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U.S. House of Representatives

COMMITTEE ON ARMED SERVICES

Washington, DC 20515

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ROBERT C. SMITH, NEW HAMPSHIRE
RUBY H. LEBEN, STAFF DIRECTOR

**QUESTIONS FOR THE RECORD
HEARING ON KOREAN FIGHTER PROGRAM
APRIL 4, 1990**

Although our hearing on the Korean Fighter Program will not be printed, the subcommittee has some additional questions that it would like to have answered for the record. Please review the attached questions and respond to us by May 1, 1990.

If you have any questions, please give us a call.

Kathie Lipovac
House Armed Services Committee
Investigations Subcommittee
2339 Rayburn House Office Building
225-9590

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DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

Ms. Kathie Lipovac
House Armed Services Committee
Investigations Subcommittee
2339 Rayburn House Office Building

Dear Ms. Lipovac:

Attached please find the questions and answers associated with the Korean Fighter Program session on April 4, 1990. We apologize for the delay in providing the answers; however, we believe that both sides will ultimately be better off by our having provided carefully thought through answers. We have discussed this with Ben Smith. Should you have any further questions please contact our House Liaison, CDR Steve Miller, 697-9201.

Sincerely,

John T. Tyler, Jr.
Director, Plans

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CONGRESSIONAL QUESTIONS ON KFP

QUESTIONS ON INITIAL FMS DECISION

(U) - Question (1) Who in DOD determined that the F/A-18 should be sold through FMS procedures? When was that done?

(U) - ANSWER: In the spring of 1987, the Koreans demanded that the program be accomplished on a straight commercial license basis, with all negotiations between the commercial entities involved. The Defense Department countered that approach with the demand that the program be all government-to-government. Through the course of several discussions, the phased program that now exists was developed by DSAA and accepted by the Koreans.

(U) - Question (2) Since the Koreans requested a direct commercial program DOD must have had good reason for wanting an all FMS program for the F/A-18. On what basis did DOD initially determine that the F/A-18 should go only through FMS channels?

(U) - ANSWER: There was concern on the part of the Defense Department about the probability of program success with an all commercial license approach. The tabling of the "all FMS" position was a plain "negotiating" counter--its acceptance would have been a serendipitous outcome, but was not anticipated. The aim was a mixed program with no lower than a medium risk factor. The GAO, in fact, has noted that a mixed program was already under discussion in late 1986-early 1987. The Defense Department believes that FMS generally provides better oversight from its perspective to assist in assuring program success. With this in mind, DOD promoted FMS as an appropriate channel to initiate the program.

(U) - Question (3) If FMS better assures program success and interoperability then what is so important to the Koreans about having a direct commercial contract.

(U) - ANSWER: The Korean government, we believe, thought that it had limited experience in managing a program the size of the KFP, while at the same time they had tremendous faith in the ability of Korean industry to manage the effort. Additionally, they had a recognized intent to develop an aerospace industry and saw the KFP as a step toward its development.

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(U) - Question (1) Does DOD policy permit Service Officials to convey differing positions to foreign countries during negotiations.

(U) - ANSWER: First, it should be noted that the discussions over program structure were not negotiations, they were discussions over how best to assure a successful program. These discussions took into account the complexities of the program, the cultural imperatives of both sides and the need to work together to meet the needs of both parties. Initially, the concept of anything other than a commercial program was not even a consideration by the Koreans. With regard to the actual negotiations, there is, of course, a unified and coordinated position presented by the negotiation team leader on the US side.

(U) - Question (2) What impact did this have on the negotiations?

(U) - ANSWER: Actual negotiations did not begin until the spring of 1990. The entire process, as well as the events leading up to it, have been the subject of a thorough GAO audit.

(U) - Question (3) What convinced DOD that a combined FMS-Commercial program was acceptable?

(U) - ANSWER: DSAA saw the need to develop a program structure that took into consideration the necessary series of steps for effective program control and a success-oriented sequence of training and transfer of processes. This program was a mix of 12 full-up off the shelf aircraft with the relevant training in the US, 36 FMS kits with training both in the US and Korea, and the licensed production of 72 aircraft in Korea with appropriate assistance and controls. This structure took into account the sets of lead times associated with materials, the training of workers and managers, and the development of program infrastructure. DSAA consistently endorsed this program process and ultimately the Koreans accepted it for the basic program structure. A successful program was, in DoD's mind, tantamount to assuring the USG desire for a successful on-going security relationship in North East Asia.

(U) - Question (4) Since 72 aircraft will be coproduced under commercial licensing agreements, how does the current program resolve the concerns you had about a commercial contract with respect to these aircraft.

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(U) - ANSWER: As discussed above, the program designed by DSAA and as accepted by Korea provides the safety of management control and structure for a medium risk, success-oriented program.

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PRE-NEGOTIATIONS

(U)- Question: Mr. Rudd, during pre-negotiations South Korea was conducting a competition between General Dynamics and McDonnell Douglas while simultaneously negotiating the ground rules for the MOU.

(U) (1) Would you describe the impact this approach has had on developing the draft MOU?

(U) Response: The ground rules for the MOU have remained the same through-out the competition process, selection process and MOU negotiation process. The MOU was designed to: a) control sensitive defense technology items through end item sale on a government-to-government basis (the FMS must list); b) contain provisions for a management structure; c) provide the new standard provisions for production validation; d) reaffirm U.S. controls for the transfer and retransfer of defense articles and services; and, e) affirm US rights to all technology improvements through the flowback provisions. The MOU further outlined the respective responsibilities of the Department of Defense and the Korean Ministry of National Defense in implementing the program.

(U) (2) Is the extent of pre-negotiations experienced on the KFP normal for a coproduction program?

(U) ANSWER: In terms of the MOU, most countries familiar with the MOU process, like our NATO allies, Japan, Australia, and Korea, engage in preliminary discussions on MOUs. In this regard the pre-discussions with Korea on the KFP program and on what the U.S. expected in the MOU were normal. However, it is difficult to say precisely what "Normal" is, since each program and its attendant discussion is virtually unique.

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QUESTIONS ON AGENCY COORDINATION

(U) - Question (1) What procedures are in place governing and prescribing when Commerce's role begins in the MOU process?

(U) - ANSWER: The Department of Defense coordinates all security assistance coproduction MOUs with the Department of Commerce. The MOU is coordinated with Commerce after DOD has completed its own internal review process. The MOU is then forwarded to Commerce for its own internal review process. If the coproduction program is of a significant nature, like the KFP, then Commerce is engaged earlier in the process. The Department of Defense is currently updating its internal directive for coproduction programs which will reflect the requirements of 10 USC, Section 2504.

(U) - Question (2) What is the status of the interagency agreement between the DOD and Commerce on procedures for coordination on MOUs?

(U) Response: There is a system in place for coordination of coproduction MOUs with the Department of Commerce; we are aware of no complaints by them about either the form or substance of the arrangements. We have developed a very good working relationship.

(U) - Question (3) According to the GAO, DOD did not consult with commerce on the KFP until May 1989. Why not.

(U) - ANSWER: The legislated requirement for consultation with Commerce was placed into effect 1 Oct 1988. For some time after that date there was notable discussion about how to effect the intent of the legislation, much of which centered about a program with Japan, the FS-X. Discussions with Korea between early October and May consisted of the delivery and explanation of the price proposals which were unrelated to MOU negotiations. When both DoD and Commerce were ready to focus on the KFP, in May 1989, then Commerce was fully briefed and integrated into the process.

(U) - Question (4) How many separate licensing agreements do you expect under the direct licensing phase of the program.

(U) - ANSWER: There will be one license to cover McDonnell-Douglas (and Northrop), the prime contractor. At this time, we estimate that there may be as many as 20 additional licenses to cover subcontractors

(U) - Question (5) What will the DOD be responsible for during phase III?

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(U) - ANSWER: A prime DoD responsibility will be to ensure MOU compliance. In addition, the FMS cases for FMS-must items and any management or additional requirements purchased under an FMS case will fall under on-going DoD responsibility. The Korean Program Office will have USG program management personnel in place, as well as the Defense Audit and Administrative Contract Activities and an as yet unspecified level of Quality Assurance effort.

(U) - Question (6) (a) How will DOD ensure that the licenses are consistent with the terms of the MOU?

(U) ANSWER: The Department of Defense will place a statement in the approved export licenses to U.S. industry restricting them to the level of technology approved in the MOU.

(U) - Question (6) (b) Do the State Department and Commerce have to get DOD's approval for licenses?

(U) ANSWER: There is no legal requirement for the Department of State to obtain Defense Department approval for any USG export license. However, the export approval system in place provides for DOD review of significant export license requests. The KFP is considered significant in this regard.

(U) - Question (6) (c) Is there currently a formal agreement between the State Department, Commerce, and DOD for this purpose?

(U) ANSWER: The DOD, State and Commerce have an agreed system in place for the review of export licenses. Further, we are exploring with the State Department the implementation of a special coding and tracking system for all licenses associated with the KFP.

(U) - Question (7) When the program progresses into Phase III will any one person have overall responsibility for the program? If so, who?

(U) - ANSWER: The ROKG will have overall responsibility. Because the Koreans will receive training to run the program just as the USN, it is presumed that the ROKG will appoint a Program manager, just as is done in the US Services. Looking at another aspect of the question, however, we intend to continue to have USG personnel in place to monitor MOU compliance.

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QUESTIONS ON TECHNOLOGY TRANSFER

(U) - Question (1) How was the technology risk assessment conducted and what criteria is there for the releasability of items for licensed production?

(U) - ANSWER: The technology risk assessment was accomplished by the Department of the Navy and forwarded to OSD for appropriate inter and intra-agency reviews, (such as that accomplished by the Department of Commerce) in accordance with established DOD directives and guidance.

(U) - Question (2) What kinds of technology will not be available to the Koreans?

(U) - ANSWER: Neither design, nor developmental nor critical manufacture/process technology will be transferred in the areas of airframe, avionics and computer software, engine, special tooling, Special Test Equipment (STE), and Aircraft Ground Support Equipment (GSE).

(U) - Question (3) What technologies will the U.S. and its contractors transfer to the Koreans?

(U) - ANSWER: The KFP is not primarily an aerospace technology transfer program. The U.S. will sell 48 aircraft in end-item and kit form. We will authorize 72 aircraft for co-assembly with limited licensed production of aircraft components and subsystems. We structured the KFP program to limit any adverse effects on the U.S. high technology and defense industrial base. Much of the program is in direct end-item aircraft sales through the Foreign Military Sales process, with restrictions on specific key "high technology" avionic subsystems. The Koreans will receive the benefit of working with composites and some of the technologies associated with building a modern fighter. It should be noted that Korean industry is already performing most of the industrial processes associated with the program, e.g. actually producing modern fighter parts using 5-axis milling machines, coating technology, milling, grinding and finishing work on engine hot sections, etc.

(U) - Question (4) What level of technological capability will the Koreans have after this program is complete.

(U) - ANSWER: Korean industry has a limited history of aerospace programs. They have assembled MD-500 and Bell 212 helicopters and 68 F-5 fighters, have developed a major depot and repair facility for United States Air Force (USAF) F-4 and F-15 fighters, and are currently fabricating wet F-16 center fuselage sections, fuselage side panels, wire harnesses and composite ventral fins. Korean industry

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manufactures components for most commercial transport aircraft. The preponderance of manufacturing is primarily a continuation of current aircraft, engine and electronic capabilities. The successful completion of this program will hopefully leave elements of the Korean aerospace industry well qualified as sub-contractors. We estimate that the Korean aerospace industry will still be several years away from any major design or unassisted manufacturing effort.

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QUESTIONS ON INDUSTRIAL BASE IMPACT

(U) - Question (1) Did DOD evaluate the long-term impact this transaction is likely to have on our defense industrial base?

(U) - ANSWER: The Industrial Base Factors Analysis was accomplished by the Department of the Navy and forwarded to OSD for appropriate inter and intra agency review (such as Commerce) in accordance with established DOD directives and guidance. Normally such an analysis is accomplished later in the program cycle, when more details are known. For this reason, we are redoing the analysis now and will likely need to up-date it later when the industrial program is more firm.

(U) - Question (2) Did DOD request information from the Department of Commerce on the industrial base impact of the proposed MOU?

(U) ANSWER: The DOD requested information from the Department of Commerce on the industrial base impact of the proposed MOU. DOD regularly provides all MOUs to the Department of Commerce for industrial base impact review. The Department of Commerce polled the economic agencies for comment.

(U)- Question (3) What exactly did DOD ask for? Was your request formal? If not why not?

(U) Response: The Department of Defense has worked hand-in-glove with the Commerce Department on the Korean Fighter Program, beyond simple MOU coordination. Commerce and DOD representatives, at senior levels, have held, and continue to hold, on-going meetings and discussions on the direction and content of the KFP. Formally, DOD asked for a Department of Commerce review in accordance with 10 USC, Section 2504, which mandates recommendations on the program's effect to the U.S. industrial base. The request was accepted by Commerce as a formal DOD staffing of the MOU. However, DOD did not convey a specific cover memorandum to Commerce when the MOU was provided for staffing. Commerce in turn staffed the MOU with the interested economic Departments and Agencies of the USG. Commerce also did not convey a specific cover memorandum in this process.

(U)- Question (4) What did Commerce provide?

(U) ANSWER: Commerce provided formal written comments on the MOU in accordance with 10 USC Section 2504. Commerce

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judged no adverse impact on the industrial base on the United States in association with the KFP.

(U) - Question (5) Is DOD satisfied that the industrial base factors analysis is sufficient to ensure no one in DSAA is violating this law?

(U) - ANSWER: Yes, however, as noted in the answer to question 1, we believe that it is important to maintain a continuing look at the effects of this program on the industrial base as opposed to just producing an 'analysis for the auditors'.

(U) - Question (6) How soon do you expect the Koreans to become significant producers of aerospace parts and subsystems and compete with U.S. firms?

(U) - ANSWER: The Koreans currently produce aerospace parts and subsystems for commercial and military systems just as numerous other countries do. Korea supplies parts to the European aerospace industry as well. The U.S. and foreign companies compete in the market place to become suppliers to U.S. and foreign aerospace industries, just as in other industries. The important word here is "significant". An examination of a recent edition of *Jane's Aircraft of the World* will show that the United States has over 100 pages of description of its aerospace industry; Japan has about six pages and Korea has about a half page. It is doubtful that Korea will ever replace the United States as a "significant" force in the aerospace industry.

(U) - Question (7) Have any items been placed on the "must list" strictly for industrial base reasons? Which items?

(U) - ANSWER: No items were placed on the FMS-must for strictly industrial base reasons. The FMS-must list was aimed at the protection of technology, not industrial base. We recognize that one may argue that in protecting technology, one also protects the industrial base--thus leading on to the conclusion that the entire FMS-must list has an effect on efforts to protect the industrial base. The issue here is one of intent not effect.

(U) - Question (8) Are any items currently being purchased sole source for the F-18 for industrial base reasons? Which items? Are any of these not on the "must list". Which ones? If not, why not?

(U) - ANSWER: None to our knowledge. We asked the Navy to look at this question specifically, as did the GAO. While there are numerous items that are sole source, the motivation is not industrial base protection.

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(U) - Question (9) How will the offsets impact U.S. industry?

(U) - ANSWER: The KFP does not involve any buy-back of Korean KFP production for U.S. aircraft. U.S. suppliers will continue to supply parts and assemblies for the U.S. Navy and other customers. The KFP program has not been designed to create a U.S. marketplace for Korean products. The overall impact of the KFP to U.S. industry will be positive because it provides significant U.S. industry work content (23.7 million workhours; \$3.023B).

(U) - Question (10) How many Korean companies will get their start in the aerospace industry as a result of the KFP?

(U) - ANSWER: The U.S. companies are dealing with established Korean Industries. It is conceivable new Korean companies will come into being to support the Korean major contractors just as new companies develop to support and supply U.S. manufacturers.

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QUESTIONS ON OFFSETS

(U) - Question (1) How does DOD expect to ensure that Korea receives no more than 30 percent?

(U) - ANSWER: Specific projects will be identified and negotiated with the Koreans on a case-by-case basis by the contractor over a 10 year period, and will be subject to USG licensing and export control regulation. It should be noted that the offset program will be "counted" in terms of offset credits allowed by the Korean Government rather than on a strict one-for-one dollar basis. Offset credits are generally agreed on a sliding scale of ratios up to 5:1-- that is, a dollar of offset effort by a US firm may be credited as five dollars in terms of the offset commitment.

(U) - Question (2) Why did you choose 30 percent?

(U) - ANSWER: The 30% offset limit is established within Korean policy when dealing with U.S. manufacturers. Korean policy normally requires 60% for non-U.S. programs. The offset credit commitment, as negotiated by McDonnell-Douglas and General Electric, is 30% of their program contracts. For General Electric the offset credit goal is 30% of the value of the engines for the 120 aircraft (i.e. 96 engines from the 12-36 from the USN and 144 engines for the 72 licensed production aircraft) and initial spares.

(U) - Question (3) Does DOD expect to include coproduction in the offset agreement? If so, How?

(U) - ANSWER: The USG includes both coproduction and limited licensed production values in its consideration of the offset arrangement. It does this by comparing the dollar value of the program as executed with the dollar value of a complete off-the-shelf buy and insuring that the value to the US continues to be at least 70% of an off-the-shelf buy.

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QUESTIONS ON PROGRAM MANAGEMENT

(U) Question (1) Will DOD have an F-18 program office in Korea for the life of the program. What language in the MOU ensures this?

(C) ANSWER: The DOD anticipates that a program office will be maintained in Korea for the life of the program. The MOU addresses the establishment of such offices but does not specifically address their duration. This has been our experience with several such arrangements and we have no reason to believe that this one will be any different.

(U) - Question (2) Since there will likely be licensing agreements with numerous companies where would the representatives be located? Will we have U.S. representatives at each subcontractor location?

(U) - ANSWER: The USC currently has Government personnel assigned in Korea to perform Contract Administration Services to support the ongoing U.S. military aircraft repair currently contracted to Korean industry as well as to provide services for Korean suppliers to U.S. defense contractors. It is not feasible to have U.S. representatives at each subcontractor location. The same procedure is followed in the U.S. We note, of course, that the program is still being defined with respect to this level of detail.

(U) Question (3) Are the specifics covered in the MOU and do we know whether the Koreans will accept having U.S. representative at contractors and subcontractors until production is complete?

(U) ANSWER: The MOU addresses establishment of program offices mirrored to that of U.S. program offices. The MOU goes on to state that the DOD responsibilities are for the delivery of KFP items under LOAs, management of the KFP-- noting that MND agrees for U.S. contractors and USN people to provide technical and management assistance to the Korean program offices, configuration control and production validation. In that capacity USN representatives will be in place to monitor the necessary provisions of the MOU.

(U) - Question (4) Suppose Korea decides as it enters phase III it no longer needs U.S. government technical assistance. Can it terminate the FMS case?

(U) - ANSWER: The FMS case is established and paid for in advance. They can terminate the entire program or any part of the case at any time but would suffer termination liability costs and attendant program impact which may include program cancellation. Although they could terminate

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the technical assistance the risks to program success would be significant.

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QUESTIONS ON DIRECTED BUYBACKS

(U) - Question (1) How will DOD ensure this is in all licensing agreements?

(U) - ANSWER: DOD and State are developing procedures to ensure export license provisos are applied to all KFP licenses which forbid directed buybacks

(U) - Question (2) Can't the U.S. contractors subcontract directly to the Korean companies coproducing F-18 parts?

(U) - ANSWER: Yes, they can under the terms of the congressionally mandated Competition in Contracting Act (CICA), but not as a part of a mandated directed buy-back scheme.

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SEPARATE QUESTION FROM HEARING

(U) - Question Does Korea currently have a capability to produce parts and components that would be compatible with parts on an F-4, F-5 or F-14 aircraft? Will this F/A-18 deal give Korea a capability to produce components that may be compatible with these same aircraft?

(U) - ANSWER: Korean industry has assembled 68 F-5 fighters, and have developed a major depot and repair facility for United States Air Force (USAF) F-4s and F-15, and are currently fabricating F-16 center fuselage sections, fuselage side panels, wire harness and composite ventral fins. Korean industry manufactures components for most commercial transport aircraft. With this capability, there were no intelligence reports of diversion of Korean produced or procured aircraft parts or subsystems to Iran during the Iran-Iraq War. However, there were several reports of other, strategic allies diverting aircraft spare parts and munitions.

The F/A-18 LAU -115, BRU-32 and BRU-33 ejector (munitions carrying racks) would require aircraft and equipment changes to be adapted for the F-4, F-5 or F-14. It would be much easier for a foreign customer to build replacement spares or buy F-4 or F-5 spares from the large population of foreign users of those aircraft. It should be noted that Korea does have over 200 F-5's (some co-produced in Korea) and 36 F-4's if they wanted to supply spares for those aircraft they would do so today, regardless of the F/A-18 KFP.

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(U)- Question: Mr. Rudd, during pre-negotiations South Korea was conducting a competition between General Dynamics and McDonnell Douglas while simultaneously negotiating the ground rules for the MOU.

(U) (1) Would you describe the impact this approach has had on developing the draft MOU?

(U) Response: The ground rules for the MOU have remained the same through-out the competition process, selection process and MOU negotiation process. The MOU was designed to: a) control sensitive defense technology items through end item sale on a government-to-government basis (the FMS must list); b) contain provisions for a management structure; c) provide the new standard provisions for production validation; d) reaffirm U.S. controls for the transfer and retransfer of defense articles and services; and, e) affirm US rights to all technology improvements through the flowback provisions. The MOU further outlined the respective responsibilities of the Department of Defense and the Korean Ministry of National Defense in implementing the program.

(U) (2) Is the extent of pre-negotiations experienced on the KFP normal for a coproduction program?

(U) ANSWER: In terms of the MOU, most countries familiar with the MOU process, like our NATO allies, Japan, Australia, and Korea, engage in preliminary discussions on MOUs. In this regard the pre-discussions with Korea on the KFP program and on what the U.S. expected in the MOU were normal. However, it is difficult to say precisely what "Normal" is, since each program and its attendant discussion is virtually unique.

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QUESTIONS ON AGENCY COORDINATION

(U) - Question (1) What procedures are in place governing and prescribing when Commerce's role begins in the MOU process?

(U) - ANSWER: The Department of Defense coordinates all security assistance coproduction MOUs with the Department of Commerce. The MOU is coordinated with Commerce after DOD has completed its own internal review process. The MOU is then forwarded to Commerce for its own internal review process. If the coproduction program is of a significant nature, like the KFP, then Commerce is engaged earlier in the process. The Department of Defense is currently updating its internal directive for coproduction programs which will reflect the requirements of 10 USC, Section 2504.

(U) - Question (2) What is the status of the interagency agreement between the DOD and Commerce on procedures for coordination on MOUs?

(U) Response: There is a system in place for coordination of coproduction MOUs with the Department of Commerce; we are aware of no complaints by them about either the form or substance of the arrangements. We have developed a very good working relationship.

(U) - Question (3) According to the GAO, DOD did not consult with commerce on the KFP until May 1989. Why not.

(U) - ANSWER: The legislated requirement for consultation with Commerce was placed into effect 1 Oct 1988. For some time after that date there was notable discussion about how to effect the intent of the legislation, much of which centered about a program with Japan, the FS-X. Discussions with Korea between early October and May consisted of the delivery and explanation of the price proposals which were unrelated to MOU negotiations. When both DoD and Commerce were ready to focus on the KFP, in May 1989, then Commerce was fully briefed and integrated into the process.

(U) - Question (4) How many separate licensing agreements do you expect under the direct licensing phase of the program.

(U) - ANSWER: There will be one license to cover McDonnell-Douglas (and Northrop), the prime contractor. At this time, we estimate that there may be as many as 20 additional licenses to cover subcontractors

(U) - Question (5) What will the DOD be responsible for during phase III?

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(U) - ANSWER: A prime DoD responsibility will be to ensure MOU compliance. In addition, the FMS cases for FMS-must items and any management or additional requirements purchased under an FMS case will fall under on-going DoD responsibility. The Korean Program Office will have USG program management personnel in place, as well as the Defense Audit and Administrative Contract Activities and an as yet unspecified level of Quality Assurance effort.

(U) - Question (6) (a) How will DOD ensure that the licenses are consistent with the terms of the MOU?

(U) ANSWER: The Department of Defense will place a statement in the approved export licenses to U.S. industry restricting them to the level of technology approved in the MOU.

(U) - Question (6) (b) Do the State Department and Commerce have to get DOD's approval for licenses?

(U) ANSWER: There is no legal requirement for the Department of State to obtain Defense Department approval for any USG export license. However, the export approval system in place provides for DOD review of significant export license requests. The KFP is considered significant in this regard.

(U) - Question (6) (c) Is there currently a formal agreement between the State Department, Commerce, and DOD for this purpose?

(U) ANSWER: The DOD, State and Commerce have an agreed system in place for the review of export licenses. Further, we are exploring with the State Department the implementation of a special coding and tracking system for all licenses associated with the KFP.

(U) - Question (7) When the program progresses into Phase III will any one person have overall responsibility for the program? If so, who?

(U) - ANSWER: The ROKG will have overall responsibility. Because the Koreans will receive training to run the program just as the USN, it is presumed that the ROKG will appoint a Program manager, just as is done in the US Services. Looking at another aspect of the question, however, we intend to continue to have USG personnel in place to monitor MOU compliance.

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QUESTIONS ON TECHNOLOGY TRANSFER

(U) - Question (1) How was the technology risk assessment conducted and what criteria is there for the releasability of items for licensed production?

(U) - ANSWER: The technology risk assessment was accomplished by the Department of the Navy and forwarded to OSD for appropriate inter and intra-agency reviews, (such as that accomplished by the Department of Commerce) in accordance with established DOD directives and guidance.

(U) - Question (2) What kinds of technology will not be available to the Koreans?

(U) - ANSWER: Neither design, nor developmental nor critical manufacture/process technology will be transferred in the areas of airframe, avionics and computer software, engine, special tooling, Special Test Equipment (STE), and Aircraft Ground Support Equipment (GSE).

(U) - Question (3) What technologies will the U.S. and its contractors transfer to the Koreans?

(U) - ANSWER: The KFP is not primarily an aerospace technology transfer program. The U.S. will sell 48 aircraft in end-item and kit form. We will authorize 72 aircraft for co-assembly with limited licensed production of aircraft components and subsystems. We structured the KFP program to limit any adverse effects on the U.S. high technology and defense industrial base. Much of the program is in direct end-item aircraft sales through the Foreign Military Sales process, with restrictions on specific key "high technology" avionic subsystems. The Koreans will receive the benefit of working with composites and some of the technologies associated with building a modern fighter. It should be noted that Korean industry is already performing most of the industrial processes associated with the program, e.g. actually producing modern fighter parts using 5-axis milling machines, coating technology, milling, grinding and finishing work on engine hot sections, etc.

(U) - Question (4) What level of technological capability will the Koreans have after this program is complete.

(U) - ANSWER: Korean industry has a limited history of aerospace programs. They have assembled MD-500 and Bell 212 helicopters and 68 F-5 fighters, have developed a major depot and repair facility for United States Air Force (USAF) F-4 and F-15 fighters, and are currently fabricating wet F-16 center fuselage sections, fuselage side panels, wire harnesses and composite ventral fins. Korean industry

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manufactures components for most commercial transport aircraft. The preponderance of manufacturing is primarily a continuation of current aircraft, engine and electronic capabilities. The successful completion of this program will hopefully leave elements of the Korean aerospace industry well qualified as sub-contractors. We estimate that the Korean aerospace industry will still be several years away from any major design or unassisted manufacturing effort.

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QUESTIONS ON INDUSTRIAL BASE IMPACT

(U) - Question (1) Did DOD evaluate the long-term impact this transaction is likely to have on our defense industrial base?

(U) - ANSWER: The Industrial Base Factors Analysis was accomplished by the Department of the Navy and forwarded to OSD for appropriate inter and intra agency review (such as Commerce) in accordance with established DOD directives and guidance. Normally such an analysis is accomplished later in the program cycle, when more details are known. For this reason, we are redoing the analysis now and will likely need to up-date it later when the industrial program is more firm.

(U) - Question (2) Did DOD request information from the Department of Commerce on the industrial base impact of the proposed MOU?

(U) ANSWER: The DOD requested information from the Department of Commerce on the industrial base impact of the proposed MOU. DOD regularly provides all MOUs to the Department of Commerce for industrial base impact review. The Department of Commerce polled the economic agencies for comment.

(U)- Question (3) What exactly did DOD ask for? Was your request formal? If not why not?

(U) Response: The Department of Defense has worked hand-in-glove with the Commerce Department on the Korean Fighter Program, beyond simple MOU coordination. Commerce and DOD representatives, at senior levels, have held, and continue to hold, on-going meetings and discussions on the direction and content of the KFP. Formally, DOD asked for a Department of Commerce review in accordance with 10 USC, Section 2504, which mandates recommendations on the program's effect to the U.S. industrial base. The request was accepted by Commerce as a formal DOD staffing of the MOU. However, DOD did not convey a specific cover memorandum to Commerce when the MOU was provided for staffing. Commerce in turn staffed the MOU with the interested economic Departments and Agencies of the USG. Commerce also did not convey a specific cover memorandum in this process.

(U)- Question (4) What did Commerce provide?

(U) ANSWER: Commerce provided formal written comments on the MOU in accordance with 10 USC Section 2504. Commerce

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judged no adverse impact on the industrial base on the United States in association with the KFP.

(U) - Question (5) Is DOD satisfied that the industrial base factors analysis is sufficient to ensure no one in DSAA is violating this law?

(U) - ANSWER: Yes, however, as noted in the answer to question 1, we believe that it is important to maintain a continuing look at the effects of this program on the industrial base as opposed to just producing an 'analysis for the auditors'.

(U) - Question (6) How soon do you expect the Koreans to become significant producers of aerospace parts and subsystems and compete with U.S. firms?

(U) - ANSWER: The Koreans currently produce aerospace parts and subsystems for commercial and military systems just as numerous other countries do. Korea supplies parts to the European aerospace industry as well. The U.S. and foreign companies compete in the market place to become suppliers to U.S. and foreign aerospace industries, just as in other industries. The important word here is "significant". An examination of a recent edition of *Jane's Aircraft of the World* will show that the United States has over 100 pages of description of its aerospace industry; Japan has about six pages and Korea has about a half page. It is doubtful that Korea will ever replace the United States as a "significant" force in the aerospace industry.

(U) - Question (7) Have any items been placed on the "must list" strictly for industrial base reasons? Which items?

(U) - ANSWER: No items were placed on the FMS-must for strictly industrial base reasons. The FMS-must list was aimed at the protection of technology, not industrial base. We recognize that one may argue that in protecting technology, one also protects the industrial base--thus leading on to the conclusion that the entire FMS-must list has an effect on efforts to protect the industrial base. The issue here is one of intent not effect.

(U) - Question (8) Are any items currently being purchased sole source for the F-18 for industrial base reasons? Which items? Are any of these not on the "must list". Which ones? If not, why not?

(U) - ANSWER: None to our knowledge. We asked the Navy to look at this question specifically, as did the GAO. While there are numerous items that are sole source, the motivation is not industrial base protection.

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(U) - Question (9) How will the offsets impact U.S. industry?

(U) - ANSWER: The KFP does not involve any buy-back of Korean KFP production for U.S. aircraft. U.S. suppliers will continue to supply parts and assemblies for the U.S. Navy and other customers. The KFP program has not been designed to create a U.S. marketplace for Korean products. The overall impact of the KFP to U.S. industry will be positive because it provides significant U.S. industry work content (23.7 million workhours; \$3.023B).

(U) - Question (10) How many Korean companies will get their start in the aerospace industry as a result of the KFP?

(U) - ANSWER: The U.S. companies are dealing with established Korean Industries. It is conceivable new Korean companies will come into being to support the Korean major contractors just as new companies develop to support and supply U.S. manufacturers.

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QUESTIONS ON OFFSETS

(U) - Question (1) How does DOD expect to ensure that Korea receives no more than 30 percent?

(U) - ANSWER: Specific projects will be identified and negotiated with the Koreans on a case-by-case basis by the contractor over a 10 year period, and will be subject to USG licensing and export control regulation. It should be noted that the offset program will be "counted" in terms of offset credits allowed by the Korean Government rather than on a strict one-for-one dollar basis. Offset credits are generally agreed on a sliding scale of ratios up to 5:1-- that is, a dollar of offset effort by a US firm may be credited as five dollars in terms of the offset commitment.

(U) - Question (2) Why did you choose 30 percent?

(U) - ANSWER: The 30% offset limit is established within Korean policy when dealing with U.S. manufacturers. Korean policy normally requires 60% for non-U.S. programs. The offset credit commitment, as negotiated by McDonnell-Douglas and General Electric, is 30% of their program contracts. For General Electric the offset credit goal is 30% of the value of the engines for the 120 aircraft (i.e. 96 engines from the 12-36 from the USN and 144 engines for the 72 licensed production aircraft) and initial spares.

(U) - Question (3) Does DOD expect to include coproduction in the offset agreement? If so, How?

(U) - ANSWER: The USG includes both coproduction and limited licensed production values in its consideration of the offset arrangement. It does this by comparing the dollar value of the program as executed with the dollar value of a complete off-the-shelf buy and insuring that the value to the US continues to be at least 70% of an off-the-shelf buy.

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QUESTIONS ON PROGRAM MANAGEMENT

(U) Question (1) Will DOD have an F-18 program office in Korea for the life of the program. What language in the MOU ensures this?

(C) ANSWER: The DOD anticipates that a program office will be maintained in Korea for the life of the program. The MOU addresses the establishment of such offices but does not specifically address their duration. This has been our experience with several such arrangements and we have no reason to believe that this one will be any different.

(U) - Question (2) Since there will likely be licensing agreements with numerous companies where would the representatives be located? Will we have U.S. representatives at each subcontractor location?

(U) - ANSWER: The USG currently has Government personnel assigned in Korea to perform Contract Administration Services to support the ongoing U.S. military aircraft repair currently contracted to Korean industry as well as to provide services for Korean suppliers to U.S. defense contractors. It is not feasible to have U.S. representatives at each subcontractor location. The same procedure is followed in the U.S. We note, of course, that the program is still being defined with respect to this level of detail.

(U) Question (3) Are the specifics covered in the MOU and do we know whether the Koreans will accept having U.S. representative at contractors and subcontractors until production is complete?

(C) ANSWER: The MOU addresses establishment of program offices mirrored to that of U.S. program offices. The MOU goes on to state that the DOD responsibilities are for the delivery of KFP items under LOAs, management of the KFP-- noting that MND agrees for U.S. contractors and USN people to provide technical and management assistance to the Korean program offices, configuration control and production validation. In that capacity USN representatives will be in place to monitor the necessary provisions of the MOU.

(U) - Question (4) Suppose Korea decides as it enters phase III it no longer needs U.S. government technical assistance. Can it terminate the FMS case?

(U) - ANSWER: The FMS case is established and paid for in advance. They can terminate the entire program or any part of the case at any time but would suffer termination liability costs and attendant program impact which may include program cancellation. Although they could terminate

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the technical assistance the risks to program success would be significant.

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QUESTIONS ON DIRECTED BUYBACKS

(U) - Question (1) How will DOD ensure this is in all licensing agreements?

(U) - ANSWER: DOD and State are developing procedures to ensure export license provisos are applied to all KFP licenses which forbid directed buybacks

(U) - Question (2) Can't the U.S. contractors subcontract directly to the Korean companies coproducing F-18 parts?

(U) - ANSWER: Yes, they can under the terms of the congressionally mandated Competition in Contracting Act (CICA), but not as a part of a mandated directed buy-back scheme.

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SEPARATE QUESTION FROM HEARING

(U) - Question Does Korea currently have a capability to produce parts and components that would be compatible with parts on an F-4, F-5 or F-14 aircraft? Will this F/A-18 deal give Korea a capability to produce components that may be compatible with these same aircraft?

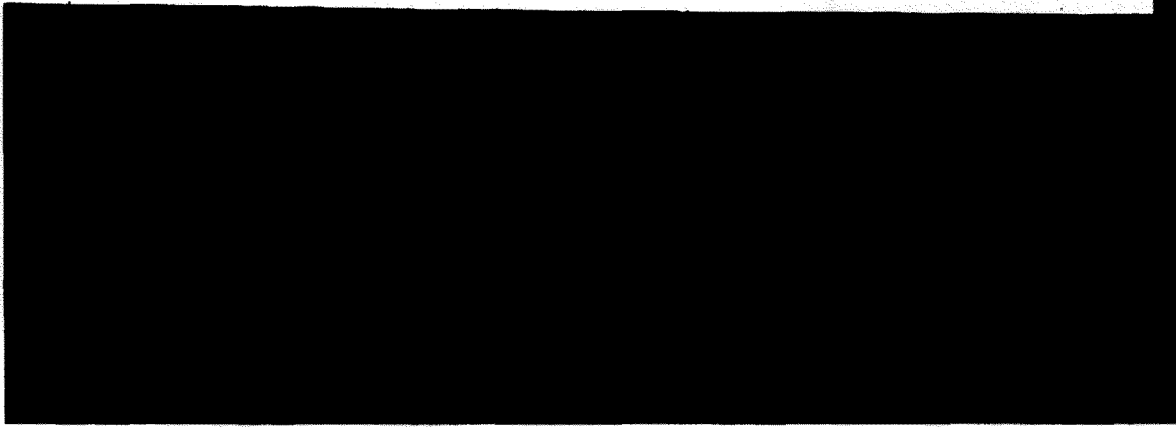
(U) - ANSWER: Korean industry has assembled 68 F-5 fighters, and have developed a major depot and repair facility for United States Air Force (USAF) F-4s and F-15, and are currently fabricating F-16 center fuselage sections, fuselage side panels, wire harness and composite ventral fins. Korean industry manufactures components for most commercial transport aircraft. With this capability, there were no intelligence reports of diversion of Korean produced or procured aircraft parts or subsystems to Iran during the Iran-Iraq War. However, there were several reports of other, strategic allies diverting aircraft spare parts and munitions.

The F/A-18 LAU -115, BRU-32 and BRU-33 ejector (munitions carrying racks) would require aircraft and equipment changes to be adapted for the F-4, F-5 or F-14. It would be much easier for a foreign customer to build replacement spares or buy F-4 or F-5 spares from the large population of foreign users of those aircraft. It should be noted that Korea does have over 200 F-5's (some co-produced in Korea) and 36 F-4's if they wanted to supply spares for those aircraft they would do so today, regardless of the F/A-18 KFP.

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STATEMENT OF PAUL WOLFOWITZ
UNDER SECRETARY OF DEFENSE FOR POLICY
BEFORE THE SENATE ARMED SERVICES COMMITTEE

APRIL 19, 1990



GOOD MORNING MR. CHAIRMAN, DISTINGUISHED MEMBERS OF THE COMMITTEE. I AM PLEASED TO BE HERE TODAY TO PRESENT THE PRESIDENT'S REPORT ON OUR STRATEGIC VISION FOR EAST ASIA. THE REPORT THAT WE WILL BE DISCUSSING TODAY IS INTENDED TO GUIDE THE DEVELOPMENT OF OUR POLICIES, DEPLOYMENTS AND FORCE STRUCTURE IN ASIA THROUGH THE NEXT DECADE.

THIS REPORT IS SUBMITTED IN RESPONSE TO A REQUIREMENT CONTAINED IN THE NUNN-WARNER AMENDMENT TO THE FY90 AUTHORIZATION BILL, AND A SIMILAR REQUIREMENT IN THE FY90 APPROPRIATIONS BILL. YOU HAVE NO DOUBT HEARD COMPLAINTS FROM THE EXECUTIVE BRANCH ON THE SUBJECT OF CONGRESSIONAL REPORTING REQUIREMENTS, BUT I CAN TELL YOU THAT THIS IS ONE REPORTING REQUIREMENT THAT WAS WELCOMED ENTHUSIASTICALLY AS AN OPPORTUNITY TO WORK COOPERATIVELY WITH BOTH THE CONGRESS AND OUR ALLIES IN A NEW STRATEGIC FRAMEWORK FOR THE PACIFIC RIM. THE PROCESS OF PREPARING THIS REPORT HAS BEEN EXCEPTIONALLY PRODUCTIVE.

I WOULD LIKE TO COMMEND THE CONGRESS, IN PARTICULAR THIS COMMITTEE AND THE DEFENSE APPROPRIATIONS SUBCOMMITTEE, FOR ITS CONSTRUCTIVE ROLE IN THIS REVIEW PROCESS. AT A TIME WHEN WE WERE THINKING ABOUT THE FUTURE DIRECTION OF OUR ASIAN STRATEGY, THIS REPORT HELPED US TO FOCUS OUR EFFORTS, AS WELL AS PROVIDING THAT MOST USEFUL OF MANAGEMENT TOOLS -- A DEADLINE, WHICH WE

ALMOST MET. THROUGHOUT THE REVIEW, WE HAVE WORKED WITH SENATORS AND THEIR STAFF TO IDENTIFY AREAS OF CONCERN IN WHAT I BELIEVE HAS BEEN A STERLING EXAMPLE OF EXECUTIVE-LEGISLATIVE COOPERATION.

I WOULD ALSO LIKE TO COMMEND OUR ALLIES IN THE ASIA-PACIFIC REGION FOR THEIR COOPERATION IN THIS PROCESS. DURING SECRETARY CHENEY'S TRIP, AND IN THE COURSE OF OUR ONGOING CONSULTATIONS, WE HAVE OBTAINED THEIR SUPPORT AND AGREEMENT IN PRINCIPLE FOR THE GOALS WE WILL OUTLINE TODAY. IT IS PRIMARILY THANKS TO THE WILLINGNESS OF OUR ALLIES TO ASSUME A GREATER SHARE OF THE DEFENSE BURDEN, THAT WE ARE ABLE TO SUGGEST THE FORCE REDUCTIONS WE ARE PRESENTING TO YOU TODAY.

MR. CHAIRMAN, THERE IS ALLEGEDLY A CHINESE CURSE WHICH GOES, "MAY YOU LIVE IN INTERESTING TIMES." I THINK WE WOULD ALL AGREE THAT WE DO LIVE IN INTERESTING TIMES -- BUT THAT THESE TIMES ARE A GREAT BLESSING, NOT A CURSE. WE ALL HOPE AND EXPECT THAT THE VERY GREAT PROMISE UNLEASHED BY EVENTS IN THE SOVIET UNION AND EASTERN EUROPE WILL BRING GREAT BENEFITS TO THE WHOLE WORLD.

BUT THE FACT IS THAT THE WELCOME TRENDS WE HAVE SEEN IN EUROPE HAVE NOT TRANSFORMED THE SECURITY SITUATION IN ASIA AS DRAMATICALLY AS THEY HAVE TRANSFORMED THE EUROPEAN LANDSCAPE. THREATS TO US INTERESTS REMAIN, BOTH SOVIET AND NON-SOVIET. MOREOVER, THE SECURITY SITUATION IN THE PACIFIC IS MORE COMPLEX AND MULTI-POLAR THAN IN EUROPE. CONSEQUENTLY, THE U.S. SECURITY

POSITION IS DIFFERENT FROM WHAT IT HAS BEEN HISTORICALLY IN EUROPE AND OUR FORCES PERFORM A GREATER VARIETY OF ROLES. THEREFORE, IT IS IMPORTANT, AS WE ADJUST OUR FORCES IN ASIA, THAT WE DO SO IN A RESPONSIBLE, MEASURED FASHION, WITHOUT LOSING SIGHT OF OUR ENDURING GOALS IN THE REGION, AND WITHOUT SENDING A SIGNAL -- A FALSE AND DANGEROUS SIGNAL -- THAT WE ARE WITHDRAWING FROM ASIA.

FOR ASIA IS TOO IMPORTANT, POLITICALLY IMPORTANT, ECONOMICALLY IMPORTANT, AND IMPORTANT FOR OUR SECURITY. I THINK YOU ARE ALL FAMILIAR WITH THE STATISTICS. THE ASIA-PACIFIC REGION NOW ACCOUNTS FOR 37% OF ALL U.S. TRADE. OUR TRADE WITH ASIA IS 50% GREATER THAN OUR TRADE WITH EUROPE, AND HAS EXCEEDED TRADE WITH EUROPE FOR SIXTEEN CONSECUTIVE YEARS. JAPAN AND THE UNITED STATES TOGETHER PRODUCE 40% OF THE WORLD'S GNP. AND THE ECONOMIES OF ASIA CONTINUE TO GROW AT A RATE WELL ABOVE THOSE OF EUROPE, A TREND LIKELY TO CONTINUE FOR THE FORESEEABLE FUTURE. IF THERE IS A "BOTTOM LINE" TO WHAT I WILL BE TELLING YOU TODAY, IT IS THAT, WHILE WE CAN ADJUST OUR FORCE LEVELS AND PLAN TO DO SO, WE MUST MAINTAIN A CREDIBLE PRESENCE IN THIS REGION IF WE ARE TO REMAIN A WORLD POWER, PROTECT OUR NATIONAL INTERESTS, AND PRESERVE A SECURE ENVIRONMENT IN WHICH DEMOCRACY AND FREE ECONOMIES CAN PROSPER.

THE HISTORICAL STRATEGIC ENVIRONMENT

AT THE END OF THE SECOND WORLD WAR, THE UNITED STATES WAS THE PREDOMINANT PACIFIC POWER, BOTH MILITARILY AND ECONOMICALLY. WE HELD THIS POSITION ESSENTIALLY UNCHALLENGED FOR OVER TWO DECADES. OUR NATIONAL SECURITY OBJECTIVES CENTERED ON DEFENDING AMERICAN TERRITORY AS FAR FORWARD AS POSSIBLE, CONTAINING THE SOVIET UNION, AND PROTECTING STRATEGIC ALLIES. THE BASIC TENET OF OUR MILITARY STRATEGY, DICTATED IN LARGE MEASURE BY TIME-DISTANCE FACTORS, HAS BEEN FORWARD DEPLOYED FORCES AND THE MAINTENANCE OF A BASE INFRASTRUCTURE PRIMARILY IN JAPAN, KOREA AND THE PHILIPPINES.

IN ADDITION TO OUR MILITARY PRESENCE, WE HAVE ENTERED INTO SECURITY RELATIONSHIPS WITH A NUMBER OF ALLIES AND FRIENDS. BECAUSE OF THE DIVERSITY OF CULTURES, POLITICAL SYSTEMS, AND LEVELS OF ECONOMIC DEVELOPMENT, WHICH MADE A SINGLE COLLECTIVE STRUCTURE SUCH AS NATO IMPRACTICAL, WE CULTIVATED A SET OF SECURITY ARRANGEMENTS THAT WERE PRIMARILY BILATERAL RATHER THAN MULTILATERAL.

THIS STRATEGY HAS GENERALLY BEEN SUCCESSFUL. IN ADDITION TO PERFORMING OUR MOST WIDELY RECOGNIZED MISSION OF CONTAINING THE SOVIET UNION, WE HAVE ALSO DETERRED THE OUTBREAK OF ANOTHER WAR ON THE KOREAN PENINSULA. MORE BROADLY, OUR PRESENCE HAS CONTRIBUTED TO REGIONAL PEACE AND STABILITY, BY PROVIDING BALANCE AND INSURING THAT NO SINGLE STATE ASSUMED A PREDOMINANT

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MILITARY POSITION. OUR SECURITY PRESENCE HAS PROVIDED AN ENVIRONMENT IN WHICH NATIONS COULD FEEL SUFFICIENTLY CONFIDENT OF THEIR OWN SECURITY, TO TURN AWAY FROM MILITARISM AND AUTHORITARIANISM, AND TOWARD DEMOCRATIC POLITICAL SYSTEMS AND FREE MARKET ECONOMIES. MOREOVER, OUR GLOBAL SUPERPOWER STATUS AND OUR REGIONAL MILITARY PRESENCE HAVE STRENGTHENED OUR INFLUENCE IN REGIONAL AFFAIRS.

POTENTIAL THREATS AND THE CHANGING SECURITY ENVIRONMENT

THE 1990'S WILL BE A DECADE OF GREAT CHANGE AND POTENTIAL INSTABILITY IN THE ASIA-PACIFIC REGION. SOME OF THE MAJOR ASIAN POWERS -- CHINA AND THE SOVIET UNION -- FACE DIFFICULT PERIODS OF TRANSITION. CAMBODIA AND THE PHILIPPINES EACH FACE THEIR OWN KINDS OF TURBULENCE AND INSTABILITY. AND NORTH KOREA REMAINS ONE OF THE MOST RECKLESS AND DANGEROUS ACTORS ON THE INTERNATIONAL SCENE. THESE POLITICAL UNCERTAINTIES WILL BE EXACERBATED BY THE MAJOR CHANGES IN LEADERSHIP THAT WILL OCCUR IN COUNTRIES AS DIFFERENT AS CHINA, NORTH KOREA, SINGAPORE, AND INDONESIA.


INTENSIFIED ECONOMIC COMPETITION WITHIN THE REGION AND WITH THE UNITED STATES WILL FURTHER COMPLICATE SECURITY RELATIONSHIPS. MOSCOW WILL UNDOUBTEDLY BE A MORE ACTIVE PLAYER AS IT SEEKS TO IMPROVE TIES WITH BEIJING AND OBTAIN FINANCIAL AND TECHNOLOGICAL AID FROM JAPAN AND SOUTH KOREA.

WE SEE SOME WELCOME CHANGES IN SOVIET POLICY IN THE REGION -- NOT AS DRAMATIC, CERTAINLY, AS THOSE IN EASTERN EUROPE, BUT WELCOME NONETHELESS. PRESIDENT GORBACHEV HAS ANNOUNCED UNILATERAL FORCE REDUCTIONS THAT SHOULD SIGNIFICANTLY REDUCE MOSCOW'S OFFENSIVE CAPABILITY AGAINST THE PEOPLES' REPUBLIC OF CHINA. THE SOVIETS ARE ALSO REDUCING THEIR FORCE POSTURE IN SOUTHEAST ASIA BY WITHDRAWING AIRCRAFT AND SHIPS FROM CAM RANH BAY, AND WE HAVE SEEN REDUCTIONS IN OUT-OF-AREA ACTIVITIES IN THE PACIFIC.

AT THE SAME TIME, FORCE LEVELS IN THE SOVIET FAR EAST MILITARY DISTRICT, PARTICULARLY SOVIET CAPABILITIES FACING JAPAN, STILL FAR EXCEED THOSE NEEDED FOR DEFENSE. WHILE WE EXPECT TO SEE REDUCTIONS IN NUMBERS OF SHIPS, POSSIBLY LARGE REDUCTIONS, AS OLDER SHIPS ARE RETIRED, SOVIET COMBAT CAPABILITY IN MANY WAYS IS ACTUALLY IMPROVING AS A RESULT OF MODERNIZATION.

THE U.S.-JAPAN RELATIONSHIP REMAINS THE CRITICAL LINCHPIN OF OUR ASIAN SECURITY STRATEGY. THIS RELATIONSHIP, HOWEVER, COULD BE FURTHER STRAINED DURING THE DECADE BY PERSISTENT TRADE PROBLEMS. JAPAN WILL SEEK A GREATER ROLE IN INTERNATIONAL DECISION-MAKING, PRINCIPALLY IN THE ECONOMIC ARENA, BUT ALSO ON POLITICAL ISSUES IN WHICH TOKYO HAS SPECIAL INTERESTS -- PARTICULARLY ASIAN ISSUES.

THE KOREAN PENINSULA WILL REMAIN ONE OF THE MOST POTENTIALLY EXPLOSIVE AREAS IN THE WORLD. THE NORTH RETAINS ITS STATED GOAL



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OF REUNIFICATION, AND DEVOTES AN EXTRAORDINARY PERCENTAGE OF ITS NATIONAL WEALTH TO MAINTAINING A MILLION MAN MILITARY AT THE EXPENSE OF THE WELFARE OF ITS CITIZENS. BOTH SIDES WILL CONTINUE TO ENGAGE IN COMPETING MILITARY MODERNIZATION PROGRAMS, WITH THE SOVIET UNION REMAINING THE PRIMARY SOURCE OF SOPHISTICATED WEAPONRY FOR PYONGYANG. WE ARE ALSO VERY CONCERNED ABOUT NORTH KOREA'S NUCLEAR PROGRAM.

WHILE IT IS TRUE THAT SEOUL IS ECONOMICALLY CAPABLE OF MATCHING PYONGYANG'S MILITARY BUILDUP, I DON'T THINK ANY OF US SHOULD WANT TO SEE SOUTH KOREA FORCED INTO THE SAME DEMENTED MILITARISM AS ITS NEIGHBOR. THE ALREADY TENSE SITUATION ON THE PENINSULA IS EXACERBATED BY THE UNCERTAINTY SURROUNDING THE NORTH KOREAN SUCCESSION, WHICH COULD LEAD TO GREAT INSTABILITY, INCLUDING THE USE OF MILITARY FORCE OR TERRORISM.

CHINESE POLITICAL DYNAMICS WILL REMAIN VOLATILE AS DENG XIAOPING PASSES FROM THE SCENE AND VARIOUS FACTIONS CONTEND FOR CONTROL. BEIJING'S OVERALL FOREIGN POLICY ORIENTATION WILL PROBABLY REMAIN GROUNDED IN ITS MODERNIZATION STRATEGY, WHICH CALLS FOR A "PEACEFUL INTERNATIONAL ENVIRONMENT" AND WHICH ALLOWS TRADE WITH EVEN IDEOLOGICAL FOES SUCH AS JAPAN AND SOUTH KOREA. HOWEVER, SOME OLDER LEADERS, MORE CONSERVATIVE IN OUTLOOK, APPEAR WILLING TO RETURN TO MORE ISOLATIONIST POLICIES OF "SELF-RELIANCE." BEIJING'S POLICIES TOWARD HONG KONG, TAIWAN, AND VIETNAM WILL ALSO REMAIN MATTERS OF CONCERN FOR THE ENTIRE REGION.

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IN SOUTHEAST ASIA, THE OUTLOOK FOR CONTINUED GROWTH AND STABILITY IS GENERALLY GOOD, WITH SEVERAL NOTABLE EXCEPTIONS. NO LASTING RESOLUTION TO THE CAMBODIAN PROBLEM IS IN SIGHT. VIETNAM'S FOREIGN AND ECONOMIC POLICY INTENTIONS ARE UNKNOWN AND POTENTIALLY DESTABILIZING. THE PHILIPPINES CONTINUE TO EXPERIENCE NUMEROUS CHALLENGES, AND THE FUTURE OF U.S. BASES THERE IS UNCERTAIN.

OTHER LONGSTANDING REGIONAL PROBLEMS REMAIN POTENTIAL SOURCES OF INSTABILITY: UNRESOLVED TERRITORIAL ISSUES, INCLUDING THE SPRATLY AND PARACEL ISLANDS; RACIAL AND ETHNIC TENSIONS; AND HISTORICAL ENMITIES BETWEEN VARIOUS ASIAN STATES. THE GROWING PROMINENCE OF NEW REGIONAL POWERS, SUCH AS INDIA, COULD CAUSE ANXIETY. PROLIFERATION OF MODERN WEAPONRY AND MISSILE TECHNOLOGY COULD HELP TURN MINOR DISPUTES INTO CONFLICTS OF REGIONAL CONCERN. DESTABILIZING ARMS SALES AND TECHNOLOGY TRANSFER, BOTH TO AND FROM THE REGION, WILL CONTINUE. FINALLY, ILLEGAL NARCOTICS TRAFFICKING WILL POSE A MAJOR PROBLEM.

REGIONAL INTERESTS AND THE U.S. ROLE

IN THE CHANGING GLOBAL AND REGIONAL ENVIRONMENT OF THE 1990'S, WE EXPECT THE RISK OF MILITARY CONFRONTATION BETWEEN THE SUPERPOWERS TO DIMINISH. AS IT DOES, ANOTHER ASPECT OF OUR MILITARY PRESENCE IN THE REGION -- THE ROLE OF REGIONAL BALANCER, HONEST BROKER, AND ULTIMATE SECURITY GUARANTOR -- WILL

ASSUME GREATER RELATIVE IMPORTANCE. OVER THE NEXT DECADE, OUR PRESENCE WILL CONTINUE TO BE THE REGION'S IRREPLACEABLE BALANCING WHEEL.

IN CONSIDERING THE CONSEQUENCES OF A U.S. WITHDRAWAL FROM THE REGION, ONE QUESTION WE MUST ASK OURSELVES IS, WHO ELSE COULD PLAY THAT BALANCING ROLE? WHO WOULD WE WANT TO PLAY THAT ROLE? A REDUCED U.S. COMMITMENT TO THE REGION -- WHETHER PERCEIVED OR REAL-- WOULD CREATE A SECURITY VACUUM THAT OTHER COUNTRIES WOULD BE TEMPTED, OR MIGHT FEEL COMPELLED, TO FILL. THIS COULD LEAD TO REGIONAL ARMS RACES AND POSSIBLE MILITARY CONFRONTATION. OUR POLICIES -- POLITICAL, ECONOMIC, AND SECURITY -- MUST BE DESIGNED TO PREVENT A VACUUM OCCURRING, AND TO SUPPORT OUR UNIQUE AND CENTRAL STABILIZING ROLE.

A STRATEGIC FRAMEWORK FOR THE 1990'S AND BEYOND

OUR FORWARD DEPLOYED FORCES IN ASIA CONSTITUTE ONLY 6.3% OF OUR TOTAL MILITARY FORCES. THIS RELATIVELY SMALL INVESTMENT ENSURES A RAPID AND FLEXIBLE RESPONSE CAPABILITY; ALLOWS OUR ALLIES TO SHARE IN DEFENSE COSTS; PROVIDES AN EFFECTIVE LOGISTICS BASE; AND DEMONSTRATES TO OUR ALLIES AND POTENTIAL ENEMIES A VISIBLE U.S. COMMITMENT.

WITHOUT THE FRAMEWORK OF FORWARD DEPLOYMENTS, WE WOULD NOT BE ABLE TO DO SO MUCH, FOR SO MANY, WITH SO FEW, IF I MAY TAKE LIBERTIES WITH CHURCHILL'S IMMORTAL WORDS. HOWEVER, WITHIN THAT

FRAMEWORK, WE ARE CONFIDENT THAT WE CAN PROCEED WITH SOME MEASURED REDUCTIONS IN OUR FORCE POSTURE. WITHIN OUR CURRENT BASE AND DEPLOYMENT STRUCTURE, THERE IS ROOM FOR SIGNIFICANT EFFICIENCIES IN OUR GROUND FORCES, AND SOME OF OUR AIR FORCES, IN KOREA, JAPAN AND THE PHILIPPINES. THIS IS TRUE, NOT PRIMARILY BECAUSE OF CHANGES IN THE THREAT, BUT BECAUSE OF THE STRENGTH OF OUR ALLIES AND THE PROGRESS THEY ARE MAKING IN LOOKING TO THEIR OWN DEFENSE NEEDS.

FOR EXAMPLE, IN THE REPUBLIC OF KOREA, WHILE TAKING CARE NOT TO SEND THE WRONG SIGNALS TO THE LEADERSHIP IN PYONGYANG, WE WILL BEGIN TO DRAW DOWN GROUND PRESENCE AND MODIFY COMMAND STRUCTURES TO BEGIN A TRANSITION FOR US FORCES FROM A LEADING TO A SUPPORTING ROLE. IN ADDITION TO GROUND FORCE RESTRUCTURING, SOME REDUCTION IN OUR AIR FORCE PRESENCE WILL ALSO BE POSSIBLE, AS KOREAN, AIR FORCE CAPABILITIES IMPROVE. WE WILL CONTINUE TO ENCOURAGE THE KOREANS TO INCREASE THEIR DEFENSE SPENDING -- NOT ONLY TO COMPENSATE FOR OUR REDUCTIONS, BUT ALSO TO INCREASE THEIR CONTRIBUTION TO THE COST OF OUR REMAINING IN-COUNTRY PRESENCE. AT EACH STEP OF THIS PROCESS, WE WILL BE KEEPING A CLOSE EYE ON DEVELOPMENTS IN THE OVERALL MILITARY BALANCE ON THE PENINSULA.

IN JAPAN, WHICH HAS COMMITTED TO PLAYING A GREATER ROLE IN ITS OWN DEFENSE, WE CAN ACHIEVE ADDITIONAL ADJUSTMENTS THROUGH UNIT EFFICIENCIES AND OVERHEAD REDUCTIONS. WE DO INTEND TO MAINTAIN OUR CURRENT INFRASTRUCTURE, PARTICULARLY: OUR FORCES

BASED AT MISAWA, WHICH SERVE AS A DETERRENT AGAINST THE SOVIET UNION; OUR KEY LOGISTICS HUB AT YOKOTA AIR BASE, WHICH SUPPORTS GLOBAL AND REGIONAL CONTINGENCIES; AND OUR NAVAL FACILITIES AT YOKOSUKA, WHICH ALLOW US TO KEEP AN ENTIRE CARRIER BATTLE GROUP FORWARD DEPLOYED. WE WILL ALSO CONTINUE TO ENCOURAGE JAPANESE FORCE IMPROVEMENTS DESIGNED TO MEET OUR AGREED ROLES AND MISSIONS CONCEPTS, AND SEEK INCREASED COST SHARING.

IN SOUTHEAST ASIA, OUR PROJECTIONS ARE CLOUDED BY A VARIETY OF UNCERTAINTIES, INCLUDING THE OUTCOME OF THE PHILIPPINE BASE NEGOTIATIONS AND THE UNSETTLED CAMBODIAN SITUATION. WHILE WE WILL ATTEMPT TO RETAIN OUR MILITARY FACILITIES IN THE PHILIPPINES, WE MUST ALSO EXPLORE ALTERNATIVE ARRANGEMENTS -- REDEPLOYMENT TO U.S. BASES ELSEWHERE IN ASIA AND THE PACIFIC, COMPLEMENTED BY EXPANDED ACCESS AGREEMENTS SUCH AS THOSE WE ARE CURRENTLY PURSUING WITH SINGAPORE. WHILE SUCH EXPANDED ACCESS ARRANGEMENTS DO NOT OFFER AS MUCH CAPABILITY AS PERMANENT BASES, THEY COULD ADVANCE THE OBJECTIVES OF INCREASING REGIONAL DEFENSE COOPERATION AND ENSURING OUR CONTINUED PRESENCE IN THE REGION.

AS WE LOOK TO THE FUTURE, IT IS CLEAR THAT THE BEST APPROACH WILL REQUIRE A COMBINATION OF CAUTION AND INNOVATION IN ORDER TO ADJUST TO REGIONAL CHANGES WHILE PRESERVING THE REQUIRED U.S. PRESENCE. THE WILLINGNESS OF OUR ALLIES TO ASSUME A GREATER ROLE IS CRITICAL FOR THIS PROCESS TO CONTINUE. WE BELIEVE THAT A PHASED APPROACH, WHICH ALLOWS US TO PACE OUR REDUCTIONS TO REGIONAL DEVELOPMENTS AND REACTIONS, IS THE SOUNDEST MEANS OF

ACCOMPLISHING OUR OBJECTIVES. WHILE A NATIONAL SECURITY REVIEW PROCESS WILL BE CONDUCTED AT THE END OF EACH PHASE TO DETERMINE HOW BEST TO PROCEED, IN BROAD TERMS, WE ENVISION THE FOLLOWING:

PHASE I IS EXPECTED TO LAST FROM ONE TO THREE YEARS (1990-1992). DURING THIS PHASE, WE WILL STREAMLINE THE EXISTING FORCE STRUCTURE AND BEGIN REARRANGING COMMAND RELATIONSHIPS, PARTICULARLY IN KOREA.

- OVER THESE THREE YEARS, WE WILL, IN A BALANCED AND MEASURED WAY, RESTRUCTURE AND REDUCE FORCES IN THE REGION, WHILE MAINTAINING OUR ABILITY TO MEET OUR SECURITY COMMITMENTS.

PHASE II SHOULD EXTEND FROM THREE TO FIVE YEARS OUT (1993-1995). IN THIS PHASE WE PLAN TO REDUCE AND REORGANIZE THE FORCE STRUCTURE FURTHER.

- DURING THIS PHASE, REDUCTIONS IN COMBAT FORCES WILL BE UNDERTAKEN INCREMENTALLY, TO ENSURE THAT POTENTIAL ADVERSARIES DO NOT MISREAD OUR DETERRENT CAPABILITY AND INTENTIONS.

DURING THE THIRD AND FINAL PHASE (1995-2000) WE HOPE TO BE ABLE TO FURTHER STREAMLINE FORCES AND STABILIZE AT A SOMEWHAT LOWER LEVEL AS CIRCUMSTANCES PERMIT. SPECIFICALLY IN KOREA, WE ANTICIPATE THAT, BY THIS TIME, THE U.S. FORCES WILL BE CLEARLY IN A SUPPORTING ROLE, WITH THE SOUTH KOREAN MILITARY IN A LEADING ROLE ON THE PENINSULA.

I WOULD BRIEFLY LIKE TO EXPAND ON OUR PLANS WITH RESPECT TO THE SPECIFIC COUNTRIES WHERE WE HAVE A FORWARD DEPLOYED PRESENCE. SINCE OUR FORCES IN THE REPUBLIC OF KOREA HAVE RECEIVED THE MOST PUBLIC ATTENTION OVER THE PAST YEAR, LET ME BEGIN THERE.

THE KOREAN PENINSULA REPRESENTS SPECIAL PROBLEMS FOR OUR ASIA-PACIFIC STRATEGY FRAMEWORK. OUR SPECIFIC BILATERAL SECURITY OBJECTIVES ARE TO:

- DETER NORTH KOREAN AGGRESSION OR DEFEAT IT IF DETERRENCE FAILS;
- REDUCE POLITICAL AND MILITARY TENSIONS ON THE PENINSULA BY ENCOURAGING NORTH-SOUTH TALKS AND THE INSTITUTION OF A CONFIDENCE BUILDING MEASURES (CBM) REGIME; AND
- SHIFT U.S. FORCES ON THE PENINSULA FROM A LEADING TO A SUPPORTING ROLE, INCLUDING SOME FORCE REDUCTIONS.

DURING PHASE I, WE WILL BEGIN STREAMLINING OUR PRESENCE BY REDUCING ADMINISTRATIVE OVERHEAD AND PHASING OUT UNITS WHOSE MISSION CAN BE ASSUMED BY THE ROK ARMED FORCES. HOWEVER, THE COMBAT CAPABILITIES, AND THUS THE DETERRENT VALUE, OF THE 2D INFANTRY DIVISION WILL REMAIN ESSENTIALLY INTACT. WE BELIEVE THE INCREASED CAPABILITIES OF OUR SOUTH KOREAN ALLIES WILL

PERMIT US TO REDUCE OUR PRESENCE ON THE PENINSULA BY ABOUT 2000 AIR FORCE AND 5000 GROUND FORCE PERSONNEL DURING THE NEXT THREE YEARS.

TOWARD THE END OF PHASE I, WE WILL REEXAMINE THE NORTH KOREAN THREAT, EVALUATE THE PROGRESS AND EFFECTS OF THE CHANGES OUTLINED ABOVE, AND CONSIDER NEW OBJECTIVES TO BE ESTABLISHED FOR PHASE II. AT THIS POINT, IF THE STATE OF NORTH-SOUTH RELATIONS AND IMPROVEMENTS IN SOUTH KOREAN MILITARY CAPABILITIES PERMIT, WE WILL LOOK AT RESTRUCTURING THE 2D INFANTRY DIVISION.

AT THE COMPLETION OF THE FIRST TWO PHASES, THE KOREANS SHOULD BE READY TO TAKE THE LEAD ROLE IN THEIR OWN DEFENSE. AS THAT HAPPENS, FEWER U.S. FORCES WOULD BE REQUIRED TO MAINTAIN DETERRENCE AND OTHERS MAY BE WITHDRAWN.

OUR MOST IMPORTANT BILATERAL RELATIONSHIP IN ASIA IS WITH JAPAN. NOT ONLY IS THIS RELATIONSHIP OF TREMENDOUS ECONOMIC AND POLITICAL IMPORTANCE, BUT IT IS ALSO IN JAPAN WHERE WE HAVE THE MOST FORWARD DEPLOYED MILITARY FORCES IN THE REGION. WE BELIEVE THAT WE MUST MAINTAIN A SUBSTANTIAL PRESENCE IN JAPAN, FOR TWO REASONS: ONE, THE GEOSTRATEGIC LOCATION OF THESE BASES, AND TWO, THE COST EFFECTIVENESS OF OUR PRESENCE COMPARED TO ANYWHERE ELSE.

BUT WE ALSO SEE THE POSSIBILITY FOR MEASURED REDUCTIONS IN JAPAN. ON MAINLAND JAPAN, WHILE WE WILL BE ADJUSTING OVERALL

FORCE LEVELS, WE WILL MAINTAIN THE U.S. AIR FORCE BASE AT MISAWA AND A FORWARD-DEPLOYED CARRIER AT YOKOSUKA. WE WILL ALSO RATIONALIZE USE OF OUR BASES AND FACILITIES ON OKINAWA, WITH THE AIM OF RETURNING PROPERTY TO IMPROVE CIVIL-MILITARY RELATIONS.

DURING PHASE I, WE WILL REDUCE OUR FORCES IN JAPAN INCREMENTALLY WHILE SEEKING INCREASED JAPANESE SUPPORT FOR OUR REMAINING FORCES. THE EXACT NATURE OF THE REDUCTIONS WILL BE DETERMINED BY THE COMMANDER-IN-CHIEF, PACIFIC, (CINCPAC). SPECIFICALLY, WE WILL:

- REDUCE PERSONNEL BY ABOUT SOME 5,000 - 6,000, INCLUDING SOME REDUCTIONS IN OKINAWA; AND

- CONTINUE TO RETURN EXCESS FACILITIES TO THE JAPANESE GOVERNMENT, PARTICULARLY THOSE IN OKINAWA, THROUGH ESTABLISHED PROCEDURES.

CONTINGENT UPON OUR JAPANESE ALLIES ASSUMING MORE RESPONSIBILITIES, AND ASSUMING CONTINUED STABILITY IN THE REGION, WE WILL PURSUE ADDITIONAL EFFICIENCIES AND REDUCTIONS THROUGH BOTH PHASES II AND III. HOWEVER, A HOMEPORTED AIRCRAFT CARRIER, A MARINE PRESENCE, STRATEGIC LIFT AIRCRAFT, AND AIR FORCE STRIKE ASSETS WILL REMAIN TO FULFILL OUR REGIONAL AND GLOBAL MISSIONS AND TO HONOR OUR TREATY COMMITMENTS.

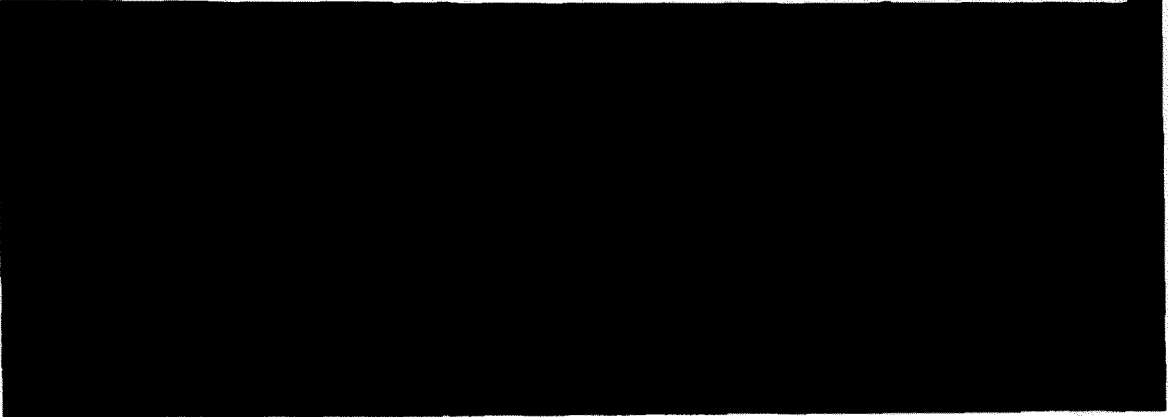
(THIS BRINGS US TO THE PHILIPPINES, ANOTHER PRINCIPAL ALLY HOSTING LARGE NUMBERS OF U.S. FORWARD DEPLOYED COMBAT FORCES.

OUR FACILITIES IN THE PHILIPPINES ARE A CORNERSTONE OF OUR REGIONAL BASING STRUCTURE AND MILITARY PRESENCE. THEY PROVIDE U.S. FORCES SIGNIFICANT LOGISTICS, MAINTENANCE AND TRAINING SUPPORT. FOR THE IMMEDIATE FUTURE, WE WILL SEEK TO MAINTAIN MOST OF OUR FORCES THERE, ALTHOUGH WE ANTICIPATE THAT A REDUCTION OF APPROXIMATELY 2,000 PERSONNEL WILL BE POSSIBLE DURING PHASE I. THE STATUS OF OUR FORCES AFTER THAT WILL DEPEND UPON THE OUTCOME OF THE UPCOMING BASE NEGOTIATIONS.

ALTHOUGH WE HOPE TO RETAIN OUR MILITARY PRESENCE IN THE PHILIPPINES AT LEAST OVER THE MID-TERM, THE PHILIPPINE GOVERNMENT COULD REQUIRE US TO WITHDRAW. THEREFORE, WE HAVE BEEN CAREFULLY STUDYING BASING ALTERNATIVES. NO SINGLE POTENTIAL REPLACEMENT SITE COULD ACCOMMODATE ALL OF THE FUNCTIONS NOW PERFORMED IN THE PHILIPPINES, AND NONE WOULD DUPLICATE THE PHILIPPINES' STRATEGIC LOCATION. NONETHELESS, ALTERNATIVES EXIST, ALTHOUGH THEY WOULD BE EXPENSIVE, TIME CONSUMING TO DEVELOP, AND OPERATIONALLY LESS EFFECTIVE.

MANAGING THE COST SHARING ISSUE

(THE PLANS WHICH I HAVE JUST OUTLINED ARE BASED ON COMMITMENTS FROM OUR ALLIES, IN PARTICULAR JAPAN AND SOUTH KOREA, TO ASSUME GREATER RESPONSIBILITY FOR THEIR OWN DEFENSE.



AS WE WORK WITH OUR ALLIES, IT IS IMPORTANT THAT WE CAREFULLY EXPLAIN THE RATIONALE BEHIND OUR DECISIONS, CONSULT EARLY AND OFTEN, AND ENSURE THAT OUR INITIATIVES REFLECT STRATEGIC REALITY AS WELL AS BUDGET IMPERATIVES.

IT WOULD BE A MISTAKE TO MAKE DEMANDS BASED ON ARBITRARY MATHEMATICAL FORMULAE FOR SHARE-OF-GNP-FOR-DEFENSE, OR RELATIVE TRADE BALANCES. WE WILL BE MORE SUCCESSFUL, AND OBTAIN MORE COOPERATION FROM OUR ALLIES, IF WE BASE OUR REQUESTS ON A RATIONAL ALLOCATION OF ROLES, MISSIONS, AND RESPONSIBILITIES REFLECTING REAL NEEDS, CAPABILITIES, AND THREATS. WE WILL CONTINUE TO WORK WITH BOTH THE JAPANESE AND KOREANS TO PURSUE SPECIFIC AREAS FOR INCREASED COST SHARING.

ARMS CONTROL AND CONFIDENCE BUILDING MEASURES

A REDUCTION OF TENSIONS IN THE ASIA-PACIFIC REGION IS CLEARLY IN THE U.S. INTEREST, AND WE SUPPORT ANY STEPS THAT COULD LEAD TO A MORE STABLE ENVIRONMENT. IT IS EASY TO FORGET, HOWEVER, THAT THE KIND OF ARMS CONTROL AND CONFIDENCE BUILDING MEASURES WE HAVE INSTITUTED IN EUROPE ARE NOT ALWAYS APPLICABLE TO THE ASIAN SCENE.

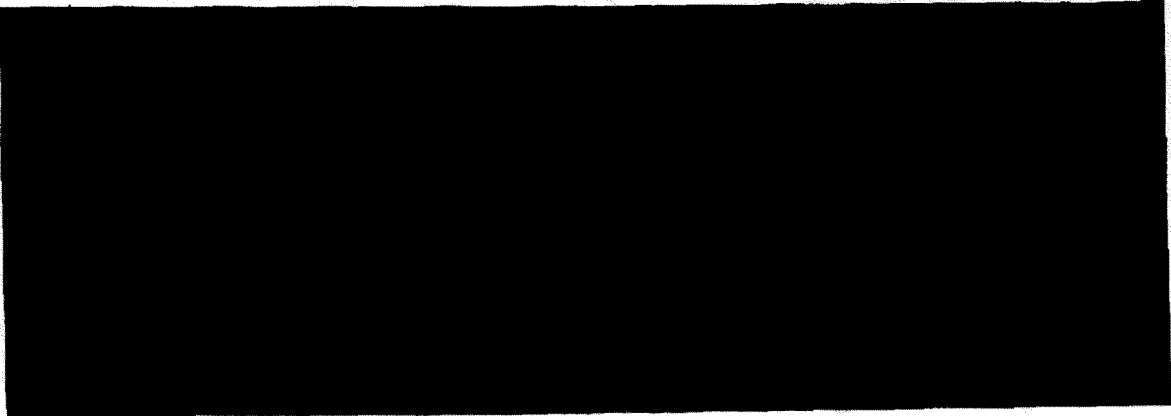
IN EUROPE, WE SEE LARGE GROUPS OF GROUND AND AIR FORCES, BELONGING TO ONE OF TWO MAJOR ALLIANCE BLOCS, DEPLOYED FOR A LAND WAR, LINED UP ON OPPOSITE SIDES OF A LAND BORDER. THIS

(SITUATION LENDS ITSELF READILY TO MUTUAL REDUCTIONS IN THE COMBAT FORCES OF THE RESPECTIVE ALLIANCES.

IN ASIA, HOWEVER, THERE ARE NOT TWO OPPOSING ALLIANCES, BUT WIDESPREAD, ALBEIT DECLINING, SUPERPOWER COMPETITION, ACROSS A HUGE REGION, MADE UP OF MANY DISPARATE CULTURES AND POLITICAL AND ECONOMIC SYSTEMS. CONSEQUENTLY, THERE IS NO READY CALCULUS FOR MUTUAL REDUCTIONS THAT CAN BE APPLIED BROADLY OVER THE ENTIRE REGION.

ANOTHER PROBLEM WITH ARMS CONTROL IN THE PACIFIC IS THAT IT COULD RAPIDLY BECOME A DISCUSSION OF NAVAL ARMS CONTROL. WE REMAIN STRONGLY OPPOSED TO SOVIET PROPOSALS FOR NAVAL ARMS CONTROL. THIS IS A SUBJECT THAT PRESENTS SPECIAL DIFFICULTIES FOR THE UNITED STATES. THE U.S. IS A MARITIME POWER. WE AND OUR ALLIES DEPEND ON FREEDOM OF THE SEAS FOR OUR SECURITY NEEDS AND FOR ACCESS TO OUR OVERSEAS MARKETS AND RESOURCES. THIS HAS BECOME PARTICULARLY SIGNIFICANT ALONG THE PACIFIC RIM NOW THAT 37 PERCENT OF OUR TOTAL TRADE IS WITH ASIA. THE UNITED STATES MUST BE ABLE TO PROTECT THOSE SEA LINES OF COMMUNICATION. WE MUST RETAIN OUR FLEXIBILITY TO MOVE FORCES AND OPERATE WITHOUT RESTRICTION ON THE OPEN SEAS AND INTERNATIONAL WATERWAYS.

(SOVIET PROPOSALS FOR ARMS CONTROL IN ASIA IGNORE ANOTHER VERY IMPORTANT FACT. IN EUROPE, OUR FORCES HAVE BEEN PART OF A MULTILATERAL ALLIANCE STRUCTURE FORMED TO COUNTER THE THREAT FROM THE WARSAW PACT. IN ASIA, OUR FORWARD-DEPLOYED FORCE



STRUCTURE IS GEARED AS MUCH TO MAINTAINING REGIONAL STABILITY AS IT IS A COUNTER TO SOVIET POWER.

HOWEVER, ONE AREA WHERE "TRANSPARENCY-STYLE" CONFIDENCE-BUILDING MEASURES AND ARMS CONTROL MIGHT BE ADOPTED IS THE KOREAN PENINSULA, WHERE THE EUROPEAN MODEL IS MORE APPLICABLE. A FIRST STEP MIGHT BE TO NEGOTIATE MEASURES SUCH AS DATA EXCHANGES AND EXCHANGES OF OBSERVERS AT MILITARY EXERCISES. THE U.N. COMMAND HAS MADE SUCH PROPOSALS AT THE MILITARY ARMISTICE COMMISSION. UNFORTUNATELY, NORTH KOREA HAS GENERALLY IGNORED THESE PROPOSALS TO DATE.

CONCLUDING REMARKS

OUR DETERRENT POSTURE AND FORWARD PRESENCE IN EAST ASIA HAVE BEEN SUCCESSFUL IN PROMOTING AND PROTECTING U.S. INTERESTS IN THE REGION. AS A PACIFIC NATION WITH GLOBAL RESPONSIBILITIES, WE HAVE A UNIQUE AND IMPORTANT ROLE TO PLAY. IT REMAINS IN OUR INTEREST TO MAINTAIN A FORWARD PRESENCE AT CREDIBLE LEVELS. AT THE SAME TIME, AS THE SECURITY ENVIRONMENT CONTINUES TO EVOLVE, WE MUST CONTINUE TO REALISTICALLY REAPPRAISE OUR NATIONAL SECURITY OBJECTIVES IN ASIA AND THE FORCE STRUCTURE REQUIRED TO MEET THEM. IN DOING SO, WE MUST WORK WITH OUR ALLIES TO DEVELOP A VISION FOR OUR FORWARD STRATEGY AND PRESENCE IN THE YEAR 2000 AND BEYOND. IT IS A SIGN OF THE NEW MATURITY OF OUR ALLIES, AND OF OUR RELATIONSHIPS WITH THEM, THAT WE DO SO ON THE BASIS OF FULL PARTNERSHIP. I BELIEVE THE STRATEGY FRAMEWORK I HAVE

PRESENTED IN THE PRESIDENT'S REPORT TO YOU TODAY IS A VALID FIRST STEP IN THAT PROCESS.

ALMOST FORTY YEARS AGO, JAMES MICHENER WROTE PROPHETICALLY ABOUT THIS REGION: "THERE IS ONLY ONE SENSIBLE WAY TO THINK OF THE PACIFIC OCEAN TODAY. IT IS THE HIGHWAY BETWEEN ASIA AND AMERICA, AND WHETHER WE WISH IT OR NOT, FROM NOW ON THERE WILL BE IMMENSE TRAFFIC ALONG THAT HIGHWAY. IF WE KNOW WHAT WE WANT, IF WE HAVE PATIENCE AND DETERMINATION, BUT IF ABOVE ALL WE HAVE UNDERSTANDING, WE MAY ENSURE THAT THE TRAFFIC WILL BE PEACEFUL, CONSISTING OF TRACTORS AND STUDENTS AND MEDICAL MISSIONARIES AND BOLTS OF CLOTH, BUT IF WE ARE NOT INTELLIGENT OR IF WE CANNOT CULTIVATE UNDERSTANDING IN ASIA, THEN THE TRAFFIC WILL BE ARMED PLANES, BATTLESHIPS, SUBMARINES AND DEATH. IN EITHER ALTERNATIVE WE MAY BE ABSOLUTELY CERTAIN THAT FROM NOW ON THE PACIFIC TRAFFIC WILL BE A TWO-WAY AFFAIR. I CAN FORESEE THE DAY, WHEN THE PASSAGE OF GOODS AND IDEAS ACROSS THE PACIFIC WILL BE OF GREATER IMPORTANCE TO AMERICA THAN A SIMILAR EXCHANGE ACROSS THE ATLANTIC."

THE DAY THAT MICHENER ENVISIONED HAS ALREADY ARRIVED. THE PACIFIC HAS BECOME A CENTER OF WORLD ECONOMIC ACTIVITY. THANKS IN PART TO OUR EFFORTS, IT HAS ALSO BEGUN TO LIVE UP TO ITS NAME AS A REGION OF PEACE AND TRANQUILITY. WITH OUR PERSEVERANCE IT CAN STAY THAT WAY. WITH OUR VISION IT CAN CONTINUE TO GROW.