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FUTURE IMPORTANCE OF TAIWAN AND THE
REPUBLIC OF CHINA TO U.S. SECURITY AND
ECONOMIC INTERESTS

GOVERNMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON
ASIAN AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

JULY 25; AUGUST 1, 1973

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WASHINGTON : 1973

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FUTURE IMPORTANCE OF TAIWAN AND THE REPUBLIC OF CHINA TO U.S. SECURITY AND ECONOMIC INTERESTS

WEDNESDAY, JULY 25, 1973

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS,
Washington, D.C.**

The subcommittee met at 11 a.m. in room 2255, Rayburn House Office Building, Hon. Robert N. C. Nix (chairman of the subcommittee) presiding.

Mr. Nix. The subcommittee will come to order.

The purpose of these 2 days of hearings is that of providing information for the subcommittee members and the public. No one would deny that this area of the world is of crucial importance to the United States and to the peace of the world.

We have gathered together some of the finest witnesses available on the subject of Taiwan and the important questions American policy planners must face in the area.

We look forward to their testimony and we expect to find it most useful.

The first witness for today is the Honorable Henry Kearns, President, Export-Import Bank of the United States.

We welcome you, sir. Please introduce your colleagues.

STATEMENT OF HENRY KEARNS, PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. KEARNS. Thank you very much, Mr. Chairman.

I am delighted to appear before you and your committee and to discuss this important subject. I am pleased that I have with me Mr. Don Bostwick, the Executive Vice President of the Export-Import Bank, and Mrs. Nancy Pigman who is our Congressional Liaison officer.

Mr. NIX. Thank you.

Mr. KEARNS. With your permission, Mr. Chairman, I have a brief statement and it will take me about 11 minutes to read it. The reason for reading it is that there is a lot of detail in it, and then I will of course be pleased to answer any questions you may have.

Mr. NIX. You may proceed, sir.

Mr. KEARNS. Mr. Chairman and members of the committee, it is a privilege to respond to the invitation of Chairman Nix to discuss with

you current economic developments in the Republic of China. This is one of 124 countries served by the Export-Import Bank of the United States. As you know, the purpose of the Bank is to assist in the export of U.S. goods and services, and we do so through a variety of facilities, including direct loans, guarantees of loans made by others, repayment insurance to exporters and certain subsidiary support activities.

For several years Eximbank has followed the policy of examining each transaction upon its merits. It is considered to be unwise to establish credit allocations to any country. Therefore, we have no goals or minimums in the amount of business to be done and no maximum amounts per se for any country. Each transaction, however, is evaluated on the basis of three criteria: first, that the credit to be extended must be for the purpose of paying for U.S. exports of goods and services; second, the project or operation in which a purchase is made must be economically viable to the borrower and to the borrower's country; and third, Eximbank must achieve reasonable assurance of repayment in U.S. dollars.

It is obvious that in conducting a worldwide enterprise such as Eximbank it is essential that economic surveillance be maintained on each of the countries served. Fortunately, an excellent research department provides the Board of Directors with up-to-date factual data and evaluation. Our sources of information include the United States Foreign Service, international organizations, private banks, and extensive travel and communication by the Eximbank staff itself. Perspective and understanding of current and future trends is significantly enhanced through discussions with suppliers and buyers from all over the world. In this context, I will discuss the Republic of China, or Taiwan as it is sometimes known, as Eximbank sees it today.

Although recent international political developments surrounding the "China issue" have caused some uncertainties, visible effects on Taiwan's economy have thus far been small. Elimination of certain exchanges in diplomatic representation and expulsion from membership in some international organizations have reduced the intercourse between the Republic of China and other countries. However, we must observe that internal economic development seems to have suffered little from these changes. They do not seem to have deterred the dynamic export trend; rather they have undoubtedly been responsible for increased production and marketing effort. Despite foreign policy uncertainties, Taiwan's economy is continuing its vigorous growth with nearly all sectors of the economy sharing in the rapid expansion.

During the 10 years from 1962 through 1971, real gross national product increased at an average annual rate of approximately 10 percent. The increase was 11 percent in 1971, and somewhat higher in 1972.

To be sure, there exist uncertainties in the international political sphere which eventually could affect the country's economy. Nonetheless, a strong record of economic growth, general good monetary and fiscal management, continued excellent performance in the external sector, and moderate external debt service requirements all indicate the Republic of China's basic economic vitality and creditworthiness.

The country has a population of 15.2 million, with a current per capita GNP of approximately \$474. By comparison, Thailand, with

a population of 39 million, has a per capita GNP of \$174; the Philippines, with a population of 40 million, has a per capita GNP of \$200; and Korea, with a population of 33 million, has a per capita GNP of \$302.

Taiwan's sixth 4-year plan, 1973-1976, became operative in January 1973 and calls for an average annual growth rate for GNP in constant terms of 9½ percent, with exports of goods and services to increase by 12.9 percent and imports by 15 percent. While in worldwide comparison these rates would appear to be high, when viewed in the light of past performance they appear to be somewhat conservative. Moreover, the Government traditionally has tended toward conservatism in its projections of economic performance.

The plan calls for gross national product to increase in terms of current prices from \$7.2 billion in 1972 to \$11.6 billion in 1976, with a per capita income goal of at least \$550. Total external trade in current prices would increase from \$5.6 billion in 1972 to \$11 billion in 1976. Total fixed capital investment in industry for the sixth plan period is set at \$5.9 billion, with the largest amounts slated for metal and metal products (including iron and steel, aluminum, machinery, transportation equipment, and electrical and electronics equipment) \$1.8 billion; chemicals, \$1.5 billion, and manmade fibers \$0.6 billion.

Government fiscal policy has been conservative. As a result, the Republic of China's national budget has been in surplus for the past several years. I have a chart indicating this. In 1969 the surplus was \$76.3 million, in 1970 the surplus was \$33.4 million, in 1971 the surplus was \$38.3 million, and in 1972 the surplus was \$85 million, on a consecutive basis. That seems like an enviable position.

[The chart follows:]

REPUBLIC OF CHINA'S NATIONAL BUDGET, 1969-72

[In millions of U.S. dollars]

	Fiscal year ending June 30—			
	1969	1970	1971	1972
Total receipts.....	1,067.7	1,217.9	1,342.1	1,620.0
Total expenditures (—).....	991.4	1,184.5	1,303.8	1,535.0
Surplus or deficit (—).....	76.3	33.4	38.3	85.0

Mr. KEARNS. The balance-of-payments performance has been strong, with a surplus of \$582 million registered in 1972, up from \$219 million in 1971, the increase resulting largely from a trade surplus which increased from \$291 million to \$643 million on an f.o.b. basis in the same period.

Net foreign assets of the banking system on June 30, 1973, are estimated at \$1.7 billion, up from \$1.6 billion at the end of 1972.

It is obvious that Taiwan's continued economic growth depends to a very large extent on expansion of its foreign trade. For the foreseeable future, the prospects appear to be exceedingly favorable, even though the country is overly dependent upon the U.S. market which absorbed about 44 percent of Taiwan's exports, worth \$1.3 billion in 1971.

With unusually large foreign orders already on the books for most industries, it appears that real growth in calendar year 1973 may reach 12 percent. However, severe international monetary developments, such as price increases of primary commodities, and shortages may somewhat lower this growth record.

During the 7-year period of 1965-72, exports grew at an average annual rate of 32 percent against 26 percent for imports, and Taiwan's labor-intensive manufacturers, particularly electronic components and textiles, continue to enjoy high demand. The recent 5.3 percent upward valuation of its currency vis-a-vis the U.S. dollar will increase the cost of its products exported to the United States while reducing the cost of imports, thus tending to reduce the substantial trade surplus with the United States. One factor that has influenced industry on Taiwan to diversify its production has been the negotiated textile export quota arrangements. Even so, textile exports reached \$860 million in 1972, up 40 percent from 1971, and are expected to pass the billion-dollar mark in 1973.

While the United States is the most important market for Taiwan's exports, Japan has been the source for most of its imports. But this is changing; and while Japan accounted for 41 percent of Taiwan's imports in 1968, it was reduced to 38 percent in 1972, and the trend continues downward. At the same time, the U.S. participation has expanded from \$22 million in 1970 to \$663 million in 1972, and the U.S. share of Taiwan's imports will probably exceed 30 percent in 1973.

As a result of the sharp increase in the exchange rate of the Japanese yen and the apparent focus of Japanese attention upon mainland China, there has been a conscious effort in Taiwan to direct trade from Japan to the United States to the fullest extent possible. However, there is still a very substantial built-in demand for Japanese machinery, equipment, and replacement parts resulting from past trade relationships.

Preliminary data suggest that first quarter 1973 exports were more than 50 percent above the 1972 level, with greater diversification of products and penetration of more world markets. It would not appear, therefore, that recent international setbacks of a political nature have been effective in slowing Taiwan's export drive. The outlook for its foreign trade, and hence its economic growth, appears at this time to be exceedingly favorable.

At the end of 1972, Taiwan's disbursed public and private external debt, including short-term debt of \$335 million, totaled \$1,152 million, up \$266 million from 1971. The structure of the debt at the end of 1972 was short term, 21.5 percent; medium term, 37.3 percent; and long term, 41.1 percent; which is really a most enviable relationship with most other countries. Debt service payments on medium- and long-term debt in 1973 are estimated at \$236 million, or perhaps less than 5 percent of foreign exchange income.

During the past 4 years, Eximbank's exposure in the Republic of China has expanded from \$72.2 million on December 31, 1968, to \$890 million (estimated) on June 30, 1973. We believe that this expansion is eminently justified when compared to the growing economy, balance-of-payments surplus, and available convertible reserves.

*The problems facing the Republic of China are: Its limited size geographically, its high dependence upon imported primary products, possible political difficulties, and the reduction in its international association with the rest of the world.

Its assets appear to be, among other things, the quality of its economic leadership; a strong, well-disciplined, active, energetic, resourceful labor force; excellent cooperation and coordination among the various elements of the country; superb money management; excellent marketing ability, including maintenance of quality and expansive effort; the modest incomes and standard of living of its leaders; and a generally favorable location on the trade routes of the world. Even with a growing economy and substantial reserves, it is evident that financing is essential in the continuing growth of Taiwan's economy. All industries, private or public, are expected to proceed on a pay-as-you-earn basis.

The Government is undertaking development of a sound, adequate infrastructure, including expansion and distribution of its electrical power generation; improvement of its railways, highways, and ports; extensive efforts in education and health; and the maintenance of a standard policy of sending its bright young people abroad for study with the expectation of their return to assist in their country's growth.

Attached are a series of charts that indicate Eximbank participation in the Republic of China, which I can explain in detail if they are not self-explanatory, and summaries of conversations that resulted from my recent visit and extensive examination of that country.

Thank you for giving me this opportunity.

[The prepared statement of Mr. Kearns follows:]

PREPARED STATEMENT OF HENRY KEARNS, PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS, EXPORT-IMPORT BANK OF THE UNITED STATES

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Attached are a series of charts that indicate Eximbank participation in the Republic of China and summaries of conversations that resulted from my recent visit and extensive examination of that country.

Thank you for giving me this opportunity to meet with you.

REPUBLIC OF CHINA, CUMULATIVE AUTHORIZATIONS FROM INCEPTION IN 1934 THROUGH JUNE 30, 1973
(ESTIMATE)

[In millions of dollars]

	Gross authorizations	Disburse- ments or shipments	Outstanding balances ¹	Total outstanding or committed ²	U.S. exports resulting from direct loans (estimate)
Direct loans	\$750.9	\$306.1	\$85.8	\$500.7	\$1,300
Guarantees	501.8	22.2	16.0	378.7	-----
Medium-term insurance	24.7	9.0	4.2	7.0	-----
Short-term insurance	19.7	19.7	3.8	3.6	-----
Total	1,297.1	357.0	109.8	890.0	-----

¹ Disbursements or shipments less repayments.

² Undisbursed or unshipped balances plus outstanding balances.

REPUBLIC OF CHINA, GROSS AUTHORIZATIONS, FISCAL YEARS 1968-73

[In millions of dollars]

Fiscal year	Direct loans	Guarantees	Medium-term insurance	Short-term insurance	Total au- thorizations ¹
1968	-----	\$6.2	\$0.2	\$1.1	\$7.5
1969	\$9.5	7.5	1	.9	18.1
1970	82.7	13.3	10.6	1.1	107.6
1971	52.9	55.4	6.7	1.7	116.7
1972	187.8	192.6	1.9	2.9	385.2
1973 (estimate)	159.1	215.3	3.6	6.7	384.7
Total	492.0	490.3	23.1	14.4	1,019.8

¹ Totals may not add due to rounding.

Source: Eximbank annual reports and authorizations reports; fiscal 1973, Eximbank staff estimate.

REPUBLIC OF CHINA, GROSS AUTHORIZATIONS OF ACTIVE LOANS AND GUARANTEES BY MAJOR SECTORS

[Estimated as of June 30, 1973—in millions of dollars]

	Loans (1)	Guarantees (2)	Total loan/ guarantees (1)+(2) (3)	Column (3) as percent of H. (total active author- izations) (4)	U.S. exports resulting from active loans (estimated) (5)
A. Power ¹	\$404.6	\$365.1	\$769.7	75.4	\$763.9
Thermal	128.3	89.2	217.5	21.3	238.5
Nuclear	276.3	275.9	552.2	54.1	525.4
B. Chemicals and petrochemicals ²	58.6	49.7	108.3	10.6	127.1
C. Aircraft	23.3	3.7	27.0	2.6	51.3
D. CFF and refueling	23.0	2.2	25.2	2.5	38.7
E. Textile ³	16.5	13.7	30.2	3.0	34.5
F. Communications	12.1	11.0	23.1	2.3	25.7
G. Other	14.5	22.4	36.9	3.6	30.0
H. Total active authorizations	552.6	467.8	1,020.4	100.0	1,071.2

¹ Plants and equipment for power.

² Plants and related equipment.

³ Plants and equipment.

LIST OF MAJOR ACTIVE BORROWERS, AS OF JUNE 30, 1973

- A. Power: 1. Taiwan Power Co.
B. Petrochemical: 1. Chinese Petroleum Corp.
C. Chemical:
 1. USI Far East Corp.
 2. China Phosphate Industries Corp.
 3. Taiwan Fertilizer Co.

- D. Textile:
 1. Shinkong Synthetic Fiber Corp.
 2. Ta Shing Chemical Fiber Co., Ltd.
 3. Tugtex Fiber Co., Ltd.
 4. United Nylon Corp.
E. Transportation:
 1. China Airlines, Ltd.
 2. Taiwan Railway Administration.

REPUBLIC OF CHINA—EXIMBANK EXPOSURE, 1969, JUNE 30, 1973

[In millions of dollars]

	End of December—				June 30, 1973
	1969	1970	1971	1972	(estimate)
Short term insurance.....	0.4	0.5	0.5	3.6	3.6
Medium term insurance.....	6.5	12.9	8.3	6.3	7.0
Guarantees ¹	8.4	63.6	57.4	286.6	378.7
Loans ²	132.5	181.7	175.9	383.9	500.7
Total exposure ³	147.8	258.8	242.1	680.4	890.0

¹ Bank guarantees, guarantees to exporters and financial guarantees.² Regular loans, CFF and relending loans and loans sold with recourse.³ Totals may not add due to rounding.

Source: Monthly summary of Eximbank's exposure statements and Eximbank staff estimate for June 30, 1973.

REPUBLIC OF CHINA—SUMMARY OF EIB'S EXPOSURE AND POTENTIAL EXPOSURE

	Millions
EIB's exposure as of June 30, 1973 (estimate).....	\$890.0
Short term liability.....	3.6
Medium term liability.....	36.4
Long term liability.....	850.0
Additional potential exposure as of July 18, 1973.....	468.6
Loan/guarantee applications, not yet approved, but pending.....	44.3
Outstanding preliminary commitments, authorized, but not finalized.....	155.0
Pending preliminary commitments, not yet approved but pending.....	269.3
Total.....	1,358.6

JULY 18, 1973.

Chairman Kearns: Eximbank's potential exposure is broken down into loans/financial guarantees/local costs guarantees as follows:

[In thousands of dollars]

	U.S. content	Loans	Financial guarantees	Local costs guarantees
Potential Eximbank exposure as of July 18, 1973:				
Applications pending.....	\$70,400	\$28,160	\$16,160	
Outstanding preliminary commitments.....	187,465	75,140	67,270	\$12,600
Pending preliminary commitments.....	262,930	118,175	118,175	33,000

REPUBLIC OF CHINA—LOAN/GUARANTTEE APPLICATIONS, PENDING (AS OF JULY 18, 1973)

[In thousands of dollars]

Control No. and obligor	Product/project	U.S. value	Potential Eximbank exposure
4500002 ¹ —Chinese Petroleum Corp.....	Olefin and aromatic complex.....	60,000	36,000
4500005—Chia Hsin Cement Corp.....	Cement plant expansion.....	10,400	8,320
Total.....		70,400	44,320

¹ To NAC on July 12, 1973.

REPUBLIC OF CHINA
OUTSTANDING PRELIMINARY COMMITMENTS (AS OF JULY 18, 1973)
[In thousands of dollars]

P.C. No. and buyer	Applicant	Product/project	U.S. content	Potential Eximbank exposure	Expiry date
1298—China Steel Corp.	China Steel Corp.	Integrated steel mill	\$53,700	\$57,330	Aug. 31, 1973
1671A ¹ —Taiwan Ry. Administration.	International Engineering Co.	Railway electrification	20,000	19,000	Oct. 31, 1973
1788—China Phosphate Industries Corp.	China Phosphate Industries Corp.	Phosphate production	8,800	7,920	Sept. 30, 1973
2074 ² —Taiwan Machinery Manufacturing Co.	Wean United	Electrolytic tinning line	(2,800)	(2,240)	Aug. 31, 1973
2074A—Taiwan Machinery Manufacturing Co.	Aetna Standard Engineering Co.	do	2,000	3,000	Do.
2117—Taiwan Synthetic Rubber Corp.	The Badger Co.	Styrene-butadiene rubber plant	8,500	5,100	Sept. 30, 1973
2145—Kuan HSI Cement Corp.	Kuan HSI Cement Corp.	Cement plant	30,000	22,500	Do.
2158—Ming Chow Industries Co., Ltd.	Leesona Corp.	Stretch yarn machines	1,215	972	Do.
2190—Government	Mining Equipment Manufacturing Corp.	Engineering study: Taipei subway	750	638	Oct. 31, 1973
2227—Chung Tai Fertilizer Co.	McKee Engineers & Constructors	50,000 MT/year caprolactam plant	34,000	32,300	Nov. 30, 1973
2239—Sin Kong Spinning Co., Ltd.	Amatex	Textile machinery	18,600	6,080	Oct. 30, 1973
2254—Taiwan Metal Mining Corp.	McKee Mining Corp.	Feasibility study: copper smelter & refinery	200	170	Oct. 31, 1973
Total			187,765	155,010	

¹ See pending P.C. No. 1671B.² Not included in totals.

PENDING PRELIMINARY COMMITMENTS (AS OF JULY 18, 1973)

[In thousands of dollars]

PC No. and buyer	Applicant	Product/project	U.S. content	Potential Eximbank exposure
1926B—Taiwan Power Co.	Westinghouse	4 gas turbine powerplants	29,050	26,146
2242—Formosa Plastics Corp.	Western Pennsylvania National Bank	Plastics plant expansion	11,000	9,900
1671B ¹ —Taiwan Ry. Administration.	Morrison-Knudsen Co., Inc.	Railway electrification project	220,000	231,000
2293—USI Far East Corp.	National Distillers & Chemical Corp.	Polyethylene plant expansion	2,800	2,304
Total			262,930	269,350

¹ See outstanding preliminary commitment No. 1671A.

REPUBLIC OF CHINA

EXIMBANK POTENTIAL EXPOSURE BY LOANS, FINANCIAL GUARANTEES AND LOCAL COSTS GUARANTEES (AS OF JULY 18, 1973)

[In thousands of dollars]

	U.S. content	Loans	Financial guarantees	Local costs guarantees
Potential Eximbank exposure as of July 18, 1973:				
Applications pending ¹	\$70,400	\$28,160	\$16,160	
Outstanding preliminary commitments	187,465	75,140	67,270	\$12,600
Pending preliminary commitments	262,930	118,175	118,175	33,000

¹ Approved as of July 19, 1973.

LOAN/GUARANTEE APPLICATIONS, PENDING¹ (AS OF JULY 18, 1973)

[In thousands of dollars]

Control No. and obligor	Product/project	U.S. value	Potential Eximbank exposure
4500002 ² —Chinese Petroleum Corp.	Olefin and aromatic complex	60,000	36,000
4500005—Chia Hsin Cement Corp.	Cement plant expansion	10,400	8,320
Total		70,400	44,320

¹ Approved as of July 19, 1973.² To NAC on July 12, 1973.

REPUBLIC OF CHINA (TAIWAN)

TAIPEI—MARCH 16-20, 1973

March 16

Reception by Ambassador McConaughy, approximately 75 Chinese business and government leaders. Discussion centered around the relative competitiveness of U.S. products, especially as they relate to the Japanese, and the general belief that the United States now has the advantage. Tai Power will request more credits. The communications program offered by ITT will be supplied from Belgium. We can expect a broadening use of the CFF as more small businesses find it desirable to purchase modern equipment. Taiwan is gradually changing from a labor-surplus to a balanced-labor market.

March 17

Embassy briefing by Ambassador McConaughy and economic officers. There is some question about the China Steel project, particularly its involvement with the European partner. It is believed that this is a project of highest priority and that the government is determined to proceed with it. They would prefer U.S. equipment, if financing can be arranged. We discussed the possibility of requesting the Chinese to pay 20 percent down instead of 10 percent, and to add some of the financing portion so long as they have a surplus in the reserve account. The importance of Eximbank credits and attitude was outlined by the Ambassador with the belief that this is considered to be symbolic of U.S. government policy.

CENTRAL BANK OF CHINA—GOVERNOR YO KUO-HUA

Discussed the current economic situation of the ROC. Reserves exceed \$1.5 billion. It was generally agreed that the Central Bank would authorize a 20 percent down payment in most cases but would ask for Eximbank consideration in such situations as Tai Power and the steel mill. It is government policy to encourage purchases from the United States, particularly so since prices are now competitive where a year ago in most equipment, U.S. prices were 20 to 30 percent higher. Ocean freight is still a major problem due to high westbound rates and infrequency of service. For example, apples that are dearly loved in Taiwan are approximately the same price as those available from Japan or other countries, but the freight is more than double. Apples cost as much as \$1.20 each. The ROC is attempting to narrow the trade gap. They comment that 40 percent of their exports are to the United States, and they hope to protect this market. The Central Bank will provide matching funds with Eximbank under the CFF, and in some large transactions will provide at least 25 percent of the financing portion from Central Bank funds. This cannot be universal, but will refer to those cases which would seem to be appropriate.

MINISTER OF ECONOMIC AFFAIRS—Y. S. SUN

We reviewed past Eximbank support. The Ministry had prepared a detailed summary. The Minister explained that the proposed steel mill was a matter of greatest urgency and No. 1 priority in overall economic development planning, followed closely by chemicals and petrochemicals. He assured me that the ROC would honor its commitments. In the case of the steel mill, he would hope that the United States could become the supplier and that a U.S. company would partic-

ipate. The obligations would be guaranteed by the government. Shipbuilding will be expanded as well as electrical power generation. Small business will be supported, and the CFF is considered to be a useful tool.

CHINA DEVELOPMENT CORPORATION—DR. SHEN YEN, PRESIDENT

This corporation receives 50 percent of its money from the Central Bank and under CFF will use Eximbank. Dr. Shen requested that we attempt to secure a blanket 50 percent waiver on shipping so that he can package transactions, avoiding unnecessary cost and delay.

He said that in his opinion maritime restrictions were the greatest deterrent to increased use of Eximbank to maximize U.S. purchases. Also the government of the ROC requires that 50 percent of the incoming cargo will be under Chinese flag. The Central Bank loans money to the CDC for the CFF at a 6.5 percent rate. It is to be reloaned at 7.5 percent. It is prepared to handle small transactions, and whenever there are large transactions, a preliminary commitment will be used. He expressed the opinion that U.S. marketing effort does not compare with that of Europe and should be improved.

ECONOMIC DAILY NEWS LUNCHEON

I was the guest speaker at a luncheon and presented a speech entitled, "The Changing World Trade Scene." This was followed by questions and answers. There was a question regarding Eximbank willingness and ability to finance commodities and raw materials on a short term. It was answered in the affirmative. Import restrictions have been removed on 2,300 items of interest to the United States. Those attending the luncheon were reported to symbolize the ROC evolution into private business, with greater diversification and increasing emphasis on the international market. The importance of credit was stressed, especially the importance of maintaining the support of the United States. The Chinese observe the fifth day of the first month as Money Day.

TV INTERVIEWS

I was requested to comment upon the world monetary crisis, what it means and the prospects of the future, the meaning of the European float, prospects for U.S. trade and the support of Eximbank.

U.S. BANKS

A meeting with the chief officers of the five U.S. banks operating in Taiwan—Chase, Irving, First National City, Bank of America and American Express. The banks were unhappy over what they believed to be ROC discrimination in their operations. They claimed that the government was forcing down interest rates, making loans unprofitable. The Chinese banks are giving very fierce competition, and U.S. banks are restricted in the type of business they can conduct. I was queried as to whether or not Eximbank is retreating from its former position of support for Taiwan. The view was that to do so would have a bad psychological effect. There was interest in extending longer terms and a belief that other countries are offering better terms than Eximbank. The shipping problem was emphasized, and the usefulness of a DISC was questioned. It was suggested that the Webb-Pomerene Act should be strengthened. There was the belief that there is opportunity to increase exports by financing commodities and raw materials.

CHENG TAI CEMENT CORPORATION—CHAIRMAN H. Y. FAN

There is a plan to expand production including the purchase of approximately \$5 million in U.S. equipment. Cheng Tai has arranged for Chinese banks to guarantee 70 percent of Eximbank's credit exposure on pending cases. The company has equity of \$2.5 million as shown in an audited statement. It has been in successful operation for twelve years, making money each year and producing 100,000 tons of cement per year. It has paid 20 percent down payment and commitment fees on Eximbank credit. It is urgent that the transaction be made operative.

TAIWAN RAILWAY ADMINISTRATION—T. N. CHEN, MANAGING DIRECTOR

The pending transaction for locomotives will be concluded during this visit. Progress was made toward the massive electrification program which will run from \$70-\$100 million. It is hoped that U.S. suppliers can achieve this business. The railway desires fifteen years repayment after delivery. Eximbank has committed for twelve years and has ascertained that other countries will not extend beyond that period. I explained this to the management. The railway business is good, increasing at 9 percent a year. The profit in 1972 was U.S. \$1.5 million. They expect to buy U.S. engines to replace the engines in the Hitachi locomotives previously purchased that are now completely worn out. It was commented that U.S. locomotives purchased at the same time and operating on the same schedules are still operating successfully. One of the problems that must be faced in the new electrification program is the training of personnel. They would like to make this part of a financing contract.

DINNER BY MINISTER OF ECONOMIC AFFAIRS—Y. S. SUN

Fourteen in attendance. Discussion related to the proposed China Steel Company, especially the difficulty with the Europeans and the European promoter. Also discussed the terms as proposed for the electrification of the railway. The Minister agreed to 12-year repayment.

March 18

Golf with Governor K. H. Yu, General Peng Meng-chi, ROC Ambassador to Japan, and Dr. Yen Chen-hsing, President of the National Taiwan University. The University has 12,000 students, six colleges, 46 major studies, plus a graduate school and basic research. 96 percent of the children of Taiwan attend the school.

LUNCH BY GOVERNOR K. H. YU

Sixteen in attendance. General "getting to know you better" conversation.

March 19

The Prime Minister expressed the determination to increase imports from the United States with large purchases planned for grains and other agricultural products. He expects that the economy will continue to grow at a satisfactory rate that inflation control will be maintained. He appreciates the support given by Eximbank, not only for its direct contribution but for the confidence that it gives the Chinese people. He endorsed the plan of Governor Yu and the Central Bank to participate with Eximbank in financing through the CFF and in larger transactions.

VICE PRESIDENT C. K. YEN

The Vice President emphasized the importance of trade with the United States and the determination to direct imports from this country. He said that the pattern of Chinese life is changing with products that were heretofore considered luxury or discretionary now considered to be necessities. There has been a massive liberalization of import restrictions and a shift in purchases from Japan to the United States. Japan customarily purchases all products and services denominated in U.S. dollars and is now requiring that its products denominate transactions in yen.

CIECD—PHILIP C. C. CHANG, VICE CHAIRMAN

Discussed the railway electrification. An agreement was reached that 12-year replacement plans could be approved. We discussed the support of small business through the CFF and how the CIECD could cooperate. They asked that we prepare the Buyers Guide in Chinese which could be generally distributed throughout the country. Tai Power must continue its long-range expansion to meet current and growing needs. The preliminary commitment is a very useful device, and the ROC can increase its participation in each transaction. They can do so if we allow repayment to them in the early maturities. They would like to receive our print out of our monthly records to the CIECD.

AMERICAN CHAMBER OF COMMERCE

Luncheon of approximately 152 Americans and Chinese. After formal remarks, question and answer period indicated a lively interest in U.S. competitiveness, internal inflation rate, shipping, marketing effort, increase in U.S. investment, use of the CFF program, Preliminary Commitment and the attitude of the United States to the Republic of China policy of encouraging purchases from our country.

BANK OF COMMUNICATIONS—CHAIRMAN MA AND GENERAL MANAGER T. C. PAN

This bank has been a participant in the CFF since it was inaugurated. They have completed the second \$3 million line of credit and are requesting an additional line. The 50 percent matching funds will be provided by the Central Bank of China at 6½ percent interest. There are seven projects in process totaling slightly over \$3 million. One of the principal problems is the requirement of U.S. shipping. This could be alleviated if a blanket waiver and packaging program could be adopted so that 50 percent of the total combined purchases could be shipped on U.S. bottoms rather than the 50 percent of each transaction.

CHINA STEEL COMPANY—CHAIRMAN Y. T. CHAO

The original feasibility study for an integrated steel mill (one million tons) was made by U.S. Steel, who at the conclusion of the study determined that they would not participate. At that time U.S. Steel informed me that they had concluded the project was economically sound but at that time (1971) U.S. Steel did not have available management personnel. After the U.S. Steel turndown, an agreement was reached with Voist of Austria to design, construct, equip and operate the mill. However, Chairman Chao informed me that they intended to cancel the contract and arrange for U.S. supplied material, equipment and technology, if possible. The obligations of the steel company will be guaranteed by the Republic of China. Eximbank financing will be essential if U.S. equipment and materials are to be used. It was Chairman Chao's view that U.S. equipment was better and not at lower cost, and that his company would feel more comfortable doing business with the United States. As soon as the decision has been made, a request for a preliminary commitment will be made to Eximbank.

FIRST COMMERCIAL BANK OF TAIWAN—MR. C. S. LO

This is a CFF participating bank. They are now processing five applications for approximately \$500 thousand. They are charging their customers 8 percent. They have not as yet made an arrangement with the Central Bank of China for the 50 percent; this is coming from the Bank's own funds at this time. It is their view that imports from the United States will increase and that the CFF program provides a vehicle for broadening services and export opportunities.

CIECD

Participated in the signing of two loan agreements—one for locomotives and spare engines and the other for fertilizer plant equipment. The locomotive case is interesting inasmuch as the spare engines are to be installed in Hitachi locomotives purchased some five years ago and now completely worn out. This compares with U.S. locomotives purchased at the same time that are still operating efficiently. The signing was witnessed by Minister of Economic Affairs Sun, Vice Chairman and Secretary-General of CIECD, Philip C. C. Chang, and the press and others.

DINNER FOR CHINESE OFFICIALS

I was host at a dinner for sixteen Chinese officials including Governor Yu, Minister Sun, Minister Kao, the Deputy Minister of Finance Wang, Philip Chang and others.

March 20

Breakfast given by Prime Minister Chiang Ching-kuo. In attendance were Minister Sun, Governor Yu and Secretary General of the Executive Yuan, Walter Fei. The current and future plans of the Republic of China were discussed in

detail, with emphasis upon the importance of Eximbank and the procedures that are followed to assure the ability to repay all obligations. There was especial interest in encouraging and assisting small business and in developing the steel mill, shipyards, petrochemicals and agricultural product processing.

CHINESE PETROLEUM—PRESIDENT JEROME HU

China Petroleum, a government corporation, is profitably run with a capable management and a full long-term plan which includes expansion of the northern refinery—approximately \$25 million. The contract has been let to Lummus; a crude oil skimming unit, naptha cracker, a catalytic reformer, an aromatic extractor, and a transalkylation unit for benzene. They intend to let the contracts before the end of 1973. In addition they are planning a polypropylene project as a joint venture with Hercules, and an acrylonitrile project for producing orlon monomer. They are also considering three large urea plants. In addition, offshore drilling units are contemplated, and at least one offshore drilling ship. It is the desire of the China Petroleum Company to purchase all of the equipment in the United States, if possible. President Hu is highly regarded in the U.S. petroleum industry.

MINISTER OF COMMUNICATIONS—HENRY KAO

Mr. Kao was former mayor of Taipei, doing a spectacular job in improving the city. Regarding the proposed Taipei sewage disposal plant, he said they plan to proceed but do not expect to use U.S. equipment. Regarding the proposed water system, it is expected that this project will proceed and that U.S. suppliers will have an excellent opportunity. Under the Ministry of Communications, the following projects are contemplated involving potential U.S. exports: a telecommunications operation, ten new locomotives, electrification of the Central Railway System, Taichin Harbor, a massive freeway program, other harbor facilities, a new Taiwan international airport, and a massive improvement of the internal telephone system. It was his view that U.S. products are attractive pricewise and most attractive in quality and design. In the telephone system, ITT has made a proposal which will be supplied from Belgium. Preference, however, will be given to GT&E and products from the United States if a reasonable proposal is received.

TAIWAN POWER COMPANY—CHAIRMAN L. K. CHEN

Chairman Chen and his staff gave a complete report of the power development, including projections. Demand is up 15.5 percent over 1972. It is expected that with the new equipment in process that they will catch up to demand by the end of 1973. In addition to pending projects, they expect to add five sets of gas turbines needed by the end of 1973. They hope to contract for a 500 MW thermal plant and next year to contract for two 500 MW thermal plants. In spite of very rapid buildup of production, they have never reached a balance. Mr. Chen explained the difficulty of the Tai Power producing 20 percent down payment at this time. They can agree, however, to some substantial offshore financing.

MINISTRY OF FINANCE—ACTING MINISTER WANG SHAO-YU

He explained that the newly enacted tax law specifically exempts all Eximbank credits from the withholding tax, including the CFF. Import controls have been removed on 2,300 items—all except military. Customer handling charges on imports have been reduced 50 percent. Current debt service ratio is now 4.36, down from 5.39 in 1972. The Central Bank of China is prepared to participate in transactions involving U.S. exports. There will be an additional effort made to improve education, health and internal transportation. It is the policy of the Prime Minister to encourage small business and to give opportunity to young men. Three more U.S. banks have been approved for operation. Ford Motor Company has installed a new production facility. The Ministry is working to modernize the banking system. A program is in operation to convert some of the government corporations to private. As the capital formation increases, more people are able to buy shares, and they are encouraged to do so. A stock market has been established, adequately regulated to avoid speculation.

BANK OF COMMUNICATIONS

Luncheon attended by representatives of six CFF borrowers. The Cheng Tai Chemical Fiber Company asked if Eximbank could take the late maturities. I explained that we could not under the CFF. There was general discussion regarding the U.S. export posture with the unanimous opinion that U.S. products were now very attractive pricewise and that quality was the best in the world. However, service and interest in export transactions from the United States appear to have low priority. There was a request that maritime regulations be simplified for CFF borrowers of relatively small amounts. We discussed the documentation, which was generally understood.

UNION CARBIDE CORPORATION

Met with the representative from Taiwan who explained that his company is prepared to proceed with a petrochemical plant on a joint venture. They would expect Eximbank participation.

E. F. GOODRICH

Call from Mr. Paul Bryant. His company expects to build a tire plant and will apply through the Preliminary Commitment procedure.

Mr. NIX. Thank you, Mr. Kearns. You stated on page 3 of the statement, and I quote, "To be sure, there exist uncertainties in the international political sphere which eventually could affect the country's economy."

What are those matters which might affect the economy?

Mr. KEARNS. Well, I think it becomes more difficult for a country to engage in trade as its diplomatic exchanges are reduced, and if there is severe reduction in its diplomatic exchanges I think it is safe to say that could be one negative factor. There has been little indication that this has affected the trade so far, but it could. There could be, I suppose, some disruption of their trade if political difficulties arose in that area where there was harassment of the trade routes, or such as that. I think that could possibly be a negative factor. We don't anticipate it but it could be.

Mr. NIX. What effect has the loss of diplomatic representation in the United Nations had on the economic situation?

Mr. KEARNS. There is little indication that it has had any effect up to this point; but, as I say, any time you reduce the free flow of diplomatic exchanges there could be a tendency to inhibit the trade somewhat although I have seen no indication that there has been an effect on Taiwan as yet.

Mr. NIX. What types of items are sold by the United States to Taiwan and what types of items are sold by Taiwan to the United States?

Mr. KEARNS. Well, in general, the kinds of things that the United States exports to the Republic of China are equipment, machinery, particularly electrical production, refinery equipment, all kinds of manufacturing equipment. We do sell a good bit of agricultural products, about 30 percent of our total exports to this market. We sell little in the way of minerals. As the Taiwan economy diversifies into more products I think it is safe to say that components of various manufactured products would be sold from the United States to be incorporated in Taiwan finished products.

Coming the other way, the principal things so far have been textiles, which I mentioned, all the way from the actual woven goods to made up garments, electronic components for products made in the United States such as television, radios, computers, and such as that. There is a plan to expand chemical industries to produce a wide range of chemicals, including fertilizers, and also to more actively engage in shipbuilding. I think those will gradually become important factors in the exports of Taiwan.

Mr. NIX. Now will you state again as to what percentage of Taiwan's trade is with Japan and what percentage of such trade is with the United States?

Mr. KEARNS. Well, I have some figures here. Forty-four percent of Taiwan's exports today are to the United States, and we expect about 30 percent of their imports to be from the United States this year. I don't have the figure for Taiwan's exports to Japan, but their imports from Japan were 40 percent in 1968, reduced to 38 percent in 1972 and are going downward, so it could be somewhere between 30 and 35 percent possibly this year.

I don't have their exports to Japan at this moment; we could get it. It is a relatively much smaller figure than Taiwan's exports to the United States.

Mr. NIX. Could that be supplied for the record?

Mr. KEARNS. Yes, sir.

[The material follows:]

TAIWAN'S EXPORTS TO JAPAN AND U.S., 1971 AND 1972

Taiwan's exports to Japan were \$244 million in 1971 and \$356 million in 1972; to the United States, \$857 million and \$1,220 million.

Mr. NIX. Does the Government of Taiwan receive any financial aid from any other nation in the form of grants?

Mr. KEARNS. Not to my knowledge, although I may not be aware of all such assistance. They are not receiving any grants at all from the United States. I am not privy to any information on military but I think that all military aid was terminated at the beginning of this month and that all economic grant assistance was terminated in 1965. We don't consider Eximbank as aid, of course; we consider that as a part of assistance to U.S. exports. There are some computations that do place our credits in the aid column and we think that is an error.

Mr. NIX. Is the Government of Taiwan dependent on any other nation for its capitalization needs?

Mr. KEARNS. No, I think not. I would say that their capital resources today are exceedingly strong. That does not necessarily mean that an individual private enterprise would not need to arrange financing from outside of Taiwan for a part of its capital, but the country itself is now on very solid financial ground.

Mr. NIX. Mr. du Pont.

Mr. DU PONT. I have no questions.

Mr. NIX. Mr. Wolff.

Mr. WOLFF. Thank you, Mr. Chairman.

Mr. Kearns, it is a great pleasure for me personally to welcome you before this subcommittee, having known you and your work in the field of international economic affairs for so many years.

Mr. Kearns, I take it that as head of the Eximbank that you are privy to certain economic as well as diplomatic intelligence.

Mr. KEARNS. On an as-needed basis we do maintain economic surveillance and evaluation of the 124 countries with which we do business.

Mr. WOLFF. I take it you do get some input from U.S. Government agencies?

Mr. KEARNS. Our input would come in this way: If we had a transaction of considerable importance it would be submitted for concurrence to the other interested Government agencies. If there is some problem, political or otherwise, the reactions would come back to us as a negative. Through regular country reports we have a total continuing positive inflow; but we use the clearance procedure more as a negative sounding measure.

Mr. WOLFF. I noticed in line with that, on page 8 you say, "During the past 4 years, Eximbank's exposure in the Republic of China has expanded from U.S. \$72.2 million on December 31, 1968, to U.S. \$890 million (estimated) on June 30, 1973." That would indicate that you based upon your own "intelligence sources" had some faith in the continuance of Taiwan or the Republic of China as a going and continuing entity.

Mr. KEARNS. Yes, I would say you could interpret it that way.

Mr. WOLFF. With the current situation being what it is with the PRC, how do you feel that will affect the U.S. relationship with the Republic of China?

Mr. KEARNS. So far I can't say that we have discerned any problems on that. We have publicly reported the extension of credits that we are making constantly to the Republic of China. We have had no indication that this is affecting the discussions with the People's Republic. We again get back to the point that we make the decision on any transaction on its merits at that time.

Mr. WOLFF. But this exposure that you do have now, is an indication this contemplates a long-term exposure, does it not?

Mr. KEARNS. That is most of it; yes.

Mr. WOLFF. And this is made with the concurrence of the U.S. Government.

Mr. KEARNS. That is correct.

Mr. WOLFF. I wonder what role you feel Taiwan plays relative to our balance of payments in our total economic picture?

Mr. KEARNS. Well, it is becoming an increasingly important market. I would say that of all the countries where we observe the rate of growth as a customer, Taiwan's growth rate can match any. Now, there are two reasons for that. One is that the economic level of the country is increasing at a steady but rather substantial rate; and the other is that here is an increasing influence to purchase from the United States.

Mr. WOLFF. Why is this?

Mr. KEARNS. Well, I believe that the Government and business leaders in Taiwan feel that their future is closely linked with that of the United States and they would like to have as many interchanges as they can get. At the same time I think there may be a little dissatisfaction with the actions of Japan, which has been their

historical major trading partner. This tends to encourage a buyer, public or private, to look to the United States as a supplier, and it is being reflected in the rather dramatic increase in sales that are being made by U.S. suppliers.

Mr. WOLFF. In your statements you seem to indicate that we are, in reality, engaged in a two-China policy. Would you say that would be true?

Mr. KEARNS. Well, I can only speak from the standpoint of Eximbank. We are only engaged in financing trade with the Republic of China. There are others who are selling and financing products to the People's Republic, that is, mainland China. I think it is safe to say that, from Eximbank's view, there are two Chinas.

Mr. WOLFF. Are you currently financing any sales to the People's Republic?

Mr. KEARNS. No. Our legislation which authorizes Eximbank to operate includes a provision that prohibits Eximbank from providing any financing support for a Communist country until or unless the President of the United States makes the determination that it is in the national interest for us to do so. President Johnson made that determination in the case of Yugoslavia and President Nixon did in the case of Romania, the Soviet Union, and Poland. Those are the only Communist countries for which we are authorized to provide any financing for U.S. exports. So we do not consider any financing for mainland China at this time.

Mr. WOLFF. I understand there is a chance that we might be talking about "most-favored-nations" status for the People's Republic. Are you aware of this?

Mr. KEARNS. Only by rumor, and most-favored-nations treatment would not affect us. The thing that would affect us would be a Presidential determination of national interest, which could be without MFN as it was in the other eastern countries.

Mr. WOLFF. You know, there is one thing, in the operation of Exim and all of our other functions of aid, that I might differ with you whether or not you consider Exim assistance. I do feel that Exim is assistance, one area seems to be overlooked by a number of agencies and I should like to quote from the act itself. Contrary to the point that was made just a moment ago the act says:

No assistance shall be furnished under this chapter or any other Act and no sales shall be made under the Agricultural Trade Development and Assistance Act of 1954 in or to any country which has severed or hereafter severs diplomatic relations with the United States or with which the United States has severed or hereafter severs diplomatic relations unless diplomatic relations have been resumed with such countries and agreements for the furnishing of such assistance or the making of such sales, as the case may be, have been negotiated and entered into after the resumption of diplomatic relations with such country.

Now one of the things that concerns our activities with the PRC as well as other assistance activities throughout the world is that there are certain nations—Cuba and North Vietnam and other nations which have been working closely with the PRC that come under the restrictions of the act. The other day when we questioned a witness, I believe it was Mr. Hannah, we asked down the line whether he envisioned the idea of most-favored-nation treatment for Cuba and he said, "Well,

maybe not now but in the future." I am wondering whether or not this provision guides you in any of the determinations that you make in the extension of any loans.

Mr. KEARNS. I would appreciate the reference so that we can check that. As you know, our act has been amended several times.

Mr. WOLFF. Your act has been amended but the Foreign Aid Act itself, the enabling legislation, has not been amended to that extent.

Mr. KEARNS. I am not aware that this provision affects Eximbank because our General Counsel, on whom we depend for legal opinions, has—

Mr. WOLFF. I am thinking of a country like Algeria to whom you have just made a loan. Now that is a country with whom we do not have diplomatic relations. The same situation is true as regards the People's Republic. We are engaged in new advances for trade with the People's Republic, and they do not have diplomatic relations with this country.

Mr. KEARNS. Well, I am of the opinion, and subject to reversal of that opinion, that we are exempt from the act that you read. We operate under the Export-Import Bank Act and authorizations by the Congress in certain other legislation applicable to the Bank.

Mr. WOLFF. With funds appropriated by the Congress, is that correct?

Mr. KEARNS. We don't use appropriated funds.

Mr. WOLFF. With guarantees?

Mr. KEARNS. Backed by authority approved by the Congress.

Now understand, I am not arguing the legality but I can only tell you that we operate under the advice of our General Counsel, and we will be very happy to reexamine this. But it has been previously examined and we have found that we are not subject to that restriction, that we are not restricted to doing business only with a country with which we have diplomatic relations. The major restriction that we have is the one that was included in our act in 1968 with respect to Communist countries, but subject to a review that would indicate we are wrong I believe we would proceed on the basis that we are exempt from the act which you cite.

Mr. WOLFF. Well, I thank you, Mr. Kearns. I know that your activities in the past have always been guided by what is in the best interests of this Nation. If there are no limitations on Exim activities, I think that this committee should look toward limitations to be placed upon all agencies of Government that render assistance. I think that the national interest of this country is far superior to any trade interests of the country.

Mr. KEARNS. Well, I can assure you that we will respond and act entirely within the instructions of Congress as we understand them. Now if there is something we don't understand, then we have to be brought to task and educated on it. Of course within this fiscal year we will have legislation before the Congress to extend the life of the Bank beyond June 30, 1974, so if there is any restriction that is not included in our legislation there will be a chance to consider it. Of course we would like to see as few restrictions as possible because the changing course of world trade is such that you really need a maximum of flexibility. Conditions are constantly changing every day in every place, and the more flexibility you have the more you are able to serve our basic interest which is to expand U.S. export.

Mr. WOLFF. Excuse me, Mr. Chairman. I just would like to end by saying our basic interest is the national interest our security interests, more than just the interest of expanding exports.

Mr. KEARNS. Well, I am just talking to Eximbank's role as we understand it from our legislation.

Mr. WOLFF. Thank you.

Mr. NIX. Mr. Burke.

Mr. BURKE. I am sorry, Mr. Chairman. I was late so I didn't have a chance to hear the testimony.

Mr. NIX. Mr. Ryan.

Mr. RYAN. The only question I have, Mr. Chairman, has to do with the rather rapidly changing position of the two Chinas and the surrounding area and perimeter of the Asian side. I think economics is the determinant very often to what later becomes political questions.

Do you have any comment? Has your board or have you made any determination in regard to the survival, or the continuation of Taiwan as a separate and independent government, or do you think that there will be eventual return to a single nation?

Mr. KEARNS. Well, it is not our role, of course, to make political determinations. Our role is purely in the matter of making decisions on credit. However, it does become—

Mr. RYAN. Inevitably one comes from the other.

Mr. KEARNS. Yes. It does become incumbent upon us to make changes, particularly when we consider long-term financing where terms extend out 10 or 15 years.

Mr. RYAN. Precisely.

Mr. KEARNS. Which we do. Of course you can contemplate all kinds of actions that could take place. I think it is very safe to say today that Taiwan can continue within itself as a viable nation without any association with anyone else; it has proven that it can do so. I think that it would be possible to contemplate the possibility that it could be a viable part of another nation if that were the way the course of events proceeded.

In looking at the total picture, you always have to take into account the possibilities and the probabilities. There might be a possibility that they would be put out of business militarily. We see very little prospect of that because it would accomplish little for anyone. So what we try to do is to anticipate those things that might happen and the probabilities, and we come up with the conclusion that Taiwan is a viable economic unit and will continue to be so—sufficiently long to repay the obligations. You see, we are charged by our charter to achieve reasonable assurance of repayment, not absolute but reasonable assurance. Reasonable assurance is a review of all the facts and a conclusion reached, and that is the conclusion we reach today.

Mr. RYAN. And a judgment.

Now could you comment on the relative economic strength of Nationalist China today in comparison to other Asian nations, especially those in Southeast Asia, and make any kind of prediction or comment or sense of prediction regarding the next, say, 10 years as to where they will be? How do they rank with Japan and with Indonesia, with other nations of Southeast Asia?

Mr. KEARNS. Well, I will give you general statements, and we could submit for the record the actual standing.

Mr. RYAN. All right.

Mr. KEARNS. There are several ways to measure this. In the first place you could take their gross national product.

Mr. RYAN. Right.

Mr. KEARNS. Of course Japan outshadows everyone. It is in a class by itself, so I don't think there is any point in comparing Japan to any of the rest of them.

I think that in the matter of gross national product Taiwan would rank very high on the scale as compared with other countries of the western Pacific.

If you take the actual per capita income, it would rank either first or second in that.

When you take in its foreign trade—its exports and imports—it would rank exceedingly high.

Or you could take one that we consider is a most important factor, its debt servicing capacity. Now I stated here that Taiwan's debt-servicing, in spite of the fact they have been doing a tremendous amount of purchasing in the last 4 or 5 years, is still less than 5 percent of its export and services earnings. This is lower than all but one of the other countries in that area.

So you can take all of these things, and I think that if you took a composite you would have to conclude that Taiwan is an exceedingly viable economic unit today.

GNP in Taiwan is about \$7.2 billion; in Thailand, \$7.5 billion; in the Philippines, \$8 billion; and in Indonesia, \$10–\$12.5 billion. On a per capita basis, Taiwan is well in front with \$474, compared with \$200 in the Philippines, \$174 in Thailand, and \$80–\$100 in Indonesia. Its annual growth rate of some 10 percent over a number of years is much higher than these other countries have achieved.

Taiwan's foreign trade is impressive, especially taking into account its size and population. In 1972 its exports totaled \$2.8 billion, and imports \$2.4 billion. This compares with \$1.9 and \$1.8 billion in Indonesia; \$1.1 and \$1.5 billion in Thailand; and \$1.1 and \$1.1 billion in the Philippines.

Taiwan's debt service in relation to foreign exchange earnings is a little less than 5 percent; Thailand's is even lower at about 3 percent, but Indonesia's is about 14 percent, and the Philippines, about 25 percent.

In short, the data point up Taiwan's economic strength and progress relative to other major countries in the region.

Mr. RYAN. Then from an economic standpoint Taiwan would have to be one of the most influential nations in the western Pacific?

Mr. KEARNS. Well, I don't know how influential it is. It is more self-contained than most of the others, and it is rather small in population and geographic size. But as it would rate as a buyer, if you were looking at 100 buyers of product and their ability to pay, you would rank it high in that capacity.

Mr. RYAN. I don't know if Israel, for example, which is small in size, small in population, and has its own capacity to remain pretty independent and pretty strong would compare favorably with Taiwan and Nationalist China in the Pacific.

Mr. KEARNS. I think there would be some parallels although I don't think you could say that Taiwan is in quite as hostile an atmosphere.

Mr. RYAN. No.

Thank you, Mr. Chairman.

Mr. NIX. Mr. Guyer.

Mr. GUYER. Mr. Chairman, I am sorry. I missed much of the testimony. I am trying to catch up.

I am concerned about the apparent reluctance of China to want to be a trading country. There seems to be a contradiction in style as compared to Taiwan. You just mentioned the difference here because of the thriving economy and many of the things such as freedom of religion, the social reforms and so on but you say there is a collision force down that road?

Mr. KEARNS. Well, we have not really made much of an effort to understand the People's Republic of China because it is off limits to us. Now if it were on limits, it would be incumbent on us to really make a thorough study of these factors and where it would go. As I mentioned a little earlier, I don't see why there would be any foregone conclusion of a collision course. It could, but I don't think of it in that way.

Mr. GUYER. Is it your judgment that we can comfortably maintain the dual relationship in areas such as culture and foreign exchange and trade, possibly the exchange of techniques and agriculture transportation and so on, and still one not be injurious to the other as far as relationship is concerned?

Mr. KEARNS. I think it is possible if you look upon the two as you would look upon Korea or the Philippines or any of the other countries as a separate country. I think that it is entirely possible they could be compatible. Now whether they will look at it that way, I would not know at this time.

Mr. GUYER. I think that is all, Mr. Chairman.

Mr. NIX. Just one last thing, Mr. Kearns. The United States of America has commitments to Taiwan and the United States of America intends to live up to its commitments, whatever those commitments are, and the United States of America is comfortable in its relationship with Taiwan at this time. That is correct, is it not?

Mr. KEARNS. Yes, sir.*

Mr. NIX. Thank you very much.

We want to thank Mr. Kearns, Mr. Bostwick, and Mrs. Pigman for appearing to have you.

Mr. KEARNS. Thank you. It is a pleasure to meet with your committee.

Mr. NIX. Our next witness is Prof. C. Martin Wilbur, professor of Chinese History, East Asia Institute, Columbia University of New York City.

We are very pleased to have you here, sir.

STATEMENT OF C. MARTIN WILBUR, PROFESSOR OF CHINESE HISTORY, EAST ASIA INSTITUTE, COLUMBIA UNIVERSITY

Mr. WILBUR. Thank you, sir.

Mr. NIX. Are you accompanied by anyone?

Mr. WILBUR. No, sir.

Mr. NIX. You may proceed, sir.

Mr. WILBUR. Mr. Chairman, I have a statement which was sent in advance to the committee. It is not a very long statement and I wrote it up very carefully.

Mr. NIX. We would be happy to have you read it.

Mr. WILBUR. Thank you.

Although I have specialized in the field of Chinese studies, in this presentation I am attempting to think about relations with China as an American concerned with his Nation's long-run interests, viewed in worldwide perspective. To state my thoughts in the simplest way, I advocate the following points as a basic American policy toward China in the coming decade:

1. Cultivate friendly relations with the People's Republic of China and the Chinese people on the continent, while maintaining our present close ties with the Government of the Republic of China and the Chinese on Taiwan.

2. Continue to assist the people on Taiwan to develop for themselves the form of government and socioeconomic system they prefer, while being perfectly ready to assist continental China in its own economic, technical, and social development.

To aim for a balanced relationship with two rival regimes and friendship for the entire Chinese nation entails many difficulties. Obviously, the leadership of each regime will try to manipulate the United States for that regime's advantage. While being as sensitive as we can to the aspirations and feelings of both, we need not be dictated to by either. Our policymakers need not choose between one Chinese Government and one people or the other; nothing short of war can force us into such a choice. However, there is a wide range of modalities and adjustments possible within a policy that seeks to develop improved relations with one government of a divided nation while not abandoning the government with which our relations have long been close.

These relations are only part of our complex of international relations. The policy we follow toward the Republic of China on Taiwan is related to our policies with respect to Israel and West Berlin. How we deal with the People's Republic will affect our relations with Japan, Russia, India, and all other states along her border.

The Governments of the United States and of the People's Republic have both contributed to the recently improved relations. The easing of tensions and the renewed contacts—limited though they are—seem miraculous in the perspective of 20 years of isolation and hostility. Great credit is due to President Nixon, Dr. Kissinger, and the Republican administration for seizing and cultivating the opportunity for a new approach which came with the ending of the cultural revolution as well as from intensified Sino-Russian hostility.

One immediate benefit has been the opportunity for Americans to visit China in considerable numbers and gain a clearer picture of the revolutionary society. Their reports are nearly universally favorable. This has contributed to a lessening of suspicion of Communist China, which successfully projects the image of a peaceful, humanitarian, energetic, and problem-solving society. Our governments have estab-

lished working relations which are little short of full diplomatic relations. Each side, clearly, perceives great advantages in the new situation.

If present trends continue, a useful two-way trade will develop, with China in the market for industrial machinery, communications and electronic equipment, and food grains, and the American side purchasing industrial raw materials and many distinctively Chinese products. The economists I read do not project this as a large trade by our standards. There may be a wide range of exchanges in the performing arts and cultural exhibits. Chinese and Americans may join in a variety of conferences and competitions, and specialists may study each other's technologies. China's new leaders will have the opportunity to gain a clearer picture of the United States, while our people can learn more about traditional China and its contemporary accomplishments. As a scholar, I welcome such a development wholeheartedly. A decade of peaceful relations between America and China would be of large advantage to both.

There are serious problems and many uncertainties, however. The foreign and domestic policies of the People's Republic of China have shifted wildly in the past 20-odd years. Scholars and the attentive public are familiar with these quick changes in policy line. We should not be surprised by further shifts in China's foreign policy on the tactical level and must not rule out more profound changes that might follow an abatement of the Sino-Soviet cold war or renewed power struggles among the Communist leadership.

Problems between China and America can arise from the great differences between our two societies and value systems. The differences run very deep and are not the result of the past two decades of hostility. Examples are the unending Western struggle for civil liberties, our glorification of individualism and freedom of thought, as contrasted with the Chinese emphasis upon submission to authority, subordination of the individual to the needs of the group, and insistence upon a standard orthodoxy.

Continental China has a "closed society," tightly controlled by a regime subscribing to an ideological system which few Americans comprehend. The leadership is suspicious of external influences upon the people, and this was characteristic of past Chinese ruling groups as well. The traditional ideal of statecraft seemed to be a government completely in control of its own territory and a people uncontaminated by foreign influences.

Yet China is much more dynamic than it was a century or more ago. The leadership is determined that the country shall possess industrial technology to assure wealth and power, and to project China's influence in the outer world through diplomacy, propaganda, involvement in international bodies, and, recently, through foreign aid. The prevailing mood is one of determined independence, suspicious of alliances with great powers, and intense sensitivity about national prestige. As a dynamic revolutionary society, China will strive to be a major force in the world. China and the United States are likely to be in opposition to each other on many international issues. The Arab-Israeli conflict is merely one example.

The fundamental antagonism which China's leaders hold toward "American imperialism" is muted at present because of a deeper hostility toward Russia, but the antagonism may erupt again at any time. These are merely cautionary remarks. It may be decades before America and continental China achieve a degree of mutual understanding and an ease of relationships such as those we casually enjoy with Canada and Western Europe, or even the closeness we have already achieved with Japan and Taiwan.

The chief issue between the People's Republic of China and the United States concerns Taiwan. During the present phase of enticement the issue is being played down, but it is still knotty and divisive. The leaders of the People's Republic claim that theirs is the only legitimate government of the whole of China, that Taiwan is unquestionably a province of China, and that incorporation of Taiwan into the People's Republic is purely a Chinese domestic matter in which no outside power has the right to intervene. They try to picture the Government of the Republic of China as a bogus regime; they insisted upon its expulsion from the United Nations, and have refused diplomatic relations with any government which recognizes that government. Presumably most adult Chinese on the continent share this view.

From an American perspective the matter appears differently. The Government of the Republic of China effectively controls Taiwan, a land the size of Holland with 15 million people. There are at least 80 nations with smaller populations. The United States has recognized this Government continuously since 1928. It was our wartime ally and a founding member of the United Nations. In December 1954 the United States and the Republic of China entered into a mutual defense treaty which is still in effect.

For geographic and historic reasons the Chinese on Taiwan developed a regional variation of Chinese culture. Then came 50 years of Japanese colonial administration. After 1949 when mainland China underwent a socialist revolution, the differences between Taiwan and the mainland became even more marked. The island has a thriving economy marked by private ownership of property, a considerably higher per capita standard of living than continental China has yet achieved, and many of the inequities—as well as the dynamism—of a capitalist system.

The people enjoy virtually universal education, excellent health services, freedom of religious practice, and considerable social freedom. There are many fully functioning colleges and universities, public and private, with intellectual freedom in most fields except ideological and political. The Republic of China is a going concern that is developing in a direction quite different from what is taking place on the continent.

Americans would not describe Taiwan's Government as democratic in our Western European tradition. Which of the two Chinese regimes is the more humane toward the population it controls is a highly subjective question. The administration on Taiwan does not glorify class struggle nor pit classes against each other in forcing social change. Nor has it so relentlessly used psychological and social pres-

asures upon every individual to compel ideological conformity. Land reform was essentially bloodless in Taiwan, bringing about private small holding, with most of the farmland owned by natives of the island.

Twenty-eight years after the end of the Pacific war the majority on the island has no direct knowledge of earlier conditions, either of Japanese rule or mainland turmoil. A generation of children of mainland refugees know only Taiwan as home. The island's population has been subject to continuous anti-Communist indoctrination. For these reasons it is my belief that the vast majority on Taiwan do not wish to come under the rule of the mainland regime. They probably would fight bitterly to prevent a takeover.

Americans now enjoy friendly relations with the Chinese on Taiwan. Chinese students come to the United States in large numbers to attend our colleges and graduate schools, while American students and scholars are welcomed there for language study and research. Americans are rather free to carry on missionary and philanthropic activities in Taiwan so long as their acts are not perceived as subversive of the existing order. There are many thousand of Chinese Christians there and well established indigenous churches. (There are also Buddhists, Taoists, Confucians, and Moslems.)

Trade between the Republic of China and the United States is on the order of \$2 billion a year, and private American investment in Taiwan presently exceeds \$400 million. The beautiful island attracts hundreds of thousands of tourists each year, of whom thousands are Americans. The island is the refuge of the world's greatest collection of Chinese art, splendidly exhibited at the Sun Yat-sen Museum in Taipei. Traditional Chinese opera continues to be performed expertly. Vast archives recording China's past and recent history are open to Chinese scholars and many from abroad. A thriving publishing industry has made it possible for American universities to build fine Chinese collections. American and Chinese scientists and medical men conduct joint research, as do scholars in many fields. Many Americans live in Taiwan to develop trade and other business.

In short, Americans and Chinese in the Republic of China already have achieved a degree of cultural interaction we have learned to expect in our relations with friendly countries. It is well to remember this as we now try to develop friendly relations with the people of the People's Republic of China.

The United States and the Republic of China are bound by a defense treaty signed on December 2, 1954. Each country is bound "to act to meet the common danger" of an attack on the territories of either, "in accordance with its constitutional processes." The treaty is to remain in force indefinitely but either party may terminate it in 1 year after giving notice to the other party. This treaty was a product of the cold war when the possibility of attack on Taiwan from the mainland seemed real and when the worldwide confrontation between the United States and Soviet Russia was intense. The relationship is similar to that we have with Japan, the Republic of Korea, and many other countries. It is a product of our postwar history, a part of our collective security system. In short, the United States and the Republic of China are allies, and we guarantee Taiwan's security.

Should the United States continue to do so? This is the political, strategic, and moral issue for us.

I cannot pretend to judge how significant Taiwan and its military forces are from the perspective of global strategy. I suspect that in cold calculations its autonomy is not worth a war with China. (Most Americans probably would now reject even the thought of war with China.) The international political costs of abandoning an ally are also difficult to calculate. Japan, I suppose, would immediately remilitarize and develop nuclear capabilities. The smaller Asian powers would have to accommodate themselves to the People's Republic of China.

The moral issues are complicated, too. On one side is our desire to improve relations with Communist China—for détente. Also there is deep reluctance to intervene in China's internal affairs, essentially in her continuing civil war. On the other side is the issue of freedom. This is particularly poignant in respect to the 13 million natives of Taiwan, who had no part in the civil war and as yet have had very little voice in determining their own future. For 20 years we have helped Taiwan to defend itself and develop a society free of Communist coercion. We have done the same for West Berlin and for the German Federal Republic in alliance with most of Western Europe. There is no difference in principle, though there are differences in the historic details as to how the lines came to be drawn.

Seen from the Chinese side, the question of national unity is also deeply moral and intensely emotional. It has the explosive qualities of irredentism. It cannot be treated lightly.

It is not easy to see a way through the diametrically opposed claims and intentions of the Chinese People's Republic and the Republic of China, our ally. For the present, the issue, as it affects the United States, has been set aside by Premier Chou En-lai while he develops the policy of rapprochement. China's leaders purport to believe the future of Taiwan was settled by the "Shanghai Communiqué," which marked the end of President Nixon's visit to China.

Unless there were secret understandings, the American side merely acknowledged "that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China." ("All Chinese" is a rather sweeping phrase and I ask, "Did anyone poll the Taiwanese?") The communiqué stated that the U.S. Government did not challenge the Chinese position; reaffirmed its interest in a peaceful settlement of the Taiwan question by the Chinese themselves; stated as its ultimate objective the withdrawal of all U.S. Forces and military installations from the island; and agreed to reduce these progressively as tension in the area diminishes.

I do not know what resolutions of the Taiwan issue are being explored by American and Chinese officials in Peking and Washington. Possibly Taiwan is not now being discussed while more technical questions are being cleared away. In an era of détente the Taiwan problem might somehow seem to resolve itself. But I doubt it. It is more likely that after the People's Republic has achieved its objective of a strong international position as assurance against war with Russia, it will again bend its energies toward the acquisition of Taiwan.

Since the ending of the cultural revolution, the People's Republic has gone a long way in isolating its rival diplomatic ally, and drawing in the United States is part of that attempt. It may also try to weaken Taiwan economically in a trade war.

Presumably Mao Tse-tung's colleagues are offering to Taiwan's leaders various inducements for peaceful reunification. If so, I suspect that the fundamental sticking points will be precisely the two which prevented a peaceful settlement of the Chinese civil war back in 1945 and 1946. At that time the weaker side, the Chinese Communist Party, insisted upon autonomous control of armed forces and territory. Today the positions are reversed and the Nationalists must insist upon the same for the survival of their dreams. Perhaps some Chinese-style accommodation can be worked out in which the forms of national unity are manifested but the realities of regional autonomy are preserved. This is the only hope I see for avoidance of resumption of the civil war.

As Taiwan's principal ally, the stance which America takes on many different questions in dispute with China will influence the resolution of that nation's main internal political problem. Even an effort not to exert influence would have weighty effect.

A person outside the stream of diplomatic negotiations cannot know their real temper nor understand the practical details. Therefore, I wish only to say that the policy line we are embarked upon under President Nixon and Dr. Kissinger, if I understand it correctly, seems a sound one. In essence, this entails: (1) Improvement of relations with the People's Republic of China so far as possible, but (2) without fundamental sacrifice of the independence of our friend and ally, the Republic of China on Taiwan.

Thank you.

Mr. NIX. Thank you, Dr. Wilbur.

The bells have rung and the House is now in session.

I want to thank you very much for a very excellent statement, Doctor. We will have to defer the interrogation that usually follows the presentation of the statement because of the fact that we are in session in the House, but at some future time I would be most happy to have you return to the committee.

Now we have an additional witness, Dr. Franz Michael. I understand, Dr. Michael, you are from Washington.

Mr. MICHAEL. Washington, D.C., yes.

Mr. NIX. Yes. We are going to ask if it is possible for you to come back tomorrow morning. We will begin at 10 o'clock and we will put you on as the first witness.

Mr. MICHAEL. Yes, Mr. Chairman. I would be delighted.

Mr. NIX. Is that agreeable?

Mr. MICHAEL. At 10 o'clock tomorrow morning.

Mr. NIX. Thank you so much.

The committee will stand in recess.

[Whereupon, at 12:03 p.m. the subcommittee adjourned.]

FUTURE IMPORTANCE OF TAIWAN AND THE REPUBLIC OF CHINA TO U.S. SECURITY AND ECONOMIC INTERESTS

THURSDAY, AUGUST 1, 1973

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS,
Washington, D.C.

The subcommittee met at 2 p.m., in room H-227 of the Capitol, Hon. Robert N. C. Nix (chairman) presiding.

Mr. Nix. The subcommittee will be in order.

First we have the statement of Admiral Jerauld Wright, retired, U.S. Navy, former Ambassador to the Republic of China. Without objection his statement will be made a part of the record.

[The statement follows:]

PREPARED STATEMENT OF ADM. JERAULD WRIGHT, RETIRED, U.S. NAVY, FORMER
AMBASSADOR TO THE REPUBLIC OF CHINA

I am very pleased to be invited to express to this Committee my views on future U.S. policy toward the Republic of China.

I must first call your attention to the fact that I terminated my official duties as Ambassador in 1965 and my knowledge since then has been gained only through news sources.

There is no need for me to comment on the rising importance of the Far East to the foreign relations of the United States. The combination of great national resources and unstable political conditions make this a focal point of interest of all nations of both the East and West.

HISTORICAL

The defeat of Japan in World War II put a decisive end to Japanese domination of the area through military force. Since that event Japan has arisen to be the strongest economic power in the East and Mainland China has emerged as one of the "Big World Powers".

Against this general background it is well to examine the emergence of Taiwan from its original position as a Chinese province; then as a Japanese vassal State and finally to its present position of economic development surpassing that of all other underdeveloped smaller nations of the world.

For the 50 years of Japanese domination, economic, political and military leadership was provided by the Japanese government through the medium of their nationals in all fields of organizational and administrative responsibility. The exit of the Japanese left a vacuum of leadership in every field of endeavor. This vacuum was filled by the mainland government of Chiang Kai-Shek which occupied Taiwan in the late '40s and provided the critically needed experience and know-how in the fields of agriculture and industry.

In the past 25 years this leadership has provided military security from encroachment by the mainland, political stability and above all the economic know-how under which the Taiwanese have been free to develop the resources of the country.

TAIWANESE ECONOMY

The rise in the Taiwanese economy has been nothing short of phenomenal. In the short period of 20 years, ending in 1965, they rose from a position of heavy dependence on U.S. Aid to a condition of complete independence of all outside assistance. The economy, in 1965 was such that all U.S. economic aid could be, and was, terminated. At that time the per capita G.N.P. was second only to that of Japan among the nations of the area. Taiwan had become a leading exporter, among underdeveloped nations, of agricultural and industrial products. This rise in economic capacity was matched nowhere among other small nations nor on mainland China.

This rise in Taiwanese economy can be attributed to these 4 factors: (1) United States economic aid, (2) a stable government dedicated to the Island's development and to the best use of U.S. Aid, (3) initial technical experience and know-how brought over from the mainland, and (4) last and most important of all, the intelligence, industry and determination of the Taiwanese people.

I am not qualified to comment on the economic progress of the last eight years but it has been my personal observation that the upward trend has not only continued but has increased.

WORLD WAR II CONFERENCES

The deliberations of the Cairo and Yalta Conferences resulted in the Allied agreement that "Formosa" should revert to Mainland China. I believe that this decision was based to a large extent on the former history of the Island before its seizure by Japan in 1895 and by the underdeveloped conditions left by the Japanese in 1945. But the following 25 years have seen drastic changes in the area and unprecedented economic developments on the Island. This combination should lead to a more rational approach to the problem of its future.

FORMULATION OF U.S. POLICY

The formulation of the U.S. foreign policy toward the future of Taiwan should be based on certain key considerations.

Military considerations

The military security of the United States rests not on our shore line but overseas, as has been amply demonstrated, particularly during the present century. In the Pacific the line of friendly nations from Japan to Australia, of which Taiwan could be considered a vital link, is of distinct military importance. In the last war countless lives and resources were expended in our efforts to reach this Pacific perimeter. The importance to us has been further demonstrated in the last 20 years of military operations in the Far Eastern area.

The nearest U.S. Territory where our forces can be based is Guam. Here the port capacity is meagre and the air and naval facilities are not only distant but severely limited.

The willingness of the government of Taiwan to support and assist the United States has been in marked contrast to the attitudes of certain adjacent nations who, although friendly, are increasingly reserved in making military facilities available to the U.S.

Other potential assets on Taiwan in addition to base facilities, are the ready availability of labor and of skills in military technology.

The United States has done more than all other nations combined to assist the development of the island of Taiwan and maintain its economy. This expenditure of wealth and effort should be lost in response to the demands of any foreign power based on the possible political advantage of agreement with them. In this unsettled part of the world the military advantage of association with Taiwan could, in the long run, be of inestimable value to the U.S.

We have on the island of Taiwan a staunch friend and ally in a part of the world where friends are of great importance.

Shanghai statement

A contemporary event of supreme importance was the recent visit of the President of the United States to Peking, the resultant thawing of our relations with Communist China and the feelings of euphoria generated among many Americans. One subject unresolved in the conference was the future of Taiwan.

The desire of the U.S. to recognize and, if possible, accommodate the views of Communist China were expressed in the President's Shanghai statement which was centered on a peaceful solution of the problem agreeable to both the Communists and Nationalists.

The U.S. Interests

By reason of our political and economic support of the Republic of China and the value of the military installations and resources available to us on Taiwan, the U.S. is keenly interested in a peaceful solution of this problem.

In any military base at a long distance from our shores a stable and sympathetic government and particularly a strong economy are essential assets. Therefore, the continued development of the economy along its present lines and under a friendly leadership are matters of primary importance to us.

A solution along the lines of the Cairo and Yalta conferences would integrate the Taiwanese economy with that of Communist China and tend to nullify its continued development. Of even greater importance it would impose a political problem in the availability to the U.S. of the resources of the Island.

The economic strength of the island is abundantly evident in its motor transport, telecommunications, adequate housing and ample food, all assets which the Taiwanese desire to retain and which considerably enhance the usefulness of the island as a base of United States operations.

We should, therefore, support the people of Taiwan in their desire to continue the development of their economy independent of outside domination and in their parallel and justifiable desire to control their own foreign relations.²

The support of the United States along these lines will contribute to a peaceful and agreed solution.

Mr. Nix. We also have a second statement which is the testimony of Prof. Ralph L. Powell. We will place that in the record, if there is no objection.

[The statement follows:]

PREPARED STATEMENT OF PROF. RALPH L. POWELL, AMERICAN UNIVERSITY, SCHOOL OF INTERNATIONAL SERVICE, WASHINGTON, D.C.

Mr. Chairman and members of the Committee, it is a privilege and a responsibility to testify before you on a question that is as important and as complex as that of the Republic of China and the future of Taiwan. May I first present a brief prepared statement.

The early Portuguese accurately called Taiwan, *Ilha Formosa*, the Beautiful Island. It is also a strategically important island. As you know, Taiwan is now inhabited by some 15 million industrious and enterprising people. The economic growth of Taiwan is matched by very few nations. Foreign trade is booming. Educational, social and agrarian reforms have been commendable. Recently political reforms have involved more and more native Taiwanese in the ruling Kuomintang Party and in the government at all levels. Normally an area that demonstrated real progress in so many fields could be expected to have a largely cloudless future. Unfortunately, the future of the people on Taiwan will probably depend only in part on their progress and their desires. In part it will certainly depend on the policies the great powers, especially of the People's Republic of China. However, the great powers do not agree among themselves. Taiwan is important economically, strategically and psychologically and it would be unrealistic for either Communist China or the United States to forget that all of the great powers of the Pacific have a significant interest in its future.³

I support the official policy of the United States, which holds that the ultimate future of Taiwan should be determined by the Chinese and in a peaceful manner. This may happen, but it is well to remember that other powers may also play roles.

Admiral Wright, who has been our ambassador to the Republic of China, and General Ciccolella, who was chief of our Military Advisory Group on Taiwan, are better informed than I concerning the interests of the United States regarding Taiwan and the Republic of China. I would like to comment on the interests of the other great Pacific powers. This is an important topic on which I have some specialized knowledge. I have made professional trips to Japan twice during the last year and have just returned from the Soviet Union.

Japan has important historical, economic and strategic interests in Taiwan. Japan acquired Taiwan by war in 1895 and ruled the island as a colony until 1945. In some respects the Japanese were brutal colonists, but they did build up an economic infrastructure tied of course to Japan. They also trained a literate and skilled labor force. In both of these fields Taiwan was more advanced than Mainland China. Since World War II, Japan has built up a major trade with Taiwan and sells more to the Island than to the whole Mainland of China. The Japanese have also made significant investments on Taiwan. When the Government of Japan recognized the People's Republic of China in late 1972 and closed its embassy in Taipei, that institution was reopened the next day as an "unofficial" trade mission.

Strategic Taiwan lies astride Japan's vital trade and communications routes to Southeast Asia and to the oil of the Middle East. It was from Taiwan, the unsinkable aircraft carrier, that Japan launched her attacks against the Philippines in 1941. Now Japan's own vital north-south life lines of trade can be dominated from Taiwan. Discussions with influential Japanese leave the impression that the official and business elites of Japan would like to see Taiwan remain a separate political and economic entity. That entity could take various forms as long as it was not fully incorporated into Communist China. However, one also gains the impression that Japan has no intention of fighting over that issue and hopes that Taiwan's separate status will be preserved by others, i.e. the United States. Nevertheless, Taiwan might become another source of friction between Japan and Communist China, at a time when it is important to Peking to preserve good relations with Japan, due to the Soviet threat.

The Soviet Union's interest in Taiwan is essentially negative. Its policy is essentially one of denial. Russia does not have close historical, political, or economic ties to Taiwan. However, the U.S.S.R. seeks wherever possible to prevent its rival, Communist China, from increasing its power or influence. Apparently the Soviet Union has not yet developed an official party line or policy regarding the future of Taiwan. Its official organs point out different aspects. Some speak of historical Chinese ties, others of self-determination and still others of what is best for the security interests of the great powers.

In keeping with their general policies toward Communist China, it is judged that for the foreseeable future the Soviet Union would not want to see the industries and skilled labor of Taiwan pass under the direct control of Peking. Nor would Russia want to see the People's Republic take over the strategic island of Taiwan and thus extend its power out into the Pacific, where it would be in a position to control north-south sea lanes. Russia has its own interests in South and Southeast Asia. Furthermore, some believe that the U.S.S.R. is just looking for an important excuse to attack China. This is very doubtful and it is most doubtful that the Soviet Union considers Taiwan's independence important enough to fight a major war over. Nevertheless, Moscow is well aware of the fact that its massive military confrontation on China's frontiers would prevent the People's Republic from concentrating its land, sea and air forces opposite Taiwan, in the very unlikely case that Peking should contemplate solving the Taiwan problem by military means. The Chinese Communists have no faith in the Soviet Union. As long as Russia maintains about fifty divisions, with their associated air wings and missile battalions, on China's frontiers the Chinese could not risk solving the Taiwan problem by military means.

The question of what government represents the Chinese aside, China as a nation has the best and most impressive claims to Taiwan. The great majority of the inhabitants are ethnic Chinese, although many of their ancestors have lived on Taiwan for three centuries. Prior to the Sino-Japanese war in 1894-95, Taiwan was a province of China and the proud Chinese resent losing the island to Japan. Although the official view is evidently not shared by all residents of the island, both the Government of the Republic of China in Taipei and the Government of the People's Republic of China in Peking agree that Taiwan is a province of China.

The Chinese Communists would like to control the industry, agriculture and skilled manpower of Taiwan. These would benefit the Mainland economy. Along with the large armed forces and weapons systems of Taiwan, these economic increments should they pass to Peking, would considerably increase the power of the People's Republic. It is believed that for the same strategic reasons that Japan and Russia would like to see Taiwan maintain an independent status,

Peking would like to control the strategic island. Last, but not least the Maoists see on Taiwan an opposition and competitor regime. Thus they have an additional ideological and emotional reason for desiring to "liberate" Taiwan. Their present strategy is to attempt to destroy the Chinese Nationalists—The Republic of China—by political, economic and psychological measures, not by military means. The ideological or revolutionary factor may decline somewhat in importance with the deaths of the elderly protagonists, Chairman Mao Tse-tung and President Chiang K'ai-shek.

It would be naive and probably dangerous to assume that the Chinese Communists will not ultimately seek to "liberate" Taiwan, even by military means if necessary. However, due to internal problems and foreign obstacles, Peking has tolerated a separate existence for Taiwan for more than twenty years; just as the existence of the crown colony of Hong Kong has been tolerated because it is economically advantageous.

With the shift in Peking's foreign policy toward greater flexibility and moderation, following the radicalism of the Cultural Revolution; tolerance and patience have again become Chinese virtues. This is true because these virtues are partially motivated by major international considerations or obstacles. Thus it appears that the final settlement of the Taiwan problem may be long in coming. In the meantime the present *de facto* situation may continue essentially as it is, with no Chinese government claiming that there are two Chinas, but with Taiwan existing separate from the Mainland.

Mr. NIX. Now we have as our first witness, Dr. Franz Michael of the Sino-Soviet Institute, George Washington University. We are extremely pleased that you could come here today, Doctor. You may proceed.

STATEMENT OF FRANZ MICHAEL, PROFESSOR, INSTITUTE FOR SINO-SOVIET STUDIES, GEORGE WASHINGTON UNIVERSITY

Mr. MICHAEL. Mr. Chairman, it is always a privilege to appear before your distinguished committee. I thank you for the invitation to appear again before this committee and to testify as I have done several times before.

I have a statement which was handed in last week. May I begin with the statement, Mr. Chairman.

Mr. NIX. You may proceed, sir.

Mr. MICHAEL. It would be unwise to underrate the importance of the shift in U.S. policy toward normalization of relations with the People's Republic of China for the future of the National Government on Taiwan. The exchange of liaison missions between Peking and Washington—the offspring of our new China policy, has thus far not officially affected our relations and treaty commitments to the National Government. There is no question that the United States move toward Peking came as a shock to our allies on Taiwan, underscored by Taiwan's expulsion from the United Nations. Yet, the National Government has shown no panic and appears to have accepted this serious blow to its position with dignity and without disruption of its political course.

In judging the position and strength of the National Government of Taiwan, which I think is part of your concern here, one factor, too often disregarded, is the success story of the National Government under the leadership of Chiang Kai-shek in the decade when it was in power on the mainland before the outbreak of the war with Japan in 1937.

In retrospect, this decade of 1927-37 was a period of extraordinary accomplishment in securing the Government against attack from within and without and rebuilding and modernizing the social, political, and economic order of the country. The image of the National Government has been much affected by the tragic story of the disintegration during the final phase of World War II and the years of civil war that followed, a time of demoralization and decline resulting from China's long years of devastation and isolation.

The story before 1937 is quite different. Those who lived in China during that time observed the rapid growth of a new order under a legal system based on over 100 modern codes of civil, criminal, procedural, and commercial laws which affected the whole Chinese way of life.

Before the interruption of the war with Japan, these codes were beginning to build a modern nation state. The economic progress in the Central Yangtse area under direct Government control was impressive and the Government's authority was expanding westward. Warlordism was disappearing and the Communist threat was reduced to negligible proportions. Indeed, I believe that had it not been for the war with Japan, this promising beginning would have led to that united, strong, and democratic China which Truman described as the goal of our policy in the postwar years. The Japanese attack destroyed all these accomplishments and gave the Communists a new chance for victory.

Today, in assessing the future of the National Government on Taiwan it is important to remember this promising development of by-gone days.

Once on Taiwan, the Nationalists demonstrated that they had learned from defeat. Their successful agrarian reform program on Taiwan revived plans originally drawn up in the thirties on the mainland. The whole economic development in agriculture, industrialization, and communications followed precedents from the past. The laws on which the social order was based were the modern codes adopted in the thirties. They were not so different from the Japanese legal system and became the basis of a stable Chinese society. The development of this society within a framework of law and free economic enterprise was greatly strengthened by one heritage left by the Japanese administration, the general literacy of the Chinese population on Taiwan expanded by the National Government into higher education.

All this made possible the building on Taiwan of an alternative model of Chinese development which demonstrates what the Chinese people can accomplish economically, socially, and intellectually if they are not handicapped by doctrinal necessities.

As a result, Taiwan has today a living standard so totally different from that in the People's Republic of China that the stark contrast speaks for itself. The living standard of the farming population on Taiwan is about six times that on the mainland, and within Asia, second only to that of Japan.

The major drawback in this picture was the problem of the relationship of the Taiwanese Chinese and the Chinese who came over

from the mainland after the Communist victory there. First received as liberators, the Nationalists had through the corrupt and savage actions of the first Governor—eventually executed by the Government—created a hostility which lingered on, leading eventually to a Taiwan liberation movement mainly sponsored by political adventurers and the naive academic world in Japan and the United States.

In view of the new cordiality between the United States and Peking, this support has now become discredited and embarrassing to some who formerly promoted it.

I would like to add a comment on this. Last week, Mr. Chairman, my colleague, Prof. Martin Wilbur of Columbia University, testified and introduced his statement to your committee. I do not want to disagree with his view, which is also shared by others in the field such as Professor Scalapino in Berkeley, who favor an independent Taiwan for both Taiwanese Chinese, and those who have come from the mainland.

So whether Taiwan can be regarded as a national entity in itself, that is another matter and this view could be defined.

In my comment I referred to the view of people like Prof. Allen Whiting at the University of Michigan who actively supported anti-nationalist Taiwan independent leaders and now as a result of the new course of U.S. policy seem quickly to have shifted.

But on the issue of Taiwan Chinese I would like to continue here. It should also be kept in mind that the Taiwan Chinese are composed of groups from different regional origins, mainly Hakka, Fukienese, and Cantonese, each maintaining a clannish standoffishness, opposing intermarriage, et cetera. Indeed there has been more intermarriage between members of each of these groups and mainlanders than among the Taiwan groups themselves. This intermarriage between Taiwan Chinese and mainlanders, and more important, the common up-bringing in the schools and colleges has gone a long way to bridge the gap between mainland and Taiwan Chinese. Today the common danger of the new international situation has brought the Taiwan Chinese and the Mainland Chinese closer together again.

The result of this closeness has been the acceleration of certain trends and reforms which were already in motion. First, it should be stressed that in contrast to the People's Republic there is no succession question on Taiwan. Indeed, the succession has practically taken place.

Although Chiang Kai-shek was reelected in 1972 for a fifth term as President, presumably as a symbol of Nationalist unity, the direction of affairs was taken over by his son Chiang Ching-kuo, who was appointed Premier on May 30, 1972.

Chiang Ching-kuo's new Cabinet added 12 new faces to a total of 19 ministers, and 6 of the new Cabinet members are Taiwan Chinese. The Governor of Taiwan and the Mayor of Taipei, both appointed officials, are also Taiwan Chinese. In these as well as in lesser appointments, the emphasis is on youth and on participation by Chinese from Taiwan in the political structure.

A major problem for the National Government on Taiwan was to maintain the continuity of its national representative system. When the Nationalists left the mainland, about two-thirds of the membership of the legislatures, the legislative Yuan and the National Assembly went along. These representatives from mainland provinces

continued to function as members of a national political structure. They could not of course be replaced through mainland elections, and time and age have taken their toll.

In December 1972 the first elections were held to fill some vacancies in these national representative bodies. Of the 89 members newly elected to these bodies, all but 10 were Taiwan Chinese and most of them were quite young. The new election, held for the national legislature, must not be confused with the provincial and district representative bodies on Taiwan locally elected over the last years.

Of more lasting importance perhaps is the extension of free public education from 6 to 9 years, a measure designed to broaden the popular base of the system both in economic and political terms to benefit especially the Taiwan Chinese by increasing their proportional role among the educated leadership of the province.

The continued economic growth of Taiwan despite the adverse international development is as remarkable as its political stability. Since 1965 when American aid came to an end, the economy has flourished at a growth rate averaging over 9 percent per year and reaching in 1972, 11.4 percent in real terms.

In the same year, per capita income rose 13 percent, industrial growth was up 21 percent, and the rate of inflation remained low. Trade and foreign investment are of special importance in this economic development.

In 1972, following the shift in United States policy, expulsion from the United Nations, and the dramatic abrogation of diplomatic ties between the Republic of China and some 20 nations, overall foreign trade rose 48 percent and reached a total value of \$5.8 billion. Taiwan trade with Japan has traditionally outstripped Japanese trade with the whole of Mainland China.

During 1973 this trade increased so dramatically that the estimate now stands at \$2 billion, about double that for Japanese trade with the mainland. There has been thus no adverse economic effect from the diplomatic setback, but indeed an amazing and dynamic growth of Taiwan's economic potential. A similar growth of trade has occurred between Taiwan and the United States. The volume of two-way trade exceeded \$2 billion in 1972 and is expected to reach \$3 billion this year. Last year Taiwan was the 12th largest trading partner of the United States and it is expected to improve this position during 1973.

I would like to say that much more on this has been said, Mr. Chairman, in a statement and questions answered by Mr. Henry Kearns, president of the Export-Import Bank, at your last hearing.

However, the economic relationship of Taiwan with the United States cannot be separated from the diplomatic and political relationship. Taiwan's political and social survival has to be guaranteed not by lesser states but by secure U.S. backing if her independent existence is to continue, without which no economic growth and trade relations with others are possible.

It is time to state the obvious. Without diplomatic recognition by us, Taiwan could rapidly find herself at the mercy of Peking, as Tibet was at the time of Peking's invasion. The future of the National Government and the question of a free Taiwan is therefore the issue before us.

To judge this issue, we must assess the present and the future not only of the National Government on Taiwan but indeed of the People's Republic on the mainland as it affects world peace and American national security.

There is no question of the viability of Taiwan as another China. The issue remains, however, that of the relationship and the confrontation between the two Chinas in the future. The view, occasionally heard now, that there can be a compromise between the Chinese on the mainland and the Chinese on Taiwan, since both are Chinese, demonstrates, in my view, an inability to understand the differences in the intellectual and social framework, indeed of the two different ways of life that divide the Republic of China from the People's Republic of China.

In the Communist world—and it cannot be stressed enough that it is still the Communist world—motivations and goals are determined not by ethical but by Marxist-Leninist or Maoist doctrinal considerations. In order to reunite the two Chinas, it would be necessary to have a Communist takeover on Taiwan, or an anti-Communist revolution on the mainland. As of now, neither appears likely.

This is not the place to deal in detail with the situation in the People's Republic. What must be stressed, however, is the basic uncertainty and instability of the future of the People's Republic.

Over the last 15 years and even before, there has been in Communist China a succession of continuous upheavals and major purges, "the struggle between the two lines" in Mao's words. According to Mao, this struggle is to continue. It has brought about the most abrupt and sweeping changes within the Chinese Communist system.

The cultural revolution, for instance, at a cost of over 4 million lives according to Lin Piao, destroyed the traditional Marxist-Leninist double hierarchy of party and government structures and replaced them as of today with a new system dominated by the military. How precarious this new structure is was demonstrated again by the purge in 1971 of the leading military man and Mao's successor, Lin Piao, and of a large group of Lin's military and political followers at the center and in the provinces. The purge of this military faction may well be compared with Stalin's purge of the Tukhachevsky group and comes at a similarly crucial time.

The man who has come to the top during the cultural revolution and after Lin's purge is Chou En-lai, who at present appears to be the chief decisionmaker in Chinese Communist domestic and international affairs.

Chou En-lai, perhaps the most brilliant Communist leader of our time, has been an extraordinarily skillful political operator. Chou is not the "moderate" he is sometimes pictured to be by Western interpreters. His early career after secret police training demonstrated a ruthless and steely nature behind the suave and urbane outer appearance.

Once upon a time, Jawaharlal Nehru's misplaced trust in Chou's assurances regarding India's frontier with Tibet destroyed Nehru, both politically and physically.

During the cultural revolution, Chou En-lai built up his own military support and, following the purge of Lin Piao, he is clearly in the strongest position to rebuild this disjointed political, economic, and

military structure of the People's Republic of China. Today, Chou appears to be increasingly in control of the Central Government and the military/industrial establishment. Chinese policy may therefore depend on Chou's political goals and motivations.

There is no sign however that under Chou the basic Communist purpose has in any way been changed by the exigencies of the confrontation with the Soviet Union. Not only in domestic and international propaganda does Peking maintain its Communist aims, it continues to prepare, propagate, and direct "revolutionary wars" and "wars of national liberation."

There is competition but no basic disagreement between Moscow and Peking on this major strategy of today. On the day of the visit of the Burmese President, Ne Win, to Peking, for instance, the friendly words extended by Chou En-lai to the Burmese guest coincided with an article in the People's Daily reprinting a vicious Burmese Communist attack against the "Fascist" Ne Win, and promising his overthrow. Peking's "Voice of the People of Burma," "Voice of the People of Thailand," and "Voice of the Malay Revolution" and other radio stations provide not only propaganda but operational directives to the insurgent movements in the respective countries. It may be that at the moment this revolutionary policy is on the back burner, but there is no indication whatsoever that a simple shift in emphasis cannot again bring it to the fore.

Beyond the question of policy goals and motivations, there is a much deeper uncertainty regarding the future course of the People's Republic of China caused by the question of succession and future leadership. Chou is 75 and Mao is 79. Any political system depending on the lifespan of two old men is obviously shaky. We do not know whether Chou will survive Mao, nor who the future successor will be.

What is at stake is more than personalities. Today, "Maoism," though in eclipse, is still the doctrinal framework for policy formulation and action. But Maoism has been diluted and there is no way of predicting whether the cult will survive the leader. There could indeed be a de-Maoization and one may speculate on a return to orthodox Marxism-Leninism after the disappearance of Mao.

With or without Chou En-lai, this could very well mean a realignment between Moscow and Peking particularly if Moscow should be generous in its conditions.

Another not less plausible alternative would be a growing trend toward a truly independent nationalist development on the mainland. But in view of the uncertainty of future leadership, these conflicting alternatives could very well lead to an internal power struggle and policy conflict affecting the unity of the state.

It is such a possibility which appears to be the main reason for the continued Soviet military concentration waiting at the Chinese border.

Our policy toward normalizing relations with Peking and dealing separately with the two major Communist powers has been predicated on the Sino-Soviet conflict. The end of this conflict would create a totally new situation. Nothing we can do can guarantee that the twain shall never meet.

Our policy appears to be designed to boost Peking's position in the intra-Communist struggle, but we cannot within the rules of Western

international relations decisively change the rules of the intra-Communist game.

The notion, sometimes expressed, that improved economic relations and assistance in economic development will transform the Communists to capitalist thinking shows nothing but an extraordinary lack of understanding of any form of totalitarian thinking. It should be understood by now that totalitarians of either color cannot be bought and that applies to China no less than to the Soviet Union.

Whatever the fluctuations in the Communist world, we must therefore maintain our security treaties with our Asian allies so as to be able to fall back on safe positions and, while reaching into the uncertain world of intra-Communist conflicts, not lose our footing in the system of alliances which has served us so well.

It has been stated again and again that our security treaty with Japan is the anchor on which our Asian position rests. The Japanese alliance, however, cannot be strong in isolation. During his recent visit to Japan, Secretary of State William Rogers assured his Japanese counterparts that the United States will not take any action with regard to South Korea or Taiwan without consulting our Japanese ally.

Both these countries are thus clearly recognized as being of crucial importance to the national security of Japan as well as the United States. South Korea is the bridge toward Japan and any Communist control over this territory would be regarded in Japan as a most serious threat.

Taiwan, on the vital searoute to the main Japanese oil and other raw material resources is of equally crucial importance. A look at a physical map will demonstrate the special location of Taiwan at the outer fringe of the Continental Shelf along China's coast. Submarines of the Peoples Republic based on Taiwan's east coast would have free access to the deep waters of the Pacific without having to cross the shallower waters of the Continental Shelf. This alone would greatly aggravate the existing difficulties of the defense of the vital supply routes on which Japan's security depends.

Our relationship to Taiwan, however, rests on more than the importance of the strategic position of that Chinese island province. The National Government is our oldest ally in Asia. The credibility of all our commitments in Asia will be measured by our political decisions concerning Taiwan and the National Government.

This vital aspect has been somewhat overshadowed by an attitude of euphoria following in the wake of our new China policy and our attempts to replace confrontation with negotiation in all areas of the world. Even should the Sino-Soviet conflict continue in its present form, there is little likelihood that we will be faced in the coming years by a People's Republic which has abandoned its revolutionary aspirations. The continuing military build up in the People's Republic on the foundation of a disciplined and indoctrinated population would be ominous in itself. Uncertainty about future unity in Mainland China and possible potential Soviet intervention, increase the odds against a stable future.

Our policy of détente and of normalization of relations with the Communist world can only be maintained if we do not let down our guard, but rather maintain our strength, our commitments and our integrity.

During President Nixon's visit to Peking in February 1972, we managed to begin the "normalization" of relations with the People's Republic without, in the President's words, "abandoning old friends." In the Shanghai communique, the United States accepted only the assertion that Taiwan was part of China, an assertion held by both Chinese parties and not to be "challenged" by the United States.

While declaring our interest in a peaceful settlement of the "Taiwan question" and promising the withdrawal of our forces from Taiwan, "as the tension in the area diminishes" we did not succeed in inserting into the communique our treaty commitments to the National Government.

However, this omission was repaired by the Kissinger press interview in Shanghai, in which he reasserted the continued validity of our commitment.

As a result, we have gained a mutual diplomatic exchange through the liaison offices in Peking and Washington which appear to be embassies in all but name. And all this has been accomplished without breaking our formal diplomatic ties with the National Government, whose Ambassador continues to function here in the capital.

But we must not go farther, otherwise we may lose far more than we can possibly gain. Our Vietnam success is based on the acquiescence of Peking and Moscow in the strong military position we have taken in the final stage of bargaining. The outcome is still in the balance and will in the end depend on the continued demonstration of our strength as much as on the continued competition between Moscow and Peking.

The question of intra-Communist conflict or reconciliation can only be marginally affected by the United States, but the strength of our military and political stand is in our hands.

Should we follow the counsel of abandoning our diplomatic ties with the National Government our whole position in Asia would be undermined. We cannot limit ourselves to mere economic relations with Taiwan, as the Japanese seem to have done, without losing the legal international basis for assisting Taiwan against future possible military coercion by Peking.

In weakening our position, we may tempt our potential opponents to further probe our weaknesses and undermine the faith of our allies. This, of all times, is not the moment for abandoning Taiwan and our nationalist allies if we want to maintain the peace in Asia.

The administration has handled the complexities of the China problem boldly. It would be tragic if we would become victims of over optimism resulting from our diplomatic success. In the view of this observer, the continued support of the National Government on Taiwan is as crucial to the success of our policy in Asia and to the maintenance of peace as is our security treaty with Japan. Indeed, the two policies are inseparably intertwined.

Mr. Chairman, if I may add a footnote, last week I had a lengthy discussion with a leading Japanese author, and political commentator, Prof. Fukuda Tsuneari, who asked questions about our policy vis-a-vis the National Government of Taiwan, which, of course, I could not answer. I could only give my opinion.

But his very strong point, which he permitted me to quote, was that any abandonment of Taiwan on our side would be very serious in relation to our security treaty with Japan.*

So, this, in a way, underlines this last point which I have made here in my statement.

Thank you very much, Mr. Chairman.

Mr. NIX. Thank you very much, Dr. Michael.

I would like to have your opinion. You say that the administration has handled the complexities of the China problem boldly. Would you go into that at some length?

Mr. MICHAEL. Well, in my view, the visit first by Dr. Kissinger and then by President Nixon himself to Peking and the normalization of our relations with Peking was not only really an improvement in the situation in Asia as a whole, but was the basis of our whole policy toward Southeast Asia and toward Vietnam.

Of course, the visit was followed by President Nixon's visit to Moscow and we have carefully avoided siding with either of the two antagonists in the Sino-Soviet conflict.

On the basis of these visits we have been able to demonstrate strength in Southeast Asia and to again obtain from Hanoi, without Moscow's or Peking's objection, the agreement which permitted us at least to remove our active participation in the combat in South Vietnam without abandoning our ally, that is, the South Vietnamese Government.

We have been able to blockade the Port of Hanoi. We have been able to use the very effective bombing of Hanoi which was the main factor, in my view, that brought Hanoi to agree to a genuine compromise settlement.

So, I think all of these questions are what you wanted me to discuss. I think they are interrelated. I regard this as a very bold initiative on our side which has created a new situation. We have reached into this Communist world which I regard as a very extraordinary and successful move on our side, if it does not lead to the weakening of our own strength.

Mr. NIX. Now, Dr. Kissinger, at his press interview in Shanghai, reasserted the continued validity of our commitment to Taiwan. I would like to know whether or not you see any immediate prospects of an erosion of that commitment.

Mr. MICHAEL. Well, I am not privy to the thinking of Mr. Kissinger. All I can say is that I trust the assurances that we have not changed our policy. My strong statement in this regard, of course, is based on the fact that if we ever should shift our stand this would be a very grave issue and would, in my view, be disastrous.

Mr. NIX. Now, would you again indicate the advantages to the United States to continue to strengthen, to enlarge its dealings with Taiwan?

Mr. MICHAEL. Well, our dealings with Taiwan are, first of all, the recognition of the National Government, as you know, Mr. Chairman; secondly, a treaty which provides the military guarantee for the security of Taiwan.

Beyond that, of course, is a strong link economically, as I have indicated here and as was indicated to you at your last session.

So this has been really a major part of our policy.

Now, if you ask for the advantages of this, I see this in relation to our whole position in Asia. If we abandon a commitment and abandon an ally, that is a very serious danger to our credibility. Having been many times over the last years in Japan and having discussed this with

many Japanese, both in government and the academic world, I know their grave concern with the question of whether our security treaty with Japan, for instance, can be trusted, whether our nuclear umbrella is really reliable.

That alone would, to me, be enough reason not to abandon Taiwan; it would endanger our whole position in Asia. But I do believe, Mr. Chairman, that there is an issue of our word and of our integrity involved and of our prestige, which has been high. We have so far not run away from responsibilities and I don't think that we should start to do so.

Furthermore, I have mentioned, and perhaps your other witnesses know more about it than I, the actual strategic situation of Taiwan. There is also, and this I have referred to here, great uncertainty about the future in the People's Republic. We really don't know in which direction developments there will go. Taiwan, which is stable, is a Chinese world and, in fact, a Chinese province on which there is an alternative development.

Now, I have never believed in the idea that there will be a Normandy landing and a reconquest of the mainland, but the model of Taiwan and the preservation of a Chinese order that is based on law and some of the principles of the free world may be very crucial at a time when the future of mainland China is at stake.

Mr. Nix. Thank you.

Mr. Broomfield.

Mr. BROOMFIELD. I find your statement extremely interesting. I am somewhat puzzled, however, at your feeling that we might abandon our commitment to Taiwan. I don't sense that myself. The Nationalist Chinese have very many friends in the Congress of the United States. I think we all appreciate the way they handled the situation as far as our establishing a counsel office in Peking and the President's visit to the Soviet Union very much.

I wonder if you would give us your reasons for the questions that you raised.

Mr. MICHAEL. Thank you very much, Mr. Broomfield. I am very happy, first of all, to hear you say that about the attitude here toward the National Government which, of course, I share. I have been worried or have begun to worry on two accounts.

I don't belong to either the Republican or Democratic Party, so I am looking at it from a neutral point of view, but I have been startled by the statement of Senator Jackson before the liaison offices opened, when he said we should abandon our relationship with Nationalist China and establish full diplomatic relations with the People's Republic of China.

This startled me from a man for whom I have had a high regard. Now I am hearing about this a great deal in my discussions with friends in Asia and particularly in Japan. Many Japanese and several people from Southeast Asian countries at international conferences, have raised this question.

So, in view of the fact that it has been rumored about and talked about, I wanted to come out as strongly as possible with my conviction of how important it is to maintain our commitment, from the point of view of integrity as I say, but also from the point of view of our national security.

That is why I came out that way. I have no reason to distrust our statements and the policy of our administration. I only wanted to anticipate any questions that sometimes come from friends.

Mr. BROOMFIELD. I think that is a legitimate concern. With the changes that have occurred in the last few years, I think there has been a failure, if you can call it that, in keeping our strong allies abreast of the new positions that our Government is taking. I do feel very strongly, however, that the President is proceeding very cautiously with the People's Republic and still not abandoning or even giving any indication of doing anything that would change our relationship with the Nationalist Chinese.

Mr. MICHAEL. I am very glad to hear you say that.

Mr. BROOMFIELD. The point I am wondering about is: How do you view an increase in shipment of food to the People's Republic? How would this affect the Nationalist Chinese? Obviously, it is in the making.

Mr. MICHAEL. Well, I am entirely in agreement with our policy of opening up relations with the People's Republic.

Mr. BROOMFIELD. Certainly, if we are going to have any peace in the world, we cannot ignore a country with a quarter of the world's population. I think it is absolutely essential that we open the doors; in other words, where there is at least communication.

Mr. MICHAEL. I entirely agree with you, Mr. Broomfield. I would like to say that if this situation, called the balance of terror, is to be changed, it can only be changed through contacts and not remain simply a military matter.

But it is not entirely an economic matter either. I don't believe in the idea that you can make capitalists out of Communists by giving them grain or whatever, but it does mean that contact and exchange of ideas especially is vital; that is my point, because I see the main problem of these relationships in the world of ideas and concepts, and that means opening up the door.

Of course, that goes together with every other kind of relationship.

Mr. BROOMFIELD. If there is an area that bothers me, it is the attitude of some Members of Congress. We had a perfect example last night in an ill-advised move to take a meat ax to our troop commitments overseas. We had one Member proposing a cut of nearly 300,000, and he was not sure where they would come from, but he thought we ought to do it. This is an area that bothers me, that we do have, in my judgment, a trend, and I think it is a very small number, fortunately, who are becoming strong isolationists. They are really not concerned that the United States should even have a role in world affairs.

I think it is absolutely essential. At least we should share in the responsibilities to provide stability. I really believe that the administration is handling its foreign policy extremely well. I only wish as a member of the party that it would handle some of the domestic things as well.

Mr. MICHAEL. I quite agree with you, Mr. Congressman. I do believe that this has been handled extremely well. But there are pressures, and as you say, there is the idea of withdrawal which, in my view, would be very dangerous to peace—disastrous, in fact—nonnegotiated withdrawal, particularly. After all, and speaking now of China, there has been not only no change in the policies of the People's Republic, at

least as far as the motivations and goals are professed, but there has also been a continued arming. There is the buildup of nuclear power, there is the buildup of other military power; so if we consider the future potential of a well-disciplined and controlled and indoctrinated Chinese population, as I say here, we should never let our guard down.

Therefore, I couldn't agree more with you that we must not be reckless on this count.

Mr. BROOMFIELD. One final comment. I was pleased that you mentioned the elections in 1972 and the fact that they are bringing more Taiwanese into it. I think this is absolutely essential, but again, I am a firm believer that this is an internal problem for the government over there. It only pleases me to see that they are recognizing the importance of bringing their people into their government. I do want to compliment you. I think this is one of the finest assessments that I have ever read of the situation in that part of the world.

Mr. MICHAEL. Thank you very much.

Mr. NIX. Mr. Wolff.

Mr. WOLFF. Thank you, Mr. Chairman.

Professor Michael, I unfortunately was not here to hear your statement. I have read it, however. I should like to make a few comments before I ask you some questions.

One element that I should like you to know is my views regarding the question that was offered on food shipments. I think this Nation today is suffering as a result of food shipments that were made to the Soviet Union only some time back, the result of which is that we are now faced with a problem of being unable to feed our own people.

Regarding the shipment of further food to the People's Republic of China, if they pay in gold, fine. But if they want to get some of our food on credit, I would say that I think it is about time we took care of our own, not that I am by any means an isolationist, but I think it is time we took care of some of our own problems rather than give credits to the People's Republic or to the Soviet Union. I find that one of the errors of our policy in the past has been to try to buy our way into the hearts of people, and that has not been very successful.

As to the question of withdrawal of our forces, I did not vote for the amendment last night; however, I do believe that there is an opportunity to withdraw some of our forces from around the world. I don't think we need the number of people we have if we do have people like the Republic of China who are standing by us, because if there ever was a representative of the Nixon doctrine, it is the Republic of China, who have taken care of their own defense with our assistance.

Mr. BROOMFIELD. You mean the Nationalist Chinese.

Mr. WOLFF. Yes, the Republic of China. There is the People's Republic of China and the Republic of China.

Mr. BROOMFIELD. I didn't catch the first part.

Mr. WOLFF. I notice that you are professor of Sino-Soviet studies. The fact, however, is that when we talk about the question of Asia, the one element that I did notice missing in your statement to the committee here, was the question of relations between the Soviets and the People's Republic of China. What effect has this had upon the total situation?

Mr. MICHAEL. Thank you very much, Mr. Wolff, for your comment and question. I couldn't agree more with what you said first that the food shipments—of course, I am speaking of them in general terms and not on the question of credit—can only be related to other things. They are not a major thing by themselves.

Mr. WOLFF. I would say that one of the big things we have to sell for the future is food. This is an area where we have the ability to produce. My problem with what has happened of recent date is that we curtailed production and then shipped out of reduced output. If we waited until such time as we had the production, I would not have questioned it.

Mr. MICHAEL. The soybean export restriction is a typical case which was not handled in the best way, as you mentioned.

I quite agree with you, of course, on the question of the Nixon doctrine. In essence, it has helped those who have helped themselves.

The only danger would arise from a one-sided American military withdrawal without previous preparation.

In connection with the Republic of China, even a small U.S. force on Taiwan today strengthens our commitment to Taiwan. The actual size is a matter which depends on a given military situation.

I am strongly in favor of and believe that the Nixon doctrine has reasserted a principle of U.S. policy which goes back to the 19th century. So I quite agree with you that we do not want to do it all ourselves, but would rather cooperate with our allies and share the burden in all aspects.

Now, you want me to say more on the Sino-Soviet conflict; I have testified on that before.

Mr. WOLFF. Suppose you update it because I do feel it heavily weighs upon the future, not only of our relations with the People's Republic of China, but of our relations with the Republic of China and the position that we have in the entire world, the continual conflict that exists in the military presence of both sides of the border. I wonder if you have an update you can give us on this.

Mr. MICHAEL. As you know, of course, and as your question also implies, this is really the key factor in the whole situation in Asia. Without this conflict our new policy in Asia would not have been possible. The conflict has led to a situation in which the Soviets have concentrated their major forces all along the border of China. I have heard different figures but it is usually given now as a million and a quarter men in fully equipped military units that are stationed along the Chinese border.

The question is, of course, what for? I have never regarded this as a question of war between two nations, or a frontier conflict—the frontier, to me, has been entirely secondary. Nor have I shared the view that the Soviet policy might be to destroy the Chinese nuclear ability in a rapid strike. I have always regarded this as a policy of using the military together with political action to bring a fraternal socialist country back into the family. Of course the Sino-Soviet conflict contained all the familiar aspects of Communist infighting, the insults, the ideological arguments. It became serious from the Chinese point of view, when the Soviets moved into Czechoslovakia. This Soviet action in Czechoslovakia strongly affected the Chinese leader-

ship in Peking. That was the moment when Peking turned toward the West.

Mr. WOLFF. Do you think the problem is as acute today as it was 2 years ago?

Mr. MICHAEL. In 1969 I think there was a serious possibility of Soviet military-political action against China. I think at the moment it is not that acute. But obviously the Soviet concentration of strength remains. So the situation is very serious.

I could give more details but in the interest of time I will simply say that one possibility that we should never preclude, and that I have not precluded from the very beginning, is the possibility that the conflict might end and there may be cooperation again. When the major obstacle, Mao himself, is gone—the Mao cult has already declined—and the possibility that the conflict may be over has to be taken very seriously.

Mr. WOLFF. I don't want to take any more time. I am very much interested in hearing what you have to say. One thing I would like to find out from you is, in talking about the conflict ending, with the serious split that exists between the People's Republic of China and the Soviets, in the event that we had difficulty with one or the other, do you think that that difficulty would be solved as occurred between the Germans and the Russians at the time of World War II, or do you think that one or the other would actually stand off and wait and see what happened?

Mr. MICHAEL. I am not quite getting the question.

Mr. WOLFF. What I am saying to you is that in World War II Stalin and Hitler were opponents, yet they got together because they had, they felt, a common enemy at the time in the United States. What would happen today if either the Soviets got embroiled with us, or the Chinese Communists got involved with us, would they join together again? Would that be a stronger tie to bind them than the ideological struggle they are having with each other?

Mr. MICHAEL. I would say yes, that the common basis of policy is stronger than any antagonism.

Mr. WOLFF. In other words, we can't count on it continuing between the two?

Mr. MICHAEL. Oh, no. I certainly think we cannot.

Mr. WOLFF. Thank you.

Thank you, Mr. Chairman.

Mr. NIX. Mr. Broomfield, do you want to ask any more questions?

Mr. BROOMFIELD. Yes.

I would like to follow up Congressman Wolff's question and also I have another question who deals with the People's Republic and the Republic of China.

Since our new initiatives, do you see any accommodation between the two areas and what do you view in the future? Do you think that there is any basis to the speculation that within 10 years that they will get together?

Mr. MICHAEL. Who is "they" now?

Mr. BROOMFIELD. I am talking now about the People's Republic and the Republic of China.

Mr. MICHAEL. As I said in my paper, unless you have an anti-Communist revolution on the mainland or a Communist takeover in

Taiwan, beyond that, I do not think that because they are both Chinese they will get together. There has been, of course, the relationship between East and West Germany, and now North and South Korea, the idea of having both in the United Nations, an idea not accepted by North Korea but now the policy of South Korea. But that requires as a precondition the acceptance of each other's existence.

Now, that would mean that Peking would have to accept Taiwan as an independent entity, together with the principle of one country, two governments. This would be the two-China policy. On that basis there would be a possibility of limited contact, I would think, but only on that basis. However, the defeat which we suffered in the United Nations during our attempt to create a two-China policy has aggravated that problem.

On the other hand, that is why I feel it is so crucial, far more crucial than the two-China issue in the United Nations, that we give full support and continued diplomatic relations to the National Government on Taiwan.

Mr. BROOMFIELD. If the People's Republic did assault Taiwan, where would our line of defense be in the Pacific?

Mr. MICHAEL. You will have more expert testimony on that. I am not a military man. Therefore, I can only say what I have been told, not only here but by Japanese friends who would take that very seriously. The location of Taiwan at the outer edge of the Continental Shelf, combined with the fact that the People's Republic is building submarines now, in fact probably nuclear submarines would endanger the Pacific sealanes if Taiwan was in hostile hands. In case of Sino-Soviet reconciliation the threat would even become more serious, especially for Japan, which is our most important ally. So I do regard this as a very major issue from the point of view of our national security.

Mr. BROOMFIELD. Thank you.

Mr. NIX. Dr. Michael, I want to thank you on behalf of the subcommittee for a most excellent and informative presentation.

Mr. MICHAEL. Thank you very much, Mr. Chairman and members of the committee. It is a great honor to me.

Mr. NIX. Our next witness is Maj. Gen. Richard G. Ciccolella, retired, former Commanding General of the U.S. Military Assistance and Advisory Group with the Republic of China.

We welcome you to the committee. We are very pleased that you were able to come.

**STATEMENT OF MAJ. GEN. RICHARD G. CICCOLELLA (Ret.), FORMER
COMMANDING GENERAL, U.S. MILITARY ASSISTANCE AND AD-
VISORY GROUP, REPUBLIC OF CHINA**

General CICCOLELLA. Thank you, Mr. Chairman. May I read my statement?

Mr. NIX. Yes.

General CICCOLELLA. Before I start I would like to ask Mr. Broomfield if I might respond to his last question at the completion of my statement.

Early this year, after 33 years of service, I retired from the U.S. Army. Immediately prior to my last assignment, I served for 3 years

as Chief of the U.S. Military Assistance Advisory Group to the Republic of China. In the course of that duty, I assisted the armed forces and the Government of that nation effect significant changes in the capabilities and structure of their armed forces. This resulted in unusually close personal association with most of the country's military and civil leaders, and provided a unique insight into their approaches, their exercise of command, and their outlook. This experience has left me with a profound respect for the philosophy and aspirations which motivate the Government and the Armed Forces of the Republic of China.

Prior to my duty in Taiwan, I was the senior member of the United Nations Command Military Armistice Commission at Panmunjon; and in 1956 and 1957, I was the Chief of Operations for the U.S. Military Assistance Group in Cambodia. During the 3 years I served in Taiwan, I also had occasion to visit Vietnam on numerous occasions and became quite familiar with that country's situation and its position among the free nations of Asia. These assignments afforded extensive exposure to the military and related political considerations in the Far East, which affect our own security; and it is these—as I perceived them—with which this statement is concerned.

First, I believe it essential that any consideration of the Republic of China be made in the context of that nation's place among the free countries of Asia. This is necessary if we are to assess realistically where our own interests lie in this important geographic area of the globe.

Among the viable free nations of the Far East—which include South Vietnam, South Korea, the Philippine Republic, Thailand, Malaysia, Singapore, Indonesia, and Japan—the Republic of China occupies a place of respect and leadership. This position was gained by that country's impressive economic growth, its encouragement of individual initiative and enterprise following an extraordinary land reform, and its widely recognized and respected armed forces. Throughout Asia, Communist propaganda notwithstanding, the Republic of China is known as an American ally and emphatically not as an American puppet. As an ally, it has been a staunch and consistent supporter of our aims and policies. Those in this country who might harbor the illusion that its friendship has only been bought with American aid are oblivious to the reality that our own hard experience has taught; namely, that neither economic nor military assistance can assure durable friendship among nations. I view this friendship as being more firmly rooted in philosophy and interests that are shared by our two Governments. In any event, we have in the Republic of China a valuable ally that is strategically situated.

With respect to our provision of military assistance, I believe that there is a tendency in the United States today—understandable in the light of our Vietnam experience but nonetheless important—to be unduly apprehensive over the prospect of being drawn into a military involvement in the defense of Taiwan. Actually, the Republic of China is well able to take care of itself in combat in defense of Taiwan on its own, provided that its armed forces are furnished with the modest assistance it needs. The nature of its military capabilities today and the will of its people are such as to discourage military aggression against its territory. Any attempt to undertake a military conquest of

Taiwan, including the offshore island groups of Kinmen (Quemoy) and Matsu, would be an enormous undertaking and a military adventure offering unacceptable odds to an aggressor. It appears to me to be highly improbable that Communist China would embark on such an undertaking so long as the Republic of China continues to field the kind of military forces it currently possesses.

With the help of our military assistance programs, the Republic of China not only has developed a highly respectable capacity to defend itself, it also has developed a capability of providing essential support for other friendly Asian countries. Of particular importance is the capability for repairing military hardware which it is prepared to offer other free Asian nations, proved through extensive ongoing programs for Vietnam and Thailand.

These capabilities would be of little value in the absence of internal support and political stability. The Republic of China possesses these qualities. The unique position of the Republic of China as a stronghold of Asian freedom reflects the integrity of its leaders and the prestige that they enjoy among the free nations of Asia. In my dealings with that Government, I always found the highest order of honesty, competence, and regard for ethics. In my view, the Government of the Republic of China is a monument to President Chiang Kai-shek whom I regard as one of history's rare leaders to whom people give their loyalty and in whom they can safely place their trust. Premier Chiang Ching-kuo, with whom I worked closely when he was Minister of Defense, shows the same qualities which give further assurance of continued political stability. The leadership of the armed forces from senior ranks to junior officers is outstanding.

American interests require that in the Far East, as elsewhere, a reasonable balance of power be maintained to permit the development of peace and political stability. This means that an American presence in the area is required to preclude creation of a power vacuum that would destroy any hope of such a balance. And it means that dependable American allies there must be supported to the degree that support is needed to insure their independence.

Mr. NIX. General, may I interrupt you a moment.

The bells rang a moment ago. We will have to go and vote but we will return very shortly.

General CICCOLELLA. Fine.

Mr. NIX. We will recess for a few minutes.

[Brief recess.]

Mr. NIX. The subcommittee will be in order.

You may continue, General.

General CICCOLELLA. For without such allies, we could not maintain our essential position in the Far East. In this connection, it is reassuring to know that the leaders of the Republic of China are thoroughly familiar with the problems of collective security in this region and that they possess a sound perspective of strategic considerations that are of utmost importance to the United States.

Today our country is following a policy in the Far East known as the Nixon doctrine which essentially provides that minimum necessary U.S. assistance will be provided to those nations willing and capable of helping themselves. Its fundamental premise is sound for it spurs

the developing nations to do for themselves what they should do and reduces their dependence on the United States. In this connection, it is interesting to note that the Republic of China was practicing this doctrine for several years before it was promulgated by President Nixon in Guam in 1969. U.S. economic aid was terminated for the Republic of China in 1965 and during my 3 years as Chief of the Military Assistance Advisory Group from 1967 to 1970 the total annual U.S. contribution to the armed forces of the Republic of China, funded by the U.S. Congress, amounted to less than 10 percent of the annual defense budget of that country. In other words, the Republic of China has for a long time been paying more than 90 percent of its own defense requirements. Today, the U.S. contribution is less than 3 percent of the total defense budget.

While we are currently in the process of normalization of relations with Communist China it is imperative that we realize the need to strengthen our ties with our Asian allies. If recent history has taught us anything about dealings with Communist nations, it is that any such dealings must proceed from a position of strength—otherwise they will be useless. An essential element of our strength reposes in the dependability of our allies. It is therefore both disturbing and frightening to read and hear of proposals to abandon some of our most trusted allies in the Far East to ingratiate ourselves gratuitously with Communist China. Abandonment of any of our allies in the Far East is unnecessary and would be self-defeating. It would also deny us the potential benefits that our own current negotiations with Communist China now appear to offer. If we were to turn our backs upon the Republic of China, we would do ourselves irreparable harm in our future relations with Communist China. That nation certainly would lose respect for our reliability and lose confidence in the extent to which we could be trusted. The Chinese Communists are pragmatic—they do not expect us to abandon our long-time ally. Certainly they have not abandoned their North Vietnamese and North Korean allies on our account, nor are they reducing their considerable support to the Communist insurgents in Laos, Cambodia, and Thailand. It is my considered view that the results of negotiations with Communist China currently under way—and which will continue for a considerable time—will depend significantly upon how well we can maintain our position in the Far East with the cooperation of our Asian allies. In this connection, I want to reemphasize that one of our most trusted and most reliable Asian allies is the Republic of China.

Our failure to provide adequate assistance to the Republic of China would have serious repercussions far beyond Asia. If it became apparent to our allies that the Republic of China could not rely on us after years of close collaboration, they would, rightfully, ask themselves if they were wise in placing their trust in us originally. I believe that we would find our friends in other parts of the world turning away from us and seeking firmer anchors. Certainly we would lose the confidence of friendly Asian nations which now look to us for support in the quest for peace and security.

When a nation's safety and survival are at stake, that nation will seek help from whatever source may be available, irrespective of ideology. History is replete with examples: Spain, Finland, and Yugo-

slavia were obliged to accept help from Nazi Germany. Our former staunch ally, Pakistan, once the most anti-Communist nation in South Asia, more recently had to turn to Communist China for assistance. Turkey has made some overtures in this direction also through negotiations with the Soviet Union.

To assure continued independence, the Republic of China requires limited military assistance that only a major power can provide. For more than 20 years the United States has provided that assistance.

At present, the Republic of China constitutes a bastion of strength for the free nations of the Far East. She is a food surplus country. She has technical, scientific, and educational resources in abundance. Her armed forces can provide vital repair and rebuild services for maintaining military and naval equipment. In joint cooperative programs with U.S. firms, she produces jeeps, $\frac{3}{4}$ -ton trucks, $2\frac{1}{2}$ -ton trucks, all types of ammunition, and small arms. She has an ongoing coproduction program with the Bell Helicopter Co. producing the HU1H helicopter and a coproduction program for F-5 aircraft with the Northrop Corp.

With the exception of Japan, the Republic of China possesses the only capability in the Pacific to rebuild and repair helicopters—a capability of enormous importance in view of modern military requirements. Her airfields are modern, secure, and strategically important. Taiwan offers two deepwater ports—one in the north and one in the south—that can accommodate any ship in our fleet. These assets and resources must appear enormously attractive to the military planners in the Kremlin anxious to extend Soviet power in Asia. These capabilities must be viewed in the strategic sense. Since World War II, we have been relying on Japan, including Okinawa, as major bases for repair and rebuild of U.S. and Allied air, ground, and naval equipment. The political vagaries of the Japanese Diet and social instability in Japan may cause the United States to lose these strategically important bases on the advent of another conflict in the Far East not directly involving Japan.

The Republic of China does not seek a U.S. military presence on Taiwan to help in its defense. But it does need modest military assistance and some technical aid—and we can be sure that it will obtain what it needs from some source. With the exception of advanced fighter aircraft, much of what the Republic of China needs can be provided from surplus U.S. military stocks as the levels of our own forces taper down. While they can provide most of their military requirements from local resources, they cannot produce the advanced fighter aircraft, modern tanks, modern destroyers, missiles, and radar needed to keep their military forces modern and capable of defending their country. We can assure the viability of a valuable and truly reliable ally at very little cost. More importantly, we can fulfill our obligations to a loyal friend. Both self-interest and morality demand that we do no less.

That the Republic of China is a loyal and reliable U.S. ally there can be no doubt. During the Vietnam conflict, the Republic of China provided the use of its huge airfield complex to base our C-130 fleet which provided essential logistical support to our forces in Vietnam. When political pressures in Okinawa forced the evacuation

of our B-52 operations from that country, the Republic of China promptly offered its own airbase facilities, free of charge, to meet our requirement. Our KC-135 tanker aircraft operated from Taiwan bases to refuel our fighter and bomber aircraft operating over Vietnam. The rebuild and repair facilities of her armed forces were placed at our disposal during the Vietnam war and hundreds upon hundreds of war-damaged trucks, tanks, and assorted military equipment were rapidly and efficiently repaired and rebuilt at a fraction of what we had been paying Japan previously for the same services. Savings to the U.S. Government under this arrangement amounted to several millions of dollars. When we ran into a shortage of M-60 mortars for the Vietnamese force, the Republic of China promptly furnished these, taking them from her own military forces. More recently when the United States sought to quickly increase the airpower of South Vietnam, the Republic of China unhesitatingly transferred to Vietnam 48 F-5 fighters—just about half of her most modern aircraft. The fact that she did not have combat forces operating alongside our own in Vietnam was due in no way to a reluctance on his part to provide them.

Proposals that we reduce our military assistance to the Republic of China to levels which would make it virtually ineffective or to eliminate it entirely are shortsighted, would sabotage American policy, and dangerously undermine our security if they were adopted. Our best interests in Asia are served if we live up to our treaty obligations and moral commitments by standing firm alongside the Republic of China and by providing to that gallant country the military assistance it needs for its defense.

I thank you, Mr. Chairman, for this opportunity to present this statement and I am prepared for any further discussion you and members of the committee desire.

Mr. Nix. Thank you very much, General, for a most constructive statement.

You say that:

Proposals that we reduce our military assistance to the Republic of China to levels which would make it virtually ineffective, or to eliminate it entirely, are shortsighted and would sabotage American policy and dangerously undermine our security if they were adopted.

Now, which security are you speaking of? How would it dangerously undermine our security?

General CICCOLELLA. If we found, Mr. Chairman, that our aid to the Republic of China were eliminated and as a consequence of that the Republic of China had to seek military aid elsewhere and became associated or allied with a power which was hostile to the United States, obviously then our position in that part of the world would have to be abandoned.

If her armed forces were so weakened as a result of a lack or inability to obtain modern military equipment such as advance fighter aircraft which are vital to her defense, it would invite or tempt the Communist Chinese to undertake a military operation against the Republic of China. This could possibly draw us into something.

Mr. Nix. The recently so-called détente that we arrived at with the People's Republic of China, does that in your opinion in any way affect our position with the Republic of China?

General CICCOLELLA. I don't think so. I am not too familiar with it but I know that it eases the tensions. It certainly has eased some of the tensions that existed in some potential areas that could have developed into possible conflict. I would not think that that would pose a difficulty, I think it would be helpful.

Mr. NIX. Is it your opinion that Taiwan could be used as a standby base should the presence of American bases in Japan and Okinawa prove embarrassing to either one of those countries?

General CICCOLELLA. Yes, there is no question about that. As a matter of fact, we are using some of them now, as you probably know. They are very adequate, too. We moved almost all of our repair facilities out of Japan and they are in Taiwan now. That was done and completed about a year or so ago.

Mr. NIX. Mr. Broomfield.

Mr. BROOMFIELD. General, I want to compliment you on your statement, too. It is a very fine assessment of the situation. Of course I could not agree with you more on our need to continually make sure that the Republic of China remains strong. I think that this is an important part of the Nixon doctrine and again I have to say that I am fearful that there are Members of Congress who are trying to undermine this by not providing adequate assistance. Our military aid presently and the number of military personnel we have there is a very minimum number. It is absolutely essential, even though we are entering a new phase of negotiations with the People's Republic, that we maintain some of these areas, particularly Taiwan, in a position to defend themselves.

I am concerned about the situation as far as Okinawa is concerned. Congressman Nix mentioned the possibility that either through Taiwan or Korea we may still be able to maintain adequate bases up in that part of the world. Let me ask you this: If by some strange reason Communist China did move against Taiwan and was successful, which I contend and I agree with your statement, is highly doubtful because the cost would be so heavy, where would our line of defense be in the Pacific?

General CICCOLELLA. In my opinion we would have to withdraw back to Hawaii. There would be absolutely no alternative. It would mean essentially, Mr. Broomfield, that we fought World War II to no avail. It was clear to our country at the time of World War II that our vital national interests could not permit a major power hostile to the United States to dominate all of Asia.

Our standard of living and our way of life are dependent in large measure on our trade and our commerce.

If we ever found ourselves in a position where all of Asia was taken over by nations hostile to us bent on undermining us or damaging us in any number of ways it would be very, very serious to the United States. Our security would be threatened and certainly we would have to change our way of living.

If we lose Taiwan and you know it is not always a question of do we lose ourselves need the bases in Taiwan but it is also essential to us to deny these bases to potential aggressors. That is extremely important. We don't care really what kind of government these other countries have so long as they are not hostile to the United States

and so long as they are relatively independent, make their own judgments, and are not used by the Soviet Union or Communist China to plot and organize aggression against some other nations or against our own interests.

So our interests are to insure that these countries can stand on their own feet and be reasonably independent and deny their territory and their resources to the concerted efforts of powers hostile to the United States.

Mr. BROOMFIELD. That is why I am sure that we are not going to abandon our commitment.

General CICCOLELLA. I don't think so. I hope not. As I say, I get concerned about the things I hear in the radio and on TV and read in the newspapers, statements of various Senators and some Members of the House.

Mr. BROOMFIELD. We get disturbed at some of the statements.

Mr. NIX. We have 435.

Mr. BROOMFIELD. The last time I was in Taiwan was a number of years ago. I was tremendously impressed with their military capabilities. I think at that time they had in excess of 500,000 men. I even had an opportunity to fly out to Quemoy and Matsu. I couldn't help but think of that when you were giving your statement. It would be very, very difficult, there is no question about it, to assault Taiwan.

General CICCOLELLA. Sure, and the Communists are never going to attack a nation and embarrass themselves with a long, drawnout campaign. They will attack or commit an aggression only when they are reasonably sure it will result in a quick victory. But to attack the offshore islands would be quite an undertaking.

Mr. BROOMFIELD. Let me ask you another question, General. You must have a lot of contacts in Taiwan at the present time. What is their attitude about mainland China? Of course, for many, many years it was the desire of Gen. Chiang Kai-shek for an invasion. I think in today's world that would be absolutely ridiculous. Has that changed?

General CICCOLELLA. There is no responsible person on the island of Taiwan who envisions a military invasion of Communist China for the obvious reason that they are intelligent people who know how to add and assess relative military capabilities. But there is the hope, as Professor Michael said, there is really the honest hope in the hearts of many of the mainland Chinese and they number 2 or 3 million now, that there can come about on the mainland of China some change which would affect that government somehow which would permit some sort of a reconciliation. This is a hope they have. But in the meantime the Nationalist Chinese are very hard-working people and very smart people. They just go ahead building up their little island of Taiwan and making money and making better homes and improving their way of life, increasing their trade and doing everything to improve their standard of living. They have a very fine standard of living in Taiwan. So they just go right ahead plugging along and doing what they should be doing.

Mr. BROOMFIELD. They deserve a great deal of credit for their development and certainly for their contribution in solving the problems of Indochina. Certainly, they have done far more than you have elaborated on in your speech. It is deeply appreciated by those of us who know of their great contribution.

General CICCOLELLA. I surely hope so. I always have appreciated it. Mr. BROOMFIELD. That is all I have, Mr. Chairman.

Mr. NIX. Mr. Wolff.

Mr. WOLFF. General, with the situation being what it is in Korea today, with the advancing situation with President Park indicating that he has no objection to North Korea being a member of the United Nations, this would call for a pretty heavy burden to keep a United Nations force in South Korea, would it not? It might change the complexion of the force?

General CICCOLELLA. There is no question about that, Mr. Wolff. It would have to change. If North Korea were admitted to the United Nations then other than the United States, which has a unilateral agreement with South Korea, as well as its commitment to the United Nations Command, there would be no other United Nations forces. Of course they amount to nothing now anyway. They are just a bunch of flagholders with some colors.

Mr. WOLFF. However, this umbrella is used in order to maintain our forces, is it not?

General CICCOLELLA. That is true, no question about it.

Mr. WOLFF. What I am getting at is that there may be a question as to whether or not we would be able to maintain a force in Korea.

General CICCOLELLA. That question would arise but we can arrange that through a unilateral treaty with South Korea which is perfectly legitimate.

Mr. WOLFF. Of course it would be hard to satisfy some people in this country to maintain a force in Korea to protect against another member state of the United Nations.

General CICCOLELLA. It most assuredly would.

South Korea is not what it was in 1951. They have very strong military forces. North Korea, while they may be predominant in some weapons systems, could not in any way achieve the success that it achieved in its surprise attack in early 1951. That is just out of the question.

Mr. WOLFF. Of course, they have great superiority in airpower.

General CICCOLELLA. Yes they do.

Mr. WOLFF. This is one of the defense questions that exists.

General CICCOLELLA. It certainly does.

Mr. WOLFF. Until such time as a modernization program is completed in Korea, they stand in a fairly vulnerable position?

General CICCOLELLA. They do. That is the reason for this country to maintain its presence in that part of the world. Our presence is important in that respect. These people from North Korea are very cognizant and feel very strongly the military presence of the United States in that area. They respect it; while they are contemptuous to your face they respect it very much.

Mr. WOLFF. What I am trying to determine from you hinges on the event that forces us to move from Korea 2 years ago. I spoke to the Governor of Okinawa. He indicated that he felt that within 5 years there would not be a U.S. presence in Okinawa any longer. I spoke to some of the people in Japan and they indicated as well, that they felt in 5 to 10 years there would no longer be a U.S. presence. If there is no presence in that area, if we are forced to move our presence out of Korea, where is our fallback position?

General CICCOLELLA. Hawaii. There is no other place.

Mr. WOLFF. Guam would not suffice?

General CICCOLELLA. It is an intermediate base offering very limited facilities.

Mr. WOLFF. How would the Republic of China be as a base for our operations if we could get them to provide us with base facilities?

General CICCOLELLA. I think that we would certainly want to maintain Taiwan precisely for that purpose but we would not need to withdraw the division-plus that we have in Korea now. I don't think it is necessary. If we have to withdraw from Korea I think we ought to make a clean break and bring our forces back to this country. We don't need to take that division and move it to Taiwan or Okinawa or the Philippines. They could come straight home.

Mr. WOLFF. If we look at the map, if we move out of Japan and move out of Korea, Korea presents a certain vulnerability under any circumstance to air. There doesn't seem to be any around there, and the present problems we are having with the Philippines, if we intend to maintain a presence in Asia, we have to find some place for it.

General CICCOLELLA. We need the availability of these bases when we want them. That is the reason we have to insure that these countries retain their independence and their flexibility and that they don't come under the domination of a hostile power that would operate to the detriment of our country. We don't need to occupy. Our military presence doesn't entirely mean that we have to physically occupy these bases with military forces. We can visit them with our ships. We can fly our squadrons of fighter aircraft in. They can fly across the ocean. We can have joint exercises.

Mr. WOLFF. Isn't that sort of a gunboat diplomacy, and doesn't that bring us to the "paper tiger" label?

General CICCOLELLA. The Communists give all kinds of names to these things. I don't pay much attention to them. They can call it what they want but these are very effective means of demonstrating the intentions of a country. You have a port that your naval ships can go in and refuel and make calls there, that is fine. That does a lot for the morale of the people. If you can fly your aircraft in and out and check your logistical supplies and requirements in the event of an emergency, if you can run joint exercises in order to tie in communications and command relationship procedures, these are the essential things that we really want now. We don't really need to maintain forces, large forces in being in all of these places. We need them in many places, there is no question about that, in my mind, but I don't think we need to have them everywhere now.

Mr. WOLFF. How about the removal of our naval forces from the straits?

General CICCOLELLA. In Singapore?

Mr. WOLFF. Not in Singapore necessarily, but the Taiwan Straits.

General CICCOLELLA. Well, of course we removed that, you know, back in 1969 or 1970. We used to run a destroyer up and down the straits almost every day. Then we cut the frequency of it down. Then we eliminated it entirely and the Republic of China has taken that responsibility over. They run one or two of their destroyers up and down the straits. There is no tremendous significance to that. The

purpose there was really to demonstrate the intention of the United States to honor its treaty commitment. It had a very strong psychological impact on the Republic of China when we did withdraw it for a while but I think they have been reassured since then that we intend to honor our treaty commitment.

Mr. WOLFF. How do you look at the statement that was made that we will let the People's Republic of China and Taiwan resolve their differences together?

General CICCOLELLA. Well, you know, you hear that every so often. These are people who really don't know the people on Taiwan. There is such a world of difference between living conditions on Taiwan and living conditions on the mainland. These people are smart. They are not fooled by pictures that the Chinese Communists put out for propaganda purposes showing all the kids dressed up nicely and parading around and being happy. They can look across the shore from Quemoy and see what the difference is. They know what communism is. You know, 2 million of them came over there to escape that type of regime.

There is no way, in my opinion, no possibility that these people would come together under these circumstances that they are living under now, under these two types of governments they are living in.

Mr. BROOMFIELD. Wouldn't you agree that our policy ought to be that we ought to keep our nose out of it, anyway? If there is any accommodation it ought to be by Taiwan and the People's Republic.

General CICCOLELLA. Sure. Absolutely. It is a Chinese problem.

Mr. BROOMFIELD. Just as with our policy in the Middle East, if there is a settlement there it has to be on a negotiated basis with Israel and the Arab States. I think our policy should be that if there is an accommodation between Taiwan and the mainland they must do it by themselves and not through any outside intervention.

General CICCOLELLA. Absolutely. If we tried to intervene we would be very foolish, indeed.

Mr. BROOMFIELD. I agree.

Mr. WOLFF. I can attest to one part of your statement, having visited Taiwan, but they won't let me into Communist China so I can't tell you anything about that.

Mr. BROOMFIELD. They will let you in soon.

Mr. WOLFF. I asked to go three times. I was turned down three times. As a member of the Foreign Affairs Committee I have been turned down. If they don't want our people over there, I certainly don't want their people over here.

General CICCOLELLA. I see some of your friends on the Senate side don't have any trouble.

Mr. WOLFF. That is the Senate—another body.

I thank you very much.

Mr. NIX. Don't you think, General, that the presence in the People's Republic of China, and I am speaking of the leadership, the age of that leadership, the tensions between the Soviet Union and the People's Republic of China, all indicate that the relationship between that country and the Republic of China will remain as it is for a considerable time into the future?

General CICCOLELLA. Yes, sir; I agree with that premise entirely.

It is going to be a long, long time before you see any significant changes in either the relationships between Mainland China and the Republic of China, Communist China and the Republic of China, and even before you see any major changes in the substantive relations between this country and Communist China despite our current efforts at normalization of relations that we are going through now. It is a slow business.

Mr. Nix. Wouldn't you say that not only because we have given our word to the Republic of China, we have a solemn commitment, but, in addition, because of the economic advantage to the United States of America the prospects of our relationship remaining as it is and improving would be good?

General CICCOLELLA. Absolutely. It is very much to our advantage. Now, I happen to live in a part of Virginia where they raise a lot of soybeans. I was astounded to find out the other day that the Republic of China buys over \$300 million worth of soybeans from our country alone. That is a lot. They pay for it in hard cash.

Mr. Nix. And another consideration, would you not say, is the fact that the Soviet Union is seeking to expand its presence in that part of the world, makes it imperative on our part to maintain this relationship?

General CICCOLELLA. There can be no doubt of that, Mr. Chairman. What gives emphasis to that particular fear is the present Soviet construction program of aircraft carriers and large ships of the line; yes, sir.

Mr. Nix. Thank you very much.

By the way, I might make this observation: When we were about to introduce the second witness we expected a man of greater years. We concluded, as we walked over to the floor, that you must have gone to the military school when you were 15.

General CICCOLELLA. No, I came in at the regular time. I came in through Brooklyn College in New York.

Mr. Nix. The subcommittee is adjourned.

[Whereupon, at 3:52 p.m. the subcommittee was adjourned.]

APPENDIX

LETTER FROM EVERETT F. DRUMRIGHT, FORMER AMBASSADOR TO THE REPUBLIC OF CHINA

POWAY, CALIF., July 18, 1973.

HON. ROBERT N. C. NIX,
*Chairman, Asian and Pacific Affairs Subcommittee, House of Representatives,
Washington, D.C.*

DEAR MR. NIX: I appreciate and am glad to respond to your letter of July 10th soliciting my views on the importance of the Republic of China to the Free World today.

In my judgment, it is highly important and advantageous to us to protect and support the freedom and independence of the Republic of China. Not only have we been allies since World War II, but we have in being a defense treaty that lends invaluable moral and implied military support to the Republic of China.

In view of the strategic importance of Taiwan, its value as a repository of the age-old Chinese culture (which Mao Tse-tung is trying to extirpate on the mainland), in view of the political and economic stability achieved on the island in the past two decades, and in view of the repeatedly demonstrated friendship of the Chinese Government and people to us (despite Yalta, the tragic era of 1945-49 and the Nixon visit to mainland China), it would be a travesty of justice and an incalculable blow to our security (already in retreat in East Asia) to repudiate and turn our backs on these reliable allies. In passing, I might say that our trade with Taiwan is approaching \$2 billion per year and our investments on the island now run to about \$350 million. Economic and trade development is continuing to expand at a phenomenal pace. It is safe to say no Chinese in history have had the economic prosperity of Taiwan. Moreover, significant educational advances are being made in a free atmosphere, and the freedom of the people to make individual decisions is making rapid strides. The new Prime Minister, Chiang Ching-kuo, is bringing a new, creative and more youthful approach to the arts of government in Taiwan. In my view, the Government of Taiwan (Republic of China) is solidly supported by the citizenry. And it should be with its fair and sufficient administration and the remarkable ongoing prosperity of the country in an atmosphere of general stability unknown 25 years ago. And all this notwithstanding the political rebuffs represented by the loss of its United Nations' seat and the international fallout incident to the detente between the United States and Red China.

I have never opposed the concept that we should strive for better relations with the authorities on the mainland of China, but I am strongly of the view that in cultivating such an improved relationship, we should act most carefully to safeguard and protect the security and interests of our allies on Taiwan. After all, the Republic of China has proved its loyalty, reliability and friendship, whereas the mainland Red authorities have yet to prove that they enjoy these attributes. On the contrary, they continue to regiment the hapless Chinese people in an utterly ruthless way and they have not, so far as I know, renounced their revolutionary adventurism abroad. My own judgment is that the Chinese Reds are seeking reapproachment with us because of their overweening fear of Soviet Russia and also because they consider they may be able to drive a wedge between us and the Republic of China. We must always bear in mind that a major preoccupation of the Chinese Communists is to eliminate the Republic of China. The Communists know they cannot consolidate any position with the Chinese people as long as the desirable alternative of Taiwan (with its stability, freedom, cul-

ture and prosperity) remains out of reach. And the Chinese Communists know that Taiwan will remain out of reach so long as it is actively safeguarded by the United States. If we should, on the contrary, repudiate our support of Taiwan, it may be safely predicted that a grave era of instability will ensue in East Asia. If necessary, the Chinese on Taiwan will fight with all their resources to maintain their integrity.

All in all, I think that the Communists are looking for tactical gains in their opening up to us: Taiwan, technical and economic help, credits, facilities to infiltrate, and, of course, help in warding off Soviet Russia. In other words, their approach is neither genuine or reliable and cannot be depended upon for the long run. Unless our Administration acts upon some such assumption and moves with the utmost care, I am afraid we shall be taken in by the wily, foxy Chou En-lai (whom I knew well over 30 years ago). I think the Communists are in deep trouble on many fronts—economic, political, succession, etc. Above all, they have not been able to win over the people to that foreign importation—Marxism. I definitely think we should go very slow in bailing these erst-while enemies out of their manifest difficulties.

I would hope, in light of the views expressed above, that your Committee would enjoin the utmost circumspection on the Administration as it moves ahead in its relations with the Communists. Above all, I would hope you would press the Administration to avoid any further measures at the expense of the Republic of China.

Sincerely,

EVERETT F. DEUMRIGHT,

Former Ambassador to the Republic of China.

LETTER FROM KARL LOTT RANKIN, FORMER AMBASSADOR TO THE
REPUBLIC OF CHINA

JULY 13, 1973.

HON. ROBERT N. C. NIX,
Congress of the United States,
Washington, D.C.

DEAR MR. CONGRESSMAN: Thank you for your letter of July 10 inviting me to testify on the value of a continuing alliance with the Republic of China. Much to my regret, it will not be possible for me to attend the hearings on July 25 and 26.

Presumably the question of a treaty of mutual defense with the Republic of China is being considered along with similar agreements, such as those with Japan, Korea, and the Philippines. Changes in any of these and others, could have far reaching effects throughout East Asia. I would proceed with the utmost caution in modifying our treaty relations with the Republic of China, which have avoided any serious military confrontation between the United States and the Peking regime for nearly 20 years.

Taiwan represents one of the outstanding successes of American foreign policy. With our aid, progress on the island in economic, social and political fields has been truly remarkable during the past two decades. Some day there will be a rapprochement between the two Chinas. We cannot force it, and probably cannot hasten it. But we can avoid actions which would upset the present stable situation, and thus encourage such ventures by either of the two Chinese regimes.

Sincerely,

KARL L. RANKIN,
Former Ambassador to the Republic of China.

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