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U.S. Policy in Asia: The Challenges for 1990

Edited by Roger A. Brooks

The Heritage Foundation

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Introduction

"U.S. Policy in Asia: The Challenges for 1990" was the subject of The Heritage Foundation's Asian Studies Center's first annual conference on U.S. foreign policy in Asia. The conference was designed to provide American policy makers some indication of the challenges they face in Asia in the coming year and to suggest policy options for addressing those challenges. Participants in the conference included officials from both the executive and legislative branches of the U.S. government, most notably the Vice President of the United States Dan Quayle, Assistant Secretary of State (designate) Richard Solomon, and Alaskan Senator Frank Murkowski. Participants also included foreign policy and Asia experts from academia and other public policy research institutions.

The conference audience included business, media, academic, foundation, and government representatives from Asia and the U.S. The Ambassadors from Australia, Fiji, India, the Republic of Korea, the Philippines, and Singapore attended, as well as officials from several other Asian embassies, and Taipei's Coordination Council for North American Affairs.

On the day before the conference, the Asian Studies Center hosted a luncheon for Dr. Winston Wang, President of the Nan Ya Plastics Corporation in Taipei. Dr. Wang presented a provocative paper on the potential for new economic ties between Taiwan and Mainland China, and his paper has been included in this volume. Dr. Wang suggested that the concepts of commonwealth, confederation, alliance, or league are merely political terms, which are a long way from the present political reality in the Taiwan Strait, yet it may be time to consider the establishment of privately run, reciprocal offices in Taiwan and Mainland China, based on the model of the American Institute in Taiwan, to improve communication across the Strait.

Despite the relatively positive views among most of the conference panelists about the U.S. ability to face the many economic and political challenges from Asia, the recent events in the People's Republic of China, particularly the brutal slaughter in Tiananmen Square on June 3 to 4, cast a note of pessimism throughout the June 22 proceedings.

In the first panel of the conference, "Perspectives of U.S. Policy Makers," Assistant Secretary of State Richard H. Solomon described the positive political and economic dynamism that has characterized Asia for the past four decades. In general, Solomon noted, the progress in Asia since the end of World War II has boded well for the U.S. and its allies in the region with the exception of these recent events in China. The unexpected reaction of the Chinese government, Solomon noted, resulted, in part, from rapid economic growth that had engendered heightened expectations and serious internal tensions among some sectors of the Chinese populace.

Solomon suggested that the U.S. faces three broad challenges in Asia during 1990 and in following years. First, political and economic pressures are likely to grow as Asian nations cope with blending tradition and rapid economic growth. Second, the U.S. will experience increasing trade friction with its major trading partners in Asia, caused by stubborn trade imbalances and rising protectionism. Third, as the Soviet Union increasingly discovers that its future strength is in the economic and not the military realm, it will want to be a more involved participant in Asia and a greater beneficiary of Asian economic successes.

In recommending how the U.S. should face these challenges, Solomon noted the need to find better ways of dealing with the U.S.-Japan relationship. Second, Solomon suggested that Washington needs to find ways of enhancing Pacific economic cooperation. Third, the U.S. must look for ways of helping resolve the confrontations in Cambodia and on the Korean peninsula. Fourth, he added, the U.S. must reaffirm the collective security consensus in Asia, which has suffered because of Mikhail Gorbachev's soothing rhetoric. Lastly, the U.S. must decide how it views the PRC in the aftermath of Tiananmen Square, and how the PRC might best participate in the dynamism of the Pacific.

Regarding the crackdown in Beijing, Solomon stated he did not think the PRC had changed its approach to relations with the Republic of China on Taiwan. Should Taipei be threatened, however, Solomon emphasized that the legal obligations of the U.S. to assure the security of the ROC will be fully maintained during the Bush Administration.

Senator Frank Murkowski, the Alaska Republican, commenting on the recent instability in China, pointed out that Beijing in recent years had become a stabilizer in the region, had a developing market, and

had provided the conduit for talks between the U.S. and North Korea. Now China might no longer be able – or be willing – to offer these benefits to the region in general and the U.S. in particular.

Murkowski also noted that ties between Washington and Beijing probably will get worse for the foreseeable future, suggesting that it would be difficult for the U.S. to formulate an effective response to the events in China. Murkowski felt that, to be effective, any response needed to be multinational, and he expressed approval of what appeared to be a consensus for a harsh response emerging from Europe.

Opening the second panel on "Asian Economic Challenges to the U.S.," Dick Nanto of the Congressional Research Service cited three major circumstances that affect the U.S. relationship with Japan. First, the easing of world tensions, especially in the Asia/Pacific region, has allowed Washington and Tokyo to focus on economic matters. Second, the emergence of multinational economic problems – such as the Third World debt, exchange rates, and environmental pollution – are more than the U.S. can solve on its own, making cooperation with Japan and Europe more important. And third, the possible emergence of regional trading blocs, as in the prospect of complete European integration after 1992, has increased the importance of the trade relationship between the U.S. and Japan.

While noting that there were many opportunities for U.S.-Japan cooperation, Nanto presented a pessimistic view of the U.S.-Japan relationship because of the persistent trade deficit, the large amount of Japanese investment in the U.S., and "techno-nationalism," as seen in Washington's debate over the U.S.-Japan fighter aircraft project, the FS-X. Lastly, Nanto noted, the U.S. has grown frustrated over the lack of progress in trade negotiations between the U.S. and Japan.

To deal with these problems, Nanto suggested several policy options for the U.S. One approach, particularly popular among some members of Congress today, is to encourage managed trade, setting specific targets for market shares to be achieved by American companies in the global marketplace. This approach generally calls for the Japanese to do the managing, Nanto noted, or face U.S. retaliation, and it has not been successful, because Japanese companies always manage to maintain their profit margin even in the face of trade restrictions.

A second approach is to encourage the formation of Free Trade Areas and Free Trade Agreements.

A third approach, and the most likely according to Nanto, is to stay the present course. Within this approach, Nanto suggested letting the current trade laws operate, but changing the factors underlying the U.S. deficit. The U.S. should make more of an effort to balance the federal budget and encourage Americans to save more money, and American businesses should focus on the Japanese competitive threat.

Focusing on Free Trade Agreements, Andrew Brick, Policy Analyst at The Heritage Foundation's Asian Studies Center, noted that Free Trade Area (FTA) agreements between the U.S. and Canada and the U.S. and Israel have shown they can work. FTAs now should be considered a potential solution to U.S. trade problems with the countries of the Pacific Rim because of the European Community's decision to integrate by 1992.

Brick argued that not only do FTAs present an ideal trading situation, but they reinforce the current multilateral negotiating progress. In fact, Brick noted, the General Agreement on Tariffs and Trade (GATT) allows FTAs. Brick forcefully argued that, in particular, a multilateral world requires more options than multilateral negotiations currently provide. Hence, the need to explore the feasibility of FTAs, especially in Asia.

Commenting on the economic challenges posed by the PRC and the Newly Industrializing Economies (NIEs) of Asia, Jan Prybyla of Pennsylvania State University suggested that the NIEs offer precisely what the U.S. wants in terms of economic alignment and democratic development. Rather than jeopardize this progress with harsh retaliatory measures, Prybyla argues the U.S. should use patient and firm negotiating tactics.

Prybyla noted that, in 1979, China began moving away from the system of central administrative command planning, without, however, any intention of moving all the way to a full-scale, fully fledged market system. In describing how the recent events in China could affect its economic development, Prybyla suggested that in the immediate future, it would lead to a slowdown in the economy. In the long run, should the Chinese leadership try to impose even greater central controls on the economy, the results would be disastrous. China already finds modernization difficult because it has lost many of its educated class and scared away much foreign investment for a lack of business confidence.

Stephen Cohen of American University noted the challenges that the U.S. has brought upon itself: the budget deficit, inadequate savings, and a lack of competitive spirit among U.S. corporations in the global marketplace. Other Asian challenges arise from the lack of access for the U.S. to the Japanese high-tech market. During the 1970s, such market barriers allowed the Japanese to conquer foreign markets, while their domestic markets remained protected.

A further problem in competing with Japan, Cohen noted, arises from the fact that Japan is able to devote all of its energies to increasing and improving its industrial strength, whereas the U.S. has to devote considerable energy to national security. In light of these challenges, Cohen stressed the need to focus on dismantling unfair Japanese trade practices, such as the biased distribution system. The NIEs, in contrast, particularly the ROC on Taiwan and Korea, have more liberal trade practices and do not pose the same threat to the U.S.

In commenting on the remarks of the second panel, Asian Studies Center Advisory Council Chairman Richard Allen noted that one of the main questions raised by the panelists relates to the proper role of government in fostering U.S. competitiveness. Allen pointed to the historical weakness of the U.S., since 1976 when the Council on International Economic Policy was abolished, in not being able to manage, develop, and implement a coherent international economic and trade policy. Allen, Cohen, and others on the panel suggested that it would not be prudent for the U.S. to adopt a Japan-like industrial policy, but that there should be some form of "national consensus" in the U.S. about the nature of the competition the U.S. faces and how the U.S. should confront that competition.

Vice President J. Danforth Quayle presented the conference's keynote address on "The Need for U.S. Leadership in Asia." Quayle made a strong appeal for the Bush Administration's proposed military aid program to the Cambodian noncommunist resistance. He argued that the U.S. has "a compelling moral responsibility" to prevent the communist Khmer Rouge from returning to power. The Vice President also expressed U.S. shock and outrage at the recent executions in China, and urged the Beijing government "in the strongest possible terms, to end these executions" immediately.

Opening the third panel discussion on "Asian Security Challenges to the U.S.," Asian Studies Center Director Roger A. Brooks suggested

that the participants in the final panel of the day might wish to examine if the time had come for the U.S. to consider significant and far-reaching changes in its security role in Asia, as it had done in Europe in recent months. Brooks added, however, that it was questionable whether Washington or its Asian allies could tolerate the instability that might result from a significant reduction in the unique U.S. security commitment to Asia.

The first panelist, Dalton West of the Global Strategy Council, discussed the security problems the U.S. faces. Specifically, West suggested that, if the Philippine government revoked U.S. basing rights, it would deprive the U.S. of a major pre-positioning, repair, rest and relaxation, and training site in Asia.

The U.S. is further challenged, noted West, by the shrinking pool of Asian experts in U.S. government service, and by the fact that many Asian nations are planning their own independent courses for national security, which do not necessarily match U.S. regional objectives.

To counter these challenges, West advocated that the U.S. move cautiously in its efforts to increase allied burden sharing in the Pacific. Furthermore, West suggested, the U.S. should expand military-to-military contacts in the region, expand technical cooperation, and develop a new doctrine of competitive strategies.

Discussing the Soviet challenge in Asia, Leif Rosenberger of the Army War College, showed how Soviet leader Mikhail Gorbachev's peace offensive in Asia was shifting rhetorically from one of intimidation to one in which he was willing to offer political concessions to the countries of the region and to the West. While this has led to a lessening of the threat perception among many Asian nations, Rosenberger noted a large gap between "conceptualization" and "implementation" of Gorbachev's proposals.

Rosenberger maintained that Gorbachev now is concentrating on a policy of denying the U.S. access to its Asian forward deployment sites. To do this, he has launched a "peace offensive," utilizing the concept of "nuclear free zones" to focus negative public attention in Asia on the U.S. bases in the region.

Moreover, according to Rosenberger, Gorbachev has launched his own version of the "Nixon Doctrine," in which the Soviet Union provides security assistance to regional allies, such as Vietnam and North Korea, rather than Soviet occupation forces. This is a cost saving

alternative, in which the Soviets are able to settle for influence rather than direct control.

In suggesting ways in which the U.S. might respond to the Soviet challenge in Asia, Rosenberger stressed that Washington should not make the mistake of looking solely at the Kremlin's Asian strategy, but rather view it as part of overall Soviet foreign policy. Rosenberger added that Washington should look past Moscow's state-to-state relations with Asian nations, which are not always good, and instead note the progress that the Soviets have made in cultivating trade unions and political opposition groups in Asia, particularly in New Zealand and many of the South Pacific island states.

Rosenberger suggested that organizations such as United States Information Agency (USIA) and the AFL-CIO should take the lead in combatting Soviet propaganda in Asia. Second, the U.S. should increase its security assistance programs in Asia, including the provision of lethal aid to the Cambodian noncommunist resistance, as Vice President Quayle earlier had suggested. Third, the U.S. should develop more "strategic mobility" assets, including the pre-positioning of sea-based equipment and supplies.

Commenting on the security challenges to the U.S. on the Korean peninsula, Asian Studies Center Visiting Fellow Daryl Plunk depicted North Korea as a formidable adversary whose intransigence has led to little progress in peace talks over the past four decades. Because of the unrealistic political preconditions that Pyongyang has attached to the peace talks, Plunk suggested that little or no progress is likely for the foreseeable future.

If any hope can be seen in resolving the dispute on the Korean Peninsula, it will come about only after the death of North Korean dictator Kim-Il Sung. Only then, perhaps, will the North Korean position become more flexible and more realistic.

Plunk went on to observe that one positive trend was the increased contact between South Korea, China, and the Soviet bloc. The U.S. looked upon this trend with favor and encouraged Moscow and Beijing to pressure Pyongyang to moderate its position toward the South. The Chinese also helped foster some contact between U.S. and North Korean officials, but it appears as if the recent events in China may preclude their playing this role of mediation in the future.

Plunk concluded that the outlook for stability in the Korean Peninsula is relatively good. He noted, however, that the U.S. should not consider troop withdrawals until the threat from the North is considerably diminished and there is more progress in the dialogue between Seoul and Pyongyang.

Richard Childress, a Washington-based consultant and former advisor on Indochina in the National Security Council, discussed the security challenges to the U.S. in Indochina. Childress suggested that the U.S. policy regarding Cambodia had contributed to the current Vietnamese commitment to withdraw by September. He felt that the U.S. now could influence a political settlement in Cambodia that reinforced the position of the Cambodian noncommunist resistance.

Childress suggested that the U.S. encourage high-level contact between Vietnam and all factions in Cambodia to expedite a political settlement. If Vietnam were to withdraw from Cambodia, Childress added, Washington should begin negotiations toward normalizing relations. He disagreed with those who wished to link humanitarian issues with normalization, as has been suggested by some Congressmen, and believes that the U.S. should upgrade its representation in Laos to the ambassadorial level.

Commenting on the security panel, Nayan Chanda, Washington editor of *The Far Eastern Economic Review*, emphasized two themes. First, in agreeing with Leif Rosenberger, Chanda noted that the Soviet challenge will be harder to counter in the year ahead because their more benign rhetoric has had the effect of breaking the consensus in Asia that they are a threat to the region. The U.S., therefore, must devise a strategy that will counter Soviet inroads without being seen as inflexible and outdated.

Second, the nationalist sentiment rising throughout the region is challenging the U.S. to devise a new strategy of dealing with its Asian allies who have come of age. Unless the U.S. can formulate such a strategy that will treat its regional friends as equals – and not junior partners – it risks alienating its allies in Asia.

At the dinner held in honor of the conference participants on the evening of June 22, The Heritage Foundation's guests were fortunate to be able to listen to an address by Mr. Martin Lee, member of the Legislative Council in Hong Kong and an outspoken critic of the arrangements for turning over Hong Kong to Chinese sovereignty after

1997. We at the Asian Studies Center consider Martin Lee to be one of Hong Kong's greatest "freedom fighters." His address is evidence why. He eloquently depicted the dilemma that confronts the British in Hong Kong, and in thanking the PRC's Li Peng for awakening the people of Hong Kong to the prospects of living under their future rulers, he found ironic humor in the tragedy of Tiananmen Square.

I trust that these proceedings will prove both interesting and useful for U.S. policy makers as they view the challenges that lie ahead in Asia in 1990 and beyond.

Roger A. Brooks
Director, Asian Studies Center

Opening Remarks

Dr. Edwin J. Feulner, Jr.: Good morning, ladies and gentlemen. I am Ed Feulner, President of The Heritage Foundation. On behalf of all my colleagues here at Heritage and particularly those in our Asian Studies Center, it is my pleasure to welcome you to our first day-long conference on United States foreign policy in Asia.

As our topic suggests, "U.S. Foreign Policy in Asia, The Challenges for 1990," today's conference is designed to address the challenges that American policy makers will face in the coming year and to suggest policy options for dealing with those challenges.

We are pleased to welcome not only our friends from the Asian region, but also some of the best Asian policy analysts in the U.S. Of course, we are particularly pleased that we will have as keynote speaker the Vice President of the United States, who will join us this afternoon to discuss the topic, "The Need for U.S. Leadership in Asia."

Today, we are focusing on the policy challenges for the U.S. in Asia in the short term, basically during the next twelve months, because as the recent events in Tiananmen Square have shown, much is happening in Asia in very short periods of time. We believe that, in many ways, it is more useful to take a close look at the issues we expect to face over the course of the next year, rather than to speculate as to what sort of challenges we could be facing, say, ten or twenty years from now or some time in the 21st century.

The Asian region has become increasingly important to the United States in both strategic and economic terms. In 1988, U.S.-Asian trade totaled more than $270 billion. By contrast, our trade across the Atlantic was only $188 billion. Japan, the Republic of China on Taiwan, and the Republic of Korea are America's second, fifth, and seventh largest trading partners, respectively. By the next decade, we estimate that U.S. trade across the Pacific will be twice that of trade across the Atlantic. At the same time, the U.S. has vital strategic interests and major military facilities in Japan, the Republic of the Philippines, and the Republic of Korea.

Like the Reagan Administration, the Administration of President George Bush has reaffirmed U.S. support of our Asian allies and has sought to encourage an environment conducive to the growth of

democratic institutions throughout the region. But many new challenges lie ahead, particularly during the next twelve months, for both the Administration and the U.S. Congress.

The brutal suppression of an incipient pro-democracy movement in the People's Republic of China and the communist Chinese government's subsequent crackdown and political purges may give the U.S. and its allies cause to rethink their strategic planning for the region.

Increasing trade frictions between the U.S. and its major trading partners in the region have led to major trans-Pacific debates, not only on the appropriateness of various trade sanctions, but also over the future of joint defense projects. These frictions, if not controlled, could lead to reduced confidence in the U.S. by its allies, as the U.S. role as a major power in the Pacific might be considered to be in jeopardy. These are among the issues and themes that will be discussed today.

Since The Heritage Foundation established the Asian Studies Center in 1982, it has helped to define the key international trade and security issues that affect this region. And in the process, we believe it has helped to focus the attention of Washington policy makers on the increasing importance of Asia and the Pacific Rim. Today's conference promises to be interesting, one which I hope you will find stimulating.

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Panel I

Facing Asian Challenges in 1990: Perspectives of U.S. Policy Makers

Dr. Feulner: It is my pleasure to introduce the chairman of our Asian Studies Center Advisory Council, who will moderate this morning's panel discussions. He is Richard V. Allen, a longtime friend. He was President Reagan's first national security advisor. He is now very active in the Pacific region as President of the Richard V. Allen Company, and he is Chairman of Credit International Bank, a new federally chartered bank here in the District of Columbia.

Mr. Richard V. Allen: Throughout the day, you will probably hear people from The Heritage Foundation congratulating themselves for having scheduled a conference on Asian policy at this crucial time. It actually was long in the planning process, and it is something that we feel needs to be done at least annually. Of course, our activities in the Asian Studies Center, under the able direction of Roger Brooks, are continuous. These activities focus on all aspects of events in Asia.

Small and lean, the Asian Studies Center draws on the resources of scholars, policy makers, elected politicians, members of both houses of Congress and their staffs, and it conducts a steady stream of research activities into policy options for Asia and analyses of what occurs in Asia on a day-to-day basis. The decision to establish the Asian Studies Center seven years ago was a very important one. The Heritage Foundation, using its very special techniques of analyzing and making recommendations on policy options, breaking issues before those issues are actually decided, placing information in a timely way on the desks of policy makers, legislators and opinion makers, makes an extraordinarily valuable contribution to process in all venues of government policy.

The Pacific Basin is of extraordinary importance to the U.S., particularly in the past ten years. We have become comfortable with the notion that the next century will be the century of the Pacific Basin. The

Reagan Administration, and now the Bush Administration, have clearly demonstrated faith in this notion.

This does not mean that we will necessarily diminish our interests elsewhere on the globe. During the mid-1980s, Europeans were deeply concerned that the U.S. would not be able to focus its attention simultaneously on the opportunities and challenges in the Pacific Basin on the one hand, and on the other, faithfully fulfill the obligations embedded in the fabric of our postwar foreign policy, particularly toward Western Europe and specifically in the NATO realm. Those fears have proved to be unfounded. This Administration has taken steps to reinforce ties, both to our traditional Asian allies and to our European allies. The President has traveled already in both directions, and he is prepared to continue these travels.

When we planned this conference, we had no idea that Asia would be facing the turbulence and uncertainty it faces today. The purpose of our conference this morning is to analyze, as best we can, the available policy options for the U.S. and, to a certain extent, for our friends in Asia.

When in Europe last week, I was struck by the intensity of media coverage and feeling about events in Asia, particularly in China, and of course a deep concern as well about Japan and what appears to be some unwelcome political instability at the present time. What I was most impressed by in the European reaction – French, British, German and others – was that all of these nations looked to the U.S. to set the tone for the response to the events in Mainland China.

We are particularly delighted, therefore, to have such an array of expert speakers to present the major policy options and comment on what the U.S. point of view may be.

This morning, we are going to discuss, in Panel 1, the perspectives of U.S. policy makers, and we could have no more qualified people than Dr. Richard Solomon of the U.S. State Department and Senator Frank Murkowski of Alaska.

I have known Dick Solomon for many years, since his time in the Nixon-Ford White House. Dick Solomon's career has shown steady progress, as he has pursued his research and his own ideas, always having an effect on U.S. policy over the years. A Ph.D. from the Massachusetts Institute of Technology, Dick Solomon was for many years associated with the Rand Corporation – for ten years as Director

of the Political Science Department at the Rand Corporation. He directed the programs on international security policy. He served on the National Security Council staff during the Nixon and Ford Administrations, and has been in the Department of State as a key member of the foreign policy team of Secretary of State George Shultz as Director of Policy Planning, and he has now become Assistant Secretary of State for East Asian and Pacific Affairs. Dr. Solomon has published widely, has been a longtime student of the Pacific Basin, and is uniquely qualified to present his ideas to us today.

Secretary Richard Solomon: In view of the profound changes and events that are occurring in East Asia, I am particularly grateful to The Heritage Foundation for the chance to lay out for you briefly what we see as the major agenda for the Bush Administration as it looks at this tumultuous region.

If I had laid out an agenda when I was first nominated for the job at the end of March, certainly the tone of my remarks would have been a good deal more positive. Then we faced in East Asia a region of exceptional dynamism, economically a region that was being swept by a tide of democracy. Though not always successful, from Burma to South Korea, we saw continuing pressures for political change and, overall, a stable security environment. Indeed, if you look at East Asia not only in the past eight years, but in the broader sense since the end of World War II, this is a region in which things have gone exceptionally well for the U.S., for its allies and friends. And the developments in the 1980s have only capped this four-decade period of exceptional developments.

But the recent bloody events in China bring into focus the fact that development is not an easy street, that in fact Asia remains an explosively dynamic region, and in many ways, that China plays out on a scale that is only imaginable for a country that encompasses over 20 percent of the world's population.

Some of the tensions and the broader trends that are now gripping the Pacific – the region's successes like a 10 percent a year growth that the PRC has enjoyed over the past decade – have generated a whole new series of internal tensions for the countries of the region, tensions in U.S. trading relationships, and of course, the challenges of political change.

The problems that this region faced in the immediate postwar years – poverty, the destruction of a period of war, underdevelopment, nation building – are now giving way to a whole new series of problems that U.S. policy has to confront, the political problems of democratization, of rapid technological change, and an integrating global economy. In short, I think you can look at what is happening in East Asia now as a new era trying to punch through the constraints of the old, in which the old pattern of international relations cast in terms of the nation state are giving way to this highly integrated global economy. And the notion of the national trading firm is giving way not even to the multinational corporations, but to highly integrated economic operations that erode the boundaries of the nation state, in which the information revolution has brought about unbelievable interactions. Cable News Network and other American news gathering institutions broadcast to the world the developments in Tiananmen Square. They were broadcast back into China, and there was a kind of resonant effect that played out on a global scale the turmoil and dramatic developments in China.

What are the challenges of this new era? First, I have already touched on the issue of the political pressures that are requiring the leaderships, the elites of all the countries of Asia to look at their traditions and try to adapt their political processes to the strains generated by this rapid economic growth. What we have seen in China has played out more successfully, we are glad to say, in the Philippines and in South Korea. Burma has not thus far had a successful transition, but the developments of recent weeks in China just underscore the fact that the democratization process is very fragile. And as the President said in his remarks last week, as the communist countries seek to adapt themselves to this new era, we should not be surprised if there are setbacks. But we should not be discouraged, because the fundamental forces at play require that China open up if it is to join the modern world. We cannot forget that the hundreds of thousands and millions of people who were out demonstrating were not carrying statutes of Marx and Lenin; they were carrying a statue of Lady Liberty. That is a very important fact which we must remember.

These changes internally, of course, were played out in terms of generational leadership changes, and we now see the aged leadership in China reverting back to the patterns of political control and repres-

sion that were characteristic of the earlier decades of political revolution, but they are of course quite unsuited to the world of the 1990s.

A second major challenge, of course, is generated by the economic success of the Pacific Rim countries and the fast maturation of all these economies, in which the impact of new technologies is putting tremendous strains on the global trading system. Trade imbalances, exchange rate problems, concerns about technology production, degradation of the environment – these are all generating protectionist pressures at just the time that an open global trading system is needed to pull the world into this new era of globalization.

A third area in which we face some interesting choices relates to the fact that the Soviet Union, however belatedly, is discovering that the true source of national strength in this era is economic, not military. It now sees that it needs modern advanced technologies if it is to be a global economic player and that the old ways of doing business will just not enable the Soviet Union to project its influence into this dynamic part of the world. The Soviets now want to be a player in East Asia.

We have seen, for example, in Mr. Gorbachev's two speeches, in the summer of 1986 at Vladivostok and in 1988 at Krasnoyarsk, that he wants to reshape Soviet policies to be more active in this region. Yet, the rhetoric has not found expression in reality. Mr. Gorbachev talked about opening up Vladivostok as the center of trade and cultural exchange. Yet, three years later, Vladivostok remains a closed city. It is going to take the Soviets quite awhile to match Mr. Gorbachev's rhetoric with reality, and the U.S. has to calculate carefully how it deals with the Soviets in the region, given their ambitions, their objectives, and this gap between rhetoric and reality.

Now what do these challenges mean for the U.S.? I would say there are five major foreign policy challenges that I would put on the Administration's agenda as we look to this region over the next several years.

At the top of my list is the issue of finding a better way to manage the U.S.-Japan relationship. Our dealings with Japan remain the keystone of our involvement in the Pacific. With the growing acrimony over trade and related issues, the imbalances, the question of open markets, and issues of technology sharing pose a tremendous challenge to the stability and long-term health of the U.S.-Japan partnership, particularly at a time when our dealings with China are under such strain.

You do not have to spend a whole lot of time musing about what Asia would look like if our relations with both China and Japan had taken a negative turn to see that we confront a very important challenge in keeping the U.S.-Japan relationship healthy.

Second is the challenge of enhancing Pacific economic cooperation. Developments around the Pacific Rim, economic and financial, have raced ahead of the international institutions, the mechanisms for dealing with this expanding pattern of global integration.

As you all know, there have been a host of proposals of recent date from several members of Congress, from former Japanese Prime Minister Nakasone, more recently from Prime Minister Hawke of Australia, for some form of Pacific Basin economic cooperation mechanism. And the Administration is now working actively to establish a consensus on some appropriate multilateral mechanism to address the trade, financial, technological, and environmental issues that now imperil the open trading system in East Asia and the Pacific. Our objective is to enhance the free flow of goods and services, of ideas and technology. We do not want to see an economic superbloc created; rather, we want to build a consensus for open trade and for level playing fields. So the Administration, over the next several weeks, will be speaking out on this issue. Secretary of State James Baker will be giving a major address on Asia policy to the Asia Society of New York next Monday, and then we will be going off to the ASEAN postministerial meetings. And this issue of Pacific economic cooperation will be a matter of widespread discussion, as it already is as a result of these proposals I have mentioned.

A third challenge that we now confront deals with the two remaining zones of regional conflict in East Asia, Indochina and the Korean Peninsula. In the case of Cambodia, we confront at the moment a real prospect of a reversion to civil war. The Vietnamese, burdened with a decade of occupation as they continue to pursue their hopes of consolidating control over all of Indochina, have now concluded – undoubtedly with a certain amount of Soviet urging – that they have to withdraw. On April 5th, they said that they would withdraw all their military forces from Cambodia by the end of September and, thus, are trying to force the international community to make a choice between the Hun Sen regime, which they have backed and which their military forces installed in Cambodia in 1978, and the Pol Pot wing of the Khmer

communist movement. And the Administration is now gearing up for a major diplomatic effort to construct a political process that will give the Khmer people some hope of shaping their own future and preventing civil war.

The Vice President, in his address here today at noon, will go into this issue in great detail. I do not want to preempt his important presentation. But let me say that, from the Administration's point of view, we believe it is very important to strengthen the noncommunist element of this political process led by Prince Sihanouk, who is trying to deal with the prospect of renewed conflict as the Vietnamese withdraw. This is an issue where we believe the United Nations may have a very useful role to play in terms of peace keeping, and it will be very interesting to see whether the Soviets, for one, who have spoken out in other contexts in support of the U.N. peace keeping efforts to resolve regional conflicts, are prepared to be cooperative.

Korea presents a longer-term challenge. This remains a highly explosive region. Dick Allen and others were recently participants in a very interesting conference here, when a number of North Korean officials came and held discussions with American academics. We do not yet see in North Korea the kinds of changes, efforts to bring about reform, that we have seen in much of the communist world. But I would anticipate that over the next few years, particularly if there is a leadership change in North Korea, we may see some interesting changes in policy. And the longer U.S. approach to the Peninsula must be not only to support the Republic of Korea, which remains the bedrock of our policy on the Peninsula, but to encourage, where possible, reconciliation through the North/South dialogue.

Fourth, we need to reaffirm the collective security consensus that has been the underpinning of regional security in East Asia since the end of World War II. With the changes in mood and some of the changes in deployment generated by Mikhail Gorbachev's reform program, some questions are being raised about the U.S. defense posture in the region. We see a somewhat changing security environment; yet, as I indicated earlier, we do not see the kinds of changes in East Asia that we see being generated in the European region. There will be more debate about our defense relationships, and our challenge must be to work with our allies to adjust our military presence where appropriate, but above all, to demonstrate the durability of our defense commit-

ments and to work out responsible sharing arrangements in a more proportional way, given the strength and dynamism of our security partners.

What this means is, in the Philippines, we face the challenge of working out post-1991 basing arrangements, and in the Republic of Korea, we may have to work out some additional adjustments to our military presence.

And then we expect the Soviet Union to keep pressing in various forums for naval arms reduction talks. We think this is not a route we want to go in, given the fact that our naval forces are central to maintaining our linkages to our allies and a stabilizing role in the region, for which I believe there is a fundamental consensus, despite some of the tensions that we see in the region.

Finally, there is China's crisis which raises questions about its own future participation in the dynamism of the Pacific region. For the past decade, the PRC has been committed to developing trade/technological/cultural exchange ties to the West, casting its future with the dynamism of the Pacific Rim. These policies are now clouded by the repression in China, and we sense the prospect for turning inward, if not a return to centralized economic management.

It is rather dramatic that just at the time that the pro-democracy students were out there, demonstrating in Tiananmen Square, Mr. Gorbachev arrived in Beijing to try to repair thirty years of Sino-Soviet confrontation. One of the challenges of our policy is to balance off the totally appropriate outrage that the American people feel at the violent massacre that was inflicted on peaceful demonstrators, yet not to see China faced with the situation where its only real prospect for reaching out to the world is back toward the Soviet Union.

The experience that China has faced is one that all the other countries of Southeast and East Asia have been facing over the last two decades. Economic and political reform must go hand in hand in order for modernization to be successful. And only the Chinese can answer the question of whether they now can return to the path of reform.

So we face a very rich agenda in East Asia with our focus, as I indicated, being on the health of the U.S.-Japan relationship, Pacific economic cooperation, trying to prevent another cycle of warfare in Indochina, and giving the Khmer people a shot at self-determination

and noncommunist rule. This will be something on which we can look forward to working with Congress in the years ahead.

Mr. Allen: It has occurred to many of us that one of the great unclaimed successes in the Administration, and there are not many, is the success of U.S.-Pacific Basin policy over the past eight years. No one has yet stepped forward to claim comprehensive credit for it in the name of the Reagan-Bush Administration; such reticence is probably motivated only by the other priorities that we have. But, clearly, that Pacific Basin policy has been a resounding success, and while with its very large dimensions it may not motivate many Americans in terms of their voting behavior, I think that all Americans are better off as a result of the genius and the insight of the Asian Pacific Basin policy that these Administrations have pursued.

I was struck by Secretary Solomon's succinct analysis of the challenges. It is not a totally comprehensive catalog, but highly interesting indeed, especially when he spoke of the need to create better mechanisms to manage relationships, such as the all-important U.S.-Japan relationship. In point of fact, this has been a matter of greatest urgency, and the news that he has given us that the Administration is now working on specific proposals and that the Secretary of State and others will be speaking out on this in the weeks ahead bodes well, I think, for our ability to respond to this particular kind of challenge.

The same is true, of course, in the making of international economic policy, a subject we will shortly be discussing with respect to Asia. The U.S. is the only industrialized country in the world that does not have a suitable mechanism for planning international economic and trade policy. In fact, we had such a mechanism for a very short period in the early 1970s and abolished it in another Administration. This was a significant mistake because many of the recurring crises and tensions to which Secretary Solomon just referred could have been avoided by a more timely intervention on the part of policy makers here in the U.S., had the mechanism been available for making decisions in a comprehensive way to fit with our long-term national strategy. Such a mechanism unfortunately has not been available, and I think that, during the course of the day, we can come back to that theme. It is extremely important since, as he correctly pointed out, many of the economic problems and trade tensions that we now face have led

directly to political tensions and could have impact in the strategic realm as well.

Of course the notion that the Soviet Union has concluded that it needs economic strength in the Pacific region more than military strength and is seeking to draw on the not inconsiderable resources of Asia, Japan, Korea, and the ASEAN nations should not go unnoticed by us here today. Fortunately, the Asians are not swept up so much in what the Europeans have now called "Gorbymania" as are the Europeans themselves, since this psychological and emotional drive often tends to distort and cloud the vision of policy makers and those who think about foreign affairs.

Our next speaker is Alaska's Senator Frank Murkowski. He was first elected to the U.S. Senate in 1980. It was indeed a happy time when Frank Murkowski came to Washington because he brought with him the perspective of a person who had long been thinking about the role of the U.S., and from his particular geographic perspective in the State of Alaska, the role of the U.S. in the Pacific Basin. No Senator has been more active than Frank Murkowski, in his capacity as a member of the Senate Foreign Relations Committee and the ranking minority member on the Subcommittee on East Asian and Pacific Affairs, in expanding the horizons of the U.S. while protecting the interests of his constituents, and promoting the long-term economic interests of the U.S. in the Pacific Basin region.

Senator Murkowski has made countless trips to the region, has a personal relationship with most of the leading members of governments in the entire Pacific Basin, has always spoken candidly and directly, and has generally promoted the interests of the United States in the region. He has also taken steps to help us to understand the entire Pacific Basin in that broad strategic context, which is so important. The U.S. national interest is ultimately the purpose that he serves. Senator Murkowski.

Senator Frank Murkowski: In Alaska, we have a particular point of view. We look down from the top of the world and see everything around us, the great Pacific Basin, the opportunities in Europe, and the opportunities in the Pacific ASEAN countries. And as we look at emerging opportunities in Asia, I think to a degree we have been carried away with enthusiasm for the Pacific. But we must also realize

that, on the Atlantic side, we are faced with the reality of EC 1992 on January 1st of 1993, the realization of economic integration in the European Economic Community. We are in the middle of these dynamic changes in Europe and Asia. And the significance of being in the middle is we had better be ready to compete on both sides or we might be left out.

Now that is not necessarily the topic for today, but it is an appropriate topic to reflect on at a different time because we are going to have to be on our toes; we are going to have to be ready for that competitive market that is structuring itself to take on the U.S., as well as our Pacific neighbors.

I wonder what we would have talked about today had it not been for what occurred in China within the last few weeks. Perhaps about a number of subjects: troop withdrawals in Korea is a possibility as we look at our priorities within our appropriation process, the emerging foreign assistance by some of our Asian neighbors to Third World countries, and the merits of working to untie that aid. There is the base issue with our friends in the Philippines. The coming negotiations are always good for a spirited conversation relative to whether or not our foreign aid should be tied into the base considerations, whether it should be separate, or whether we should be looking at Singapore as a potential lift for our ships or Thailand as an alternative for our aircraft if we fail to reach reasonable considerations.

Nevertheless, we are faced with the reality that in this short period of time, we have taken for granted the stability that China offered and now are looking at an extraordinary series of events that are still unfolding today; we are seeing the tragedy of old men holding onto power by executing their grandchildren. It is very, very thought provoking; it is unacceptable. We have seen the firestorm of democracy planted within the existing regime of the Chinese leadership, their inability to control those seeds, and the steps that they have taken through power and terror to maintain the continuity of their own government. So we have seen China appear as being a contributor to bringing about stabilization and easing tensions, we have seen democratization and a developing market economy. We looked to China to solve some of the problems in the Pacific area. We looked to China to address the North Korean problem and as a major player in improving the dialogue between the South and North. Now we are

looking at whether we can continue to expect that kind of contribution from China.

It is interesting to reflect on some of the current topics before our Foreign Relations Committee, such as the issue of aid to Cambodia. Should it be overt, covert, lethal? Should it be under the auspices of the Foreign Relations Committee or the Intelligence Committee? By the time we got through washing that laundry, there is nothing much left to hide, other than the points of view of the various participants.

Those in the Administration who are in charge of the aid suggest that the train has already left and we must simply make a decision of how to provide this aid. Otherwise, we are going to lose an opportunity. They say it is unrealistic to assess, as a consequence of the tragedy in China, whether or not we should go back and reassess the program. I am pleased to see, though, that the President has made the decision to stop the train, so to speak, and reassess the situation. I think this is true, not just on the issue of Cambodia, but also in other areas, as well.

The Sino-Soviet accommodation made by Gorbachev in Beijing indeed may not survive. We can refer back to occasions of our own where we have observed significant steps in the China liberalization. I recall a visit to China in 1984 with the Georgetown Institute. Amos Jordan of the Center for Strategic and International Studies led a very small group, Zbigniew Brzezinski, counselor for CSIS, former Defense Secretary Mel Laird, representing *Reader's Digest*, John Morris of Westinghouse. We had a meeting with Chairman Deng; it was very, very significant because, allegedly, it was the first occasion that he made the pronouncement of "one China, two systems." He was referring, of course, to Taiwan and Hong Kong as one of the systems, capitalism, and of course communism-Marxism within China. Rather profound. It made quite an impression on us because of the parables in which he told his stories and gave examples of his philosophy. But, nevertheless, when confronted with the reality, decisions were made by the leadership of China to crawl within that shell of power, that shell that emanated terror, and attempt to reassemble. And now we are seeing the terrible contrast of a China that, from the interior, is trying to pretend that this did not happen, that the economic realities of doing business will go on, that business as usual can take place. And we wonder about those things.

There is no question that our relationship has been damaged. What we do not know is to what extent. We have been shocked by the actions. The Administration faces a substantial dilemma. We do not know if the hard-liners are going to stay in charge. We know that their age provides a reality that there is going to be some release somewhere, but in the meantime, we are not dealing with a banana republic. We are dealing with the one-fifth of the population of the world with an armed forces military capability of about three and a half million, a nation that has a nuclear power, and the reality of a nation with a military that clearly has the upper hand.

There is no question that the government leaders owe their very existence to their ability to bring in the military from the provinces. The military, obviously, is going to be demanding more from the government of China, and there is every reason to believe that they are going to get it. We are aware that their military needs substantial modernization. This requires high technology. And the question is how does the U.S. respond, and do we respond unilaterally or multilaterally? Moreover, it is evident we cannot do business as usual with China. That is past.

The U.S. government is in the process of entirely reevaluating its relationship with China, and that is as it should be. I happen to think that our relations with China are going to get substantially worse for a long, long time. I may be wrong; I hope so.

The reason for that conclusion is that we are reducing our high-level communication with China. It is appropriate to do this. But at the same time, we must recognize that, by so doing, we are cutting off the very method to address the levels of relationship that are appropriate, if indeed we can determine what is appropriate under these circumstances. The President has shown skill in his measured response. Additional actions are underway. They are going to be necessary, without question.

I think we should look at what we have already done. We have terminated military sales, military technology. We are addressing the merits of high tech. We have addressed some of the issues associated with the economic vitalization of China, World Bank loans. We are also considering tightening export controls, China's most favored nation policy, and its international credit.

We are attempting, in reviewing sanctions, to tiptoe through a tulip bed, trying to make sure that, in taking action to convey our disgust with

the Administration within the government of China, we do not hurt the people. As we have observed in the process in many other areas of the world, it is very difficult to do.

Nevertheless, we simply cannot stand by and do business as usual. People are frustrated; they are saying we should do more. When you ask knowledgeable people what more means, you do not get very many definitive answers, and that is understandable. But the realization that we are terminating high-level contacts is, in itself, probably the most significant action in ensuring that our relationship will continue to deteriorate. We might see this relationship continue to deteriorate until there are changes within the government in China, which give everybody an opportunity for a way out because they would mean new representation, new leadership. Even though of the same philosophical bent, at least it would give the opportunity for new people to come aboard and reestablish communication. I would hope that is not the case, but I think it is going to be the case.

Lastly, the response must be multilateral. The Western alliance has a great stake in China. It is very gratifying to see the response of European leaders, like Margaret Thatcher – I was on BBC last night, and the European leaders, like The Netherlands, were all coming out with what I think is action of significance. Certainly, the focus of world opinion is stabilizing. We do not know necessarily to what extent the Soviets will involve themselves, but nevertheless, the question that we are going to be addressing is whether China can get away with ignoring what the rest of the world thinks. They have done it before; they may be able to do it again.

We know that the seeds of democracy are very fragile. We must never underestimate the willingness of repressive regimes to use force when they have lost the legitimate support of the people.

This is a time when our nations' leaders must exercise leadership. I think that is occurring. But we in the U.S., where democracy in the modern sense was founded, must never forget that we carry the burden of moral obligation to our allies. We have the obligation of considering and caring for the nearly 40,000 Chinese students who are in the United States. We must be responsive to them as they look to the obligation they have to their homeland. We must give them the assurance of their continued welcome in this country, yet we cannot in any means compromise the reality that they are the best hope of China. And we must

assure that, in offering them whatever protection might be necessary, we do not compromise their position in going back to China some day.

My last comment is in remembrance of what has occurred, of those who are dying, those who have died for the freedom of expression, probably best said by one of my colleagues, Senator Jesse Helms. Jesse Helms happened to be in Anchorage, Alaska, with Senator Steve Symms from Idaho, heading for Korea a few years ago. There were two airplanes at the International Airport at the time, both Korean Airliners. One was Flight 007. There was a young mother with two little girls who got off the other airplane. The children were young, and it had been a long trip already. Jesse Helms said, "Let me take your two little girls and tell them a story while you go freshen up." So he put those two little girls in his lap and told them stories as he would his own grandchildren. Well, you know the rest of the story. Theirs was the flight that went down. But on the floor of the U.S. Senate, when we were agonizing over what to do, Jesse Helms probably put it more eloquently than anyone. He said, "I held those children on my knee. Those children had a right to life and a right to love and they were brutally murdered. The world can never forget." I think that is the obligation that the U.S. must maintain without exception.

Mr. Allen: Of course, the events in China are so much on our minds today that they must necessarily form a very substantial, perhaps the major portion, of our attention in this panel and perhaps in others. Senator Murkowski and Secretary Solomon have pointed to a serious problem concerning the potential of worsening relations with China, the bilateral relationship between the U.S. and China. And it is interesting for us to assess here that, should the relationship continue to deteriorate and should the door that has been opened in Mainland China be closed and should the policy options for the U.S. narrow and the tension in the relationship accelerate, what impact might there be on the region. And I would certainly like to hear both Secretary Solomon and Senator Murkowski address this prospect. I mean not only the impact on the region as a whole, but the specific impact on, say, the Republic of China on Taiwan. Would this mean an increase in danger and tension in the relationship across the Taiwan Strait? Perhaps not, but a case could be made, and prudent planners should never exclude even the most unlikely possibility.

We are just now celebrating the tenth anniversary of the Taiwan Relations Act, an extraordinary and unique piece of legislation. What does all this mean in terms of a call upon the U.S. commitments embedded in the Taiwan Relations Act?

What would be the further impact of a worsening relationship on Hong Kong? It has to last between now and 1997, and is seeking help to try to define its relationship with the PRC. We know that people in Hong Kong are already deeply concerned by the events in Mainland China. There are people even in Great Britain in positions of power who are rethinking what they have done in concluding that particular agreement with the People's Republic of China. And many are becoming more actively concerned about the fate of those six million people in Hong Kong.

And then think of the impact on all of the ASEAN nations, who have been the beneficiaries of this period of prosperity and security, largely provided by the U.S. and the initiatives flowing from U.S. policy.

Secretary Solomon mentioned the twin potential problems of worsening relationships with the People's Republic of China on the one hand, and Japan on the other hand, and said there was little need to speculate too long on the enormous significance of this. So, on the one hand, we are confronted with the great successes of U.S. policy and, of course, the policies of the respective partners in the region, and on the other hand, we are faced with dangers that could knock the train off the tracks. And at that point, as Senator Murkowski pointed out, instead of falling off the high wire and tiptoeing through the tulips, we might be tiptoeing among political and strategic mine fields, that could have a catastrophic impact on the future of the region, not only economically and politically, but also in terms of the physical security of the peoples of the region.

All of these are problems that have to be thought through. There is a rich menu of problems in store for policy makers, such as Secretary Solomon, who sit in the State Department and mull the strategic interests, while attempting to advise the President and the Secretary of State and others who are responsible for these initiatives.

So when we talk about doing more, as Senator Murkowski points out, let us understand the consequences of doing more, whatever that may mean. It does not mean that we should not do more. It does mean to understand that the costs and the benefits of each of those options

are of tremendous significance not only to the United States, but to the people of the region.

Guest: Mr. Secretary, as far as U.S. policy is concerned, do you still regard China as a country of friendly non-allies to the U.S.?

Secretary Solomon: At this point in time, there has been no change in that position, but we are in a period of exceptional fluidity. And one of the reasons the President has tried to take a measured and balanced set of responses is our impression that the situation in the Chinese leadership is exceptionally fluid. And if you were to ask me what the situation would be six months or two years from now in Beijing, I think it would be very difficult to predict. My own impression is that the use of force against the students was a very divisive policy. We know that, for almost six weeks, the military stayed its hand. They were clearly very reluctant to use force against the students. The students showed exceptional discipline, self-policing, trying to avoid a provocation against the authorities while they pressed for reforms. And we also think one of the reasons the military was reluctant to act is that there was not a consensus within the political leadership that would give them the authority to do so.

After force was used, it was unclear how that decision was made, and there was this remarkable situation that Senator Murkowski referred to of an octogenarian leadership shooting at its own grandchildren. There is this remarkable situation where some of the leaders characterized in our press as hard-liners have their grandchildren or their children studying in this country, that in fact relationships have developed that were constructive and, if you like, friendly, which helped to stabilize this relationship and contributed to the kind of stability in the region that Dick Allen commented on.

Because of the uncertainties, we think it is unwise to rush ahead and take preemptive action to move the relationship in a different direction. In short, the ball now remains in China's court. How will they proceed? Will they cut themselves off from the rest of the world? How will they respond, not just to the sense of outrage in the U.S., but throughout Western Europe and in other Asian countries? There has been a remarkably broad and shared response, albeit uncoordinated, that indicated revulsion and an unwillingness to continue on with business as usual, where the Chinese leadership was using these repressive

measures. So let us see where the Chinese leadership goes with the deep strains that we sense were generated by this repressive action and how they are likely to play themselves out.

My own instinct is that Deng Xiaoping is not interested in seeing his legacy swept away. After all, the great irony of these developments is that he, himself, set in motion the very social and reform processes, sending tens of thousands of students abroad, inviting in foreign journalists, inviting in foreign investment. Was it not predictable that it would lead to these kinds of pressures for political openness? The Chinese leadership seems now to be making strong efforts to go back to a development program that will restart those pressures once again.

So the dilemma we have, as Senator Murkowski effectively indicated, is how to express our outrage at the violence, but not cut ourselves off from those who are out there demonstrating in huge numbers in support of reform and who provide the basis for the friendly relationship that developed over the last decade.

Guest: I represent South Korea's Yonhap News Agency. I have a question for Secretary Solomon. You mentioned that the North Korean leadership will be changing in a few years. What is your view of the U.S.-North Korean relationship after the North Korean leadership changes? My second question is what is the prospect for withdrawal of U.S. forces from Korea?

Secretary Solomon: North Korea is one of the last of what you might call communist recalcitrants. Even in Vietnam, the leadership realizes that the old way of doing business is not working. Their economy is a basket case. Even in Albania, there have been changes. North Korea has not yet faced up to the fact that it is just not a competitive society and economy, relative to South Korea.

Now when we say we anticipate changes in the next few years, we know that just the actuarial tables suggest that there will be a change in leadership. And what that will bring is not known. We hear reports that Kim Jong-Il, the son of Kim Il-Sung, is, on the one hand, identified as the successor; on the other hand, we do not know how much support there is for him. We certainly do not know what kind of policy changes might occur. For that reason, we will be extremely cautious in our own approaches to North Korea.

As you know, we have initiated a policy over the last several years of low-level, unofficial contact. But the bedrocks of our position are two policies. One is to see the basis of reconciliation in Korea through the North/South dialogue. So when North Korean officials come to us and say, "Well, we want to heighten our contacts," we say, "We will not get out in front of our South Korean ally."

The second element of our policy is to stand by South Korea in terms of its security needs. How those needs might evolve as South Korea continues to grow at an exceptional pace as its industrial base and technological capacities expand is an issue that we will be addressing. We are, of course, aware of the tensions surrounding the Yongsan Army Base, and we will be looking at ways to defuse those tensions, as we did in earlier decades over our bases in Japan. But we believe the core security relationship, the need for stability persists, so I do not anticipate any immediate changes in terms of our defense relationship with South Korea, other than these adjustments, or of encouraging the process that President Roh Tae Woo has initiated, the so-called Nordpolitic Initiative, reaching out to communist countries, China, the Soviet Union, Hungary, and others that were prepared to deal with South Korea in the commercial area, as a way of broadening South Korea's remarkable diplomatic outreach.

Guest: Norman Fu, with *The China Times* in Taiwan. This is a question for Dr. Solomon. Would you address the question raised by Mr. Allen, that is, what sort of impact will this Chinese tragedy have on Taiwan and the situation in the Taiwan Strait, should the PRC attempt to make a show of force to intimidate Taiwan, to divert attention to its problems internally? Does the U.S. have any plan to cope with that sort of contingency situation?

Secretary Solomon: We have seen over the last several years a remarkable set of developments in terms of contacts between Taiwan and the Mainland. Not only has trade, indirect trade to be sure, grown to over some $3 billion, but there has been informal social contact. Over 400,000 people from Taiwan visited the Mainland. There has been economic investment in the Mainland from Taiwan business enterprises and entrepreneurs. And this was carried out, in my view, under a very wise and far-sighted policy developed by the late President Chiang Ching-kuo, who was really one of the most outstanding Asian

leaders of his generation. And the question now is whether these tragic developments in China will work against this process of building constructive linkages and create the kind of environment where Taiwan can clearly face a peaceful future and determine its own circumstances.

Now will there be changes from the Mainland side of this equation? We really don't know, but I guess at this point, what we should emphasize is that developments in China are those of internal political processes. We see no indication at this point that the Mainland is changing its approach to Taiwan. And for everyone's interest, we should hope that this is the direction that will be maintained.

Now we do have legal obligations to the security of the island? Those are clearly addressed in the Taiwan Relations Act. Those commitments will be maintained. But at this stage of the game, we see no indication that there will be any change in the kind of constructive atmosphere that has developed in recent years, although, clearly, the change in mood on the Mainland is something that requires constant vigilance and attention.

Senator Murkowski: As one who followed the situation in Taiwan for a number of years, I think it makes good rhetoric for the Taiwanese media to raise this issue. But the reality is that there is enough going on in China that they are not looking for any external problems, which would undoubtedly be brought to bear from the standpoint of any action that they would take against Taiwan. So while you never can tell, I would say that from the standpoint of logic, it is very, very remote that they would turn any attention on Taiwan at this time.

Guest: Richard Scorza from the United States Information Agency. Senator Murkowski, what is the thinking on the Hill on proposals to enhance trading opportunities in the Pacific Basin, specifically concepts like Prime Minister Hawke's Pacific Basin initiative?

Senator Murkowski: I do not know specifically. It is such a broad area. And as we look at any segment of it, for example, ASEAN vis-à-vis something that is of continued concern. It is not a specific question on trade, but it is the price that we have to pay for the stabilization of ASEAN. To what extent, if any, should ASEAN make a contribution to burden sharing, or are they simply prepared to take whatever comes. If we pull out, will they accept the presence of the Soviet Union, the

PRC, Japan to take over the role of the U.S. and the contribution that we have made in stabilizing that part of the world so that they can continue to develop and prosper? There are many of us who feel that they should make a contribution. I have been told, officially and unofficially, that they will take whatever comes. They are prepared to do that, if necessary. They are not prepared necessarily to make a contribution to us to continue our presence that would continue to provide a stabilization, whether that changes, whether that is official or unofficial. But that kind of talk is very prevalent and it is a consideration as we reflect and argue the merits of whether we should maintain the degree of presence we have in that part of the world, for how long, and what is our continued obligation. Should we try to do everything for everybody, every place, or should we begin to pull back?

And, you know, these are questions, as we see Japan making aid available in a proportionately larger amount than the U.S. But in specific areas of trade, what we are looking at is the economy in a world where we are trying to take down trade barriers, but we have inconsistencies associated with our relationship with many of our Asian neighbors where reciprocity simply does not exist.

The ability to get into a Japanese construction market would drive you crazy to the point where you decide to utilize your energies someplace else. You try to get into Korean insurance underwriting. These are areas where we are simply going to have to be hard-nosed, and there is going to be more and more pressure on Congress, and we are going to hear the screams of "protectionism."

But it is really international trade survival. The U.S. either competes in some of those markets on the basis of reciprocity or is out of them. And we have the leverage. But I am frustrated with some of our diplomats who are reluctant to use that leverage, which is access to the U.S. markets. We have to play hardball and we have to do it consistently and we have to do a better job of it.

Guest: I would like to ask Secretary Solomon about the point about managing the U.S.-Japan relationship. Does that include in some way consideration of a proposal for a U.S.-Japan free trade association or compact similar to the one we have with Canada?

Secretary Solomon: I have never seen such an overload of trying to think through the China situation, Cambodia, the broader patterns of

trade. And because we are punching into this new era and dealing with a whole range of structural issues, we are going to be sorting out a number of things. And I indicated to you that how we structure our dealings with Japan is something we are going to be working on. It is taking its place in the queue, given the overload of the fundamental issues that reality is throwing up at us.

I do not want to preempt some other consideration of various ways of managing this relationship better, but let me say the following on the specifics of your question. Our general sense is that a U.S.-Japan free trade area is not the way to go. It would make the smaller, but nonetheless very dynamic and vital, economies of East Asia feel that they were confronted with a huge bloc, if you like, and our effort is to be inclusive, rather than exclusive. For that reason, we have been looking at ways of creating a somewhat broader framework for trade. And as I indicated earlier, the Secretary of State, when he goes off to Brunei in early July for the ASEAN Ministers meeting, will be picking up discussion of this kind of question.

There is a danger that you would end up with what we call superblocs with the EC being one major trading and protectionist zone, the U.S.-Canada free trade zone another, and so we want to try to do things that will keep the door open, rather than move in the direction of exclusive trading relationships. So I think we will be headed in a somewhat different direction.

One of the dilemmas we have, and I think Senator Murkowski's remarks reflect this, is a need still to batter down closed market areas. The process of beating each other up over baseball bats and beef and citrus and insurance, all the things that are the realities of day-to-day trade, has a really corrosive effect on what fundamentally are very productive, broad, national relationships. And we are looking at the question, is there some broader way of structuring our dealings with Japan, with the Republic of Korea, whoever, so that these productive relationships are not eroded. Can the leaderships of both societies find better ways to police their own houses?

We have been dealing, for example, with this drift-net fishing problem. The new technologies for fishing are cleaning out the ocean of our salmon. How can we find ways to discourage Taiwan, Korea, Japan, other countries that have drift-net fishermen from doing things that their own laws say are illegal? In short, all the countries who have a

stake in open trade have to manage their own houses for the sake of the broader interests that are served. With Japan and other countries, we must try to get away from the degrading pattern of fighting over specific product markets, none of which are going to reshape the trading imbalances, and manage the relationship more productively. This is the challenge, and I know that we will have a lot of encouragement from our colleagues on the Hill to use what leverage we have.

Mr. Allen: The first stimulus for free trade area agreements came with the rediscovery of the inherent authority in the Trade Act several years ago by researchers here at The Heritage Foundation. A proposal for a free trade area with Israel emanated from a Heritage paper. We at Heritage have been strong proponents of the development of such agreements, particularly with the Republic of China on Taiwan and we have had extended discussions with other ASEAN representatives, including Ambassador Tommy Koh of Singapore, a strong proponent of free trade areas. So we will all be waiting with great anticipation to see what the Administration will come up with that could be better than a free trade area agreement.

We conclude this panel with the note that there may be an inherent collision between economic interests and long-term political/security/strategic interests in the near future. Senator Murkowski's opening remarks reminded us that the U.S. will find itself in a very interesting position in 1992, when we celebrate the 500th anniversary of the discovery of America by Christopher Columbus and Europe tears down the walls inside Europe, creating a market of some 330 million persons. Our question is whether the walls will go up outside Europe as a consequence and we will find ourselves outside, looking in with our Asian partners, or whether we will be able to negotiate a favorable balance, show leadership, and compete.

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Panel II

Asia's Economic Challenges to the United States in 1990

Mr. Allen: The second session will address the question of economic challenges and opportunities in the Pacific Basin during the next decade. We have an exceptionally highly qualified panel of specialists to help us think through just what those challenges are and what the response ought to be. There will be a larger discussion in which we ask each of our panelists this morning to use the ten minutes allotted to him to lay down the basic propositions that he would like to leave with us. That extended discussion is crucial because it is clear, even as the first panel was developing its own themes, that the economic challenges always seemed to underlay everything else.

It is the narrowly focused issues, such as the ones that were discussed very briefly here this morning, that lead to political problems. Just think of the ignominy of the United States, as the world's most single important market and producer of goods, in Japan every three or four years or in Korea, arguing about citrus and beef. If Japan decided tomorrow to take all of our beef and all of our citrus, it would still have no impact whatever on the trade deficit between the U.S. and Japan.

Narrow issues tend to become emotional issues because of the ability of private sector interest groups to bring considerable pressure, using the modern means of communication, on legislators and an Administration. This can become a nightmare.

The mundane questions of economics do indeed lead to very important political considerations and policy changes on the part of the U.S. And as we consider the Pacific Basin, all of these issues become even more important.

Dick Nanto, a Ph.D. from Harvard University in economics, has been associated with the Library of Congress for several years and, as of April this year, he became the specialist in industry and trade at the Library's Congressional Research Service. He has been senior fellow at the Atlantic Council and a visiting professor at Itotsobashi University in Japan, and he has published widely. Dr. Nanto.

Dr. Dick Nanto: I am to talk about U.S.-Japan trade in terms of the Asian economic challenges to the U.S. The lesson of the Japanese economy is that small changes eventually add up to very large changes. For a long time, we were saying, "Well, Japan is growing, but on the other hand, they are still small, they are still behind us." But those small changes have added up, and now, Japan is an economic superpower. I need not go through all the details, but we are talking about an economy with a per capita income exceeding $20,000, which, depending upon the exchange rate, is higher than that in the U.S., even though, because of higher prices, the actual standard of living in Japan is somewhat lower. I need not tell you about the Japanese companies, Toyota, Sony, Matsushita (makers of Panasonic products). And the Tokyo Stock Exchange now has a larger market value of shares listed than the New York Stock Exchange.

Japan's foreign aid budget now is the world's largest. It has exceeded that of the U.S. And the much maligned Japanese defense budget has reached the level of that of the United Kingdom and West Germany. According to some calculations, it could be third, behind that of the U.S. and the Soviet Union. Japan's investors finance about 30 percent of the U.S. budget deficit, so this indeed is a very large and very important country.

In the metaphors of the past, Japan is the younger brother who grew up. It is the student who now challenges the professor. It is the marathon runner who has come out of the pack and is nipping at the heels of the leaders.

There seem to be three major world events that are affecting our relations with Japan and how we perceive Japan. The first, despite the events in China, seems to be a sort of disarmament race – an easing of tensions and change in focus from strictly military and security matters to economic matters. Discussions of security now include things like semiconductors and foreign investment, in addition to the usual discussion of nuclear weapons and conventional arms.

In fact, in September 1988, there was an NBC News and *Wall Street Journal* poll, in which they asked which posed the greatest danger to the U.S., military adversaries like the Soviet Union or economic competitors like Japan. Twenty-five percent answered military adversaries; 57 percent answered economic competitors like Japan.

The second major change in world events has been the emergence of international economic problems that the U.S. cannot solve by itself, problems like the Third World debt crisis, exchange rate volatility, and environmental pollution. These are all problems that the U.S., by itself, although a major actor, cannot solve. Hence, relations with Japan and of course with Europe become more important.

The third major change has been the emergence in the world of trading blocs. EC 1992, the economic unification of the European community, has been the most significant, but, the U.S.-Canada Free Trade Agreement has also been important. What we are seeing happen in Asia is an increasing development of horizontal economic relationships between Japan and its neighbors, especially in East and Southeast Asia. No formal trading bloc exists in terms of an institutional arrangement, but what is happening *de facto* is more and more countries in the Asian Pacific are trading with Japan. And this is not just in raw materials and in primary agricultural products, but in manufactured products and industrial components. Some products are being made by Japanese subsidiaries located in those countries. The Japanese, themselves, have a term for this. The newly industrializing economies, the NIEs, that export to Japan are now being called the "Japan-NIEs," the Japanese. This emerging trading relationship is a major change. If the U.S. is not careful, by the year 2000, there could be three major trading blocs, Europe, North America, and East Asia.

Just how is the trading relationship with Japan going? First, I need not dwell on the persistent bilateral trade deficit with Japan. This has been a surprise, because most people, especially economists, expected that the 50 percent appreciation in the value of the yen vis-à-vis the dollar should have caused the bilateral trade deficit to drop more than it did. It actually dropped just a few billion dollars, and it is expected to continue in excess of $50 billion for the near future.

The second major issue in the relationship has been the large amount of money that Japan is investing in the U.S. This is a dual-edged sword that has been welcomed in some areas and caused concern in others. Japan, of course, has replaced the U.S. as the largest creditor nation, and much of that credit is coming into the U.S. Much of the concern, of course, is overblown. Japan is still second in direct investment behind the U.K., barely edging out the Netherlands. But last year, Japan sent $18 billion to the U.S. in direct investments and probably

had another six or so billion dollars that were involved in mergers and acquisitions that are not counted in this number. In addition, a lot of Japanese money went into investment in financial assets, like U.S. government bonds and securities. Hence, there is a lot of money coming into the U.S. from Japan. There are very little data on it, and this has caused concern in terms of our national security. Although if Japan tries to invest in an industry that poses a threat to U.S. security, institutions are in place to prevent that from happening.

A third issue is techno-nationalism, which has been reflected in the debate on the FSX fighter plane. This is a fear of technology leaking to the Soviet Union as it did in the Toshiba case, or perhaps the more likely prospect of that technology coming back to the U.S. in the form of exports from Japan.

Fourth, there seems to be a very high level of frustration among policy makers over how little seems to be accomplished in terms of bilateral relations, despite all the wrangling and negotiating that has been going on for the past fifteen years.

Our piecemeal approach, our product-specific approach to resolving issues in U.S.-Japan trade seems to be too confrontational and to have had too small an effect on the bilateral trade deficit. The new Omnibus Trade Act with the Super 301 provision tries to break this cycle of endless negotiations by establishing priorities. The announcement of Japan as a priority nation practicing unfair trade practices but listing only three industries, supercomputers, satellites, and wood products, seems not to be a policy that is going to have much effect on the bilateral trade deficit, even if trade barriers in those three products are lifted.

Given these problems in the U.S.-Japan relationship, what can the U.S. do to face the challenge of Japan in the 1990s? In Congress, several schools of thought seem to be emerging. There seems to be a strong current developing in favor of doing something very drastic, taking a new approach to trade problems.

One such approach is managed trade. The model for managed trade has been the U.S.-Japan semiconductor arrangement in which Japan purportedly agreed to work toward a specific market share for U.S. semiconductor sales in Japan. Current versions of managed trade are not defined very well, but they would likely include specific targets for market shares, quotas on exports from Japan (such as exist now in steel

and automobiles), or even a target for the overall trade deficit. Proposals for managed trade originate from the suspicion that Japan is implicitly managing its trade anyway, so we might as well make that management explicit and more according to our desires.

Managed trade, however, generally does not call for the U.S. government to manage that trade, but for the Japanese government to do the management or face retaliation from the U.S. Hence, the problem with managed trade is that we are asking Japan to effect policies that will strengthen the hand of the government over private industry, when what we have been trying to accomplish over the last fifteen years of negotiations has been to have less interference by the Japanese government in private business decision making.

Japan has a long tradition of administrative guidance by the government. When you talk to Japanese business leaders, they tell you that this administrative guidance has weakened considerably, especially in the 1980s. What managed trade would probably do is reestablish some of that control by the government over the private sector.

Another problem of managed trade is that, in virtually every case where trade has been managed, for example, in controlling the exports of automobiles, the Japanese companies have figured out some way to profit from it. In the case of cars, they have just gone from small cars to large cars. Profit rates have remained high, and in a way, the managed trade has kept the large companies like Toyota and Nissan entrenched with their large market shares and has kept small ones like Subaru from expanding.

A second approach to the Japan problem would be to establish a free trade agreement or some institution for Pacific economic cooperation. But since Mr. Brick is going to talk about that topic, I will skip it for now.

A third and the most likely approach would be to have more of the same. We stay the course and let the existing trade law play itself out. The major danger I see in continuing on the present course is that the acrimony building up in the relationship eventually could alienate Japan and its people. We could be reaching the point where much of the good will that now exists will disappear, and the cooperation that the U.S. needs from Japan to resolve important world economic problems will be difficult to obtain. We could be reaching the point of

diminishing returns in using the high pressure approach to opening markets in Japan.

It seems that what we can do is to proceed with allowing the new trade law to operate along with existing trade laws but also to make some changes in the factors that underlie our bilateral trade deficit with Japan. Even though macroeconomic policy has not solved the trade deficit, still estimates indicate that, if we balance the federal budget, about half of the U.S. trade deficit would disappear. That would still leave half of the deficit, but it would have a significant effect. The U.S. needs to change its macroeconomic policy.

Americans need to save more. Now that is bad news if you are a business trying to sell to American consumers, but clearly our 4 percent to 5 percent savings rate, compared with Japan's 16 percent, is too low.

Second, American businesses need to focus on the Japanese competitive threat. I think each American business should have a Japanese or an East Asian strategy. Such a strategy would include monitoring technological development in Japan and competitive benchmarking of production, comparing the production process in terms of costs and process technology with that of Japan and other countries of East Asia. Of course, major investments in research and development, especially design and process engineering should be part of that strategy. And exporting to the Japanese market, even if profits are low there, is important. U.S. firms need to be active in East Asia to keep abreast of the competition. A final component of this stategy is possibly to link with Japanese and European companies to share products, technology, and market facilities.

There have been many, many stories of U.S. companies in Japan who are pursuing a successful Asian strategy. They are too numerous to list. But just let me mention that Coca-Cola made more profits in Japan last year than it did in the U.S. This is a market that definitely can be penetrated and one that can be very profitable. There is much that we need to do, on both the macro and the micro level, and much that can be done.

The larger challenge for the U.S., however, is to devise ways to induce Japan to use its considerable economic and financial power to solve problems that are facing the U.S. in addition to just the bilateral trade deficit. I was pleased to hear in the earlier panel that the Bush Administration is going to make some proposals along these lines.

Can the U.S. rise to meet the challenge of Japan and other competitors in Asia in the 1990s? I think we can because we have one thing in the U.S. that neither Japan nor any other country has – that is the American people and their ingenuity.

Mr. Allen: The next speaker, Andrew Brick, is the Asian Studies Center's policy analyst for Chinese affairs here at The Heritage Foundation. Drew has been particularly active in writing the incisive analyses that we have distributed internally here at Heritage in recent weeks concerning the Chinese or the events in China. He holds a master's degree from the Johns Hopkins School of Advanced International Studies, a master's degree from Moscow State University, has studied at the National Taiwan University, at Stanford University's Language Program, at Cornell University, and holds a B.A. in creative writing from Vanderbilt University.

Mr. Andrew Brick: Where are free trade areas going in 1990? I told a friend that I was going to be speaking on this topic today, and the friend responded, "Oh, you're the idealist in the group." I like that. I like to think that free trade areas are the ideal way to pursue trade in Asia in the near and coming future. And although it is difficult to say immediately where free trade areas are going in 1990, I think that the facts supporting FTAs' implementation and the force of the argument advocating their acceptance will certainly grow in the coming year.

The 1980s provided two watershed events that fundamentally altered the debate about the future shape in world trade. The events were the European Community's decision to achieve full economic integration by 1992 and the U.S.-Canada Free Trade Agreement.

Those two events have sparked a dialogue that had been sorely missing in the world trade movement in the past several decades. On the surface, the debate considered the pros and cons of trade regionalism versus trade multilateralism. At the root of debate, however, was the very conduct of U.S. trade policy. Some Americans have a strong sense that "regionalism" in trade leads to the establishment of trade blocs, and trade blocs work to the benefit of a few at the expense of many. At conferences on FTAs, it is not uncommon to hear packed references to the 1930s, when the U.S. turned to bilateral negotiations – the stuff from which these blocs were born – to negotiate away the economic problems it faced with the world. Bilateralism proved futile

and counterproductive, contributing to the severity and longevity of the Great Depression. "You can't remember because you're too young," they always tell youngsters like me. The notion of a Fortress Europe describes their greatest fear.

Others, though, find the formation of regional trade blocs potentially beneficial. For these Americans, "regionalism" in trade is an idea whose day has already come. Indeed, it has working precedents. In addition to the two already mentioned, the notion of so-called trade blocs has been in existence for some time. There is the COMECON, the Committee for a Mutual Economic Assistance in the Soviet bloc; the European Free Trade Association for Northern European Nations; the Latin America Free Trade Association, LAFTA, for the Andean Group of South American nations; there is the free trade agreement between the U.S. and Israel, and there is a recently concluded FTA between Australia and New Zealand. Such regional economic integration, these folks argue, expands world trade and world output and it is compatible with the rules governing multilateral forums.

I agree with this point of view. Free trade areas do not necessarily work at the expense of multilateralism. Indeed, bilateral initiatives – the stuff of FTAs – reinforce multilateralism. Thus, while it is true that, as a practical matter, the U.S. can ill afford to remove itself from the multilateral forum for trade, such as the General Agreement on Tariffs and Trade (GATT) or the Organization for Economic Cooperation and Development (OECD), it is equally true that our nation can ill afford to close the door on any nation that seeks to resolve its trade differences with the U.S. specifically via an FTA.

Examine, if you will, the U.S.-Canada Free Trade Agreement and the workings of the GATT. The GATT allows free trade agreements. Specifically, Article 24 of the GATT's charter states that, "Nations are allowed to enter into regional trade agreements that accord more favorable trade treatment to members than to nonmembers only if such agreements do not result in higher average trade barriers against nonmembers than before the agreement." Canada and the U.S. are lowering barriers between themselves; they are not raising barriers to others. Moreover, both Canada and the U.S. have steadfastly maintained their commitment to the GATT process, pledging to work toward multilateral reductions of trade barriers in the current Uruguay round. As such, the U.S.-Canada agreement should be viewed more as

a step toward freer trade in the spirit of GATT than as a step that leads to the GATT's fragmentation.

This leads to a compelling point. A multilateral world requires more options than multilateral negotiations alone currently provide.

The U.S.-Canada bilateral trade pact produced a sweeping change in the trade arrangement between the world's two largest trading partners that until now would have never been addressed in the multilateral fora. The agreement is comprehensive – covering imports, exports, and investment – and creates a schedule for eliminating tariff and nontariff trade barriers between the two principals. The FTA also provides a framework for dealing with future problems in bilateral trade, including a nifty "dispute settlement mechanism" based on arbitration panels composed of experts. And contrary to the popular perception that FTAs take too long to negotiate, the U.S.-Canada talks were completed in less than sixteen months. Considering that the time lag between each of the GATT rounds has grown in spaces of years, I think it is fair to say that sixteen months qualifies as breakneck speed.

Arrangements like the U.S.-Canada Free Trade Agreement illustrate what bilateral negotiations can produce. In a study published in the *Harvard Business Review* in early 1988, it was said: "Because U.S. trade policy-makers have been fixated solely on multilateral strategy, other trade expansion possibilities have been relegated to a secondary status, constrained in scope, or used as a placebo for powerful U.S. interests." The authors go on to cite the Market-Oriented Sectorial Specific (MOSS) talks with Japan, citing their "concentration on a narrow range of goods and services."

And perhaps this is the most alluring aspect of FTAs. In these days of that part of the trade bill known as "Super 301," arbitrarily imposed and unnecessarily provocative, FTAs offer the U.S. another means to both expand its trade and open access to foreign markets. These are not objectives that necessarily work at cross purposes. It really depends on the style of negotiations a trade negotiator prefers to adopt. "Super 301s," tariff and nontariff barriers, and voluntary export restraints are the devices most frequently employed by the "fair" traders. They assert that access to American markets should be restricted until U.S. businesses are granted equal access to foreign markets. They link the flow of trade to more open markets. In the end, they draw lines and they bully.

FTAs deal with nations as they are. They offer a constructive and internationalist U.S. trade policy that fosters growth and opportunity by breaking down obstacles to achievement and fair competition. FTAs do not create barriers to protect special interests; they exist solely to break them down. But that is not to imply that FTAs could not be used as a lever to achieve more open trade. The use of FTAs will force other nations to recognize that the U.S. will devise ways to expand trade – with or without them. If they choose not to open markets, they simply will not reap the benefits. Said James Baker of FTAs when he was in charge of the Treasury Department, "If all nations are not ready, we will begin with those that are ready and build on that success."

Which brings us to Asia. Considering its imminent importance to the conduct of American business and to security concerns, as this conference aptly testifies, this is a region that begs creativity in trade.

It is almost a cliché now to speak of the 21st century as the Pacific century, but the facts do seem to indicate that such is the case. Today, 58 percent of the world's population lives in Asia. By the year 2000, 70 percent of all humanity will live there. By 2000, Asia will produce 50 percent of the world's goods and services. All the major Asian Pacific countries will have higher economic growth rates than all the OECD member countries for the next twenty years. Today, five of the top fifteen exporters in the world are in Asia (Japan, China, Korea, the Republic of China on Taiwan, and Hong Kong). Only Japan made that list in the 1970s. By the year 2000, the economies of Asia will be more diversified than those of Europe and the U.S. combined.

The U.S. has more economic interest in Asia than any other member of NATO or the OECD. Our trade with Asia and the Pacific exceeds that of Europe. Indeed, by the next decade, U.S. trade across the Pacific is expected to be twice that of trade across the Atlantic. Japan, the Republic of China on Taiwan, and South Korea are America's second, fifth, and seventh largest trading partners.

I could go on, but the point is that the numbers, the facts, demand a U.S. trade policy toward Asia that is both sensitive and creative. This is an area that is simply too important to our national interest to alienate unnecessarily because we cannot find access for chicken livers. This is an area that we cannot afford to isolate because some Congressman seeks revenge for a vested interest.

Mr. Allen: Jan Prybyla is a Ph.D. from the National University of Ireland, and currently, Professor of Economics at Pennsylvania State University. Jan is a frequent participant in Heritage Foundation activities, has been a key participant in the activities of the Asian Studies Center, and always provocative in his analysis. Dr. Prybyla.

Dr. Jan Prybyla: I will assume that all of you are familiar with the quantitative achievements of both Mainland China and the Newly Industrialized Countries (NICs) and we will concentrate, therefore, on a few general ideas of a qualitative nature.

There are, I think, two economic systems that are viable in the modern world (and this includes East Asia) and one in-between situation that I will call a nonsystem. The first system is one that provides people with increasing quantities and qualities of goods that the people want at prices they are willing and able to pay; it does so efficiently, that is, through increasing productivity of factors derived from technological innovation; and it does all this under the rule of law, which Adam Smith in his *Wealth of Nations* calls the pillar that supports the whole edifice, without which the system disintegrates. I am not talking about laws; I am talking about the *rule of law*, which is a very different concept.

This kind of system can be described as a modern system. It does what an economic system is supposed to do, that is, provide people with final goods that the people want. And this modern system, which China has tried to achieve since the beginning of 1979, is synonymous with a market system in which private property rights are dominant.

In turn, a market system, while it accommodates itself to a variety of political arrangements short of totalitarianism, is very uncomfortable and unstable with anything except political democracy. If there is to be equilibrium between a market system and a political system, the political system has to be democratic. So, a modern economic system in the full sense of the term is market democracy.

The East Asian NICs (and I mean by this principally South Korea and Taiwan) are in that category. They are market economies and evolving democracies in the political sphere. The result is that they provide their people with increasing quantities and qualities of goods and with increasing political freedom and stability.

The second type of economic system is the centrally planned system, or central administrative command planning, and this system produces three things very well, but nothing else. The first thing it produces is chronic scarcity of everything, producer goods as well as consumer goods. I am not alone in saying this; the Hungarian economist Janos Kornai says it, too, which probably carries more weight. Second, the system produces first class military hardware, at least in quantitative terms, but sturdy too; so it produces guns and police equipment very well. And, third, it produces what is most important for the system, that is, the preservation of the political monopoly of the Leninist elite. This is the system China had before it embarked on its reforms in 1979, and this is the system the Soviet Union and other socialist countries use today, from which they are trying to move away so as to modernize.

In between, there are theoretically very interesting constructs usually called market socialism, and they do not work. In between, therefore, we have a huge area of nonsystems, filled with all sorts of neomercantilisms, corrupt governments working in tandem with corrupt markets, leaving between the half-baked economy and the rotten polity big, gaping holes in which underground arbitrage and other shady forms of coordination thrive. This is the "system," or rather nonsystem that China has today and has had since 1985 when the reforms went sour.

In 1979 China began a process of moving away from the system of central administrative command planning without, however, any intention (this was repeatedly made clear by the leaders, although many in the West would not believe it) of moving all the way to a full-scale, full-fledged market system. Deng Xiaoping repeatedly said that capitalism was not acceptable to China, that the intent was to move toward "socialism with Chinese characteristics." A lot of the academics here and in Europe immediately started working on this, writing theses and articles on what this allegedly profound construct meant. Nor was there ever any intent on the part of the Chinese leadership, even at its most liberal stages, to move toward political democracy. Deng Xiaoping's personal history should have been sufficient evidence. Deng was one of the main authors of the anti-rightist campaign of 1957, one of the most despicable suppression campaigns in China's socialist history, which he never subsequently renounced. And he was the man who destroyed the democracy movement, China's "spring" of 1979. So all the ruling stratum wanted to do was to move toward some sort of a

imprudent to go in. In the longer run, perhaps the signals will be less clear.

I had the pleasure of talking just a few days ago to some leaders of German big industry, and they say, "Well, we have put on hold our investments for the time being. We are watching what is happening. But in the long run, if we don't do it, then you will do it. The Japanese will do it." However, in the context of retreat into central planning, the myth of the one billion potential customers will not translate itself into per capita disposable income, which is really what matters. China is very unlikely to reach its goal of $700 per capita by the year 2000.

The second decision maker in a society such as ours is the nonbusiness, nongovernmental, nonprofit-making community to which I belong. It consists of academics, journalists, nonprofit foundations, and others of this ilk. We are not very powerful. However, some of the recent events in China have shown that we perhaps have more influence than we realize because ideas do matter, and these ideas have percolated into China. I think this community should speak out boldly, without any fear or diplomatic or budgetary hangups. The point should be made that we are horrified by what happened, that we disapprove of and condemn what happened. If possible, we should maintain links so that, in the future, we can go back in, but not at the expense of silence.

The third decision-making area is government reaction, and here it is going to be very easy for me. An excellent paper was prepared on this subject (Heritage Asian Studies Center *Backgrounder* Number 92, "U.S. Options for Responding to the Slaughter in China," June 7, 1989) and you might wish to refer to it. Some form of sanctions has to be taken.

With regard to the NICs, here again the task is easy. The NICs (and I mean by this primarily South Korea and Taiwan) are textbook examples of what the U.S. wants to see in the world both economically and politically. The problems that divide us are relatively minor. The prospects for future development, both political and economic, are excellent. By the year 2000, Taiwan is likely to reach a per capita income in the neighborhood of $17,000 per year. Here again, the policy recommendations offered in another excellent Heritage paper, Asian Studies Center *Backgrounder* Number 91, "A Super 301 Trade Ruling: Too Early for Seoul and Taipei," May 25, 1989, co-authored by Mr. Brooks and Mr. Brick are excellent: patient but firm negotiations, pressure by the

U.S. in favor of Taiwan's membership in international organizations, urging Japan to open its markets, exploration of FTAs. In fact. I am gradually becoming a convert to the idea of an FTA between the U.S. and the Republic of China on Taiwan.

Mr. Allen: Dr. Stephen Cohen is professor at the School of International Service at the American University. An economist, he has published a number of books, was a professional staff member for the Commission on the Organization of the Government for the Conduct of Foreign Policy, which was a joint White House-Congressional study, has been chief economist for the U.S.-Japan Trade Council and international economist at the Department of the U.S. Treasury. Dr. Cohen.

Dr. Stephen Cohen: In terms of an introductory comment, I might say that somebody should speak up for exports of chicken parts and turkey parts, so let me do that. As inane as that subject may be in the larger sphere of international relations, exports of specific products are quite important in terms of domestic politics. I think there would probably be unanimous agreement in this room that protectionism should be avoided. One way of avoiding protectionism in this country is to assure the different political players out there that the game is fair. To the extent that exporters in this country, even if they are small and insignificant, do not think the system is fair, the pressures on Capitol Hill for changing an open U.S. trade policy could become intolerable. So I do not think we should demean the desire of small producers to export what is, in strategic and economic terms, not very significant. There is a very strong political foundation to our liberal trade policy that is quite vulnerable if people think that the system is hopelessly stacked against them.

Let me next turn to the broad issue, Asia's economic challenges to the U.S. Before getting to Asia, *per se*, I would suggest that there are some challenges to our international economic position that we have in effect assigned to ourselves. Dick Nanto mentioned the budget deficit. I would hit home a little harder the concept that, in terms of economic theory and in terms of our total global trade position, we are in fact doomed to a trade deficit indefinitely as long as our savings are inadequate to pay for our budget deficit and our investment. So, in effect, we have a global problem, and we have an internal disequilibrium that is greater than anything Asia is throwing at us.

In addition, in terms of a self-inflicted problem, our corporations still don't seem, as a group, totally on the ball in terms of meeting the global economic challenges. Dick Nanto mentioned this in his recommendations – and of course I would heartily agree, but I would emphasize that when corporate executives are spending their time and energy worrying about mergers and acquisitions, hostile takeovers, leveraged buyouts, and such, they have precious little time to worry about the production line and the research and development process. The latter are not lacking in terms of priority, time, and energy throughout much of Asia.

Well, let me turn to the subject of Asia. The first question really has to be: Does Asia pose a special problem to the U.S. in terms of trade? I think the answer to that is obviously "yes." Given the size and dynamism of Asia, there is just no question. One interesting statistic is that, for the past couple of years, Asia has accounted for roughly two-thirds of our total trade deficit. If in fact we are going to return to equilibrium in our trade balance, at least part of that correction is going to have to come from Asia where, in 1988, we had a trade deficit of $80 billion. That $80 billion figure suggests, among other things, that we are not competing very effectively in Asia, or are we competing particularly effectively anywhere else.

In looking at Asia, let me try next to disaggregate. If we are doing economic analysis in terms of U.S. relations with Asia, let me suggest that we are really dealing with a disparate bunch of countries in terms of economics. In terms of policy analysis and in terms of policy recommendation, I would suggest that we consider Asia, at least in economic terms, as a group of, say, five different categories of countries. I will try to speak very quickly about this and pick up on things that have already been said.

My five categories are Japan; China; the NICs; what I would call the emerging NICs, countries like Thailand, Malaysia, Philippines and Indonesia; and then countries in Asia that I guess really have not been mentioned at all today, the poor countries like India, Sri Lanka, and Papua New Guinea. There are still some Asian countries that do not present a clear and present competitive challenge to the U.S., simply because they have not achieved a sufficient level of economic and industrial development.

Let me speak first about Japan. I think, in economic terms, if we look at Asia, Japan should be put in a category by itself. That is because I think, as we look into the 1990s and the 21st century, Japan will continue to be our most important competitor in international economics. The Japanese economy is far bigger than any of these other economies. I do not have the numbers, but very probably more than all the other economies in Asia put together. The Japanese also have a unique combination of ability and spirit to move to the forefront of technology. The Japanese, also are the masters of understanding a principle, at least I think they believe, as I do, in this principle. Perhaps others would disagree, but as we go into the 21st century, the importance of industrial strength to a country's power and international standing will become much more important relative to military arms stockpiles.

If you look at the Japanese model, the road to international influence is through industry, not through building more bombs and missiles. That is a priority that I think is overdue for change in this country. Indeed, in the public opinion polls that Dick Nanto mentioned – I have seen two of them now – people put the Soviet Union in second place when asked which country poses the greatest long-term danger to U.S. national security. I think we, as a country, have been much too slow in understanding the importance of industrial strength in terms of determining both domestic standard of living and international position.

There is no doubt about it. If our position in industry and high-tech erodes, our standard of living will continue to erode. Part of our standard of living will erode because of the fantastic external debt that has been built up.

Somebody mentioned that Japan has replaced the U.S. as the world's number one creditor country. What needs to be added is that the U.S., in just a few years, has moved from being the number one creditor country to being the number one debtor country, and there is still no end in sight in terms of our dependence on foreign capital inflows to pay for our consumption binge. For a world power, this puts our continuing strength, stability, and common sense in question. We are not going to solve that problem by exporting more chicken parts. What we must do is export more manufactured goods and consume less, a situation that has not yet emerged on the horizon.

The most important thing in dealing with Japan in trade is market access, most specifically for high-technology goods. I frankly am not all that concerned about exports of our primary products and low-technology industrial goods. The real economic future of this country is in high-tech. That future, I believe, is at risk to the extent that our high-tech industries do not have a clear and open shot at selling in the large Japanese market.

I think one major trade lesson of the 1970s in terms of U.S.-Japanese trade relations is, if you do not challenge your Japanese competitors in their home market, sooner or later they are going to eat you for lunch. Operating from a protected home market, it has been demonstrated empirically time after time, has helped Japan to increase its industrial strength and has enhanced its ability to literally wipe out whole industries in the U.S. So that I, for one, am not interested in turning the other cheek when it comes to Japanese trade barriers on the grounds that this may insult the Japanese, anger them, turn them neutralist, or whatever other red herring you want to throw in as to the scary consequences of defending our own industrial base.

The reason that market-opening negotiations with Japan have gone on interminably is that we have been dealing with the symptoms, not the causes, of the problem. We have a country, Japan, that is ready, willing, and able to devote all of its resources to industrial strength, whereas we have been, for better or worse, devoting our priorities to national security. My argument always has been that both countries basically have achieved what they have set out to do. The Japanese have built up a world class industrial base, and we, arguably, won the Cold War. Now the question is do we turn from the Cold War with the Soviets to the industrial battles in Japan and Asia. And my conclusion is, again, we are way overdue to make that shift in priorities.

In terms of negotiations, the most important negotiating phenomenon with Japan is not Super 301 on three specific products, not some la-de-da improved structural forum looking at broad issues. It is something that was announced at the time that the Section 301 actions were taken, namely, setting up bilateral negotiations looking at Japan's internal structural impediments to trade, such as the distribution system and the whole idea that business relationships are more important at times than price differentials. These are the things that really matter, not Japan's tariffs on one item or another. And if the

U.S.-Japanese trade imbalance is not cured, we are going to hear more about managed trade, or, to use the new buzz term, results-oriented negotiations with the Japanese, which generally translates to numbers – let us get the imbalance down to a specific number.

Let me shift to the NICs. One common misconception, which happily was not mentioned here, is that the NICs are really new Japans and, sooner or later, we will be shut out of their markets. In point of fact, the trade policies among the NICs, as I see them, are relatively liberal. When it comes to countries like Hong Kong and Singapore, they are open. We have virtually no trade complaints with them. We now have fewer trade complaints with South Korea, I might point out, because the Koreans did not want to be put on the Super 301. Maybe a few American flags were burned; but the bottom line in terms of this big, bad 301 business with Korea is that, within a matter of a few weeks, the Koreans reduced the number of trade investment barriers that we did not like. There is something to be said for carrying a big stick, even if it has to be provided by Congress to an unwilling executive branch.

Another thing differentiating these economies from Japan is that they are so small that they cannot possibly dream about, let alone achieve, the kind of economic self-sufficiency, autarky, that seems to be the Japanese goal. So we have a very different set of trade interests and needs in these countries. The trade barriers simply are not as bad as they are in Japan, and I believe that the idea that they can somehow present an across-the-board competitive edge is wrong.

The one other point I might add after listening to my colleague, Professor Prybyla, is that he seemed to be giving an undiluted speech on behalf of the capitalist system. Let me suggest that what we have, to some extent, among many of the NICs, as well as in Japan, is what I might call "capitalism plus." If anybody believes that it was only the invisible hand that promoted economic growth and success in Japan and countries like South Korea and not government involvement, I think that person is just extremely naive. It was not pure market mechanisms that helped Japan and South Korea and some other Southeast Asian countries get where they are today. It was a unique ability of a government to work constructively with the business sector, instead of destructively.

Turning quickly to China, I think the interesting issue here is the question of economic sanctions. For an economist, this is a terrible

dilemma because you have a couple of very, very difficult questions. One, can you get other countries to join in, can you get a multilateral set of sanctions that actually work? The one economic conclusion about economic sanctions is that they do not work and will never work if just one or two or three or four countries are imposing sanctions. But that brings up a subordinate question.

I, like other people on the panel, I am sure – well, I can only speak for my colleague here who mentioned it specifically – find what is happening in China repugnant. The idea of students beginning to be executed is absolutely repugnant. Do we take the moral high ground and go it alone? If Japan and Western Europe do not want to give up efforts to sell in a fantastically lucrative and big market, there is going to be a moral and political dilemma. It will not be a question about achieving economic goals if no one else wants to join the U.S. in making a statement about internal political events in China.

Let me switch next to the issue of free trade areas. Here, I have to throw some brickbats at Mr. Brick because I do not really subscribe to the idea that regional and bilateral free trade agreements are the ideal. I think when we get to the subject of free trade agreements, they are very definitely second best. I have to revert to economic theory and say that, what we really want on a first-best basis is to have a multilateral trading system that has so few trade barriers that you do not need bilateral free trade areas. The only thing that really makes much economic sense in having regional or bilateral free trade areas is when there is so much protectionism in the international system that you want to reduce trade barriers selectively for favored trade partners.

For political reasons, some of these bilateral things make sense. For economic reasons, some of them make sense, such as the U.S. and Canada, Australia, and New Zealand, or the BENELUX countries. There are some countries that are just naturally free trade area candidates.

When it comes to ASEAN, let me suggest and not claim, because I do not absolutely know this, that the ASEAN countries have made very, very little progress in moving to a free trade area, simply because there are economic, as well as political, impediments, making free trade easier said than done.

But on an ad hoc basis, I have no problem with free trade areas. To set them up as some kind of ideal, I do not see. Second best, yes, if the Uruguay Round trade negotiations should fail.

One lever the U.S. can use on the Europeans or anybody else who is trying to delay agreement in the Uruguay Round of multilateral trade negotiations is simply to announce that, if we do not have a multilateral agreement to make more progress in dismantling worldwide trade barriers, we, the U.S., will start to pursue bilateral agreements left and right.

Just to conclude, the last bilateral agreement that the U.S. should consider is Japan, because that is a country whose capitalist system is very different from ours. And to be succinct, the idea that, somehow, our two systems are a natural fit for a free trade area, I find laughable.

Mr. Allen: I would again like to try to structure the discussion a little bit, and then open it to questions. There is a recurring theme throughout the presentations this morning, and that is "what is the proper role of government?" I alluded earlier in the first panel to the problem of lack of organization of the U.S. in terms of being able to manage, develop, and implement international economic and trade policy.

There was at one time, created in 1972, a Council on International Economic Policy, and it was to have roughly the same status as the National Security Council at the White House. It was abolished in 1976 as an economy measure by President Carter, but only after it had been reduced to insignificance by turf battles conducted by the State Department and the Treasury Department, because both recognized CIEP to be a major threat to what were considered to be respective territories of each department. So, by silent, or perhaps tacit, agreement, the organization was rendered ineffective. It was neutralized. It has not been recreated, so we have returned to the old pattern in which the U.S. now deals with international economic and trade policy, for example, with about 60 different agencies, subcommittees, groups, commissions, and whatnot. Virtually everyone has a say.

The Reagan Administration was not able to organize it effectively and we have seen no signs that this Administration will be able to organize effectively. But being able to organize effectively really just

addresses the question of what kind of environment the U.S. government should create to allow progress toward free trade in open markets.

The question that I have is that this environment has not yet been developed. We do not have a clear definition or a notion of what the government should do without dirigiste, statist, centralized measures. And I wanted to respond almost immediately to Dr. Cohen's remark about turkey parts and demeaning small producers. That is not the lament. The lament is that smaller groups and pressure groups, as far as I see it, are able to mobilize incredible pressure on behalf of a very narrow sector. No one denies the importance to turkey part producers of exporting turkey parts. But when these issues come to dominate the trade relationship in a bilateral relationship with a country like Taiwan or, as it were, tobacco or citrus with Japan, the atmosphere is distorted, and emotionalism achieves a momentum of its own on an issue that really is marginal in the total picture.

And of course, we should be concerned to batter down individual trade barriers. Every component of our export picture, in my view, is very important.

You mentioned that corporations are just not with it, and therein lies another aspect. We have heard for many, many years of the rejected complaints of the U.S. government accompanied by an explanation, say from Japan, "Your corporations are not willing to be in this market for the long term." That is true. An assignment abroad is almost an assignment to oblivion for a young M.B.A., say, from Harvard or any other business school, whose career is tied to the bottom line. And so our corporate culture, the environment in which we live, in which we compete at home, is somehow asynchronous with the environment that others have. Japanese representatives are sent abroad to spend ten or fifteen years, building relationships. Those relationships are very important, maybe even more important than the political relationships.

So all of these issues come back to the question of what can the U.S. government do to stimulate and create the congenial atmosphere that will allow us to compete. I do not have the answer, but I would welcome your response.

Professor Cohen: To me, it is a question of firmly and specifically establishing priorities, establishing some semblance of a consensus

between government, industry, and labor, and setting up some general goals. I certainly would not advocate some of the more advanced aspects of industrial policy. What I am distinctly leaving out is vast pots of money to be transferred by government to industry.

To pick up on what you just said, I think that the U.S. does not view the world as our marketplace. We in this country and in the business sector work at a very big disadvantage. We are operating in the world's biggest single market. It is a $5 trillion market. We have another serious disadvantage in terms of not having a truly global business mentality. We are the one country in the world that can pay for all of our imports simply by printing money. That takes away a tremendous amount of discipline in terms of understanding the need to compete in the world. If the rest of the world suddenly announced to us, "Everything we sell to you Americans, all of your imports, will be paid for in yen, deutsche marks, Swiss francs, et cetera," you would see a big change in the focus of business and government in terms of dealing with the realities of the international marketplace.

Believing that you have to go overseas if you are going to succeed career-wise or even company-wise obviously is practiced by a number of companies. I do not want to be accused of generalizing. You have, for example, the IBM model so that there are some American companies that long ago became globalized. But I still think, generally speaking, both in Washington and in industry, that Americans are behind on the globalization curve. What we need to do is develop some kind of general consensus about how far behind the curve we are and how we catch up with it, because the Asians are just going to be pulling further away from us economically until we get our own act together.

Mr. Allen: Would any other panelists like to comment or engage?

Dr. Nanto: In talking to American businessmen, it actually is quite amazing to hear them describe what they have been doing to try to become more international, even though they probably are not as internationally minded as companies in other countries. If you talk to people like those at Xerox, they speak of the international trade revolution. And indeed, they have become much more open to outside technology, outside ideas, and much more competitive internationally than they were as recently as ten years ago.

The problem, however, is that most companies are measuring their progress by an internal benchmark. They are saying, "We are producing 8 percent more this year than we did last year," or "We are exporting 20 percent more to Japan this year than last year," when actually they need to compare their progress with how the rest of the world is doing. One of the big surprises at Xerox was that, even though they found their productivity increasing by 8 percent per year, in order to stay competitive with the Japanese photocopy machine producers, they would have had to increase their productivity by 20 percent per year. That was a large shock to them.

Dr. Prybyla: I just want to pick up on my singing the praises of capitalism. I am, because, as Churchill once said, "Democracy may not be a perfect system, but it's the best there is." I think capitalism fits that description. I prefer to call it a "market system" because, for one thing, when you talk about capitalism in Europe, you get funny reactions from people.

I thought the question of governmental intervention in the market system had been settled in 1776. If you reread the *Wealth of Nations*, you will find that, essentially, capitalism is what people do when you leave them alone. When you leave them alone, they buy and sell. They also cheat. So you have to have somebody to prevent them from cheating, and that is the government's function; that is one of them. Adam Smith noted several other functions.

We also know that market failures occur. Nothing new here. I refer you to John Stuart Mill's *Principles of Political Economy* (1848). That has been settled long ago. Of course, *laissez faire* does not mean to leave alone completely; it means simply that the government should not take over, that it should intervene on behalf of the market to strengthen the market, that when the market fails, it steps in, preferably with the aid of indirect corrective means. So I think perhaps under this definition of capitalism we are not all that far apart.

Mr. Brick: If I might, free trade agreements seek to remove politicians from economics. I think that is the most compelling argument for their implementation. You are absolutely correct, however, in saying chicken parts are important to certain special interests and that therefore they must be addressed. But please note, Dr. Cohen, that FTAs do address such interests.

In the U.S.-Canada FTA, just for interest, there is a famous annex: Annex 706 FTA. I am going to read it really quickly, if I might. It says, "Without limiting the generality of subparagraph 1a, chicken and chicken products does not include chicken cordon bleu, breaded breast of chicken breast cordon bleu, chicken Kiev, breaded breast of chicken Kiev, boneless rock cornish with rice, stuffed rock cornish, boneless chicken with apples and almonds, chicken Romanoff regale, chicken Neptune breasts, boneless chicken panache, chicken TV dinners, old roosters and spent fowl commonly called stewing hen." This U.S.-Canada FTA took into consideration their special interests. It was all GATT compatible, and I might also add it was nondiscriminatory because they included a provision on turkey.

Guest: Carl Delfeld, Joint Economic Committee. I would like to direct a question primarily to Dr. Prybyla, but I would also be interested in all the others' commentary. It is a follow-up on a point that Professor Cohen stated. You named the four different systems, one being the nonmarket system or nonsystem and one being a market system. What about Japan? How much is it market driven and how much of the progress that is made is due to the fact that parts of it perhaps may be a nonsystem?

Dr. Prybyla: Well, the short answer is that Japan is a market system, that it belongs to the market system family, with specific cultural infusions and a fairly advanced involvement of government, which acts in support of the market, not against the market. The government of Japan gives a very broad interpretation to market failures and deficiencies. But, basically, Japan is a market economy, just as the Soziale Marktwirtschaft of West Germany is market economy. "Soziale" is an adjective and "Marktwirtschaft" is the noun. So that is my short answer.

Dr. Nanto: Yes, I would agree with that. The main areas where Japan intervenes now in the market economy is with the new industries and the old industries. There is a broad range of middle industries where the government is fairly laissez faire. In high technology, as Mr. Cohen was mentioning, and industries like shipbuilding and soda ash and aluminum that are declining, the government does intervene. But by and large, most business decisions in Japan are made by business

executives working under the guidance of the government, mainly doing what is best for them.

Mr. Brick: I have a question for Dr. Prybyla. I was wondering if you might be able to comment on the events in China and further expand on a notion I have been thinking about. The most imminent challenge that China will be facing after these scores in Beijing are settled may very well be an economic crisis. To what extent has economic reform over the last decade already lent to a kind of fragmentation, political and economic, in that country? And might this be a precursor to the kind of China we will see after Deng Xiaoping is gone?

Dr. Prybyla: I have addressed this question in the January-February 1989 issue of *Problems of Communism*. I think what has happened is that what China has today is a state of nonreform. It has dismantled enough of its centrally planned economy for the administrative levers not to to work any more. For example, the administrative decentralization of decision making to the level of provinces and municipalities, and even lower, has gone so far that, when the center tries to reestablish administrative sanctions on the local authorities, the sanctions do not work any more unless one of your relatives is in charge down below, and maybe not even then. The coastal provinces go their own separate ways. They say, "Well, let's sit it out until the emperor in Beijing is tired of telling us what to do."

Market levers, the market institutions of coordination are not strong enough or integrated enough to work. Besides being incompatible with the remnant institutions of the central plan, they are just not developed and linked together enough. A system means integrated market institutions. They have to fit together like pieces of a watch. You cannot put a noodle in a watch, instead of a watchspring; it will not work.

A noodle goes in a soup; that is where it fits. Likewise, these institutions must work together. And so neither the market institutions nor the command institutions perform their functions any more. And I think one of the problems will be how are they going to fight inflation with insufficient, incompatible, unintegrated control levers. Inflation last year was officially put at 18 percent; really it was 30 percent; but really, it was nearer 60 percent. How are they going to stop that if they do not have these instruments? That may lead to urban unrest, not just

among students, but among workers who are dissatisfied with having their living standards eroded.

Mr. Allen: Obviously, there are many, many interesting topics to discuss in great detail. As one who is out on the hustings frequently and watching this competition in Asia, I must add that there is another aspect that needs to be considered, but we have no time for it. That is the fact that the European nations, themselves, are gearing to compete in Asia for Asian markets. This is something that we have not yet comprehended; perhaps even the Asians have not. But it is going to happen and it is going to make our task all the more challenging in the 1990s.

Keynote Address

The Need for U.S. Leadership in Asia

Dr. Feulner: Good afternoon, ladies and gentlemen. Once again on behalf of my colleagues here, at the Heritage Foundation, it is my pleasure to welcome you to our daylong conference on U.S. Policy in Asia, the Challenges for 1990. I would particularly like to extend a warm welcome to all of our ambassadors and friends from the Pacific area and their representatives who were able to attend this session of the conference. I know that all of you have maintained close relationships with my colleagues at our Asian Studies Center, particularly our director, Roger Brooks, and we look forward to your participation in our conference and to maintaining our contacts with you in the months ahead.

This afternoon, I have the honor to introduce the Vice President of the United States as our keynote speaker. Vice President Quayle is someone we, at Heritage, have long admired and with whom we have worked closely since he first came to Washington as a member of the U.S. Congress. In 1976, he was elected to the Congress from Indiana's Fourth Congressional District, defeating an eight-term incumbent Democrat. He won reelection the next time with the largest percentage margin ever achieved in that district. In 1980, he became the youngest person ever elected to the United States Senate from the State of Indiana, defeating a three-term incumbent Democrat. In 1986, he was reelected, again by a record margin. And, of course, in 1988, he was elected Vice President of the United States. On January 20th of this year, he was sworn in as our 44th Vice President.

As Vice President, he serves as President of the Senate, a duty in which he has been engaged very recently, and is a member of the National Security Council.

Mr. Vice President, we at The Heritage Foundation have been very encouraged by the Bush Administration's interest in establishing a strong Asia policy. Just one indicator was the President's trip to Asia to attend the funeral of Japanese Emperor Hirohito in February and

his follow-on visits to the People's Republic of China and the Republic of Korea; also, sir, your trip earlier to American Samoa, Australia, Indonesia, Singapore, and Thailand, which helped to reaffirm your support for our friends and our allies in the region.

I am told by my colleagues in our Asian Studies Center that many of the countries where you traveled were so impressed that, as recently as just last week, the *Djakarta Post* in Indonesia was still carrying pictures of your visit to that country which took place some seven weeks earlier.

On that trip, the Vice President used his visit to discuss issues ranging from aid to the noncommunist resistance in Cambodia to assistance for Indochinese refugees. And since that trip, I understand that Mrs. Quayle has taken a particularly keen interest in the plight of the Indochinese refugees.

Mr. Vice President, I would like to express our admiration for the work you have done in the first six months of this Administration, particularly in highlighting the importance of Asia to the United States. We also are heartened by the fact that there is so much agreement between the Administration and our Asian Studies Center in providing both lethal and nonlethal support to the Cambodian resistance. I know you will be saying more about that in your remarks.

We are grateful for your willingness to come today and address our conference, and I am pleased particularly that, following your remarks, you have agreed to entertain questions from the audience.

Ladies and gentlemen, it is my pleasure to present to you the Vice President of the United States.

Vice President J. Danforth Quayle: I am delighted to be here today to discuss U.S. policy toward Asia. Asia and the Pacific are very much in the news. With the tragic events unfolding in China, our attention is cast toward events in the Far East.

The Pacific region includes half of the world's people and two-thirds of the world's GNP, and it continues to be the fastest growing region in the world. Japan is now the world's second largest economic power, surpassing the declining Soviet Union.

President Bush understands the importance of Asia and its economic, political, and security relationship to the rest of the world. Indeed, the Bush Administration is the first Administration in history

to have both the President and Vice President visit the region in the first 100 days of an Administration.

I would like to focus my remarks on the question of regional security in Asia and its relation to democratic and political development. In particular, I want to address one of the key issues I discussed with Asian leaders during my visit: the current situation in Cambodia. I am afraid that there is a great deal of misinformation floating about regarding our assistance to the Non-Communist Resistance and the Bush Administration's policy toward Cambodia. I want to set the record straight. But first let me briefly lay out some of the key principles underlying our Asia policy in general.

Since World War II, the U.S. has been deeply engaged in Asia, helping to defend our allies while promoting peace and stability throughout the region. Formal bilateral security relationships with Japan, the Republic of Korea, Thailand, the Philippines, and Australia, along with informal cooperation with other free world nations, have made an immense contribution to the stability of the region, and have been a vital factor in our global deterrence posture.

One of the key themes I stressed in both my public and private remarks in Asia was the need for the U.S. and our Asian allies to maintain our commitment to collective security. As the Soviet Union takes its first faltering steps toward democracy, as it begins to be interested in contributing constructively to settling international disputes, there may be a tendency to neglect our common defense, and to ignore the need to nurture our alliance relationships.

I am firmly convinced that we must resist the temptation to dispense with our defense capabilities. Rather, we must prudently watch to see if Gorbachev's peace rhetoric in the Pacific is matched by deeds that lessen the Soviet threat. We must adopt a long-range perspective on the Soviets that is hopeful, yet cautious. Although there are encouraging signs of change in Soviet policies, these changes have not been uniform and, with the exception of the Sino-Soviet border, there has been no substantial reduction in the overall Soviet threat, especially in military capabilities in the Northwest Pacific. The Soviet Pacific Ocean fleet still numbers 871 ships and craft. As long as this remains, so does the need for preparedness.

This message was well received and was supported by my Asian hosts. My basic impression was that the leaders of the Pacific Rim –

men like Bob Hawke of Australia, Lee Kuan Yew of Singapore, and President Suharto of Indonesia – have a very shrewd and realistic appreciation of the Soviet threat. They are not about to be swept away by euphoria. They recognize that the Soviet Union is interested in sharing in Asia's economic boom and in increasing its access to the region, and has moderated its behavior accordingly. But they also recognize that the Soviets continue to modernize their force projection capabilities in Asia and the Pacific, where the largest of the Soviet fleets remains stationed. And they understand that the jury remains out on the question of the durability of the Gorbachev reform program and the extent of fundamental change in Soviet intentions.

For these reasons, the U.S. must continue to maintain an active role and presence in the Pacific. The U.S. must remain a Pacific power, the fundamental guarantor of regional stability.

We must continue to work closely with our Asian friends and allies to support the structure of collective security that has developed in the postwar years. The linchpin of this collective security system is Japan. The health of the U.S.-Japanese relationship will remain vital for ensuring security and stability in the region. The U.S. will also continue to cultivate its security relationships with traditional friends such as Australia, Thailand, and the Philippines. And we will work hard to develop mutually beneficial relations in the security area with other friendly nations in the region.

We must never forget that security cannot be divorced from politics. Security relationships can only flourish where there are shared political values and institutions. Therefore, the fostering of long-term democratic development in Asia and the Pacific must be seen as a central objective of our approach to collective security.

In East Asia and the Pacific, we have witnessed a continuing evolution toward greater democracy and political openness. In the Philippines, Korea, Taiwan, and elsewhere, democracy continues to advance. Fiji is on the way to restoring constitutional democracy. In Burma, too, a desire for political renewal is evident, even though the forces of authoritarianism continue to rule. In short, there has been an encouraging expansion throughout Asia of values that we Americans share, values that serve to strengthen our partnership and cement our friendship with the nations of the region.

Of course, the great exception to this heartening regional and global trend is China. It is our duty to denounce the brutal suppression of popular and peaceful demonstrations in China. It is our obligation to condemn the Orwellian inversion of truth that is now being spread about the events around Tiananmen Square.

The simple truth is that, by and large, the demonstrators in Tiananmen Square and throughout China were Chinese patriots. They advocated basic human rights, including freedom of expression, freedom of the press, and freedom of association. These are rights that we support around the world. As President Bush has stated: "Throughout the world, we stand with those who seek greater freedom and democracy. This is the strongly felt view of my Administration, of our Congress, and, most important, of the American people."

For this reason, the American people are shocked and outraged by the recent executions in China. We urge the government in China, in the strongest possible terms, to end these executions now. We further urge the Chinese government to end the wave of violence and reprisals against those who have called for democracy.

We, of course, have major strategic interests at stake in China. We would not want to see a reversion to the situation of total hostility to the West of the 1950s, or to that of the 1960s, when China promoted "national liberation wars" and posed a threat to its neighbors. China's opening to the West has contributed to stability in the Pacific region and the world – and, indeed, to reform in China itself. We and the Chinese continue to share fundamental strategic interests, and we each can only lose if this relationship continues to deteriorate.

The recent events in China have caused deep concern among the American people and have disrupted our relationship based on this common strategic interest. The Chinese leadership must judge where its strategic and economic interests lie. We urge the Chinese leadership to consider the effects of what they have done and are doing. We would respond appropriately to such positive developments, and our common interest in global peace and stability would be served.

Now I would like to talk about Cambodia, and about the Administration's policy in support of peace and democratic development in Southeast Asia. As you know, Vietnam invaded and occupied Cambodia in late 1978. At the time, it seemed doubtful that the victorious Vietnamese could ever be induced to go home. Now, how-

ever, Vietnam has indicated that it will withdraw its forces from Cambodia by September 30. We continue to hope that progress can be made in negotiations among the Cambodian factions toward agreement on an interim coalition government under Prince Sihanouk, which will lead to free elections and genuine stability in Cambodia and prevent the return to the Khmer Rouge "killing fields."

In the past, the U.S. has worked closely with the ASEAN nations as well as with China to bring home to Vietnam the diplomatic and economic consequences of its domination of Cambodia. The ASEAN leaders agree with our position that the Vietnamese-installed Hun Sen regime cannot be allowed to monopolize power after Vietnamese forces have withdrawn. A one-sided settlement would make continued civil war almost inevitable. At the same time, the communist Khmer Rouge, who are responsible for the deaths of 20 percent of Cambodia's 1975 population – some million and a half persons – must not return to dominance. The only realistic and satisfactory alternative is a transitional coalition government headed by Prince Sihanouk, in which the Non-Communist Resistance – the groups headed by Sihanouk and Son Sann – would play a key role. This coalition would establish the framework of a new, noncommunist state and organize elections that would offer the Cambodian people an opportunity to decide their own future.

To deal with the twin dilemmas of the Khmer Rouge and the Hun Sen regime, virtually every government supports an international presence under U.N. auspices to verify the Vietnamese withdrawal, police a ceasefire, and supervise elections in Cambodia. The only exceptions are Vietnam and its Cambodian client. Even Moscow at times has appeared willing to accept an international presence, with the caveat that it must be acceptable to Hanoi and Phnom Penh.

The U.S., ASEAN, China, and our allies in Europe and Japan welcome steps that will hasten a true, complete, and internationally verified withdrawal as a real contribution to a comprehensive political settlement in Cambodia. U.S. policy toward Cambodia has consistently called for such a withdrawal, along with effective measures to prevent the return to power of the Khmer Rouge. And the U.S. looks forward to eventual normalization of relations with Vietnam in the context of a genuine withdrawal and an acceptable settlement in Cambodia. The pace and scope of the normalization process, of course, will be affected

by Vietnam's cooperation with the U.S. on humanitarian issues, including the POW/MIA issue.

The best opportunity for preventing a return to power by the Khmer Rouge is a comprehensive settlement that includes a Sihanouk-led interim coalition government and an international presence to monitor and supervise elections and keep the peace. No single element can do the job alone. Our policy is designed to create the full range of stabilizing and restraining elements needed for a comprehensive settlement. However, the most important single element is strengthening the Non-Communist Resistance in as many ways as possible. For this reason, the Administration has asked Congress to authorize additional aid to the Non-Communist Resistance. The purpose of such assistance is to increase the political strength of the Non-Communist Resistance in the peace process while simultaneously giving it the strength to hold its own in the event of a Khmer Rouge attempt to seize power.

Yet instead of endorsing greater assistance to the Non-Communist Resistance, some in Congress have opposed it. They have challenged the Administration to make the case for more assistance in a public forum. Well, this is a public forum, and I would like to lay out the case for strengthening the Non-Communist Resistance in Cambodia.

The basic rationale for such a policy is straightforward. At this moment, the forces of the murderous Khmer Rouge are heavily armed, thanks to China's assistance. The forces of the Hun Sen regime are even more heavily armed, thanks to Soviet and Vietnamese assistance. Under these circumstances, surely the noncommunist forces deserve the assistance of the West. Surely we should act to prevent the Khmer Rouge from returning to power. Surely, as Americans, we have a compelling moral responsibility to do what we can, short of direct intervention, to provide the wherewithal for the Cambodian people to have a genuine choice in determining their future.

Bear in mind the political context in which this assistance would be undertaken. In about a month, important negotiations will take place that will shape the political future of Cambodia. We are committed to doing everything in our power to ensure that these negotiations do not result in a situation in which the Khmer Rouge will again be in a position to dominate Cambodia, whether politically or militarily. By strengthening the Non-Communist Resistance, we would be increasing the prospects for a successful political, negotiated, outcome; by doing

nothing, we would increase the likelihood of continued civil war and the potential for a return to power by the murderous Khmer Rouge. Unless Sihanouk is strong enough militarily and politically, he will not be able to hold the center of the Cambodian political stage long enough to ensure a free and fair election.

In recent months we have seen many reports portraying Hanoi's invasion-installed PRK regime as beneficent, reforming, and popular. If Hun Sen – a former Khmer Rouge commander – is as popular as his press reviews claim, he has nothing to fear from going to the polls and substituting ballots for bullets in an internationally supervised, properly prepared election. If the PRK is as strong as it claims, an election victory will give it the legitimacy it so visibly lacks and badly needs.

Let there be no mistake about this crucial point: it is the absence of a negotiated agreement, not our assistance to the Non-Communist Resistance, that increases the prospects of civil war. By aiding Prince Sihanouk and the Non-Communist Resistance, we will be encouraging a political process that will bring Cambodia's civil war to an end. By withholding aid, we will only make continued civil war more likely.

But our congressional critics accuse the Administration of seeking to promote "instability" in Cambodia. They forget that the best guarantee of stability is a negotiated settlement, and that aid to the Non-Communist Resistance will help bring about such a settlement. They claim that, by aiding Prince Sihanouk and the Non-Communist Resistance forces, we become indirect accomplices of his Khmer Rouge partners. They forget that our assistance to Prince Sihanouk is designed to make it possible for him to be independent of the Khmer Rouge without becoming a prisoner of the Vietnamese-sponsored puppet government. Prince Sihanouk's children were murdered by the Khmer Rouge. Does anyone seriously think that he needs instruction on how dangerous and odious these people are?

Critics claim that anything given to the Non-Communist Resistance will fall into the hands of the Khmer Rouge. In a single instance in the past, when the Non-Communist Resistance was dreadfully weak, a larger Khmer Rouge unit surrounded and disarmed a woefully outnumbered noncommunist unit. However, this no longer happens – not because the Khmer Rouge have suddenly become genteel but because the noncommunist units are now large enough and well armed enough to defend themselves in most cases while operating inside Cambodia.

Critics warn that by strengthening the Non-Communist Resistance we are headed down a "slippery slope." They forget that we have in fact been providing substantial amounts of assistance to the Non-Communist Resistance for years. This assistance has not led us back into direct involvement in Indochina. It has contributed to a policy of seeking a comprehensive, political settlement for Cambodia. Further assistance is a means of bringing about such a political settlement.

Finally, critics claim that the Administration is trying to avoid congressional scrutiny. How much more openly debated can the policy become? When members of the House of Representatives vote on H.R. 1655, The International Cooperation Act of 1989, they will be voting on a section entitled "Assistance for the Cambodian People," which specifically authorizes a variety of forms of assistance to the Non-Communist Resistance forces. Virtually identical language has passed both houses of Congress since 1985, but given the debate in the newspapers and elsewhere, the vote this year will provide an opportunity for individual members to stand up and be counted before the bar of history. Will members of either party in either house vote down the concept of meaningful assistance to the noncommunists and thereby risk a return to power of Pol Pot's genocidal regime?

But, in fact, what underlies all these criticisms of our policy and the Non-Communist Resistance is a deeper fear – the fear of "another Vietnam." The unacknowledged but all too tangible presence in the debate over Cambodia is the ghost of Vietnam. But, my friends, it is now time to lay this ghost to rest. President Bush noted in his Inaugural Address: "No great nation can long afford to be sundered by a memory." Similarly, no great nation can long afford to be paralyzed by a memory. We must not permit the Non-Communist Resistance in Cambodia to become the last casualty of the Vietnam War.

The situation in Southeast Asia today is very different from that of the late 1960s or the early 1970s. We have learned many things since 1975, the year Saigon fell to the armies of the North Vietnamese communists. We have learned that the coming of "peace" to Southeast Asia did not bring an end to suffering and injustice for the people of that region. Few of the critics of American involvement in the Vietnam War later found the time to pay much attention to the horrors inflicted on the peoples of Indochina by the communist regimes in Hanoi and Phnom Penh. Few had the courage to admit they may have been wrong

in their assessment of the moral calculus of the situation in Southeast Asia.

At the same time, we have learned that there are limits to America's ability to assist others achieve and defend free government. We have learned that the U.S. cannot fight others' battles for them.

But we have also learned that we have every reason to be confident in the ultimate triumph of freedom. The Vietnam experience damaged our confidence in American values and institutions. But over the last eight years, our confidence has been restored. And indeed, as we look at Asia and the world today, it is clearer than ever before that the future does not lie with Soviet communism or its Asian variants. To a degree that would have seemed astonishing even a decade ago, democratic ideals are on the march in Asia.

Let me conclude these remarks by reaffirming this Administration's determination to remain engaged in Asia – engaged for peace, for freedom, and for democracy. Our role in Asia's attainment of these goals remains vital. And that is why it must continue.

Guest: Good speech, sir. Two questions if I may on Mr. Hawke. I know you will be seeing him Saturday. How do you intend to defuse the tensions with him, especially over the trade issue?

Vice President Quayle: When I was in Australia, we had a very good visit. We had direct talks. We have our position as far as trade is concerned, and our trade policy is not incompatible with what Prime Minister Hawke's trade policy is. As a matter of fact, Australia has been very, very cooperative with us and with our other trading partners around the world in demanding and knocking down barriers and having more open and free markets. There may be minor disagreements on particular points, but overall we are very, very compatible with the policies and the principles of Prime Minister Hawke and the government of Australia.

Guest: Could I ask a follow-up, sir? Recently, the Soviets indicated their desire to join various Pacific Basin economic organizations. On your recent trip, did you discuss Soviet participation in these organizations and what were the attitudes of the different leaders?

Vice President Quayle: The attitude is that the Soviet Union would not be participating in these economic forums. The Soviet Union does not have a lot to offer in the area of economics. It has a lot to offer in the area of military. They are a military power; they are not an economic power in the true sense of an economic power. And we feel that the forum would not be served at this particular time by including the Soviet Union.

Guest: Gorbachev reportedly told Secretary of State James Baker that the Soviet Union was ready to cut off military support in Nicaragua. My question to you, sir, is have China or the Soviet Union given any indication that they would cut off support to their clients in Cambodia? Do you know if there is any reason to suspect that maybe that is what is driving some of the people in Congress who do not agree with you and me, that we ought to increase support for the noncommunist forces?

Vice President Quayle: I think what is driving the people in Congress is primarily the concern of the U.S. being involved in a negotiated political settlement in Cambodia. It is far away. Very few members of Congress have been there. Interestingly, those who have been there, like Steve Solarz, are very involved and hold a position similar to mine. They think that it is far away, it is of low priority, but it is very important for us to strengthen the hand of the Non-Communist Resistance. Many in Congress say that they are fearful that the Non-Communist Resistance is somehow connected to the Khmer Rouge and, therefore, do not want to help. Well, their association is that both are on the outside of Cambodia. But let me tell you, the noncommunist resistors have an entirely different policy agenda than the Khmer Rouge. And our position is adamant that the Khmer Rouge not return to a position of power in the new government.

And what is rather interesting is that those who argue that we should not fund the Non-Communist Resistance because of the possible coordination and communication with the Khmer Rouge, that policy if it succeeds will help the Khmer Rouge because if, in fact, we do not get additional aid to the NCR, then the Khmer Rouge political power will be enhanced and it will be increased. And many of the critics of the Congress will therefore not be able to achieve their goal and their goal

is the same as ours, that we do not want the Khmer Rouge to return to any position of power. And if that is their goal, and I take them at their word, they need to strengthen the hand of Sihanouk, Son Sann, and the Non-Communist Resistance because if they do not, the Khmer Rouge will gain strength, the Khmer Rouge will have more of a possibility of returning to power in that country and that would be counterproductive to anybody's agenda. And I think that is what lies behind many in Congress as they question and criticize our policy in Cambodia.

Guest: Mr. Vice President, regarding China, the Administration's position has been that our government and all the governments of the world should basically decry what happened there, and we have done so and put pressure on the Chinese to show how abhorrent their behavior has been. And Beijing has basically now said that they do not really care about that and that everybody should just stay out of it because it is not going to make any difference to them what everybody else says or does.

In light of that, does the Administration have any idea that maybe that is just bluster and that, in fact, they will be responsive? And if not, what is it going to take for the President, what more is it going to take for the President to treat them as he does, say, Nicaragua or other governments that we consider oppressive and where we take really more stern trade measures and cut off diplomatic ties?

Vice President Quayle: Nicaragua is not China. China has a billion people. It is strategically located. It is a country in which we want to see an improvement in relations, rather than a deterioration of relations. Certainly, we will continue to deplore and to condemn not only the violence, but the executions of people who demonstrated for democracy.

I believe that the President has taken very prudent, but tough, measures in response to the situation in China. Let us recall a few of them. First, no visits by high-level officials of our government, denying the transfer of military trade and military technology and communications on a military-to-military basis, postponement of money and financial resources in the international financial institutions. Those are very direct measures taken with a great deal of prudence.

This President will continue to move seriously, but carefully. He is not going to be pushed into doing something that he will regret down

the road. He knows China very well. He is an expert on this situation. He has as much information about China, present and past, as anybody. And the course of action that he is on right now I think is a very careful, prudent, and proper course.

Mr. Allen: Mr. Vice President, six million people in Hong Kong are looking with anticipation at the events in China and the possible implications for them. Most of those people did not originate in Hong Kong, but came from Mainland China. Do you foresee any reconsideration by the British or even by the U.S., although we have no power to determine the outcome, of the basic agreement arrived at between the British and the Chinese with respect to 1997?

Vice President Quayle: 1997 is less than a decade away. Clearly, the events of China have shaken the people in Hong Kong and shaken people around the world. We do not have any direct policy that is going to interfere or intervene between the United Kingdom and China on the issue of Hong Kong. Hong Kong has been a real bastion of growth, of opportunity. The people there have a spirit of entrepreneurship that has been very successful. Clearly, the recent events in China are most disturbing for them because of their proximity and because 1997 looms much closer. Hopefully, things will work out to be good for everyone, but it is a serious situation, one that we will monitor.

Guest: You speak of a U.S.-led collective security system in Asia. I am not aware of such a system. We have a series of bilateral defense arrangements with a number of Asian countries, Japan and others. What is your concept of a collective security system in Asia? Would it be, for instance, similar to NATO, which is a collective defense arrangement, not a collective security arrangement, or would it be something more than that, such as we have in the United Nations? Are you proposing something military or what are your options?

Vice President Quayle: We do have a number of bilateral relationships, Japan, Thailand, Philippines, Australia, just to name a few. We have obligations in a legal treaty sense. When I talk about collective security, I am talking about it in its broadest context. Collective security, in essence, peace, stability, economic development, and political development. Collective security, first and foremost in that region of

the world, means that the U.S. must be engaged, that the U.S. must be engaged in Asian affairs, Pacific affairs. There are many who have decried the fact that we are engaged, that it is too far away, that we do not understand the culture, and therefore, why should the U.S. be engaged. Well, I can tell you why we are engaged.

First, because it is in our interests. This also happens to be in the interests of those governments and those peoples who want to see peace, freedom, economic and political development. Collective security is, in its broadest sense, getting our allies and friends of democracy and friends of peace together to create a stabilizing situation, and that means engagement. Clearly, there are discussions of new forums that are emerging in the area of collective security. One of the things that Prime Minister Hawke has been talking about for quite some time is a Pacific forum in which we would be included, which deals with the economic side of the ledger and with trade talks between the countries involved. That is certainly one aspect of collective security.

And as I mentioned, collective security is one of the issues and challenges that we face for the remainder of this decade as we march toward the 21st century, and it involves the relationship between the U.S. and Japan, particularly as Japan has emerged now as the second economic power in the world, surpassing the Soviet Union. This means additional responsibilities for Japan in this area of broad collective security. And our relationship and how we go about furthering peace, furthering economic and political development with our friends and our allies in that region of the world is very much in our interest and in the interest of the world. It is a very important area with its vast numbers of people and growth opportunities. And when I'm talking about collective security, I'm talking about engagement in a broad sense by the U.S., trade, economic, peace, freedom, That is what I mean by collective security, and we must in fact work it out.

Guest: In Cambodia, how much of a role, if any, could the Khmer Rouge have in any new coalition government?

Vice President Quayle: Our position is we would just as soon not have them have any role in a coalition government. But the bottom line is that not only in a coalition government, but in any future government, they should not have any kind of power sharing where they would have

dominance. In other words, we are adamant, and so should everyone else be, that the Khmer Rouge killers not be allowed to return to a position of power. One and a half million were killed under their rule. Pol Pot and the Khmer killers need to be kept out of power. We are very clear on that in any consideration of a negotiated political settlement in terms of Cambodia.

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Panel III

Asia's Security Challenges to the U.S. in 1990

Mr. Brooks: I am Roger Brooks, the Director of the Asian Studies Center at The Heritage Foundation.

While this panel on security issues is the final panel of the day, it is far from the least important. One point that I hope the panel will explore is whether it is time for the U.S. to consider significant and far-reaching changes in its security role in Asia as it has done in Europe in recent weeks. Surely, we can expect the U.S. alliance structure in Asia to evolve, but one must ask if Washington or its Asian allies could tolerate the instability that might result from a significant reduction in our unique security commitment to Asia. One might also question whether we might have to face the situation, unstable or not, sooner rather than later, as rising nationalism could make our military presence in Korea and the Philippines, in particular, less tenable.

I also hope the panel will discuss the expectations that we recently have placed on our Asian allies to carry more of the so-called security burden in Asia and what this may mean for our own future security and that of the rest of Asia. For example, we must ask whether it is advisable to consider a vastly expanded Japanese military role in Asia. Even if we could convince the Japanese to assume this role, would it not unleash additional problems for our security planning in the regions. We might also look at the other points in the region, particularly the ANZUS Alliance, and consider whether it is still an alliance that we can save.

To address some of these issues, Dr. Dalton West of the U.S. Global Strategy Council in Washington will speak on this panel. Dalton is one of Washington's top experts on the South Pacific. He taught for several years in the region, specifically at New Zealand's Massey University. Dr. West.

Dr. Dalton West: I started out with the notion – and today's agenda quite nicely reflects this fact – that obviously there is a very significant

change taking place in American thinking about economic cooperation, trade, and security, particularly in relation to the topic of burden sharing as it applies to Asia-Pacific.

In terms of U.S. relationships with Europe, such debates are a standard aspect of the relations between the U.S. and its allies. However, alliance conditions in Asia-Pacific are quite different from what they are in Europe and there is something very different about the debate as well.

The circumstances, for one thing, are vastly different from any time in the postwar period. The U.S. has moved into a situation of a very serious trade deficit (much of it with Asia), imbalance of payments, and international borrowing. Consequently, burden sharing has become associated with international trade deficits and the burden-sharing debate has expanded beyond its European context into the Asian context. This is the first time it has become a major factor in relations between the U.S. and its Asian-Pacific allies. Unfortunately, the U.S. does not have an Asia-Pacific counterpart to the sixteen-member NATO structure. Instead the U.S. conducts its policy on essentially a bilateral basis.

The new situation has produced yet a third element – a political issue-linkage – which, although it can be seen in many places, is most readily found in the interim report of the House Panel on Burden Sharing headed by Patricia Schroeder, the Colorado Democrat, a member of Armed Services Committee. In that report we find an overt statement of the linkage and the establishment of a causal connection between the various elements. That causal linkage may or may not be reflected in the way in which the conference agenda was set up today, but certainly we have set down on the agenda items that could be causally linked in some people's minds.

However far from the truth that causal linkage may be – in other words whether or not it is true that solving the one set of problems would lead to solving another set of problems (and that we could argue about) – the plain fact of the matter is, in political terms these things are popularly linked. People are fearful of deficits, debt, and too many burdens. On the psychologist's couch, as in the political forum, things that are thought to be real are real. So today we have the political issue-linkage question of burden sharing that involves the mix of economic, trade, and military-security issues.

I cannot discuss this whole problem today, but I wanted to draw to your attention to the fact that we should be well aware that is what the larger debate is about. My job is to look at the U.S. security position as it is ordinarily defined and to suggest ways in which we might want to or need to rethink our strategic conception of security in this region of the world.

The U.S. position in the Asia-Pacific is only comprehensible in terms of the history of this country, particularly since the 1920s, and in terms of Asia-Pacific geography and military technology. The peculiar geography of this area is mostly oceanic – water links these regions and countries together and holds them apart. However, the sea should also be seen in terms of levels of technology and how this affects the different policy instrumentalities – political, economic, and military. We have to understand all of that mixture before we can make any sense of the U.S. policies for the area.

The first point in the explanation is very much related to things in the news these days. Recall to your mind those heady bipolar days at the end of World War II when the policies of containment and forward defense were first evolved. That doctrine was not oriented toward what it became oriented toward in the early 1980s, that is, more or less exclusively the Soviet Union. You have to go back to the pre-Nixon-Kissinger initiative in China and remember that the policy was thought of from the 1950s to the 1970s as oriented toward both those communist giants – the Soviet Union and China – and a number of other countries as well. Whether or not you want to reflect that history is repeating itself now in China, I do not know, but the origins of U.S. policy are certainly something we have lost sight of in the past few years.

The second point in the evolution of U.S. doctrine in the Asia-Pacific and its system of arrangements (I do not call them alliances, necessarily, since alliances are only one part of the regional arrangements) is that they were and are peacetime arrangements. Indeed, one could say peace-building arrangements. They were based on U.S. historical experience in the 1920s and 1930s, which we have also largely forgotten.

Building strong alliances and maintaining strong security arrangements in times of peace is a very difficult thing to do. Peacetime alliances are in some ways unnatural phenomena. Until very recently they were seen as a generally abnormal aspect of international relation-

ships. Unless there was some overriding and imperiling threat that drew people together, they usually did not last, except in war.

The U.S. experience of not having been more active in the Asia-Pacific during the 1920s and 1930s led to the general feeling at the end of World War II that it was partly U.S. inactivity and its isolationism that led to the Japanese resurgence. This wartime lesson was a very powerful motivator in terms of U.S. commitment to alliance developments in the postwar period. We have tended to forget that fact and the reason why the security arrangements were created. The source of the threat may have changed, but the general strategy has not, nor did it need to.

It is very interesting to hear the response when you ask some Asia or Pacific analyst why they would like their country to be associated with the U.S. You do not always get as the first item of business the containment of the Soviet Union, China, or the communist threat generally. It is often stated that solidarity on these issues is a way in which to keep the U.S. engaged in the area during peacetime and to avoid what they see as the isolationism problem.

The next important item of background relates to the level of military and especially naval technology. All U.S. ships and even aircraft (in very large number in the immediate postwar era) were either gas- or diesel-fueled. There were no nuclear-powered vessels, and the sheer technology of the situation demanded that you forward deployed if you were going to maintain any kind of continuous presence. Some of those technological considerations may be changing, but forward deployment started out as a matter of complete necessity dictated by the level of military technology of the day.

The initial reasons seemed to be strengthened by the political events of the 1950s and the 1960s in China, the USSR, and the Asia-Pacific Third World, including the problems of the Korean War and leading up to the Vietnam War. Right through to the 1970s, there was a fairly uncontested notion that forward defense and alliances were the best mix of policies.

They remain so, I would argue, from the U.S. point of view, although this may not be as true today as it once was from the Asia-Pacific point of view. This change is important to think about now that some Asia-Pacific partners may be diverging in their reasonings about how to do things.

Apart from containment, there are are other sources for U.S. doctrine. The U.S. assumed responsibility for the Trust Territories of the Pacific in 1947 and is just now in the throes of turning the last of those territories into self-governing, independent states in free asociation with the U.S. What began as a temporary obligation has now become a permanent one.

U.S. population trends favor greater involvement in the Asia-Pacific as well. The drift toward the Pacific and the Southern Hemisphere, the rise of California as the most populated state, the recent migrations into the country from the South and from various countries in Asia, all seem to be reinforcing greater U.S. involvement or at least to make it seem more natural. The last two states to join the union were the Pacific states of Alaska and Hawaii. As someone mentioned here today, the changing balance of trade between Asia and Europe makes the region more important to the U.S. than any other single region. Finally, half of the states in the world that have become independent since 1978 are in the Asia-Pacific. The U.S. has of course opened up political relationships with most of those new countries. In short, there is a tremendously wide range of things that contribute to U.S. momentum in the region.

I would certainly support Vice President Quayle's notion that the U.S. is reengaged in Asia but I am not sure that it was ever disengaged. It is certainly back as a major player, and I suspect it will continue to be for as long as I can see into the future, and in a multiplicity of ways, even deepening its relationship with the area. That is the substance of what we are talking about. When we discuss security, we are not talking about a retreating U.S. or one where the lines of connection are simplifying. In fact, all the trend lines are deepening and becoming more complex all the time.

With that by way of introduction and background, let me move quickly through some specific key ideas. There are two ways to understand the concept of burden sharing. One is a very narrow way and is the way we have discussed in the past. It emphasizes the nature of specific relationships and stresses the formal obligations that we have by way of treaties. The narrow view tends to look at burden sharing in rather static terms – of obligations and fixed (especially naval) responsibilities – and also tends to view it as being rather single dimensional in terms of relationships between the cooperating parties.

of the growing distinctions between ourselves and our allies in Asia is a different feeling about the opportunities that exist.

Let me go briefly into the structures and doctrines of U.S. forces because it really comes to the heart of what I have been asked to deal with, which is the matter of bases and related issues, the challenges that might be coming to these, and how we might possibly deal with them.

The U.S. Pacific Command is the largest single U.S. command and has over 400,000 personnel in it. About 250,000 of those are posted to Hawaii or positions west of Hawaii. It has responsibilities for half the globe's surface, and it is the only command in which the Navy plays the largest single role. It has control over 250 surface ships and submarines, nearly half the total U.S. naval assets. It has control of about 2,600 aircraft, and its operating areas include the Arctic, the Sea of Japan, the North Pacific, the East Pacific, the South China Sea, Indian Ocean, and the adjoining choke points to all these waters. It is a vast area of responsibility.

The enormous distances involved here and the geographical nature of the area simply must be appreciated. They help frame the reasons for forward defense and form the importance of the Asia-Pacific bases for the U.S. Even the largest and most efficient U.S. transport aircraft take about a day and a half to get from the mainland West Coast through Hawaii to, say, Diego Garcia. A carrier task force takes over three weeks, about 25 or 26 days, to transit from the West Coast to the Arabian Sea or the Strait of Hormuz. In other words, if you are going to be there when something is happening, you do not have time to respond from a distance. You either respond fairly up front, or you perhaps do not respond at all. I think that is the underlying reality of this region of the world.

The second point about bases is that they are much more important than is suggested by the way we frame the discussion when we talk about, say, the Philippines, or in the context of the nuclear debate. We should remind ourselves of some of the things that are at stake in these bases and what they mean.

This includes R&R1, repair and replenishment, as well as R&R2, rest and recreation. The bases, airfields, ports, and harbors are places to store munitions, spares, reserves, and fuel stores, but they are also the locations for hospitals and rear area support. They are locations for

the pre-positioning of troops, forward deployed aircraft, and other such important implements.

Something we forget entirely about these facilities is that they are used for exercises, training, and alliance cooperation. Something like 85 to 90 separate exercises are conducted every year in the area, and access through those facilities is absolutely critical for those activities.

The point is that these bases are much more than simply places for the U.S. to occasionally put ships that might or might not be carrying nuclear weapons. When we really talk about them in terms of individual countries, we must also think of them as complex economic and political entities.

The nature of the maritime environment and the size of the U.S. forces assigned to it does not allow the U.S. to control the entire area. In fact, it can control only various specific areas, and it really operates over most of it a policy of denial. Even in that context, however, to operate a policy denial it must operate with allies in either formal or informal alliances and alignments and other kinds of arrangements.

What kind of arrangements do we have? We have bilateral ones, such as Korea, Japan, and the Philippines. We have multilateral ones, such as Australia (and formerly New Zealand), and although the Manila pact now only involves the U.S. with one country – Thailand. We have growing informal alliances with Taiwan, Pakistan, Malaysia, Singapore and Indonesia and, perhaps, some small beginnings of one in Papua New Guinea. We have pacts and compacts and other implements of Congress that bring the Marshall Islands, the Federated States of Micronesia, Guam, the Northern Marianas, and perhaps Bilau within the U.S. area of responsibilities. Then we have much smaller security assistance relationships, which is often the beginning of a long-term relationship.

There is, in other words, a vast array of arrangements of different types. What is important about that? Well, if you want to look at the places where the U.S. needs to go or wants to go, you cannot understand it only in terms of the countries with which we have a formal alliance. In fact, the U.S. has access to a number of ports, fields, and facilities in countries who are not at all involved with the U.S. in any kind of formal treaty relationship. That is a very important consideration to bear in mind.

What is happening out there currently and what, by way of policy, do we need? First of all, I think we have a developing problem of shared perceptions about security. Perceptions are changing. The easiest way to illustrate this is to talk about the changing so-called no-threat environment.

I would agree with the Vice President in terms of the three countries that he referred to, but I would suggest this is out of about fifteen we need to think about. Those three countries may not have such a problem of changing perceptions. Their leaders are all fairly well-established and conservatively minded in international affairs. However, there are a far greater number of countries in the Asia-Pacific who do not perceive the Soviet Union or China or India or any country as posing any kind of direct threat to them. In other words, politically we are going to have to operate in an environment in which no-threat perception is the basis of our dialogue.

We have a demographic transition to accommodate in the regional leadership, and the new generation has very little shared experience with us. We have a shrinking pool of military, political, and academic talent in this country in terms of our Asian expertise, far less than we had at the end of the Vietnam war. We simply have few points at which to interface intellectually with that region. That is a generational problem we need to address.

We need to understand the phenomenon of postcolonial independence. Postindependence nationalism within the Asia-Pacific is transforming many of the things that we used to take for granted, and we are simply going to have to take these nationalistic feelings into account.

All of this produces what may be called a growing disjunction between the security-peace relationship as it is thought of in a number of different Asia-Pacific countries. In the U.S., we tend to think about achieving peace through strength. We see our own security and the military part of that as being very important for the maintenance of peace. In many of these countries, peace is not thought of in such terms.

U.S. bases and military facilities in many ways become the natural targets for this growing independence and nationalism. Of course, they are sometimes manipulated by specialist elements in these countries, like peace movements, antinuclear movements, environmental groups, and others, who simply use these changes in conditions, leadership, and

shared perceptions. However, there is one development here that we have to watch very carefully, and that derives from the creation of the 13th Assistant Secretary of Defense for low-intensity conflict and the gradual construction of low-intensity conflict operations within major commands, like the Pacific Command.

Inherently, this development has in it the possibility of the U.S. involving itself in domestic types of conflict in the Third World because most (though not all) of the low-intensity forms of conflict that these forces are structured to deal with are derived from internal threat, rather than external threat-related problems. That may be one exception that I think we ought to be very careful about when it comes to matters of increasing direct military-to-military cooperation.

We also should shift compensation and financial support to bolster security cooperation in defense-related areas. For example, we should be trying to enhance technological and scientific cooperation. Such developments are required by our new doctrine of competitive strategies. We need to do things to enhance the defense industrial base of our closest allies since, in times of conflict, that is our industrial base as well. Prepositioning now means not only our own equipment, but increasingly our allies' inherent capacities to do things for themselves.

Finally, I believe that we have a very serious intellectual challenge, and it is inherent in the agenda of this conference – how do we integrate economic, trade, political, and military factors into a comprehensive security cooperation package. I do not think we have resolved that synthesis yet nationally, let alone internationally, and yet I believe that synthesis is far more important to us in the Asia-Pacific than simply burden sharing. We have to find some way in which to conduct the debate between different policy communities – the issue-related two solitudes. Economic-political people and political-military people tend, like ships in the night, to pass one another by. They need to be put together, not only physically but intellectually. We need to find ways to pursue a more integrated plan for comprehensive security cooperation that takes us beyond burden sharing in the Asia-Pacific to shared opportunity.

Mr. Brooks: Certainly, the level of our future commitment to Asia cannot be considered separately from a rational assessment of the Soviet threat in the region. Yet, Moscow has taken some steps that look

as if it is interested in changing our perception of the Soviet threat. There have been reductions in military concentrations along the Sino-Soviet border, and Moscow also claims to have reduced its Pacific fleet. But does this mean a real reduction of the Soviet threat, or have the Soviets merely redirected their efforts in the region to undermine U.S. security relationships in the Philippines and the South Pacific by other means? Dr. Lief Rosenberger, currently with the Strategic Institute of the Army War College, will address these questions. Lief is a veteran intelligence analyst and a widely published expert on Soviet activity in the Third World. Dr. Rosenberger.

Dr. Lief Rosenberger: Not long ago, England's Prime Minister Margaret Thatcher announced that the Cold War was over. After her first meeting with Gorbachev, Thatcher argued that the Soviet Union had changed, and she credited Gorbachev for much of this change. And while Margaret Thatcher was probably referring to Europe, I think many people might look at the changes in Soviet foreign policy in Asia and conclude that the Cold War is over in Asia as well.

With this in mind, I will begin by talking about the changes in Soviet policy in Asia or what I call the new realities in Soviet policy. Next, I want to examine persistent old realities in Soviet policy or the continuity of what I call Soviet Cold War concepts. Third, I want to discuss the overall Gorbachev strategy in Asia and how it includes both old and new realities. I will try to show the two components of Gorbachev's overall strategy, his grand strategy in Asia, and how this poses a clear challenge to U.S. interests and U.S. objectives in Asia. I then will suggest a few ways for U.S. policy makers to respond to the Soviet challenge. And, finally, I will talk a little about the Soviet reaction to the crackdown in China, compare it to the U.S. response, and speculate a bit about the future of the U.S.-Soviet-Chinese triangle.

First, the question of changes in Soviet policy. The biggest change has been Gorbachev's strategic peace offensive in the region. Gone is the Brezhnev legacy that involved using military power to intimidate the countries in Asia. Soviet troops have left Afghanistan. Moscow is leaning on the Vietnamese to take their troops out of Cambodia. The Soviets are removing SS-20s in Soviet Asia as part of the INF agreement, and they are reducing to some extent their forces on the Sino-Soviet border. Soviet concessions along the border, the Sino-Soviet

border, concessions in Afghanistan and Cambodia and Gorbachev's new doctrine of socialist diversity that we see going on in Poland and we saw in Cuba have all contributed to normalization of Sino-Soviet relations. In the Pacific, Soviet naval operations are way down. The Soviets also are interested in increasing their economic relations in Asia. So all of this has tended to reduce threat perceptions or to diminish the fear of Soviet power throughout most of Asia. And it was this fear of Soviet power that had contributed to the cohesion in U.S. alliance relationships in Asia before Gorbachev assumed power.

But I think it is a serious mistake to conclude from all of this that the Cold War is over in Asia or that the Soviet Union is no longer interested in challenging U.S. interests. I see a lot of continuity in Soviet policy or persistent Cold War concepts, despite Gorbachev's rhetoric about new thinking. At a minimum, there is a gap between what I would call conceptualization and implementation of Gorbachev's new thinking in the Third World.

But I would go even further than this. With the exception of Afghanistan, the Soviets remain committed to their Asian allies, especially to Vietnam and to North Korea. Gorbachev has deepened the security relationship in North Korea by upgrading and modernizing the North Korean Air Force. The Soviets have also increased military assistance and doubled their economic assistance to Vietnam in the last year or two, and they have been beefing up their facility at Cam Rahn Bay in Vietnam.

Since Gorbachev took power, the Soviets have added four divisions to their Far Eastern military forces and have increased the number of ships and submarines in the Soviet navy from roughly 820 to about 860. In addition, Soviet-Japanese relations are even more strained under Gorbachev than they were before Gorbachev. And finally, the Soviets and their left-wing friends continue to support the Communist Party (CPP) and the New People's Army (NPA) in the Philippines. Those analysts who heretofore argued that the CPP/NPA was homegrown and independent were disabused of this fiction when the Philippine military captured computer disks at a Philippine communist safehouse. The computer disks revealed a huge international network that the Soviets had stimulated. In short, the Soviets continue to support revolution in Asia, which is, of course, part of the continuity in Soviet policy or an old persistent Cold War reality.

Given the presence of seemingly contradictory old and new realities in the Soviet approach to Asia, some people might conclude that Gorbachev has no real coherence in his strategy. My response would be, yes, there are contradictions in the policy. But overall, I see a coherent Soviet strategy in the region, which in turn tracks with the Soviet global strategy.

I tend to see two components to Gorbachev's overall strategy, that integrate or transcend the old and new realities I have just mentioned. First, Gorbachev has begun to shift from a strategy of intimidation to a strategy of denial. Gorbachev wants to deny the U.S. its forward deployments. And the Soviet peace offensive is designed to eliminate the rationale for the U.S. containment doctrine and the U.S. alliance systems in the region. A corollary of this Soviet strategy can be seen in the Soviet support for nuclear free zones.

Gorbachev can tell the Soviet military that New Zealand's decision to outlaw the U.S. Navy from its shores was a tremendous strategic victory for Moscow. And it was facilitated by the Soviets' funding New Zealand trade unions rather than trying to intimidate New Zealand and the other countries in the region with Soviet military power. That is why Moscow is now fanning the anti-base activity in the Philippines, hoping to force the U.S. to leave Clark Air Force Base and Subic Bay. And it is the first common element that links both the old realities in Soviet policy and certain new realities.

The second common element of Gorbachev's strategy in Asia is what I call Gorbachev's version of the Nixon Doctrine. Just as the U.S. used the Nixon Doctrine to extricate itself from Vietnam, Gorbachev is using a Soviet version of it to facilitate the Soviet troop withdrawal from Afghanistan and the Vietnamese troop withdrawal from Cambodia.

While this strategic concept involves a certain amount of risk, I do not buy the idea that Gorbachev is really leaving a political vacuum or betraying his pro-Soviet regimes in either Afghanistan or Indochina. What is happening instead is that the Soviets have shifted from an expensive occupation to a cost saving alternative of security assistance. And by helping these countries help themselves, they have settled for influence, rather than control. And I think this Soviet version of the Nixon Doctrine explains, in part, why the Afghanistan government has not fallen.

Now in responding to the Soviet challenge, U.S. policy makers need to keep a number of things in mind. First, let us not make the mistake of looking at Soviet Asian strategy in isolation from its global strategy. The short-range issue in Europe and the trend toward a denuclearization of Europe has implications in Asia. The Soviet-Iranian collaboration that we see now with Rafsanjani in Moscow, the collaboration we see in the Persian Gulf between these two countries, ultimately will have an impact on Afghanistan and Pakistan.

The Soviet support for the Communist Party and the NPA of the Philippines often goes through proxies in Europe and in the Middle East. The advanced missiles, the bombers, the chemical weapons that the Soviets are providing their Middle East clients may soon soon find their way into the hands of Soviet Asian clients and threaten U.S. allies and friends there.

Second, the U.S. must not make the mistake of looking only at Soviet state-to-state relations. We need to take the time to learn about Soviet trade unions and trade unions in New Zealand and in Australia and in other places, peace groups, human rights organizations, religious groups, not just think the Soviets are flunking in Asia because they have bad relations with this country or that country. Because on the battlefield of ideas and beliefs, the Soviets are working through these nonstate groups to reach their objectives in Asia.

To combat the Soviet strategy, U.S. policy makers need to do at least three things. First of all, the USIA needs to take the lead in countering the Soviet propaganda in Asia, and the AFL-CIO also needs to take the lead in countering Soviet trade union activity. In other words, we need to accelerate our efforts to win the psychological battle for hearts and minds in order to maintain our forward deployments, containment doctrine and the cohesion of the U.S. alliance relationships.

Second, as the Vice President has so positively articulated, we need to revive the U.S. security assistance program to the noncommunist resistance in Cambodia. And I think, in general, with the exception of maybe half a dozen countries, the U.S. security assistance program is inadequate. But I do not buy the idea that simply earmarking is the only problem. I think we need a larger pool of resources for security assistance.

If we consider the magnitude of the Soviet security assistance program in India, it is little wonder India has become a regional super-

power. And, yet, we agonize over whether or not we are going to give a more conventional military support to Pakistan. We wonder why Pakistan may be going nuclear. They are going nuclear for the same reason we have a first use of nuclear weapons doctrine in Europe; we are unable to come up with a conventional counterpart to what the Soviets have in Europe, so we rely on nuclear weapons. We are making Pakistan move in that direction by failing to supply them with what they need for conventional deterrence. If you were in their shoes, you would probably think nuclear.

Third, we need to hedge our bets a little bit when it comes to maintaining U.S. forward deployments. I would argue that there is a good chance that the growing nationalism in the Philippines and South Korea could cause the U.S. to lose its bases at Clark and Subic by the year 2000 and also to put its presence in South Korea in jeopardy. To safeguard these interests, I think we need to develop a capability that we do not have now for rapid deployment to Asia. This means we need to develop more strategic mobility assets, such as sea-based pre-positioning, which are not intrusive as far as sovereignty of these countries is concerned. We need fast sealift, which Congress continuously votes down, and we need more airlifts.

Finally, in reference to the crackdown in China, I think we need to realize that, from one side of the ideological spectrum to the other, from Jesse Helms to Steve Solarz, the American people value freedom and democracy a lot more than Gorbachev does. As a result, while President Bush came out and correctly criticized the slaughter and the recent executions in China, Gorbachev has been predictably tolerant toward the crackdown or at least has temporized over it. In the short run, I believe the Sino-Soviet relations will therefore remain reasonably good while U.S.-Chinese relations will suffer, as long as Deng Xiaoping and the hard-liners are in control. But we must resist the temptation to play *realpolitik* with a Chinese government that uses Stalinist tactics to kill its own people and to undermine any chances for democracy. In other words, we must remain true to our principles and express outrage at this kind of thing.

Hopefully, the moderates or the more democratic forces will eventually gain control in Beijing and allow the U.S. to resume good relations with China. But at this point, I think it is premature to even speculate when this might occur.

Mr. Brooks: We would like now to move to a more regional focus, as the panel discusses two specific areas within Asia, the Korean Peninsula and Indochina. I believe the U.S. can take some pride that its Korean allies are succeeding in matching their economic miracle with the deliberate expansion of political freedoms. Yet, this evolution is already affecting the U.S.-Korean security relationship, as Korean students and others have found that their newfound freedoms have given them an opportunity to challenge the basis of that relationship in a very direct way. Furthermore, an activist U.S. Congress has begun to view Korean defense issues through the prism of the Washington-Seoul trade relationship, much as it has in the case of Japan.

In this regard, it is appropriate for this panel to examine whether the U.S.-Korean FX fighter will become the second act of the now lengthy debate over the U.S.-Japan FS-X. Can we expect political change in North Korea, or may we see the same kind of yearnings for democracy in Pyongyang that we saw this month and last on the streets of Beijing and other Chinese cities? If little changes in North Korea, will there still be a continued need for a sizable U.S. military presence in South Korea and will a pseudo-presence be politically possible in the relationship we now have with our friends in the Republic of Korea?

Daryl Plunk will provide us his insights regarding the Korean situation. After serving in Korea in the Peace Corps for several years, Daryl held the position of policy analyst with the Asian Studies Center, specializing in Korean issues, and is now a visiting fellow with the Center. Daryl also is Vice President of the Richard V. Allen Company and a well recognized expert on security and economic matters related to the Korean Peninsula. Daryl Plunk.

Mr. Daryl Plunk: More vividly than any other event in recent decades, last year's Seoul Olympic served to remind us all that very important U.S. interests converge on the Korean Peninsula. Gradually, Americans are coming to realize that economic, political, and defense cooperation between the U.S. and Korea represents a most valuable alliance. These relations are evolving rapidly and presenting us with new challenges. While I think these are challenges we will be able to overcome, many adjustments will be needed along the way. There are also signs from time to time of misunderstandings and misperceptions between our two countries.

When I think of the misperceptions between the U.S. and Korea, I am reminded of an incident that happened to me when I was a Peace Corps volunteer in Korea just about ten years ago. It was while I was working as a teacher in a Korean middle school that President Carter clashed with one of his military commanders over the plan to remove U.S. troops from the Peninsula. The general was eventually sacked for his opposition to the plan.

My colleague at the middle school, a Korean named Mr. Lee, asked me about this conflict. I said, "Mr. Lee, just today President Carter fired that general over the disagreement." Mr. Lee was shocked. He looked at me and said, "Fired? You mean executed?"

South Koreans today rightly take pride in their country's growing democracy and its image as an economic miracle and showcase for free market capitalism. By contrast, North Korea today is one of the world's most regimented totalitarian and isolated regimes. Moreover, leaders in Pyongyang have sustained a massive military buildup and maintain a threatening offensive posture along the demilitarized zone, the DMZ. Secretary Solomon mentioned two zones of conflict in Asia: Cambodia and the Korean Peninsula. The tense and sometimes violent standoff between the North and South on the Peninsula today is one of the world's potential flash points. And since we have 40,000 American troops stationed in the ROK, peace on the peninsula remains a vital U.S. interest.

Despite sporadic talks and exchanges between the two sides over the past four decades, little substantive progress has been made toward reducing tensions, and the obstacles to productive negotiations, in my opinion, still remain very formidable. A major stumbling block has been and continues to be the North's demand for linkage of political preconditions to the possibility of future negotiations.

The North continues to call for direct talks with the U.S. for the removal of American forces and abolition of Seoul's anticommunist policies. Seoul, on the other hand, is calling for negotiations without major preconditions. With good reason, Seoul considers the North's demands as attempts to undermine its bargaining position, as well as weaken its military strength. Also, the timing of past North Korean negotiation initiatives has been designed either to repair Pyongyang's quite tarnished international image or to reap propaganda benefits during periods of instability in the South.

Now Seoul calls for a gradual approach aimed at achieving basic confidence, using such measures as summit meetings between North and South leaders, North-South trade ties, and reuniting relatives separated since the Korean War. These breakthroughs, Seoul says, would lead to measured tension reduction and allow for eventual consideration of the more contentious political and military issues.

Seoul's concern, which is shared by the Administration, is a reasonable one. If Pyongyang is not prepared to allow for progress on basic tension reduction measures, how can it be trusted to bargain in good faith over such monumental issues as mutual troop reductions, the withdrawal of U.S. troops, or even the eventual reunification of the Peninsula? The most serious problem today, in my opinion, is that the North Korean leadership remains uncommitted to good faith negotiations with its rival and that North Korean leader Kim Il-Sung continues to approach inter-Korean relations with one outcome in mind: the eventual domination of the entire Peninsula under his regime's rule. Also, the North's consistent willingness to use state-sponsored terrorism against the South further suggests to me that it is not serious about improving ties with Seoul.

Despite their strong public support for the North's hard-line position, even the PRC and the Soviet Union admit privately that Pyongyang is not at this time committed to progress in North-South relations. And both Moscow and Beijing worry that Pyongyang's propensity for violence might someday compromise their own security. Also, the two communist superpowers privately are critical of the North's extreme domestic repression, the stagnant North Korean economy, and Kim Il-Sung's plan to allow his son to succeed him in office and set up the first communist dynasty.

By this time, it should have become clear to Kim Il-Sung that he will not succeed in gaining control over the entire Peninsula. But his intransigence at the bargaining table and his proclivity toward violence do not suggest that he has altered his reunification strategy. Perhaps a more reasonable approach, such as Seoul's step-by-step approach, is considered an unacceptable risk for the Kim Dynasty, which we gather is viewed with a certain amount of reverence and admiration by many North Koreans. After all, any significant economic or social changes between the North and South would reveal to the North Korean people that, for decades, they have been deceived by their "great leader" who

has taught them that they live in a "paradise on earth" and that their brethren to the South are saddled with abject poverty and the harsh repression of the U.S.

Kim Il-Sung may consider this revelation too high a price to pay for progress in North-South relations. Perhaps only Kim's passing from the political scene will allow the North to take a more reasonable stance toward the South. Thus, succession politics in Pyongyang may hold the key to the future of North-South relations.

Still, other conditions quite clearly favor Seoul in this diplomatic standoff. South Korea has for some years been outperforming the North in economic development and, by the turn of the century, the South's GNP will be equal to eight or ten times the North's.

Also, regional political conditions in Northeast Asia have at times over the past few years seemed more conducive to tension reduction between the Koreas. Beijing and Moscow already appear to accept that improved unofficial relations with Seoul might be the best way to help reduce Korean tensions. They also have an economic interest there, of course.

Other communist nations, such as Hungary, are improving ties with Seoul, which late last year became the first communist country to officially recognize the ROK. It is hoped that these developments will eventually channel some of the potentially dangerous tensions on the Peninsula toward economic and political cooperation, rather than military competition.

These positive trends have been bolstered by the new and more flexible attitude toward the North that was initiated by President Roh Tae Woo last year. Roh calls for swift progress on bilateral issues, such as trade ties with the North, and has declared an end to his government's opposition to the North's contacts with Seoul's allies, including the U.S.

The U.S. has rightly taken steps to show its strong support for these initiatives. Washington, in consultation with Seoul, is willing to establish limited and unofficial contact with the North and to allow face-to-face exchanges between Americans and North Koreans. Several meetings of this type have taken place in Beijing over the last few months between North Korean and U.S. diplomats, a very interesting development. Still, the U.S. should continue to make it clear to Pyongyang that future expansion of U.S. contacts with North Korea will depend on

Pyongyang's willingness to resume negotiations with Seoul and achieve progress at the bilateral level. Washington should take care not to allow the North simply to use contacts with the U.S. as a means to undermine Seoul's bargaining position. The U.S. should continue to press the Soviets and the Chinese to encourage North Korean moderation and the resumption of good faith negotiations with the South. After all, Washington and Seoul have little or no leverage with Pyongyang. Moscow and Beijing do.

I should touch upon the impact that the turmoil in the PRC may have on the Korean Peninsula. For the past few years, it generally has been accepted that Beijing has been something of a moderating influence on the North Koreans. Beijing has urged North Korea to consider economic reform. The Chinese have also established important unofficial contact with Seoul and have pressed for the resumption of negotiations. But this month's crisis in the PRC, it seems to me, will have a detrimental impact on the situation in Korea.

For one thing, China's leaders will, for the foreseeable future, be preoccupied with domestic affairs and withdraw themselves from the mediating role they have been playing. Second, and perhaps most significant, North Korean leaders, who have consistently expressed skepticism over China's reform movement, will almost certainly harden their opposition to any sort of economic or political perestroika or glasnost.

I believe time is on the side of stability in Korea, although Pyongyang's track record calls on the U.S. to keep its guard up. Fortunately, there is a bipartisan consensus among policy makers today that there remains a compelling need for the stationing of U.S. troops in the Republic of Korea. Still, some observers, as well as a few members of Congress, are calling for withdrawal or reduction of the U.S. troop presence.

Given that there has not been an invasion of the South since the early 1950s, I think the prudent conclusion should be that the deterrence posed by the U.S. forces has worked. Furthermore, despite a considerable amount of international euphoria over recent improvements in relations between the U.S. and the Soviet Union, these positive developments should not be taken to mean that a commensurate amount of progress has been achieved in Korea. The recent breakthroughs in superpower relations were built upon a certain de-

gree of mutual trust and confidence that resulted from years of painstaking negotiations.

Despite hopeful trends elsewhere around the world, one pivotal reality remains unaltered: in my opinion, North Korea has not yet indicated its support for meaningful tension reduction and still appears to consider the use of force as a viable option. Even more ominous is that the North appears to be sustaining the fast pace of its military buildup.

New intelligence estimates earlier this year concluded that the total number of North Korean soldiers now under arms exceeds one million, an enormous force for a country of only 20 million people. This compares to the combined U.S.-ROK troop strength of about 700,000. Also, it has been mentioned at today's conference that Soviet military assistance to North Korea is expanding.

In short, as the debate continues over the need for U.S. troops in Korea, what we should recognize is that Pyongyang continues to place a high priority on the maintenance of a strong first-strike capability. The suggestion advanced by some in the U.S. that it is time to make symbolic, unilateral reductions in troop strength in the hopes of coaxing North Korea into flexibility is a risky proposition. The yardstick in this case should be a simple one: when the threat from the North has diminished, it will be time to begin U.S. troop reductions. This position not only sustains an adequate deterrent, but also allows the ROK to bargain with Pyongyang from a position of strength.

Regimes usually are compelled to repudiate their unreasonable or belligerent policies when faced with their opponent's strengths, not their concessions. Our recent experiences in dealing with the Soviet Union certainly give credence to this rule of thumb.

Mr. Brooks: Another area that we will cover today is Indochina. It seems that in the not too distant future, perhaps even within the next year, the Bush Administration will have to manage what could be a real change in its relationship with the states of Indochina, particularly Vietnam and Cambodia. Hanoi wants the West to believe that it seeks peace in Cambodia and has even promised to withdraw its forces from that country by the end of September. But will the majority of Cambodians who justifiably fear a return to power of the dreaded Khmer Rouge accept a peace that entails a *de facto* existence of a regime in

tion. The trap now is that withdrawal without a political settlement could lead to civil war and plunge the Cambodian nation into more bloodshed.

A lot of the talk about the Khmer Rouge and about lethal aid deflects us away from the truth. The U.S. is now positioned reasonably well to try to influence a political settlement in Cambodia that reinforces those elements in the noncommunist resistance who have been saying that they want self-determination for the Cambodian people. The kind of political structure that should be on an interim basis to organize for elections, in my opinion, needs to be as broad as possible to allow members of all Cambodian factions who are willing to eschew the use of force and participate in a settlement to be able to do so. Should the Khmer Rouge choose not to participate, in whole or in part, they would be a spoiler. Under conditions and arrangements endorsed by the international community, they would be truly isolated, and China and others are clearly going to recognize that it is time for the Khmer Rouge to get what they justly deserve. Trying to shortcut this step is a recipe for civil war.

The Vietnamese claim that they will be out by September, but Hanoi and Phnom Penh have obviously been less than forthcoming on negotiations to lead to political arrangements that would be acceptable to the noncommunist Cambodians, the West, and ASEAN. Sihanouk and Hun Sen are scheduled to talk again, but I hear words from the Congress and others that we ought to be pressuring Sihanouk to go back to Phnom Penh and form an alliance with Hun Sen. Inexplicably, this will sometime, somehow, stop the warfare and prevent the Khmer Rouge from coming back to power. To me, that is shortsighted, and it is a definite path to civil war in Cambodia. It will signal the Khmer Rouge and the Chinese that there is no choice but to fight on, and a civil war is going to be inevitable.

That does not suggest that you may not end up with a coalition government between Sihanouk, Son Sann, and Hun Sen and the Khmer Rouge outside. But if you do not start by trying to form political arrangements to enfranchise as many Cambodians as possible, including an interim arrangement for elections that offers the possibility for some elements of the Khmer Rouge to lay down their arms and participate, then you guarantee that, at their greatest strength, they can

remain in the mountains and move into the villages in greater numbers as Vietnam withdraws.

Vietnam, on the other hand, enjoys interior lines, and they can continue to supply Hun Sen without an international presence in Cambodia. There is no assurance that they are ready to negotiate seriously yet, either. So you have two communist elements, the Khmer Rouge and Hun Sen, both backed by the Chinese and the Soviets, and the U.S. is supporting one element led by Sihanouk and Son Sann, who express the views that I think we should be supporting vigorously for the future of Cambodia. Cambodians themselves are lost in the debate many times as people move things on the checkerboard. If the focus is solely on the Khmer Rouge, then the answer is let Vietnam stay. Is that really the answer? Of course not. It ignores the existence of a Cambodian nation and its people. If the question is geostrategic relations of another order, then, again, the Cambodians are usually lost in the shuffle.

I think it is important to note the shifts that have taken place in ASEAN because of the changes in the government of Thailand. The Chatichai government, in fact, has adopted a strategy to turn the battlefield into a marketplace and has increased the dialogue with Hanoi and invited Hun Sen to Bangkok, and adjustments have taken place because of that. Although this shift caused some anguish, it is not necessarily anything I believe we or ASEAN should fear, as long as the kind of coordination on strategy that has taken place over the last few years continues.

Vietnam does need to know that, if they withdraw and if they cooperate in an acceptable settlement, ASEAN, the United States, the EEC, Japan, and others are prepared to respond positively. The timing of that move is very important as well as how that move is signaled. Hanoi is going through an internal transition, and it is not complete. How to support the thinking in Hanoi that you wish to support is a tricky business. But it seems to me very clear that we should be up front about our carrots, as well as our sticks. If Vietnam withdraws, if there is an acceptable political settlement which they are genuinely participating in, then the U.S. should be prepared to begin discussion of normalization. Short of that, we are not and we cannot. As the Vice President said, the pace and scope of that relationship depends on

continued progress on POW/MIA and other humanitarian issues. They should be kept separate and have been for the last six or seven years.

Legislation introduced last year in the House and Senate linked the humanitarian issues of POW/MIAs, reeducation, internees, Amerasian children directly to the question of normalization. That, to me, is an absolute disaster. It can cause Hanoi to link these issues again, and then we are onto a slippery slope that we escaped from several years ago. Normalization should be premised solely on the question of an actual acceptable political settlement in Cambodia that involves a complete withdrawal of Vietnamese forces and Vietnam's realization that the quality of that relationship depends on other functions.

For the last eight years, there has been a lot of progress made on the humanitarian issues. There is a lot more to be done, but more progress has been than any time since the end of the war. Almost 200 Americans' remains have been returned. There have been six ten-day periods of joint POW/MIA investigations with the Vietnamese. In Laos, there have been multiple joint crash site excavations, unilateral remains recoveries, and in-depth discussion of discrepancy cases. The Vietnamese have just agreed to begin discussions again on reeducation of camp prisoners. The Amerasian resettlement program is on track. As long as these things are ongoing, they should not be an obstacle to normalization.

Domestically, I believe we have much less leverage than most people think. We do have some influence, we are positioned well now to use it, and we should, but we should be realistic as well. In the International Conference in Paris coming up, it will be very important for the U.S. to take an active role and talk directly at a high level to the Vietnamese as well as the other major players, making clear to them what our conditions are to begin discussions on normalization. In this way, Hanoi will understand the path more clearly, and our carrots will become useful for the Cambodians.

Policy making was much simpler when Vietnam was very intransigent. As the Chinese say, "God save us from interesting times."

So the key questions as I see them are: tripartite versus quadripartite arrangements in Cambodia, the supervision of the Vietnamese withdrawal, a structure for election under international auspices, the lethal aid question, only in the context of an overall settlement, how to

prevent violence and intimidation from the Khmer Rouge in the context of a settlement, and under what circumstances would we normalize relations.

To the Soviet Union, Cambodia is a sideshow, to coin a phrase. The developing of Siberia and opening of economic levels to the booming economies in the Far East is their primary concern; Cambodia is an obstacle to that. They have put some pressure on Hanoi, but it is limited because they do not wish to jeopardize their military basing posture. Thus, I do not think we can necessarily rely on the Soviets to carry through all the way if Hanoi balks. The Vietnamese still show some healthy nationalism and, over time, that will in fact come to the fore again.

The recent changes in China are negative with regard to Cambodia for a number of reasons. The Chinese are turning inward and will not be taking any initiatives on Cambodia in the near term. Second, it will be difficult for them to pressure their hard-liners in the People's Liberation Army (PLA) on the question of the Khmer Rouge. And, finally, it is negative in the sense that the U.S. has reduced leverage to use with China over the Khmer Rouge question.

There are a few myths afloat that are not often challenged concerning Cambodia. One of them is that Vietnam would totally withdraw from Cambodia and let the Khmer Rouge return to power. That is just not in the cards, in my opinion. Vietnam is not going to put themselves back to where they were in 1978. They want out, they want to minimize their losses, and they want a settlement on their terms. But as they begin to withdraw, if they felt that the Khmer Rouge were a threat, a great threat to the Hun Sen government, then I do not think that you should be surprised to see the People's Army of Vietnam back in Cambodia in force. Short of that, they will find other ways to misuse their security.

The recommendations I would make, given the changes in the last six months or so are as follows: The Administration needs to engage on a very high level directly with the Vietnamese and all the major players on Cambodia, and I think the field is set for that. At least the framework is there, and that dialogue needs to be strengthened. I think more serious cooperation on humanitarian issues by the Vietnamese is possible and needed, should we continue to press them. We need to emphasize to everyone that our highest priority should be to back those people who agree to self-determination for the Cambodian people. The

focus on Cambodia as a nation and their future must be central, and not the side issues, which will be resolved in a genuine settlement.

We need to continue to reiterate to ASEAN that we believe that a regional settlement is the most stable and to bring that realism to the question. We should intensify our dialogue with ASEAN but remain behind ASEAN in terms of the actual settlement until international guarantees are needed.

I think it is time to upgrade our ambassador to Laos. We have had unbroken diplomatic relations since 1950. They are cooperating with us in a number of areas, including economic. Thailand would be supportive, as well as all of ASEAN. We are having narcotics cooperation, both multilateral and bilateral now, and I think that is a step that should come reasonably soon.

Congress must support the Administration in addressing the real issue in Cambodia: how to reach a comprehensive settlement, not whether the U.S. ought to plant flags in Hanoi or provide 14,000 rifles. All must stop reacting to the press release syndrome over Cambodia. Each time Hanoi or one of the other actors makes a move, great, long articles come rolling out that emphasize one or two points and not the comprehensive nature of the problem.

Mr. Brooks: Nayan Chanda has been the Washington correspondent for the *Far Eastern Economic Review* for the past several years. His columns certainly are read religiously in the Asian Studies Center here at Heritage, where he has come to be respected both for the insights he provides, the timeliness of his reporting, and the access he has been able to gain at the highest levels of both the Administration and the Congress. Nayan will provide an overview of the security issues, based on his own observations of this problem. Nayan Chandra.

Mr. Nayan Chanda: I see two themes emerging from this conference. First, as Mr. Childress said, the fact that the Vietnamese are now leaving Cambodia poses new challenges for U.S. policy leaders; it was much easier when the Vietnamese were intransigent and aggressive.

Second, I see the growing challenge of Asian nationalism. Many at the conference have mentioned the problem that the U.S. now faces in dealing with Korean nationalism and Philippines nationalism. I would add to that Japanese nationalism, Thai nationalism, and even Cambodian nationalism. Let me elaborate a bit these two themes. Over the

last decade, since March 1979, when Soviet ships steamed into Cam Ranh Bay, we have seen an expansion of the Soviet navy and an increasing Soviet military profile in East Asia, but the Soviet Union seems to be leaning toward peace. Despite the analysis of certain officials, the popular perception among politicians and the general public is the Soviet Union is emerging as a country that is serious over peace and wants stability in the region.

So the question is how does the U.S. respond to Gorbachev's changes without appearing to be bullheaded and militaristic? And how does Washington do this without compromising its national security interests? I think it is a very serious challenge for the U.S. to deal with a more sophisticated Soviet approach in Asia.

As for nationalism, this has been a continuing theme in Asia. In the past, the U.S. has emphasized ideology at the expense of nationalism, leading Washington to see indigenous "nationalist" movements as motivated by ideological desire and conspiracy, than as something that is emerging out of the popular desire for independence. I think this tendency to overemphasize ideology is a major problem.

Another problem of the postindustrial variety is seen in Japan, Korea, Taiwan, Singapore, and Thailand. As a result of impressive economic growth, these nations are overconfident and feel they should not be treated as junior brothers and given lectures. The U.S. has to take into account that these younger brothers have come of age. They have views that may or may not correspond to U.S. policy, but the U.S. simply cannot ride roughshod over those sentiments under the guise of opposing Soviet expansionism or communist ideals.

I think these two themes are true not only for next year, but may be true for many more years to come.

Mr. Brooks: Now for questions and answers.

Guest: My name is Lee Tai Pin and I am an information officer. I would like to ask the question of Mr. Childress. You talked a moment ago about if we reach a satisfactory settlement in Cambodia and Vietnam completely withdraws its troops from Cambodia, then the U.S. would change its position and move to consider normalization of relations with Vietnam. Does it mean that, after Vietnam has withdrawn its troops, that would automatically result in some kind of normalization of relations? And what if after, let us say a certain period of time,

Vietnam decides to move back into Cambodia under certain pretexts, not because of the fear of the Khmer Rouge, but because of its own national security. That is one question.

And the second question is do you believe, Mr. Childress, that there are still American prisoners of war being held against their will in Indochina, Vietnam, and Laos? And if yes, what should we do; what can we possibly do to bring them home?

Mr. Childress: Number one, I cannot speak for the Administration, obviously, on normalization, but the stated policy for quite a while has been that the U.S. would be prepared to normalize relations with Vietnam in the context of a Cambodian settlement, an acceptable Cambodian settlement, that involved the withdrawal of Vietnamese forces. Acceptable Cambodian settlement is a very key phrase there. That means international presence, international supervision, that means national reconciliation and an interim government that can supervise elections and bring self-determination to the Cambodian people.

Now, if Vietnam is cooperating in reaching those goals as a full participant, then it seems to me that the U.S. should begin discussing normalization with Vietnam. Clearly, if you have an acceptable settlement and you have a government that is operating and you have national reconciliation and Vietnam invaded again, you are talking about the isolation this time that is going to be much worse.

Do I believe prisoners are being held in Indochina? The short answer is I do not know. What I do know is this, there are what we call discrepancy cases of Americans who were captured live on the ground who did not return dead or alive, and the object of negotiations has been to resolve those cases. If they are dead, then their remains should be returned to the U.S. to end the uncertainty of their families. If they are alive, we have told Vietnam that, under whatever conditions they are in, "We are prepared to quietly and sensitively work with you to effect their release." So, do I know? No, I do not.

Mr. Brick: I have a question concerning the succession question in North Korea. Talk about Kim Il-Sung's son, specifically. Do we have any evidence really that he will be more accommodating to Seoul's northern initiative than his father?

Mr. Plunk: First of all, we know so little about what really goes on within North Korea, and so much of the available information is speculative. But having said that, there are some things that most analysts seem to agree upon. One is that there is no firm evidence that Kim Chong-Il, Kim Il-Sung's son, is any different ideologically than his father. Available evidence indicates that the younger Kim staunchly supports "Kim Il-Sungism." There are also indications that Kim Chong-Il has been involved in the more violent and hard-line actions taken by North Korea, such as the Rangoon bombing of 1983 and the killing of 115 innocent South Koreans on a Korean Air jetliner in November 1987. The woman arrested in connection with the 1987 incident turned out to be a North Korean agent, and she stated that Kim Chong-Il himself was behind that action.

So the short answer is we do not have any indication that the son will be any different than his father, but there is considerable doubt concerning the longevity of his potential rule. We do not know whether the younger Kim will be able to control a rigid totalitarian regime as sucessfully as his father has. For one thing, he is not thought to be as bright as his father, nor as politically astute. So, there is potential for a power struggle after Kim Il-Sung's death or incapacitation. It is impossible to say whether such a struggle would bode well or ill for stability on the Peninsula. But events in China following Mao's death, such as the fate of the Gang of Four and the dismantling of Mao's personality cult, may hold some clues for the future of North Korea.

Guest: I am Ming-Jen Chien from Taiwan. I am very concerned with the 20 million people living in Taiwan. So I would like to ask, looking at the Tiananmen Square events and the tremendously insecure feeling created in Hong Kong now, do you see any serious threat to the security of Taiwan?

Mr. Brooks: This question may have been addressed a little bit earlier. I agree that those who spoke earlier today – I think one person in particular – mentioned that the current leadership in Beijing would be very foolish in many ways to initiate any kind of new aggression across the Taiwan Strait, and I think that they know that this would put them in a much more difficult situation than the situation in which they now find themselves. For that reason, under the present circumstances, they

would not do that. However, it is also difficult to discern the precise make-up of the leadership in Beijing and what that leadership is now thinking. They are in a state where they do not, as also was pointed out earlier today, care what is said about them or their way of governing outside China. They feel that what they are doing is important for their own leadership and affirming themselves in positions of power. And I think it is still a very fluid situation.

The U.S. also still has very strong commitments to Taiwan through the Taiwan Relations Act. That was also reaffirmed today, even by officials of our government, especially Secretary Dick Solomon. And I think that we should continue to make that commitment clear to the world, in general, and not just the leaders in Beijing.

Dr. West: That is an interesting answer. If we listen to the PRC's public statements and what its officials say, then events in China are an internal matter. The Chinese stridently declare that they do not really care what the world says. That is what they are saying. But on the other hand, what are they doing? Some of the things they are doing lead me to be just a little more interested in their vulnerabilities.

They have mounted a massive public relations exercise to try to retain Western business and commercial activities as well as financial and technological aid and cooperation. People who are watching these activities are utterly amazed at the efforts that the Chinese are making to keep Western companies deeply involved in China. I tend to avoid a view that is purely rhetorical. I think they are following a two-track policy that says, "Let's continue to stroke the West."

Whether or not that is an ideologically driven activity is arguable. I do not particularly think it is. I do not think they are taking the Leninist point of view that we are so hungry for markets we will continue to send things there. I think they are taking a very pragmatic and businesslike approach to the whole matter. I believe they are gambling that the Japanese, for instance, who are there and have been for years, investing billions before they turned any profits, will want to continue to capitalize on this investment and will take the long view.

In short, I think that they are concerned about the way we respond in terms of technology and skills and so on, and that gives us some leverage, but I do not know how to coordinate that leverage.

I know that there are talks going on in Europe and elsewhere about moving into some sort of sanctions activity, but the history of sanctions shows that they have not been very effective for countries like South Africa or the Soviet Union. This Administration, as far as I know, has not taken a stand on sanctions, in general, the way the Reagan Administration did – which was that sanctions do not work, so we will not use them. As far as I can read the situation, this Administration is still open and fluid on the issue, and it seems to me that it could move in that direction.

Dr. Rosenberger: I think Nayan Chanda said a couple of things that need elaboration. First, I think Nayan was referring to the fact that the Soviet Union, at least, is appearing more peaceful, and a lot of people point to the arms control proposals that Gorbachev has come out with in Asia. I think it should be said, though, that these Soviet arms control proposals are generally very one-sided because they do not address the asymmetries of U.S. and Soviet military power in Asia. While the U.S. is really only a naval power in Asia, the Soviet Union not only has a large Pacific fleet, which by the way has increased by 40 ships since Gorbachev has come into power. But the Soviets are also a huge land power in Asia, and with the exception of a small military presence that the U.S. has in South Korea that may not last much longer, the U.S. is not a land power in Asia. So I think you have to take the arms control proposals of Gorbachev with a certain grain of salt.

Second, I wanted to say something about the fact that not all the countries in the region perceive the Soviet Union as more peaceful. For instance, the Japanese, I think it can be argued, see a larger threat now under Gorbachev than they ever did under Brezhnev and his half moribund successors. And I think if you look at what the Japanese are doing, cooperating with us in SDI, doing an awful lot more in the way of their own defense build-up since President Reagan, especially the second part of the Reagan Administration, I would say the perception is varied; it is not uniform.

I also want to underscore the Soviet support to the Communist Party of the Philippines and the New Peoples Army. And those people who are skeptics about that I think have been disabused of their skepticism. A lot of people thought the Party was independent and that there was little international support. But in the last year, most of us have had a

chance, and it has been in the public press, to look at the computer disks that were captured from the Communist Party of the Philippines' safe havens, and there was no question there is a huge international network that is supporting the Communist Party in the Philippines. And the Soviet Union, from a very early point in time, has been stimulating that international network to the point where that international network now has a life of its own.

So we need to think about the fact that peace is in the eyes of the beholder, and what I was trying to say is that the USIA serves a very important function here in getting across the other side of the story about the nature and extent of the Soviet challenge in Asia.

Gorbachev is a fantastic PR guy and has been able to, through things like the South Pacific Nuclear Free Zone and other issues, make the U.S. look bad and the Soviet Union look good in the sense that the message is very simple: Nuclear weapons are bad; the Soviet Union is against nuclear weapons, wants to get rid of them, and the U.S. is the warmonger because it is clinging to these nuclear weapons. That is a very simplistic kind of approach, but it seems to sell. People do not have the time to look at the actual strategy.

I would argue that from a Soviet perspective, the INF treaty was in their interest, not because of the count of how many missiles each side got rid of, but because it started a denuclearization process in Europe. And now that is snowballing with the short-range issue and that is exactly what the Soviets want to see in Asia. And that is the point I made about how you cannot look at Soviet Asian policy in isolation from its global policy. What is happening in Europe has implications for Asia.

Mr. Chanda: That is correct. But with Japan, it is clearly related to the four islands. If, tomorrow, the Soviets offered a deal that restored sovereignty over two of them, and as you know, different formulas have been bandied about, you might see a change in Japanese perception.

Dr. Rosenberger: I think the Soviet Union is willing to give back the lower two islands, but I am not sure the Japanese will accept that. I think they want all four or nothing at all, and I do not think the Soviet Union is going to give back the top two islands because of the security implications. They need that for the Soviet navy to break out.

Mr. Brooks: I want to thank all our panelists for a very engaging and interesting discussion.

Dr. Feulner: I just want to say a few words in conclusion. First, thanks to the Asian Studies Center and all the participants, as well as all of you who have been with us during this long, educational, interesting, and provocative day.

We have been honored to have the Vice President of the United States deliver an extraordinary keynote address on U.S. leadership in Asia. Since both he and President Bush already have traveled throughout Asia, it is safe to say that Asia has a high priority within this Administration.

Thanks also go to my colleague, Richard Allen, for his efforts in one of the most successful conferences we have ever conducted. If the secret of success is timing, then the timing of today's seminar could not have been more crucial in light of recent events in the region. We will all leave here with a greater understanding of the challenges and opportunities that Asia presents to the United States in the coming twelve months.

This is the first in an annual series of meetings to focus the attention of our policy makers on the Asian Pacific region, and I hope that both our distinguished participants and our honored guests will be able to join us for the follow-up conference next year.

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Appendix

A Traditional Chinese Approach to Mainland China-Taiwan Relations

by Winston Wang

In Taiwan business circles these days, one often hears the term "management according to *Li*." Usually translated as "rational management," *Li* has deeper implications. In its ancient meaning, it signified the orderly network within an organizational structure. Thus, *Li* embraces the concept that for any entity to function effectively – whether that entity be a company or even a nation – its organizational network must connect in an orderly manner.

In Greek philosophy during the 6th century B.C., the mainstream thinking was that all changes in the universe arose from the dynamic and cyclic interplay of opposites. This thinking bears a striking resemblance to Chinese Taoism. *Tao* is the cosmic process in which all things are in constant flow and change, represented by the "female *yin*" and the "male *yang*." This is diagrammatically represented by a rotational symmetric arrangement of the dark *yin* and the bright *yang*, depicting very forcefully a continuous cyclic movement. A dark dot at *yang*'s maximum and a bright dot at *yin*'s maximum symbolize the concept that each time one of the two polar forces reaches its extreme, it already contains in itself the seed of its opposite.

The *yin* and *yang* concept has profound influence upon all aspects of the traditional Chinese life as well as Chinese culture and philosophy. A famous Chinese philosopher, Chu Hsi, interpreted the previous concept, *Li*, as the principles and laws within the *yin* and the *yang*. That is to say, the functioning of all parts within an entity must be orderly and abide by certain principles.

I am not a political scientist or a politician. However, like many other people of Chinese origin, I am very concerned about the future

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development of Chinese society. Apparently, the bases of communism and democracy are polar opposites. However, as depicted by the *yin* and *yang*, they are cyclic and complementary. For example, the seed of a free economy was planted at the peak of the Chinese Cultural Revolution.

How do these concepts relate to Taiwan and the Mainland? Generally, China scholars have viewed the future of this relationship within the confines of either unification or independence. The means of unification include the Taiwan government's advocating "Reconquering the Mainland" during the earlier period and "Unification of China through the Three Principles of the People" in later years. The Mainland government's approach, meanwhile, went from the "Bloodbath Taiwan, Retrieve Taiwan" concept to the current "one country, two systems." Other proposals include federation, confederation, commonwealth, and the ever-present shadow of the Mainland taking over Taiwan by force.

Due to historical and other factors, the Mainland-Taiwan matter is extremely complicated. However, from the standpoint of *Tao* and *Li*, I would argue that Taiwan and the Mainland are two separate entities and not two organizations within a single entity.

Taiwan was created after an internal disruption with the Mainland, and after many decades the result is two separate entities. The important thing is to see clearly this present reality, cast away self-interests, and work together under the premise of no bloodshed. This should follow an orderly course in concert with the *Tao* so as to benefit the inhabitants of both sides of the Strait on a long-term basis.

Since Taiwan is, in reality, a complete entity, the "one country, two systems" concept is not appropriate. It would be as if a larger company took over a smaller company: no matter what the procedure might be, the end result would still be a takeover. However, if the better system of the smaller company were maintained even after the takeover, this would go against the *Tao*, resulting in eventual friction. In the end, annexation would prevail. The only possible good point might be that the larger company might absorb some of the smaller company's better qualities, but even this consequence is not definite.

Given that Taiwan and the Mainland are both complete entities, the concept of federation is also not possible. In many cases, a federation is a good system in governing large nations, but fundamentally it has a

central government and is basically led by the central government. The United States of America is, of course, a complete entity, each state being an organization within that entity, within which organization there is an orderly network. In practice, even the order within each sub-organization is mostly established by the federal government. Clearly, then, a federation is a system worthy of consideration by the Mainland government, but at this stage, it cannot be connected with Mainland-Taiwan relations.

Let us now consider a commonwealth approach. The most obvious example is the British Commonwealth of Nations. In time, many former British colonies declared independence. However, because of the deep influence of the British political and legal systems within these countries, they still maintained the British Monarchy as their symbolic representation. The systems within the Mainland and Taiwan are not similar, but considering the present circumstances and the blood relationship, a certain degree of symbolic union is not totally inappropriate. The problem is the lack of a suitable symbolic representation. However, if governments on both sides of the Taiwan Strait can face reality and proceed in accordance with the *Tao*, then commonwealth is an idea worthy of consideration.

Confederation is another concept worthy of consideration. This involves a combination of independent states jointly conducting certain governmental functions, such as defense or customs. Confederation on a case-by-case basis is, of course, flexible to a certain degree. Historically, confederations often have involved military cooperation, such as in the Confederate States of America.

Other forms of association between nations include alliances, which provide for mutual benefits, and leagues, which stress formality of organization and definiteness of purpose.

Concerning the Mainland-Taiwan situation at this point in time, the concepts of commonwealth, confederation, alliance, or league are merely political terms, far from the present political reality. Even the mere mention of some degree of unification sparks vehement opposition from strong advocates of Taiwan independence. Moreover, opponents declare that Taiwan has, in reality, been independent for several decades and that most people in Taiwan believe that maintaining self-government is extremely important for future economic and democratic developments in the ROC. However, in view of the extreme

complexity of the Mainland-Taiwan relationship, there remains the possibility of a threat from the Mainland or a naval blockade. Ostensibly, if Taiwan clearly steered itself toward independence, then serious internal and external problems would ensue.

I believe that the stagnant state of affairs between the two sides of the Taiwan Strait is a political problem and must be approached by political means. In terms of *Tao* and *Li*, the harmony between the two sides has been seriously hindered, and the chance of clearing the roadblocks depends on whether appropriate circumstances can be created for a cooperative effort. Such circumstances must not allow either side to lose "face." This would necessitate that initial bilateral discussions be held on an unofficial basis.

In order to comprehend the present and perceive a future course in concert with the *Tao*, history is always a good guide. The U.S. and Taiwan officially severed relationships many years ago but still maintain very close ties. Taiwan has an island economy without natural resources, and the U.S. is still its most important export market. After the breakup of diplomatic relations, the U.S. set up the American Institute in Taiwan in Washington under a corporate structure. This corporation then established a branch office in Taipei. The person in charge of this office has the title of Director, American Institute in Taiwan, Taipei Office. In reality, he carries out many ambassadorial functions. Furthermore, the Director is usually a diplomat of the U.S. government, often of ambassadorial rank.

The Mainland-Taiwan affair is more complicated than the U.S.-Taiwan relationship so that exactly the same model cannot be utilized. However, this model can form a very good base for further innovation, and it provides a precedent for unofficial but visible contact. Perhaps Taiwan could incorporate a company called the "Taiwan Institute on the Mainland." The Mainland can set up a "Mainland Institute in Taiwan." Then, these two companies can form a joint committee. The name of this committee could be the "Friendship Committee of the Chinese People." This committee can be organized under a corporate or foundation structure and set up in a location outside of the Mainland and Taiwan, possibly in the U.S. This committee could engage the services of well-known senior consultants experienced in governmental, business, or academic sectors from the United States and other advanced nations. On the one hand, it will be very valuable to learn

from the experience of these distinguished persons; on the other hand, through this channel, it will then be possible for other nations to participate in committee discussion from the very beginning so that the eventual outcome will be more acceptable in the international arena. At an appropriate time after the establishment of this Friendship Committee, branch offices can be opened in Taipei and Beijing. These branch offices can communicate with the appropriate aforementioned Institute corporations and eventually even contact the relevant government directly.

The first task of this committee can be the initiation of discussions on topics that are not politically sensitive but are of great importance to the people on both sides of the Taiwan Strait. For example: the economic realm. Currently, Taiwan's money-management skills and technical know-how of consumer industries are what is most needed by the Mainland. In return, Taiwan cannot ignore the Mainland's development potential. Yet the Mainland is trying to maintain communism in the political arena, while facing the already difficult task of building consumer industries without an adequate foundation. Within the continuous and dynamic whirlpool of the *yin* and *yang*, this conflict can then be transformed into yearning for economic cooperation between the peoples on both sides of the Taiwan Strait. Take the "downstream processing" industries, for example. Although these industries are labor intensive, they also demand a certain technical level. Moreover, in order to meet the ever higher quality demand on these products by the international market, higher and higher technical levels will be needed. Also, the development of a complete downstream industry necessitates an integral development of many upstream and satellite industries.

In the past few years, the Mainland has encouraged these industries by allowing joint ventures with foreign companies and encouraging investments from abroad. However, in practice, given the conditions on the Mainland, foreign firms very often bring in old equipment and dated technology. Thus, many foreign partners in joint venture companies place their priority on making profits from new equipment and have very little incentive in exerting efforts to train workers or to manage these companies. Conversely, on the Taiwan side, look at the example of the petrochemical industry, which accounts for about 37 percent of Taiwan's total industrial output. After forty years of hard

work under a policy of nonprotectionism, Taiwan has built up a sound integral petrochemical industry consisting of upstream, middle stream, and downstream processors together with good interconnecting networks as well as the necessary satellite industries. The result is that its petrochemical end-products are competitive on a worldwide basis.

Recognizing the current situation, it is not difficult to comprehend that, if the two sides of the Taiwan Strait can work out a plan of economic cooperation, Taiwan can best contribute to the Mainland's development on a solid economic basis. As the Mainland continues on the path toward a freer economy, the intrinsic entrepreneurial nature of the Chinese people will transform naturally the conflict between communism and a free economy into a strength that will direct the nation onto an irreversible path of changing political and social structures. As time goes by, these changes will gradually push the Mainland into adopting a more and more democratic system, which will greatly benefit Taiwan and the entire free world.

As far as Taiwan is concerned, because of external and particularly internal changes, the competitive strength of Taiwanese products in the international market has weakened substantially. This consideration and the fact that Taiwan has a very small domestic market make it necessary for Taiwan to carve out another path for economic survival and future development. At this point in time, utilizing more economic factors of production on the Mainland and penetrating the Mainland's market is a very attractive route.

Clearly, the first task of the Friendship Committee of the Chinese People should be the initiation of discussions on economic cooperation between the Mainland and Taiwan. Also, since the roots of traditional Chinese medicine are on the Mainland, another topic worthy of discussion is medical exchange and cooperation. The most important initial outcome from such an arrangement is the possibility that, without losing face, all concerned parties can visibly exert a cooperative effort in clearing the blocked network between the two sides of the Taiwan Strait. Of course, to arrive at a healthy system, the interconnecting network between the two sides has to connect further with the internal networks of both the Mainland and Taiwan. These considerations, from the philosophical standpoint of *Tao* and *Li*, will inevitably cause the *yin* and *yang* to circulate even faster.

The Future of Hong Kong After Tiananmen Square

by Martin Lee

You have all been following the events of China very closely, no doubt. Let me tell you what a cartoonist in the *South China Morning Post* thought of this. There was this expatriate chap in Hong Kong proposing marriage to a girl, Lily Wong. Her initial answer was, "My future with you is something like the future of Hong Kong, and so the answer is no." The following day, the man said, "Lily, I know you don't love me, but, think of your passport. I hold an American passport. Surely you'd like to leave Hong Kong, wouldn't you Lily?" To this Lily said, "All right, after giving the matter a lot of thought, yes, I'll marry you." The final picture showed this man thinking, and he said "Thank you, Li Peng."

Now, there is something we in Hong Kong have to thank Li Peng for. It was he who brought the people of Hong Kong together. For years the people of Hong Kong were described as selfish, concerned only with making money and going to the races. So when the leaders of China conceived their one country-two systems formula, they promised life would go on as before; they said horses would run as before; and they said the people of Hong Kong could dance just as before. As long as they promised these things, Beijing thought that Hong Kong would be appeased. That image is now gone, thanks to Li Peng.

After Li Peng declared martial law in China, Hong Kong protested immediately by organizing a demonstration. But unfortunately for the organizers, myself included, a number-eight typhoon signal was hoisted quite early that morning. So I thought that we should cancel the protest, but my people were adamant. I said, "People could be killed by falling objects." They said, "Too bad. We've got to get on with it. Would you come to deliver a speech?" I said, "If you don't cancel, of course, I'll be there." Fifty thousand people turned up in the face of

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terrible rain and howling winds. We were armed with raincoats and umbrellas. At the end of the walk, I found myself standing on a little platform, erected outside the New China News Agency headquarters. I could hardly stand because the wind was so strong. The organizers said, "Please, put down the umbrellas because it blocks the view of the people behind you." In five seconds, all the umbrellas came down. And they were sitting there, in the rain, on the road. I was never so moved in my life.

The following day was much better. The sun came out. The typhoon was gone. And one million people turned up. Of course, the government has since challenged the figures, and I asked them "How many do you say? They said, "Well, maybe three quarters of a million." Three quarters of a million even, out of a total population of five and a half, is a very, very large figure indeed!

The following Sunday, the Chinese students were thinking of putting an end to their demonstration. But they wanted to end their demonstration with a bang, so they called upon Chinese communities all over the world to join them in their demonstration one more time. So we organized, rather hastily, another demonstration. I believe that more people turned up that day even than the earlier Sunday, but the government figures were slightly less than before, so I said "How many?" They said, "Slightly less than three quarters of a million people."

The people of Hong Kong were never so united, thanks to Li Peng. Chinese people all over the world were never so united as now. During all these demonstrations, those who were formerly branded as pro-China cooperationist – those working in state-owned Chinese banks, semi-state-owned corporations, and the pro-communist federation of credit unions, marched alongside me, condemning the administration of Li Peng and asking him to step down. That is a good sign.

Therein also lies our fear for the future. What is going to happen to the people of Hong Kong? Those who have stood up against this regime? Recently, you saw how Deng Xiaoping and his cronies stood and observed one minute of silence in memory of the few soldiers who lost their lives. During the massacre, we in Hong Kong stood, also, in silence, but in memory of those many more who died on the other side. Because the students' movement has been condemned as counter-revolutionary, likewise the whole of Hong Kong is in rebellion in the

minds of the Chinese leadership. And we all know how long the memory of the communists can last. That is what Hong Kong fears.

In an interview with the BBC recently, I said that handing over five and a half million peace-loving people in Hong Kong in 1997 is like handing over five and a half million Jews to Nazi Germany, during the Second World War. Three and a quarter million Chinese people now living in Hong Kong were born as British subjects, and most at a time when they were entitled to enter and live in the United Kingdom. But by successive acts of Parliament, commencing in the 1960s, that right of abode has been taken away. The British passport we now hold is a passport that will get us to – nowhere. This passport is called "BNO," meaning "British Nationals Overseas." In Hong Kong, we joke about it. We call it "British? – NO."

And the British government's response to this continues to be discouraging. Foreign Minister Sir Geoffrey Howe has said the British government will not attempt to renegotiate with the Chinese the clause in the Joint Declaration concerning the stationing of the People's Liberation Army in Hong Kong. Although no one in Hong Kong will feel comfortable until that clause is removed, Sir Geoffrey remains unresponsive. Moreover, when I suggested in a recent meeting with him that we must install full democracy in Hong Kong before 1997, that Hong Kong people can no longer trust the communists, Sir Geoffrey Howe's answer was, "We must think of continuity." "Continuity," in that context, was a new word for "convergence." And the word "convergence" has become an embarrassment to Britain's Foreign Office. One minister responsible for Hong Kong, whom we now call Timothy "Convergence" Rentin, used the word eight times in a recent trip to Beijing. Convergence or continuity means simply that the British will not dare to introduce democracy into Hong Kong until and unless the Basic Law has been promulgated.

Considering these circumstances, we in Hong Kong have begun to demand the right of abode in England. Again the British response is discouraging. They promise some degree of "flexibility." This probably means that civil servants will, in the end, be granted free passage into Great Britain. Why civil servants and not ordinary people? The answer is simple. Hong Kong's civil servants are, and have been, loyal to one government: the British government. Considering events of

recent weeks, Whitehall surely knows that no Hong Kong government official will want to serve the repressive Peking regime.

Thus, England's formula for dealing with Hong Kong seems to be the "no" formula. "No" to renegotiation over the stationing of the PLA in Hong Kong. "No" to genuine democracy before 1997. "No" to passports.

I would like you to think of the fellow living in Hong Kong, not being able to leave Hong Kong for countries like Canada, Australia, U.S.A., and so on. He says to himself, "What can I do? If I fight for democracy after 1997, I run the risk of being shot and killed by the PLA soldiers." Presumably it will be the 27th Division stationed in Hong Kong. If he does not fight for democracy, then he must shut up and live like a slave, given only what the Party leadership allows. In short, if he cannot leave now, he will be imprisoned. And he will be frustrated. He will grow unruly. He will take to the streets whenever there are other people there throwing stones. He will join them. Hong Kong will become ungovernable. Sir Geoffrey Howe's formula is bound to lead to disaster for Hong Kong. Perhaps Sir Geoffrey Howe should be addressed as "Sir Geoffrey, How?"

Guest: I am Alan MacDougall, I work for Senator Frank Murkowski. What leverage do you think the U.S. has in this situation? We are not notoriously good at getting the British to do what we want them to do.

Martin Lee: Neil Kinnock used to observe that, when former President Ronald Reagan asked Margaret Thatcher to jump, she said "How high?"

What can the U.S. government do? First of all, the U.S. government must show the Chinese government, that the U.S., as a nation, cares what is happening in Hong Kong. This should be done at every possible occasion, from cocktail parties to high- level government contacts. You do not have to ask about Hong Kong all the time. You can ask discrete questions. Dipomats know best. But you must show that you are concerned about Hong Kong.

And there is good reason why you should be. Six billion U.S. dollars are invested in Hong Kong. That investment could be jeopardized, because I cannot believe that China will continue with the open economy policy, as for the past ten years under the Deng Xiaoping regime. Indeed, that policy, it seems to me, has to go. Deng Xiaoping

has, in effect, surrendered to Chen Zhun and his gang. I am told that China will very soon adopt a state-controlled economy on everything. This will, of course, be difficult to swallow, especially for the farmers, because over the last decade of reforms, they have fared very well. It will also be difficult for people working in the cities, in businesses like hotels and taxis, because they are making tons of money. If you impose a controlled economy, it will be very difficult for people who have come to know wealth to agree to give it up. When you have tasted wealth, and some freedom, it is like letting the genie out of the bottle. How do you put it back? That is going to be the problem.

Economically, Hong Kong will suffer too. There is no doubt. I think the container business will drop very quickly. Property markets are already dropping. Even the Bank of China itself has speculated that there will be a 30 percent drop across the board.

China will not be the same again. The economy will not be the same. But what has China gone back to? Twenty years back? All the good during these ten years is now undone. Hong Kong will not be the same again. In such light, maybe we have to think twice whether it is such a good idea for Hong Kong to be so dependent on the economy of China. We just do not know which way the pendulum will go. One thing is sure, the pendulum will keep on swinging, left ... right, left ... right. The trouble is, we don't even know whether it has reached its zenith on the left hand side now.

China and Hong Kong will not be the same again in a totally different way too, because the Chinese people have now started to yearn for democracy and freedom. Many Chinese students have been sent overseas. Although not many of them have returned, they have been writing back to their parents and family. They have tasted freedom. Can you imagine ordering these people to study Deng Xiaoping's speech and try to think as he did? How sad. This is the one thing that upsets me the most. To order everybody in China to think in the same way as the paramount leader, when, according to many people, he is plainly mad. Let us hope that, in the not too distant future, the reign of terror will come to an end. And then, maybe for the first time in China's long history, we will have democracy. I am afraid, however, it is going to be a long process.

Mr. Allen: Just to follow up on the question you just responded to. "What leverage does the U.S. have?" I really do not think that Margaret Thatcher jumped as high as Ronald Reagan would have liked her to jump. In fact, I think it was quite the reverse, since I knew something about that relationship, from its beginnings in 1977-1978. Whatever it was, today we have George Bush as President of the U.S. It has been said that Margaret Thatcher does not regard him very highly; that is also inaccurate. Mrs. Thatcher has long regarded George Bush, in my certain knowledge, very highly, evaluating him as an excellent potential successor to Ronald Reagan. But what would you like to see the U.S., under ideal circumstances, do? That is, what would you, Martin Lee, like to see happen in the U.S.? You must know that there will be a price to pay if the U.S. should decide to intervene. We have no objection, certainly not here at The Heritage Foundation, to intervening to protect people and to protect democracy and extend the cause of freedom. What would you like to see emanate from Washington? Just mention Hong Kong from time to time? We have to do more than that in order to mobilize a consensus in the U.S. Give us some guidelines of what you think you would like to see happen, because we are interested in this cause.

Martin Lee: I will tell you what I would like to see happen, and then you apply your brains to it and see how you can make it work for us.

It is the opposite of what Sir Geoffrey Howe wants to do. One, renegotiate with the Chinese to remove the clause concerning the stationing of PLA troops in Hong Kong. This is not a difficult task. That is assuming that this regime will settle down somewhat and not be afraid of losing its grip on China. When they are afraid of that — of losing their grip on China — they will sacrifice anything and everybody for the country.

When they settle down, the British should sit down with them and ask seriously whether Beijing wants to receive Hong Kong on the first of July 1997 as a thriving international city? If they answer yes, then to tell them that it is not going to happen unless London and Peking do something quickly. Confidence is almost nil. We must rebuild it immediately, before all the best people leave Hong Kong.

The second thing is, of course, the Basic Law must be revised. Drastically. We must make sure that the Chinese Constitution will not

apply in total to Hong Kong. I raised this point again and again at Basic Law Drafting Committee meetings, and I was given the oral assurance, again and again by Mainland members, that those articles in the Chinese Constitution that pertain to the socialist system of course shall not apply to Hong Kong because Hong Kong will be a capitalist system. But so far I have nothing but words from them. There is nothing in writing. Why does this worry me? One of the four cardinal principles, for example, stated in the Preamble talks about the leadership of the Chinese Communist Party. Surely that one has to go, otherwise the whole of Hong Kong will be under the leadership of the Chinese Communist Party.

We must also make sure that only the Chief Executive can decide whether Hong Kong is in a state of turmoil and therefore allowed to declare martial law. It is important that only he decide; not somebody in Beijing. Otherwise we could have Li Peng or somebody like him declaring a state of martial law for Hong Kong, when what was happening was simply a peaceful demonstration of a million people against Li Peng. And therefore, the Chief Executive must be democratically elected from the first day of the Special Economic Region (SER), that is the first of July 1997, so that he will be accountable to the people. The legislature, too, must be directly elected. Representative legislature is absolutely necessary for the government to be accountable to the people.

Other points: the right to interpret the Basic Law must be given only to the Hong Kong courts. Under the common law system only the courts can determine our Basic Law, which will be our mini-Constitution, just as only the U.S. courts can interpret the U.S. Constitution, and not Congress.

And it is important that the Basic Law, and any other laws passed by the Hong Kong legislature not be reviewed by the Standing Committee of the National People's Congress, as currently provided for in the second draft of the Basic Law. Only the courts should be able to decide whether a particular law passes the Constitution, whether it infringes the Basic Law or not.

We also need human rights provisions. There is already a reference in the Basic Law to the international covenants for civil and political rights. It still is not quite embodied in the Basic Law under the second draft. The British government should beef up the present human rights

provisions by signing the Protocol to the International Covenant for Human Rights so that individuals in Hong Kong can take their grievances to the Human Rights Commission in Europe. As of now, neither the British government nor the Chinese government have signed that Protocol. A Bill of Rights should be passed immediately in Hong Kong. And then, there is the matter of democracy. As I have said, we need a fully established democracy in Hong Kong before 1997 to make certain the government serves the interests of the people of Hong Kong and not the party leaders in Peking.

We also need passports. In this context passports are not negative. Because if we are promised by the British government that everybody in Hong Kong will be looked after, not just those with British passports, but the other people, who have risked their lives swimming in shark-infested waters to Hong Kong, or stealing across the border some years ago, we would have no reason to leave. So, if we do not want people to leave, we must devise a formula whereby the people of Hong Kong can be persuaded to stay. Because if everybody leaves, Hong Kong will be empty in 1997. That will not do because the Chinese would send a whole new population to Hong Kong, and it would be a different Hong Kong altogether. However, if the British government were to promise the people of Hong Kong that they did not have to worry, that if anything should go wrong they could leave Hong Kong, they would be reassured and would be encouraged to stay. There is no need for Great Britain to take the whole burden by itself. Assurances could be given by the U.S. and other countries.

Now, and finally, because these are still not enough, because the soldiers could still come to Hong Kong and destroy everything. I want some United Nations involvement in Hong Kong. Now I have not actually thought it through yet, but there are so many brains here tonight that I would like you to help me. We must have the U.N.'s involvement to make the whole thing work. Otherwise, confidence will remain at zero, and people will go away. Now, that is my package. You will say, "Well, it is pretty close to independence," and you will be right. Because that is the one word I cannot mention in Hong Kong. It is taboo. If we were to go for independence now, the Chinese troops would come to Hong Kong, immediately, because it would be a breach of the Joint Declaration. Beijing would say: "We want sovereignty over Hong Kong in 1997, so how can you be independent?"

I cannot mention it myself in Hong Kong, but there is no reason not to mention it over here. The British will have to say no, but they are more than welcome to say yes. This package gets us very close to independence, and I have also talked in Hong Kong of another concept of "confederacy," but again, confederacy would involve two sovereign states. Taiwan is talking of "one country-two equal governments," which is not that much different. It is better than a federal state, where the central government has too much power. I think we should have a totally fresh look at all aspects of the Hong Kong governing structure in the light of the Tiananmen Square massacre. Because unless massive changes in the Basic Law are made, the British government simply cannot deliver a Hong Kong that is a thriving international city. Now, it will not be in China's interest to receive a Hong Kong that is not a thriving international city, so they have their own interests to protect in making these changes.

Dr. Prybyla: Mr. Lee, you are very deeply imbued with the British sense of the rule of law. I believe that China and other communist countries are lawless societies, in the sense that they have many laws, but no concept of legal order. So, no matter what you put in the Basic Law of Hong Kong, it does not really matter. I just want to quote to you our old friend Joseph Vissarionovich Stalin, who said, "Paper will put up with anything written on it." I would like your reaction.

Martin Lee: I quite agree. I know the limitations of this package. Democracy, for example, will not shut out China. Because in the end what can we do? I have compared the institution of democracy in Hong Kong to the erection of a paper door between two rooms. It is a paper door so, if you do not want to give face to the person on the other side, you can just walk through it. But if you have respect for that person, you will knock on the wood frame before you enter. And that is what democracy can do for us. No more than that. We have to still count on the good will of China in thinking that it would be in their interest to knock on that door somewhere, before barging in and running the risk of ruining our economy. And that is why, I think, in the end, we must bring in the United Nations. That is where the most effective control to Beijing would be. It will not be easy. But then, independence is out of the question. We are in a very difficult spot. It would be foolish for me to pretend that the rule of law, what is written on the paper, will

be worth what it is written on, after 1997. Look at the Chinese Constitution, article 35: It promises every citizen of China freedom of speech, of the press, of assembly, of demonstration. What a joke. The world saw how peaceful those demonstrations were. And the Chinese government said, "turmoil." They said "turmoil" first, and then they created turmoil by sending the troops in, and turning all these students into criminals. Even though the night before certain Chinese leaders were still saying that the students were patriotic in their demands.

I entirely agree with your point. Paper, and the words on it, are worth nothing when the government believes in the rule of tanks and machine guns. But what other alternative do we have?

Dr. West: Mr. Lee, may I make a suggestion? You are not going to like this suggestion, but one of the things I think we have learned from the events in Tiananmen Square and elsewhere is that there is a terrible price to be paid for the kinds of things you want. As drastic as it may seem, I suspect that your community in Hong Kong is the only one that can initiate enough conditions to gain the support of the international community. I hope you are not sitting there hoping that you can gain the support of the international community when things are still peaceful. I wish it were so, but I rather suspect that a fairly strong price will have to paid before we all get motivated enough to do something about it. I guess what I am suggesting is probably the hardest of all things. Go read about Patrick Henry, and see how its done.

Martin Lee: Some people are thinking along those lines, I can assure you. But this is so dangerous. Even the thought is dangerous. Because that would bring in the soldiers. Let me just give you one example as to how cowardly some of my colleagues at the Legislative Council are. Somebody proposed that it may be a good idea for the legislators of Hong Kong collectively to nominate the university students in China during this democratic movement for the Nobel Peace Prize. But the majority of my colleagues said, "No, no, no, that's too confrontational." I was shocked. We are talking about a peace prize. So I said, "I don't care what you guys think, I will nominate them. If you want to join me, fine. If you don't want to join me, you may speak to the press."

But we have reached already the stage of intimidation from Beijing. The communists are experts at frightening people. They spread rumors about tanks already being in "Shenzhen," and people say to me:

"No, no, no... you musn't antagonize them. You musn't cause them to drive tanks over to Hong Kong." So I know that is our fate, I know we have to do something ourselves. But I will always believe that Hong Kong cannot keep its fight within Hong Kong. That is why I am here.

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