India-Pakistan Sanctions

By

Strobe Talbott
Deputy Secretary of State

[The following is the text of an on-the-record press briefing on India and Pakistan conducted by Secretary Talbott and other senior government officials at the Department of State in Washington DC, on June 18, 1998.]

DEPUTY SECRETARY TALBOTT: Good afternoon, everybody. A littler earlier this week, the principles, which is to say the Cabinet-level advisers to the President, met to make some decisions on how to implement President Clinton's decision with regard to the application of U.S. sanctions to India and Pakistan. . . . The purpose of this briefing is to inform you as best we can about the content and the direction and the purpose of those decisions and also to give you some additional background that may be helpful to you in following the story which, of course, is very much ongoing. This briefing is in the spirit of an update on an ongoing situation and an ongoing process with regard to U.S. policy. First let me just review a little bit the background and the context of the sanctions application. In the six weeks since first India and then Pakistan tested their nuclear weapons, the United States has been working with its principal allies and partners to build support in the international community for what might be called a firewall against any further developments that would undercut the global nonproliferation regime and jeopardize the security and stability and, indeed, the peace in the South Asian subcontinent.

The key international meetings, of course, were the gathering of the Permanent Five [P-5] Members of the Security Council of the United Nations in Geneva on June 4, the Security Council resolution on June 6, and the meeting in London on June 12 of the G-8 [Group of Eight countries, which includes Canada, Japan, Italy, France, Germany, Russia, the U.K., and the U.S.] as well as a number of other states that have themselves forsworn the acquisition of nuclear weapons. These various gatherings have served to demonstrate that the international community has closed ranks behind a number of steps that we all feel it is very important for India and Pakistan to take if they are going to move back from the brink that they have approached. I will summarize those very briefly:

- Stop all further tests; adhere to the Comprehensive Test Ban Treaty immediately and unconditionally;
- refrain from the manufacture of warheads and bombs or attaching those to ballistic missiles; refrain from the testing or deployment of missiles that would be capable of delivering nuclear weapons;
- halt the production of fissile material and participate constructively in negotiations on fissile material cutoff in Geneva;
- confirm policies not to export equipment, material or technology relevant to missiles or weapons of mass destruction enter into ironclad commitments in that regard;
- refrain from threatening military movements or violations across the borders and particularly the line of control or any other provocative acts or statements;
- and reestablish direct communications between India and Pakistan with a view to addressing the basic cause of the tensions between those countries, including the issue of Kashmir.

Now, if India and Pakistan, as we very much hope, decide that it is in each of their national interests to take these steps, then the world will be able to breath much easier and it will be far easier to return to normal relations between the United States and other countries on the one hand, and India and Pakistan. And that can be true across a very broad front. But if India and Pakistan are to enjoy all the benefits of what might be called good citizenship and full membership under the non-proliferation regime, especially with regard to their civilian nuclear programs, then they would have to join the NPT [Non-Proliferation Treaty] as non-nuclear weapon states; otherwise, India and Pakistan will continue to forfeit certain opportunities that are available to NPT signatories.

Now let me stress a point that I know we talked about that last time I came down here and met with you, and that is that it is not the intention of the United States or any of our international partners to isolate India or Pakistan. We're not trying to engage in punishment for its own sake and, in particular, we have no wish to see the peoples of either of these countries suffer as a result of their government's mistaken and dangerous decisions to test nuclear weapons.

On the contrary, our efforts, both those that were engaged in bilaterally with the two governments in question and multilaterally through the various organizations through which we're working, have been intended to persuade both of these governments to take the steps that have been outlined by the P-5 and the G-8 and the Security Council. Those steps will bring India and Pakistan into accord with broadly accepted international norms and it will also make it possible for us to broaden the dialogue that we have with both governments so that we can deal with the many other issues where we have concerns in common.

Against that backdrop, let me say a few introductory words about the decisions that have been taken with regard to sanctions. First, of course, sanctions are a matter of U.S. law and the Executive Branch of the government is sworn to uphold and apply those laws. But second, we see that sanctions, properly applied, can send a powerful signal—not only to India and Pakistan—but a powerful signal to the rest of the world: namely, the signal that the path down which India and Pakistan have started to move with these two tests is a dead end and no one else should follow down that path. We hope that sanctions will prove to be an instrument for inducing India and Pakistan to take steps, which I have already outlined, back in the right direction away from the brink.

Now as you all know, President Clinton announced very shortly after the tests that sanctions would be implemented correctly, firmly, and promptly. Some elements of the sanctions could be and therefore were implemented immediately, but there were several other areas that required scrutiny by legal counsel in this Department and the other departments represented here in the briefing today. There were delicate judgments that had to be made, especially where we lacked any kind of precedent as a guide. These deliberations on sanctions have proceeded on their own track as we've moved forward with other aspects of our bilateral and multilateral engagement on this issue.

This week's decision by the Principles Committee [Cabinet-level advisors to the President] set forth guidelines on how to apply sanctions in the following areas: number one, termination of U.S. foreign assistance programs; two, termination of foreign military sales and financing and the export of U.S. munitions list items: third, denial of credit and credit guarantees by United States Government entities; fourth, opposition of loans to India and Pakistan by the international financial institutions; fifth, a prohibition on U.S. bank loans and credits to the Indian and Pakistani Governments, and: sixth, a prohibition on specific dual-use export items.

Now I can anticipate that there are, of course, many questions on your mind and I want to give you a chance to ask those and us to answer them as quickly as possible, but there's one question that I can particularly anticipate and that is how will sanctions affect the people of India, and particularly those who have suffered poverty and hardship. In that regard, as a couple of my colleagues will elaborate, we're going to try very hard to avoid bringing hardship to the

peoples of India and Pakistan and, especially, the poor. Accordingly, our humanitarian assistance programs will continue.

I'm going to ask one colleague, Under Secretary of the Treasury David Lipton, to come up and say a few words about how sanctions are going to work with regard to U.S. participation in the international financial institutions. We also have here today from the Defense Department Elena Romanowski, Roger Majak from the Commerce Department, and Kelly Kammerer from the Agency for International Development. But first, if you'd just give a few minutes to David Lipton.

UNDER SECRETARY LIPTON: Let me just say a few words about the policies of the international financial institutions [IFIs]. The U.S. began working with the G-8 and other members of the international financial institutions starting just after the Indian tests, beginning at the Birmingham Summit, to try to reach a multilateral consensus on how the loans of IFIs should be treated. There is now a G-8 consensus on two key points: first, that loans to India and Pakistan in the category of basic human needs will go forward; and, second, that loans that are outside of that category—non-basic human needs—will be postponed. With the voting share that the G-8 countries have at the IFIs, we expect that consensus to be sustained. Just to give you some sense of the distinction, we consider basic human needs loans using criteria that the G-7 had used previously in 1990 in the case of China. We look at the specific needs served by individual loans and the beneficiaries involved. Generally speaking, it's the basic human needs of the population that we examine and we expect that loans in categories such as education, maternal and child health, water and sewage, low-income housing, rural development—loans in those categories will go forward. So far, there have been loans postponed. Roughly $1.1 billion worth of loans to India have been postponed. There are three loans totaling $54 million—a very small amount—that are on the schedule at the World Bank for Pakistan and we expect that those will be postponed. To give some sense of the broad . . . impact of this—of course it's very difficult for us to know what loans will come up because loans are being prepared as the year goes on—but using past experience as a guide, we can expect that in the case of India, roughly $2.5 billion a year of loans would be in the non-basic human needs category, and in the case of Pakistan about $1.5 billion worth. Let me stop there.

QUESTION: What sanctions could you have applied but chose not to apply? You had some discretionary authority, as I understand.

DEPUTY SECRETARY TALBOTT: Let me see if any of my colleagues can take a crack at that. I think basically, given our determination to use sanctions in a way that would be, and would be seen to be, firm, robust, a manifestation of how seriously we take this issue, there was a presumption that sanctions available to us will be applied. You've heard from David how we are attempting to thread the needle with regard to the one issue that I highlighted for you earlier, which is on the humanitarian side. I may call on others to step up here; in fact, as the questions go on, we may have you outnumbered by the end of the briefing.

QUESTION: Are IDA [International Development Association] loans from the World Bank in a different category or will they be the same?

UNDER SECRETARY LIPTON: This applies to all of the loans of the World Bank Group, whether concessional or non-concessional the business-oriented window, such as the IFC—the International Finance Corporation—and the guarantees of (inaudible). It applies to all loans of the Asian Development Bank, as well.

QUESTION: On the banking issue, I noticed that the wording here is exactly the wording from the law. After three weeks, do you have any other specifics about what U.S. banks will or won't be able to do? . . . Will they be able to hold Treasury Bonds as reserves? Will they have to close down in India? What's happening?

UNDER SECRETARY LIPTON: I can't really speak to the details of that only because the executive order is not finalized. We're working hard to finalize that and want to see it done as soon as possible. The Executive Order will clarify in a legal way for all concerned what the definitions are, discussing the coverage of banks, the question of what constitutes loans and credit—some of the issues that you've mentioned—the definition of government. But I can't discuss the details of that at this time. It's not resolved.

QUESTION: Can you tell us whether U.S. banks will be able to continue operating in India and Pakistan?

UNDER SECRETARY LIPTON: Yes. The law requires that banks cease to make loans and credits to the governments of India and Pakistan. The law does not cover banking operations with the private sectors of those countries, and so banks can continue to operate. The issues that will be clarified in the Executive Order are the definitional ones that I referred to.

QUESTION: Most of the companies in India have said that they will work with the Indian government with or without the World Bank or U.S. Government help—they will continue to provide credit or manufacture or whatever.

UNDER SECRETARY LIPTON: This Executive Order will cover U.S. banks. Of course, there are other nations' banks and other companies that are not banks, of course, that would not be covered by this, and the law—and the Executive Order pursuant to the law—have that limitation of coverage.

QUESTION: So just to be clear, American companies are still allowed to invest as they choose in India and Pakistan?

UNDER SECRETARY LIPTON: American companies will be allowed to invest. The coverage of the Executive Order will pertain to banks.

QUESTION: Okay. And also, the numbers you mentioned--$2.5 billion for India and $1.5 billion for Pakistan—are those the amount of loans you expect to come up or the amount of loans you expect to try to block?

UNDER SECRETARY LIPTON: Those are based on past history and not a specific roster of upcoming loans, estimates of the flow of loans that would be in the category "Non-Basic Human Needs" and hence would be postponed under this policy.

QUESTION: With respect to the timing on the Executive Orders—I know you said you were going to try to do it as soon as possible—can you give us some—a little bit better idea of how soon that might be?

UNDER SECRETARY LIPTON: I really don't have anything.

QUESTION: By the end of the month?

UNDER SECRETARY LIPTON: I think it'll be very soon.

QUESTION: A question on the military aspects for you, Mr. Talbott and your military expert.

DEPUTY SECRETARY TALBOTT: Elena Romanowski of the Defense Department.

QUESTION: Ms. Romanowski, the conditions here are not to deploy or test missiles or nuclear weapons, and my question is will India and Pakistan be allowed to continue to develop—not by testing—but continue to manufacture nuclear weapons and stockpile those weapons as long as they don't take those weapons and mate them to delivery systems?

DEPUTY ASSISTANT SECRETARY ROMANOWSKI: The question of allowing them—there's certainly not going to be—that is a decision that the Pakistani Government and the Indian Government are going to have to make, but we have tried very hard in the decisions

we've made according to the laws and our policies that would certainly prevent any and discourage any activity with us in that respect.

DEPUTY SECRETARY TALBOTT: That kind of activity would be contrary to the benchmarks established by the P-5, by the Security Council, by the G-8 and by (inaudible).

QUESTION: Any more production would be contrary?

DEPUTY SECRETARY TALBOTT: Yes.

QUESTION: The fact sheet says that the United States suspended delivery of previously approved defense articles and services to India. What were those?

DEPUTY ASSISTANT SECRETARY ROMANOWSKI: I would have to get back to you on the actual specifics, but there were not that many of them actually.

QUESTION: IMET training?

DEPUTY ASSISTANT SECRETARY ROMANOWSKI: Well, yes, all of that that's covered under the Glenn Amendment which is IMET training, foreign military sales, finance programs and commercial sales of military equipment, all of that has to be terminated and is terminated.

QUESTION: I have a question on the—what was said earlier about humanitarian. Isn't housing humanitarian? You support people—housing, education—all this really affects human beings. So what is—

UNDER SECRETARY LIPTON: I was listing in the category of loans that might well be considered basic human needs: education, health, low-income housing, rural development, water and sewage treatment. There may well be others. We will look at every loan that comes up to examine who the beneficiaries are likely to be served by the loan. And we've done that already and made that distinction in (inaudible).

QUESTION: A question for you, please. Yesterday the Ambassador from India had a session with some of us and he said, in effect, that he was expecting, for instance, OPIC loans and Export-Import Bank actions to result in the fact that India will not be able to buy, let's say, generators from GE. He said they factored that in and they can go to European Union countries and get the same thing, pay a bit more in interest maybe and in insurance rates, but they're prepared to take that cost. Is he accurate? Are the EU countries prepared to step in where the United States will not sell?

DEPUTY SECRETARY TALBOTT: Well, as a general proposition—then I'm going to ask Roger Majak of the Commerce Department to tell you a little bit more about our attempt to thread the needle in another area—and that is not do avoidable or undue harm to American commercial and business interests while pursuing our overall policy here.

We would hope that our allies and partners in this venture would resist the temptation to try to exploit for near-term commercial advantage opportunities they might see as arising here because, after all, this is an issue that goes to the core interests of literally every country on the face of the earth, and particularly those major industrialized countries that are in a position to benefit commercially also have political responsibilities and, I might add, if things go very badly with regard to the nonproliferation regime, particular vulnerabilities. So we would hope that they would try to strike a balance from the same overall vantage point that we have, which we've described for you here. Roger, do you want to say anything more on this?

ASSISTANT SECRETARY MAJAK: Well, let me just say that with respect to items that are controlled by the United States for nuclear and missile purposes, those items are controlled under international regimes—the Nuclear Suppliers Group and the Missile Technology Control

Group—and we would expect and there has been historically strong cooperation through those organizations with these kinds of controls. In that area, by the way, we will be imposing a policy of denial for those items to all end users in India, both government and private. And with respect to government and private entities which we determine to be involved directly in nuclear and missile programs, we will deny all items, including items that currently do not come under any kind of export control. So the controls there constitute a virtual embargo.

At the same time, other areas of control—that is control of items not in the nuclear or missile category but still of concern to us for a variety of national security purposes—and those items cover many of the items that American businesses may need for their operations in India. Those will be handled on a case-by-case basis. There will be a strong presumption of denial, particularly for transactions involving any entity in India that might be engaged in military activities or in business with the military. In short, we will have a broad area of case-by-case handling of these controls which will enable us to respond not only to the actions and behaviors of the Indian Government, but also to those of our friends and trading partners and trading competitors.

QUESTION: Did you get the feeling in your sessions with the G-8 that the other seven members would go along with a US denial, for example?

ASSISTANT SECRETARY MAJAK: I have not been directly involved in the G-8 discussions. Maybe you would want to comment on that further.

DEPUTY SECRETARY TALBOTT: Some more than others. . . . The United States has been out in front on this whole issue of using sanctions to pursue a set of objectives, about which there is absolutely no disagreement within the international community. We're out in front, but we are not by any means alone. As I think all of you know, the Japanese were very quick to bring their own considerable leverage to bear in the first instance on India, and then, after Pakistan tested, there as well. The Canadians, some of the Nordic countries, the EU as such—but yes, we are out in front on this. We think that's exactly the right place to be and we think that there is sufficient consensus to make measures of this kind effective not only on a unilateral basis, but on a multilateral basis, as well.

QUESTION: Are these people going to be affected from the sanctions? There are so many people from India and Pakistan in computer training and in many other industries, especially in the computer field.

ASSISTANT SECRETARY MAJAK: As we understand it, most of the computer operations conducted in India by or with American companies fall into a category that is not currently controlled for national security purposes. They may be not controlled at all or they may be subject to a licensing exception and, at the moment at least, that will not change.

QUESTION: Mr. Majak, this case by case approach, this will apply to both government and non-government entities regardless and then you'll just examine what they do and therefore just make a decision?

ASSISTANT SECRETARY MAJAK: For items other than missile or nuclear related items, yes.

QUESTION: And are those details worked out right now or is there still work remaining to be done?

ASSISTANT SECRETARY MAJAK: There's still work remaining to be done. We expect to distinguish between particularly private entities that are involved in nuclear or missile activities as opposed to those who are not. We anticipate the need to probably publish a list. We, as you know, already have an entities list of firms in India for export control purposes. We would presumably want to expand on that; in fact, meetings and discussions will begin on that subject as early as tomorrow.

QUESTION: At the bottom of the first page, you talk about halting new commitments of USG credits and credit guarantees from OPIC, CCC, those kinds of institutions. Does this mean that commitments that have already been made will go through, go forward, but that any new commitments that might come up now will not go through?

UNDER SECRETARY LIPTON: Yes, that's correct. I'm not familiar with all the details of it, but my understanding is that there will not be any new approvals—new commitments made by either institution—but where there are commitments and undispersed portions, that those will continue to go forward.

QUESTION: I want to ask a question about . . . the geopolitics of this whole issue now that all of this has been done. Help me understand why—where we go from the fact that we now seem to be in Asia lined up with the communist proliferator against the democratic non-proliferator—as between India and China?

DEPUTY SECRETARY TALBOTT: Run that past me again, Tom, so all of us can savor the complexity of that question.

QUESTION: Through the P-5 and other arrangements that you guys have so eagerly solicited since this happened—right—we've put ourselves in Asia in the camp or at the side of the communist country with a long, unhappy record of proliferation—namely China—against a democratic country with no record of proliferation—namely India—and China, in fact, is one of the very sources of India's grief that caused them to do this in the first place. Now what should we think about that?

DEPUTY SECRETARY TALBOTT: Okay. I'm glad you repeated it and filled in the blank. I thought I got the drift of your question, but didn't want to fill in the blank myself. First of all, as we've had occasion to talk about before in several settings, the United States—and I think in this respect I'm speaking not just for the government and the Executive Branch but for many Americans—has a very, very high regard for India. India has been a friend to the United States for a lot longer than other states in the region, including very large states in the region. India has been a democracy since it gained independence half a century ago. Moreover, it has been a secular and multi-faith democracy, which is yet another reason why Americans look to India with admiration.

We want to see India prosper and thrive and attain its aspirations for itself in the next century. And one of the reasons for the intensity of President Clinton's feelings, and Secretary Albright's feelings, in response to India's having tested—and I might underscore, tested first here—is because it was particularly disappointing, and I would say even dismaying, coming from a country which otherwise seemed to be moving in the right direction in so many ways.

So in no sense is our policy intended to be directed against India or anti-Indian. It is very much against one set of actions that India has taken, which we are convinced is against India's own interest including, to pick up on your word, Tom, its geopolitical interest. Now, how to balance that with China. Our relations with China have come a long way in the last couple of decades, and I think as a direct result of a consistent policy of American engagement with China. Chinese activities and policy have also evolved in the right direction. As your question suggests, it wasn't that long ago that China was very much part of the problem with regard to proliferation in general and with regard to proliferation to South Asia in particular. We have been working with the Chinese on that. We are working with them now. President Clinton will be working with them on that issue when he goes to China very shortly.

So I don't see any inconsistency here whatsoever. If we do not believe that India is safer as a result of having gone down this path; in fact, quite the contrary, and that's one reason we bring as much conviction as we do not only to what we are saying to them through sanctions and through statements like the P-5 but also through the bilateral channels that we have with them.

QUESTION: This U.S. policy, I think, has been fairly clear and consistent for at least a month since the tests have taken place. There was a high level Indian delegation that was here, I think, late last week and there has been obviously many other conversations. Do you have a sense that India is any closer to signing the CTBT [Comprehensive Test Ban Treaty] without delay as we have requested, or that these sanctions are having this kind of an effect?

DEPUTY SECRETARY TALBOTT: Well, at Secretary Albright's request, I conducted very intense discussions with Mr. Jaswant Singh, a close adviser and colleague of Prime Minister Vajpayee when Mr. Jaswant Singh was here in Washington last Friday. Bruce Riedel, the senior director of the National Security Council who is here this afternoon, joined me in those discussions. I would not want to characterize the substance of those discussions except to say that Bruce and I unquestionably came away from the discussion with an even better understanding of the Indian Government's perspective on this issue. We already had a reasonably good under-standing, not least because Ambassador Celeste had returned to New Delhi and we have been, of course, in close touch with him and he had been talking to people in the Indian leadership.

We hope to have a similar dialogue with the Pakistani leadership. We have been making full use of the very fine Pakistani Ambassador here in Washington, Ambassador Khokar. Tom Simons is one of our best Foreign Service Officers representing us in Islamabad and there is a chance that in the weeks to come we will have additional channels as well. I believe that, returning to your question about Mr. Jaswant Singh, that he gave us a fair hearing on the views that we put forward to him as forcefully and clearly as we could. But this is an ongoing process, ladies and gentlemen, and it's an ongoing process in another sense, which I want to touch on because I think I'm getting eye signals from Jim that we've got to break it up here in a minute. And that is in the dialogue that needs to take place between the Executive Branch and the Congress. Sanctions, as I said at the very outset, are a matter of U.S. law, which we are sworn to uphold and apply.

Ever since Secretary Albright went up to meet with a large portion of the Senate last Wednesday, we have been involved in a variety of settings and the closest possible consultations with the Congress so that we can work with them to make sure that sanctions of the kind that we are applying here, primarily the Glenn sanctions but also, of course, Pressler and Symington which have particular bite on Pakistan, that these laws of the land remain instruments for advancing the national interest. And as Secretary Albright has said, sanctions have not always, including in the current episode, fit that description: they have sometimes been more of a sledgehammer than a scalpel.

We in the Executive Branch feel very strongly that there needs to be additional flexibility, additional discretion, additional waiver authority, in order to use these sanctions to the ends that the framers of the laws themselves intended. So that is going to be yet another front on which there is going to be a great deal of activity and consultation, and I hope collective wisdom as we move forward to meet this challenge. But I think we should probably end it on that note.

QUESTION: Just really quick to pick up on the remarks that you borrowed from the Secretary in her testimony this week about a surgical approach versus a sledgehammer approach to sanctions, would you say that what you presented to us today is more of a surgical approach to India and Pakistan?

DEPUTY SECRETARY TALBOTT: Yes.

By

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[The following is a reprint of a statement by Secretary Roth before the Subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relations Committee in Washington DC, on May 7, 1998.]

Mr. Chairman [Sen. Craig Thomas, R. WY], thank you for the invitation to speak before the Subcommittee on East Asian and Pacific Affairs on U.S. security policy toward East Asia and the Pacific. . . . I welcome the opportunity for a productive exchange of views on this important topic with the members of the subcommittee.

Peace and stability in East Asia and the Pacific is a fundamental prerequisite for U.S. security. Nearly one-half the world's people live in countries bordering the Asia Pacific region, and over half of all economic activity in the world is conducted there. Four of the world's major powers rub shoulders in northeast Asia, while some of the most strategically important waterways on the globe flow through southeast Asia. The U.S. itself is as much a Pacific nation as an Atlantic one, with the states of Alaska, California, Oregon and Washington bordering on the Pacific ocean, and Hawaii surrounded by it. American citizens in Guam, American Samoa, and the Commonwealth of the Northern Marianas live closer to Asian capitals than to our own; vast numbers of Americans work in the Asia-Pacific region; and an increasingly large number of Americans trace their ancestry back to the Pacific Rim.

For these and many other reasons, the U.S. has remained committed to the security of the Asia-Pacific region and has spent its resources and blood fulfilling that commitment. We have fought against aggression in Asia in three major wars this century. Now, in an effort to preserve stability and deter future conflicts, we maintain a sizable military presence in the region. Today, our roughly 100,000 forward-deployed forces, and our network of mutual security alliances with Australia, Japan, the Philippines, the Republic of Korea, and Thailand remain the bedrock of our regional security policy. We have reaffirmed and solidified all of these key security alliances in recent years, while working to foster cooperative relationships with other countries in the region.

Indeed, contact between the United States services and the armed forces of both treaty allies, and other friendly nations, is a key component of our military strategy in Asia. Military-to-military contacts allow us to better understand our military counterparts throughout the region, and provide a mechanism through which we can work to constructively engage new generations of military leaders. The International Military Education and Training (IMET) program is extremely important in this regard. By exposing young military leaders to American values, and working to foster respect for civilian authority and military professionalism, IMET provides a window through which we can positively influence the development of foreign military institutions. While such engagement can not be expected to guarantee a perfect human rights record on the part of any military force, it, nonetheless, represents an important opportunity to encourage adherence to the rule of law and respect for basic human rights. I firmly believe that these contacts work to advance our fundamental security goals in the region.

Mr. Chairman, the remainder of my testimony this afternoon will be divided into two parts. First, I will give an overview of our key security alliances and relationships in the region.

Second. I will address four specific challenges confronting U.S. security policy in Asia and the Pacific.

Japan

The U.S.-Japan security treaty remains the foundation of U.S. engagement in Asia. The historic revision last year of the Cold War era Defense Guidelines, and Secretary Albright's signing last week of the amendment to the Acquisition and Cross Servicing Agreement (ACSA), mean that the alliance is stronger, deeper, and broader than at any time in recent history. Japan has worked closely with the United States to address many regional issues, including Cambodia, North Korea, Bosnia, and Afghanistan. Despite the ongoing stresses and strains in the economic dimension of our relationship, it is important to recognize the key role that the US-Japan partnership continues to play in maintaining regional peace and stability.

With respect to specific US-Japan bilateral security issues, we have made progress in implementing some of the recommendations contained in the 1996 Final Report of the Special Action Committee on Okinawa (SACO). Still, the key issue of the relocation of Futenma Marine Corps Air Station remains unresolved. We agree with the Japanese Government that a sea-based facility offers the best alternative to the existing facility at Futenma, and are continuing to consult with the Japanese on this issue. . . .

South Korea

Our alliance with the ROK remains a crucial component of U.S. security policy in the region. The 37,000 U.S. forces in South Korea, in conjunction with a close, cooperative relationship with our South Korean allies, have been the basic foundation of peace on the Korean Peninsula for the better part of the past 50 years. And, as my recent trip to South Korea with Secretary Albright has demonstrated, our friendship with the ROK has never been stronger. This was Secretary Albright's first trip to the ROK following the election and inauguration of President Kim Dae-jung, and, thus, was an opportunity for her to get to know the new administration. I am pleased to report that the Secretary established an excellent rapport with both President Kim and Foreign Minister Park, and conducted extensive, in-depth discussions on the full range of issues. It was clear from these discussions that the U.S. and South Korea see eye-to-eye on North Korea policy, with Foreign Minister Park pledging his country's commitment to the Four Party peace process, and Secretary Albright wholeheartedly endorsing North-South dialogue as an important means of reducing tensions on the peninsula. Foreign Minister Park further reaffirmed South Korea's support for the agreed framework and for KEDO [Korean Peninsula Energy Development Organization], and reviewed efforts to coordinate a humanitarian response to the food needs of the North.

Australia, The Philippines and Thailand

Our relationships with our three other treaty allies in the Asia-Pacific region are similarly in good stead. We reaffirmed our alliance with Australia in 1996, and enjoy cooperative relations with the Australians across a broad spectrum of bilateral, regional, and multilateral issues. Australia is a staunch supporter of a strong U.S. presence in the region, and works closely with us in APEC [Asia-Pacific Economic Cooperation forum], KEDO [Korean Peninsula Energy Development Organization], and the ARF [Association of Southeast Asian Nations (ASEAN) Regional Forum].

The Philippines has been a close friend since its independence in 1946, and continues to be a valued alliance partner. Earlier this year we concluded a Visiting Forces Agreement with the Philippines, which was an important step in strengthening the security relationship between our two countries in the post-bases era. The agreement, once approved by the Philippine Senate,

establishes the foundation for a resumption of joint military exercises and U.S. ship visits to Philippine ports, and, thus, provides a framework for promoting increased defense cooperation between our two countries.

Thailand is another old friend, and one that has supported our efforts in the region from the Korean War up through the present day. We maintain close military-to-military relations with the Thai, and enjoy access, as needed, to strategic air bases. The Thai have been critical partners in our regional counternarcotics efforts, as well as in efforts as diverse as environmental protection and intellectual property rights enforcement.

Regional Security Architecture

While our forward-deployed forces and our network of mutual security alliances are the cornerstone of our security policy in Asia, President Clinton has also aggressively supported efforts to foster regional peace and security through multilateral mechanisms. Over a relatively short period of time, multilateral organizations have become an important feature of the regional security architecture, as regional for a, including APEC and the ARF, have taken root and flourished. President Clinton's commitment to work with and through these regional fora has given substance to his notion of building a Pacific Community, and will likely be one of the most important and enduring foreign policy innovations of his Administration.

APEC was established in 1989 to promote trade and investment liberalization, and to enhance overall economic cooperation in the region. Insofar as this is a hearing on regional security policy, not economic policy, I will not focus on the importance of APEC, per se. Still, it is worth noting that economic discussion builds confidence and eases tensions, and in that way, APEC contributes to regional security.

The most important multilateral forum for the purposes of our discussion today is the ASEAN Regional Forum (ARF). In 1993, the U.S. joined ASEAN in creating the ARF, the first broadly based consultative body in Asia concerned exclusively with security issues. The regular, institutionalized meetings of the ARF have provided a mechanism through which members can come together to resolve issues before they lead to conflict, and in so doing they have encouraged members to cultivate habits of consultation and cooperation.

Although only in its fifth year, the ARF has already made contributions toward promoting dialogue, encouraging transparency, expanding cooperation, and defusing tensions. Most significant in this regard was perhaps the 1995 ARF meeting held in Brunei. At that meeting, which was held on the heels of the Mischief Reef incident in which China and the Philippines clashed over disputed territorial claims in the South China Sea, then Foreign Minister Qian Qichen responded to ASEAN concerns by declaring that the PRC would pursue a solution to the dispute consistent with the UN Convention on the Law of the Sea. While this declaration did not resolve the conflicting claims—and in fact I will say more about these unresolved disputes later in my testimony—it was nonetheless a turning point in the history of the conflict. The ARF provides a critical mechanism for engaging China and integrating China into the Asia-Pacific region, and thus makes an important contribution to regional and, arguably, global security.

Still, we have a long way to go if we are to see the ARF fulfill its true potential as a regional forum. Engagement in the ARF has focused primarily on confidence-building measures (CBMs), and in this regard, it is worth noting that the Chinese, once reluctant and passive members of the ARF, have made great strides in their efforts to proactively propose CBMs. We hope, however, that the forum will be able to move beyond CBMs toward preventive diplomacy—a proposal that some parties have heretofore resisted. We nonetheless plan to raise the topic at the upcoming ARF meeting in Manila, and hope to make progress in moving the forum forward.

Mr. Chairman. I'd like now to discuss what I see as the four most important challenges to U.S. security policy in the region.

Korea

The U.S. continues to confront a serious military threat on the Korean Peninsula. Around 1.8 million men are under arms on the peninsula, making it one of the most dangerous places on earth. The Demilitarized Zone, moreover, is not truly demilitarized, as all too frequent incidents habitually remind us. Deterrence, therefore, remains our top priority. Almost 37,000 U.S. troops, and a rock-solid alliance with the Republic of Korea, have successfully deterred North Korean aggression for almost half a century and will continue to be the linchpin of our deterrence strategy.

At the same time, we are working hand-in-hand with the ROK through diplomatic channels to diminish the threat of conflict; first, by reducing tensions through confidence-building measures, and ultimately by working towards the peaceful reunification of the peninsula. A key component of these diplomatic efforts is North-South dialogue, for peace must be achieved primarily by the two parties themselves. The U.S. has consistently supported meaningful, direct contacts between the ROK and the DPRK, and, thus, we are encouraged by the recent reinitiation of bilateral talks in Beijing. We also support the overtures that President Kim Dae-jung has unilaterally made toward the DPRK, including an offer of summit talks and the relaxation of controls on visits to, and trade with, the North.

Complementing bilateral ROK-DPRK dialogue is the Four Party peace process. I have led the U.S. delegations in two plenary sessions of the Four Party peace talks in Geneva, and though progress has been slow, I am hopeful that talks will resume later this year, and that the process will move forward.

A second security issue is the food crisis in the north, which adds an element of uncertainty into an already complicated picture. We simply don't know what a desperate, starving North Korea might do, and in that way the crisis is as much a security threat as a humanitarian one. Aware that deterrence might not hold under these circumstances, and concerned by the suffering of the North Korean people, the U.S. has strongly supported the World Food Program's (WFP's) appeal for 658,000 tons of emergency food assistance. This year alone, the U.S. has pledged 200,000 tons to the WFP, while others, most notably, China, the ROK, and the EU (European Union), have all made significant contributions of food. (In the case of China and the EU, these contributions are not in direct response to the WFP appeal.) We hope, in this context, that Japan will again make a significant contribution, and rejoin the group of nations working to stem the humanitarian crisis.

A third security issue in regard to Korea—nuclear proliferation—is an area in which we have had considerable success. Only a few years ago, we faced the grave threat of an accelerated North Korean nuclear program, jeopardizing both the security of U.S. forces on the peninsula and that of our regional allies. Today, thanks to the agreed framework and the Korean Peninsula Energy Development Organization (KEDO), the North Korean nuclear program is frozen, canning of spent fuel is almost completed, and construction of light water reactors has begun.

But, funding issues remain key, both for the light water reactors and for heavy fuel oil. In the face of serious economic hardship, South Korea has publicly confirmed its intention to fund 70% of the overall cost of light water reaction construction. Japan, despite its own economic difficulties, has also pledged a significant contribution to the project. This is an extraordinary example of burden-sharing in the post-Cold War era, and our allies should be commended for their willingness to work with us to ensure the situation remain diffused.

As for heavy fuel oil, the U.S. agreed to take the lead in arranging financing, and we are hard at work trying to fulfill that commitment. The problem, as the members of this subcommittee know, is that by the end of 1997 KEDO had accumulated a $47 million debt from previous funding shortfalls. We appreciate the extra $10 million that Congress appropriated, contingent upon coming up with the $37 million needed to eliminate this debt from other sources, and are actively seeking to raise these funds.

China

If the Korean Peninsula is the most immediately dangerous place in which the U.S. is engaged in the Asia-Pacific, China is clearly the most complex and challenging. Demography alone makes China an important player in the world. But China's remarkable economic achievements, increasing diplomatic prominence, and growing military strength mean that China in the 21st century will profoundly shape the very nature of our world. As the members of this subcommittee know, the Clinton Administration's strategy of comprehensive engagement toward China is based on the premise that it is in our interest to work toward the emergence of China as a major power that is stable, open, and non-aggressive: that embraces political pluralism and international rules of conduct; and, that works with us to build a secure international order as well as peace and stability in the Asia-Pacific region. We have made significant, if uneven, progress with the Chinese in all of these areas: and I am optimistic that in the wake of Secretary Albright's trip, and in the run-up to the summit, we will continue to build on the progress achieved in Washington last October, when we agreed with the PRC to move toward a "constructive strategic partnership."

In terms of regional security, engagement with China is paying dividends. Peace in Korea is as fundamental a strategic interest for China as it is for the United States, and the Chinese have played a critical role in working to defuse tensions on the peninsula. China worked with the U.S. to bring North Korea to the negotiating table, and now sits with us at the Four Party talks in the common pursuit of a permanent peace. China chaired the most recent North-South negotiation, which we enthusiastically support, and is aggressively addressing the humanitarian crisis in North Korea through significant, ongoing food and fuel donations.

In a more broad-based sense, China has made great strides in its willingness to engage in regional security dialogues. Whereas, four years ago China was reluctant to deal with its neighbors on a multilateral basis, today China is actively engaged in the ARF, proactively proposing confidence-building measures, and chairing key sessions. Indeed, as mentioned earlier, Beijing publicly announced at the 1995 ARF its intention to ratify the Law of the Sea convention, and committed itself to the peaceful resolution of the South China Sea territorial disputes.

On non-proliferation issues, prolonged engagement by multiple administrations has similarly yielded tangible results. The Chinese have come to recognize that the proliferation of weapons of mass destruction is not in their own interests and have signed on to a number of non-proliferation regimes. China has joined us in the BWC (Biological Weapons Convention), the NPT (Nonproliferation Treaty), the CTBT (Comprehensive Test Ban Treaty), and the CWC (the Chemical Weapons Convention). China has committed to phase out nuclear cooperation with Iran, and to refrain from assisting unsafeguarded nuclear facilities anywhere. It has implemented nationwide nuclear export controls, is in the process of promulgating dual-use nuclear controls, and has joined the Zangger NPT exporters' committee. China no longer exports complete ground-to-ground missiles controlled by the Missile Technology Control Regime (MTCR). Clearly, there has been a positive evolution of China's attitudes and actions vis-a-vis non-proliferation norms, particularly in the nuclear area.

Still, we recognize that China remains a major producer of nuclear, chemical, and missile-related equipment, materials, and technology. We continue to have concerns about reports of missile equipment and technology transfer to Iran and Pakistan, and we are troubled by the ability of Iran's chemical weapons program to obtain assistance from Chinese entities. We are urging the Chinese to update and strengthen their 1994 commitment to the MTCR guidelines and parameters, to expand the scope of their chemical export controls, and to become increasingly integrated into international nonproliferation regimes.

No analysis of security issues involving China would be complete without a discussion of Taiwan. As we saw in March 1996, cross-Strait tensions can rapidly and dangerously escalate. U.S. policy on PRC-Taiwan relations remains unchanged: the United States continues to support peaceful resolution of the Taiwan question, and believes that cross-Strait dialogue provides the most promising mechanism through which to defuse tensions. In that regard, we are encouraged by signs of a renewed willingness on both sides of the Taiwan Strait to resume their dialogue. Last month, representatives from the PRC's ARATS and Taiwan's SEF, the two "unofficial" organizations which carry out direct contacts between Beijing and Taipei, met in Beijing for two days of talks, marking the first real step toward the resumption of formal cross-Strait dialogue since Beijing suspended the talks in June 1995.

We welcome this new development and firmly believe that improvement in cross-Strait relations will promote peace and stability in the entire region. Any deterioration in Beijing-Taipei relations along the lines of what took place in 1995-1996 would be costly and counterproductive for both sides, and dangerous to the stability of the entire region.

Maritime Territorial Disputes

The third major security issue—and one that doesn't receive enough attention—is the issue of unresolved territorial disputes in the East and South China Seas. In the East China Sea, Korea and Japan both lay claim to Tokdo/Takeshima Island, while Japan, the PRC, and Taiwan each lay claim to the Senkaku/Diaoyutai Islands. Recent tensions over these conflicting claims have led to an outpouring of nationalistic emotion on all sides, which could preface a future clash among our friends and allies if matters are left unresolved.

The disputes in the South China Sea are extraordinarily complex. Numerous islands and reefs, including the Paracel Islands and the Spratley Islands, are the subject of overlapping claims among six disputants—China, Vietnam, Taiwan, the Philippines, Malaysia and Brunei. As the clash between the PRC and the Philippines over Mischief Reef in 1995 clearly demonstrated, these disputes remain a dangerous source of potential conflict in the region. Although the Mischief Reef incident ultimately led to China's commitment to abide by the UN Convention on the Law of the Sea, tensions over conflicting claims persist, and no progress has been achieved toward a diplomatic resolution of the numerous disputed claims. Thus, future conflicts could erupt in the absence of preventive measures to promote resolution to these disputes. In fact, there have been several periods of heightened tensions in these waters in the past six months alone, including Vietnamese patrol boats escorting Chinese research vessels out of disputed waters off the coast of southern Vietnam, and Vietnamese troops garrisoned on Pidgeon/Tenant Reef opening fire on a nearby Filipino fishing vessel.

The United States has a clear and abiding interest in a South China Sea free from such conflicts. The South China Sea is a strategic passageway through which oil and other commercial resources flow from the Middle East and southeast Asia to Japan, Korea and China. It is also an operating area for the U.S. Navy and Air Force, and a transit point between military bases in the Pacific and those in the Indian Ocean/Persian Gulf. Freedoms of navigation and open sea lines of communication in these waters, thus, are vital interests for the United States.

While taking no position on the legal merits of individual claims to sovereignty over the various islands and waters, the United States has consistently supported regional efforts to address the disputes, such as the annual Indonesian-sponsored workshops on managing potential conflict in the South China Sea. Several different conceptual approaches for resolution have been suggested by experts. One approach is to negotiate an agreement that resolves the status of each of the claims. Alternatively, if this is not achievable in the short-term, a different approach would involve shelving sovereignty claims in favor of joint resource development. No country in the region currently possesses the military capacity to impose its claims, and no claimant has yet discovered commercially viable quantities of oil or natural gas. Thus, if the political will to reach a negotiated settlement can be generated, a window of opportunity may exist in which to find a "win-win" solution.

Security Implications of the Asian Financial Crisis

The financial crisis that has rocked the region over the course of the past ten months has broad ramifications for U.S. security policy. The U.S. presence in Asia over the past half-century provided a stable foundation on which the nations of the region achieved unprecedented economic progress. But just as peace and stability enabled economic progress, so too did economic progress reinforce peace and stability. The two, in fact, are intimately linked. And, thus, in the face of an economic crisis which is profoundly affecting the region, the progress that has been made on the security front can no longer be taken for granted.

There is both an external and an internal dimension to the security ramifications of the financial crisis. On the external front, one concern is that North Korea might miscalculate that the South's current economic difficulties make it vulnerable to military action. To address this concern, the United States and the Republic of Korea have taken steps to strengthen deterrence, including focusing on these issues at the 29th Security Consultative Meeting-Military Consultative Meeting in Washington last December.

A second external concern is that the economic hardship confronting Thailand, Indonesia, and to a lesser extent Malaysia and the Philippines, could represent a setback to the progress that ASEAN has made in establishing itself as an effective regional forum. ASEAN has credibly evolved into a regional bloc capable of advocating southeast Asian interests with other key regional players, including China and Japan. In recent years, ASEAN has begun to play a significant geopolitical role, and in so doing has emerged as a major force for stability in the region. Its recent record on the geopolitical front is impressive, including leadership on the Paris Peace Accords, in moderating tensions in the South China Sea, in the formation of APEC and the ARF, and in the effort to resolve the crisis in Cambodia. Should key ASEAN members turn inward as they focus on their respective economic problems, or should inter-ASEAN tensions over financial crisis-inspired problems such as refugees and/or economic migrants rise, regional stability could suffer from erosion of ASEAN leadership.

On the internal front is the prospect of domestic instability in countries afflicted by the crisis. Most worrisome in this regard is Indonesia, where social tensions have clearly been on the rise. The vast, ethnically diverse nation of Indonesia is of broad strategic significance for the United States. It is the world's fourth most populous nation, and boasts the world's largest Muslim population; it contains over 13,000 islands which span important sea lanes and airways; and it possesses vast natural resources, including oil and natural gas. Moreover, whereas the Indonesia of yesteryear championed an assertive nationalism that unnerved its smaller neighbors, the Indonesia of recent decades has played a crucial role in fostering regional stability.

As the largest member of ASEAN, and a founder of the ARF, Indonesia has provided key leadership on a vast array of issues, from the search for a solution to the continuing crisis in Cambodia, to the pursuit of resolution to territorial disputes in the South China Sea. Indonesia

has also become increasingly active in world affairs, contributing to peacekeeping efforts in Bosnia and Angola, supporting non-proliferation efforts such as the CTBT, and joining the quest for stability on the Korean Peninsula by becoming a member of KEDO. Finally, Indonesia has been a key partner in APEC, working closely with the U.S. to foster trade liberalization. Should Indonesia become unstable and turn inward, progress on a whole host of issues would suffer, and ASEAN's effectiveness as a moderate regional forum would be severely undermined.

To avert this undesirable outcome, we have worked closely with Indonesia, the IMF, Japan, and other donor countries to support policy reforms needed for Indonesia's economic recovery. Steadfast implementation of reforms remains the key. In the case of Indonesia, we have pledged over $50 million in food and medical supplies for a humanitarian aid package, and are negotiating up to $1 billion in export-import insurance for short-term trade credits.

Even as we have made these efforts on the economic front, we have continued to attach priority to human rights issues. We are deeply concerned by the rising social tensions in Indonesia, and are closely monitoring the escalation of student protests, as well as the disappearance of activists. We have repeatedly raised our concerns at high levels within the Indonesian Government. I personally have raised the issue of disappearances up to the ministerial level in Jakarta, and both Assistant Secretary Shattuck and I have met with the Indonesian ambassador in Washington to express our concerns. We have called on the Indonesian Government to conduct a full investigation into the disappearances of activists and the allegations of torture, and have made clear our expectation that peaceful demonstrations will be allowed to continue. I'm pleased to report that there has been some progress, including the reappearance of several prominent "disappeared" activists and Indonesian Government approval for ICRC visits to [the northwestern Indonesian state of] Aceh [where political unrest challenges government authority].

Mr. Chairman, the past 12 months have brought many challenges to the Asia-Pacific region, including the Asian financial crisis, factional fighting in Cambodia, the worsening of the food crisis in North Korea, and most recently, social unrest in Indonesia. At the same time, the past year has also brought constructive change to Asia, including the smooth transition into the post-Deng Xiaoping era in China: the revision of the US-Japan defense guidelines; the commitment to a "constructive strategic partnership" between the U.S. and China: and the triumphs of the democratic process in South Korea. Our experience in the region over the past four decades has taught us that the best way for us to promote democratic principles, encourage economic growth, deter regional aggression, and secure our own maritime interests, is to be an active presence in the Asia-Pacific region.

During this critical period of transition in Asia, our engagement in the region has never been more important. It will help to determine the kind of region that will emerge from these transitions, and will assure our ability to mobilize support for issues of importance to the United States in the future. I thank the Congress for its support of our engagement in Asia-Pacific, and for this opportunity to lay out the Administration's security policy in the region.