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DRAFT REMARKS BY HON. PAUL WOLFOWITZ 9/23/91/17:00

I AM PLEASED TO BE HERE THIS EVENING. IT IS ALWAYS A PLEASURE TO BE WITH OLD FRIENDS. IT IS PARTICULARLY SO TODAY AS WE STAND ON THE THRESHOLD OF A NEW CENTURY AND A NEW INTERNATIONAL ORDER. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO SHARE WITH YOU SOME THOUGHTS ON THE EMERGING NEW INTERNATIONAL ORDER, ON ASIA, AND ON THE ROLE OF THE UNITED STATES BOTH GLOBALLY AND IN ASIA.

WHEN I LEFT JAKARTA, A LITTLE OVER TWO YEARS AGO, THE COLD-WAR STRUCTURE OF INTERNATIONAL RELATIONS, THOUGH AGING, REMAINED FIRMLY IN PLACE. GERMANY WAS DIVIDED. SOVIET AND WARSAW PACT FORCES STOOD POISED TO MOVE ACROSS THE NORTH GERMAN PLAIN AND THROUGH THE FULDA GAP. THROUGHOUT EASTERN EUROPE, COMMUNIST PARTIES RETAINED A FIRM GRIP ON POWER. ACROSS THE GLOBE, THE U.S. AND SOVIET UNION FACED OFF IN REGIONAL CONFLICTS IN CENTRAL AMERICA, AFRICA, AND SOUTH WEST ASIA. CONTAINMENT OF THE USSR REMAINED THE FRAMEWORK OF OUR NATIONAL SECURITY STRATEGY.

SHORTLY AFTER I RETURNED TO WASHINGTON, THE OLD WORLD ORDER BEGAN TO CRUMBLE. [I WISH I COULD CLAIM THE CREDIT FOR THIS, BUT I CAN'T] IN

NOVEMBER 1989, THE BERLIN WALL, THE CRUEL AND VIVID SYMBOL OF POLITICAL AND IDEOLOGICAL DIVISION, FELL. GERMANY WAS REUNITED PEACEFULLY WITHIN NATO. DEMOCRACY TRIUMPHED ACROSS EASTERN EUROPE. THE RED ARMY "ABOUT FACED" AND BEGAN TO GO HOME. THE WARSAW PACT WAS ABOLISHED. U.S.-SOVIET RELATIONS MOVED INCREASINGLY FROM CONFRONTATION TO COOPERATION ON A WIDE RANGE OF ISSUES, FROM ARMS CONTROL TO THE RESOLUTION OF REGIONAL CONFLICTS. MOST NOTABLY, THE SOVIET GOVERNMENT SUPPORTED OUR EFFORTS TO BUILD A MULTINATIONAL COALITION TO RESIST IRAQ'S AGGRESSION AGAINST KUWAIT.

RECENTLY, THE INTERNATIONAL ENVIRONMENT BECAME EVEN MORE FAVORABLE. LAST MONTH, THE FORCES OF POLITICAL AND ECONOMIC REFORM TRIUMPHED OVER THE REACTIONARIES, OLD-THINKERS, AND NEO-STALINISTS. THEIR VICTORY MARKED THE END OF THE MARXIST-LENINIST STATE IN THE SOVIET UNION AND WAS THE FINAL NAIL IN THE COFFIN OF COMMUNISM AS AN IDEOLOGY OR AS A FORCE IN WORLD AFFAIRS. SINCE THEN, THE BALTICS AGAIN STAND AS INDEPENDENT SOVEREIGN STATES, AND OTHER REPUBLICS OF THE FORMER SOVIET UNION LIKEWISE HAVE ASSERTED THEIR INDEPENDENCE. THE

EVENTS OF AUGUST 1991 HAVE COMPLETED A FUNDAMENTAL TRANSFORMATION OF THE INTERNATIONAL SYSTEM.

IN 1966, HISTORIAN, AND FORMER MEMBER OF THE STATE DEPARTMENT'S POLICY PLANNING STAFF, LOUIS HALLE PUBLISHED, A POST-WAR ANALYSIS OF U.S.-SOVIET INTERACTION, ENTITLED THE COLD WAR AS HISTORY. TODAY, THE COLD WAR IS HISTORY.

ALL TIMES ARE HISTORIC. BUT, SELDOM CAN WE TRULY CLAIM TO WITNESS THE END OR BEGINNING OF AN EPOCH. LOOKING BACK OVER THIS CENTURY AND TO THE BEGINNING OF OUR REPUBLIC, SUCH PERIODS IN HISTORY ARE INDEED RARE. IT IS SOMETIMES SAID THAT THE "REAL" 19TH CENTURY WAS THE PERIOD OF STABILITY FROM 1815 TO 1914. IT COULD BE SAID THAT THE "REAL" 20TH CENTURY, THE CENTURY OF CONFLICT AND IDEOLOGICAL HOSTILITY, RAN FROM 1914 TO 1991.

SO WE STAND TODAY ON THE BRINK OF THE 21ST CENTURY. AND WE FACE THE CHALLENGES WE HAVE FACED BEFORE, NOT ALWAYS SUCCESSFULLY, IN 1919 AND IN 1945.

WE MUST HEED THE LESSON, THAT THE WORLD REMAINS A VERY UNCERTAIN PLACE. IT WOULD BE FOOLISH TO LOOK AT THE ENORMOUS CHANGES OF THE PAST TWO YEARS AND SOMEHOW ASSUME THAT CHANGE HAS RUN ITS COURSE.

AS HISTORY SHOWS, IT IS VERY DIFFICULT TO PREDICT FUTURE THREATS, ESPECIALLY AMID THE EUPHORIA OF A GREAT VICTORY: IN THE LONG-TERM, FROM 1919 TO HITLER'S ACCESSION IN 1933; IN THE MID-TERM, FROM 1945 TO THE BEGINNING OF A COLD WAR IN 1948, OR THE HOT WAR IN KOREA TWO YEARS LATER; AND EVEN IN THE VERY SHORT-TERM--FROM NOVEMBER 1989 TO AUGUST 1990. CONSIDER THE EXTRAORDINARY EVENTS IN THE SOVIET UNION AND EASTERN EUROPE OVER THE PAST TWO YEARS. OR, THINK OF THREE DAYS IN AUGUST, THREE DAYS, IT MIGHT BE SAID, THAT SHOOK THE WORLD.

AS GENERAL POWELL RECENTLY REMARKED, REFERRING TO CLAUSEWITZ'S ADMONITION TO "BEWARE THE VIVIDNESS OF TRANSIENT EVENTS", "THERE ARE

LOTS OF TRANSIENT EVENTS OUT THERE, AND I AM TRYING TO BEWARE OF THEIR VIVIDNESS."

AT A TIME OF FUNDAMENTAL CHANGE, AS WE CONTEMPLATE THE CHALLENGE OF SHAPING OF A NEW INTERNATIONAL ORDER, AND AS WE CONTEMPLATE THE LESSONS OF THE PAST, IT IS IMPORTANT THAT WE GO BACK TO BASICS. IT IS IMPORTANT THAT WE UNDERSTAND THE FUNDAMENTAL REASONS WHY THE WEST TRIUMPHED IN THE COLD WAR; WHY THE UNITED STATES IS ENGAGED IN THE WORLD; WHY WE SHOULD STAY ENGAGED IN THE FACE OF PRESSURE AND TEMPTATION TO WITHDRAW FROM IT.

FIRST AND FOREMOST, WE SHOULD BE CLEAR IN OUR MINDS THAT THE WEST'S TRIUMPH IN THE COLD WAR WAS NOT SIMPLY A VICTORY OF WESTERN POLICIES OR POWER; FUNDAMENTALLY IT WAS A VICTORY OF WESTERN VALUES. ITS CORE IS OUR COMMITMENT TO THE FREEDOM OF THE INDIVIDUAL. BASED ON A RESPECT FOR PRIVATE PROPERTY AND THE INTRINSIC WORTH OF THE INDIVIDUAL, THIS COMMITMENT HAS LIMITED THE POWER OF THE STATE, AND UNLEASHED THE ENERGIES AND TALENTS OF PEOPLE AROUND THE WORLD. JOINED WITH OUR

SOCIETIES' VISIBLE SUCCESS IN RECONCILING LIBERTY WITH ORDER AND OUR COMMITMENT TO OPEN MARKETS AS THE SOURCE OF UNPRECEDENTED PROSPERITY, THE PROMISE OF FREEDOM HAS PROVED IRRESISTIBLE.

AT THE SAME TIME, WE MUST RECOGNIZE THAT THE COST OF LIBERTY IS VIGILANCE. AS HISTORY HAS REPEATEDLY DEMONSTRATED, CONFLICT CANNOT BE DETERRED BY KIND WORDS OR GOOD INTENTIONS; LIBERTY MUST BE DEFENDED. IN THE EUPHORIA OF COLD WAR VICTORY, WE CANNOT FORGET THAT THE DEFENSE OF LIBERTY WILL REQUIRE A NON-GOING COMMITMENT OF HUMAN AND FINANCIAL RESOURCES. NOR SHOULD WE PRESUME, AS SOME DO, THAT OUR ALLIANCES AND GLOBAL RESPONSIBILITIES ARE A THING OF THE PAST.

THERE ARE SOME TODAY WHO ARGUE THAT, WITH THE COLLAPSE OF COMMUNISM, WE SHOULD LAY DOWN THE BURDEN AND RESPONSIBILITIES OF GLOBAL LEADERSHIP AND "COME HOME." THERE ARE MANY REASONS WHY WE ARE ENGAGED IN THE WORLD AND WHY WE SHOULD STAY ENGAGED; BUT SIMPLY PUT, IT IS BECAUSE WE HAVE INTERESTS, ECONOMIC, POLITICAL AND SECURITY INTERESTS THAT ARE GLOBAL, AND WHICH DIRECTLY AFFECT THE WELL-BEING OF OUR COUNTRY AND PEOPLE.

THE WORLD WE LIVE IN TODAY IS AN INTERDEPENDENT WORLD, OUR PROSPERITY TIED TO EVENTS AND ECONOMIES ACROSS THE GLOBE. IN AN AGE OF CNN, INSTANTANEOUS CAPITAL FLOWS, BURGEONING INTERNATIONAL INVESTMENT, AND GLOBAL OPERATING STRATEGIES AND PRODUCTION PROCESSES, THE BORDER BETWEEN DOMESTIC AND FOREIGN ECONOMIES, BETWEEN FOREIGN AND DOMESTIC AFFAIRS GROWS INCREASINGLY TRANSPARENT.

THIS INTERDEPENDENCE IS OF DIRECT AND IMMEDIATE BENEFIT TO OUR WELL-BEING. SINCE 1950, THE PERCENTAGE OF U.S. GNP DERIVED FROM EXPORTS HAS INCREASED ALMOST TENFOLD -- FROM 1.5% TO 12% OF OUR GNP LAST YEAR. OVER THAT SAME PERIOD, THE DOLLAR VALUE OF U.S. EXPORTS HAS SKYROCKETED SOME 4000 PERCENT FROM \$10.3 BILLION IN 1950 TO \$400 BILLION IN 1990.

YET ANOTHER SIGNIFICANT STATISTIC IS THE GROWTH IN EMPLOYMENT RELATED TO EXPORTS: IN 1990, MORE THAN SEVEN MILLION AMERICANS WORKED IN JOBS SUPPORTED BY EXPORTS, AN INCREASE OF TWO MILLION SINCE 1986. IN MANUFACTURING ALONE, ONE IN SIX JOBS IS NOW DIRECTLY OR INDIRECTLY RELATED TO EXPORTS.

THERE IS ANOTHER REASON FOR ENGAGEMENT -- LEADERSHIP. LOOKING BACK OVER THE TWENTY-YEAR SPAN 1919-1939, WHEN THE UNITED STATES STOOD AS THE WORLD'S DOMINANT ECONOMIC FORCE, OUR INTERNATIONAL LEADERSHIP WAS, TO PUT IT CHARITABLY, INCONSTANT. I WOULD NOT ARGUE THAT OUR LEADERSHIP ALONE COULD HAVE STAVED OFF THE SECOND WORLD WAR. BUT I WOULD ASSERT THAT OUR POST-WAR LEADERSHIP HIGHLIGHTS THE FACT THAT THE INTERNATIONAL SYSTEM FUNCTIONS BEST WHEN INTERNATIONAL LEADERS DO IN FACT LEAD.

THIS, I BELIEVE, IS TRUE TODAY, AND IT WILL BE TRUE TOMORROW. AS IN THE CREATION OF THE INTERNATIONAL ECONOMIC ORDER AT BRETTON WOODS, DURING THE CRISES OF THE COLD WAR, AND, MOST RECENTLY, IN THE PERSIAN GULF, THE WORLD LOOKS TO THE UNITED STATES FOR LEADERSHIP. THE SIMPLE FACT IS THAT LEADERS MUST LEAD.

TODAY THE UNITED STATES STANDS AS THE WORLD'S PREEMINENT POWER. WE ARE THE ONLY COUNTRY WITH ALL THE INSTRUMENTS OF POWER -- POLITICAL, ECONOMIC, AND MILITARY-- THE ONLY COUNTRY WITH THE ABILITY TO INFLUENCE EVENTS ACROSS THE GLOBE. IF WE ARE THE SINGLE SUPERPOWER -- AN EXAMPLE

TO MANY, A DETERRENT TO OTHERS, WE ARE A SUPERPOWER IN AN INTER-DEPENDENT WORLD.

HOWEVER, ENCOURAGED WE MAY BE WITH THE RECENT TURN OF EVENTS, WE MUST AVOID ANY SENSE OF NATIONAL TRIUMPHALISM. WE MUST REMEMBER THAT THE WEST'S VICTORY IN THE COLD WAR WAS THE VICTORY OF AN ALLIANCE AND OF LIKE-MINDED COUNTRIES WHO COMBINED TO CONTAIN THE TYRANNY OF COMMUNISM.. IN ESSENCE, WE ARE THE WORLD'S PREEMINENT POWER BECAUSE OUR ALLIES AND FRIENDS LOOK TO US FOR LEADERSHIP WHEN DEFENDING SHARED SECURITY INTERESTS AND, WE, IN TURN, WILL LOOK TO THEM TO ASSUME GREATER RESPONSIBILITIES AND LEADERSHIP IN SHAPING THE NEW INTERNATIONAL ORDER.

THOUGH THE CHALLENGE IS GREAT, I AM OPTIMISTIC THAT, WORKING TOGETHER, IT WILL BE POSSIBLE FOR THE UNITED STATES, OUR ALLIES, AND LIKE-MINDED FRIENDS TO BUILD A NEW INTERNATIONAL ORDER. WE WILL DO SO PRAGMATICALLY AND INCREMENTALLY, REMAINING TRUE TO OUR ENDURING INTERESTS AND THE FUNDAMENTAL VALUES THAT LED US TO VICTORY IN THE COLD WAR.

THUS, EVEN AT A GREAT DISTANCE, WE CAN SEE THE OUTLINES OF THE NEW INTERNATIONAL ORDER WE WANT TO BUILD. WHAT WILL IT LOOK LIKE? YOU ASK. LET ME TRY TO ANSWER. FIRST, IT SHOULD BE AN ORDER OF FREE NATIONS, SHARING A COMMITMENT TO DEMOCRACY AND HUMAN RIGHTS. AS WE HAVE IN CENTRAL AMERICA, IN EASTERN EUROPE, IN ASIA, IN THE SOVIET UNION, AND AROUND THE WORLD, WE WILL PROMOTE OUR VALUES OF POLITICAL AND ECONOMIC FREEDOM, BOTH BECAUSE WE BELIEVE IN THEM AND BECAUSE THEY ENHANCE OUR OWN SECURITY. AS THE PRESIDENT AND SECRETARY OF STATE HAVE MADE CLEAR WE WILL WORK WITH POLITICAL AND ECONOMIC REFORMERS WHEREVER WE FIND THEM.

IT SHOULD BE AN ORDER BASED ON AN OPEN INTERNATIONAL ECONOMIC SYSTEM. THE POST-WAR GATT SYSTEM OF INTERNATIONAL TRADE HAS GENERATED UNPRECEDENTED ECONOMIC GROWTH AND RAISED STANDARDS OF LIVING ACROSS THE GLOBE. AS IN THE URUGUAY ROUND, OUR OBJECTIVE SHOULD BE EVEN GREATER LIBERALIZATION.

WE MUST NOT FORGET THE LESSONS OF THE 1930S. WHILE SENATOR SMOOT AND CONGRESSMAN HAWLEY DID NOT CREATE THE GREAT DEPRESSION, THE LEGISLATION THAT BEARS THEIR NAMES AND SIMILAR POLICIES THROUGHOUT THE INDUSTRIALIZED WORLD DID MUCH TO DEEPEN AND PROLONG IT. THE DEPRESSION, IN TURN, PROVIDED A BREEDING GROUND FOR FASCISM, AND LEST WE FORGET, LENT A DESPERATELY NEEDED BOOST TO THE FORTUNES OF COMMUNIST PARTIES WORLDWIDE. IT SAPPED THE SELF-CONFIDENCE OF FREE NATIONS, TIPPED THE BALANCE AGAINST DEMOCRATIC FORCES WORLDWIDE, AND EMBOLDENED THE ENEMIES OF THE HUMAN SPIRIT. IN MANY WAYS, IT COULD BE SAID THAT ONLY NOW ARE WE RECOVERING FROM SOME OF THESE CONSEQUENCES, MORE THAN SIXTY YEARS LATER.

THIS IS WHERE OUR FRIENDS AND ALLIES, WHO SUFFERED SO MUCH FROM THE CONSEQUENCES OF THE 1930'S AND HAVE SO BENEFITED FROM THE GATT SYSTEM, NEED TO STEP UP TO LEADERSHIP IN THEIR OWN RIGHT. WE ALL NEED TO RECALL THAT THE SOLUTION TO TRADE IMBALANCES IS NOT PROTECTIONISM, BUT A GLOBAL OPENING OF MARKETS AND AN EXPANDING VOLUME OF WORLD TRADE.

THIS NEW WORLD WILL NOT, OF COURSE, BE A UTOPIA. THE COLD-WAR THREAT

OF DELIBERATE, MASSIVE NUCLEAR ASSAULT IS GONE, BUT THE THREAT OF NUCLEAR ATTACK, EITHER ACCIDENTAL OR PREMEDITATED, HAS NOT DISAPPEARED. NUCLEAR COMMAND AND CONTROL ARRANGEMENTS BETWEEN MOSCOW AND THE NEWLY INDEPENDENT REPUBLICS REMAIN DISTURBINGLY UNCLEAR. AND IN ASIA, ON THE KOREAN PENINSULA, IN THE MIDDLE EAST, AND IN AFRICA, THE PROLIFERATION OF NUCLEAR, CHEMICAL, AND BIOLOGICAL WEAPONS THREATENS THE SECURITY OF ALL OF US IN THE EMERGING NEW ORDER.

DESPITE THE END OF THE COLD WAR, AND PERHAPS IN PART BECAUSE OF IT, THE WORLD TODAY IS A VERY UNCERTAIN PLACE. WE SHOULD NOT, AS SECRETARY OF DEFENSE DICK CHANEY RECENTLY CAUTIONED THE AMERICAN POLITICAL SCIENCE ASSOCIATION, BE MESMORIZED BY EVENTS OF THE MOMENTS. WE NEED A LONG-TERM SECURITY STRATEGY, NOT ONE DRIVEN BY THE EVENTS OF THE DAY, HOWEVER, FAVORABLE OR UNFAVORABLE. LIKEWISE, LONG-STANDING NATIONAL AND ETHNIC RIVALRIES ARE LIKELY TO RE-EMERGE. THE DANGERS OF SUCH CONFLICTS TO OUR VITAL SECURITY INTERESTS SHOULD NOT BE DISCOUNTED.

FINALLY, IT SHOULD BE A WORLD IN WHICH THE INTERNATIONAL COMMUNITY IN UNITY WILL RESPOND TO ACTS OF AGGRESSION. OUR EXPERIENCE IN THE GULF

BOTH OFFERS CAUTIOUS OPTIMISM IN THIS REGARD AND UNDERSCORES THE SINE QUA NON OF UNITED STATES LEADERSHIP.

AT ALL TIMES, WE MUST BEAR IN MIND THAT THE NEW ORDER STANDS TODAY AS SOMETHING WE ASPIRE TO AND MUST WORK TOWARD. WE NEED TO REMAIN MINDFUL BOTH OF THE OPPORTUNITIES AND POTENTIAL DANGERS WE FACE. WE SHOULD NEITHER DISCOUNT THE DANGERS NOR SHRINK FROM THE TASK.

IN THIS CONTEXT, THAT OF THE EMERGING NEW ORDER, I WOULD LIKE TO OFFER SOME THOUGHTS ON ASIA. LIKE THE WORLD AT LARGE, ASIA TOO IS MARKED BY CHANGE, CONTINUITY, AND UNCERTAINTY.

AS IN EUROPE, THE PAST TWO YEARS IN ASIA HAVE WITNESSED TRULY HISTORIC EVENTS: THE FIRST MEETING BETWEEN THE PRESIDENTS OF THE REPUBLIC OF KOREA AND THE USSR IN SAN FRANCISCO IN 1989; AND THE SUBSEQUENT SOVIET DECISION TO RECOGNIZE THE GOVERNMENT OF THE REPUBLIC OF KOREA. MONGOLIA IS MOVING TOWARD DEMOCRACY AND MARKET-ORIENTED ECONOMIC REFORM. WE SEE THE SOVIET NAVY MOVING FROM CAM RANH BAY, AND, MOST RECENTLY, THE SIMULTANEOUS ENTRY INTO THE UNITED NATIONS OF BOTH THE REPUBLIC OF KOREA AND THE PEOPLE'S DEMOCRATIC REPUBLIC OF

KOREA. YET, OVERALL, CHANGE IN ASIA HAS BEEN FAR MORE MODEST, AND LESS FUNDAMENTAL THAN, IN EUROPE.

THE REGION CONTINUES TO BE TROUBLED BY LEGACIES OF THE COLD WAR. THE KOREAN PENINSULA, STILL POLITICALLY DIVIDED ALONG THE 38TH PARALLEL, STANDS AS THE MAJOR FLASH POINT IN EAST ASIA. KIM IL SUNG'S REGIME CONTINUES TO DENIGRATE THE LEGITIMACY OF THE REPUBLIC OF KOREA AND HAS YET TO RENOUNCE THE USE OF FORCE AS A MEANS OF REUNIFYING THE PENINSULA. AS A RESULT, TWO MODERN AND POWERFUL ARMIES STAND POISED ALONG THE DMZ. THIS UNSTABLE SITUATION IS EXACERBATED BY THE NORTH'S FAILURE TO LIVE UP TO ITS SELF-ASSUMED INTERNATIONAL OBLIGATION TO SIGN AND IMPLEMENT AN IAEA SAFEGUARDS AGREEMENT, BY ITS EFFORTS TO DEVELOP A NUCLEAR REPROCESSING CAPABILITY, AND BY THE ATTENDANT DANGER OF NUCLEAR PROLIFERATION ON THE PENINSULA.

ALSO IN NORTHEAST ASIA, JAPANESE-SOVIET RELATIONS REMAIN TROUBLED BY THE SOVIET UNION'S ILLEGAL OCCUPATION OF JAPAN'S NORTHERN TERRITORIES. ALTHOUGH WE ARE ENCOURAGED BY INDICATIONS THAT THE USSR AND THE RUSSIAN REPUBLIC ARE DEMONSTRATING AN INTEREST IN RESOLVING THE

NORTHERN TERRITORIES ISSUE, THIS DISPUTE, FORTY-SIX YEARS AFTER THE END OF THE SECOND WORLD WAR, CONTINUES TO PREVENT THE CONCLUSION OF A PEACE TREATY BETWEEN TOKYO AND MOSCOW AND THE FULL NORMALIZATION OF THEIR RELATIONS.

IN SOUTHEAST ASIA, THE PROSPECTS FOR A JUST AND DURABLE SETTLEMENT OF THE CONFLICT IN CAMBODIA ARE IMPROVING, DUE IN LARGE PART TO THE PERSEVERANCE AND STRENUOUS DIPLOMATIC EFFORTS OF INDONESIA'S FOREIGN MINISTER, ALI ALATAS, WHOM I HOLD IN HIGH REGARD AS A FRIEND AND DIPLOMAT. TO THE EXTENT THAT THE CAMBODIAN PARTIES ACCEPT THE PERM FIVE PLAN, WITH ITS STRONG U.N. ROLE AND EMPHASIS ON PROPERLY PREPARED AND MONITORED ELECTIONS, WE HAVE A CHANCE TO BRING THIS CONFLICT TO A CLOSE. TO THE EXTENT THAT THEY DEVIATE FROM IT, WE SHOULD BE CONCERNED BOTH ABOUT THE STAYING POWER OF ANY SETTLEMENT AND THE PROSPECTS FOR STABILITY IN INDOCHINA.

UNCERTAINTIES ALSO ABOUND IN ASIA. IN BEIJING, A LEADERSHIP TRANSITION IS APPROACHING, ONE WHOSE OUTCOME COULD SIGNIFICANTLY ALTER THE ENTIRE ASIAN SECURITY ENVIRONMENT. CHINA'S POLICIES TOWARD TAIWAN AND HONG

KOREA WILL CONTINUE TO BE A CAUSE FOR CONCERN. LIKEWISE, NORTH KOREA WILL FACE AN UNPRECEDENTED TRANSFER OF POWER ON THE PASSING OF KIM IL SUNG; WE MUST BE PREPARED TO DEAL WITH CONTINGENCIES THAT COULD RANGE FROM IMPLOSION TO EXPLOSION AS A RESULT OF DEVELOPMENTS IN PYONGYANG. WE ALSO MUST BEAR IN MIND THAT, DESPITE THE POLITICAL TRANSFORMATION IN MOSCOW, THE SOVIET MILITARY PRESENCE IN ASIA IS SIGNIFICANT. AND, GIVEN THE GLOBAL DIFFUSION OF TECHNOLOGY, WE CANNOT OVERLOOK THE DANGERS OF PROLIFERATION ACROSS THE ENTIRE REGION OF THE WEAPONS OF MASS DESTRUCTION.

AGAINST THIS BACKGROUND OF CHANGE, CONTINUITY, AND UNCERTAINTY, I WOULD LIKE TO HIGHLIGHT UNITED STATES' INTERESTS IN ASIA, TO ANSWER THE QUESTIONS WHY WE ARE THERE AND WHY WE ARE GOING TO STAY THERE.

AS WE LOOK TO THE FUTURE, THE PAST PROVIDES A PATTERN OF REMARKABLE CONSISTENCY IN OUR APPROACH TO ASIA. SINCE 1784, WHEN THE MERCHANT SHIP "EMPRESS OF CHINA" SAILED FROM NEW YORK BOUND FOR CANTON, THE UNITED STATES HAS PURSUED AN OPEN DOOR STRATEGY TOWARD THE REGION: EQUALITY OF COMMERCIAL OPPORTUNITY -- "A FAIR FIELD AND

NO FAVOR"; AND A BALANCE OF POLITICAL INTERESTS TO PREVENT THE DOMINATION OF THE REGION BY ANY SINGLE POWER.

OUR ECONOMIC INTERESTS IN THE ASIA-PACIFIC REGION ARE LARGE AND GROWING. TODAY, THE VALUE OF TRANS-PACIFIC TRADE EXCEEDS \$300 BILLION ANNUALLY, ACCOUNTING FOR 37% OF OUR TRADE WORLDWIDE. WE CURRENTLY EXPORT MORE TO MALAYSIA THAN TO THE SOVIET UNION, MORE TO INDONESIA THAN TO ALL OF EASTERN EUROPE, MORE TO SINGAPORE THAN TO SPAIN OR ITALY. THROUGHOUT THE REGION, AMERICAN PRIVATE SECTOR INVESTMENT STANDS AT, OR NEAR, AN ALL TIME HIGH. TOGETHER THE UNITED STATES AND JAPAN ACCOUNT FOR 40% OF THE WORLD'S GNP. ACROSS THE UNITED STATES, AMERICANS BENEFIT, IN EMPLOYMENT, INVESTMENT, AND CONSUMER GOODS, FROM THE STRENGTH OF OUR ECONOMIC RELATIONS WITH ASIA.

AS IN EUROPE AND CENTRAL AMERICA, SO TOO IN ASIA WE HAVE A VESTED INTEREST IN SUPPORTING THOSE WHO SHARE OUR POLITICAL VALUES, IN SUSTAINING DEMOCRATIC GOVERNMENT WHEREVER IT EXISTS AND HELPING THOSE WHO ARE WORKING TOWARD GREATER DEMOCRACY. OVER THE PAST

DECADE, WE HAVE BEEN ENCOURAGED BY EMERGENCE OF POPULARLY ELECTED GOVERNMENTS IN THE PHILIPPINES, THE REPUBLIC OF KOREA, AND MONGOLIA, AND WE LOOK FORWARD TO THE COMING PRESIDENTIAL ELECTIONS IN THE PHILIPPINES AND THE REPUBLIC OF KOREA.

WE RECOGNIZE THAT DEMOCRACY MAY SUFFER SETBACKS, AS IT HAS IN THE REGION, BUT WE ARE CONFIDENT IN ITS ULTIMATE SUCCESS. AGAIN AND AGAIN, WE HAVE SEEN DEMOCRACY PREVAIL. AND, AS OUR VALUES TAKE EVEN DEEPER ROOT IN THE REGION, SO TOO WILL OUR INTERESTS AND ENGAGEMENT.

WE ALSO HAVE ENDURING SECURITY INTERESTS IN THE REGION, STARTING WITH OUR STRONG NETWORK OF BILATERAL ALLIANCES. THAT ALLIANCE STRUCTURE IS AS VALID TODAY AS IT WAS AT THE HEIGHT OF THE COLD WAR.

THOUGH THE SOVIET THREAT IS RAPIDLY RECEEDING, THE FACT IS THAT THE CHANGES IN THE SOVIET UNION HAVE NOT TRANSFORMED THE SECURITY SITUATION IN ASIA AS DRAMATICALLY AS THEY HAVE TRANSFORMED THE EUROPEAN LANDSCAPE.

MOREOVER, THE SECURITY SITUATION IN THE PACIFIC IS MORE COMPLEX AND MULTI-POLAR THAN IN EUROPE, AND OUR SECURITY INTERESTS REFLECT THIS. IN ADDITION TO OUR MOST WIDELY RECOGNIZED MISSION OF DETERRING THE SOVIET UNION, WE HAVE ALSO DETERRED THE OUTBREAK OF ANOTHER WAR ON THE KOREAN PENINSULA.

MORE BROADLY, OUR PRESENCE HAS CONTRIBUTED TO PEACE AND STABILITY ACROSS THE ENTIRE REGION, BY PROVIDING BALANCE AND INSURING THAT NO SINGLE STATE ASSUMED A PREDOMINANT MILITARY POSITION. IN THE FUTURE, THIS LATTER ROLE -- THE ROLE OF REGIONAL BALANCER, HONEST BROKER, AND ULTIMATE SECURITY GUARANTOR -- WILL ASSUME GREATER RELATIVE IMPORTANCE. LET ME MAKE THIS CLEAR -- WE ARE NOT DEFINING "NEW" INTERESTS TO JUSTIFY UNITED STATES ENGAGEMENT IN A POST COLD-WAR WORLD, BUT SIMPLY RETURNING TO THE HISTORICAL ROOTS OF OUR INTERACTION WITH ASIA.

IF SUCH BE OUR INTERESTS, WHAT WILL BE OUR AGENDA?

I WOULD BEGIN WITH A SIMPLE, UNQUALIFIED, UNEQUIVOCAL STATEMENT: THE

UNITED STATES IS COMMITTED TO THE SPREAD OF DEMOCRATIC VALUES

THROUGHOUT THE REGION. WE WILL NOT FORCE OUR VALUES ON OTHERS, BUT

WE WILL SUPPORT THOSE WHO SHARE THEM WITH US.

OUR ECONOMIC AGENDA IN ASIA IS IN SOME WAYS FOCUSED ON EVENTS ON THE OTHER SIDE OF THE WORLD, ON THE SUCCESS OF THE URUGUAY ROUND OF GATT TALKS. A SUCCESSFUL CONCLUSION IS VITAL IF WE ARE TO CONTINUE TO EXPAND GLOBAL TRADE AND THE WEALTH OF THE GLOBALECONOMY. IT IS ALSO VITAL IF WE ARE TO PREVENT THE EMERGENCE OF INWARD-LOOKING, PARTICULARIST, TRADING-BLOCS, WHICH, I AM AFRAID, WOULD FOLLOW A FAILURE IN THE URUGUAY ROUND. THIS, IN TURN, COULD HAVE MAJOR SECURITY IMPLICATIONS FOR THE EMERGING INTERNATIONAL ORDER AND OUR SECURITY INTERESTS.

IT WOULD BE A TRAGEDY IF WE WERE TO ALLOW THE WORLD ECONOMY TO CONTRACT INTO REGIONAL TRADING- BLOCS, A EUROPEAN BLOC, AN AMERICAN BLOC, AND AN ASIAN BLOC. IT WOULD BE INCREASINGLY DIFFICULT FOR ANY ADMINISTRATION IN WASHINGTON TO CONVINCED THE AMERICAN PUBLIC TO SUPPORT AN AMERICAN SECURITY PRESENCE WHERE IT IS DENIED ECONOMIC ACCESS. IN THE BRIGHT PROMISE OF THE EMERGING NEW ORDER, A BREAKDOWN

OF THE GATT TRADING SYSTEM IS WORST-CASE SCENARIO WE MUST MAKE EVERY EFFORT TO AVOID.

AS FOR OUR SECURITY AGENDA, WE WILL REMAIN ENGAGED IN ASIA. ACCORDINGLY, WE WILL MAKE EVERY EFFORT TO STRENGTHEN OUR BILATERAL SECURITY RELATIONSHIPS, WITH PARTICULAR EMPHASIS ON THE U.S.-JAPAN ALLIANCE. WE DO NOT SLIGHT OUR OTHER ALLIES, AUSTRALIA, THE REPUBLIC OF KOREA, THE PHILIPPINES AND THAILAND, WHEN WE SPEAK OF THE PRIMACY OF OUR ALLIANCE WITH JAPAN; THEY AND OUR FRIENDS THROUGHOUT THE REGION SEE IT AS WE DO -- THE CORNERSTONE OF STABILITY AND SECURITY IN THE ASIA-PACIFIC REGION, AND THE ANCHOR OF OUR FORWARD-DEPLOYED SECURITY PRESENCE.

AT THE SAME TIME, RECOGNIZING THE CHANGES IN THE POST-COLD WAR SECURITY ENVIRONMENT, WE WILL ADJUST OUR SECURITY PRESENCE TO MATCH EMERGING STRATEGIC REALITIES. THE GROWING STRENGTH OF OUR ASIAN ALLIES MAKES IT POSSIBLE FOR THEM TO ASSUME GREATER RESPONSIBILITIES. AND THE BUILDING OF MORE RECIPROCAL, MORE MATURE SECURITY RELATIONSHIPS WILL MAKE THEM MORE SUSTAINABLE OVER TIME. THIS IS IN OUR MUTUAL INTEREST.

A WORD HERE ABOUT THE PHILIPPINES. IN OUR APRIL 1990 REPORT TO THE CONGRESS ON THE EAST ASIA STRATEGY INITIATIVE, WE MADE CLEAR OUR INTENTION "TO ATTEMPT TO RETAIN OUR BASING RIGHTS IN THE PHILIPPINES, RECOGNIZING THAT OUR PROSPECTS ARE UNCERTAIN." THAT IS STILL OUR INTENTION. AND, IF IT MEETS WITH THE APPROVAL OF THE PHILIPPINE PEOPLE, WE WILL MAKE EVERY EFFORT WITH OUR CONGRESS TO REMAIN.

WHATEVER THE FINAL OUTCOME IN MANILA, THE ON-GOING ADJUSTMENTS IN OUR SECURITY PRESENCE SHOULD NOT BE READ AS A DESIGN FOR AMERICAN DISENGAGEMENT FROM ASIA. EVEN AS WE ADJUST OUR POSITION, WE ARE LOOKING FOR WAYS TO ENHANCE AND SUSTAIN OUR PRESENCE THROUGHOUT THIS VAST REGION.

WE ARE WELL AWARE OF THE SECURITY CONSEQUENCES OF EVEN THE PERCEPTION OF A UNITED STATES WITHDRAWAL FROM THE REGION. WHAT WE HAVE BEEN DOING, THROUGH OUR EAST ASIA STRATEGY INITIATIVE, IS DESIGNED TO INSURE OUR ENGAGEMENT, TO MAKE IT MORE SUSTAINABLE. OUR RECENTLY CONCLUDED ACCESS AGREEMENT WITH SINGAPORE IS A CASE IN POINT. GIVEN

OUR SIGNIFICANT INTERESTS IN THE REGION, UNITED STATES' SECURITY
ENGAGEMENT IS A VITAL NATIONAL INTEREST.

THIS DEFINITION OF VITAL INTEREST, OF U.S. INTERNATIONAL
ENGAGEMENT BROADLY DEFINED IS, WITH THE COLLAPSE OF COMMUNISM,
NOW BECOMING A MATTER OF PUBLIC POLICY DEBATE. JUST TWO WEEKS AGO,
PAT BUCHANAN, A CONSERVATIVE'S CONSERVATIVE, ECHOED GEORGE
McGOVERN'S 1972 "COME HOME, AMERICA" CALL IN THE SUNDAY OP-ED PAGE OF
THE WASHINGTON POST. EVEN CENTRIST FIGURES SUCH AS THE EDITOR OF
FOREIGN AFFAIRS HAVE CAUTIONED AGAINST THE COSTS OF UNITED STATES'
INTERNATIONAL ENGAGEMENT.

I WOULD LIKE TO CLOSE TONIGHT WITH SOME BRIEF REMARKS ON THIS TOPIC,
DRAWING ON THE THEMES I HAVE TRIED TO ARTICULATE IN THIS ADDRESS, THEMES
OF INTEREST, INTERDEPENDENCE, AND LEADERSHIP.

MY STARTING POINT IS PRESENT-DAY REALITY -- THE UNITED STATES AS THE
WORLD'S PREEMINENT POWER. IT IS BASED ON PRESENT-DAY ECONOMIC REALITY
-- GLOBAL INTERDEPENDENCE. AND IT IS BASED ON THE GLOBAL NATURE OF OUR
INTERESTS, ECONOMIC, POLITICAL, AND SECURITY. MY END POINT IS THE POST-

COLD WAR, EMERGING NEW INTERNATIONAL ORDER -- OUR BRIGHT HOPES FOR A BETTER WORLD IN THE NEW CENTURY.

THE UNITED STATES CANNOT, NOR WILL THE WORLD OR OUR INTERESTS ALLOW US, TO ESCAPE THE INESCAPABLE RESPONSIBILITY OF LEADERSHIP. AT THE ENTRANCE TO OUR NATIONAL ARCHIVES IN WASHINGTON, THE MUSE OF HISTORY CAUTIONS US THAT "THE PAST IS PROLOGUE." THERE ARE TWO PASTS IN THIS CENTURY THAT WE, AS AMERICANS, SHOULD BE CONSCIOUS OF, THE PAST OF THE INTER-WAR YEARS, 1919-41 AND THE POST-1945 PAST -- ONE IN WHICH WE ESCHEWED LEADERSHIP AND ONE IN WHICH WE EMBRACED IT.

TO ME, THE CONCLUSION IS OBVIOUS: TODAY'S WORLD IS A BETTER PLACE BECAUSE OF AMERICAN ENGAGEMENT AND LEADERSHIP. THE EMERGING NEW INTERNATIONAL ORDER WILL BE A BETTER PLACE, IF WE REMAIN ENGAGED AND CONTINUE TO LEAD. AS THE WORLD'S PREEMINENT POWER, IT IS IN OUR INTEREST TO LEAD. WE LAY DOWN THE RESPONSIBILITIES OF LEADERSHIP AT OUR OWN PERIL.

TO THOSE WHO WOULD TURN INWARD TOWARD SOME IDYLIC PAST OF NON-

ENGAGEMENT, NON-LEADERSHIP, PERHAPS THOMAS WOLFE SAID IT BEST: "YOU CAN'T GO HOME AGAIN." WE SHOULD MAKE THIS OUR GUIDE AS WE BUILD A NEW INTERNATIONAL ORDER.

IF I MAY CLOSE WITH THE WORDS OF A GREAT STATESMAN, WHO FORESAW MUCH THAT I HAVE TOLD YOU TONIGHT BY SOME 50 YEARS. IN 1943, WINSTON CHURCHILL POSED THIS CHALLENGE:

ONE CANNOT RISE TO BE IN MANY WAYS THE LEADING COMMUNITY OF THE CIVILIZED WORLD WITHOUT BEING INVOLVED IN ITS PROBLEMS, WITHOUT BEING CONVULSED BY ITS AGONIES AND INSPIRED BY ITS CAUSES. IF THIS HAS BEEN PROVED IN THE PAST, AS IT HAS BEEN, IT WILL BECOME INDISPUTABLE IN THE FUTURE. THE PEOPLE OF THE UNITED STATES CANNOT ESCAPE WORLD RESPONSIBILITY.

THANK YOU AND GOOD NIGHT.

1991 National Trade Estimate Report on

FOREIGN TRADE BARRIERS

Office of the United States Trade Representative



SINGAPORE

In 1990 the U.S. trade deficit with Singapore was \$1.8 billion or \$223 million higher than in 1989. U.S. merchandise exports to Singapore were \$8.0 billion, rising \$666 million or 9.1 percent compared to 1989. Singapore was the United States' 12th largest export market in 1990. U.S. imports from Singapore totaled \$9.8 billion in 1990 or 9.9 percent higher than in 1989.

The stock of foreign direct investment in Singapore was \$2.2 billion in 1989, down \$77 million from 1988. U.S. direct investment in Singapore is largely concentrated in petroleum and electronics.

1. IMPORT POLICIES

Tariffs

Singapore imposes very few tariffs on imports; 91 percent of imports enter duty-free. However, Singapore currently maintains tariff bindings on less than one percent of its tariff lines (non-petroleum trade), in comparison with the United States, which has bound 98 percent of its tariff lines.

Since 1987 the U.S. government and U.S. companies have pursued elimination of a barrier to cigarette imports into Singapore. Imported cigarettes are assessed a duty of S\$86 per kilo. Cigarettes manufactured in Singapore are assessed a tax of S\$82 per kilo, consisting of an import duty on tobacco of S\$42 per kilo and an excise tax of S\$40 per kilo. In practice, the differential is greater because domestic manufacturers pay import duty on the actual weight of the tobacco, while the duty on the imported cigarettes applies to the entire cigarette, including the approximately 15 percent composed of filter and paper. It is not possible to estimate the increase in U.S. exports from elimination of this barrier.

2. SERVICES BARRIERS

Telecommunications

Singapore's monopoly parastatal telecommunications authority severely limits market access by U.S. firms. It does so by imposing restrictions on the sale of value-added network services, through unreasonably high volume-sensitive prices on leased-line data services resold to third parties, and through its ever-expanding definition of what constitutes "basic services" that the authority then reserves for its own exclusive provision to the market.

Singapore

Senior U.S. officials have discussed opening the telecommunications market with Singapore officials, especially in the context of the imminent privatization of the Telecom Authority. As yet, however, no progress has been made.

Legal Services

Foreign law firms that set up offices in Singapore to advise clients on U.S. or international law cannot hire Singaporean lawyers to practice law in Singapore. A locally educated and accredited lawyer becomes effectively disbarred when he or she goes to work for a foreign lawyer.

APPENDIX I

MARKET ACCESS BARRIERS IN THE FINANCIAL SERVICE SECTOR

Financial services activities have taken on increasing importance in recent years and so has the complexity of their analysis. The issues involved transcend cross-border trade and include the right of establishment, effective market access, national treatment, and equality of competitive opportunity as well as prudential and supervisory considerations.

Multijurisdictional recognition of prudential supervisory requirements and international convergence of rules, regulations, and capital standards are among the many other considerations involved.

Detailed analyses of treatment of U.S. commercial banks and securities firms in foreign markets have already been undertaken in considerable detail by the Secretary of the Treasury in collaboration with the Secretary of State, the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and more recently the Securities and Exchange Commission. These were presented to Congress in the 1979 National Treatment Study (originally mandated by the International Banking Act of 1978) and more recently in updates Congress requested in 1984 and 1986.

Sections 3601-3602 (Financial Reports Act of 1988) of the Omnibus Trade and Competitiveness Act of 1988 require the Secretary of the Treasury to report on:

"(1) the foreign countries from which foreign financial services institutions have entered into the business of providing financial services in the United States, (2) the kinds of financial services which are being offered, (3) the extent to which foreign countries deny national treatment to United States banking organizations and securities companies and (4) the efforts undertaken by the United States to eliminate such discrimination."

The report on financial services required by the Financial Reports Act of 1988 was presented to Congress in December 1990. In addition to the agencies mentioned, the U.S. Department of Commerce collaborated in this undertaking for the first time.

The report analyzed changes taking place in foreign banking and securities markets with particular attention to countries where there are significant denials of national treatment. The result was an extremely comprehensive report covering in detail the overall aspects of banking and securities markets' treatment of U.S. financial firms in overseas markets.

For example, the 1990 report examined at length the banking and securities markets in Japan and Korea and provided an analysis of EC financial directives. The full range of activities that

in any one Korean brokerage may equal up to 40 percent with no single foreign securities firm owning more than 10 percent.

MALAYSIA

Under the Banking and Financial Institutions Act of 1989, all foreign banks must incorporate locally by 1994. At this time, the central bank is not permitting new foreign banks to open in Malaysia and is not allowing existing foreign banks to open additional branch offices. The central bank considers automated teller machines (ATMs) to be bank branches, so foreign banks are not permitted to set up ATMs separate from their existing branches. They also are not permitted to join local ATM networks.

Sixty percent of all bank loans must be provided by Malaysia-incorporated banks, severely limiting business opportunities for foreign banks.

PHILIPPINES

Banking

Foreign bank branches have been denied entry since 1948. Foreign participation is now limited to no more than 30 percent (40 percent with presidential approval) of voting stock in existing domestic banks.

Securities

Only domestically incorporated companies may engage in the securities brokerage business. However, the government allows majority foreign ownership in this business. A foreign investor wishing to purchase shares of stock in a domestic corporation is limited by national ownership requirements.

SINGAPORE

Banking

In addition to a longstanding freeze on the number of full banking licenses granted to foreign banks, those banks that already have full licenses do not enjoy national treatment. Foreign banks cannot open branch offices or freely relocate existing branches nor may they operate off-premise ATM systems.

One U.S. nonbanking institution has been permitted to install two traveler's check dispensing machines in the transit area of the international airport. Singapore's only electronic banking network is open only to domestic banks.

In June 1990 Singapore raised the ceiling on foreign ownership of locally incorporated banks from 20 percent to 40 percent. It also announced that fully licensed foreign banks will be allowed to introduce home banking services to individuals via telephone and personal computer.

TAIWAN

In July 1989 Taiwan took steps to liberalize its financial markets by adopting an amended banking law. However, further liberalization measures and movement toward national treatment are needed. It also permits foreign banks to expand their scope of business to include both savings and trust/investment businesses and, at least in theory, to establish additional branches anywhere in Taiwan.

A number of problems remain regarding the treatment of foreign banks in Taiwan and, almost two years after passage of the amended banking law, U.S. banks have seen little practical improvement. The Taiwan authorities have acted slowly on applications to establish additional branches beyond the two (one in Taipei, one in Kaohsiung) to which U.S. banks were formerly limited. One U.S. bank, however, was allowed to establish an additional branch in Taichung early in 1991. Domestic banks have extensive networks of branches across the island.

Foreign bank branch capitalization requirements remain onerous, and limits on foreign exchange transactions discriminate against foreign banks in favor of the "big five" domestic banks. Although the guidelines for the establishment of branches and representative offices of foreign banks, as amended on April 12, 1990, allow foreign bank branches to operate trust/investment businesses, U.S. banks will not be able to take advantage of this because foreign banks are not allowed to establish wholly-owned subsidiaries in Taiwan. (U.S. banks may only conduct these activities from subsidiaries.) The credit card processing monopoly enjoyed by Taiwan's National Credit Card Center is particularly onerous for U.S. banks, which possess considerable processing capabilities of their own.

U.S. banks in Taiwan estimate that elimination of these restrictions could increase their aggregate earnings on Taiwan by \$25 million to \$100 million annually.

Securities

Taiwan has made limited progress in liberalizing its securities market in the past three years. In February 1990 two U.S. brokerage houses were given approval to open branch offices in Taipei, and one of them formally opened its branch office in December. In January 1991 on-shore transactions of foreign securities became available to local investors. At the same time, regulations were published to allow foreign institutional investors to invest in Taiwan's stock market.

However, restrictions on foreign participation in the local stock exchange remain. Foreign firms are barred from ownership in the Taiwan stock exchange. Total foreign ownership in a local

ASIA AND PACIFIC
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506



Date: 11/1
No. Of Pages: 20 21
(Excluding cover page)

TO:	NAME:	Co./AGENCY:	PHONE #:	FAX #:
	<u>Carol Aarhus</u>	<u>White House</u>	<u>X7750</u>	<u>X6218</u>
	_____	_____	_____	_____
	_____	_____	_____	_____

- FROM:**
- Sandra Kristoff, AUSTR (202) 395-3430
 - Nancy Adams, DAUSTR (202) 395-4755
 - Laura Kneale Anderson, South Asia and Pacific (202) 395-6813
 - Peter Collins, South East Asia and India (202) 395-6813
 - Terence Mulligan, Special Assistant, Asia and Pacific (202) 395-6813
 - Tommie Johnson (202) 395-3430
 - Diane Parker (202) 395-6813

FAX #: (202) 395-3512

CONTACT: If There are any problems please call: (202) 395-3430, 4755, 6813

SUBJECT: Singapore
Resending!

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

November 1, 1991

NOTE TO CAROL AARHUS
WHITE HOUSE RESEARCH OFFICE

FROM: Peter Collins *PC*
Director, Southeast Asian and Indian Affairs

SUBJECT: Material on Singapore

I've attached the following:

- o Two papers prepared for Ambassador Hills's October 11 meetings in Singapore,
- o the text of the framework agreement signed on October 11 and USTR's press release, and
- o sections on Singapore from USTR's annual trade barriers report to Congress.

Please call me on extension 6813 if you have any questions.

SINGAPORE - SCOPE PAPER¹**CIRCUMSTANCES OF THE TRIP**

The purpose of your stop in Singapore is to sign the bilateral framework agreement, sending a message that the United States remains vitally interested in its trade and investment ties to Asia, not just with the Americas. Meetings with senior Singapore officials will provide a direct exchange of views with the ruling elite in this small but influential country, while press events are designed to get your message to the business elite.

PRESS EVENTS: BREAKFAST SPEECH AND "MONEY MIND" AND "BUSINESS TIMES" INTERVIEWS

Singapore's business leaders will be interested in your views on:

- o U.S. trade policy if the Uruguay Round fails,
- o the potential for trade blocs and their effect on Singapore's economy,
- o U.S. commitment to an economic presence in the Asia-Pacific region, and
- o prospects for a bilateral FTA.

MEETING WITH MINISTER OF TRADE AND INDUSTRY AND DEPUTY PRIME MINISTER LEE HSIEN LOONG

- o Make the points on market access, services, TRIPs, antidumping code, TRIMs, and BOP, as noted in the bilateral Uruguay Round paper.

Minister Lee will raise the possibility of using the framework agreement as a vehicle for FTA negotiations. You may wish to respond that:

- o It would not be helpful to appear to be out in front of our domestic legal requirements.
- o Small steps may be the way to go for now: a BIT, an IPR agreement, or a bilateral agreement on services.

MEETING WITH FINANCE MINISTER RICHARD HU

The embassy recommended this short courtesy call on Minister Hu so that you could reiterate USG concerns about the lack of

¹Source: "Singapore As a Model for Development -- Lessons on Creating an Economic Dynamo" (Embassy Singapore, May 1991).

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openness in the banking and insurance sectors and the need to respond positively on financial services in the Uruguay Round.

MEETING WITH SENIOR MINISTER LEE KUAN YEW

Minister Lee likely will have thought-provoking views on regional and global issues, including ASEAN economic integration, ASEAN-Indochina relations, and the role of economic groupings like the EC, NAFTA, and APEC.

MEETING WITH PRIME MINISTER GOH CHOK TONG

Prime Minister Goh will host the ASEAN Summit in January 1992. He may be interested in discussing his vision for Singapore in the world economy, as part of ASEAN, Southeast Asia, including Indochina, the Asia-Pacific region, and the Uruguay Round.

THE BILATERAL AGENDA

Trade and investment issues play a relatively small role in overall bilateral relations with Singapore, primarily due to the congruence of the two countries' approaches in this area.

Major contentious issues that dominate U.S. trade relations with other developing countries have been successfully addressed either unilaterally by Singapore or through bilateral consultations in the 1980s. The virtual absence of restrictions on imports of goods and on foreign direct investment are examples of the former. An example of the latter is the 1987 amendments to Singapore's copyright law, which were undertaken at the request of the United States and which effectively shut down the extensive piracy of audio and video tapes for which Singapore had been noted.

Compared with other advanced developing countries like Korea and Taiwan, in Singapore we have the luxury of establishing a bilateral dialogue based primarily on "big picture" concerns, including the Uruguay Round and regional economic initiatives, without major contentious issues like residual import barriers or ineffective IPR enforcement. Our bilateral objectives -- primarily binding the openness to goods imports and establishing similar treatment for services -- can be addressed in the Uruguay Round.

A framework agreement with Singapore has value on its own: establishing a forum for regular, problem-solving consultations between important trade and investment partners. The agreement also can have a demonstration effect on the other ASEAN members in two ways. First, it can encourage them to request (or, in the case of the Philippines, more actively use) a similar agreement and thus from their perspective ensure ongoing senior-level attention to their concerns. Second, it may prompt the five

other ASEANS to reinvigorate their intra-ASEAN economic integration initiatives so that they continue to be prime beneficiaries of Singapore's openness.

THE ECONOMIC SETTING

After averaging nine percent real economic growth annually for its 25 years of independence, Singapore had a per capita GNP of US\$13,107 in 1990 (placing it among the middle tier of OECD countries), total trade of over three times GNP, inflation far below the OECD average, and an income distribution among the most equitable in the world.

The Singapore government made three critical economic policy decisions at independence. First, facing the political imperative of creating jobs, it opened up the country completely to foreign investment. Second, with virtually no industrial sector to protect, Singapore embraced free trade and international competition, allowing the market to set prices and determine who survived. And third, it adapted its incipient social security program (the Central Provident Fund) to mobilize massive private savings to develop infrastructure and housing, giving the populace a stake in Singapore's survival and success.

In addition to these early steps, a number of other factors have contributed to Singapore's development. Among the most important have been: the early switch to universal English language education; the lack of corruption; efficient public investment; a profitable public sector; placing a priority on education; co-opting the labor movement; tight political control by the government; and most importantly, superb economic management -- reflected in perennial budget surpluses.

From the start, Singapore had several unique advantages. It is a tiny country, has had virtually no agriculture, and its colonial experience as an entrepot and shipping center meant that early policy choices caused little dislocation.

Singapore is in the process of reorienting its economy. By the mid-1980s Singapore had run out of large investment projects as its infrastructure was basically in place. With its savings rate still very high and investment falling from over 40 to about 35 percent of GDP, the country has reached the point of structural current account surpluses. In addition to seeking to shift to higher value-added products and more capital-intensive means of production, it wants to move away from overdependence on a single market (i.e., the U.S.) and toward a greater integration with its Asian neighbors. Singapore is in the forefront of nations intent on taking advantage of the tremendous increase of international direct investment, led in Asia by the Japanese, and it is a driving force behind the increasing integration of the Southeast Asian economies on the basis of such investment. Singapore has

4

now reached the stage where it has the confidence and the track record to advance its own vision of the region. While Singapore has thrived under the present multilateral international trade regime, we believe it will actively pursue bilateral and regional arrangements that are to its advantage.

*Real
eco growth*

Singapore's per capita income is about \$12,800, on a par with the middle range of industrialized countries in the West. Buoyed by strong exports and domestic demand, real economic growth in 1990 was 8.3 percent. Most observers believe economic growth will slow to 7 percent in 1991 because of the downturn affecting Singapore's major trading partners, but Singapore's success in diversifying its export markets should mitigate the effects of weaker sales abroad.

Nevertheless, the city-state's economic growth is constrained by shortages of land and labor. Singapore is looking to its neighbors to overcome these deficiencies. Prime Minister Goh in 1989 proposed a "Triangle of Growth" linking Singapore, Johor State in Malaysia, and Riau Province in Indonesia. Plans for industrial parks in Indonesia's Batam Island under the proposal are well under way, and some manufacturing firms there have already begun operations.

Goh envisages expanding the Triangle of Growth concept to include the much less developed countries of Indochina and Burma in a "Crescent of Prosperity." Although Singapore prohibits private investment in Indochina until a Cambodian settlement is reached, according to the U.S. Embassy, it has encouraged trade with Vietnam's second-largest non-Communist trading partner, with bilateral trade totaling more than \$700 million in 1990.

To complement these efforts, Singapore has endorsed Malaysian Prime Minister Mahathir's proposal for an East Asian Economic Grouping (EAEG), despite opposition to the initiative from its major trade partners and the rest of ASEAN.

U.S.-SINGAPORE FRAMEWORK AGREEMENT**OBJECTIVES**

Respond to expected queries from Singapore officials regarding your views on what steps should be taken next under the framework agreement. B.G. Lee, in particular, will ask whether you favor negotiation of a free trade agreement under the current fast-track authority.

SUGGESTED POINTS

- o Especially pleased we are able to sign the bilateral framework agreement. Represents a step forward in the U.S.-Singapore trade dialogue, and I thank you for the personal attention you gave it.
- o We've identified four areas for immediate consultations: intellectual property and services (U.S. agenda) along with market access and countervailing-antidumping issues (Singapore agenda). Believe we should instruct our staffs to work vigorously to craft proposals for bilateral cooperation in these areas.
 - Proposals could range from taking joint positions on issues in the Uruguay Round, to establishing a role for the private sector in our talks, to negotiation of additional bilateral agreements on specific issues.
- o I notice there has been speculation in the press that this agreement is a precursor to a free trade area between us. I don't believe we should encourage such speculation.
 - The U.S. fast-track authority covering FTA negotiations is explicit about the steps we need to take, including close consultation with the Congress before any negotiations actually take place.
 - It would not be helpful to create a perception that our consultations to date are out in front of our domestic legal requirements.
- o While I would not rule out talking about what a free trade agreement would entail, I think it would be better for us to take a series of small steps toward the goal of free trade rather than one quantum leap.
 - We might want to consider negotiating a bilateral investment treaty, a bilateral IPR agreement, and a bilateral agreement to reduce barriers to financial and professional services. (Note: Treasury is currently opposed to negotiating a double taxation treaty, an item of interest to Singapore.)

- o (IF RAISED): Commerce has the statutory authority for administering the CVD/AD laws; but I understand your concern over the costs and administrative burdens associated with the U.S. domestic review process. I cannot guarantee a specific Commerce action on a specific case, but I will endeavor to see that the consultations on this action agenda item are as comprehensive and sympathetic to Singapore's concerns as possible.

BACKGROUND

As part of Vice President Quayle's trip to Asia, we (in conjunction with Singapore trade counterparts) suggested that the announcement of the start of negotiations on a bilateral framework agreement would be a welcome result of the Vice President's meeting with Prime Minister Goh. The press conference following the meeting confirmed that the two officials had agreed to move forward on the framework agreement.

Negotiations over the summer produced an agreed document in late September. Singapore had resisted until the last minute inclusion of language on worker rights, fearing that this would open the door to the acceptance of petitions by the AFL-CIO. Additionally, Singapore had angled for inclusion of language that would commit the USG to an early warning system on CVD/AD cases. We rejected that proposal, but tried to meet Singapore half-way by including this issue on the action agenda. The rest of the document posed no real difficulties.

Singapore's aim in concluding the agreement is to pave the way to an FTA, which it would like to see concluded before expiration of our current fast-track authority. We have not yet produced any economic analysis that would put us in a position to support or reject this idea; nor have we had any interagency discussion of the topic. At the same time, however, it could be argued that a free trade area with Singapore would send a strong signal to other ASEAN partners about the value of adopting market-oriented policies. It would be helpful if you left the door open a bit, perhaps suggesting that if we are able to conclude agreements on investment or IPR then you would be in a better position to evaluate more positively the FTA idea.

**AGREEMENT BETWEEN THE GOVERNMENT OF
THE UNITED STATES OF AMERICA AND THE
GOVERNMENT OF THE REPUBLIC OF SINGAPORE
/ CONCERNING A FRAMEWORK OF PRINCIPLES AND
PROCEDURES FOR CONSULTATIONS REGARDING TRADE
AND INVESTMENT RELATIONS**

The Government of the United States of America and the Government of the Republic of Singapore (individually a "Party" and collectively the "Parties"):

- 1 Desiring to enhance the friendship and spirit of cooperation between both countries;
- 2 Desiring to develop further both countries' international trade and economic interrelationship;
- 3 Taking into account the participation of both countries in the General Agreement on Tariffs and Trade (GATT), and noting that this Agreement is without prejudice to the rights and obligations of the Parties under the General Agreement, together with its agreements, understandings and other instruments;
- 4 Taking into account their commitment to the successful completion and implementation of the Uruguay Round of Multilateral Trade Negotiations;
- 5 Recognizing the importance of promoting a more liberal and predictable environment for international trade and investment;
- 6 Recognizing the benefits to each Party resulting from increased international trade and investment and that protectionism would deprive the Parties of such benefits;

- 2 -

- 7 Recognizing the essential role of private investment, both domestic and foreign, in furthering growth, creating jobs, expanding trade, improving technology, and enhancing economic development;
- 8 Recognizing that foreign direct investment confers positive benefits on each Party;
- 9 Recognizing the increased importance of services in their economies and in international trade;
- 10 Taking into account the need to eliminate non-tariff barriers in order to facilitate greater access to the markets of both countries;
- 11 Recognizing the importance of providing adequate and effective protection and enforcement of intellectual property rights, and taking account of their commitments undertaken and to be undertaken in the GATT, and in intellectual property rights conventions;
- 12 Noting the common objective of both countries to improve workers' welfare and provide for better terms and conditions of employment;
- 13 Recognizing the desirability of resolving trade and investment problems as expeditiously as possible;
- 14 Considering that it would be in their mutual interest to establish a bilateral mechanism between the Parties for encouraging the liberalization of trade and investment between them, as well as for consulting on bilateral trade and investment issues;

- 3 -

To this end, the Parties agree as follows:

ARTICLE 1

The Parties shall establish a United States-Singapore Council on Trade and Investment (the "Council").

ARTICLE 2

The Council shall be composed of representatives of both Parties. The Singapore side will be chaired by the Ministry of Trade and Industry (MTI); and the United States of America's side will be chaired by the Office of the United States Trade Representative (USTR). MTI and USTR may be assisted by officials of other governmental entities as circumstances require.

ARTICLE 3

The Council will meet at such times as agreed by the two Parties, including, where necessary, meetings at the Cabinet or subcabinet level.

ARTICLE 4

The Parties may seek the advice of the private sector in their respective countries on matters related to the work of the Council. Private sector representatives may be asked to participate in Council meetings whenever both Parties agree that it is appropriate.

- 4 -

ARTICLE 5

The objectives of the Council are as follows:

- 1 To monitor trade and investment relations and to identify opportunities for expanding trade and investment.**
- 2 To hold consultations on specific trade and investment matters of interest to the Parties and to negotiate agreements where appropriate.**
- 3 To identify and work toward the removal of impediments to trade and investment flows.**

ARTICLE 6

- 1 Either Party may raise for consultation any trade or investment matter between the Parties. Requests for consultation shall be accompanied by a written explanation of the subject to be discussed and consultations shall be held within 30 days of the request, unless the requesting Party agrees to a later date. Each Party shall endeavor to provide adequate notification and an opportunity for consultations before taking actions that would affect adversely the trade or investment interests of the other Party.**
- 2 Consultations shall take place initially in the country whose measure or practice is the subject of discussion.**
- 3 This Article shall be without prejudice to the rights of either Party under domestic law, the GATT, its codes, or under any other instruments to which both countries are Parties.**

- 5 -

- 4 In the event that consultations involve a dispute concerning a trade or investment measure or practice, every effort shall be made to resolve the dispute at the working level. At any time, either Party may request that the issue be reviewed at a higher level.

- 5 If resolution is not reached within 30 days following the first meeting, either Party may refer the dispute to any applicable dispute resolution procedures under the General Agreement, its codes or other instruments to which both are Parties. If a measure is referred to the GATT, consultations under this Agreement shall be considered to have constituted consultations under Article XXIII:1 of the GATT or any preliminary bilateral consultations required as part of any GATT code dispute settlement procedures.

ARTICLE 7

- 1 The Council will commence its work by considering those subjects included in the "Immediate Action Agenda" attached as an Annex to this Agreement.

- 2 The Council may establish joint working groups to facilitate the work of the Council.

ARTICLE 8

This Agreement shall enter into force on the date of its signature by both Parties.

ARTICLE 9

- 1 This Agreement shall remain in force unless terminated by mutual consent of the Parties or by either Party upon six months written notice to the other Party.

- 6 -

- 2 In the event that the Parties decide by mutual consent to amend this Agreement, such amendments may be done by an exchange of letters.
- 3 The Parties agree to prepare a mutually acceptable record of any agreements reached between them concerning any specific trade or investment issues.

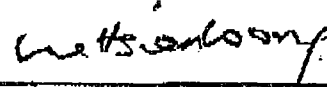
IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

Done in English in duplicate at Singapore this eleventh day of October, 1991.



Carla A. Hills

**For the Government of the
United States of America**



Lee Hsien Loeng

**For the Government of the
Republic of Singapore**

Annex**IMMEDIATE ACTION AGENDA**

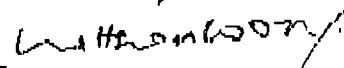
In relation to the Agreement Between the Government of the United States of America and the Government of the Republic of Singapore Concerning a Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations, the United States and Singapore confirm the following:

- 1 They are prepared to commence the work of the Council within 120 days of the signing of the above mentioned Agreement with an "Immediate Action Agenda" composed of the following topics:
 - Anti-dumping and Countervailing Duty Issues
 - Market Access Issues
 - Services Issues
 - Intellectual Property Rights Issues

- 2 The inclusion of topics on this "Immediate Action Agenda" does not limit the ability of either Party to raise for consultations under Article 6 of the Agreement any other issue relating to trade or investment which might arise in the near term and requires immediate bilateral consultations, nor prejudice the raising of new issues in the future.


Carla A. Hills

For the Government of the
United States of America


Lee Hsien Loong

For the Government of the
Republic of Singapore

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

FOR IMMEDIATE RELEASE
Friday, October 11, 1991

Contact: 91-46
Torie Clarke
Timothy O'Leary
(202) 395-3230

UNITED STATES AND SINGAPORE SIGN TRADE AND INVESTMENT AGREEMENT

United States Trade Representative Carla A. Hills and Singapore's Minister of Trade and Industry Lee Hsien Loong today signed a framework agreement establishing a United States-Singapore Council on Trade and Investment.

The framework agreement consists of a declaration of trade and investment principles, an agreement to consult on a regular basis and an initial action agenda for consultations between the two governments.

The Council's objectives are to monitor trade and investment and identify opportunities for expansion, to hold consultations on specific trade and investment matters, to negotiate agreements where appropriate, and to identify and work toward the removal of impediments to trade and investment flows.

The agreement comes under the umbrella of the U.S.-ASEAN Memorandum Of Understanding On Trade and Investment signed in December 1990 in Washington, D.C. by Ambassador Hills and ASEAN representatives.