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FILE LOCATION	<p>Marsh Files</p> <p>General Subject File</p> <p>Asian-Pacific Area - U.S. Policy Interests</p>		Boxes 4-5
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## US ECONOMIC POLICY TOWARD THE ASIAN-PACIFIC AREA\*

### INTRODUCTION

The problem addressed by this appendix is the development of a US economic policy for the East Asian-Pacific region compatible with our political and security interests in the region and the varied stages of economic development characterizing the countries of the region. Although economic power cannot replace the security provided by a military shield, this study assumes that mutually beneficial economic relations between the US and the East Asian countries can facilitate the security tasks.

Modern economy developed from political economy; in today's world economic questions have become issues of high diplomatic policy. It is increasingly being recognized that political concepts and ideological prescriptions play as important a role in economic performance as rational calculations of efficiency, cost and gain. Hence this subject will be addressed primarily from the perspective of political economy.

#### \*Appendix Three.

\*Stuart L. Hannon, Potomac and Pacific Group, contributed a paper toward the development of this appendix. Previous drafts have benefited from the criticisms and suggestions of Mark Earle, SRI, Stefan Possony, Hoover Institute, Richard Smith, State, Sarah Jane Littlefield, AID, Edwin H. Harrel, AID, Mike Dwyer, AID, Forrest Cookson, AID, James R. Golden, CEA, Frank Gerodot, State, Sol Sanders, The Research Institute of America, Anthony Geber, State.

This is a condensed version of a much longer paper written on this subject in the preparation of the overall study. The longer study is not being circulated, but it is available for examination. (XR/RCM-INR).

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The economic terrain of the East Asian-Pacific area falls into the following categories:

Friendly countries - Japan. Newly developed countries: South Korea, Taiwan (ROC), Hong Kong, Singapore. Established developed countries: Australia, New Zealand. Developing countries: Thailand, Philippines, Malaysia, Indonesia. Beginning to develop: Burma, Papua New Guinea.

Adversary countries - Southeast Asia: Vietnam, Cambodia, Laos. Northeast Asia: North Korea, Peoples' Republic of China and the Soviet Union.

The regions of the Asia-Pacific area fall into four categories. North-east Asia includes Japan, now the third largest economy of the world. Adjacent South Korea and the Republic of China on Taiwan have essentially moved from the developing category to approaching that of developed countries. Southeast Asian countries are among the forefront of developing countries; Singapore being far ahead and Burma lagging far behind. Except for oil rich Iran the countries of South and Southeast Asia belong in the so-called fourth world category of nations in which the standard of living of the bulk of the population is abysmally poor. In the South Pacific, Australia and New Zealand belong in the category of advanced industrialized nations whereas the few independent island territories are just beginning to experience a money economy.

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I. THE ASIAN-PACIFIC REGION IN THE WORLD ECONOMY

The Asian-Pacific area is of global economic importance. The considerable intraregional trade flow with the area justifies treating it as a cohesive region. About a quarter of Japanese trade is with Southeast Asia and a very high volume of raw material and products flow exists between Australia and New Zealand and Japan. There is also sizeable direct trade between Southeast Asia and Australia and New Zealand. In general the trade between these three regions is complimentary. Trade within Southeast Asia is much less complimentary.

American trading ties are clearly significant with Northeast Asia, Australia and New Zealand, and Southeast Asia in that order. Although the US position has weakened temporarily in the Philippines, Korea and Taiwan because of the world recession it remains especially strong, in Northeast Asia. US Commerce Department figures on US exports to and imports from Japan, Korea and Taiwan through 1974 and up to July 1, 1975 illustrate the scope of the US trade position with the Asian nations in the region.

(Values in Millions)

	1974*		1975*		
	Export	Import	Export	Import	
Japan	\$10,679.	12,455.	\$ 4,945.	5,709	
Korea	1,546.4	1,444.8	887.	500.	(to May 1)
Rep. of China	1,427.	2,097.	647.	746.	"
	13,652.4	15,996.8	6,479	6,955	
Other East Asian-US trade figures (Dept of Commerce, 1974)					
Philippines	746.7	1,083.9	329	341.7	"
Thailand	368.8	184.2	181.	1.7	"
Indonesia	531.	1,688.	351.	818.	"
Malaysia	377	769.7	136.6	n.a.	"
Singapore	882.	1,640.	279.7	493.7	"
Subtotal	3,893.1	5,914.8	1,701.8	1,844.5	

\*These figures do not include the CIF and other valuation adjustments most recently listed in Commercial Today, July 21, 1975.



Total US two-way trade with East Asia has more than doubled since 1971 to a 1974 total of over US\$48 billion and exceeded US trade with the European Common Market. US trade with East Asia was 24% of our world wide trade in 1974, about half of that being with Japan. US agricultural exports to East Asia in 1974 totaled \$4.8 billion and constituted over 25.9% of US worldwide agricultural exports. Other US exports to East Asia included: capital goods--\$6.2 billion; transportation equipment--\$1.8 billion; and other consumer goods--\$1.2 billion.\*

US TRADE WITH EAST ASIA COMPARED TO  
US TRADE WITH THE EEC AND WORLDWIDE  
(In \$ Millions)

	<u>East Asia</u>	<u>EEC</u>	<u>Total</u>	<u>Percent of Trade With Asia</u>
1974	45,500.5** (48,000.0 AID)	41,274.4	199,478.6	22.9
1973	34,117.6	32,349.8	140,814.0	24.2
1972	24,726.1	24,389.7	105,230.9	23.5
1971	20,035.6	21,572.2	89,692.7	22.3
1970	18,677.0	20,519.0	83,175.6	22.5

\*Agency for International Development FY-76 Congressional Submission.  
\*\*This particular chart was prepared on the basis of 1974 data provided by the US Department of Commerce. Its 1974 figures are in slight discrepancy with those provided in the AID FY-76 Congressional Summary, but the chart is valuable nonetheless as illustrative of the recent trends in our trade with East Asia and EEC.



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The East Asian Pacific region is also an important source of raw materials, supplying all US coconut oil imports and 80% of our total imports of tin and natural rubber. Other important imports include petroleum, bauxite, lumber and manufactured goods such as electrical components, steel and consumer products.

Over half of the US trade with East Asia is with Japan, but is significant with other countries nonetheless.

Australia	\$3.2 billion
Indonesia	2.4 "
Korea	3.0 "
Malaysia	1.1 "
Singapore	1.6 "
Taiwan	3.7 "

(AID 1975)

The book value of our private investment in East Asia in 1974 amounted to \$11 billion with Australia, Japan and Indonesia, the leading recipients of this investment. Perhaps of equal importance is the trend; in 1950 4.5% of US foreign investments were in East Asia; in 1974, the figure was approximately 12%.

With our growing dependence on imported commodities and the enormous weight of the US in the world economy the importance of our trade with the countries of the East Asian-Pacific Area is most likely to grow.

A. Economic Development Potential of East Asia

East Asia's development potential varies by subregion. In Northeast Asia, Japan's story is well known; South Korea and Taiwan are also progressing dramatically. Taiwan's future is somewhat clouded because of

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the possible impending changes in Taiwan's political integrity vis-a-vis the PRC. If subsequent development confirm estimates about China's potential oil reserves, the PRC's economic development prospects could be bright. The large oil reserves, especially off-shore, may be there. However, their exploitation requires foreign participation and is therefore predicated upon a certain type of Chinese policy and leadership which are not yet at all clear.

Southeast Asia possesses great economic potential. The region as a whole is rich in natural resources, with Indonesia far and away the best endowed country in the region through its known and potential oil reserves. The economic growth rate in the Philippines (8-10%) has been particularly encouraging over the past two years. Malaysia and southern Thailand remain among the few sources of tin and natural rubber in the world and Thailand can expand even more on its favorable record for earning foreign exchange if it can increase its agricultural exports.

To date, communist governments have had great difficulty in translating economic growth into substantial improvement in the economic well-being of their people, though the promise improvement is the core of their appeal to the poor peasant. Indochina, under communist governments and North Vietnamese domination, does not automatically, therefore, currently have prospects quite as "bright" as might otherwise be expected given the nature of the political stability and discipline the Vietnamese communist can bring to bear.

Aside from political instability there are other weaknesses in the administrative systems and social values, attitudes and patterns of action that are not conducive to rapid economic development of the countries of



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Southeast Asia. Many of these countries lack competent workers, performance oriented administrative personnel, and sufficient numbers of dedicated, disciplined far-sighted leaders at the national and provincial levels. In sum, except for Singapore, the necessary requisites for rapid economic development simply do not exist or are still weak throughout the region. Rich natural resources and even capital are not enough in themselves to offset these other areas of weakness.

There is relatively little economic interaction between South Asia and the other regions of the Asian-Pacific area. South Asia does have iron ore, possibly significant oil reserves and other minerals. Its population, regional differences and religious values, attitudes and patterns of action, however, all combine to form nearly insurmountable obstacles to initiation of rapid, widespread sustainable economic growth in the next decade. Moreover, time is not on the side of the people in South Asia-- unless there are dramatic and immediate cuts in the birth rates. Gunnar Myrdal sees this region, essentially the Indian subcontinent, as nearly hopeless.\*

This study will not address the problems of economic development in South Asia. India and the Indian Ocean are included in this study primarily because of their geo-strategic relationship to Southeast and Northeast Asia.

\*Myrdal, Gunnar, Asian Drama, Pantheon, Volume I, New York, p.300.



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II. COMPETING ECONOMIES

The economic approach of US policy for East Asia is inherently based on an appeal to the legitimate self interest of the countries in the region. However, the manner in which the leaders of these countries evaluate their own interests is conditioned by their background, training, aspirations which shape their perceptions of the actual conditions confronting them.

In his September 1 speech to the UN General Assembly, Secretary Kissinger described the present economic malaise which in part stems from basically incompatible economic concepts.

"The reality is that the world economy is a single global system of trade and monetary relations on which hinges the development of all our economies."\*

Unfortunately, a main source of the economic malaise now affecting most of the countries of the world is the incompatibility of the economic principles and actions the various nations pursue.

There appear to be three economic systems co-existing on the globe. The oldest and by far the most productive is the capitalist free market system which characterizes the economies of the industrialized, non-communist countries. The second is the command-type economy of the totalitarian communist regimes first sponsored by the Soviet Union but adopted with considerable variation in the East European countries, the PRC, North Korea and Vietnam. Finally, there are a variety of Fabian socialist, statist

\*Address by the Honorable Henry A. Kissinger, Secretary of State before the 7th Special Session of the United Nations General Assembly, New York, September 1, 1975, "Global Consensus and Economic Development."

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economies of many third nations which partake of both of the other systems but with uniquely inefficient characteristics.

Profits and other incentives are indispensable to the free-market economy. A product that is sold for exactly the cost of producing it yields no margin to raise wages, pay taxes or provide new capital. Although in theory other types of economic organization could produce, efficient resource use without the profit incentive, in practice the free market-capitalist incentive system makes the most efficient use of manpower, materials and capital to create the most goods and services from available resources. Hence opportunities for free choice, personal development and material well-being for the most people have been greater in market-capitalist systems. In the present conflict between systems the general political freedom of societies with free market-capitalist economies is also noteworthy. The major capitalist nations in Western Europe, North America and Japan have popularly elected governments along with a free press and respect for human rights. The managed economies exist mostly in one-party states or under completely totalitarian regimes.

The Soviet Union was the progenitor of the command economic system. Until 1914 there was a worldwide free-market economic system. The 1917-October revolution in Russian took one-sixth of the earth's land area out of that system. Stalin asserted,



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"The disintegration of a single, universal world market must be considered the most important economic consequence of the second world war. This circumstance determined the further aggravation of the general crisis in the world capitalist system. The second world war was itself generated by this crisis."\*

The closed communist economic systems can freely move in and out of the free market exchange area--frequently destabilizing it in the process. At the same time the closed communist countries keep themselves generally immune to the tugs and pulls of the operations of the normal supply and demand characteristics of the free market economies.

It is a curious fact that few western economists pay much attention to the implications of the ability of the Soviet Union (to a lesser extent the East European countries) and the PRC to detach themselves at will from the world market economy. "For a New World Economic Order" in the October 1975 Foreign Affairs, concludes:

"The underlying concepts for a new world economic order might thus be seen in the following light. Such an order rests on a globalist view of international economic relations. This means that the number of actors in the economic "game" must grow (by the addition of the Third World countries, and to a certain degree, of a East European nations) and that mechanisms must be developed to ensure the evolution of the power relationships into relations based on mutual rights and equality. That is to say, each country must be bound to the same rules."\*\*

The problem of how to induce the market economies and the command economies to be bound by the same rules is not discussed. The opposite poles of contemporary economic systems may be distinguished by the prevailing attitude toward the governments role and private enterprise

\*J. V. Stalin, Economic Problems of Socialism in the USSR, Bolshevik, No. 18 October 1952.

\*\*Thierry de Montbrial, Foreign Affairs, October 1975. de Montbrial is professor of Economics, Ecole Polytechnique, Paris.



in the market place. "Command economics" emphasize government control to prevent unregulated economic exchange and private capital accumulation. But even the Soviet Union permits private plots in agriculture which produce an abnormally high percentage of Soviet agricultural output. "Market" economics emphasize the reverse. The most productive economic systems are the so-called mixed economies prevalent in the United States, Western Europe, Japan and countries in Latin America and Asia which have recently taken off economically, i.e., Brazil, Mexico, South Korea, Taiwan and Singapore. The government acts as a stimulator and regulator; its weight is conveniently measured by its share of GNP, ranging from about 35% in the US to over 60% in Sweden. The mixed industrial economies have been very successful in providing consumer goods and services to a broad range of the population.

Another way of comparing the systems is to note the trade-off between current growth to expand the size of the pie being divided via a market approach, and reduced growth to improve the equality of income distribution now via a more socialist approach.

The present US Ambassador to the UN, Daniel P. Moynihan, performed a major public service in writing an article entitled "The United States in Opposition" which appeared in the March 1975 issue of Commentary. Since so much of the West's "conscience-energy" is focused on doing something about the Third World's endemic economic chaos certain of Moynihan's acute observations bear consideration.



Many of the political and intellectual leaders of the Third World developing countries were educated in the West (i.e., at the London School of Economics or the Sorbonne) where the socialist or command economies were extolled as more rational in using social resources and more equitable in distributing income.\*

Whatever the reason, capitalism and private enterprise are generally opposed on ideological grounds by many of the leaders of many of the developing countries. Paradoxically, the US has usually been forced to defend its phenomenally productive economy against criticism by countries still unable to sustain consistent economic growth. The source of much of this antipathy can be traced to the doctrine of British Socialism which

Samuel H. Beer describes as follows:

"...For private ownership he would substitute public ownership; for production for profit, production for use; for competition, cooperation...Government would consist in comprehensive and continuous planning and administration."

To make the system work an ethical revolution would have to take place so that individual benefit would be subordinated to common benefit. The Socialist need to replace existing human nature appears to anticipate the communist systems hope to create a new communist man who would make their systems work without the coercion they now find essential.

\*Comparable instruction has also been given at American universities.



The US economic strategy should clearly recognize the strength and weakness of the three competing economy concepts. Devotees of all three concepts can be found in most of the LDCs. Given the competition between advocates of the differing economic systems economic development will be difficult enough. But accompanying Sino-Soviet political competition in Southeast Asia will exacerbate the problems of development since this competition may destroy the environment in which development might take place.

A demonstrably superior productive system is not given a chance to demonstrate its wares in many parts of the world. The expansion of communist-systems have largely been the result of political, psychological and military warfare--not in satisfying human needs. The economic successes of the Soviet Union have been in the field of military hardware--not in raising wheat or producing shoes or goulash. Likewise Hanoi won on the battlefield not in the rice fields. In fact, the amazing economic success of the Diem regime in the first five years of its existence (1954-1959) was one of the factors which reinforced Hanoi's determination to destroy its competitor.

The free-market democratic societies of the United States, Japan, Western Europe, Australia and New Zealand have demonstrably more to offer to the development of Southeast Asia than Peking, Moscow or Hanoi. The remaining sections of this paper will address what might be done to apply the varied strengths of the free market capitalist system to overcome some of the economic backwardness of Southeast Asia. Needless to say, security measures necessary to restore confidence must go hand-in-hand with development.



### III. THE THIRD WORLD ECONOMIC DEMANDS AND THE US RESPONSE

There is a great disparity between the economic productivity of the countries of the world.

There is also great disparity between the individual well-being between peoples living the different countries and different parts of the globe. The absolute gap between the richer and poorer countries appears to be growing.

The New York Times attempted to demonstrate the relationship between national wealth and the conditions of life in the countries of the world by publishing a chart relating GNP, per capita income, age limits for compulsory education, infant mortality rates and life expectancy.\* Again the correlation is not exact

The blame for the state of affairs described in the chart is largely assigned to the western industrialized countries in keeping with the ideology described in Section II. The Leninist interpretation of history is used to pin the blame on past colonial (imperialistic) exploitation as a main cause of present economic backwardness. Currently industrialized countries presumably buy raw material and semi-finished goods at excessively low prices and sell finished products at excessively high prices. Needless to say there is no intellectual agreement in the West as to the basic source of the economic backwardness of most of the Third World countries.

\*New York Times, September 28, 1975, p.E-3.



In September 1973 many of the LDCs under Algerian leadership joined in issuing a declaration on the establishment of a new international economic order. The United States with by far the largest and most successful capitalist economy became the major target of Third World attack.

The United States responded to these attacks in a major comprehensive and conciliatory speech to a special session of the UN General Assembly by the Secretary of State in which it was asserted that an effective development strategy should concentrate on four fundamental areas:

1. Insuring economic security;
2. Accelerating economic growth;
3. Trade and development;
4. The poorest nations. Any strategy for development must devote special attention to the needs of the poorest countries. The fate of one billion people--half of the developing world and a quarter of mankind--will be affected by what we do or fail to do. Balance of payments support for the poorest countries during periods of adversity, security requires stable export earnings, having enough to eat. There must be determined international cooperation on food. Finally, security means good health and easing the strains of population growth.\*

\*Secretary of State's speech to the UN General Assembly, September 1, 1975.



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A number of concrete proposals to achieve the goals were set forth in the Secretary's address--all of them needing substantial sums of money. The industrial nations and the oil exporters cannot, even together, supply all the new resources needed to accelerate development. The remaining needs for capital and technology can only be met, directly or indirectly, from the vast pool of private sources. This investment will take place only if the conditions exist to attract or permit it.

There was general agreement that the 1 September speech defused the psychological confrontation that had been building up over the past several years between the United States and many of the Third World countries. As one UN delegate expressed it:

"Sentiment among many of my colleagues toward America is becoming more sober, less emotionally hostile."

Yet it is doubtful if the demands of the developing countries will long be satisfied by promises.

By now we should have learned that we cannot induce all the countries of the Third World to cooperate with us in their own self-interest. We have neither the resources or the policy skills to do this. It behooves to carefully identify those countries with which we might work and support with them our mutual interests.

The Third World countries themselves are or can be ranked on a continuum ranging from parliamentary types to left-wing authoritarian models. Certain of these countries are international troublemakers and

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may continue to be. The US should modify its previous approach and carefully select its friends, redefine its interests and make it clear that a new ballgame is to begin.

Platform for Development

No matter what promises are made and what rhetoric is employed the fact of the matter is that little will be done to assist the poorer countries until the recession now affecting all of the major industrial countries is overcome. Recovery is fragile in the United States and is scarcely underway elsewhere.

Prime Minister Miki delivered the Fourth Recovery message to the Japanese Diet on September 16, 1975. The Japanese recession was caused by efforts to combat the inflation fueled by the higher oil prices. In his speech Miki strongly appealed for OPEC price restraint.

The Federal Republic of Germany is experiencing a \$17 billion budget deficit also arising from the OPEC induced recession. France is also facing economic stagflation. Great Britain is an economic disaster area. "High oil prices," Treasury Secretary William W. Simon told the World Bank and International Monetary Fund meetings in Washington a few days ago, "lie at the root of much of the world's recent inflation and the recession that followed. Yet now the possibility of another increase in oil prices looms on the horizon."\* This prediction was fulfilled when the OPEC economic mission during its late September meeting raised prices 10% effective October 1, 1975.

\*The Washington Post, September 18, 1975,



This price increase, described as "moderate," will raise the price of oil over a dollar a barrel and increase OPEC revenues by approximately \$10 billion--to be extracted from a world reeling from recession.

### Crisis Now

Probably the most sober analysis that has been made of the implications of the sudden four-fold increase in oil prices is The Great Detente Disaster\*. One need not agree with every point made by the three distinguished scholars who wrote this book. Yet the central thrust of their arguments cannot be ignored. The crisis is real; it is upon us now and will not go away by itself.

In their final chapter entitled "What Can Be Done?" the authors undertake a serious and sober consideration of the use of force--and do not rule its use altogether out. They also argue,

"If oil were substantially reduced in price, or if OPEC loaned the difference between the oil (pre-1973) and new prices to consumers so that they could amortize the debt, say, over the next quarter of half century, everything might still turn out all right. Calamity would be avoided and sanity restored."

\*Edward Friedland, Paul Seaburg, Aaron Wildarsky, Basic Books, Inc., New York, 1975.



What is most likely is continuing "jawboning" pressure on OPEC to aid the LDCs. But the real conclusion seems to be that the way out is the private sector, and that this will only be a feasible alternative if oil flows are effectively recirculated.

In reviewing past development efforts, one reluctantly concludes that despite vast amounts of aid since 1945, a large portion from the US, the poverty of most Third World countries remains. In 1975 the viability of the free world economic system is being challenged by OPEC and many Third World leaders, tacitly or openly supported by both the Soviet Union and the PRC. The US has not been very effective in blunting the ideological attacks of both the communists and the Fabian socialists against its economic systems. The achievements of our system are taken for granted. Yet the utility of the free market system for meeting their own problems is frequently scorned by Third World leaders. Under these circumstances the US should reassess its economic relations with the rest of the world. It should cooperate to the fullest with those who wish to emulate the productivity of responsibility free enterprise, free market economies and should deal circumspectly with those who do not.



#### IV. PATTERNS OF PRIVATE ECONOMIC ACTION

##### INTRODUCTION

The Third World "demands" vis-a-vis the West suggest the need of somehow transforming the global economic hiatus brought by the OPEC oil pricing into a large-scale Third World assistance program that could also inspire recovery from the recession now afflicting all the major industrial countries. Unless sufficient capital can be found through increasing the global margin between production and consumption to overcome economic stagnation there is no sense in talking about an economic strategy for Asia.

The dominant economic problem in developing Asian countries is to provide for smooth, non-discriminatory forward transfers of real resources to permit more rapid economic development. The input of the OPEC oil price increases and the world inflation have made this resource transfer problem impossible using the traditional methods of foreign assistance. The best method for realistic techniques for resource transfer is to stimulate financial consortia involving governments (including OPEC members), international financial organizations and private banks.

For the short term it is vital to bring the OPEC countries into the development consortia. This is easier said than done. The time cycle of OPEC thinking and planning how to use their new wealth is a lengthy one, while the needs of the LDCs are immediate. In fact, the OPEC oil price increase has exacerbated the short term problem. The irony is that the LDCs



continue to feel ideologically closer to the OPEC nations, which have intensified the LDCs development problems through their oil price increases, than they do to the industrialized West which has already invested billions in their development.

The Arab oil rich nations and the other OPEC members have found that they want to tie their development assistance to LDCs to particular political purposes. It is a second irony that the new OPEC wealthy nations have become leading proponents of tied aid, a concept which has been subject to severe criticism from LDCs in the past.

A further problem in enlisting the OPEC wealth in LDC development is the plethora of institutions which different oil rich nations are proposing as their new development vehicles. Thus, you see proposals from Iran for a development fund organized around Iranian ideas, competing with proposals for development funds being evolved in Saudi Arabia, Kuwait and other Arab oil rich nations.

In the meantime, the vehicles which offer most hope for channeling investment immediately are the existing capital market-place and the World Bank group (the latter will also require considerable time for multilateral negotiation and will probably enlist only a limited degree of OPEC cooperation because the bilateral political benefits are lost). Eximbank is only one example of a major world banking institution which are in the process of financing projects in the LDCs. Others are the large private commercial banks, private investment banks, export credit agencies of other governments, and the European Investment Bank. The OPEC countries are looking for



somewhere to invest their funds in profitable, secure ventures. They want to do so immediately. Rather than organize elaborate new institutions which require considerable negotiation and political coordination to get organized, it seems more logical to use existing capital facilities. The OPEC nations can be assured that projects deemed creditworthy through appraisals by Eximbank and other established banking institutions should also be regarded as good investments for OPEC funds. Thus, the OPEC investors could be participants in projects with relatively lower risks, and they would be able to find such projects despite their current extreme shortage of qualified staffs to appraise creditworthy proposals.

To make this an effective method of proceeding the USG should cease making project loans or grants to Asian countries, except in very special areas and concentrate instead on using our world position, influence and resources to help the recipient country through massing the resources of the several sources of funds.

These consortia would think big--to match the scale of the development problem. These groups working cooperatively will be able to develop the necessary arrangements on a country-by-country basis to accommodate the required transfers.

The recipient countries would have to develop a coordinated plan which would be reviewed annually by consortium professionals. A specific example might be a consortium formed for Thailand by the US, Japan and Saudi Arabia with the Eximbank and other investment banks. Such an



economic consortium requires (1) a clear understanding on the US side of how Japanese economic policy is made and implemented through MITI; (2) a realization on the US side that some accommodation must be worked out between our anti-trust philosophy and the Japanese pro-cartel way of doing business; (3) a recognition that the strong nationalist feelings of the developing countries make them insist on equal partnership with the outside investors. Their share of the equity would not be in capital but real estate or resources; and (4) while the US and Japanese would primarily finance this development, investment from the OPEC countries is welcome and desirable.

An opportunity presents itself to test the practical application of this concept by reviewing with the Japanese their draft proposal for a Kra Isthmus pipeline/oil storage complex--a US\$1.2 billion project. The Thais are definitely interested, the Japanese would like to make this a joint American-Japanese venture, and they also hope to enlist OPEC equity participation.

An OPEC country's contribution to this suggested consortium could be gas as well as capital. Gas is a key source of nitrogen. Nitrogen is the principal element of fertilizer (NPK). Cheap fertilizer is the key to increased agricultural production in the developing and the LDCs. Thailand might be the place for the US to test the consortium concept.

Active support for this concept would appear to be of long-term advantage to the US for several reasons: The plant could be built by an American firm and therefore eligible for Eximbank financing assistance and OPEC guarantees; active US encouragement for a major US private sector



investment in Thailand's agro-industry at this time would show America's confidence in Thailand's political-economic future; Thailand could, with US technical assistance, develop rapidly into the major Southeast Asian "forward depot" or "food bank" to meet the requirements of the food deficit nations of the area.

Another example of how consortium funding might spur development can be found in Korea: there the Korean government is channeling funds into private companies along the lines of the old US reconstruction corporation. They are following in the Japanese footsteps in setting up an export-oriented economy based on the use of savings. But there is a significant difference from the Japanese system: the Koreans are not sweating the capital out of their peasantry through a system of internal financing as the Japanese did in the period 1890-1940. Instead, Seoul is borrowing on a government-to-government basis and relending to an internal developing capitalist class and system. Over the next five years (in the next five-year plan), Seoul intends to borrow \$3 billion annually. They will, instead, borrow on a government-to-government basis from the IBRD, the Asian Bank, others, and relend to their own private sector. This conceptual framework may be "compromise" of how capitalism can be transferred to those LDCs willing and able to handle it. This Korean example suggests another reason for the multilateral lending consortia.

Assuming, however, that through the development of consortia along the lines proposed, the indispensable ingredient of the capitalist free market system--capital--can be made available, a few other fundamental factors need emphasis.



An economic strategy can only operate effectively within a stable environment. Unless the political-security conditions in East Asia are reasonably stable and predictable and the countries in Southeast Asia are spared excessive internal turmoil, economic development will not take place.

The Ingredients of an Economic Strategy

In his September 1, 1975 speech to the Special Session of the UN General Assembly, Secretary Kissinger indicated that both governmental and private means should be utilized in furthering economic development. After identifying potential sources of governmental funds here and abroad, Secretary Kissinger concluded,

"It follows inescapably that the remaining needs for capital and technology can only be met, directly or indirectly, from the vast pool of private sources. This investment will take place only if the conditions exist to attract or permit it."

This statement clearly implies that the priority development effort of the US should be within the market system. This priority is sound and not just for the pragmatic reason that Congress is unlikely to authorize substantial foreign aid appropriations. There is a solid basis for foreign aid, particularly for agricultural and related assistance which is discussed in Section V of this paper.

But more importantly the American political-economic system has demonstrated how well it can educate and use efficiently its human resources and combine them with capital and resources to open up varied opportunities for personal development, freedom of choice and material well-being for the common man. Furthermore, the most successful economies--and societies in



terms of individual well-being--operate also within the capitalist free market framework. There is no reason why the United States should not try to help others via methods that have worked well in many countries. At the same time the US and its associates must learn how to communicate more effectively to overcome the distortions and lies spread about evolving capitalism by decades of Fabian Socialist and Marxist-Leninist propaganda.

US economic policy toward communist nations in Asia becomes complicated as a result of communist acquisition of Vietnam, new vulnerabilities of South Korea and other Asian countries' interpretation of US policy. It is unlikely that we will or should have economic relations with Vietnam in the foreseeable future. Although we have had economic transactions with the PRC there is a general consensus that no dramatic US trade increase with the PRC is on the horizon. However, in careful consort with Japan and other nations, the US can find economic adjustments with political relations and vice versa. Japanese trade with the PRC will increase, barring political friction and some Southeast Asian business will develop. If the US should ever "tilt" toward China as insurance against successful Soviet initiatives, experimentation on a friendly basis could be a prudent course to take. The US with or without third nation partnership could conceivably advocate marine development for seafood and other resources along with the PRC.

A useful hinge on Chinese relationships is, of course, Hong Kong, which the PRC is not like to disturb. Hong Kong is not only a great East Asian foreign exchange center for financial settlements and transfers but it is also a great information center and an economic barometer. It is





Century." Their past record and future success depends in substantial part on their pursuit of company objectives, the central one of which is profit.\* Obviously, the responsible MNC will also be attentive to secondary considerations, such as the political environment, within which it operates leading it to act as a responsible guest in the host country.

Flaws notwithstanding, the MNCs have become the most dynamic expression of the capitalist international economy. Historically, dynamism and economic success of the American experience resides in the strength of the private sector and enterprise, not in government. Our success in future economic relations with East Asia will depend to a great extent upon our exploiting this strength. Governments are notoriously inept in business enterprise and management. Multinational benefits accrue to a wide money and consumer market promising the greatest assistance to developing nations through the best uses of resources, technology and joint financial judgement.

Through the Overseas Private Investment Corporation (OPIC) the United States has, since 1969, provided insurance to US investors against the "political risks" of war, expropriation and the inconvertibility of assets.\*\* The 1973 legislative review of OPIC drew further attention to OPIC's activities and generated considerable debate over the public corporation's aims and policies. The debate has focused on determining the proper role of the US Government in assisting and fostering private investment in the less developed countries (LDCs) as well as "protecting" the interests of US investors there.

\*Some may also be driven by a desire to maintain market share as well as profit.

\*\*See draft monograph entitled "Overseas Investment and Political Risk," by Dan Haendel and Gerald T. West with the assistance of Robert G. Meadow, Foreign Policy Research Institute, 3508 Market Street, Suite 350, Philadelphia, Pennsylvania, 19104.



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Rising nationalist sentiments in Third World countries have increased the political risk faced by investors and have generated complex policy dilemmas for both corporations and the US Government. With the gradual decline in US foreign assistance over the last decade, the US Government sought, for both humanitarian and developmental reasons, to encourage American private investment in the LDCs. However, given the nature of the risks faced by US firms in many LDCs, many corporations remained unwilling to invest without some form of "protection" against the "political" risks of war,

There are inevitably conflicts between the nationalistic rhetoric that many politicians in Southeast Asian countries use and rational development policies which would further the welfare of the population. Despite this rhetoric private foreign investment is absolutely essential for development in the Southeast Asian countries.

Inducing foreign private investors to risk their capital, technologies and management skills and to make such investors welcome requires (1) continuous monitoring of investor problems for all nationalities, not just those of the United States business; and (2) a complete review of the procedures for insuring direct foreign investment in Asia against political risk.

Specific methods for enhancing the capacity of the financial systems to provide risk insurance for direct investment will require considerable research and analysis. The essential point is that the encouragement of direct private investment should be a high priority objective that deserves full support of the highest levels of the US Government--as well as the governments of the LDCs.

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In this connection we should find means of exploiting the fact that the "overseas Chinese" business communities play a major economic role in all the ASEAN countries. They might be used as the instrument in support of better rapport between host governments and international business firms to the mutual benefit of both. They have a natural interest in supporting regional economic cooperation to combat excessive economic nationalism. Likewise they naturally favor the free market system over its socialist, Stalinist and communist command-type economic systems.

In order to make transnational enterprises more acceptable for LDC host countries, Secretary Kissinger proposed a code of conduct for them in his September 1 speech:

"If the world community is committed to economic development, it cannot afford to treat transnational enterprises as objects of economic warfare. The capacity of the international community to deal with this issue constructively will be an important test of whether the search for solutions or the clash of ideologies will dominate our economic future. The implications for economic development are profound."

Proposals for a code of conduct should be given the fullest possible scrutiny. They might throttle the dynamism of the MNCs by introducing too heavy a governmental hand at both ends of their operations. Rather than over-regulating the MNCs governments should keep very well informed on what the MNCs do and provide corrective actions when necessary.

An insight as to how American businessmen operating in East Asia view the operations of MNCs may be seen in the following briefing notes



(for discussions with Congressional committees, spring 1975) prepared by the Asian-Pacific Council of American Chambers of Commerce (APCAC).

"We believe MNCs are of vital assistance and benefit to LDCs by:

- providing access to global markets
- providing investment capital
- providing non-strategic technology; and
- providing essential training to local nationals.

"If MNCs do not provide this assistance, the economic gap between LDCs and developed countries will increase; which is not in the best interest of USA. This pullback will not save US jobs; it will accelerate job loss since new foreign tariff barriers and quotas would price US domestic-made products out of the market abroad, clear the way for our European and Japanese competitors, slash repatriated earnings and thereby adversely affect the balance of payments.

The multinationals have been at the forefront of creating the unequalled economic power of the non-communist world. The MNCs are also in the forefront of dealing with the communist countries without any real appreciation of the political concessions that should be obtained from them. On the contrary, MNCs are often urging the non-communist governments to offer political concessions in the hope of obtaining trade benefits.

The US Government has found it increasingly difficult to formulate viable international policies due to increasingly complex and interlocking economic, social, political and politico-military factors in the world at large and at home. Within the global competition that has taken place since the end of the Second World War we have had no counterpart of the various international communist parties. In recent years a powerful competitor has taken shape in the multinational corporations through their unmatched economic capabilities



and the willingness of most free governments to accept them.\* The benefits of this phenomenal network, capitalism international so to speak, are being experienced and also probed pro and con. How to make these transnational institutions function most effectively and beneficially for all concerned may be the central issue of decision confronting free economies.

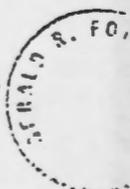
Special Problems

US support for private industry abroad must match the fact that our economy has become a primary instrument of American diplomacy. The emergence of economic factors in the front rank of diplomatic issues has served to heighten the importance of the American Government's dependence on imported raw materials and, more importantly, demonstrated the changing pattern of US economic relations with the Third World.

The private sector should be eager to help the US Government achieve its foreign policy objectives. But the private sector must be able to report profit from its overseas operations to assure continuity. Government is not under such constraints. The present relationship between our government and the private sector is frequently an adversary one. Present Congressional attacks on multinational companies are a case in point. A new relationship must be established if the private sector is to become an effective arm of US foreign policy.

Broadly speaking, our government policy should be to encourage the flow of investment funds to those areas which want development within the general framework of the global market economy and whose development will be beneficial to both the political and economic interests of the US.

\*This comparison may stretch the point since the CPs operate in the political, paramilitary, psychological, as well as the economic realm.



Officials of an LDC and a corporate investor view developments from considerably different perspectives than does the US Government. There is frequently a hostile attitude toward business among the intellectuals and governmental officials in the developing countries. These could be overcome--or their adverse effects at least mitigated by better dialogue and communications concerning various paths, costs and rewards, leading to economic growth.

An element of politico-economic development in any country is communications. US information programs have not given this facet of the development process the attention it deserves. It should be apparent through effective communications the US and friendly governments can campaign to gain support for sound economic programs.

A really professional use of communications can speed up acceptance of programs and projects and, more important, unite people with differing views to a recognizable common purpose. Pinpointed communications tied closely to specific projects or policies and constantly reaffirmed could accomplish the necessary task. Above all, within a given LDC effective communications systems can infuse a strong sense of national purpose--which is the elixir that makes development plans succeed. We cannot rely on primarily economic solutions to meet human needs--or achieve sound economic goals without persistently explaining their whys and wherefors.

The caliber of personnel involved in US public or private development programs will obviously be a decisive factor in the results obtained.



The effectiveness of economic endeavor in both trade and aid depends to a large extent on the knowledgeability and diplomatic skills of representation, negotiation and professional versatility in business and industry. Other factors being equal, top quality personnel is a determinant of success. Outstanding businessmen represent not only the product or service but their country, a double value, and with latitude for action the official does not have whether at ambassadorial or lower echelon economic levels. In 1964 after solid preparation by corporate leaders and federal officials, the International Executive Service Corps was formed by a group including David Rockefeller, Sol Linowitz, Bill Paley, C.D. Jackson, Senator Javits and others. Its purpose was to mobilize further our overseas talents by drawing on the services of corporate people about to retire, others still not retired, and put to work their aggregate country knowledge and/or highly specialized administrative or disciplinary functions.

Today, after ten years of service, incumbent President Frank Pace, Jr. notes: "IESC offers a third way to foster the development of the Third World ...we do not go in for large injections of money nor heavy applications of manpower but for the selective deployment of skill and experience at the management level."

Despite pessimism as to the short run economic prospects, the population-food syncretism in Southeast Asia presents an exciting and inescapable challenge. Meeting it could provide the master key for advancing the economies of the countries along a solid, broad front. The population problem can be met by a head-on campaign to improve agricultural productivity,



which is the basic economy of the peoples residing there. More pointedly, three key countries...Thailand, the Philippines and Indonesia...can stay ahead of their alarming population curves upward only if they increase their agricultural efficiency two or three times the existing level within a few years time.

Section VI shows how the battle for increased food production can be won, and the tremendous psychological and political influence which would accrue to the US in the process. The agricultural improvement campaign should become the core of the AID program for Asia. Better handling, storing, transporting, shipping and selling of agricultural products should be a major focus of private enterprise in Southeast Asia.



V. THE ROLES OF THE PUBLIC SECTOR IN DEVELOPMENT IN ASIA

Introduction

In addition to utilizing to the fullest the private sector as a major engine of economic development governmental assistance still has a major role to play. More and more the US bilateral assistance programs are becoming grass roots "people programs"--food, population and health. Multilateral agencies tend to focus on infrastructure--ports, road networks and rural electricity.

The central assumption underlying US assistance to the developing nations in Southeast Asia since the Second World War is there is a relationship between economic growth and political stability. Economic stagnation and deep poverty weaken the political fabric of a country.

Economic growth can result in a fair distribution of income and wealth, however, only if the strategy of development does not result in an excessive investment of income in private property and only if corrective measures are taken through taxation, special subsidies, and relief and "anti-poverty" programs which ensure necessary adjustments to the otherwise natural outcome of the developmental strategy adopted. Moreover, there must be especially good coordination of (a) education and the development of skilled, technical and administrative manpower with (b) the supply of new employment opportunities which economic development is supposed to generate. Nothing can result in social instability and obstruct orderly development more than an increase in the supply of educated persons who are frustrated by lack of opportunity.







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### From Bilateral to Multilateral Framework

In the past decade there has been a major shift from bilateral to multilateral economic assistance. For many purposes the latter is preferable but again a choice should be made in accord with the purpose of this paper, compatibility with US political and security interests in the region. Although we have had satisfactory experience with Korea, Taiwan and the Philippines, to a lesser degree with Thailand and Indonesia, bilateral aid has become increasingly vulnerable to nationalism, to the exploitable frictions and tensions of donor-recipient relations. More important, a sharing of debits as well as credits is more conducive to regional integration, to better utilization of resources and other assets without competitive duplication and waste, and to fuller application of the enormous technological skills and capital funding of multinationals.

Multilateral institutions are at work in East Asia, with not only Asian but many other nations engaged in Asian economic development, whether through IBRD, the ADB, PICA,\* international commercial banks, service and management organizations of several nations.

#### Asian Development Bank (ADB)

Data cover loan authorizations of the recently organized ADB which made its first loan in 1968.

Within the key banking structure of Asian development, the ADB, US subscriptions to capital resources as of 1975 stands at approximately \$242,000,000 as contrasted with Japan's \$603,000,000. Our development

\*Pacific Investment Corporate Assistance.



fund with ADB is \$50,000,000; Japan's is \$105,224,000. Such statistics are incomplete and subject to countless factors of alteration. However, from almost any judgmental position, US support of the Asian Development Bank, more than ever in our world economic position today, is not only comparatively weak but shortsighted with respect to the intrinsic role of Asia in our emerging policy.

In the last few years, US contributions have lagged, and in the last year the US has taken a brusque and negative stance on a series of matters not critical to the US or to the Bank. With the other major regional bank, IBD, our support is very much more generous and our stance much more cooperative. It seems time in view of our withdrawal from Asia in so many other ways to now reorient our stance in the ADB and become more cooperative once again.

In the course of providing foreign aid to Southeast Asian countries, an important consideration is the avoidance of potential conflict due to economic nationalism. Unless dampened we may find that our efforts to increase economic presence in lieu of military presence and in stimulating economic development to safeguard security in these countries will lead to results contrary to our expectations.

In order to minimize these potential conflicts we need to work out an intelligent raw materials policy, including an energy policy, that is based on cooperation and understanding among Japan, the United States



and the countries of Southeast Asia, Korea and Taiwan. On this and other economic issues the multilateral approach should ease political problems in Southeast Asia.

Export-Import Bank of the United States

Another major element in the US fiscal arsenal which is a useful component of a US economic strategy for Asia is the Ex-Im Bank.

Eximbank loans, guarantee and insurance authorization for FY'72-'73 to Northeast Asia (Japan, Korea and Taiwan) comprise the heaviest regional allocations of the overall area at \$773,320,321. Remaining Eximbank allocations to the entire area are as follows:

Indonesia	\$162,535,818
Singapore	74,404,475
Philippines	61,193,234
Thailand	20,525,640
Hong Kong	17,685,403
Malaysia	10,003,146

Eximbank allocations to Northeast Asia amount to more than twice the funding to Southeast Asia. Total area Eximbank funding is about 16% of the Bank's total export sales support volume. US policy should be to increase this amount, along with other external funding, to keep pace with the area statistics and strategic import.

The Bank's President and Chairman William J. Casey has advanced an imaginative plan to team OPEC and Eximbank investing. (See Part III re: necessity of OPEC money required for LDCs.)





VI. WORLD FOOD AND THE US

The Problem

While the world's population is still expanding at an explosive rate, the world's food production is not growing proportionately. An estimated 800 million persons suffer from malnutrition. The current world population of 4 billion will double in 40 years if present growth rates continue. Population growth in the developing countries will account for 85% of that growth, but food production in most of those countries lags seriously behind minimum consumption needs.\* The cataclysmic danger in this paradox is beginning to force the nations of the world to recognize and try to do something about food and population problems.

As the nation which has achieved the greatest agricultural miracle in world history, the United States should take the lead in a crusade to enhance agricultural production. The United States, of course, cannot and should not do this alone, but it can be the catalytic force that induces the successful agricultural economies of Western Europe, Australia, New Zealand, Japan and the Republic of China on Taiwan to do what must be

\*For current descriptions of world hunger and poverty and US assistance programs addressing these problems, see "Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973," by AID, July 22, 1975 (House Committee Print) and "International Development and Food Assistance Act of 1975," Report by the House Committee on International Relations (House Report No. 94-442).





that moment. In this bill, the outline of a much more promising policy emerges. It stands on three legs. There is the immediate shipment of food as relief in crises. But it is tied to investment and technical assistance for that country's own food production in the longer future. That in turn is linked to a rising emphasis on population planning. None of the three will work alone, but all of them together comprise a coherent and constructive design."\*

Additional legislation has been introduced in Congress which would provide funds to establish land grant-type universities in the developing countries in an effort to help them help themselves. The problem of people and hunger on the world stage is essentially a problem of scale. That the problem can be solved is persuasively demonstrated in a remarkable lecture given by W. David Hopper entitled "To Conquer Hunger: Opportunity and Political Will."\*\*

"Dr. Hopper argues that, despite grave food shortages in recent years and prophecies of more widespread famine to come, mankind has never before been faced with such an opportunity to create an agricultural system that will assure an abundance of food for all. Not only are techniques available to bring into production large areas that are virtually unexploited, but it is now also feasible to increase, several times over, the yield of traditionally cultivated farms by introducing modern technology."

An Agricultural Crusade

The basic elements of a campaign to increase world food production are already available. First and foremost is the need to make certain that incentives exist to encourage farmers to make the required expansion, and profit is the primary incentive. The farmer must feel that the prices

\*Washington Post Editorial, September 10, 1975.

\*\*W. David Hopper, President, International Development Research Center. An abstract of a lecture delivered in the John A. Hannah International Development Lecture Series, Michigan State University, East Lansing, Michigan, May 16, 1975.



of his farm production will remain sufficiently high not only to cover the cost of his investment and labor but to earn a profit as well. This is frequently not the situation in many of the developing countries. Furthermore, there has to be an adequate land tenure system, along with sufficient credit and extension-type services to permit the farmer to take advantage of the new techniques, new fertilizers, new seed. Once these profit incentives are clearly evident, the small farmers living in developing countries will make much more efficient use of their own resources, as well as adopt new seed varieties and production techniques. A prerequisite to success, of course, is the willingness of the governments of the developing countries to marshal the resources and apply policies which will create the incentive climate necessary for rapid agricultural progress.

Protein Deficiency

Protein deficiency characterizes the average diet of most people in the tropical developing countries of Asia. Much more attention needs to be given to livestock and poultry raising if this deficiency is to be overcome. Pigs, chickens and ducks are the main source of meat in many Asian countries. Other potential sources, in addition to the omnipresent water buffalo, are goats and cattle. New strains of cattle are being introduced which can adjust to tropical heat, and such breeding should be encouraged. It should be noted, however, that any great increase in livestock will place greater demands on cereal production, so efforts must be made simultaneously in each agricultural sector.



Beyond increased agricultural productivity on land there is an equal opportunity to improve the exploitation of the seas for food. The nations of the world will probably not be able to meet all their caloric and protein needs from land agriculture. A major portion of food supply of the developing countries should be produced within their own territories in the not-too-distant future. There must, however, be greater effort to fully exploit opportunities for obtaining food from the sea.



VII. US-JAPANESE-AUSTRALIAN COLLABORATION

(Potential for Joint Cooperation in the Design and Implementation of Development Assistance Programs in East Asia)

Common Interests

In East Asian policy the cardinal fact of our foreign relations is that the US and Japan, at this stage, represent the only power combination with the capacity and interests to secure peace in East Asia; and at the same time to establish a basis of economic security and self-containment for the poorer members of the Asian community. We should build on the fact that the US-Japanese alliance from all appearances is a strong, going concern. We have few other partners as potent and hopefully, as reliable, including nations closer to us by cultural heritage. Australia is included as a major trading partner of both Japan and the US.

Japan is obviously important in negative terms, i.e., the adverse consequences of a US-Japanese fallout would be severe. What we want positively from Japan is less obvious. This section suggests that an open-ended consortium for Asian economic developments in which Japan made a major contribution could be Japan's constructive role.

In view of the immense role which Japan plays in the economies of countries in the East Asian-Pacific area, efforts must be taken to promote Japan's cooperation with the US wherever possible. A consortium of the two nations, however, should develop in such a way as to not give smaller countries the suspicion that such collaboration may dominate or deny them alternative sources of assistance and funding.



Whatever economic agreements can be reached and expanded between our two countries for East Asian assistance, two political priorities are paramount: (1) the prevention of communist domination of the Korean peninsula; and (2) the strengthening of economic and political relations in Southeast Asia to offset any PRC maneuvers to weaken free market and free society ambience in that region. Three additional priorities are: (1) preservation of the integrity of Japan's sea lanes; (2) Japanese access to raw material (including fuel) sources; and (3) Japanese access to export markets. All these require certain political and military conditions and understandings.

While Japan today can only marginally and indirectly underwrite the security of the East Asian region, our joint economic efforts can accomplish much in that direction, in some instances automatically shoring-up political weakness and offsetting external blandishments. With sensitive diplomacy, Japan should also be brought to a better understanding of her economic options and responsibilities in recognition that the thirty year old US security framework has provided Japan with many benefits with comparatively little cost.

A Japanese-American partnership has existed in Southeast Asia in the past 15 years or so. In this partnership US firmed licensed patents to Japanese manufacturers which permitted them to sell against European or other competition (sometimes US) in Southeast Asia. This partnership took place because the Americans priced themselves out of the market because



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of wage costs; they sold their R&D through license arrangements to the Japanese at "bargain" prices (for any fees picked up for Japanese licenses were considered "found money,") and because the Japanese could use American name brands often when they could not have sold their own merchandise. That Phase of cooperation is over.

What will take place now? The development of a new understanding and partnership is all the more pressing. Examples? Perhaps a joint US-Japanese development with the Chinese communist of their offshore oil resources. Agricultural, or rather, agro-industrial enterprises which might be joint--for example, a move to build storage facilities and upgrade crops in Thailand which find Japan as their principle market. (This sort of thing was tried in the 1960s and failed because it was undertaken as confrontation between the US investors and AID and the farmers against the Chinese intermediaries and the Japanese.) The joint development and expansion of Indonesian oil with the Indonesian government using the Japanese market and American technology and capital may be another example. All of this demands at the American end a mobilization of intelligence and other resources which has not yet taken place.

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In looking toward the future we should recognize the importance to Japan of the partnership which Japanese industry and business have developed with the overseas Chinese community as intermediaries with Southeast Asia. A large fraction of Japanese sales in Southeast Asia have been made through this community.

Much of the immense development in US-Japanese trade has taken place without a great deal of knowledge or information as to its particulars except among those people actually engaged. As the two most powerful economic partners in the non-communist world ignorance of both countries about each other can continue at the risk to each country and to their joint endeavors. The fault is largely on the US side. There is very little study in the US of Japanese language and culture, too much emphasis on business ties unmatched by concern about human contacts and relations.

US ignorance concerning Japan should be overcome. One idea by which this might be done is the possible establishment of a Business Institute at the East-West Center in Honolulu, dedicated to mutual US-Japanese investigation of these problems. The other is the launching of a five-year research program in US-Asian communications by the Murrow Center of the Fletcher School in partnership with Keio University in Tokyo.

A joint conference was held in Boston in November 1974 on the role of American and Japanese international corporations in changing world economy. The conference report prepared by Philip C. Horton, Director of the Murrow Center provides some interesting insights. As Horton writes:



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"While the US experience was ever present in the background and frequently emerged explicitly, it appeared that both Americans and Japanese had a greater desire to explore the subjects at hand in terms of their implications for the Japanese."

Concerning the goals of foreign investment the imbalance of the discussion was striking:

"Nowhere in the record does one find mention of the US outlook while...by contrast, the goals of Japanese direct investment and their implications have been the subject of so much recent national attention that their dimensions have been clearly identified."

The report concluded by stressing implications for communications among Americans and Japanese:

"...difficulties underscore the importance of companies and governments, both singly and jointly, attempting to improve their communications in order to promote more accurate understanding of their affairs."

If we can develop a real sense of partnership with Japan our task might be less arduous or suspect. US must try to become an equal partner with Japan and make Japanese feel this is in fact the case. Much more closer contacts are needed. It is important also that the US try to keep the price of agricultural products to Japan from rising.

#### US-Japanese Cooperative Endeavors

Many Japanese leaders would subscribe to the viewpoint that the Japanese have their counterpart of the "ugly American" image, which must be overcome in every way possible in foreign relations. Where such images are negative or less promising, the other "partner" in any consortium



could take the lead, spearheading direct investment, pilot programs and in major new enterprises. Japanese, for example, do not enjoy dealing with India; they in turn might do better than the US in other countries at a given time and vice versa. Such flexibility could strengthen joint salesmanship.

For most of the countries in Southeast Asia, however, the leading role the US will play in a US-Japanese consortium must be understood by them. There still is more confidence on their part in US goodwill than in the long-term goodwill of Japan. Also such a consortium should be open-ended in the sense that a developing country should be free and encouraged to join the consortium once it is in a position to help others less developed than itself. The consortium should not be viewed as a restricted club.\*

In this latter connection we should remember that of equal or greater importance than governmental or private assistance to the LDCs is mutual access to the US and Japanese home markets. Exports have been vital sectors in the fast growing economies of Korea and Taiwan, among others. Textiles have played a leading role in such exports, and the energy crunch has hurt textile exports from Asia. Tight Japanese restrictions have minimized imports; the US market for Asian textile manufacturers has also weakened since 1974. The comprehension gap between

\*The idea of either Japan or the US taking the lead in mutual endeavors in accordance with the psychological climate of a given country was advocated by Robert S. Ingersoll when he was the US Ambassador to Japan.



security and economic interests must be narrowed. Neither country will benefit economically if the region is wracked by political upheavals deriving from economic setbacks.

The impact of oil and energy problems on US-Japanese economic interests in East Asia and the potential for US-Japanese cooperation in joint activity for East Asian assistance are more unpredictable, for many reasons, than any other before us. Substantial OPEC-member investment in France, Germany, the UK, the US and Japan, unaccompanied by price reductions for oil or increased development assistance throughout the world, and generally negligible OPEC trade relationships, constitutes a shattering economic threat.

It is difficult to see any solution to the oil crisis other than an Atlantic-Pacific energy policy under leadership of the US and Japan--others if possible--to convince the oil producers that their tactics are strategically dead-end. The ultimate community or in any moribund Western colonialism, but from Soviet imperialism. Only a few years ago the desert economies were weak and indigent, with virtually no meaningful exports, as Arab economists Yamani and Ansary freely concede. The fact that the source of their wealth is generated by Western technology and capital should discipline their euphoria and politics.

#### Harnessing Power to Purpose

The net economic output of Japan and the US is estimated at a staggering \$2,000 billion. In view of the relationship of the two countries'



available national resources and other development resources to the maritime economy and security factors of East Asia, the closest collaboration between the two nations seems to be a necessity for both. Economic initiative and policy must be convincingly evident for LDC and Third World acceptability. Japan's International Ocean Exposition and her greatest marine exposition, "The Sea We Would Like to See," are indicative of directions that nation is already pursuing. An investment development process combining the maritime power and economies of both nations, linking up with the maritime capabilities and needs of all cooperative LDCs, can generate a potential as dramatic as the food and agriculture program advanced elsewhere. Shipping, shipbuilding, new or enlarged ports, warehousing and transshipment facilities and land-sea modal transport innovations are all vital requirements of the world today, particularly in Southeast Asia.

Closer collaboration is also necessary throughout the whole maritime structure and industry because of rate-war dangers, supertanker glut and the oil transport problems. Ocean carriers, conference and non-conference, involved in transpacific trade and are constantly searching out agreements to curb harmful competition.\* But such agreements must be worked out in ways which do not do irreparable harm to legitimate third flag carriers and which insure sufficient competition to foster desired innovation.

\*The effort of the Soviet Union to capture shipping contracts by offering rates far below costs should not be overlooked.



The main areas of a joint Japanese and US effort would involve, first, the essential development fields of agriculture, agroindustry and aquiculture, and the generation therefrom of food, fertilizer, minerals and timber. A second area of joint activity would center on transportation and communications for both economic force function and security purposes. Another area could be in rural development and reversal of urbanization dangers and inequities. Finally, and perhaps above all, a fundamental advance in teaming of capital and labor towards national solidarity is needed within the individual countries of Southeast Asia. The Japanese have excelled in the development of national solidarity and legitimate national pride.

We and the Japanese must recognize that we are both competing with totalitarian economic systems militantly pursuing strategic goals inimical to ours. We need a clear cognizance of the fact that despite the advent of global interdependence no currently perceivable common purpose will terminate the contest. At issue is what philosophy and under whose writ the future world order will operate. Lawrence Eagleburger's home-front comment that in response to a challenge of this magnitude bipartisanship should impose "a limit as to how far we take our differences in the field of foreign affairs," is most germane.\*

The main focus of an economic policy for East Asia should be the establishment of an open-membership US-Japanese economic consortium--with

\*Address at Waynesburg College, May 18, 1975.



Australia as an initial charter member--as the primary mechanism of Asian development. This consortium should not duplicate or infringe on the activities of ESCAP and other Asian development programs but strengthen them with capitalization and examples of cooperation and initiative. Its success could depend on a balance of the strong and the weak in managerial participation.

In building the US-Japanese-Australian connection it is necessary that we follow two principles:

1. The operation of the economic policy alliance should be very quiet and managed largely in Tokyo, Washington and Canberra or at high levels of the local embassies.

2. The objective of this economic policy alliance should be to develop agreed upon positions for the assisting governments with respect to the financial consortia and the positions taken by the executive directors in international financial organizations.

The transfer of large scale capital to friendly countries in South-east Asia must come through private investment and non-project oriented consortia made up of the kinds of international financial institutions, groups of countries or a combination of public and private funding sources, discussed in Section IV of this appendix. These consortia would make general lump sums to governments which would then allocate these resources to their own project oriented development programs. These governments,



for example, could funnel these externally supplied resources through their own lending institutions to support rural credit programs or to guarantee such programs by their own private banks.

The US-Japanese-Australian consortium suggested here would work in true partnership with the host governments. It would follow the more successful examples of past capital investment and technological transfer in Asia. For the most part, these have usually been in the nature of joint ventures in which the host country has some equity, writes the rules of the game, and rightfully arranges for the training and transfer of skills.



## CONCLUSIONS AND RECOMMENDATIONS

The US should regard the full scope of economic activity (trade, aid and investment and technological transfers) as a major instrument of United States foreign policy. Our economic policy and programs should be compatible with our own pluralistic political-economic system. We are and should continue to be proponents of open, competitive market oriented economic systems. Our economic interaction with closed, non-competitive, non-marked systems should be limited to those cases where national security considerations override. The focus of our Asian economic foreign policy is to promote successful open, competitive economic systems. To do this, major gaps between aims and practices should be recognized.

Four principles underlie the recommendations for specific actions which follow:

One. The free market economy, though far from perfect is still the most successful method for organizing economic systems. Unless the Southeast Asian countries follow the general approach of open, market-oriented development they will fail to modernize.

Two. Because our resources are limited we must operate for maximum leverage through joint approaches to development problems with other countries and international financial organizations.



Three. We should focus on our strengths and capabilities within the spectrum of development problems.

Four. Finally, where economic policies interact with national security issues due attention must be paid to the national security interests. The actions detailed below include specific instances of such interacting interests.

Recommendations

The following recommendations are specific directions for both the content and management of economic policy in Asia.

1. Promotion of Private Foreign Investment. If the most successful system for development is the open market oriented economy, it follows that we should take actions to support the success of such systems. One vital aspect of the development of open market economic systems is investment by private businessmen, both foreign and domestic. The MNC is recognized as a vital instrument of development which simultaneously serves to encourage linkages among the open market economic systems.

Private investment can play a dynamic role in development if the host country creates an attractive environment for the investor that will also help itself. Programs in which the developing Asian countries provide part of the insurance against expropriation and where there are agreed orderly methods for settling disputes between foreign investors and host country are essential to increasing the flow of direct private investment to Southeast Asian countries. The specific problem now posed



for the United States is to develop mechanisms, modalities, and operating methods which are required to encourage foreign private investors to risk their capital, technologies and management skills and to make such investors more welcome. This requires (a) continuous monitoring of investor problems for all nationalities, not just those of the United States businessmen; and (b) a complete review of the procedures for insuring direct foreign investment in Asia against political risk.

Specific methods for enhancing the capacity of the financial systems to provide risk insurance for direct investment will require considerable research and analysis. The essential point is that the encouragement of direct private investment should be a high priority objective that deserves full support of the highest levels of the US Government.

2. Establishment and Management of Financial Consortia. The dominant economic problem in developing Asian countries is to provide for smooth, non-discriminatory transfers of real resources to permit more rapid economic development. The input of the OPEC oil price increases and the world inflation have made this resource transfer problem impossible using the traditional methods of foreign assistance. The best method for realistic techniques for resource transfer is to stimulate financial consortia involving governments (including OPEC members), international financial organizations, and private banks. These groups working cooperatively will be able to develop the necessary agreements on a case-by-case



basis to accommodate the required transfers. Although such consortia have been organized from time to time they performed in a perfunctory fashion for limited objectives. We propose here, however, the establishment of a series of consortia which would consider annually the total resource requirements for a given country for a two or three year period.

These consortia would work out annual agreements with the borrowing countries detailing the economic situation, policy measures to be undertaken, major development projects, progress in implementation of prior consortia agreements, and the level of borrowing for the next year.

To make this an effective method of proceeding the United States Government should cease making project loans or grants to Asian countries, except in very special areas and concentrate instead on using our world position, influence, and resources to make available to the recipient country through massing the resources of the several sources of funds.

Several points need to be made:

- a. If the United States is to play a leading role in these consortia, then it is necessary to provide high quality professionals working within an integrated policy framework.



b. It is highly desirable to establish efficiency criteria in the terms of loans. We should improve the lending terms for these countries which follow successful development policies and withhold concessional loans from those countries that pursue domestic policies inconsistent with solid development programs.

c. We should recognize that although every country has a right to pursue any development path that it believes appropriate, the United States has no obligation to participate in supporting development efforts inconsistent with its world objectives. Our perspective on how to organize economically successful societies is proven by the dominant position of market economies. Unless there are overriding hard national security interests it is simply wasteful to spread our resources among those countries that are not pursuing economic development policies consistent with the beliefs of the United States.

d. At the same time the United States should look to the long term and exercise considerable patience. We should be particularly concerned to establish developmental goals as conditions for resource transfer.

e. Implementation of this recommendation would require a major reorganization of AID's present programs, and may well require legislation. Recommendation #6 provides more details on how to carry out a policy of using financial consortia.



f. If financial consortia are to be successful as the major channel for foreign economic policy in Southeast Asia, it is essential that the links between the political process and economic development be studied and that the United States' position be prepared taking full account of the political implications of any given program.

3. Technical Assistance. The technical assistance effort financed by US grants to Southeast Asia should be strictly limited to a few crucial areas. The recipient country itself can finance other forms of technical assistance making use of the resources available to it. In two particular areas the United States has special qualifications which justify grant technical assistance. These two areas are agricultural research and urban development.

a. Agricultural Research. We should strongly support technical assistance for scientific agricultural research. Through the past 25 years the United States has funded a great deal of agricultural research in Asia. Such support has often been criticized on the grounds that while research produces results these results are never made available to the farmers. In fact, the solution to improved extension service systems for delivery of research results are usually budgetary (inadequate salaries and allowances; lack of useable materials) and can be solved by the recipient country increasing its budget allocations to extension work. Bureaucratic values, attitudes and patterns of action are also obstacles which can only be solved by the recipient government.



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The critical problem remains widespread under-investment in scientific agricultural research. Although rapid payoffs are not necessarily to be expected the application of science to agricultural problems will almost certainly lead to eventual improvements.

5. Urban Development. Due to the pervasive emergence of the primate city in Southeast Asia the resulting problems of urban development are particularly severe. Technical assistance and research grants should be directed to development of a comprehensive body of sociological, political, and economic research on how such primate cities come into existence, how they grow and how urban services are actually delivered [labor market information, housing, water, education, health and transportation]. Improvements in the delivery of urban services to households can only be built upon a much deeper understanding of what now happens with the enormous resources being directed at provision of urban services.

4. The Japanese-Australian Connection. The United States should maintain a continuing, close alliance with Japan and Australia in implementation of recommendations #1 and #2. In building this connection it is necessary that we follow two principles:

a. The operation of the economic policy alliance should be kept very quiet and managed largely in Tokyo and Washington or at high levels of the local embassies.

b. The objective of this economic policy alliance should be to develop agreed upon positions for the two governments with respect to the



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financial consortia and the positions taken by the executive directors in international financial organizations.

5. Management and Adjustment of Foreign Economic Policy in Southeast Asia.

Once the United States turns its influence to the policy and macro-economic levels of development of Southeast Asian countries the coordination and management of policy among the various concerned organizations becomes much more important. Effective coordination and management will require stronger staffs of economic officers and capacity to maintain close continuing coordination with the international financial organizations and Japan. Despite obstacles more attention should be given to a higher grade of professionalism in personnel dealing with economic matters, more specifically, the politico-economics of development.

Responsibility for policy determination for both the promotion of private investment and financial consortia should rest with the Secretary of State or his designated representative. Foreign economic policy committees should be established for each Southeast Asian country and Taiwan and Korea, chaired by the country desk officers. The State Department country desks should be strengthened by the recruitment and training of general macro-economists able to provide detailed analysis of the economic situation in each country, provide coordination with the international financial organizations, other US Government agencies, and support the country desk officer in his discussions with the Japanese Government.

Care should be taken to establish this procedure slowly as it will take considerable time to identify, recruit, transfer the staff.

6. Communications. Recognizing that we are engaged in a conflict of systems a greater effort should be made to inform by word and by example the advantages of the free market economy.

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