

U.S. and East Asia-Pacific Relations The Challenges Ahead

By

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It occurs to me that this is an especially appropriate place to be on our nation's birthday. For one thing, Ambassador [to Japan, Michael J.] Mansfield is an outstanding--almost legendary--public servant and patriot of this great country, and I'm very pleased to appear at this Pacific Affairs Center which bears his name. For another thing, Montana represents as well as any state that spirit of pioneer drive and determination which made this nation great--indeed, which broadened this nation to the full extent of its continental boundaries. Furthermore, I detect a significant parallel between the pioneering spirit of our American West and that sense of entrepreneurship and dynamism which is rapidly transforming the East Asian and Pacific region into a leading center of global commerce. That, after all, is the area of the world with which we are concerned here today. It is an alluring region of unlimited potential striving to meet the challenges of modernization, much the same as Montana and her sister states of the West 100 years ago.

Our American pioneers viewed that migratory movement westward as a "manifest destiny" of the 19th century. In somewhat the same way today, there is broad recognition of a steady shifting of the locus of economic and political dynamism toward the Asian-Pacific arena in this age. Indeed, Ambassador Mansfield has been something of a prophet in this respect, being among the first to refer to the 21st century as "the century of the Pacific." We owe him, and others of vision like him, a debt of gratitude for helping us reorient our thinking and planning toward the evolving realities of our time.

But while the nations of East Asia and the Pacific enjoy vast potential for growth and accomplishment, they also face many serious challenges ahead. After all, prosperity and stability--comfort and tranquility--do not come easily. The early Montana settlers understood that hard work, determination, and cooperation eventually "pay off." In the modern age, economic success, security, and social stability still have to be won and carefully cultivated; they are not guaranteed to anyone. A century ago, it was the will to succeed, a sense of fair play and teamwork, the spirit of free enterprise, and a respect for individual rights and capabilities that turned the rugged western frontier into a productive regional community. These same virtues are now enabling the Asian-Pacific region where the enterprising developing and industrializing states are on the leading edge of phenomenal achievements.

Most of the East Asian and Pacific nations already have met the challenges of postwar reconstruction and reconciliation. Many of them are now meeting the tasks of modernization and industrialization. One of them, Japan, already has achieved a global power status while others--like the Republic of Korea, Australia, and the ASEAN grouping [Association of South East Asian

Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, and Brunei]--are assuming regional leadership roles and providing models of development for their neighbors. Now they confront the challenges of success: how to sustain it; how to protect it; how to manage its social and political consequences. They are seeking to manage these challenges effectively as they advance toward even greater accomplishments in the years ahead.

A few nations of the region have not enjoyed the same developmental success. Among them are North Korea and Vietnam. Their backward condition may be due to a number of factors, but principal among them are their hostile postures toward their neighbors and their discredited economic systems. With the encouragement of the Soviet Union, they have effectively shut themselves off from the productivity and prosperous living standards enjoyed by the other regional states. So long as they stagnate in this isolated and hostile condition, they remain a threat to the progress of the rest of the region.

Fortunately, the traditional bonds of friendship between the Asian-Pacific region and the United States are stronger than ever today. A natural and regular system of interaction and interdependence has evolved between us, bilaterally and multilaterally. Increasingly, we depend upon each other for our common success and prosperity. Increasingly, we seek to consult and to coordinate our activities for maximum efficiency and effectiveness. Many observations have been made about the growing sense of "community"--with a small "c"--which permeates this relationship. No nation or group of nations need fear this natural phenomenon for it portends only peace and cooperation among those who are willing to contribute to regional progress in a positive way. The concept features a healthy balance of individual prerogative and collective responsibility, for the sake of the common good.

Least we become too complacent about the promise of our common effort, however, it bears repeating that all of us must be vigilant and untiring in nourishing and defending the fruits of our success. As I look ahead, I see four fundamental challenges to this promising region as a whole--and I certainly include the United States as a partner which, together with others, must prepare to meet these challenges in a common effort.

SUSTAINING ECONOMIC GROWTH AND MANAGING COMMERCIAL PROBLEMS

Perhaps the primary challenge, in the face of the region's relatively prosperous record, is to sustain economic growth and manage the inevitable commercial difficulties that occasionally occur. Most East Asian developing countries have relatively low per capita income and rapidly growing populations. For this reason their leaders view rapid economic growth to be essential to both national development and political stability.

Fortunately, East Asia discovered early on what the rest of the developing world is only belatedly coming to realize. Economic growth can only flourish if economic policies encourage it. This means monetary stability, fiscal restraint, and realistic exchange rates. Even more important, governments must also institute policies which encourage flexible, market-oriented, private enterprise economies open to the free international exchange of goods, services, and capital.

This may seem obvious to us in the United States, but much of the developing world, including parts of East Asia, remains in the grip of statist, inward-looking economic strategies. Strongly entrenched groups sometimes manage to maintain their vested interests through protectionism and state regulation. We in the United States are not immune from this affliction, but the costs are much higher for those countries that have so little to start with.

Failure to fend off these pressures leads to clearly demonstrable consequences. The empirical fact of life is that, to the extent developing nations have adopted outward-looking, market-oriented

policies, they have attained robust economic growth. On the other hand, economic stagnation is produced by massive extensions of government control over investment and other government-inspired economic distortions.

But do we really care if the countries of East Asia and the Pacific institute effective economic policies? The answer is "yes" and not simply for altruistic reasons. Recent history clearly shows that prosperous, democratic, outward-looking nations associate themselves closely with the United States economically and strategically. The reasons are not hard to understand. The Soviet Union and its allies import almost nothing from the developing world. The developing world, in turn, has little interest in importing anything the Soviet Union produces. There is little in Soviet culture, political thought, or economic theory that has any attraction whatsoever for these developing nations. Hardly anyone sees communism as the wave of the future anymore. The United States, on the other hand, can offer vast trade prospects, technology transfer, foreign investment, educational opportunities, and cultural exchange.

It is only when economic growth falters that the linkage between stability and prosperity is tested. The Philippines is a recent example of this. Through government mismanagement and corruption, the Philippine economy under Ferdinand Marcos was driven to the brink of ruin. As economic hardship increased, the communist insurgency grew rapidly. Now that President Aquino's new government holds out the prospect of economic reform, the insurgency finds itself losing support. There was a time when insurgencies also threatened Thailand, Malaysia, and Indonesia. This is now a distant memory, unlikely to reoccur, due in part to the remarkable economic progress of these three countries.

Given our stake in the economic growth of our Asian-Pacific trading partners, the Administration views with dismay attempts in Congress to try to legislate away the U.S. trade deficit, producing in the process great damage to ourselves and our trading partners.

The House of Representatives recently passed an omnibus trade bill that would be nothing short of disastrous for U.S. interests. There is no question that the United States does have an enormous trade deficit--\$148 billion in 1985. What Congress wants us to believe, however, is that this is largely the result of foreign trade barriers and unfair trade practices and that we should erect such barriers ourselves. This is just not so. The U.S. trade deficit doubled from 1983 to 1985, yet foreign trade barriers are no higher now and, in fact, are probably lower than in 1983. The fact is that our trade deficit increases or decreases as a result of a variety of factors, including shifting exchange rates, differing economic growth rates, and differing savings and investment rates.

Japan is a good example in this regard. In 1985 the United States had a \$50-billion trade deficit with Japan. The House trade bill would, among a great number of other damaging provisions, impose a blanket surcharge on Japanese imports. This would certainly reduce our imports from Japan. It would also provoke retaliation and inevitably reduce our exports, leaving both countries worse off. It is axiomatic in economics that protectionism does not affect the balance of trade, but rather the level of trade.

The fact is that Japan is our largest agricultural market in the world and our second largest market for manufacturers after Canada. Japan also supplied \$75 billion in capital to this country in 1985 which helped to finance new investment here and to hold down interest rates.

I mention these facts in order to make the point that a very delicate and complicated web of economic interrelationships ties us to Japan and our other trading partners in East Asia. If Congress attempts to alter this web by simply tearing out great hunks of it, we will all be the poorer for it. Ultimately, by weakening the economic bonds tying us to the rest of the world, we will also damage our vital security interests.

This Administration is not blind to the difficulties our exporters face. We will continue to seek the removal of unfair trade barriers which affect a wide variety of American goods and services. As necessary, we will take unilateral action under our own trade laws to remove unfair trade practices. And, most importantly, we will continue to strengthen the world trading system and promote the success of the new round of multilateral trade negotiations expected to start this September.

The challenge we face is one stemming from the extraordinary success of our trading partners in East Asia. Both the United States and East Asian countries reap enormous benefits from our trading relationship. Our goal is to strengthen and expand this relationship, and to manage its problems, in order to safeguard our mutual economic and security interests.

NURTURING REGULAR COORDINATION AND CONSULTATION

A second "challenge" which we, together, confront is to nurture ever more regular habits of coordination and consultation among ourselves. We've made great headway on intraregional dialogue over the past two decades, and the pace picked up considerably under this Administration. I returned just this week with the Secretary [of State] from our regular annual conference with regional foreign ministers in Southeast Asia. Every summer, following consultations among the ASEAN foreign ministers, they are joined by their counterparts from the United States, Japan, Canada, Australia, New Zealand, and Western Europe for discussions on a range of matters of common concern. Of special concern in recent years, the Cambodian conflict and multilateral economic cooperation have been predominant agenda items. Together, we forge a consensus on cooperative approaches to mitigate threats and to advance multinational prosperity.

In similar fashion, the United States consults frequently with its traditional allies in the region on a range of economic, political, and security topics so that we all remain well-informed on events and on our respective policies. Following last November's summit conference in Geneva, for example, the United States provided a full and immediate readout on the Reagan and Gorbachev talks to our regional allies. They, in turn, have been most forthcoming with us on their activities and policy positions.

Such routine dialogue, as these examples demonstrate, serves to strengthen our common cause and to coordinate our efforts for policy effectiveness. Mutual comprehension, maximum trust, and minimal surprise are the key elements of a strong and lasting friendship among the nations of East Asia and the Pacific.

Comprehension and trust between nations depend upon much more than periodic high-level official discussions, of course. They depend upon a web of contacts and interaction within the private sector as well. Flourishing commercial ventures of bilateral and multilateral character have supplemented growing intraregional trade as a means of forging important bonds within the business community. International visitor programs and academic exchanges are expanding over time, spawning a remarkable intellectual framework for the evolving community spirit. The lesser developed countries of the region are benefiting increasingly from vocational and educational assistance programs offered by the more advanced countries, and all nations gain greater understanding of each other through various cultural and artistic exchanges.

In short, we are doing well in promoting habits of dialogue among ourselves. More and more in the future, the challenge may be to effectively coordinate our policies and economic planning in the interest of greater national efficiency, policy effectiveness, and the wise use of limited resources. Toward this end, we may not always "see eye to eye," but we can always take the time to sit down and discuss our respective concerns and intentions.

PROTECTING ACCOMPLISHMENTS

Surely one of the most important tasks of all is to protect and secure the accomplishments which already have been realized. Success always attracts attention, and, unfortunately, it also attracts the envy of others who would maliciously exploit it for their own advantage. The nations of East Asia and the Pacific must be particularly vigilant in the years ahead and protective of their hard-won success lest it be encroached upon. Too often, peace and prosperity foster complacency.

This factor underlines the importance of intimate consultation and coordination between us. The pioneers of the American West knew well the value of vigilance and the strength that lies in unity. The threats of the rugged frontier forged a genuine sense of community, as a prerequisite for survival.

In the Asian-Pacific region, peace and stability are threatened by Vietnam and North Korea. Both have systems which reflect stagnation and failure, and perhaps through desperation they have chosen the route of threat and aggression against their more prosperous neighbors. Had they chosen instead the course of economic cooperation and political accommodation, they, too, could be participating in the regional dynamism that is outpacing all other parts of the world. Instead, with the aid and assent of the Soviet Union, they have embarked on a self-defeating path which jeopardizes the progress of the region as well.

The Soviets also seek to peddle their brand of "security" and "cooperation" in the region, but the nations aren't buying. They are not about to exchange a proven system of stability and prosperity for the deceptive charms of sweeping diversionary "confidence-building measures," which ignore the real sources of danger to the region. In fact, it is the nonproductive policies and belligerent behavior of the Soviet Union which have resulted in its conceptual exclusion from the region, not some "capitalist conspiracy" to block its presence and participation.

Among the greatest threats to the region's continued success, however, are those weaknesses which can originate from within the group, that is, overt dissension, shortsighted unilateralism, and protectionism. This is why regular consultations are so important. Trade tensions and protectionist policies can destroy economic progress if they go unchecked. "Nuclear allergies," however well-intentioned, can have an insidious effect on strategic balance and conflict deterrence. Alliance fissures, if permitted to expand, can destroy the structure of mutual commitments and responsibility upon which peace is built. And failure to maintain a unified regional position on fundamental global issues like international terrorism and arms control can lead to the disintegration of mutual trust as well as our common security. Together, the free market nations have led the way in creating a strong, secure, and prosperous region; we must never allow weaknesses originating from within to cause a reversal.

MANAGING DOMESTIC PRESSURES

Still another great challenge--one which affects the newly industrializing countries of the region most directly--is to manage adeptly the domestic pressures that inevitably accompany success. Historical experience has shown us that modernization and prosperity generate irrepressible rising expectations among a nation's populace, as consumers and--in developing democracies--as an increasingly vocal electorate. For the sake of social stability and continued progress, an appropriate degree of leadership responsiveness is necessary. The nature of that response will be unique to the circumstances of each country--unique to its historical, cultural, and political realities. The skill with which governments manage this task will be reflected ultimately in the extent of their stability.

Fortunately, the trend seems to be toward more creative and responsive government initiatives in many of the region's modernizing states. Two of our traditional allies, the Philippines and

Korea, currently are engaged in constitutional reviews which may incorporate popular systemic reforms. Others as well are demonstrating increasing sensitivity to the viewpoints of various domestic political groups. These are healthy developments, and we commend those responsible for proceeding in a manner that takes into account the need for both national order and democratic progress.

The shared fruits of economic success, equitably distributed, should be able to meet the rising demands of consumers in these developing states. Responsive government should be able to satisfy the expectations of an enlightened electorate. And the combination of these is an irrefutable recipe for even greater progress.

CONCLUSIONS

These four fundamental challenges to the nations of East Asia and the Pacific region are formidable but by no means insurmountable. They do not daunt us. Neither the United States nor its friends and allies in the region shrink from the task of diligently cultivating the remarkable growth and stability we have thus far enjoyed, so that future generations may live in comfort and peace. We welcome these challenges and, together, will face them head on. In this way, we can test and prove the full dimension of our capabilities, assess our weaknesses, and strengthen our confidence.

We recognize, of course, that most of the challenges are the consequent price of success. Our adversaries in the region--impoverished, backward, isolated--contend with the much greater burdens of failure. We already have demonstrated the power of free market and democratic principles in the developing world. Let us continue to demonstrate, through creativity and foresight, the durability of the system adopted by our friends and ourselves as well.