day."

In fact, Indonesian and Malaysian authorities worry that a U.S. presence in the Malacca Strait would actually attract terrorist attacks and bolster the appeal of extremists. Moreover, Southeast Asian maritime states have different priorities than the United States. For example, Malaysia's maritime concerns include threats to its sovereignty, threats to the ocean environment and fisheries from oil spills, and Indonesian pirates' threats to Malaysian fishermen. U.S. concerns about piracy against foreign ships, arms smuggling, and terrorism are not high priorities for Malaysia. Indonesia's perceptions are similar to Malaysia's with the exception of arms smuggling to separatists in Aceh. Only Singapore whose economy is heavily dependent on global commercial traffic through the Malacca Strait views piracy and terrorism as a major threat.

Nor were Malaysia and Indonesia pleased with joint naval patrols conducted by the United States and India for several months in 2003. The patrols created the suspicion that Washington was involved in a broader strategy favoring a permanent Indian naval presence in Southeast Asia that seemed also to be endorsed by Singapore. Hence, Malaysia's subsequent proposal for joint antiterrorism maritime training and exercises among Indonesia, Malaysia, and Singapore to demonstrate the ability of the strait-bordering states to insure maritime security. Indonesia's 2004 ASEAN Security Community proposal included a similar maritime component. Washington's Regional Maritime Security Initiative has been modified in the face of Indonesian and Malaysian concerns, de-emphasizing direct U.S. patrols and, according to an October statement from the U.S. embassy in Kuala Lumpur, focusing primarily on capacity building for law enforcement agencies in crisis prevention and management.

Differing priorities among some Southeast Asian states and Washington were also apparent in this year's November APEC meeting in Chile. President Bush couched his discussion of trade liberalization in the need to promote prosperity in developing countries by eradicating the conditions that breed terrorists. Malaysian Trade Minister Datuk Seri Rafidah Aziz, however, urged the gathering not to stray from its original trade and economic mandate by introducing security and political agendas. In fact, the final "Santiago Declaration" incorporated both by pledging to pursue trade and investment liberalization as well as fight terrorism, the proliferation of weapons of mass destruction, corruption, and the spread of epidemics. APEC leaders agreed to take further steps to cut

off terrorist access to the international financial system and approved an embargo on shoulder-fired missiles.

With U.S. endorsement, the Philippines was elected by APEC to lead its Counter-Terrorism Task Force. In a side meeting at the summit with President Arroyo, the U.S. president praised intelligence cooperation between the two countries that led to the capture and trial of important members of both the Abu Sayyaf and JI terrorist groups.

Tensions at the Vientiane ASEAN summit in late November centered on whether ASEAN would take up the situation in southern Thailand and condemn Burma's military junta for its continued suppression of the democratic opposition. A Malaysian opposition member of Parliament criticized Thai Prime Minister Thaksin Shinawatra for threatening to walk out of the ASEAN summit should its leaders raise the violent deaths of 87 southern Thai Muslim protesters. At the APEC summit the previous week, Thai Foreign Minister Surakiart explained the Thai government's position when the issue was raised by Secretary of State Colin Powell. Thailand's insistence that the unrest in its south is an exclusively domestic concern reverses Bangkok's stand of a few years ago when under Prime Minister Chuan Leekpai it championed ASEAN's involvement in members' internal affairs if they affect the region. Now, newly democratic Indonesia and sometimes Malaysia support the discussion of domestic security matters with regional implications while Thailand has reverted to the traditional ASEAN position of noninterference in domestic matters.

Malaysia's foreign minister pressed Burma to release Nobel-laureate Aung San Suu Kyi from house arrest to restore the international community's trust. He noted the U.S. warning that it might review its ties with ASEAN if the Burmese opposition leader was not released. In fact, the military junta recently extended her house arrest for another year. An ASEAN Interparliamentary Caucus stated Nov. 29 that Burma should not serve as ASEAN chair in 2006 and that the country's membership in ASEAN be suspended for lack of progress toward democratization.

Australia and New Zealand were invited to ASEAN's summit for the first time to begin negotiations on free trade accords. However, Australian Prime Minister John Howard refused to sign the ASEAN Treaty of Amity and Cooperation (TAC) – a nonaggression pact signed by China last year – because it would interfere with Australia's alliance with the U.S. ASEAN members are skeptical of Canberra's explanation since Japan and South Korea, both U.S. allies, have signed the TAC and treat it as a code of regional conduct for peaceful coexistence.

Finally, ASEAN leaders agreed to hold an East Asian summit next year involving the leaders of ASEAN Plus Three that will bring together all East Asian heads of government for the first time. Some U.S. policymakers are concerned that Washington is left out of this group since the United States considers itself a major East Asian actor on both economic and security dimensions.

U.S. Responds to Indian Ocean Tsunami

Reacting to one of the greatest natural disasters in modern history, the United States is taking a leading role in coordinating and contributing to relief efforts in the aftermath of an horrific undersea earthquake off the Sumatra coast. The resulting tsunami created by the quake, which topped the Richter scale at 9.0, affected Indonesia, Thailand, Malaysia, and a number of the Indian Ocean islands near Southeast Asia as well as Sri Lanka and India. By the end of December, the death toll was approaching 150,000 with literally millions of people made homeless and without access to food and water in the South and Southeast Asian coastal regions inundated by massive waves that washed away resorts and towns.

Although initially criticized as slow to react, though probably simply unaware of the enormous scale of destruction for the first two days after the event, by Dec. 28 Washington had sent aircraft from Japan as well as Seventh Fleet ships to Thailand which would serve as a coordinating location for relief efforts directed by the United States, Australia, Japan, and India. Among the U.S. equipment sent into Southeast Asia from Japan are six *C-130* transport planes, nine *P-3* surveillance aircraft, an aircraft carrier, and six ships with the ability to produce hundreds of thousands of gallons of fresh water daily. Acknowledging that relief and reconstruction would take years and billions of dollars, Secretary Powell said the U.S. would increase its contribution and work with other donors to reach that goal.

The U.S. response to this crisis provides President Bush with a political opportunity to improve the U.S. image in Asia generally and in Muslim Indonesia specifically. If the United States shows compassion with large-scale humanitarian assistance, it may be able to alter the dominant popular image in Southeast Asia that the Bush administration is only concerned with counterterrorism. A major U.S. relief effort for Indonesia, Malaysia, and Thailand could go a long way to improve that image and undercut the claim by Islamic extremists that the U.S. pursues an anti-Muslim agenda.

Conclusion

Southeast Asia is wary of President Bush's second term. It worries the United States will not consult more closely with the region's members and not take into account their security and economic priorities. While terrorism is undoubtedly a regional concern, it is not the top priority of any of the Southeast Asian states with the possible exception of Singapore. Rather, there is fear that U.S. actions in the Middle East are increasing the prospects for radical Islam in Southeast Asia. Policy priorities within ASEAN are economic and focus on free trade agreements within ASEAN and with its major external partners. China has taken the lead on this dimension with Japan and the EU coming from behind. Only the United States seems to hesitate. Once again, a manifestation of differing priorities.

Chronology of U.S.-Southeast Asian Relations October-December 2004

Oct. 7, 2004: King Norodom Sihanouk of Cambodia, 81, announces that he has abdicated, ending a reign of 63 years. Claiming to have been marginalized by a “Kafkaesque kingdom,” the king’s abdication requires that a nine-member Throne Council arrange for a successor. The country’s constitution does not mention abdication. Sihanouk’s youngest son, Prince Sihamoni, was selected the new king.

Oct. 8, 2004: Sen. Mitch McConnell criticizes Japan for funding 28 new assistance projects for Burma worth more than \$18 million. McConnell argues Japan should join the U.S. and EU in economic sanctions against the repressive Burmese junta, not aid it.

Oct. 9, 2004: With a good luck message from President Bush, Australia’s Liberal Party Prime Minister John Howard wins a rare fourth term in elections. He had sent combat forces into Iraq with the U.S. invasion but withdrew most of them soon after. Fewer than 200 Australian forces are in Iraq today, mostly securing the Australian embassy.

Oct. 9, 2004: U.S. Ambassador to Indonesia Ralph Boyce congratulates Susilo Bambang Yudhoyono on his election as president of Indonesia.

Oct. 11, 2004: U.S. political counselor in Kuala Lumpur states that Washington’s Regional Maritime Security Initiative was not a “stalking horse” for U.S. naval patrols in the Strait of Malacca but a capacity building measure for law enforcement agencies.

Oct. 15, 2004: On his website, former Malaysian Prime Minister Mahathir urges U.S. Muslims to vote President Bush out of office for policies that have caused “oppression and humiliation” to Muslims throughout the world.

Oct. 19, 2004: Singapore defends its anti-money laundering policies after a State Department report lists the country as a hub for financial crime. The report acknowledged Singapore’s anti-money laundering efforts but noted that large-scale money laundering continued.

Oct. 19, 2004: Burma’s military junta ousts Prime Minister Gen. Khin Nyunt on corruption allegations, though outside analysts see his removal as a power play by generals who opposed Khin Nyunt’s reforms. A State Department spokesman lamented what he saw as a further retreat from “political and human rights.”

Oct. 21, 2004: The Philippines announces it will receive 30 helicopters from the U.S. during the next six months and additional military assistance over the next six years.

Oct. 21, 2004: Philippine military detains three Mindanao-based militants accused of plotting to bomb the U.S. embassy in Manila.

Oct. 21, 2004: State Department spokesman Richard Boucher denounces deposed Burma Gen. Khin Nyunt's successor, Lt. Gen. So Win, as the officer responsible for the May 2003 attack on democracy leader Aung San Suu Kyi's caravan in which 70 people are said to have died.

Oct. 29, 2004: U.S. announces it is monitoring hundreds of millions of dollars in military aid to the Philippines because of a corruption scandal involving a Philippine general.

Nov. 16, 2004: The United States scales back participation in the "Talon-Vision-05" joint military exercise in Luzon because of commitments in Iraq. Held annually since 2001, this year only 70 U.S. marines from Okinawa are involved.

Nov. 19, 2004: Commander of U.S. marines in the Pacific, Lt. Gen. Wallace Gregson, meets Indonesia Chief of Naval Staff Adm. Bernard Kent Sandakh to discuss enhanced cooperation.

Nov. 20, 2004: Indonesian Minister of Manpower and Transmigration Fahmi Idris urges Indonesian workers not to work at U.S. military installations in Persian Gulf states because their safety cannot be guaranteed.

Nov. 20, 2004: Secretary of State Powell meets Thai counterpart Surakirat Sathirathai on the sidelines of the annual APEC meeting and remains noncommittal on a U.S. endorsement of the Thai foreign minister's bid to be the next UN secretary general.

Nov. 21, 2004: U.S. nominates Philippines to chair APEC counterterrorism task force.

Nov. 23, 2004: Philippine diplomat Angelito Nayan, abducted by a pro-Taliban group in Afghanistan in late October, is released unharmed. U.S. authorities worked closely with Manila to secure his release and that of two other hostages.

Nov. 25, 2004: Based on an Indonesian government report, Jakarta decides to prosecute the U.S. gold mining company, Neumont, for polluting Bayut Bay in North Sulawesi. In October, U.S. managers of the company had been arrested but were later released.

Nov. 28, 2004: Thai army proposes that 2.2 billion baht be spent on new *M16-A4* rifles and 12 used *Cobra* attack helicopters from the U.S.

Nov. 29, 2004: Philippine President Arroyo, pleased about the unexpected 6 percent Philippine growth rate this quarter, thanked the Philippines' major trade partners and singled out the U.S.

Dec. 6, 2004: Six hundred U.S. Marines from Okinawa and other U.S. specialists in the Philippines for joint exercises extend their stay to assist Philippine armed forces in relief operations after typhoons in northern Luzon left 168,000 residents homeless.

Dec. 7, 2004: Malaysian Prime Minister Abdullah Badawi and Foreign Minister Datuk Syed Hamid Albar condemn the terrorist attack on the U.S. consulate in Jeddah, Saudi Arabia, but the foreign minister insists that these despicable actions are a reaction to developments in Afghanistan, Iraq, and the Palestinian issue.

Dec. 29, 2004: President Bush announces that the U.S., Australia, Japan, and India will form an international coalition to lead relief efforts after the devastating Dec. 26 earthquake and tsunami that claimed more than 150,000 lives. The U.S. has already pledged \$35 million and sent its navy to help the aid effort.

China-Southeast Asia Relations:
Thinking Globally, Acting Regionally

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Beijing's leaders and the supporting policy community are undoubtedly quite happy with the rhythm and trajectory of Chinese foreign policy, particularly as it relates to the nations of Southeast Asia. Indeed, from an outside perspective, it would seem that they have every reason to feel satisfied.

During the last quarter of 2004, Beijing leveraged previous gains made to use both the October Asia-Europe Meeting (ASEM) in Hanoi and the November Asia-Pacific Economic Cooperation (APEC) meeting in Santiago, Chile as platforms from which to enunciate the economic and strategic priorities now defining Chinese external policies. At these events, Beijing spoke from a global perspective.

Beijing then embedded its global stance within the context of Southeast Asian concerns at the 10th Summit Meeting of the Association of Southeast Asian Nations (ASEAN), which convened in Vientiane, Laos later in November. Also at the ASEAN meeting, Beijing held its own summit with ASEAN leaders (ASEAN Plus One) and joined Japan and the Republic of Korea in discussions with ASEAN leaders (ASEAN Plus Three). The summit provided a backdrop for the annual tripartite meetings with the leaders of Japan and the ROK.

Exhibiting what has become standard behavior, Beijing also mixed its multilateral diplomacy with bilateral efforts. These were aimed at improving and solidifying ties with Indonesia, the Philippines, Thailand, and Vietnam. With the possible exception of Vietnam, all of these activities were crowned by success.

All in all, it is arguable that, in light of the economic and political gains achieved during the quarter, China's overall strategic position within the region has never been stronger. Increasingly, the rhythms of Southeast Asian political and economic life are being defined by Beijing as the nations of the region place a new emphasis on analyzing, assessing, and ultimately factoring potential Chinese reactions into their respective foreign policy initiatives. Although the United States and, increasingly the European Union (EU) continue to be of vital importance, the almost daily manifestations of Chinese economic power, the effort to demonstrate commitment to the "new" principle that the economic development of individual nations is inseparable from the development of the region as a whole, and the broad perception within the region that the Chinese are

willing to engage actively in multilateral, cooperative policies have combined to provide Beijing with an unprecedented measure of influence and even clout.

ASEM

At the fifth summit of the Asia-Europe Meeting (ASEM) held in Hanoi in October, Beijing was for the most part successful in assuming the role of major advocate of Asian concerns. Chinese ability to influence and even define “Asian” positions was manifested in the friction surrounding the question of participation by Burma. Simply put, China secured membership for Burma. Already aware that the move to exclude the Burmese from membership in ASEAN failed owing to Chinese pressure, Southeast Asian representatives, even those who shared European concerns about the human rights record of the ruling junta, simply chose not to complicate matters and, therefore, opted to withhold their support for European efforts to exclude Burma from the ASEM process. Beijing’s position was almost certainly the determining influence in formulating what became the Asian position on the issue. It is worth noting that ASEAN representatives apparently felt it to be contrary to their interests to oppose China on this issue. After all, Beijing was simply advocating that Asian nations should determine who should or should not be admitted to the “Asian ambit.”

Perhaps more to the point, it seems clear that China will play a major role in advocating Asian interests in determining the future of the ASEM process. Despite solid progress since its founding in 1996, ASEM has yet to mature. For example, there are important questions involving the size of the membership. “Asia” is concerned that admission of a large number of European states with few or no interests in Asia might alter the ASEM focus. Such a development would not be in Chinese or ASEAN interest since it might erode the very European linkages Beijing and ASEAN are working actively to develop. Therefore, China is likely to position itself, and ASEAN, on the “deepening extant relations” (approfondissement) as opposed to the “expanding relations” (elargissement) side of the emerging debate over membership and priorities.

Then too, there are issues related to human rights, concepts of responsible/accountable governance, the need to balance trade and investment flows between Asia and Europe, and cooperation in nontraditional security areas. All of these will need to be managed if not actually solved and it is inevitable that Beijing’s voice will compel the attention of officials in Asia and in Europe. In sum, ASEM offers China both a framework for establishing and expanding its new European ties while simultaneously asserting and reinforcing its regional role and influence. In the future, Beijing will increase the breadth and depth of its activities because, in the Chinese calculus, strength in Europe provides the wherewithal to develop a leading position in Southeast Asia as well.

APEC

China’s participation in the APEC meeting appears to be of a piece with its ASEM performance, although the scale and scope are obviously larger. President Hu Jintao used the occasion, not only to buttress his own position by public association with the leaders

of the developed world, but also, and more importantly, to speak authoritatively to concerns in Asia and elsewhere about Beijing's priorities and objectives.

For example, in what was almost certainly a calculated preview of the Defense White Paper issued in December, Hu offered an assessment of the global security situation that emphasized peace and development as the defining forces within the global security system. The issues of concern cited by Hu comprised economic and political problems, terrorism and other nontraditional security challenges. Hu worked hard to present the threats to regional security as problems to be managed by multilateral effort rather than as sources of instability, much less conflict.

At the same time and clearly in yet another effort to establish China as a voice for Asia and especially for the nations of Southeast Asia who are deeply affected by APEC priorities, China's president defined the central task as maintaining a stable, peaceful security environment. His use of the meeting theme, "One Great Family, Our Future," as a metaphor for the Asia-Pacific region was highly significant in this regard. Finally, Hu devoted a considerable portion of his remarks to explaining China's economic circumstances and to reassuring the participants about the nation's continuing economic viability and stability.

By his remarks and especially by announcing the conclusion of a large number of business contracts with entities in Latin America, Hu set forth an image of China as a mature, responsible, economically progressive, and deeply engaged player in Asia-Pacific affairs that is clearly committed to the view that multilateral, cooperative effort represents the best way to produce a series of "win-win" outcomes. Put differently, Hu managed to reverse a perception long-held in certain quarters that China's rise signals a series of problems and potential instability. On the contrary, he managed to present China as part of the solution rather than as part of the problem. As will be seen below, his role at APEC played well in Southeast Asia and helped to set the stage for a bravura performance at the upcoming ASEAN summit.

Acting Locally: the Bilateral Dimension

Despite its other commitments and concerns, during the quarter Beijing did not fail to cultivate and improve its ties with individual nations of the region. On the contrary, the Chinese managed successfully to buttress their previously somewhat tenuous ties with Indonesia and the Philippines, to continue the expansion of relations with Bangkok, and to impart a measure of stability to their always nettlesome relations with Hanoi.

Former Foreign Minister, State Councilor, and Special Envoy of President Hu Jintao Tang Jiaxuan served as the main vector of Beijing's effort during his swing through the region in late October and early November. In Jakarta, Tang met with Indonesian Foreign Minister Hassan Wirajuda to discuss the possibilities and potentialities inherent in the bilateral relationship and to develop the concepts required to establishing a framework for expanded relations.

After the required affirmation of Indonesia's "one China" policy and the announcement of Chinese support for Indonesia's hosting of the April 2005 African-Asian Summit and celebration of the 50th anniversary of the Bandung Asian-African Summit, Tang went on to express agreement that bilateral relations had reached a new phase and that it was now time jointly to develop the substantive interactions appropriate to that new political/diplomatic environment. In Tang's words: "(the time has come) ...to build the bilateral strategic partnership between the two countries."

The two sides agreed that the particularities of the new relationship would be developed and then discussed by their respective presidents at the APEC and ASEAN Plus One meetings. Significantly there was also general agreement that the new strategic partnership should also include a military dimension. The presidential discussions duly transpired as announced. Also, speaking at the IndoDefence Expo and Forum 2004, Indonesian Defense Minister Juwono Sudarsono announced that Jakarta had decided to enter into "military cooperation" with China and Russia.

Even though there is undoubtedly more rhetoric than substance involved in this new strategic partnership, the announcement of the new relationship is significant. First, it damps down and may even put something of a seal on years of mutual suspicion and mistrust between the two nations. Publicly at least, Jakarta is accepting Beijing's *bona fides*. Second, in a region where hierarchy based upon size and tradition is important, Indonesia, despite its difficulties, carries no little weight. Therefore, by expanding its ties with Indonesia, China acquires a measure of legitimacy and acceptance for its growing presence within the region. Finally, there is the question of ASEAN leadership. Until the onset of its present difficulties, Indonesia, by virtue of its size, its clear identification with market economics, and its support for regional stability and economic development, was regarded as the leader of ASEAN. In recent years, a leadership vacuum has been apparent within ASEAN and the new strategic partnership may well be seen by future analysts as a major step in a Chinese effort to fill that vacuum.

Tang Jiaxuan also stopped in Thailand and Malaysia (as well as in India and Pakistan), primarily to see to the maintenance of what all sides consider to be well-established, flourishing relations. While in Bangkok, Tang used the upcoming 30th anniversary of the establishment of diplomatic relations with Thailand as a platform from which to call for moving the "existing strategic cooperation with Thailand to a new height." Although no official agreements were signed, the two sides did agree to increase the number of people-to-people exchanges and to improve their cooperation in the fields of resource development, energy and telecommunications. While in Malaysia, Tang acknowledged the positive growth in bilateral relations and expressed support for Kuala Lumpur's commitment to host the first East Asian Summit scheduled for December 2005.

Beijing's relations with Manila took a significant turn for the better during the quarter. Philippine President Gloria Macapagal-Arroyo's September state visit apparently fulfilled at least some of its promise for extended and expanded consultation and coordination as well as increases in trade and other activities.

In November, the defense ministers of the two nations agreed to establish a mechanism for annual defense talks. While it is true that Beijing conducts many such sessions with Asian nations as well as countries in Latin America, competing Chinese and Philippine claims in the South China Sea and the history of tension between the two nations over their actions there endow this particular mechanism with some significance. At a minimum, the establishment of the discussion mechanism is designed to reinforce within the region the perception of Chinese reasonableness when addressing the South China Sea territorial issue. It also lends credence to Beijing's announced intention to remain true to its code of conduct agreement with ASEAN as a whole.

It is worth noting that the agreement on the defense discussion mechanism could not have been reached in the absence of an upturn in the overall relationship. That such an upturn has occurred was signaled by a series of telephone discussions between Philippine Foreign Secretary Alberto Romulo and Chinese Foreign Minister Li Zhaoxing during which the two sides discussed "bilateral issues between the two nations."

Again, it is important to keep this development in proper perspective. Substantively, the interactions probably do not amount to very much. However, symbolically, in a region in which symbolism is extremely important, foreign ministerial telephone conversations inevitably carry weight. That Li also regularly conducts such discussions with the U.S. secretary of state will not go unnoticed, either in Manila or in other ASEAN capitals. In sum, as with Indonesia, the quarter saw a successful effort to soften and smooth out some of the rougher edges that had characterized the bilateral relationship.

The only possible exception to Beijing's record of positive bilateral relations during the quarter concerned its ties with Vietnam. The quarter began with the optimistic sound of gongs and cymbals as Premier Wen Jiabao paid an official visit to Hanoi. The purpose of the visit was to consolidate the gains achieved the previous June when the Beibu Gulf Fishery Cooperation Agreement finally became operative. Considering the troubles of the past, the Beibu Agreement, along with another informal, but publicly announced, agreement to speed the process of border demarcation was regarded as a highly significant step by both sides and by the region as a whole. Both Beijing and Hanoi gained considerable credit for their perceived willingness to work cooperatively to solve problems and disagreements that had erupted into conflict in the past. Accordingly, both sides treated the visit as an effective means of encouraging the continuation of the positive trajectory of bilateral ties.

However, the gains of the early October meeting were negated to some extent later in the month when the Chinese Foreign Ministry felt it necessary to express "serious concern" about the Vietnamese call for bids to explore potential oil and gas fields in areas of the South China Sea over which both nations claim sovereignty. Significantly, the Chinese statement interpreted the action as a repudiation of earlier commitments that had been reaffirmed by both sides barely two weeks previously. For its part, Hanoi simply continued to call for bids and showed little sign of willingness to compromise.

It is not likely that the incident will have any real negative impact on the overall peaceful climate of the sub-region. Neither China nor Vietnam has any interest in allowing their ties to deteriorate. Accordingly, the demarcation of the land border is likely to continue at a measured pace, the Beibu Gulf will remain basically peaceful, and economic relations will continue to develop. In fact, in November, Beijing announced that it would allocate additional funds for improvements in the rail line connecting Kunming and Hanoi.

However, within the region, it is clear that relations between the two sides are inherently flawed and that probably no amount of negotiation will provide a permanent solution. There is, therefore, concern in ASEAN capitals that Chinese-Vietnamese tensions could act as a force that undermines the willingness of all of the parties to the South China Sea territorial dispute to put their disagreements aside and focus on other matters of greater import, such as trade and economic development. The Beijing-Hanoi divide also has the potential to undermine ASEAN unity as individual nations develop their respective calculuses of national interest.

The Multilateral Dimension: China and ASEAN

If the Chinese government were to choose a slogan to convey the organizing principle and the substance of the multilateral component of its policy throughout the region, that slogan would undoubtedly be something like “Building the East Asian Community.” The idea of community has been a staple of the Southeast Asian political scene for many years. In fact in November 2002, China and ASEAN negotiated a Framework Agreement on ASEAN-China Comprehensive Economic Cooperation, as a prelude to subsequent negotiations on establishing an ASEAN-China Free Trade Area (FTA). Progress on implementation had been slow and uneven, the major achievement being the so-called Early Harvest Agreement signed with Thailand in January 2004. The agreement focused on trade in fresh fruit and other categories of agricultural products.

It is now clear, however, that all of the parties concerned made a deliberate decision to speed up the process of implementing the framework and establishing a true FTA. It also seems clear that the two sides also wish to explore and identify additional areas of joint activity and cooperation in order to broaden and deepen the quality of the overall multilateral relationship.

On Sept. 4, Chinese and ASEAN economic and trade ministers met in Jakarta to discuss ways and means of achieving the new objectives. The meeting produced an agreement in principle on the initial elements of the FTA: trade and the settlement of disputes. Three working groups were established to draft rules on the origin of goods and regulations on trade in goods and trade in services, which were to be formalized at the upcoming ASEAN and ASEAN Plus One meetings scheduled for the last week of November. This action duly transpired Nov. 29 with the signing of agreements on trade of goods and on dispute settlement. With the objective of establishing the FTA by 2010, China and the core members of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) will begin immediately to reduce tariffs on a selected range of goods and remove certain restrictions on trade in services. Similar arrangements are to come into

effect with the “new” members of ASEAN (Cambodia, Laos, Burma, and Vietnam) no later than 2015.

Although the economic agreements were the core achievements of the meeting, China and ASEAN also agreed to develop and make available an action plan for advancing the strategic partnership. Premier Wen probably provided a preview of the substance of this action plan in remarks offered at the ASEAN Plus Three sessions. The areas identified for ASEAN Plus Three cooperation and, therefore, for ASEAN activities with China were: establishing the FTA, deeper cooperation in investment and finance, expanded security dialogue and cooperation, expanded cultural exchanges, periodic reviews of progress toward developing cooperation for developing an East Asia Consensus, and assigning larger numbers of personnel to supporting joint activities.

In other ASEAN-related activities, in early November the first China-ASEAN Expo convened in Nanning, the capital of the Guangxi Zhuang Autonomous Region. The first China-ASEAN Business and Investment Summit was held on the sidelines of the Expo.

In addition to the signing of contracts and investment deals, both events were intended to impart substance to Guangxi’s effort to become an “International Channel” between China and ASEAN. Accordingly, much was made of continuing program commitments to building the railroads, roads, airports, and seaports required to fulfill that function. Significantly, representation was at a high level: the Chinese vice premier represented his boss, Wen Jaibao, who is intimately associated with the project. Not surprisingly, given the proximity of their respective nations to Guangxi, the prime ministers of Cambodia, Laos, and Burma were welcomed as honored guests.

Although the total value of contracts concluded was relatively low, around \$5.75 million, politically, the event was almost certainly a major success. Beijing was able to add substance and heft to its ties with the three nations of ASEAN with which it has special influence and interests. Then too, it was able to demonstrate further its commitment to developing economic and infrastructural connections with the least developed nations of the sub-region. Finally, the Chinese were able to claim the expo as a first example of the benefits to be gained by implementing the agreement on the FTA.

Finally with respect to ASEAN, in early November, Beijing hosted the first Security Policy Conference of the ASEAN Regional Forum. In yet another demonstration of Chinese commitment to multilateral cooperation, Premier Wen opened the meeting. The (military officer) delegates observed an anti-hijack drill and agreed to identify and open up new channels of communication to deal more effectively with nontraditional security threats. In addition to establishing yet another linkage with the military establishments of the region, the Chinese probably also scored some points by leading the meeting to affirm the importance of cooperation in countering terrorists while simultaneously pointing up the need to do so in ways that were consonant with the provisions of international law.

While the diplomats and national leaders were approving the details of various economic, political, cultural, and security agreements, members of regional academic, diplomatic,

and business sectors were actively engaged in setting forth different theoretical/intellectual and financial/commercial concepts to guide future planning for the proposed “East Asian Community.”

On Oct. 14, former Chinese Foreign Ministry Spokesman, Ambassador to France, and now President of the Chinese Foreign Affairs University Wu Jianmin used the closing of the annual meeting of the Network of East Asian Think Tanks (NEAT) to assert in an interview with *People’s Daily* that “The concept of East Asian Community has been accepted by the 13 East Asian countries and become a common understanding.” NEAT is an ASEAN Plus Three creation whose mission is to provide conceptual and practical advice on developing regional cooperation. Wu also announced that the 13 East Asian countries have agreed to hold the first East Asian Summit in Malaysia in December of this year. Citing the impact of globalization, a growing recognition with the region of the need for greater economic unity, especially with regard to currency and fiscal policies, and the positive results of cooperation achieved thus far, Wu provided what most regional security experts apparently regard as a solid rationale for proceeding with the meeting.

Consensus on the desirability of convening an East Asian summit was authoritatively affirmed when, on Dec. 6, Malaysian Prime Minister Abdullah Ahmad Badawi outlined a seven-point roadmap to chart the course of the East Asian Community and measure its progress. At this writing it is, of course, impossible to describe the goals and the agenda with any degree of specificity. Prime Minister Badawi’s “Roadmap” amounts, understandably, to little more than a series of extremely general “shoulds and oughts” designed to stimulate the thinking of the various organizers and program developers. However, it can be said that, despite the lack of specifics, the concepts, definitions, and methods suggested by Prime Minister Badawi appear to follow quite closely the terms of discourse on regional cooperation that have been enunciated by Chinese officials since the beginning of 2002.

Responding to Disaster

China responded rapidly to the call for relief for victims of the tsunami disaster. Premier Wen Jiabao, who appears to be assuming the role of China’s point man on all aspects of relations with ASEAN, arrived in Jakarta Jan. 5 to attend a special ASEAN summit called to discuss how best to respond to the overwhelming demand for relief of all kinds. Although Wen met with the Maldivian president and the Thai and Sri Lankan foreign ministers, it seemed apparent that the bulk of Chinese aid would be directed toward Indonesia, which did suffer the greatest damage. The total Chinese aid commitment at the time was said to amount to just over \$80 million and Premier Wen indicated that more would be forthcoming.

The Chinese response involved the participation of many different sectors, including the People’s Liberation Army, the Chinese Red Cross, government employees, and the full spectrum of state-owned and private enterprises. In addition to providing immediate relief in terms of food, water, and shelter, Premier Wen indicated that Beijing was committed to involvement over the long haul, including the participation of Chinese construction companies in efforts to provide housing, schools, hospitals, and to rehabilitate destroyed

infrastructure. Beijing also announced the convening of a meeting of representatives of China, ASEAN, and other countries that suffered destruction later this month in Beijing. The meeting will consider ways and means of creating a region-wide warning system capable of alerting the populations of threatened areas to the possibility of major disaster.

Conclusion

Several observations can be made on the current state of Chinese “connections” with Southeast Asia. In one sense, the events of the last quarter of 2004 represent the culmination of trends set in motion a little over two years ago with the publication by Beijing in 2002 of its Defense White Paper. Two of the defining features of that document were the emphasis on the dominance of peace and development as forces driving global development and a corollary imperative toward implementing external policies based upon multilateral, cooperative approaches. The most recent Defense White Paper, published in December of 2004, does not stray from that path.

This suggests, in turn, that Beijing’s overall approach to Southeast Asia and Asia in general, is not likely to change very much in the near term. The reality is that Beijing has come to be perceived within the region as being willing to bring its considerable and rapidly growing comprehensive national power to bear in favor of adopting cooperative approaches to the solution of regional issues and problems. Beijing believes that this is in its interest and sees no region to change its posture.

Second, arguably Beijing is now exerting more influence than any other external power over the Southeast Asian economic, political, and diplomatic agenda. For example, the decision to proceed with the FTA suggests that in the last five years or so, China has elevated the ASEAN Plus One process to an unprecedented height. It has also played a central role in creating, virtually from whole cloth, the ASEAN Plus Three processes and begun a regular series of meetings with Japan and the Republic of Korea. All of this is at the heart of the regional agenda.

Third, these associations, agreements, and processes involve a restructuring of regional relations, both among the nations of ASEAN and between ASEAN and the nations outside the sub-region. Internally, the communiqué of the last ASEAN summit suggests that the organization is determined to achieve a new level of unity as well as an expansion of its activities. Whether it will be possible for ASEAN to deal effectively with its internal stresses and strains is an open question. It is a safe bet, however, that there will be considerable pressure for change. Externally, in the eyes of the region, innovation and relevance appear to emanate from Beijing while Japan, the ROK, and India only attempt to match the pace. Increasingly, Australia, India, Japan, the Republic of Korea, and the United States are finding themselves in a position of having to react to trends that are established in large measure by the Chinese.

Fourth, and admittedly only impressionistically, the nations of Southeast Asia appear to regard China with less suspicion and more trust than in the past. This is not to suggest that there is any less willingness to welcome Washington, Tokyo, and New Delhi now

than in the past. But, it is to suggest that ASEAN is growing more confident of its own ability to manage the challenges of an emerging China.

In the past, Asian nations responded to Beijing largely on the basis of its potential. There was a measure of ambiguity in Southeast Asian perceptions of China and its behavior and, arising from that sense of ambiguity was an observable tendency to hedge against a downturn in bilateral ties. At present the need for hedging appears to have lost some of its urgency.

Finally, it is essential to recall that the way ahead will not be smooth, nor will it always be possible for Beijing to maintain its positive stance. Trade in fruit and vegetables between Bangkok and Kunming is one thing. Removing tariffs on automobiles is quite another. Increasingly China is impinging on certain niche markets that the nations of ASEAN have traditionally regarded as their own. The Chinese will continue to face conflicting pressures on currency revaluation and this could force choices that will not play well in Southeast Asia. The South China Sea territorial disputes involve issues of nationalism and national pride and underestimating the creativity and resilience of Tokyo, Seoul, and New Delhi and their ability to compete effectively with China would be a mistake of grave proportions. Nonetheless just now, the connections between China and Southeast Asia are stronger and more diverse than at any time in the past. Whether they will weaken, grow stronger, or remain more or less the same depends on many things, some of which have been noted above. However, as the region moves into 2005, the smart money seems to be on China.

Chronology of China-Southeast Asia Relations October-December 2004*

Oct. 4, 2004: Thailand reports 11th death from bird flu.

Oct. 4, 2004: Singaporean Foreign Ministry warns Taiwan not to “belittle Singapore.”

Oct. 6, 2004: Chinese Premier Wen Jiabao arrives in Vietnam for fifth Asia-Europe Meeting (ASEM) summit in Hanoi to be held Oct.7-9.

Oct. 7, 2004: Asian and European nations gather in Hanoi to accept Burma and 12 other countries into ASEM.

Oct. 14, 2004: Wu Jianmin, former Chinese Foreign Ministry spokesman, ambassador to France, and now president of the Chinese Foreign Affairs University, used the closing of the annual meeting of the Network of East Asian Think Tanks (NEAT) to assert in an interview with *People's Daily* that “The concept of East Asian Community has been accepted by the 13 East Asian countries and become a common understanding.”

* Compiled by Lena Kay, Vasey Fellow, Pacific Forum CSIS.

Oct. 15, 2004: Senior Chinese leader Wu Guanzheng meets Indonesia President-elect Susilo Bambang Yudhoyono.

Oct. 17, 2004: Chinese President Hu Jintao meets with new Cambodian King Norodom Sihamoni.

Oct. 21, 2004: China protests Vietnam's oil bid in disputed Spratly Islands in the South China Sea, saying move violated China's territorial sovereignty and rights.

Oct. 22, 2004: Chinese State Councilor Tang Jiaxuan meets Malaysian PM Badawi to discuss China-Malaysia relationship. Malaysia reiterates adherence to the "one China" policy.

Oct. 26, 2004: State Councilor Tang meets Thai PM Thaksin to discuss Thailand-China diplomatic ties and bilateral strategic cooperation. Thaksin reiterates "one China" policy.

Nov. 3, 2004: China, and the Association of Southeast Asian Nations (ASEAN) launch the first China-ASEAN trade fair (CA-Expo) in Naning.

Nov. 4-6, 2004: Beijing hosts First Security Policy Conference of the ASEAN Regional Forum (ARF) attended by defense officials from 24 ARF countries.

Nov. 5, 2004: State Councilor Tang meets Indonesian Foreign Minister Hasan Wirayudha to enhance bilateral relationship. Wirayudha reaffirms "one China" policy.

Nov. 19, 2004: Philippines Defense Secretary Avelino Cruz and Chinese Defense Minister Gen. Cao Caochuan agree to set up mechanism for annual defense talks.

Nov. 21, 2004: Chinese Foreign Minister Li Zhaoxing holds phone conversation with Philippine Foreign Secretary Alberto Romulo to discuss bilateral issues.

Nov. 24, 2004: Defense Minister Juwono Sudarsono says Indonesia has elected to enter into military cooperation with Russia and China at the IndoDefence Expo and Forum-2004.

Nov. 28, 2004: Asian health ministers meet in Thailand to discuss bird flu.

Nov, 29, 2004: ASEAN holds 10th summit in Vientiane, Laos. ASEAN Leaders sign the Vientiane Action Program, and the ASEAN Framework Agreement for the Integration of Priority Sectors. ASEAN economic ministers sign the ASEAN Sectoral Integration Protocol and ASEAN Protocol on Enhanced Disputes Settlement Mechanism.

Nov. 29, 2004: China and ASEAN hold eighth summit. They sign pact aimed at creating world's largest free trade zone. They also agree to expand Framework Agreement for the Integration of Priority Sectors to create an ASEAN community with a common market and common security goals. Premier Wen reiterates that "China is willing to accede at an early date to the Protocol of the Treaty on the Southeast Asia Nuclear Weapon-Free Zone," and is willing to "shelve disputes while going in for joint development" with regards to the South China Sea.

Nov. 29, 2004: ASEAN Plus Three agrees to hold East Asia Summit in Malaysia in 2005.

Nov. 30, 2004: Premier Wen meets President of Lao National Assembly Saman Vi-Gnaket and says "China will stick to its friendly policy toward Laos no matter how the world situation changes."

Nov. 30, 2004: China Aviation Oil chief executive officer Chen Jiulin leaves Singapore after company discloses it lost \$550 million on speculative trading in derivatives.

Dec. 6, 2004: Malaysian Prime Minister Abdullah Ahmad Badawi outlines a seven-point roadmap to chart the course of the East Asian Community and measure its progress.

Dec. 8, 2004: Highway linking China and Burma to be rebuilt to boost exchanges between China and Southeast Asia.

Dec. 8, 2004: Chen Jiulin, chief executive of embattled China Aviation Oil Singapore Corp. Ltd., arrested in Singapore.

Dec. 11, 2004: Court documents show that China Aviation Oil is \$152 million in debt since losing \$550 million from trading in oil derivatives, and owes money to 12 banks.

Dec. 16, 2004: China Vice Premier Hui Liangyu meets Thailand Deputy Prime Minister Chaturon Chaisaeng to promote strategic partner relationship.

Dec. 14, 2004: East Timor-Leste embassy opens in China.

Dec. 18, 2004: Cambodia's Senate President Chea Sim and Prime Minister Hun Sen meet visiting Chinese delegation led by Chen Haosu, president of the Chinese People's Association for Friendship with Foreign Countries. Hun Sen reaffirms that "Cambodia always pays great attention to strengthen the friendly relations with China."

Dec. 19, 2004: President Hu meets Chief Executive of the Macao Special Administrative Region (SAR) Edmund Ho Hau Wah, to celebrate Macao's fifth anniversary. Hu reiterates that "one country, two systems" is the fundamental guarantee of Macao's sustained development and its long-term prosperity and stability.

Dec. 20, 2004: President Hu tells Hong Kong Chief Executive Tung Chee-hwa that the Hong Kong government "must be more concerned with the people of Hong Kong."

Dec. 22, 2004: Burma's Prime Minister Lt. Gen. Soe Win, and Mayor Brig. Gen. Aung Thein Lynn meet Chen Haosu, president of the Chinese People's Association for Friendship with Foreign Countries to enhance bilateral relations, and to discuss issues of common interest.

Dec. 22, 2004: Ministers of six Mekong River countries sign documents to ease cross-border goods transport and travel at the 13th Greater Mekong Subregion (GMS).

Dec. 24, 2004: Thailand opens first Regional Operation Center (ROC) – the Khon Kaen University, which will serve as technical coordinator to link provincial strategies with foreign policy in handling relations with neighboring countries.

Dec. 26, 2004: Powerful earthquake shocks South and Southeast Asia and Africa, with total death to exceed 150,000. China offers emergency humanitarian aid to India, Indonesia, Sri Lanka, Maldives and Thailand.

Dec. 27, 2004: China publishes Defense White Paper, stressing a government security strategy to build a streamlined military with "Chinese characteristics." In the paper, China attaches importance to the role of the ASEAN Regional Forum (ARF), and is devoted to its development.

Dec. 29, 2004: China offers \$2.7 million (Yuan 21.63 million) as emergency humanitarian aid to India, Indonesia, Thailand, Sri Lanka, and Maldives.

China-Taiwan Relations: Campaign Fallout

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During the Legislative Yuan (LY) election campaign, President Chen Shui-bian again used Taiwanese identity issues to mobilize Democratic Progressive Party (DPP) supporters and reverted to talking fervently about his mission to give his people a new constitution in his second term. Such developments only confirmed Beijing's distrust and criticism of Chen. The Bush administration also notched up public criticism, reflecting Washington's growing frustration with and lack of trust in Chen. In October, Chen made some specific proposals on cross-Strait dialogue and charter flights. Beijing dismissed Chen's dialogue proposal as insincere because it did not directly address the "one China" issue but deferred responding on the question of charter flights. The LY election in December unexpectedly renewed the pan-blue majority in the Legislative Yuan. Beijing and Washington breathed sighs of relief. Nevertheless, a week after the election, Beijing announced it would proceed to adopt an "Anti-Secession Law" in the Spring. While some believe 2005 will present a window of opportunity for progress on cross-Strait relations, it remains to be seen whether Beijing and Taipei will choose to adopt flexible approaches on the "three links," the one area where some progress may be possible.

Campaign Developments

President Chen chose to build the DPP's LY campaign around the same national identity issues he had used so effectively in the presidential campaign. In an early November meeting with the Taiwan Professors Association, Chen spoke passionately about identity issues and reiterated his "mission" to give his people a "new constitution" adopted by referendum during his second term. Two weeks later at a conference on a new constitution sponsored by former President Lee Teng-hui, Chen again emphasized this personal mission. On neither of these occasions did he refer to his inaugural statements about keeping sovereignty issues off the table in the constitutional reform process. However, in some remarks aimed at foreign audiences, he did reiterate those statements and the "four noes" from his 2000 inaugural address.

This major theme on a new constitution was supplemented during the campaign with a host of other national identity proposals. At one time or another, Chen advocated rewriting history texts to emphasize Taiwan history, abolishing the remnants of the Taiwan Provincial Government, seeking admission to the UN as “Taiwan” and changing the names of state corporations and overseas offices to use “Taiwan” rather than “China.” Separately, Presidential Advisor Koo Kwang-min published an advertisement in U.S. newspapers calling on the U.S. to scrap its “one China” policy. Despite denials, many in Washington saw this editorial as part of Chen’s national identity agenda. How many of these proposals were campaign rhetoric and how many were intended policy was uncertain and remains so.

These campaign moves only confirmed Beijing’s distrust of Chen Shui-bian. Nevertheless, Beijing’s reaction during the campaign was restrained. Spokesmen for the Taiwan Affairs Office (TAO) did repeatedly voice harsh criticism of Chen. Nevertheless, Beijing continued to maintain a relatively low profile during the campaign. Senior Chinese leaders generally did not address Taiwan issues and military exercises and threats were not highlighted. On the one occasion on which President Hu Jintao addressed Taiwan issues he did so in moderate tones. While in Brazil, Hu told the press that China’s interest in economic development should take priority over the goal of reunification and expressed confidence that cross-Strait differences would eventually be worked out. His remarks were welcomed in Taipei and Washington. After Lee Yuan-seh, Chen’s representative at the APEC Leaders Meeting, had a brief exchange with President Hu in Santiago, Lee described Hu’s attitude as “friendly.”

Growing Strains in U.S.-Taiwan Relations

As was the case last fall, this campaign rhetoric further eroded Washington’s waning confidence in President Chen. In media interviews given in Beijing in late October, Secretary Powell diverged from standard U.S. government formulations when he stated, “Taiwan is not independent” and “does not enjoy sovereignty as a nation.” In calling on Taipei and Beijing to pursue dialogue, Powell spoke of dialogue leading to “peaceful reunification.” These comments provoked a storm of criticism and deep concern in Taipei. While Powell subsequently acknowledged that he misspoke in not using the term “peaceful resolution,” he pointedly did not correct his statements that Taiwan was not sovereign. While the State Department stated that there had been no change in U.S. policy, Powell’s remarks are best interpreted as a sign of the frustration felt at the highest levels of the U.S. government about Chen’s constant promotion of a Taiwanese nationalist agenda.

While Washington had not commented on many of Chen’s campaign statements, the State Department decided in the last days of the campaign to publicly criticize some of Chen’s proposals. When Chen told Lee’s conference of his mission to have a new constitution adopted by referendum, the Department publicly reiterated the importance of Chen abiding by his “four noes” commitments, including not holding a referendum on independence. Chen replied by publicly reiterating the “four noes.” Later the State Department stated that it could not support Chen’s proposals to change the names of

domestic corporations and overseas offices. These statements had the effect, whether intended or not, of reminding Taiwan voters of the strains in U.S.-Taiwan relations on the eve of the election.

Subsequently, in a farewell press interview, Deputy Secretary of State Richard Armitage cited Taiwan as a “landmine” threatening U.S.-China relations. The contrast with Armitage’s 2001 characterization of Taipei as “not a problem, but an opportunity” underlined how the Bush administration’s view of President Chen had changed. In addition, Armitage said, “we all agree that there is only ‘one China’ and that Taiwan is a part of China.” Since this language eliminated the nuance that the U.S. only “acknowledged” those statements as Chinese views, Taipei was concerned about Washington policy shifting in China’s favor. As the quarter ended, the Taipei press was full of rumors alleging that Bush had called Chen an S.O.B. Whether true or not, these rumors fed the perception that Chen’s policies had created a serious deterioration in U.S.-Taiwan relations.

President Chen’s Proposals on Cross-Strait Relations

President Chen used the occasion of his annual National Day speech to float new proposals on cross-Strait issues. Near the end of his speech, Chen suggested using “the 1992 meeting in Hong Kong” as a basis for resuming dialogue. Washington welcomed this suggestion and urged Beijing to explore opportunities for dialogue. At its next regular press briefing, the TAO spokesman dismissed Chen’s suggestion as insincere, noting that it did not address the issue of “one China” and was part of a speech replete with Chen’s promotion of a separate Taiwan identity. Two weeks later, almost unnoticed, a “responsible person” from the Association for Relations Across the Taiwan Strait (ARATS) wrote a commentary on the “1992 Hong Kong meeting” that dispassionately and without invective recounted Beijing’s view of that meeting. The ARATS article concluded that, if Taipei were to accept the 1992 consensus on “one China,” dialogue could resume. The following day, the TAO’s Wang Zaixi again blasted Chen’s insincerity.

In the same speech, Chen proposed that the two sides consider arms control measures and work toward a “code of conduct across the Taiwan Strait.” A month later in a 10-point program released after a National Security Council meeting, Taipei elaborated on these ideas and proposed the establishment of military buffer zones in the Taiwan Strait and the creation of a “Taiwan Strait Consultation Mechanism” modeled on the 1972 U.S.-USSR Incidents at Sea Agreement. Again Washington welcomed these as constructive proposals. However, absent a political framework for cross-Strait talks, these suggestions were dead on arrival in Beijing.

In late September, the Mainland Affairs Council (MAC) proposed arrangements be made for cross-Strait charter flights during the Chinese New Year in February 2005. Chen used his National Day speech to expand on this, suggesting that talks be held to work out arrangements for direct cross-Strait cargo and passenger flights throughout the year. Beijing did not immediately reject this idea. The TAO did state that the unofficial

channel used for negotiating the 2002 Hong Kong-Taiwan civil aviation agreement could be a model for handling cross-Strait charter flights. The MAC too endorsed the so-called Hong Kong model and subsequently appointed the Taipei Air Carriers Association to be the unofficial body authorized to handle charter flights issues. While Beijing did nothing to actually advance negotiations on charters during the campaign, Taipei hoped progress would be made after the election. However, in late December, MAC Chair Wu Jaushieh stated that Beijing had rejected overtures from private Taiwan organizations to negotiate charters for Chinese New Year. Subsequently, a group of KMT legislators offered to assist and obtained the MAC's encouragement to do so. The Taipei press reported that a TAO spokesperson had said on Jan. 2 that Beijing would be willing to arrange New Year charters. What the outcome will be remains to be seen.

Election Outcome Eases Concerns, but ...

Contrary to almost everyone's predictions, the opposition parties renewed their slim majority in the LY election Dec. 11. Beijing and Washington seemed to breathe a sigh of relief that the opposition would continue to be a domestic constraint on President Chen's ability to implement measures that could change the cross-Strait status quo. Most importantly, as amendments to the constitution require a three-quarters majority in the LY, the election results mean that Chen will only be able to accomplish constitutional reform through cooperation with the opposition, as was done successfully in August 2004. Despite its private relief, the PRC's first public comment on the election continued its harsh criticism of Chen's "splittist" activities.

On Dec. 17, Beijing announced that anti-secession legislation would be on the agenda of the late December meeting of the National People's Congress (NPC) Standing Committee (SC). The decision not to term this legislation a "Unification Law" underlines that Beijing's current priority is to block separatism rather than to achieve unification. In late December, the NPC SC approved a draft Anti-Secession Law and transmitted it to the NPC, which will meet in March to adopt the law. No text of the law was released. However, NPC Chairman Wu Bangguo did comment on the draft, stating that increasing separatist activities on Taiwan, particularly talk of a new constitution, made adoption of anti-secession legislation necessary. In late December, Beijing released its annual Defense White Paper. While the national policy section of the document was consistent with previous white papers, the 2004 paper listed stopping separatism as China's first national security goal – underlining how Beijing's concerns on this score have become more urgent over the past year.

Diplomatic Tussles Continue

In early November, Vanuatu Prime Minister Vohor visited Taipei and signed a communiqué establishing diplomatic relations. Rather than breaking its diplomatic relations with Vanuatu, Beijing waged a behind-the-scenes campaign to reverse the decision, reportedly getting some help from Australia. In December, following the defection of half of his parliamentary supporters, Vohor lost a no-confidence vote and was forced to resign. The new prime minister announced that relations with Beijing

would be maintained and the agreement with Taipei terminated. With this, the number of states recognizing Taipei reverted to 26. However, Taipei is nervously watching developments following Grenada Prime Minister Keith Mitchell's visit to Beijing in December during which a possible switch in Grenada's diplomatic relations to Beijing was discussed.

At a World Health Organization (WHO) meeting convened to update the International Health Regulations (IHR), Taipei's diplomatic allies proposed amendments to permit nonmembers of the WHO (meaning Taipei) to participate in the IHR. Beijing objected, and the issue was deferred to a further meeting on the IHR next spring.

At the annual conference of the Asian Network of Major Cities, Taipei, led by Mayor Ma Ying-jeou, and Beijing wrestled for the right to hold the network's 2005 conference. Beijing won. However, the conference indicated that Taipei would be the presumptive candidate for the 2006 meeting.

Taipei did win one tussle when Japan agreed to grant former President Lee Teng-hui a visa for a private visit to Japan in late December.

Economic Ties

The most recent statistics indicate that cross-Strait trade and investment continue to expand at impressive rates. Taipei announced in November that cross-Strait trade for Jan.-Aug. 2004 reached \$39.6 billion, up 38.5 percent over the same period in 2003. Taiwan's exports had increased 33.4 percent and China's cross-Strait exports had increased a whopping 55.3 percent. For these eight months, China was again Taiwan's largest export market and Taiwan was, after Japan, China's largest source of imports. Exports to China represented 25.9 percent of Taiwan's global exports. Taipei's Investment Commission reported that approvals for investments in the PRC from January through November 2004 were up 52 percent in value from a year earlier.

Policy Implications

President Chen's aggressive promotion of Taiwanese identity and his contradictory statements about a new constitution have had two negative consequences for Taiwan's interests. His actions have produced serious strains in Taiwan's relations with the U.S. and prompted Beijing to draft anti-secession legislation, which Taipei portrays as increasing the danger of cross-Strait conflict.

Some policymakers in Washington believe that 2005 may offer a window of opportunity for cross-Strait dialogue. For this to prove accurate, both Beijing and Taipei must show some flexibility. There has been no indication that either is prepared to compromise on the basic issues related to "one China" that have made political dialogue impossible. And, Beijing's promotion of an Anti-Secession Law does not bode well for cross-Strait dialogue. Cross-Strait economics, including transportation and charter air flights, are the issues on which progress may be possible. Whether Beijing will be willing to cooperate

in arranging special charter flights for the Chinese New Year will give an indication of the prospects for reaching agreement later on a broader arrangement for passenger and cargo charter flights.

Chronology of China-Taiwan Relations October-December 2004

Oct. 4, 2004: MAC offers to send negotiator for charter flights.

Oct. 4, 2004: DOD's Richard Lawless threatens Taiwan with consequences if the Supplemental Defense Budget is not passed.

Oct. 4, 2004: Presidential Advisor Kwang-ming Koo places ad challenging "one China."

Oct. 6, 2004: President Chen tells Morgan Stanley there will be no conflict with China.

Oct. 9, 2004: President Chirac visits China, opposes independence for Taiwan.

Oct. 10, 2004: Chen proposes talks based upon "1992 meeting in Hong Kong."

Oct. 13, 2004: Premier Yu states that Chen did not mean there was a "1992 consensus."

Oct. 13, 2004: TAO spokesman criticizes Chen's speech as insincere.

Oct. 14, 2004: IAEA reference to Taiwan prompts speculation about nuclear weapons.

Oct. 25, 2004: Secretary Powell meets President Hu in Beijing; urges cross-Strait dialogue.

Oct. 25, 2004: In press interviews, Powell says Taiwan is not a nation with sovereignty.

Oct. 26, 2004: Chen reiterates Taiwan is sovereign and independent.

Oct. 26, 2004: ARATS sends SEF a rare condolence message over typhoon losses.

Oct. 27, 2004: TAO mentions using Hong Kong model for charter flights talks.

Oct. 27, 2004: MAC says it is urgently preparing for negotiations on charter flights.

Nov. 3, 2004: Taipei announces diplomatic relations with Vanuatu, Beijing silent.

Nov. 4, 2004: Taiwan High Court dismisses KMT suit against presidential election voting.

Nov. 7, 2004: Chen meets Taiwanese professors; pledges "new constitution" for Taiwan.

Nov. 10, 2004: Taipei releases 10-point plan for cross-Strait relations: statement reaffirms nonnuclear policy.

Nov. 10, 2004: Ministry of Education proposes new “Taiwan” history curriculum.

Nov. 12, 2004: WHO meeting defers changes to International Health Regulations that would be favorable to Taiwan.

Nov. 12, 2004: MAC appoints Taipei Air Carrier Association to handle charter flight talks.

Nov. 15, 2004: Chen rejects view that Taiwan’s status is undetermined; says “Taiwan is ROC, ROC is Taiwan.”

Nov. 15, 2004: ARATS statement sets forth Beijing view of “1992 Hong Kong meeting.”

Nov. 15, 2004: Chen says he will seek to join UN as “Taiwan.”

Nov. 15, 2004: In Brazil, President Hu makes moderate comments on Taiwan.

Nov. 16, 2004: MAC welcomes HU’s remarks and ARATS statement.

Nov. 16, 2004: TAO’s Wang Zaixi blasts Chen’s splittist activities.

Nov. 20, 2004: Hu meets Bush at APEC meeting.

Nov. 21, 2004: Taiwan representative Lee Yuan-tseh sees Hu at APEC; says Hu was friendly.

Nov. 23, 2004: Beijing beats out Taiwan as host for 2005 Asian Cities Network.

Nov. 27, 2004: Lee Teng-Hui hosts seminar on a new constitution; Chen repeats his commitment to have a new constitution by 2006.

Nov. 28, 2004: Chen calls for abolition of Taiwan Province.

Nov. 29, 2004: State Department warns Chen about a referendum on independence; reaffirms importance of Chen’s “four noes” pledge.

Nov. 30, 2004: Chen publicly reaffirms his commitment to “four noes.”

Dec. 1, 2004: PRC Vice FM Dai Bingquo meets Deputy Secretary of State Richard Armitage in Washington.

Dec. 5, 2004: Taipei’s Dep. Def. Min. Tsai Ming-hsien in U.S. for consultations.

Dec. 5, 2004: Chen calls for changing names of state corporations and overseas offices to use “Taiwan.”

Dec. 6, 2004: State Department states U.S. does not support name change idea.

Dec. 8, 2004: Chen says changing names is the right thing to do.

Dec. 8, 2004: Chinese Premier Wen Jiabao in Brussels; EU does not end arms embargo against PRC.

Dec. 11, 2004: Pan-blue alliance maintains narrow majority in LY election.

Dec. 14, 2004: Taipei releases biennial National Defense Report.

Dec. 14, 2004: PRC announces that new Vanuatu government rejects Taipei and reaffirms diplomatic ties with PRC.

Dec. 15, 2004: TAO comments that LY elections shows voters disillusioned with Chen.

Dec. 16, 2004: Vice President Lu calls on U.S. to review its “one China” policy.

Dec. 17, 2004: Beijing announces plans for an Anti-Secession Law.

Dec. 18, 2004: Taipei becomes observer at OECD Trade Committee.

Dec. 19, 2004: Grenada PM Keith Mitchell concludes visit to Beijing.

Dec. 20, 2004: Deputy Secretary Armitage’s PBS interview.

Dec. 25, 2004: National Peoples Congress (NPC) Standing Committee (SC) meets; considers Anti-Secession Law.

Dec. 27, 2004: Former President Lee Teng-hui begins private trip to Japan.

Dec. 27, 2004: China publishes annual Defense White Paper.

Dec. 28, 2004: MAC’s Wu says Beijing appears to have nixed New Year charter flights.

Dec. 29, 2004: NPC SC transmits Anti-Secession Law to next March’s NPC.

Dec. 29, 2004: Taipei recalls its ambassador to Grenada.

Dec. 30, 2004: Taipei High Court dismisses KMT/PFP case for annulling presidential election.

North Korea-South Korea Relations: Boycott or Business?

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In a cliché beloved of British soccer commentators, inter-Korean relations in 2004 were a game of two halves. Until mid-year all seemed to be going well, including unprecedented military talks to ease border tensions. On land, symbolically, propaganda loudspeakers fell silent along the Demilitarized Zone (DMZ), while at sea, substantively, direct radio contact between the KPA and ROK navies began, so as to avoid clashes. Meanwhile the usual channels of Seoul-Pyongyang dialogue at various levels met routinely, appearing to make progress on a range of substantive issues, such as cross-border road and rail links.

But July saw a U-turn. Angry on several fronts (more on motives below), North Korea pulled out of most of its hitherto regular talks with the South. By early 2005 it had not relented, and showed no sign of doing so. Of course, Seoul was not the only one to feel Pyongyang's wrath. On a wider canvas, the North also notoriously refused to return to Six-Party Talks (both Koreas, the U.S., China, Japan, and Russia) in Beijing on its nuclear issue, so a fourth round, due by September, failed to take place. Kim Jong-il was widely assumed to be awaiting the U.S. presidential election – and praying for Kerry. Yet on this front too, as of early January Pyongyang is still stalling, saying it now wishes to see the character and policy contours of the second Bush administration. For good measure, as reported elsewhere in this issue of *Comparative Connections*, North Korea is also embroiled in a row with Japan – over its continued failure to come fully clean on the fate of most of the young Japanese whom it admits to kidnapping in the 1970s and 1980s.

In that sense, the current stasis in inter-Korean ties partly reflects the fact that right now North Korea is no mood to talk seriously to anyone about anything. But there are also specific aspects to this always distinctive relationship between two halves of a divided land. Rather than discuss non-events – such as rumors throughout the quarter of plans for a second inter-Korean summit – it seems more sensible this time to focus on two specific matters. One is the refugee issue: a salutary reminder that there is more to inter-Korean ties than merely what the two governments cook up between them, or fail to. The other is the one field of cooperation that Pyongyang is still keen on, doubtless because there is money in it. The first goods made by an ROK firm in the Kaesong Industrial Zone (KIZ) – saucepans, as it happens – hit the stores in Seoul just in time for Christmas, and sold out in two days. So maybe an otherwise bleak New Year is not wholly without hope after all.

Reality Check: Just in Case

The quarter began with a rare glimpse of plans behind the scenes in Seoul, just in case the hoped-for soft landing fails to arrive. On Oct. 4, to official alarm (he was threatened with arrest), an opposition MP, Chung Moon-hun, revealed in Parliament details of secret Southern contingency plans for various Northern scenarios. One, code-named “Chungmu 3300,” designates schools, stadia, and other public facilities to house up to 200,000 North Koreans in the event of mass defections. More radically, “Chungmu 9000” envisages South Korea filling any power vacuum in Pyongyang. The Unification Ministry (MOU) would establish an emergency headquarters, with the minister wielding governor-like powers, followed in due course by other ROK ministries. North Korea, predictably if implausibly, accused the South of wishing this to happen – when in reality it must know that this is (war apart) Seoul’s worst nightmare. This is one of several cases where Pyongyang’s professed take on Southern motives and goals has become decidedly perverse of late.

Refugees Just Keep on Coming

Defectors are a particularly sore point currently. As discussed last quarter, July’s airlift of 468 North Koreans from Vietnam to South Korea infuriated Pyongyang, even though Seoul tried hard to keep it low-key. With typical paranoia, the North saw a plot linking this to the new U.S. North Korean Human Rights Act (NKHRA), which President George W. Bush signed into law Oct. 18. While it is unclear if Pyongyang really believes its own propaganda, if it has any grasp at all of Southern politics it must be aware of the Roh Moo-hyun administration’s hostility to the NKHRA – one of a range of issues that exemplify a growing divergence of outlook between Washington and Seoul – as well as Roh’s general refusal to prioritize or aid Northern refugees more than the bare minimum.

Lest there were any doubt at all on this, Unification Minister Chung Dong-young – tipped as a contender to succeed Roh as president in 2008 – spelled it out in a radio interview Jan. 4: “The North’s perception that we are trying to shake the Pyongyang regime by bringing defectors to Seoul is quite different from our policy. We disapprove of the mass defections. There will be no more large-scale arrivals of defectors in Seoul.” Two weeks earlier, as described below, his deputy announced new measures to curb the refugee flow.

Yet still they come, in growing numbers. Despite tighter security in Beijing’s diplomatic quarter, autumn saw a revival of sanctuary-seeking there. After a group of 29 entered a Japanese school in Beijing on Sept. 1, a further 44 got into the Canadian embassy on Sept. 29. On Oct. 15 another 20 made it into the South Korean consulate. A week later 29 broke into an ROK school in Beijing, whose extra-territorial status was less clear. On Oct. 25 Chinese police nabbed three of a group of 14; the rest got into the ROK consulate, which not for the first time had temporarily to suspend normal operations and close while it processed some 130 North Koreans for onward travel to Seoul.

Seeking Sanctuary

Further bids were foiled on Oct. 26, when Chinese police arrested 63 DPRK migrants and two ROK activists in pre-dawn raids on two apartments in Beijing's Tongzhou area. Chinese media, normally silent on such matters, gave this much publicity; no doubt *pour encourager les autres*. The North Koreans are believed to have been sent back home in November to an uncertain fate; their Southern helpers remain in Chinese custody.

With the alternative a long onward trek to seek sanctuary in either Mongolia or Southeast Asia, deterrence may not work. On Dec. 17 four North Koreans sought asylum at the French embassy in Hanoi; the ROK embassy had allegedly turned them away, citing "bad circumstances." There was also a fresh, if small, spate in China: the same day seven more North Koreans, including a female polio victim and a child, fled into the Japanese school in Beijing (again). A day earlier, four North Koreans got into a South Korean school there; its Chinese owner then blocked the entrance, closing it for a day.

Overall, the South's Unification Ministry said on Dec. 30 that 1,890 North Korean defectors reached Seoul in 2004: up by nearly half from 2003's 1,281, itself not much more than 2002's 1,139. (Without the Vietnam airlift, comprising almost a quarter of the total, the rise would have remained at just over 10 percent.) Figures of this magnitude – still small compared to most global refugee flows – are very recent: cumulative arrivals in the half century since the Korean War ended in 1953 total barely 6,000. In another new trend, some two-thirds are now female: 1,167 as of November, compared to 601 males.

Seoul Plays Scrooge

Numbers could well mushroom in future: a South Korean parliamentary report predicts annual arrivals of over 10,000 soon. To prevent this, ROK Vice Unification Minister Rhee Bong-jo cast himself as Scrooge this Christmas, announcing on Dec. 23 tightened procedures for future would-be defectors. Intensified screening at embassies abroad will weed out fake asylum seekers (e.g ethnic Koreans from China; 24 slipped in last year) as well as "murderers [and] criminals sought by international police." According to MOU, 11 percent of 2004's arrivals had criminal records: Rhee said that henceforth these "will be punished according to domestic law."

Even the law-abiding will have their resettlement subsidy cut by almost two-thirds, from an already meagre 28 million won (\$26,700) to just W10 million; the remaining W18 million will be conditional on job training. This move is aimed against brokers, to whom 83 percent of 2004's arrivals paid commission averaging W4 million; in practice, earlier arrivals often use their grant to pay brokers to bring out family members. Seventy-one defectors are under surveillance, with several banned from leaving the country. Most are suspected of acting as brokers, but some might be spies: an ex-sergeant in the KPA security arm who defected in 2003 is being probed after an illicit trip back to the North last April.

Mean and Short-sighted

Security is of course a proper concern. Yet this set of measures, which Rhee said will “have a deterrent effect,” seems both mean-spirited and short-sighted. Maybe illegal, too: the ROK constitution still formally claims jurisdiction over the entire Peninsula and all its inhabitants, so can a state seek to exclude its own citizens? Questionable too, both legally (double jeopardy) and politically, is the idea of re-punishing those who had fallen foul of Kim Jong-il’s regime: some will not be common criminals, and all have arguably suffered enough. Training is useful, but making life even harder for Northerners to get by in a society where most already feel alien and unwelcome seems both perverse and cruel.

To do all this from a selfish wish to repel boarders makes mockery of the lip-service paid to unification as the ultimate Korean dream. Finally, to make Kim Jong-il’s victims suffer yet more, in the hope of wheedling their tormentor back to the table, suggests a failing of not only moral judgment but common sense. Seoul should know by now that Pyongyang cynically switches its umbrage on and off at will, largely regardless of actions by others.

Mixed Feelings, and Motives

Still, for an unpopular government it helps that such moves command public support. An opinion poll published on Dec. 30 showed that only 32 percent of South Koreans support NGOs who try to help North Koreans defect, while 62 percent oppose this. Overall, 50 percent now say they support official policy toward the North; 43 percent are against, down from 57 percent in February. Some 45 percent want Seoul to be more proactive, but 23 percent would halt aid until Pyongyang returns to negotiations. Sixty percent believe the North has changed, up 4 percent since February. Sixty-four percent would buy Northern-made goods, but 34 percent refuse to do so.

Other surveys have looked at defectors themselves. A large-scale study by MOU of 4,072 who arrived since 2000 found that 55 percent gave poverty as their main reason to leave North Korea, while 20 percent left to join family members in the South. Nine percent cited political discontent, while another 9 percent said they fled to evade punishment; 3 percent mentioned family troubles. But the ministry’s self-serving inference – “Political oppression is not playing as big a role as we thought” – seems tendentious. A regime that starves its people surely oppresses as well as impoverishes them. It also creates enemies by brutalizing returned deportees from China. If they were apolitical before, this turns them; they flee again, this time for good.

Another, smaller survey found that fully 40 percent of DPRK defectors now in South Korea are unemployed. Twenty-seven percent have temporary jobs, 11 percent work part time, 5 percent have small businesses, and just 15 percent enjoy stable employment. Seventy-eight percent earn under W1 million monthly, with 15 percent wholly dependent on state handouts. Partly inspired by the NKHRA, a growing trickle is trying to slip into the U.S., viewed as a land of more opportunity and less prejudice.

Seoul Even Ignores its Own

But Seoul is equally reluctant to help its own. While Japan mulls sanctions to force North Korea to come clean on the fate of barely a dozen kidnap victims, putting this issue at the top of its bilateral agenda, South Korea ignores the 486 abductees that it officially records as held by Pyongyang. So it was embarrassed at fresh revelations in December about two priests kidnapped in China. Ahn Seung-un, who vanished in 1995, is said to be working for the official DPRK Christian federation; his family does not believe he defected. Also in December, the arrest in Seoul of a Chinese-Korean implicated in the abduction of another ROK priest, Kim Dong-shik, from China in 2000 has revived criticism of the government for not pressing Pyongyang on this and other cases. A monthly magazine had named nine of the alleged kidnappers in 2003; several are said to be now resident in South Korea. A forum on Kim's case, held at the National Assembly in Seoul on Jan. 6, heard claims from NGOs that he probably died from ill-treatment in 2001. One opposition MP said he will introduce a bill to compensate families of those abducted by Pyongyang.

The figure of 486 abductees is post-Korean War (1950-53), so it excludes thousands of ROK POWs illegally detained in the North after the 1953 Armistice. In the past decade 41 of these now old soldiers have escaped, mostly after a lifetime toiling in the mines of North Hamgyong province in the DPRK's remote and famished northeast. Even these complain of getting little help or compensation for their sacrifice from their government.

Rare Signs of Backbone

In a rare sign of official vertebracy in Seoul on refugee issues, ROK Foreign Minister Ban Ki-moon on Dec. 14 criticized the Chinese embassy in Seoul for telephoning an opposition lawmaker, Hwang Woo-yea, to complain at his chairing a new coalition of 22 South Korean NGOs working to aid DPRK fugitives in China. The caller reportedly threatened that Beijing would react by taking a harder line on refugees.

Three days later a Seoul court did its bit: awarding compensation of W104 million to the South Korean widow of Lee Han-young, nephew of Kim Jong-il's former consort Song Hye-rim. Lee had defected secretly via Geneva in 1982; he surfaced in Seoul in the mid-1990s, only to be murdered in February 1997 by unknown assailants. The court blamed the government for not protecting him against DPRK agents, his presumed assassins.

Kaesong: First Fruits

Meanwhile, seemingly a world away from such skullduggery, on at least one front North Korea deigned to maintain active contact with the South. Work has continued apace on the Kaesong Industrial Zone (KIZ) – near Korea's ancient capital and close to the DMZ, 70 km north of Seoul – which Southern visionaries hope will in time become Korea's Shenzhen: a dual growth pole, both for cross-border cooperation and its own hinterland.

For a few lucky South Koreans, the must-have item this Christmas was not some luxury designer brand, but a workaday set of steel saucepans retailing at Won19,800 (\$19). The Lotte department store in downtown Seoul sold all of its 1,000 sets in two days. The lure was where they were made: these were the first fruits of the KIZ, made by Livingart, a small Southern kitchenware manufacturer, using Northern labor.

From Pans to Plans

There are grand plans, or dreams, for the new Kaesong. A decade hence, once the three-phase project is fully completed, a site of 66 sq km (to include a new town covering 40 sq km) is projected to employ 700,000 North Koreans and 100,000 from the South in 2,000 factories, turning out exports worth \$20 billion each year. (By contrast, Pyongyang's entire annual exports currently barely top \$1 billion; Seoul's exceed \$250 billion.) According to the Hyundai Research Institute, the KIZ will eventually generate annual profits of \$8.5 billion for South Korea and \$811 million for the North, a disparity unlikely to please Pyongyang. The first phase, with 300 firms, is intended to be open by 2007.

Actual accomplishments so far are much more modest. Four years after this project was first mooted, all that exists so far on the ground is a 92,400 sq m pilot site. Fifteen tenants, all small firms, were due to start up in 2004, but so far just two are operating. Livingart, the panmaker, invested W4.5 billion in its kitchenware plant; it has 255 Northern employees. In January, another Southern firm, SJ Tech, is due to start making semiconductor parts in a W4 billion plant with 200 workers. Monthly pay is just \$57.50, half that of China, 17 times lower than South Korea, yet three times the average DPRK wage at the official exchange rate – or 19 times at the market rate.

Naturally the North Korean nuclear crisis, still unresolved after two years, casts a long shadow. There is the small matter of the Wassenaar Arrangement, restricting technology transfers to rogue regimes. Seoul is a signatory, yet chafes – as does Pyongyang, loudly – at U.S. pressure to ensure that nothing sensitive that could have military applications crosses the DMZ. Two of the first 15 are still awaiting security clearance on this score.

A Pioneer's Pitfalls

Being a pioneer has its pitfalls. With the zone's power supply not yet set up, Livingart had to bring its own generator. From January, KEPCO, the ROK's monopoly electricity provider, is due to supply 15,000 kilowatts per hour across the border – with safeguards to ensure no diversions elsewhere to a North desperately short of power. Pyongyang had demanded a power station within the zone, but that looks a long way down the road.

Similarly, on Dec. 30 Korea Telecom – now privatized, unlike KEPCO – reported that it had finally agreed on the Kaesong zone's telephone service, after eight months of discussions. Yet it provided no details, except that call rates will not exceed \$0.50 per minute (North Korea normally bills international calls at \$4 per minute.) 100 phone/fax lines are anticipated, with no high-speed Internet access at this stage.

As so often, Pyongyang has blown hot and cold. The Kaesong zone was originally a gift to Hyundai from Kim Jong-il: compensation, perhaps, for its (until recently) loss-making tourism to Mt. Kumgang on the east of the Peninsula. At first the North offered Sinuiju, far away on the northwestern border with China; but Hyundai said it could not make a profit there. Owing to the ex-leading chaebol's financial woes, the Kaesong zone is now a joint project between Hyundai Asan and the ROK parastatal Korea Land Corp (Koland).

Korea's Shenzhen?

Its location could not be better: close enough to Seoul to become as Shenzhen is to Hong Kong. The long-impenetrable DMZ remains the world's most heavily armed frontier, but two corridors now breach it: in the east tourist buses head for Kumgang, while in the west workers commute to Kaesong daily or weekly from Seoul. This is progress indeed. Yet over four years after June 2000's North-South summit, and despite ceremonies in 2003 to mark notional relinking of railways in the DMZ, the North shows no sign of finishing its side of either rail link or the eastern motorway – even though the South, whose own share was long ago ready, is providing nearly all materials and shouldering most of the cost.

Will Kaesong too prove stillborn? The Dec. 15 celebration of Livingart's first output was ominous. Seoul's 380-strong delegation was headed by Unification Minister Chung Dong-young, on his first visit to North Korea, yet Northern media did not report his presence. Pyongyang sent a less senior official, who berated the South for alleged foot-dragging and even walked out during Chung's speech, to Hyundai's embarrassment.

Business Beats Bombs

Seoul puts up with such uncouthness, hoping Kaesong will be a “win-win” deal to convince Pyongyang that business is a better way than bombs. The trouble is that, Wassenaar apart, an ongoing nuclear standoff will limit investment. Selling the product is a further hurdle. The U.S. and Japan may levy tariffs, and will raise eyebrows at the idea of a bland “Made in Korea” label – although Singapore has accepted this, in talks toward a bilateral FTA. Livingart has plans to export to Europe, where its products already have a market.

Already the zone is broadening. In December, Woori Bank opened a branch, albeit with neither telephone nor Internet so far. A Pusan hospital will open a clinic on Jan. 11. Seoul's Korea National Tourism Organization plans to set up an office later this year.

If (as Mao Zedong famously said) a single spark can start a prairie fire, then perhaps one truckload of steel saucepans can also spearhead a revolution. It will not be plain sailing. Politics apart, Livingart admits Northern workmanship is not yet up to scratch; though it is confident that training will do the trick. Meanwhile, one of its workers told the *Korea Times* that few in Kaesong were keen to apply for what they did not consider great jobs. Another, however, told the *JoongAng Ilbo*: “It's very good for me to work here.”

It is early days yet. As ever, the onus is on North Korea to show it is serious and sincere, not just seeking symbolic gestures – and to milk the South. So far Kaesong is little and late. Yet it is a start. Twenty-five years ago, few expected Shenzhen to become today's metropolis, producing inter alia 70 percent of the world's artificial Christmas trees, for customers including the White House. But if Kaesong is to follow suit, Kim Jong-il needs to show more peace and goodwill on other fronts. Alas, a belligerent New Year message gives no hint of that.

ICG Notes What Unites and Divides

It is unsurprising if South Koreans are confused about such contradictory developments. A new study by the International Crisis Group (ICG), which last year opened an office in Seoul, astutely summarizes complex attitudes in South Korea toward its “brother from another planet.” ICG sees emerging consensus in some areas. North Koreans should be helped to overcome their economic hardship, while North-South economic cooperation can be mutually beneficial. Gradual reunification is preferable to sudden collapse and absorption; war is unthinkable. The North's nuclear program is a negative, but not directed at the South and hence not a reason to end engagement. This last is surely more contentious, along with five areas that ICG identifies as such. South Koreans disagree on the wisdom of dealing with the North, how much reciprocity to demand, and whether Kim Jong-il's regime can change. They differ too on how to tackle human rights issues in the North, and whether to end curbs on information about and contact with Pyongyang.

Seoul Blocks Northern Websites

The latter issue is especially anomalous. While Seoul now puts almost no restrictions on trips to Pyongyang, it remains formally illegal in the ROK to read DPRK websites. These have grown in quantity and (to a degree) quality; in late November Seoul blocked access to about 30. The usual perverse outcomes ensued: some sites remained reachable, either directly or (for the tech-savvy) indirectly. North Korea, most of whose own citizens have no Web access at all, loftily denounced this “unprecedented fascist suppression [that is] quite contrary to the requirements of the information technology age.”

The mystery is why the South did not just quietly leave matters be, rather than intervene in a way that is heavy-handed, undemocratic, and contrary to its own professed “Sunshine policy.” The restriction was requested by the police, who bizarrely claim to fear that North Korea's eccentric and narcissistic cyberspaces will corrupt young Southern minds. After protests, Unification Minister Chung said in January that the ban will be reviewed.

South-South Conflict Rages, too

One way would be to amend the National Security Law (NSL), under which this ban was imposed. But “progressives” in the ruling Uri Party demand the NSL's total repeal, which conservatives regard as throwing out the baby with the bathwater. As the year ended, Uri hardliners rejected a compromise that party leaders had thrashed out with the opposition

Grand National Party (GNP), causing a standoff that nearly saw the world's 10th largest economy enter 2005 with no budget (the bill had been stuck in the National Assembly for months). Uri's leaders later resigned *en masse*. All this guarantees that, over and above North-South spats, what in Seoul is called South-South conflict (*nam-nam galdeung*, i.e., internecine) will rage on in 2005. Indeed, the latter is not infrequently about the former.

A brave bid to bridge such gaps came in December from an unexpected quarter. A GNP thinktank, the Youido Institute, offered a new stand on *Nordpolitik* that belied the party's normally hawkish image. Under Park Jin – once a UK-based academic, now a rising star seen as a future presidential contender – this advocates “accommodative engagement,” and calls for a Marshall Plan to offer a “landmark incentive” for Pyongyang to ditch its nuclear programs. Despite also pledging activism on human rights and other concerns, Park drew flak both from the GNP's right wing and critics who claimed there is nothing new here. Both accused him of overestimating Seoul's ability to influence Pyongyang.

Marital Metaphors

In a battle of metaphors, one academic critic said South Korea should behave as a subtle lover: carefully and secretly wooing the North, rather than openly declaring its intention to win the other's heart. Park demurred: “I think the inter-Korean relationship is more like a husband [and] wife ... it's like we're trying to help a spouse come back who left home after a huge fight.” Either image may raise eyebrows in Washington, whose own hawks had better note that at least some South Korean conservatives are scarcely kindred spirits. Park's view, and his pledge of bipartisan cooperation, is a world away from rants like that by the Hudson Institute's Michael Horowitz, an architect of the NKHRA, who shocked many in Seoul on a December visit by comparing Roh's North Korea policy to “making love to a corpse.” Plain speech is fine, yet it is hard to see the Horowitz-Bolton school of “diplomacy” winning friends or influencing people in any part of Korea.

Pyongyang Lashes Out

Pyongyang has yet to weigh in on the necrophilia front, but it lost no time in rubbishing Park Jin. On Dec. 26 an article on the DPRK's “Uriminzokkiri” website attacked the GNP, not for the first time, as “a group of pro-American traitors and fascists opposed to democracy,” and dismissed its new overture as stirring “anti-north confrontation.”

If that seems unfair, so was another diatribe the next day laying into the ROK government with equal hostility. Perhaps to justify half a year cold-shouldering Seoul, the Committee for the Peaceful Reunification of the Fatherland (CPRF) accused what it called “the south Korean authorities” – not government, nor was Roh Moo-hyun named – of systematically colluding with the U.S. to worsen inter-Korean relations. Specific charges included barring Southern activists from visiting Pyongyang to pay “homage to President Kim Il-sung on the 10th anniversary of his demise.” Besides “hand in glove with the U.S. and its satellites, they seduced and abducted civilians of the DPRK abroad and took them to South Korea in groups under the cloak of ‘defectors from the north.’” Also mentioned were blocking the North's websites, seeking the DPRK's collapse via

Chungmu 3300 and 9000, and staging joint military exercises “almost every day in league with war maniac Bush.” Needless to say, these are annual maneuvers that were also held during Kim Dae-jung’s presidency.

As John McEnroe would say: You cannot be serious. Even by Pyongyang’s standards this is nonsense. All serious analysts regard Roh Moo-hyun as continuing the Sunshine policy, whether or not they approve. (One might hope that so ungrateful a slap in the face might prompt a rethink in Seoul, or at least some fine tuning; but don’t hold your breath.) What then is the North’s game? Playing for time, probably, or riven by policy disagreements or even – it is rumored – power struggles. That could result in policy paralysis, or at any rate putting everything on ice until the dust settles and a clear line emerges. Watch this space.

Chronology of North Korea-South Korea Relations October-December 2004*

Oct. 4, 2004: Chung Moon-hun, a lawmaker of the ROK opposition Grand National Party (GNP), reveals secret Southern contingency plans in case of DPRK regime collapse and mass defections.

Oct. 7, 2004: Military officers from both Koreas meet for the first time in three months to discuss cross-border road and rail links. At the border, USAF Maj. Gen. Thomas P. Kane predicts that within a year cross-border road traffic could see 1,000 movements daily in either direction.

Oct. 13, 2004: South Korea’s Red Cross warns that, due to the chill in inter-Korean ties, it cannot guarantee the usual 100,000 tons of fertilizer this fall (in addition to 200,000 tons already sent in spring). It relents two weeks later, and delivery is completed Dec. 21.

Oct. 15, 2004: Twenty North Koreans seek refuge in the South Korean consulate in Beijing, which later closes due to the pressure of hosting some 130 defectors awaiting clearance to go to Seoul.

Oct. 16, 2004: The South returns five Northern fishermen who had drifted into its waters, two via Panmunjom, and three at sea. All had asked to go home, and the DPRK Navy had radioed asking for ROK help in rescuing and repatriating them.

Oct. 17, 2004: ROK Unification Ministry says inter-Korean trade in the first nine months fell by 3.3 percent from 2003, to \$492 million. ROK imports fell by 8.6 percent to \$176 million, while exports were steady at \$316 million. Most of the latter (\$248 million) was aid, up 15 percent.

* Note: This quarter’s chronology is more of a *Juche* effort than before. Of the two main resources relied on in the past, www.pyongyangsquare.com is no longer comprehensive; while the ROK Ministry of Unification appears not to have updated its monthly “Chronicles” since last July.

Oct. 17, 2004: A report by the ROK Unification Ministry says 70 percent of DPRK defectors in the South are living in poverty. It attributes this to their unfamiliarity with capitalist culture.

Oct. 18, 2004: President George W. Bush signs the North Korean Human Rights Act into law. The DPRK has attacked this as a plot to bring down its regime. The ROK government is also uneasy, regarding the Act as unhelpful and potentially destabilizing.

Oct. 20, 2004: A 230-strong Southern delegation crosses the Demilitarized Zone (DMZ) to the North's Kaesong Industrial Zone (KIZ) for the opening ceremony of the Kaesong Complex Management Committee, legally a DPRK corporate body, but staffed by 30 ROK officials.

Oct. 22, 2004: Twenty-Nine North Koreans seek sanctuary in a South Korean school in Beijing.

Oct. 25, 2004: Fourteen North Koreans try to enter the ROK consulate in Beijing. Eleven make it, but three are caught by Chinese guards.

Oct. 26, 2004: Chinese police arrest 63 DPRK migrants and two ROK activists in pre-dawn raids on two apartments in Beijing. The North Koreans are believed to have been deported soon after.

Oct. 29, 2004: A defector organization in Seoul publishes "Names Lost To NK Gulags," a list of 617 persons believed to be detained currently or since the 1970s in North Korean prison camps. They include a former ROK officer who defected across the DMZ to the North in the 1970s.

Nov. 12, 2004: South Korea announces plans to ban access to some 31 DPRK websites, at police request, under the National Security Law (whose own repeal is being hotly debated.) The ban is implemented – somewhat erratically – later in the month, amid widespread protests.

Nov. 12, 2004: Officials in the ROK island province of Cheju say they will ship 10,000 tons of tangerines to North Korea. Since 1998 Cheju has donated 25,000 tons of the fruit to the DPRK, plus 6,000 tons of carrots. In return, two planeloads of Cheju tourists have visited Pyongyang.

Nov. 12, 2004: *Rodong Sinmun*, the daily paper of North Korea's ruling Korean Workers' Party (KWP), brands Southern contingency plans in case of a DPRK collapse (see Oct. 4) as "perfidy."

Nov. 15, 2004: Hwang Dae-soo, a DPRK interpreter in Vladivostok, seeks asylum at the ROK consulate after a year in hiding, only to be met with curses. When officials learn this exchange has been taped (via a hidden cellphone), he is allowed to come to Seoul, arriving on Dec. 18.

Nov. 18, 2004: Opposition lawmakers criticize ROK Defense Minister Yoon Kwang-ung for saying that he plans not to name North Korea as “main enemy” in next year’s defense white paper. Owing to controversy over this term, first used in 1995, no white paper has appeared since 2000.

Nov. 19, 2004: ROK Vice Unification Minister Rhee Bong-jo and others take part in an event at the Mt. Kumgang resort to mark the sixth anniversary of Southern tourism there. They deny having any contact with senior DPRK officials during their three-day visit.

Nov. 23, 2004: After interviewing three DPRK defectors in Seoul, Rabbi Abraham Cooper of the Simon Wiesenthal Centre says he is convinced that North Korea tests lethal gases for weapons on prisoners. ROK government claims there is no firm evidence.

Nov. 25-27, 2004: A meeting of both Koreas’ Red Cross officials at Mt. Kumgang agrees to hold a site survey for a planned but delayed family reunion center on Dec. 10-21. There is no schedule to hold further reunions, of which there have been none since July.

Dec. 2, 2004: ROK government reveals that a former DPRK army sergeant who defected last year is being probed on suspicion of spying after making an illicit trip to North Korea.

Dec. 4, 2004: It is agreed that Kepco, South Korea’s state electricity provider, will supply 15,000 kilowatts of power per hour across the DMZ to the Kaesong Industrial Zone (KIZ) from January.

Dec. 7, 2004: Hudson Institute’s Michael Horowitz causes shock waves at a conference in Seoul when he likens ROK policy on North Korea to “making love to a corpse.”

Dec. 14, 2004: ROK FM Ban criticizes the Chinese embassy in Seoul for threatening an opposition lawmaker who chairs an NGO group aiding DPRK refugees in China.

Dec. 15, 2004: In his first visit to North Korea, Unification Minister Chung Dong-young leads a 380-strong Southern delegation to the KIZ for a ceremony to mark the first production of goods by an ROK firm, Livingart, in the KIZ. He is cold-shouldered by the DPRK’s far more junior delegation head, and Northern media do not report his presence.

Dec. 15, 2004: Seoul’s Financial Supervisory Service (FSS) reveals that Hyundai Merchant Marine (HMM) inflated its 2000 earnings by Won 1.2 trillion. It is suspected that this relates to further secret payments to Pyongyang before the June 2000 summit, beyond the W223.5 billion which HMM has already admitted sending.

Dec. 16, 2004: Livingart’s first 1,000 saucepan sets, the first products to be made in the KIZ, sell out in Seoul in two days. The next batch of 2,800 hits the shops on Dec. 29.

Dec. 16, 2004: Four North Koreans take refuge in a South Korean school in Beijing.

Dec. 17, 2004: Four North Koreans seek asylum at the French mission in Hanoi, having allegedly been turned away by the South Korean embassy there.

Dec. 17, 2004: Seven North Koreans, including a female polio victim and a child, seek sanctuary in a Japanese school in Beijing. 29 took the same route in September.

Dec. 17, 2004: Seoul court awards damages of W104 million to the widow of Lee Han-young, nephew of Kim Jong-il's ex-consort Song Hye-rim, who defected in 1982 and was murdered in 1997 – by presumed DPRK agents. The court blamed the government for not protecting him.

Dec. 23, 2004: ROK Vice Unification Minister Rhee announces tighter procedures for future defectors, including intensified screening and reduced resettlement grants.

Dec. 23, 2004: South Korea says that it will, as usual, send 100,000 tons of corn to the North via the World Food Program. This will be purchased in China, costing \$24 million.

Dec. 26, 2004: DPRK website dismisses GNP's new Northern policy as “a group of pro-American traitors and fascists opposed to democracy” who are stirring “anti-north confrontation.”

Dec. 27, 2004: The North's Committee for the Peaceful Reunification of the Fatherland (CPRF) blames the Southern government for the rupture in North-South ties, accusing it of systematically harming relations by various actions over the past two years.

Dec. 28, 2004: ROK Foreign Ministry names Song Min-soo to replace Lee Soo-hyuck as chief negotiator at the six-party nuclear talks. If and when these reconvene, four of the six delegations – all except North Korea and Russia – will have new heads.

Dec. 29, 2004: DPRK *KCNA* calls U.S. a “disturber of inter-Korean economic cooperation” for restricting ROK technology transfers to the Kaesong Industrial Zone.

Dec. 30, 2004: ROK Unification Ministry tallies the year's total of North Korean defectors at 1,890, up 48 percent from 2003. Two-thirds (1,167) are female.

Dec. 30, 2004: An opinion poll finds that only 32 percent of South Koreans support NGOs who try to help North Koreans defect, while 62 percent oppose this; 50 percent back official policy toward the North.

Dec. 30, 2004: Korea Telecom says that, after eight months of talks, it has agreed on providing telephone service to the KIZ. Call rates will not exceed 50 cents per minute.

Dec. 31, 2004: A DPRK patrol boat threatens five times to fire warning shots at an ROK vessel. Each was 10 kilometres behind the Northern Limit Line (NLL), the marine border that North Korea has never officially recognized.

China-Korea Relations: Waiting Game

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The second half of the year brought no opportunity for a fourth round of Six-Party Talks. The focal point for Chinese diplomatic efforts this quarter was the visit of North Korea's number two, President Kim Yong-nam, who met with all of China's senior leaders – with apparently inconclusive results. ROK President Roh Moo-hyun also met with PRC President Hu Jintao in Santiago in November and with Premier Wen Jiabao in Ventiane in December to press the case for continued six-party diplomacy with North Korea, but to no avail in the absence of cooperation from the DPRK.

The refugee issue has taken on a higher profile as outside parties increasingly single out China for failing to recognize and provide humanitarian treatment to North Korean refugees crossing into China. Tensions surrounding the North Korean refugee issue have escalated with the passage in the U.S. Congress of the North Korean Human Rights Act, a near doubling of refugee arrivals in South Korea to almost 2,000 in 2004, and more aggressive Chinese efforts to intimidate and deter third-party brokers who assist North Korean refugee efforts, including the embassies that have provided safe passage to North Korean refugees. The trade relationship between China and South Korea is becoming increasingly complex, as China poses greater competition for South Korean products in third-country markets and was one of nine parties pressing to open South Korea's rice market as required by WTO regulations. Nonetheless, South Korean exports to China remain the primary reason the South Korean economy did not experience a recession in the second half of 2004.

No News is Bad News: Six-Party Talks Still on Hold

The lack of a six-party meeting during the second half of 2004 can only be categorized as a setback for Chinese diplomacy on the Korean Peninsula, given the tone set by China's self-congratulatory statements following earlier rounds of the talks. A disturbing sign for the future of the talks is that they have not resumed despite the PRC's good-faith efforts to persuade DPRK counterparts at the highest levels to continue to participate in the six-party process. The PRC's senior party leader Li Changchun went to the DPRK in September and met with Kim Jong-il in an apparently failed effort to draw North Korea back to the negotiating table. In early October, there were press reports that the PRC has come to the view that the DPRK has indeed attempted to enrich uranium, increasing

support for the view that the North's uranium enrichment activities could not be swept under the rug as part of any deal on North Korean denuclearization. Chinese high-level delegations to Pyongyang and visits by DPRK senior officials to Beijing, including most notably the visit of DPRK President Kim Jong-il for discussions with the PRC's top leadership, appear to have yielded no tangible progress. At the APEC meeting in Santiago, President Bush met with President Hu and other leaders, who all agreed that the way to make progress on the North Korean nuclear crisis is to pursue the Six-Party Talks.

Despite apparent agreement on the sidelines of the APEC meeting that Six-Party Talks are the only way to go, subsequent efforts in late November and early December to get the talks back on track have not yet born fruit, presumably because Secretary of State-designate Condoleezza Rice must assemble a new team to lead U.S. diplomacy, including a likely review of policy toward the Korean Peninsula and personnel involved with Six-Party Talks. Many of the heads of delegations to the talks are being transferred to new positions, with a second-generation team of negotiators appointed to take their places in the New Year. Meanwhile, patience is waning while the DPRK's delay is filling in gaps among other parties without necessitating much of a diplomatic effort by the United States, where the second Bush administration doesn't start until January and which continues to focus primarily on Iraq.

But there is no sign that North Koreans are ready to come back to the negotiating table in Beijing, raising questions about whether there will be another round of Six-Party Talks at all. At the third round of talks in June, the U.S., South Korea, and North Korea all tabled opening proposals designed to move toward the goal of denuclearizing North Korea. Oddly enough, the effect of the presentation of U.S. and North Korean opening positions seems to have been to dry up any political will that might have existed to come back to the negotiating table for a fourth round.

It is still premature to say that the six-party process is dead, but the lengthy pause raises some dilemmas for all parties concerned. The challenges for Chinese diplomacy may be the most interesting and complex. On the one hand, the PRC is widely seen as the party that has the most leverage and ability to persuade North Korea to continue to at least come to the six-party meetings, if not to influence the DPRK to yield to the demands of the international community. The PRC's capacity to host the talks underscores that leverage. However, sponsorship of the Six-Party Talks has also proven to be a costly venture for the Chinese, as the DPRK has received tangible rewards for just showing up at earlier rounds. How much can the PRC rightly be expected to provide North Korea to simply show up at meetings without seeing progress toward a solution to North Korea's nuclear challenge to the international community?

So what if diplomacy fails to restrain North Korea's nuclear development efforts? Despite intermittent rumblings from Bush administration hardliners that the issue should go to the UN Security Council, China would clearly have the deciding vote on whether to allow the six-party process to fail or whether anything could be accomplished at the Security Council in any event. But the Six-Party Talks were established by the Chinese precisely to prevent the type of failed diplomacy that occurred with Iraq to replicate itself

on the Chinese border. So how imaginable is it that the Chinese would allow the Six-Party Talks to fail? For Chinese eying the dangers of instability on its border, continued talk – no matter how empty – is preferable to an escalation that might result in either military conflict or instability in the DPRK.

If the Six-Party Talks are simply a safety net for all parties concerned, it would be enough for everyone just to have another meeting – if only the North Koreans would go along with the game. The risk is that the talks themselves become a pretext for delay and an escape valve for the DPRK to continue nuclear weapons development, albeit at a rather deliberate rate. Are the Chinese in fact hoping the Bush administration may conclude that it is enough for now, given the enormous distraction and challenge of democracy-building in Iraq and continued proliferation pressure from Iran, to keep Kim Jong-il in the six-party box rather than pursue further confrontational tactics or try to raise expectations and expend the energy necessary to pursue a near-term solution on the Korean Peninsula?

China's Other Headache: Refugees

If North Korean nuclear issues weren't enough of a challenge, the PRC's policy toward North Korean refugees is also drawing criticism as part of an increasingly active campaign by South Korean and U.S. NGOs to focus attention on human rights conditions in North Korea. The U.S. Congress unanimously passed the North Korean Human Rights Act, which President Bush signed into law in October. The law itself provides authorization for modest funding for refugee assistance efforts and directs the U.S. to be willing to accept North Korean refugees if they choose for whatever reason not to go to South Korea. But the passage of the law raised hackles with progressive South Korean legislators and provided a moral boost for U.S. and South Korean human rights and refugee assistance efforts in China. South Korean conservative opposition legislator Hwang Woo-yea has been particularly critical of the Chinese government, which in turn warned him in a telephone call from the PRC Embassy in South Korea in December not to support such efforts. This action was deemed interference in South Korean politics, and Hwang has also drawn support in criticizing Chinese handling of the matter from U.S. Sen. Sam Brownback.

China's response to the refugee problem has been straightforward and pragmatic, in light of its relationships with both North and South Korea: cooperate to allow refugees who make contact with foreigners or who enter diplomatic compounds safe passage while strengthening efforts to detain refugees near the border and return them to North Korea in accordance with longstanding bilateral practice. This solution honors the spirit of China-DPRK cooperation, but it is in direct violation of international human rights treaties to which China is a signatory. Those treaties condemn *refoulement*, or the return to their home countries of individuals who may be at risk for political persecution. Chinese authorities initially turned a blind eye to South Korean humanitarian efforts to respond to the plight of North Korean refugees in northeastern China, but gradually they have enforced harsher measures against South Korean and other foreign activists who have entered the PRC and given the refugees a helping hand in their efforts to force entry into

diplomatic compounds. An alternative has been for refugees to make treks of thousands of miles across China to Mongolia or Southeast Asia, where it has been possible to arrange for transit to South Korea, usually with the help of “refugee brokers” or human rights NGOs. A charter plane transit to Seoul last July of over 468 North Korean refugees who made the trek through China allegedly to Vietnam has also led to strengthened PRC border controls aimed at preventing North Korean refugees from illegally transiting remote Chinese borders via third countries en route to Seoul. Almost 2,000 North Korean refugees have arrived in South Korea in 2004, compared to 1,281 in 2003.

Chinese authorities have responded negatively to efforts to help North Korean refugees that have tried to gain publicity at the expense of the PRC government. From last year, Chinese authorities have taken an increasingly strict attitude toward foreign citizens caught helping North Korean refugees, with several representatives from South Korean and Japanese human rights NGOs serving prison terms for their efforts to help North Korean refugees. As organized forced entries into foreign embassy compounds and foreign schools in Beijing have escalated over the past two years, the diplomatic compound area of Beijing has been transformed from sleepy and pleasant tree-lined avenues to a kind of armed camp, with barbed-wire fences blocking the sidewalks from the walls of embassy compounds. In October, Chinese authorities stepped up efforts to halt this practice, preemptively detaining almost 70 North Korea refugees and repatriating them to North Korea. Forty-four North Korean refugees were held up in the Canadian Embassy in Beijing for two months while PRC authorities demanded exit interview opportunities and decided to build a second fence around the Canadian embassy compound. Chinese public security officials detained and carried away a number of North Korean refugees who had entered the South Korean consulate property but had not entered the building in December. The net effect of these actions is that it is now more difficult for North Korean refugees to find their way to South Korea, despite the upward trend in the number of refugees actually arriving in Seoul.

Taking Stock of China-Korea Economic Relations

Over the course of 2003 and 2004, China-Korea trade has grown tremendously in line with the breath-taking growth of China’s trade relationships with every other country in the region. China’s growth has rippled outward and raised the tide of economic growth for all of its neighbors, with mixed effect and implications for the future of these relationships. Korean perceptions of China’s economic growth have shifted from unbridled optimism (South Korea’s exports topped \$200 billion for the first time in 2004 driven by double-digit growth in exports to the PRC) to a mixture of opportunism and wariness as export opportunities to China have been the single engine pulling the Korean economy forward. Korean firms in many industries simply cannot compete with China’s low labor costs, and the establishment of the Kaesong Industrial Zone is envisioned as one way of supporting South Korean sunset industries against Chinese competition through use of North Korean labor. The result of China’s labor cost advantage has been a hollowing out of Korean industry and unprecedented levels of investment by Korean firms in plants based in China (the completion of POSCO’s Suzhou Automotive

Processing Center and LG Chem's Guangdong-based petrochemicals factory are the latest examples this quarter) to take advantage of China's low labor costs. Korea's competitiveness in third country markets is increasingly challenged by products from China, but some of those products are from Korean-invested and Korean-owned factories.

One downside of China's intense competition: Samsung no longer rolls out latest prototypes of mobile phones at trade shows to avoid illegal cloning by Chinese competitors. Reported cases of industrial espionage against South Korean firms, usually from Chinese upstart competitors, continue to rise. LG Economic Research Institute has reported that the number of high-tech industrial espionage cases increased to 22 in 2004 from only six cases during the previous year. Another challenging trend is China's own foreign direct investment in Korea, usually focusing on high-tech firms that could yield technology benefits in the long run for Chinese domestic production efforts. Shanghai Automotive successfully concluded one such agreement to purchase Ssangyong Motors in October after satisfying Ssangyong's labor union with guarantees of additional investment and job guarantees as part of the purchase agreement.

A widely anticipated revaluation of the Chinese currency could change the playing field yet again, with mixed effects for Korean exporters depending on whether they are focused on China as an export market or on third country markets in which the competitiveness of China-sourced products would be affected. As one examines the complicated and intertwined China-South Korea economic relationship, a key question is whether the share of Chinese exports produced by Korean firms now based in China is sufficient to make up for the losses in market share of products "made in Korea." The other question is the extent to which Korean investments in plant in China are positioned to gain a foothold in the Chinese domestic market. Korea has performed well in exports to high-growth sectors such as mobile telephone sets and automobiles, but the growth in those sectors in China's domestic market is already beginning to slow as the PRC government attempted to cool China's torrid growth rate in 2004. South Koreans are hoping that the next frontiers in the Chinese market will be the home shopping and online gaming markets, both of which play off South Korea's cutting-edge experience with IT applications.

Finally, another manifestation of the complexity and change in the economic relationship between South Korea and China can be seen in the fact that China was one of nine rice exporting countries with whom South Korea negotiated the liberalization of its rice market under the World Trade Organization (WTO). China was not even a member of the WTO when the current rice liberalization went into force during Uruguay Round negotiations, but now China provides additional pressure to that of the United States, Thailand, Vietnam, and others for South Korea to open its market to foreign rice. In fact, given the types of rice grown among exporters, China stands to gain the most from Korean agricultural liberalization and thus represents the greatest threat to Korean farmers. In international negotiations strongly contested by South Korean farmers, South Korea took steps to open its rice market, agreeing to import 7.9 percent of the total average of rice consumed in South Korea by 2014.

China-Korea Relations: Outlook for 2005

The Chinese relationship with the Korean Peninsula has become considerably thornier over the course of the past year. The heady days of up to 50 percent per-year growth in the China-South Korea trade relationship have probably run their course. As the rate of growth in bilateral trade slows, it will become more difficult to ignore the downsides and frictions of the bilateral economic relationship or to contain bilateral political frictions. As the momentum of the economic relationship slows, there will also be less excuse to gloss over political disputes between South Korea and China over refugees, historical issues, or other disagreements in the relationship. The political jolt South Koreans received from China's claim to the ancient Goguryeo Kingdom last summer has introduced a much more realistic tone into South Korean thinking about China's motives and methods as the PRC seeks to consolidate its rise in regional influence. One would do well to expect a more contentious, contradictory, and complex China-South Korea relationship in 2005 after many years dominated by the heady euphoria that accompanied the bilateral economic boom.

Although the economic balance has tipped Chinese calculations of national interest decisively in favor of Seoul, Beijing still perceives important stakes in the disposition of the relationship with the Northern part of the Korean Peninsula. The second North Korean nuclear crisis has served to throw into relief some extraordinarily challenging dilemmas for the PRC as it manages its regional and international relations. China's leaders have carefully and prudently weighed the PRC's interests and have sought to restore and strengthen its influence in its relationship with Pyongyang through endless shuttle diplomacy between rounds of Six-Party Talks. The DPRK's heightened economic dependence on China certainly constrains Pyongyang's options, but it does not necessarily make North Korea any more cooperative. Stuck between North Korean guerrilla resistance against Chinese diplomatic efforts and American assumptions that China should do more to bring North Korean clients to heel, the PRC will likely find out in 2005 whether there will be an adequate return on their investment of diplomatic capital that has been made through the establishment of the Six-Party Talks.

Chronology of China-ROK Relations October-December 2004

Oct. 4, 2004: *Kyodo News Agency* reports, the PRC has confirmed to other parties in the Six-Party Talks its assessment that the DPRK has a uranium enrichment program.

Oct. 18-20, 2004: DPRK Prime Minister Kim Yong-nam meets with Chinese leaders in Beijing and Tianjin to discuss ways to expand China-DPRK cooperation and friendship.

Oct. 21, 2004: POSCO announces that it has begun production at the POSCO Suzhou Automotive Processing Center Company in Jiangsu Province. The factory is the largest in China with an annual production capacity of 200,000 metric tons.

Oct. 23-30, 2004: *China Daily* reports the visit to the DPRK of a delegation from the Chinese People's Volunteer Army to hold memorial activities, set up a China-DPRK education effort, promote China-DPRK commercial connections, and establish long-term communication channels for veterans between the two nations.

Oct. 25, 2004: Some 18 North Korean refugees attempt to enter the ROK consulate in Beijing. Only three can take shelter inside, the others are arrested by Chinese security police or flee.

Oct. 26, 2004: Goguryeo Research Foundation meets to discuss China's motives in pressing its claims to the historical origins of Goguryeo Kingdom.

Oct. 27, 2004: PRC police raid a North Korean refugee shelter in Beijing and take into custody over 65 defectors believed to be planning a forced entry into a diplomatic compound or international school in Beijing.

Oct. 28, 2004: Shanghai Automotive Industry Corporation signs a final deal with creditors of Ssangyong Motors to take over the operation, spending about \$500 million to acquire a controlling 48.9 percent stake in the company.

Oct. 30, 2004: The Korea Institute for Industrial Economics and Trade warns that Korean automotive parts makers will face stiffer competition with Chinese counterparts as Chinese companies pursue export-oriented strategies.

Nov. 7, 2004: PRC Vice Minister of Commerce Zhang Zhigang announces that his ministry has proposed the joint publication of a white paper on logistics development with South Korea and Japan. The paper is designed to smooth commodity flows in Northeast Asia.

Nov. 9, 2004: PRC Foreign Minister Li Zhaoxing and DPRK Vice Foreign Minister Wu Dawei meet Deputy Foreign Minister Kim Yong-II of the DPRK to discuss cooperation between the two neighbors, the Six-Party Talks, and the Korean Peninsula nuclear issue.

Nov. 9, 2004: Reports circulate that the PRC has forcefully repatriated over 70 North Koreans captured while planning a forced entry into diplomatic compounds in Beijing.

Nov. 9, 2004: ROK Ministry of Construction and Transportation assigns new Taiwan flight routes to Korean Air and Asiana to resume regular flights to Taipei that had been suspended since the ROK's diplomatic recognition of the PRC in 1992.

Nov. 10, 2004: NCsoft Corporation, the world's largest online game company, offers commercial release of its popular online game Lineage II in the PRC.

Nov. 16, 2004: LG Chem Company announces that it has set up a plant in Guangzhou to manufacture petrochemicals for industrial products, such as auto and electronic components.

Nov. 18, 2004: Vice President of the Presidium of the DPRK Yang Hyong Sop meets with a delegation led by PRC Vice President of the China Association for International Friendly Contact Xing Yunming in Pyongyang.

Nov. 19, 2004: ROK President Roh Moo-hyun meets with PRC President Hu Jintao at the APEC meeting in Santiago to discuss ways to reconvene the Six-Party Talks as quickly as possible.

Nov. 22, 2004: PRC Minister of Education Zhou Ji and PRC Ambassador to the ROK Li Bin attend a ceremony for the opening of the Confucius Institute in Seoul, the first overseas PRC government-sponsored Chinese language school. State Councilor Chen Zhili met ROK Prime Minister Lee Hai-chan to discuss bilateral educational exchanges.

Nov. 29, 2004: PRC Prime Minister Wen Jiabao, South Korean President Roh, and Japan's Prime Minister Koizumi Junichiro, meeting on the sidelines of the ASEAN Plus Three meeting in Vientiane, Laos, release a joint action strategy for trilateral coordination to promote stability and development in Northeast Asia.

Nov. 30, 2004: Shanda Interactive Entertainment Ltd., China's largest online game service provider, acquires 28.95 percent of Korean software developer Actoz Soft Co. for \$91.7 million.

Dec. 1, 2004: LG Phillips LCD Co., the second-largest producer of liquid crystal displays, announces plans to invest \$5.1 billion to build the world's largest plant for flat panel televisions in China.

Dec. 3, 2004: ROK Foreign Ministry officials criticize PRC decision to issue commemorative postage stamps featuring historic relics from the Goguryeo dynasty.

Dec. 9, 2004: Representatives of the national fishery associations meet in Beijing and sign a plea for members to refrain from resorting to violence in fishing and marine emergencies.

Dec. 17, 2004: South Korea agrees to give nine rice-exporting countries greater access to its market in exchange for a 10-year extension of current tariff waivers. Negotiations on opening of the South Korean rice market were conducted over many months with nine different rice exporting countries, including China and the U.S.

Dec. 22, 2004: Canadian government confirms that 44 North Korean refugees who entered the Canadian embassy compound Sept. 29 have safely left for a third country.

Dec. 28, 2004: China Cultural Center, originally suggested during former PRC Prime Minister Zhu Rongji's visit to Seoul in 2000, opens in downtown Seoul. It is the fourth of its kind, following centers in France, Egypt, and Malta.

Japan-China Relations:

A Volatile Mix: Natural Gas, a Submarine, a Shrine, and a Visa

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The dispute over exploration of natural gas fields in the East China Sea continued to simmer. China proposed working-level discussions and the two sides met in Beijing. The results left Japanese officials wondering why they bothered to attend. Shortly thereafter, Japanese patrol aircraft tracked a Chinese nuclear submarine traveling submerged through Japanese territorial waters. Beijing's apology paved the way for summit-level talks between Japanese Prime Minister Koizumi Junichiro and China's President Hu Jintao and later Premier Wen Jiabao. The talks only highlighted issues of Yasukuni Shrine and history in the bilateral relationship, underscoring national sensitivities in both countries. In Japan, reaction centered on graduating China from Japan's ODA program; this was not appreciated in Beijing. In the meantime, Tokyo issued Japan's new National Defense Program Guidelines, which highlighted China's military modernization and increasing naval activities, concerns which Beijing found groundless. Finally, Japan approved a visa for Taiwan's former President Lee Teng-hui, in Beijing's eyes a "splittist" and advocate of Taiwanese independence.

Also during the quarter, commercial and economic relations continued to expand. The phenomenon of bifurcated political and economic relations with China is now characterized in Japan as "cold politics; hot economics." An end of year *Asahi Shimbun* editorial asked: "can this be resolved?"

Exploration in the East China Sea

China's continuing exploration in the Chunxiao natural gas field, an area of the East China Sea adjacent to the mid-point demarcation line between China and Japan, raised issues of sovereignty and natural resource development. While Tokyo claims the mid-point line as the maritime boundary of its Exclusive Economic Zone (EEZ), Beijing has consistently refused to recognize the mid-point line as the maritime boundary. Beijing has also consistently refused Tokyo's request for data regarding its exploration in the Chunxiao field. In July, this led Japan to launch its own exploration of the field on its side of the mid-point line and resulted in protests from Beijing that Japan immediately stop activities that "infringed on China's interests and sovereignty." Coming full circle,

Tokyo again asked Beijing for data, which Beijing again refused. That's where matters stood as the final quarter of the year opened.

On Oct. 17, Japan's Minister of Economy, Trade, and Industry, Nakagawa Shoichi, told a *Fuji TV* Sunday morning political talk show that Japan had information that China had granted exploration rights on Japan's side of the mid-point line to Chinese companies. If true, this would represent China's "exercise of sovereignty in Japanese waters." Nakagawa told viewers that "ignoring the EEZ is an unfriendly move" and made clear that "Japan could be disadvantaged if it refrains from saying what should be said." Earlier in the month, on Oct. 9, during the Asia-Europe meeting in Hanoi, China's Foreign Minister Li Zhaoxing called for working-level discussions on the issue during a meeting with his Japanese counterpart Machimura Nobutaka.

Chief Cabinet Secretary Hosoda Hiroyuki told reporters that reports of construction zones, if confirmed, would require Japan to ask China to cease such activities. Hosoda, however, expressed confidence that the issue could be resolved through diplomatic channels. Vice Foreign Minister Takeuchi Yukio underscored the need to confirm the information.

Meanwhile China's ambassador to Japan, Wang Yi, speaking at Japan's National Press Club, told reporters that China's explorations were being conducted in coastal waters where China's claim to sovereignty was indisputable. Nevertheless, Wang recognized that the East China Sea represented an area in which sovereignty claims did overlap but said that China wanted to resolve the issue through discussion conducted in a spirit of friendship. In the afternoon, Wang met with Foreign Minister Machimura at the Foreign Ministry and both officials agreed on the need for direct talks on the issue.

On Oct. 19, China's Foreign Ministry spokesperson Zhang Qiyue announced that working-level talks on the issue would begin the following week in Beijing. In Tokyo, METI Minister Nakagawa told reporters that talks would begin on the 25th. After a Cabinet meeting on the 22nd, Nakagawa told a press conference that the upcoming talks should deal with three issues: China's development of natural resources; its surveying of natural resources; and the maritime boundary in the East China Sea explorations.

Although China had requested the Oct. 9 Li-Machimura meeting in Hanoi, progress was nonexistent in efforts to address issues related to the maritime boundary and rights of exploration. In Tokyo, Machimura told reporters that "we do not think China provided enough information" and that Beijing's reply was "far from being satisfactory." Nakagawa was more direct saying that "I cannot understand why China proposed the talks." He noted that China "has proceeded with work to explore for gas regardless of the developments in bilateral talks" and he made clear that he was not prepared to "lend a hand to [China's] efforts to buy time."

In the aftermath of the Beijing meeting, Foreign Ministry spokespersons in Tokyo and Beijing endeavored to keep hope alive. China's *Xinhua News Agency* released a statement saying that the two sides had "agreed to continue to seek a solution through

consultations.” Tokyo was less committal, saying that both sides had “agreed to think about the continuation of this consultations.”

In mid-October, China suspended exploration activities in the East China Sea natural gas field.

On Dec. 7, a *P-3C* of Japan’s Maritime Self Defense Force found the Chinese maritime research ship, *Kexue Yi Hao*, operating off Okinotori Island in Japan’s claimed EEZ. The following day, the Foreign Ministry called in the minister at the Chinese embassy, Cheng Yonghua, to protest the ship’s activities within Japan’s EEZ. Chief Cabinet Secretary Hosoda noted that the incursion marked the 21st time this year that a Chinese research ship, operating without prior notification, was detected in Japanese waters.

To assert Japanese sovereignty in the area, Tokyo Governor and China hard-liner Ishihara Shintaro told a Dec. 10 press conference that a fisherman’s union under the Tokyo government would begin fishing activities off Okinotori and that he would construct fishing beds there. At the diplomatic level, Vice Minister Takeuchi telephoned Ambassador Wang to protest the ship’s activities. Wang said he would report the protest to Beijing but made clear that China’s position with regard to Okinotori’s status as an island differed from Japan’s. Subsequently the councilor at the Chinese Embassy reiterated his government’s position that Okinotori is not an island but a pile of rocks and thus could not serve as the legal basis for Japan’s assertion of EEZ rights. At the same time, Foreign Minister Machimura told visiting Chinese State Councilor Zhang Qizheng that this kind of behavior will harm relations between the countries. In Beijing, Harada Shinji, minister at the Japanese Embassy, lodged a protest at the Foreign Ministry, telling officials that such violations have come at significant cost to mutual trust.

Enter the Submarine

Even as the dispute over sovereignty in the East China Sea continued to roil bilateral relations, the discovery on Nov. 10 of an unidentified submarine heightened security concerns in Japan. On the morning of Nov. 10, Chief Cabinet Secretary Hosoda told reporters that “if China says the submarine is its own, we will naturally protest.” Patrol aircraft of the Maritime Self Defense Force (MSDF) tracked the submarine Nov. 10-11 as it traveled submerged in a northwesterly direction through Japanese waters off Okinawa. (Under international law, a submarine, transiting the territorial waters of a foreign country, must surface and display its national flag.)

On Nov. 12, Foreign Minister Machimura called Chinese Minister Cheng Yonghua to the Foreign Ministry to protest the incursion and demand an apology. Cheng said that China was investigating the matter and, because the investigation had yet to reach a conclusion, he could neither accept the protest nor offer apologies. At an afternoon press conference, the chief Cabinet secretary told reporters that he thought the incursion was intentional and labeled the incident “regrettable.” Prime Minister Koizumi said the incident was “extremely regrettable” and, given the importance of the bilateral relationship, urged both sides to act so as not to adversely affect relations.

At the same time, Japanese media, citing government sources, were identifying the submarine as Chinese and defining its presence as a highly provocative act. Media speculation over China's motives focused on intentions to intimidate Japan in the East China Sea dispute, probe MSDF's anti-submarine warfare capabilities, and, as part of a long-term Chinese naval strategy, to constrain U.S. options in a Taiwan contingency. Meanwhile, the leaders of Japan's political parties, LDP Secretary General Takebe Tsutomu, New Komeito Diet Policy Committee Chairman Higashi Junji, and New Democratic Party shadow Defense Minister Maehara Seiji, began to issue statements critical of China and Beijing's failure to admit responsibility for the incident. In an address in Wakayama prefecture, China's ambassador Wang Yi appealed for calm and mutual respect in seeking a resolution of the issue.

On Nov. 16, China admitted responsibility for the incursion and extended an apology. In a meeting with Japan's Ambassador Anami Koreshige, Vice Minister of Foreign Affairs Wu Dawei told Anami that China had confirmed the submarine as Chinese, attributed the incident to "technical errors" involved in normal training, and called the incident "regrettable." Referring to the Wu-Anami meeting, China's Foreign Ministry Spokesperson Zhang Qiyue, said that the "problem has now been settled in a proper manner." That evening Prime Minister Koizumi told reporters that Japan accepted China's apology and asked Beijing to take steps to prevent the recurrence of such incidents.

During the six-day controversy, the Koizumi government avoided harsh language and criticism even as it protested the incident with Beijing. China, in turn, responded by issuing an apology. The *Asahi Shimbun* quoted a Foreign Ministry official as explaining that "China responded sincerely to Japan's consideration" demonstrating "Hu's leadership intention to value relations with Japan." Resolution of the incident opened the final door to a Japan-China summit during the APEC meeting in Chile, planning for which had been underway since early October.

To the Santiago Summit

Against the background of the simmering dispute over the East China Sea, Foreign Minister Li and Machimura met in Hanoi Oct. 9 during the Asia-Europe (ASEM) meeting. When Li expressed the hope that an agreement satisfactory to both China and Japan could be reached on exploration of the natural gas fields, Machimura agreed. While not directly raising the issue of the prime minister's visits to the Yasukuni Shrine, Li referred to the common description of China-Japan relations as "politically cold but economically warm" and stressed the importance of the bilateral relationship. Machimura replied that he wanted to work toward making both economics and politics "warm."

Prior to the ASEM meeting, Prime Minister Koizumi told the press said that he would not be meeting with China's Premier Wen Jiabao in Hanoi. At the same time, he dismissed the view that his visits to the Yasukuni Shrine were the reason that a meeting would not take place. Foreign Ministry officials explained that Wen's already full schedule

precluded a meeting during ASEM but suggested that the upcoming APEC meeting in Chile and the ASEAN Plus Three meeting in Laos could provide the opportunity for a high-level meeting. Vice Foreign Minister Takeuchi told an Oct. 4 press conference that a Japan-China summit was “difficult” during the ASEM meeting, but the Foreign Ministry would continue to work toward a high level meeting in either Chile or Laos.

The Yasukuni issue returned to the top of the political-diplomatic agenda on Oct. 18. Appearing before the Lower House Budget Committee, Koizumi told the legislators that “I’m aware that the visits are unpleasant for China, but I believe there is nothing wrong about paying appropriate respect to the war dead as a Japanese.” The prime minister also had “doubts about bowing to other countries’ opinions ...based on different ideas of how to console the souls of the dead.”

That afternoon, China’s ambassador to Japan, Wang Yi, spoke at Japan’s National Press Club. Wang noted that “many people cite Japan’s views on births and deaths as its own unique culture [to justify the prime minister’s visits to Yasukuni]” but from his perspective they were “not a domestic affair or a cultural issue, but a diplomatic issue linked to whether importance is placed on justice.” The ambassador made clear that the visits “will end up having a negative effect on bilateral economic relations and expressed the hope that “Japan’s leader will have second thoughts.”

On Oct. 19, a supra-party delegation of 79 Diet members visited Yasukuni on the occasion of the autumn festival. The following day, Koizumi told the Upper House Budget Committee that he “did not consider visits to Yasukuni to be the major stumbling block” to a resumption of reciprocal high-level visits and that he expected China to evidence some understanding of the practice. Koizumi went on to say that it possible to hold the thought that China might welcome a decision to stop visiting the shrine, but questioned whether he should stop just because China says, “don’t do it.”

Addressing the Yasukuni issue, China’s Foreign Ministry Spokesperson Zhang told the press that China hoped “Japan’s leaders could handle the matter in a more delicate way and refrain from any acts that will hurt the feeling of the Chinese people as this affect the political foundations of the further development of our relations.”

On Nov. 9, Foreign Minister Machimura announced, after consultations with Foreign Minister Li, that they agreed to work toward a Koizumi-Hu meeting during the APEC meeting in Chile. The Chinese Foreign Ministry announced that the meeting would require the “concerted efforts of both sides and favorable actions and conditions.” China hoped that Japan would take the first step. At the same time, China saw no relation between the proposed meeting and the then unfolding submarine incident.

The pace of summit-directed diplomatic activity accelerated in mid-November. In Beijing, on Nov. 16, Vice Foreign Minister Wu Dawei and Japanese Ambassador Anami agreed to work toward a Koizumi-Hu meeting during the APEC meeting in Chile. On Nov. 16 and 17, the prime minister’s special advisor Yamasaki Taku met with State Councilor and former Chinese Foreign Minister Tang Jiaxuan, Qian Qichen and Vice

Foreign Minister Wu Dawei. The next day, after meeting in Santiago, Chile, Foreign Ministers Machimura and Li announced that Prime Minister Koizumi and President Hu would meet Nov. 21 on the sidelines of the APEC meeting. A Japanese official said that, during the meeting with Machimura, Li had described the prime minister's visit to Yasukuni as an "unavoidable" issue and asked that Koizumi deal with it "appropriately."

Summitry: Round I – Santiago

Prime Minister Koizumi and President Hu met in Santiago Nov. 21 (Nov. 22, in Japan), the first Japan-China summit in over a year. Both prime minister and president agreed on the importance of the bilateral relationship – and little else. In terms of the major flashpoints in the relationship, the submarine incident and, of course, Yasukuni, the two leaders were essentially talking past each other and to domestic constituencies. The meeting went well beyond the scheduled 30 minutes.

President Hu, noting that "historical issues cannot be avoided and passed over," made clear that the prime minister's visit to the shrine was an "obstacle" in the development of bilateral relations and asked that Koizumi take steps "to deal with this problem appropriately." This was the first time Hu referred to the Yasukuni issue. In turn, the prime minister explained that his visits to the shrine were to honor Japan's unwilling war dead and to underscore that Japan will never again resort to war and, accordingly, asked for China's understanding. He too agreed that "it is important to take history seriously."

The prime minister returned to the Nov. 18 foreign ministers' meeting and asked Hu to reconfirm China's apology over the submarine incident and to take "steps to prevent a reoccurrence." Avoiding the use of the word "apology," Hu replied that the matter had already been settled by the foreign ministers.

As for China's natural gas exploration in the East China Sea, Koizumi said "a proper response is needed" and that care be taken so as not to turn the East China Sea into "a sea of conflict." Both agreed on the need for dialogue to resolve the issue peacefully. Both also agreed to work toward an early resumption of the Six-Party Talks on North Korea.

Following the meeting, when reporters pressed the prime minister on future visits to the shrine, Koizumi replied that he was "determined not to respond to any questions about the issue from now on." Koizumi also told the press that he wanted to "develop relations with China from a broad perspective so that our entire relationship will not encounter difficulties due to a couple of undesirable problems or disputes..." He thought it important to have "an exchange of frank views."

Summit Reaction

Chinese media focused on Yasukuni and the president's statement that Koizumi's visits to the shrine were an obstacle to the development of relations. The Nov. 23 lead editorial in the *Yomiuri Shimbun* "China: Primary Source of Political Stagnation" took a different

track and concluded by asserting that it was time for China to cease meddling in Japan's domestic affairs and to take steps toward a political breakthrough.

Within the LDP, Hu's view of the prime minister's visits to Yasukuni produced a strong and negative reaction. LDP Secretary General Takebe told reporters that he did not think Koizumi would cease visiting the shrine just because China's president had made the request. "If he did so," Takebe argued, "it will give the impression he is giving in to China." Takebe thought the visits would continue next year.

On Nov. 23 in a speech in Gifu City, LDP Deputy Secretary General Abe declared that, "a foreign country has no business telling other nations what to do." Abe regarded Koizumi's visits to Yasukuni as "his responsibility as the leader of the nation." Four days later, Abe told Japanese business leaders, concerned over the possible political fallout of Yasukuni on economic relations, that paying such respects was only natural. To disavow it would be to tear up the foundations of the country and destroy its industries. He questioned whether an increase in sales is worth the trade-off. Abe went on to say that it was important for future leaders to continue the practice.

The Road to Vientiane

Following his meeting with Hu, Koizumi told reporters that he was looking forward to his meeting with Chinese Prime Minister Wen Jiabao on the sidelines of the ASEAN Plus Three meeting in Laos. On Nov. 26, however, a senior Japanese Foreign Ministry official told the *Nihon Keizai Shimbun* that the previously planned meeting between Koizumi and Wen would likely not take place. The official also cast doubt on a meeting between Japanese and Chinese foreign ministers. On Nov. 27 the *Sankei Shimbun* reported that planning for a Koizumi-Wen meeting had resumed – at the request of Beijing.

Summitry: Round II – Vientiane

Koizumi and Wen met on the morning of Nov. 30. Their talking points were almost identical to those used during the Santiago summit. Wen told Koizumi that his visits to Yasukuni wounded the feelings of the Chinese people and were the reason for the political stagnation in the relationship. Wen asked him to put an end to the visits and handle the issue "appropriately." In reply, Koizumi repeated his mantra – that he visited the shrine to pay homage to the unwilling war dead and as a pledge never again to resort to war. Koizumi appealed for cooperation in the East China Sea and asked that China take steps to prevent another submarine incursion. Wen said that China wanted to continue discussions. Both agreed on the need to resolve the North Korean issue through an early resumption of the Six-Party Talks and on the strong and positive direction of economic relations. Wen also expressed appreciation for Japan's ODA and asked that decisions regarding the future of the program be handed in an "appropriate" way. Responding to Koizumi's invitation to visit Japan during next year's Aichi Expo, Wen retreated to the tried and true formulation that he hoped to visit Japan "under good conditions in a favorable atmosphere." The meeting lasted over one hour, well beyond the scheduled 25 minutes.

That evening, Koizumi told reporters that Yasukuni was not the only issue in Japan-China relations and that he thought that best way to manage the relation was to take a broad perspective and cooperate in a forward-looking direction.

Reaction: Round II

On Dec. 10, *Kyodo News Service* released the result of a public opinion telephone survey on the prime minister's visits to Yasukuni. Fifty-one percent of respondents said that the prime minister should visit the shrine next year, while 40.8 said he should postpone a visit. Among supporters of the Koizumi Cabinet, 68.1 percent said the prime minister should continue the practice; among LDP supporters the figure hit 72.4 percent. A *Mainichi Shimbun* poll revealed a closer divide: 46 percent favoring continuation, 40 percent opposition. But 64 percent of the *Mainichi* respondents did not consider China's demands on the issue convincing; only 27 percent thought they were.

Pointing to the downward trend in political relations, the Cabinet Office on Dec. 18 released the results of its survey of public opinion with respect to various foreign countries. Of the 3,000 polled during October, only 37.6 percent felt friendship toward China, a drop of 10.3 percent over the previous year. At the same time, 58.2 percent described relations with China as not friendly, an increase of almost 10 percent over 2003. The *Asahi Shimbun* conducted a similar poll in November – with similar results: only 2.5 percent of the respondents trusted China “very much,” 14.0 percent trusted China “somewhat”; in contrast 44.2 percent “did not trust China very much,” and 27.0 percent “not at all.” Respondents to a December *Nihon Keizai* poll, while expressing dissatisfaction (60 percent) with Koizumi's China policy, nevertheless supported his Yasukuni policy, 48 percent in favor, 36 percent against.

ASEAN Plus Three

On Nov. 29, the “Plus Three” meeting among the leaders of Japan, China, and the Republic of Korea produced agreement to cooperate closely on an early resumption of the Six-Party Talks and Iraq reconstruction. The three leaders also adopted an action strategy to advance cooperation in 14 fields, including security, trade, investment, and the environment. Both Wen and ROK President Roh Moo-hyun expressed understanding on the need for UN reform but refrained from expressing support for Koizumi's efforts to secure a permanent seat on the Security Council.

Security

On Oct. 26, Chinese and Japanese Defense officials met at JDA headquarters to discuss security issues, the first meeting of defense vice ministers since November 2000. Among the issues discussed were the realignment of U.S. forces in Japan, China's continuing research activities in Japan's EEZ, the maritime boundary in the East China Sea, and Taiwan.

Meanwhile, the *Tokyo Shimbun* reported on Nov. 8 that, over the course of the autumn, the Defense Agency had considered the possibility of China attacking Japan. Three scenarios were posited: confrontation over marine resources, territorial claims over the Senkaku islands, and a China-Taiwan contingency. Developed in September by the agency's committee on defense capability, the scenarios were intended for review in conjunction with the drafting of Japan's new National Defense Program Guidelines (NDPG). *The Japan Times* quoted the study to the effect that China "is cautious about using military force to solve international issues, as it understands that doing so will hinder its own development." But, it was considered "likely that the Chinese Communist party will go its own way to secure its sovereignty and territory as well as expand its interests in the sea."

The Koizumi government released the new NDPG Dec. 10, much to Beijing's dismay. In Beijing Foreign Ministry Spokesperson Zhang Qiyue said that China was "deeply concerned with the great changes of Japan's defense strategy and its possible impact." Zhang also expressed "strong dissatisfaction" with the NDPG's call for alertness with regard to China's military modernization, dismissing it as "totally groundless and extremely irresponsible." Chief Cabinet Secretary Hosoda told reporters that the government did not regard China as a threat, but media commentary suggested that the submarine incident made a reference to China unavoidable.

On Dec. 20, the *Asahi* reported that a senior JDA official had briefed members of the LDP's security project team in November during the party's consideration of the draft NDPG and, speaking with reference to China, said that China would gain military supremacy over Taiwan by 2008 as a result of its continuing introduction of Russia's high-performance *SU-27* and *SU-30* aircraft. The official also is reported to have said that China's deployment of such aircraft could affect Japanese islands in the vicinity of Taiwan. A week later, Beijing released its 2004 Defense White Paper that called for a 14.2 percent increase in defense spending – the 16th consecutive year of double-digit increases.

Overseas Development Assistance (ODA)

In the face of growing controversies with China, its rapidly growing economy, and Japan's own financial constraints, public support in Japan for China ODA has continued to drop.

On Oct. 1, Foreign Minister Machimura presented the 2004 ODA White Paper to the Cabinet. Two days later, following a Tokyo town hall meeting to discuss Japan's ODA program, Machimura told a press conference that it was premature to end Japan's economic assistance program for China, but, at the same time, observed that yen loans would continue to be reduced. The yen loan program for China has been pared back for three consecutive years since 2001, falling to 96.7 billion yen in 2003. Machimura noted that the ODA program would be refocused on the environment and human resource development. The foreign minister also suggested that at some unspecified future date China will graduate from the program.

Reflecting popular discontent, the Upper House of the Diet on Nov. 10 released a report calling for the eventual termination of Japan's ODA program for China. The report, prepared following an August fact-finding visit to China by three groups of Upper House members, found no reason to continue the program in light of the rapid development of China's economy. It also argued that Japan's yen loan program to China "should be reduced with an eye to abolishment." Japanese taxpayers, it noted, "are not happy that their pay is being used as ODA to China."

In the face of growing political opposition – and reaction to the Santiago summit – Foreign Minister Machimura during a Nov. 26 Diet session suggested that the time may have arrived for China to graduate from Japan's ODA program. Two days later in Vientiane, Prime Minister Koizumi echoed Machimura's sentiments, telling reporters that, "China has achieved remarkable economic development, so it may be time for it to 'graduate.'" Koizumi went on to observe that he expected China itself will become a donor country. Speaking to the prime minister's comments, Chief Cabinet Secretary Hosoda told reporters that any decision on graduation should be based on discussions between Japan and China.

In any case, China's Foreign Minister Li appeared nonplussed, remarking that, "The Chinese people are capable of independently developing their own country with their own power and knowledge." China's Foreign Ministry Spokesperson Zhang took a slightly different line, telling reporters that yen loans had been a major plus in developing relations between the two countries and expressed the hope that they would continue. She went on to point out that the loans were intimately tied to economic relations between the two countries and also served to benefit the interests of Japanese companies.

On Dec. 14, *Mainichi Shimbun* reported that the Foreign Ministry's previous account of the Koizumi-Wen discussion of the ODA had indeed been diplomatic. The *Mainichi* noted that Wen's statement that China had given up calls for "war reparations" implied that China viewed the ODA program as precisely that. According to the *Mainichi*, Wen also told Koizumi that "it is one thing for an legislative body or the public to make a fuss, but it undesirable for an administrative body to make such a comment." The story quoted a Foreign Ministry official attributing reluctance to report on the exchange to a desire "to avoid a focus on the standoff between Japan and China."

On Dec. 20, the Finance Ministry announced that the ODA budget would be cut for the sixth consecutive year. Foreign Ministry officials, noting the appreciation of the yen against the dollar, argued that there would be no appreciable change in the ODA budget.

Taiwan: Lee Teng-hui

In mid-December, Chief Cabinet Secretary Hosoda announced that the government would issue a visa to former Taiwanese President Lee Teng-hui to visit Japan at the end of the month. Hosoda told reporters that Japan understood the purpose of Lee's visit would be "sightseeing," not "political activity." He did not think the visit would have

“any major effect” on relations with China. Prime Minister Koizumi saw “no reason to refuse the visa request.” Foreign Minister Machimura echoed his boss.

In Beijing, reaction was immediate. Foreign Ministry spokesperson Liu Jianchao branded Lee a “Taiwan independence gang leader” and went on to say that Japan’s decision to allow the visit is a “provocative act against China’s unity.” At the same time, Vice Foreign Minister Wu Dawei called in Ambassador Anami to formally protest the decision. In Tokyo, Ambassador Wu told Vice Minister Takeuchi that Japan’s action was “incomprehensible and unacceptable.” The ambassador branded Lee a representative of “splittists” actively engaged in rupturing China. Afterward, Wang told reporters that issuing a visa would mean that, “Japan has no desire to improve relations.”

On Dec. 17, Lee applied for a visa. On Dec. 21, the Japanese government issued the visa. Foreign Minister Machimura told the press “we have no reason to reject a visa application for a sightseeing tour by a private citizen. If the government refuses, Japan will not be regarded as a law-biding nation.” Machimura said issuing the visa did not mean recognition of Taiwan’s independence. At the same time, he cautioned members of the LDP against meeting with Lee, stressing that the government’s “strict policy prohibit you from approaching him.” The chief Cabinet secretary also cautioned lawmakers from meeting with Lee. In his public comment, the prime minister referred to the private citizen-sightseeing nature of the visit, then went on to say that China “does not necessarily understand the situation.” Koizumi speculated that Beijing was becoming “nervous about the Taiwan issue.”

China’s response came in speech delivered in Tokyo by Ambassador Wang. Wang labeled Lee a promoter of independence – “not only a troublemaker – he could also become a war-maker.” He found it difficult to understand why Japan “is extending a favor to a person who slanders and attacks China.” Wang asked that the government reconsider its decision.

Lee arrived in Japan Dec. 27. At the same time, Vice Foreign Minister Takeuchi made clear to media – and to Beijing – that Lee’s visit was “purely” for sight-seeing purposes and that Lee would not engage in any political activities. (When Lee last visited in Japan in 2001 for medical purposes, he met with a member of Japan’s Conservative Party and issued a statement on departure.) The *Asahi Shimbun*, reporting from Beijing, quoted a Chinese Communist Party source as saying “For China, his visit to Japan is, in a sense, a more realistic issue than the prime minister’s visit to the Yasukuni Shrine.” Addressing the granting of the visa and Lee’s visit, the Dec. 27 *Yomiuri Shimbun*’s lead editorial defined the event as symbolic of Japan’s relations with China at last approaching normalcy.

Business and Commerce

Despite political controversies and abrasions, economic relations continued to expand. If political issues are creating distance between Japan and China, business and commerce are exerting a strong counter-force. Below are highlights from the final quarter.

Matsuya Foods announced that it would resume serving its popular “gyudon” (beef and rice dish). Heavy reliance on American beef coupled with the government’s import ban following the detection of mad cow disease in the U.S. caused restaurants to suspend serving “gyudon.” Resumption was made possible by importing beef from China.

Sanyo Electric Company announced plans to triple production of commercial-grade air conditioners, setting a 2005 target of 90,000 units.

Also looking to expand its share of the China market, Oki Electric announced that it has established a semiconductor marketing and design company in Shanghai, capitalized at \$2 million. Oki is looking to attain a threefold increase in sales by 2007.

Toshiba and TCL International Holdings of China agreed to set up a joint venture to manufacture household appliances, centered on refrigerators and washing machines. Initial output is targeted at 1 million units starting in 2006.

At the end of December, Family Mart announced the opening of its first franchised outlet in Shanghai; at present Family Mart owns 43 directly operated stores in Shanghai. It is looking to increase stores in Shanghai to 350 by 2007. Meanwhile Family Mart competitor Lawsons plans to increase outlets in Shanghai from 210 to 300 during 2005.

Mitsubishi Corporation announced that first half profits (April-September) had increased 48 percent, accounted in large part by China’s surging demands for energy and natural resources. The spike in energy and natural resource prices was steeper than the trading company had expected. CFO Mizuno Ichiro said, “all can be attributed to China.”

In all likelihood, political relations focused on issues of sovereignty, security and history are not likely to improve over the coming months. Maintaining the present frosty status quo should be considered progress. Indeed, the downward spiral may continue. At the same time, commercial relations will continue to expand and benefit both countries. The critical unknown remains how long this relationship can continue along the current bifurcated and diverging tracks.

Chronology of Japan-China Relations October-December 2004

Oct. 1, 2004: Foreign Minister Machimura presents 2004 ODA White Paper to Cabinet, later tells Tokyo town hall meeting that ODA to China will continue to be reduced, though it’s premature to end China program.

Oct. 4, 2004: Vice FM Takeuchi tells reporters that a Koizumi-Hu Jintao meeting during ASEM meeting is unlikely due to Hu’s schedule; next opportunities are APEC in Chile and ASEAN Plus Three in Laos.

Oct. 9, 2004: FM Li and FM Machimura meet in Hanoi during ASEM talks; agree to working-level discussions on resource exploration in East China Sea.

Oct. 17, 2004: METI Minister Nakagawa tells TV audience that Japan has information that China has granted exploration rights within Japan's EEZ to Chinese companies.

Oct. 18, 2004: Ambassador Wang Yi in Tokyo speech asserts exploration is within waters in which Chinese claim to sovereignty is indisputable.

Oct. 18, 2004: Koizumi tells Lower House Budget Committee that he sees nothing wrong in paying appropriate respects to Japan's war dead.

Oct. 18, 2004: Ambassador Wang tells Japan's National Press Club that from his perspective paying respects at Yasukuni is not a domestic issue or cultural issue.

Oct. 19, 2004: Some 79 Diet members visit Yasukuni.

Oct. 19, 2004: Working-level talks on exploration issues announced by Beijing.

Oct. 20, 2004: Koizumi tells Upper House Budget Committee that he does not see Yasukuni visits as stumbling block in Japan's relations with China.

Oct. 25, 2004: Working-level talks in Beijing; Yabunaka Mitoji, director general of the Asian and Oceanic Affairs Bureau and Kodaira Noboyuki of the Agency for Natural Resources and Energy represent Japan; Cui Tiankai, director general for Asian Affairs represents China.

Oct. 26, 2004: Japanese and Chinese defense officials meet in Tokyo; first meeting of defense vice ministers since November 2000.

Nov. 4, 2004: Koizumi and Ambassador Wang meet at Prime Minister's Official Residence; details not released.

Nov. 9, 2004: FM Machimura announces that Japan and China agree to work toward Koizumi-Hu summit during APEC meeting in Chile.

Nov. 9, 2004: Vice FM Takeuchi and Ambassador Wang meet secretly in Tokyo to work out talking points for Yasukuni issue in the event of a Japan-China summit.

Nov. 10, 2004: Japanese patrol aircraft acquire and track Chinese submarine in Japanese territorial waters.

Nov. 10, 2004: Upper House of Diet releases report calling for eventual termination of China ODA program.

Nov. 12, 2004: FM Machimura calls Chinese Minister Cheng Yonghua to the Foreign Ministry to protest the incursion and demand an apology; Koizumi calls the incident “extremely regrettable.”

Nov. 13, 2004: Ambassador Wang in speech delivered in Wakayama prefecture appeals for calm on submarine incursion.

Nov. 16, 2004: China admits responsibility for the incursion; Vice FM Wu Dawei tells Ambassador Anami that the incident was the result of “technical errors.”

Nov. 16-17, 2004: Yamasaki Taku, special advisor to Koizumi, meets in Beijing with senior Chinese officials, including Vice FM Wu Dawei.

Nov. 21, 2004: Hu and Koizumi meet in Santiago, Chile during APEC meeting.

Nov. 25, 2004: Koizumi government presents draft of new National Defense Program Guidelines (NDPG) to LDP security project team.

Nov. 25, 2005: Chiba District Court rules against plaintiffs seeking damages for Koizumi’s visit to the Yasukuni Shrine in August 2001.

Nov. 26, 2004: FM Machimura tells Diet that time may be approaching to end China ODA program.

Nov. 28, 2004: In advance of meeting with Wen Jiabao, Koizumi tells reporters that it may be time to graduate China from the ODA program.

Nov. 29, 2005: Koizumi, Wen, and ROK President Roh (“Plus Three”) meet during ASEAN meeting in Vientiane, Laos.

Nov. 30, 2004: Koizumi and Wen meet in Vientiane during ASEAN Plus Three meeting.

Dec. 7, 2004: Japanese patrol aircraft find Chinese research ship *Kexue Yi Hao* within Japan’s claimed EEZ.

Dec. 8, 2004: Asian and Oceanic Affairs Director General Yabunaka protests Chinese ship presence in EEZ to Chinese Minister Cheng Yonghua.

Dec. 9, 2004: FM Machimura meets visiting Chinese State Councilor Zhang Qizheng; expresses concerns over ship incident; Chinese Foreign Ministry spokesperson Zhang Qiyue calls for calm, says ship activities are normal.

Dec. 10, 2004: Tokyo Gov. Ishihara Shintaro announces Tokyo government will begin fishing activities off Okinotori Island to assert Japanese sovereignty in the area.

Dec. 10, 2004: Vice FM Takeuchi telephones Ambassador Wang to protest; Minister Harada at Japanese embassy in Beijing calls on Foreign Ministry to protest; FM Machimura tells visiting Chinese State Councilor Zhang Qizheng that this kind of behavior will harm relations between the countries.

Dec. 10, 2004: Japan releases new NDPG.

Dec. 14, 2004: Machimura tells Lower House that government would like to push forward review of China ODA policy.

Dec. 15, 2004: Premier Wen meets in Beijing with Senior Vice FM Aizawa Ichiro and LDP and Democratic Party of Japan lawmakers; discussion focuses on North Korea.

Dec. 15, 2004: Tokyo High Court dismisses suit for compensation brought by four Chinese women forced to serve as sex slaves by the Imperial Army.

Dec. 16, 2004: Chief Cabinet Secretary Hosoda announces that Japan will grant visa to Taiwan's former President Lee Teng-Hui; China's Vice FM Wu calls in Japanese ambassador to protest; China's Ambassador Wang tells Vice FM Takeuchi that the decision is "incomprehensible and unacceptable."

Dec. 17, 2004: Lee Teng-hui applies for "sightseeing" visa.

Dec. 21, 2004: Third Japan-China Economic Partnership Consultation in Tokyo; Japan represented by Deputy FM Fujisaki Ichiro and China by Vice Minister of Commerce Min An.

Dec. 27, 2004: Lee arrives in Japan.

Dec. 27, 2004: China releases 2004 Defense White Paper calling for 14.2 percent increase in defense spending, the 16th consecutive year of double-digit increases.

Japan-Korea Relations: Improving and Maturing, but Slowly

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There have been concerns about increased friction between South Korea and Japan over history, North Korea policy, South Korea's nuclear experiments, Japan's attempt to secure a permanent seat on the UN Security Council, and Japan's new defense guidelines, among other issues. Yet the Japan-South Korean relationship continues to mature, with President Roh Moo-hyun and Prime Minister Koizumi Junichiro having a seemingly better working relationship than any previous pair of leaders, and a number of the current issues are being handled as a normal aspect of a working relationship, not as special matters. On matters other than North Korea, relations between South Korea and Japan are improving across a range of political and economic issues. Improved Japan-Korea ties may ultimately be more significant in the long run than the supposedly pressing issues of the day. In the past, South Korean leaders, and to a lesser extent, Japanese leaders, have understandably focused almost exclusively on their bilateral relations with the United States. Yet, as the region becomes more integrated, and the states become more stable, how the states interact with each other will be of increasing importance.

In this context, Japan's small steps toward a new, more muscular foreign policy were less destabilizing than they might have been a decade ago, and South Korea does not seem overly concerned, although North Korea predictably overreacted. In the past three months, Japan continued pursuit of a permanent seat on the UN, revised its defense guidelines, and began to press for more hardline actions toward North Korea. In bilateral relations, Japan and South Korea engaged in another summit, furthered economic exchanges, and saw cultural relations evolve, if not exactly improve. South Korea and Japan also cooperated on economic issues with the rest of Asia. When it comes to North Korea, the two countries may soon be following different policies, but this has not occurred yet.

Japan-DPRK Relations: All about the Abductees

With the Six-Party Talks stalled, Japanese foreign policy toward North Korea continues to remain focused almost exclusively on the issue of Japanese citizens abducted by North Korea. After months of negotiations – and North Korean prevarication – over the disposition of the remains of the abductees who have already died, North Korea and Japan are stuck in limbo. During the past three months, North Korea has provided two sets of remains to Japan that were ostensibly cremated Japanese abductees. In both cases, DNA testing showed that the remains were actually of different people. In response,

Japanese sentiment is turning in favor of imposing sanctions on the North, although Koizumi has not yet pursued that path.

In early December, DNA testing showed that remains given to Japan by the DPRK were not those of skidnapped Japanese nationals. A Foreign Ministry official said that the cremated remains, which Pyongyang claimed were those of Matsuki Kaoru, abducted by DPRK agents in 1980 at the age of 26, were actually those of four different people. Japan also concluded that the DPRK handed over other people's ashes to prove the death of Yokota Megumi, a Japanese woman abducted by Pyongyang's agents at age 13. Chief Cabinet Secretary Hosoda Hiroyuki said, "The bones belonged to a number of other people."

In response, Japanese sentiment is shifting solidly in favor of a harder line toward North Korea. Opinion polls show that 63 percent of Japanese citizens are in favor of imposing economic sanctions on the DPRK, while 83 percent of Diet members are in favor. An example of Japanese popular sentiment came in October, when 80 families and supporters of Japanese abductees gathered to protest the DPRK ferry *Mangyongbong-92*'s arrival at Niigata port.

On the issue of sanctions, Prime Minister Koizumi is resisting pressure to take quick action. In December, Koizumi stressed the importance of normalizing diplomatic ties between Japan and the DPRK even though he feels he cannot forgive the DPRK's abductions of Japanese citizens. He said that he prefers dialogue with the DPRK to economic sanctions and said he doubts if sanctions would be effective. During a trip to Hanoi, Koizumi said that he "would like to work with patience to get North Korea to respond sincerely." According to the *Asahi Shimbun*, Foreign Minister Machimura Nobutaka may travel to Pyongyang in February to press for tangible proof on the fate of 10 Japanese believed abducted. Japan has already frozen food aid to the DPRK in protest over the abduction issue, despite a recent study that showed that Japanese food and medical aid are being distributed to needy people in the country. The Foreign Ministry reported in December that Japanese supplies were being distributed to the general public, and that, surprisingly, North Korean officials distributed the containers to the public with Japan's national flag still on the containers.

Koizumi seems increasingly alone on this issue. Although some lawmakers are supportive, many are not. *Yomiuri* reported that on Nov. 30, Liberal Democratic Party Secretary General Takebe Tsutomu said, "We must be careful not to become emotional on this issue. It would be prudent to tread carefully because the North Korean issue impinges on security issues." However, many hardliners in Japan appear to be using the abductee issue as the rationale for a harder line toward North Korea, and for a more assertive Japanese foreign policy in general. Nakayama Kyoko, a former Cabinet Secretariat adviser on the DPRK abduction issue, said that Japan should consider legislation like that in the U.S. to impose sanctions against the DPRK if human rights abuses there fail to improve. On Oct. 19, Foreign Minister Machimura praised a new U.S. law aimed at improving human rights in the DPRK as the legislation urges the

country to settle its abductions of Japanese and ROK citizens. “We highly rate the legislation as it mentions the abductions,” Machimura told a press conference.

Following the House of Representatives, the House of Councilors of Japan unanimously adopted a resolution requesting that the government apply sanctions, including laws on revised foreign exchange management and special measures to prohibit the docking of certain ships. In December, both the ruling Liberal Democratic Party (LDP) and the opposition Democratic Party of Japan (DPJ) prepared to enact a North Korea Human Rights Act that includes the potential use of economic sanctions. If the new legislation passes, it will ban all aid to North Korea other than humanitarian assistance unless the regime provides a convincing explanation for the kidnapping of Japanese citizens or its human rights situation shows rapid signs of improvement. The proposal is similar to the North Korean Human Rights Act passed by the U.S. Congress in October, and would be the third Japanese law that allows for sanctions. The first two are the amended foreign exchange law that bans remittances to North Korea, and a special law banning North Korean ships from entering Japanese ports.

Predictably, the U.S. supported Japan’s consideration of sanctions, South Korea cautioned against it, and North Korea blasted it. An unnamed senior U.S. official was quoted as saying, “Every country’s leader has means to pressure North Korea to give up nuclear weapons. For example, Japan, an aid donor for North Korea, has also passed a bill to impose economic sanctions against North Korea.” In late October, *Kyodo News* reported that the chairman of the ROK’s ruling Uri Party, Lee Bu Young, met with DPJ President Okada Katsuya and cautioned against Japan resorting to economic sanctions against the DPRK. Lee said economic sanctions could prompt “something unwanted by both Japan and South Korea to happen.” In December, Pyongyang’s Foreign Ministry said any such move to impose sanctions would be tantamount to a “declaration of war.”

In a related move showing Japan’s increasingly hardline attitude toward the DPRK, on Oct. 26 Japan hosted a multinational joint military drill for the Proliferation Security Initiative (PSI) against WMD. Japan’s Maritime Self-Defense Force, together with forces from the U.S., Australia, and France, boarded and searched an imaginary ship carrying WMD. Eighteen countries sent observers. Significantly, neither China nor South Korea took part in the exercise.

For the first few years of the crisis, Japan avoided taking a clear stance on the issue. Although siding in general with the United States, Koizumi also pursued an independent line toward North Korea, traveling twice to Pyongyang to discuss the abductee issue and saying publicly that normalization was an option if the nuclear issue could be solved. The abductee issue now appears to be overtaking Japanese foreign policy to the exclusion of all else, and Japan is at a crossroads. It will either move more firmly into the U.S. camp that advocates a harder line toward North Korea, or it will continue to stay with South Korea and China, advocating slow measures and cautious engagement. This could have long-term implications for both the resolution of the North Korea crisis and for the future dynamics of the region.

Japan-ROK Relations: the Summit and Japan's New Defense Program Guidelines

While North Korean policy is stalled, bilateral relations between Japan and South Korea have continued a slow evolution. On Dec. 17, for the second time in five months, South Korean President Roh and Japanese Prime Minister Koizumi held a “working summit” over a weekend. To promote bilateral cooperation, the two leaders agreed to continue meeting twice a year in what they called “shuttle” summit talks, and Roh invited Koizumi to visit South Korea in the first half of next year. The two leaders discussed a wide variety of issues and appear to have a good working relationship. Although their respective policies to North Korea may diverge at some point, Japan and Korea are making progress on a range of other issues, most notably economic integration between the two countries, and addressing the historical relations between the two countries.

For his part, Roh is working to improve relations with Japan and China, and to move South Korea's focus away from the United States. In the week before the summit, President Roh said that the ROK needs more friends around the world and implied that the U.S. remains too influential in South Korea. “There may be some American friends who would feel sorry if I say something. But nobody should attempt to monopolize friends. All civilizations that did not have exchanges with others went into decline over time. Korea thus wants to exchange and cooperate with many other friends and develop its culture more creatively.” This was widely interpreted to mean Japan and China.

The December summit dealt with a number of issues, including the prospect for the resumption of Six-Party Talks, whether Japan would pursue economic sanctions against the DPRK, Japan's “New Defense Program Guidelines,” efforts by both governments to narrow the perception gap on Japan's past, the Japan-Korea Free Trade Agreement, visa waivers for Japanese and Korean visitors, and the doubling of flights between the two countries.

Regarding sanctions, both Koizumi and Roh urged caution and a deliberate approach. Prime Minister Koizumi said that, “I told President Roh that we must consider whether to impose sanctions after closely examining North Korea's response to the abduction of Japanese nationals by Pyongyang agents, [and] the president understands it.” For his part, Roh voiced empathy for the difficult domestic pressure that Koizumi is under, saying “I understand that Prime Minister Koizumi is cautious about imposing sanctions. I didn't say economic sanctions are totally unacceptable, but a decision should be very calmly and cautiously made as it will affect the six-nation consultations on the crisis over North Korea's nuclear program.”

The two leaders also discussed Japan's “New Defense Program Guidelines,” which were released the week before the summit. The main points of the guidelines are increased efforts to cooperate with the United States on a missile defense system, the specific identification of China and North Korea's as potential threats to Japanese security, and increased antiterror efforts. The plan was last updated a decade ago, and the new guidelines shift Japan's focus from defending Japan from a possible Russian invasion to guarding the country from possible North Korean or Chinese threats. The plan also

includes measures to ease its “Three Principles on Arms Exports,” which ban exporting all kinds of weapons. As part of a new military doctrine, Tokyo has defined its role in the event of a conflict on the Korean Peninsula, called “Operational Plan 5055,” saying Japanese forces would undertake the evacuation of civilians and conduct search and rescue missions for downed U.S. and South Korea pilots. Japan’s Maritime Self-Defense Forces (MSDF) would safeguard a sea route from the Korean Peninsula to Japan to keep a supply line open. MSDF would also patrol coastal areas adjacent to nuclear facilities in anticipation of possible North Korean commando attacks.

South Korean reaction was muted. An ROK Defense Ministry official said that, “The plan is natural. North Korean commandos are expected to operate deeply behind enemy lines in order to disrupt supply lines and disable command structures. Because Japan is serving as a base for U.S. forces it’s only logical for North Korean commandos to strike Japan if it comes to it, and this plan is a countermeasure.”

North Korea, of course, blasted the announcement. North Korea’s official newspaper, the *Rodong Sinmun*, said that, “The designation of the DPRK and countries around it as unstable and untransparent elements by the Japanese reactionaries discloses more glaringly the despicable true colors of those who are accustomed to pulling up others to attain their militarist purpose. By misleading public opinion by the above-said allegation, the Japanese military authorities seek to justify their scheme to convert the country into a military giant and get into full stride in promoting it and thereby hold the hegemonic position in Northeast Asia. They also seek to pressurize and contain their neighboring countries and realize their ambition for military expansion.”

Economic Relations

In economic issues, Japan and South Korea are increasingly both competitors and partners in the cutting-edge information technology sector. As two of the largest and most advanced Asian economies, trade and investment continue to increase, and the planned free trade area (FTA) between the two countries could have major repercussions for trade and investment in the region.

In some high-growth sectors, South Korean manufacturers have rapidly caught and sometimes even surpassed their Japanese counterparts. For example, South Korea’s manufacturers of display panels recently edged out Japanese manufacturers in four major categories: thin film transistors (TFT), liquid crystal displays (LCD), plasma display panels (PDP) and organic light-emitting diodes (OLED). South Korea caught up in all four categories despite entering these sectors between two and six years later than their Japanese competitors. In response, some Japanese companies are seeking protection. For example, *Nihon Kezai Shimbun* reported that in November, Matsushita filed for a provisional disposition to ban sales of LG Electronics PDP panels in Japan to the Tokyo District Court, claiming that LG Electronics’ Japanese corporation violated PDP patents. Matsushita also applied for an import ban of LG Electronics products.

Yet unprecedented cooperation has also occurred between Japanese and Korean manufacturers. In December, Samsung Electronics and Sony signed a cross-licensing agreement to share patents across major product lines. The agreement between the two manufacturing giants is almost unprecedented, and is expected to give both companies an edge in their attempts to play a leading role in technological standardization of next-generation DVDs.

Japan-Korea economic integration also includes foreign direct investment (FDI). Japanese firms' investments in Korea tripled to \$1.75 billion in the first three quarters this year, an increase of 290 percent from the same period last year. Japan's overall share of total FDI in South Korea also increased to 20.8 percent in the first three quarters of 2004, up from 9.7 percent in the same period last year. Most of this FDI has been focused on the electronics industry. For example, Gyeonggi Gov. Sohn Hak-gyu (where Samsung Electronics and LG Electronics plan to build liquid crystal display (LCD) plants) said Nov. 17 that Japanese companies had pledged to invest \$456 million, or 503.8 billion won in the province next year. Among 56 foreign companies that invest in Gyeonggi Province, 26 are Japanese. Japanese companies are also investing in Asan, South Chungcheong Province, and Paju.

In a related move, December saw the creation of a joint South Korea-Japan investment fund. The South Korean Small Medium Business Administration announced that it will partner with JAFCO Asia, a Japanese capital investment company, to form a \$50 million investment fund. The fund will invest in small – and medium-size – Korean businesses. JAFCO will provide 80 percent of the capital, while the Korea Trade-Investment Promotion Agency (KOTRA) will provide 20 percent.

South Korea and Japan also continue to move forward on their plans for a FTA. At the December summit, Roh and Koizumi pledged to pursue an accord on an FTA by the end of 2005. This would be a significant move in Northeast Asia, especially in light of other recent actions. It is worth noting that South Korea has been unsuccessful in its attempts to conclude an FTA with the United States, while Japan recently concluded an FTA agreement with Singapore in 2003. Although clearly in the initial stages, it is possible that the underlying trends in the region are leading away from the U.S. and toward a more regional focus.

Political and Cultural Relations

While South Korean and Japanese political and cultural relations continue to evolve, in some ways they remain depressingly familiar. On the one hand, a recent Japanese fad has become a genuine cultural phenomenon that symbolizes Japanese interest in, and changing attitudes toward, Korea. In addition, Japanese government officials for the first time publicly apologized for the sex slaves of World War II. On the other hand, Japan's high court dismissed a lawsuit by those same sex slaves, and predictably, a controversy over Japanese educational textbooks has erupted once again.

“Hanryu,” or “the Korean Wave,” has swept over Japan, and products and services emphasizing the Korean language are popping up continuously in Japan, and Korean products such as *kimchi*, *soju*, and *k’ochu* are all becoming common products in Japanese stores. The craze has been driven by the popularity of a Korean drama shown on Japanese television, “Winter Sonata.” In particular, its hunky male lead, Bae Yong-jun, has become very popular with Japanese women, who call him “Yon-sama.” *Chosun Ilbo* reported that during a December public appearance in Japan, Japanese women followed Yon-sama everywhere, even jumping on his car at one point. Bae’s co-star Choi Ji-woo is also becoming popular with her follow-up drama “Stairway to Heaven.”

So large is the craze that Sumitomo Mitsui Banking Corp affiliate SMBC Consulting, which lists the year’s top products in early December, listed “Korean products, including ‘Winter Sonata’ ” at the top of this year’s list. A survey on Japanese feelings toward their Asian neighbors showed that more Japanese than ever feel favorably inclined toward Korea. A Cabinet Office survey of 2,000 adults showed that the percentage of respondents who said they felt a sense of affinity toward Korea rose by 1.7 percentage points to 56.7 percent from last year, the highest level since the survey was first carried out in 1978.

At their December summit meeting, Koizumi told Roh that the Japanese government is planning to allow ROK tourists to enter Japan without visas by autumn next year. In return, Roh said that the ROK would extend until the end of next year the period in which Japanese nationals who visit Korea for a short-term tour can do so without requiring a visa. They also agreed to double the number of flights between Kimpo and Haneda airports. These measures have already led to increased visits between the two nations. The annual number of passengers on ferries between Pusan and Japanese cities is forecast to exceed 1 million this year for the first time since 1978, when the port city opened its international passenger terminal.

Yet not all is kimchi and sushi. On the other hand, a damage suit against the Japanese government, brought by 35 former sex slaves or soldiers, was rejected Nov. 29 after a 13-year trial. Japan’s Supreme Court upheld the lower court rulings, saying that damages done during World War II are matters beyond the expectations of the Constitution, and compensation should be considered in the context of policy.

Despite the legal setback, on Dec. 3 Japanese Chief Cabinet Secretary Hosoda apologized to former sex slaves for Japan’s sexual violence against them during World War II. At a meeting with former sex slaves Yi Yongsu, 75, from South Korea and Beatriz Tuazon, 74, from the Philippines, the top government spokesman said, “I apologize from the bottom of my heart for disgracing the dignity of women during the war.” It was reportedly the first time a Japanese chief Cabinet secretary had met former sex slaves.

And, once again, a controversy erupted over Japanese textbooks. In late November, Japanese Education Minister Nakayama Nariaki said that history textbooks used in secondary schools contain passages that are extremely self-torturing and suggest Japan has done nothing but bad things. Nakayama said, “Every country’s history has light and

shadow. While we must reflect on bad deeds, we must not conduct education on the basis of a self-torturing historical perspective that everything that has been done was bad. It is very desirable that Japanese textbooks have reduced their use of expressions such as 'comfort women' or 'forced,' and Japan must stop being cruel to itself." Deputy Chief Cabinet Secretary Abe Shinzo, a strong candidate to be the next prime minister, also argued on the same day that Prime Minister Koizumi and following prime ministers should continue Yasukuni Shrine visits. After the predictable firestorm of protest from Korea and China, Nakayama was forced to apologize for his statements, saying Nov. 30 that he regrets his inappropriate statement on the issue.

At the official level, however, the two governments continue to move forward on repairing the troubled historical relations between the two countries. Regarding the history issue, at the summit meeting in December, the foreign ministers of Japan and South Korea agreed to work together to narrow the lingering perception gap over Japan's colonial rule of the Korean Peninsula. Japanese Foreign Minister Machimura told ROK Foreign Minister Ban Ki-moon he believes 2005 will be an important year for bilateral relations as it is both the 40th anniversary of the normalization of diplomatic ties and the 60th anniversary of the end of World War II. Ban referred to Roh's hope expressed in his talks with Koizumi that Japan deal with the history issue on its own initiative and specifically sought the continuance of the joint history study being conducted by the two countries.

All in all, Japan-South Korea relations showed movement but no dramatic change. Even the defense program guidelines had less reverberations than some analysts had feared. A South Korea-Japan FTA could auger a major change in the relations of the region. And while Japan and South Korea may yet diverge on the issue of sanctions against North Korea, such a decision remains in the future.

Chronology of Japan-Korea Relations October-December 2004

Oct. 3, 2004: DPRK *Central News Agency* criticizes Japan for pursuing a permanent seat at the UN Security Council, claiming that Japan attempts to cover up its past crimes.

Oct. 4, 2004: *Mainichi Shimbun* poll reveals that as many as 66 percent of the Japanese public are in favor of imposing economic sanctions on DPRK.

Oct. 6, 2004: Japanese ruling LDP decides to appoint a team to consider the possibility of economic sanctions on DPRK.

Oct. 6, 2004: Japanese Chief Cabinet Secretary Hosoda Hiroyuki says he will consider referring the DPRK nuclear problem to the UN Security Council if the Six-Party Talks do not find their way out of the current stalemate.

Oct. 8, 2004: Embassy of ROK to Japan submits a report to the ROK National Assembly that says Japan possesses over 40 tons of plutonium. ROK Rep. Hong criticizes Japan for being concerned about ROK plutonium extraction experiments when Japan can make 540 nuclear warheads with that much plutonium.

Oct. 9, 2004: PM Koizumi says he prefers dialogue with the DPRK to economic sanctions.

Oct. 12, 2004: Deputy Secretary of State Richard Armitage and Japanese Vice FM Takeuchi Yukio reconfirm that the Six-Party Talks are the best way to resolve the crisis over DPRK's nuclear ambitions, and DPRK must return to the talks without conditions.

Oct. 14, 2004: PM Koizumi emphasizes the importance of seeking the understanding of PRC and other Asian neighbors to become a member of the UN Security Council in a speech at the Diet.

Oct. 19, 2004: Japanese FM Machimura Nobutaka welcomes the North Korean Human Rights Act in relations to the abduction issue of Japanese and ROK citizens. ROK Unification Minister Chung Dong-Young reaffirmed its government's "silent diplomacy" toward human rights issues in the DPRK.

Oct. 19, 2004: *Kyodo News* reports that Japanese ruling LDP simulation team decided to come up with a plan to impose economic sanctions on DPRK.

Oct 20, 2004: *Yonhap* reports that DPRK *Korean Central TV Broadcasting Station* accused Japan for taking part in the U.S.-led PSI interdiction exercise as "violating the spirit of the bilateral declaration."

Oct. 25, 2004: ROK ruling Uri Party chairman Lee Bu-Young arrives in Japan on a four-day visit to discuss the Six-Party Talks and a free trade agreement with Japan.

Oct. 25-27, 2004: Japan hosts PSI naval interdiction drill with ships and nearly 900 troops from the U.S., France, and Australia and observers from 18 other countries.

Oct. 28, 2004: ROK ruling Uri Party chairman Lee urges PM Koizumi to expedite negotiations to normalize relations with DPRK. Lee, meeting with DPJ President Okada Katsuya, cautions Japan about economic sanctions against DPRK.

Nov. 1, 2004: *Kyodo News* reports that Japan and DPRK will hold the third round of working-level talks over the abduction issue Nov. 9-12.

Nov. 13, 2004: ROK President Roh and Foreign Affairs and Trade Minister Ban Ki-Moon and Japanese FM Machimura agree to work on resuming the Six-Party Talks.

Nov. 15, 2004: PM Koizumi expresses "dissatisfaction" over the results of the delegation to DPRK that has investigated the fate of the abductees.

Nov. 17, 2004: *Agence France-Presse* reports that PM Koizumi intends to continue humanitarian food aid to the DPRK despite the debate over the abduction issue.

Nov. 18, 2004: *Korea Times* reports that the Japanese government promised to support the ROK at the IAEA with regard to ROK past nuclear experiments.

Nov. 20, 2004: Abe Shinzo, acting secretary general of Japan's LDP, says that Japan should consider the possibility that a regime change in DPRK will occur.

Nov. 29, 2004: Japan's supreme court dismisses suit by South Korean war victims.

Dec. 1, 2004: *Yomiuri Shimbun* reports that South Korean visitors may enter Japan without visas starting 2005.

Dec. 3, 2004: Chief Cabinet Secretary Hosoda apologizes to former Korean sex slaves for Japan's sexual violence against them during World War II.

Dec. 7, 2004: *Kyodo News* reports that PM Koizumi stressed the importance of normalizing diplomatic ties between Japan and the DPRK despite the abduction issue.

Dec. 8, 2004: DNA testing shows that the remains given to Japan by the DPRK are not those of a kidnapped Japanese national.

Dec. 8, 2004: *Asahi Shimbun* reports that 79 ROK lawmakers submitted a resolution to Parliament requesting that PM Koizumi suspend his visits to Yasukuni Shrine.

Dec. 9, 2004: *Chosun Ilbo* reports that Japanese government has suspended aid to DPRK.

Dec. 10, 2004: Japanese Cabinet approves new defense guidelines, naming DPRK and China as security concerns.

Dec. 10, 2004: Japanese Diet adopts resolution recommending Japan consider imposing economic sanctions on North Korea for failing to provide false information on abductees.

Dec. 14, 2004: ROK and Japan sign customs pact to cooperate against drugs and arms trafficking.

Dec. 14, 2004: Samsung and Sony sign cross-licensing agreement to share patents.

Dec. 15, 2004: ROK Minister of Foreign Affairs and Trade Ban urges Japan to carefully consider the possible negative effect of economic sanctions against DPRK.

Dec. 17, 2004: *Kyodo News* reports that at the summit between Roh and Koizumi, Roh urges cautious on sanctions, and both agree to study history issues

China-Russia Relations: End of History? What's Next?

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More than 300 years of territorial/border disputes between Russia and China came to an end in the fourth quarter with the signing of the Supplementary Agreement on the Eastern Section of the China-Russia Boundary Line of their 4,300-kilometer border. At year's end, Taiwan's Russia-born former first lady (1978-88) Faina (Epatcheva Vakhreva) Chiang died at the age of 88, ending the final Russian/Soviet touch on China's turbulent 20th century.

Life after "history," however, continued with both strategic cooperation and competition throughout their bilateral relationship. The quarter saw Russian President Putin's third official visit to China, which was accompanied by record bilateral trade (\$20 billion in 2004) and fresh momentum in military-military relations (a joint military exercise in 2005 and upgrading Russian military transactions to China). But what really ended on the last day of the year was Russia's indecision regarding an oil pipeline to China. On Dec. 31, Russia's prime minister approved a draft resolution submitted by the Russian Industry and Energy Ministry to build an oil pipeline from Taishet in East Siberia to the Perevoznaya Bay in the Pacific Primorsk region, without a word about China nor a branch to Daching.

Putin's Third Visit to China: Ending the Past

In mid-October, President Putin conducted a three-day state visit to Beijing and Xian. His third official visit to China occurred at the 55th anniversary of China-Soviet/Russian diplomatic relations and in the midst of a much publicized Year of Friendship between Russian and Chinese young people.

Much of the attention at the summit was given to the signing of the border agreement. It finalized, after 40 years of hard negotiations, the 4,300-kilometer-long border between the two largest powers on the Eurasian continent. China and Russia signed border agreements in 1991 and 1994, delimiting the eastern and western sections of their boundary line, leaving only two parcels of land in the eastern section to be resolved. This time, the two disputed islands – Heixiazi Island (Bol'shoi Ussuriiskiy Island in Russia) and the adjoining Yinlong Island (Tarabarov) at the confluence of the Heilongjiang (Amur) and Ussuri rivers – were settled in a 50/50 manner. These islands have an area of

350 sq. km, 500 times the size of Zhenbao (Damansky) Island (0.7 sq. km), over which the two nations fought a bloody skirmish in 1969.

The Heixiazi Island has been under Russian jurisdiction since 1925. The demarcation of borders – aerial photos of the regions and surveys of the water depth – will take at least three years.

The two heads of state also participated in the signing of 13 other documents, including a joint communiqué, a Joint Declaration and a Russian-Chinese Action Plan for 2005-2008, a protocol on completing talks on Russia's accession to the World Trade Organization (WTO), and other accords on banking, energy cooperation, anti-drug, etc.

Hu Jintao: Forward Looking

Largely because of the breakthrough in, or disappearance of, the border issue, Putin described his talks with Hu Jintao as “a summit of breakthrough decisions.” The joint communiqué, however, casts a less glowing light on the agreement calling it “a political win-win, balanced, and reasonable solution” for the two sides. For his part, President Hu seemed to be more concerned about post-settlement bilateral ties. He spelled out during his talks with Putin “four principles” for China-Russian relations:

(1) to insist on mutual respect, equal treatment, mutual support, and continuously strengthen political mutual trust. Both sides should respect each other's stance and domestic and foreign policies on issues concerning state sovereignty and territorial integrity.

(2) to insist on complementarity and mutual benefits and to seek common development from a long-term perspective. The two sides should give full play to the present bilateral cooperation mechanism, deepen the further development of bilateral trade and investment cooperation, and speed up cooperation in such fields as large energy projects and high technology, as well as cooperation between localities of the two countries.

(3) to insist on coordination, mutual trust, and enhanced cooperation to jointly create a sound international environment. The two sides should continue to take measures in different ways to enhance bilateral communication and coordination in major international and regional affairs, support multilateralism and the United Nations' important role in international affairs, and push forward the establishment of a just and rational new international political and economic order.

(4) to learn from each other's strong points and expand exchanges to lay a solid social foundation for the bilateral friendship from generation to generation. The two sides should expand cultural cooperation and social exchanges to deepen the traditional friendship between the two peoples.

Much of this was already covered in the joint communiqué and the Action Plan (for 2005-08). A consistent theme of these restated principles, however, is the concept of “mutual,” which runs through three out of the four items. The term expressed China's

desire for more reciprocity from Russia. The package of papers signed in Beijing, including the border and WTO accords, very much favored Russia, considering its position of relative weakness. Meanwhile, the energy-thirsty China still had to wait for Russia's end-of-the-year decision for the long anticipated, but gradually fading dream of an oil pipeline from Russia's Siberia to China's northeastern provinces.

While Russia's indecision on the energy issue may also contribute to the less glowing reception for Putin in China, Hu's more straight forward and formality-evading approach was also a factor. Unlike Jiang Zemin, who was known for his polished style and desire for publicity, Hu and Premier Wen Jiabao are men of substance. Once the summit talks were done, none of China's top leaders accompanied Putin on his visit to Xian, China's ancient capital city where the first emperor was buried with hundreds of life-sized terra-cotta warriors for more than 2,000 years. China's media and public, too, were more cautious and less enthusiastic than in the past, when they extolled the idiosyncracies of "Putin the Great." Now they cared more about the substance of his policies.

For Chinese leaders, the real issue was Russia's commitment to, as well as its ability to implement, the letter and spirit of the accords signed by the two governments. Hu seemed less tolerant of the perceived gap between words and deeds in bilateral relations. For this, China's official media headlined Hu's urge, in his mini-summit with Putin during the annual APEC meeting in late November, that Russia and China "should materialize their consensus." Hu's urge was accompanied by another set of "four points": maintain high-level contact; seriously implement agreements, with special consultations if necessary; increase efficiency in bilateral cooperation toward certain breakthroughs; and strengthen communication and consultation in world affairs.

Economics: What is to be Done?

If the final resolution of the border issue was for the past, business was meant for the future. Ironically, bilateral economic ties have been far less satisfying than their high-level of political trust and strategic coordination. In contrast, China's economic relations with the U.S. and Japan surged, while political and strategic trust was minimal or in negative territory.

After several years of 20-30 percent annual growth, bilateral trade has become essential for both sides. Bilateral trade hit a record high of \$20 billion in 2004. China is the fourth largest trade partner of Russia and Russia is China's eighth largest. However, despite both sides' repeated intentions to promote business relations, dissatisfaction and even frustration over economic relations has resulted in part because of the structure of bilateral trade. With the exception of military sales, China's imports from Russia consisted mainly of natural resources and raw materials. The proportion of these products was increasing while that of mechanical and electrical products decreased. China mainly sold Russia household commodities, such as textiles, clothes, shoes and home electrical appliances, which accounted for over 70 percent of total exports.

Another, perhaps more serious, hurdle in the economic area was that of “loud thunder and little rain,” which was strongly felt by the Chinese side, particularly over the energy issue. Even the Russians realized the seriousness of this problem. Senior Kremlin aide Sergei Prikhodko indicated that both sides “have felt a certain discomfort with the fact that serious decisions made at a high political level have failed to lead to raising the growth of merchandise turnover, and in broad terms, to deepening economic cooperation in all fields.” After his summit talks with Chinese leaders, Putin, too, called on Russian and Chinese regional leaders to “restrain” their bureaucracies. And he regretted that “much time and effort are wasted on coordination of projects. The Chinese chairman and I want to bring our cooperation to a level that will not require any coordination. I hope such time will come.”

It was unclear how this problem of procrastination by bureaucracies could be resolved without bureaucracies, as bureaucrats have been the main actors for both nations over the centuries. The Russian president brought with him to Beijing a team of heavyweight officials and businessmen including all the governors of Russian regions bordering China, CEOs from Russia’s gigantic Gazprom gas company, Russky Aluminium Company, Vneshtorgbank, Sberbank, Vneshekonombank, and head of the Federal Customs Service.

The outcome of the Beijing summit, however, was mixed. Putin apparently held “an absolutely frank” discussion with Hu over the issue of oil. “We have to be driven by our own national interests,” declared Putin to Chinese reporters before leaving for Beijing. Despite Putin’s “early warning,” the Chinese side, however, simply refused to give up hope. Partly this was because some Russia officials still dangled the issue before, during, and after the Beijing talks. One tantalizing factor was Russia’s plans for developing the Skovorodino field, which is only 70 km from the Russian-Chinese border. While in Beijing with President Putin, Russia’s Minister of Economic Development and Trade German Gref still talked about “a branch line to Daqing” from the Taishet-Nakhodka (Siberia to Pacific coast) line. So did Russian trade envoy in China Sergei Tsyplakov, who said in late October that the construction of the China pipeline was “still on the agenda” though it was “too early to speak about specific dates and routes.” On Nov. 10, Russian Natural Resources Minister Yuriy Trutnev held talks with Chinese Ambassador to Russia Lu Guchan regarding cooperation in developing energy resources in Siberia.

Despite all the talk, the Beijing summit yielded no paper for signing regarding the Russian oil pipeline to China. The Russian side did promise to speed up oil exports to China by rail. During the fourth quarter, the China National Petroleum Corporation (CNPC) filed a lawsuit against Russia’s Yukos, which stopped delivery of crude oil to China in September even after the CNPC paid the Russian rail company with its own cash to avoid interruptions. Yukos was due to deliver 3.86 million tons of crude oil to CNPC in 2004, but only 2.85 million tons were sent. Negotiations on the resumption of crude deliveries failed, and the CNPC had to turn to the courts. It was not until early December when supplies of oil to China by rail were fully restored.

A ray of hope came through during the October Beijing summit when Russian gas giant Gazprom signed an agreement on strategic cooperation with the China National Oil and Gas Corporation. The document, however, was one of intent, or “envisions” working toward supplying gas to China without any binding effect. Nor did it have any specific timetable. The only specific item decided was agreement to set up a coordinating committee to hold talks twice a year, starting from November 2004, to conduct the necessary work on resolving timing, volume, destination, pricing, and other issues.

The most visible progress made in Beijing was in the banking area, as Russia’s Vneshtorgbank reached an agreement with the Agriculture Bank of China to draw a \$200 million 10-year credit line for the purpose of promoting the delivery of Chinese durable commodities to Russia. Another banking agreement was between Vnesheconombank, Rosximbank, the Chinese State Bank, and the China State Export Credit Insurance Corporation to finance Russia’s export of machine and technical products to third nations. The banking agreement, however, appeared to serve as an alternative for Russian inability to export its machinery to China.

The summit did not end without innovative ideas for promoting mutual investment. This included China’s proposal to invest \$1 billion in the construction of a highway between Moscow and St. Petersburg and a \$350-million construction project in Moscow. A group of Shanghai companies later decided to invest \$1.25 billion in a 83-hectare complex in St. Petersburg. President Putin, in turn, urged China to enlist Russia’s regions bordering China to participate in China’s development of its western regions, including the Qinghai-Tibet railway, hydroelectric power stations in Sichuan and Yunnan Provinces, and infrastructure, oil, gas, and energy projects in western China. All of them looked and sounded great, at least for the time being.

Toward the end of the year, the mixed prospects for bilateral economic ties continued with two developments balancing one another. One was Russia’s official decision to build the Taishet-Perevoznaya Bay (Pacific/Japan) oil pipeline, without any specific mention of a branch to China. The other development was the purchase on Dec. 19 of Yuganskneftegas, Yukos’ largest production subsidiary (60 percent of Yukos oil output), by the mysterious Baikal Finans Group, which quickly transferred its 76.79 percent of Yuganskneftegas’ share (worth \$9.37 billion at the auction) to the state-run Gazprom on Dec. 22. A day before this final transaction, President Putin, while on a state visit to Germany, indicated that China’s oil giant CNPC, which signed a strategic cooperation deal with Gazprom in October in Beijing, could participate in managing the historic merger of Yuganskneftegas with Gazprom. There was a secret meeting between Gazprom CEO Alexei Miller and head of the CNPC Cheng Geng on Dec. 17 in Moscow. Putin’s offer was unprecedented in that several times in the past few years Chinese oil/gas firms were barred from buying stakes in the Russian energy market.

The opportunity to join the “Yukos feast,” however, occurred against the backdrop of the ruling of a U.S. federal bankruptcy court in Houston to block the participation of lenders and Gazprom. It is unclear whether this collaboration means Russia is changing the orientation of its oil policy from favoring European partners to favoring those of Asian

nations. The timing of the China “entrance,” however, appears to have more political and strategic significance than business implications. On the eve of Russia’s final decision to opt for the Pacific line, Russia’s industry and energy minister sweetened the deal by offering up to 20 percent of the new state company consisting of Gazprom and Rosneft.

The CNPC has yet to officially respond to the offer, which appears too good and too soon to be true, considering Russia’s record of discriminating against Chinese oil firms. The Russian offer is also conditioned on China allowing Russian firms to buy CNPC assets in third countries and in China itself. At a strategic and long-term level, however, the Chinese are still digesting a seemingly incomprehensible fact: how come the Russians, who are strategic partners with China, would opt for a strategic deal with a nation (Japan) with which it has not yet signed a peace treaty and with which it has many territorial disputes (Northern Islands). And all this happened after the historic ending of the territorial/border disputes, which had brought so much anguish to the two large nations. Already some Chinese analysts are asking how long China-Russia strategic cooperation will last.

One Step Forward, Many Distractions

While China-Russia relations were hailed by both sides as reaching an “unprecedented high level,” two developments, both initiated by Russia, harmed bilateral relations. One was the guilty verdict on Nov. 5 in the case of Russian physicist Valentin Danilov, who was accused of spying for China and embezzlement in early 2001. The verdict of the jury was final and not open to appeal.

The same day, Russian officials tried to convince China that the case “will not affect the further development of cooperation between the scientists of Russia and China,” said Viktor Godin, senior secretary of the Russian side of the scientific and technical cooperation subcommission of the Russian-Chinese commission for preparing regular prime ministerial meetings. Since 1992, Russia and China have cooperated in 172 joint science and technology projects including areas of biotechnology, genetic engineering, ecology, energy-saving technology, and particularly in the field of industrial chemistry.

The Danilov case was clearly an effort to discipline scientists and recentralize various projects in the hands of the government. “After this case Russian scientists will take a more responsible attitude to the information which they possess,” said Godin. It happened that Russia’s Federal Security Service identified in 2004 the United States, China, and North Korea as conducting the most active intelligence operations in Russia. On Dec. 30, four Russian servicemen were sentenced for passing to China “state secrets,” involving classified instructions, blueprints, and also certain parts of the Russian *Sukhoi* fighters and missiles.

In the fourth quarter the Dalai Lama, the Tibetan spiritual leader in exile, was allowed to travel to Russia Nov. 29-Dec. 1, despite Russian promises and treaty commitments, including the joint communiqué signed during Putin’s visit to China in October, to respect China’s sovereignty and go against “separatist” movements (Taiwan and Tibet).

The decision to grant the Dalai Lama a visa to Russia was first toyed with by Russian Foreign Ministry spokesman Mikhail Troyansky on Nov. 5. Although the Russia side denied many times that the visit indicated any change in its policies toward China and Tibet, China did not agree and apparently made a strong effort to block the trip. The visit was originally set for Nov. 13-17. On Nov. 9, however, the Russian side denied that it had ever issued a visa to the Dalai Lama. This retraction occurred a day after Chinese FM Li Zhaoxing telephoned his Russian counterpart Sergey Lavrov. On Nov. 12, Lavrov declared that his government was “ready to consider the Dalai Lama’s request to visit Russia only if this trip is of an exclusively religious nature.”

The Dalai Lama eventually traveled to Russia Nov. 29, but only after another round of tense exchanges between Russia and China. On Nov. 20, Hu and Putin met in Chile during the APEC Leaders Summit. There was very little disclosed about the mini-summit. The Russian side, however, seemed hesitant, as well as frustrated, in proceeding with a visa for the Dalai Lama. On Nov. 26, FM spokesman Alexander Yakovenko stated that no definitive decision had been made on whether the Dalai Lama would be issued a visa, or on when his visit to Russia would take place. “Unnecessary fuss [emphasis added] is being made about the Dalai Lama’s possible visit to Kalmykia, which causes one to doubt if it is of a purely pastoral nature. For this reason, the issue of the dates of the visit and of whether he will be issued a visa remains open,” Yakovenko told reporters.

Yakovenko’s strong statement was reciprocated the following day by FM Li when Li was having an ad hoc meeting with Foreign Minister Lavrov during the ASEAN summit in Laos. Li reiterated to Lavrov that China did not approve of countries allowing visits by the Dalai Lama. “We are against any country having official relations with him,” said Li, repeating accusations that the religious leader was a separatist. The Li-Lavrov meeting occurred when the Dalai Lama was already in Russia. China nonetheless continued to express its displeasure. “We can’t understand why Russia would allow the Dalai Lama to visit the Kalmykia republic,” Foreign Ministry spokeswoman Zhang Qiyue said. “It should be said that Russia should have understood China’s views on this matter,” and China was “dumbfounded” by Russia’s decision.

Military-Military Relations: Greener Pastures

It is unclear if the Dalai Lama case would cast a lasting shadow in bilateral relations. Beijing, however, apparently decided not to let it spill over into other areas of bilateral relations, particularly in the area of military-military exchanges. Indeed, China may have to swallow the Dalai Lama “pill” for the sake of keeping Russia on its side to counter a more dangerous separatist movement across the Taiwan Strait. As a result, the Dalai Lama case occurred at a time of new momentum in military relations with Russia, including confidence building, joint military exercises, and military sales and technology transfers. In the previous three years, China and Russia signed a total of \$5 billion for *Su-30MKK* fighter jets, diesel-electric submarines, destroyers, *S-300PMU-2* air defense missile systems, *S-300F* ship-based air defense systems, and 250 *AL-31FN* aircraft engines for China’s *J-10* fighters. Although Russia’s arms exports to China are of inferior technology to that sent to India, about 50 percent of Russian arms exports these days go

to China. On Oct. 21, the first of the five *Kilo*-class submarines was handed over to the Chinese Navy. In the Airshow China '04 in Zhuhai Nov. 1-7, the impressive performance of the *Su-27SKM* heavy fighter-bomber – which exceeds China's 105 license-assembled *Su-27SK* by 50 percent in its combat effectiveness – tempted the Chinese air force to upgrade.

By the time of Russian Defense Minister Sergei Ivanov's official visit to China Dec. 12-15, the burgeoning mil-mil relationship received an extra, albeit psychological, boost from Europe's possible lifting of its arms embargo against China. (This did not occur.) Ivanov's activities in Beijing were "extremely productive and busy." In addition to participating in the 11th session of the inter-governmental commission for military cooperation, Ivanov and his counterpart Cao Ganchuan "... discussed practically all aspects of relations in the military sphere, as well as security in the Asia-Pacific region, problems associated with the fight against terrorism, and nonproliferation of weapons of mass destruction." The two sides apparently really meant business with "a record for the number of meetings held and issues discussed." During the four rounds of negotiations beside the regular session, both aides and larger delegations were involved in discussions on various issues, according to Ivanov and Cao.

A long-term agreement was signed for bilateral military and technical cooperation for the period 2005-2010. While various military cooperation items were not disclosed, China and Russia decided to conduct the first-ever joint military exercise in the second half of 2005 in China's northeastern provinces. The exercises will involve various services of both armies, including the possibility of Russia's strategic bombers and nuclear submarines.

The Russian defense minister also met with President Hu, who spoke highly of relations between the two countries and the two armies, and cooperation that "has been pragmatic, profound and fruitful and reached an unprecedented high level in various fields."

The new impetus for the China-Russia mil-mil relationship came when the strategic space of both China and Russia was squeezed (Taiwan for China and Ukraine for Russia). In 2004 Russia and the U.S. conducted large-scale military exercises; Russia's "Security-2004" in February was the largest drill since 1982 and the U.S.' "Summer Pulse 2004" between June and August involved 150,000 troops, 600 warplanes, and more than 50 warships, including seven out of a total 12 aircraft carriers. Toward the end of the year, the Washington-Tokyo-Taipei axis, formal or informal, was hardening, and the Beijing-Moscow-New Delhi connection seems to be going beyond the level of brainstorming when Putin espoused, again, the importance of interaction among Russia, India, and China.

The "fault lines" between Eurasia's continental powers and Pacific maritime powers are yet to be fully visible, given the fact that none of the continental powers is willing to trade its own relationship with the world's most powerful military-economy entity (U.S.-Japan) for closer ties with other second-class powers. Nonetheless, Moscow proposed that the next trilateral foreign ministerial talks between Russia, India, and China be held

in Vladivostok in April 2005. This will be followed by the joint China-Russian military exercises in China's Manchuria bordering Korea, though both sides denied that the drills aim at any third party. It, nonetheless, will be a timely balancing act for the potentially fluid situation in Northeast Asia.

While the "history" of rivalries over territories and borders is over for Russia and China, a new round that balances geoeconomics and geostrategics between Moscow and Beijing is just unfolding in northeast, central, and south Asia as well as across various issue areas.

Chronology of China-Russia Relations October-December 2004

Sept. 28-Oct. 3, 2004: Official cultural delegation from Tibetan Autonomous Region, led by Deputy Gov. Baimachilin, visits Russia with stopovers in Moscow and the Buddhist republic Kalmykia.

Oct. 1, 2004: Russian President Putin sends letter to Chinese President Hu Jintao congratulating him on the 55th anniversary of the PRC's founding and the establishment of diplomatic relations between the two countries. Hu reciprocated with his message to Putin the next day. Russian and Chinese parliamentary leaders and premiers also exchanged greetings.

Oct. 11, 2004: The 2nd Russian-Chinese business conference held in Beijing. A framework agreement on cooperation in tourism, education and the services sector was signed.

Oct. 14-16, 2004: President Putin pays a state visit to China and holds separate talks with President Hu, National People's Congress Chairman Wu Bangguo, and Premier Wen. Fourteen documents were signed including a border agreement to settle the 300-plus years of border/territorial disputes, a protocol on Russia's entry into the WTO, a Joint Action Plan for 2005-2008, and a joint communiqué.

Oct. 15, 2004: First meeting of the Russian-Chinese Business Council held in Beijing, following the signing of the agreement on its establishment by co-chairmen of the Russian-Chinese Committee of Friendship, Peace and Development Leonid Drachevsky and China Council for the Promotion of International Trading (CCPIT) Wan Jifei. The meeting sets up 13 working groups in charge of basic lines of cooperation, including one for resolving business disputes.

Oct. 19-29, 2004: The Joint Supervision Group on disarmament consisting of China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan, all members of the Shanghai Cooperation Organization (SCO), hold its 11th meeting in China. Since 1999, the group has met twice a year to supervise and implement an agreement on the reduction of military forces and confidence building along China's 7,000-km-long border.

Oct. 20, 2004: China asks Russia for assistance in the construction of the fourth stage of the uranium enrichment plant in Lanzhou in Gansu Province, according to acting head of Russia's Federal Service for Ecological, Technological and Atomic Monitoring, Andrey Malyshev. In 1992, Russia and China signed a contract to build the plant, with the first three stages launched in 1998, 2000, and 2001.

Oct. 30-Nov. 6, 2004: Maj. Gen. Sergei Bunin, chief of staff of the Russian Interior Ministry Force (RIMF), leads a RIMF delegation to three cities in China (Beijing, Shanghai, and Guilin).

Nov. 4, 2004: A jury in Russia's Krasnoyarsk (Territorial) court finds physicist Valentin Danilov guilty of spying for China and embezzlement. The verdict is final and not open to appeal.

Nov. 8, 2004: Foreign Ministers Sergey Lavrov and Li Zhaoxing discuss Russian-Chinese relations on the telephone; topics included implementation of agreements reached at the Russian-Chinese summit in October 2004, and the Iranian nuclear issue.

Nov. 10, 2004: Wang Jiarui, head of the Chinese Communist Party Liaison Department, starts visit to Russia at the invitation of the United Russia Party.

Nov. 20, 2004: President Putin holds a working meeting in Chile with President Hu during the 12th annual APEC meeting.

Nov. 29, 2004: FM Li and Russian counterpart Sergey Lavrov hold talks in Vientiane, Laos during the eighth summit between ASEAN and China. They discuss Iraq and SCO.

Nov. 29-Dec. 1, 2004: Dalai Lama visits Russia, the first time since 1992. In 1996, he passed through Russia on his way to Mongolia.

Dec. 4, 2004: Three Chinese citizens – naval officers and Kuznetsov Military Naval Academy students – are attacked by eight Russian hooligans in St. Petersburg. Local police detain two.

Dec. 8, 2004: Representatives of the financial intelligence agencies of Russia, China, Tajikistan, Belarus, Kazakhstan, and Kyrgyzstan meet in Moscow for the first session of the Eurasian group for counteracting money laundering and the funding of terrorism (EAG). The EAG's key objectives are countering money laundering and the funding of terrorism. Observers include the UK, the U.S., Georgia, Italy, Uzbekistan, Ukraine, France, World Bank, IMF, the CIS, SCO, the Collective Security Treaty Organization, the Eurasian Economic Community, Interpol, and the UN office on drugs and crime.

Dec. 10, 2004: SCO anti-drug agencies met in Dushanbe, Tajikistan, to coordinate efforts against narcotics and psychotropic substances.

Dec. 12-15, 2004: Russian DM Ivanov visits Beijing to attend the 11th session of the bilateral intergovernmental commission on military-technical cooperation. The two sides work out details on 2005 joint military exercises and sign document on military-technology cooperation for five years. Ivanov meets Chinese Defense Minister Col. Gen. Cao Gangchuan and Deputy Chairman of the Central Military Council Col. Gen. Guo Boxiong and on Dec. 13, meets President Hu, who states that China-Russia strategic coordination “has attained an unprecedentedly high level.”

Dec. 15, 2004: Faina (Epatcheva Vahaleva) Chiang, the Russian-born widow of the late Taiwan President Chiang Ching-kuo (1978-1988), dies in Taipei at 88. She met Chiang at the Ural Heavy Machinery Plant in Siberia where Stalin exiled the young Chiang to work after his father, Generalissimo Chiang Kai-shek, purged leftists from China’s Nationalist Party in the late 1920s.

Dec. 31, 2004: Russian government gives long-awaited approval for a major oil pipeline to the Pacific, enabling exports to Japan and the U.S., and finally dropping the idea of a route to China.

**India-East Asia Relations:
2004: A Year of Living Actively**

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Three broad features characterized India-East Asia relations in 2004. First, India-Pakistan relations improved, providing India the energies and resources to pay attention to its eastern neighbors. Second, India's economy remained robust, giving India the confidence to pitch for cooperation and garnering interest from East Asian countries. Finally, a change of government in India has not derailed what now appears to be an institutionalized Indian "look east" policy. Although China remained at the forefront of India's major Asian relationships, there will be some tough sloggng in the "normalization" process. Japan-India relations also showed greater activity in 2004 but the two governments are still wary, primarily because of the nuclear issue. A new development in 2004 was the India-ROK relationship, which is moving forward after President Roh's October visit. The summit relationship with ASEAN affords India an opportunity to build bilateral ties with a number of Southeast Asian countries.

India & China Relations: Not Measuring Up

China's Premier Wen Jiabao has employed grand benchmarks in his recent assessments of India-China relations. During his November 2004 meeting with India's Prime Minister Manmohan Singh on the sidelines of the 10th ASEAN Summit, Premier Wen remarked that in their 2000 year history, bilateral ties have been "good 99.99 percent of the time" and there have been "aberrations 0.01 percent of the time." And he also stated that there were "[t]ens of thousands of reasons for enhancing cooperation" between the two countries. In fact, India-China relations in 2004 were far from meeting the "tens of thousands" threshold or narrowing differences to only 0.01 percent.

But if India-China relations did not measure up to the high standards of Premier Wen's vision, political atmospherics were friendlier than during the previous year, trade increased steadily and numerous high-level political and military exchanges occurred. The developments of 2004 suggest that the process of normalization has not been derailed and is inching forward, but that the prospect of the realities catching up to the rhetorical yardsticks remains remote.

* The views expressed in this article are those of the author and do not reflect the official policy or position of the U.S. Department of Defense, the United States Pacific Command, or of the Asia-Pacific Center for Security Studies.

India-China Border Issues: Ground Realities vs. Guiding Principles

Despite three rounds of Special Representative-level talks on bilateral border and territorial disputes in 2004 – in mid-January, late July, and mid-November – India and China reached no major settlements of the complex and contentious problem.

Basic differences in the negotiating postures of India and China remain. Although India has moved toward China's position that the border dispute should not hold up progress in other areas of bilateral relations, the pace of settlement New Delhi seeks still appears faster than that which China is willing to accept. Premier Wen reportedly told Singh during their Nov. 30 meeting on the sidelines of the 10th ASEAN Summit that "[t]o be extremely frank, resolving the border question is by no means an easy task and it calls for confidence and patience." Earlier, during his address to the Asia Cooperation Dialogue (ACD) Foreign Ministers Meeting in Qingdao in June, Premier Wen, without specifically mentioning the border dispute with India, stated that "[f]or those problems left over by history or controversial issues, we should focus on the larger picture, conduct consultation on an equal footing, and handle them properly through mutual understanding and accommodation." Both comments contrasted with much public and press speculation within India about the favorable prospects for a settlement.

Apart from their different emphases regarding the pace and context of negotiations, India's emphasis on accepting "ground realities" and China's emphasis on "guiding principles" suggests that the basis of negotiations is divergent and accordingly they will be difficult in the future. What China has in mind in terms of principles was spelled out by Premier Wen during his November meeting with Singh: "We believe that if abiding by the principle of equal consultation, mutual understanding and mutual accommodation, the two sides can find solutions to this issue through sincere negotiations." While not dismissing the relevance of these principles, Singh reportedly responded, "I agree with you. We must deal with this in the spirit of accommodation. We are willing to be accommodating but both sides have to be mindful of the ground realities." The reference to "ground realities" was interpreted in the Indian press as an effort to signal China to accept Arunachal Pradesh as part of India in return for India accepting China's de facto control over a portion of northern Kashmir. It is far from clear that these are official Indian positions, however. Currently, China claims sovereignty over a large section of Arunachal Pradesh which shares a nearly 1,000-km border with China's Tibet region, and India's position is that the northern part of Kashmir was illegally ceded to China in the course of a China-Pakistan border agreement. Whether the "ground realities" formulation can really take root, and whether it can be encompassed as part of or reconciled with Beijing's emphasis on "reaching consensus on common principles" remains to be seen. Mostly likely, long and difficult negotiations lay ahead.

However, at least one ongoing territorial issue moved gradually toward further clarification. It will be recalled (see "Delhi's Two Front Diplomacy," *Comparative Connections*, 4th Quarter 2003) that by the end of 2003 China removed Sikkim, which India considers one of its states, as an "independent country" from its official Foreign Ministry website and implicitly gave recognition to Indian sovereignty there (by agreeing

to cross-border trade), but refused to view the Sikkim issue as completely resolved. In 2004, just a day after the second round of Special Representative talks was concluded Chinese Foreign Ministry spokesman Kong Quan told reporters “The Sikkim issue is a question left over by history. During Atal Bihari Vajpayee’s visit to China, the two sides have launched a process of settling this question.” In May, for the first time, an official printed Chinese publication showed Sikkim as part of India and did not list it as an independent country. In November, Premier Wen went further saying that “We have taken our decision about Sikkim and we shall move forward in finishing it. We will gradually implement it.” Many Indians interpreted such comments as indicating China’s plans to once and for all recognize Sikkim as an Indian state – though the government of India’s official response was measured, only “taking note” of the Chinese move. In fact, despite progress on the Sikkim issue, caution is in order. China insists on framing a final settlement “gradually” while Indians are anxious for a final, unambiguous settlement. It is quite likely that China will maintain an emphasis on “gradualism” as part of an effort to link concessions with Indian behavior regarding other issues, including Tibet and the Dalai Lama.

Defense Relations: Exchanges Increase, Suspicions Linger

Defense exchanges between India and China increased in 2004. In March, Gen. Cao Gangchuan, China’s defense minister, made a five-day visit to India – the first visit in nearly a decade. One the eve of his departure for India, Cao said “I believe the exchanges between the two armies would further move ahead with the efforts of the two countries’ leaders.” Following discussions with India’s Defense Minister George Fernandes, China invited India to send army officers to observe exercises conducted by the Peoples’ Liberation Army (PLA). Another symbolic achievement was Chinese military participation in India’s Aug. 15 Independence Day celebrations at a military post that had been captured by Chinese troops during the 1962 China-India border war and then returned to India following China’s withdrawal. This exchange was reciprocated by members of the Indian Army attending China’s National Day on Oct. 1 at a small Chinese town near the common border. Another event in the bilateral military field was the first-ever joint expedition to scale a peak near Taklakot in Tibet. Prior to that, China reportedly had allowed an Indian Navy climbing team to scale Mount Everest from the Tibet side.

A five-day visit by India’s Army Chief Gen. N.C. Vij in late December continued the pattern of high-level military exchanges. Gen. Vij’s visit, the first in a decade, included talks with his PLA counterpart, Liang Guanglie, and Defense Minister Cao. According to a press report, Defense Minister Cao stated “China would like to step up its cooperation with India in the defense and security sector and advance the bilateral military ties to a higher level.” Reportedly, Gen. Vij in turn raised the possibility of Chinese military officers observing Indian exercises. These useful confidence-building exchanges notwithstanding, mutual suspicions have not fully abated. The legacy of the 1962 Border War debacle still casts a shadow over relations. More importantly, it is doubtful that military exchanges themselves will lead to any political settlements and changes in fundamental perspective required for truly amicable India-China relations.

Political and Economic Relations: Less Than Meets the Eye

Political relations between India and China in 2004 were less publicly contentious than in 2003 when there were mutual accusations of border violations and Indian complaints about China-Pakistan ties. In February, Defense Minister Fernandes, who at the time of India's 1998 nuclear tests had characterized China as "India's potential enemy number one," gave a widely reported speech focusing on areas of possible bilateral cooperation. A Chinese spokesperson responded that the "Chinese side appreciates the Indian Defense Minister's positive view of the current bilateral relationship and developing trends." A newly elected Indian government took office in May and moved swiftly to reiterate that India did not see China as an enemy. On June 20, new Defense Minister Pranab Mukherjee stated, when asked about his predecessor's remarks regarding China as an "enemy," "I don't have the luxury of using superlative language for any country. We have good relations with our neighbors." The reiteration of the "I am not your enemy and you are not my enemy" mantra that has characterized India-China relations since India's nuclear tests was especially important given Chinese uncertainty about the new Congress-led government's approach to bilateral relations. Though it should be noted that it was Rajiv Gandhi, late husband of the current government's powerbroker Sonia Gandhi, who pushed normalization forward with his 1988 visit to China.

The visit of State Councilor Tang Jiaxuan to India in October 2004 provided another opportunity to accentuate the positive in bilateral relations. In June, some months before arriving in New Delhi, in an interview with an Indian correspondent, State Councilor Tang was ambiguous about China's position regarding India's membership in an expanded UN Security Council. In that interview, he said only that "the Chinese government values India's influence and role in international and regional affairs and is willing to see a greater Indian role in the international arena, the United Nations included." But during Tang's October visit China's position appeared to have changed with Beijing now supporting "a bigger role for India in the international community, including in the United Nations Security Council." The Indian media interpreted the comment as backing India's claims for a permanent UN Security Council seat. However, it remains unclear whether China has in fact backed India's bid. No official change in policy has been announced. Beijing still reiterates a very general support for some UNSC reform and expansion and has indicated a favorable disposition toward Germany's membership and opposition to Japan, but little about India. For its part, during the Tang Jiaxuan visit, India reiterated that it would not allow the Dalai Lama to engage in political activity in India and would not alter its "one China" policy. In essence, for all the speculation and fanfare, neither country offered concrete or positive changes in policy.

Discussions during the Tang visit also covered ways in which economic relations could be expanded further including through a possible free trade-type arrangement. Indeed, an especially bright spot in bilateral relations is trade. Both sides insisted throughout the year that the \$10 billion goal would be reached – and it was. The pace of growth in bilateral trade has been strong, and both countries appear interested in pushing the pace even faster. To that end, a March meeting of the China-India Joint Study Group, mandated by the first-ever India-China Joint Declaration signed during Vajpayee's

historic visit to Beijing last June, began to explore the possibility of a free trade agreement.

Further on the political front, China also expressed its willingness to hold discussions and conduct joint studies with India on the root causes of terrorism. And India's Foreign Minister Natwar Singh told the press that regarding Pakistan "there was no mutual paranoia." Reportedly, though the border dispute was mentioned in the talks, it was not discussed in detail and did not achieve prominence during Tang's visit. It appears that both sides have reached agreement to keep the complex and contentious border discussion in its "own lane" (i.e., the Special Representatives-level talks) rather than cloud the atmosphere of overall political relations. Additional political visits throughout the year, including by State Councilor Cheng Zhili in November, maintained the momentum in political exchanges. India's Minister for Science and Technology Kapil Sibal and State Councilor Chen established a Joint Steering Committee (JSC) to promote collaboration in various areas of science, technology and energy.

India & Southeast Asia: "From Enhancing to Deepening, but What about Strengthening?"

India's relations with Southeast Asia today run on two overlapping tracks. The one track is with the Association of Southeast Asian Nations (ASEAN) as a group. The other is with individual Southeast Asian countries. Compared to ASEAN's other key external partners (the U.S., Japan, PRC, and ROK), however, India still remains something of an outlier. For example, though ASEAN conducts a "Plus Three" dialogue with China, Japan, and South Korea, it pursues a separate dialogue with India. The official ASEAN 2003 press statement on these four summits noted in the case of the "Plus Three" countries that ASEAN was "consolidating" relations, but only "enhancing" relations with India. In 2004, the watchword for the ASEAN Plus Three was "strengthening" relations, but for India it was "deepening" relations. Nuances aside, there is evidence that India and Southeast Asia in 2004 continued to incrementally improve ties across a range of political and economic issues.

Symbolically, the big event of India-ASEAN relations came late in the year. In November, a car rally began in Guwhati, in northeastern India, and snaked through several Southeast Asian states before ending in Batam, Indonesia in December. India had proposed the rally as a way of drawing attention to its geographical proximity to Southeast Asia. It was also an effort to highlight the potential role that India's troubled northeastern states could have in developing economic and other links with Southeast Asia. Though some 60 cars began the rally in Guwhati, only 22 completed the race in Batam. According to Didi Munajat, an official of the Indonesia Automotive Federation (IMI), "The rest of the cars decided not to continue the trip to Batam because there were not enough RORO ferries to transfer them." The rally was symbolic of India's efforts to catch Southeast Asian (and Indian) public attention but the net result was perhaps less than hoped for.

Similarly, despite bonhomie and impressive-sounding agreements reached at the third ASEAN-India Summit on the sidelines of the 10th ASEAN Summit in Vientiane, Laos, the main substantive accomplishment was a stock-taking of relations and the endorsement of a framework for future cooperation. The major document signed was the “ASEAN-India Partnership for Peace, Progress and Shared Prosperity” and a related “Plan of Action.” The main features of future cooperation are intended to be in the economic realm, but also terrorism and transnational crime. Efforts to push trade and investment cooperation had begun earlier in the year. The third ASEAN Economic Ministers-India consultations were held in Indonesia in September. And the third annual India-ASEAN Business Summit was held in New Delhi in October. Notwithstanding these efforts, the fact is that India-Southeast Asia trade and investment cooperation remains low. As India’s Minister of Commerce and Industry Kamal Nath told the October gathering “The total two-way bilateral trade between India and ASEAN countries was \$10 billion three years ago. It has been growing at an average annual rate of 10 percent, and last year stood at a little over \$12 billion. *I find this very unsatisfactory* [emphasis added].” Minister Nath explained, “[India’s] current rate of export growth is 24 percent. If this is the average rate, then for a focus area like ASEAN the rate should be higher. It should be at least 30 percent.”

Two instruments that India seeks to use to increase trade with Southeast Asia are a Framework Agreement on Comprehensive Economic Cooperation (signed in 2003) which, the hope is, will eventually lead to a free trade area. A second instrument is the so-called “Early Harvest Program” (EHP) that comprises an agreed upon list of items for tariff concessions on a fast track basis. The goal is to finalize the EHP on Jan. 1, 2005. India also seeks greater investment from Southeast Asia. In the past decade, foreign direct investment from ASEAN has been only about \$4 billion and the great majority of this from only three countries – Malaysia, Singapore, and Thailand.

On the political front, the big, if indirect, news for India-ASEAN relations was the membership of Pakistan. Pakistan joined the ASEAN Regional Forum (ARF) as a full dialogue partner of ASEAN in July. India in the past objected to Pakistan’s membership but dropped its objection – reportedly in return for assurances that bilateral issues would not be raised at ARF meetings. India also has indicated its effort to work with regional states on joint patrolling of the seas to combat piracy and to cooperate against terrorism.

In addition to India-ASEAN dealings, India built on its bilateral relations with neighboring Southeast Asian countries. India’s relations with Burma were especially active during 2004. India and Burma have been working to improve relations with each other over the past three years – despite New Delhi’s strong support for the democratic opposition after the 1988 military crackdown. In 2004, a major element of bilateral discussion and action was joint actions against Indian rebels operating from inside Burmese territory. The precise nature of cooperation was unclear. In late December 2003 India’s chief of army staff, Gen. N. C. Vij, was reported to have said that “Army-to-army relations between India and Myanmar [Burma] have been very good and we have been helping them.” However, at the time, a Burmese government was apparently more circumspect, saying only “Myanmar [Burma] strictly abides by its policy of giving no

breeding grounds to elements that would harm its neighbors.” But as 2004 progressed there was more evidence of coordinated operations against Burmese-based anti-Indian insurgents.

India-Burma relations in 2004 also included some high-profile visits. In July, during Minister for Rail Transportation Maj. Gen. Aung Min Aung Min’s visit to India, a memorandum of understanding to develop Myanmar Railways was signed. There were also press reports about the possibility of India supplying Burma with surplus diesel fuel in return for rights to explore gas reserves. But the highpoint of political relations between India and Burma in 2004 occurred when military leader Gen. Than Shwe became the first head of state from Burma to visit India in 24 years. The visit was focused on trade as well as cooperation against anti-Indian rebels. It was particularly significant that Burma carried on with the visit despite a major government reshuffle in Rangoon just days earlier in which Prime Minister Khin Nyunt was ousted. Than Shwe was accompanied by a high-level delegation comprising eight Cabinet ministers including ministers for industry, energy, rail transportation, communications, science and technology, and health. The two countries signed accords covering nontraditional security issues, cultural exchanges, and an MOU on a hydroelectric project. Within India there were sizeable protests against New Delhi’s dealings with Burma’s military junta.

Another important Indian relationship in Southeast Asia is with Singapore. Singapore has accepted the role of India’s “sponsor” in Southeast Asia. In 2004 there were several high-level political, military and economic exchanges between the two countries. In January, Deputy Prime Minister and Minister for Finance Lee Hsien Loong made an eight-day official visit to India where he delivered the keynote address at the Standard Chartered-Confederation of Indian Industry (CII) “Singapore Conference.” Deputy Prime Minister Lee also visited several India high technology companies. The visit focused on a proposed free trade agreement (Comprehensive Economic Cooperation Agreement) and Singapore’s interest in army and air force training in India. PM Goh Chok Tong visited India from July 8-11, 2004, his fifth visit since becoming prime minister, where he was presented the 2003 Jawaharlal Nehru Award for International Understanding by India’s president. During the visit, the two countries established The Singapore-India Partnership Foundation, a private-sector-led initiative by the Singapore Business Federation and Confederation of Indian Industry. The Foundation’s mission is to increase Singapore-India relations by building economic linkages, government relations, academic interaction, and cultural understanding through granting fellowships to citizens of the two countries. And Singapore’s Deputy Prime Minister Tony Tan visited India for seven days in late October and early November to keep up the momentum in relations. The only senior Indian official to visit Singapore was FM K. Natwar Singh, who traveled there in July for consultations with his counterparts. These political visits permitted both countries to exchange views on regional and global security issues as well as bilateral cooperation in trade, investment and defense.

These high-level visits did not, however, result in the completion of key bilateral objectives such as the conclusion of the Closer Economic Cooperation Agreement (CECA) that the two countries had been negotiating throughout the year. The new Indian

High Commissioner Alok Prasad, in an August 2004 interview, stated that the “CECA is one more mechanism to enable the growth of the relationship in a formal, institutional basis. Both sides have been working hard on the CECA. It is a complex issue. It covers a number of areas – trade, investment, cooperation, tourism, and other service areas. So these discussions are going to continue, and both sides will try to fine-tune the negotiations to good conclusions as soon as possible.” Press reports began to speculate that a deal would be wrapped up by the end of the year. But it was not. In the meantime, several Singapore agencies sent delegations to India in 2004 to pursue new economic and technology opportunities. One notable development was the establishment of a Mumbai office by Singapore’s Economic Development Board (EDB).

Defense-related cooperation and discussions was an important feature of bilateral relations during the year. In March, the two countries held their inaugural Defense Policy Dialogue designed to provide a regular forum to discuss defense cooperation and regional security. This effort was followed-up by the visit of Maj. Gen. Ng Yat Chung, Singapore’s chief of Defense Forces, to pursue more detailed discussions on cooperation in training and joint exercises. According to press reports, Singapore has been seeking training access in India for its army and air force. According to a joint press statement of the visit, during Prime Minister Goh’s July visit “Both sides positively assessed the potential and scope for defense cooperation between the two countries covering bilateral exercises, training arrangements, professional and high level exchanges and visits and collaboration in defense technology research. They saw the consolidation of defense ties as a natural evolution of their excellent political understanding. These ties would be a factor for peace and stability in the region.” In late September, Singapore’s Navy Chief Rear Adm. Ronnie Tay visited India for discussions on joint patrolling in the Strait of Malacca as well as other forms of bilateral defense cooperation. In October, India and Singapore conducted their first bilateral air force exercise named “Sindex.” Previously, military exercises had been focused on naval cooperation. Finally, the two countries continued to explore cooperation in defense-related research and development. Singapore has reportedly been studying Indian arrangements with Israel and South Africa for developing new weapons systems.

India pursued relations with other Southeast Asian countries during the year. Of significance was Malaysian PM Abdullah Ahmad Badawi’s late December visit to India – his first since becoming prime minister. PM Badawi told a gathering of business leaders “I am told that India is increasingly looking east to develop stronger trade and financial ties. We are increasingly looking west – toward India and West Asia. I am here to build new bridges, construct new economic alliances and generate fresh economic cooperation.” He went on to say, “We must work toward greater economic and trade cooperation, which should culminate in, and be catalyzed by, some form of free trade agreement between Malaysia and India.” Among the immediate agreements reached were ones to jointly develop satellites and build an international airport in Hyderabad, which is becoming another high-technology center in India. For all the hoopla about economic ties, however, Badawi noted that despite the increase in bilateral trade from \$467 million in 1994 to nearly \$4.5 billion in 2004, India’s imports from Malaysia only accounted for 3.4 percent of its total imports and Malaysia’s imports from India were only 0.8 percent

of its total imports. He similarly noted the “tremendous growth potential for cross-border investments between Malaysia and India.”

The prime minister also addressed Indian concerns about reports of poor treatment of Indian professionals working in Malaysia. Badawi was quoted as saying “I know that once in a while the media play up negative stories. But let me give you the assurance that we welcome very heartily your knowledge workers. I give you my word that we will treat them well.”

On the political and defense front, India and Malaysia discussed cooperation on fighting terrorism and having substantive defense-to-defense cooperation. Indian press reports suggested that India sought to sell Malaysia its indigenously designed and built helicopters. However, there was no specific Malaysia support for India’s bid to become a permanent member of the UN Security Council with Prime Minister Badawi saying only “We must work to establish greater democracy in the workings of the UN. This is the only way to enable the world body to play a more influential and determining role in world affairs.”

India and Vietnam also carried on exchanges during the year. The most important event was the 12th meeting of the Joint Commission in October co-chaired by Vietnamese Foreign Minister Nguyen Dy Nien and the visiting External Affairs Minister K. Natwar Singh. Agreement was reached on a three-year plan to increase bilateral cooperation on energy, information technology and human resource development. On the economic front, India-Vietnam trade stands at only about \$500 million and the meeting addressed ways to increase it. Possible Indian participation in Vietnamese power projects and assistance to Vietnam’s research on peaceful uses of atomic energy was reportedly also discussed. Defense cooperation was also a subject of the meeting, including Indian servicing and upgrading of Vietnam’s Soviet-made aircraft. Earlier in the year, in March, Senior Lt. Gen. Phung Quang Thanh, vice minister of defense and chief of General Staff of Vietnam People’s Army made a goodwill visit to India. And a 15-member delegation from India’s National Defense College (NDC 44) led by Air Vice Marshal A.K. Tiwary visited Vietnam in May. To boost tourism, India and Vietnam agreed in October to begin direct flights to each other.

India’s ties to other Southeast Asian countries also received attention during 2004. In July, Thai Minister for Science and Technology, Korn Thapparansi, at a meeting organized by the Federation of Indian Chambers of Commerce and Industry (FICCI) in New Delhi, announced that India and Thailand would sign an agreement that would phase out tariffs on 82 items as a first step to the negotiation of an India-Thailand Free Trade Agreement (FTA). The initial tariff agreement was set to become effective on Sept. 1, 2004. And during an Oct. 15, 2004 meeting between India’s Foreign Minister Singh and Thai Foreign Minister Surakiat Sathirathai in Bangkok, the two countries agreed to work closely to tackle security issues, particularly those pertaining to terrorism, illegal trade of arms, drugs and piracy, and increase cooperation in aviation and trade.

India & Japan: “Minimum Offers,” “Maximum Requests,” and Efforts Toward a More Multifaceted Relationship

Relations between New Delhi and Tokyo were reasonably active during 2004. In June, India’s Minister of External Affairs Singh and then-Minister of Foreign Affairs Kawaguchi Yoriko met on the sidelines of the Asia Cooperation Dialogue (ACD) in Qingdao, China. This was the first foreign minister-level meeting between Japan and India since the new Congress-led Indian government took power the previous month. From the meeting it was clear that Japan’s fundamental position on India’s nuclear weapons development remained unchanged – despite the post-Sept. 11 lifting of the economic “measures” imposed on India after its 1998 nuclear tests. During the meeting, Kawaguchi reiterated Japan’s request for India to sign and ratify the Comprehensive Nuclear Test Ban Treaty (CTBT) as well as to join the Nuclear Non-Proliferation Treaty (NPT). Japan’s Ambassador to New Delhi Enoki Yasukuni had a different formulation on the issue. In an important May 2004 speech, he said “I believe, however, that both of us should not just confine ourselves to only exchanging our respective principle [sic] positions in this regard. A good common ground should be found between Japan’s bare minimum request and India’s maximum offer.” In fact, the reality of the situation may be more aptly described as Japan’s continued maximum requests (e.g., signing the NPT and CTBT), India’s minimum offers (e.g., voluntary moratorium on tests and nonproliferation cooperation) and the search for a more multifaceted, active, and future-oriented relationship, including in the security field.

It was clear from Singh’s comments at the June meeting that defense cooperation remained high on India’s agenda. In reply to Kawaguchi’s comment about “strengthening their global partnership based on a strategic perspective,” Singh specifically “expressed interest in the Japan-India Security Dialogue.” Basically, India seeks to move faster and for different reasons than Japan on the defense dialogue. Japan has emphasized that a security dialogue with New Delhi will help to address some of the post-nuclear negativity in bilateral relations. Ambassador Enoki recently alluded to this: “It seems to me, however, that the absence of sufficient level of security dialogue, and subsequent lack of enough mutual understanding about overall security matters have [sic] unnecessarily amplified political and national sentiment frustration with each other.” India, on the other hand, sees security discussions as only marginally relevant to the nuclear issue (on which it intends to make few concessions anyway), and views their utility in terms of broader ambitions about dealing with the emerging international and regional security environment. Basically, India does not want Japan to use the security dialogue as a way of pressing India to join nonproliferation commitments, whereas Tokyo sees this as a possible venue to discuss the issue. Despite these basic differences, there were some defense-related exchanges and discussions during the year. In May, the India-Japan Defense Policy Group agreed to increase bilateral defense ties through increased meetings and exchanges. In September, the two countries conducted basic naval exercises off the coast of Mumbai. And in November, Japan’s Coast Guard vessel *Mizuho* conducted an exchange with the Indian Coast Guard. Some senior officials of the Japanese Defense Agency also visited India.

On the United Nations Security Council reform issue, India and Japan reached an important accord in August during Kawaguchi's second visit to the country. According to an official Japanese summary of the meetings, "Japan and India shared the recognition that both countries are legitimate candidates for the permanent members of the Security Council, and agreed to support each other's candidature for the permanent membership of the UN Security Council. The two countries also agreed to hold a Consultation Meeting on UN Reforms at the DG level in near future." In the previous year there had appeared to be little prospect that Japan and India would explicitly support each other's candidacy. Hence, this was an important change in the bilateral relationship.

On the economic front however, Japan-India trade and investment relations remain limited. In an effort to facilitate cooperation, the two countries, at the August foreign ministers' meeting, agreed to establish a Joint Study Group (JSG). And at a November meeting of the India-Japan Business Cooperation Committee in New Delhi, India's Commerce and Industry Minister Kamal Nath acknowledged that Japan's business community has "a considerable degree of caution" about India and invited "captains of Japanese trade and industry to have a fresh look at where India stands today..." Progress on the ground did not show dramatic improvement, however.

Japan-India relations are showing signs of increased contact and mutual attention. For example, Prime Ministers Koizumi and Singh met on Nov. 29 in Vientiane during the 10th ASEAN summit in Laos. This was the first bilateral meeting between the two prime ministers. These high-level political contacts are useful, but the nuclear shadow and weak economic links still inhibit ties.

India & South Korea

Another India-East Asia relationship that received an impetus in 2004 was that between India and South Korea. In October, President Roh Moo-hyun of South Korea made the first ever visit to India by a South Korean leader. India and South Korea announced the establishment of a "Long-Term Cooperative Partnership for Peace and Prosperity," a joint "Foreign Policy and Security Dialogue," and agreed to promote cooperation between their navies and coast guards for anti-piracy and search and rescue operations. They also announced a decision to upgrade the status of ROK Consulate Agency in Mumbai as a Consulate General. On economic cooperation, India and South Korea are to launch in January 2005 a feasibility study of a comprehensive economic partnership agreement (CEPA) to promote economic and trade relations. While Seoul did not specifically endorse India's bid to become a permanent member of the UN Security Council, the two did agree to consult more on UN reform.

And in December, External Affairs Minister Natwar Singh traveled to Seoul where he co-chaired the third meeting of the India-South Korea Joint Commission along with South Korean Foreign Minister Ban Ki-moon. The meeting served to build on agreements reached during President Roh's October visit to India. Minister Singh created something of a stir in India with his comments on nuclear issues. He told a South Korean newspaper "Even though we are ourselves a nuclear power, we support complete nuclear

disarmament for Korea.” But he then went on to say that India’s previous government was responsible for the decision to conduct nuclear weapons tests and that “regret would be futile. You cannot put it back in the tube, it is out.” Some Indians interpreted the comment as suggesting the government did not favor the previous BJP-led government’s decision to declare India a nuclear weapons state.

India and Taiwan

India and Taiwan ties are constrained in light of India’s one-China policy. However, there has been some more interest in Taiwan about relations with India. In October, two officials in Taipei, Lin Sung-huan, director general of the Asia-Pacific Affairs Department of the Ministry of Foreign Affairs, and Kao Cheng-chiung, representative of the Taipei Economic and Cultural Center in New Delhi, indicated an interest in better economic and technology ties. And in November, Taiwan’s Premier Yu Shyi-kun said Japan and India should strengthen cooperation while addressing a seminar on the promotion of Taiwan-Japan-India cooperation, organized by the private Taiwan Thinktank. Premier Yu noted that the two countries exchanged representative offices in 1995 and direct flights to India began operating from Taipei in 2002. However, trade in 2003 only amount to \$1.5 billion. He expressed hope that exchanges and commercial links would grow further. It was especially interesting that Taiwan brought together Japan and India for trilateral discussions.

India & New Zealand and Australia

2004 also saw a landmark visit by New Zealand Prime Minister Helen Clark in mid-October. This was the first head of government visit to either country in almost 20 years. New Zealand’s motives for the high-profile visit included the fact that “revitalizing the economic and political relationship with India was seen as a key area for concentration in follow up work to the Seriously Asia Forum” and “India’s growing weight and influence in the international arena and its significant economic potential.” New Zealanders of Indian-origin and businessmen accompanied PM Clark. She gave a speech on bilateral relations at a business lunch hosted by the Confederation of Indian Industry.

The visit was clearly designed to accentuate the positive in relations. Clark referred to the links of the Commonwealth, common parliamentary and legal systems, and a love of cricket in her public remarks. Despite New Zealand’s strong anti-nuclear and disarmament efforts, the issue was not belabored in New Delhi. Clark was quoted as saying, “While New Zealand and India see eye to eye on most issues, there are inevitably some points of difference. New Zealand is one of the world’s leading advocates for nuclear disarmament and for nuclear nonproliferation. We have always urged nations to become parties to the Nuclear Nonproliferation Treaty (NPT) and the Comprehensive Test Ban Treaty (CTBT).” However, when asked whether she would press India to sign, Clark was noncommittal, replying “Of course, with every country there will be some issues we don’t see 100 percent eye-to-eye. But we’re going to focus on the positives.”

India and Australia also had active exchanges in 2004. In March, the two countries held another round of their bilateral strategic dialogue which the Australian Department of Foreign Affairs and Trade described as part of the “growing strategic convergence between Australia and India.” And in November, Prime Minister John Howard and PM Singh held a bilateral meeting on the sidelines of the 10th ASEAN Summit. It was announced that Howard had agreed to visit India in 2005. There were also some high-level defense exchanges during the year. In mid-August, the Royal Australian Navy frigate, *HMAS Stuart*, visited Mumbai. An Australian Embassy press statement noted “The Australian and Indian navies agreed to establish navy to navy talks, during the recent visit of Australia’s Chief of Naval Staff, Rear Adm. Chris Ritchie, to India. The *HMAS Stuart* visit will further enhance the existing good relations between the two navies.” At the beginning of September, Chief of the Australian Defense Force Gen. Peter Cosgrove began a five-day visit to India to continue efforts to build defense links. The chief of the Australian Army undertook a five-day visit in November. In addition to political and defense ties, India and Australia have sought to enhance their growing bilateral trade relationship. However, Australia’s DFAT, in its annual 2003-2004 report noted “Despite our efforts, the market remains essentially closed to Australian meat products.”

India-East Asia Relations

Three broad features characterized the context of India-East Asia relations in 2004. First, India-Pakistan relations improved throughout the year. This provided India the energies and resources to pay attention to its eastern neighbors. East Asian countries, for their part, could have more confidence about South Asian stability and focus on subjects of bilateral cooperation with India. Second, India’s economy remained relatively robust during the year, giving India the confidence to make pitches for cooperation and garnering interest from East Asian countries. India’s globally activist diplomacy also provided the impression of a country that was beginning to matter. Finally, a surprising but seamless (and at times “soap-opera-like”) change of government in India did nothing to derail what now appears to be an institutionalized Indian “look east” policy. Like India’s economic reforms, a minimum common consensus has been reached. The question is how fast, and how much further relations with East Asia will be taken.

China remained at the forefront of India’s major Asian relationships. The positive public pronouncements, the relatively active number of political, defense, and economic exchanges, and increased trade all provide the impression of robust ties. However, the details of the India-China relationship suggest that there will be some tough slogging in the on-going “normalization” process. The border dispute remains very sensitive and complex. India and China differ not only on ends, but even the basic approach to negotiations though the Special Representatives-level mechanism does provide a means of regular dialogue.

Southeast Asia too remained a key focus of India’s East Asia relations. The summit relationship with ASEAN affords India an opportunity to be a player in that context while simultaneously building bilateral ties with a number of Southeast Asian countries.

Singapore, Malaysia, and Burma (Myanmar) have emerged as countries with which India has extensive dealings. But also with Vietnam and Thailand India has begun to build links. Japan-India relations too exhibited greater activity in 2004 with two foreign minister-level meetings. But India and Japan are still wary of each other, primarily because of the nuclear issue. A new development in 2004 was the India-South Korea relationship. President Roh's October visit led to the issuing of a six-page joint statement and External Affairs Minister Singh's December visit to Seoul buttressed efforts to move India-South Korea relations along. It will be useful to watch whether in 2005 the momentum of India-South Korea relations, and indeed India's East Asian relations generally can be enhanced and actual cooperation deepened.

Chronology of India-East Asia Relations January-December 2004

Jan. 12-13, 2004: India's National Security Advisor Brajesh Mishra and China's Vice Foreign Minister Dai Bingguo hold the second round of "Special Representatives" talks regarding the two countries' border dispute.

Jan. 12, 2004: Singapore's Deputy PM Lee Hsien Loong begins 8-day visit to India focusing on a proposed free trade agreement (Comprehensive Economic Cooperation Agreement) and Singapore's interest in army and air force training in India.

Feb. 8, 2004: Foreign ministers of India and Thailand sign a treaty on Mutual Legal Assistance in Criminal Matters to facilitate criminal investigations.

Feb. 9, 2004: Seven member nations of BIMSTEC (Bangladesh, Bhutan, India, Burma, Nepal, Sri Lanka, and Thailand – Economic Cooperation), agree to sign a free trade agreement.

Feb. 18-19, 2004: India and China conclude fourth round of the Eminent Persons' Group talks aimed at strengthening exchanges and cooperation in politics, economics, science, technology, and culture.

Feb. 19, 2004: India's Defense Minister George Fernandes, who once characterized China as India's "potential enemy number one," delivers the Air Chief Marshal P C Lal Memorial Lecture in which he gives an upbeat view of the prospects for India-China cooperation. China responds with appreciation.

Feb. 27, 2004: Indian Navy makes a port visit to Surabaya Naval Base, Indonesia and officers of the two countries hold discussions.

Feb. 28-March 2, 2004: A seven-member high-level Chinese police delegation led by the Deputy Commander of the People's Armed Police (PAP) Lt. Gen. Liang Hong visits India. This is the first PAP visit to India.

March 3-5, 2004: Senior Lt. Gen. Phung Quang Thanh, vice minister of defense and chief of General Staff of Vietnam People's Army, makes a goodwill visit to India. He holds talks with Indian defense officials on boosting military ties.

March 16, 2004: Philippines and India conclude 8th Joint Working Group meeting in New Delhi by reaching a trade cooperation agreement in information technology.

March 21, 2004: Two Indian naval ships begin courtesy visit to Jakarta's Tanjung Priok harbor.

March 22, 2004: India and Singapore hold inaugural Defense Policy Dialogue designed to provide a regular forum to discuss defense cooperation and regional security.

March 22-23, 2004: The China-India Joint Study Group explores possibility of a free trade agreement.

March 26, 2004: Gen. Cao Gangchuan begins five-day visit to India, the first visit in a decade by a Chinese defense minister.

March 24, 2004: ASEAN-India Joint Cooperation Committee meets in Vientiane, Laos to review cooperation and prepare for the 3rd ASEAN-India Summit later in the year.

April 20, 2004: Maj. Gen. Ng Yat Chung, chief of Defense Forces, Singapore, arrives in India for discussions on cooperation in training and joint exercises.

May 12, 2004: ASEAN Regional Forum members vote in favor of Pakistan joining the group. India approved the move in return for assurances that bilateral issues between India and Pakistan would not be raised at ARF meetings.

May 16-22, 2004: A 15-member delegation from the National Defense College (NDC 44) led by Air Vice Marshal A.K. Tiwary visits Vietnam. The team also includes three foreign officers from UK, UAE, and Singapore. They visit Hanoi and Ho Chi Minh City and hold discussions with various defense authorities in Vietnam.

May 27, 2004: India-Japan Defense Policy Group agrees to increase bilateral defense ties through increased meetings and exchanges.

June 22, 2004: India's new Foreign Minister Natwar Singh and Chinese Foreign Minister Li Zhaoxing, meet on the sidelines of the Asia-Cooperation Dialogue, agree to improve economic and defense relations.

July 8-11, 2004: Singapore's Prime Minister Goh Chok Tong visits India for the fifth time. A bilateral Mutual Legal Assistance Treaty on Criminal Matters is signed.

July 24, 2004: India's chief of the Air Staff Air Chief Marshal S. Krishnaswamy pays first-ever "formal visit" to Japan.

July 26, 2004: India and China hold third round of “Special Representatives” talks on their border dispute.

July 27, 2004: India and Burma sign MOU to develop Myanmar Railways during a visit to India by Minister for Rail Transportation Maj. Gen. Aung Min Augn Min.

July 30-31, 2004: India and Thailand, on the sidelines of the first-ever BIMSTEC summit, reach a preliminary tariff reduction agreement.

Aug. 5-6, 2004: Indian and Vietnamese foreign ministers meet in New Delhi to discuss enhanced cooperation.

Aug. 12-13, 2004: Japanese FM Kawaguchi visits India. Agreement is reached to support each other’s candidacy for a permanent UN Security Council seat and a Joint Working Group on terrorism.

Aug. 15, 2004: For the first time, Chinese military officials join Indian Independence Day celebrations at an Indian military post that had been captured by Chinese troops during the 1962 Sino-Indian border war.

Aug. 31, 2004: India and Thailand sign agreement to phase out tariffs on 82 items as a first step towards beginning negotiations on free trade area (FTA).

Sept. 2, 2004: India and Japan conduct “Pass-Ex” naval exercises off coast of Mumbai.

Sept. 26-29, 2004: Singapore’s Navy Chief Rear Adm. Ronnie Tay visits India for discussions on joint patrols in the Straits of Malacca as well as other bilateral defense cooperation.

Oct. 4-6, 2004: President Roh Moo-hyun makes first visit to India by a South Korean leader. A Joint Study Group is established to promote trade and investment ties.

Oct. 11-27, 2004: India and Singapore conduct first bilateral air force exercise named “Sindex” in western India.

Oct. 15, 2004: India’s FM Singh holds talks in Bangkok with Thai FM Surakiat Sathirathai.

Oct. 15-19, 2004: India’s FM Singh leads delegation to the 12th India-Vietnam Joint Commission talks in Hanoi.

Oct. 18-20, 2004: PRC State Council Tang Jiaxuan makes official visit to India in which he says China “hope[s] to see India playing a larger and constructive role in the Security Council for world peace and development.”

Oct. 24-29, 2004: Burma's Senior Gen. Than Shwe, along with eight Cabinet ministers, visits India – the first Burmese head of state to visit India in nearly 25 years.

Oct. 24-Nov. 2, 2004: Singapore's Deputy PM Tony Tan makes a seven-day visit to India to enhance political and economic ties.

Nov. 1, 2004: Commerce and Industry Minister Kamal Nath, in address to India-Japan Business Cooperation Committee in New Delhi, acknowledges that Japan's business community has "a considerable degree of caution" about India and invites "captains of Japanese trade and industry to have a fresh look at where India stands today..."

Nov. 4, 2004: Japan's Coast Guard patrol vessel *Mizuho* conducts combined exercise with Indian coast guard vessels off the coast of Mumbai.

Nov. 18-19, 2004: India and China hold the fourth round of Special Representatives-level talks on their border dispute.

Nov. 22, 2004: India's Minister for Science and Technology Kapil Sibal and State Councillor Chen Zhili sign establish Joint Steering Committee to promote collaboration in science, technology and energy.

Nov. 23-Dec. 11, 2004: The first India-ASEAN car rally, to highlight India-Southeast Asia geographical links, begins in Gawhati, India and passes through Burma, Thailand, Laos, Vietnam, Cambodia, Malaysia, and Singapore before reaching Batam, Indonesia.

Nov. 29-Dec. 1, 2004: Indian Prime Minister Manmohan Singh attends 3rd India-ASEAN Summit in Vientiane, Laos on the sidelines of the 10th ASEAN Summit.

Dec. 14-16, 2004: FM Singh travels to Seoul for the third meeting of the two countries' joint commission.

Dec. 20-24, 2004: Prime Minister Abdullah Badawi of Malaysia visits India to promote "some form of free trade agreement" and "to build new bridges, construct new economic alliances and generate fresh economic cooperation."

Dec. 27-31, 2004: India's Chief of Army Staff Gen. N.C. Vij makes a five-day visit to China, the first such visit in a decade. India reciprocates an earlier Chinese offer of having observers at military exercises.

About The Contributors

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