

Regional Overview:

Tsunami Brings Us Together; Provides Perspective

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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 as 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.