The Heritage Lectures 43

America's New Pacific Era

Five Lectures on U.S.-Asian Relations

THE ASIAN STUDIES CENTER

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Five Lectures on U.S.-Asian Relations

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Introduction

Americans are becoming increasingly aware of Asia's tremendous potential as a partner in our nation's future prosperity and security. Asia has been America's dominant trading partner since 1981, and will likely remain in that position for many years. While we are fascinated by Asia's economic dynamism and growth, we also are feeling the effects of Asian competition. How we meet this competition will be an important challenge; certainly any attempt to build a protectionist wall against Asian trade and competition will stifle U.S. economic growth and impose dangerous strains on U.S.-Asian relations.

Despite the outcome of the war in Vietnam a decade ago, Americans realize that they continue to have vital security interests in Asia and that these interests are threatened by growing Soviet military power. Vietnam's Soviet-assisted occupation of Cambodia and Laos continues, while growing Soviet air and naval forces threaten important Southeast Asian sea lanes. The U.S. is cautiously exploring with the People's Republic of China the extent of U.S.-PRC coincidence of interest in meeting the Soviet threat. Yet, this should not diminish the U.S. commitment to its friends in the Republic of China on Taiwan. In Northeast Asia, tensions remain high on the Korean Peninsula, while the U.S. and Japan are working carefully toward greater cooperation in meeting the regional Soviet threat. The Philippines is a nation facing economic and political challenges as the Communist insurgency there gathers momentum.

To analyze these developments and assess how Washington should respond to them, the Asian Studies Center of The Heritage Foundation hosted a series of lectures in Spring 1984. Dr. Sheldon Simon of the University of Arizona spoke on U.S. policy in Southeast Asia; Dr. A. James Gregor of the University of California at Berkeley spoke on the crisis in the Philippines; Dr. Jan S. Prybyla of Pennsylvania State University spoke on the "Gang of Four"; Professor Harold Hinton of George Washington University spoke on Korea; and Dr. Guy Pauker of the RAND Corporation on U.S. security assistance to Southeast Asia.

Sheldon Simon's paper begins the series: U.S. trade and security interests in Southeast Asia and the growing Soviet threat, and notes the Vietnamese threat to U.S. allies in Thailand and the vital importance of Southeast Asia's sealanes to U.S. policy in the Pacific and Indian Oceans.

The growing crisis in the Philippines since the assassination of Benigno Aquino is described in detail by James Gregor. He discusses the critical

importance of U.S. bases in the Philippines to the security of the greater Pacific region. Gregor surveys the opposition to Philippine President Ferdinand Marcos and concludes that while the radical forces can drain the government severely, they are not powerful enough to overthrow it. Yet stability in the Philippines and chances for further democratic development require continued U.S. economic and military assistance.

Although the economic development of the "Gang of Four"—the Republic of China, South Korea, Hong Kong, and Singapore—is often described as a "miracle," Jan Prybyla sees it as the result of a strong commitment to free enterprise, private property, competition in open markets, and the support of stable governments that promote economic growth. While he fears that Hong Kong will be "Tibetanized" by Beijing, he urges that the U.S. keep its markets open to the Four's goods.

Harold Hinton brings some special historical and anecdotal insights to the unique situation of South Korea. He contrasts the real interests of the U.S. in Korea and with the often hostile intentions of China and the Soviet Union, and notes that while Korea is an important U.S. ally, the U.S. does not always recognize the nuances of South Korea's position. In spite of its resurgent nationalism and economic success, South Korea's position remains dependent on its strong alliance with the United States.

Security assistance in Southeast Asia is highly complicated in part because of confusion as to its qualitative differences from the more structured situation at NATO. The threats are multiple and unpredictable, coming not from the USSR and Vietnam, but possibly also from China. In addition, collective security on the NATO model is probably not possible because the strengths of the partners are so unequal. In this context, Guy Pauker discusses U.S. security assistance to Southeast Asia. He endorses the Carlucci Commission report's notion of security cooperation—consultation and increased mutual understanding of each party's needs which can lead to a better location of resources.

These Asian Studies Center lectures share a key theme—the U.S. has definable and growing interests in the Pacific region. The post-Vietnam U.S. policies of inaction and avoidance of the region make even less sense today than in the past. Washington must develop a more deliberate and active policy towards the region. These lectures offer valuable and provocative background for the evolving policy.

Richard V. Allen
Chairman
Asian Studies Center Advisory Council

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The 1980s: Beginning of the "Pacific Era" in Southeast Asia

Sheldon W. Simon

February 2, 1984
The Louis Lehrman Auditorium
The Heritage Foundation

INTRODUCTION

Although U.S. society traditionally has been oriented toward Europe, it is important to realize that since World War II Asia has been the location of America's two major military confrontations (Korea and Indochina) and, even more significantly, that since 1978 U.S. trade with Asia and the Pacific has exceeded that with any other region: in 1982 $15 billion more in U.S. trade with Pacific than with Atlantic states. In the first half of 1983 alone, that trade was $63.4 billion or nearly 29 percent of total U.S. trade. Moreover, U.S. investment is growing faster in Asia than in any other region of the world. It does, indeed, appear that the end of this century is the beginning of the Pacific era.

THE RATIONALE FOR U.S. SECURITY INTERESTS IN SOUTHEAST ASIA

To understand American security concerns in Southeast Asia requires an Asia-wide perspective. Although Southeast Asia's importance to U.S. policy makers receded in the wake of the U.S. defeat in the Second Indochina War, the region took on new meaning in 1979 as policy makers perceived it to be an area linking the volatile Indian Ocean/Persian Gulf with such American allies in Northeast Asia as the Republic of Korea and Japan. The seas surrounding the five ASEAN countries (Thailand, Malaysia, Singapore, Indonesia, and the Philippines) are seen as routes vital for sustaining international commerce. Additional U.S. naval contingents for these waters have been requested by the Reagan Administration, and at least partially funded by Congress, in order to deter potential Soviet threats emanating from the oil-rich Persian Gulf to a Soviet-aligned Indochina. And the U.S. has called upon such Asian allies and friends as Japan, Australia, New Zealand, and ASEAN to expand their own maritime capacities, looking toward the 1990s.

By the early 1980s, then, Southeast Asia was once again seen in Washington as an important strategic region, not so much because of an ideological battle against world communism, as in the 1960s, but because of growing Soviet naval capability to disrupt the international commerce and energy supplies that transit the region. These perceptions have led to renewed American interest in Asian bases—this time to assist in the rapid deployment of forces to the Persian Gulf area should the need arise.

Asian leaders, however, have not always accepted revived American interest in local bases. In April 1982, for example, Pakistan's President Zia-ul Haq reportedly turned down an informal request for base space. Thai officials also scotched a rumor that the United States would reopen bases there.

U.S. officials view bases in South and Southeast Asia as a means of protecting sea and air lane communications in the western Pacific and Indian Ocean, enabling the United States to maintain a balance with growing Soviet deployments, but not all Asian analysts agree. Some remain skeptical of U.S. commitments in the wake of Vietnam. In Thailand, for example, it is widely believed that China offers a better deterrent to a possible Vietnamese attack than does the United States.

Similarly, in Pakistan, the construction of U.S. bases could become a major internal political issue, diffusing the mood of Soviet besieging which helps sustain the military regime in power. Moreover, the bases are vulnerable to Asian nationalist sentiments. Thus, while Washington explains the utility of bases in South and Southeast Asia in terms of a maritime balance with the USSR extending from the Japan Sea to the Persian Gulf, many governments and opposition movements in the region evaluate foreign bases on their territories negatively, because of their impact on the leaderships' nationalist credentials.

Current U.S. military interests in Southeast Asia represent a considerable policy shift from the period immediately following the Second Indochina War. During the last half of the 1970s, until the 1979 Soviet invasion of Afghanistan, the Carter Administration viewed the ebb and flow of world politics as essentially benign. Tacit understandings about Indochina and the ASEAN region could be reached with the Soviet Union and China—the two other outsiders active in the area. Washington may have anticipated that a loose federation of Indochinese states would be formed with Vietnam as a leader. This federation would balance Chinese and Soviet efforts to dominate it by accepting aid from both and by attempting to work out a new relationship with Japan, Western Europe, and, over time, even the United States to obtain reconstruction assistance. The ASEAN states, in this view, could continue their economic growth relatively unencumbered by new security challenges as Vietnam concentrated on recovering from 35 years of continuous warfare.[1]

At the same time, the Carter Administration's foreign policy decison makers saw a potentially xenophobic nationalism combining with resis-

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[1]In testimony before the Senate Foreign Relations Committee on March 1, 1979, Richard C. Holbrooke, the Carter Administration's Assistant Secretary of State for East Asian and Pacific Affairs, reiterated that U.S. policy toward East Asia concentrated on overcoming a "crisis of confidence" in the U.S. by its Asian allies and "... putting into place long-term sustainable policies that emphasize national self-reliance, supplemented by continued U.S. support, and no U.S. interference in the internal affairs of other countries." Extracts of his comments are reprinted in *The Department of State Bulletin* 79, No. 2025, April 1979, p. 17.

tance to political repression in a number of Third World states. They reasoned that, if Washington continued to associate exclusively with authoritarian Third World regimes that operated without acknowledging the political pressures for change, the Iranian experience could be repeated to the detriment of the U.S. position in Asia as well as the Middle East. In policy terms, this concern was translated into monitoring the human rights situations in the Philippines, South Korea, and in other noncommunist Asian states. This process was reinforced by threats to reduce or suspend economic aid to those countries that did not provide their populations with at least a modicum of the freedoms Westerners define as "civil liberties." The political costs of such a policy, however, soon became evident. The noncommunist Asian states frequently complained that they bore the brunt of U.S. pressure, while communist states and oil-rich Arab regimes, whose human rights violations were much more extreme, received little, if any, attention.[2] Even more serious, the Carter Administration's adverse publicity about its Asian allies' domestic political repression coincided with what appeared to be a broader U.S. political and military retrenchment in Asia.

The Thai government under Prime Minister Sanya asked the United States to vacate its air and naval facilities in the aftermath of the Indochina war, leading to the first total absence of U.S. forces from mainland Southeast Asia since 1955. The drawdown of the U.S. Seventh Fleet and heavy emphasis on Europe as the region of primary American strategic concern in the late 1970s led even Singapore's hawkish pro-American prime minister, Lee Kwan Yew, to wonder whether the

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[2]A 1975 Amendment to the Foreign Assistance Act required the American Secretary of State to deliver an annual report on the human rights practices of all countries that received economic or military assistance or bought U.S. weapons systems. The Philippines and Indonesia were usually singled out as among the worst human rights offenders during the Carter Administration. For an assessment, consult Stephen Barber, "Another Caning From Congress," *Far Eastern Economic Review* (hereafter cited as *FEER*), February 24, 1978, pp. 24-26. For a general survey of the negative Asian response to the human rights policy, see "Carter and Asia: What Price Morality?" *FEER*, March 27, 1977; pp. 34-38. Also, "Philippine Government Comments on the U.S. State Department's Annual Human Rights Report on the Philippines, February 13, 1978," in a Report Submitted by a Special Study Mission to Asia and the Pacific, January 2-22, 1978, under the auspices of the Subcommittee on Asian and Pacific Affairs of the Committee on International Relations, U.S. House of Representatives, *Prospects for Regional Stability: Asia and the Pacific*, 95th Congress, 2nd Session (Washington, D.C.: U.S. Government Printing Office, June 1978), pp. 49-54.

ASEAN states should devise new forms to preserve their security, if Washington proved an unreliable mentor.[3]

The juxtaposition of these developments led a number of Asian leaders to conclude that the United States was really preparing to disengage strategically from their region. Particularly worrisome was the timing, for China and the Soviet Union had extended their competition into Asia by lining up on opposite sides of the new Indochina conflict.

At most, however, such fears may have been composed of half-truths. The real political balance in Asia seems to be more complex and less ominous for U.S. interests than originally believed, though requiring the kind of careful diplomacy of which Washington may no longer be capable. In fact, if such diplomacy were applied, America's security challenges in Asia might evolve into situations of political opportunity.

The Sino-Soviet conflict was extended deeply into regional affairs as Moscow doggedly attempted to build an "Asian collective security system" through bilateral political ties and new naval and air bases.[4] The Chinese, in response, declared a counterencirclement policy based on an

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[3]Singapore's English language daily newspaper, the *Straits Times*, which generally reflects the Prime Minister's views published eidtorial/commentary following the downfall of South Vietnam in which it labeled future ASEAN-American relations as a "question of confidence" and called for Asian "self-reliance" to meet future communist insurgency threats in Southeast Asia. See *Straits Times*, May 1, 1975, p. 10. In an interview given during late 1979, Lee noted that "... (the) balance of power in Southeast Asia has changed ... and that ... repeating or increasing assurances to friends and allies is not as effective as a visible and credible American capacity to respond to crises anywhere in the region." Derek Davies, "Of Collective Security, Language, and Industry," *FEER*, October 26, 1979, p. 19.

[4]An authoritative review of Soviet collective security strategy directed toward Southeast Asia is by Arnold Horelick, "The Soviet Union's Asian Collective Security Proposal: A Club in Search of Members," *Pacific Affairs*, Fall 1974, pp. 269-285. Also see Robert C. Horn, "Soviet Influence in Southeast Asia: Opportunities and Obstacles," *Asian Survey*, August 1975, pp. 656-671. More recently, Leonid Brezhnev, addressing the Communist Party of the Soviet Union's 26th Party Congress, expressed the USSR's explicit objective to forge better relations with Indonesia due to that country representing a possible counterweight to Chinese influence within the region. For analysis of Brezhnev's remarks, see Joachim Glaubitz, "Aspkte Sowitischer China und Ostasienpolitik," *Osteuropa*, September-October 1981. Also see extracts of President Brezhnev's speech regarding a five point plan for collective security in New Delhi during December 1980 in *The Statesman Weekly* (New Delhi) December 13, 1980, p. 1. The Soviet military newspaper *Red Star* attacked ASEAN for entering into an "anti-Soviet bloc" with Japan, China, and the U.S. after ASEAN failed to respond to Brezhnev's New Delhi call for a "Doctrine of Peace." Michael Bingen, "Russia Accuses ASEAN Nations of Joining Anti-Soviet Bloc," *The Times* (London), January 17, 1981, p. 7.

"anti-hegemony" theme around which they hoped to establish common objectives with the United States, Japan, and the ASEAN states.[5] Yet by appearing to align too closely with the People's Republic of China (PRC), the U.S. only exacerbated its relations with the USSR and reinforced Soviet efforts to polarize Asia. Nevertheless, the disintegration of the Sino-Soviet alliance and rapprochement with the PRC has permitted the United States to reduce its "2½–war" strategy by one. Moreover, since extricating itself from Indochina, Washington need not face the prospect of a land war in Asia. By refraining from taking sides in domestic political conflicts in the region, Washington is better able to focus on its prime strategic concern—the maintenance of freedom for international commerce. Domestic disputes, while clearly important to the political futures of the countries involved, are seldom susceptible to American influence. Moreover, they could lead the United States into a political morass brought about by fruitless attempts to support one faction or another in domestic wrangles within friendly states.

The U.S. tilt toward the PRC in the 1980s is but the latest example of a pattern in which the United States treats Southeast Asia as a function of other policies. Its prolonged involvement in Vietnam in the 1960s reflected the view that Southeast Asia was a battlefield to contain an expansionist Beijing. As American views of China changed in the 1970s, so did U.S. policy toward and advice to Southeast Asia. Suddenly, the United States urged ASEAN to view China as a friendly state. Regardless of the wisdom or accuracy of this evaluation, it tacitly suggests that Southeast Asia is of secondary importance and should defer to the U.S. assessment of the PRC. In short, an attitude of condescension.[6]

Both the Carter and Reagan Administrations, then, faced the problem of sorting out priorities in Asia: the degree to which the region's integrity was important to U.S. security, the probable threats to that integrity, and appropriate U.S. policies toward friendly and hostile states as well as the force deployments needed to sustain the region's freedom.

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[5]A typical PRC assessment of antihegemonist politics was offered by the Chinese analyst Jiang Yuanchun and reprinted as "Soviet Strategy for East Asia," *Asian Defence Journal*, September 1981, pp. 30-33. Also see a Beijing Radio commentary on the "USSR Attempting to Control World Straits," in Foreign Broadcast Information Service (hereafter cited as FBIS), *People's Republic of China* (*Daily Report*), May 9, 1981, at C-1. For sophisticated Western assessments, see William G. Hyland, "The Sino-Soviet Conflict: A Search for New Security Strategies," *Strategic Review*, Fall 1979, pp. 51-62 and Francis J. Romance, "Peking's Counter-Encirclement Strategy: The Maritime Element," *Orbis*, Summer 1976, pp. 437-459.

[6]This argument is elaborated in Lucian Pye, *Redefining American Policy in Southeast Asia* (Washington, D.C.: The American Enterprise Institute, 1982), pp. 3-4.

While the Reagan Administration has adopted a rhetoric reminiscent of Cold War days, U.S. security policies in Southeast Asia essentially replicate those initiated by the Ford Administration and followed by Carter, minus the latter's civil liberties concerns. Therefore, an analysis of trends in U.S. relations with major actors in Southeast Asia over the past several years should serve as a reasonably good predictor of policies yet to come, providing the conditions that formed the context of the late 1970s do not radically change in the early 1980s.

THE ASIAN SECURITY SETTING

By the mid-1970s, U.S. decision makers had become painfully aware of America's diminished ability to maintain a military presence in the Asian Pacific region. Both the Nixon and Ford Administrations had stated that the United States would not become involved in future Southeast Asian land conflicts. U.S. ground forces were totally withdrawn from the region; and American offshore strength was also reduced as old ships were retired from active duty without being replaced.[7] U.S. emphasis in the mid-1970s was to provide military assistance to allied and friendly states who assumed complete responsibility for their own internal security concerns—usually ethnic insurgencies in border regions.[8] Commitments to Japanese and South Korean security, bilateral security ties to the Philippines and Thailand, the Australia, New Zealand, United States (ANZUS) Treaty, and the maintenance of freedom of the seas in the Indian Ocean, South China Sea, and Sea of Japan were stated as being firm and essentially unchanged. However, while the baseline for U.S. force deployment in Asia was stable at about 180,000 between 1945 and 1975, withdrawals from Thailand, Korea, Taiwan, and some reduction in Seventh Fleet personnel had lowered that figure to less than 130,000 by 1980—the lowest level since 1939.

America had also reduced its ground forces in Korea, terminated its defense treaty with Taiwan in 1980, and merely complained about Soviet

[7]A particularly salient account of U.S. strategic attrition in East Asia during the mid-1970s is Bernard Weinraub, "Inscrutable Americans in Major Asian Strategy Shift," *The New York Times*, July 31, 1977, E-3.

[8]American policy was officially set out by President Gerald Ford in his "Pacific Doctrine" speech at the East-West Center, University of Hawaii on December 7, 1975. This address is reprinted as "A Pacific Doctrine of Peace With All and Hostility Toward None," *The Department of State Bulletin* 73, No. 1905 (December 29, 1975), pp. 913-916.

troop deployments in the Kuriles.[9] (See Tables I and II on comparative military strengths in Asia.)

In contrast, a strong impression of the rising predominance of Sino-Soviet competition in Asia was materializing with the USSR having "successfully" intervened in Angola, Ethiopia, South Yemen, Indochina, and Afghanistan, while building its Pacific Fleet to a level deemed sufficient by some observers to neutralize the Seventh Fleet and control the Straits of Malacca.[10]

The major thrust of the Soviet Pacific Fleet has been focused on anti-submarine and anti-carrier warfare capabilities with secondary targeting directed at supporting bases and facilities. This Fleet is grouped around the VSTOL carrier *Minsk* and includes some 78 major surface combatants, 108 submarines (28 ballistic missile, 80 attack and cruise missile), and 360 naval aircraft including 100 bombers.[11]

The Soviet use of Vietnamese naval bases counters American facilities in the Philippines and increases the threats faced by U.S. bases in Japan, while complicating the task of maintaining open sea lanes into the Indian Ocean. Soviet bombers and military transport aircraft still lack extensive support for refueling, but the deployment of approximately 20 "Backfires" to East Asia, some of which now fly out of Vietnam, provides the capability for attack against Asian land and sea targets at considerable distances from Soviet domestic bases.

At minimum, there seem to be three threat environments developing in Southeast Asia at the beginning of the 1980s that could undermine

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[9]For a specific breakdown on current U.S. ground force deployments in Asia, see Harold Brown, Secretary of Defense, *Department of Defense Annual Report, FY 1982* (Washington, D.C.: U.S. Government Printing Office, January 19, 1981) and The International Institute for Strategic Studies, *The Military Balance 1981-82* (London: IISS, Autumn 1981), pp. 7-10.

[10]As early as mid-1978, Admiral Maurice Weisner, the U.S. Commander-in-Chief for U.S. Pacific forces publicly observed that ". . . in light of the steady growth in Soviet naval forces in the Pacific Command area, and corresponding minimum levels of U.S. forward deployed forces, it is my opinion that the United States would find it difficult to protect those important LOCs (Lines of Communications in the Pacific area) . . . we would have perhaps only an even chance of keeping them open." Weisner, "The U.S. Posture in Asia and the Pacific: The View From CINCPAC," *Strategic Review*, Summer 1978, p. 45.

[11]Captain John Moore, ed., *Jane's Fighting Ships, 1980-81* (New York: Franklin Watts, 1980), p. 465; Harold Brown, *Department of Defense Annual Report Fiscal Year 1981* (Washington, D.C.: U.S. Government Printing Office, 1981), p. 105; and U.S. Congress, Senate, Committee on Armed Services, *United States—Japan Security Relationship—The Key to East Asian Security and Stability*, 96th Congress, 1st Session, 1979, p. 7.

TABLE 1

U.S. Pacific Forward Basing System

Area/Base	Military Function	Ships/Aircraft	
I. **Northeast Asia**			
A. **Japan**			
1. Yokosuka-Yokohama Naval Complex (HQ, 7th Fleet)	area command fleet support incl. naval repair; drydocking (CVs) berthing; ordance supply depot, hospital	A/C Carrier (Midway) 10 major ships	70 aircraft (primarily F-14, A-18)
2. Sasebo Naval Base	naval repair drydocking	1 support ship	
3. Yokuta AB (HQ 5th Air Force)	command tactical airlift		1 tactical airlift sq. (C-130E)
4. Iwakuni AB	tactical air support		2 AF tactical fighter sqs. (F-4, F-15) 2/3 USMC air wing (F-4)
5. Atsugi NAF	naval air support		
6. Misawa AB	reconnaissance electronic intelligence		1 tactical recon. sq. (P-3C)
7. Kadena AB (Okinawa) Fatenma AB (Okinawa) NAF (Okinawa)	tactical air support strategic air support reconnaissance limited tactical airlift		4 AF tactical fighter sqs. (F-15) 1/3 USMC air wing (F-4) 1 AF strategic support sq. (KC-135) 1 AF recon. sq. (E-3A)
8. Camp Smedley D. Butler (3rd Marine Div.)	amphibious/ground combat force		
B. **South Korea**			
1. Camp Casey (HQ 2nd Infantry Div.)	ground combat force		
2. Kunsan AB	tactical air support		2 AF tactical figher sqs. (F-4)
3. Osan AB	tactical air support reconnaissance		1 AF tactical fighter sq. (F-4) 1 AF recon. sq. (OV-10)
4. Taegu AB	tactical air support support		1 AF tactical fighter sq. (F-4)

II. Southeast Asia			
A. Philippines			
1. Subic Bay Naval Base			
a. Naval Station (Port Olongapo)	fleet support incl naval repair drydocking (no CVs) berthing; POL storage, supply depot	A/C carrier 8 major ships rotating	90 planes (primarily F-14, F-18)
b. Cubi Point NAS	air support, repair, maintenance POL storage		1 USN recon. sq. (P-3C)
c. Camayan Point Naval Magazine	ordnance storage loading dock		
2. Clark Air Base (HQ, 13th Air Force)	command air support, repair POL storage ordnance storage		1 AF tactical air wing 1 AF tactical fighter sq. (F-4E) 1 AF training sq.
3. San Miguel Naval Communications Station	telecommunications		
B. Guam			
1. Andersen AFB	strategic air support		1 strategic bomber wing (14 B-52s)
2. Apra Harbor Naval Base	fleet support SSBN basing	5 Polaris subs	
3. Agana NAS	naval air support		
C. Australia			
1. Henry Holt Naval Communications Station (Northwest Cape, Exmouth)	telecommunications		
2. Alice Springs	NORAD communications satellite facility		

TABLE II

U.S. MILITARY ASSISTANCE AND SALES RELATIONS WITH ASIAN-PACIFIC STATES

(in millions of dollars)

	Total Military Assistance[1]					Foreign Military Sales Agreements					Commercial Exports Licensed Under Arms Export Control Act				
	FY 76	FY 77	FY 78	FY 79	FY 80 (E)	FY 76	FY 77	FY 78	FY 79 (E)	FY 80 (E)	FY 76	FY 77	FY 78	FY 79 (E)	FY 80 (E)
Australia	—	—	—	—	—	551.2	130.5	337.3	130.0	155.0	8.5	11.0	28.4	32.5	32.5
Indonesia	56.3	40.8	58.1	34.8	37.9[2]	3.8	7.2	112.0	40.0	30.0	6.7	5.3	2.9	5.0	5.0
Korea (South)	188.1	155.0	276.9	238.4	227.8	616.5	656.1	370.2	900.0	1700.0	19.9	77.2	66.7	90.0	90.0
Malaysia	17.3	36.3(E)	17.1	8.0	7.3	5.4	5.3	2.4	30.0	10.0	6.3	41.5	61.0	70.0	70.0
New Zealand	—	—	—	—	—	7.0	6.3	8.5	5.0	5.0	2.2	3.5	4.2	6.0	6.0
Philippines	27.1	38.1	37.3	31.7	95.7	35.3	68.0	33.3	50.0	50.0	11.8	14.1	6.5	20.0	20.0
Singapore	—	—	—	—	—	17.2	113.4	12.7	10.0	10.0	15.3	6.7	4.4	7.5	7.5
Thailand	65.8	47.2	38.6	32.1	26.1	107.1	105.0	111.7	290.0	130.0	10.0	8.0	8.5	10.0	10.0

[1]Map Grants, Credit Financing – FMS, Military Assistance Service – Funded Credit Financing – FMS
Military Assistance Service – Federal (MASF) Grants
Transfers from Excess Stocks
Others

[2]Military Assistance Programs to be phased out at end of FY 80.

(E) Estimate

Source: Subcommittee Asia-Pacific Affairs, Committee on Foreign Affairs, House of Representatives, U.S. Congress.

regional stability and adversely affect U.S. relations with regional members. In descending order of imminence, they include:

1. The prospect of Vietnamese military operations against the Khmer opposition spilling over into Thailand in the course of hot pursuit and/or as a premeditated step to force Khmer resistance enclaves farther into Thailand and away from the Kampuchean (Cambodian) border (the June 1980 incursion had this latter end in mind as well as the large buildup of VPA [Vietnamese People's Army] forces near the Thai border since 1982, and the March-April 1983 attacks on KPNLF [Khmer People's National Liberation Front, a noncommunist resistance group] sanctuaries).
2. Indigenous insurgencies opposed to incumbent authoritarian regimes in the Philippines, Thailand, or Indonesia may well increase during the 1980s as development strategies disproportionately benefit urban elites affiliated with transnational enterprises at the expense of the majority of the populations who frequently dwell in rural subsistence conditions.[12]
3. The possibility, over time, of the Soviet Pacific Fleet attempting to interdict Southeast Asian straits or harass Japanese shipping from bases in Vietnam and Kampuchea. Russian ships, particularly if VSTOL carriers with marine contingents are among them, could also deter noncommunist (ASEAN and/or American) intervention to protect friendly governments against Soviet/Vietnamese backed insurgencies.

ASEAN's primary concern is the Vietnamese occupation of Kampuchea and the political chain reaction that followed as the region moved rapidly toward political polarization. The PRC's February 1979 border assault on six Vietnamese northern provinces ironically proved to be precisely the kind of pressure the Soviets required to convince Hanoi to open U.S.-built naval and air bases in southern Vietnam to Soviet forces.[13] At the same time, Thailand moved closer to the PRC as the only power that demonstrated a willingness to confront the Socialist Republic of Vietnam (SRV) militarily. Bangkok's political reliance on China led the other ASEAN states reluctantly to follow course in order not to appear

[12]These threat possibilities are discussed at some length in Sheldon W. Simon, *The ASEAN States and Regional Security* (Stanford: The Hoover Institution, 1982).

[13]Reports reaching the West note that Soviet technicians are finishing construction on a large intelligence-gathering facility at Cam Ranh Bay to survey U.S. air force and naval operations in the Southeast Asian region and beyond and to serve as the USSR's main regional communications center for Soviet air and naval forces deployed in the area. See *The Daily Telegraph*, July 13, 1981, p. 5.

out of step with their frontline partner.[14] To Thai officials the new tacit American-Chinese alliance is a welcome development. Foreign and U.S. arms are available to secure Thai elite interests in the present distribution of power and wealth within the country; and the Americans will insure that China does not interfere in Thai affairs. Moreover, Chinese backing for the anti-Phnom Penh forces based along the Thai border will help maintain a security buffer against Vietnam.

However, the PRC's military pressure on Vietnam's border has given legitimacy to the Soviet use of bases in that country. Paradoxically, Beijing appears to have lost sight of its strategic interest in the course of its historically based anger at Vietnam's refusal to accept a subordinate position. Insofar as China's primary concern should be the prevention of Soviet encirclement, it needs a Vietnam sufficiently strong and independent to resist Soviet pressures or inducements. By treating Vietnam as an adversary, the PRC has only succeeded in driving Hanoi closer to Moscow.

An early casualty of these developments has been ASEAN's hopes for the creation of a zone of peace, freedom, and neutrality (ZOPFAN) for Southeast Asia, by which the noncommunist states of the region planned to insulate regional affairs from the machinations of great power military activities. Vietnam has been attempting to undermine the ASEAN concept since 1976, when it introduced its own version of the Colombo Nonaligned Conference. According to Hanoi, the region should develop a zone of "genuine independence, peace and neutrality" (ZOGIPAN). This formulation implied that the ASEAN states were not qualified to participate in such a group until they had abrogated security ties with the United States, Great Britain, and Australia/New Zealand. The USSR backed Vietnam's formulation, which was vigorously rejected by ASEAN.[15] Nevertheless, Hanoi's manifest disinterest in a region devoid of a Soviet military presence has destroyed ZOPFAN's credibility. The concept has been indefinitely postponed until a new relationship between Indochina and ASEAN can be effected—one presumably that would

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[14]The Beijing Government has cultivated an image of counterbalance to regional Vietnamese power in both diplomatic channels and the military estimates of ASEAN states. See Sheldon Simon, "The Soviet Union and Southeast Asia: Interests, Goals, and Constraints," *Orbis*, Spring 1981; pp. 79-80; and Ian MacKenzie, "China Offers Anxious ASEAN Three-Part Kampuchea Proposal," *The Asia Record*, February 1981, p. 13.

[15]See Dick Wilson, "Future Relations Between ASEAN and Indochina," *Asia-Pacific Community*, Summer 1978, pp. 28-29.

require the withdrawal of both American and Soviet forces, an unlikely prospect in this decade.

The PRC/U.S./ASEAN tacit entente against Vietnam's occupation of Kampuchea is potentially a two-edged sword. On the one hand, the combination might cause the Vietnamese to lengthen their timetable for wiping out resistance forces until ASEAN and the United States have lost interest and scale down their support for the resistance. On the other hand, if anti-Vietnamese efforts appear to be adding to Khmer resistance strength and/or seem to be expanding Thai sanctuaries for Laotian and Kampuchean groups, the SRV could be tempted to move preemptively across the Thai border.[16] It is unlikely, however, that Hanoi has the capacity for a sustained assault on Thailand so long as China threatens the SRV's northern border. The Vietnam People's Army's (VPA) most seasoned troops are reportedly deployed north of Hanoi, while Kampuchea is occupied by southern Vietnamese conscripts with limited battle experience and questionable loyalties. The dispersion of VPA forces in all three Indochinese states renders a military effort outside these borders improbable. Estimates in 1981 placed 60 percent of the VPA between Hanoi and the Chinese frontier.[17] Moreover, without Soviet military aid and political acquiescence, Hanoi lacks the industrial base for further expansion.

Threats to Southeast Asian stability, then, center on the mainland. The nub is Vietnam's fear that China wishes to restore its position in Kampuchea through the Khmer Rouge or a new coalition antithetical to Hanoi. On the other hand, the PRC's opposition to the SRV's control of Indochina centers on the military relationship between Hanoi and Moscow. If a political settlement could be achieved in Kampuchea, restoring that country's nonalignment through a credible Chinese pledge of noninterference, over time, Vietnam might well loosen its ties to Moscow and restore some form of normal relations with Beijing.

In effect, a game of chicken is being played. Neither side is willing to make the first move toward detente for fear of being seen as weak. Moreover, if China were to move first, it could be deemed untrustworthy by the ASEAN states.

This situation is particularly beneficial to the Soviets since it gives them leverage to expand their use of Vietnamese bases in exchange for

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[16]See the discussion in Lee E. Dutter and Raymond S. Kania, "Explaining Recent Vietnamese Behavior," *Asian Survey*, September 1980, especially p. 941.

[17]Russell Briggs, "China's Bulwark Against Asia's New Imperialists," *Christian Science Monitor*, February 3, 1981.

continued military aid. If the ASEAN-Vietnam dispute remains at a relatively low military level, it is unlikely that the USSR will exert undue pressure on Vietnam to compromise. Indeed, the conflict's continuation is probably prefered in Moscow as long as no direct Soviet military involvement is contemplated. And in fact, the PRC's hard line toward Vietnam was designed in part to demonstrate Beijing's ability to protect Thailand against Vietnamese pressure.

To further complicate this picture, ASEAN itself is divided over the desirability of China's military efforts against Vietnam. While Thailand and Singapore have been gratified by Beijing's hard-line position, Malaysia and Indonesia view China's use of force as a potential threat to the rest of Southeast Asia as well. If China succeeds in drastically weakening Vietnam, there will be no buffer between ASEAN and a dominant China. Moreover, ASEAN is uneasy about supporting guerrilla movements in Kampuchea, because they remembered China's past involvement in supporting guerrilla groups in their own countries.

This concern is reinforced by China's apparent insistence on Khmer Rouge dominance within the resistance coalition. ASEAN apprehensions that the PRC may be primarily interested in restoring the Khmer Rouge to power—underscored through Vietnamese and Soviet propaganda—could destroy Beijing's newfound ties with the five noncommunist states. The restoration of a pro-Beijing Kampuchea would raise the specter of an expansionist China once again, perhaps even leading ASEAN to turn toward the USSR. Another form of threat is endemic to ASEAN political systems. ASEAN elites stress national stability over electoral participation in their countries' political processes. Insurgent threats resulting from irredentism, regional autonomy demands, or increasingly organized resistance on the parts of those who see themselves deprived under present political arrangements are suppressed by authoritarian regimes.

Frequently, appeals for reform are ignored or branded as "communist inspired."[18] Most of the ASEAN societies, then, could be political time bombs. If revolution occurred in the Philippines or Thailand, for example, the U.S. position in the region could change overnight because of its close ties to the "ancient regimes."

While abjuring direct military intervention in Asian confrontations, the United States has, nevertheless, continued to assist friendly regional powers in Southeast Asia through modest but growing military and

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[18]Charles Morrison and Astri Suhrke, "ASEAN in Regional Defense and Development," in Surderchan Chawla and D.R. Sardesi, eds., *Changing Patterns of Security and Stability in Asia* (New York: Praeger, 1980), especially pp. 194-199.

economic aid programs. ASEAN members have been particularly singled out as an incipient security group whose policies encourage international trade and investment. Support for strong noncommunist governments fits the U.S. vision for Asia's future. In effect, a successful ASEAN was precisely the kind of regional group that United States had hoped to foster in its ill-fated defense of South Vietnam. Although Indochina has since become a Vietnamese sphere of control (some would say—incorrectly—Soviet), the ASEAN states remain independent, cooperative, and staunchly opposed to all brands of communism, be they Russian, Chinese, or Vietnamese.

In Vietnam, the Soviet Union now has a close ally in the region for the first time. Its ships and planes regularly use the SRV's ports and airfields. Long-range "Backfire" bombers have been seen on Vietnamese airfields, and more recently, the deployment of Tu-16 "Badgers" with A-15 missiles.

Up to 22 Soviet warships are now in Cam Ranh Bay on any given day, a threefold increase since 1980. They include two to four submarines, four to six surface vessels, and ten to twelve support ships in addition to the Tu-95 and Tu-16 bomber and reconnaissance aircraft. The submarines are being serviced by five Soviet-built floating piers.

Vietnamese facilities provide for crew R&R, resupply, and minor repairs, allowing the Soviets to avoid costly and lengthy returns to Vladivostok. Soviet submarines also are able to stay on station in the Indian Ocean-South China Sea perhaps twice as long with service piers in Cam Ranh Bay. But these bases are not especially useful at present for launching attacks on other Asian states. There are no large Soviet military forces in Vietnam, nor a major air force. Nor have the facilities been developed into a supply depot for ammunition, fuel, and provisions for protracted operations. They do provide the Soviets a foothold from which to expand their Southeast Asian presence.

It should be noted, too, that the Soviets have no fixed wing aircraft carriers for power projection. The *Minsk* is essentially designed for anti-submarine warfare action. And Vietnamese officials continue to insist—most recently in late December—that the Vietnamese ports are not Soviet bases. As Foreign Minister Nguyen Co Thach stated: "The Soviet-Vietnam relationship will never become a military alliance in the future."

Such statements could well be a signal to ASEAN and the PRC that Vietnam's relationship with the USSR is still negotiable. That is, if China and ASEAN persist in supporting the Khmer resistance, Hanoi could, indeed, provide increased base rights; or conversely, if ASEAN and China agreed to negotiate some kind of acceptance of a Vietnamese-

dominated Kampuchea, the Vietnamese could limit Soviet use of the bases.

With Soviet forces operating out of Danang and Cam Ranh Bay, ASEAN states have not only called upon the United States to maintain its Seventh Fleet in the region, but are even thinking about the possibility of an enhanced Japanese naval escort force which could operate in conjunction with the Seventh Fleet up to the Straits of Malacca.[19] Japanese Self-Defense Forces Director-General Joji Omura has acknowledged that Japan's sea lanes are vulnerable to a strengthened Soviet naval presence ranging from the Western Pacific through the Indian Ocean.[20] From Cam Ranh Bay, Soviet bombers are within two hours of the Malacca Straits and can easily monitor military movements in Subic Bay and around the South China coast.

Not surprisingly, Washington has centered its Southeast Asian security hopes on ASEAN. Insofar as America proclaims a security policy in this region, its goal is to help maintain ASEAN's independence and to promote its members' development.[21] This vision is complicated, however, because Southeast Asia also remains Asia's only subregion in which hot war continues—along the Thai-Kampuchean and Thai-Lao borders. Should Thailand become embroiled in these conflicts, ASEAN and U.S. security interests would be affected. The key question is whether local hostilities can be contained (and hence U.S. security interests reduced), when China and the USSR are backing the contenders?

SINO-SOVIET COMPETITION IN SOUTHEAST ASIA

Since military tension persists along the China-Vietnam frontier and along the lengthy Sino-Soviet border, Southeast Asian hostilities are linked to the overall conflict in Sino-Soviet relations. Noteworthy is the fact that these hostilities between Soviet and Chinese supported forces, which have persisted in mainland Southeast Asia since 1977, are not the

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[19]Author interviews in ASEAN capitals, May-June 1981. For an alternative view, accepting the idea of Japan's navy patrolling north of the Philippines but no further, see Jusuf Wanandi, "The United States and Southeast Asia in the 1980s" (a paper presented to the U.S.-ASEAN Conference on Economic, Political, and Security Issues in Southeast Asia in the 1980s, November 2-5, 1981, Bali), pp. 18-19.

[20]*Kyodo* news dispatch reprinted in FBIS, *Asia-Pacific* (*Daily Report*), October 21, 1980, at C-1.

[21]For a recent statement of the position, see the paper by Assistant Secretary of State John Holdridge, "The U.S.-ASEAN Relationship: A Status Report," presented at the Bali Conference cited in footnote 19.

acts of insurgents or of the "national liberation movements" endemic to the noncommunist states. Rather, fighting continues between contending Indochinese communist militaries and has even directly involved China's People's Liberation Army (PLA). The victors of the Second Indochina War are the combatants in the Third, while the alleged "dominos" of Southeast Asia, at least to this point, have the enviable, though uneasy, role of spectators. Will the spectators be called off the bench? Answers to this question depend on the region's importance to the players and trends in the latest Indochina conflict.

The PRC is clearly dissatisfied with current alignments on mainland Southeast Asia. Its greatest desire is to see the Soviet-Vietnamese relationship disrupted and Indochina restored to the "status quo ante" of three small separate states susceptible to Chinese domination. Beijing urges the creation of a large anti-Soviet "United Front" of Asian noncommunist states plus the U.S.[22] In the face of such overwhelming opposition, Hanoi presumably would sever its Soviet connection in order to avoid diplomatic isolation—though the Chinese acknowledge that this outcome may take years to achieve.[23] In order to encourage the formation of a broadly based anti-Soviet coalition, the PRC has virtually abdicated its role as leader of the world's radical agrarian revolutions, turned a blind eye to issues of social injustice in the Third World, and been ready to associate with any government (including Chile) willing to classify the USSR as its primary enemy. (Even John Foster Dulles would probably have accepted a PRC with this orientation.)

Over the past few years, Chinese leaders, including Deng Xiaoping, Huang Hua, and Zhao Ziyang have traveled extensively through Asia, holding numerous talks with the region's leaders. The PRC has used the occasions to associate China's goals of political independence and economic development with those of other Asian states. Warning that the major obstacle to their common advance is the Soviet "southward thrust" from Afghanistan through Kampuchea, Beijing has urged its Asian neighbors "to consult among themselves and unite more closely to cope with the common peril."[24] Toward this end, China is making significant efforts to mend fences with India and reassure the ASEAN states that it no longer provides material assistance to pro-Beijing communist insurgen-

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[22]Typical is the article by "Commentator" in *Xinhua*, July 11, 1981, reprinted in FBIS—*PRC* (*Daily Report*), July 13, 1981, E-2 through E-4.

[23]*Ibid.*

[24]See the comments by "Commentator" in *Renmin Ribao*, July 8, 1981, reprinted in FBIS—*PRC* (*Daily Report*), July 9, 1981, F-1.

cies within their territories. (Some modest financial support for clandestine communist radio transmitters of the Malayan Communist Party has continued, however.)

Vietnam and the USSR have been placed in a defensive political position, partly as a result of China's diplomacy. Hanoi's complete economic and military dependence on the USSR has temporarily foreclosed opportunities for improving relations with the ASEAN states for both Hanoi and Moscow. As long as the latter persist in Vietnam's occupation of Kampuchea and a growing Soviet use of Indochinese ports and airfields, China's political acceptability in the region will surpass that of its adversaries. Regional consensus identifies the Soviet-Vietnam alliance as the most imminent threat to Southeast Asia.

The Soviets, on the other hand, have been appalled at what they perceived to be the formation of a Sino-Japan-U.S. "entente" attendant upon the Sino-Japanese Friendship Treaty of 1978. In line with their generally paranoid view of world politics, Soviet leaders interpreted the antihegemony rhetoric emanating from Washington, Tokyo, and Beijing as a coordinated effort designed to exclude the USSR from a significant role in Asian affairs—an unrealistic prospect, given the growing Soviet strategic presence in the region.[25] Moscow's subsequent "Friendship Treaty" with Vietnam was a kind of political insurance against the tripartite united front the Soviets believed had formed against them. Seen in this light, the treaty with Vietnam and renewed publicity for a proposed Asian collective security system were the USSR's way of buying back into regional affairs.

Hanoi resisted Soviet requests for affiliation with the Council of Mutual Economic Assistance (COMECON) and base rights for three years, succumbing only when the Soviets agreed to support Vietnam's plan to invade Kampuchea.[26] The cost of this bargain for the Soviets has

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[25]The Institute for the Far East of the USSR's Academy of Sciences offered a representative argument in V. Arkhipov, "The Soviet Union's Struggle for Peace and Detente," *Far Eastern Affairs*, No. 1 (1981), p. 9: "The Maoist strategic objective of achieving world hegemony remains unchanged as is illustrated by the results of recent visits by Hua Guofeng . . . to Japan, by Vice Premier Geng Biao to the U.S., and by Foreign Minister Huang Hua to Western Europe. China's hostility towards the Soviet Union and the Socialist Community is seen as a trump card in Washington's military and political gamble. The U.S. and Japanese monopolies are known to be planning investments worth tens of billions of dollars in China . . . this money will be used, above all, to further militarize the country. This is not yet, of course, a military alliance in the full sense of the term, but Chinese rapprochement with imperialism poses a grave danger in the present day international situation."

been considerable. It seriously set back relations with China at a time when there was hope of improving them; it exacerbated relations with the United States, and worst of all, provided an incentive for China, the United States, and ASEAN to move together against Soviet regional interests. According to a number of Western sources, the Soviets have broached the desirability of a coalition government for Kampuchea and warned Vietnam against crossing into Thailand—all in hopes of salvaging relations with ASEAN. But the USSR can no longer ask ASEAN states to close American bases in the Philippines, when Soviet ships and aircraft regularly ply the waters of Cam Ranh Bay and use U.S.-built air facilities at Danang.

Although Soviet-Vietnamese ties are close and there may be several thousand Soviet advisors in both Laos and Vietnam, there are indications of friction between the Russians and Vietnamese over Kampuchea.[27] Vietnamese officials have reportedly complained about Soviet efforts to deal directly with the Heng Samrin regime and its fledgling army, bypassing Vietnam in the process. Hanoi may well fear the possibility of the Soviets gradually taking control of its Indochinese clients. Thus, in 1982, Hanoi effected the removal of Pen Sovan from Phnom Penh's leadership, apparently because of his eagerness for direct, bilateral assistance from the Soviet Union.

Should Soviet-Vietnamese frictions increase, it is not inconceivable that the SRV might maneuver to loosen its Soviet connection and renew negotiations with China. Interestingly, Chinese leaders had predicted these frictions in 1978 and 1979, claiming that, once Hanoi had experienced Soviet alliance pressures, it would decide to disengage on its own.[28] While no such disengagement had occurred by early 1982, continuing differences with the Soviets could portend a possible break in the diplomatic logjam, which would permit Vietnam, China, and ASEAN to negotiate a new *modus vivendi*. This new arrangement could comprise a tradeoff of ASEAN, Chinese, and American recognition of Vietnam's Kampuchean sphere of influence in exchange for a Vietnamese commitment to terminate or drastically reduce Soviet base rights.[29]

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[26]Gareth Porter, "The Great Power Triangle in Southeast Asia," *Current History*, December 1980, pp. 163-164.

[27]See Nayan Chanda's reports throughout 1981 in *FEER*.

[28]See argument in Simon, "The Soviet Union . . .", *op. cit.*

[29]For an elaboration of this argument, see Sheldon W. Simon, "Towards a U.S. Security Policy in Southeast Asia: A Maritime Emphasis," in Ramon Myers, ed., *Conflict or Peace: An American Foreign Policy for Asia* (Stanford: The Hoover Institution, 1982).

ASEAN SECURITY PERCEPTIONS AND POLICIES IN A POST-ZOPFAN ERA

Until 1978, ASEAN states encouraged Washington to establish relations with Vietnam in order to provide an alternative to the latter's dependence on the USSR. ASEAN's skepticism about the credibility of U.S. commitments toward Southeast Asia also led to the Association's search for alternative approaches to security. ZOPFAN, the Zone of Peace, Freedom, and Neutrality, as one such approach, was dashed with the formation of the Soviet-Vietnamese alliance. A second option may be summed up in the Indonesian notion of "regional resilience"—meaning not only strong domestic governments but also the gradual creation of external defense capabilities. "Regional resilience" would presumably supersede the more traditional, passive notion of neutrality. Drawing from the Swiss experience, the ASEAN states would emphasize domestic political stability, economic growth, and ultimately sufficient military strength to cope with indigenous regional challenges to security without depending on outsiders for assistance—or because of weakness—providing opportunities for external powers to exploit. As the region's largest state, Indonesia has been the concept's strongest backer because "regional resilience" provides a rationale for Jakarta's leading role in area security matters.[30]

Vietnam's crisis with Kampuchea and its reliance on Soviet military support to sustain its domination of Indochina accelerated the normalization of relations between Washington and Beijing and a hardening in U.S. policies toward Hanoi. The Kampuchean crisis also effectively accelerated ASEAN's shift away from promoting regional neutrality schemes and toward a surprising move to revive the moribund Manila Treaty. Under the terms of this agreement, Washington has been able to justify increased deliveries of military supplies and assistance to Thailand. Thus, U.S. military aid more than doubled from 1981 to 1983, going from about $40 million in 1981 to $67 million in 1982 and $91 million for 1983. Weapons provided include artillery for border defense as well as coastal patrol boats, helicopters, and air defense communications.[31]

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[30]For a more extended analysis of Indonesia's interpretation and application of the "regional resilience" concept, consult Donald E. Weatherbee, "The United States and Indonesia: New Realities in Southeast Asia," *Strategic Review*, Fall 1980, pp. 50-63.

[31]Interview with "Richard Holbrook on the Problems of Southeast Asia," *FEER*, November 16, 1979, pp. 14-16. Also see "More Arms Aid Sought for Asia," *The New York Times*, April 27, 1982.

In addition to establishing closer economic relations with the U.S. and Japan, ASEAN has provided its five members with the political ability to maintain "independent" foreign policies through frequent consultations, leading to a diplomatic united front. Most important, these consultations mean that each member develops a stake in the others' successes and tries to accommodate the others' needs. Because of the necessity for accommodation, ASEAN external relations tend toward caution and consensus. The Association has deferred to the member country whose interests seem to be most at risk—as, for example, Thailand with respect to the Vietnamese occupation of Kampuchea.

Because the military capabilities of the five are insufficient to meet external threats, however, reliance on American deterrence in the forms of U.S. Pacific air and naval power constitutes the unstated basic premise of ASEAN security. In effect, a kind of security burden sharing has evolved in Southeast Asia in the early years of this decade. The United States supports conventional force improvements in the ASEAN states through its foreign military sales programs, and balances the growth of Soviet naval and air power in the region by the expansion of the Seventh Fleet.

The success of this "division of labor" depends on the ASEAN states' willingness to expand their military capabilities beyond the confines of internal security to both modest regional air and naval patrol activities and land-based border cooperation. It also depends on ASEAN's continued political backing for U.S. bases in the Philippines (and perhaps other locations such as Singapore or Cockburn Sound, Australia), through which American air and naval power may be projected to the Indian Ocean as well as to Japan and Korea. If the ASEAN states continue to view these bases as essential for their own security, they can be defended politically against rising Philippine nationalist and anti-regime sentiments. But if the time comes when the noncommunist states of the region view these bases as superfluous, or worse—as an encroachment upon national sovereignty—their days will be numbered.

ASEAN military expenditures are on the rise.[32] In 1980, they totaled $5.5 billion, a 45 percent increase over 1979 and double that of 1975. Over the same period, U.S. military aid to ASEAN increased 2.5 times compared with the first half of the 1970s, from $327 million to $820

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[32]The following data may be found in Ho Kwon-Ping and Cheah Cheng Hye, "Five Fingers on the Trigger," *FEER*, October 24, 1980, pp. 32-37. The 1981-1982 figures for ASEAN are taken from the U.S. Embassy, Bangkok, Report on U.S. Security Assistance to East, Southeast Asia and the Pacific.

million. Between 1981 and 1982, U.S. foreign military sales to the ASEAN states increased 12 percent, from $140 to $188 million. Commercial arms sales from the United States to ASEAN armed forces between 1977-1980 also skyrocketed to $2.48 billion from $1.12 billion during the 1970-1977 period. While much of this aid is directed to counterinsurgency, recent spending has been allocated for such new strategic items as Malaysian and Indonesian air bases and modern naval weapons systems whose ultimate use would be to project military power beyond national boundaries to protect vital sea routes and monitor regional military movements.

A true regional military capability for the ASEAN states is still many years away. In the early 1980s, ASEAN's combined military forces totaled less than 700,000 personnel, while Vietnam alone had a military establishment of more than one million. ASEAN militaries have never fought a conventional war. The two largest ASEAN armies—those of Indonesia and Thailand—have about one-third of their personnel involved in civil and administrative duties. There is little arms standardization, no common training and command systems, and, of course, no common language. Some bilateral joint naval and air exercises occur; but they have never included full-scale maneuvers or war games, which would, for example, include multinational air-ground combat coordination.

Were Thailand to be subjected to a full-scale Vietnamese attack in the near future, it is unlikely ASEAN could offer much military assistance. Malaysian and Philippine capabilities are largely limited to handling domestic insurgencies, while Indonesia has little to spare in the way of ammunition and equipment and would be hard pressed to provide even a combat ready battalion. The one area in which some joint progress has been made is the air force. All ASEAN air forces plan to employ F-5Es within the decade. Joint air exercises are leading to standardization in weaponry and operational doctrine.

In general, the ASEAN states prefer to see both Chinese and Vietnamese influence kept to a minimum in Southeast Asia. ASEAN's argument to Vietnam is that, by withdrawing its forces from Kampuchea and accepting a neutralist coalition government, Chinese influence would atrophy. Subsequently, Vietnam could regain its independent foreign policy, including American reconstruction aid. But under General Prem, Thailand seems to have lost sight of this strategy and is opposing Vietnam's occupation of Kampuchea as an end in itself. This plays into Hanoi's hands, for the SRV claims Thailand is a principal in the conflict, since it supplies and provides sanctuary for the Khmer resistance.

The U.S. view of ASEAN's Indochina policy is ambivalent. Washing-

ton claims that it will follow ASEAN initiatives with respect to the Kampuchean conflict. Yet, when ASEAN diplomats convened a 93-nation U.N. conference in July 1981 to draw world attention to Vietnam's continued occupation of Kampuchea, the United States did not firmly support ASEAN over its differences with the PRC. Specifically, ASEAN proposed that all foreign troops be withdrawn from Kampuchea and all elements within the country be disarmed prior to U.N.-supervised elections. The PRC opposed this proposition on the grounds that nothing should be done to weaken the Khmer Rouge because it comprised the strongest element of the Kampuchean resistance (and the one most beholden to Beijing). Washington's failure to back ASEAN in large part accounted for the latter's reluctant modification of its resolution. The outcome elicited ASEAN resentment over what was perceived once again as U.S. willingness to subordinate its relations with Southeast Asia to its China policy.

Meanwhile, Thai and Singapore leaders have warned that, if Vietnam continues to send its forces into Thai territory, ASEAN could move toward collective security arrangements.[33] This threat may well sound hollow to Hanoi, particularly since there is still no consensus among the ASEAN states as to whether the SRV/Soviet entente or the PRC is the greater threat. Even if a consensus did emerge, which identified Vietnam as the greatest regional threat to stability, ASEAN's diverse, small, uncoordinated militaries would be no match for the VPA, especially if the latter remained fully supplied by the USSR.

If ASEAN agrees to coordinate its growing air and naval capacities in the 1980s with the U.S. Seventh Fleet and a growing Japanese Maritime Self-Defense force operative in the Northwest Pacific, then the Soviet Pacific Fleet could be readily monitored through an American-led central communications command-and-control system. And ASEAN would become an important link in an anti-Soviet surveillance system, growing out of Vietnam's unwillingness to accommodate on Indochina.

U.S. SECURITY PERCEPTIONS AND POLICY RESPONSES

U.S. policy toward Asia since 1975 has seemed reactive and inconsistent. Those who preferred a low profile and reduced American commitments argued that rapprochement with China left only the USSR as a

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[33]See the remarks by Thai Deputy Foreign Minister Arun Phanophong in the *Bangkok Post*, November 11, 1980, reprinted in FBIS—*Asia/Pacific* (*Daily Report*), November 12, 1980, at J-1 through J-4.

regional adversary and that Moscow's political position in Asia was weak. This argument ignores, however, the fact that the U.S. is a Pacific power with the bulk of its trade and rapidly growing investment conducted in that region. Moreover, because Japan depends on Southeast Asia shipping lanes for almost all of its petroleum, the Seventh Fleet serves to protect vital commercial waterways.

An opposing view contends that the USSR is a genuine threat to Asia but that the United States should no longer be required to meet that threat alone. Instead, Washington should create the broadest possible coalition against the Soviet Union, including Japan, China, and the ASEAN states. (This, in effect, has been the Chinese strategy since 1978.) The problem with this approach is that it further exacerbates tensions with the USSR and tends to force Soviet-American relations back into the 1950s Cold War mold. Moreover, U.S. support for the PRC's "United Front" could have the unintended effect (from Washington's perspective) of abetting the creation of PRC hegemony in the region which, in turn, could lead to fissures within ASEAN. Malaysia and Indonesia are at least as suspicious of China as they are of Vietnam. Nevertheless, as the USSR continues to strengthen its military presence in Vietnam, U.S. policy makers concerned with meeting and detering the Soviet challenge have tended to respond by reinforcing links to the PRC, e.g., through the sale of dual-use technology and provision of more military aid to the ASEAN states.

Support for the ASEAN governments has created another dilemma for U.S. policy makers. Because U.S. alliance diplomacy is severely constrained in Southeast Asia, Washington's participation consists of backing friendly states. But insofar as Washington becomes involved in supporting ASEAN incumbents, it is identified with authoritarian regimes which, for the most part, are concerned less with social justice than with the aggregate development of their economies. While ASEAN has been notably successful in the past decade in increasing aggregate growth rates, disparities between the poor and the rich in Indonesia, the Philippines, and Thailand have increased. Ruling elites are narrowly based in gentry and industrial/technocratic classes and frequently sustained in power by their respective militaries. If the global recession persists, internal political tensions in several ASEAN states could lead to upheavals bringing to power elites who are less willing to coordinate security plans with the United States.

Nevertheless, the United States has little choice but to deal with friendly governments as they exist, despite the inevitability of succession

crises in authoritarian political systems, the shallowness of their political institutions, and alternating bouts between law-and-order and revolutionary violence. On the positive side, all ASEAN governments are pursuing nationalist development strategies. New scientific-managerial-technological elites are emerging, who are able to apply the extraordinary advances of recent decades in the fields of industry, agriculture, and population control. ASEAN's potential for growth is particularly heartening. In aggregate economic growth, it has been one of the most successful regions of the world for the past fifteen years. If Indonesia, Malaysia, Thailand, and the Philippines succeed in diversifying and decentralizing their light industrial bases, while developing agricultural credit systems that permit farmers to stay on the land, these various potential social revolutionary pressures could be alleviated.

Even the ostensible diplomatic backing of the U.S. for ASEAN over the Kampuchean issue creates problems. Should the war heat up again, would the United States be willing to go beyond the provision of hardware to assist Thailand militarily? If not, would American credibility be further eroded in the region, leading to new pressures for closing Philippine bases? In addition, the increasingly apparent split within the five over strategy toward Vietnam and the PRC could lead to pressures on Washington to throw its weight to one side or the other.

A major task for American diplomacy in Southeast Asia, then, is to encourage resolution of the Indochina-ASEAN confrontation. Washington should hold intensive private discussions initially with Thailand (and subsequently the other ASEAN states), stressing the fruitlessness of a continued standoff with Vietnam and pointing out that acceptance of Hanoi's *fait accompli* could serve to reduce PRC pressure on ASEAN alignment as well as provide an opportunity for Vietnam to limit its dependence on the USSR. By terminating assistance to the Khmer Rouge, Bangkok would demonstrate its goodwill to Vietnam. Hanoi has indicated that such a policy from Thailand would lead to the withdrawal of its forces from the Thai border. Reduction of the direct Vietnamese threat to Thailand, in turn, would permit the other ASEAN states to enter into negotiations with Hanoi, which could restore normal relations among them and lead to an understanding on the reduction of the Soviet presence in Indochina. In practical terms, Hanoi could limit Soviet military vessels to the kinds of port calls they made prior to 1980. This could be negotiated in exchange for American and Japanese reconstruction assistance.

The main obstacle to the realization of this scenario is, of course, the PRC. Beijing, in effect, would be the big loser if these developments were

to occur. Thus, China, too, would have to be convinced that accommodating Vietnam would be a more effective way ultimately of limiting the Vietnam-USSR relationship than continuing to "bleed" Hanoi by threats of military action and support for the Khmer Rouge. It is unlikely, however, that China will accept this logic, for its dispute with Vietnam is not confined to the latter's Soviet tie, but is also the product of a strong historical pattern. Keeping a smaller, neighboring state in a subordinate position is central to the PRC's regional view. From this perspective, Vietnam is a recalcitrant "tributary" and must be taught a "lesson." But there is no reason for ASEAN or the United States to become involved.

CONCLUSION

The probable American contribution to Southeast Asian security for the remainder of the 1980s will consist of air and naval forces in the region, despite the increasing cost, to balance the Soviet buildup. Unlike its role in the 1960s, the United States will not attempt to assist incumbent governments in coping with their internal security problems or localized frontier defense concerns—except for the sale of military equipment and the provision of some training. America's direct security role will be confined instead to maintaining the freedom of sea and air lanes.

But the United States should no longer be required to engage in such regional defense on its own. A growing Japanese naval capacity can assist in monitoring the waters around Japan's home islands. Australia has inaugurated Indian Ocean patrols. And Malaysia and Indonesia have begun to acquire the air and naval units needed to monitor the seas around their many straits.

Insofar as the ASEAN states have rejected the proposed deployment of Japanese ships to escort tankers to the Straits of Malacca, Lombok, and Sunda, then Malaysia and Indonesia should develop their own abilities to keep these waters open to international commerce in cooperation with the U.S. Seventh Fleet. The Philippines, too, may well have the incentive to engage in naval surveillance, for it has its eye on a claim to part of the Spratlys in contention with Vietnam. Toward this end, the Philippine air force has recently purchased Fokker surveillance aircraft.

All of these capabilities could serve an American maritime security interest and should be supported by Washington through the provision of military credits and sales on easy terms. The second half of the 1980s, then, portends a U.S. strategy for Southeast Asia that focuses on its

location as a link between the western Pacific and the Indian Ocean/Persian Gulf. The vast international commerce in this region requires air and naval deployments in cooperation with friendly states to maintain the freedom of commercial routes and to deter any Soviet or Vietnamese expansionary designs.

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Ferdinand Marcos and the Crisis in the Philippines

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INTRODUCTION

The recent tragic, and subsequently dramatic, events in the Republic of the Philippines have forced Americans to reflect, however briefly, on what the future might hold for the archipelago that the United States administered as a colonial possession for half a century. The first response to the brutal assassination of former Senator Benigno Aquino, Jr., of course, was the almost universal prejudgment in the American media that Ferdinand Marcos and/or his immediate entourage were directly implicated in the crime. Thereafter, the series of public demonstrations in the islands led many knowledgeable Americans to draw analogies between what was transpiring in the Philippines and the tragedies that had overwhelmed Iran and Nicaragua in the not-too-distant past.

The result of all this has been considerable confusion among lay Americans and evident signs of stress among those in the policy-making establishment in Washington. With the suggestion that the Marcos government was in some sense responsible for the Aquino assassination, and with the manifestation of large-scale, anti-Marcos demonstrations in Manila, it became prudent for those responsible for U.S. policy to put a measure of distance between the Reagan Administration and the government of Ferdinand Marcos. The cancellation of President Reagan's state visit to the Philippines was the most immediate effect. This was followed by the many increasingly blunt recommendations proferred by U.S. public officials to the Marcos government, with the result that relations between the two countries have become increasingly strained and troubled.[1] This is a matter of considerable concern. The Philippines must figure as an important element in any rational U.S. policy in East Asia. Any lasting deterioration of relations could be of serious consequence.

U.S. INVESTMENT IN THE PHILIPPINES

While American economic interests in the Philippines are not negligible, they are in general of marginal importance to the overall economic well-being of the United States. Direct American equity investments in the Philippines amount to about $1.5 billion in book value and perhaps twice as much in market value. Bilateral trade amounts to about $3.5 billion. Since 1979 the Philippines has incurred increasingly large trade deficits with the United States.

U.S. business is the single largest investor in the islands, providing about half of all foreign equity investments, but those investments

[1]"U.S. Presses Marcos to Curb Cronies, Prepare Succession," *The Asian Wall Street Journal, Weekly*, January 9, 1984.

constitute a scant 0.5 percent of all U.S. foreign equity investments. And while the United States is the major trading partner of the Republic of the Philippines, engaged with it in about 30 percent of all its external trade activities, trade with the Philippines constitutes but 0.8 percent of all U.S. foreign trade and only about 7 percent of U.S. trade in Asia.[2]

Thus, even though U.S. business interests in the Philippines are matters of some importance, economic factors could hardly serve as determinants in the policy deliberations in Washington. Of more importance, perhaps, is the role of the Republic of the Philippines in the future development of the region. As a founding member of the Association of Southeast Asian Nations (ASEAN), the Philippines serves as a major conduit to what is anticipated to be a future "Southeast Asian boom belt."[3] There is every reason to believe that, with the recovery of the international trading and investment system, ASEAN will offer a wide variety of opportunities to U.S. enterprise.[4]

Of far more significance in any calculations involving U.S. policy in East Asia in general, and Southeast Asia in particular, is the strategic importance of American military bases in the Philippine archipelago. The diplomatic and military role played by the support and forward projection potential of the facilities at Subic Bay and Clark Field has become increasingly evident over the last decade.

The U.S. bases in the Philippines, originally established at the turn of the century as coaling stations and ancillary logistical support facilities for East Asian trade, have now become irreplaceable links in a security chain that makes a critical contribution to the peace and security of the entire West Pacific.[5] The military buildup of Soviet forces in East Asia and the rapidly expanding blue water capabilities of the Soviet Pacific Fleet have made the bases in the Philippines vital to U.S. interests and essential to the defense of all nations in the region.[6] Currently, 30 or 40

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[2]See A. James Gregor, ed., *The U.S. and the Philippines: A Challenge to a Special Relationship* (Washington, D.C.: Heritage Foundation, 1983), pp. 1, 67; Edberto M. Villegas, *Studies in Philippine Political Economy* (Manila: Sinangan, 1983), p. 4.

[3]"Southeast Asia's Boom Belt," *San Francisco Chronicle*, March 9, 1983, p. F-1.

[4]Lloyd R. Vasey, ed., *ASEAN and a Positive Strategy for Foreign Investment* (Honolulu: Pacific Forum, 1978); John Wong, *ASEAN Economies in Perspective* (Philadelphia: Institute for the Study of Human Issues, 1979), chap. 5.

[5]Larry Niksch, *Philippine Bases: How Important to U.S. Interests in Asia?* (Washington, D.C.: Congressional Research Service, August 1, 1980); Alvin J. Cottrell and Robert J. Hanks, *The Military Utility of the U.S. Facilities in the Philippines* (Washington, D.C.: Georgetown University, 1980).

[6]Tan Su-cheng, *The Expansion of Soviet Seapower and the Security of Asia* (Taipei: Asia and the World Forum, 1977).

Soviet combat and support vessels remain on station at Cam Ranh Bay, and regular reconnaissance and surveillance sweeps of the South China Sea are carried out from Danang by Soviet aircraft.[7] These Vietnamese bases provide the Soviet Union with ready access to the entire South China Sea region and the critical chokepoints leading to and from the Indian Ocean.

The Soviet Pacific Fleet now deploys about 550 combatants, including 135 submarines (of which 65 are nuclear powered), the aircraft carrier *Minsk*, 83 major combat vessels, including *Kara* and *Krivak* class missile cruisers and destroyers, as well as about 330 smaller combatants. The fleet is supported by about 2,000 combat aircraft, among which are over 175 medium- and long-range machines including as many as 100 Tupelov Backfire Bombers with a range that extends from their Siberian and Maritime Province bases to Australia.

In effect, the Soviet military presence in East Asia is now quite formidable and its capabilities in Southeast Asia are impressive. The unstated premise of the collective defense policy of the ASEAN community is the continued deterrent presence of American armed forces at Subic Bay and Clark Field.[8] Only the availability of U.S. capabilities to offset the growing Soviet forces allows the nations of ASEAN the security that permits them to devote the bulk of their resources to economic development rather than military expenditure. Only under such circumstances could the Republic of the Philippines devote only 1.7 percent of its gross national product to defense.

Beyond the threat of a Soviet military presence, the entire South China Sea region is an area afflicted with contested territorial claims. Sovereignty over parts of the continental shelf as well as the sand bars, cays, shoals, reefs, and islands in the area is contested by the People's Republic of China, the Republic of China on Taiwan, the Socialist Republic of Vietnam, Brunei, Malaysia, Singapore, and the Republic of the Philippines. The Republic of China, Vietnam, and the Philippines, for example, all maintain garrisons on islands in the contested Spratly group to which Beijing has laid claim. The People's Republic of China has been so determined in pursuing its claims that, as late as 1974, it undertook to

[7]Theodore Roy, "The Soviets and the South Pacific," communication before the First National Conference on Interdisciplinary Approaches to Peace, Sidney, Australia (mimeographed).

[8]See Jusuf Wanandi, "Security in the Asia-Pacific Region: An Indonesian Observation," *Asian Survey*, December 1978, p. 1214, and "Conflict and Cooperation in the Asia-Pacific Region: An Indonesian Perspective," *ibid.*, June 1982; Lee Boon Hiok, "Constraints on Singapore's Foreign Policy," *ibid.*, p. 528.

seize the Paracel Islands in a combined military operation in order to establish possession against other contenders.

Preoccupation with control over the waters of the South China Sea is easily comprehensible. Not only do the major trade routes that supply the market economies of Northeast Asia traverse the region, but the Soviet Union uses the waterways to supply its armed forces in its far eastern territories. Moreover, the continental shelf probably offers recoverable petroleum deposits, and several of the nations that claim sovereignty have already begun underwater exploration and drilling. In effect, interest in the area is so intense that without a U.S. presence the situation might easily devolve into conflict.[9] Any territorial conflict could escalate, since all the major powers have a critical interest in free passage through the region.

The United States security bases in the Philippines thus serve essential strategic and military functions. At this time, there is no reasonable substitute for them. Guam is four days steaming time distant, and Apra Harbor is too small to accommodate the large deck carriers of the Seventh Fleet. Moreover, the repair and maintenance facilities on Guam are grievously inadequate. Bases in what were the Pacific Trust Territories would require a decade of construction, be extremely expensive, and probably enjoy only insecure tenure. Bases in Japan or Hawaii, comparable to those in Subic, are too far from the South China Sea and the Indian Ocean to allow the United States to intervene effectively in local crises should that prove necessary.

The Philippine-U.S. military bases agreement constitutes one of the critical components in the security arrangements that provide for the stability and peace of East Asia. Without a credible American presence in the region, Soviet risk calculations would be far more simple, and the prospects of Communist Chinese adventure would be significantly enhanced. The recognition of the importance of access to the Philippine bases is therefore the single most important factor influencing the relations between Washington and Manila. Any radical change in bilateral relations could jeopardize American access to the Philippine bases and threaten the most important interests of the United States in East Asia. For this reason, policy makers in Washington have monitored the growing crisis in the Philippines with considerable attention. A political change in the Philippines that might jeopardize U.S. access to facilities in the archipelago could engender a crisis with unpredictable consequences.

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[9]See A. James Gregor, "The Key Role of U.S. Bases in the Philippines," *Asian Studies Center Backgrounder* (Washington, D.C.: Heritage Foundation, January 10, 1984).

THREATS TO THE MILITARY BASES AGREEMENT

It is evident that any revolutionary change in the political arrangements in the Philippines that allowed the Marxist-Maoist Left to influence policy in Manila would immediately jeopardize the bases agreement with the United States. The Maoist Communist Party of the Philippines and its affiliated National Democratic Front have long since announced their determination, upon accession to power, to "nullify" all "unequal treaties and arrangements" with the United States.[10] The proposed "abrogation of all treaties, executive agreements and statutes" clearly involves the basing agreement with the U.S. armed forces. The Marxist, anti-Marcos opposition is explicitly committed to a "campaign against the U.S. military bases" and all security relations between the Republic of the Philippines and the United States.[11]

Should the current crisis in the Philippines produce a successor government to that of Marcos that included elements of the radical Left, the bases agreement could become an immediate victim. Such an outcome becomes increasingly possible in view of the position assumed by what Americans have chosen to call the "moderate" opposition.

When Americans speak of the "moderate" anti-Marcos opposition in the Philippines, they seem to have in mind the United Nationalist Democratic Organization (UNIDO), the umbrella organization of twelve anti-Marcos opposition groups led by Salvador Laurel. UNIDO is spoken of as a "moderate" and "democratic" alternative to the Marcos government.

Whatever "moderate" may mean in the Philippine context, the positions assumed by UNIDO with respect to American interests in the islands are far from moderate. In May 1983, Laurel announced that UNIDO had decided to make the abrogation of the U.S.-Philippines bases agreement a policy commitment.[12] By June, the position long advocated by Jose Diokno's Anti-Bases Coalition (ABC) had become official policy of UNIDO. Joined by former Senator Lorenzo Tañada, Laurel and Diokno have insisted that "changed circumstances" in the Philippines warrant the abrogation of the bases agreement—even before the formal termination date of 1991. As early as April, 50 leaders of 27

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[10]*Manifesto of the National Democratic Front-Philippines* (Mansfield Depot, Conn.: Philippines Research Center, n.d.), pp. 1, 3.

[11]*Programme for a People's Democratic Revolution in the Philippines* (Boston: Philippines Liberation Press, 1975), pp. 14, 17.

[12]William Branigin, "As Talks Approach, Philippine Opposition to U.S. Bases Grows," *International Herald Tribune*, May 5, 1983.

"moderate" anti-Marcos opposition groups had signed a declaration demanding the abrogation of the bases agreement with the United States and the withdrawal of all U.S. military forces from the archipelago.[13]

The "moderate" anti-Marcos opposition thus has made it manifestly clear that abrogation of the bases agreement has become a central policy goal. Reynaldo Fajardo, leader of the Movement for National Survival, Jaime Guerrero, head of the Anti-Bases Movement, Rogaciano Mercado of Dambana, and political organizations, including the National Union for Liberation, the Interim National Assembly Association, and a variety of human rights groups, have all committed themselves to a campaign under the auspices of UNIDO against the U.S. military bases in the Philippines.

In dealing with the response of "moderates" to the issue of continued U.S. access to basing facilities in the Philippines, a number of commentators have chosen to treat the manifestation as though it were a consequence of pique—as though the "moderates" have become alienated from the United States because Washington has chosen to support the Marcos regime.[14] In fact, a persuasive case can be made that the current "moderate" opposition to the bases is part of a sustained anti-American bias, which was prevalent among some Philippine political elements even before the events that led to the imposition of martial law in 1972.

Anti-Americanism had been part of the intellectual baggage of a reasonably well-defined group of Filipino politicians long before the commencement of the experiment in "constitutional authoritarianism" begun with the declaration of martial law. As a case in point, in March 1983, when the Movement for National Security publicly advocated the abrogation of the bases agreement, one of its principal spokesmen was Alejandro Lichauco, a politician who had been a delegate to the Philippine Constitutional Convention of 1971.

At the time of the Convention, Dr. Lichauco had submitted a memorial to the convened delegates in which he denounced the "victimization" of the Philippines by "American imperialism." He maintained that the afflictions that have characterized the social, political, and diplomatic life of the Philippines could be understood only as a by-product of U.S. imperialism. The only solution to the problems that beset the islands was

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[13]See *Bulletin Today* (Manila), May 8, 1983, p. 1; *ibid.*, May 11, 1983, p. 32; *ibid.*, June 14, 1983, p. 36; *ibid.*, October 27, 1983, p. 1.

[14]See the discussion in William Branigin, "Opposition to U.S. Bases in the Philippines," *San Francisco Chronicle*, May 18, 1983, p. F-5.

the "dismantling" of the entire apparatus of American imperialism of which the military connection between Manila and Washington constituted an essential part. In 1971 Lichauco insisted that

> no one today can seriously deny that [the U.S. bases in the Philippines] have not only outlived whatever usefulness may have been attributed to them in the past, but that in this nuclear age, and considering America's propensity for military adventure and involvement in other countries, these bases have now become security risks of considerable magnitude. . . . But in the ultimate sense, the most damaging aspect of these bases is that they actually represent an impairment of the nation's sovereignty and the ultimate reminder to our people . . . of the essentially neocolonial status of our Republic.[15]

In 1982 and 1983, Lichauco reiterated precisely the same contentions. The problems of the Philippines were of American making—the consequences of a vicious policy of exploitation. The military bases agreement was but an aspect of a comprehensive policy of national oppression.[16] In the case of Alejandro Lichauco, the position he has assumed on the bases agreement was already clearly established before the imposition of martial law on the Philippines—and long before the United States could have been charged with having supported the "Marcos dictatorship." The anti-Americanism of his position was part and parcel of his political convictions.

Much the same could be said of many of the leaders of the anti-Marcos "moderate" opposition. As early as 1975, former Senators Jose Diokno and Lorenzo Tañada sponsored the publication of a brochure devoted to *The State of the Nation After Three Years of Martial Law*, in which it was affirmed that the imposition of martial law on the Philippines was simply the most recent instance of U.S. imperialist machinations. The United States had engineered the imposition of martial law on the Philippines because "it answered the needs of the U.S. government and business interests to protect U.S. bases, secure U.S. investments, and allow easier entry and greater scope for foreign capital."[17] In 1983, when former Senator Diokno wrote the introduction to Edberto M. Villegas'

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[15]Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York: Monthly Review, 1973), pp. 3-5, 18-19, 109.

[16]Alejandro Lichauco, "The National Situation: A Nationalist Interpretation," a paper submitted to the 14th National Convention of the National Secretariat for Social Action, Justice and Peace (June 29, 1982, mimeographed).

[17]*The State of the Nation After Three Years of Martial Law* (San Francisco: Civil Liberties Union of the Philippines, 1976), pp. 24-25.

Studies in Philippines Political Economy, he simply repeated the entire collection of New Left convictions concerning the exploitative role of American imperialism that could have been found among his notions in the early 1970s.[18] Given the fact that his ideas have been fixed for some length of time, there is nothing to suggest that anything the United States might have done, or refrained from doing, in the interim would have influenced Diokno's political attitudes—or caused him to moderate his position on the U.S.-Philippines military bases agreement.

In fact, it would appear that the opposition to the military bases agreement on the part of the anti-Marcos political groups is not a function of any policy behavior on the part of U.S. political leadership. The opposition to the bases agreement stems from a fundamentally anti-U.S. bias predicated on the shopworn theses of what is generally identified as "dependency theory"—which argues that poverty, unemployment, and political repression as they are found in less developed countries are the unavoidable consequences of the exploitation practiced by the advanced capitalist countries—the United States the foremost among them. As early as 1964, Tañada, one of the leaders in the Philippine anti-bases coalition, insisted that United States investments in the Philippines constituted calculated efforts to "oppress" the nation.[19] It seems reasonably clear that there is very little the Reagan Administration could do to alter convictions so long entertained by leaders of the "moderate" anti-Marcos opposition. Recently the wife of Renato Constantino, one of the major theoreticians of the nationalist anti-Marcos opposition, warned against putting confidence in any conciliatory moves by the "imperialist Americans." She argued that Filipinos should not be deluded by such efforts—calculated as they were to deflect Filipinos from "dismantling the [American] bases" and the entire machinery of "imperialist exploitation."[20]

The fact is that New Left dependency theory constitutes the intellectual foundation of the politics of much of the anti-Marcos "non-communist, democratic opposition." As a consequence, members of that opposition have contributed directly and indirectly to the broad-based attack on the United States as guilty of exploitation, repression, genocide, and warmongering. The "moderates" have provided testimony and "evidence" to international "tribunals" organized to condemn the "imperial-

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[18]Jose Diokno, "Foreword," to Villegas, *op. cit.*

[19]See Jose Maria Sison, *National Democracy and Socialism* (Mansfield Depot, Conn.: Philippines Research Center, n.d.), p. 3.

[20]Letizia R. Constantino, *The Aftermath of the Aquino Assassination—A Nationalist Appraisal* (Manila: Teacher Assistance Project, 1983), pp. 4, 6.

ist" practices of the United States—tribunals that have identified the American bases in the Philippines as a "Trojan Horse in the midst of those movements and governments that are genuinely struggling against imperialist counterrevolution, repression, and exploitation."[21]

Whatever differences distinguish the non-Marxist, anti-Marcos moderate political opposition from the neo-Marxist, Maoist opposition, it is clearly not in terms of their announced positions with respect to the military bases agreement. The moderates' opposition to the presence of U.S. bases in the Philippines is as intrinsic to their political convictions as it is to those of the radical Left. For the moderates to compromise on the issue is as unlikely as it would be for the Maoists to compromise. It would seriously impair their credibility in terms of positions long and forcefully held.

Any circumstances that brought the moderate anti-Marcos opposition to power in Manila would seriously threaten continued U.S. access to the military bases on the Philippines archipelago. With or without the intervention of the more radical elements of the anti-Marcos opposition, the moderates might proceed to the abrogation of the bases agreement—an eventuality that would not only impair the strategic response capabilities of the U.S. armed forces, but destabilize the entire Southeast Asian region.

OPPOSITION OF THE ROMAN CATHOLIC CHURCH

The remaining major opposition forces in the Philippines can be broadly identified with the Roman Catholic Church and the Makati Business Club, the first representing the 85 percent of the Philippine population that characterizes itself as Roman Catholic, and the other representing the major domestic business groups. Both organizations house vocal and important opponents of the Marcos government. Of the two, the Church obviously has more moral weight and international impact. While both groups will influence the unfolding of events in the near term, it is the Church, or some segments of the Church, that have taken a position that has direct or indirect bearing on the U.S.-Philippines military bases agreement—and consequently deserves particular consideration in the present context.

The two major organizations of the Roman Catholic Church in the Philippines are the Association of Major Religious Superiors (AMRS) and the Catholic Bishops Conference (CBC). Of the two, the AMRS is

[21] *Philippines: Repression and Resistance* (London: KSP, 1981), pp. 147-148.

composed of a younger, more social-action oriented membership and represents about 10,000 priests and nuns. The CBC, in turn, is composed of 76 Bishops, older and more conservative.[22] Both organizations have become increasingly critical of the Marcos regime over the years since the imposition of martial law in 1972.[23] They have been, in general, critical of the infractions of civil and political rights that have attended the Marcos experiment in constitutional authoritarianism. They have lamented the poverty that afflicts most Filipinos, deplored government corruption, bureaucratic inefficiency, pervasive disorder, the prevalence of social problems such as drug abuse, alcoholism, and gambling, and denounced the inadequacies of judicial remedies in resolving citizen grievances.[24]

In substance, the major thrust of the Church's criticisms has been reformist and essentially nonrevolutionary. The Vatican's admonitions to Church members to abjure revolutionary violence have been accepted and given wide circulation in Filipino Church publications.[25] Within that context, however, it is manifestly clear that some members of the clergy have opted for the more extreme positions assumed by some variants of what is called "liberation theology."

Neo-Marxist liberation theology insists that the principal cause of most of the world's disabilities results from the machinations of imperialism—against which only national liberation and social revolution can act as an effective remedy.[26] For this kind of liberation theology all the wretchedness of the underdeveloped communities of the world can "only be understood in terms of the dependency relationship with the developed world. . . . In large measure . . . underdevelopment . . . is a by-product of capitalist development of the West."[27] Only a radical severance of relations with the capitalist world offers an escape from oppression.

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[22]Robert L. Youngblood, "Church Opposition to Martial Law in the Philippines," *Asian Survey*, May 1978, pp. 505-520.

[23]See "Church Bells Toll Possibly Most Potent Opposition to Marcos Government," *Seattle Times/Seattle Post-Intelligencer*, November 13, 1983, p. A-7.

[24]See Jose Concepcion, Jr., "Towards a Meaningful Church-State Dialogue," *Bulletin Today*, March 19-23, 1983, p. 7.

[25]For the Vatican's position on violence and revolution, see Quentin L. Quade, ed., *The Pope and Revolution: John Paul II Confronts Liberation Theology* (Washington, D.C.: Ethics and Public Policy Center, 1982).

[26]For major expressions of this kind of "liberation theology," see Gustavo Gutierrez, *A Theology of Liberation: History, Politics and Salvation* (Maryknoll, N.Y.: Orbis, 1973); Jose Miranda, *Marx and the Bible: A Critique of the Philosophy of Oppression* (Maryknoll, N.Y.: Orbis, 1974), and *Communism and the Bible* (New York: Maryknoll, 1982).

[27]Gutierrez, *op. cit.*, p. 109.

Some Filipino clerics have embraced this central conviction as their own and have committed themselves to violence as a recourse. In 1979 Father Conrado Balweg discarded his cassock and took up arms in the service of the Maoist New People's Army. Late in October 1982, Father Zacarias Agatep was killed while serving as a combatant with the NPA. In mid-December of the same year, Father Edgardo Kangleon confessed to long collaboration with the Marxist revolutionaries in Samar. Bishop Cirilo Alamario, Jr., has confirmed the disposition among some of the Philippine clergy to use "Marxist methods together with Christian principles" to the extent of advocating "armed struggle."[28]

What is more important for our purpose here is not the commitment to violence, *per se*, among some elements of the clergy, but the rationale offered to justify it. While the Philippine clerics who have assumed revolutionary postures have not provided an account of their convictions, those groups directly influenced by them have. In 1980, after a spate of terrorist bombings in Metro Manila, the April 6th Liberation Movement (A6LM), which claimed responsibility for the outrages, published a manifesto in justification.

The members of the A6LM have been identified, and have identified themselves, as "progressive Christians" influenced by the social activists of the Church.[29] They attribute their political behavior to special Christian insights—the necessary resistance to an implacable evil. In the course of explicating their justification, the leadership of the movement referred to the unconscionable looting of the Philippines by the rapacious imperialists of the United States. The progressive Christians of the A6LM have divined that the capitalists of the United States have exploited the Philippines for half a century as "a vast market and raw materials supplier." In order to suppress any resistance to the systematic pillage of the archipelago, and in order to project American power into the region for further exploitation, the United States established and has maintained military bases in the islands.[30]

Like the moderate political opposition, these opposition forces, influenced by neo-Marxist liberation theology, make the central tenets of dependency theory the determinants of their political posturing. One of

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[28]See Manolo B. Jara, "Radicals Widen Church-State Rift," *Philippines Daily Express*, December 18, 1982, p. 3; Corazon Fiel, "Gun or Cross," *ibid.*, November 11, 1982.

[29]Marjorie Niehaus, *Philippine Internal Conditions: Issues for U.S. Policy* (Washington, D.C.: Congressional Research Service, October 15, 1982), p. 10.

[30]Central Committee of the April 6th Liberation Movement, *The Philippine Struggle* (Manila: Filipino Information Service, n.d.), pp. 26-31.

the implications of dependency theory is the necessity of severing all substantive connections with the imperialist powers. Among the most sensitive connections is that which is military in character. In effect, some of the "progressives" of the Church opposition have assumed a position with regard to the military bases agreement that is indistinguishable from that of the moderate opposition and the Maoist Left.[31]

The arguments of dependency theory have found so hospitable a home in the Philippine environment that some of their constituent elements have even surfaced in orthodox Church pronouncements. On February 20, 1983, when the Philippine Church issued a pastoral letter, "A Dialogue for Peace," the claim was made that the Marcos government had favored the needs of foreign multinational corporations (mostly American) at the expense of Filipinos.

In general, however, the Church in the Philippines has remained not only nonrevolutionary, but essentially neutral with respect to the complex economic and security relations with the United States as well. The Roman Catholic Church in the Philippines remains an advocate of moderation in a political environment that has become increasingly explosive.

OPPOSITION OF THE MAKATI BUSINESS CLUB

Of the anti-Marcos opposition forces that obtain in the Philippines, the most benign with respect to U.S. interests are those collected in the Makati Business Club. The Club is a voluntary organization that serves as a private forum for business and economic leaders who hope not only to inform a reasonably specific constituency but to influence national public policy. Since the assassination of Benigno Aquino in August 1983, the Club has been more forthright in its call for substantive reform in the Philippines and has officially recommended the resignation of President Ferdinand Marcos in order to restore international confidence in the political stability and integrity of the Philippines.[32] The Club has provided an extensive catalog of reforms that its executive members feel are required, ranging from a reconstruction of the mechanisms for accountability within the political system, the introduction of increased public participation in the formulation of policy, the implementation of a program of modernization for the agrarian sector of the national econ-

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[31]See A. James Gregor, "On Liberation Theology," *Cogito*, June 1983, pp. 66-87.

[32]See *Executive Summary of the Makati Business Club Plenary Session: Socio-Political Core Group* (Manila: Makati Business Club, December 8, 1983).

omy, an acceleration of economic research and development, more effective surveillance of monetary and loan policies, to a more effective means of controlling bureaucratic corruption and inefficiency.[33]

The increased activity of the Makati Business Club represents the influence of what its members take to be the accelerating deterioration that has afflicted the Philippines as a consequence of the murder of Aquino. Most of the proscriptions that have become characteristic of their recent publications, however, were already contained in their official publications in 1982. There, they publicized the same recommendations that were to become more insistent in 1983 under the goad of the developing crisis.

It is clear that the Makati Business Club represents a reformist element in the Philippine political environment that is not basically hostile to American interests, whether economic or strategic. The spokesmen of the Club explicitly advocate linking large multinational corporations and their subsidiaries to a growth program for small and medium-sized industries in the Philippines through the agency of joint venture undertakings, licensing arrangements, and research and development cooperations.[34] While their primary concerns are with the growth and development of their own national economy, the spokesmen of the Makati Business Club understand that foreign connections, mostly American, are conducive to that end. By the same token, none of the publications issued by the organization have advocated an alteration in the security relations with the United States. In substance, the Makati Business Club seems to represent the only anti-Marcos opposition force that offers the prospect of support, however qualified, for a continuation of U.S.-Philippine security relations as those relations now obtain. In fact, the Makati Business Club has warned that factions among the moderate opposition "have reacted sympathetically to the NPA's anti-administration and anti-American overtures and propaganda . . . ," a development that could only bode ill for the future of the Republic.[35]

[33]See *Makati Business Club Plenary Session: Socio-Political Committee: Preliminary Meeting Report* (Manila: Makati Business Club, November 26, 1983); *Makati Business Club, Economic-Financial Committee: Preliminary Meeting Report* (Manila: Makati Business Club, November 24, 1983); *New Socio-Political Order: Participatory Planning* (Manila: Makati Business Club, n.d.).

[34]*Philippine Growth and Development: Issues and Perceptions 1982* (Manila: Makati Business Club, August 28, 1982), p. 18.

[35]*Ibid.*, pp. 4-5.

THE PROSPECTS

In brief, the above constitute the major political forces that make up the anti-Marcos opposition in the Philippines. It is in this political environment that the current administration of the Philippines will have to face the immediate future. It is doubtful if there is anything the representatives of the United States can do that would directly and significantly influence the course of events. There are some things that they ought not do. For example, there is no conceivable reason why representatives of the United States should lend support to those anti-Marcos forces whose express intentions are clearly inimical to American interests.

The United States can provide constructive assistance to Manila aimed toward resolving the economic problems that currently afflict the Philippines. In this regard it is important to recognize that, prior to the assassination of Benigno Aquino, the specifically economic crisis in the Philippines was showing clear signs of improvement. While Philippine indebtedness to international financial institutions was alarmingly high (between $18 billion and $25 billion) and the debt service ratio had reached a dangerous level of about 30 percent of foreign exchange receipts, the austerity measures introduced by the government were expected to reduce the balance-of-payments deficits to manageable proportions. Trends in the exports of nontraditional manufactured products and the repatriation of earnings by Filipino workers abroad were so encouraging that the 1984 balance-of-payments deficit was being projected at about $400 million—about a third of the 1982 level. In July 1983, with some reluctance, international financial institutions were prepared to extend further credit to the Philippines to stabilize the peso at an exchange rate of 11 pesos to the dollar. The inflation rate was expected to remain at a level below that of the previous five years, and the energy program had begun to realize substantial savings of foreign exchange resources—with the dependence on imported oil reduced from 95 percent in 1972 to 63 percent by mid-1983. In the first semester of 1983, the sales volume of textiles, passenger cars, appliances, construction materials, and food processing industries increased between 15 to 20 percent. Finally, increasing investment was flowing into the agricultural sector, and the government had begun a rural industrialization program involving small- and medium-sized enterprises that enjoyed prospects of success. In effect, by July 1983 there was reason for modest optimism with respect to Philippine economic prospects.

The assassination of Benigno Aquino altered the circumstances dramatically. As a consequence of the attendant political tension, there was an initial calling in of all short-term loans by foreign creditors, a massive flight of capital, and an immediate cessation of foreign investment. On October 5th, as a consequence, there was a further currency devaluation to the level of 14 pesos to the dollar. There was a painful reduction of 27 percent in the value of the peso. Almost immediately the balance-of-payments deficit increased by $800 million (compared with the $300 million for each of the first two quarters of 1983). The net short-term capital in-flow shrank by at least $700 million at the same time. Since the second quarter of 1982, the in-flow of short-term capital had averaged approximately $3 billion each quarter. In the third quarter of 1983, after the murder of Aquino, the in-flow fell to about $2 billion. There was an immediate cessation of revolving trade credit and short-term financing accommodations with foreign suppliers. The Aquino assassination and the subsequent social agitation created country risk anxieties among those who extend short-term credits for Philippine foreign purchases.

The predictable result of all this will be a rapidly escalating rate of inflation and unemployment. The decline in the value of the peso will be reflected in the higher cost of imported items. The cessation of short-term credits will cause at least a temporary decline in the imports necessary to supply domestic Filipino manufacturers—forcing a slowdown in production and a reduction in the workforce. As a result, it is anticipated that at least 100,000, and possibly as many as 300,000, Filipino workers will have lost their jobs between December 1983 and mid-1984. All of this will fuel social agitation and increase the potential for mass mobilization in the urban areas where economic dislocation will hit the hardest. The potential for massive social upheaval cannot be discounted.

There is, on the other hand, some evidence that suggests that the Republic of the Philippines will pass through a period of substantial reformist and evolutionary change rather than revolutionary upheaval. In probability surveys conducted in the rural areas of the islands, for example, it became clear that the Marcos government enjoyed substantial agrarian support. While respondents in rural Luzon felt that the burden of taxes had increased over the past triennium, and that inflation and the prevalence of crime had similarly increased, almost 90 percent characterized the performance of President Marcos as at least satisfactory. In general, respondents from the rural areas of Luzon conveyed a positive attitude toward the Marcos Administration, identifying it as a government that "cared for the people."[36]

While the results obtained from polls conducted in Visayas and Mindanao reported somewhat lower positive results, they were substantially the same.[37] Such results suggest that the attitudes of the rural population tend to be supportive of the incumbent administration.

These survey findings were collected before the assassination of Aquino and would therefore have to be used with some caution. Moreover, it would be difficult to interpret such findings as sure indicators of how individuals might behave in a situation that required their direct participation. Nonetheless, they do convey an image of the political dispositions of the Philippine population that is significantly different from that generated by media coverage of political demonstrations in the urban centers.

There are supplementary survey data that provide insight into the political attitudes of urban dwellers. In October 1982, the Development Academy of the Philippines collected responses from a probability sample of respondents in Metro Manila. These findings indicated that, at that time, the Marcos Administration received generally favorable ratings from respondents. Although the unemployment rate was already 15 percent in the city, and about one-third of the respondents felt that their standard of living had declined over the previous year, about 75 percent nonetheless signaled their approval of the Kilusang Bagong Lipunan (KBL), the dominant party of Ferdinand Marcos. The majority of the respondents held that the KBL "responded effectively to the people's needs." Correspondingly, only 38 percent of respondents felt that the anti-Marcos opposition groups had "the people's interests in mind."

More significant perhaps than the general support for the Marcos Administration suggested by the urban survey was the fact that support correlated negatively with socioeconomic status. The higher the socioeconomic status of the respondent, the less positive the assessment of the Marcos Administration. It appeared evident, a year before the assassination of Aquino, that the Marcos Administration had suffered a significant erosion of support among the urban middle classes.[38]

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[36]The data from the survey were published in a confidential memorandum edited by the Vice President of the Development Academy of the Philippines, Mahar Mangahas, *Public Opinion Poll of Luzon 1983* (Manila: Development Academy of the Philippines, October 5, 1983).

[37]*Public Opinion Poll of Visayas and Mindanao 1983* (Manila: Development Academy of the Philippines, August 25, 1983).

[38]*Social Weather Station Survey of Metro Manila: Final Report* (Manila: Development Academy of the Philippines, October 21, 1982).

As early as October, therefore, there was evidence that a substantial minority of urban professionals and entrepreneurs were already alienated from the Marcos Administration. The assassination of Benigno Aquino apparently acted as a catalyst, and produced the outpouring of indignation that had accumulated as a consequence of economic and political disabilities that had afflicted the urban middle classes for some time. In fact, the very form of the antigovernment demonstrations that followed the Aquino murder bespeaks middle-class organization and participation. Jogging costumes and personalized T-shirts do not argue much participation by the members of the working class.

This suggests that the principal thrust of the current agitation in Manila is directed toward reform rather than revolution. A good deal of the activity is organized by middle-class business leaders, who do not identify themselves with the organized, moderate anti-Marcos opposition, whose economic nostrums urge a severance of all economic connection with the imperialist nations, an economic program based on self-reliance, and an appeal for assistance from the socialist powers.[39] For Makati businessmen, the moderate political opposition has seriously compromised itself by its anti-American posturing and its protracted flirtation with the radical Left.

The moderate opposition, moreover, is grievously fragmented. Groups coalesce, surface briefly, and disappear. No one leader, no one group, has emerged around which a general opposition might gather. Without the overt financial and moral support of the Makati business elements, it appears unlikely that the moderate opposition (should they choose to participate) could win more than a minority of contested seats in the forthcoming parliamentary elections.

For their part, the revolutionaries of the New People's Army have the capacity to continue to drain the resources of the government, but they do not have the capabilities necessary to overthrow the system. Most of the leadership of the NPA has been neutralized, and the Philippines intelligence services track the movements of the NPA activists outside the confines of the more remote enclaves where the revolutionaries have established themselves. Finally, whatever evidence as exists (and it is anecdotal at best) indicates that the military, as a corporate body, remains loyal to the government.

Given the circumstances, what will probably obtain in the near term

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[39]See "UNIDO Suggests 'Alternative,' " *Bulletin Today*, May 22, 1983; Renato Constantino, *The Nationalist Alternative* (Quezon City: Foundation for Nationalist Studies, 1980), p. 81.

will be continued agitation for political reform: an insistence upon more responsiveness on the part of the government; advocacy for clean elections; an effort to limit the activities of Imelda Marcos; a call for the repression of those individuals identified as the President's cronies; an effort to open government monopolies in sugar and coconut production to market influences; a demand for increased freedom of expression and institutionalized protection for individual civil and political rights. It is most unlikely that there will be any organized demand for a substantial change in U.S.-Philippine relations—and certainly not a broad-based demand for abrogation of the military bases agreement.

Even if death or incapacitation should remove Marcos from the scene, the forces supportive of evolutionary and reformist change are so substantial that the course of events would probably not be dramatically altered. A coalition of economic elites, government technocrats, and conservative Church leaders with the collateral support of the military would keep the situation from degenerating into violent revolution. With the passive support of the majority of Filipinos, the year 1984 should pass without radical change in the political circumstances of the Philippines.

The only factor that could significantly alter these prospects would be an economic dislocation more profound than that which is anticipated—and the extent of the damage that the Philippine economy will suffer will be materially influenced by the behavior of international actors and the prevailing terms of trade. Decisions made by international lending institutions and world trading conditions will all affect the Philippine economy. Authorities in Washington have already intervened to assure the Philippines of sufficient short-term credit to weather its immediate crisis. The United States government should urge its economic and security partners to advance concessional and nonconcessional loans to the Philippines whenever possible. Something like that apparently has already been undertaken. Japan has indicated that it will attempt to channel some direct equity investment into Philippine enterprise. Western Europe, which seems destined to endure slow economic growth for the rest of the present decade, might well be a source of major capital investment in the Philippines.

Finally, the United States, which remains an important market for Philippine traditional and nontraditional exports, might undertake to make the U.S. market more accessible to Filipino goods. To that end it might be a propitious time to negotiate a general trade agreement between the two countries—something that has been absent since the termination of the Laurel-Langley Agreement in 1974. With the emergence from the recession, protectionist sentiment in the United States

might be sufficiently weakened to allow Washington to permit more generous entry of Philippine goods into the U.S. market. The Reagan Administration would be acting in accordance with its free trade convictions, and the Philippines could only benefit.

Stabilizing the Philippine economy would reduce appreciably the political capital now being exploited by both the radical and the moderate anti-American opposition. Improvement of the Philippine economy also would reduce the possibilities of large-scale political violence and allow the normalization of Philippine political processes to continue. The movement for reform in the Philippines now appears irreversible—a good sign, in that the political and economic crisis of August and September 1983 unleashed forces that cannot be effectively contained by the current system without extensive reform. But further economic deterioration is the danger, for it could very well produce the critical mass that might precipitate widespread violence, jeopardize the most fundamental interests of the United States, and foreclose any hope of democratic well-being for the people of the Philippines.

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The "Gang of Four's" Economic Miracle—Hong Kong, Singapore, South Korea, Taiwan

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The Heritage Foundation

INTRODUCTION

An important topic in East Asian affairs is the phenomenal record over the last two decades (1960s through the 1970s) of four free enterprise mixed economies, the so-called Gang of Four: Taiwan (Republic of China, ROC), South Korea (Republic of Korea, ROK), Hong Kong, and Singapore. Their advance has been quantitatively rapid and qualitatively impressive (growth, industrialization, and modernization, with relative price and employment stability and distributional equity), achieved in the face of what at the outset looked like staggering odds.

As is often the case, professional predictions by economists have been confounded by events, and in the scramble for *ex post* explanations the first reaction was to describe the result as a developmental "miracle." The Miracle of the Four, like the earlier Miracle of the Two (West Germany and Japan) is, however, amenable to rational explanations that belie the intervention by supernatural agencies suggested by the notion of a miracle. It is this rational understanding of what occurred, and why, that I will address here.

ACHIEVEMENTS OF THE GANG OF FOUR

Differences

Size and Natural Resources. While the Four have much in common, they are in some important respects quite different. Hong Kong and Singapore are city states and entrepot economies almost totally dependent on imports of food and raw materials. Taiwan and South Korea are medium-sized countries whose natural resource constraints, while severe, are not nearly as great as those of the other two. For this reason alone, it is useful to think of the Four as consisting of two related but distinct subgroups: Taiwan and South Korea on the one hand, and Hong Kong and Singapore on the other. In some respects, Hong Kong stands alone.

Historic Relations with Britain, Japan, U.S., and Mainland China. In addition to the more quantifiable differences (revealed by Table 1) the subgroups differ from each other in respects less amenable to statistical articulation. Hong Kong and Singapore have had a long history of colonial relationship with Britain not shared by Taiwan and South Korea.

While all four have endured the burdens of and marginally benefited from Japanese domination, the experience of Hong Kong and Singapore under Japanese rule was much shorter, if no less intense, than that of Taiwan and South Korea.

Table 1

BASIC DATA: TAIWAN, SOUTH KOREA, HONG KONG, SINGAPORE, 1981

	Taiwan (ROC)	South Korea (ROK)	Hong Kong	Singapore
Total population (mid-year) Millions[1]	18.1	38.7	5.2	2.4
Area (sq. km.)	35,981	98,992	1,050	586
Density of population per sq. km.	504	391	4,905	4,161
Agricultural area: arable land (thous. hectares[2]) 1980	907	2,060	7	2
Percentage of labor force in agriculture, 1980	20	34	3	2

Source: United Nations *Statistical Yearbook 1983*.
[1]Taiwan: end of year.
[2]1 hectare=2.471 acres.

Also, in the post World War II period, the interaction of Taiwan and South Korea with the United States has been substantially different (more politicized, for instance) from that of Hong Kong and Singapore. U.S. military and economic assistance to South Korea, for example, came to $12.6 billion over the years 1946-76, almost $7 billion of it military.[1] General U.S. economic aid to Taiwan (which included defense support loans) from 1951 through 1970 amounted to $1.5 billion.[2] Total U.S. aid to Hong Kong and Singapore (1946-78) was $47 million ($44 million for Singapore, $3 million for Hong Kong).

The two subgroups differ in their relationship with the People's Republic of China (PRC). The two city states have maintained, over most of the twenty-year period, a positive relationship with China that ranged from cool to cordial. Hong Kong has served as the PRC's major entrepot, and still does; increasingly so in the last several years.[3] Taiwan's and South Korea's economic and political contacts with the PRC have been economically minimal and politically tense to antagonistic.

Free Trade and Government Intervention. While all four subscribe to a free enterprise market philosophy (despite rhetorical references to socialism in Singapore), they differ in their views on the degree of free trade and the appropriate amount of government intervention in the economy. Hong Kong and Singapore have more liberal trade policies than Taiwan and South Korea. On the question of the economic role of government the division runs between laissez-faire, hands-off Hong Kong and the other three.

Financial Markets. Hong Kong and Singapore have highly developed international capital markets. The financial markets of Taiwan and South Korea are fledgling by comparison.

Similarities

Nevertheless, there are areas of shared accomplishment that justify the Four being treated as a group.

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[1]U.S. Government, Agency for International Development, *U.S. Overseas Loans and Grants and Assistance from International Organizations*, Washington, D.C., July 1, 1945—September 30, 1976.

[2]Economic Planning Council, Executive Yuan, Republic of China (ROC), *Taiwan Statistical Yearbook, 1974*. It should be noted that defense expenditure represents a significant portion of GNP and national budgets in Taiwan, South Korea, and Singapore; between 25 and 35 percent of the national budgets and 5-7 percent of GNP.

[3]"Entrepot Trade: China's Greatest Port," *Far Eastern Economic Review* (*FEER*), March 17, 1983, p. 74.

Level of Per Capita Product. The first statistically sensitive common characteristic of The Four is their current level of per capita product, which puts them in the upper range of the Middle Income Economies (MIEs) as defined by the World Bank, sometimes known as the Newly Industrialized Countries (NICs). Their standing is respectable by comparison with the lower levels of the Industrial Market Economies (IMEs) and very good when compared with the Low Income Economies (LIEs).[4] (See Table 2.)

It can be seen that in 1981 per capita gross national product (GNP) of Singapore was about the same as that of a country (Ireland) at the bottom of the Industrial Market Economies' range, and Hong Kong was not far behind (comparable to Israel at the top of the upper IMEs). If full account were taken of the differences in actual purchasing power between the four (possibly excepting Korea) and the United States, the Gang's per capita incomes would be closer to the U.S. level.

High Levels of Employment. Since the early 1960s all four countries have achieved high rates of employment. The ratio of people (over age 15) employed to total population has been typically around 40 percent. The percentage of those employed to the labor force has usually been between 95 and 99 percent. This employment record has been remarkable in view of the far-reaching structural changes that took place in each economy during the decade 1960 to 1970, which could have caused a good deal of structural unemployment. Moreover, The Four are sensitive to economic fluctuations outside their borders and, hence, are potentially subject to severe cyclical unemployment. In addition, South Korea (in the wake of the Korean War) and Hong Kong (over the whole period) have managed to absorb large numbers of refugees in gainful employment. Between 1977 and December 1980, Hong Kong resettled and employed most of the half million refugees who legally or illegally (400,000) entered its borders from Communist China.

Rapid Rates of Product Growth. Another similarity is the rapidity with which the ascent from the status of Low Income Economies to the current per capita GNP levels was accomplished.[5] Per capita product growth was

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[4]In 1981 the LIEs comprised (*1983 World Development Report*) 34 countries with per capita gross national product (GNP) ranging from $80 (Bhutan) to $400 (Ghana). The MIEs comprised 39 countries with per capita GNP from $420 (Kenya) to $1,630 (Paraguay). The Upper Middle Income Economies (Upper MIEs) counted 21 countries from $1,700 (S. Korea) to $5,670 (Trinidad/Tobago). The IMEs consisted of 19 countries: $5,230 (Ireland) to $17,430 (Switzerland).

[5]In current prices, per capita GNP in Taiwan was $144 in 1952 and $2,570 in 1981. After 1963 real GNP doubled every seven years. In 1980 real GNP was 11 times the

Table 2

THE FOUR: COMPARATIVELY HIGH LEVELS OF PER CAPITA GROSS NATIONAL PRODUCT (GNP), 1981 (U.S. dollars)

	Taiwan (ROC)	S. Korea (ROK)	Hong Kong	Singapore	LIEs	Oil-importing MIEs[1]	Upper MIEs	IMEs	USA	Japan	PRC
	2,570	1,700	5,100	5,240	270	1,580	2,490	11,120	12,820	10,080	300
Range $					80-400		1,700-5,760	5,230-17,430			

Sources: World Bank, *World Development Report 1983 (WDR)*; Ministry of Economic Affairs, Republic of China, *Economic Development in the Republic of China* (Taipei, 1982); United Nations, *Statistical Yearbook 1983.*

[1] 1980

Table 3

THE FOUR: HIGH BUT DECLINING AVERAGE ANNUAL GROWTH OF POPULATION
(Percent)

	1960-70	1970-80	1960-80
Taiwan (ROC)[1]	3.2	2.0	2.6
S. Korea (ROK)	2.5	1.7	2.1
Hong Kong	2.6	2.5	2.6
Singapore	2.4	1.5	2.0
LIEs	2.1	2.1	2.1
MIEs*	2.5	2.4	2.5
IMEs	1.0	0.8	0.9
USA	1.3	1.0	1.2
Japan	1.0	1.1	1.1
PRC	1.9	1.8	1.9

Sources: WDR 1982; Directorate General of Budget, Accounting, and Statistics (DBGAS), Executive Yuan, *Statistical Yearbook of the Republic of China 1982.*
[1]1960-69, 1970-79, 1960-79
*Middle Income Economies

significantly more rapid over the last two decades for The Four than it has been for both the Low Income Economies and the Industrial Market Economies, even though the population growth rate of The Four was more than double that of the IMEs and comparable to that of the LIEs. (There has been a downward trend in the 1970s without resort to draconian birth control methods as in the PRC—see Table 3.) The Four's growth rates of per capita GNP in the period 1960-1981 are shown in Table 4. The rates are impressive when compared with any country, except Japan, during any period at all, i.e., even for periods of the present IMEs' early industrialization. The growth record is the more remarkable because of the poor natural resources base from which it proceeded. Primary energy sources, especially, are deficient in all four countries. Like Japan, The Four rely almost totally on imports of oil and they are, therefore, particularly susceptible to exogenous shocks administered to their economies by the organized oil exporters' pricing policies. Even though the oil crisis of 1973 and subsequent years, especially 1979, had an adverse

1952 level. Shirley W. Y. Kuo, Gustav Ranis, John H. C. Fei, *The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952-1979* (Boulder, CO: Westview Press, 1981), p. 7. South Korea's per capita GNP in 1961 was $87, *Wall Street Journal*, May 3, 1982, p. 31.

Table 4

THE FOUR: RAPID AVERAGE ANNUAL GROWTH OF REAL GNP PER CAPITA
(Percent)

	1960-1980
Taiwan (ROC)[1]	6.6
S. Korea (ROK)	7.0
Hong Kong	6.8
Singapore	7.5
LIEs	1.2
Oil-importing IMEs	4.1
IMEs	3.6
USA	2.3
Japan	7.1

Source: World Bank, *WDR 1980, 1982.*
[1]1960-78

effect on the growth rates of The Four (as well as on their domestic price levels and balances of external payments), these effects were less severe than could have been reasonably anticipated (growth rates, while down, were still double those of the IMEs) and were quickly absorbed.

Resilience to External Shocks. In addition to rapid growth sustained over at least two decades, there has been exceptional resiliency to externally induced economic (and in the case of Taiwan and South Korea, political) shocks. In fact, the massive income transfer from oil importers to oil exporters, which resulted from the OPEC price increases of 1973 and subsequent years, was put to good use by The Four in various ways. South Korea, for example, moved quickly into the construction business in the oil-rich Middle East, and its foreign exchange earnings rose rapidly from that source after 1976. By 1977 South Korea had a surplus in its transactions with Middle Eastern oil-exporting countries. The historic product growth rate of 9 percent was maintained in 1974 and 1975, and increased to 16 percent in 1976. The inflation rate, which doubled under the impact of the oil crisis (from around 10 percent per annum in the 1960s to over 20 percent in 1973-1976), was brought under control in 1976.[6] In 1981, South Korea's foreign exchange earnings from construction abroad came to $2 billion, and ROK contractors had a $10 billion backlog of orders in overseas construction.

[6]Edward Mason, *et al.*, *The Economic and Social Modernization of the Republic of Korea, Studies in the Modernization of the Republic of Korea: 1945-1975*, Council on East Asian Studies, Harvard University (Cambridge, MA: Harvard University Press, 1980), pp. 112, 124.

At the end of the 1970s, The Four again exhibited their capacity to withstand exogenous shocks and bounce back to economic health with renewed vigor. They quickly recovered from the combined effects of the second round OPEC price increases (1979) and worldwide recession, which cut into their traditional export markets (by, among other reasons, stimulating protectionist sentiments in the IMEs) and put enormous pressure on their domestic price levels. South Korea and Taiwan also recovered rapidly from political misfortunes: the assassination of President Park in 1979, student unrest, the Korean jet incident, and the North Korean attempt to wipe out the ROK government in Rangoon (1983), and President Carter's ending recognition of the ROC (1979). Hong Kong, too, recovered from Maoist China-sponsored riots in the late 1960s and from labor unrest traceable to political uncertainties of the early 1980s.

Given the pessimistic outlook for Hong Kong, as the PRC readies to take over, and the fragility of business confidence on which the life of Hong Kong depends, the drop in stock prices, foreign exchange rates, and other economic indicators thus far has been less than might have been anticipated.

Industrialization. Growth of product at rapid rates has been accompanied by a changed structure of product favoring the industrial component. At the same time, agriculture (where, as in Taiwan and South Korea, it had played a significant economic role) was modernized. This contributed importantly to the industrial upsurge by releasing labor and capital through productivity gains into export industries. The industrialization process may be seen from Table 5. It should be noted that in the period 1960 to 1980 the share of industrial output in the GNP of three of the four countries increased significantly (1980 data for Hong Kong are not available), doubling for South Korea and Singapore, and increasing 1.6 times for Taiwan. By 1980 The Four had reached the IMEs' GDP share of industrial production of 1960. Since 1960, the IMEs have moved ahead into the postindustrial services era. In the United States, for example, the share of services in GDP rose from 58 percent in 1960 to 63 percent in 1980, while in Japan the shares were 42 percent in 1960 and 55 percent in 1979. By 1980 Hong Kong was moving in the same direction, followed more slowly by the other three.

The term "industrialization" conceals three qualitatively important dynamic aspects of the modernization process.

1) Import Substitution versus Export Promotion. In three of the four countries (Taiwan, South Korea, and Singapore) the industrialization process moved from an initial import substitution phase (in which many LIEs have become mired) toward export-oriented industrialization. The

Table 5

THE FOUR: RAPID INDUSTRIALIZATION

	Average Annual Growth in Industrial Production (Percent)		Average Annual Growth of GDP (Percent)		Industrial Production as Share of GNP (Percent)[b]		Value Added in Manufacturing (Millions 1975 dollars)		Gross Manufacturing Output per Capita (1975 dollars)	
	1960-70	1970-80	1960-70	1970-80	1960	1980	1970	1979	1970	1978
Taiwan (ROC)	16.4	12.9[a]	9.2	8.0[a]	29	48[b]	1,873[c]	4,278[d]	—	—
S. Korea (ROK)	17.2	15.4	8.6	9.5	20	41	2,346	9,955	182	621
Hong Kong	8.2	4.3[e]	10.0	9.3	39	31[f]	1,620	3,596	—	1,920
Singapore	12.5	8.8	8.8	8.5	18	37	827	2,080	1,628	3,064
LIEs	7.0	3.6	4.4	4.6	18	35				
MIEs	7.4	6.6	5.9	5.6	30	40				
IMEs	5.9	3.1	5.2	3.2	40	37				
USA	4.9	1.2	4.3	3.0	38	34	331,522	448,167	3,401	4,616
Japan	10.9	5.5	10.9	5.0[g]	45	41[h]	115,497	207,566	2,867	4,556
China	11.2[i]	8.7[g]	5.2[i]	5.8[g]	—	47				214

Sources: World Bank, *WDR, 1980, 1981, 1982.*

[a] 1970-78
[b] 1978
[c] Millions 1970 dollars
[d] Millions 1970 dollars in 1976
[e] 1970-79
[f] 1977
[g] 1970-79
[h] 1979
[i] 1961-70

transition, in turn, required that the industrial structure keep up with the world's industrial (IMEs) leaders in terms of technical sophistication and price competitiveness.

2) From Noodles to Rockets. This second aspect of industrialization necessitates a progressive restructuring of industry in three steps: (a) labor-intensive, cheap, mainly light industries (e.g., food processing, textiles); (b) capital-intensive, heavy industries, known as the "smoke-stack" type, based by and large on copying the technology developed in the IMEs (e.g., steel, heavy machinery, shipbuilding, petroleum processing); and (c) knowledge- and skill-intensive industries (e.g., electronics, information) of a rising level of sophistication, in which native innovation plays an increasing part. As a useful simplification it may be said that step (a) dominated the late 1950s and the 1960s, step (b) the 1970s, and step (c) the early 1980s. In the coming years the electronics industry is to be put on a higher tech track. In South Korea, for example, the intent is to limit the share of electronic home appliances and other consumer electronics to 40 percent of the electronic industry's total output, while raising the share of computers, electronic switching systems, and semiconductor memory chips from the present 12 percent to 20 percent. At the same time the manufacture of component parts is to decline from 45 percent to 38 percent by 1986.[7] Taiwan is fast developing a science-based high technology park at Hsinchu located next to the Tsinghua and Chiaotung Universities and the Industrial Technology Research Institute. By 1989 it is expected that 200 high technology plants will be located at Hsinchu. Singapore's Science and Technology Park had a dozen research laboratories in 1983. A Marine Technology Center becomes operational this year (1984), and a Software Technology Center employing close to 1,000 computer professionals will begin operations in 1985.[8]

3) Intensive Source of Industrialization. Industrial growth can be extensive, due primarily to the addition of factor inputs (especially labor and capital) accompanied by the diffusion of technology from a given technological base, or intensive, due to rising factor productivity (output per man-hour, improved output/capital ratios) accompanied by ever wider applications of a rising level of technology and expertise. In the early years, the industrial growth of The Four was due primarily to extensive causes. The rate of natural increase, agricultural reform, and—

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[7]"South Korea '83," *Far Eastern Economic Review (FEER)*, June 2, 1983, p. 70.

[8]Ministry of Trade and Industry, Republic of Singapore, *Economic Survey of Singapore 1982*, p. 28. Peter S. J. Chen (Ed.), *Singapore: Development Policies and Trends* (New York: Oxford University Press, 1983).

Table 6

THE FOUR: AMPLE LABOR SUPPLY

	Average Annual Growth of Labor Force (Percent)	
	1960-70	**1970-80**
Taiwan	2.4	1.9[1]
S. Korea	3.0	2.8
Hong Kong	3.2	3.0
Singapore	2.8	2.7
LIEs	—	2.1
MIEs	2.3	2.6
IMEs	1.2	1.3
USA	1.8	1.5
Japan	1.9	1.3
PRC	—	1.9

Source: World Bank, *WDR, 1982*.
[1]1970-77

in the case of Hong Kong—a steady stream of refugee manpower provided adequate supplies of labor (Table 6). Capital formation was assured by rising domestic savings rates as well as foreign aid (Taiwan, South Korea), commercial borrowing from abroad, and direct foreign investment.

In more recent years, industrial growth has come to rely more heavily on the improvement of skills and the rising educational level of the labor force, improved managerial expertise, and the increased technological sophistication of capital equipment, i.e., on intensive means. These dimensions of industrial growth are shown in Tables 7 and 8. Table 8 shows the success of The Four in raising labor productivity, compared with both the LIEs and the IMEs during comparable periods.

A two-tier system has been developed. Labor-intensive manufactures in which The Four have lost their comparative advantage due to rising wage levels and/or labor shortages are produced, often jointly, with neighboring LIEs. Advanced technology is acquired from the IMEs (including nearby Japan) by joint ventures in a growing number of capital-intensive industries. This has turned the eastern rim of the Pacific Basin into a hub of sophisticated division of labor and a mighty competitor in world markets.

Table 7

THE FOUR: SOURCES OF CAPITAL FORMATION

	Gross Domestic Investment as Percentage of GDP		Gross Domestic Saving as Percentage of GDP		Average Annual Growth Rate of Gross Domestic Investment (Percent)		Net Inflow of Public and Publicly-Guaranteed Medium and Long-Term Loans (Millions of dollars)		Net Direct Private Investment (Millions of dollars)	
	1960	1980	1960	1980	1960-70	1970-80	1970	1980	1970	1980
Taiwan	20	36	13	33[a]	16.2	8.2[b]	100	227[c]	62	110[c]
S. Korea	11	31	1	23	23.6	13.4	242	2,096	66	−5
Hong Kong	18	29	6	24	6.9	12.7	—	95	—	—
Singapore	11	43	−3	30	20.5	6.7	52	50	93	1,454
LIEs	19	25	17	22	5.1	4.8				
MIEs	20	27	19	25	7.5	7.8				
IMEs	21	23	22	22	5.9	1.6				
USA	18	18	19	17	4.8	1.6				
Japan	34	32	34	31	14.6	3.2				

Sources: World Bank, *WDR, 1980, 1982.*

[a] 1979

[b] 1970-78

[c] 1978

Table 8

THE FOUR: RISING LABOR PRODUCTIVITY—AVERAGE ANNUAL GROWTH IN INDUSTRIAL VALUE ADDED PER EMPLOYEE, 1960-73
(Percent)

Taiwan	6.3
S. Korea	6.4
Hong Kong	6.6
Singapore	6.3
LIEs	1.4
IMEs	3.7
USA	2.4

Source: World Bank, *World Bank Tables, 1976*.

The Four's Impact on the IMEs. From what has just been said, it is apparent that industrialization of The Four since the early 1960s has been rapid, export-oriented, and price competitive on the world market. While expansion of domestic demand has contributed to overall economic growth, that demand was itself dependent on rising domestic income levels generated by export earnings (Table 9).

The explosive upsurge in the export of manufactured goods to the IMEs, especially to the United States, has had a significant and highly controversial impact on the IMEs. The goods exported fall into three categories, the absolute and relative size of each category changing over time as the four exporting economies restructure their industries in a higher technology direction. Category 1 is composed of consumer goods in the lower price range: processed foods, footwear, plastics, textiles, and apparel. Category 2 consists of low-priced consumer electronics (radios, watches, recorders, calculators, television sets). Over time these become increasingly sophisticated (home computers). Category 3 comprises transportation equipment and various sorts of heavy machinery. (The restructuring of The Four's exports is shown in Table 10.)

While the benefits to the IMEs' lower-income consumers deriving from the ability to purchase shoes, clothing, and video games made in Hong Kong or Taiwan are clear, that same consumer is in many cases also a worker in a home industry threatened in its survival by the foreign imports he buys. Necessary structural adjustments in sectors of the IMEs' industries have been made more abrupt and painful by the flooding of

Table 9

THE FOUR: GROWTH OF MERCHANDISE TRADE AND OF DOMESTIC CONSUMPTION
(Average Annual Growth Rate Percent)

	Trade				Domestic Consumption			
	Exports		Imports		Private		Public	
	1960-70	1970-80	1960-70	1970-80	1960-70	1970-80	1960-70	1970-80
Taiwan	23.7	9.3[a]	17.9	9.1[a]	8.3	6.8[a]	4.5	5.4[a]
S. Korea	34.1	23.0	20.5	11.8	7.0	7.5	5.5	8.3
Hong Kong	12.7	9.4	9.2	11.7	8.6	9.5	8.6	9.4
Singapore	4.2	12.0	5.9	9.9	5.4	6.8	12.8	6.4
LIEs	5.0	−0.4	5.4	3.1	3.3	3.6	4.5	3.1
Oil-importing MIEs	7.1	4.1	7.3	3.8	5.5	5.1	6.1	6.4
IMEs	8.5	5.8	9.5	4.4	4.5	3.4	4.5	3.7
USA	6.0	6.9	9.8	4.8	4.4	3.4	4.1	1.8
Japan	17.2	8.9	13.7	4.4	9.4	5.1	6.1	4.7
PRC	3.4	−7.3	6.0	−0.3	2.7[b]	3.4[c]		

Source: World Bank, *WDR 1980, 1982.*

[a]1970-78

[b]1961-70

[c]1970-79

(b) and (c) include public consumption.

Table 10

THE FOUR: CHANGED STRUCTURE OF MERCHANDISE EXPORTS
(Percentage share of merchandise exports)

	Fuels, Minerals and Metals		Other Primary Commodities		Textiles and Clothing		Machinery and Transport Equipment		Other Manufactures	
	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
Taiwan	—	14[a]	—	37[a]	—	23[a]	—	3[a]	—	23[a]
S. Korea	30	1	56	10	8	31	negl.	20	6	38
Hong Kong	5	1	15	2	45	43	4	16	31	38
Singapore	1	27	73	22	5	5	7	26	14	20
LIEs	9	14	70	42	15	19	negl.	3	6	20
Oil-importing MIEs	14	10	10	20	16	8	29	29	31	33
Japan	11	2	10	2	28	4	23	54	28	38

Source: World Bank, *WDR 1980, 1982.*
[a]1977

domestic markets with cheap goods from The Four. The culprits are easily pinpointed because they have concentrated their export promotion efforts on a handful of the IMEs. In 1976, for example, the United States, Britain, West Germany, and Japan accounted for 58 percent of Taiwan's exports (in 1981 the U.S. alone took 36 percent of Taiwan's exports), 64 percent of South Korea's, 54 percent of Hong Kong's, and 33 percent of Singapore's[9] (Table 11). In 1983 the U.S. accounted for 44 percent of Taiwan's exports of $25 billion (23 percent of Taiwan's imports). Japan is in the anomalous position of having originated this selective export targeting, of which it is now both a beneficiary and a marginal victim. The Four (and Japan most of all) have not been overly responsive to pressures from the IMEs (the U.S. leading the pack) that they assume the concomitant international responsibilities, as well as enjoy the benefits, of growing up economically. They have resisted the concept of graduation in international trade (transition from preferential-concessional access to the markets of others, to opening up their own markets, to providing preference for and concessional aid to less developed countries). They insist on the free rather than the fair aspects of international trade (as they understand these terms), and they take their time in removing what are seen by others as discriminatory export promotion and import restriction procedures (rebates, trade credits, tax subsidies to exporters, nontariff barriers to imports). In all this, Japan has blazed the trail, and still does. In such a setting the United States and the European Common Market have countered with export ceilings known as "orderly marketing arrangements" or "voluntary export restraints," which have not helped reduce the tensions between The Four and the IMEs. So, while the IMEs and The Four get along reasonably well politically and subscribe in general to the same economic philosophy, they part ways on specific details of economic strategy.

In addition to what they consider to be unfair export-promotion and import-restriction practices used by The Four, the IMEs point to The Four's relatively low wage levels, nonunion labor forces (there has never been a strike in Taiwan), and quasi-absence of Social Security contributions as factors with which they cannot compete (Table 12). These arguments are refuted by The Four on the basis of the benefits the IMEs' consumers and investors (but not, in the short run, workers in the threatened industries) derive from unconstrained international trade.

[9]John A. Mathieson, *The Advanced Developing Countries: Emerging Actors in the World Economy* (Washington, D.C., Overseas Development Council, Development Paper 28, November 1979), p. 46.

Table 11

THE FOUR: SHARE OF WORLD INDUSTRIAL PRODUCTION AND OF MANUFACTURED EXPORTS TO IMEs (19 COUNTRIES)

Exporting Country	Share of World Industrial Production (Percent)		Destination (Percentage of Total) Manufactured Exports)	
	1963	1977	1962	1979
Taiwan	0.11	0.46		
S. Korea	0.11	0.69	83	73
Hong Kong	0.08	0.21	62	83
Singapore	0.05	0.10	5	45
	0.35	1.46		

Sources: *WDR 1982*; Organization for Economic Cooperation and Development, *The Impact of the Newly Industrializing Countries* (Paris: OECD, 1979).

Table 12

HOURLY WAGE SCALES OF TAIWAN, SOUTH KOREA, AND SOME IMEs
(U.S. dollars)

	1974	1975	1976	1977	1978
Taiwan	0.48	0.53	0.61	0.71	0.81
S. Korea	0.35	0.45	0.61	0.81	0.86
France	1.89	2.19	2.24	2.67	
Italy	1.86	2.62	2.44		
Japan	2.77	3.05	3.56	5.19	5.59
West Germany	3.71	3.70	4.38	5.29	6.28
USA	4.41	4.81	5.19	5.63	6.07
Canada	4.37	5.06	5.76	6.38	6.81

Source: National Science Council, ROC, *Science-Based Industrial Park in Hsinchu* (Taipei, August 1981), p. 13.

In 1980 the cost of producing 1 ton of steel plate was $530 in the U.S., $435 in Japan, $420 in South Korea, and $350 in Taiwan. In addition to wage levels, the relative obsolescence of U.S. plant and equipment has to be factored in, *Wall Street Journal*, May 13, 1981.

Imports by the IMEs of goods from low-cost producers—argue The Four—reduce inflationary pressures and facilitate the management of demand in the IMEs.

Social Indicators. The record of The Four, measured by the major social indicators, has been excellent, comparable to that of the highly developed IMEs. This is especially true with regard to mortality rates, life expectancy, calorie (and protein) intake, and educational qualifications of the population (Table 13). Except for Hong Kong, there has been strong emphasis on civics and (especially in Taiwan) Confucian ideology and its latterday extensions,[10] but the thrust of the educational effort has been pragmatic, oriented toward mathematics, engineering, and the hard sciences. This has been in vivid contrast to the experience of Communist China in the 1960s and 1970s.

Price Stability. Price stability has been fairly well attained, side by side with rapid growth in three of The Four: Taiwan,[11] Hong Kong, and Singapore fared better in the 1960s than the 1970s. South Korea's record with inflation has been more mixed (Table 14).

[10] A. James Gregor with Maria Hsia Chang and Andrew B. Zimmerman, *Ideology and Development: Sun Yat-sen and the Economic History of Taiwan* (Berkeley, CA: Institute of East Asian Studies, University of California, Center for Chinese Studies, China Research Monograph, No. 23, 1981).

[11] Jan S. Prybyla, "The Societal Objectives of Growth, Stability, and Equity in Taiwan," *Occasional Papers/Reprints Series in Contemporary Asian Studies* (Baltimore, MD: University of Maryland School of Law, No. 4, 1978).

Table 13

THE FOUR: IMPROVEMENT IN SELECTED SOCIAL INDICATORS

	Life Expectancy at Birth (Years)		Infant (0-1 Years) Mortality Rate (Per 1,000 Live Births)		Population Per Physician		Daily Per Capita Calorie Supply		Adult Literacy (Percent)		Number Enrolled in Secondary School (% of Age Group)		Physical Quality of Life Index*
							Total	As % of Reqmt.					
	1960	1980	1960	1980	1960	1970	1977	1977	1960	1977	1960	1979	Mid 1970s
Taiwan	64	72[a]	56	25[b]	2,330	1,570[b]	2,805	120	54	82[b]	33	76[b]	87
S. Korea	54	65	78	34	3,540	1,980	2,785	117	71	93	27	76	82
Hong Kong	67	74	42	13	3,060	1,180	2,883	119	70	90	20	63	87
Singapore	64	72	32	14	2,360	1,250	3,074	123	—	—	32	59	86
LIEs	42	57	165	94	8,960	5,810	2,238	97	26	50	15	49	40
Oil-importing MIEs	54	63	111	69	6,500	4,010	2,653	110	60	73	5	13	
IMEs	70	74	30	11	820	620	3,377	131	—	99	64	88	95
USA	70	74	26	13	750	580	3,576	133	98	99	74	90	95
Japan	68	76	31	7	930	850	2,949	126	98	99	86	97	
PRC	—	64	—	56	3,010	1,100	2,441	103	—	66	—	79	

Sources: WDR, 1980, 1982.

[a] 1978

[b] Years other than those specified

*Composite indicator giving equal weight to life expectancy at age one, infant mortality, and literacy. It is measured on a scale of 0 to 100, with 0 representing worst performance and 100 representing best possible performance.

Table 14

THE FOUR: PRICE STABILITY

	Average Annual Rate of Inflation (Percent)	
	1960-70	1970-80
Taiwan	4.1	10.3[a]
S. Korea	17.4	19.8
Hong Kong	2.4	8.2
Singapore	1.1	5.1
LIEs	3.2	11.2
Oil-importing MIEs	2.9	12.5
IMEs	4.3	9.7
USA	2.8	7.1
Japan	4.9	7.5

Source: World Bank, *WDR 1982.*
[a]1970-78

Income Distribution. Significant improvement in the distribution of the fruits of growth (in the sense of a narrowing of income differentials) has taken place in Taiwan and South Korea (in the latter particularly during the decades of the 1950s and 1960s).

Some indications of income distribution are given in Table 13 (Taiwan, South Korea, Hong Kong). The situation of these three is comparable to that prevailing in the leading IMEs (Table 15).

In Taiwan and South Korea, initial significant narrowing of income and wealth inequalities reduced the sources of potential political and social tensions and provided opportunities of advancement for many entrepreneurial citizens. Subsequent slower adjustments in income spreads appear to have benefited higher-level managers, professionals, and earners of business incomes. In Taiwan, as in South Korea, it remains true that "for the most part . . . the higher incomes have gone to those in the private sector who have led the economic boom, not to rentiers and corrupt government officials."[12] There has been in both places a considerable amount of equality of economic opportunity. The contribution of direct taxation was not important in reducing income inequalities in Taiwan and South Korea.

[12]For South Korea, see Chapter 12 ("Income Distribution") in Edward S. Mason, *et al.*, *op. cit.*, pp. 408–444. For Taiwan, see references in Table 15, and Note 11 above. For Hong Kong, see reference in Table 15.

Table 15

INCOME DISTRIBUTION: TAIWAN, S. KOREA, HONG KONG

		Percentage Share of Household Income by Percentile Groups of Households					
	Year	Lowest 20%	Second Quintile	Third Quintile	Fourth Quintile	Highest 20%	Highest 10%
Taiwan	1953	3.0	8.3	9.1	18.2	61.4	—
	1964	7.7	12.6	16.6	22.1	41.0	—
	1972	8.6	13.1	17.0	22.2	39.1	—
S. Korea	1976	5.7	11.2	15.4	22.4	45.3	27.5
Hong Kong	1957	5.7	9.7	11.7	16.7	65.2	42.0
	1971	5.3	10.1	13.7	18.3	52.6	37.4
	1980	5.4	10.8	15.2	21.6	47.0	31.3
USA	1972	4.5	10.7	17.3	24.7	42.8	26.6
Britain	1979	7.3	12.4	17.7	23.4	39.2	23.8
France	1975	5.3	11.1	16.0	21.8	45.8	30.5
West Germany	1974	6.9	11.0	15.4	21.9	44.8	28.8
Japan	1969	7.9	13.1	16.8	21.2	41.0	27.2
Peru	1972	1.9	5.1	11.0	21.0	61.0	42.9

Sources: WDR, 1982; Yuan-li Wu, "Income Distribution in the Process of Economic Growth of the Republic of China," *Occasional Papers/Reprints Series in Contemporary Asian Studies* (Baltimore, MD: School of Law, University of Maryland, No. 2, 1977, p. 11); Steven C. Chow and Gustav F. Papanek, "Laissez-Faire, Growth and Equity—Hong Kong," *The Economic Journal,* June 1981, p. 472.

Services. A shared characteristic of The Four is the emerging importance and growing sophistication and variety of services. These include financial services (banking, investment, insurance), tourism—a significant foreign exchange earner—real estate, and engineering services (Table 16). While the importance and complexity of this sector are growing, The Four are still mainly in the upper-middle reaches of the industrialization progression, compared with the IMEs. As part of the expansion of services, the governments of The Four have in recent years liberalized their policies vis-à-vis financial institutions. In South Korea, for example, the five major commercial banks have been denationalized, and restrictions on competition among different kinds of financial institutions have been relaxed or removed. In Hong Kong, for many years, there were 74 banks. From mid-1980 to mid-1982, after the lifting of a moratorium on the issuance of new bank licenses, the number of banks rose to 125, with foreign banks leading the way.

EXPLANATIONS OF THE FOUR'S SUCCESSES

The Four's record of achievement demonstrates that objective (natural resources and unfavorable factor proportions) obstacles to economic growth and modernization at rapid rates can be overcome. Location apart, the objective obstacles have been monumental for Hong Kong, Singapore, South Korea, and Taiwan. Yet in the brief span of twenty years, they have been swept aside as if they had never existed. If it can be done by The Four under the most adverse circumstances, surely it can be done elsewhere. This is to say that The Four's experience with economic growth and modernization contains much that is relevant to many currently underdeveloped countries, which suffer from natural resources disabilities and factor disproportions similar to (and often, lesser than) those experienced by The Four.

Explanations for these remarkable economic achievements are most likely to be found in the subjective, organizational, or systemic elements that have brought out The Four's potentialities. If there has been a "miracle," it has been a miracle of human design. The miracle of The Four can be explainable almost entirely by the ability of an economic system to release, promote, and coordinate the creative energies of the people.

In the broadest terms, the economic success of The Four and the speed of their accomplishments are attributable to a symbiotic relationship between the private sector and the government as economic agent, based on a shared ethos of modernizing growth and a firm but undogmatic

Table 16

SERVICES

	Services as Proportion of GDP (Percent)		Average Annual Rate of Growth of: GDP		Average Annual Rate of Growth of: Services		Percentage of Labor Force in Services	
	1960	1980	1960-70	1970-80	1960-70	1970-80	1960	1980
Taiwan	45[a]	42[b]	9.2	8.0[c]	7.8	4.1[c]	33	26[d]
S. Korea	43	43	8.6	9.5	8.9	8.5	25	37
Hong Kong	57	—	10.0	9.3	—	—	40	40
Singapore	78	62	8.8	8.5	7.7	8.5	69	59
LIEs	32	29	4.4	4.6	4.2	4.5	14	15
IMEs	54	62	5.2	3.2	4.8	3.5	44	56
USA	58	63	4.3	3.0	4.2	3.2	57	66
Japan	42	55	10.9	5.0	11.7	5.5	37	49
PRC	—	22	5.2	5.8	3.1	3.7	—	12

Sources: WDR 1980, 1982; Ministry of Economics, ROC, *Economic Development in the Republic of China* (Taipei, 1982).

[a]1962

[b]1981

[c]1970-78

[d]1978

commitment to an economic philosophy that emphasizes free enterprise and private property. This pragmatic growth-seeking partnership between people and their government and their shared economic philosophy have made it possible to pursue an outward-oriented strategy of development, based on an acute assessment of comparative advantage in international trade. The shared growth ethos, economic philosophy, and developmental strategy are supported by a similar cultural heritage, which goes some way in explaining popular attitudes toward education, thrift, work, and entrepreneurship.

Modern Growth Ethos

Since the early 1960s economic growth has been the first priority espoused by people and governments in all four economies, summed up in the remark made by the late President Park of South Korea that "in human life economics precedes politics or culture." Growth was to be:

- modern, stemming primarily from increases in factor productivity achieved through imported and, later, self-generated scientific and technological advance;
- outward-oriented and export-led, based on a careful assessment of changing international comparative advantage, backed where necessary by discreet protectionist measures;
- equitable in its provision of opportunities for employment and upward mobility on the basis of professional qualifications and productive performance; and reasonably equitable in its distributive effects so as to minimize potential flash-points of social conflict and political discontent—still, growth came first, distributional considerations second;
- based on stable and strong government (Taiwan, South Korea, Singapore), not exactly patterned on a Jeffersonian blueprint of representative democracy.

Compared with communist centrally planned economies (CPEs), Communist China among them, the following differences become apparent.

•• All CPEs, while they subscribe to a growth ethos (indeed, obsessively so), translate it in practice into obsolete growth stemming primarily from the addition of factors (labor and capital) and the diffusion of technologies from a fixed base: "rising accumulation of antiques," as one mainland Chinese economist described it. All CPEs have problems with generating advanced technology in the civilian sector and difficulties with diffusing up-to-date techniques purchased or stolen from the IMEs.[13]

•• The Four's outward orientation and export bias stand in sharp contrast to the inward orientation and import substitution bias of the

CPEs. To this day comparative advantage derived from the international market calculus is not fully comprehended and only sporadically resorted to by the CPEs. They tend to export what they currently have in excess and to import what is in short supply.

•• The CPEs attach great importance to full employment, even at the risk of significant underemployment in particular branches and industries. Mobility, especially upward, is a question of state (and more importantly Party) determination. State control over the allocation of labor and capital is prized. In mainland China, as in other CPEs, it is nearly impossible for state sector firms to dismiss workers, even on the most persuasive economic grounds. The CPEs' well-advertised preoccupation with equity of income distribution is offset by an extremely unequal and socially offensive distribution of political power and privilege.

•• While, by Western standards, the governments of The Four do not fulfill the Lockean ideal of representative democracy, they are liberal compared with the totalitarianism of CPE governments. Moreover, the governments of The Four exhibit elements of political pluralism, absent in the political physiology of communist states. They are pragmatic economic governments compared to the rigidly ideological and class elitist governments of the CPEs.

Economic Philosophy

People and governments of The Four are firmly but undogmatically committed to an economic philosophy that emphasizes free enterprise and private property. It is a philosophy ultimately deriving from Adam Smith's recognition of the enormous power for good that is inherent in that "certain propensity in human nature . . . to truck, barter, and exchange one thing for another." The commitment is to the basic right, vested in the individual economic unit, to freely choose. This freedom encompasses factor mobility: free movement of labor and capital.

The recognition of the individual economic unit's fundamental right to choose in accordance with a competitive, cost-minimizing, utility- and profit-maximizing calculus based on a reading of market price signals

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[13]Robert Michael Field, "Slow Growth of Labour Productivity in Chinese Industry, 1952-81," *The China Quarterly*, December 1983, pp. 641–664; Joseph Berliner, *The Innovation Decision in Soviet Industry* (Cambridge, MA: MIT Press, 1976); R. Amann, J. M. Cooper, R. W. Davies, *The Technological Level of Soviet Industry* (New Haven, CT: Yale University Press, 1977); R. Amann and J. M. Cooper, *Industrial Innovation in The Soviet Union* (New Haven, CT: Yale University Press, 1982).

leaves room for the coexistence of government and does not exclude, on doctrinal grounds, the possibility, indeed desirability and necessity, of governmental intervention in the market process. In three of The Four, adherence to market philosophy has been pragmatic, conservative, rather than libertarian. A conservative, as distinct from a free trade, interpretation of the free enterprise-private property philosophy allows governmental intervention in the market process on behalf of the social interest, but always with a view to enhancing the market and ultimately enlarging the scope of private initiative and competitive contractual relations among individual economic units. This conservative understanding of the free enterprise-private property philosophy includes a comprehension of market failures. It is not anti-government, but it is against those governments whose policies are designed to break the market and reduce the individual economic unit's freedom to choose to a residual right derived from the state through an inordinate enlargement of socialized property and discretionary controls over the economy.

In this conceptual context, a variety of market structures and institutional forms of governmental intervention can be accommodated. The Four (with Hong Kong at one end of the spectrum and South Korea at the other) exemplify most of the variants; from near perfect competition to imperfect markets, cartels, multinational conglomerates, oligopolies, joint private-state ventures, and state monopolies. But in every case, domestic procedures and structures are subject to the discipline of the world market. Domestic policies and institutional economic arrangements must ultimately (and the time frame is short) prove themselves in the world market. For, in the last analysis, without ability to compete on that market the economies of The Four are nothing.

Since the early 1960s, governmental bureaucracies in the four countries have been by and large professionally competent, uncorrupted (occasional slippages notwithstanding), imbued with market philosophy, and supportive of private initiative. The great difference between South Korea and, say, Mexico lies in the different attitudes of the respective state bureaucracies: not so much in the plan as in who does the planning. While the sizes of the governmental sectors are comparable, the bureaucratic attitudes toward the market and private property are worlds apart.

Developmental Strategy

Even though the private sector has been the main engine of growth in all four economies, the governments of three, Taiwan, South Korea, and Singapore, have pursued active and aggressive national industrial poli-

cies, encouraging development in certain directions (oriented toward increasing value added) and targeting various industries for rapid growth by market-related and discretionary means. In short, except for Hong Kong, government has been actively involved in the formulation and implementation of developmental strategy.

In the early 1960s this meant the adoption of a strategy of export-led development. The exports consisted of labor-intensive manufacturers in which there was a clear-cut comparative advantage. This was done through the elimination of restrictions on interest rates, adjustment of overvalued exchange rates, abolition of controls on imports with a high technological content, retention of controls on the import of a wide variety of consumer goods (including "luxuries") for which domestically produced products could be substituted, provision of tax and other fiscal incentives to exporters and foreign interests, provided the latter invested in the "targeted" industries. Export processing zones were set up first in Taiwan to promote foreign private sector participation in export industries. In time, as other countries entered at lower costs such low-price fields as apparel and footwear, encouragement was given to domestic firms to upgrade their products. Instead of the former sweat shop spinning and weaving products, Hong Kong today increasingly produces high fashion garments. The sweat shop goods are nowadays produced in Communist China.

In response to rising IMEs' protectionism against labor-intensive manufactures, the governments of Taiwan, South Korea, and Singapore began to promote private sector involvement in the steel, shipbuilding, petrochemicals, nonferrous metals, and power generation equipment businesses, or more often, entered them directly and through *zaibatsu*-type conglomerates. The shift toward these strategic industries involved a wide range of fiscal and credit incentives (tax breaks, easy access to capital through government-controlled credit institutions, quota and other protection against imports). But it also meant a sharp increase in direct government particiption in the heavy and chemical industries. Today, except for Hong Kong, the public sector remains large, despite some denationalizations. In South Korea (1972), for example, it consisted of over 100 firms producing 9 percent of GNP or 13 percent of nonagricultural GNP, proportions larger than those in Italy and Britain, and comparable to those of more socialistic India. As might be expected, public sector firms are highly capital intensive, located in monopolistic or oligopolistic markets, import-substituting, export-promoting (in 1982 more than 50 percent of South Korea's exports came from such govern-

ment-targeted firms), and exhibiting high forward linkages.[14]

Some controversy has surrounded the government's entry into these strategic fields and the consequent tampering with the market mechanism. It has been argued that the national industrial policy resulted in structural imbalances in the economy: overinvestment in heavy and chemical industries through credit provision at artifically low cost; underinvestment and premature loss of international competitiveness in the untargeted small and medium light industries, most of which also work for the home market and fuel inflation through the relatively high cost structures reflected in their product prices.[15] There has been excess capacity in the targeted industries. Some have suffered financial losses. In general, however, every effort was made to have public sector industries cover their costs and make profits. In other words, the goods they deliver to private sector firms through their numerous forward linkages do not normally constitute an indirect subsidy to those private firms, as is often the case in economies with large public sectors.

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[14]"The result [in South Korea] is a balance between market forces and direct government intervention and between government ownership and reliance on private entrepreneurship. Where the market works, fine; where it does not, the government is quick to intervene. Policy is not only pragmatic but particularistic in the sense that the activities of a single firm may form the object of government intervention . . . Personal relations between business and government officials can be close, and the advice of business associations is listened to. Still, in these relationships, the government clearly has the whip in hand." Edward S. Mason, *et al.*, *op. cit.*, pp. 261, 263. Also Paul W. Kuznets *Economic Growth and Structure in the Republic of Korea* (New Haven, CT: Yale University Press, 1977). South Korea "is a 'free' economy where the government owns and controls some major enterprises, where the government makes the major investment decisions, and where most everyone accepts it as natural that businessmen should follow the government lead." Unlike Hong Kong,—according to Leroy Jones and Sakong Il, South Korea "is not a triumph of laissez-faire, but of a pragmatic, non-ideological mixture of market and non-market forces. Where the market works, fine; where it doesn't, the government shows no hesitation in intervening by means that range from a friendly phone call to public ownership." Urban S. Lechner, "What Put South Korea on the Fast Track?" *Wall Street Journal*, May 3, 1982, p. 31. Cf. Leroy P. Jones and Il Sa Kong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge, MA: Harvard University Press, 1980). On the Taiwan experience, see Peter C. Y. Chow. *Growth and Stability in a Small Open Economy: The Experience of the Republic of China* (Minneapolis: Alpha Editions, 1983). On Singapore: Riaz Hassan (Ed.), *Singapore: Society in Transition* (New York, Kuala Lumpur: Oxford University Press, 1976). For a general overview: World Bank, *Economic Development and the Private Sector* (Washington, D.C., 1981).

[15]Kim Kihwan, "A Case Study in the Perils of Industrial Policy," *Wall Street Journal*, June 27, 1983, p. 23.

All in all, despite some mistakes, the targeting of new industries has been accurate and agile, based on a careful reading of the trends in international market demand and comparative advantage. It has been accompanied by the development of infrastructure facilities (roads, railroads, harbors, energy, telecommunications, housing, urban services). These projects have also helped sustain the domestic demand in times of worldwide recession.

The latest shift has been toward increasingly sophisticated electronics: from assembling transistor radios, through manufacturing many electronic home appliances, to the development for export of semiconductor-based technology. The market structure of these new industries varies. In South Korea, for example, 800 firms are in the electronics business, but three very large diversified groups (Daewoo, Samsung, and Lucky-Goldstar) dominate the industry. Much subcontracting work is done by the smaller firms. Most private firms, the big ones included, are family owned, led by first generation entrepreneurs. The shift toward high tech electronics has been recently accompanied by an increased inclination of governments (especially in South Korea) to rely less on targeting and more on neutral market-determined allocation of resources. It is expected that such allocation will bring the effective cost of capital nearer to the true cost. The divergence had been brought about in the past by the policy of targeting and its accompanying selective incentive system.

In Hong Kong, where the role of the government is much more discreet and limited than in the other three, there exists ongoing and close consultation between the private sector and governmental bureaus through a network of consultative and advisory committees.[16]

The role of U.S. aid in contributing to the growth and modernization of Taiwan and South Korea has been significant in the preparatory stages of the two economies' take-off. This has been particularly true in the technical and social transformation of Taiwan's and South Korea's agriculture (actually initiated in South Korea by U.S. military authorities in 1948). U.S. aid was at all times accompanied by advice not only on technology but on the type of institutional arrangements—favoring free enterprise, private property, and market coordination—to which aid monies were to be directed. The advice was not invariably followed, especially in Korea under Syngman Rhee (1949-60). The threat of cutting off U.S. assistance was certainly one element in South Korea's willingness to introduce constructive economic reforms after 1960. U.S. aid to

[16]"Investing in Hong Kong: 1982," *Wall Street Journal*, June 21, 1982, p. 12.

Taiwan and South Korea ended by the mid-1960s, at which time both countries' need for foreign funds could be satisfied through normal market channels.[17] The lesson to be drawn from this chapter of U.S.-ROC-ROK relations is that what matters is who receives the aid: how competent and committed the recipients are to growth and modernization along lines compatible with the donor's economic philosophy. With "seed money" it is not just the quality of the seed that matters, but the human ground on which it falls: it has produced good harvests in South Korea, Taiwan, Japan, post-World War II Western Europe, and Israel, but not in other places where professional incompetence was rampant, commitment to growth weak, the economic philosophy statist and anti-market, and the developmental strategy vacillating and contradictory. It should also be noted that, without U.S. military aid, Taiwan and South Korea would in all probability have succumbed to hostile outside forces in the first decade of their existence as independent political entities.

Cultural Heritage

The least quantifiable but not unimportant shared characteristic is The Four's Chinese cultural heritage, which goes some way toward explaining certain behavioral attitudes of people and governments toward education, entrepreneurship, work, and thrift.

A strong desire to acquire modern scientific and technical skills that could be put to use in improving individual and family material conditions has been translated in all four countries into an educational revolution noted for the relatively equal access to it by all who want to benefit from it. While in Taiwan, South Korea, and Singapore, the civics content of school curricula has been quite prominent, the civic virtues taught are practical ones, supportive of market-oriented growth and modernization. This is in sharp contrast to the educational effort of mainland China where, for decades, ideological education prejudicial to growth and modernization of the economy (on any model) dominated the curriculum. The result in The Four has been the rapid emergence of modern values and motivations, which sociologists describe as the ability "to keep fixed schedules, observe abstract rules, make judgments on the basis of objective evidence, and follow authority legitimated not by traditional and religious sanctions but by technical competence."[18] On balance, the pragmatic drive of the educational revolution in The Four has eclipsed the

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[17]Mason, *et al.*, *op. cit.*, Chapter 6, and pp. 453–463.
[18]*Ibid.*

anti-modern attitudes present in the Chinese cultural tradition, which Richard Baum has identified as cognitive formalism, narrow empiricism, dogmatic scientism, and feudal bureaucratism.[19] These retarding forces seem to thrive on the scientology of Marxism-Leninism and that ideology's bureaucratic institutional expression: the centrally planned command system of economic organization. They wither under the impact of free choice and competition.

In all four countries, entrepreneurship (keen business sense) and the mobility of labor and capital are accorded popular and governmental sanction and acclaim. The dependency theory espoused by many neo-Marxist governments of the developing countries—the theory that foreign trade with the IMEs, credits from the IMEs, and investments by the IMEs result in the economically weaker party's increasing political, economic, social, and cultural dependence on the stronger party—has been rejected by the Four. In fact, it is believed in both private business and governmental quarters that the weaker party can, if it is quick and smart, turn any dependency resulting from international market transactions the other way. How it can be done has been shown by Japan. But IME trade and investment are seen first and foremost as generating domestic employment and income in The Four. The importance of exports is fully understood, as are the advantages and perils of dealing in the world market.

This understanding of the potential gains that can be made from trading on the world market and the great pressures for efficiency exerted by that market, plus cultural predispositions, encourage thrift, hard work, competence, and labor discipline undisturbed by labor union interventions. For most people, the wage or profit from their jobs or business is the only source of security and the principal means of getting ahead. There is, consequently, a keen desire, shared by most, not to rock the boat through strikes, job actions, and the like. While it is true that in three of The Four, independent labor unions are officially discouraged, the political element in industrial peace has thus far been second to internalized popular attitudes urging labor restraint.

Finally, in each of The Four, a lively cultural life has flourished, more varied and creative than that found in socialist countries, especially mainland China.

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[19]Richard Baum, "Science and Culture in Contemporary China: The Roots of Retarded Modernization," *Asian Survey*, December 1982, pp. 1166–1186.

PROSPECTS FOR THE FUTURE

The bright economic landscape of The Four is not without some dark spots and future threats to growth and prosperity. These dark areas and perils are both economic and political, generated from within and without the countries. Some are more amenable than others to solution by the people and governments of The Four.

Problems

Counterfeiting. The four are still in the technological copying stage. Complaints have been lodged in the past by IME firms about alleged infringements by The Four of patents and copyrights and, more generally, about the purloining of technological and trade information from the IMEs. Widely advertised steps have been taken by the governments of three of The Four to curb these practices. The problem remains widespread and serious, especially in Hong Kong where little is being done about it.

Dumping. Allegations of dumping have been made against The Four's private state sector firms (from TV sets to steel) by almost all the IMEs. In a recent ruling, the U.S. Department of Commerce, for example, declared that four South Korean firms (including Daewoo and Samsung Electronics) had been selling color television sets in the United States at an average price 15 percent below the prices charged on the home market and that seven Taiwanese companies were selling their sets at an average price 6 percent below home market levels. There are many such examples of a seemingly never-ending problem in highly competitive markets. It is complicated by disputes about the methodology used in calculating the price percentages. Analytically the problem is difficult at the best of times, where market economies—such as The Four—are involved. It becomes much more elusive in dealing with crackpot pricing systems such as those of mainland China and other CPEs. Interestingly, one of the firms in the latest TV dumping incident was RCA Corporation's Taiwan unit. The expected imposition by the U.S. of antidumping duties on the sets produced the usual agile response from one of the alleged dumpers (Samsung Electronics of South Korea), illustrative of the quickfooted adaptability of The Four's firms to changes in the constellation of the international market: (a) the firm might switch to the production of cathode-ray-tube monitors and color sets smaller than 13 inches, which are not covered by the U.S. ruling; (b) or expand the proposed 400,000 unit capacity of a TV plant which Samsung is building in New Jersey.

Equity and Social Security. Charges have been made in some quarters, apparently supported by occasional accidental revelations that the distribution of income and privilege is somewhat less equitable than indicated by the official Gini coefficients.[20] Some of The Four have allowed a widening of income disparities in the last decade or so (in South Korea, for example), as a result of the operation of imperfect to oligopolistic markets and the policy of discriminatory incentives. There is hesitation about rectifying this trend through progressive income taxation, in view of the possible effects of any such redistribution on investor morale. Popular concern with a just distribution of income will not disappear as average income rises.

There also are signs of rising worker interest in quasi-absent social insurance and in more active employee participation in certain areas of decision making (e.g., wage determination and working conditions). These social concerns will not be indefinitely postponed by rising real wage levels or stemmed by generous paternalistic employer attitudes toward employee welfare. On the contrary, rising prosperity might encourage such concerns among workers who want to be more independent of the tutelage by the firms they work for. A comprehensive system of social security is not in the cards, least of all in Hong Kong, simply because of the competitive edge it would tend to take away from the export prices of The Four.

Labor Discipline. Affluence might also have a slackening effect on labor discipline and the work ethic. In 1980 a government report in Singapore found that rising prosperity and the full employment economy had made some of the workers (10 percent) "choosy, irresponsible, impatient, and 'money-minded.' " Difficulties were experienced by employers with staffing second and third shifts (despite premiums of 30 percent for the second and 50 percent for the third shift), a problem which gave rise to less than optimal use of newly installed up-to-date equipment. The workers were reluctant to put in overtime, and there was much job-hopping (labor turnover rates of between 6 and 8 percent a month).[21] There were also indications of money wage increases outrunning increases in labor productivity.

Quality Control. In some areas quality control over exported products has been less than satisfactory. Some goods made by The Four have

[20]*FEER*, June 2, 1983, pp. 55–56 claims that in South Korea the top 20 percent of the population control 45.5 percent of the wealth, while the lower 40 percent control 16.1 percent.

[21]*The Washington Post*, September 1, 1981, p. A26.

acquired a reputation not only for cheapness but for shoddiness. This problem must be addressed resolutely because a good reputation, while easily lost, takes a long time to rebuild. As may be expected, the problem is particularly prevalent among the smaller, fast-sell firms.

Balance of Trade Surpluses. Surpluses in the trade balance between The Four and the IMEs (especially the United States) are an irritant that should be addressed jointly by the IMEs and The Four. A few steps have been taken. For example, Taiwan has sent "Buy American" purchase missions to the United States. However, more will be needed than that. The persistence of huge trade surpluses by The Four with the IMEs is bound to encourage protectionist impulses in the IMEs with ultimately adverse effects on all concerned.

Foreign Debt. While there is no hesitation about South Korea's international credit-worthiness (foreign exchange reserves in 1982 were put at $6.4 billion), its foreign debt in mid-1983 was the third largest in the world, estimated at $38 billion, equivalent to roughly 57 percent of GNP. Mexico's debt service ratio (total debt service/exports of goods and services) was 28.2 percent in 1981 compared with 13.8 percent for the ROK. By the end of 1982, the ratio had risen to 15.5 percent. To strengthen credit-worthiness and the continuing need for foreign loans, a number of large investment projects have been postponed, and consideration has been given to reducing the proportion of short-term loans in total foreign indebtedness along lines recommended by an International Monetary Fund mission in 1983. The idea is to reduce the external debt to 46 percent of the anticipated Korean GNP by 1986.

Integration in World Market: New Challenges to Resiliency. The four economies are today more closely than ever integrated in the world market economy, which has become more turbulent, less expansionist than it had been in the 1960s. New ways will have to be found to maximize the benefits and minimize the risks (e.g., stagflation) to the small, open, domestic economies of The Four flowing from membership in the world market club. Realization of the vulnerability of the domestic economies to the vagaries of the world market has always been present, but it has been sharpened by the often scary experience of the 1970s. A lively discussion is going on in The Four on national economic priorities and policies designed to revitalize the economies and assure future growth with stability. The discussion centers on market solutions to the market problem (e.g., development of money and foreign exchange markets, and of discount window policy by the central banks) rather than on administrative statist prescriptions.

Domestic Political Stability. Rising income and educational levels make it probable that demands will arise for greater political participation by different groups within The Four. All have been moving in the direction of political pluralization, albeit slowly and cautiously. The economic argument of continued need for strong and stable governments to encourage and guide the developmental effort and the proved effectiveness of those strong governments in promoting economic sucess is added to the argument of external political threats posed to national survival by hostile powers and the cruelty of the world market. The implication is that Western style parliamentary democracy is a luxury that cannot be afforded in the geopolitical and international economic setting in which The Four find themselves at present. There has been progress in the direction of political pluralism, especially in Taiwan. But the issue of strong government and political stability, how best they are achieved, and what might disturb them, remains a real one. To say that rising economic prosperity will keep the lid on is only a partial answer.

External Political Threats. External political misfortunes can come from enemies and weak-willed friends alike. The PRC and the retrograde North Korean regime do all they can, within the limits of their present abilities and international constraints, to subvert the governments of the ROC and the ROK. Both the PRC and North Korea lay claim to the territories and covet the economies of their more prosperous and politically pluralistic neighbors. Their aim will not be achieved unless the United States abandons Taiwan and South Korea, and it is of utmost importance to the peoples of these countries that this not happen. With respect to the PRC in particular, too much has already been given away, and the danger exists that future accommodations might be struck that will endanger the prosperity and political viability of the ROC and the ROK.

Hong Kong's future is not promising. Neither Britain nor anyone else will lift a finger to prevent Communist China's takeover of the territory in 1997 or earlier. Hong Kong, in contrast to the other three, is held together almost exclusively by money, or more euphemistically, by business confidence. Takeover by the PRC, whatever the formula, is death: economic, political, and cultural. If China moves to take over, and indications are that there is nothing to stop it, the money will depart, and Hong Kong will be turned into yet another proletarian slum like Canton and Shanghai.

Promises

With the exception of Hong Kong, the future is bright. In fact, Hong Kong's inevitable debasement at the hands of its economically incompetent and politically repressive new masters may benefit the other three in a variety of ways. Taiwan has already made arrangements for generous reception to be accorded to refugee capital and refugee entrepreneurs. Singapore, too, has welcomed fleeing capital. If, as is likely, Hong Kong is Tibetanized in its new special zone status, that misfortune will serve as another warning to the credulous and as the latest argument in support of preventing the totalitarian states from carrying out their designs on Taiwan and South Korea.

Confidence in the economic future of Taiwan, South Korea, and Singapore rests on a record of exemplary accomplishment: dynamism of the private sector; stability, ability to govern, professional competence, and relative incorruptibility of the governments; their sensitivity to the need to broaden the base of their political support, but always with an eye to growth and modernization of the economy and the not unlikely possibility of internal political disagreements being exploited by external forces; the commitment of the people and the governments to a progressive economic philosophy that stresses free enterprise, private property, and the ability to compete in the big league of the world market; and a demonstrated capacity to pursue successful developmental strategies, and change them, a step ahead of everyone else, when circumstances demand it.[22]

It is in the interest of the Industrial Market Economies in general, and the United States in particular, to restrain their annoyance with The Four, as they win out, time after time, in competitive biddings on the international market. These areas of disagreement are small compared with what is shared in common. The Four are, after all, a textbook case—and better—of a liberating economic logic and an orientation that originated in the Western world, to which the U.S. continues to give allegiance.

[22]In 1983, GNP per capita in Taiwan was $2,673 (compared with $14,131 for the U.S.). The economy grew at 7.14 percent; consumer prices declined 1.2 percent. The product growth rate in 1984 is expected to be 7.5 percent. Two-way trade with the U.S. in 1983 was $16 billion. "Taiwan Bounces Back Stronger than Ever," *U.S. News and World Report*, March 5, 1984, pp. 38–39. Also, Shirley W. Y. Kuo, *The Taiwan Economy in Transition* (Boulder, CO: Westview Press, 1983).

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The Impact of Korea on U.S. Western Pacific Strategy

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The Louis Lehrman Auditorium
The Heritage Foundation

SOME PRELIMINARY GENERAL CONSIDERATIONS

Of the four powers operating in Northeast Asia, the U.S., the Soviet Union, China, and Japan, the only one with a libertarian tradition is the United States. The U.S. has had no interest in regional expansion there at any time, and is not a neighbor of the Korean peninsula. And for these reasons, the United States is the only one of the four that has never displayed interest in dominating the peninsula but has demonstrated a real interest in Korea and the Koreans for their own sake. This was initiated quite some time ago by U.S. missionaries who were working in Korea, their relatives, and fellow church members.

The region is nonetheless very important strategically to the United States and its interests in the Western Pacific. And since Korea, sandwiched as it is among three giant neighbors, has been vulnerable historically to destabilization and even takeover by one or another of those neighbors, the United States has had to place strategic considerations at the top of its concerns in dealing with the Korean peninsula. And there have been times when these have led to actions that clearly were not in the interests of the Korean people or their government. This was particularly the case when the U.S. did not approve of the government or something that it was doing or some inadequacy that it had. For example, in 1905 the U.S. clearly failed to live up to the Good Offices clause in the Treaty signed in 1882, and President Teddy Roosevelt simply wrote Korea off as a country that showed no importance and no merit. He preferred the Japanese, at least until he saw what the Japanese did to the Russians and began to rethink his position. Similarly in 1949 the U.S. withdrew its troops, for strategic reasons because they were sitting on an exposed bridgehead which they probably couldn't hold, and because the Syngman Rhee government was not, in Dean Acheson's words, in a "situation of strength" and it was felt it would probably collapse of its own internal problems without even having to be invaded by the North Koreans. Again in the mid- to late-1970s, primarily for reasons relating to his concern over human rights in South Korea and secondarily for strategic reasons, President Carter began to withdraw the Second Division and thereby complete the process begun under President Nixon of withdrawing American ground forces. Fortunately, of course, that was reversed under President Reagan.

VARYING PERCEPTIONS OF U.S. AND SOUTH KOREA

An important theme is that of common interests but divergent perceptions and policies as between the U.S. and the Republic of Korea (ROK).

As some British statesman in the 19th century said, countries have no permanent friends or permanent enemies, only permanent interests. That is perhaps too sweeping, but it is essentially correct and worth keeping in mind. The problem for the United States in dealing with Korea from a strategic perspective has been, of course, its vulnerability to pressures or even domination since World War II by its three communist neighbors: North Korea, the Soviet Union, and the People's Republic of China (PRC). And after the Korean War, the South Koreans continued to be fixated on North Korea, the so-called puppet regime, perhaps excessively so at least in the American point of view. It was not clear to Americans whose puppet the North Koreans were supposed to be, but the phrase lingered on at least into the early 1970s. I can remember going to a conference in Korea in 1966 on the subject of Asian communism. I found it was all about North Korea and there was no interest whatever on the part of the Korean participants in talking about anything else. The United States clearly did not agree with this kind of fixation, as China was regarded as by far the more serious problem in the region during that period, and the U.S. was engaged in attempting to contain and isolate it.

After the U.S. withdrawal from Vietnam in the early 1970s and the accommodation with China at the same time, followed later by normalization of relations with the PRC in 1978, Washington went through an exercise of looking again at the North Korean forces using military intelligence personnel and facilities that had previously been tied up studying Vietnam, but were now available. And the result of this appraisal, as I suppose everybody knows, was a very substantial upgrading of the U.S. estimate of North Korean military capabilities with the curious effect that American perceptions of the threat in the region swung much more nearly into line with those of the South Koreans—what they had been saying all along, particularly in terms of the probability of some kind of serious military venture. North Korea was the most serious problem in the region. At that time of course, the Soviet Union had not yet assumed the threat level that it has by now.

In any case, when President Reagan came into office in the beginning of 1981, he brought with him a well-known perception, which was certainly understood in South Korea, of the Soviet Union as a very serious threat world wide, including of course Northeast Asia. And the South Korean government began to bring itself in line with that perception in order to maintain and improve the obviously good relationship that it was in the process of establishing with the Reagan Administration. As everybody knows, there was a kind of a package deal worked out, at least tacitly and probably more than that, at the beginning of the Administra-

tion. It consisted of the invitation to President Chun Doo Hwan to visit the United States as the first foreign chief of state to visit the Reagan Administration, the clear indication that the U.S. Second Division would not be withdrawn for the forseeable future, undertaking to supply F-16s and other such materièl in exchange for terminating martial law, and the commutation of Kim Dae Jung's death sentence to one of life imprisonment.

When President Chun Doo Hwan spoke at the National Press Club during his visit in the U.S., he gave, not in his prepared remarks but in response to a question, a rather long answer—suggesting that it was carefully thought out and prepared in advance—about the anti-Soviet role of both U.S. and South Korean forces. Their efforts, he said, could tie down the Soviets in that part of the world to a degree that would distract them or even deter them from adventurism elsewhere, including Europe and Southwest Asia. This analysis does not totally convince me, but I tried it out not long afterwards on a U.S. military source and he bought it.

During this same period of the early Reagan Administration, South Korean officials began to indicate in talks with American officials that they considered that the Soviet influence on North Korea had come to outstrip that of the PRC. While at the present time I think there is something to this, it was the wrong analysis at the time, and I think it was done largely to suggest that the South Koreans had come to agree with the U.S. estimate that the Soviet Union rather than North Korea was the primary threat.

A very curious thing then happened, in that the Soviet Union began to be irritated by all this. In the first place they were somewhat irritated by President Chun's remarks at the National Press Club ascribing an anti-Soviet role not only to U.S. but to South Korean forces. They were clearly also irritated by things that have happened since. I suspect, although I cannot prove any connection, they would include President Chun's rather startling statements made in Indonesia in June of 1981 that, if North Korea attacked South Korea again, South Korea would destroy North Korea. Many observers thought he meant that the U.S. would do it as part of the alliance, but that was not what he meant. The official commentaries on his statement by other officials of the ROK government made it quite clear that he was talking about some kind of South Korean capability, which I think is a bit worrisome and which certainly began to bother the Soviets. The Soviets were also bothered by the rather remarkable events last year, in which Senator Jesse Helms (R-N.C.) sponsored what turned out to be both a Joint Resolution of Congress and a conference. It was held in Seoul on September 1st to celebrate, more or

less in terms of time, the 30th anniversary of the signing of the Mutual Security Treaty between the United States and the Republic of Korea. It was not the exact anniversary because a date was picked when Congressmen could be there. As it turned out, it meant that academics could be there too, so I was invited and accepted with great pleasure—and was in Seoul at the very time that KAL 007 was shot down.

The Soviet miltitary were profoundly angered by all this—also by an enigmatic remark made by Andropov on August 26th, following which he disappeared from public view for months, in which he indicated that the Soviet Union might very well not transfer SS-20s from Europe to Asia if some kind of agreement were reached in Europe to reduce the SS-20 levels there. In any case, feeling angry and put upon, the military planned a missile test in the Kamchatka area for September 1st, the very day of the Conference. Obviously it was cancelled, because, one suspects, unexpectedly the unfortunate KAL plane intruded in their air space during the time they were preparing for the test.

As for China, as distinct from the Soviet Union, I interpret the South Korean attitude to be that, if the United States could normalize with China, the Republic of Korea should be able to do the same thing. In the course of quite a number of talks on Chinese foreign policy and related topics that I have given in the Republic of Korea over the past several years, it became obvious that what the people who were sponsoring it and a good many people in the audience really wanted to know was if I thought it would be possible, given China's foreign policy for South Korea, to normalize its relations with China. My answer has consistently been no. And it is still no, although it is becoming a little bit less emphatic. There have been some interesting recent developments on that front. I noticed that the Republic of China was sufficiently annoyed by PRC representation in the basketball tournament in Korea that it has withdrawn its ambassador. This might lead to a break of relations, which in turn might open up the possibility of South Korea and the PRC normalizing. The problem there is, of course, that it still does nothing about the Chinese problem with North Korea. There is no sign of its solution. I also recall the late Foreign Minister Lee Bum Suk saying to the National Assembly about the time of the famous hijacking incident a year ago that the number one item on his agenda was trying to establish normal relations with the PRC.

One interesting footnote on this is that I have heard South Korean sources express considerable concern over the possibility that, if the United States transfers arms to the PRC, which is looking more and more likely, that the PRC might transfer some of these to North Korea. And

this fear has been lent some substance by the known Chinese use of North Korean channels for transferring MiG-19s to Iran in the last year or two.

THE ESSENTIAL STRATEGIC ISSUES

Another strategic problem involves modernizing the ROK's armed forces. The U.S. has been slow about this, even during periods when it was talking about withdrawing our ground forces and promising to modernize their forces as a counter to that. Appropriations have lagged rather badly, but there are some interesting reasons for this.

U.S. lack of interest in modernizing the South Korean forces has a long history. It stems from President Rhee's famous and frequent threat to march north. I still recall the speech President Rhee gave to a joint session of Congress in 1954 around the time the Treaty was ratified. It was probably the most bellicose speech ever made on Capitol Hill except when a president was asking for a declaration of war. He said, in effect, "You Americans have the H-bomb, the Soviets don't really have it yet. What are you waiting for? Let's get this thing over with and in the process, South Korea will be freed of this awful threat and you'll probably liberate China from communist rule"—a rather remarkable address. And since then there have been echoes of this kind of belligerence. In the mid-1970s the United States vetoed a purchase by South Korea of a plutonium reprocessing plant from France for obvious reasons. And in October 1978 on Armed Forces Day, President Park unveiled a surface-to-surface missile with a somewhat unknown set of characteristics that seemed rather formidable, at least in pictures. And then there is President Jung's statement about the destruction of North Korea, made in June of 1982 in Indonesia that I referred to earlier.

Many Americans have long been concerned about human rights under all three presidents—Rhee, Park, and Chun. And then for a couple of years, the so-called Koreagate issue particularly concerned Congress. This had a rather interesting origin. A very high-ranking American official, now retired, says he was talking sort of idly back around 1974 to the South Korean ambassador or some other high official at the ROK embassy and mentioned that "You people are making a bit of a mistake in concentrating your efforts in public relations and all that upon the Executive. Congress is also very important in this country and you really should cultivate Congress." And the next thing you knew they were cultivating Congress in what ultimately became the Koreagate scandal as it was called then.

An important development in U.S.-ROK relations has been the dra-

matic rise of South Korean nationalism in recent years. I would date the origins of it from the South Korean role in the Vietnam War in the mid-1960s. The U.S. had to urge them strongly to get them to send two divisions under the slogan of more flags in Vietnam, but once they had decided to do it, they made a great deal of it in many ways, including financially. As it required valuable military experience, they hoped to increase the likelihood that, if they were ever faced with a problem similar to South Vietnam's, the U.S. would respond all the more forcefully because of their contribution in Vietnam. And of course President Chun served as a division commander with distinction. From the South Korean point of view it would seem that the only problem was that this was done under U.S. auspices when it would have been preferable to have done it independently. Of course many recent initiatives had been taken quite independently of the U.S. that manifest this rising nationalism.

The importance of this nationalism is greatly enhanced, and the influence of South Korea when it does begin to spread its wings and fly is inevitably enhanced by its role as a kind of front line state in Northeast Asia. This position is rather analagous to that of Thailand in Southeast Asia when it wants to do something, particularly when its own interests are directly involved, as it inevitably has increased clout because of its position as a front line state.

Among the manifestations of nationalism are: in 1970, President Park finally showed interest in promoting unification. Up to that time, virtually all proposals had come from the North and it began to look as though the South Korean government really was not interested. Of course, this was not true, nor was it advantageous, which is why President Park was persuaded to push unification publicly. It was in that connection that a conference was held in Seoul that I attended, a more or less academic conference on the question of unification. Then there was the fascinating statement in the joint North-South Korean statement of July 4, 1972, referring to "a great national unity" and including a phrase like "independent of ideology." And under President Chun in the fifth republic, there has been even more. His trips abroad have been quite effective. In the first place he alleviated or even eliminated the image of South Korea's being an American client state and having relations really with nobody except the United States and Japan. And there is a South Korean tendency that I have encountered in private conversation a good many times to knock both the PRC and Japan as U.S. partners and allies—to play them down as unreliable and so forth, and by clear implication to boost South Korea as a preferable alternative. The South Koreans also take the position that the security of South Korea is vital to the security of

the region. This is the proposition that President Chun was able to insert in a number of joint communiqués during his visit to ASEAN and other trips abroad. I am not sure how seriously the other parties took it. There is, of course, the famous business of the Asian Games and the Olympic Games coming up. There is an economic assertiveness with respect to the United States, a sort of mini U.S.-Japan economic dispute, which has arisen over tariffs and similar matters. In the case of Japan, the proposition was clearly advanced that the Japanese owed the South Koreans a lot of money, in effect a big credit, not only because of historical events that we know very well, but because South Korea's security was vital to that of Japan. As far as I know, the Japanese have not acknowledged this historical debt officially. They have been very careful not to. But Premier Nakasone has gone rather far informally toward indicating a degree of acceptance of it.

In spite of this upsurge of nationalism, the South Korean establishment, the government, and other institutions, clearly continue to rely heavily and quite consciously on American deterrence and American support for their ultimate security against North Korea. And while the idea or the goal of an adequate independent defense capability is still there and is talked about, it remains a theory or a goal for the future, and there is no way of knowing when or even whether it will be attained.

CURRENT POLICY ISSUES

As to current policy issues, I have absolutely no inside track. I simply have to use my head working on the same evidence as anybody else. In the first place, is U.S. deterrence reliable from the South Korean point of view? In short, would the U.S. fight again if South Korea were attacked again? My best guess is yes. And one of the best pieces of evidence for that is the North Koreans appear to think that the answer is yes; and even if they don't, the Soviet and Chinese do, which has almost the same effect. Quite clearly, memories of 1950 still flourish vividly in all three of those communist capitals. The Soviets certainly remember quite understandably misreading the American signals in 1950, because the U.S. itself did not think it would defend South Korea. The Soviets took that evaluation seriously, attacked, and much to Stalin's disgust, the United States turned around and defended South Korea. And the Soviets have not quite recovered from that anymore than they have from what they regard as Kim Il Sung "jumping the gun" on them, as they put it, starting the war without them in 1950, about six weeks earlier than the Soviets and the North Koreans had apparently agreed to do. The Chinese certainly have

not forgotten about that. Kim Il Sung himself has undoubtedly not forgotten the terrible punishment that his regime and his people took during the war. The 2nd Division, of course, is still very much there, positioned north of Seoul more or less in the path of any possible invasion. And then finally, there is the statement of President Reagan in November of last year (1983) while in Korea to the effect that the security of the Republic of Korea is vital to the security of the United States. Things may change under future American administrations, but as of now the answer to U.S. defense of South Korea is yes.

As against a clear determination to honor the defensive commitment to South Korea, the U.S. still wants South Korean restraint in matters that are difficult or edgy. For example, when President Chun Doo Hwan cut short his South Asia trip and returned from Rangoon for obvious reasons, he was apparently in an absolute rage. A lot of people were hopping mad, the Chinese and the North Koreans. In any case when President Chun returned, he had a long talk with Dixie Walker, the U.S. Ambassador, who urged him, in effect, not to do anything drastic. Whether this was the reason why he did not is another question.

The U.S. continues to be concerned over the political situation in the Republic of Korea: the difficulties the present government has had in acquiring legitimacy in the eyes of its own people; the question of succession in which it would seem absolutely clear from the Constitution and from his public statements that President Chun would not try to succeed himself, but many Koreans and Americans believe that he is likely to do something of the sort, or if not succeed himself at least put somebody in who would be his hand-picked successor; and, of course, the human rights question.

Clearly President Reagan does not believe in publicly prodding the Republic of Korea government or any other government on this kind of question. Or as former Secretary of State Haig once put it rather nicely, "We don't issue report cards on foreign governments." But the President did say at the National Assembly in November of last year (1983) that the development of democratic political institutions is the surest means to build the national consensus that is the foundation of national security, a point that many Americans have been trying to make to the South Koreans for quite a long time.

In private, I gather that our government has been fairly forceful in talking to the South Korean government about the Kim Dae Jung case. We were instrumental in securing an improvement in his conditions of confinement, more frequent visits from his wife, medical care, and probably had something to do with the eventual decision to "exile" him to

the United States. But it is quite clear that this has all been done through encouragement and private discussions, not public pressure, in strong contrast to the Carter Administration, which attempted public pressure and in effect hectored President Park to the point that he acquired a real complex about President Carter. They simply could not stand each other, which is not a healthy relationship between the heads of state of any two allies.

At the present time, one of the more fascinating policy questions is what kind of conference, if any, should there be as a next step to consider the future of Korea (presumably a unified future). It is almost true to say that no two governments have the same formula for such a conference, and since that is so, it is not going anywhere. First of all, there is the two-party model: the North and the South, which is the current official South Korean preference, provided, and it is an awfully big "if," that North Korea apologizes for Rangoon. Then there is the three-party model: the two Koreas plus the United States. And that has a rather interesting history, which is a bit speculative in a way. As is known, the PRC transmitted to the U.S. in Peking just before their foreign minister came here in October (the exact date of this transmittal was October 8, 1983) that the North Koreans would now like to have a three-party conference with the implication that the South Korean party would be the South Korean government itself. That may not seem like much of a concession, but in previous times the North Koreans always insisted that the current government (whoever it was) was no good and that South Korea would have to be represented by some opposition coalition, an absurd and unfeasible notion. But the problem was, if this communication is taken at face value, that the North Korean proposal apparently envisaged taking part in a series of discussions with a South Korean government that had just lost its chief of state and a number of high officials in Rangoon (the bomb explosion). The Chinese were quite clearly furious at having been, in effect, used this way and yet not being in any position to break openly with the North Koreans on a matter of such importance to them. The Chinese have continued to endorse the idea of the three-party conference, as they did when Premier Zhao Zhedong came here, for example.

Then there is the idea of a four-party conference, the three I have mentioned plus China, which the United States would prefer. But the Chinese are simply not interested. The latest clear indication of that was the interview with their Foreign Minister, excerpts of which were published in the *Washington Times* on or about April 19, 1984, in which he says quite clearly, although rather politely, that China is not interested and will not take part in any such conference on Korea. The Chinese,

however, are attempting to do something to help to calm things down but without taking part in any such conference.

Then there is the five-party conference, the four I have mentioned plus Japan, which seems to be the Japanese preference. There has even been some talk of including the Soviet Union. But this would be a long way down the pike. So given this two to five, even two to six, range of difference, there seems little chance that any such conference will be initiated in the near future.

Another approach is, of course, cross-recognition, which is also very controversial. A curious inversion of the normal laws of international politics operates here. Normally big powers can do things that little countries can't. In this case, it is just the opposite. Both Koreas have relations with many of the same countries (I am not sure how many countries recognize both, but it is several dozen—sixty) and yet the United States, Japan, the PRC, and the Soviet Union have relations with one or the other but not both, thereby neatly inverting the normal laws. The reason is, of course, the unique, very tense, very difficult situation in Korea. For the Soviets and Chinese, it is the very difficult nature of their own relationship with North Korea, which prevents either one of them from being willing to alienate it to the extent of unilaterally attempting to move and recognize South Korea. And the U.S. and Japan, of course, will not move unless the two big communist powers move from their side to recognize Seoul. So clearly, that is not going anywhere at the present time. If it should occur, and purely in the abstract, it seems a perfectly good idea, it would be a step toward a so-called German solution. This means the two Koreas would agree to leave each other alone, in effect not claim each other's territory or fight each other, as the two Germanys have done for over a decade, which certainly from the point of view of the outside world would be a very good outcome. It would not solve the problem of Korean unification any more than German unification has been solved, but that is the way things are sometimes.

I attended a panel in Atlanta not long ago on Korean unification. Almost all the speakers were Americans of Korean origin, and all of them were trying to find something encouraging, something hopeful in the situation that would permit the conclusion that maybe unification under some sort of basis was imminent. There were a few who seemed to be so opposed to the South Korean government that they sought unification as a means of getting rid of it, frankly, without necessarily a clear idea of what would succeed it. I do not think they were really pro-North Korean, but they saw the present South Korean government, and felt that if they could get rid of it by some kind of a deal with the North, all well and good. And

there were various other shades of opinion, but my approach, when somebody says to me that a thing like that cannot go on, is to answer why not. It has been going on for a very, very long time, and the alternatives generally are worse. And when Koreans complain that the United States and the Soviets partitioned them in 1945, as they did, and addressed their complaints to the United States, which they often do, it is quite understandable. But the alternative would have been Soviet occupation of the whole of Korea. Would that have been better? I do not think so, and I do not think anyone here would either. That, literally, was the other alternative. And at least in the process of partitioning, the line was drawn north of Seoul and not south of Seoul. So it is rarely true that an existing situation could not be worse.

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Guest: How can South Korea defend its economic success in contrast to North Korea and what effect do you think this is going to have on relations between the two countries in the long term?

Professor Hinton: It is one of those situations where there is no necessary effect at all—the two things are simply different phenomena. In other words, the North Korean tendency is to feel rather nervous about it and keep its guard up all the higher, perhaps huddle closer to the Soviets. That is what is happening now. The North Koreans, particularly since the KAL affair, have begun to see the Soviets as a possible source of the muscle they need. They would hope to get in a position something like that of the Vietnamese or the Cubans, but without accepting Soviet combat bases on their soil. But the Soviets tend to regard the North Koreans more as they do the Libyans than they do the Vietnamese or the Cubans. This is not resolved by economic trends, however, important as they are in their own way. So South Korea could go on forever expanding its economic lead, its demographic lead, and so forth over the North, but it would not solve the problem. The question is how to get from here to there, and it involves a qualitative change that has to occur and is not achieved by incremental economic growth, alas. I have never seen it happen. On that basis there would have been German unification a long time ago, at least before the East Germans began to take off economically, as they seem to have done. Actually East Germany and West Germany have not fought a bitter war within the past generation, and there are many other differences. For instance, the Soviets leaned very hard on East Germany in the early 1970s to cool it and to reach an agreement with the West. The Soviets are simply not doing that with

North Korea, because if they do, the North Koreans will move into the Chinese camp. And that is what the Soviets fear. So again it is one of the examples of the very serious sort of qualitative differences between the German and Korean situations. I would like to be more optimistic, but I cannot.

Guest: What do you anticipate in terms of discussions about Korea when President Reagan goes to the People's Republic of China?

Hinton: I will answer as though it were a rather broader question than the one you ask, because I obviously do not know the answer to that one. But many interesting things are happening. One of these is the expanding network of unofficial relations between China and the Republic of Korea, which has profoundly irritated the North Koreans and has given the Soviets a potential handle in dealing with the North Koreans, when combined with the KAL episode. And one of the things that worries the Chinese was the way in which the North Koreans hailed the shooting down of that plane—virtually a straight Soviet line. Whereas the Chinese, although fairly restrained as compared with the U.S. for example, were still basically very unhappy about the shooting down of that aircraft. So a rather flexible situation is developing in which there are two clear-cut continuing confrontations: North Korea versus South Korea and China versus the Soviet Union. I have looked rather hard to see whether the Korean question was coming up between the Chinese and Soviets. This could be very interesting and very important, but I see no sign of it. There seems to be nothing more really than negotiating their bilateral differences of more or less military character, plus the three really troublesome areas to the Chinese of Mongolia, Vietnam, and Afghanistan. But I have seen no sign, not even speculation, involving Korea.

What it would take would be the Chinese and Soviets agreeing to stop playing these funny games with North Korea or the North Koreans manipulating them against each other. And they would be more disposed to enter into some kind of broad multilateral discussion of the Korean question, but there is no sign of that. The key there is obviously the Sino-Soviet hostility. At least from a military point of view they still regard each other as threats. Now where the Reagan trip fits into all that I have no idea. He may not even discuss it. It may well be that the U.S. is convinced that the Chinese position is unshakable and that they will not take part in any discussion and there is nothing more useful to be said to them.

Guest: I understand that a year ago North Korea complained to Peking concerning trade between the People's Republic of China and South Korea, particularly trade that was being routed through Hong Kong, and

at that point, China cut this trade or decreased it very markedly. Would you comment on that?

Hinton: That is true, to the best of my knowledge, and since then, it has started again. I see some rather serious issues between China and North Korea, which are partly concealed. That is one of them. Another is a boundary dispute of sorts. Both countries claim the highest mountain on their common border. The Chinese have complicated the issue by putting a satellite tracking facility on it in the not too distant past. There are a number of these things that are never talked about publicly but beneath the surface keep things rather tense between them. There was a report about a year and a half or so ago that ten North Korean generals had defected to China. It originated from left-wing Korean sources in Japan. I was never able to track it down to have it either confirmed or denied by anybody who was in a position to know. But there have been a number of things like that suggesting rather serious tensions. And yet on the other hand, the Chinese invited Kim Il Sung to China last year. I would imagine holding their noses as they did so, but they invited him, gave him a guided tour and talks with Deng Xiaoping, and they made a one-hour documentary that I would love to see. Apparently it has only been shown in Japan. There are things like that, whereas the Soviets will have absolutely no part of Kim Il Sung or even pretend to like him.

I am reminded of the old story of Rudolph Bing, when he was general manager of the Metropolitan Opera and having his annual round of labor negotiations. After a while the labor guy said to him, "Mr. Bing, you are displaying contempt for me." And Bing replied, "On the contrary, I am trying to conceal it." Well that is roughly the way that the Soviets treat the North Koreans. Actually, Kim Il Sung has not been there in the USSR for quite a while, whereas he has made two secret visits to China plus a public one within the last year and a half.

Guest: I read a rather bizarre piece of information somewhere with regard to President Reagan's security when he went to Korea. He was sitting up on the line looking around and was literally vulnerable to fire from the other side. This piece went on to say that the Chinese sent the following message to North Korea. It was that "If anything happens to President Reagan . . ." and it stopped.

Hinton: I think there is something in that. I do not know whether it was that dramatic, but the Chinese were clearly concerned about the threats to Reagan that were vaguely emanating from North Korea prior to the visit and probably did say in advance, "Look, forget it." They were already very upset about the Rangoon bombing. This is not the way the Chinese operate really. They do not believe in terrorism. It is a sincere

attitude not just because they object on principle, they think it is politically counterproductive. I wish more people like the Libyans would adopt that point of view. I think that, along with the Rangoon bombing, that is the threats against Reagan, have been among the things that have turned the Chinese away from North Koreans—at least partly in the last few months.

About 12 years ago I had lunch with a member of the South Korean central intelligence agency (KCIA), and he asked me what I thought about China's policy toward Korea. And so I gave him my usual reply in one sentence—Peking doesn't want Pyongyang to move either against Seoul or toward Moscow. And he looked at me in a funny way and he said "You know that's what Kim Il Sung told me the last time I was in Pyongyang." And then I remembered that the KCIA played the key role, really in the South Korean side, in the secret negotiations of 1971-1972. Another story is that in Malaysia in 1982 I spoke on U.S.-Chinese relations at an academic center. I was ushered into the room a little early and the only other person in the room was an Asian in a batik shirt standing just inside the door, and without thinking anything about it, I simply held out my hand, but I could just feel the ice cold travelling up my arm (I have never had such a chilly handshake in my life), whereupon somebody from the American embassy came up and said, "You know, that's the North Korean ambassador." At that point I decided to drop Korea from the list of countries I was going to discuss where the U.S.-China had parallel interests. But then when the discussion came, a Malaysian sitting next to the North Korean ambassador raised his hand and asked about Korea. So I decided to go ahead and say what I would have said anyway which was an elaboration of my one sentence. I could see the ambassador's legs under the table, and as soon as the word Korea was mentioned, they stiffened like a couple of iron rods. I had never seen a man so tense in my life. But when I began to talk, he relaxed, he started to smile and nod his head, and after it was over, he came over and shook my hand very warmly. Such is the evidence I have that convinces me that North Korea totally understands the limits of the Chinese commitment to them. Some people, including some very distinguished American Asia-watching colleagues, seem to think the Chinese are right in there solidly behind the North Koreans, that they want us out of the South. They do not at all, but they have to say so for the purposes of their relationship in Pyongyang.

The Chinese used to say in secret bilateral talks with American officials in the early 1970s, "Look, stay on in the South, that's fine." But then Kim Il Sung came in 1975 breathing fire out of both nostrils about the time of

Saigon's imminent fall, wanting the Chinese to help him take Seoul in effect, and the Chinese told him to forget it. They had to give him something though. And one of the things they gave him was a statement in a joint communiqué that they would not recognize Seoul, and that is still their policy. They said, in effect, that the Chinese side recognizes the Democratic People's Republic of Korea as the only legal government of the Korean people or some such phraseology. And the other thing was a private commitment not to keep talking positively about the American presence in South Korea. But the Chinese continue to indicate in very secret ways their disapproval of Kim Il Sung (1) for his cult of personality, (2) for his installation of his son as his heir, (3) for his opportunistic playing of the Chinese against the Soviets, (4) for his extreme belligerence toward South Korea. That is the case against Kim Il Sung in a nutshell, and the Chinese have not made any trouble for the U.S. in terms of its basic commitment to South Korea.

Even in considering overt Chinese pronouncements in the media, they very rarely, for example, mention the fact that they fought in Korea during the Korean War or that they might have to do it again. They usually refer to their alliance with North Korea only on anniversary dates of the signing of the treaty. It is obvious from all sorts of things that they really are not enthusiastic about the North Koreans, and they are getting less so in view of North Korea's tendency to try and line up a little more toward the Soviets for reasons of hardware and other types of support. Some very interesting things are happening. In a way the only thing that is perhaps not changing much right now is U.S. policy. It seems to be pretty constant. Reagan has, in effect, gone back to the relatively firm pre-Carter policy, and I see little change at the moment. I see no reason to complain about that. But the policies of the other "actors," perhaps reflecting the fact that the U.S. is standing pretty firm, have begun to show some interesting signs of moving around—some signs of instability that could possibly be useful from the point of view of the U.S. and the R.O.K. Anything that keeps North Korea a little bit uncertain of their Soviet and Chinese support and where they stand with either or both of them is probably a good thing from the point of view of the other side.

Guest: The students in South Korea have always been a factor to contend with. I wonder if you might analyze a little bit the students of to-day as opposed to previous times. Do they have the influence, the clout to shape things politically, or have things changed?

Hinton: You are talking about the typical, relatively active student back in 1960, when student demonstrations escalating into revolts did, indeed, bring about the downfall of Syngman Rhee. The army failed to

stand by him and out he went. There is little chance of that being repeated. The nearest repetition historically were the demonstrations against President Park that broke out in the fall of 1979 and contributed, perhaps not decisively but very importantly, to the internal crisis that resulted in his death. But the present government watches this carefully. It is a difficult situation. The relationship is not good psychologically between the activist students and the government, but the activists can do little. They can demonstrate, and frankly, I am impressed wih the courage of students and others in South Korea, not just under this republic but the previous one, of their willingness to demonstrate under extremely difficult conditions. Whether it is sensible is another question, particularly under the present government, which is showing some signs of creativity that were lacking under President Park. My own instant analysis is that many Americans, particularly those who expect or demand a democracy in South Korea, are demanding the impossible. I do not say it is undesirable; it is desirable, but it is impossible for three reasons:

1. They created a political tradition. After all, how many working democracies are there in Asia? And in the case of Korea, there is a long authoritarian tradition pulling against a strong factional tendency, a bit like France or Italy. As I recall on the factional side, when I was in Korea the first time in 1945-1946 with the military government, the military government legalized the formation of political parties sometime in October of 1945. And within about six weeks after that, approximately 75 political parties had registered with the military government. And three or four months after that, the number had gone up to 300. Each one, I would suspect, consisted of one politician, one desk, and maybe a secretary if she was lucky enough to have a typewriter. And that was a party. This is the tendency that the government is always pulling against, basically with success.

2. Then there was the Japanese occupation. It would have been unreal to expect the Japanese to allow liberties to their Korean subjects that they did not allow at home. And if anything, their interlude of almost half a century of rule set everything back.

3. And of course, the worst situation of all is the division of the country and the presence of that line just thirty miles away from the capital. As one American military man put it to me, it is as though the capital of West Germany were at Fulda (right in the Fulda gap and a very short distance from the East German frontier). Under the circumstances, and for these reasons, there is no way to democracy in my opinion.

Now there are degrees of approaching it or degrees of falling short. And certainly I think that more could be done and President Reagan pretty

clearly indicated he thinks more should be done, as in the speech to the South Korean National Assembly last November.

Frankly, the students take a rather unfortunate attitude. There are similar cases elsewhere, but in South Korea it is more difficult to ignore. For example, three young people firebombed the American Cultural Center in Puson. I was there soon enough afterward to smell the wood smoke (it was in 1982). It was brutal—the casualties were three Koreans right in the reading room. One of them was a young man who died of smoke inhalation while trying to get out of the window, and the other two were young women who were terribly burned and as far as I know have not yet had plastic surgery. The U.S. cannot do it legally for them, and the South Koreans either cannot or will not. I was told when I was there a few months later that it was the end of their lives. They could not get husbands, they could not get jobs because of this hideous disfigurement. That was the main single result, apart from the charred set of offices for the U.S., out of this firebombing. Unfortunately the South Korean government chose to try these people on a charge of sedition, thereby politicizing it and making it into a polarizing issue, instead of simply trying them for murder. And of course I deplore the fact that one or two of them were given shelter by a priest for awhile.

The churches are another angle. To some extent, the problem goes back to President Rhee who was Protestant. As a matter of fact he was an undergraduate in the U.S. and went on to get his Ph.D. at Princeton under Woodrow Wilson, although there was a great deal he never seemed to quite internalize about the American way of doing things. In any case, he got along fairly well with the Protestant communities and appointed a number of parsons and bishops to political positions. After his fall at the hands of the army, he aroused the churches and kept them in a constant state of suppressed confrontation, which still persists. It is understandable but not necessarily useful. I do not think it improves anything. It simply makes the establishment all the more tense and all the more likely to strike back, when what is needed is for everything to relax a bit. And there is something else that legitimately worries the government. If this tendency that I have mentioned—the idea that, if the U.S. can just get involved in talks with the North, maybe in the process it can bring about the elimination of this government in the South that we do not like. This is a very dangerous idea. It is the feeling that started in 1960-1961 that induced the army to take over and to prevent this kind of transformation from working itself out. As you can see, there is no easy answer for the U.S. and its policies vis à vis Korea, but understanding the nuances we have discussed today is a step in the right direction.

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Security Assistance to Southeast Asia: Lessons from the Past, Implications for the Future

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INTRODUCTION

I am glad to have a chance to categorize some matters that are of more than usual interest to anyone concerned with U.S. national security problems: what is the purpose of our security assistance programs and do they achieve what they are supposed to achieve? I am going to look back a bit, primarily in anecdotal not technical form, since the facts are known and the documentation is available, drawing on my own experience. Then I will try to raise a few conceptual questions about some problems that are facing us now and in the future.

According to a congressional staff document (House Foreign Affairs Committee, March 1981), between 1950 and 1979, the U.S. spent $200 billion on security assistance. That includes success stories like NATO, but also heartbreaks like Vietnam or disappointments like Iran and Ethiopia. Has that money achieved its purposes?

There is a surprising amount of confusion, even at high policy-making levels, concerning the qualitative differences in security assistance. In the context of NATO, there is a structured organization with a very long experience behind it, with a clearly identifiable threat, a command structure, and all the other familiar linkages. As for security assistance programs targeted on other parts of the world, the threats are multiple and unpredictable, and the concept of collective security, although widely used, may not be truly applicable.

Furthermore, much more so than in the NATO context, it presents the problem of managing a partnership between unequals. And that is not easy. The size of U.S. efforts overseas in these many varying contexts is larger than many people realize, not only because of the expenditure figure of $200 billion up to 1979, which I have mentioned a moment ago, but because according to General Graves, speaking at the time when he was Director of DSAA (the Defense Security Assistance Agency) in the Pentagon, the United States Air Force Logistics Command maintains more foreign airplanes than airplanes in the force structure of the U.S. Air Force. In other words, it is an enormous task. My question is: does it achieve its purpose, and if not, what are the problems that we should address in the future to better serve the national security interests of the United States?

THE SECURITY ASSISTANCE DILEMMA

Let me go back a bit for one very concrete example, which I personally witnessed. In 1962, the Indonesians were threatening to go to war against

the Dutch if the Dutch did not return that part of the former Netherlands East Indies that they called "Irian" and the Dutch called "Western New Guinea." The Soviets were pushing the Indonesians to fight the Dutch and put the United States on the spot. It was the occasion for the first major Soviet military assistance or arms transfer program overseas, much bigger than the earlier indirect arms transfer to Egypt. The U.S. was trying to prevent a war between a close NATO partner and friend, the Netherlands, and Indonesia, with whom maintaining good relations was desired. Finally, Ambassador Ellsworth Bunker negotiated a peaceful settlement. The Soviets were furious. And in order to show American appreciation for the peaceful solution of what could have been a messy conflict in the Western Pacific, President Kennedy decided to do something for the Indonesian Army, which was considered friendly, unlike the allied services and the country as a whole, which were getting increasingly pro-communist and hostile to the U.S. I was part of the team sent out to Indonesia in September-October 1962 to talk with the Indonesian military. There were representatives from the State Department, the Defense Department, and AID, and I was on loan from Rand, as a specialist on Indonesian military affairs. The Indonesians wanted nothing more for their armed forces at that point than modest equipment for their civic mission—spades, tool kits, light earth-moving equipment—so they could go out into the villages, repair bridges, and build schools and mosques. President Kennedy, at the height of the Cuban missile crisis, signed the appropriate instructions, and literally within two weeks or so after we came back with our report, U.S. Air Force transport planes were on their way to Jakarta carrying small tool kits and training teams from the U.S. Army Engineers. The Indonesians were delighted, particularly by the rapidity of the American response to their modest requests. The symbolism of concern and good will was obviously more important than the monetary value of our contribution.

A more recent example of a similar nature occurred a couple of years ago, on April 3, 1983, at the time of a major push by the Vietnamese forces occupying Cambodia against the Thai border. The Director of Central Intelligence, William Casey, was in Bangkok and had a talk with Prime Minister Prem. He reported back to Washington that the Thais needed a certain amount of artillery ammunition and missiles. Literally, within a week, by April 11, two C-5A aircraft and some C-130s delivered the requested items to the Thais. While the amount of weapons was modest in terms of a sustained campaign effort, the gesture was really appreciated. The Thais felt that the U.S. was with them and could be relied upon.

Now I come to a more difficult question: what should the U.S. do when

dealing with a sovereign country, governed and managed by grown-up men, who have their own views on their defense requirement, and are willing to pay for arms transfers with their own resources, but the U.S. thinks that they are making the wrong choices? This is the central problem that I want to address, and it is not an easy question to answer.

Again there is an example from Indonesia. Two or three years ago, then Defense Minister, General M. Yusuf, wanted to buy the most advanced fighter his country could afford, which, in the USAF force structure, is the F-16A. He made it emphatically clear that selling Indonesia F-16A planes was a test of U.S. friendship, a test of whether Indonesia counted in American eyes.

More recently, similar statements have come from the Thai armed forces, who also wanted F-16A planes. Yet, in both those countries as well as here in Washington, there are many highly qualified persons who think the F-16A is not what they need. In Bangkok less than two months ago, I talked to a friend who is one of the most senior retired military and political figures of his country. He told me that, in his professional opinion, Thailand does not need that kind of equipment, because it is not well suited for defense against the Thai's most likely threat: Vietnamese aggression along the Thai-Cambodian border. He also thought that they could not afford such equipment.

How can the U.S. tell a foreign country it is making a mistake, without being patronizing, which no country can easily accept? How should American security cooperation be managed, in the light of changing circumstances and over the three decades of experience?

First of all, U.S. policy appears from the outside whimsical and unpredictable, but a nation, like an individual, has to have character, so it can be counted on and its actions predicted. What kind of an image is projected abroad when, at the beginning of the Carter Administration, an arms transfer policy is announced that reduces it to bare bones, makes it only a most exceptional instrument of foreign policy. Then three years later these policies are reversed by the Reagan Administration. Although the 1977 policy stated that the U.S. would not develop special advanced weapons for export, President Carter made an exception in 1980 and initiated the FX (a fighter plane to be built for export only). When the Administration changed, President Reagan, rightly in my opinion, superseded the Carter Presidential Directive 13 with his own directive on conventional arms transfer policy of July 8, 1981, which makes more sense. But still, seen from the outside, it can only confuse friends and allies. What should they expect after the November 1984 election—which they cannot predict any more than I can? In my lengthy conversations in Southeast Asia with some very senior military and civilians, over

many years, I heard nothing but criticism of American security assistance. The fact that we have transfered large amounts of equipment seems to register much less than the fact that it is a sort of endless "Perils of Pauline." Every year they wonder what the U.S. is going to do next. Will they get the $40 million that they got last year, which is about the order of magnitude of the program for Indonesia at present? Some years ago I asked the chief military planners of Indonesia, in a private conversation: "Listen you guys, you are now earning several billion dollars a year from oil exports." (The price of oil had gone up, as you know, in the 1970s.) "Why don't you just tell us that you don't need Military Assistance Program (MAP)." They said, "Well we would never do that. MAP is not just saving us a few million dollars. It is a tie, it is a commitment, it is a symbol of your interest in our security."

That brings up the question: What is "collective security" with unequal partners? There is no "collective security"in Asia. If the South Koreans were attacked by the North Koreans, the U.S. would have to help them defend themselves. Japan certainly will not operate outside of its own territory under its present Constitution. The U.S. is committed to defend Japan. The U.S. is committed to defend the Philippines, though there is no agreement on whether this commitment means assistance if they have a scrap with somebody else on the Spratlys. Is that contingency covered by the Mutual Security Agreement with the Philippines of 1951? They say yes, and the U.S. is not sure. In the whole ASEAN region, "collective security" seems to mean that they count on U.S. assistance without reciprocity.

Such terms are not suitable to the multiplicity of situations that security assistance and arms transfers generate. But the Frank Carlucci Commission, in a presidentially mandated study of U.S. economic and military aid policies, proposed the term, "security cooperation." That is a very well thought out concept, expressing clearly what U.S. future goals should be. The U.S. should aim at creating an environment of "security cooperation" very different from the legacy of the early 1950s when the U.S. provided strictly unilateral "security assistance." For in fact, the U.S. does not provide assistance, but the general public does not realize that. With few exceptions, foreign governments pay for what the U.S. supplies to them.

According to the latest statement of the Joint Chiefs, out of the total amount of security assistance proposed for FY 1985, 86 percent is in foreign military sales credits (FMSC), which means that recipients have to pay for what they get. Only 14 percent is military assistance in the form of grants. Cooperation is, of course, desirable, but it should be cooperation

in forms that up to now have not been thoroughly developed. The question has not been answered as to how to tell a sovereign foreign government that maybe what they request is not what they need for their national security in realistic cost-benefit terms and opportunity costs. There should be effective ways to do that, if the emphasis were on cooperation rather than assistance, if the U.S. could create a spirit of true friendship and partnership with foreign governments who want to be close, but do not want to be patronized as if they were immature youngsters.

The day may come when a foreign government comes to the U.S. because it wants to buy a certain kind of military equipment, fighter aircraft, tanks, naval vessels, and the U.S. is able to say gracefully: "You're our friend, if you think this is what you need, obviously you will get a very favorable hearing from our side, but could we develop a mechanism through which your military professionals and our military professionals would be able to sit down together quietly, without much publicity, and examine all the implications of what you are intending to do. Let us pool our resources and perform a realistic threat analysis. What is the threat that you may really face?" This varies enormously from country to country, with major implications for the force structure that each country should maintain.

In Southeast Asia, Thailand is a front-line state, because there are 160,000 Vietnamese combat forces on its Cambodian border. Opinions differ, of course, as to whether they will attack Thailand. A threat analysis would seek answers to such questions as: Are the Vietnamese capable of and do they have the intention to expand their hostile occupation of Cambodia into a full-fledged war with Thailand? If so, what would be optimal Thai preparations for that contingency? What are the economic implications of the size of their defense budget during a period of recession? What are the tradeoffs? Such situations can be handled only on a case-by-case basis in friendly, rational, nonpolitical talks with the respective government.

ARMS TRANSFER

An extremely important aspect of the complex process called arms transfer is to avoid the totally unnecessary humiliation of a friendly country, which might be a recipient of arms. Under present circumstances, if a country is interested in an American weapons system, or if an American supplier is interested in making its products known, first the Office of Munitions Control in the Department of State has to license the presentation (release) of information. Then, after a complex process

involving quite a number of agencies, the foreign government will request a letter of offer and agreement (LOA) from the U.S. government. If this letter is issued by the U.S. and they accept and sign it, there is a binding contract between the foreign recipient and the American supplier. But then the agreement has to go to Congress. As provided by law in 1974, Congress has thirty days to veto arms transfers by concurrent resolution. To the best of my knowledge, a formal veto has never actually occurred in the ten years since this provision became effective. But the embarrassment of the country, facing the possibility of being turned down after having gone through the motions of negotiating an agreement, is a very serious matter, and the publicity given to the debates on whether a certain country should be allowed to purchase certain American weapons systems is most harmful, regardless of the end results. There must be a better way to handle arms transfers.

RELATED ISSUES

There are some other questions, which are linked in the public mind to security assistance, or security cooperation as I prefer to call it. They involve the relationship between security cooperation and arms transfers and aspects of U.S. relations with foreign governments. I have quite strong feelings about human rights, and I do not want to dissimulate about them. But I also believe that a government does not need advanced fighter planes to terrorize its own population, to haul dissidents off to jail, or to liquidate them. There is no government in the modern world that does not have enough small weapons and motor vehicles to be able to persecute or kill its political enemies. The connection between security assistance and human rights is absolutely spurious. I cannot think of a single example in which a government, whether of the extreme right, or the extreme left, could not have done beastly things to its own people without any American arms transfers. All governments have enough weapons to kill their own people, even if they are not strong enough to fight external wars.

The second fallacy concerns arms transfers and economic development—a very complex issue, with numerous technical-economic aspects. It is linked with the broader issue of defense expenditures in general. At the United Nations, some ten or twelve years ago, the Soviet Union proposed that all major powers should cut down by 10 percent their defense expenditures and put 10 percent of the savings, or 1 percent of the total, into a development fund for Third World countries. This notion was carefully examined by economists and strategy analysts, who concluded that it was without merit. A special committee of experts was appointed

under United Nations auspices. The official American participant, my Rand colleague Dr. Abe Becker, a distinguished specialist on Soviet economics, wrote a book about the problem demonstrating that the whole thing was absolutely phony. It was a Soviet propaganda ploy, and there was no agreement on a reliable definition of what the defense budget of each country was, what 10 percent would mean, how the transfer of 10 percent of savings would be handled and distributed, and so forth.

Even leaving aside the international dimensions, the relationship between development and security is not well understood at the national level. On the basis of my own research in Southeast Asia over thirty years, I have reached the conclusion that it is not possible to prove what the real causal links are. It is often said that, if a country has too many technicians assigned to maintenance of military equipment, then the civilian sector of the economy suffers. That is not necessarily true. Militarily trained technicians serve a few years in the services, learn to become electronics experts or mechanics, and move on into the private sector. If anything, perhaps it works the other way: a modern military establishment generates skilled manpower for the civilian sector of a developing country's economy. Of course, reckless spending of scarce resources on excessive amounts of sophisticated foreign weapons that have to be maintained for decades by expatriate personnel will weaken a nation's economy, as was learned from what happened in Iran before 1979.

HOW TO BEHAVE AS TRUE FRIENDS

I was prompted to think about this key question by a very distinguished, very senior, Southeast Asian personality with whom I talked at length, a few weeks ago, in his country. He told me:

> You are only true friends if you are really honest with us and tell us the truth. If you are true friends, you will not be yielding to unreasonable demands, you will not be guided by opportunism. Your main purpose is not to please a man or a government who happens to be in power at that particular moment; your main duty as a true friend is to be really concerned about our national interest in the long run. You should quietly sit down with us, give us all the facts, help us understand a particular problem in all its complexities. You are more experienced, we only have limited experience, lacking your global perspective. If you are honest with us, then we can work out together what is really security cooperation.

It is to be hoped that the U.S. government can flesh out this basic, crucial insight in the management of security relations with U.S. friends and allies, both in the immediate future and beyond.

It is often asked if there is any feasibility in future years of achieving this through a Pacific defense community, a Pacific basin security cooperative arrangement, involving the United States and the noncommunist countries? For the immediate future, the short answer is "no," but the main reason why the answer is no is that threat perceptions in Asia vary a great deal. One perspective on the Pacific basin area is that of the Association of Southeast Asian Nations (ASEAN), meaning six countries in Southeast Asia: Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. They close ranks diplomatically in opposing the occupation of Cambodia (or Kampuchea) by the Vietnamese and insist, without any intention to yield, on the evacuation of Vietnamese troops from Kampuchea to protect the vital principle of noninterference in the domestic affairs of sovereign states. But their individual threat perceptions are quite different as far as the more distant future is concerned or the area as a whole is concerned. To be specific: the Indonesians and the Malaysians do not see the Soviet Union as an imminent and major threat. They have had no past experience that would make them feel that the Soviets are a threat at this point. They see the Chinese as a major threat to them in the more distant future and the Soviets become therefore a relatively welcome counterbalance, because they are supporting the Vietnamese who are the enemies of the Chinese.

This is why the United States presence, in strength, in the Western Pacific, with strong American military capabilities and a well conceived security cooperation program, is absolutely essential. As long as the U.S. is there, the whole area is stable. If the governments of Southeast Asia were to gain the impression that the United States were pulling out or trying to transfer its responsibilities to the PRC, or even to Japan, or if they reached the conclusion that the U.S. was an unreliable, volatile partner, then if they had to choose between the Chinese and the Russians, they would without question choose the Russians. They would much rather have a Soviet presence than a Chinese presence in Southeast Asia. The reasons for this are very simple: the Chinese are close, the Soviets are far away. There are 20 million overseas Chinese in the countries of ASEAN. There's not a single "overseas Russian" unless he is a covert spy or an official member of the Soviet mission. Except for minor diplomatic incidents, Southeast Asia has had no bad experiences with the Soviet Union, even though they do not like the Russians as people. Therefore, the U.S. finds it difficult to visualize the area in the same way as it does NATO, which is a group of countries with a clear, sharply focused image of what the threat is: a formidable Soviet military presence on the borders

of Western Europe. All know that the threat is the Warsaw Pact. A NATO-type organization is not a realistic prospect in the Pacific basin because the Soviet Union is not perceived locally as a clear and present danger.

Another reason that Pacific Basin cooperation is difficult is that the relations between the various countries of Southeast Asia and the whole East Asian rim of the Pacific are not so close as to make security cooperation easy. There are painful memories in Korea, for example, stemming back from the period when Korea was a colony of Japan. They would make security cooperation between Japan and Korea very difficult.

ASEAN was created in 1967 to reduce tensions caused by conflicts within the region, such as Indonesian aggression against Malaysia and Singapore and territorial disputes between Malaysia and the Philippines. All countries of Southeast Asia still remember the incredible atrocities perpetrated by Japanese troops in the region between 1942 and 1945.

Also, the historical experience of the countries is diverse, due to the impact of various Western colonial regimes. Before 1967, ASEAN countries barely knew each other, unlike the countries of Europe. Geographically, too, they are more distant.

ASEAN has from the beginning made it absolutely clear that they are not and do not intend to become a security organization. But then a compliment is due their finesse. While they say that they will never become a security organization, by signing a parchment with red wax seals, they are actively engaged in creating a web, a network of bilateral and multilateral relations that they intend to make so strong that it will be much more useful than the kind of organization that was attempted with the Southeast Asian Treaty Organization (SEATO), which when tested by circumstances, was of no real substantive value. Just the other day, when Prime Minister and Defense Minister Mahathir of Malaysia visited Washington, during the luncheon given to him by the Secretary of Defense, Caspar Weinberger, the Malaysian Prime Minister said in his toast: "It is better to give the appearance of nonalignment, than to be nonaligned." A very sophisticated observation by the chief of a government which is committed to turn Southeast Asia into a "zone of peace, freedom, and neutrality" (ZOPFAN).

They are friends. They are with the U.S., as long as it maintains credibility and reliability, as long as it shows character. But they will make policy shifts that will seem very startling if the U.S. loses their confidence, because their threat perceptions are so different, and the U.S. can afford to forget this only at its own peril.

There is a question: What would be the consequences of transfers of arms to Thailand that might trigger an arms race with Vietnam? That is a useful question, but not an easy one to answer, because it requires hard, reliable intelligence in the technical sense, and it requires judgment, which is an even more difficult input to obtain.

There are two schools of thought. One would argue that if the U.S. gives the Thais advanced fighter aircraft, the Soviets are forced to match it by giving the Vietnamese something equivalent or better. Say the Thais get F-16s, the Vietnamese would have to get MiG-23s, which the Soviets may not be to keen to provide, as they already spend a lot to support Vietnam and its aggressive occupation of Cambodia.

There are others who say, and this even appeared in the statement made by Assistant Secretary Richard Armitage before a congressional committee hearing on March 28, 1984, that the Soviets will transfer MiG-23s to Vietnam, regardless of what the U.S. does. In my opinion, the Soviets are not particularly eager to spend more money on Vietnam than they have to, and MiG-23s are not cheap equipment. Yet it should be kept in mind that what drives the Soviet program in Vietnam is not Thailand, but China, which makes the answer to the question more difficult. In other words, what the U.S. and the Thais are likely to do would probably not be the driving factor in Soviet transfer of sophisticated fighter planes to Vietnam. It would be the perception of the Vietnamese and of the Soviets of what was necessary to secure the Southern flank of China and consolidate it as a useful element of the total Soviet strategic configuration in the Pacific.

And now a perceptive question about the effect of national pride and personal ego. They have a lot to do with these things. Here again I speak with more confidence, taking as an example Indonesia, which I know well, and where I know the actors better than those now involved in the Thais' similar situation. General M. Yusuf, as Defense Minister from 1978 until 1983, had decided, for whatever reason, that he was going to get F-16s. Budgetary considerations, threat analysis, none of these played a part. He was going to get F-16s because he had to show that he could get what he wanted from the U.S. government. Fortunately for the budget of the armed forces of Indonesia, he was retired when the cabinet was reshuffled in April 1983, and the issue now is on hold.

The present leadership of the Indonesian armed forces is still saying that, at some future point, they should acquire advanced fighter planes. But they also acknowledge that they are facing an economic crisis. The price of oil is down, the global oil glut has reduced oil sales; export commodities are not doing too well, and furthermore there is no military

threat to Indonesia in the near future. Therefore, at some future point in time, they will modernize their air forces, but they are not in a hurry.

In the case of Thailand, many of the same factors enter the picture—namely, a major figure, Supreme Commander General Arthit, made a commitment to the F-16 and became, somehow, the captive of his own public statements.

How should the U.S. deal with such situations? It is not possible to tell the supreme commander of the Thai armed forces, "You don't know what you're talking about; you don't need F-16s." One of General Arthit's retired predecessors told me a few weeks ago: "He really doesn't know what he's talking about. We just don't need this." The senior retired military leader then added: "I do not anticipate a war with Vietnam in the near future. The Vietnamese have their hands full with what they are now doing. But if it came to war with Vietnam, we don't need long-range capability. We are not going to bomb Hanoi. I would much rather have five squadrons of F-5s for air defense than one squadron of F-16s, which are too complicated for us to handle, would reduce our readiness, and are not the best choice for the roles and missions that the Royal Thai Air Force might have to perform."

In answer to the question therefore, these are very complicated matters, involving new ways to reconcile professional judgment on the one hand and ego trips on the other. But I have the impression that the U.S. government has learned to handle them with considerable sophistication, albeit very quietly, for obvious reasons.

Guest: I would like to look at the Pacific Community security from a different angle. Zbigniew Brzezinski (former National Security adviser) and I believe James Schlesinger (former Secretary of Defense) both proposed that the United States nurture a developing military alliance with China by providing it some military assistance and gradually building it up as a counterweight to the Soviet Union. As we all know, this has not been implemented until recently. But has it been examined whether the United States could better enhance its position and the free world's position in the Pacific by using the resources that would help China's military modernization for the strengthening of much more reliable, noncommunist friends and allies in the region. The U.S. could thereby be moving, if not to a premature multilateral security arrangement like NATO with the noncommunist nations in the Pacific community, at least toward stronger bilateral security ties with noncommunist countries, friends, and allies, giving them, through security cooperation, compelling incentives to achieve collective self-reliance adequate against military pressures from any of the communist powers in the region.

Dr. Pauker: From what I know, and I am not a China specialist, the Chinese armed forces are very weak, very much behind, and very poor. To give them token arms transfer will irritate not only the Soviets—which does not bother me—but also the Southeast Asians, who are very, very sensitive to this issue. On the other hand, to develop a security cooperation program with China that really would make a difference would involve figures in the multibillions.

For that amount of money or less, the U.S. could strengthen non-communist friends and allies on the Pacific rim to a much greater degree, consolidate security cooperation among them, and turn them into reliable partners. Under those circumstances they might even move eventually to a form of NATO arrangement. Why should they do it for peanuts? Why should they sacrifice their independent posture and the opportunity to look the other way if their neighbor is in trouble, if really there are not adequate capabilities available to them to forge a viable organization. If the U.S. were willing to put into this the kind of resources that would make Southeast Asia a significant power center, it should then conceivably be a matter of real interest to at least a dozen governments.

This point raises an issue that I have been avoiding. After the proclamation of the Nixon Doctrine on Guam in 1969, some of my colleagues at Rand and I started asking ourselves the following question: now that we have told these countries that they are essentially on their own, what does that mean in terms of ways and means of helping them acquire the resources to defend themselves? This was in the early 1970s, when China was still considered a threat, before the beginning of dialogue between the PRC and the Nixon Administration. After a couple of years, my colleagues and I produced a Rand report: "In Search of Self-Reliance: U.S. Security Assistance to the Third World Under the Nixon Doctrine." It was financed by the Defense Advanced Research Projects Agency (DARPA) and published in June 1973. The report focused on Indonesian, Yugoslav, and Algerian military doctrine. These three countries all felt that they could not count on any substantial help from outside. The Yugoslavs could count neither on Soviet nor on NATO help. The Indonesians were staunchly nonaligned, and the Algerians had fought their war of liberation against France without substantial external assistance.

We were trying to learn from these case studies whether there are ways in which countries can defend themselves with very low technological capabilities and no hope for substantial outside help. We were also challenging the guiding principle of the defense posture of then Secretary of Defense Melvin Laird, who thought in terms of "total force planning."

That was the buzzword of the Laird defense posture statement. We suggested that "total force planning" makes a lot of sense in talking about NATO, but makes no sense at all in talking about Third World countries, where there is no possibility for "total force planning." There is bilateral planning between the U.S. and the Japanese, although some ten years ago there was great reluctance on the Japanese side to get involved with the U.S. militarily. Total force planning with the South Koreans had some meaning, but strictly for the defense of their country. ROK forces were integrated with the U.S. command, with the U.N. symbol above it. There were also special relationships in the Pacific with countries like the Philippines, but none of these special bilateral relations could be viewed as part of a "total force planning" endeavor.

Even the concept of total force planning disappeared quite a while ago. General John W. Vessey, Jr., (Chairman Joint Chiefs of Staff) in the February 9, 1984, statement before the House Foreign Affairs Committee in support of this years' requests for security assistance, used the term "coalition strategy:"

> We have a coalition strategy. In keeping with this coalition strategy we maintain forward deployed forces in key areas and a system of unified commanders with military responsibility for designated major regions of the world. To make our coalition strategy more effective we are working to encourage our friends to do more in their own behalf or in cooperation with us in defense of our common interests. Security assistance stands among the most cost-effective means to achieve this.

It would take quite a long time to analyze and criticize this statement in detail, but suffice to say that what the U.S. has in the Pacific is not a "coalition strategy." It is a number of American commitments to help other countries. It is partnership among unequals. How to move from the present situation, which goes back to 1951, to genuine security cooperation has preoccupied, among others, the Carlucci Commission. The issue has been of concern to me for many years. There is an enormous gap between U.S. goals and the resources it is willing to devote to their achievement.

Guest: You mentioned that in the current Thai situation, it would be very difficult to find ways by which Thailand could be persuaded either to accept or to request a fighter airplane other than the F-16. Now, it is probably more constructive to look at what would be the results. I guess my question is: what would be the effect upon our relations with Thailand if their request for the F-16s were denied?

Dr. Pauker: Some recent conversations I had with Thai friends, who are among the most sophisticated academic strategic analysts in Bangkok, relate to the last part of your question. These scholars are part of the establishment—they are civilian, they are academic, but they are very much "in," which is natural in a country with a very small elite. They said to me, "You should say no, if our military make unreasonable requests. Thailand has nowhere else to go; Thailand is not going to join the Soviet Union because the U.S. has concluded that it is a mistake to sell them equipment that is not suitable for their needs." That may seem an extreme position, but I am quoting responsible and patriotic Thai strategic analysts, who are part of the establishment.

To come back to your question, I believe that the U.S. government has become quite sophisticated in handling such problems. It is public knowledge that, during the visit of Thai Prime Minister Prem to the White House a few weeks ago, he and President Reagan agreed on having the U.S. Air Force present the Thai government as well as the other ASEAN governments very detailed information on the pros and cons of alternative fighter aircraft. These briefings are being given in Southeast Asia right now. It is my understanding that those official briefings are meant to be the beginning of a careful and patient process of mutual consultation, of what is in the best interests of our friends and allies, without denying them specific items, which is what the clumsy Carter policy attempted. The Carter policy was a disaster. Current policy is much more sophisticated. It is trying to find a way of saying "If you really want it, you are our friends and we will do our best to see if we can satisfy your needs within certain parameters that also have to be taken into account such as: the readiness requirements of our forces, what we can afford to supply, your ability to pay, etc." In conducting these dialogues on arms transfers, the U.S. is developing the process by which its superior professional experience can make itself heard. Without being patronizing, the U.S. might gradually reach, by consensus, a decision that is really in its friends' and allies' and its own long-term best interests. That is how to handle security cooperation among true friends.

Guest: The U.S. would seem to be in an awkward position on that issue. It tells them what these options are and suggests the option of a less expensive aircraft than F-16s, something like F-20s. There is a real question of whether the U.S. has the capability to produce these economically in the quantities that the Thais could buy. So I am not sure that there are many options at this point. What has happened to the whole FX policy?

Dr. Pauker: It is true. The U.S. cannot sell them something that is not in production. I'm not a specialist and will not pass judgment on the respective merits of the various aircraft. I hear that one has certain advantages in range and weight of weapons. Another has advantages in terms of scrambling time, easier maintenance, and cost advantages. But I am trying not to focus on one particular system, because the issue was brought up by the same senior Thai personality in connection with the M48 tanks. This former army and supreme commander commented that Prime Minister Prem bought 40 M48 tanks during his recent visit to the U.S. They already had 60 M48 tanks in their inventory. Apparently the M48 is a bit too heavy for Thai roads, Thai bridges, Thai weather conditions but they got a very good deal because 40 M48s were available at a price that was favorable. Some very knowledgeable Thai military professionals said the light French tank would be better for Thai requirements but is too expensive. I believe the U.S. should produce equivalent equipment for friends and allies.

Another issue concerns the process of arms transfers. There must be a more sophisticated way to handle it. Legislation is being introduced to make the process even more cumbersome, such as the recent bill H.R. 5759, which would require active approval by Congress of arms transfers, after the foreign government has publicly gone through the motions of purchasing American weapons.

Talking with people on the other side makes it clear that military assistance has caused constant irritation about the level of U.S. programs, the way they are implemented, about whether the U.S. denies them things that they think they should have. Obviously the process is not as smooth as it should be and may be getting worse.

I should remind you that the Soviet record is no better. They were kicked out of Egypt. They were kicked out of Somalia. After they stopped resupply, maintenance, and spares to the Indonesians, that program ended. Chinese leaders in Beijing told foreign visitors a few months after the Soviet-Vietnamese alliance was signed that they expected the relationship to last about eight years before the Vietnamese kick the Soviets out. We can verify this forecast in 1986.

I conducted some intensive interviews in Jakarta in 1977 talking to many of the senior Indonesian officials, who had been involved in the Soviet military assistance program to Indonesia of the early 1960s. Over the years, the Indonesians received an incredible amount of military equipment from the Soviets including MiG-21s, Badger T-16 bombers (an earlier model of the Badger that flies now out of Camh Ranh Bay), W-

class submarines, missile-launching frigates, SA-2 anti-aircraft missiles. It went mainly to the Air Force and Navy, as the Army was considered anticommunist.

In these interviews, I asked: "When Khrushchev told you that you can have anything you want, how did you go about deciding what your future force structure should be, as you were literally going from rags to riches overnight?" They would laugh and say: "We took *Jane's Fighting Ships* and looked at what the Soviets had and said 'wouldn't it be nice to have four of these and six of these and ten of these,' like kids in a candy store." The Soviets did not say no and sold them, in 1960 dollars, about $1 billion worth of equipment, for which they are still paying today, twenty years after it has become totally useless for lack of spare parts and maintenance.

I was invited to lecture at the Staff and Command School of the Indonesian Navy in 1966, after the Communist Party had been crushed and the new Suharto regime had been established. I decided to be frank and told them in my lecture: "Gentlemen, you have been had by the Soviets. What you needed was the capability to protect your vast archipelago against hostile infiltration of small weapons, crates of AK-47s or whatever, bazookas, plus trained agents, cadres, couriers, things of that sort. That kind of interdiction cannot be done with Badgers and W-class submarines or missile-firing frigates. That you do with small low-flying fixed and rotary wing aircraft, patrol boats, coast guard cutters at the most." If I had talked to my Thai friends before that lecture in 1966, I would have added: "The Soviets were not your true friends." Yet the then Indonesian ambassador to Moscow who later became Foreign Minister and then Vice President of Indonesia, Adam Malik, told me the following anecdote. When he presented the shopping list based on the *Jane*'s catalog to Khrushchev, Khrushchev looked over the list and said "Why on earth do you want a cruiser? Cruisers are obsolete. We are scraping all our cruisers." The Indonesian ambassador replied: "My president wants it as his flagship." Khrushchev shrugged his shoulders and said, "I think you guys are making a great mistake. Nobody wants cruisers these days, but if you really want a cruiser, I'll sell you a cruiser." So they got the cruiser Sverdlov, and several years later had to sell it as scrap iron in Hong Kong.

Guest: I am very intrigued with the idea of security cooperation instead of security assistance as a concept and as a verbal description. You talked about the advantages it would have, in that allies would perceive the U.S. as true friends. I think there is another advantage: we could get Congressmen and Senators better trained to think that way and hopefully educate their constituents a little more about the fact that these programs are in

U.S. interests. It would be very helpful because some of these people in Congress seem to pander to a kind of an anti-foreign aid mentality.

Dr. Pauker: I agree. Feelings against foreign aid are very strong. How many voting Americans do you think know that 86 percent of what is called security assistance is in the form of purchases that will be paid for by the recipient country? It is called "assistance" when in fact it is export of materials manufactured by U.S. industries. Secretary of Defense Caspar Weinberger told the Committee on Foreign Affairs of the House of Representatives on February 9, 1984:

> The U.S. military services have saved at least $3 billion for the period FY 1978 to 1982 from FMS. Most of these savings are derived from economies of scale and from recoupment of costs the services would have to bear were there no FMS program. For the past three years we also estimated that the Foreign Military Sales Program has helped to create or sustain roughly 500,000 jobs in the U.S., most of which are concentrated in manufacturing. During this period, FMS has brought to the U.S. Treasury close to $30 billion over and above the cost of financing the security assistance portion of annual sales. These revenues come to the U.S. economy primarily because most FMS sales are cash sales not involving U.S. financing and because virtually all FMS credits, both guaranteed and forgiven, are spent in the United States.

There is no question that, as the Frank Carlucci Commission report stated so explicitly, the American public does not understand the role of military aid. The public is thirty years behind the times, in the period after World War II when the U.S. gave away free surplus equipment from World War II and then surplus from the Korean War. Then, as the next step, the U.S. started producing military aid. For instance, the very successful F-5A was given away as MAP to quite a number of countries. But now, the situation is entirely different. The need to make this known to all the public is an urgent, very important, national issue. I hope that the audience today and other thoughtful citizens will contribute to this effort.

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