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THE  
**2013 B. C. Lee Lecture**

*Featuring*

The Honorable Ed Royce

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Delivered Wednesday, March 20, 2013

WASHINGTON, DC

The B. C. Lee Lectures

# The Enduring Legacy of America's Commitment to Asia

The Honorable Ed Royce

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The Heritage Foundation is honored to present the B. C. Lee Lectures on international affairs. These lectures focus on U.S. relations with the Asia–Pacific region. They are funded by an endowment from the Samsung Group in honor of the late B. C. Lee, the corporation’s founder.

The Heritage Foundation has also taken great pride in dedicating an executive conference room to the memory of B. C. Lee. Mr. Lee was a true visionary. Through his leadership, Samsung contributed greatly both to the economic development and well-being of the Korean people and to the development of mutually beneficial relations between the people of the Republic of Korea and the United States.

The Heritage Foundation’s Asian Studies Center was established in 1983 to focus the attention of Washington policymakers on U.S. economic and security interests in the increasingly dynamic Asia–Pacific region. Its purpose is to promote mutual understanding and enhance cooperation between the United States and the countries of the Asia–Pacific region.

## B. C. Lee Lecturers

1995	Henry Kissinger
1996	Jesse Helms
1997	Benjamin Gilman
1998	Donald Rumsfeld
1999	Edwin Meese III
2000	Paul Wolfowitz
2001	Doug Bereuter
2002	Henry Hyde
2003	Richard Lugar
2004	Colin Powell
2006	Condoleezza Rice
2007	Henry Paulson
2008	Richard Allen
2010	Stephen J. Hadley
2011	Joseph I. Lieberman
2013	Ed Royce

## Abstract

The enduring legacy of America's commitment to the Asia–Pacific region is the long-term economic prosperity at the heart of Asia's dynamic evolution. As a result of the free market and open trading system that the U.S. has helped to build, many Asian countries have enjoyed unprecedented prosperity, as has the United States. None of this prosperity would have been possible without the stability that America's security umbrella brought to Asia. Today, however, Asia's collective attention is gradually shifting from economic prosperity to security concerns. We must somehow find a way to reinvigorate our engagement in Asia not for fear that we may be left out, but so that we can once again move the focus squarely back to economic prosperity.

# The Enduring Legacy of America's Commitment to Asia

The Honorable Ed Royce

**EDWIN J. FEULNER:** I'm Ed Feulner. For the next 13 days, I am the president of The Heritage Foundation. I'm delighted to have with us this morning my successor as the new president of The Heritage Foundation, Senator Jim DeMint. Senator, we are very happy that you are able to join us this morning for our 16th annual B.C. Lee Lecture.

It's good to see so many friends here, and it's a particularly happy occasion for us to be able to co-host the reception afterwards with our good friend, the ambassador from the Republic of Korea, Ambassador Y. J. Choi. It's a very special time for Korea. We celebrate the first anniversary of KORUS,<sup>1</sup> and we celebrate and commemorate the 60th anniversary of the end of the Korean War.

Today, we have a number of other eminent guests who are here with us. From their New Jersey headquarters, we're happy to welcome Mr. M. J. Han representing the chairman of Samsung, Lee Kun-hee, our good friend and long-time member of The Heritage Foundation.

We're delighted to have so many members of the diplomatic corps here with us: Ambassador Hem Heng from Cambodia is here this morning; Ambassador Jose Cuisia from the Philippines is here; Ambassador Dino Djajal from Indonesia is here. We also have the deputy chiefs of mission from a number of Asian Pacific countries, including Australia, Canada, Japan, Singapore, Thailand, and Vietnam.

We have Hong Kong's Commissioner for Economic and Trade Affairs, Donald Tong, with us today, and it's always good to see him. Leo Lee from TECRO is here. I thank all of you for making a special effort to be with us here today to welcome the Chairman of the House Committee on Foreign Affairs.

Again, this is a confluence of several anniversaries: the 16th time we've convened to celebrate the life of the late chairman Lee Byung-chul, the founder of the Samsung Group, with a major address on Asia policy.

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1. The U.S.–Korea Free Trade Agreement, which entered into force on March 15, 2012.

Mr. Chairman, today you are succeeding a long line of distinguished speakers over the years. Our first B.C. Lee lecturer was former Secretary of State Henry Kissinger. Subsequently, we have heard from the chairman of the Senate Foreign Relations Committee, Senator Jesse Helms. We've heard from your predecessors, Ben Gilman and Henry Hyde, on the House Foreign Affairs Committee, and Donald Rumsfeld, Colin Powell, Condoleezza Rice, and others. Our most recent B.C. Lee lecturer was Senator Joe Lieberman.

So we have over the years, we think, made a significant and substantial contribution to American policymakers' understanding of the challenges we face in terms of our policies toward Asia.

This is also the 30th anniversary of the founding of The Heritage Foundation's Asian Studies Center. When Dick Allen and I started the Asian Studies Center back in 1983, it was our first dedicated foreign policy center. Back then, Asian security was all about what was happening in the Cold War. From that perspective, study of the Soviet Union might have made a lot more sense, but Dick and I, as we talked it through, talked about the potential that someday, U.S. trade with Asia would actually equal our trade across the Atlantic. Today, as you all know, it's much greater than our trade across the Atlantic.

We have been blessed by the insights of many dear friends in Asia. We have over the years seen the remarkable economic growth and economic development in Asia. It's been our very great pleasure to recognize economic freedom as it has evolved throughout Asia in specific countries, and indeed throughout the region. We always knew that our good friends in Japan, both the Mutual Defense Treaty and our bilateral general relationship, would be central, but we also thought that Asia deserved a broader treatment in its own right, so we really invested in the future.

As we look ahead in terms of our Asian Studies Center, we look to the range of foreign and strategic issues as well as economic policy issues. In fact, today they are all so interlinked that it is hard to distinguish one from the other. But today, as we look ahead, there is no one I can think of whom I would rather hear from and help us both to celebrate these anniversaries.

The chairman of the House Foreign Affairs Committee, Ed Royce, is an old friend of The Heritage Foundation. He is also a friend on foreign affairs. He has been actively involved in a very principled and substantial way with U.S. policy toward Asia since he first came to Congress 11 terms ago, representing California's 39th District. We are indeed very honored both to have the chairman here and also to have his wife with us. Marie, thank you for being here with us today.

As we look ahead, Mr. Chairman, we all understand that today, the world is a very dangerous place. I understand you've just come from chairing hearings on the current situation in Syria, which is certainly a flash point in the world today. It's our great pleasure to ask you to come up and share your insights with us on the United States, Asia, and the future.

—*Edwin J. Feulner retired as President of The Heritage Foundation on April 3, 2013.*



**THE HONORABLE ED ROYCE:** Good morning, Ambassador Choi, Marie, distinguished guests, ladies and gentlemen. I must tell you, I am delighted to be here.

They tell me that the B.C. Lee Lecture has a long and distinguished history; well, so has Ed Feulner. I just wanted to take a minute and thank him for the leadership that he has given this institution for so long. Also, I should say a word about Walter Lohman, director of the Asian Studies Center, and Nick Zahn, director of the Washington Roundtable for the Asia–Pacific Press, because without him we wouldn't have the Asia–Pacific press here today and we wouldn't have the Roundtable and its outreach.

Ambassador Choi and I were recently in California, and we were there with veterans of the Korean War. There is indeed a unique bond that exists between veterans and those that they fought so bravely to protect. We saw that bond there that day, and it is a reminder of the special relationship that exists between our countries that goes back some 60 years. But it is also a reminder that as that relationship has matured, so has South Korea evolved.

If we remember the situation after the devastation of the war, everything was in ashes. You see the photographs brought back by those GIs that show the absolute destruction that was on that peninsula. Today, as you go back to Seoul and you behold what has come to pass, it is phenomenal that at this 60th anniversary and at this one-year anniversary of our KORUS legislation—legislation which I co-authored—we are looking at a Korea that I think would have been unimaginable to that generation, to those men who accepted those awards from you that day, Ambassador Choi.

Think about some of this spirit and about B.C. Lee. He was so well known for his pioneering spirit, his willingness to commit to new markets even when their potential was not readily apparent. It was his willingness to take risks that propelled Samsung and propelled South Korea to the highest level of innovation and success. And that indeed is the foundation of capitalism itself: this entrepreneurial risk-taking and the ability to receive that reward, to take those risks, and thus engender that type of growth.

## **Dynamic Evolution in Asia**

I believe that B.C. Lee would agree that the enduring legacy of America's commitment to the Asia–Pacific region is without a doubt the long-term economic prosperity that is at the heart of this dynamic evolution that we see in Asia. America's contribution to Asia's growth has been overwhelmingly positive, and a big part of that was the free market and open trading system that the U.S. helped build after the war. As a result, many Asian countries have enjoyed unprecedented prosperity, and so has the United States. Our nation is, after all, a Pacific power. For those of us in California, Asia is not the Far East. For us, it's the Near West.

None of this prosperity would have been possible without the stability that America's security umbrella brought to Asia, but what has been the norm for

generations is now starting to change. Perhaps the catalyst of this change is the perception, either rightly or wrongly, that the balance of power in Asia is undergoing a once-in-a-lifetime transformation.

What we are seeing is that Asia's collective attention is gradually shifting away from economic prosperity to security concerns. Where nations used to focus on trade and commerce, now they discuss nationalism, military budgets, and even provocative behavior. Look no further than the territorial disputes in the East China and South China Seas as prime examples.

For these reasons, we must shift away from the old approach, which unnecessarily divided the region and separated economic engagement from our political engagement. The old way of doing business is not only cumbersome, but it is becoming less relevant. We must somehow find a way to reinvigorate our engagement in Asia not for fear that we may be left out, but rather we must engage so that we can once again move the focus squarely back to economic prosperity.

## **Trade or Nationalism?**

This notable shift in focus from trade to nationalism worries me. That's why I believe there must be some urgency to this. We've seen the alternative before; there are no winners in arms races.

I selected Asia as the destination of my first overseas trip to send an unmistakable message that the region is critically important to the United States. I was heartened by the warm welcome that my Ranking Member and I received in Japan and in Taiwan, in the Philippines, in China, and in South Korea.

During our visit, three issues dominated our discussions: North Korea, territorial disputes, and economic prosperity. The region has changed so much that the old way of doing business will not help us achieve our objectives in the future.

- A fundamental restructuring of U.S. involvement in the Asia-Pacific will resolve the endless standoff with North Korea once and for all. India will no longer be artificially separated from the rest of Asia, and we will firmly anchor Taiwan into the global trading system.
- The U.S. must take an in-depth look at its relationship with China and find a balanced approach that takes into account America's interests while striving for a productive relationship.
- Finally, we must once again make America the most attractive location to do business for the Asia-Pacific region. Let's get the conversation back to economic prosperity and away from divisive nationalism.

## **Failure of America's North Korea Policy**

America's North Korea policy has been a failure by all measures, and that includes Democratic and Republican Administrations. Our inability to bring about real change inside North Korea has resulted in a region that is more insecure today

than it was during the '94 framework agreement, when that agreement promised a nuclear-free Korean peninsula. That approach has not worked.

Earlier this month, I called a hearing examining policy options for imposing a different approach, an approach that we tried in 2005 with Banco Delta Asia and the sanctions we placed on the financial system. I plan to introduce bipartisan legislation in the next few weeks with the Ranking Member to target North Korea's access to hard currency via its many illicit activities and use of foreign banks because the most expensive defense strategy is a nuclear weapons program.

The cost in hard currency to develop and maintain this is absolutely overwhelming. When I spoke to defectors who had been part of the weapons system or the missile system, they told me that when that was deployed in 2005–2006, they could not get parts. They had to close down the production. There wasn't the hard currency for the regime to pay its generals or certainly to run that program.

It is time that we thought long-term. If we do nothing, then it's almost a guarantee that North Korea will develop a nuclear warhead, will shrink that warhead, will place it on the top of an ICBM, and will plunge Northeast Asia into an open arms race. And the costs of that are going to be extraordinary.

## **A Bigger Role for India**

Looking toward South Asia, it behooves the U.S. to encourage better integration of India into the Asia–Pacific's broader economic trading system. We must include India not as a counterbalance to China, but because it makes economic sense. Indeed, many have advocated a larger role for India, but few have articulated why this greater role is in India's own self-interest. This is simple: economic prosperity. India is the world's largest democracy and will soon be one of the world's largest economies. Its involvement in Asia will be a welcome addition.

The U.S. must work with India to reduce its domestic constraints on growth and increase foreign direct investment. Reducing red tape, increasing the supply of electricity, improving the tax system, strengthening the ability to enforce contracts will all lift India's ranking and spur business growth in a way that has been missing thus far. Since Asia's economy is largely based on global supply chains, it is absolutely critical for India to enact reforms to liberalize its economy and tap into this regional market. This is how India anchors itself in the Asia–Pacific region, and we should do what we can to help leverage those reforms inside India.

That is why I believe the Administration must redouble its efforts to secure a U.S.–India bilateral investment treaty. Current negotiations are proceeding far too slowly. There are important issues to resolve, and it's going to take a concerted effort to make progress, but once the BIT is firmly in place, the U.S. should work with India on a free trade agreement that will foster more trade. We should also work with India on high-tech visas where both of our countries benefit.

## Taiwan, Trade, and Investment

I strongly believe that where goods and services cross borders, armies do not. If this isn't motivation enough, let's consider the fact that of the \$11 trillion in new wealth that is going to be generated worldwide over the next five years, half of that amount is going to be in Asia.

With this in mind, the United States must not shy away from including Taiwan in the broader international trading regime. For far too long, the discussion about Taiwan has been dominated by arms sales. This myopic approach to an island of 23 million people which boasts a world-class manufacturing sector is sadly inadequate. Taiwan is a robust democracy with a strong commitment to human rights, to free speech, to free markets.

So let's complete the U.S.-Taiwan Trade and Investment Framework Agreement, and then in short order let's begin negotiations toward a bilateral investment treaty. After that, it's onward to a U.S.-Taiwan free trade agreement.

## Dealing with the Rise of China

China's rise cannot be ignored, but it also does not need to be our collective obsession. The U.S. must engage China and seek a more productive relationship because it's in our best interest to make this relationship work. All the concerns about China, whether they are trade disputes or human rights, will never fully go away, but to choose a path of contentiousness really limits what we're able to achieve.

When it comes to China, it's likely that we will continue to have disagreements. Regardless of the issue, we have to keep talking and maintain open lines of communications. That is why I'm a strong advocate for increasing military-to-military exchanges between our two countries.

Unfortunately, the U.S. doesn't have quite the economic influence in Asia it once had to drive this agenda. The center of economic activity within Asia has shifted gradually away from the U.S. to China. Intraregional trade between China and Southeast Asia has also grown tremendously. Trade between China and Australia has grown. Even Japan is now more focused on the Chinese market than the American market, and while I fully support Japan's expressed interest to join the Trans-Pacific Partnership, that free trade agreement alone cannot reverse this trend.

## Better Education at Home

If the U.S. is going to remain an economic leader in Asia, if we are going to succeed, we need to get better at home. To do that, we must make the most of our human resources, and that requires better education here in the United States. We need more students studying math and studying science, and we must fully embrace the rich diversity of Asian Americans.

In my congressional district, for example, we have Chinese Americans, Taiwanese Americans, Korean Americans, Filipino Americans. In fact, there are 95 countries

of origin represented within the 39th Congressional District. I have long consulted with my constituents to better understand developments abroad, and many of my constituents are active in trading and investing in Asia, which is a source of our national wealth.

Last Congress, I sponsored legislation to make it easier for state universities in California to teach strategic languages, such as Chinese, so that our students are better equipped to do business and conduct diplomacy overseas. I am a strong advocate for increasing the number of visas for foreigners who receive advanced degrees in critical science, technology, engineering, and mathematics (STEM) fields.

In the U.S., 76 percent of all registered patents are from the top 10 patent-producing universities. They come from foreign students here in the U.S. who then become inventors. These foreign-born inventors are driving economic prosperity with their background in these hard sciences. In our current system, we welcome foreign students to the U.S., provide them the world's best education, and then send them home so that they can compete against us. Frankly, this makes no sense.

## Conclusion

America's current involvement in Asia must not be confined by the same old approaches that may have once served a purpose but are now woefully out of date. Indeed, we must harness the full potential of American ingenuity to address the spectrum of challenges we have before us.

This is how B.C. Lee built Samsung in the aftermath of the Korean War, and much like the mythical phoenix rising from the ashes, South Korea and Samsung are today truly world class. Together we can ensure that the future legacy of America's engagement in the Asia-Pacific region is focused on mutual economic prosperity. That's the focus which I bring and which I'm suggesting to you.

## Questions & Answers

**QUESTION:** There are fears that territorial disputes in the region, including the dispute between Vietnam and China and other countries, could spark Asia's next armed conflict. What are your thoughts on that? And briefly, you said in the Philippines recently that China should agree to face the Philippines—

**CHAIRMAN ROYCE:** What I said was that I understood why the Philippines would use the Law of the Sea to resolve this conflict. After all, efforts had been made to reach an agreement, to come to a mutually beneficial agreement, and that had failed. Therefore, the ability to petition and to have a resolution of this through that method was logical.

I think that the resolution of these disputes has to come by using the rule of law and that the dispute resolution mechanism that exists under treaties is an effective way to address this problem. Our diplomacy is based on urging governments not to use the type of nationalist rhetoric that leads to confrontation, but instead to work multinationally in order to resolve disputes. We can see periods in the past when

nations with competing claims came very close to resolution, and unfortunately, because of nationalist voices in both countries, we failed to achieve that opportunity to resolve a situation.

That's why I think the U.S. can play an important role here. We can be a constant reminder of what the consequences will be to the capital markets, what the consequences will be in terms of contraction and failure to see economic growth, if indeed you set off the rhetoric which then leads to escalation and then leads to constriction of trade, constriction of confidence in a region. This right now is a very great challenge for the United States, and it's a challenge because of, in some ways, the rise of this nationalist rhetoric.

The diplomatic corps is here today; I see them nodding their heads in agreement. We all need to remind the political class of this, as well as foreign heads of state, because we all can lead this world back to a more reasoned and careful discourse over these issues in which the resolution can be mutually beneficial.

**AMBASSADOR DINO DJALAL:** First of all, thank you for the excellent presentation. I agree with you that nationalism is a big challenge in Asia; especially at a time of rising prosperity, people feel more pride.

The only point I would like to make is that perhaps it's not nationalism by itself; it's a question of how Asian nations can evolve the right kind of nationalism, which is an open, moderate, tolerant, and pluralistic nationalism as opposed to narrow-minded, inward-looking, arrogant ultranationalism. Nationalism I think is good, but it's which kind of nationalism are we able to evoke in Asia?

**CHAIRMAN ROYCE:** I don't think I could have put that better myself. You're right.

**QUESTION:** Thanks very much for coming and speaking about this topic. You talked a lot about economics and economic prosperity for the region. I'm wondering how that affects the discussion about human rights, particularly with China. In your position, would you be pushing for an independent investigation into the treatment of Falun Gong practitioners in China?

**CHAIRMAN ROYCE:** Let me explain my position on human rights. I sponsored legislation some years ago trying to draw on an experience that I had in the early '80s. I was on an exchange program in East Germany at the very time that we were changing our strategy with respect to Radio Free Europe/Radio Liberty. Instead of the old West German information that was coming in, there was a transition to using recent East German and Pole and Czech defectors.

As a result of these young people, who really had their finger on the pulse, giving information in real time about what was going on in Eastern Europe, I watched attitudes change. I had an opportunity in the evenings to listen to East Germans tell me about how they were changing their attitude about their totalitarian system and how much they wanted freedom of speech. They were learning about political pluralism; they were embracing the concept of a more open and democratic system; and in very short order, that came about.

My hope has always been that Radio Free Asia—and I had the legislation to make that permanent—which broadcasts into countries that don't otherwise have a free press—will provide that opportunity for a surrogate free press. But what's important here is that the voices need to be reporters who are recently from that country. We have also expanded this into North Korea in some major ways.

So you have two factors changing North Korea today. One is the broadcasts where North Koreans are now on the air explaining what's really happening inside the country and our radio program to move these transistor radios over the border, but also interesting is the impact of South Korean dramas. They're rather addictive, but especially so for North Koreans, because when they watch them, they suddenly realize the difference between the prosperity in the South and the dire circumstances that they are in, and they begin to ask questions.

Here's the point: Over the last 10 years, the attitudes of those defecting from the North through China—and I've interviewed a lot of them on my trips to Asia over the years—have really changed with respect to the North Korean regime. The influx of information across the rest of Asia, from Burma to China to Vietnam, is also changing people's attitudes. So I think the best way to approach this is to allow reporters who are qualified, who are recently from those countries, to have access and to broadcast in their countries.

**HARRY WU:** How are you going to respond to the recent arrest of a Chinese agent in NASA? Second, I want to ask about China's human rights issue. China has 13 million forced abortions every year, and China has a major number of executions and a couple thousand organ transplants a year, number two country of the world. This is a very large human rights issue. I hope you can talk about the human rights issue much more than economic trade with China.

**CHAIRMAN ROYCE:** I think that both issues are important. It is important to engage China economically.

I think the evolution in terms of human rights is partly dependent upon what we do to put information into China about what's happening on the ground in real time in order to expose these types of abuses. That is best done through Radio Free Asia, but it is also done through other legislation that we have enacted in which we have an institution here on the Hill which elevates human rights and gets that information out into the international press.

So it's partly getting the information out into the international press. It's partly through the Internet, giving the information to press inside China. But it's also partly Radio Free Asia broadcasting this dialogue about these issues.

We have seen how much China has changed. I remember a discussion that I had with Richard Nixon on his last trip to the House. He gave a speech to the House, and because I represented part of his old district, he suggested I come over to the Senate and hear what he had to say. His focus was on how we could eventually evolve societies toward a respect for more ideals like the ones we're talking about. He thought that to ignore the society or try to cut it off probably wouldn't work, but that the engagement strategy might lead to some very real changes over time.

Part of that is our responsibility. There are journalists here, and the journalists here have a responsibility on these types of human rights issues to broadcast that, to carry that message, to have everyone understand what is really happening. And that pressure is the type of pressure that forces a change within a society.

So we routinely discuss these issues. We routinely advocate them in the House of Representatives from the forums that we have here. But we're also doing it in country now.

**QUESTION:** I'm with China News Service in Hong Kong. Last month when you visited Beijing, you had the opportunity to meet with Li Keqiang, who became the new premier a couple days ago. What's your impression of the new Chinese leaders? What do you expect from them regarding U.S.–China relations? You emphasize that the United States should engage more with China; do you think the current mechanisms and exchange channels are enough?

**CHAIRMAN ROYCE:** I think it is wise to have more exchanges between Members of Congress and China. We know the issues that we are pushing for in terms of reform: We want to see a two-way street in terms of trade, we want to see access to markets in China for our exports, we want to see these human rights issues addressed. We also hope to see the types of reforms that will bring about more personal freedom in China.

But for all of this dialogue to occur, it's necessary to have exchanges between officials there and officials in the U.S., and it's also necessary to continue the broadcasting work that I'm talking about so that people understand the full range of issues that are under discussion.

**AMBASSADOR JOSE CUISIA:** Thank you for your very comprehensive presentation. The TPP, which is being pushed by the U.S., does not include all ASEAN countries.<sup>2</sup> There are only four countries. It does not include Indonesia, Thailand, the Philippines, and three other ASEAN countries, whereas the regional comprehensive economic partnership, or RCEP, includes all the countries in ASEAN plus China, India, Japan, Korea, Australia, and New Zealand, and this is what seems to be more appealing to the ASEAN countries.

The other thing is that the U.S. does not have a free trade agreement with ASEAN. ASEAN has free trade agreements with all the countries I mentioned, so it seems that the TPP is less inclusive than the RCEP. What would your thoughts be? You were talking about economic prosperity, and of course, the larger that group is, the better. And that's what the RCEP is turning out to be.

**CHAIRMAN ROYCE:** I think we've started the process of TPP. It can certainly be expanded. It's a good framework; we're in negotiations right now that have proved promising. Japan has recently announced its intention to join, and I suspect that as we go forward, there will be more nations engaged in this process. So I would look at it as just the opening of a strategy which will later be expanded and more inclusive.

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2. The Association of Southeast Asian Nations, established in August 1967 in Bangkok, Thailand.



**QUESTION:** I'm of South Asian descent, working on Kashmir affairs, and you have been extremely kind to us in the past on the whole Kashmir issue. My question today, with due courtesy to Ambassador Choi, deals with a bilateral issue between the U.S. and South Korea, the 123 Agreement.

You know that that's an issue that's still going back and forth between the State Department and folks in Seoul As chairman of the Foreign Affairs Committee, you have a lot of say about how that eventually gets shaped up. Have you formed your views in this regard? Would you be able to share those with us?

**CHAIRMAN ROYCE:** We are still talking to the Administration, still reviewing that agreement, so no. That's a work in progress.

**INDIRA LAKSHMANAN:** Indira Lakshmanan, Bloomberg News. I wanted to ask if you could elaborate on the bipartisan legislation you mentioned about targeting North Korea's hard currency. What would that consist of? There's been some discussion of trying to level some sanctions against North Korea that would follow the model of other countries who've been sanctioned, and I'd like to know what specifically you have in mind. What could be done in a concrete way?

**CHAIRMAN ROYCE:** First, I want to give credit to Under Secretary of the Treasury Stuart Levey, who developed the original model back in 2005. I did a 30-page paper on this at the time to try to push the concepts of sanctions that would impact the hard currency, but he developed the model that was deployed on Banco Delta Asia.

What directly led to it was the discovery that in Macau, they were using hundred dollar bills that North Korea was counterfeiting, and we moved very, very quickly. It was enormously effective. The State Department later had second thoughts about it because it raised certain issues in North Korea, and the regime approached the State Department and said, if you'll only raise this, we'll come back to the negotiating table. We now know that their efforts at the negotiating table were not honest efforts, because they were in the process of proliferating their technology—for one, to Syria. They had a carbon copy of their nuclear weapons program that they built in Syria.

So the strategy deployed by Levey probably should have been continued. If it had been, given the costs of a nuclear weapons program and maintaining it, it probably would have presented the generals in North Korea with a choice: the choice of giving up that program and compromising or staying the course and facing an implosion.

I think the situation today in North Korea is much more dire for the regime. I've been in North Korea, and as I said before, the opinion of people leaving North Korea is now one of having no confidence any longer in that regime. So it's an ever smaller circle of people, and on top of that, you've got very provocative behavior by Kim Jong Un, which I think is calling into question his judgment on the part of people in North Korea and is certainly antagonizing all of Asia. I say all of Asia because I know it's causing discomfort in every capital.

Under these conditions, if we were to simultaneously deploy those controls over the currency, those sanctions, and step up the Proliferation Security Initiative that we had in place before where South Korea, the United States, and other countries

were stopping ships that were bringing contraband, bringing illicit exports—drugs, missile parts, armaments—on the high seas and send them back, suddenly you’ve cut off the means of obtaining hard currency. So the legislation that we are working on will address specifically that approach that was tried in 2005 along with the anti-proliferation activities to interdict.

**QUESTION:** This is a follow-up on the sanctions. To impose economic sanctions, one of the most important gatekeepers is China. How do you reconcile your outlined approach to China with more aggressive sanctions against North Korea?

**CHAIRMAN ROYCE:** I do think that China is losing its patience to a certain extent with North Korea, and I think that one of the things that weighs heavily on Beijing’s mind is the consequences of an arms race all across East Asia. Because of that, I think that is why China originally communicated to Kim Jung Un not to do the missile test and subsequently not to do the nuclear test.

But clearly, this young man is very aggressive. He’s out of step certainly with world opinion, and I think we’ve got a growing unanimity in terms of the conclusion that this kind of conduct is not in anyone’s interest. That’s why I think that we might see less subsidy from China into North Korea and more messages like the ones that we saw on the issue of the nuclear test and the ICBM test.

**QUESTION:** You talked about U.S. engagement with China, but as you know, since the Obama Administration’s rebalance to Asia, the policy has been widely seen by the Chinese as containment of China. I’m just wondering what you think the U.S. should do to increase the trust between China and the U.S.

**CHAIRMAN ROYCE:** I think one of the things we can do is focus again on economic activity, focus on the cornerstone of what’s led to the dramatic prosperity and increase of wealth creation around the world. If that focus can be on trade and investment and the protection of property rights, the basic issue of the foundation of economic prosperity, I think that’s something that resonates, and I think that’s the way we explain why it is we want to see the reforms.

The reforms we’re asking for as we engage with countries around the world are reforms that actually benefit the populace in those countries. It’s not just that a rising tide lifts all boats in terms of economic trade and liberalized markets; it’s also the fact that economic reforms that empower a population lead to tremendous opportunities and also more freedom. I think that type of dialogue is the type of dialogue that we need to engage in. 🗨️

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