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ASIA AND AMERICA IN THE 1980s:
IMPLICATIONS FOR FOREIGN AID

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ASIA AND AMERICA IN THE 1980s:
... IMPLICATIONS FOR FOREIGN AID

I am honored to have been invited to testify today. I have been asked to testify about the economic and political situation of Pacific Asian countries and the implications for the U.S. foreign aid budget. I have been asked in particular to address the appropriateness of certain crucial trends in the aid budget, including the overall priorities, the shift from economic to military aid, and the shift from multilateral to bilateral funding. These are very fundamental issues, and issues about which much has been said by partisans of various approaches. I believe that the only way to shed new light on them is to approach the immediate questions as a strategic planner would: systematically reviewing the principal political-economic trends in the region; then deciding what challenges those trends pose for the United States; then articulating a broad sense of regional priorities and identifying the levers available to the U.S.; and then viewing foreign aid in the context of those priorities and as one lever among several which the U.S. can employ.

Pacific Asia In The Early 1980s

Only seven years after the end of the Vietnam War, Pacific Asia seems to be basically calm, and Asian-American relations appear to have been institutionalized. All the non-communist countries of Pacific Asia are at peace. In normal times for the world economy, virtually all grow economically at rates which are more than respectable by today's Third World standards and spectacular by historical standards. While most of the communist countries are more or less at war with one another, the consequences of communist warfare are second order issues for most of the states of the region, except Thailand, and third order issues for the United States. The casualties of famine and genocide in Cambodia have been replaced by the mere casualties of ordinary war -- perhaps the best that can now be expected there. Following the Carter Administration's consolidation of the Nixon's Administration's rapprochement with China, and the Reagan Administration's endorsement of Carter's basic China policies, the United States seems at long last to have come to terms with China.

Throughout non-communist Pacific Asia there is unparalleled political stability. In Japan, the Liberal Democratic Party appears to have found its way out of the dilemma of dependence on a diminishing rural electoral base. South Korea has demonstrated that its institutions can survive a major succession. Taiwan is for the time being domestically stable and militarily safer than at any time before the U.S. rapprochement with China. Indonesia, the Philippines, Malaysia, and Singapore have enjoyed more than a decade of freedom from political upheaval, and Thailand's basic political system has proved remarkably stable despite frequent changes of face at the top. Thus top Washington decision makers find their attention focused on the Soviet military buildup, on Poland, on Lebanon or Iraq and Iran, and even on southern Africa, rather than on Pacific Asia.

This surface calm and stability are surprising in the face of another optimistic trend: Pacific Asia has been experiencing the greatest economic

dynamism in human history. At no other time in the history of the world have so many people, spread over such a wide geographical area, achieved economic growth on the order of 7% year after year. Elsewhere such economic growth has virtually always led to political turmoil and cultural stress, particularly in a region such as Southeast Asia where basic political and social issues remain unsettled. The appearance of calm and stability is unique in the period since World War II. To the United States, the last generation of Asian history has been the history of the Chinese Revolution, the Korean War, the Vietnam War, the Hukbalahap Rebellion in the Philippines, the Malayan Emergency, the Indonesian Revolution of 1966, the confrontations over Taiwan, the emergence of the Sino-Soviet split, the Cambodian genocide, and the Vietnamese invasions of Laos and Cambodia.

The Political Consequences of Economic Dynamism: Successes

On balance, dynamism is a more accurate image of Asian politics and of Asian-U.S. relations than either calm or stability. Over the last generation, the dynamism has caused spectacular consequences both for good and ill.

Economic growth, political consolidation, and administrative development have occurred at a spectacular pace, even where such progress once seemed particularly unlikely. For instance, at independence Indonesia was largely a collection of islands and tribes with little sense of national identity. Its economy was primitive in technology, devoid of most infrastructure, and so poverty-stricken that little of the population could afford proper clothing or adequate rice. Today Indonesia has become one of the world's most nationalistic nations. It has an impressive national economic infrastructure. It has an effective national administration and national military network. Indonesians speak a national language for the first time. While poverty is still omnipresent, children who must go naked, women who cannot afford adequate clothing, men who have no sandals, and families who cannot afford rice have largely disappeared. Those who visit Indonesia for the first time will still be impressed by its problems, but those who have been observing it since 1949 are astounded by its progress. Such is the story of development in Pacific Asia during the past generation.

Second, the obvious benefits of this rapid economic development have transformed the international politics of non-communist Pacific Asia. For millennia the route to prosperity had been invasion of one's neighbors. A decade ago virtually every country in Southeast Asia was pressing serious and immediate territorial claims against most of its neighbors. Today, modern nationalism and modern technology make conquest extremely expensive, while emphasizing indigenous economic development is extremely rewarding. Thus, the Philippines has basically renounced its claim to Sabah; Indonesia has abandoned its claims on Malaya; Malaysia and Thailand have resolved most of their disputes; and so forth. In Pacific Asia only the Vietnamese are playing the traditional game of conquest.

Third, Pacific Asia has developed a standard ladder of development and a standardized social technology for moving up that ladder. The country begins with natural resources, if it has any, then succesively moves into textiles,

consumer electronics (radios, televisions, cameras), heavy industry (steel, ships, petrochemicals, automobiles), and finally advanced technology such as computers. It moves up the ladder by making massive investments in education and administration, by exploiting the flexibilities of guided market economies, by utilizing the efficiency that is bred by domestic and foreign competition, by using the management and technology and capital available from multinational corporations, and by pursuing a strategy based on a leading role for exports to the industrial north. The resulting market -- disciplined, export-led, relatively open strategy of economic development has yielded today's extraordinary growth rates whenever the rest of the world economy is performing respectably.

This Pacific Asian strategy has provided a model of development and a set of priorities radically different from those proposed in the Group of 77's New International Economic Order ideas: the success of the Pacific Asian approach to development has shown that relatively market-oriented development programs are superior to excessively bureaucratized ones; that an emphasis on people (education, organization, discipline) is far superior to an emphasis on natural resources and their prices; that a relatively open economy is almost invariably more efficient than a relatively closed one; and that a cooperative relationship with the industrial democracies and with the multinational corporations can, when combined with domestic political cohesion and effective domestic administration, lead not only to economic growth but also to egalitarian income distribution, rapid technological development, and effective national control over the economy. Those countries which have succeeded best at social development are also those which have most rapidly up the economic ladder (Japan, South Korea, Taiwan, Singapore). The success of this general approach to social and economic development is exerting a magnetic influence over the programs of countries as diverse as China, Sri Lanka, Bangladesh, Zimbabwe, and the Andean Pact.

The Pacific Asian strategy has so far proved superior in difficult times as well as boom times. Although their lack of natural endowments and outward-oriented strategies would appear to make them more vulnerable, the big oil importers of Pacific Asia adjusted faster to oil shortages and price rises than their Latin American and African counterparts, and the flexible, market-oriented economies of Pacific Asia were less damaged by the world recession of 1975 than their counterparts elsewhere. While the world recession of 1979 to 1982 has left most Latin American and African countries teetering on the edge of national bankruptcy, most Pacific Asian countries, while hurting, are in stronger positions.

The Political Consequences of Economic Dynamism: Challenges

The above are positive consequences of Asia's economic dynamism. But the dynamism also poses challenges to countries at various levels on the ladder and at various levels of social and political achievement:

For countries at the bottom of the ladder, such as Burma, the extraordinary dynamism of Pacific Asia sharpens the challenge created by failure in the midst of success. A generation ago, the economically and

culturally autarkic Burmese approach to development was widely accepted as a serious alternative development strategy. Now it is generally regarded, inside Burma as well as outside, as a strategy which leads to regression back out of the monetary economy into a barter economy. Bangladesh, Pakistan and (more auspiciously) Sri Lanka face some of the same problems. These countries must get on the ladder of growth, in the face of rising competition, or face potential disintegration.

For countries like Indonesia, which have achieved rapid economic growth based on natural resources, the growth successes raise expectations and make much more immediate the necessity to move beyond the capital-intensive, inherently inegalitarian economic structure that results from an emphasis on mining. Indonesia desperately needs an economy which will provide employment for a rapidly growing population, distribute the proceeds of growth more fairly, and cope with demands for national control of the commanding heights of the economy. The Philippines, Thailand, and Malaysia face the same challenges.

For South Korea, which has achieved spectacular growth, relatively full employment, one of the world's most egalitarian income distributions, an extremely high level of indigenous technology, and effective national control of the economy, the great challenge of the future is a political one. Economic success breeds economic complexity of a degree which cannot be managed hierarchically from a few offices in the presidential palace. Economic growth brings with it a large labor movement, a large middle class, a large sector of academics and intelligentsia, and other social pressure groups which demand an increasing role in the nation's political life. Universal education at the high school level brings with it a knowledge of modern political ideologies, particularly democracy. Perceived solution of the formerly overwhelming military and economic problems of the nation leads people to focus their attention increasingly on questions of political dignity. These must eventually be resolved. While it is quite unlikely that Seoul, Korea will ever pattern its politics rigorously after Washington, D.C., the need for a theory of political life which is broadly accepted by all of the most modern sectors of society becomes more pressing each year. Taiwan and (to a lesser extent) Singapore will likely face this same need sometime in the 1980s.

In Japan, which has solved the problems of growth, equity, technology, egalitarianism, and economic nationalism, and also agreed on a basic political structure, the great dilemma of the future concerns the nation's international role. Japan's economic success inexorably creates an unwanted global political prominence. For the last few years, Japan has been absorbing such shocks as the American withdrawal from Vietnam, the secret Sino-American rapprochement of 1972, the Arab oil embargo, the rapid rise of oil prices, the Sino-Vietnamese clash, the risk of a Sino-Soviet clash, the Soviet naval buildup, the Soviet military buildup in the Kuriles, and the Soviet invasion of Afghanistan, and has been drawing the conclusion that Japan is utterly dependent on a stable global political order and therefore must take some responsibility for the maintenance of that order. This has precipitated an intense debate over Japan's proper political and military role.

Each of these challenges can lead the respective nations to new heights of achievement and stability. But each also carries the risk of failure to make the transition into the next phase and hence some danger of instability and backsliding. The ASEAN countries, other than Singapore, risk getting stuck fairly low down on the social ladder. Each challenge is cause both for celebration and fear. The celebration and fear are located in Washington as well as in Rangoon, Jakarta, Seoul, and Tokyo. The United States and its policies must make the transitions along with the Asian nations. Thus, the challenges for American policy coincide with the Asian challenges of national development.

Four Additional Challenges for Southeast Asian Leaders

In addition to the challenges posed by the need to go from one step on the ladder of social-economic development to the next, the current situation in Asia poses supplemental major challenges to regional leaders: the challenge of ideology and patronage to technocratic development, the challenge of rising ethnic tensions, the challenge of generational change, and the challenges of a newly volatile world economy.

Pacific Asia's dynamism has been created and guided by a wave of technocratic leaders: Lee Kwan-yew, Park Chung-hee, Chiang Ching-kuo, Suharto, and Deng Xiaoping, among others. In several countries the technocrats are under fire from ideologues. In China, the legacy of the Cultural Revolution dies hard, and previous waves of technocratic development have each been swallowed up by ideological movement. In Indonesia, a tide of Islamic, anti-Chinese, xenophobic feeling threatens the position of the technocrats, many of whom are Chinese, cosmopolitan, and Christian or secular. In other countries, the challenge of the ideologues to the technocrats is less dramatic, but it is often supplemented by an equally threatening force: the power of traditional patronage politics, which subverts rational policy through patronage considerations. In the Philippines, the early 1970s wave of technocratic reforms in administration, basic economic policy, and rural land tenure has been subverted by the reemergence of patronage politics. Thus, throughout the region, the dynamism guided by the technocrats depends not only on rising to the challenges posed by each successive phase of development, but also upon the ability of the technocrats to hold at bay both the ideologues and the patronage politicians.

A second trend which will challenge the leaderships of Southeast Asia is a wave of anti-Chinese feeling currently sweeping the region. In Indonesia during 1980, anti-Chinese riots of major proportions swept most of the cities of Central Java. In Thailand, one aspect of the unsuccessful spring 1981 coup consisted of desire to rid the country of nine great economic families of Chinese origin and to reduce Thailand's current close ties to the People's Republic of China. In Malaysia, fear of a new wave of anti-Chinese sentiment is leading increasing numbers of educated, middle-class Malaysian Chinese to seek opportunities for emigration. In the Philippines, a scaled-down version of these widespread anti-Chinese sentiments is noticeable.

Throughout the region, these domestically rooted anti-Chinese sentiments are beginning to affect views on international political questions. The anti-Chinese views of the Thai coup participants appear to have more durability than the coup itself. Indonesia and Malaysia are increasingly questioning the current anti-Vietnamese posture of Thailand toward Vietnam's invasion of Cambodia, on the grounds that the real long-term security threat to Asian countries is China, not Vietnam or the Soviet Union. These arguments ring strange to most American ears, but they are a reality which will increasingly complicate American policy.

Anti-Chinese sentiments are increasing due to a variety of causes. A slack world economy has made economic life more difficult throughout Asia, and in these circumstances it is a natural temptation to blame the middlemen, who are heavily Chinese. Indeed, for any major problem, it is tempting in Southeast Asia to use the Chinese as a scapegoat. The rising prominence of the income distribution issue in Southeast Asia leads naturally to a focus of attention on that obvious pinnacle of the current inegalitarian distribution, namely the community of prosperous Chinese businessmen. In Indonesia, attacks from below are often surrogates for attacks on the government; by attacking the so-called "cukongs" of the political leadership, it is possible to undermine the indigenous leadership without necessarily provoking a devastating retaliation. Moreover, throughout the region there is fear of increasing Chinese economic competition for export markets and fear that aid and credit will be diverted away from existing recipients to China.

A third trend is a massive generational change. Park Chung-hee, Lee Kwan-yew, Chiang Ching-kuo, and Ferdinand Marcos are fundamentally men of the same generation. Similarly, Deng Xiaoping's generation must soon leave the scene in China. Many of the region's key leaders achieved national power in the 1960s and must exit from national power by the mid-1980s. Indonesia's press is overtly conscious of the crisis of the "Generation of 1945". Even Thailand, which changes its top leader almost annually, faces a change of generation in the sense that Thailand's elites increasingly recognize that a new style of leadership is required to adapt to a time when development demands no longer permit automatic budget surpluses, high energy prices no longer permit automatic national current account surpluses, income distribution requirements no longer permit patronage politics as usual, and widespread questioning of current political and social ideas has created a demand for more inspiring and novel leadership.

Finally, the region must face the consequences of high oil prices, high interest rates, deep recession, and protectionism. The earlier rapid growth of the region was based on cheap energy, cheap petroleum-based fertilizer, cheap interest rates, and a global trade boom. A recent study of Brazil shows that every dollar of increase in the price of oil cost Brazil \$350 million per year, whereas every increase of 1% in the interest rate cost \$400 million per year. When President Carter took office, the prime rate was 6-1/4%, whereas when he left office the prime rate was around 20%. Reagan's policies initially exacerbated this problem. The 1979 to 1982 recession has created the first year of stagnating trade (1981) and the first year of declining world trade (1982) in a generation. The countries of Pacific Asia include

four of the less developed world's six largest importers of oil, (India is a fifth), several of its largest users of commercial bank credit, and virtually all of the world's most dynamic exporters. While high oil prices and interest rates may be gradually ameliorated later, they have slowed growth and worsened foreign debt. The world recession further depresses growth and makes it more difficult to repay debt -- although Africa and Latin America would be delighted to exchange their growth rates and debt burdens with those of Pacific Asia.

All regions of the third world have suffered grievously from the four economic plagues of the early 1980s, high oil prices, high interest rates, recession, and protectionism. With world trade actually declining for the first time in a generation, commodity prices at their lowest real levels since the Great Depression, escalating indebtedness, and rising barriers to export of everything from sugar to clothing to televisions to steel, the pain of today's third world is difficult to overstate. That pain is maximized in Pacific Asia, because Pacific Asia contains the world's most open, internationally-oriented economies. Whereas the U.S. exports only 9% of its GDP, the Philippines exports 19%, Thailand 23%, Indonesia 30%, Malaysia 58%, South Korea 32%, Hong Kong and Taiwan over 50%, and Singapore 187%. Thus the forces of international economic decline hit these countries with extraordinary force.

Despite their greater openness to international trends, the performance of these Pacific Asian economies has been superior in an era of international economic crisis. Almost all have far outperformed the current third world average growth rate of roughly 1%. South Korea and Singapore, for instance, are achieving growth in the area of 6%. While these countries have borrowed heavily to finance their development, it would be surprising if more than one faced a rescheduling in the immediate future -- at a time when most African and most Latin American economies face a high likelihood of rescheduling. This is because the Pacific Asian countries have been more market-oriented and therefore more flexible, and because they have been managed by more technocratic and responsible leaderships.

These remarkable feats should not, however, obscure the political pain the leaderships are enduring with their adjustment policies, the human suffering that has attended economic austerity, and the increasing disillusionment certain significant political groups are feeling toward the international economic system which previously raised expectations so high and now dashes them so severely. The people of these countries do not compare themselves with the even worse situations of Africans and Latin Americans; they perceive only their own severe discomfort. In Northeast Asia, disillusionment will not get out of hand, but in key Southeast Asian countries a nationalistic, anti-Western, more inward-looking reaction could occur along with generational change.

More significant than any of these trends individually is the fact that they are achieving their full force simultaneously. There is at least a moderate likelihood that, for one or two governments of the region, the multiple challenges will combine into an insurmountable crisis. The subsequent succession struggles would have uncertain outcomes. By 1979 South

Korea had resolved sufficient social problems and had created sufficiently strong institutions to transit, albeit painfully, a simultaneous economic and political crisis. However, most Southeast Asian polities are less prepared for such a transition. Because of this, the American security and political position in Southeast Asia could at some point suffer important setbacks unless the U.S. is fast on its feet in protecting its core interests on the one hand and in shifting ties from old leaderships to new on the other hand. Despite the excitement over Sino-American security relationships, Soviet military programs, and Vietnamese invasions of Laos and Cambodia, the most severe challenges to U.S. regional security interests will probably come from the compounding of these domestic challenges to Southeast Asian states.

Asia and America: Major International Issues

The international political ferment caused by the dynamism of Pacific Asia equals the domestic ferment. First, as mentioned earlier, Japan faces the greatest debate over its fundamental international policies since it chose to remain aligned with, and allied to, the United States. On the outcome of that debate depend Japan's future relationships with all the big powers and with Southeast Asia. So long as the Japanese debate is a gradual, consensus-forming response to Soviet, Vietnamese, and Arab shocks, the prospects for closer alignment with U.S. interests and policies are excellent. However, if it becomes an emotional response to American badgering, a risk that became severe in early 1981, the results could be unfortunate.

Second, China's international orientation will hinge upon the success or failure of the Deng Xiaoping economic program. That program now hangs in the balance, and with it the whole theory of building China's future on a more open economic relationship with the rest of the world, on a priority for economic over military development and for light industry over heavy industry, on a predominance of technocratic rather than ideological leadership, and on an economic, technological, and diplomatic alliance with the West.

America and the world have an enormous stake in the success of China's economic development. Failure of that development program, whose fate is presently uncertain, could bring to power in Beijing another round of ideological leadership that could immensely damage the prospects of China's neighbors and of world peace. Even more dangerous than a powerful ideological leadership would be disintegration of authority in China. China's peasantry probably cannot take another cycle of high expectations and massive disappointments. The chaos in China's Cultural Revolution was far worse than the chaos attending Khomeini's revolution in Iran; another round of upheaval in China could well be far worse than the Cultural Revolution, particularly if this time the peasantry revolted. The world cannot afford that much instability, and that great a power vacuum, in a part of the world as important as China.

Third, the Soviet Union has recently achieved nuclear parity with the U.S., and conventional superiority in key parts of the world. It is seeking to turn this change in the military balance to political advantage. But the military challenge is less severe in Pacific Asia than in the Middle East,

South Asia, and Germany. Moreover, Soviet diplomacy has proved extraordinarily unsuccessful in Pacific Asia. Early postwar pressures on Japan, following a gratuitous declaration of war in the last days of World War II, permanently alienated the Japanese. Quasi-colonial pressures on China transformed the new communist ally into a powerful enemy. Soviet investments in Indonesia proved utterly counterproductive. Soviet influence in insular Southeast Asia and Thailand is minimal. Only in Vietnam has the U.S.S.R. achieved success, and it remains to be seen how long the nationalistic Vietnamese will swallow their already outspoken resentment of overbearing Soviet attitudes. Both rising Soviet military power and the partial Soviet diplomatic collapse imply uncertainties for Pacific Asia in the 1980s. For the U.S., while maintaining the military balance will require continued efforts, the priority issues will be China's orientation, Japan's security policies, the small countries' continued rapid development, and exploitation of Soviet problems together with economic incentives to change Vietnam's views. An overwhelming priority for military hardware and immediate Japanese military expansion would be terribly misguided.

Fourth, since Vietnam, America's policies toward the communist giants have been in doubt. Under Cyrus Vance, the U.S. sought to implement a policy toward the two major Communist powers similar to the old Japanese ideal of "diplomatic equidistance" between the Soviet Union and China. As an abstract ideological proposition, the notion that the U.S. should not align itself with one major communist power against the other carried a certain plausibility. But China offered an effective economic, diplomatic, and technological alliance with the West, along with support for stability in Korea and Thailand and strong advocacy of the U.S.-Japan alliance, of ASEAN solidarity, and of a strong NATO. In contrast, the Soviet Union supported upheavals in Ethiopia and Angola, while invading Afghanistan and threatening Poland. Thus the policy of equidistance became clearly untenable. After Afghanistan, the United States and China both decided to maintain closer ties with one another than with the Soviet Union, but to conduct an affair rather than a marriage, an entente rather than an alliance. Reagan's flirtation with Taiwan cast a chill over the affair, and renewed Sino-Soviet dialogue worsens the chill.

China has gained over Washington, by forcing concessions on arms sales to Taiwan and through defeat of the last effort to resurrect official relations with Taiwan. U.S. enticement of China, with promises of unequivocal recognition, military technology, and foreign investment, has weakened as Reagan campaigned to rejuvenate official relations with Taiwan, refused to permit sale of even one item on China's military "wish-list," and presided over an economy where business investment drastically declined. Both the Soviet Union and China gain leverage over the U.S. by talking to each other. Thus, the U.S. has lost leverage over both and has a clear policy toward neither. A firm but less rhetorically provocative stand toward the Soviet Union, and a steadier, economically and technologically forthcoming friendship toward China would better serve U.S. interests.

Fifth, Indochina remains a policy quagmire. While the U.S. must never condone Vietnamese conquest, with Soviet support, of Laos and Cambodia, neither can it long be comfortable with a policy based too heavily on support

of the successors of the murderous Pol Pot. (The Pol Pot problem will not go away, even though it has temporarily been covered over by a Sihanouk-Son Sann-Khmer Rouge coalition.) Nor will moralistic discussion of these two alternatives help much. The central question for policy is technocratic and regional, not local and moralistic: How best can the U.S. promote the continuing economic dynamism and political consolidation of the rest of Pacific Asia, while avoiding the emergence of a large and permanent Soviet presence in Indochina? The U.S. has five cards to play: the dynamism of non-communist Asia, which puts time on our side; the nationalism of Vietnam, which inhibits it from accepting Soviet predominance; Vietnamese war-weariness; the anti-Vietnamese nationalism of ASEAN, Laos, and Cambodia; and Sino-American cooperation. On the other hand, the U.S. has key weaknesses: the possibility that key ASEAN partners will not successfully overcome their imminent domestic challenges; ASEAN and Vietnamese fears of Sino-American cooperation; and U.S. indecisiveness, impatience, and unwillingness to deploy resources with appropriate imagination and scale. If the U.S. perceives the problem as regional, and the strategic key as deploying its strengths without overly exposing these vulnerabilities, it should be possible to shape a flexible, long-range diplomatic program for ensuring that Vietnam is worn down to the point where conquest of its neighbors seems too costly, and the opportunities of rapprochement with ASEAN too attractive, to persist in its current strategy. The risks of serious Thai-Vietnamese conflict, of Vietnam selling out to the Russians, and of ASEAN being spooked by the Sino-American relationship will always be present, but need not be overwhelming. A successful long-range strategy of this kind will, however, require the debate, domestically and in Asia, to be rearticulated in these regional and technocratic terms.

U.S. Priorities and Policy Levers

More broadly, the dynamism of Pacific Asia ensures that its future will not remain one of quietness and stability. It will offer grounds for inspiring hopes and profound fears. In this context, American policy toward the rest of Asia remains somewhat amorphous. To be sure, the United States supports its allies, supports ASEAN, is encouraged by rapid economic development, and opposes expansion of the Soviet and Vietnamese empires. Moreover, while crises in the Middle East and with Western allies have given Asia policy a low profile in Washington, the U.S. has basically rejected the early Carter effort to downgrade relationships with Pacific Asian countries to a low level of priority. Today it is widely recognized that U.S. trade across the Pacific outweighs U.S. trade across the Atlantic, and that, since the Soviet-Afghan War began, China has in many cases proved a weightier and more constant diplomatic partner than most formal allies. The U.S. is committed to strengthening its own military capabilities in the region and to insisting that allies take up a greater share of the burdens. But these expressions of direction, and of likes and dislikes, fall short of a rigorous set of priorities.

Since the end of the Vietnam War, Asia, and particularly Southeast Asia, have been very low in American priorities. My distinguished fellow witness spent his career as Assistant Secretary reassuring Asia that the U.S. would

remain a Pacific power. And we have. But in the meantime, one of our two Pacific carrier battle groups had to move to the Middle East and the Indian Ocean area. American military ties, whether measured in direct U.S. presence or -- probably more importantly -- in the roles of JUSMAAG groups and of military exchanges with Asian countries, remain at extraordinarily low post-Vietnam levels. American cultural exchange programs and programs for study of Asian languages and cultures declined precipitously. American taxation of foreign earnings, and such American laws as the Foreign Corrupt Practices Act have severely limited American investment in Pacific Asia during recent years; they have ensured ever-increasing roles for Japanese and Western European competitors. American embassies remain oriented to the situation of the 1950s, when security problems were overwhelmingly important and U.S. economic hegemony was axiomatic, rather than to the central challenge of the 1980s, which is to ensure that America's economy remains sufficiently competitive to generate the resources needed to sustain a major regional role. (Excision of the foreign commercial service from the State Department hasn't changed this, at least so far.) While the Reagan administration has emphasized domestic economic rejuvenation, it has opted out on foreign economic policy and initially sought to cut drastically the kinds of programs (Export-Import Bank, labor retraining, R & D subsidies) which built the competitiveness of West Germany and Japan. In an increasingly cosmopolitan world, such provincialism could prevent rejuvenation. Our ties to Asia have suffered disproportionately from these trends.

American cultural programs are pathetically underfunded: during a recent speaking tour of Indonesia, I was told that the total U.S. culture and information budget in Indonesia amounts to about one-fifth of what France spends there. The American educational programs and administrative training courses which produced the Berkeley Mafia that leads Indonesia's economic development, and which nurtured the technocratic leaderships throughout all of Pacific Asia, have essentially died. The old generation of Southeast Asian leaders thought American thoughts and channeled business to America, because they were educated in the U.S. The new generation, educated in Japan or Western Europe, more often will turn to Japan or France or West Germany. The foreign language and area studies programs that once trained legions of young Americans for careers in Asia have atrophied. American scholarship on Southeast Asia and Korea has largely dried up. While Japan has 10,000 English-speaking businessmen in the U.S., the U.S. has only 900, mostly non-Japanese-speaking, counterparts in Japan.

America must of course adapt to an Asia which is no longer susceptible to 1950s-style U.S. supremacy, but surely it can compete with France. Expanding U.S. trade across the Pacific, broadening Japanese, Korean, Taiwanese and Singaporean economic challenges to America, and Asia's extraordinary political ferment would seem to require that the U.S. rise to the challenge. Japanese and South Koreans are vigorously adapting to the demands of a more cosmopolitan and competitive world. Will the U.S. rise to the occasion, or will it continue to turn inward in the post-Vietnam manner -- while talking a good line about participating in the dynamism of the Pacific Basin? America now faces, in Asia and elsewhere, many of the same challenges that Third World countries have faced: fear of more efficient Japanese and West German

competition; fear of major industries being taken over by rich Japanese and Saudi Arabian investors; a need to export vigorously to maintain its currency; an associated need to tailor manufactures for the first time to foreign standards; and a need to acquire foreign languages and cosmopolitan attitudes. The U.S. may now be psychologically ready to move beyond its post-Vietnam trauma, but its resource allocations still reflect the post-Vietnam turn away from Pacific Asia. The U.S. may now have a right-wing administration ostensibly committed to competition and free trade, but its actual policies reflect a fearful, Third World style reaction against foreign competition.

Implications for the Foreign Aid Program

Any commentary on our aid program must begin by underlining the vital role a generous aid program played in defending and stimulating the great economic takeoffs which have consolidated the foreign policy successes discussed earlier. Aid has never been politically easy at home, but it has always been vital abroad, and Pacific Asia represents the great success story of aid.

Priorities

The first question to ask about the overall foreign aid budget for the region is whether it reflects an appropriate balance of U.S. interests in the Pacific Asian region versus U.S. interests elsewhere.

The preceding survey emphasizes the strategic importance of the region. This is the area of greatest economic dynamism in the world. It is the area of greatest economic resilience in the face of difficulty. It is the area which provides the majority of the economic success stories of the third world and thereby enhances the U.S. interest in the spread of open, market-oriented, pro-Western economies. It is the area with which the U.S. trades more than any other region, including Europe. It is the area where the U.S. reaps the greatest economic advantages and where the U.S. faces the greatest economic challenges of the future. Because the African and Latin American countries have proved far less resilient than the Asian countries in the current crisis, this role of Pacific Asia as the dynamic center of the world economy will be strengthened in the future.

This economic importance parallels and enhances the other aspects of Pacific Asia's strategic importance. This is where the interests of four major powers -- the U.S., U.S.S.R., Japan, and China -- have their confluence. Along with Central Europe and the Middle East, it is one of the areas where great power wars have repeatedly arisen. It is a huge concentration of population, natural resources, and talented human organization. More than any other single region, Pacific Asia holds the key to freedom of the seas.

Given such strategic importance, the region deserves a weight in U.S. foreign policy, and in our aid budget, which is at least equal to that of other areas. Moreover, because of the vicissitudes of post-Vietnam political

reactions, it is an area which suffered historically unusual neglect for most of the period since 1975, so we have some catching up to do. Under these circumstances, it is peculiar that the region receives only \$388.5 million out of a total \$4.163 billion program for foreign military sales guarantees in the projected budget.

Of course, crises elsewhere can justify temporary deviations away from the appropriate long-term balance. Such deviations are appropriate where a very heavy concentration of funds for some finite period of time can break through a historically important bottleneck or avert a war. Today we face crises in the Middle East and in Central America which may fit these criteria. But before this committee accedes to such drastic deviations away from the long-term balance of interests year after year, I believe it should satisfy itself that there is a strategy in each area with some prospect of success, backed by the political attention and determination to achieve that success, so that an eventual return to more appropriate long-term balance is achieved. If not, then we should increase the aid to Pacific Asia, or begin to reallocate aid from other regions, so as to achieve a more appropriate balance.

The Shift from Economic to Military Emphasis

In Pacific Asia, the military challenge from the Soviet Union has been rising inexorably just as it has in other areas. The U.S. must respond to this challenge. In Korea, a worthy and strategically vital ally faces a highly mobilized enemy whose priority for military expenditure and immediate readiness for combat are unparalleled anywhere in the world. We must continue to help the South Koreans militarily. Thailand faces a major and immediate threat from Vietnam, and the Philippines faces a rising internal security problem. I believe that aid is appropriate in each of these cases, and that most of the military aid we have given has served U.S. interests. The amounts requested by the administration are reasonable in terms of the problems these countries face. (In the Philippines they are proportionate to our interests in retaining Clark and Subic bases.)

Having said this, the deemphasis on economic aid and economic issues is profoundly disturbing. The greatest threats to stability in Pacific Asia derive from economic problems. The greatest challenges to the United States, in the Pacific in these years come from declining economic competitiveness. The Philippines is far more threatened by socio-economic problems than by military challenges. So are Indonesia and Thailand.

Military and economic policy must go hand-in-hand. U.S. military assistance, and on occasion direct involvement, have provided the shield behind which the great Asian economic takeoff has occurred. But the great consolidation of the Western position, in a region which was a security shambles thirty years ago, has come from the economic takeoff. Continuation of the economic takeoff will continue to leave Vietnam sitting helplessly behind, and will continue to draw China into cooperation with us. Continuation of economic success will perpetuate the diplomatic shambles of the Soviet position in the Pacific. Reversal of economic and social progress in key countries could rapidly tear apart the security successes of the past generation.

Under the circumstances, it seem appropriate to ask whether a budget which requests a total of \$753 million -- mostly credit guarantees -- for military purposes and \$1 billion for economic purposes adequately responds to the current economic crisis of the entire Asian region, and the current need for economic priorities on the part of the United States. The military commitment is not of itself excessive, and could even be increased if circumstances permitted. But the economic portion is too small absolutely, and too small in comparison with its military counterpart, for a period of economic stringency.

The Importance of Exchange of People

To a large extent, the current very strong position of the U.S. in Pacific Asia derives from a generation of direct personal contact between Asians and Americans: aid advisors in Asian countries, JUSMAAG officers in those countries, large numbers of Asian officers trained in American armed services schools and college students trained in American colleges, exchanges of Fulbright professors, and U.S. businessmen working in Asia. As noted earlier, trends of recent years have diminished these exchanges. This trend seriously weakens understanding between American and Asian elites, seriously reduces American influence among Asian decision makers, and seriously undermines the competitiveness of U.S. business. We ought to give special attention to rebuilding the exchange programs of all kinds. To say this is not to advocate return to the hegemonic position the U.S. held in the pre-Vietnam years. That would be impossible even if we desired it. But there is no reason why our overwhelming advantage in personal relationships should suddenly be washed away by a wave of Frenchmen and Germans and Japanese.

Multilateral versus Bilateral Aid

There are many reasons which have been advanced over the years for bilateral rather than multilateral aid, and vice versa. I shall not rehearse those familiar arguments. We are not in a position to debate abstractions. We face an immediate, urgent, global economic crisis, a crisis of trade, of employment, of commodity prices, and of finance. All of our policies must respond to this crisis. Even if U.S. recovery continues and accelerates, it could be aborted by developments in the third world. The third world will receive the stimulus from U.S. recovery only 6 to 24 months hence. The financial and trade and social problems of the third world are immediate. In virtually all of Africa and Latin America, and in key countries of Southeast Asia, it is an open question whether current trends toward a more open, market-oriented, Western-leaning system will continue and strengthen.

The U.S. response to this crisis must include vigorous Western recovery, reduced Western interest rates, reduced protectionism, and measures to cope with the liquidity crisis. The third world must be induced to adjust to new economic conditions, however painful those adjustments are, and must be able financially to move through the adjustment period toward recovery. The only institutions which have the legitimacy and competence to enforce adjustment policies are the multilateral economic institutions. The only institutions which can restore confidence in a financial system from which half of the flow of funds to the third world dried up in a mere six months are the multilateral

financial institutions. These institutions can play their traditional role, in the face of a global recession unprecedented in modern history, only if they have greatly increased resources. U.S. interests in Asia require this, not to avoid a financial crisis there but rather to avoid losing the economic and security gains that have flowed from Asia's development. And on a worldwide basis U.S. interests in being able to conduct a sustained domestic recovery demand such an emphasis.

Conclusions

The natural reaction in a period of distress and security concerns is to contract aid, emphasize military aid, and emphasize short run gains from bilateral aid rather than long-term gains from multilateral aid. There is also a natural tendency to concentrate funds overwhelmingly on immediate problems in the Middle East and Central America rather than the neglect of fundamental Asian interests.

However natural these reactions are, and however inexorable the pressures for some deviations in these directions, if carried to an extreme they undermine the coherence of foreign policy. Aid policy needs over the long term to reflect the balance of our interests in different regions and among the military and economic sectors. Aid policy should also reflect the extraordinary successes that have derived in part from relatively far-sighted, balanced policies of the past generation.

I hope that the aid bill will be passed in at least as forthcoming a version as that presented by the administration. For all my concerns about the priorities within the aid request, I would feel I had done a great disservice if the comments made here were used to decrease the aid bill. The central theme of this paper is Asian economic success, and U.S. foreign policy success built upon the economic success. Military aid has provided the shield behind which those successes occurred, and economic aid has provided a vital catalyst without which the successes would be far fewer. At the same time, I presume that there is reason for hope that we will actively shape our aid programs in response to long-run priorities, rather than being driven by the problems and concerns of the moment into unbalanced programs.

Notes

1. Substantial proportions of this testimony are adapted from William H. Overholt, "Progress and Politics in Pacific Asia," International Security, Spring 1983.
2. Most of the ratios of exports to GDP for Asian countries are taken from Lawrence B. Krause, U.S. Economic Policy toward the Association of Southeast Asian Nations (Washington, D.C.: The Brookings Institution, 1982), 22-3.