

**THE UNITED STATES AND ASIA:
CONTINUITY, INSTABILITY AND TRANSITION**

HEARING
BEFORE THE
SUBCOMMITTEE ON ASIA AND THE PACIFIC
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS
SECOND SESSION

—————
MARCH 17, 2004
—————

Serial No. 108–83

—————

Printed for the use of the Committee on International Relations



Available via the World Wide Web: http://www.house.gov/international_relations

—————
U.S. GOVERNMENT PRINTING OFFICE

92–611PDF

WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON INTERNATIONAL RELATIONS

HENRY J. HYDE, Illinois, *Chairman*

JAMES A. LEACH, Iowa	TOM LANTOS, California
DOUG BEREUTER, Nebraska	HOWARD L. BERMAN, California
CHRISTOPHER H. SMITH, New Jersey,	GARY L. ACKERMAN, New York
<i>Vice Chairman</i>	ENI F.H. FALEOMAVAEGA, American
DAN BURTON, Indiana	Samoa
ELTON GALLEGLY, California	DONALD M. PAYNE, New Jersey
ILEANA ROS-LEHTINEN, Florida	ROBERT MENENDEZ, New Jersey
CASS BALENGER, North Carolina	SHERROD BROWN, Ohio
DANA ROHRABACHER, California	BRAD SHERMAN, California
EDWARD R. ROYCE, California	ROBERT WEXLER, Florida
PETER T. KING, New York	ELIOT L. ENGEL, New York
STEVE CHABOT, Ohio	WILLIAM D. DELAHUNT, Massachusetts
AMO HOUGHTON, New York	GREGORY W. MEEKS, New York
JOHN M. McHUGH, New York	BARBARA LEE, California
ROY BLUNT, Missouri	JOSEPH CROWLEY, New York
THOMAS G. TANCREDO, Colorado	JOSEPH M. HOEFFEL, Pennsylvania
RON PAUL, Texas	EARL BLUMENAUER, Oregon
NICK SMITH, Michigan	SHELLEY BERKLEY, Nevada
JOSEPH R. PITTS, Pennsylvania	GRACE F. NAPOLITANO, California
JEFF FLAKE, Arizona	ADAM B. SCHIFF, California
JO ANN DAVIS, Virginia	DIANE E. WATSON, California
MARK GREEN, Wisconsin	ADAM SMITH, Washington
JERRY WELLER, Illinois	BETTY MCCOLLUM, Minnesota
MIKE PENCE, Indiana	CHRIS BELL, Texas
THADDEUS G. McCOTTER, Michigan	
KATHERINE HARRIS, Florida	

THOMAS E. MOONEY, SR., *Staff Director/General Counsel*
ROBERT R. KING, *Democratic Staff Director*

SUBCOMMITTEE ON ASIA AND THE PACIFIC

JAMES A. LEACH, Iowa, *Chairman*

DAN BURTON, Indiana	ENI F. H. FALEOMAVAEGA, American
DOUG BEREUTER, Nebraska	Samoa
CHRISTOPHER H. SMITH, New Jersey	SHERROD BROWN, Ohio
DANA ROHRABACHER, California	EARL BLUMENAUER, Oregon
EDWARD R. ROYCE, California	DIANE E. WATSON, California
STEVE CHABOT, Ohio	ADAM SMITH, Washington
RON PAUL, Texas	GARY L. ACKERMAN, New York
JEFF FLAKE, Arizona	BRAD SHERMAN, California
JERRY WELLER, Illinois	ROBERT WEXLER, Florida
THOMAS G. TANCREDO, Colorado	GREGORY W. MEEKS, New York

JAMES W. McCORMICK, *Subcommittee Staff Director*
LISA M. WILLIAMS, *Democratic Professional Staff Member*
DOUGLAS ANDERSON, *Professional Staff Member & Counsel*
TIERNEN MILLER, *Staff Associate*

CONTENTS

	Page
WITNESSES	
Richard J. Ellings, Ph.D., President, National Bureau of Asian Research	3
Robert A. Scalapino, Ph.D., Robson Research Professor Emeritus of Government, University of California at Berkeley	9
Peter Ennis, Washington Bureau Chief, "Weekly Toyo Keizai" and Contributing Editor, "The Oriental Economist Report"	21
The Honorable Edward Masters, Co-Chairman, U.S.-Indonesia Society	29
The Honorable Teresita C. Schaffer, Director, South Asia Program, Center for Strategic and International Studies	39
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable James A. Leach, a Representative in Congress from the State of Iowa, and Chairman, Subcommittee on Asia and the Pacific: Prepared statement	1
Richard J. Ellings, Ph.D.: Prepared statement	7
Robert A. Scalapino, Ph.D.: Prepared statement	13
Peter Ennis: Prepared statement	24
The Honorable Edward Masters: Prepared statement	32
The Honorable Teresita C. Schaffer: Prepared statement	42
APPENDIX	
The Honorable Earl Blumenauer, a Representative in Congress from the State of Oregon: Prepared statement	53

THE UNITED STATES AND ASIA: CONTINUITY, INSTABILITY AND TRANSITION

WEDNESDAY, MARCH 17, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:30 a.m. in Room 2172, Rayburn House Office Building, Hon. James A. Leach presiding.

Mr. LEACH. The Committee will come to order. Let me make just a very brief opening observation. The Committee has before us today one of the most distinguished panels of experts on Asian affairs that could be assembled in this country.

I apologize to the panel. Today, we have on the Floor in the relatively near future a major discussion of the Iraqi situation that has garnered the attention of most Members of the Committee and some Members of the Congress to boot. So, based on that, we may not have quite as heavy a presence as we would like, but I assure you that we will get transcripts out to everybody on the Committee.

I have an opening statement that is longer than it should be, and so I will simply ask unanimous consent that it be presented in its full.

Before us, in terms of the panel, are Richard Ellings, who is the President of the National Bureau of Asian Research; Robert A. Scalapino, who is a Robson Research Professor Emeritus of Government at the University of California at Berkeley, the recognized Dean of Asian Studies in America; Mr. Peter Ennis, who is the Washington Bureau Chief of *Weekly Toyo Keizai* and Contributing Editor of *The Oriental Economist Report*; the Honorable Edward Masters, who is Co-Chairman of the U.S.-Indonesia Society; and the Honorable Teresita C. Schaffer, who is Director of the South Asia Program of the Center for Strategic and International Studies.

[The prepared statement of Mr. Leach follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES A. LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA, AND CHAIRMAN, SUBCOMMITTEE ON ASIA AND THE PACIFIC: PREPARED STATEMENT

On behalf of the Subcommittee, I would like to welcome our witnesses to what we hope will be an informative and timely discussion on important trends in Asia and the Pacific and their implications for the United States. We are fortunate to have with us this morning a highly distinguished group of witnesses, several of whom flew in from the West coast while others just returned from lengthy trips to the region. We are most appreciative of your presence and we look forward to your insights.

I would like to notice Members that we anticipate an active schedule during the session. Next week we will review developments in Burma. In April and May, we hope to hear from Assistant Secretaries Kelly and Rocca on broad U.S. policy objectives in the region. We also anticipate a hearing on, and markup of, the North Korean Human Rights Act. The Subcommittee is also planning hearings on Hong Kong, the challenge of HIV/AIDs in India and elsewhere in the region, as well as Islam in Asia.

Before we turn to our speakers, I would like to make a few brief observations. First, the importance of Asia to American national interests is self-evident.

- Three of the world's four most populous countries are located in Asia. China and India alone account for about two-fifths of global population.
- The region is home to three of the most volatile international security challenges in the world today: North Korea, the Taiwan Strait, and relations between India and Pakistan. China, India, Pakistan, and perhaps North Korea, are all armed with nuclear weapons. In addition, Al Qaeda-affiliated terrorist groups remain a potent threat within the region.
- Although the U.S. military presence in the region may be evolving, the U.S. still deploys nearly 100,000 troops in East Asia and the western Pacific. Five of the seven worldwide U.S. mutual defense treaties involve East Asian countries, including Japan, South Korea, Australia, Thailand, and the Philippines.
- In economic terms, U.S. trade with Asia accounted for about one-third of all U.S. exports and over forty percent of all U.S. imports worldwide in 2002. The U.S. has well over \$50 billion invested in the region. Meanwhile, in terms of capital flows, over the last two years Asian governments—led by Japan and China—have added an astonishing \$750 billion to their \$2 trillion holdings of foreign currency reserves. The vast majority of these purchases have been of U.S. Treasury securities, thereby effectively financing America's trade deficit.
- In addition, and contrary to widespread perceptions, the majority of the world's Muslims are not Arabs. In fact, just four Asian countries—Indonesia, India, Pakistan, and Bangladesh—are home to nearly 600 million Muslims. Indonesia is also the world's largest Muslim country.

In this context, the Administration has wisely stressed continuity in recognizing the centrality of Asia to American interests. On balance, the Administration has strengthened America's position in Asia and thereby bolstered stability in the region, in part through improved relations with each of the region's great powers, most notably China but also India and Japan. On the other hand, the Asian landscape also contains obvious points of instability as well as the seeds for far-reaching change and transition.

- On the Korean peninsula, the U.S. deserves much credit for constructing a multilateral process that holds out the prospect for a peaceful resolution of the North Korean nuclear issue. Nonetheless, there are a number of pressing uncertainties, including the size and sophistication of the North's nuclear arsenal, Pyongyang's ability to manage multiple internal crises, whether China's interest in stability trumps concerns about nuclear dominoes in North-east Asia, and viable contingencies should the North ultimately fail to dismantle its nuclear weapons.
- It is also imperative to pay careful attention to developments across the Taiwan Strait. While expanding cross-Strait economic ties are a positive, recent military and political trends do not appear to be particularly conducive to stability.
- Our alliances with South Korea and Japan are in the process of transition. As we redefine the US–ROK alliance to focus on common values and regional stability, Washington needs to be more attentive to rapid economic, demographic, and political changes in Korean society. Meanwhile, a variety of pressures is leading our great friend and ally Japan to reexamine both its security policy and its role in Asia and the Pacific. Here it is vital that the decisions be left to the Japanese, but that Washington and Tokyo think through these issues in a collaborative way.
- In South Asia, the U.S. should be prepared to discretely lend its support to sustain the current Indo-Pakistani peace process. In addition, recognizing that Pakistan remains a key U.S. partner and a linchpin in the campaign against terrorism, it is the clear responsibility of Islamabad to promptly and fully disclose the full extent of the nuclear proliferation activities associated with Dr. A.Q. Khan.

- In the final measure, the most important bilateral relationship of the 21st Century is likely to be that between China and the United States. If the relationship is ill-managed, the likelihood of conflict and economic trauma will be great. But if the relationship is managed well, the benefits in terms of economic prosperity and world peace will be commensurate.

In any regard, we look forward to your comments and the discussion afterward.

Mr. LEACH. Mr. Bereuter, do you want to make an opening comment?

Mr. BEREUTER. I just want to compliment you, Mr. Chairman, on the hearing at this time and especially the outstanding panel that you have brought before us today. I look forward to their testimony. Thank you.

Mr. LEACH. I am prepared to begin in the order of introductions, unless the panelists have made a prior redesignation of order you want to go in. If not, I will just begin with Dr. Ellings.

**STATEMENT OF RICHARD J. ELLINGS, Ph.D., PRESIDENT,
NATIONAL BUREAU OF ASIAN RESEARCH**

Mr. ELLINGS. Thank you, Mr. Chairman, and thank you for this opportunity to address the Committee on strategic developments in Asia.

As the Members are acutely aware, the Subcommittee's region of responsibility is where world power is concentrating, reflecting its enormous population, economic success, and military modernization. At the same time, within Asia, the balance of power is being turned upside down through a combination of tectonic developments, the decline and then collapse of Soviet and then Russian power, more than a decade of stagnation in Japan, and the continuing, rapid rise of China, especially, but India, too.

Asia is also where major nations are experiencing, and likely to continue to experience, fundamental and wrenching political and socio-economic change. Legacies of past wars continue to haunt the region, and nationalism is rising. Strategic competition is a driving force behind many of the bilateral relationships in Asia, with nuclear proliferation a dangerous manifestation. Meanwhile, Taiwan remains a potential flashpoint, and North Korea and terrorism continue to threaten regional stability. For all of these reasons, Asia is the locus of the most serious and long-term security risks to the United States. This is where the risk of truly large-scale hostilities is highest and where such war would be most calamitous.

There are very important stabilizing factors in the region, too, and I will discuss these, as well as highlight a few issues, in a moment. Let me first update you on the Strategic Asia program. Our first research director, Professor Aaron Friedberg of Princeton University, is now with Vice President Cheney's staff. Our second and current research director is Dr. Ashley Tellis, who is currently in India because of Secretary Powell's visit there and thus unable to join us today. The former Chairman of the Joint Chiefs of Staff, General [Ret.] John Shalikashvili, remains senior adviser to the program.

There are a number of important sponsors, that I wish to mention, of the Strategic Asia program, including the National Nuclear Security Administration at the Department of Energy; the Lynde and Harry Bradley Foundation; the Henry M. Jackson Foundation;

and several leading companies, Boeing, GE, and Microsoft. The Jackson Foundation, you may recall, founded NBR with major grants beginning in 1989.

Now, very briefly, let me take a few minutes to outline some of the significant strategic trends we are addressing in the program. First and foremost are the continuing emergence of China as a major power, the extension of Chinese economic and political power internationally, particularly in East Asia but also in Central Asia, and domestic changes in China.

China's rise is exerting a gravitational pull felt throughout Asia. The size of the economy now is drawing a greater portion of regional trade. The development of the Chinese military is not lost upon the region either. Consequently, American influence and security structures in the region are likely to come under increasing strain. Not knowing the future of Chinese power or America's commitment in the region, many Asian nations are hedging by increasingly seeking accommodation with both power centers. The strains in America's alliance with the Republic of Korea, I would argue, are rooted in part to China's rise.

There are clearly competitive dimensions to United States-China relations, but there are also substantial opportunities for cooperation. Indeed, our assessment is that relations are the best in decades due to China's cooperation in the war on terrorism and leading role in the six-party talks on North Korea's nuclear programs. The six-party talks are a very important development and major achievement of the Administration, and I really want to emphasize this. China has been brought in, at first reluctantly, to play a constructive role on the top security threat in Northeast Asia, and, arguably, the chief security threat in the world. Consistent with its growing influence and responsible action in the region, I would argue, China should be integrated very carefully and thoughtfully into regional security affairs.

Some have sought to make an issue of our encouraging China to take a leadership role in resolving this latest North Korean crisis. They ask, "Why offer China the chance to enhance its prestige and influence in the region by brokering a deal with the DPRK when the United States itself could reach a deal?" The answer is straightforward, it seems to me. With China, which shares with us a keen interest in a non-nuclear Korean peninsula and which exercises more influence in the North than any other power, we have a far higher likelihood of achieving the outcome all of us here want, and achieving it peacefully. Without China working hard along with us, frankly, we have little chance of success, in my view. We are likely to see a nuclear North Korea, more proliferation, and a less-secure Northeast Asia.

Nonetheless, areas of serious concern with regard to China remain: China's willingness and capacity to follow through on non-proliferation commitments, on implementation of its WTO commitments, behavior toward Taiwan, and a host of political issues, the most important of which is the future character of China's political system.

Are rule of law and democracy ahead for the Chinese people? is a critical question for the world, and so the future of the Chinese

political system obviously is something that we all have a deep, deep interest in.

The United States' strategy toward China has been, if I could characterize it in this way, a twofold one: First, to keep big war from breaking out by maintaining a deterrent and stable balance of power in the region through our alliances and military presence; and, second, to engage China to encourage simultaneously its responsible integration into international affairs and the forces of globalization that, in turn, encourage rule of law and democratic change. At this point, the alternatives to this strategy are prohibitively costly. My assessment is that this long-term strategy has accomplished much and has a decent chance of succeeding if we adhere to it faithfully.

A final point with regard to China. Less-important issues can overwhelm important issues. World War I is one of those great examples where something seemingly tangential cast the world into war. We need to work with China to manage the Hong Kong and Taiwan issues, lest they overwhelm the more important ones and the more dangerous ones, such as the Korean nuclear issue or the more general bilateral relationship that the two countries have.

A second major trend I want to highlight is proliferation of weapons of mass destruction across the region. Five nuclear powers are in this area we call "Strategic Asia." We have seen the emergence of India, Pakistan, and, I think we should assume, North Korea as nuclear weapons states in the past decade.

Recent revelations about international trade in WMD materials and technologies, particularly the role of A.Q. Khan in Pakistan, raise enormous concerns. Insecurity, outlaw regimes, greed, and lax controls are the principal factors driving proliferation among nations. Back to the North Korean example, as we all know, a breakout by the North, through weapons testing, for example, could cause that much-feared nuclear wave to wash over Japan, South Korea, and perhaps even Taiwan. The six-party talks have to adhere to the principle of no nuclear weapons or nuclear weapons materials programs in the North. Zero tolerance.

I am one who has, however, little faith that North Korea will ever really give up its programs. But with Chinese pressure and with a firm diplomatic course through the six-party framework, we ought to be able to keep the North from testing or deploying nuclear weapons. In other words, we can keep that nation, in my view, from giving the threat to the region that would cause proliferation there. However, I am not sanguine about a 100-percent ending of nuclear programs in the North. I do not think that this regime is capable of reaching that decision and carrying through.

Consequently, the Proliferation Security Initiative represents a realistic and necessary approach. We must keep in mind that insecure or rogue regimes will likely break nonproliferation arrangements.

The third trend is the persistent threat of international terrorism, a major problem in Central, South, and Southeast Asia. Let me refer the Committee to a recent NBR study on terrorist networks in Southeast Asia. It is by Zach Abusa on funding terrorism in Southeast Asia, the financial network of al-Qaeda and Jemaah Islamiya. The fight against terrorism has to remain a priority. I

happen to have four children, and for their sakes, we cannot let up on this war. And just let me emphasize, at the same time, that in this complex world, we have to balance this fight with the other concerns I am raising today.

The fourth trend is energy security as a driver for Asian powers' strategies due to a combination of booming economic growth leading to mushrooming energy demand, particularly for oil, natural gas, and electricity, and limited energy supplies available in the region. This is resulting in serious concerns among governments in the region that energy shortages could become a major bottleneck to continued economic growth and, consequently, a threat to social stability, and this is driving the emergence of new supplier-purchaser partnerships and contributing to emerging rivalries as countries attempt to secure their future energy needs.

The Committee is probably aware, following these competitive purchases by China, Japan, and others, that phenomenon is going to be a long-term problem. Neomercantilism in the energy field in Asia is alive and well, and we can see tensions down the road when there happens to be global energy shortages and spikes in prices. I think, down the road, we are going to see problems.

Fifth are demographic trends in the region. Here, we are looking out beyond 5 years, as with the energy situation. Three trends I will mention just briefly. Of course, rapid population aging, especially in East Asia, for example an aging China versus a relatively youthful India. Social and health care issues will take more and more attention of these countries' governments. Secondly, adverse mortality rates. For example, in Russia, also in China and India, impact of HIV/AIDS; in Russia, of alcoholism. Thirdly, imbalances in sex ratios. Here, I am referring to an interesting study done by Nick Eberstadt. Especially in China and India, these have potential implications for social cohesion and political stability down the road.

I will conclude with a few observations on stability in Asia and how the United States can best achieve its objectives there.

Providing some stability in Asia are several factors. One is the domestic focus of the major powers on economic reform and development. Asia does not possess today an aggressive, militant power with imperial designs. This is not, at this point, a repeat of the late 19th century, with the emergence of Japan and Germany. This does not mean, however, that this century's energy power, China, is not interested in absorbing Taiwan or resuming a position of great-power status. Certainly, China sees itself in the future as a power second to none. It simply means that China currently shares with the United States and others an interest in regional stability, and this is a good thing.

Second, by embracing open borders, private property, and free markets, major countries in Asia are subject to the forces of globalization, which, in turn, encourage political freedom, rule of law, and democracy.

Third, and critically important, the United States continues, through its alliances and military presence, to sustain a stable balance of power in the region. It protects freedom of seas from the Indian Ocean through the Strait of Malacca to the Pacific. It keeps its economy open, encouraging globalization and stabilizing Asian

economies. It encourages democratization. It supports key global and regional institutions, and it provides leadership when threats arise by working with allies, organizing coalitions, and acting unilaterally when necessary.

All of the major issues in Asia require an engaged and informed America if they are to be dealt with successfully: Korean peace and reunification, the future of Taiwan; conflict over Kashmir; terrorism in Central and Southeast Asia; trade liberalization in the region; and, most importantly, managing the successful integration of the rising powers of China and India into international affairs. Thank you very much.

[The prepared statement of Dr. Ellings follows:]

PREPARED STATEMENT OF RICHARD J. ELLINGS, PH.D., PRESIDENT, NATIONAL BUREAU OF ASIAN RESEARCH

Thank you for this opportunity to address the committee on strategic developments in Asia. As the members are acutely aware, the subcommittee's region of responsibility is where world power is concentrating, reflecting its enormous population, economic success, and military modernization. At the same time, within Asia, the balance of power is being turned upside down through a combination of tectonic developments: the decline and then collapse of Soviet and Russian power, more than a decade of stagnation in Japan, and the continuing, rapid rise of China especially, but India too. Asia is also where major nations are experiencing, and likely to continue to experience, fundamental and wrenching political and socio-economic change. Legacies of past wars continue to haunt the region, and nationalism is rising. Strategic competition is a driving force behind many of the bilateral relationships in Asia, with nuclear proliferation a dangerous manifestation. Meanwhile, Taiwan remains a potential flashpoint and North Korea and terrorism continue to threaten regional stability. For all these reasons, Asia is the locus of the most serious and long-term security risks to the United States. This is where the risk of truly large-scale hostilities is highest, and where such war would be most calamitous.

There are important stabilizing factors in the region too, and I will discuss these—as well as highlight a few key issues—in a moment.

NBR established the Strategic Asia Program in 2000 because we saw the need for an independent assessment of the strategic environment in the region, given its salience and dynamism. Each year since then we've assembled a team of leading specialists to analyze major strategic developments and look ahead to emerging challenges and opportunities. We seek to look five years ahead, and when plausible, further out. Our first research director, Professor Aaron Friedberg, of Princeton University, is now with Vice President Cheney's staff. Our second and current research director is Dr. Ashley Tellis, who is in India because of Secretary Powell's visit and thus unable to join us today. Former Chairman of the Joint Chiefs of Staff General (Ret.) John Shalikashvili serves as senior advisor to the program, and has since it was launched.

Strategic Asia is supported by a variety of sponsors, including the National Nuclear Security Administration at the Department of Energy, the Lynde and Harry Bradley Foundation, the Henry M. Jackson Foundation, The Boeing Company, General Electric, and Microsoft. As you may recall, the Jackson Foundation founded NBR with major grants beginning in 1989.

Very briefly let me take a few minutes to outline some of the significant strategic trends we are addressing in the program.

- *First and foremost* are the continuing emergence of China as a major power, the extension of Chinese economic and political power internationally, particularly in East Asia, but also in Central Asia, and domestic changes in China.
- China's rise is exerting a gravitational pull felt throughout Asia. The size of the Chinese economy is drawing a greater portion of regional trade. The development of the Chinese military is not lost upon the region either. Consequently, American influence and security structures in the region are likely to come under increasing strain. Not knowing the future of Chinese power or America's commitment in the region, many Asian nations are hedging by increasingly seeking accommodation with both power centers. The strains in

America's alliance with the Republic of Korea, I would argue, are rooted in part to China's rise.

- There are clearly competitive dimensions to U.S.-China relations, but there are also substantial opportunities for cooperation. Indeed, our assessment is that relations are the best in decades due to China's cooperation in the war on terrorism and leading role in the six-party talks on North Korea's nuclear programs. The six-party talks are a very important development and major achievement of the Administration. China has been brought in, at first reluctantly, to play a constructive role on the top security threat in Northeast Asia—arguably the chief security threat in the world. Consistent with its growing influence and responsible action in the region, China should be integrated carefully into regional security affairs.
- Some have sought to make an issue of our encouraging China to take a leadership role in resolving this latest North Korean nuclear crisis. They ask, "Why offer China the chance to enhance its prestige in the region by brokering a deal with the D.P.R.K. when the United States could reach a deal itself?" The answer is straightforward. With China, which shares with us a keen interest in a non-nuclear Korean peninsula and which exercises more influence in the North than any other power, we have a far higher likelihood of achieving the outcome all of us here want—and achieving it peacefully. Without China working hard along with us, frankly, we have little chance of success; we are likely to see a nuclear North Korea, more proliferation, and a less secure Northeast Asia.
- Nonetheless, areas of concern with regard to China remain—China's willingness and capacity to follow through on nonproliferation commitments, on implementation of its WTO commitments, behavior toward Taiwan, and a host of political issues, the most important of which is the future character of China's political system. Are rule of law and democracy ahead for the Chinese people?
- The United States' strategy toward China has long been a two-fold one: first, to keep big war from breaking out by maintaining a deterrent and stable balance of power in the region through our alliances and military presence; and second, to engage China to encourage simultaneously its responsible integration into international affairs and the forces of globalization that in turn encourage rule of law and democratic change. At this point the alternatives to this strategy are prohibitively costly. My assessment is that this long-term strategy has accomplished much and has a decent chance of succeeding if adhered to faithfully.
- A final point with regard to China. We must always keep in mind that less important issues can overwhelm more important issues. We need to work carefully with China to manage the Hong Kong and Taiwan issues lest they overwhelm the even more dangerous and vexing ones such as the North Korean nuclear issue.
- *The second major trend* is proliferation of weapons of mass destruction across the region. Five nuclear powers are in Strategic Asia, which has seen the emergence of India, Pakistan, and most likely North Korea, as nuclear weapons states in the past decade.
- Recent revelations about international trade in WMD materials and technologies, particularly the role of A. Q. Khan in Pakistan, raise enormous concerns. Insecurity, desperation, outlaw regimes, fanaticism, greed, plain old evil, and lax controls are the principle factors driving proliferation.
- Back to the North Korean example: A breakout by the North, through weapons testing for example, could cause that much feared nuclear wave to wash over Japan, South Korea, and perhaps even Taiwan. The six-party talks have to adhere to the principle of no nuclear weapons or nuclear weapons materials programs in the North. Zero tolerance. I have little faith, however, that North Korea will really give up its nuclear programs. But with Chinese pressure and a firm diplomatic course through the six-party framework, we ought to be able to keep the North from testing or deploying nuclear weapons. Consequently, the Proliferation Security Initiative represents a realistic and necessary complement to the other things we're doing. We must keep in mind that insecure or rogue regimes will likely break non-proliferation arrangements. No agreement can be assumed to be air tight.
- *The third trend* is the persistent threat of international terrorism—a major problem in Central, South, and Southeast Asia. Let me refer the committee to a recent NBR study on terrorist financial networks in Southeast Asia

(“Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah” by Zachary Abuza, *NBR Analysis*, vol. 14, no. 5, December 2003). No doubt, terrorism will remain a priority for the United States for some time. I have four children and I believe strongly for their sakes that we cannot let up on this war. But at the same time, also for their sakes, let me emphasize that we need to balance this with the other concerns I’ve raised.

- *The fourth trend* is growing energy insecurity as a key driver for Asian powers’ strategies, due to a combination of booming economic growth leading to mushrooming energy demand, particularly for oil, natural gas, and electricity, and limited energy supplies available in the region. This is resulting in serious concerns among governments that energy shortages could become a major bottleneck to continued economic growth and, consequently, a threat to social stability. This energy insecurity is driving the emergence of new supplier-purchaser partnerships and contributing to increasing rivalry as countries attempt to tie up resources. Neo-mercantilism, in other words, is alive and well in Asia.
- *Fifth*, are demographic trends in the region. Here we’re looking out beyond five years. Three trends are of particular interest:
 - a) Rapid population aging, especially in East Asia (e.g., aging China vs. youthful India). Social issues and healthcare will absorb more and more of the attention and wealth of these countries.
 - b) Adverse mortality rates (e.g., in Russia, also China and India—impact of HIV/AIDS; in Russia, alcoholism) will also have long-term social and political repercussions.
 - c) Imbalances in sex ratios (e.g., China and India)—with potential implications for social cohesion and political stability. Here I refer you to the work of Nick Eberstadt.

I will conclude with a few observations on stability in Asia and how the United States can best achieve its objectives there.

Providing some stability in Asia are several factors. One is the domestic focus of the major powers on economic reform and development. Asia does not possess today an aggressive, militant power with imperial designs. For example, however, this doesn’t mean that China is any less interested in absorbing Taiwan or resuming a position of Great Power status. It simply means that it currently shares with the United States and others an interest in regional stability. Second, by embracing open borders, private property, and free markets, major countries in Asia are subject to the forces of globalization, which in turn encourage political freedom, rule of law, and democracy. Third, and critically, the United States continues through its alliances and military presence to sustain a stable balance of power in the region. It works on key bilateral relationships so that it makes new, as well as keeps, friends. It protects freedom of the seas from the Indian Ocean through the Strait of Malacca to the Pacific. It keeps its economy open, encouraging globalization and stabilizing Asian economies. It encourages democratization. It supports key global and regional institutions. And it provides leadership when threats arise by working with allies, organizing coalitions, and acting unilaterally when necessary.

All of the major issues in Asia require an engaged and informed America if they are to be dealt with successfully: Korean peace and reunification, the future of Taiwan, conflict over Kashmir, terrorism in Central and Southeast Asia, trade liberalization in the region, and most importantly, managing the successful integration of the rising powers of China and India into international affairs.

Mr. LEACH. Well, thank you very much, Doctor.
Dean Scalapino.

STATEMENT OF ROBERT A. SCALAPINO, Ph.D., ROBSON RESEARCH PROFESSOR EMERITUS OF GOVERNMENT, UNIVERSITY OF CALIFORNIA AT BERKELEY

Mr. SCALAPINO. Thank you very much, Mr. Chairman. It is a privilege to speak before your Committee.

Let me begin by saying that while I think multilateral institutions in Asia-Pacific are significant, both those of a formal and informal nature, they have various weaknesses and, for the most part, are talk rather than action bodies. Consequently, the bilateral

relations between major powers are a critical factor in the security of the region. Fortunately, I think we can generalize, saying that the basic bilateral relations between Asia-Pacific major powers are better today than they have been at any time since World War II.

As has just been signified, the United States-China relationship is, on balance, favorable and positive, despite a number of problems. China has a fourth-generation leadership today that is more pragmatic than ideological and focused very much on handling some severe domestic problems. China has enjoyed remarkable growth in the last 2 decades, but on such matters as massive unemployment, the rural-urban gap, the fragility of the banking system, and corruption, problems exist that must be handled, and the leadership is very cognizant of that fact. Thus, it wants a peaceful environment basically at the international level.

Our own leadership, whether Democratic or Republican, in recent years has seen a positive relationship with China, on balance, as being very important, and given the crisis that surrounds the Middle East today and some of the domestic issues here, that significance remains.

The China-Japan relationship, on the other hand, is somewhat fragile due to the background, the historical past. Nonetheless, the growing economic interdependence of China and Japan is a powerful force in stabilizing that relationship. At present, discussions are going on in the strategic, as well as the economic, arena between these two countries.

As for the United States' relations with Japan, I think it can be said that they are, on balance, satisfactory. Our strategic alliance is moving ahead, and Japan is assuming a greater responsibility. There is some fear in Northeast Asia, indeed, that Japan will not only revise the Peace Constitution but that it may move toward more militancy in general.

I regard these fears as exaggerations at present. Only two conditions intertwined, in my opinion, could cause Japan to reemerge as a major military power. One, the greatly increased perception of threat from the region alongside of the loss of American credibility as an ally, and since I do not see these two intertwined conditions emerging, it seems to me Japan will seek to move ahead, getting recognition as a major power, will play a greater role in the strategic arena, but will not revert to the policies of the pre-World War II era.

There remains the question of the role of Russia. In my view, Russia is going to emerge as a major power once again, with the economic factors, of course, being critical and the timing of that development. And I think it is very crucial for the United States to maintain a relationship with Russia that helps in the global balance of power. In my view, the Putin administration has been popular with the Russian people because Putin is regarded as a strong leader and one that has brought stability. And, quite frankly, along with people in many countries today, prefer strong leaders to political institutions, as such, the idea being that strong leaders bring stability, and stability is crucial.

The Sino-Russian relationship also is quite good today, although it is far from an alliance, and through organizations like the Shanghai Cooperation Organization, China and Russia are working

together, both on terrorism and boundary questions and economic issues as well.

So, in broad terms, I think it can be said that bilateral relations among the major states of the region are, on balance, hopeful. The two big issues in this area, as we all know, are the Korea issue and the Taiwan issue. With respect to Taiwan, I think it is clear that President Chen Shuibian, in an effort to stimulate nationalist feeling and help his reelection bid, has appealed to Taiwan nationalism through the referendum, through his terminology from time to time about two states either side of the straits. These actions have greatly increased tension with China.

The United States, rightly, I think, has privately urged, indeed, warned Chen, not to push these matters too far, not to exacerbate tension too greatly. In my view, the American position on Taiwan is, broadly speaking, correct; that is to say, our position for decades has been there is one China, though we do not define it. There is a desire to avoid any use of force. The United States is also opposed to any formal declaration of independence. It supports the status quo for the time being until, through peaceful negotiations, a solution can be worked out that is in conformity with the wishes of the Taiwan people.

No matter who is elected President in the next few days, I think it is imperative that the United States keep to this basic position, warning against provocation or intensification of crisis on the part of Taiwan leadership but urging China to negotiate on critical economic and, ultimately, political issues without any predetermined end. Quite frankly, the majority of the Taiwan people do not accept the one-country/two systems formula proffered by Beijing, nor are they likely to in the near future. Maybe at some point, a concept of federation or confederation, with the issue of sovereignty set aside for the time being, can be developed, but, in any case, this is an issue that is going to continue to be on the table and worrisome.

The Korean issue is, of course, perhaps paramount in the immediate sense. One, I think, has to realize, first of all, the enormous difference between North and South Korea today. South Korea has been, in broad terms, a success story, despite the current crisis; that is to say, it has moved ahead economically. Some would regard it as the 14th most-important economic society in the world; income over \$10,000 U.S. per capita per year, and a broad, market-based economy that has reached out technologically and is increasingly intertwined with the rest of Northeast Asia.

The political situation has been one of a movement from autocracy, a military rule but one where the leadership had correct economic policies, to a democracy, total freedom, with its flaws and problems. The present crisis, the impeachment issue, is worrisome because we do not want or need a weak South Korea today. That will affect, as it has already, the North-South relationship and the broader issues that confront us. One hopes that this issue is temporary and that in the elections next month, the electorate will make certain determinations that will help stabilize the scene.

Meanwhile, the question of where the North is going is of critical importance. I regard North Korea not as a revolutionary but as a very traditional society. It, until recently, was trying to practice

isolation in maximum degree, reminiscent of the “hermit kingdom” appellation that was given to Korea historically. It had an absolute monarchy with supernatural powers and a dynastic succession in place. These are very traditional aspects, and one of the problems is how to move this very traditional society into the modern world.

Without going into great detail, I think it is imperative that the United States continue the negotiatory process, work closely with our allies and with China and Russia, keeping the door open, testing the North. We simply do not know what the final product will be, but I think it is important to continue to test. The two crucial issues are verification and timing, timing being the question of when does one set of policies produce a response?

The South recently put forward a three-tier idea: First tier, freezing the nuclear program, with certain responses from South Korea in the form of economic assistance; second tier, moving that freeze forward to verification through inspections, et cetera; and, finally, complete dismantlement, each tier having with it certain reciprocal advantages in terms of economic and political assistance. I think some such concept should be continuously explored, discussed through the six-party structure.

We do not know at present whether this society can be brought into a working relationship, but I think there is one encouraging sign. The Northern leadership has shown an interest in economic change. It has made certain modest changes at home. It has shown an interest in getting South Korea involved economically through the Kaesong economic zone. In all of these respects, it will, I think, profit all of us to continue to probe this process.

Let me, in conclusion, turn to a somewhat different matter, namely, what are the security issues of the future? It is my view that the risk of another global war between major powers, or even regional war between major powers, has greatly diminished. Such wars cannot be won. They cost enormously, even for the victor, in economic, strategic, and political terms.

Rather, I think the security issues of the future that are going to be most critical, apart from these individual issues, are, first, the issues of human security; that is to say, look at the resource problem as it affects Northeast Asia today, the water scarcity, the desertification of hundreds of thousands of acres in Northeast China and in some other regions, the oil and gas issue, the use of energy resources and their distribution. Also, the question of aging, as has been pointed out—crucial. Within 20 years, one fourth of the Japanese population will be 65 years of age or older, with a tremendous impact upon the Japanese economy and certain issues to be faced. And then there are also issues of pollution, of winds and dust sweeping across the region as a whole.

These issues are going to be increasingly critical in terms of the well being of people throughout Asia-Pacific region, and we should be spending a great deal more attention on these than we are presently, in my opinion.

Now, in conclusion, I would say, there is also the issue of terrorism, which we have discussed, and terrorism can only be handled through a combination of militant opposition and reform, economic, social, and political. The issue of failing and faltering societies is another aspect of the security problem that lies ahead, not

just North Korea. Until recently, Myanmar, and look at the troubled societies of Southeast Asia. These are security issues, not merely domestic but regional as well.

Finally, there is the new military technology, the determination of the United States, for example, to build new, small, mini-nuclear weapons, at the same time, greatly increasing the transport facilities for transcontinental operations. These are issues that can either jeopardize or increase security, but we ought to look into them with others with great care.

I would end by saying that I think the United States should have two foundations for its foreign policy in the Asia-Pacific region: One, to cultivate a concert of nations, putting together, formally or informally, nations that have a common interest in a given problem or set of problems and working through that to try to achieve solutions; two, to continue a balance of power, given the uncertainties of the region, the complexities, and the desire of many of the smaller Asian communities, and in that balance of power we should think globally as well as regionally. We should think of our relations with Russia and with India, a newly emerging society that is becoming significant, both economically and politically, and in these terms, I think, we can hope for a serene future.

[The prepared statement of Mr. Scalapino follows:]

PREPARED STATEMENT OF ROBERT A. SCALAPINO, PH.D., ROBSON RESEARCH
PROFESSOR EMERITUS OF GOVERNMENT, UNIVERSITY OF CALIFORNIA AT BERKELEY

The situation with respect to Asia-Pacific security at present is a mixture of positive features and certain prominent clouds. The most hopeful factor lies in the fact that relations between the major nations of the region, although not without their complexities and difficulties, are on balance better than at any time since World War II. One prominent reason is that without exception, these countries face serious domestic challenges that require first priority, and if they are to be handled effectively, a peaceful regional and global environment is necessary.

The current relations between China and the United States are a case in point. On balance, they are positive, reflective of the national interests of both parties. China currently has a fourth generation leadership, more pragmatic than ideological, and strongly committed to tackling China's domestic problems: the rural-urban gap, and the difficulties facing a majority of China's farmers; a fragile banking-financial system, with a possible 50% of the outstanding bank loans non-performing; and corruption, still a massive problem. Despite its remarkable economic growth in the past two decades, these problems must be tackled. Thus, the current leaders are attempting to focus on these and related challenges as well as pledging some expansion of political and private property rights through constitutional revision. Hence, they are seeking to create an image of benevolence to neighbors, cultivating bilateral and multilateral dialogues on a broad front.

The United States also faces a combination of international and domestic problems. The extensive and costly commitments in Iraq and Afghanistan, and the delicate relations with various allies combine with the problem of unemployment at home together with other economic uncertainties to make a peaceful Asia-Pacific an highly desirable goal.

Hence, U.S.-China relations have been marked by increasing strategic dialogue and cooperation on such thorny issues as that of North Korea. Trade and investment have also flourished, with trade reaching over \$125 billion in 2003. At the same time, the rapid intensification of economic ties has produced certain problems. A massive trade imbalance favoring China has given rise to demands in the U.S. for loosening the yuan's present tie to the dollar and revising certain tax laws as well as other protectionist measures. Human rights issues have also reemerged despite China's general progress on this front. China has evolved from a rigid authoritarianism to an authoritarian-pluralist society, with rights of speech, publication, and other liberties considerably expanded, but it is not a democracy, nor is it likely to be such in the foreseeable future. The risks of stasis or instability in this massive society are too great.

The critical issue confronting the United States and China, however, is that of Taiwan, one of the major clouds hanging over the East Asia scene. In the recent past, tension between China and Taiwan has increased, largely a product of President Chen Shui-bian's efforts to appeal to Taiwanese nationalism in the context of the vigorously contested presidential election held on March 20. Confronted with certain economic problems (although the economy has made recent gains, with a 4.7% growth predicted for 2004) and a united opposition, Chen elected to advance such policies as a referendum on missile defense and negotiations with the mainland. Partly due to U.S. pressure, the wording of the referendum questions was moderated to ask whether if China refuses to withdraw its targeted missiles and renounce the use of force, Taiwan should acquire more advanced anti-missile defenses and whether Taiwan should negotiate with China on the establishment of a "peace and stability" framework for cross-strait relations. At times, however, Chen has advocated a later referendum on constitutional revision and has periodically talked about two separate states across the straits.

Meanwhile, economic ties between China and Taiwan continue to advance. As of 2003, Taiwan investment on the China mainland exceeded \$100 billion, and more than a million Taiwanese are now living there, engaged in economic activities. Beijing authorities, however, have never trusted Chen, regarding him as a "separatist," and his recent actions have infuriated them. Taiwan is the one issue that has caused China to mobilize its nationalism—and nationalism is now the chief source of appeal for unity with ideology having declined. Hence, Beijing insists that the Taiwanese should consider themselves Chinese, accept the principle of One China with Taiwan a part of China, and unite under the formula of "One China, Two Systems," albeit, with the possibility of greater autonomy than that granted Hong Kong.

Wisely, China did not attempt to intervene directly in the March election, although its predilection for the Kuomintang team of Lien Chan and James Soong was obvious. Thus, the bizarre ending to the election induced mixed responses from the Mainland. After the attempted assassination, with bullets grazing Chen and Vice President Annette Lu, the Democratic Progressive Party team won by a scant 29,518 votes out of more than 12.9 million votes cast, 50.1% to 49.9% for the Lien-Soong team. Many observers believe that the sympathy vote for Chen-Lu was the decisive factor. In addition, 327,297 ballots were declared invalid, nearly three times the number cast out in 2000. These factors caused the opposition to demand a recount, although it was noted that a group calling itself the Alliance of One Million had urged voters to invalidate their ballots to indicate distaste for both presidential candidates.

The question of a recount is now in the hands of the court, but whatever the ultimate outcome, the Taiwan political scene is likely to be rancorous in the months and years ahead, complicating relations with the Mainland and possibly heightening tensions. From Beijing's standpoint, the failure of the referendum to get 50% of the vote, hence, its invalidation, was decidedly positive, somewhat offsetting the disappointing election results. However, there is no trust in Chen, and an assumption that he will seek another referendum on constitutional revision in 2006.

The dilemma for the United States is clear. In the past, U.S. policy under Presidents of both parties has been a reiteration of the principle of One China (without definition), opposition to any Taiwan declaration of independence but also opposition to any Chinese use of force, championing a peaceful resolution of the issue in accordance with the wishes of the Taiwan people. At the same time, the U.S. has indicated that it regards the defense of Taiwan in case of attack (assuming no independence declaration) as an American commitment, and has also offered to sell Taiwan advanced military equipment.

As indicated, there can be no rapid or easy resolution of the Taiwan issue. In the long run, it may be possible to achieve a political relationship of the two entities based upon federation or confederation, setting the issue of sovereignty aside, at least for the first stage. Much will also depend upon political as well as economic developments in the People's Republic of China and future trends in PRC-Hong Kong relations as well as developments in Taiwan. Meanwhile, it will be important for the United States to use its considerable influence with respect to Taiwan to counsel all parties to avoid acts that augment tension and to make it clear that the U.S. defense commitment is dependent upon the actions of Taiwan as well as those of China. The U.S. should urge an official PRC-Taiwan discussion on economic and social issues without preconditions. Further, it should be privately emphasized to Beijing that its relationship with Taiwan must be a process, not a single act.

Meanwhile, on the economic front, U.S.-China relations should involve continuous negotiations, keeping in mind the interests of both parties. Economic relations will continue to be of critical importance to each side, and at the same time, involve cer-

tain challenges. On the political front, talks should also be intensive, with Americans keeping in mind the complexities of the China scene and lauding progress when it is discerned. Strategic relations are also crucial as we enter a new era in terms of strategic planning. We have now inaugurated regular high level strategic discussions concerning the curbing of weapons of mass destruction and these discussions should be broadened to encompass the issues posed by new weaponry and the era of transcontinental strategy, with maximum transparency displayed by both parties. At some point, it may be possible to broaden the strategic dialogue to encompass the other states of Northeast Asia in either a formal or informal multilateral structure. Meanwhile, China should be encouraged to continue to play an active role with respect to the North Korea issue, an issue to be discussed later.

As noted earlier, on balance, the prospects for a viable, constructive American-Chinese relationship are promising, but patience and careful planning by both parties are essential.

Continuing with major power relations in the region, the China-Japan relation remains somewhat delicate despite major increases in economic relations. In 2003, Sino-Japanese trade reached \$133.6 billion in volume, with Japan now being China's largest trading partner and benefitting from a trade surplus of over \$13 billion. Japanese investment in China is also rapidly advancing, reaching over \$4 billion in 2002. On the one hand, this creates a problem similar to that being witnessed in the United States, namely, a loss of jobs and production at home. Since 1991, some 2.5 million manufacturing jobs have disappeared in Japan, with production facilities transferred to Southeast Asia and increasingly, China. On the positive side, Japan's massive trade with China is a key factor in its recent economic recovery. There is every reason to believe that the economic ties between these two nations will continue to expand.

Yet the shadow hanging over China-Japan relations remains significant, one relating to history. Beijing deeply resents such actions as Prime Minister Koizumi's annual visits to Yasukuni Shrine, regarded as a site where the remains of certain war criminals repose. Japanese textbooks are often criticized for "biased treatment" of World War II. More important, China has shown increasing concern about a rising Japanese interest in revising the "Peace Constitution," especially Article 9.

Indeed, it seems likely that within the near future, constitutional amendment will take place. Increasingly, the Japanese people—and the Diet—are taking the position that Japan's rights as a sovereign nation—and its needs for adequate self-defense—require broader military options. At this point, according to certain analysts, Japan is already expending the fourth largest sum in the world (next to the U.S., China and France) in terms of its military budget, rapidly modernizing its forces. Its dispatch of troops to Iraq, albeit, in a non-combatant capacity, is the latest indication of an expanded commitment. When North Korea fired a missile that passed over Japan several years ago, Japanese concern was greatly heightened, and the unresolved issue of DPRK nuclear weaponry is an ongoing worry. Thus, strategic changes are in store. However, the fear of a newly militarized Japan can easily be over-stated. Only two conditions in combination would make that prospect more likely, namely, a greatly increased perception of external threat and the loss of American credibility as an ally. Such a conjunction of events seems improbable, at least in the foreseeable future. Meanwhile, an American interest lies in helping to encourage an in-depth dialogue on all matters, including security, between China and Japan, and the effort to build broader sub-regional and regional associations that incorporate both states with others.

Meanwhile, China's relations with Russia have greatly improved in the past decade although they remain very far from an alliance. Trade remains modest, given Russia's economic difficulties, but the prospects for increased oil imports are good, initially by rail. China's bid for a pipeline from Aagardsk, Siberia to Daqing in Northeast China are on hold because of a Japanese bid to fund a pipeline going to Nakhodka, thence across the Sea of Japan. There is some concern in Russia, especially in Siberia, about unregulated Chinese immigrants. The modest Russian population in this vast area has been further reduced in recent years due to economic conditions, and the availability of cheap labor to the south is formidable. In any case, however, the economic interaction between China and Russia is certain to grow in the years ahead.

Meanwhile, in June 2001, the Shanghai Cooperation Organization (SCO) was founded, ultimately involving the four Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan together with China and Russia. Initially, the emphasis was upon cooperation in meeting terrorism, separatism and "extremism" as well as in promoting a reduction of border forces. Subsequently, economic issues have been introduced, with a plan for free trade within twenty years. The SCO is

still relatively modest in its operations, but it represents the first effort to bring Central Asia into a broader framework.

In sum, China's relations with the other major powers are on balance promising, despite various problems, new and old. Turning to Japan, a second major Asian nation, if China is a rising power, Japan can be accounted a risen power, albeit, one that has faced various difficulties in the recent past. Some of Japan's strengths have turned into challenges: a tightly knit, homogeneous people; decision-making by consensus; interwoven governmental-corporate relations; and the relative satisfaction of the people in their economic conditions. Thus, thorough reforms in line with the rapidly advancing thrust of globalization have been difficult. Meanwhile, a lengthy economic recession has ensued since the beginning of the 1990s, with growth rates slowing and the manufacturing sector being increasingly hollowed out. In the latter part of 2003, however, economic growth moved ahead more effectively than in thirteen years, with further growth predicted for 2004, led by expanded exports to Asia, especially China. Problems remain including the difficulties within the banking system, deflation, and the longer range uncertainties regarding the yen's value against the dollar. However, many observers are more hopeful than at any time in the recent past. Japan, moreover, remains the world's second largest economy, with a powerful influence upon the rest of the Asia-Pacific region.

Politically, the nation is relatively stable, with a Prime Minister, Koizumi Junichiro, who has maintained a strong position with the electorate. However, Japan has been moving from a one and one-half party system, with the Liberal Democratic Party always in power, alone or in coalition, and others in the opposition, to a more genuine issue-oriented, two party system with the Democratic Party of Japan, now a significant opposition force.

In this setting, Japan's strategic alliance with the United States remains firm, and despite the perennial issue of U.S. troops and bases in Okinawa, few immediate problems exist. In response to past U.S. requests that Japan accept greater responsibility in the security realm, the Japanese have increasingly responded, most recently in Iraq, as noted. Further, Japan is on the verge of working with the U.S. with respect to a missile defense program. Initially, Japan confined its overseas defense role to providing funds, as in the Gulf War. Increasingly, however, it moved toward providing non-combatant military forces, first in Cambodia in 1992, then in the Indian Ocean in connection with Afghanistan. Pacifism still has a hold on the older generations, but younger Japanese politicians are desirous of increasing Japan's clout in the international community, and strongly in favor of amending the constitution to permit greater defense rights, as well as obtaining a permanent seat on the UN Security Council. Nationalism is emergent in Japan as elsewhere in Asia.

The United States has every reason to accept the new trend while quietly counseling an avoidance of extremities, such as nuclear weaponry. Japan can become an important part of an Asian balance of power. Moreover, over time, given the revolution in military affairs, U.S. forces and bases overseas will be reduced or removed, with the new emphasis upon rapid deployment, modern weaponry, and the support of allies. In this setting, Japan must be prepared to play its role.

The United States and Japan, moreover, have an important task in working together on the economic front. Japan needs to remove numerous barriers to free trade and greater investment. The United States also must shun protectionism in various forms. Both nations need to strive to keep in the forefront of scientific-technological innovation, with education geared to this goal. The U.S. has an advantage possessed by few Asian nations, namely, an encouragement of creativity rather than that of rote memorization of the teacher's word. Japan has been rapidly undergoing the necessary change in this respect. A more serious challenge lies in the demographic realm. In roughly two decades, one-fourth of the Japanese population will be 65 years of age or older. Will Japan, historically very adverse to immigration, adopt new policies on this front, or will it seek to retain its homogeneity through a combination of overseas expansion and widening the domestic work-force? At a later date, the United States may face a similar problem despite its relative openness.

On another front, Japan's relations with Russia appear to be ready for a significant advance, especially on the economic front. Bilateral trade grew by 25% in 2003, fueled by gas and oil shipments, although it is still a modest \$5.5 billion in comparison with some \$60 billion with South Korea and \$133 billion with China. Japanese investment in Russia also rose by nearly \$1 billion in the past eighteen months. Future plans include shipments of natural gas from Sakhalin to Japan, and the prospect of an oil pipeline to Nakhodka, thence shipment across the Sea of Japan, noted earlier.

Huge cultural differences sometimes present problems for Japanese-Russian cooperation. A more substantial problem, however, lies in the fact that the controversy

over the South Kuriles has never been resolved, therefore, preventing a treaty formally ending World War II. Both nations claim the four southernmost Kurile islands, and strong nationalist sentiments have prevented any compromise. Eventually, some agreement upon joint management and access should be possible. But Russia will always seem like a deeply foreign nation to Japan and vice-versa. Neither party, however, threatens the other now and for the foreseeable future.

In terms of major power relations, it remains to sketch the bilateral relations between the United States and Russia. Once again, on balance, those relations are positive and promising, notwithstanding certain issues. First, a brief summary of current economic and political conditions in Russia is required. On the economic front, after a lengthy period of post-Soviet economic chaos when the lack of preparation for privatization led to massive corruption and recurrent crises, Russia has shown growth in the recent past. Aided by higher oil prices, a growing trade surplus, and strong bank reserves, the economy grew by a reported 6.8% in 2003. However, major reforms are required if growth is to be sustained, and the Premier newly appointed by President Putin, Mikhail Fradkov, has promised important reforms including financial changes and fiscal prudence. Russian economic advances are only in their initial stages.

One likelihood, however, is that Russia, and notably the Russian Far East will increasingly be drawn into a Natural Economic Territory (NET) encompassing Northeast Asia, notably China, Japan and South Korea. The reciprocal assets and needs in this area make a NET eminently logical, and its various signs are already in evidence.

On the political front, President Vladimir Putin had no difficulties in the March 14 election, polling 71% of the vote with 62% of the electorate participating. He had no significant opponents and his popularity remains at a very high level. The Russian people, like many throughout the developing world, are more interested in strong leaders than in political institutions. Putin has proved to be such a leader, displaying a combination of toughness and flexibility, with a flair for the unexpected. The future of Russian democracy remains uncertain despite the rising success of the market-oriented economy. The strength of the so-called *siloviki* (individuals associated with the police, military, and security services) has remained high, and there is worry both within Russia and in the West that authoritarianism may grow.

In the foreign policy arena, Russia under Putin began with a strong tilt toward the West, both the European Union and the United States. Putin reportedly saw Russia's economic and strategic interests served by such a policy. Hence, Moscow signed the Partnership and Cooperation Agreement with the EU and accepted modest U.S. forces in several Central Asian nations during the Afghanistan conflict and thereafter. Although Moscow opposed the U.S. attack on Iraq, its criticism was relatively muted.

Recently, however, there have been more complex problems. Russia objected to extending the 1994 Partnership and Cooperation Agreement to the ten new members of the EU and also threatened to withdraw from the Conventional Forces in Europe Treaty. In addition, Russia together with the United States, refused to accept the Kyoto Treaty. Subsequently, in an effort to avoid a major trade war, Moscow agreed to extend the CFE Treaty until at least June while various issues were negotiated. However, it has been a rough period for Russian-EU relations.

With respect to Russia-U.S. relations, both parties have exercised care to avoid serious rancor, but maintained their respective positions on certain issues. In a recent trip to Moscow, Secretary Powell cautiously voiced some criticism with respect to domestic political trends in Russia, suggesting that Putin's government was "not yet fully tethered to law." For its part, Moscow has been concerned about increasing U.S. influence in Eastern Europe and Central Asia, and also U.S. plans to develop new types of nuclear weapons. At the same time, however, both sides are seeking to avoid a serious cleavage.

It is important for the United States to work out a relationship with Russia that is cooperative and mutually beneficial. Almost certainly, Russia will reemerge as a major global power, as Putin desires. Its geographic position astride the Eurasian continent insures that it will have growing influence both in Europe and in Asia. Its recent willingness, to forgive a large portion of past debts in such states as Iraq and Mongolia, signals future trends. Its economic course now appears to be set, with a market economy in operation, and both trade and in-country investment likely to rise. Beyond this, given its status as the major nuclear nation next to the United States, further agreements on weapon limitation and cooperation in securing a nuclear-free North Korea are crucial. Moreover, the effort to cause Russia's orientation to be westward has multiple advantages in terms of a global balance of power.

Meanwhile, the most critical strategic issue confronting Asia-Pacific today has already been signalled, namely, the issue of North Korea. In assessing this problem, it is necessary first to understand the current situation on the Korean peninsula. Despite having evolved from a common culture, South and North Korea today could scarcely be more diverse. Broadly speaking, South Korea is a success story despite recurrent crises. Emerging in ruins from the Korean War, the ROK has built an economy that places it among the more developed societies, with per capita income having reached \$10,000 per annum. In the recent past, there have been problems: excessive consumer debt, youth unemployment, and non-redeemable bank loans along with extensive corruption. Yet according to IMF estimates, the South Korean economy is scheduled to advance 5.5% in 2004, with robust exports to China and the U.S. the key factor. This assumes, however, that the current political crisis does not adversely affect economic trends.

In broad terms, recent decades have witnessed advances on the political as well as the economic front, notwithstanding the current trouble. The ROK evolved from a military autocracy to a civilian-led democracy within several decades. Political freedom is now complete, and the expression of political views is virtually uninhibited. At the same time, however, regionalism and extensive corruption have loomed up as challenges, and the current opposition effort to impeach President Roh Moo-hyun has created a serious crisis. The impeachment resolution passed overwhelmingly in the National Assembly with the two opposition parties, the Grand National Party and the Millennium Democratic Party, voting for the resolution. Roh's party, the Uri Party, abstained. The issue was over Roh's public endorsement of the Uri Party before the permitted 17 days ahead of the April 15 elections, and his refusal to apologize. Now, the legality of the impeachment has been taken to the court. Meanwhile, the Prime Minister, Goh Kun, is acting President. The effect of this development on the April legislative election is presently unclear. Polls indicate that while Roh's popularity had fallen below 30%, some 75% of the South Korean electorate opposed his impeachment. Hence, his party may gain in the coming elections. In any case, this is a period of turmoil for ROK politics, and it is most regrettable that a politically weak South Korea should emerge at a critically important juncture with respect to North Korea. Whatever his fate, Roh has proven to be a mercurial president, displaying a certain shrewdness tactically, but with the challenge of learning the requirements of national leadership as he goes along.

In this context, the U.S.-ROK alliance has undergone some vibrations. Roh's election brought a man to power generally considered center-left. Subsequently, cleavages over policies toward the U.S. developed between the President's Blue House advisors, considered more "left" and the Foreign Ministry, resulting in the dismissal of the Foreign Minister. However, the new Foreign Minister, Ban Ki-moon, has strongly denied that ties to Washington are weakening. In a variety of ways, moreover, President Roh has reaffirmed the importance of the ROK-U.S. alliance, including the sending of South Korean troops to Iraq. Yet the mood in the government is generally in support of more independence and assertiveness. Another issue has been the decision of the U.S. to realign forces and bases in the ROK, moving troops away from the DMZ and out of Seoul toward the South. Both from a political and military standpoint, this move seems eminently sensible. However, it alarmed some South Koreans as a possible sign of withdrawal or at a minimum, placing undue strategic burdens on the ROK.

Despite certain differences over the strategy to be applied regarding North Korea, however, government to government relations remain relatively good. Yet anti-Americanism has grown at the public level, especially among the younger generations. Many are advocates of great self-reliance and independence, and a number blame the U.S. for inhibiting the effort of North Korea to adjust to the contemporary world. In reality, Korean anti-Americanism runs the gamut from a reasoned criticism of aspects of U.S. policy on Korea and elsewhere to a general antipathy based on romanticism or ideological tenets. However, recent polls indicate that a strong majority of the South Korean people want U.S. troops to remain in the country, and the alliance to continue.

Turning to the North, one witnesses a highly traditional society despite its efforts to label itself revolutionary. Until recently, the DPRK sought to pursue isolation in maximum degree, reminiscent of the label "hermit kingdom" given Korea long ago. Moreover, an absolute monarchy with divine status and unlimited power was installed, and dynastic succession is now in place.

To understand these facts is necessary if one is to appreciate the huge problem of inducing this traditional society adjust to the modern world. In recent years, North Korea has been a failure economically, and its top elite have finally been forced to recognize that fact. Yet how to undertake economic changes so that they will not produce political changes has troubled the leadership as well as what re-

forms can be effective. Outside the military, the North has a very limited technocratic class, thus inhibiting economic entrepreneurship. Hence, new training as well as new policies is essential.

Such changes have begun, with varied results. The market place has been expanded, and wages readjusted to relate to productivity and to black market monetary rates. At the same time, efforts have been made to expand economic ties with the South. A new economic zone centered upon Kaesong, next to the DMZ, is being cultivated, with South Korean industries encouraged to invest, utilizing the North's cheap labor. Trade is being expanded, and tourism encouraged. Modest economic gains have taken place. After the impeachment action, however, the North canceled a scheduled bilateral dialogue on economic matters, citing the political uncertainties in the South. Earlier, President Roh defined his policy toward the North as one of "peace and prosperity," in essence, a continuation of the "Sunshine" policy of the Kim Dae-jung administration.

The North Korean issue in its broader dimensions should be viewed with this domestic and two-Korea context in mind. With China taking the lead, a multilateral setting for talks with the DPRK was created despite the North's initial demand for bilateral talks with the U.S. only. At this point, two six-party meetings have been held. The first, held in August, 2003, ended quickly and was marked by harsh rhetoric and near total disagreement. The second, held at the end of February, 2004, continued for four days and involved serious, intensive dialogue focused upon the key issues. With Chinese and Russian support, South Korea put forth a proposal for a three stage move by the North, with each stage accompanied by external assistance: first, a commitment to freeze its nuclear program, with energy aid forthcoming; second, action on the freeze, including a return to the Non-Proliferation Treaty and an acceptance of UN IAEA inspections, with broadened economic aid from the ROK, Russia and China; third, the elimination of its nuclear program, with the U.S. providing a written security commitment.

While this proposal did not include the endorsement of the U.S. or Japan, it was indicated privately that the U.S. response to the proposal was positive. The U.S. position, however, has been that the DPRK should abandon its nuclear program in a "complete, verifiable and irreversible" manner prior to security assurances or economic assistance. In any case, the ROK proposal was not accepted by the DPRK, and in the end, no agreement on the key substantive issues was achieved. Even the effort to produce a final document failed. Yet in comparison with the first meeting, advances in dialogue on the crucial issues were achieved, and an agreement was reached to hold a third meeting by the end of June.

Clearly, the two critical issues are verification and timing, namely, the sequence in which concessions and moves by the DPRK will be met by security guarantees and aid from external sources including the United States.

As elsewhere, there are disagreements in the U.S., including within the Bush administration, on the appropriate policies toward North Korea. Some have argued that minimal concessions should be made, and economic sanctions should be tightened unless the North gives evidence of a willingness to abandon all of its nuclear programs, with the objective of producing a change in regime. Others have asserted that the United States should work with its allies, and with China and Russia, in continuing the dialogue and fashioning a meaningful set of incentives that would test the North's willingness to abandon its nuclear commitments.

Neither China nor the ROK desires a collapse of the DPRK at this time. For China, a massive flow of refugees into Northeast China would be likely. Moreover, a buffer state would have been removed, with the South, still aligned with the United States, on China's border. The PRC fought a war to prevent this. For the ROK, to the economic costs of absorbing a poverty-stricken populace would be added the political risks of bringing into a unified Korea some 23 million people who have only known a rigid authoritarian rule, buttressed by hero worship.

Nor does any party, including the DPRK, want another war. The North's leaders seek survival, not suicide, and they know that the U.S. commitment to the defense of the ROK is credible on this occasion. Hence, whatever the initial damage that the North could do, in the end, it would be pulverized by U.S. and ROK military power. The U.S. does not want another military conflict, given the costs of Afghanistan and Iraq, and the Bush administration has stated repeatedly that it has no intention of using force against the North. It has also indicated that it would be prepared to approve some type of multilateral security assurance to the DPRK.

Under these circumstances, the most logical U.S. policy would be to work with others, and notably South Korea, to fashion a specific road map for steps to be taken, with the appropriate timing by both sides. One need not accept North Korea's demand for "simultaneous" actions by the two sides, but it is not rational to insist that the North complete a fully verifiable nuclear dismantlement before any recip-

rocal actions are taken by the U.S. and/or others. To be sure, the final result on the side of the DPRK must be a fully verifiable and complete nuclear dismantlement, but recognizing the North's economic deficiencies, staged assistance is the most logical inducement to acceptance of a process leading to that end. It should always be remembered that one of the negotiatory problems has been that the North has only one bargaining chip to place on the table, and that is threat. It has now escalated threat to near the summit.

Some observers have suggested that given Pyongyang's deep distrust of the Bush administration, the North is likely to stall in reaching any agreement until after the November U.S. elections. This may be true, but it can best be tested by presenting a very specific road plan, involving stages on both sides. In this manner, moreover, the United States can achieve the best rapport with allies and other major powers.

It remains to speak briefly about the security situation in Southeast Asia, and then to examine the principal security issues of the future. State to state conflicts between or among the ten nations of Southeast Asia are at their lowest risk since World War II. At the same time, the sub-regional organizations such as ASEAN, formed with both security and economic considerations in mind, have been significantly weakened in the recent past. The reasons are essentially twofold: the domestic troubles besetting certain key states such as Indonesia and the major differences between the original ASEAN members and those more recently members such as Myanmar, Vietnam, Cambodia and Laos.

Security issues for states like Indonesia lie in the political instability that has occurred in the course of the shift from highly centralized political control to more decentralized governance, and greater freedom for the citizenry under civilian rule than under the previous military authoritarianism. Separatism and weak regional administrations are interwoven factors. In addition, despite the fact that the overwhelming majority of Indonesia's Islamic population are moderates, extremism has its supporters, with terrorist incidents recurrent. Moreover, leadership at the top is not strong. President Megawati Sukarnoputra, while an improvement over her predecessor, is regarded as indecisive. Many Indonesians, like others, want a strong leader. Thus, the results of the July elections are uncertain.

Elsewhere, progress—both political and economic—has been stifled in Myanmar where an aging military clique holds power. In Cambodia, it has been impossible to form a new government in the aftermath of elections since a two-thirds majority cannot be achieved. The Philippines, like Indonesia, suffers from a leadership problem, and the gap between the Islamic south and the Christian north. Singapore, Thailand, and Malaysia have had relatively strong governments, and reasonably strong economic performances. Vietnam is en route to a more open economy but with little immediate effect on the dominance of the Communist Party.

In general, the Southeast Asian governments, despite a variety of domestic challenges, have sought to turn out economically, negotiating free trade agreements, both bilateral and multilateral, and seeking foreign investment. They are also in the midst of an economic rise, with export increases and enhanced domestic consumer spending. Various regional and international organizations affiliated with ASEAN have been created, notably, the ARF, ASEAN Plus Three, and ASEM. While these groups hold promise, especially in the economic realm, and enable leaders to meet for side-line dialogues, they are essentially "talk" not "action" bodies. Genuine regionalism of the EU type has yet to be established in this part of the world.

Looking ahead, what are the principal security issues in the Asia-Pacific region to be confronted? As noted, Taiwan and North Korea will remain complex problems, not easily or quickly resolvable. Yet despite these problems, the risks of a major power conflict, regional or global, seem relatively slight. There can be no victor in such a war, and the economic and political costs for all parties would be enormous. In South Asia, India and Pakistan seem to realize this fact, and in East Asia-Pacific, it is certainly clear to the United States, China, Japan and Russia.

The security issues that must be confronted commence with those we term "human security," notably, the availability and utilization of resources; pollution of various types; and demographic trends. Already, water shortages are a major problem in Northeast Asia, with desertification of tens of thousands of acres of farmland taking place. Energy sources are also increasingly being consumed. Meanwhile, winds carrying dust from deserts and fires sweep across national boundaries, creating regional problems throughout the area. Further, key societies are aging rapidly, with an impact on health care and the general economy. These issues require additional study and treatment urgently, and the United States should take a leading role in organizing both official and non-official dialogues devoted to this task.

Terrorism in its various forms and manifestations will continue to be a problem, and all parties must realize that this threat cannot be handled merely by military

means. Certain inequities and grievances must be addressed, and economic conditions improved if significant progress in the "war against terrorism" is to be won.

A related problem is that of faltering and failed states. As has been noted in the case of North Korea, and was seen earlier with respect to Myanmar, such states unload their problems on others, especially those in the neighborhood, and thereby create regional instability.

An entirely different challenge lies in the ongoing revolution in military affairs. The advent of a wide range of small scale, strongly lethal weapons—including nuclear ones—along with the advances in long-range deployment capacity are opening up a new and expanded approach to conflict that warrants careful study. Will such developments increase rather than decrease security risks?

In sum, these challenges lie ahead, and warrant careful long-term, careful study both by government officials and private individuals and groups. In the meantime, United States policies in the Asia-Pacific region, broadly speaking, should rest upon two foundations, a concert of powers and a balance of power. On the one hand, we should seek to build coalitions of nations having a common interest in a given problem or set of problems, thereby bringing together maximum effectiveness in seeking its resolution. At the same time, given the uncertainties of the present and future, the U.S. should maintain a balance of power through a complex set of alliances and commitments, keeping always in mind the interests of the involved parties.

Mr. LEACH. Thank you very much. I like the adjective, "serene." It has not been sensed on this Hill in more than a few months.

Mr. Ennis.

**STATEMENT OF PETER ENNIS, WASHINGTON BUREAU CHIEF,
"WEEKLY TOYO KEIZAI" AND CONTRIBUTING EDITOR, "THE
ORIENTAL ECONOMIST REPORT"**

Mr. ENNIS. Well, thank you, Mr. Chairman. It is, indeed, an honor to be here before you today, but I must say, it is a rather daunting task to follow Dr. Ellings and Professor Scalapino, but I will do my best.

My concern today is to try to highlight for the Committee some important trends in the region that might be off the radar screen and to perhaps suggest some steps the House might take to help truly solidify our position in East Asia for years to come. I am going to restrict my comments to the Korean peninsula and Japan, which are the areas where I feel reasonably comfortable to speak with you about.

First, on North Korea, let me make three points. First, as things stand now, we face the prospect that China might emerge in the minds of Koreans as the nation that brokered reunification, while the United States might be seen as having been an obstacle, and as a result, China could very well emerge from the current six-party-talks process with greater influence on the Korean peninsula than the United States. That, in my view, would raise some complicated issues. I am not forecasting this; I am just raising it as something for us to think about.

Secondly, we have to face the fact that there may be no diplomatic solution to the problem of a North Korea determined to develop and retain an arsenal of nuclear weapons. If they work right, the current six-party talks should benefit the U.S. in one of two ways: First, to apply multinational pressure on North Korea in a way that might, hopefully, convince the North Korean regime to end its nuclear weapons program, but, secondly, the process works to build a consensus, or it should build a consensus, among the participants that if the talks fail, it is the fault of the North Koreans and no one else. In the event that more intense pressure, per-

haps even military action, is needed, the other parties would be with us.

But as I see it, the process is not working that way right now. Despite rosy assessments from the Administration about the latest round of talks in Beijing, both the Chinese and South Koreans came away quite frustrated not only with Pyongyang but with Washington. The feeling in Seoul and Beijing was that Jim Kelly, who is a great guy and a great negotiator, went into the talks with his hands tied, without sufficient authority from a divided Administration to engage in any meaningful discussions.

Now, whether that is true or not, the perception is very strong among Chinese and South Korean officials that that is the case, and that is very dangerous because if we come to the conclusion that severe economic sanctions, including, for example, the Proliferation Security Initiatives or military action is needed against North Korea, we will need the cooperation of China and South Korea, and the only way we can bring them along in such a momentous step would be for them to be convinced that we, the United States, had truly exhausted every other avenue with Pyongyang, and as of now, they are not convinced.

To the contrary, China these days is functioning more as an arbitrator between the United States and North Korea rather than a partner with Washington in pressuring Pyongyang. The Chinese find themselves in between what they see as two mutually distrustful adversaries who have dug in their respective heels and refuse to talk to each other. China is looking like the good guy in this process, which is good for them and not necessarily bad for the United States, but it is bad if the United States looks, in the end, to have been an obstacle to improved North-South relations.

Thirdly, I think, in the long term, one way or another, the current North Korean regime will pass, and China, the United States, Japan, and South Korea will probably have to pick up the pieces. What that process will look like, nobody knows, but I am concerned that we not find ourselves in an Iraq-like situation unprepared because of poor planning. It is an issue of such magnitude in historical terms for the U.S. and in economic terms and potentially in strategic terms that we just cannot be caught off guard.

So I suggest that the Congress consider establishing a special commission to study the issue of a North Korea, post-Kim Jong Il, just what that would look like.

Let me turn to South Korea. There are two points I would like to make. First, I do not think we should overestimate the extent or depth of anti-American attitudes in South Korea; and, secondly, as we restructure our military presence in South Korea, I think it is very important that we maintain the Combined Forces Command, though it might be good to transfer the command to a South Korean general.

When push comes to shove, the historical and institutional linkages between the United States and South Korea come to the fore, they are really quite strong. It was no accident, for example, that President Roh Moo-hyun decided to back the United States on the Iraq war, including the decision to send South Korean troops to Iraq. But we must, in my judgment, always be mindful of the un-

derstandably nationalist tendencies in the country, including the strong desire for reunification.

Then my second point concerning the Combined Forces Command: As we know, the Defense Department and the U.S. Command in Hawaii are reviewing the United States force structure in Asia and rightly so. Our deployments in Korea are based on Cold War structures and should be changed. It makes sense to redeploy, for example, our combat forces to more southern areas in the country, and the idea is to make them available for regional operations, if necessary.

But the Combined Forces Command is very important because it represents, along with NATO, one of the few institutions in which U.S. and allied military officers work shoulder to shoulder on a day-to-day basis. That is a valuable institutional arrangement that we should be working to expand, not cut out.

Indeed, in recent years, there have been many military exchanges between South Korea and Japan, which raises the possibility, of course, a long-term possibility but still something we should be thinking about, raises the possibility of making more formal what has become a de facto, tripartite alliance between the United States, Japan, and South Korea.

A Combined Forces Command between the United States, Japan, and South Korea—of course, we are nowhere close to achieving that, but, again, I think it is something that we should ponder. I am not sure if Professor Scalapino would agree with that specific suggestion, but the notion being a concert of nations in the area.

Finally, let me address a few points about Japan. It is somewhat of a mantra these days that the United States-Japan alliance is closer than ever, and in some ways that is very true, but there are very important changes underway in Japan that, if we leverage our relationship properly, can work to the benefit of an enhanced United States-Japan alliance. If we do not handle it well, it could cause trouble in the relationship.

The first point: It is very likely, sometime over the next 5 years or so, that Japan will change its constitution, perhaps eliminating or altering the famous article 9. The United States has to follow this process very closely and, informally and formally, to be engaged in that as much as is appropriate.

Secondly, a true national-security state, if you will, is developing in Japan, with the prime minister's office becoming stronger, the various intelligence agencies, the foreign ministry, and the defense agency working more closely together. We should be aware of this process and work with the Japanese officials involved. Specifically, this raises the issue of Japan perhaps adopting the right of collective self-defense, and if that occurs, it raises the chances for a much-enhanced military operational relationship between the United States and Japan.

Specifically, I would recommend, as we move along in this process, that we continue to broach with the Japanese, which we have done in the past, the idea of establishing a joint intelligence center. As you know, the Japanese have undertaken their own satellite-reconnaissance program, which, frankly, is, in my view, a large waste of money since they get better photos from us than they are going to be able to generate on their own, and they also lack the photo-

intelligence analysts to make use of the data, but, nevertheless, they have embarked on this. The best, I think, way to approach this through the two countries is some sort of a joint intelligence analysis center.

A few other points on Japan. In the midst of the huge debate in Japan over defense issues, there is no serious consideration at all of breaking from the United States and moving in the direction of developing nuclear weapons. Fringe elements have raised the idea, but there is no one serious in Japan who is even considering that. It is an important point because the issue has received a lot of publicity here in the United States, and I think it is important to be aware that that is not happening in Japan.

Finally, with respect to our base structure in Japan, it really does have to change. The Pentagon knows that, and the Pacific Command in Hawaii certainly knows that. Let me just highlight the four or so important things we need to keep in mind as that process evolves. The two key aspects of our position in Japan are the Yokosuka naval base, where, of course, we home port an aircraft carrier battle group, which, of course, gives us long-range, power-projection capability. That is absolutely crucial. We have to maintain that. Secondly is the Kadena air base on Okinawa, which gives us a strategic air capability and heavy lift capability. We absolutely have to maintain that.

As far as I am concerned, just about everything else could be on the agenda, including the Marine contingent on Okinawa, which if you get the Marines to speak openly about this, they acknowledge they are not there for any strategic purpose; they are there because of budgetary considerations. Japan pays for an awful lot of the cost of them being there, so if the contingent on Okinawa were to be redeployed, there would be budgetary implications, and, of course, we would also have to negotiate with another country in the area where they would go. But they are not there for South Korean contingency. That is not where they are. The presence is a ticking bomb. At any moment, there could be another crisis on Okinawa due to something that goes wrong there. I am not suggest that the Marines should totally leave, but the heavy footprint, we have to find a way to reduce that.

And then, finally, in that context, I do not see any need to spend untold billions of dollars to construct a new Marine heliport to replace the heliport that would be lost when the Futenma base closes. This is fundamentally—I am sorry to be frank about it—fundamentally a dispute between the Marines and the Air Force. There is plenty of room on Kadena to move the helicopters over there, and to spend billions of dollars and to potentially cause more tensions on Okinawa does not seem to make sense to me.

So, in conclusion, overall, I think the United States position in Asia is very strong, but it is critical that American leaders remain sensitive to attitudes in the region and work closely with our allies as we restructure our military position in the region. Thank you.

[The prepared statement of Mr. Ennis follows:]

PREPARED STATEMENT OF PETER ENNIS, WASHINGTON BUREAU CHIEF, "WEEKLY TOYO KEIZAI" AND CONTRIBUTING EDITOR, "THE ORIENTAL ECONOMIST REPORT"

Thank you Mr. Chairman and other members of the Committee.

It is an honor to be here before you today. The committee in previous hearings has done a great job of highlighting for the Congress and the American people the importance of a strong American military, economic, and political presence in East Asia. Our presence in the region brings stability, enabling economic growth and increasing prosperity for both the region and the United States.

So I thank you for the chance to add my two cents worth to the discussion of how to make sure our presence in East Asia remains strong, becomes stronger, and remains durable for the long term.

My concern today is to highlight for the Committee some important trends in the region that might be off the 'radar screen', and to suggest some steps the House might take to help to truly solidify our position in East Asia for many years to come.

Northeast Asia is undergoing enormous change, and the United States is working to restructure our military deployments in the region. If we handle this transition properly, East Asian allies will truly feel like allies. Without that sense of friendship, or at least shared interest, our position in East Asia will be in trouble.

My comments today relate to North and South Korea, and Japan. These are the areas I feel reasonably comfortable speaking with you about.

NORTH KOREA

Let's start with North Korea.

There are two points I want to make. First: as things stand now, we face the prospect that China might emerge, in the minds of Koreans, as the nation that brokered reunification, while the US might be seen as having been an obstacle. As a result, China could very well emerge from the current 6-party talks process with greater influence on the Korean Peninsula than the United States. That could result in a forced withdrawal of American forces from the Peninsula, and could cause deep concerns in Japan.

I'm not forecasting this outcome; I'm raising it as something to think about.

Secondly: One way or another, the current North Korean regime will pass, and China, the US, Japan, and South Korea will probably have to pick up the pieces. What will that process look like? I'm concerned that we not find ourselves in an Iraq-like situation: unprepared because of poor planning. This is an issue of such magnitude, in historical terms for the US, in economic terms, and potentially in strategic terms, that we can't be caught off guard. So I would suggest that the Congress consider establishing a special commission to study the issue of North Korea post-Kim Jong Il.

Let me elaborate on these two points.

We have to face the fact that there may be no diplomatic solution to the problem of a North Korea determined to develop and retain an arsenal of nuclear weapons.

The North Korean regime may be so paranoid that it can't find a way to abandon its nuclear ambitions, and therefore doesn't really want to talk.

From the standpoint of traditional deterrence, a North Korea with a small nuclear weapons arsenal is not that big a problem. The regime in Pyongyang knows that use of those weapons would result in its utter destruction.

The danger is proliferation. A North Korea capable of pumping out weapons grade plutonium and uranium is a nightmare because that material might find its way into far more dangerous hands. It is a situation that can not be tolerated.

If they work right, the current 6-Party talks should benefit the US in one of two ways. First, to apply multinational pressure on North Korea in a way that might, hopefully, convince the North Korean regime to end its nuclear weapons program. Second, to build a consensus among the participants that, if the talks fail, it is the fault of the North Koreans, and no one else, and that more intense pressure, perhaps even military action, is needed to solve the problem.

But the process is not working that way right now. Despite rosy assessments from the administration about the latest round of talks in Beijing, both the Chinese and South Koreans came away equally frustrated by Washington and Pyongyang.

The feeling in both capitals is that Jim Kelly, who is a great guy and a great negotiator, went into the talks with his hands tied behind his back, without sufficient authority from a divided administration to engage in any meaningful talk.

Whether that is true or not, the perception is very strong among Chinese and South Korean officials.

And that is very dangerous. If we come to the conclusion that severe economic sanctions and/or military action is needed against North Korea, we will need the cooperation of China and South Korea. The only way we could bring them along in such a momentous step would be for them to be convinced that we, the United States, had truly exhausted every other avenue with Pyongyang.

As of now, they are not convinced.

To the contrary, China these days is functioning more as an arbitrator between the US and North Korea, rather than a partner with Washington in pressuring Pyongyang. The Chinese find themselves in between what they see as two mutually distrustful adversaries who have dug in their respective heels and refuse to talk with each other.

China is looking like the ‘good guy’ in this process, which is good for them, and not necessarily bad for the US. But it is bad if the US looks, in the end, to have been an obstacle to improved North-South relations.

Having said that, time is not on the side of the North Korean regime. One way or another, the dictatorial regime in Pyongyang will change. It might be through gradual, internal developments. It might be the result of painful economic sanctions imposed from the outside. It might be the outcome of military action against Pyongyang’s nuclear programs.

In any case, we have to be prepared for the aftermath. What will come after Kim Jong Il?

That leads to my suggestion for a Congressional Commission to investigate this issue.

The Executive Branch can’t undertake such a study, at least not in public, because it would imply a “regime change” attitude toward North Korea that is not healthy during attempted negotiations. But Congress can do it, and, in my view, would be wise to do it.

Who would take over North Korea in the event of a regime collapse? Do we have any idea? What would happen with the huge military? Should it be disbanded, in the way the US mistakenly disbanded the Iraqi military last year?

What about the health conditions of tens of thousands of malnourished children? How to take care of them?

Separate studies have addressed some of these issues in the past. And there is much information available about all of these issues, but it is disparate. NGOs operating in North Korea have some answers. Chinese officials have some answers. US academic institutions that have dealt with North Korea have some answers.

But someone needs to pull it all together, as much as possible, with the best Americans available on the subject, together with our friends and allies abroad, and come up with reasonable scenarios and forecasts for a post-Kim Jong Il North Korea. We can’t be caught off guard.

SOUTH KOREA

Let me turn to South Korea. Two points I would like to make: First, don’t overestimate the extent or depth of anti-American attitudes in South Korea. Secondly, as we restructure our military presence in South Korea, it is very important that we maintain the Combined Forces Command, though it might be good to transfer command to a South Korean general.

On the first point: Most South Koreans have a love-hate relationship with the American presence. On one hand, few if any want to be taken over by the North, and they appreciate the role the United States has played in securing their freedom. On the other hand, there is an enduring sense among South Koreans (and perhaps among North Koreans) that they have been pawns on the great chess board of history. Within the last hundred years or so, they have been taken over by Japan, unfairly divided (as many see it) by the US and the Soviet Union, caught up in the Cold War, which included the Korean War, and finally frozen in a state of national division that is artificial by any definition of Korean history.

The South Koreans have a right to be angry; history has been mean to them. But there is a depth of support within South Korea for the alliance with the US that sometimes remains unspoken of, but remains enduring.

It was not an accident, for example, that the liberal President Roh Moo-hyun decided to back the United States on the Iraq war, including deciding to send upwards of 3,000 South Korean troops to Iraq.

When push comes to shove, the historical and institutional linkages between the US and South Korea come to the fore. They are very strong.

But we must, in my judgement, always be mindful of the understandably nationalist tendencies in the country, including the desire for reunification.

In that context, it was a big mistake, in my judgement, for the Bush administration to have appeared in public to be opposed to the Sunshine Policy of former President Kim Dae-jung. Mr. Kim is no angel; some of his tactics to pursue talks with Pyongyang were highly questionable, at best. But Kim Dae-jung spent much of his life fighting for a real democracy in South Korea, and he was a key figure in achieving that. Then, he introduced dramatic economic reforms that have helped the country. He spoke for the dreams of many South Koreans.

The Bush administration helped elect Roh Moo-hyun by appearing to back his more conservative opponent. Mr. Roh represents the young, dynamic democracy that has emerged in South Korea, and we have to deal with that. By most accounts, the courts will overturn his recent impeachment, and his party is likely to do well in the upcoming parliamentary elections.

So, we better get used to dealing with a volatile South Korean democracy. Deep down, they like us. But we have to take care to always remember: it is their country, not ours.

That leads to my second point: the Combined Forces Command.

The Defense Department and the US Command in Hawaii are reviewing the US force structure in Asia, and rightly so. Our deployments in Korea are based on Cold War structures, and should be changed. It makes sense to deploy our combat forces to more southern areas of the country. The idea is to make them available for regional operations, if necessary.

Some analysts have argued that this redeployment is designed to pave the way for an American attack on North Korea, pulling US forces out of harm's way. But that argument holds no water.

In the event of a conflict on the Korean Peninsula, any US forces present would be immediately involved.

More importantly, the Republic of Korea's military forces would be very strong to repel a North Korean invasion. The main US contribution would be air and naval based.

But the Combined Forces Command is very important because it represents, along with NATO, one of the few institutions in which US and allied military officers work shoulder-to-shoulder on a day-to-day basis. That is a valuable institutional arrangement that we should be working to expand, not cut out.

The complaint from the South Korean side is that the CFC, in effect puts South Korean troops under the command of a US general. That raises the question: should the CFC be under the command of a South Korean general, with US officers working under his command. We should be prepared to consider that possibility.

Indeed, in recent years there have been many military exchanges between South Korea and Japan, which raises the possibility of making more formal what has become a de facto tripartite military alliance.

A combined forces command between the US, Japan, and South Korea? We are a long way from achieving that, but, again, it is something to think about.

JAPAN

Finally, let me turn to Japan itself.

It is somewhat of a mantra these days that the US-Japan alliance is closer than ever. In some ways that is true. But in some very important ways, it is not.

Let me make six points.

First: It is likely sometime over the next five years that Japan will change its Constitution, perhaps eliminating or altering the famous Article Nine. The United States should follow this process very closely, and frankly give our advice on what we think might work best for Japan, and US-Japan relations.

Second: A true 'national security state' is developing in Japan, with the prime minister's office becoming stronger, and the various intelligence agencies, the foreign ministry and the defense agency working more closely together. We should be aware of this process, and work with the officials involved.

Third: It is going to take perhaps another 10 years for Japan to work its way out of its economic troubles. Change does take place in Japan, but it takes time.

Fourth: Continued economic turmoil means continued shakeups in the traditional institutional arrangements in the country. Slowly but surely, key 'interest groups' are losing their power, which is leading to shakeups in the political landscape. Look for more political turmoil, with defense issues to be a key element. The US has to reach out to all political factions in Japan, regardless of party, to emphasize the continued importance of the US-Japan relationship.

Fifth: In the midst of the huge debate in Japan over defense issues, there is no serious consideration of breaking from the US and the NPT regime to become a nuclear power.

Sixth: US base structure in Japan. It has to change, which the Pentagon and the US command in Hawaii know.

Let me elaborate.

First: The Constitution issue is important because it governs the great debate in Japan over 'collective self-defense'. Under the current interpretation of the Constitution, Japan can work closely with the United States only under circumstances of an

invasion of Japan. No 'joint' arrangements, regarding planning for example, or intelligence, are allowed.

The Constitution worked well for Japan during the Cold War. The US provided protection to Japan, in exchange for base rights. And Japan was able to concentrate on restoring its economic health.

But the arrangement came crashing down during the first Gulf War, when the US wanted manpower, and Japan provided only money. Japan was humiliated when Kuwait issued its 'thank-you' list for nations that helped liberate it from Iraq's invasion; Japan was not included, despite having given some \$16 billion, complete with a domestic tax raise, to the coalition effort.

Japan has been inching closer and closer to accepting the idea of 'collective defense', which would allow much closer cooperation with the US, and potentially South Korea, on military matters.

It is a debate we should be watching very closely.

The key, in my view, is to suggest to Japan a 'joint intelligence center', under which US and Japanese satellite photo analysts would work together. Japan has launched its own satellite intelligence program, but lacks the number of competent photo analysts to make sense of the data collected; a classic waste of money, but one that shows continued lack of alliance-style integration between the US and Japan.

A joint intelligence center would help to solve that problem.

Second, as I mentioned, a true 'national security state' is taking shape in Japan. Administrative reforms have given the prime minister's office more powers over national security and economic policy. A whole generation of bureaucrats has grown up in the era of Japan having a bigger say in national security policy. There is now a large contingent of elected politicians who have had to make national security decisions. Due to the new US-Japan defense guidelines, and recent 'emergency legislation' in Japan, the government is now much better prepared to work on an inter-agency basis, with traditional bureaucratic obstacles breaking down.

The US should be very aware of working closely with staff from the prime minister's office, and with the new generation of defense-oriented elected officials.

Third: Japan is in the midst of a profound economic structural change, one that challenges many post-war institutional arrangements, such as life-time employment. These types of change take time. The country's banking system continues to suffer from enormous levels of bad debt. Even if Japan did everything right, it would take at least five more years to solve the problems. And countries never do everything right. Japan has a long way to do before a self-sustaining economic recovery will kick in.

Fourth: The economic reform process in Japan provokes further political reform, as traditional political alliances among constituent groups break down, and the various parties try to carve out an identity. Defense and security issues will be an important part of this process. The US should stay engaged with the key participants across Japan's political landscape.

Fifth: Despite much chatter in the Western media about 'Japan going nuclear' there is absolutely no evidence that this is taking place. Japan could, of course, develop a nuclear weapon virtually over night. But there is a clear consensus among politicians and bureaucrats that this would not be in the country's national interest.

The decision to not go nuclear means that Japan has wedded its post-Cold War national security to that of the United States. The alliance is strong.

But it is only as strong as the US is willing to listen to Japanese concerns, and Japan is willing to take a more active role in global affairs.

Sixth: The US command in Hawaii is in the midst of a major review of US deployments in Asia, including Japan. There are four important points to make:

a) the Yokosuka naval base, where we home port an aircraft carrier group is critical, since that provides us a naval/tactical air power-projection capability.

b) the Kadena air base on Okinawa is crucial, since that provides both strategic bombing capabilities, and heavy transport capabilities.

c) much of the Marine contingent on Okinawa should be re-deployed. They are there mostly for budgetary considerations; Japan picks up much of the bill. But the presence causes enormous tensions. A better home can be found.

d) in that context: there is no need to spend untold billions of dollars to construct a new Marine heliport to replace the Futenma base, which is scheduled to be closed under the terms of the SACO agreement. The Marine helicopter forces and equipment can easily find a nice home at Kadena, despite Air Force-Marine complaints to the contrary.

Overall, the US position in Asia is very strong. But it is critical that American leaders remain sensitive to attitudes in the region, and work closely with allies as we restructure our military position in the region.

Mr. LEACH. Thank you very much.

Let me just inform the panel. We do have a vote on the Floor. Mr. Bereuter has left to vote, and then he will return, and I will depart, so we will try to keep the panel in motion.

Mr. Masters.

STATEMENT OF THE HONORABLE EDWARD MASTERS, CO-CHAIRMAN, U.S.-INDONESIA SOCIETY

Mr. MASTERS. Thank you very much, Mr. Chairman. I am delighted to have the chance to meet with you and Members of your Committee to talk about Southeast Asia.

First, picking up on the comments that have been made by my colleagues, Southeast Asia, having been a backwater of Asia for a number of years, is now on the front burner again. India, Japan, China are all focused on Southeast Asia. I have outlined some examples of that in my paper, and I will not go over them here in detail. Except to say that India sees this as a major area of competition with China; Japan, following the explosion of its economic bubble and its refusal in 1997 to open its markets to Southeast Asian goods, is trying to get back in the act. But the big player now is China, and this has raised both optimism and concern.

China is now engaged in what they call "smiling diplomacy." They have increased their trade and investment significantly in the area. They are pushing for a free-trade agreement with the region, and this is something that has been welcomed very much by the countries of Southeast Asia.

There are two views on what China is up to: There is the benign view and the more alarmist view. The benign view is that China is just seeking, as any country would, a stable, prosperous neighborhood and that it will work with its neighbors in Southeast Asia on trade and investment to make that happen. The other view is that China is embarked on a long-term program to limit United States influence in Southeast Asia and to clearly bring Southeast Asia into a Chinese sphere of influence. It is not clear which of these views is the correct one. I tend to lean more toward the latter view, but only time will tell.

But meanwhile, the countries of Southeast Asia are watching this very closely, and they very much want to see the United States remain a part of the picture and a more active part than it is now. They find the United States focused, too narrowly, in their view, on counter-terrorism. Counter-terrorism is important to them also, certainly in the case of Indonesia and the Philippines, which have both suffered from significant terrorist attacks. But they are also concerned about the need for better governance, for removing poverty, for consolidating their democracies, which, certainly in the case of Indonesia, is very fragile. They want to resume rapid economic growth so they can absorb new entrants into the workforce and work off the very large unemployed group.

Their hope is that the United States will take a more active role in Southeast Asia than it has in the past and, as they see it, a more constructive role.

Just recently, there has been serious concern in Southeast Asia over the annual human rights report. The prime minister of Thailand said the United States is a "useless friend." The report, he

claims, does not take account of the progress that Thailand has made. In Indonesia, a government spokesman said the United States ought to get its own house in order before it lectures to other countries. The hectoring on human rights is, I think, becoming a serious problem with our friends in Southeast Asia. Perhaps we should reconsider the nature of a human rights report, perhaps even whether such a report is appropriate in the present situation.

Southeast Asia does not view this, and we should not either, as a zero-sum game. Advances by India, China, or Japan are not necessarily at the expense of the United States, but the United States needs to become more active in bolstering its interests in the area.

Now, let me turn specifically to Indonesia. I just got back last night, about 9 o'clock, from Indonesia after 3 weeks there, and I want to share with you a few thoughts on several key areas. The first is the 2004 elections, which were kicked off in Indonesia, parliamentary elections and also elections for regional representative bodies, on March 11. These will be followed on July 5 by the first ever direct election of an Indonesian President and Vice President. People I talked with in Indonesia expect these elections to be free, fair, and peaceful, and I share that view. They had a good precedent in 1999. I think these 2004 elections will be equally successful. There is a great deal of interest in the elections. Turnout is expected to be well over 90 percent of the 148 million eligible voters.

The outcome is uncertain, as far as the individual winners are concerned, but I think there is no question that secular nationalists will continue to control the government in Indonesia. The more radical Islamist groups will make a play, but I do not expect their percentage of the vote to go much, if anything, above the 14 percent that they pulled in 1999. In other words, whoever is at the helm, the secular, nationalist, very responsible group will continue to run the government.

Now, as you know, Mr. Chairman, for the past year and a half, I have been the Vice Chairman of the National Commission on U.S.-Indonesian Relations. That commission has looked very carefully at the bilateral relationship between these two large countries and has come up with some specific recommendations. One is that the next 5 years in Indonesia, starting with the 2004 elections and leading up to the 2009 elections, there is an opportunity for the United States to work with Indonesia to strengthen Indonesia and thereby serve our own interests.

We think that this 5-year period will be crucial in determining whether Indonesia's democracy works or does not work, whether the country will slip back into authoritarianism or some form of multiple power centers, whether it will succeed in getting the economy going at a rate that will absorb the unemployed and the underemployed, and whether the moderate Muslims will continue to prevail.

The Commission believes that there are several areas in which the United States should significantly expand its assistance to Indonesia. The top priority is education. The Indonesian educational system is deplorable. On any test score, competition, Indonesia ranks near the bottom of the Asian countries together with Burma and Laos.

We would like to see a large, U.S.-funded program to significantly expand education at all levels and in all sectors. Religious schools, secular schools, government schools, private schools; we think that across the board there is significant need for us to work with the Indonesians to expand the programs supporting education. Indonesians want to see their educational system significantly improved, and we think that that is very much in our own interest. We include in that the Pesantran and Madrasa, the Islamic schools. At one point, I thought those schools would be too politically hot to handle, but we have been assured by Indonesians that that is not the case and that they would welcome our support for those schools as well.

There is, however, one risk. As the President found in his initiative in Bali in October 2003, when he pledged \$157 million for support for education over 6 years, that was picked up by Islamists and ultranationalist groups as an effort by the U.S. to change the curriculum of Islamic schools, i.e., to reorient it to a pro-U.S. curriculum. That certainly is not the intention, but what it means to our Commission on U.S.-Indonesian Relations is that we should structure this aid in a way that minimizes the risk of such allegations. We would like to see a partnership between the United States and Indonesia in which both countries work together to design these programs and put them into effect. We think this kind of partnership would go a long way to defuse any such political allegations.

In the security field, we would very much like to see additional U.S. support for the police, and we would like to see AID freed from the restrictions which now make it impossible for AID to engage in police programs. There are police programs in Indonesia, United States-supported programs, supported by other agencies of the government. We would like to see these regularized under AID and coordinated with our other assistance programs.

We would also like to see a direct link between the United States Congress and the Indonesian Parliament. As you know, the parliament in Indonesia was a rubber stamp for many years. It is now functioning reasonably well, but it needs help in building up the staff, building up research capabilities, and, in general, learning how to work with constituents. We would like to see official linkage between the United States Congress and the Indonesian Parliament, and we would very much like to see more congressional visits. Indonesians have complained to me that Congressmen go to China, they go to Korea, they go to Japan; they do not come to Indonesia. I would hope, Mr. Chairman, that that can be changed over the course of the next year, after the elections.

Finally, we would urge that more attention be paid to public diplomacy. The figure has been quoted very widely that there is anti-Americanism in Indonesia, that the favorable attitudes toward the United States have fallen from 60 percent a few years ago to 15 percent. I do not think that is anti-Americanism. It is opposition to certain U.S. policies, but it could become anti-Americanism if it is not countered and if steps are not taken to increase understanding of the United States in Indonesia. We would, therefore, like to see many more exchanges between Americans and Indo-

nesians and greater efforts to explain not only our policies but the nature of our government and our national objectives to Indonesia.

I will leave it at that, Mr. Chairman, and look forward to questions.

[The prepared statement of Mr. Masters follows:]

PREPARED STATEMENT OF THE HONORABLE EDWARD MASTERS, CO-CHAIRMAN, U.S.-INDONESIA SOCIETY

Mr. Chairman and Members of the Committee:

On behalf of The United States-Indonesia Society and the National Commission on United States-Indonesia Relations, I thank you for this opportunity to present my perspectives on some of the major trends and challenges shaping priorities for U.S. policy in Southeast Asia. I returned yesterday from two weeks in Indonesia and also look forward to sharing my views on developments in that important nation.

First a few general thoughts on Southeast Asia and the role of the United States there. From an area in which outside powers took little interest, either because of preoccupation with their own problems or the belief that economic opportunities were limited following the Asian financial crisis, Southeast Asia is now being courted by all of its major neighbors with China, India, Japan and Australia vying to gain advantage.

India is "looking east" for both economic and strategic reasons. India-ASEAN trade has reached \$10 billion annually, and New Delhi has pledged to reduce tariffs with the goal of doubling the volume of trade within five years. India has also proposed formation of a free trade area with ASEAN, with which it is now a full dialog partner. India's strategic interests stem from a desire to protect sea lanes connecting the Arabian and South China Seas and concern about China's influence in the region, particularly in Burma. Southeast Asia is, in fact, seen by policymakers in New Delhi as a major area of competition by the two behemoths.

Until recently Japan was the source of by far the largest foreign investment, foreign trade and foreign assistance for Southeast Asia. By the 1990s Japan was referring to its relations with the nations of Southeast Asia as a "flying geese pattern" with Japan as the lead goose. Bursting of Japan's economic bubble and its failure to open its markets to goods from SEA following the Asian financial crisis cooked the lead goose, and Japan—while still important in the region—is on the defensive against growing influence from Beijing and booming PRC trade with the region.

China, formerly viewed by many in Southeast Asia as the main threat to their security, has made astute moves to strengthen its diplomatic, economic and security roles in the area. During the past several years it has negotiated bilateral economic cooperation agreements with each of the ASEAN nations, and in October 2003 China signed a Joint Declaration on Strategic Partnership with the regional organization calling for cooperation in "politics, social affairs, security and regional affairs." Like India, China is also pushing for a China-ASEAN Free Trade Agreement.

While combating terrorism is important to the nations of Southeast Asia, they have other interests which to them are of as great or greater importance. For many they are preoccupied with establishing better governance or consolidating democracy. Economically their priorities are to resume the rapid pace of growth that was established before the financial crisis and eradicate grinding poverty. And over and above the problem of terrorism, they are seeking to strengthen regional security and stability. They see the interests of the three major Asian powers as spreading their options and reducing their dependence on any one power. By comparison they find the interest of other major powers in Free Trade Agreements and expanding economic cooperation more in their interests than our, as they see it, single-minded focus on counter-terrorism and our hectoring approach on human rights. These warning signs tell me that it's time to rethink some aspects of our approach.

Let me now turn to Indonesia, the country with which I am most familiar and the one which includes half the population and more than half the resources of the ASEAN region. Indonesia will be a long term determinant of the strength of Southeast Asia. I cannot imagine a healthy Southeast Asia if it is being dragged down by a weak and unstable giant spread along its southern flank.

This year nearly 148 million registered voters in Indonesia will take part in a critical test of their still-fragile democracy. For the first time ever, they will directly elect the president and vice-president of their country. This will provide an opportunity for the United States to help Indonesians build a better future—and thereby help make the world safer for Americans too.

The importance of Indonesia is well known but sometimes this is lost in the single-focused Washington policy environment. Only China, India and the United

States have larger populations. Indonesia has vast natural resources. Half the world's shipping fleet passes through straits with Indonesian territory on one or both sides. U.S. investment in the country totals some \$25 billion, and more than 300 major American firms are represented. These factors matter, but there is one overarching issue that could affect the future not only of the region, but of the world: The longer-term future of Islam could be strongly influenced by success or failure of Indonesia's democracy.

Six years after the resignation of President Soeharto, Indonesia's democratization process is making clear gains, but there are also areas where reforms have stalled. Today most Indonesians enjoy far greater political freedom than they did during the Soeharto era. The parliament is stronger and the electoral process is becoming firmly set. A massive decentralization process—one of the largest in the world—is giving new political and economic opportunities to groups largely excluded from the political process under the former regime. Separation of powers is beginning with creation of a new elected regional representative body and strengthening of the judiciary through a new Judiciary Commission. Political parties now operate freely, and restrictions on the press, free expression and civil governance have been lifted. Official corruption admittedly is a serious problem but the United States, the international donor community and many NGOs are working hard with responsible and respected Indonesians on issues of judicial reform and transparency.

The National Commission on United States-Indonesian Relations issued a report last fall noting that Indonesia's shift to democracy, its economy's significant but fragile recovery, and its government's commitment to confront the terrorists have opened a unique but temporary window of opportunity to help build a stable democracy in a lawful society with a market economy in a large and largely moderate Muslim country important to the United States. The membership of the Commission, co-chaired by George Shultz, Lee Hamilton, and George Russell, is appended to their report.

In short, the Commission thinks Indonesia is moving in a direction which is consistent with our own interests and that it merits significantly more attention and support. Specifically the Commission recommended creation of a new partnership between Indonesia and the United States which would continue present programs focusing on democracy, reform, and economic development but would also initiate new programs to help improve that nation's inadequate educational system on the basis that an educated and informed electorate is essential to the success of democracy and other reforms.

Rather than try to cover all of the many developments in Indonesia, I want to focus on six areas which I think are of particular importance for this committee: Indonesia's elections; the critical role of education; the economy; governance, the military, and police; counter-terrorism and regional cooperation; and the role of China in Southeast Asia. I will conclude with some specific policy recommendations.

ELECTIONS 2004: THE YEAR OF VOTING FREQUENTLY

On April 5 this year Indonesians will select 550 representatives in the national Parliament from among 7,765 candidates standing for election as well as 128 members (four per province) out of 940 aspirants for the new Regional Representative Council and some 50,000 standing for election to 1,838 seats in regional representative bodies. Campaigning began on March 11. On July 5 the president and vice president will for the first time be elected in a direct election. If no slate receives a majority, a run-off election will be held on September 20. These elections will require over 585,000 polling places, almost a billion ballots, 2.3 million ballot boxes, and over five million workers. So, 2004 is going to be a highly politicized year.

The ballots will be complicated, with 24 parties certified to field candidates for many of the thousands of national and regional offices. Some observers with whom I spoke in Indonesia are concerned that voters will become confused and that an inordinate number of ballots may be invalid. This could bring the results into question. Interest in the elections is high—although many voters still claim not to be aware of their candidates—and participation is expected to run well above 90 percent of the 148 million eligible voters. This is a large number, but it is just half of those who contested the 1999 elections. While localized clashes are possible, people I talked with in Indonesia expect the polling to be peaceful, fair, and successful. Thousands of foreign and local election monitors will observe the balloting.

THE CRITICAL ROLE OF EDUCATION

Most informed observers with whom I have talked in Indonesia and the United States over the past year and a half agree that Indonesia's woefully inadequate education system lies at the heart of many of its problems. There is an urgent need

in virtually every sector of Indonesian government and society for trained administrators, better knowledge of the English language, and people equipped to operate a modern democratic system and perform effectively in an increasingly interdependent world economy.

Schooling is available to all Indonesians in principle, but large numbers of children are nonetheless unable to attend school. As recently as 1990, 16 percent of Indonesians had had no schooling. Only 22 percent had completed secondary education, and a scant 2.1 percent of males and 1 percent of females were enrolled in academies or colleges. Although primary and secondary education is supposed to be free, there are formal and informal fees. Primary education enrollment declined by a further 25 percent over the last four years because of poverty and reduced government spending on education. Indonesia was falling behind its neighbors even before the Asian financial crisis, and the pace of decline has since accelerated. In 1985 the central government allocated 17.6 percent of the budget to education. By 2003 this had fallen to 4 percent. A recent Indonesian study identified four weaknesses in the nation's educational system: 1) low academic standards; 2) low quality of teachers, librarians and staff; 3) unequal access to education; and 4) poor quality of educational infrastructure. Decentralization has resulted in the transfer of 1.5 million teachers from central to local control, a move that has put additional pressure on the management of education.

Recently a great deal of attention has focused on Islamic schools in Indonesia called pesantren or madrassahs (I have used the latter term to refer to all such schools). According to various sources, 13 to 15 percent of all primary and secondary students in Indonesia attend madrassahs. The following table shows the number of students in public and private Islamic schools:

Number of Pupils in General Education and Madrassahs 2001–02

Level	General Educ.	Madrassahs		Totals
	Number of Pupils	Number	%	
Primary	25,850,849	3,075,528	11	28,926,377
Jr. Secondary	7,466,458	1,961,511	21	9,427,969
Sr. Secondary	5,051,640	661,104	13	5,051,640
Totals	38,368,947	5,698,143	13	44,067,090

(Source: Final Report, Studies on Madrasah Education Sub-sector, Assessment on Development Madrasah, Aliyah Project, ADB Loan No. 1519-INO, October 2003)

Madrassahs operate at all levels—primary, junior secondary (junior high school), and senior secondary (senior high school). They are now an integral part of the National Education System under Law No. 20 of 2003. The governance of madrassahs, like public schools, is being transferred to the districts (kabupaten) under the decentralization program. The study cited above notes that “madrassahs provide Islamic-based general education for a significant and growing proportion of the country's total enrollment in primary and secondary education . . .” It concludes that madrassahs in Indonesia are different from those in other countries because “they provide Islamic general education rather than just religious education.” They provide basic education in poor communities at very low cost. An estimated 45 percent of the parents of madrassah students are farmers and another 14 percent are laborers. The above report notes also that madrassahs provide education to a greater proportion of girls than public schools at all levels. But the report also cites weaknesses in the madrassahs: financial, physical and human resources in madrassahs are far lower than in typical public schools. The report nonetheless concludes that madrassah students have “attained higher average scores than general school pupils.”

THE ECONOMY: PROGRESS BUT JOBLESSNESS AND LACK OF INVESTMENT

On the positive side, Indonesia's macroeconomic performance has been encouraging. The rupiah is fairly stable, interest rates are down to manageable levels, the banking system has gained strength, asset recovery has proceeded, monetary policy is sound and inflation has fallen from 80 percent to less than 10 percent. Indonesia's recent one billion dollar bond issue was greatly oversubscribed.

On the other hand, problems remain. An estimated 40 million Indonesians are unemployed or significantly underemployed. Half a million of these are college graduates, a particularly volatile group. The current 3.5 to 4.2 percent GDP growth rate

cannot accommodate the 2.5 million new entrants into the workforce annually, let alone the backlog. Although the number of Indonesians living in absolute poverty has declined since the peak of the 1997–98 financial crisis, the World Bank reports that 50 percent of the population is barely above the line and “very vulnerable.”

A few foreign firms already represented in Indonesia are adding to their investments, but by and large, few new foreign direct investments have been made, particularly from the United States. Cited as discouraging investment are the security situation, an unfavorable financial climate (this seems to be improving), and lack of competitiveness in some areas. The result is that Indonesia is the only one of the five countries worst hit by the financial crisis that still has a net negative capital flow.

We believe foreign direct investment from responsible firms, including technology transfer and job creation, is critical to economic growth. The aid consortium, the Consultative Group on Indonesia (CGI), meeting in Bali in January 2003, called on “Indonesia to redouble its efforts to improve the climate for investment as a means to stimulate growth and poverty reduction.” Similarly, the Executive Board of the IMF asserted in March 2003 that “weaknesses in the investment climate continue to hold back a more robust economic recovery.” Significant additional progress is unlikely in this election year.

STRENGTHENING GOVERNANCE, THE MILITARY AND THE POLICE

The United States has provided substantial support for the development of civil society since the end of Soeharto’s authoritarian rule, and encouraging progress has been made. There are now more than 5,000 non-governmental organizations in Indonesia. Watchdog organizations have been established to combat corruption, abuse of power, and other issues.

Nonetheless, weak and corrupt leadership impedes progress in reform in many areas. The judicial system is particularly weak as is the general administration. A Government of Indonesia publication noted that “a major concern of the government has been creation of an efficient, clean and respectable administration on national and regional level(s).” The report sets as goals the elimination of “abuse of authority and malpractice on the part of the state apparatus” but adds that achieving “ideal results is a long and painstaking effort.” We believe the long-term solution to this problem lies in improving Indonesia’s educational system, but for more immediate impact we believe it would also be useful to concentrate on civil service reform, including measures to link compensation to productivity and performance and formation of a national Civil Service Commission to set and administer future civil service policy.

The Indonesian military (Tentara Nasional Indonesia—TNI) number about 280,000, with some 200,000 in the army. The size is by no means excessive. They rank 22nd in size among the world’s armed forces, just behind Thailand. There are 1.3 military personnel in Indonesia for every 1,000 people. Comparable figures for Thailand are 48 and for Malaysia 54.

From the early days of the revolution against the Dutch, the military have been involved in politics. This was strengthened by the “dual function” concept devised during the Sukarno presidency under which military officers served throughout the government in positions that would normally be considered civilian. Soeharto further refined the politicization of the armed forces. During his presidency, the TNI worked to ensure the success of the ruling Golkar Party in elections, served in virtually all departments of the government at virtually all levels.

Measurable progress has been made in reforming the military since the fall of Soeharto, including:

- The “dual function” has ended. Officers serving in civilian positions now must retire from the military.
- The TNI no longer plays a dominant role in party politics or elections. It stood aside during the moves to oust Soeharto in 1998 and in the 1999 elections.
- Military representation in elected legislative bodies will end with the 2004 elections.
- Military personnel will not vote in forthcoming elections, as undemocratic as that may seem, out of concern that senior commanders will influence their troops on how to vote.
- The police, formerly subsumed within the TNI, have been given independent status directly under the president.
- Since 1999 the TNI has for the first time since the 1950s had a civilian Minister of Defense. Unfortunately he has very limited authority thus far.

Problems remain in several areas. First, the TNI receives only about 30 percent of its funding from the central government. This weakens the effectiveness of civilian control. Secondly, the TNI's Territorial Command System, which parallels and rivals the civilian structure down to the district level, strengthens the military's internal role and also provides additional money-making opportunities. Continued efforts are needed to build on the reforms already achieved. (For a discussion of the U.S. role, see "Recommendations.")

It was only three years ago that the police separated from the military chain of command in a move aimed at reforming and redirecting the focus of the 285,000-member force which itself has been tainted in the past by corruption and human rights abuses. Like the TNI, the problem with the police has not been excessive numbers. The target is to raise the strength to 350,000 which would mean one officer for each 620 inhabitants (still a small ratio; the international standard is one policeman per 350 to 400 inhabitants). Since the Agency for International Development is unable by law to assist police, the U.S. Department of Justice is spending \$40 million on a project to make the police more responsive to Indonesia's new democratic environment through funding, training and arming specially screened Indonesian policemen in a new pilot program. The creation of a self-contained, 400-strong counter-terrorism unit will be able to respond to incidents throughout the archipelago. Dubbed Detachment 88, the new unit is expected to strengthen the police's ability to shoulder much of the burden of the war against terrorism in Indonesia.

COUNTER-TERRORISM AND REGIONAL COOPERATION

Eighty-seven percent of Indonesia's people are Muslim, but Indonesia is not a Muslim state. There is no established religion. Efforts over the years to impose Islam as the state religion have failed, most recently in August 2003 when efforts by a small group to pass a resolution in the People's Consultative Assembly (MPR) requiring Muslims to abide by syariah law threatened to go down to embarrassing defeat and the resolution was withdrawn.

Muslims in Indonesia have long been among the most tolerant and moderate in the world. Indonesian Muslim thinkers have made it even more so by reformulating Muslims' obligations to the state in a positive way. A younger generation of Muslim thinkers is carrying that legacy forward. This suggests that Indonesia can become a model of a modern democratic society that is responsible to the aspirations of its Muslim majority.

Indonesia was sympathetic to the United States after the September 2001 terrorist attacks but did not see this as an Indonesian problem and did little to counter the distorted views of a small group of Muslim radicals. The October 2002 attack in Bali provided the necessary wake up call, and the August 2003 bombing at the JW Marriott Hotel in the heart of the capital city of Jakarta brought home to most Indonesians that terrorism in Southeast Asia was no longer a phenomenon that could be ignored or denied.

However, the problem of radicalism continues. The U.S. ambassador has said publicly that al Qaeda is present in Indonesia. There are indications that it operates with and through a Southeast Asian organization called Jemaah Islamiyah (Islamic Community—JI) whose goal is establishment of a large Islamic state embracing Muslim areas throughout Southeast Asia. An Indonesian Muslim cleric, Abu Bakir Bashir, who is believed to be the spiritual and may also be a temporal leader of JI, was arrested in 2003 and sentenced to four years in prison for his activities. The sentence was later shortened to three years by the Indonesian Supreme Court, and that court last week cut the sentence still further. Bashir is now likely to be released in early April.

A leading Islamic scholar, Azyumardi Azra, a Columbia University PhD and now president of the State Islamic University, has called on the United States to "empower" Islamic universities to help them produce good scholars. Many Muslims, he noted, have only limited knowledge of Islam, and they know even less about democracy.

Following the Bali and Marriott Hotel attacks the Indonesian government accepted foreign police assistance from Australia, the United States and other countries and moved aggressively against local terrorist groups. Indonesia's Internal Security Law was tightened, strong efforts were made to eliminate loopholes for money laundering, and more than 100 suspected terrorists and Muslim radicals were arrested. A number have already been tried and several have received death sentences.

These actions have crippled JI but have by no means eliminated it as a threat. There are good indications that new recruits are falling in behind those who have been picked up, and the organization remains dangerous.

An encouraging development in the counter-terrorism field is the strengthening of regional cooperation between Indonesia and its neighbors. Before the Bali bombings Indonesia's ASEAN neighbors complained of a lack of interest in combating terrorism on the part of Indonesia. Now there are extensive military and intelligence exchanges. Indonesia has now gone so far as to recommend that ASEAN, founded as an organization for economic cooperation, should have a regional military force. This is more than some of its neighbors wanted, and they have suggested a go-slow approach. Nevertheless, the United States and allies such as Australia and Japan should welcome this move and provide enabling training and other assistance.

INDONESIA, THE ASIA-PACIFIC AND RELATIONS WITH CHINA

China's policy toward Indonesia—indeed, toward all of Southeast Asia—has become much more nuanced in recent years. China's diplomats in the region are sophisticated and moderate, and they are according to some U.S. observers “eating our lunch.” I am not prepared at this point to go that far or to assume that this is a zero-sum game.

Indonesia has done little to exploit its improved relations with China to launch new foreign policy initiatives. It is China that has been able to capitalize on its improved relations with Indonesia and with ASEAN as a whole. It has launched the initiative for a Free Trade Agreement with ASEAN and has laid the foundation for a strategic partnership with ASEAN as well.

Trade between Indonesia and the PRC continues to grow and reached \$8 billion in 2002, up from about \$2 billion a decade earlier. China's cumulative investments in Indonesia have also boomed from \$282 million (on an approval basis) at the end of 1999 to about \$6.8 billion by the end of July 2003. This represents a 25-fold increase in four years. China's investments have concentrated particularly in the energy sector.

A study by Deutsche Bank in 2003 illustrates how other Asian countries view China's economic emergence: Relatively better governed countries like Korea, Thailand and Malaysia have moved to long-term policy measures aimed at strengthening competitiveness and sustainability; countries less affected are also responding with resolve. Only a third group, saddled with a “heavy burden of political dislocation and structural weakness,” has been unable to respond effectively. According to Deutsche Bank, this latter group includes Indonesia.

In a recent paper entitled “ASEAN and Its Neighbors,” Marvin Ott from the National Defense University clearly posed the dilemma faced by international observers: “A benign interpretation would see China as simply cultivating the sort of stable, peaceful, and prosperous regional environment that China requires for its own successful modernization. A more skeptical analysis sees China playing a long-term game designed to curtail American influence and weave a close-knit economic and security community with China at the center.”

I lean toward the latter analysis, but there is no reason as yet to resort to Cold War rhetoric. The most that can be said at present is that these developments require careful watching and that our interests would be best served, in case the latter analysis is correct, by more active and aggressive U.S. investment policies and stronger U.S. and Indonesian moves to strengthen government-to-government relations.

CONCLUSIONS AND RECOMMENDATIONS

Those of us who are members of the National Commission on U.S.-Indonesian Relations believe the next five years will be critical for Indonesia. The 2004 elections and the next five year term for executive branch and legislative officials will determine whether Indonesia's democracy succeeds or whether the nation slips back under some form of authoritarian rule or multiple power centers; whether its economy picks up sufficiently to provide jobs for the 40 million Indonesians now unemployed or underemployed as well as the two and a half million annual entrants to the workforce; and whether moderate Muslims prevail.

We have looked carefully at our present assistance programs and believe they are on the right track. We especially support continued support for democratization, civil governance, legal and judicial reform, and decentralization. These programs are vital to Indonesia's success. We also urge additional assistance in six areas where we believe important U.S. and Indonesian interests are at stake.

1. *Education.* The deficiencies of Indonesia's education system are discussed earlier in this report. First and foremost, the National Commission recommends a major new assistance program to work with Indonesia and other aid donors to improve education at all levels and in all sectors. This, we believe, is critical to Indonesia's success as a moderate, democratic, Muslim-majority nation. We leave the de-

tails to the experts but strongly recommend that our assistance cover public and private primary and secondary schools as well as public and private universities. We place a high priority on English-language training, teacher training and the establishment of cooperative arrangements between American and Indonesian colleges and universities similar to those which existed until the 1980s when U.S. funding was discontinued. We recommend also major increases in the Fulbright Program, International Visitor exchanges, and American Field Service and similar programs. What we can do directly in Indonesia is limited, but one of our best contributions is to train Indonesians who can continue reform from within Indonesian society.

We support and commend President Bush's initiative during his Bali visit in October 2003 in pledging \$157 million over six years to support educational improvement. Our concern, however, is that the amount (about \$26 million per year) is far too small and that this is not new money. The funds must come out of existing programs. We recommend a new program of support for education of an additional \$50 million per year to start, expanding to double that amount as Indonesia's absorptive capacity increases. We urge that the Millennium Challenge Account (MCA) be considered as a future source of funds. Until that can happen, Congress should appropriate additional funding, above requested levels, to be directed at the vital educational sector.

The reaction to President Bush's commitment in Bali in October 2003 to support education in Indonesia was negative in Islamic and nationalist quarters owing to concern that the United States was going to interfere with sensitive matters affecting education, particularly in the madrassahs. This shows that U.S. support for education and in other sensitive areas must be handled carefully and with full awareness of local concerns. For this reason, we recommend that support for education and other sensitive areas be handled through a bi-national partnership of officials and interested private citizens from both sides (the Commission has suggested it be called the Partnership for Human Resource Development). Under this arrangement, both sides would "buy into" the new programs and be prepared to support and defend them in a cohesive and non-political way.

2. *Strengthen Parliament.* The Indonesian Parliament, an ineffective rubber stamp under Soeharto, has developed significantly during the past five years. It now initiates legislation and questions senior government officials—both unheard of in earlier years. But it understandably still has a long way to go. Staffing is weak, research resources are extremely limited and contact with constituents is almost nonexistent since until the 2004 elections candidates were selected by and responsible to their parties. We ask the U.S. Congress to consider ways in which it can help through direct contact with the still new Parliament in what is now the third largest democracy. Exchanges at the staff level and technical support would be most welcome. It is also hoped that more members of Congress will visit Indonesia to see developments firsthand.

3. *Police Support.* We believe it is essential that the Indonesian police be trained and expanded as quickly as professionally possible. This is critical in order to get the military out of the field of internal security. AID is prohibited from engaging in police support with the result that temporary arrangements have been made through other U.S. agencies and police programs are not developed and administered as a part of our overall development effort. The Indonesian police have been removed from control by the military and now operate directly under the president of Indonesia. The police have made significant progress in reform and we urge the Congress to consider removing restrictions on U.S. assistance through our regular AID program.

4. *Military-to-Military Relations.* We believe the U.S. International Military Education and Training program (IMET) is the most effective long-term assistance the United States can provide to build professional and accountable Indonesian armed forces. Participation in the program is not a guarantee of good behavior, but the Indonesian military is not likely to continue reform unless it has officers trained in international military standards of conduct and modern management. These programs were terminated by Congress in 1992 following the Indonesian army's killing of unarmed civilian demonstrators in Dili, East Timor. The result is that for 12 years we have had only very limited contact with the Indonesian military.

We would like to see selected programs resumed but we recognize that political support for resumption of a military-to-military relationship will be lacking until there is a satisfactory resolution to the killing of two Americans and an Indonesian employee of a U.S. company in Papua in August 2002.

5. *Emphasis on Public Diplomacy.* The number of Indonesians with negative attitudes toward the United States has increased significantly during the past several years. The 2003 Global Attitudes Survey conducted by the Pew Research Center for the People and the Press showed that the percentage of Indonesians with a favor-

able attitude toward the United States had dropped from more than 60 several years ago to 15 percent. I do not consider this anti-Americanism per se. Rather it is opposition to U.S. policies and often uncoordinated and misplaced rhetoric from Washington opinion makers. However, it can become more deeply ingrained if not countered. We believe more attention needs to be paid to the public reaction to U.S. policies and actions and that more resources must be made available to explain our policies and actions, strengthen relations with opinion leaders overseas, and significantly expand exchange programs between the two nations.

6. *Economic and Private Investment Support.* We suggest two initiatives in this area. First, the United States Export-Import Bank (EXIM) is not active in Indonesia because the bank requires a sovereign guarantee which the Government of Indonesia refuses to give. The result is that U.S. exporters and businessmen are placed at a disadvantage compared with those from other industrialized nations. We recommend that this situation be reviewed.

Secondly, the Multi-Fiber Agreement (MFA), under which a number of nations are given quotas to export garments to the United States will expire on January 1, 2005. Because China is a more efficient producer than many other suppliers, it has been predicted that China may end up supplying 75 percent or so of U.S. imports at the expense of Indonesia and other producers. An estimated two million Indonesian workers (mostly women) are employed in garment factories in Indonesia. Not only would elimination of the quota create serious hardship for these workers but adding another two million more unemployed workers to Indonesia's already large unemployment rolls could have political as well as social repercussions.

Other poor countries, such as Bangladesh, could also be adversely affected. Elimination of the MFA is being done under the WTO. It is not likely that this can be reversed. But we believe consideration should be given to finding ways to lessen the burden on countries like Indonesia. Possibilities could include helping Indonesia move upscale to higher quality garments where they could find a niche, making special arrangements for garments from particularly vulnerable countries, and programs to retrain workers to move to assembly of electronic components or other products.

Mr. BEREUTER [presiding]. Thank you very much, Ambassador Masters. We are going back and forth trying to cover the votes and keep the hearing going. I came back just as you were talking about education in Indonesia, where I had some questions, so I will have to come back to that later in the question period.

Ambassador Schaffer, we are very much looking forward to your testimony. You may proceed as you wish.

STATEMENT OF THE HONORABLE TERESITA C. SCHAFFER, DIRECTOR, SOUTH ASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Ms. SCHAFFER. Thank you, Mr. Chairman. I have appeared before this Subcommittee in a different incarnation in the past, and it is a great honor to be here in my out-of-government role.

I appear before you today at a time of great change in South Asia. Danger is now tempered by hope, driven in large measure by the recent peace moves by India and Pakistan. The United States is dealing, I think, with four major issues in South Asia: First, securing and strengthening peace, especially between India and Pakistan. Discreet, imaginative, and persistent U.S. diplomacy needs to nurture today's positive trends.

Second, controlling and, we hope, ending terrorism. The United States Government has placed great stress on Pakistan's cooperation in antiterrorism policy. I believe it needs to pay more heed to Pakistan's need to develop stronger civilian institutions and a healthier political system, without which the antiterrorism effort will ultimately fail.

Third, preventing the spread of nuclear weapons and know-how. The Administration has accepted the government of Pakistan's as-

surances that it will cooperate in closing down the nuclear black market. Pakistan has a credibility problem, however, and so does the United States.

The fourth point: Developing a concept of regional security that fits the changing face of Asia. Here, the United States-India relationship and India's own development in the next decade is the key, and current U.S. policy is serving our needs well.

Let me review each of these issues in turn. To start with the first, securing the peace, we are at a hopeful moment. I just returned from nearly 3 weeks in India, Pakistan, and on both sides of Kashmir. I guess Ed Masters and I are having similar travel schedules. Everywhere I went, the mood of hope was palpable.

In India, the government has shown its seriousness by avoiding the kind of media wars we have often seen in the past. Even in the excitement of the election campaign, India-Pakistan relations appear unlikely to become an issue.

In Pakistan, the constant refrain was that this is a time for realistic policy and for pursuing interim measures that can make more fundamental progress possible. A billion and a quarter sports fans in both countries are riveted by the India-Pakistan cricket matches, and even in Kashmir, where cynicism is both customary and all too understandable, I found many separatist leaders taking a positive, pragmatic, and practical view of the India-Pakistan peace moves. They were prepared to focus on short-term improvements, leaving the discussion of an ultimate settlement for a later date.

The reasons that so many peace efforts have failed in the past have not disappeared, of course, and this hopeful atmosphere could evaporate with one or two terrorist incidents. The talks between Kashmiri separatists and the Indian government could be in trouble unless India's human rights record in Kashmir improves. But we may be seeing the beginning of a strategic change, which, if sustained, could transform the relationship between these two antagonists. The credit for this goes to the leadership in India and Pakistan, but they were strongly encouraged by the United States, as well as China and several European countries. U.S. policy needs to continue providing discreet and sophisticated encouragement to this process, despite the Administration's other foreign policy pre-occupations.

I then come to my second point, which is controlling terrorism, and here, I believe, Pakistan holds the key. This Committee understands the critical role Pakistan plays in our antiterrorism operations near the Pakistan-Afghanistan border, and Pakistan's role in arresting key al-Qaeda figures, as well as the importance of Pakistan's relations with Afghanistan. These are all essential to the United States effort to control terrorism, but I do not believe that Pakistan can sustain an effective antiterrorism policy without major progress in another area, and that is the rebuilding of Pakistan's civilian institutions.

Following last December's attempts on President Musharraf's life, there are indications that his government is making a new and more serious effort to cut back the role militants play in Pakistan's political life. I hope this represents a strategic change, but the transformation needs to go further. Pakistan missed an opportunity

to start rebuilding its political institutions after the October 2002 elections and, I would argue, so did the United States Government.

In order to get a handle on the terrorist nests that have moved into the ill-policed and shadowy parts of Pakistan's cities, it needs a government that enjoys legitimacy, and it needs administrative and judicial institutions that enjoy respect. The United States should be devoting at least half its economic assistance to supporting the rebuilding of the judiciary, the government's administrative institutions, the public school system, and the police. We need to look on this task as an essential prerequisite for an effective antiterrorism policy.

The third point: Nuclear proliferation. Pakistan has contributed to the spread of nuclear weapons beyond this region, a grave setback for United States interests. The Administration has decided to accept the government's explanation that its nuclear scientist, Dr. Abdul Qadeer Khan, engaged in a nuclear black market solely on his own without government authorization. The Administration is focusing its efforts on obtaining full Pakistani cooperation in rolling up the network for illicit sales and preventing future transfers.

I understand that there are no easy choices here, that the transfers already made cannot be undone, and that closing the nuclear black market is of paramount importance, but we face two serious credibility problems. First, how can we be sure that Pakistan is, in fact, giving us full information? Its explanation of Dr. Khan's activities is out of keeping with the way things normally work in Pakistan. More importantly, how can we have confidence that the Pakistani government is convinced of our willingness to act if such activities take place in the future?

I do not pretend to have an easy answer, and a serious discussion of these issues and U.S. options would get into information available only to the Administration and not suitable for discussion here. But I think these are important clouds hanging over U.S. policy.

The fourth trend I would like to discuss is the need, I believe, for a new regional security paradigm, and a number of my colleagues on the panel have alluded to this in various ways. In the past, South Asia has been looked at as a set of problems and relationships separate from the two areas of major United States concern that flank the region: The Middle East and East Asia. I believe the time has come to look at the region as part of a broader Asia-to-Middle East security continuum.

The rise of China, the momentous developments on the Korean peninsula, the economic ups and downs of Southeast Asia in the past decade, Japan's economic slump; all of these have changed the face of East Asia. India, for its part, has been one of the fastest-growing countries in the world for a decade and a half and is set to grow at over 7 percent this year. Some government spokesmen even say over 8 percent. It is also one of the world's fastest-growing energy markets, and a growing percentage of the world's oil moves through the Indian Ocean.

India is, as noted, deepening its relations with East and Southeast Asia. Perhaps the most dramatic illustration of this is the expansion of Indian trade with China, which has jumped from trivial levels to \$7 billion per year, close to half the level of United States-

India trade. This gives India an importance to Asian security that it has not had for decades. It also explains why the intensified United States-India relationship of the past few years is important to U.S. security interests.

Current U.S. policy is serving us well in this area. Expanded military-to-military relations and the recently agreed-upon glide path toward greater high-technology trade are wise moves. We should also, however, get rid of the traditional “curry curtain” that has divided South and East Asia into water-tight, mental compartments. We should be comparing notes with India on the regions to its east and west on a more systematic basis.

This Committee, whose responsibilities include all of Asia and the Pacific, is especially well placed, I think, to help Americans see India and the surrounding region in the broader Asian context. Thank you.

[The prepared statement of Ms. Schaffer follows:]

PREPARED STATEMENT OF THE HONORABLE TERESITA C. SCHAFFER, DIRECTOR,
SOUTH ASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. Chairman, members of the committee,

I appear before you today at a time of great change in the South Asian region. Danger is now tempered by hope, driven in large measure by the recent moves by India and Pakistan to develop a peace process.

Mr. Chairman, in your letter of invitation, you asked me to speak about the strategic trends and challenges facing the region. The United States is dealing with four major issues in South Asia:

- Securing and strengthening peace. This is largely a function of the India-Pakistan relationship, which today is moving in the right direction. Discreet, imaginative, and persistent U.S. diplomacy needs to nurture this process.
- Controlling and, we hope, ending terrorism. In the South Asian context, and indeed in the world, this depends primarily on Pakistan. The U.S. government has placed great stress on Pakistan's cooperation in anti-terrorism policy. I believe it needs to pay more heed to Pakistan's need to develop stronger civilian institutions and a healthier political system, without which the anti-terrorism effort will fail.
- Preventing the spread of nuclear weapons and knowhow. The administration has accepted the Government of Pakistan's assurances that it will fully cooperate in closing down the nuclear black market. It has a credibility problem, however—and so does the United States.
- Developing a concept of regional security that fits the changing face of Asia. Here the U.S.-India relationship, and India's own development in the next decade, is key, and current U.S. policy is serving our needs well.

Let me discuss each of these issues in turn.

SECURING PEACE: A HOPEFUL MOMENT

India and Pakistan made a dramatic decision last January to re-start their peace process. I believe this created a significant opportunity. We may be witnessing a moment of strategic change.

Many peace overtures have been launched in the past decade, and several within the past few years. The factors that led earlier efforts to fail have not gone away. The India-Pakistan dispute is still a stubborn one, bound up with both nations' sense of identity, symbolized for both in different ways by the Kashmir issue. My recent discussions in India, in Pakistan, and on both sides of the dividing line in Kashmir lead me to be cautiously hopeful that this peace opening may be different.

In India, the government appears to have wide popular support for its decision to agree to talks with Pakistan. Though opinions vary, the predominant sentiment is guarded optimism. The Indian government has made considerable efforts to avoid scoring debating points in the media, even when deeply troubling issues came up, such as the revelations about the activities of Pakistan's nuclear scientist Abdul Qadeer Khan. Prime Minister Vajpayee has clearly concluded that having a peace process is good politics. His opponents in the Congress Party apparently feel the

same way, since they have not criticized the peace moves even in the heat of the election campaign.

In Pakistan, even a frequent visitor like me was overwhelmed by the sense that the Pakistani government has made a far-reaching policy change, one that may turn out to be strategic. People representing many shades of opinion spoke consistently of the need for Pakistan to base its policy on "relentless realism." They welcomed incremental steps to improve India-Pakistan relations, including opening a bus route between the two sides of Kashmir and expanding India-Pakistan trade. These ideas may seem obvious, but in the past Pakistan has regarded incremental measures with suspicion, fearing that they would sideline its central concerns over Kashmir. Suspicion of India remains, and India's and Pakistan's ideas on how to address their major disputes are still far apart. What is new and encouraging, however, is this more practical, process-oriented approach to addressing them.

Perhaps most interestingly, I found people from many shades of political opinion on the Indian side of Kashmir uncharacteristically hopeful about the détente moves between India and Pakistan. In a place where cynicism is both common and understandable, separatist political parties spoke with hope about the potential for creating human links across the line if the bus service was established. They were more worried about the future of their talks with the Indian government, which they felt could only continue if the government was able to significantly reduce the human rights problems stemming from military operations in Kashmir.

On the Pakistan side of Kashmir, the mood of hope was weaker. This is not surprising: this is an area where creative thinking about Kashmir has been entirely absent for fifty-plus years. Even the modest economic progress one finds on the Indian side is lacking. But even there, it was clear that significant progress between India and Pakistan would be well received.

India and Pakistan have evidently both concluded that moving toward peace suits their interests. This creates today's positive mood. But progress depends on more than a good atmosphere. India and Pakistan will need to show great flexibility, imagination, and forbearance, and their determination will have to overcome periodic setbacks. Pakistan will need to continue preventing militants from crossing the Line of Control to feed the violent movement in Kashmir. As the security situation improves, Kashmiris will be looking for signs that the Indians are thinning out their security presence. Some way will have to be found to connect Kashmiris themselves to the peace process, and to bring real change to their relationship with the Government of India. The governments' work is also vulnerable to the actions of spoilers, including hard-line militant groups who have used terrorism in the past.

I believe that the United States needs to help nurture the progress that has been made and encourage both parties to keep the process moving. In this election year I do not expect a major, high profile diplomatic initiative. But U.S. interests in the success of this enterprise are enormous, so our attention and our discreet, sophisticated support for India's and Pakistan's work must not flag.

PAKISTAN IS THE KEY TO CONTROLLING TERRORISM:

The renewed U.S.-Pakistan relationship after September 11 was built on cooperation against terrorism, and on the understanding that this was a goal both countries needed to pursue for their own reasons. Pakistan's decision to end its support for the Taliban government in Afghanistan and to facilitate U.S. anti-terrorism operations in Afghanistan rested on this foundation. So did Pakistan's efforts to develop a decent relationship with the new Afghan government.

As you know, Mr. Chairman, the Pakistan government tried for at least the first two years after 9/11 to balance this objective against other long-standing Pakistani goals, including supporting militancy in Kashmir. It also tried to balance the U.S. interest in putting Al Qaeda out of business against the domestic pressures it faced from militant groups with historical ties to the Pakistani intelligence services. The result was a Pakistani policy beset by internal contradictions, and one that was not always in harmony with ours.

Compounding this problem was the weakness of the institutions representing the civilian side of the Pakistani state. The Pakistan Army has dominated politics there for years, but especially for the four-plus years since General Musharraf took power. The election of October 2002 brought in an elected civilian government. However, this government has remained weak in relation to Musharraf. The parliament took 15 months to reach agreement with Musharraf on the constitutional amendments he wanted to bring in by decree. Political parties remain weak, internally autocratic, and at loggerheads. I believe that this institutional disarray in Pakistan has left the government with no instruments to use in dealing with the militant movements

other than the army itself, an army that remains ambivalent about ending the militants' lawless behavior.

In the past two months, following two well-publicized attempts on President Musharraf's life, there are indications that his government is making a new and more serious effort to cut back the role of the militants in Pakistan's political life. I hope this represents a strategic change. We will be better able to gauge that in the next few months. This would be the first step toward a far-reaching change in Pakistan's domestic political system that is essential, I believe, to ending the threat of terrorism in and from Pakistan.

But the change needs to go further. In the past four years, there has been much talk about the importance of restoring democracy in Pakistan. The big opportunity to do that was the election, but Pakistan missed that opportunity and, I would argue, the United States government did little to take advantage of it. Without a more balanced political scene in Pakistan, however, it is hard to see how the Pakistan government can get a handle on the terrorist "nests" that have moved into the ill-policed and shadowy parts of Pakistan's cities. And without healthy political institutions, it is hard to see how Pakistan's population will be able to give a government the legitimacy it needs to overcome the country's deep-seated problems.

At this point, it is hard to imagine a scenario in which the military would leave the center of Pakistan's political stage in the next five years. The United States needs a democracy policy, but one that recognizes the very difficult circumstances in which democracy needs to develop in Pakistan. The heart of such a policy, in my view, is support for strengthening Pakistan's institutions. At least half of the economic aid the U.S. has promised Pakistan should be specifically programmed for activities that will help Pakistanis rebuild the institutions on which decent government rests—both the political ones and the administrative machinery they need. The most urgent candidates for institutional rebuilding include the judiciary, the government's major administrative services, and the police. Restoring the vitality and credibility of the parliament is also essential, though countries with a parliamentary system may be better placed to provide this support than the U.S. Pakistan's civil society also needs support from its friends outside the country.

Many people have argued that our top priority in Pakistan should be educational reform, and specifically reform of the madrassahs. I agree that education is an urgent priority. However, I believe that strengthening institutions is a prerequisite for effective educational reform. At present, the education ministry is ill equipped to undertake the massive task of registering thousands of madrassahs, let alone imposing curriculum reform and monitoring the results.

The important point is that rebuilding institutions and educational reform are not alternatives to our anti-terrorism policy. They are requirements for it. Without more vigorous institutions, I do not believe Pakistan will be able to restore a healthy political and economic life, and without that transformation, I see no prospect of its sustaining an effective anti-terrorism policy.

NUCLEAR PROLIFERATION

The recent peace moves between Pakistan and India offer the hope that these two nuclear-armed countries may ultimately eliminate the risk of nuclear war in the subcontinent. Recent developments make clear, however, that Pakistan has already contributed to the spread of nuclear weapons beyond this region, a grave setback for U.S. interests and for global security.

The administration has decided to accept the Pakistan government's explanation that its nuclear scientist, Dr. Abdul Qadeer Khan, engaged in a nuclear black market solely on his own, without government authorization. The administration is focusing its efforts on obtaining full Pakistani cooperation in rolling up the network for illicit sales and preventing future transfers.

Obviously, the transfers that have already taken place cannot be prevented, and closing down the "nuclear bazaar" is of enormous importance. The U.S., as so often in the past, has a long list of important issues it is pursuing with Pakistan, and this is not the first time that an administration has found it necessary to make difficult choices among them. And this administration undoubtedly recalled, as it put together its response to Dr. Khan's activities, that punitive policies have a poor track record in bringing about major changes in Pakistan government policies, as witnessed by our inability to prevent Pakistan from developing nuclear weapons in the first place.

But by letting bygones be bygones, we risk creating once again the kind of awful misunderstanding that has gotten the U.S. in trouble in its relations with Pakistan in the past. The theory that Dr. Khan conducted all these nuclear transactions without the knowledge or authorization of anyone in the government or army is out of

keeping with the way the Pakistan government normally works. How can we be sure that we are receiving full information on the operations of the nuclear black market? And how can we avoid having the Pakistan government conclude that the U.S. will overlook future actions that cross U.S. "red lines" in nuclear policy? A serious discussion of those issues, and of the policy options available to the United States, would get into intelligence issues that only the administration can address, and these would in any case not be suitable for discussion in this setting. But given the scale of Dr. Khan's activities, and the dangerous character of his customers, I believe that U.S. willingness to act in the event of future problems needs to be made both clear and credible.

A NEW REGIONAL SECURITY PARADIGM

In the past, South Asia has been looked at as a set of problems and relationships separate from the two areas of major U.S. concern that flank the region, the Middle East and East Asia. I believe that the time has come to look at the region as part of a broader Asia/Middle East security continuum.

Looking at the Asian part of this picture, which is the concern of this subcommittee, consider the changes that have taken place in the past decade. China, already a major regional power from the security point of view, has become a global economic powerhouse, and its strength in both categories is likely to grow in the next decade provided its domestic stresses are skillfully managed. Japan has undergone an extended economic slump. This committee is well aware of the challenges U.S. policymakers face on the Korean peninsula. Indonesia's political fragility is well known. The rest of Southeast Asia has been through a decade of economic ups and downs.

These circumstances make it important for the United States to extend the network of strong friendships beyond the East Asian countries that have historically been the core of U.S. relations in Asia. The dramatic deepening of U.S. ties with India in this administration and the last one reflect in part our recognition that as Asia changes, we need to be involved in the entire region.

India has been one of the world's fastest growing countries in the past two decades. Its economic growth may exceed 7 percent this year. It has deepened its political, economic and security relations with the countries to its east. While Indian strategic thinkers still consider China to be India's principal strategic rival in the long term, both governments have decided to work toward a transformation of their bilateral relations. Evidence of this includes a more serious approach to their border dispute and a dramatic expansion of economic ties. Two-way trade is now estimated at \$7 billion, nearly half India's two-way trade with the U.S. and four times its trade with Russia. India's world-class information technology companies are creating business connections in China that will surely be a force to be reckoned with in that global market.

India's economic expansion, together with the end of the Cold War and the linkages created by the Indian-American community, was the foundation for the expanded U.S.-Indian relations. However, in recent years, the most dynamic aspect of government-to-government relations has been in the security area. Increasingly, Indian and U.S. interests in Asian regional security are converging.

Current U.S. policy has responded effectively to these changing circumstances. Our dialogue with India has expanded beyond the traditional focus on South Asian problems. I believe this trend needs to be encouraged. The U.S. and India should be systematically comparing notes on trends in East Asia and the Middle East. And as the U.S. considers its security interests in Asia, it needs to get rid of the traditional "curry curtain" that has placed South and East Asia in separate mental categories. With much of the world's oil supply moving through the Indian Ocean, with India's increasing interest in the security of the area to its east, and with our own unique global role, we need to factor India explicitly into the way we look at Asia.

This subcommittee's responsibility for Asia and the Pacific gives it a unique role in maintaining the broad regional perspective today's world demands. I hope that you will continue to focus, as you are doing today, on the way the dangers and opportunities that confront the United States today in all of Asia.

Mr. LEACH [presiding]. Thank you very much. Those were a conglomeration of very wise thoughts about a very large subject.

I would like to begin by asking Mr. Bereuter if he has any questions, and then I will return afterwards, Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman. I thought the testimony of the witnesses was very stimulating and out-

standing. I recall Dr. Scalapino discussing the importance of bilateral relationships. I have felt for a long time that the most important relationships for the United States now, and in the next several decades, is the trilateral relationships between and among Japan, the United States, and China.

Certainly, the situation in North Korea remains one of the most dangerous circumstances on earth, but I would like to move, frankly, to a different area. I'm referring to the talk about the likelihood that so-called "western values" will have a greater resonance in the region, whether or not they will be resisted and whether or not you think that we are likely to see negative reactions which could include a more fervent embrace of violent Islamic terrorism?

I would welcome the comments of any of you and then the suggestions that you might have about what, immediately, the United States should be doing to counteract any kinds of trends in the Philippines, Indonesia, Malaysia or anyplace else, certainly Pakistan, to embrace more fervently violent Islamic terrorism.

Mr. Masters, I see your hand, but then I see just about everyone's.

Mr. MASTERS. I appreciate your question, Congressman Bereuter. I think it is right on the mark, and it gets at the heart, I think, of the issue that grabs U.S. attention the most vividly; that is, counter-terrorism.

There are terrorists, as we know, in Indonesia. In fact, Skip Boyce, our Ambassador, has said publicly that there are al-Qaeda connections in Indonesia. We have seen that in several major attacks. When the United States was attacked on 9/11, the Indonesians were sympathetic, but they did not really relate to that. They did not see that as a threat to Indonesia. That all changed with the Bali attack in October 2002 and with the attack on the Marriott Hotel—I happened to be staying in the Marriott Hotel at the time—in August 2003.

Indonesians are now fully on board on the war on terrorism. Their police have been working very closely with the United States, with the British, and particularly with the Australians. They have arrested more than 100 people. Several have already been condemned to death. So things are moving ahead.

But I think we need to do more in working with the police. I mentioned that in my remarks earlier. We have some programs. Frankly, they are jerry-built because of the prohibition on AID engaging in police programs. The National Commission on U.S.-Indonesian Relations would very much like to see that prohibition lifted so that police programs can be organized on a longer-term basis as a part of our overall AID strategy toward Indonesia and other countries. We think that would very much contribute to the war on terrorism in countries like Indonesia.

We also think that removing some of the root causes is extremely important: Poverty and poor education are critical. One of the bright, young, Islamic scholars in Indonesia said, in his plea for better and expanded United States support for education, that even in the Pesantran and the Madrasas there is not a real understanding about Islam, and there is certainly not understanding about democracy. He would like to see that expanded.

Now, I would like to make one point on the Madrasas or Pesantran, and the terms are used interchangeably in Indonesia. They are not strictly for instruction on Islam. The Pesantran, and an estimated 15 percent of Indonesians attend these schools, provide general education; somewhat like Catholic schools in the U.S., they also provide religious education. But the students that come out of those institutions have a more rounded education than those who attend Madrasas in other countries. So I think that is an area in which we could very profitably do much more.

Mr. BEREUTER. Thank you, Ambassador.

Mr. Chairman, I saw Dr. Scalapino, Ambassador Schaffer and Dr. Ellings's hands up. I know my time has expired. What is your pleasure?

Mr. LEACH. No, no. This is the most important issue today. I think it is important that everyone comment.

Mr. BEREUTER. Dr. Scalapino, then. Thank you, Mr. Chairman.

Mr. SCALAPINO. I would like to address this very interesting question you raised, Congressman Bereuter, of western values and their impact on other parts of the world.

I think this is a critical question and a very complex one. Quite frankly, I think we have seen that underdeveloped societies that have massive poverty, that have a very different cultural heritage, have enormous difficulties when they have democracy, as we define it, implanted upon them, and, quite frankly, some societies are not equipped to handle this well. What we often see is that the first thing of the western type that emerges is some willingness to accept the law, government under law, because that cuts across cultures, to some extent, and provides a degree of stability.

When it comes to other aspects of democracy,—free and open elections, human rights in the fullest sense—there are often deep inhibitions within the society. For example, even Japan, until very recently, has had what I would regard as a one-and-a-half-party system: One party is always in power, either alone or in coalition, and the other is always out. Now, there are some indications that Japan is now moving toward a two-party, rules-divided system, but we still have to wait and see.

In Korea, you had the deep implantation of regionalism—one candidate of a party getting 90 percent of the vote in his region; 2 percent of the vote in other areas—and this regionalist influence has been very difficult to break down. And so it goes.

Now, there is no doubt that when an elite are educated under the western educational system, are impregnated with western values, that can have an impact. I think India is a fascinating example of a society where the British were able to indoctrinate an elite across the board. Even the Communists accepted parliamentarianism at an earlier stage. But that is not easily done and not done in many societies where you have had this up-and-down business.

So let me say, frankly, I think we should be flexible and not attempt to implant the American system on every society in an intense fashion. Deal with the realities of the situation, see what can be done reasonably, and, above all, adhere to a developmental program that moves the economy forward, that moves the social structure forward, because that is a precursor to any effective democracy, in my opinion.

Mr. BEREUTER. Thank you. Ambassador Schaffer, and then we will go to Dr. Ellings.

Ms. SCHAFFER. Thank you. Thank you, Mr. Bereuter.

I would like to speak about Pakistan because I believe that is the greatest challenge in the South Asian region to the question you raised. I assume that by "western values," you are talking about democracy, respect for human rights, market economics.

In Pakistan, you have, as Professor Scalapino has said, elites who have been fairly well indoctrinated with the idea that democracy is a desirable political system, and I would say that realization has actually gone fairly far down in the society, and yet you have a political system in which the army is at center stage, and it is very hard to imagine a scenario in which the army would leave center stage, at least within the next 5 years.

The reason that I argued, in my testimony, for greater United States support for institutions is that I believe this is the foundation on which any kind of decent government rests, and without a rebuilding of Pakistan's institutions, you are not going to see a more effective move toward democracy. I consider that to be the heart of a democracy agenda. It is coming at the problem in a slightly different direction from Professor Scalapino, but philosophically, I think there is not a huge disconnect there.

Mr. BEREUTER. Thank you.

Dr. Ellings? I do not know if Mr. Ennis had his hand up, but I did not see it, so Dr. Ellings.

Mr. ELLINGS. Thank you very much. As Bob said and has been indicated by the other witnesses, this is a terribly complicated issue. However, I look back to the Reagan Administration on how complex issues can be made simpler, and you can make progress by focusing, and I want to say this with regard to western values.

When we mention western values, I think I agree with Ambassador Schaffer, you are talking about democracy, you are talking about process for the most part, and I think that is very key, not outcome. We cannot guarantee outcomes even in a democracy, but we try to get a process that maximizes people's opportunity to achieve outcomes they want. And what drives change that enables people to have eventually that process? Education, rule of law, democratic procedures, and so on. I would argue that the two most powerful things we can do are engage those societies and encourage their openness, especially in trade, but in every other way we can. I am a stalwart believer in the power of globalization, and, in my view, it is when a society, as Professor Scalapino suggested, reaches a certain amount of economic development and wealth that it can develop institutions, rule of law, etcetera, that will provide the kind of value set that will make the world a whole bunch safer and reduce the appeal of terrorists.

So my simple response to this terribly complex question is harp on open trade, engaging societies, economic reform in those societies that brings opportunity to the entrepreneurs in the village, the China example is so powerful in this regard; and then, secondly, we can do something else, and, again, I am reminded of the Reagan Administration in this regard, and it is the power of the bully pulpit. We can give encouragement to societies in Asia by what we say. We can say the right things. We can talk about their

futures. We can talk about societies that are on an equal plane when it comes to opportunity.

And so I believe we have to focus on process, which means globalization, and, secondly, we can say these things. We can talk. The President, for example, can say a whole lot more about a future in which we work with our friends overseas.

Mr. LEACH. Mr. Ennis.

Mr. ENNIS. Congressman, with respect to South Korea and Japan and democracy, I think there is nothing really much to say. The issue is pretty much settled there.

But with the second part of your question relating to terrorism, maybe we can return to this later, but it is extremely relevant to Japan and South Korea because both countries have backed us up in Iraq in the way the Spanish did, and, as we know, the tapes that were found in Spain specifically mentioned Japan as a possible target of retaliation for its participation with us in Iraq, which, of course, raises the very, very sensitive issue of if that were to occur, what would the Japanese or South Korea public reaction be? If that is relevant, we can get back to that later.

Mr. LEACH. Thank you very much.

Partly in the context of what Mr. Bereuter raised on Indonesia and terrorism in general, Mr. Masters noted in Indonesia that he proposes that our number-one aid effort ought to be in the area of education. And one of the things that we, as a country, have not really thought through very much is that we in public life talk about education all of the time. It is something that the American people are deeply concerned about. We have got problems, but we look at it as an American responsibility to educate our young and provide the best kind of education for a new world.

But with terrorism, it is self-evident that we have a national interest in the education systems in other countries in ways we never thought of before, and part of it is all of the new attention being brought to the Madrasas and what, in some circumstances and in some places, can be an education system that is designed to be antagonistic to the United States and United States' values. And so, in many ways, I think Mr. Masters's idea for Indonesia is particularly fitting at this time.

Now, in addition, you have the other kind of positives in the world in globalization, the economic side, and it is impressive to me that both China and India have approximately 10 times as many engineering students as the United States does today.

So you have those two contrasting models of whether you enter the world in a progressive kind of economic-development sense or whether you enter the world with an antagonistic kind of parochial, cultural sense, and so I think the United States has got to be very attuned to this issue. I want to say to you, Mr. Masters, I think of all of the initiatives that we ought to be giving greater attention to, and perhaps Indonesia should be the model, is education, and I appreciate your bringing that to our attention.

I would like to return, then, just briefly to the great challenge, which is North Korea. Dr. Ellings gave, on the one hand, a very supportive and, on the other hand, a very sobering view of the six-power analysis, in the sense that you are doubtful that the outcome will be as hopeful as some might suspect.

I would like to know if any of the rest of you would like to comment on the Administration's approach to North Korea. Do you think it is wise? Do you think there are better techniques? Do you think there are better outcomes that might emerge? Mr. Scalapino.

Mr. SCALAPINO. This is a critical question, first of all, because, in my view, we do not really know what the intentions of North Korea are. That is to say, if, as some believe, and I think Rich spelled this out, North Korea is determined to be a nuclear state for its own security and for its prestige or image, then we are in an extremely dangerous and difficult situation. If, on the other hand, the North uses this as a bargaining chip on the table, and, mind you, the North does not have any other bargaining chips except threat—it does not have anything it can put on the table in a negotiatory sense except threat, and it has escalated threat to the top—if, in other words, it is prepared, under certain conditions, to give up its nuclear program, as was implied by the 1994 agreed framework and by other events, then there is hope.

Now, the only way to test this, in my view, is to keep the negotiatory process going, to work closely with our allies and with China and Russia, to test this question. As I said, I think there are two issues, both of which are extremely difficult, which are going to determine the outcome.

One is verification, and we have every reason to be firm in insisting that, in the final analysis, what the North does must be completely verifiable because it has cheated in the past, and we do not want to through that again.

The other is this question of when do we make certain concessions or agreements with respect to economic aid, et cetera, versus when do they take certain actions. They have used the term "simultaneous interaction." We have basically rejected that, but I understand that, privately, we saw some merit in the South Korean three-stage proposal, and it seems to me that stages are the way to go, that you cannot expect everything to be done in one fell swoop.

So these are the basic issues, as I see it, and they require negotiation.

On another matter, if I may, on this question of education, I would just like to make one point. I think one of the great strengths of the American educational system has been we encourage creativity, thinking independently, whereas traditional Asia, particularly Northeast Asia, was operating educationally by you repeat the teacher's maxim: You learn to say the same thing. And the movement toward creativity in Asian education, which is underway and has made progress, I think, is a critical element in development.

Mr. LEACH. Does anyone else want to comment? Yes, sir. Mr. Ennis.

Mr. ENNIS. Concerning the approach to North Korea, I do not intend at all to sound partisan. It is not my intention, but the problem has been, I think, when you say the Administration's approach, the answer is which Administration because we have had so many different approaches that the North Koreans, even assuming that they were willing to negotiate, which is a big assumption, they were dismayed by the stance of the Administration from Day One,

ever since Kim Dae Jung—and the President publicly questioned the “sunshine policy.”

Since then, what we have found is a tug-of-war inside the Administration which has deeply frustrated the Chinese and the South Koreans and, privately, the Japanese. They are less outspoken about it. Because of their delicate situation with North Korea, they very much want to stick with the United States. Privately, they are dismayed as well.

I think that the crucial thing to emphasize is what Professor Scalapino was saying. We have to make sure that we exhaust every possibility before we conclude that military action or an all-out sanctions regime is implemented. Unless we do that, then the Chinese are never going to go along with us on it. What we find now, and everyone in the Administration acknowledges this, is that the Chinese have backed away a little bit and are not applying the pressure on North Korea that they had been applying last year, which is partly why what was supposed to be a round of talks in December did not happen, because the Chinese balked on some of the things that the Americans were saying.

I think what has happened in recent weeks is that Secretary Powell and his team have come to the forefront, but I do not think they yet have a consensus inside the Administration to have this kind of freewheeling approach to the North Koreans to explore every avenue, and I think that is a problem.

Mr. LEACH. Thank you.

Mr. Masters?

Mr. MASTERS. I am not going to presume to comment on Korea. I will leave that to the experts, and I am glad to associate myself with the comments that have already been made, but I would like to comment a little further on education and pick up Congressman Bereuter's point.

What we can do in all of these countries that we have been talking about, as Americans, directly I think, is limited, and I think we are starting to realize that. But what we can do very effectively and very successfully is to train the local people, educate the local people, to go back home and do the reforms in a way that is culturally and politically acceptable. We have some very good examples of that, I think, in Asia, particularly in Indonesia. The so-called “Berkeley Mafia,” a group of economists who were trained in this country through the Ph.D. level who went back, and, working under Suharto, in effect, saved the country.

The U.S. Government does not train people that way anymore, and the Ford Foundation, which trained the Berkeley Mafia, does not train people that way anymore. We stopped those programs in the 1980s.

The U.S.-Indonesia Commission thinks that we should resume those programs at the university level, graduate-level training, to educate the reformers to go back and, in effect, westernize in a way that is culturally acceptable in consolidating democracy.

One of the problems, in addition to the fact that we discontinued those university-to-university networks, is the visa problem. I know that you have heard a good deal about this. I got hit on this many times in Indonesia, that a student would like to come to this country, but the visa process is so time-consuming that they give up,

or their parents tell them not to do it; that it is humiliating to go through this process.

Now, we certainly understand the reasons for tightening our immigration and naturalization procedures, but we hope a time comes soon when we have worked out the bugs in the system, and it works more rapidly.

Mr. LEACH. If I could just halt right there, and I apologize. We have another vote, and it is going to be followed by a vote, and then we are on to the Iraq resolution. At the risk of presumption and lack of civility, let me first say, Ms. Schaffer, we did not get to you on this round of questioning.

Secondly, I am afraid we are going to have to bring the hearing to an end, and I want to say that we are all part of the Berkeley Mafia because we are all influenced by Professor Scalapino. But the subject is so extraordinary, and the time has been so brief, and the membership has been so sparse, that I feel very awkward, but I will tell you, I am very impressed with your comments, and when I think of Indonesia, maybe that ought to be even more the case in Pakistan, that this should be our principal policy for aid in years to come.

In any regard, I want to thank you all very much. I am sorry to be so short, and I know many of you have come from long distances and, in fact, have just returned from the region itself in several cases, so thank you all very much. The Committee is adjourned.

[Whereupon, at 12:15 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE EARL BLUMENAUER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF OREGON

This hearing is a useful opportunity to take a step back and focus on the broad spectrum of issues facing the United States and Asia. As much of our nation's focus has been on the Middle East, it makes sense to look at both the opportunities and challenges coming from Asia. While much of this hearing is focused on military threats, and rightly so, it is also worth focusing on increasing threats to our long-term security and environmental security.

The explosive growth of mega-cities in Asia will test the capacity of governments to stimulate the investment required to generate jobs and to provide the services, infrastructure, and social supports necessary to sustain livable cities and stable environments. The CIA, in fact, has ranked urbanization as one of its top seven security concerns, concluding that "cities will be sources of crime and instability as ethnic and religious differences exacerbate the competition for ever scarcer jobs and resources." Dealing with the growth of mega-cities is an opportunity for our subcommittee to be active on the security threats facing the United States down the road.

Furthermore, China's growth creates a voracious demand for energy that production is unable to keep up with. China's massive coal production produces environmental impacts that not only are holding back the Chinese economy but are posing a great challenge to international efforts to curb greenhouse gasses and climate change.

The amount of pollution from coal and other sources in China is growing so large that under certain weather conditions wind-borne pollution from China has reached the West Coast, including my district in Oregon. This made-in-China haze can exceed health-based air quality standards and make it difficult for cities in the West to meet federal clear air requirements. The airborne particles that are reaching our homes have been linked to heart attacks, respiratory failure, asthma, and premature death.

We can no longer view environmental and livability issues in Asia as "do-gooder" causes. Rather, these issues are specific threats to the health and security of our communities. We must make sure, as a committee, that the United States is using all the tools at our disposal, including trade and foreign assistance, to work with Asian countries to address the economic, environmental and population challenges that are the basis of these long-term threats to both their nation and ours.

