

**EAST ASIA IN 2000: PROBLEMS AND PROSPECTS
IN THE YEAR OF THE DRAGON**

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BEFORE THE
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC
AFFAIRS
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EAST ASIA IN 2000: PROBLEMS AND PROSPECTS IN THE YEAR OF THE DRAGON

TUESDAY, FEBRUARY 22, 2000

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN
AND PACIFIC AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Craig Thomas, (chairman of the subcommittee) presiding.

Present: Senators Thomas and Kerry.

Senator THOMAS. I think we will go ahead and begin. They are still having conference meetings. We will be on the floor soon, so hopefully we will be joined by other members, but in any event I thank all of you for being here. The Subcommittee on East Asian and Pacific Affairs meets to examine U.S. foreign policy priorities and challenges likely to emerge in East Asia during the coming year.

We had a joint hearing recently with our counterparts in the House. However, this is the first subcommittee meeting of the second session, and I believe a fitting topic. We want to talk about where we think we are going and what looks to be ahead of us this year, as we enter into a new time. For those of you familiar with the lunar calendar, of course, the year 2000 is a dragon year.

I became chairman of this subcommittee about—well, 5 years ago, and pundits then were noting the significance, what many people were predicting is not to be just the 21st century, but also an Asian century, beginning under the sign of the dragon, the symbol of Asia.

The regional surge, of course, in East Asia, also economic as well as political, the economy, tigers of China and Japan and South Korea, Indonesia, Singapore, Hong Kong, growing by leaps and bounds at that time, and everyone covered them routinely, suggesting that Japan was going to replace us shortly, was buying up Hawaii and California, and the economy in China was pushing 12 percent growth rate, a population that topped 2.3 billion and so on. Hong Kong and Singapore were vying with one another for the nerve centers of the region, and so it really was a very positive thing, one that was really growing, even the nations like Vietnam and China, Communist nations, were looking a little bit at democratic reform.

Today, the picture is a bit different. The economic crisis of 1997, of course, had something to do with bursting the bubble there. The

economies were having troublesome times. Political stability was threatened from time to time. Indonesia and Japan continued to hobble along some. ASEAN has lost some of its momentum. China's growth has slowed, leadership I think fearful that its initial flirtations with reform would weaken the party's control over the country, and had cracked down on some of its minority groups and so on.

So given these, it would seem that the Asian century may be off to a little slower start, a little more shaky start than it appeared several years ago. This is, of course, not to minimize the role of Asia in this century, and so we are going to take a look at that today, and I feel like it still will be one of the most important regions of the world. Clearly, China, and by extension Taiwan, will be talking about WTO and the normal trade relations.

We will be discussing the Taiwan Security Enhancement Act, which concerns me some. We are also looking, of course, at continuous crackdowns in China.

So there are a lot of things to look at, and that is really what we wanted to do, Mr. Secretary, and I am so pleased you are here. We certainly have the newly independent East Timor, which is some concern, and about its ability to fend for itself. North Korean nuclear questions are still out there, even though the Perry report still remains unsettled, so we have issues in a number of places. At any rate, that is our chore, that is our job, that is what we are here for, so we appreciate very much your coming to be with us. Please share with us your views of where we are and where we need to go, and hopefully we will have some time for some questions when we finish.

So thank you, Mr. Secretary. Glad to have you here again.
[The prepared statement of Senator Thomas follows:]

OPENING STATEMENT OF SENATOR CRAIG THOMAS

Good morning. Today the Subcommittee on East Asian and Pacific Affairs meets to examine U.S. foreign policy priorities and challenges likely to emerge in East Asia in the coming year. Although we had a joint hearing with our House counterparts two weeks ago, this is the Subcommittee's first hearing of the Second Session of the 106th Congress and is, I believe, a fitting topic for us to begin with. I will keep my opening brief, so that we can get to our witness this morning; we have a lot of ground to cover.

For those of you familiar with the lunar calendar, the year 2000 is a dragon year. In fact, it is a double dragon year—a rare intersection of the Chinese zodiac with the duodecimal cycle that happens only once every sixty years. When I became Chairman of this Subcommittee almost 6 years ago, pundits were noting the significance of what many people were predicting would be not just the 21st Century, but also the “Asian Century,” beginning under the sign of the dragon—the symbol of Asia.

The regional surge in East Asia was both economic and political. Asia's economies, the Asian Tigers—China, Japan, South Korea, Indonesia, Singapore, Hong Kong—were growing by leaps and bounds. Magazine covers routinely predicted the demise of America's economic preeminence. Japan was going to replace us shortly, and was buying up Hawaii and California. China's economy was pushing a 12% per year growth rate, its population topped 2.3 billion, and it began expanding its military. Hong Kong and Singapore vied with each other to be the financial nerve centers of the region. Countries began asserting their own geopolitical interests—a phenomenon best illustrated by the growing importance of ASEAN in settling regional disputes. And even in communist nations like Vietnam and China, economic growth began to spur the first stirring of democratic reform.

But today, as we begin that “Asian Century,” the picture is much different. The economic crisis of 1997 burst the Asian bubble. Economies began to collapse, and political stability was threatened. Rather than being surpassed, we found ourselves

saving our former competitors. Economies were gutted; Indonesia's and Japan's still continue to hobble along. ASEAN has lost its forward momentum. In China, growth has slowed and the leadership, fearful that its initial flirtations with reform would weaken the party's control over the country, has cracked down hard on any perceived threats to its monolithic stability—most notably on the Falun Gong movement.

Given these developments, it would seem that the "Asian Century" is off to a bad start. That is not to minimize the importance Asia will play in this century. I still firmly believe that, as a region, its importance both politically and economically will continue to grow; it may just be that it doesn't happen as fast, or as inexorably, as some originally thought. As Chairman, I feel that this year, as in the next decades, we will have to face a majority of our foreign relations and economics challenges in this particular region of the world.

Chief among these clearly will be China, and by extension Taiwan. This year we have China's accession to the WTO and China PNTR, both of which I support, and the dubious Taiwan Security Enhancement Act, which I oppose, on our plate. We also have a Chinese government that is increasingly cracking down on elements such as ethnic minorities, pro-democracy advocates, and religious groups.

But China is not the only area of concern. There is a nascent democratic government in Jakarta which is still somewhat unstable due both to the country's economic woes and an increasingly restive military. Nearby, we have a newly-independent East Timor which is still incapable of fending for itself. The North Korean nuclear question, even in the aftermath of the Perry report, still remains unsettled. And there are issues in the Philippines, Cambodia, Japan, and even Mongolia that will continue to require our attention.

I don't want to go into too much detail; that's what Secretary Roth is here for today and I am anxious to hear from him. Suffice it to say that it will be a busy year for both Congress and the Administration.

STATEMENT OF HON. STANLEY O. ROTH, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

Mr. ROTH. Thank you, Mr. Chairman. I am glad to be back. Let me begin by thanking the subcommittee for holding such a broadbased hearing. The overwhelming number of hearings that I do are country-specific, or problem-specific, and it does not give the administration an opportunity to try to lay out a more comprehensive view of what is going on in the region and what the policy is. Early in the new year it is particularly helpful to have a session that starts out with the big picture and then continues on to specific issues of concern.

In my testimony, which is rather longer than usual, I have tried to cover a number of issues, and even so there are many countries you will find that are not even mentioned at all. I hope you will not consider it in any way a slight if a country is not mentioned, and feel free to ask questions on anything that is on your mind.

Interestingly, I start out my testimony on a slightly more optimistic note than your opening statement. My starting point was not where Asian Pacific region was 5 years ago, or even 3 years ago, but I compare it to the last 2 years, and it strikes me that one of the major events now that is different from when I testified a year ago has been the dramatic economic recovery in Asia. There is a great deal of optimism in the region that you simply did not see a year ago. We have had growth rates of almost 10 percent in Korea, compared to a very negative growth the year before, a growth rate of 5 percent in Thailand, growth in almost all of the region.

When you go back and read what people were talking about 2 years ago and a year ago, when people were talking about lost gen-

erations, about needing a decade to recover, talking about the social consequences, and the risk of political instability, Asia has done remarkably well.

Now, this is not really to differ with you and your facts, but really to suggest a different perspective. Yes, Asia is different than it was before the financial crisis. Clearly, there is more unemployment. There have been more economic losers than winners in these individual countries.

There is still the possibility that their recovery may not be as sustained as we would like, and certainly we are not seeing the kind of pervasive double digit growth rates that have characterized so much of the nineties. I am not arguing that Asia is back in the identical sense, but I am arguing that probably the single biggest change in the region over the last 12 months has been the economic recovery.

Another change, and I will not dwell on it unless you want to talk about it in the question period, is a rebirth of interest in regional institutions. You may recall last year there was a lot of talk about ASEAN being dead, about APEC being moribund and, not surprisingly, when countries were preoccupied with their economic survival there was less focus on the regional institutions.

But as the countries are coming out of their economic difficulties, you are seeing a lot more interest once again in these regional institutions and particularly ASEAN, also a rather vibrant meeting in Manila, the so-called 10 plus 3 meeting last fall, at which there was quite a bit of discussion about regional architecture and regional problems. They got the leaders of China, Korea, and Japan to come to the meeting. So you are seeing a rebirth of Asia thinking of itself as a region again, and ASEAN regaining some of its confidence. So again the wheel is turning, and the mood is quite different from a year ago.

Having said that, what I would like to do is start my tour of the region with the alliances that we have. Too often we start with some of the problems, but I would like to start with some of our strengths, and let me begin with Japan. It is particularly appropriate, since Foreign Minister Kono was just in Washington over the weekend and had a series of meetings, including with the Secretary of the State, the President's national security advisory, and U.S. Trade Representative.

We covered a wide range of issues, and my basic message here today is that the U.S.-Japan bilateral relationship is in excellent shape. On the security side we have made progress, as you know, on the defense guidelines. We have made progress on joint research on TMD. We have the possibility of progress on Okinawa base issues. There is a new Governor on Okinawa, which has helped to free up the political atmosphere in a way where it is now possible to try to come to closure on relocating the Futenma Base. And of course, we have the G-8 summit meeting coming up over the summer, which is a real opportunity for Japan to focus its attention on Asian issues.

On the foreign policy side of the ledger, cooperation is strong as well. We have worked very closely with Japan, for example, both on Indonesia and on East Timor. Japan has been the largest donor in East Timor, and one of the largest donors to the Indonesian elec-

tion campaign, generally supporting the same goals as the United States in both places.

Japan, of course, was a major contributor to Asia, particularly Southeast Asia, throughout the financial crisis. Outside the region it has been very helpful on some of our issues such as Kosovo and the Middle East peace process in terms of its financial contribution. So we have strong cooperation on the security side of the ledger and on the foreign policy side of the ledger.

Now, I am not suggesting we have no issues. That would be ridiculous. Clearly, we do. Obviously, one of the key issues this year will be renegotiating the agreement that provides the host nation support, which is one of the key components of how Japan supports our continued forward deployment of troops in their country. It amounts to roughly \$4½ billion a year.

This agreement needs to be renegotiated this year, and obviously we are interested in maintaining this very robust level of support. It has been crucial—and you would certainly know this better than I—to maintaining support for the forward deployment of troops in Asia in the Congress that the Japanese contribution has been so generous. This is really a strategic issue and not an accounting issue.

On the economic side of the house, you are familiar with the difficulties of the Japanese economy. Despite huge fiscal stimulus programs, domestic demand remains weak, and the economy has had several difficult quarters. This was certainly a major contributing factor to our record bilateral trade deficit in 1999, because Japanese demand for our exports remained depressed even though our burgeoning economy was having the opposite effect. We continue to urge Japan to use all tools for domestic-led growth, including fiscal and monetary policy, deregulation and restructuring, and more openness to foreign direct investment.

Particular sectors we are concerned about include prospects for telecommunications liberalization. We are concerned about cutting telecom interconnection rates. We want to increase competition in the marketplace.

Let me turn briefly to Korea. This is a major year, marking the 50th anniversary of the duration of the Korean war. Our ties are probably in the best shape they have been in recent memory. I have already mentioned the economic recovery. In terms of our policy with respect to North Korea, there is great cooperation between the ROK and the United States as well as Japan.

You are probably familiar with this horrible acronym, TCOG, which describes the trilateral process by which the United States, Japan, and Korea cooperate in formulating policy toward North Korea. It is a direct outgrowth of the Perry process, and one of the successes. When you recall where we were roughly a year ago, when we had concerns about the suspect site, when we had concerns about the possibility of another North Korean missile test, when we had concerns about the unity of policy between the three allies, I we have made a whole great deal of progress throughout the last year.

Now, obviously, the point you made in your opening statement is correct. The fact that we have made this progress does not mean it is immutable, and does not mean the problem is fully solved. It

is not. We are still awaiting the high-level visit from appropriate North Korean officials to the U.S. We would like to make progress in the course of that visit on codifying the moratorium that we now have on the long-range missile test. We would like to get serious negotiations resumed both on missiles and on weapons of mass destruction.

So there is a lot of work left, and I do not mean to minimize it, but again, when you look at it from a short term perspective I think there has been significant progress over the past year. We remain supportive of South Korean policy, which is engagement with North Korea, and we think that this policy under Kim Dae Jung's leadership has opened up prospects for more creative diplomacy. We will see if we are able to collect the fruits of that policy this year.

In my statement, I then go through some of our other alliance relationships. Mr. Chairman, I do not think we should just focus on Japan and Korea when we talk about allies, and so I reviewed the Philippines, Australia, and Thailand. In the interest of time I suggest I will skip over it orally, but we can come back to it in the question period, as I think I want to make some comments moving past our alliances to other countries, starting with China.

Obviously, 1999 was a difficult year in U.S.-China relations. I will not take up the committee's time with detailed explanations about what you already know about the WTO process, Zhu Rongji's visit, and the accidental bombing of the embassy. I think you are fully aware of where we are now, that we have reached the agreement on payments with the People's Republic of China, subject to congressional appropriations, but that, I think, is helping us to put that issue behind us. We have now reached a bilateral agreement on WTO accession, and the President has publicly enunciated on many different occasions his commitment to secure permanent normal trade relations this year.

Obviously, the next step is to see if China completes its other bilateral agreements during negotiations resuming with Europe, which will be critical. I cannot give you an exact timetable, much as I would like to, of when this issue will be ready for congressional consideration, but we are determined to deal with it as early in the year as possible.

Too many people, in thinking about the China relationship, will focus on the negative side. There have been a lot of dire predictions about the prospects for the relationship in an election year. I would like to think that we do have opportunities, building on the WTO agreement, building on the agreement on the embassy bombing payments, to move the relationship forward, and there have been some encouraging signs in that regard.

The fact that there has been a resumption of the military-to-military dialog, with them sending a high-level official here, is significant, although I would not want to overstate the specific accomplishments. Deputy Secretary of State Talbott just led a high-powered delegation to China to engage in a wide-ranging strategic dialog on a number of subjects, and they felt that they had good talks on a wide range of issues.

Not that we closed our differences on everything, but we made progress, so I think it is possible, despite the coming election, and

despite the seriousness of the issues, for us to work together with China on some issues this year to try to keep the relationship on a stable footing. Obviously, our ability to secure congressional approval for PNTR will be critical to that effort.

I also should make clear I am not trying to minimize in any way the significant problems that remain in the U.S.-China relationship. For example, just to take the issue of human rights, we obviously have major differences with China. We believe that the situation went backward over the last 12 months, and there has been a deterioration in the human rights situation, whether it was the crackdown on Falun Gong, the handling of political dissidents, the failure to ratify either of the two covenants that have been signed.

It was not a good year for progress, and for that reason the administration has announced very early its decision to cosponsor a resolution in Geneva at the Human Rights Commission meeting. It is not that we seek a confrontation with China for the sake of confrontation, but we feel it important that we speak our mind and call it as we see it on these human rights issues, even as we are trying to make progress in other arenas.

At this point, Mr. Chairman, in my written statement I turn to a brief discussion of Taiwan issues. Since my testimony was put to bed prior to the release of the white paper that came out yesterday, there is no reference to it in my testimony itself. I think that may be of the greatest interest, so why don't I just offer a few comments now on that subject.

Clearly, the PRC white paper statement, particularly the aspect stating that an indefinite delay in cross-strait negotiations would be a reason to use force, is a source of concern to us. We are in the process of expressing this concern to China, both here through their Embassy and in Beijing through our Embassy.

The threat of the use of force to resolve the Taiwan question is contrary to the commitments contained in the communiqués that are the bedrock of U.S. policy, and to developed longstanding positions that issues between the two sides should be resolved peacefully. We have a clear and longstanding position on cross-strait relations, including our insistence on peaceful resolution of differences between the PRC and Taiwan. We support cross-strait dialog as the best way to resolve those differences, and we will continue to adhere to our one-China policy.

We urge the PRC, as well as Taiwan, to refrain from actions or statements that increase tensions or make dialog more difficult to achieve, and to take steps that foster dialog, reduce tension, and promote mutual understanding. Of course, the U.S. has consistently stated that it is up to the PRC and Taiwan to determine what constitutes a basis for dialog, but again, the key point in U.S. policy is that we have an abiding interest in the peaceful resolution of differences between the PRC and Taiwan.

Obviously, I would be willing to come back to this in the question and answer period.

Finally, in my statement I had a long section on Indonesia in which I talk about the priority which we are according to Indonesia as one of the Secretary's four democratic countries we are focusing on this year. Over the past year much of the attention was, of

course, on East Timor. I will not dwell on that, since we did hold a separate hearing on that about a week ago.

But on Indonesia itself I want to emphasize just how much attention and support the administration is putting into this account, ranging from what you might call public diplomacy, or open support for the regime, inviting President Wahid early in his administration to the White House. We have already had two Cabinet members out to visit Indonesia, as well as numerous mid-level officials.

We have increased U.S. aid levels, although they are still relatively modest compared to the needs. We have been supporting the IMF and the World Bank, each of which has resumed disbursements. We have sent out an interagency assessment team, which is designed to look at our aid programs and see if they need to be reshaped, restructured, or enlarged to better deal with Indonesia's many problems, and we are trying a different concept.

With the relatively modest resources available to us in the foreign aid budget, we are not going to be doing large-scale development projects. Instead, the Secretary is trying to focus on institution-building, strengthening various institutions in Indonesia where we have a lot of expertise. Whether it is press, the parliament, the local parliament, or civil society, we are trying to see how we can strengthen institutions, and that is where we are going to funnel our resources, rather than into the traditional kind of large-scale development projects. That will be much more the purview of the World Bank, the Asian Development Bank, and the other multilaterals.

In my statement I list a lot of the positive developments that have taken place thus far under the new Government. I will not review them here, but the point I want to make is, there should not be any expectation, and there certainly never was an expectation by the administration, that the new Government, no matter how legitimate, was going to be able to solve all of Indonesia's formidable problems in the first 100 days.

Many of these problems were created under the 30-plus years of the Suharto regime, and whether it is reviving the economy, changing the balance of power between Java and the other islands, or resolving the very tough regional issues, like Aceh, whether it is finishing the refugee business in West Timor, gaining control over the military, and the issue of civilian supremacy, there is an enormous amount of work remaining to be done in Indonesia. Our point is, we are in it for the long haul. This is going to be a very important country, with a lot of problems and a lot of issues for us for the foreseeable future.

Why don't I stop at that point, Mr. Chairman.
[The prepared statement of Mr. Roth follows:]

PREPARED STATEMENT OF HON. STANLEY O. ROTH

Mr. Chairman, thank you for the opportunity to testify before your subcommittee this afternoon, and thank you particularly for choosing to begin the legislative year with an overview of developments in the region. I hope this hearing will establish a broad framework as we deal with particular issues across the region in the coming year.

At this time last year, an overview of the region would have been cast in tones of measured pessimism. The continuing effects of the financial crisis seemed to offer the inevitable prospect of a long and difficult recovery. Talk of a coming Pacific cen-

tury seemed to be an inconvenient relic of another time. Instead, regional leaders were pre-occupied with the consequences of economic crisis and the potential for political instability. Some spoke darkly of a lost generation. But that pessimism has largely disappeared in the wake of the surprising economic recovery in most of the region. So I thought it would be appropriate, Mr. Chairman, to begin my testimony with some comment about the regional economy. After that I will briefly review some salient developments in countries of particular importance to U.S. interests in the region.

ECONOMIC RECOVERY

This past year has seen a remarkable recovery from the Asian financial crisis. It was, by any measure, the major regional development of the past year. Two of the countries worst hit by the crisis—Thailand and the Republic of Korea—posted robust GDP growth figures of five and ten percent respectively. Other countries, including China and the Philippines, also ended the year with higher GDP growth than had been predicted at the beginning of the year. Inflation was reduced substantially across the region. With returning growth came renewed optimism.

To be sure, we are not back to pre-crisis economic levels. Clearly there are challenges remaining. The financial crisis was a harsh reminder that economies must be transparent and financial institutions must lend responsibly. Market discipline and the rule of law must be strengthened to curb the corruption and cronyism that were responsible, at least in part, for the economic suffering of the recent past. Some Asian leaders and economists have ruefully suggested that the recovery may have come too soon, that in some countries the recovery may dissipate the motivation to make reforms that are still required to ensure the long-term health of the economy.

In addition, workers in a number of countries have yet to regain the standard of living they had enjoyed during the previous boom times. Even in Korea, the fastest recovering economy, unemployment is still higher than it was before the crisis. Where workers have secured new jobs, many are earning less than they did before, while prices have risen. The social safety nets, which were so clearly and painfully absent during the financial crisis, have yet to be put in place in a number of countries.

Finally, it should be recognized that there are two wild cards, which could slow or even derail the regional recovery. If U.S. economic growth should falter or Japan's economy take a severe downturn, this could significantly reduce markets and investment sources important to regional recovery.

THE REVIVAL OF REGIONAL INSTITUTIONS

When they faced economic difficulties, countries in the region quite understandably turned inwards. As their economies have revived, there has been an equally understandable renewal of interest in regional institutions, such as APEC and ASEAN. To cite just one example, the ASEAN summit in Manila last November was the occasion for a successful "ten plus three" meeting between ASEAN, China, Japan and Korea which offered an opportunity for an unstructured dialogue on both economic and security issues which concern both Northeast and Southeast Asian nations.

ALLIANCE PARTNERSHIPS

With that, let me turn to some of the specific countries and bilateral relationships that I know are of interest to the Committee. Let me begin with the alliance partnerships, which have been the firm bedrock of U.S. interests in the region since World War II. And, let me offer an unequivocal assessment: our alliance partnerships have never been stronger, have never been more important than they are today.

Japan

No relationship is more important to the stability of the Asian Pacific region than the U.S.-Japan alliance. This statement has become such a mantra that we sometimes skip past it, but we cannot afford to do so for one simple reason: our security depends on it. Our bilateral security relationship with Japan is as strong as it has ever been, and our bases in Japan remain fundamental to our strategic presence in Asia. Japan is host to 47,000 U.S. troops, second only to Germany, and is home to the only carrier group home ported outside the United States.

We have worked hard with the Obuchi government to strengthen the U.S.-Japan security alliance. We agreed on revising the Defense Guidelines to enable us to cooperate more effectively in response to a regional crisis. We agreed to fund joint re-

search on Theater Missile Defense (TMD). With the 2000 G-8 Summit scheduled to take place next July in Okinawa, the Obuchi government has also been working hard to resolve U.S. basing issues on the island, particularly the relocation of the Marine Airstation in Futenma. On November 22, Okinawa Governor Inamine announced his support for relocating this base to a less crowded site in northern Okinawa. On December 28 the Japanese cabinet formally approved the Futenma relocation.

The U.S.-Japan cooperation on a range of foreign policy issues remains a key aspect of our partnership. Japan has played a critical role in KEDO. It has agreed to fund a significant portion of the costs of the light water reactor, which KEDO will build at Yongbyon in North Korea, and it has joined in cementing a firm resolute trilateral approach with South Korea and the U.S. toward North Korea.

In Southeast Asia, Japan assisted both Thailand and Indonesia in responding to the Asian Financial Crisis. Japan has also supported the referendum process in East Timor and helped fund the redevelopment of East Timor and its transition to nationhood. A Japanese official now serves as the Deputy UNSYG Special Rep for the UN Transitional Authority in East Timor under De Mello.

Outside the region, Japan has provided political and financial backing for peace implementation and reconstruction efforts in Kosovo and is a major supporter of the Middle East Peace Process. In short, Japan's interests are global in scope, and as close allies, the U.S. and Japan share many of the same goals and work together on a broad range of issues.

Let me turn now to issues that we and Japan are working to resolve, but let me underscore that these issues occur within the context of a strong and vibrant relationship.

On the security side of the ledger, we must complete successfully negotiations begun earlier this month at the working-level to renew the five-year Special Measures Agreement, one of the two key components of Japan's Host Nation Support (HNS) for our troops stationed in Japan.

Japan provides the most generous HNS of our allies, some \$4.5 billion. This is not merely a financial contribution, but, as Amb. Foley noted in an op ed in "The Asahi Shimbun" last week, it is Japan's investment in its own security and in the stability of the region in which it lives and which is essential to its economic well-being.

On the economic side, the health of the Japanese economy remains a continuing concern both for the government of Japan and for its trade and investment partners, including the United States. Despite continuing fiscal stimulus efforts by the Obuchi government, domestic demand remains weak, and Japan's economy continues to sputter. Japan's economic malaise was an important factor in our record high bilateral trade deficit in 1999, as Japanese demand for our exports remained depressed, while our strong economy continued to absorb their imports. We continue to urge Japan to use all tools for domestic demand-led growth, including fiscal and monetary policy, deregulation and restructuring, and more openness to foreign direct investment. We are particularly concerned about prospects for telecommunications liberalization, which would generate new jobs and business formation in Japan and opportunities for U.S. firms; in high level negotiations, we are asking Japan to cut telecom interconnection rates, to increase competition in the marketplace.

The Republic of Korea

Later this year we will begin commemorating the fiftieth anniversary of the Korean War. This anniversary finds our relationship with the Republic of Korea closer than it has ever been. I discussed earlier Korea's remarkable economic recovery. Here I would like to focus on our continued and growing cooperation in managing the threat posed by North Korea.

Dealing with the threat of North Korean nuclear and missile proliferation is one of the greatest challenges we face in East Asia. Thanks to the Agreed Framework and the Korean Energy Development Organization (KEDO), the very dangerous nuclear facilities at Yongbyon are frozen and under international inspections. South Korea and Japan have both assumed the vast bulk of the cost of the light water reactor (LWR) project. It is essential that the U.S. continue to fund our contribution to KEDO for heavy fuel oil. Only then will this freeze remain in place.

However, a year ago, we faced a new crisis: North Korea's launch of a Taepodong missile over Japan in August 1998. Intelligence had also indicated that North Korea might be developing an underground nuclear site in violation of its Agreed Framework obligations. Amb. Chuck Kartman engaged in intense negotiations with North Korea to gain access to that suspect site to deal with our concerns. As you know, our determined pursuit of our concerns regarding the underground site resulted in access to it last year, and confirmation that it did not contain a reactor or nuclear

processing facility, nor was it suitable to house either one. We will return to the site again this year.

Over the past year, we undertook a fundamental review of our policy towards the DPRK. Thanks to the leadership of former Defense Secretary Bill Perry and State Department Counselor Ambassador Wendy Sherman, we have created a new framework for our approach to North Korea, built upon the principle that the U.S. remains ready to markedly improve its ties with the DPRK, but only as the DPRK deals with issues of concern to the U.S., particularly in the missile and nuclear areas.

Significantly, as we pursued the policy initiatives recommended by Dr. Perry, North Korea agreed to suspend long-range missile testing while we carry on high-level talks to improve relations with Pyongyang. We have also laid the groundwork for the visit to Washington by a high-level DPRK official—a visit which we expect will fix the dates for renewed talks aimed at eliminating the DPRK's long-range missile program, and new talks aimed at dealing with our remaining concerns about their nuclear weapons program.

At every step along the way, we are consulting closely with our ROK allies, as well as with Japan, building a solid structure of greatly enhanced allied coordination and cooperation. The new policy approach we have developed is the product of that unprecedentedly close coordination.

None of the progress we have made would have been possible without the visionary leadership of President Kim Dae Jung. Taking office in the midst of Korea's unprecedented economic crisis, he has not only led Korea through the challenges of economic recovery and restructuring, he has also undertaken a resolute engagement policy designed to expand contacts with the DPRK and seek reconciliation with Pyongyang.

U.S. policy strongly supports and complements ROK efforts to engage North Korea in a process that holds the hope of reducing tensions, defusing distrust and misunderstanding, promoting dialogue, and enhancing stability on this troubled peninsula. Ultimately, the problems of peace and security on the Korean Peninsula must and should be resolved by Koreans.

Pyongyang should be clear that we and our allies are serious in desiring to engage positively and build new ties. But we and others who seek better ties with the DPRK are under no illusions. Whether we are able to make further progress on these issues will depend on the North's willingness to engage seriously with us and to honor its commitments, including its Agreed Framework obligations. We have extended a hand of cooperation to Pyongyang. We trust the DPRK will have the wisdom to grasp it.

The Philippines

Our security alliance with the Republic of the Philippines is among our oldest in the Pacific, and 1999 saw a significant revitalization of this relationship. On June 1, 1999, the Visiting Forces Agreement between the Philippines and the United States entered into force. Due in no small part to the strong support of Philippine President Estrada, the VFA has made it possible for us to resume normal military-to-military contacts, including numerous ship visits and exercises. Last month, our two countries held the first large-scale joint exercise since 1993, one which involved over 2,500 U.S. military personnel.

The Philippines has played an important part in the international effort to assist in East Timor. It provided 750 troops for INTERFET. Now, a Philippine general, Jaime Los Santos has taken command of the military component of UNTAET.

The Philippine military requires significant modernization, yet faces very real funding constraints. We have agreed to help assess the Philippines' defense needs so that it can plan a cost-effective acquisition and training program over the next several years. We have already provided a number of excess defense articles, including coastal patrol craft and trucks. For the last two years, we have allocated \$1 million in FMF for the Philippines, and we are seeking an increase in FMF to \$2 million for FY 01. This will support the Philippines' need for modern equipment as it expands its participation in peacekeeping while providing for its external defense and internal security in the face of an ongoing Communist insurgency.

Australia

Australian-American cooperation is so consistently strong that it is hard for it to generate the kind of public attention it deserves. Australia has been by our side in every battlefield from Korea to Desert Storm. This past year, Australia demonstrated once again why it is such a valuable partner and leader in the region. When violence erupted in East Timor in September, Australia stepped forward to

organize and provide the bulk of the personnel for the multinational force that was sent to East Timor under the authorization of the UN Security Council.

By its actions, Australia provided a role model about how nations can take the lead in responding to crises in their own region. Expressions of support for Australia's initiative by you, Mr. Chairman, and others in the Congress were much deserved and, I believe, much appreciated.

Thailand

Thailand was the first country to be hit by the Asian Financial Crisis, and the economic crisis led to a political crisis. One of the strongest democracies in the region, the Thai responded by installing a new government committed to making the tough economic choices necessary to enable recovery. Over the past two years, the government of Chuan Likphai has won international praise for its willingness to press forward with the reforms necessary to ensure renewed growth and greater prosperity for all Thai.

Prime Minister Chuan has also led his country into a more active role on the international stage. We are pleased that Thai Deputy Prime Minister Supachai will succeed Mike Moore as Director General of the WTO in 2002. We have also welcomed Thailand's participation and leadership in INTERFET for which it provided the deputy commander. We are looking forward to Thailand hosting the ASEAN Regional Forum and Post-Ministerial Conference Meetings this summer.

OTHER COUNTRIES IN THE REGION

China

To put it simply, U.S.-China relations went through difficult times in 1999. Despite enormous efforts and high expectations on both sides, it proved impossible to conclude a WTO bilateral agreement at the time of Premier Zhu Rongji's visit last April. In May, U.S. planes accidentally bombed the Chinese Embassy in Belgrade; Chinese demonstrators damaged a number of U.S. diplomatic facilities in China. The combination of these two events led to increased bilateral tensions and the suspension of much of our engagement efforts.

President Clinton's meeting with President Jiang in Auckland in September turned the tide and provided the impetus for the conclusion of the WTO bilateral on November 15. This was followed by our December 15 agreement on handling property issues connected with the bombing, helping to close that regrettable chapter. On January 10 of this year, President Clinton announced the Administration's determination to win permanent normal trade relations for China, stating the obvious but essential fact: "Bringing China into the WTO is a win-win decision. It will protect our prosperity, and it will promote the right kind of change in China." We look forward to working with the Congress in coming months to make that win-win a reality.

With bilateral relations on a positive course, we are working to engage China in a number of areas of fundamental national interest to the United States. Deputy Secretary of State Strobe Talbott, led an impressive group—including Under Secretary of Defense Slocombe, Vice Chairman of the Joint Chiefs of Staff General Ralston and Deputy National Security Advisor Steinberg—to Beijing last week for a strategic dialogue with senior Chinese officials. They discussed our respective strategic views of the world, including regional issues such as the Korean peninsula, Indonesia, and the strategic equation in South Asia as well as our concerns over the proliferation of weapons of mass destruction. While we should not have any illusions about our differences on some of these subjects, I think it is worth remembering that China believes its national interests, like our own, are best served by a world where stability and security are the norm.

We are also carefully resuming our military-military contacts with China, in a manner consistent with U.S. national interests. It is important that our military leaders are able to clearly understand one another, avoid potential problems from lack of communication and be in a position to work together in areas where we have mutual interests, such as avoiding incidents at sea.

Within this overall context, I should be clear that I am not in any way trying to minimize the significant problems that remain. Clearly there remain difficulties in our relationship with China. With regard to human rights, for example, we have regularly and vigorously expressed our concern with China's violation of internationally recognized standards of human rights. On January 11, the Administration announced that the United States would sponsor a resolution at the UN Commission of Human Rights when it meets in Geneva in March. We took this step because of the clear evidence that China's human rights record has deteriorated seriously over the past year.

At this point, Mr. Chairman, let me offer a few points about Taiwan and cross-strait relations. I want to underscore once more the three principles that underlie the Administration's position on cross-strait relations:

- Our "One China" policy is unchanged;
- We have an abiding interest that there be a peaceful approach by both sides to resolving differences; and
- We support dialogue as the best way for differences between the two sides to be resolved.

With that, let me review briefly some other issues regarding Taiwan. First, the Administration supports Taiwan's accession to the WTO on its merits, and we hope both Taiwan and the PRC will accede this year. Second, Taiwan is in the midst of an open democratic and energetic campaign to select a successor for Li Teng-hui as president. It is a fascinating and encouraging example of the democratic process at work. All three candidates have expressed their support for stable cross-strait relations. I hope that whoever wins—and, of course, the PRC's leaders as well—will set a high priority on restoring a meaningful cross-strait dialogue. Such a dialogue, more than any military equipment, is the key to Taiwan's stability and security.

At the same time, there should be no doubt that the Administration will continue its faithful implementation of the security, arms sales, and other provisions of the Taiwan Relations Act. The efforts of some to amend this successful framework for our unofficial relations with Taiwan are not merely unnecessary, they actually weaken Taiwan's security. That is why, Mr. Chairman, like you, the Administration is strongly opposed to the Taiwan Security Enhancement Act.

Indonesia

As you and I have discussed before, Mr. Chairman, Indonesia is a country of considerable importance to U.S. interests in the Asia Pacific region. The past twelve months have witnessed a successful transition from an authoritarian regime toward a pluralistic, representative democracy. Successful parliamentary elections in June and the selection of President Abdurrahman Wahid in October enabled Indonesia's first democratic government to take office since the 1950s.

The new government came into office with the broad-based legitimacy necessary to begin to confront Indonesia's daunting economic and political difficulties. No one ever expected that President Wahid or his new government would be able to resolve all of Indonesia's problems in the first 100 days, or even 1000 days.

With that caveat, the Government has made a promising start in a number of areas:

- President Wahid has successfully asserted civilian control of the military. The suspension of General Wiranto from the cabinet to await possible legal action for his role in East Timor is only the most dramatic sign of this important transformation.
- Indonesia signed a memorandum of agreement for a new IMF program with the IMF on January 20, 2000, leading to the release of a new tranche of IMF funding, and coinciding with renewed disbursements from the World Bank.
- President Wahid freed virtually all the remaining political prisoners from the Suharto era by December 1999, a total of 196 prisoners.
- In Aceh, the government has initiated a complex negotiating process with some of the many different factions demanding a new political arrangement for that troubled province. While the outcome of the process is uncertain, the government deserves considerable credit for seeking to resolve these difficulties through negotiation rather than repression.

In all of these areas, significant challenges remain ahead, but the crucial first steps have been taken, and I am convinced that Indonesia's prospects are positive.

The U.S. has a profound interest in seeing a successful democratic transition in Indonesia—a fact reflected in the Secretary having identified Indonesia as one of the world's four priority emerging democracies. Nor is our commitment merely rhetoric. The President welcomed President Wahid to the Oval Office shortly after he assumed the Presidency. UN Ambassador Holbrooke and Secretary of the Treasury Summers have both visited Indonesia since President Wahid took office.

In response to the urgency and importance of the need, U.S. bilateral assistance to Indonesia is being increased to \$125 million for FY 2000. The bulk of this assistance will likely be used to help strengthen Indonesia's nascent democratic institutions. We are awaiting the recommendations of an inter-agency team that visited Indonesia in January to gauge how this U.S. investment can most effectively accomplish this and other goals. Helping the Indonesians build an effective and just judicial system, promote civil society, spur continued economic reform, and professionalize national and local parliaments will be among our priority concerns.

Mr. Chairman, I recently had the honor to testify regarding East Timor before this subcommittee in joint session with its HIRC counterpart, so I will generally leave any concerns you might have on that subject to question and answer. There is, however, one issue affecting our future relations with Indonesia, which must be considered in the context of Indonesia's actions in East Timor. That is the issue of accountability for past atrocities. The President suspended U.S. military-to-military relations with Indonesia last September because of our concern over the actions of the Indonesian military in East Timor. Subsequently, as you know, the provision of certain types of military assistance was conditioned by the Leahy language contained in section 589 of the Foreign Operations Appropriation for FY 2000. Until these conditions can be met, there will remain significant constraints on our ability to have a full normal relationship with Indonesia.

CONCLUDING REMARKS

In the interest of time, I have not sought to comprehensively cover all of the countries within my jurisdiction, including some that I know are of interest to members of this Committee. I would be happy in the question and answer period to redress this selective focus to encompass all of the countries of the Asia Pacific region.

Senator THOMAS. OK, Mr. Secretary. Thank you.

We have been joined by Senator Kerry. Do you have any comment, Senator?

Senator KERRY. Mr. Chairman, thank you very much. Thank you for holding this hearing. I know we had the joint hearing with the House the other day, but this is this committee's first effort to begin examining our policies in the region, East Asian region in the year 2000, and I think it is important that we do so on our own.

I was on a trip to the region in December, and I had gotten to Myanmar and had a very interesting luncheon with Ang San Suchee and some meetings with the junta there and proceeded to Bangkok, having stopped in India for the World Economic Forum, and regrettably the events of the fire in Worcester, Massachusetts require that I cancel my trip and return, which I regretted enormously, because I had an important meeting with the prime minister on the tribunal and some meetings with President Wahid and Senior Minister Lee Kwan Yu, who we will receive here, I believe tomorrow, Mr. Chairman, and whom I look forward to meeting with again.

So much of the purpose of my trip, which was also to visit East Timor, and perhaps Aceh, and come back with a better sense of things personally, had to be postponed, and I regret that. I was hoping to be able to think about these issues in that context.

I also had the privilege of being invited to speak before the Woodrow Wilson Institute on China a couple of weeks ago, and we had a massive snowstorm in the city, and so I did not do that, and so it seems that my efforts to try to move forward here are—Mother Nature has other notions.

Senator THOMAS. We are delighted you are here today.

Senator KERRY. But let me just say a couple of things, if I may, because we are gathered here in a very different context, and I think it is refreshing that we are. The region we are talking about has been through a huge amount of turmoil in the last few years, financial, economic turmoil, and I think we ought to feel pretty good about where we now find ourselves, by and large, and there is one large caveat there, and I will speak about it in a moment.

But the experience of Thailand and South Korea particularly where they vigorously embraced the suggestions of the IMF, the international community, where they undertook banking reforms,

where they put in place transparency, accountability, really has resulted in a very significant turn-around markedly ahead of those other countries that have resisted that, and I think we are beginning to perhaps see some lessons coming out of that that I hope other countries will note. Obviously, the story is not fully written, but the strength of the recoupment, if you will, and the general investor confidence that has returned to those economic arenas is not insignificant.

Japan, on the other hand, I think many of us remain very worried about, and I think in your statement, Mr. Secretary, which I just read quickly, you reflect that. I mean, you are very diplomatic about it, as you ought to be and need to be, but the bottom line is, there are some real fundamentals of deregulation, of market access, of some of the other kinds of structural reforms that other countries have embraced which Japan still resists, and which I think does not auger well for the sort of longer-term transition that Japan faces, and I know there are great tensions in Japanese society between generations about their expectations and how they will approach these issues.

So I think it bears watching, and we need to cooperate. There is the summit there coming up, and there are many opportunities for us to continue to do that, and I know you share that belief.

In Indonesia, I think President Wahid's approach has generally been salutary, and I think you appropriately point to the positive measures that he has taken which, if there is sufficient follow-through with respect to the accountability for the military actions in Timor, as well as for the process of holding the Suharto years accountable and so forth, I think augers well, and I think we can hopefully hold some very fragile threads together and perhaps even weave a stronger cloth.

Let me speak to the one issue—I was going to talk at great length, I said a couple of weeks ago, and I will be speaking next month in New York at the Foreign Relations Council on the subject of China, and I am not going to go into it all now, but I was a little disappointed in your comment today. The white paper comments are unacceptable. There is no other way to put it, and the United States has to be very clear in my judgment. There is a clarity that to some degree has not always been present in our relationship.

It is clumsy. Perhaps that is a charitable word, to suggest that it is merely clumsy. We know the leaders of China, whom we have great respect for in many ways, though we disagree with them deeply in many ways, are usually more strategic, and I think many of us were surprised by the bluntness and inappropriateness of this particular challenge.

Now, if it is merely an effort to try to affect the elections in Taiwan in a month, it is not a very shrewd way to do that, and it carries with it far more profound dangers for the longer-term interest of the United States and China and, indeed, the globe, which expects more from our relationship than this kind of saber-rattling. It is inappropriate in terms of how it ties the use of force to negotiations, and the negotiating process, and it is inappropriate with respect to the expectations that it places on arms sales and on our rights with respect to the Government of Taiwan that we have asserted over a longer period of time.

I think you are correct, and I do not argue at all with your reassertion of the one China policy, nor even with our hope for negotiations, but where we disagree in the most stringent, urgent sort of terms, it is very important for China not to misinterpret where we are in any way whatsoever, not just behind the scenes in diplomatic communication, but in public, a clear and unconfused forum, and I think the administration has to be absolutely clear and adamant about this, lest it somehow escalate and, more importantly, lest it give rise to forces in the U.S. Congress that could have a profoundly negative impact on all the other things we want to try to achieve in the course of these next months, which are vitally important to our countries.

I would hope China's leaders would rethink and perhaps rearticulate, as they sometimes do, what they mean in hopes of clarifying for everyone concerned where this might take us, because I think that it is a most inadvisable and unfortunate statement, with potential serious implications to America's own policies over the course of the next months.

Thank you, Mr. Chairman.

Senator THOMAS. Let me followup on that a little bit. First, let me say that I agree entirely. And I know it is difficult, but I do think that we need to articulate more clearly where we are in terms of our policy so that we understand it and they understand it.

My question is, do you have any feel for what prompted the timing of this so-called white paper? Would it have been the election, do you think? Is it the efforts on the Taiwan Security Enhancement Act? What is your notion as to the timing here, Mr. Secretary?

Mr. ROTH. It is obviously difficult for me to speak on behalf of the Chinese Government in terms of their exact motives. Clearly there has been a lot of supposition that this was related to the election. In fact, the most important point is that we have seen a great increase in the number of statements and the breadth of the statements on Taiwan for a period of time now.

In other words, this is not, in and of itself, out of the blue. There was a major speech by Vice Premier Qian Qichen on Taiwan that attracted a lot of attention a couple of weeks ago. Zhu Rongji met with a prominent group of American businessmen around the Shanghai conference and had some significant things to say. And I think what this is is the cumulative impact of the enormous angst in China itself about the outcome of the election, where they do not know who is going to emerge.

China obviously has a hard time with democracy, and they are indicating their concerns that, whatever regime it is had best stick to the one China policy and come back to the table on the cross-strait dialog. I give you this analysis not by way of agreeing with it, and please do not associate me with those comments, but I'm just trying to answer your question as best I can about what might be motivating them.

The important point from our side is we have been as clear as we can be—and I am sorry I did not meet your standards, Senator Kerry—on the absolute priority which we give to peaceful resolution of the issue. Ultimately, we have said, China needs to avoid provocative actions in the period leading up to the election, and

needs to avoid trying to interfere in the election. We have called for restraint on both sides, and, afterwards, for pragmatism on both sides, in order to get the cross-strait process restarted.

What is very striking to me has been the moderate positions on the cross-strait issue taken in the Taiwan election campaign. We have seen remarkable statements. When the DPP party comes out and the leader says, we will not declare independence unless Taiwan is actually attacked, that is a major change in policy and a very moderate step.

Last week the KMT candidate came out with a 10-point proposal, including suggested confidence-building measures for cross-strait relations. So we are at a moment where all three candidates in Taiwan have been trying to emphasize pragmatic, flexible positions that could get the two parties back to the negotiating table. We believe that that is the aspect that should be encouraged, and that Chinese policy should encourage this rather than discourage this with the type of statements we saw in the white paper yesterday.

Senator THOMAS. Sometimes it is hard to detect whether or not these statements that are being made are for outside consumption or whether they are simply expressing the sort of insecurity in terms of the leadership as some changes occur in China, in terms of retaining control. How do you react to that?

Mr. ROTH. My guess is that it is both. You cannot go to China and talk to the senior leaders without seeing how intensely important the Taiwan issue is. I would call it a preoccupation with them, both in its own terms—meaning cross-strait—and in terms of its relationship with the United States. In both cases, it dominates the issues.

At the same time, I think they are looking at the impact that it might have in Taiwan itself as they approach the March 18 election. So I do not think it is either/or.

Senator THOMAS. Well, I hope we make our position clear. I am sometimes a little confused by—even the President visited last time—make it clear and then stay with that. It seems to me that we ought not be excited about every statement that is made.

On Indonesia, tell me what kind of success you think the new President is having in terms of repositioning the military into more of a civilian police role as opposed to as much leadership as they have exercised in the past and control over government.

Mr. ROTH. There has been significant progress, but I do not want to overstate it—meaning there is a long way to go. Let me add some details on that. First of all, President Wahid has started the process and had quite a bit of success in demonstrating the principle of civilian supremacy. That is a new concept in Indonesia, and not one that was built into their political structure, where the military was really built into the politics under the so-called dual function policy, and was the key institution at least under Soeharto.

Now you have a position where, by his appointments, whether it was of a civilian defense minister for the first time in decades, whether it was the appointment of an admiral to be commander of the armed forces rather than an army general, the replacement of some key generals, including the Jakarta command, including in the intelligence side, with his own people, and of course the confrontation with General Wiranto, which has led to his suspension,

all I think is a pretty impressive package, in a total of 4 months, in terms of reasserting civilian supremacy.

And, interestingly, despite all the talk about coup attempts, we never saw any evidence that the military was actually contemplating it or that Wiranto was trying to organize it. It was a feared outcome and one which we warned about very forcefully, publicly as well as privately, but the good news is they really did not seem to be planning it. So even within the Indonesian military, there appears to be a recognition that the Wahid Government has tremendous legitimacy and that a coup is not the way to go if they have problems with the government's policies.

So, in that sense, they are off to a good start. That does not begin to deal with the whole dimension of your question, however, which is, how do you restructure the Indonesian military and the Indonesian police to get them out of politics, to get them playing more professional military roles, and to separate the police function from the military function?

They have started down that path, but are not finished, in terms of separating the police from the military. And they need to expedite that. We will be working to see if we can find ways to help them with training the police, which is one of the greatest problems they have in maintaining law and order.

Senator THOMAS. Let me just ask this, and I know it is a broad issue. You mentioned the Perry report. How would you summarize the Perry report? What did the Secretary suggest that we do, other than to continue to communicate?

Mr. ROTH. The key point of Secretary Perry's initiative was to suggest to the North Koreans when they address our serious concerns, particularly relating to missiles and weapons of mass destruction, than we are prepared to have a different relationship with them, a relationship that was not fundamentally adversarial, that was not committed to trying to bring them down. Instead we are saying, we are prepared to accept, as is the ROK, the existence of the DPRK as long as it is addressing our concerns on the security side.

It is an effort to try to change the relationship fundamentally away from the patterns of the past 50 years. We are requiring them to address our hard core security concerns. In that regard, we have made some initial progress, particularly the testing moratorium, on long-range missiles. If you think back to last summer, there was a lot of speculation that there was going to be another missile test. That has not taken place.

Ambassador Kartman was able to get the agreement in Berlin that this would not happen. So there has been some initial progress. It is not all rhetoric. But it is still in an early stage and we need to try to move on it. That is why we are seeking the high-level visit, which would be the reciprocal visit by the North Koreans responding to Perry's earlier visit to the DPRK. In that context, we would hope to make more progress on these security issues that I just mentioned.

Senator THOMAS. Senator Kerry, would you like to ask some questions?

Senator KERRY. Thank you, Mr. Chairman.

Let me pick up a little bit on China. Mr. Secretary, I certainly do not want to be in some kind or any kind of contentious exchange with you. I am not trying to hold up some sort of silly standard or something or take some senatorial position here that somehow we have a different view of this.

My point is simply that if our response is merely—and it is interpretive as much as anything perhaps—if our position is, in response to something they do like this, to simply say, well, we hope for a peaceful resolution, we have said that 100,000 times. I mean we have always said—that is our policy—we hope for a peaceful resolution. So there is really no change in tone, tenor or sort of substance of what we are saying. So they come out raising the ante, at least in my judgment, and other people's, and our response is the same: Oh, we hope for a peaceful resolution.

Whereas what I think we should be saying is what I said in my statement, a more clear calling to account for this unilateral escalation. Now, some might argue that this is not that much of a unilateral escalation. Last time it was missiles; this time it is words. In 1996, they required us to put two aircraft carriers into the region. And this time they are firing a paragraph right before the election instead of doing the missiles.

So I suppose someone could turn around and say, hey, it is a change for the better. The problem is that, if you read the paragraph, it says that if the Taiwan authorities refuse sine die, and I suppose it is subject to interpretation when that in fact is—the end of the final negotiations—and that could be years from now, the peaceful settlement of cross-strait reunification through negotiations, then they will be forced, forced, to adopt all drastic measures, including use of force, to fulfill the great cause of reunification.

I have heard private statements to that effect. I personally, after discussions with former Secretaries of State and others who have held your position, I have no doubt that if Taiwan declared independence unilaterally, China would go to war. I have no doubt of that. And I think the leaders should know that some of us in the United States believe that indeed a unilateral action by the Taiwanese would probably invite that reaction.

That is one of the reasons why we bend over backward to try to make certain that no Taiwanese leader could misinterpret our interpretation of that potential or the Chinese interpretation or what it might do in terms of our role in the region. And that is obviously quite different, if they were to invite that, from a sort of unilateral declaration by the Chinese, oh, we're frustrated over the negotiations, to hell with all of you, we are taking it.

And indeed, there, there is a different level of what our response might be. And I agree with all of that. But I think we have got to be, again I say, much more clear about their responsibility for these kinds of words and these kinds of unilateral departures from a lot of hard work that has tried to bring the parties together at this point.

Now, let me ask you, with respect to the region and our current relationship with Taiwan, does the administration at this point have any list of quality or quantity of weapons that we believe we ought to be selling to Taiwan that we are not that might have an

impact on their security, or do we believe that the current status is sufficient to ensure Taiwan's self-defense as specified in the Taiwan Relations Act?

Mr. ROTH. As you probably know, there is an annual process by which we review, with Taiwan, what their requirements are, and make our decisions for each year about what we are prepared to sell. It is not a static process. We never take the position that simply the status quo is adequate.

We look at it in terms of, on the one hand, Chinese military modernization, how their capabilities are changing on one side of the strait; second, we look at what are the defensive requirements on the Taiwan side, what is their absorptive capacity, financial capacity. And we have a pretty vigorous process which results, each year, in decisions on arms sales, which, as you know, are always protested by the PRC.

But at no point have we ever suggested that we can simply afford to freeze the arms sales given current developments going on.

Senator KERRY. No, I am not asking about freezing. I understand the fluidity of it. I am just asking about the assessment, as we are here today in February 2000, what is the assessment?

Mr. ROTH. All I can say in general terms is we have not met and decided as a government yet on what the specific arms sales package is going to be this year. That is something that happens later on in the session. But I believe that there are requirements on Taiwan's side that need to be addressed. And there will be recommendations and you will see additional sales.

Senator KERRY. So are we currently considering sales of additional type and/or quantity that would affect the balance in our judgment?

Mr. ROTH. I am not quite sure how to answer that question, because each sale is, in and of itself, incremental. I do not think that we are talking about anything which so dramatically shifts it in one way or another. Your question seems to imply some dramatic shift, and I do not think that is the case. We are talking about a steady process.

If you would like, I can submit for the record a list of the very significant arms sales over the 7 years of the Clinton administration.

[The following information was provided subsequent to the hearing:]

MAJOR SYSTEMS NOTIFIED/REPORTED TO CONGRESS

FY 1993–2000¹

1993

- C-130H aircraft (12)
- HARPOON anti-ship missiles (38)
- Supply Support Arrangement (FMSO II)
- Logistic Support Services for 40 leased T-38 Aircraft
- Modified Air Defense System (MADS)

1994

- MK-46 MOD 5 torpedoes (150)

¹ Listings are for notifications of Foreign Military Sales (FMS) cases pursuant to §36(b) of the Arms Export Control Act (AECA) and for sales of Excess Defense Articles (EDA) under §524 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2000, and previous.

- MK-41 MOD (Short) Vertical Launch System
- KNOX-class frigates (3) (lease to sale)
- AN/ALQ-184 ECM pods (80)
- MK-45 MOD 2 5"/54 gun system
- Weapons, Ammunition, and Support for 3 leased Frigates

1995

- PHALANX shipboard weapons system (MK-75 gun)
- Supply Support Arrangement (FMSO II)

1996

- Improved Mobile Subscriber Equipment (communications)
- M60A3TTS tanks (300)
- TH-67 training helicopters (30)
- STINGER missiles (465)
- MK-46 MOD 5(A)S torpedoes (110)
- STINGER-RMP missiles (AVENGER)

1997

- HARPOON anti-ship missiles (54)
- TOW 2 anti-tank missiles (1,786)
- AH-1W Super Cobra helicopters (21)
- OH-58D helicopters (13)

1998

- PATHFINDER/SHARPSHOOTER navigation/targeting pods (26)
- Dual mount STINGER missiles (61)
- KNOX-class frigates (2) (sold)
- MK-46 MOD 5(A)S torpedoes (131)
- HARPOON anti-ship missiles (66)
- Chaparral anti-aircraft missiles (50)
- STANDARD SM-1 surface-to-air missiles (100)
- Supply Support Arrangement (FMSO II)
- Pilot training

1999

- CH-47 SD Chinook helicopters (9)
- AGM-114K3 HELLFIRE II missiles (240)
- SINGARS (5) radios with IEW systems (5)
- E-2T Hawkeye 2000E aircraft (2)
- LSD-38 ANCHORAGE-class landing ship (1)
- Newport-Class Landing Ship Tank (2)
- Supply Support Arrangement (FMSO II)

2000 (through May)

- HAWK anti-aircraft missiles (162)
- Radar modernization: TPS-43 to TPS-75

Senator KERRY. I understand that. I am just trying to understand where we are going from here in the context of this current standoff.

Mr. ROTH. More of the same I would say, that we will continue to try to—

Senator KERRY. With respect to China itself, Strobe Talbott has just visited. I would assume some of the substance of his conversation was, do not do anything to upset the apple cart. Or in fact, he may have proffered ways in which we could be more helpful in sort of working through the problems we have. Specifically with respect to that, there has been an increase in arrests, an increase in the crackdown on religious activities. Those areas where you most have an ability to stir emotions around the world and in the United States, they seem to have been the least respectful of recent times.

Can you speak to that a little bit? Can you assess for the committee what insecurities and/or, if they are not, what judgments is the leadership of China making that in the face of the difficulties

we have on permanent status, on other issues—you are familiar with them all—they would choose to act this way? What is your judgment about that?

Mr. ROTH. Again, without putting myself in the position of speaking for the Chinese Government, I will try to offer an explanation. It is not an endorsement of Chinese actions. Clearly, some of the developments in China over the past year have created a sense of threat to the leadership.

Obviously the appearance of 10,000 Falun Gong demonstrators—or “supporters” is a better word—outside the gates of the leadership compound greatly rattled the leadership, particularly the fact that it was not predicted or known about in advance. This led to a decision at the very highest levels to pursue what we call a crackdown on Falun Gong, despite enormous international criticism.

I must say it really is one of the more extraordinary issues that I have worked on. When I went out to China in July, the foreign minister, who does not always receive me, not only received me but literally spent 30 minutes talking about Falun Gong, trying to persuade me that it was a cult and a danger and we would do the same thing.

When President Clinton met President Jiang in Auckland in September, President Jiang spoke about Falun Gong at great length and gave the President several books laying forth his position. So this is clearly something that at the highest level has struck a nerve and therefore led to this crackdown, which, I should say again, I am by no means justifying. We think it is completely unjustified and represents a suppression of people trying to peacefully represent their views that pose no security threat whatsoever to the regime and are not a political movement.

In trying to answer you, again, I am not trying to justify Chinese behavior. But when you look at the pattern, whether it is the Falun Gong crackdown, actions taken against the democracy activists, some of the steps on the house churches, recent steps on Tibet, there is a general pattern of retrenchment, of pulling inwards, and of consolidating control. It seems to be internally driven, with that dominating over the external aspects of the foreign policy costs.

Senator KERRY. I probably have some followup, but, Mr. Chairman, my time is up.

Senator THOMAS. Thank you.

Today’s paper talks of a group called the Blue Team. And, among other things, in the paper at least, it says that this team of chronic, frustrated Hill aides says the lack of access to raw intelligence about China many suspect the administration holds back data that might put Chinese developments in a more ominous light. How do you react to that?

Mr. ROTH. They should read the Washington Times.

Really, I am kind of astonished by it. I think that there has been an incredible amount of information out, both through open sources and of course through leaks. For example, there has been quite a bit of discussion of Chinese missile buildup. I really do not think there has been any repression at all of information.

Senator THOMAS. Another from this says America’s weakness is the real danger. Again, how do you respond to that?

Mr. ROTH. I am tempted to say that that is a better question for Secretary Cohen, but the reality is, when you look at the trends in the military budget and some of the things that are being done to increase readiness, to improve O&M and the like—all things out of my jurisdiction—I do not find that an acceptable way of characterizing our policy. I also think that we have a pretty good track record in terms of cross-strait issues about our strength. It is not that long ago since March 1996, and I think that act still speaks for itself. So I do not accept that characterization of our own weakness.

Senator THOMAS. What is the plan for the administration with regard to normal trading relations? I presume that is an element that is necessary if you want to move forward with WTO or closer trade relationships.

Mr. ROTH. The difficulty is in determining at what point to present the legislation to the Congress. The desire has been to get this done as early in the year as possible, as far away from the election and the polemics as possible. But at the same time there has been a very strong desire, for understandable reasons, in the Congress to see the exact deal. They want to see China concluding its negotiations with Europe and with several others, and to see the protocols before voting on something as significant as PNTR.

So there has been a bit of a race between a desire to get the vote as early as possible and the desire to see the package completed. The initial wisdom was that the Congress would insist on waiting until all the t's have been crossed and all the i's have been dotted. Now there is some consideration as to whether there could be a conditional package. But that is being debated at a higher level in the White House. I cannot give you a specific plan yet. We are still in consultation with the Congress.

Senator THOMAS. I see. Malaysia, there seems to be signs that the prime minister there is beginning to snuff out political opposition by arresting opposition leaders, as was the pattern before. How do you react to that? Do you think that is a fact? And if so, what position do we take with respect to that?

Mr. ROTH. Well, it is clearly a fact, regrettably. If we look at the arrests of people from the opposition party, not to mention the treatment of Anwar Ibrahim, it is very clear that there has been a policy now for over a year of crackdown on people that could be labelled the opposition. And we have been quite open as an administration in deploring this crackdown. Each time we do, we get a complaint from the Malaysian foreign minister or deputy prime minister, but I think that is a price we are prepared to pay.

We regret the notion that commenting on the human rights situation in Malaysia is interference in their internal affairs, which is, of course, what they insist. This time the real shock was the fact that most people, most Asians that I have talked to about Malaysia, including many of their colleagues in ASEAN, assumed that once the election was over, once Prime Minister Mahatir had won reelection and his party had done well, that that would be the occasion for lightening up, for ending any further crackdown and possibly finding a way out with respect to Anwar Ibrahim himself.

Instead, quite unexpectedly, there was an additional crackdown, with more individuals arrested, and the pursuit of further charges

against Mr. Anwar. So this has taken even ASEAN by surprise, and I think damaged Malaysia's reputation and image in the region.

Senator THOMAS. A shift a little bit again. If East Timor is to successfully become an independent country, with 700,000 people, with no real economic base, apparently not any real guideline as to how they will establish a democratic government and so on, who is going to move in there to provide the kind of assistance that apparently they are going to need to make this a successful venture?

Mr. ROTH. First of all, we have to define what is success. I think East Timor is never going to be a wealthy place, and that we have many poor island countries throughout the South Pacific and Western Pacific, many with smaller populations than 700,000, if you look at some of the countries around. So it is not as if one cannot be an independent country without being prosperous.

My sense is that it is going to take a long time to try to create some kind of industry in East Timor, whether it is tourism, or whether it is coffee agriculture, which has started but needs to be expanded. In the short term, they are going to be very heavily dependent on foreign assistance. I mentioned at the hearing last week that we are talking about international pledges of over \$500 million for the next 2 to 3 years.

That is a lot of money when divided amongst 700,000 people. So I think there will be significant aid. From the perspective of the American taxpayer, there is a good distribution. The majority of this money is coming from others, not from us. Japan is playing a large role, Portugal, Australia, the international development banks. And so this is not a burden that is falling primarily or solely on U.S. shoulders.

But one cannot project that those levels will continue indefinitely into the future. Timor is going to have to work hard to develop sources of income. One of the most important that is just being negotiated now is the question of access to revenues from the Timor Gap oil and gas reserves that may be out there in the waters between Australia and Timor. There had been an agreement between Indonesia and Australia about these revenues, and now this has to be renegotiated to reflect East Timor's independence. That could be a very significant source in and of itself.

Senator THOMAS. Senator Kerry.

Senator KERRY. Just quickly, and I am not sure you can answer it, what is your current readout on the Aceh and Irian separatist efforts?

Mr. ROTH. Aceh is at a slightly more hopeful moment than it was a couple of months ago, because I believe the government has been able to create the belief amongst the opposition factions, of which there are many, that it is prepared to negotiate, unlike all of previous history. So you now have several different processes going on.

While we were in Davos, there were very important negotiations taking place between a Swiss NGO and two of the armed resistance movements that sent representatives there. And they are trying to work out an agreement for a cease-fire and then humanitarian aid. They did not reach an agreement yet, but they agreed to meet again. And if it happens, that would be a major breakthrough.

There is also an element, through the minister of state for human rights, Hasballah Saad, who is Acehnese, to negotiate with the Acehnese, first of all, on a delegation. There are so many different factions—students, armed resistance, religious leaders, businessmen—that Gus Dur says all the time, what is the address? You tell me I am supposed to negotiate, but with whom? About what?

So there is an effort, a creative one, to try to come together with a group that is not determined by the Indonesian Government, but rather is representative of most players—they may not get unanimity—in Aceh to negotiation. But that has changed the notion that this will inevitably be fought out on the ground.

So, in that sense, things appear slightly more hopeful. At the same time, you should be aware that there is still significant fighting taking place in Aceh, that a lot of people are being killed every week, and that the fighting is in both directions. Partially, it is an effort by the government to reassert control which had lapsed in much of Aceh at the end of last year. So there has been a counter-offensive.

Part of it is violence by the GAM, the free Aceh movement, against the government forces and the police. So there are high levels of violence on each side. I cannot tell you that we are at the point of a solution, but at least a solution is theoretically possible now, and the government appears committed to trying to get it. And more Acehnese seem interested in this than just a few months ago.

On Irian, the situation is not as far along either respect. The good news is in terms of the violence, there is some, but not at the levels in Aceh. In terms of the political demands, Irian leadership is far more fractious. And so it is not quite on the same front burner as is Aceh.

Nevertheless, it is clear to us that the conceptual solution has to be the same combination as in Aceh. It is going to have to be some mix of increased political autonomy, greater control over natural resources, accountability for human rights abuses of the past, something that is a comprehensive package that can address Irianese concerns within the context of remaining with Indonesia and preserving its territorial integrity.

Senator KERRY. It is probably dangerous to do it, but are there any kind of hopes? How would you characterize our expectations or hopes with respect to either Aceh or Irian?

Mr. ROTH. I would say—this makes me sound like a diplomat—cautiously optimistic. Which is different from where I would have been under the two previous regimes. But I do think the government wants to settle these. I think the Gus Dur government recognizes the previous behavior is a blot on Indonesia's record and, furthermore, that if they are going to preserve the country's territorial integrity, they have to address some of the concerns. So you do have the President involved himself. You do have the creation of a new minister of state for human rights.

Conceptually, they are on the right track. But now the question is, can they get to closure on two difficult sets of issues?

Senator KERRY. Let me just explain that the chairman is testifying at another committee. He had expected to be testifying a lit-

tle bit later, but they have just called him to go now. So in a rare display of bad judgment, a Democrat holds power. And I promise not to abuse it.

My sense is that President Wahid has surprised, pleasantly, that he has taken steps that were more forceful and more prompt than one might have anticipated. I think he has shown a sort of clarity here about some of the things he needs to do to pull it together that is positive in terms of the international community's assessment certainly. Would you agree with that?

Mr. ROTH. Absolutely.

Senator KERRY. Would you say also that, at least till this moment, the suspension of General Wiranto and the efforts to perhaps hold the military accountable are also bona fide and, if there is follow-through, that that could be a very positive step in helping to restore credibility to the government?

Mr. ROTH. Once again, absolutely. And you have identified the key point, which is follow-through. As good as the report of the human rights commission was, that, in and of itself, is not justice or accountability. It has to be followed through to the next steps. It is now in the hands of the attorney general, whom I believe you know personally, Marzuki Darusman, to make recommendations for prosecution. And then there is the court process.

But I agree with you, it is a very good start. To get a report from an Indonesian institution that names names, including senior generals, the Governor of the province, and key militia leaders. If you had sat down to make a list and asked staff to draw up who they thought should be looked at, those are the names that were in that report. So that is a very good start.

Senator KERRY. Good. With respect to North Korea and the delegation visiting here next month and the talks that we will have, can you share with us perhaps what assurances and/or verifiable actions we might want the North Koreans to take regarding the missile program, sites of weapons-related technology and support for terrorism in order to achieve their goal of lifting economic sanctions and treating them differently with respect to the terrorism, state sponsored terrorism?

Mr. ROTH. What I would really like to do is offer you a classified briefing so I can give you an exact answer rather than speak around it in open session. I do not want to preview our tactics with the North Koreans in a public hearing.

Senator KERRY. Fair enough.

Mr. ROTH. But there is no desire to withhold that information from you.

Senator KERRY. Fair enough. I understand that. Can you share at all publicly whether or not the North Korean negotiators are mindful of U.S. efforts to develop a defense program with respect to their missile program and how that might bear on missile defense itself and the ABM treaty?

Mr. ROTH. Well, of course, one of the interesting things when you talk to the North Koreans is they view themselves as the threatened party, not the threatening party. So they always refer to the predominance of American military power, U.S. nuclear weapons and the threats we pose to them rather than ever conceding that any weapon system under development there could possibly be a

threat to us. So it is a bit of a dialog that passes each other in the night.

Nevertheless, we make sure they understand just how important these issues are to us. While I would not want to bet on how precise their understanding is of the American political system I think they are getting the message that this issue is hugely important, not just to the administration but to the Congress and the American people.

Senator KERRY. Is there some effort with respect to China at this point, which has proven to be a successful interlocutor with respect to North Korea in the past? It would seem to me they also have interests in perhaps seeing their acceptance of that reality. And I wonder if initiatives are underway to try to assist in making that happen.

Mr. ROTH. We hold regular, extensive and detailed talks with China making exactly that point. They should have identical interests with us in this regard. They do not want to see missile proliferation or proliferation of weapons of mass destruction. And furthermore, if North Korean programs threaten other countries, that is going to heighten the pressure for a TMD, if it is in Japan, or heighten the pressure for NMD in the United States, two things which China does not want to see. But China cannot insist that other countries make themselves vulnerable to threats. That is not an acceptable position.

Senator KERRY. Mr. Secretary, I would just like to say to you I underscore your own answer to that. As a 16-year veteran here now, I can remember when we first began on this committee, arms control was at the height of our concerns, and we were obviously still in the high throes of the cold war.

We have just reconstituted the arms control observer group here—under a new name, but nevertheless. Many of the more senior Senators—Carl Levin and John Warner and many others—are involved in it, and I am pleased to be part of that. And I simply want to assert that it seems to me this is a very propitious moment for the administration to raise the visibility level a little bit of these kinds of efforts.

I think the President has to do it personally. I am going to personally chat with him to do that. I know the stakes are always high when you do engage in that kind of high profile effort. But I think, given the stakes with respect to the ABM treaty, the summer decision timing and the current relationship with China, it seems to me that here is an area of mutual cooperation, that if it were to be more augmented might produce enormous results for all of us. And I would encourage every member of the administration to try to see if we could find creative ways to raise the profile and energize our nonproliferation efforts and particularly focused on North Korea, but obviously elsewhere, too.

Mr. ROTH. Fair enough. That was one of the objectives of Strobe Talbott's trip, but it is something we do across the board. The Secretary has done it. The President has done it at some of his meetings. But I will relay your advice back, as well.

Senator KERRY. I respect that, and I know that is going on. As I say, there is always a measured danger of raising the public profile before all the ducks are lined up. On the other hand, when you

raise the public profile, sometimes it creates a global impetus that helps to line the ducks up. And there is always that balancing act; I understand that. The stakes are high enough now, with the pressures we have internally in the Senate and elsewhere with respect to large financial and long-term arms control commitments that may or may not be made, that I think one cannot expend enough energy in the next few months on this effort, personally.

Is there any area that you wanted to retouch on that either of us asked about?

Mr. ROTH. Just an area of personal interest to you, where we are probably going to continue to need your help, which is Cambodia and the tribunal. Thanks to your initial conversation with Hun Sen that started the process of getting people focused on a possible compromise, we have been pursuing that diligently and it has been a roller coaster, up and down.

But the most important recent development is that UN Secretary-General Kofi Annan was in Cambodia. He met with Prime Minister Hun Sen, and agreed that they would send a team out to talk. So rather than reaching deadlock or getting into a battle over what is acceptable or unacceptable, there is a process which we of course have encouraged on both sides to try to get this to "yes" and come up with something that fully respects Cambodian sovereignty and at the same time fully respects the legitimacy of international concerns. This has to be not a show process but a genuine judicial process.

We are not there yet, but, as of today, the process is on the right track in terms of this team going out.

Senator KERRY. Well, I am very appreciative of that. I know you have expended energy on it, as has the Secretary General. In my conversation with the prime minister, he made some mention of perhaps my being out there in a month or so. And I suggested that if I thought it could be helpful, I was willing to try to do that.

Mr. ROTH. We may call on you.

Senator KERRY. If it is, I would be happy to try to do that, and see if we could leverage that. It would be good to get it included.

A final question just very quickly. When we were both in Davos, there was some conversation with people there about the transition of Hong Kong and what that might or might not augur with respect to Taiwan ultimately. Do you have any concerns about the ways in which things have transpired with respect to Hong Kong since the hand-over? And what would your judgment, just quickly, be about the status of Hong Kong at this point in time?

Mr. ROTH. Well, let me give you a quick snapshot and give you a longer answer for the record, because I think it is complex.

[The following response was received subsequent to the hearing:]

Question When we were both in Davos, there was some conversation with people about the transition of Hong Kong and what that might or might not augur with respect to Taiwan, ultimately. Do you have any concerns about the ways in which things have transpired with respect to Hong Kong since the hand-over? What is your judgment about the status of Hong Kong at this point in time?

Answer. The transition of Hong Kong from British to Chinese control has gone very well. Before July 1997, many people expressed concerns about freedom of the press, the ability to conduct business, and the presence of the PLA. On each count, the record has been quite encouraging. Many of the unique characteristics of Hong Kong have continued to flourish.

While we have some concerns, Hong Kong remains a free place that extends basic civil liberties to its citizens, defines its identity in terms of being an open international city, and largely continues to make its own decisions in terms of its vision, identity, and economic interests. Its export control policy and procedures remain world class—centered on its interest in access to high technology from the industrialized countries in order that Hong Kong can develop into a leading international information technology center. Bilaterally, we continue to work closely with the Hong Kong authorities to counter transnational crime, including narcotics trafficking and alien smuggling. We coordinate efforts to block the illegal transshipment of arms and the proliferation of weapons of mass destruction.

At the same time, there have been some developments that cause concern. The Hong Kong Government's request in June for an interpretation of the Basic Law by the National Peoples Congress in Beijing in order to change the prospective effect of a particular Hong Kong Court of Final Appeal ruling, no matter how understandable in terms of motivation, raised questions about the authority of Hong Kong's highest court—questions that can only be resolved by looking at how subsequent cases are being handled. The jury is still out. If this use of the interpretation mechanism were truly exceptional, then the impact on Hong Kong's autonomy could be negligible. In this regard, I would note that Hong Kong's particular strength is the large number of individuals and organizations (such as civic organizations, Legislative Council, the Court of Final Appeal) that speak up about their concerns on a regular basis and whose voices are fully reported by Hong Kong's active media.

We have also been disappointed by Beijing's unwillingness, after our accidental bombing of the Chinese embassy in Belgrade, to leave Hong Kong out of the vicissitudes of U.S.-PRC relations by suspending for a period approvals for U.S. naval ship and aircraft visits to Hong Kong. Fortunately, these visits appear to be back on track now; Hong Kong recently received both the U.S.S. *Blue Ridge* and the U.S.S. *Stennis* carrier task force. Again, further recourse to this sort of action raises questions about Hong Kong's status as an open, cosmopolitan city.

Overall, we continue to watch developments closely. The United States has a significant interest in Hong Kong's future stability, prosperity, and democratic development. Like many economies emerging from the Asian financial crisis, Hong Kong faces challenges on this score.

Mr. ROTH. If you asked me the bottom line, the Hong Kong transition has gone very well. When you look at some of the fears prior to reversion and the actual situation now, in terms of freedom of the press, in terms of the ability to do business, in terms of not importing Chinese styles of corruption, in terms of not having a heavy handed military presence, there are many different indicators that lots of aspects of Hong Kong have stayed the same.

There are some areas where there has been trouble, particularly some of the questions of the courts and the question of the applicability of Chinese law to Hong Kong and whether China serves as a final arbiter on the right of abode, a contentious case. So it has not been perfect, and I will give you a more detailed answer for the record, but, in general, it has been good.

Unfortunately, in terms of your specific question, though, it is largely irrelevant. Taiwan repeatedly insists that it is not interested in Hong Kong as a model, that a one country/two systems is an irritant, not a solution, and that they do not view themselves as in any way comparable to what took place in Hong Kong. Therefore they resent the notion that the same formula should be applied to them.

We have suggested to the parties that they try getting beyond the semantics. It is not a question of one country/two systems, because China has already made it clear that it is prepared to do some things very differently vis-a-vis Taiwan—for example, in relationship to military forces. So rather than get stuck on the label, where they are stuck, they should try to come up with pragmatic solutions. But I suspect that Taiwan is not looking at Hong Kong

really, much, one way or the other. A very negative situation in Hong Kong would affect Taiwan, but the positive side of the ledger does not change their basic view.

Senator KERRY. I think that is good advice. On that, Mr. Secretary, thank you very much for taking time to appear before the committee. And thank you for your good work.

And would you also pass this along. I think the administration should be thanked and congratulated for the initiative which you have asked Bill Perry to follow through on. And he and Wendy Sherman I think have done a terrific job of helping to steer us in the right direction there. And hopefully that will bear fruit. He has been a wonderful communicator with the Congress on all sides, and we are very appreciative of that initiative.

Thank you. We stand adjourned.

[Whereupon, at 3:15 p.m., the hearing was adjourned.]

