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1973 -- A YEAR OF BUILDING:  
EAST ASIA AND THE PACIFIC

Following is the text of a section, headed "East Asia and the Pacific," of U.S. Secretary of State William Rogers' Foreign Policy Report, "1973 -- A Year of Building":

(Begin text)

East Asia in 1972 moved closer to the threshold of a peace and stability which it has not known since World War II. East Asia is slowly being transformed from a deeply and dangerously divided area into a region with new and growing interdependent relationships. The nations of East Asia can now begin to turn their attention to development and progress and away from hostility and misunderstanding.

The initiatives and policies of the United States have played an important part in bringing about these changes. Two principal concepts have governed our stance toward East Asia. One is the Nixon Doctrine with its premise of shared burdens and responsibilities. The other is the deep interest of this country in the Pacific region and the determination of the United States to continue as a Pacific power.

Within this framework we have worked steadily to usher in an era of negotiation and understanding in our relations with all of East Asia. Our long and strenuous efforts to achieve a just settlement in Indochina culminated on January 27, 1973, in our signature of an agreement on ending

the war and restoring peace in Vietnam. A cease-fire agreement was reached in Laos on February 21, 1973, and it is hoped that an end to the hostilities in Cambodia will soon be negotiated. After 20 years of confrontation and misunderstanding, the President's trip to China initiated a new relationship with the People's Republic of China (P.R.C.). With Japan we have been working to strengthen and mature the friendship between our two countries, of such fundamental importance to us and to the Asian region.

It has been a year of extraordinary progress toward peace in Asia. But there are still difficult problems and issues for the future. Prominent among these are:

- Implementation of the peace settlement in Vietnam and the undertaking of an effective program of reconstruction throughout Indochina.
- Need to dampen down externally supported insurgency throughout Southeast Asia.
- Search for widening areas of cooperation and agreement with the People's Republic of China.
- Necessity of working out more balanced economic relationships with Japan.
- Persistent problems in many nations of East Asia caused by poverty, overpopulation, underdevelopment, corruption and subversion.
- Overriding requirement for the United States to maintain constructive and vigorous policies as part of the common effort with its allies and friends to provide for the security of the area and the development of its people.

#### Toward a Lessening of Tensions

Although the reduction of tensions is not unique to East Asia, it is strikingly evident there -- in peace settlements in Indochina; in the emergence of the P.R.C. into the world community and the establishment of ties with Japan, Australia and New Zealand; in the talks begun between South and North Korea and the cessation of armed infiltration of the South by the North; in the interest being shown by Japan and the U.S.S.R.

in working out a formal end to their hostilities in the Second World War; and in the effort of the Southeast Asian nations to establish long-term security for the region. Although tension persists on the Sino-Soviet border, the four major powers -- China, Japan, the U.S.S.R. and the United States -- whose interests uniquely come together in East Asia, have taken a number of steps to increase the atmosphere of detente. Although serious problems still remain among these nations, there are strong incentives for them to engage in peaceful competition rather than to resort to military confrontation.

A key element in easing tensions was the transformation of our relationship with Peking. The trip of President Nixon to China in February provided a unique demonstration that years of enmity and fear and longstanding divisive issues can be set aside while a search is made for areas where understanding and progress can be achieved. The Shanghai Communique of February 28, 1972, issued at the end of this visit, established the basic framework of U.S.-P.R.C. relations and created a continuing means to discuss our mutual interests and the problems between our two nations. The establishment of liaison offices in our respective capitals will further significantly our movement toward normal relations.

The agreement of January 27, 1973, to end the war in Vietnam will hopefully insure cessation of hostilities and reconciliation throughout all of Indochina. In the world context, it removes a major source of international ill will and friction. With the advent of peace, we will be able to turn our attention to reconstruction and rehabilitation. The United States has for some time been planning a program of postwar reconstruction to include all of the area -- North and South Vietnam, Laos, and Cambodia -- and a number of states and international organizations have already expressed a desire to join in this work of healing.

On the Korean Peninsula, too, a hope for reduction of tensions now exists. After the almost two decades of military confrontation that followed the Korean War, South and North Korea jointly announced last July that they had begun to explore the development of exchanges and communications between them. Given their longstanding lack of communications, progress in the talks between the two Koreas will probably be slow. Most importantly, though, both have made a beginning on the pursuit of their national objectives through peaceful means.

### The Nixon Doctrine

The Nixon Doctrine, while of universal application, had its beginnings in Asia in 1969 and remains a basic element of our policy there. In essence, it seeks to build a cooperative relationship between the United States and the countries of East Asia in which all share commensurately the burdens and responsibilities of peace and security.

The Doctrine has had a high degree of success. It has provided the United States with the means to readjust the level of its involvement and responsibilities in Asia to one which better fits our interests and capabilities in the 70's but with no weakening of our commitments. At the same time it has encouraged a greater degree of self-reliance among many of the East Asians and has provided a strong impetus to the development of regional cooperation.

A prime example of enhanced Asian self-reliance has been in the improvements which our allies and other friendly nations there have made in their military forces. These have been greatly increased in numbers and capabilities in the short space of the past decade and have been given a much improved capability. In consequence, we have been able to reduce our own military presence there by nearly 600,000 from a total of over 840,000 in 1969. Under the agreement of January 27, all U.S. troops and military personnel were withdrawn from Vietnam by the end of March 1973. The remainder of our reductions have been carried out principally in South Korea, Japan and the Philippines.

Nonetheless, given our determination to continue to play a vital balancing role in Asia and the Pacific, the United States firmly intends to maintain in the area that mix of ground, naval and air forces necessary to make that role effective. In this connection, the United States also intends to continue its close consultations with its allies and friends in the region, and to retain bases in Japan and elsewhere in the Western Pacific. Likewise, the United States views its security treaties and assistance programs in the area as essential contributions to the peace and stability of Asia.

The remainder of this chapter reviews the notable progress that Asian nations individually and collectively have made in assuming a greater share of responsibility for their own future, and the extent to which we have been able to turn from confrontation to negotiation in our relations with our former adversaries there.

### Regional Developments

In the past year a new level of regional cooperation and consultation was achieved throughout East Asia. U.S. policies were a stimulus to these developments -- encouraging dialogue and contact with former adversaries, seeking a reduction of tensions, providing military and economic assistance to foster economic growth and a self-defense capability. Asians are increasingly looking to themselves and to each other for the solutions to their problems; they are cooperating, often informally, in achieving a consensus on political, economic and security issues.

Regional collaboration was evident in the fields of trade and aid. Japan and Australia continued their vigorous economic growth and contributed to a rise in intraregional trade and assistance. The economies of the developing countries of the region progressed at a satisfactory rate on the whole, although the Philippine floods and a widespread drought in Southeast Asia demonstrated that despite the "Green Revolution," difficult regionwide problems in agriculture remain.

### Security Cooperation

U.S. participation in the Southeast Asia Treaty Organization (SEATO) has long been an element of our policy in Asia. Secretary Rogers told the 17th SEATO Council that regional pacts remain important to the United States because of "the necessity for stability in a time of change."

The Secretary also participated in the 22nd meeting of the ANZUS (Australia, New Zealand and the United States) Council, held in Canberra on June 29, 1972, immediately after the SEATO meeting. At Canberra the representatives of Australia, New Zealand and the United States reviewed major issue in the Pacific area affecting the security of the three nations. They reaffirmed the importance each attaches to the ANZUS alliance in the changing circumstances of the 1970's.

Immediately after late 1972 elections in Australia and New Zealand, the leaders of both new labor governments reiterated their support for ANZUS as fundamental to their security arrangements, but indicated that the nature of Australian and New Zealand participation in SEATO and the five-power defense arrangement for the Malaysia-Singapore area might be changed on the basis of consultations among the members. (See under Australia and New Zealand in this section.)

The United States continues to stand by its commitments to its friends and allies in Asia without exception, including its bilateral commitments to Japan, Korea, the Republic of China and the Philippines.

#### Political and Economic Cooperation

The Asian and Pacific Council (ASPAC) held its seventh ministerial meeting at Seoul, Korea, in June. At this meeting the members affirmed that ASPAC is an organization for regional cooperation, not a political or military arrangement directed against other nations, and emphasized that membership is open to nonmember countries in the region.

One of the most active bodies in the region was the Association of Southeast Asian Nations (ASEAN) whose foreign ministers met twice during the year to discuss a broad range of common concerns. Among these was the ASEAN Kuala Lumpur declaration of 1971, formulating a plan for a zone of peace, freedom and neutrality in Southeast Asia. The U.S. position is that the ASEAN member states also recognize that much remains to be done before such an objective can be realized; the secure independence of sovereign Southeast Asian nations is its essential precondition.

Later Indonesia, on behalf of its ASEAN partners, approached governments of countries involved in the Indochina war regarding a possible solution to the conflict. At the subministerial level, an ASEAN experts group made recommendations for more effective coordination of the campaign against illicit drugs.

The United States is an active participant in a number of East Asian regional organizations and a contributor to multilateral efforts. We are a nonregional member of the U.N. Economic Commission for Asia and the Far East (ECAFE), which celebrated its 25th anniversary in 1972. We have contributed about 17 percent of the funds for the Mekong Coordinating Committee established by ECAFE in 1957 to develop the lower Mekong Basin. We also subscribed 20 percent of the ordinary capital of the Asian Development Bank (ADB) when it was established in 1965. We are seeking funds from Congress for capital replenishment for the bank and \$100 million for special funds from which concessional loans can be made.

Financial consultative groups and consortia proved effective in mobilizing donor countries to promote multilateral burden-sharing and economic cooperation. Such groups now exist for Indonesia, Korea, Thailand and the Philippines. The intergovernmental group for Indonesia (IGGI) added to its already considerable record of success. Its aid target for Indonesia for 1972 of 670 million dollars was actually over-subscribed at 724 million dollars.

The Philippine consultative group, formed in April of 1971 under the sponsorship of the International Bank for Reconstruction and development (IBRD), has begun to play a similarly helpful role in Philippine economic development. This consortium was put to good use when floods in the summer of 1972 brought the greatest damage to the Philippine economy since World War II. The multilateral exchange support fund for Cambodia, in which the International Monetary Fund (IMF) plays a leading role, operated successfully during the year. Among the seven external contributors to the fund were regional and nonregional, developed and developing, allied and neutral countries.

The Foreign Exchange Operations Fund, established to promote stability in the Lao economy, continued to be supported during the year by Japan, France, Australia, the United Kingdom and the United States. In 1972, for the first time, Laos itself was able to contribute to the fund.

### Japan

In 1972 the President met twice with Japan's top leaders, indicative of the importance we attach to working closely with our pivotal ally in East Asia. His talks with Prime Minister Sato at San Clemente in January and with Prime Minister Tanaka in Hawaii in September fostered greater mutual understanding in the political and security fields and a better realization of the need to resolve outstanding economic issues.

Our relations with Japan entered a new era on May 15, 1972. On that date Okinawa and the other Ryukyu islands were returned to Japan after 27 years of U.S. administration. Vice President Agnew represented the United States at the impressive reversion ceremony in Tokyo. This action, the fulfillment of an agreement reached in 1969 between President Nixon and Prime Minister Sato, concluded two-and-one-half years of detailed negotiations and parliamentary review. It removed the anomaly of U.S. control over Japanese territory and nearly one million Japanese nationals. It confirmed the principle that the United States has no territorial ambitions and fulfilled the U.S. pledge, reaffirmed by every President since Dwight D. Eisenhower, to return the islands to Japan.

The reversion did not fundamentally affect our security interests in Japan. The U.S.-Japanese Treaty of Mutual Cooperation and Security of 1960 is sufficiently flexible and adaptable to serve the needs of both our countries in this era of change. The military cooperation and deterrent effect provided for in the treaty, including the presence of U.S. forces in Japan, has made a significant contribution toward the recent reduction in tensions in East Asia. The improved relations of both the United States and Japan with the P.R.C. have come about in part because of the stabilizing influence of the U.S.-Japan defense arrangements.

The United States recognizes that frictions inevitably will arise where foreign forces are stationed in congested urban areas. We consult closely with the Japanese Government on these matters and maintain a constant review of our base requirements. At the same time, both the United States and Japan in their mutual interest expect to maintain the security treaty for the indefinite future.

The normalization of Japan's relations with the P.R.C. was another major development. It has permitted the establishment of diplomatic relations between the two in support of the general trend toward a lessening of tension in the area. We are confident that improved relations between the two countries will serve the interests of both of them and of other nations in the region.

U.S.-Japan economic relations involve massive flows of goods and capital. The United States does more business with Japan than with any other overseas nation and Japan is our largest and fastest growing export market. The United States sold to Japan 4.9 billion dollars' worth of goods in 1972. Japan is the largest national market for U.S. farm products: agricultural sales totaled well over one billion dollars in 1972 for the third consecutive year. Japanese exports, however, to the United States continued to rise in 1972 at a rate even higher than our exports to Japan. The result is a major source of concern to us: a bilateral trade deficit of about 4.2 billion dollars.

This large and continuing imbalance is an important element in the overall U.S. trade and payments position. The goal of reducing the deficit is being vigorously pursued at all levels of the U.S. Government. The Japanese Government also recognizes the problem. Throughout 1972 it took steps designed to control its global trade surplus and to reduce the bilateral surpluses with the United States. Thus a real achievement in 1972 was that both Tokyo and Washington recognized the problem and the need for steps to meet it.

This forward movement was apparent in September during the meeting in Hawaii of President Nixon and Prime Minister Tanaka. The Prime Minister made clear that the Japanese Government intended to reduce the bilateral imbalance to a more manageable size within a reasonable period of time. The United States and Japan also reaffirmed the commitments of both countries to initiate and support multilateral trade negotiations in 1973.

The February 1973 realignment of exchange rates -- including a 10 percent devaluation of the U.S. dollar and a float of the Japanese yen -- was a major step toward a restoration of international monetary equilibrium. The new rates, combined with further measures along the lines discussed by President Nixon and Prime Minister Tanaka in Hawaii, will, in time, have favorable effect on the bilateral trade deficit. Strong measures must be taken since neither government can permit a relationship so vital to the peace and stability of East Asia to founder on economic problems.

Prime Minister Tanaka and President Nixon also reaffirmed the need for mutual understanding of the cultural, social, and other underlying factors in our relations. Noteworthy were the establishment in October of the Japan Foundation for International Cultural Exchange activities and the convening in June of the sixth U.S.-Japan conference on cultural and educational interchange.

Japan's growing economic strength has been accompanied by increased Japanese assistance to developing countries. Japanese official and private loans, grants and investments were 1,824 million dollars in 1970 and 2,138 million dollars in 1971. Japan is endeavoring to improve the Congressional terms of its foreign aid and is close to reaching its target of aid flows equal to one percent of its GNP. By 1975 it is predicted that Japan's aid to developing countries will be at least 4 billion dollars.

In the scientific field, the 11-year-old cooperative science program has so far involved more than 2,000 scientists from both nations. The two governments in 1972 sought to identify additional environmental problems for joint study and to strengthen existing cooperative projects on development of natural resources and medical science. Bilateral environmental cooperation was supplemented by multilateral projects such as the development of low pollution power systems and experimental safety vehicles.

#### People's Republic of China

After more than two decades of hostility and estrangement, the United States is now engaged in an effort to normalize relations with the P.R.C. We do not expect all problems to vanish overnight, but we have devoted ourselves, with some success, to the correction of misperceptions on both sides and to the establishment of a productive relationship. Our efforts have not sacrificed the interests

of any third country nor do they represent a weakening of existing U.S. commitments. Rather they have had as their objective the creation of a stable peace in Asia in which the legitimate interests of all parties will be served.

In pursuing this objective, we will continue to avoid entanglement in disputes between the P.R.C. and the Soviet Union. Nevertheless, we are concerned when two nations as powerful as the U.S.S.R. and the P.R.C. engage in a quarrel that increases international tensions. It is our policy to work toward balanced improvement of relations with both.

The President's journey to Peking in February 1972 was a watershed in our relations with the P.R.C. The most significant result of the Peking summit was that we and the Chinese agreed on a set of principles of international conduct which will also govern our mutual relations; we also agreed that it is against the interests of both our countries for the Asian-Pacific region to be dominated by any one nation and that neither of us intends to seek such dominance. We thereby created a political framework founded on basic common interests within which we can begin to discuss common problems.

The Shanghai Communique, issued on February 28, at the end of the visit, is the basic charter of our new relationship. This document states our differences forthrightly but makes clear that differences in some areas need not be an obstacle to the improvement of relations and, hopefully, cooperation in others; and that we can move forward in our efforts to normalize relations without first resolving all issues between us.

As both a symbol and a means of improving relations, we and the Chinese agreed to encourage contacts and exchanges in a number of fields -- science, technology, culture, sports and journalism. From a modest beginning, these exchanges have gathered momentum throughout the year. Close to 2,000 Americans have traveled to the P.R.C. since April 1971, including Senate and House leaders, groups of journalists, scholars, doctors,

scientists, Chinese-Americans, and students. In return, a Chinese table tennis team, physicians, scientists, 200 officials, and an acrobatics group have come to America. Communications have been opened not only between individuals but also between Chinese and American organizations, such as scientific and medical organizations, libraries, news services, and sports associations.

Improved trade relations, stressed in the joint Communique, have promoted contacts with China by representatives of American firms ranging from small trading companies to some of the largest corporations in America, and an expansion of trade from less than 5 million dollars in 1971 to 92.5 million dollars in 1972. The normalization of trade relations has enabled American suppliers to compete in the international market for China's orders, as, for example, the 700,000 tons of U.S. grain and cotton sold China and orders for 10 Boeing 707's and three earth satellite stations.

On the import side, over 40 Americans attended the spring 1972 export fair in Canton and close to 100 Americans attended the autumn fair. Imports reached an average of more than \$3 million a month in 1972 and show prospects of growing. Further increases are expected to be slow, since Americans are late arrivals in the China market and certain impediments persist to trade on both sides. As part of the continuing effort to promote increased trade, however, the U.S. Government is taking action in concert with authorities of the People's Republic of China to eliminate bilateral problems such as U.S. private claims, frozen Chinese assets, and other remaining barriers.

While the Chinese and American people are exchanging ideas and commodities, the governments have maintained regular contact through their embassies in Paris. In the United Nations, U.S. delegates have established a professional working relationship with the Chinese mission on multilateral issues. In October, Secretary Rogers invited Chinese Vice Foreign Minister Ch'iao Kuan-hua to an informal dinner at his New York home, where they engaged in a cordial and wide-ranging discussion.

We agreed in February 1973 not only on a concrete program to expand trade and exchanges, but also to facilitate the process of normalization of relations and that each side will establish a liaison office in the capital of the other in the near future.

Despite these encouraging developments, we continue to have deeply divergent policies and approaches, which good will alone cannot erase. However, the first steps away from hostility toward cooperation have been taken. The potential for misunderstanding has been lessened.

We are now engaged in the less spectacular but no less important phase of building on the foundation of detente and mutual trust which was established over the past year. Expanded trade and cultural exchanges will feature prominently in this process, but our efforts will not be confined to these two areas. Our goal remains to move not merely from hostility to detente but from detente to cooperation. In pursuing this goal, we remain aware of the importance of our existing relationships with other nations and our commitments to old friends. Normal relations with China do not require us to sacrifice our ties with other nations. On the contrary, the interests of the United States and the cause of world peace require that we work to strengthen our relationships with all countries which are willing to develop a productive relationship with us.

The dramatic events of the past year have encouraged our hope that such a relationship is possible with the P.R.C. and that a sense of mutual trust can grow, even between countries with different ideologies.

#### Republic of China

The United States has long had a policy of friendship and cooperation with the Republic of China (R.O.C.). Our two governments have cooperated, and will continue to do so, in a wide spectrum of endeavors. This close friendship flourished in the past year, notwithstanding developments in our China policy which culminated in the President's February trip to Peking.

The Shanghai Communique, summarizing the visit, stated that the U.S. Government "acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The U.S. Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves. With this prospect in mind, it affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes."

The Shanghai Communique has left the ultimate resolution of the Taiwan problem in Chinese hands. Nevertheless, our treaty commitments with the R.O.C., including the Mutual Defense Treaty of 1954, remain in force. This treaty recognizes that an armed attack against Taiwan and the Pescadores would obligate us to act in accordance with our constitutional processes to meet the common danger. Repeated assurances have been given to the R.O.C. that this commitment still stands. Secretary Rogers, addressing the SEATO council in June 1972, said:

"... Our new relationships will not be achieved by sacrificing the interests of our friends. We obtained explicit recognition of this fact in the principles to which we subscribed with China and the Soviet Union."

It would be unrealistic, however, to say that the year 1972 was not a difficult one for the R.O.C. on the diplomatic front. The previous year had ended with the exclusion of the R.O.C. from participation in the United Nations. We continue to advocate, however, the representation of the interests of the people of Taiwan in agencies associated with the United Nations and in other international institutions. We also support the continued participation of the R.O.C.

in international meetings and seminars to which it can contribute the knowledge and expertise of a successful developing economy.

During the past year the economy of the island has been booming. Statistics for the year 1972 are well outside the normal range of expectations. The overall foreign trade of Taiwan rose 48 percent during the year, reaching a total value of 5.8 billion dollars. Taiwan's real GNP increased by almost 12 percent of 1972 over the 1971 level, giving the island one of the highest GNP growth rates in the world. Meanwhile, Taiwan's gold and foreign exchange reserves reached 1.5 billion dollars at the end of 1972, an increase of more than 500 million dollars during the year. Foreign confidence in Taiwan as an investment site continues strong.

Our exports to Taiwan increased by about 22 percent during 1972, and export opportunities for American business should be exceptionally good in the next few years. During its sixth four-year economic development plan (1973-76), the R.O.C. intends to invest over 10 billion dollars in industry, transportation, communications and agriculture. In this period, its import needs are expected to shift toward capital goods, a field in which the United States is particularly competitive. We expect that favorable world monetary developments may also increase the competitiveness of U.S. products in the Taiwan market.

#### Republic of Korea

Since the Korean Armistice in 1953, our primary objective in the Korean Peninsula has been to prevent a recurrence of violent conflict between North and South. To avoid the danger of miscalculation by the North, the United States has stationed its own forces in the Republic of Korea (R.O.K.) and cooperated in building strong and self-reliant Korean defense forces.

With sustained U.S. support as a basis for self-confidence, the Korean Government in mid-1971 proposed direct talks between the Red Cross associations of the North and South aimed at reuniting families divided by the Korean conflict. In September 1972 Red Cross delegations from the two sides met successively in Pyongyang and Seoul, the first such interchange in over 20 years.

A new and separate avenue of communications was opened when the Korean Government began secret discussions early in 1972 with high North Korean officials. These talks culminated in a joint announcement on July 4 in which both parties committed themselves to work for the ultimate reunification of the Korean Peninsula by peaceful means, and agreed to establish a joint coordinating committee to examine the associated problems. The step-by-step process of establishing contacts and improving communications between the two Koreans is now under way; the coordinating committee has begun to function; telephone links between Seoul and Pyongyang have been established; propaganda attacks by the two sides have been curtailed; and newsmen from the two sides have accompanied their respective official delegations at the Red Cross meetings in Seoul and Pyongyang.

These were welcome steps toward stability and peace on the Korean Peninsula, which coincided with the cessation of armed infiltration by North Korea. In 1972 there were no reported incidents of such infiltration for the first time in many years. The capability of the North remains, however, and there is little evidence that it has altered its basic goals -- the withdrawal of U.S. forces and unification of Korea on its own terms.

U.S. economic and military support for Korea has helped to persuade the North that a military adventure would be disastrous; it has encouraged the South in opening communication with the North. The U.S. intends to maintain this support.

In the words of the Shanghai Communique, "...The United States will support efforts of the Republic of Korea to seek a relaxation of tension and increased communication in the Korean Peninsula." In the fall of 1972, the United States supported the R.O.K. position that debate in the United Nations of the Korean question would be harmful to the progress of the South-North talks. The U.N. General Assembly endorsed this view by a large majority.

President Park was reelected in December 1972 for a six-year term under a revised constitution which had been approved in a national referendum in November. The constitutional revisions in effect concentrate power in the presidency. Martial law, which was imposed by the government in October 1972, was rescinded following the referendum. These changes, which President Park said were necessary to "revitalize" Korean democracy, are an internal matter and the responsibility of the Korean people. They are of interest to the United States, however, insofar as they may affect the security situation in the peninsula and because of our close association with and concern for the Korean people.

Korea's annual real growth in GNP remains impressive, although the estimated seven percent growth rate in 1972 was somewhat lower than in earlier years. Uncertainties and adjustments brought about by price controls, restraints on textile exports to the United States, depreciation in the exchange rate, reform of the domestic credit structure, a higher level of unemployment and major internal political changes were factors in the slight decline.

Present indications are, however, that the domestic economy is recovering. R.O.K. heavy industrial capacity and utilization of sophisticated industrial technology will be increased in 1973 when an integrated steel mill and a petrochemical complex begin production. The government's five-year plan ending in 1976 places major emphasis on an increase in rural income and improvement in the farmers' standard of living. Measures taken under the plan have already produced results such as a noticeable slowing of the movement from the country side to the cities.

The improvement in the terms of trade in 1972 was remarkable. The R.O.K. trade deficit in 1971 was \$1,046 million. The deficit was cut by \$382 million in 1972. This was accomplished by a 45 percent increase in commodity exports (to 1,645 million dollars) with only a six percent increase in imports. If the domestic economy continues to recover as expected, and the trade pattern improves, the country should have no difficulty in servicing its large foreign debt.

The United States and the R.O.K. have a significant and growing trade relationship: Korea is America's third largest customer in East Asia (about 30 percent of Korea's imports come from the United States and the United States buys about one-half of Korea's exports). Agreements with the R.O.K. have been concluded this past year in the fields of fishing activity and peaceful use of nuclear energy. Our economic relations can be expected to become more important in the future.

#### Indochina -- Vietnam

The year 1972 will stand out as the turning point in the Vietnam conflict -- the time when the foundations were laid for reaching the agreement that has ended the war there.

In the spring North Vietnam made its most desperate effort to reverse its waning fortunes in the south by a sudden, massive application of military force. The South Vietnamese Government and people demonstrated their will and capability to defend themselves by effectively blunting the invasion and denying Hanoi's major objectives.

On May 8 President Nixon reasserted America's determination to stand by its responsibilities and commitments and undertook such firm measures as the mining of the North Vietnamese harbors and intensified bombing of invasion support targets to assist the South Vietnamese in their self-defense. At the same time the President set forth new proposals for peace, providing for an internationally supervised cease-fire, the return of all American prisoners of war, the withdrawal

of all of our remaining forces from Vietnam and the cessation of all U.S. acts of force throughout Indochina. The President's position -- combining steadfast resistance to Hanoi's military threat with generous proposals for ending the fighting -- proved to be a vital contribution to the breakthrough in negotiations which came in October.

During the year the United States continued its rapid drawdown of forces from Vietnam, even though the spring attacks required a temporary augmentation of U.S. naval vessels and combat aircraft. In 1972, 135,000 U.S. troops were brought home, leaving only 24,000 U.S. support and logistical troops in Vietnam at the beginning of 1973 compared to an army of over a half a million men in 1969. U.S. battle deaths decreased to an average of six a week in 1972 compared to 26 a week the previous year.

South Vietnam's other allies also continued to withdraw their troops. Combat forces of Thailand and all forces of Australia and New Zealand returned home by the end of the year. The Republic of Korea, which had a force of approximately 46,000 at the beginning of the year, withdrew about 8,000 troops and was preparing for the rapid removal of the remaining forces.

#### Negotiations

In October, North Vietnam indicated its readiness to undertake serious negotiations for a peace settlement, which we had sought unremittingly during almost four years of fruitless talks. Under the personal direction of the President, our negotiators, headed by Dr. Henry Kissinger, succeeded in working out a draft agreement which incorporated the essence of the President's May 8 proposal for settling the military issues and providing the framework for South Vietnam's political problems to be decided by the Vietnamese themselves.

We had no illusions that ending such a long and complex conflict would be either quick or easy. Any settlement inevitably required difficult compromises on questions of major interest to both South and North Vietnam, and we were determined that the final agreement would be fair to all

parties concerned. Hence we were deeply dismayed in December when Hanoi -- though almost all questions of substance had been resolved -- decided to block further progress toward a settlement. As it became evident that Hanoi was acting for tactical reasons unrelated to the substance of the negotiations, the President, after carefully weighing all factors involved, decided to resume the bombing and mining of harbors in North Vietnam. Two weeks later North Vietnam agreed to return to serious negotiations and U.S. air operations against the DRV were halted.

Private talks were resumed in Paris on January 8, 1973, and the final breakthrough came shortly thereafter. On January 23 President Nixon was able to announce to the American people that an honorable settlement embracing our fundamental goals had been reached -- an internationally supervised cease-fire in Vietnam with the prospect of early cease-fires also in Laos and Cambodia. The settlement provides for the return of all American prisoners of war (POWs) within 60 days of the cease-fire and an accounting for those missing in action; the withdrawal of all American forces from Vietnam, also within 60 days of the cease-fire; and the guaranteed right of the Vietnamese people to determine their own future without outside interference. The agreement was concluded and went into effect on January 27. A month later the agreement received the formal endorsement and support of an international conference convened for the purpose of further consolidating peace in Indochina. The conference took the important specific step of establishing a continuing relationship between its participants and the supervisory organizations set up in Vietnam, thus lending additional weight to the peacekeeping process.

#### Captured and Missing Americans

The fate of American POWs and personnel listed as missing in action in Indochina remained a crucial problem during the last year. The release of these prisoners and an accounting for the missing was a primary U.S. policy goal in negotiations to end the war. Close to 2,000 U.S. servicemen and 50 U.S. civilians were involved. Some had been prisoners for over eight years -- more than twice as long as any prisoners of war ever before in our history.

Thus, the peace agreement providing for their return within 60 days of signing was greeted with universal acclaim. The agreement also contained important provisions for accounting for the missing in action and dead. The first prisoners were released February 12, 1973.

Throughout 1972 we made clear to the communist side the importance attached to the release of all POWs with an accounting for the missing. A protocol to the agreement set specific procedures governing the release of prisoners and accounting for the missing.

The State Department worked closely with the Defense Department and other government agencies to plan for the release and return home of U.S. prisoners. State Department representatives helped assure humane and thoughtful reception for the prisoners and cooperated in continuing efforts to account for the missing.

Preparations also went forward for the release of enemy POWs held in South Vietnam in conformance with the Geneva POW convention of 1949. POW camps in South Vietnam continued to be inspected regularly by delegates and doctors of the International Committee of the Red Cross (ICRC). Following the North Vietnamese invasion of South Vietnam in the spring of 1972, POWs were moved from the areas of fighting to safer places, in compliance with the Geneva convention provisions that hold the detaining power responsible for the safety of its POWs. Lists of all POWs furnished to the ICRC were kept up to date and complete.

#### Vietnamization

During 1972 major emphasis centered on the upgrading of the 1.1 million men of the Republic of Vietnam armed forces (RVNAF) to the point where they could defend themselves as U.S. forces withdraw. During the year RVNAF assumed all of the ground combat missions against the enemy. The few remaining U.S. forces devoted themselves to support and self-defense missions. This program was severely tested on March 30 when Hanoi launched its all-out invasion with

attacks against three widely divergent areas of South Vietnam. This aggression was markedly different from earlier hostilities in that the North Vietnamese deployed virtually all of their regular forces, supported by sophisticated heavy weapons and armored vehicles. After initial setbacks, the RVNAF, with the aid of American air power, halted the invasion and forced the enemy on the defensive.

In spite of the invasion, progress under Vietnamization was recorded in improving RVNAF leadership, in training and morale, and in the further development of RVNAF logistical capabilities. Equipment deliveries were intensified to meet logistical requirements anticipated in the post cease-fire period. At year's end, the goals of Vietnamization had been achieved.

#### Community Defense and Local Development

The invasion slowed down the South Vietnamese Government's program of security and development for two-thirds of its population living in rural areas, as Hanoi sought to disrupt the pacification program. In the wake of the invasion, the enemy took advantage of the government's shifting of resources to the crisis points of An Loc, Kontum and Quang Tri by reestablishing old base areas and lines of communication, thereby increasing their access to the rural population. But North Vietnamese hopes for an uprising of the people were quashed when virtually all of South Vietnam's citizens spurned the enemy's call to revolt. Almost all of the 1.2 million new refugees made homeless by the enemy's aggression moved to areas under South Vietnamese Government control and sought its assistance.

A large proportion of the government's energies had to be devoted to the care of new refugees, but other programs were not neglected. There were good grounds for believing that the goal of the "land to the tiller" program to distribute nearly two-and-a-half million acres to landless farmers within three years would be reached by the deadline of March 1973. The people's self-defense forces, tested by

events, received further intensive training in taking over the defense of their own communities. The village self-development program completed hundreds of projects approved at the local level. The rebuilding of facilities damaged during the offensive is well under way and most of the nation's schools and universities have been reopened.

### Political and Economic Developments

Facing massive conventional military attacks and grappling with the continuing enemy campaign of subversion and terror, government institutions of South Vietnam again showed their responsiveness and resiliency. The South Vietnamese people rallied behind their government, rejecting the communist alternatives and supporting the government's negotiating position in Paris.

Internally, the government of South Vietnam moved effectively to prepare the Vietnamese people for the forthcoming political competition with the communists. Using six-month emergency powers granted by the National Assembly after the Easter offensive, the President undertook a number of basic reform measures to streamline local and judicial administration, to encourage consolidation of Vietnam's factional political parties to better assure an orderly transition to a peacetime condition and to place the economy on an eventually self-sustaining basis.

There was economic progress in South Vietnam during the year in spite of a major recession, an invasion, and adjustments to a series of basic economic reforms. A result of the changes in monetary policy, including the establishment of a flexible exchange rate, was a reduction of the currency black market. The inflation rate in 1972 rose to about 24 percent (compared to 13.2 percent in 1971), but most of it was attributable to adjusting to reform measures. Extensive tax reforms and regulations were promulgated under the emergency powers, which should facilitate recovery and development.

Nonetheless, serious economic and social problems remain -- economic stabilization, refugee resettlement, restoration of rubber and agricultural production, rehabilitation and care of veterans and war victims -- all within the greater task of postwar reconstruction.

### International Postwar Reconstruction

As progress was made toward settlement of the Indochina conflict, friendly nations and institutions throughout the world expressed interest in participating in an international reconstruction effort. There is widespread awareness that after a generation of war the contributions of many nations will be necessary if the peoples of Indochina are to recover and enjoy the fruits of peace. The United States intends to contribute fully to such an effort. Our broad planning for rehabilitation in Indochina has been under way for some time and includes North and South Vietnam, Laos and Cambodia. We envisage that this program will be an important element in giving the Indochina countries a real stake in maintaining the long sought peace.

### Cambodia (Khmer Republic)

The neutrality, independence, and territorial integrity of the Khmer Republic is a key point of U.S. policy in this area. In the face of grave military threats to the Republic from the North Vietnamese and Viet Cong, we have pursued our policy of granting military and economic assistance to Phnom Penh to enable Cambodia to survive and defend itself. Following the general cease-fire in Vietnam on January 27, 1973, the Government of the Khmer Republic (G.K.R.) announced a unilateral cease-fire for offensive operations effective 24 hours later in order to permit the communist Vietnamese forces to depart in peace. Unfortunately, the other side did not respond to this action, and hostilities continued. The G.K.R. continues efforts to initiate contacts through various channels with insurgent elements, but the insurgents have only repeated their opposition to any compromise with the Government of President Lon Nol to end the fighting.

Throughout 1972, North Vietnamese and Viet Cong forces, assisted by their Khmer insurgent allies, attacked population centers and routes of communication as part of their continuing effort to destroy the government and eventually to replace it with one amenable to their ideology. Most of the fighting was for control of the vital roads and riverways that carry food and military supplies to government forces and to the capital and to protect the supplyline to Vietnam.

In March 1972 the bulk of the North Vietnamese and Viet Cong units left from Cambodian bases to join the general invasion of South Vietnam. Also in March Soviet-made rockets killed over 100 civilians in Phnom Penh, and enemy troops subjected the capital to several serious ground attacks. Communist terrorists kept up their bombing, grenading, and other violence, including attempts to assassinate two successive Prime Ministers and the U.S. Charge d'Affairs.

The United States continues to supply the Khmer Republic's light infantry force of 220,000 men. U.S. economic aid funds more than 50 percent of the country's imports. In FY-72 we obligated \$180 million for military assistance and 53.6 million dollars for economic assistance, about the same as in the previous fiscal year.

The Government of the Khmer Republic instituted a number of fiscal reforms recommended by the International Monetary Fund (IMF), including currency devaluation, adoption of a realistic foreign exchange system, higher taxes and interest rates. The first year's experience with the exchange support fund, created to shore up the country's foreign exchange requirements, has been satisfactory. Eight nations, including the G.K.R., contributed almost 35 million dollars to the fund in 1972. Plans are now being readied for U.S. aid for postwar recovery and refugee resettlement.

Despite the war the G.K.R. has been able to establish the new republican institutions promised in 1970. A new constitution drafted in early 1972 was accepted by a large majority. In June, Marshall Lon Nol, the incumbent Prime Minister, was elected the President of Cambodia's first republic. Legislative elections were held in August for a 126-man National Assembly and a 40-man Senate.

### Laos

Since the 1950's the United States has consistently supported the goal of an independent and neutral Laos. This policy was most recently expressed by Article 20 of the Vietnam agreement. This article commits North Vietnam to respect the 1954 and 1962 agreements on Laos and to refrain from using Laotian territory to encroach on the sovereignty and security of other countries. The Laos cease-fire agreement, reached separately by the Lao parties themselves on February 21, 1973, provides for an immediate in-place cease-fire, international inspection, establishment of a new coalition government and withdrawal of all foreign forces within 60 days thereafter. Adherence to this agreement by the parties concerned would contribute greatly to the foundation of a stable and lasting peace in Laos.

Although the United States complied fully with the provisions of the 1962 Geneva agreement, North Vietnam never withdrew its forces or abandoned its scheme of subverting the Government of Laos. Since 1962 there have often been in Laos as many as 100,000 North Vietnamese army personnel, engaged both in offensive combat against the Laotian Government and moving supplies south through the Ho Chi Minh Trail. While some elements were withdrawn in 1972 to participate in the invasion of South Vietnam, an estimated 80,000 remained in Laos and sought to eliminate the Lao Government's military presence in northern Laos and capture additional territory for the Hanoi-cominated Lao Patriotic Front (LPF).

In the face of continuing aggression from North Vietnam, Laos called for American assistance in its struggle for self-determination. With a population of less than three million and one of the least developed economies in the world, the country could not by itself resist Hanoi's armies. Consistent with our objectives of a neutral and independent Laos, the United States responded positively to the request of the Laotian government. Despite the magnitude of the North Vietnamese challenge, we made every effort to keep our presence to the minimum necessary to carry out our undertaking with our Laotian friends. For example, no U.S. military personnel have been assigned a ground combat role in Laos; and in FY 1973 all U.S. spending for Laos was limited by law to 375 million dollars.

Our assistance to the Kingdom of Laos has helped this country preserve its sovereignty in the face of North Vietnamese attacks. Marched by the tenacious defense by the people and army of Laos, our role contributed to the cease-fire agreement of February 21.

### Other Southeast Asian Countries

#### Foreign Policy of Thailand

Thailand returned to constitutional government in December of 1972. The foreign policy of Thailand continues to be based to an important extent on close cooperation with the United States as regards matters of common interest in Southeast Asia. We value this cooperation as a key factor in the evolution of peace and security in Southeast Asia. We have affirmed -- and we will continue to stand solidly behind -- our security commitment to Thailand under SEATO. Complementing this, we will continue to provide security and economic assistance to Thailand for use in these programs which the Thai themselves consider have priority. We have also collaborated to support increasingly effective Thai measures to suppress narcotics traffic.

Military cooperation loomed large in our relationship in 1972. As part of our response to the North Vietnamese spring offensive, additional U.S. forces were assigned, with Thai Government agreement, to Thai air bases, raising the number of military personnel from 32,200 to about 45,000. The number of combat missions flown was correspondingly increased. These forces will be reduced as circumstances permit.

Communist insurgency is of growing concern to the Thai Government. Although still not a serious threat to national stability, it is expanding and receives outside support. The Thai Government neither expects nor desires direct U.S. military involvement to meet this problem, but the Thais do need U.S. military and economic aid in support of their internal security and development programs. In FY-72 we gave about \$92 million in military assistance and about 16.5 million dollars in grant economic aid. In March we concluded a two-year Public Law 480 agreement with the

Thai Government under which we will sell, on concessional credit terms, 14 million dollars' worth of surplus wheat and tobacco. An additional sale of approximately 16 million dollars in surplus cotton is under discussion.

U.S. assistance has also been provided to support Thai anti-narcotics programs. These programs are critical to the suppression of narcotics production and trafficking in Southeast Asia. Particularly helpful was the creation of a special narcotics organization within the Thai police establishment. Through the operations of this organization, and also as a result of more effective action by other Thai law enforcement agencies, there was a sharp increase in the number of narcotics seizures and arrests in 1972. There is also evidence that marketing channels are being disrupted. But the narcotics trafficking problem remains serious and even more intensive efforts are required.

During the latter half of 1972 the Thai Government promulgated important new decrees affecting foreign business interests in Thailand, which caused concern within the U.S. Government and among the American business community. The new ordinances, designed to restrict sharply alien investment and employment in Thailand, are under study to determine how seriously they will affect American interests.

While continuing to cooperate closely with the United States, Thailand took steps to adjust its foreign relations to changing times, especially in opening contact with the P.R.C. Both governments appear to view this as a promising beginning in improving their relations, in spite of serious complicating factors. At the same time Thailand is involved in regional organizations and activities, particularly the Association of Southeast Asian Nations (ASEAN), which seeks to promote cohesion among the nations of the area.

Thailand was governed by a provisional National Executive Council (NEC) from November 17, 1971, until December 19, 1972. The NEC was then replaced under the provisions of a new interim constitution by a council of ministers as the country's central executive authority. For the most part the ministers are the same officials who governed as the NEC. The constitution provides for a national legislative assembly, which has been appointed, and charges the council of ministers with drafting a permanent constitution to be submitted to the assembly.

### Burma

Our relations with Burma continued to be cordial though limited. We have no military or economic assistance programs there except for minor residual activities to complete economic aid projects initiated previously. Our major policy objectives with Burma are to suppress illicit narcotics production and trafficking and to promote participation by U.S. firms in Burma's economic and development programs.

The narcotics problem is a major focus of our attention because Burma is the principal source of illicit narcotics in Southeast Asia. It is a difficult problem for the Burmese Government to solve, given the fact that most opium growing and trafficking occurs in parts of northern and eastern Burma occupied by insurgent groups whose presence seriously hampers government suppression efforts. Nonetheless, we have made some progress in helping the Burmese Government cope with the problem.

We were gratified to observe the growing Burmese interest in expanding cooperation in narcotics controls with regional and international organizations. The Burmese Government, for instance, has agreed to receive a U.N. mission to help with a crop substitution project. We hope that this type of cooperation will include more effective collaboration between Burmese and Thai authorities to stop trafficking from Burma into Thailand.

The potential for U.S. private investment in and trade with Burma is limited. U.S. and other foreign private investment in that country is effectively excluded by Burmese Government policy. Petroleum appears to hold the greatest possibility for foreign participation. The Department of State and our Embassy in Rangoon are making efforts to promote participation by U.S. firms in Burmese Government petroleum projects and in other economic development projects.

### Malaysia

Good relations with Malaysia continued in 1972, marked by Malaysia's helpful efforts to contribute to stability in Southeast Asia and by the growth of U.S.-Malaysian economic ties. Malaysia's non-aligned foreign policy, its role in ASEAN, its self-reliant drive to develop its economy while combating

two communist insurgency movements, and its participation in the five-power defense arrangement (Malaysia, Singapore, Australia, New Zealand and United Kingdom) are consonant with the Nixon Doctrine and form a solid base for U.S.-Malaysian friendship.

In foreign affairs, Malaysia pursued closer ties with its neighbors, building on patterns of regional cooperation already established in the ASEAN framework. Malaysia also extended its contacts and trade with the P.R.C. In October Prime Minister Razak emphasized Malaysia's nonaligned policy by a visit to the Soviet Union, but he also supported American efforts to reduce tensions in Asia, in particular by endorsing President Nixon's China initiatives.

U.S. trade with Malaysia increased during the year. The outlook for expanded U.S. exports to that country is good. Although prices for Malaysia's primary products were depressed at the beginning of 1972, the situation improved toward the end of the year. There are also good prospects for growth in the industrial sector. The Malaysian Minister of Trade and Industry visited the United States in 1972 to promote U.S. investment in Malaysia, which is now estimated at well over \$200 million.

We have no bilateral economic assistance programs in Malaysia. Military assistance is confined to sales and a small training program in the United States. The major bilateral American contribution to Malaysian development efforts is a Peace Corps program.

The country continued to implement its second Malaysia Plan (1971-76) last year. The economy expanded at the rate of about 6 percent. At the same time, Malaysia took strong and apparently effective action to contain communist terrorist bands in Sarawak and along the Thai-Malaysian border.

#### Singapore

Growing U.S. trade and investment in Singapore and its strategic location make friendly relations with that country an important factor in our overall Asian policies.

The United States has no bilateral economic or security assistance programs in Singapore, but Singapore has purchased military equipment and training in the United States. Singapore contributes to regional cooperation and stability by membership in both the five-power defense arrangement and ASEAN.

Singapore's economic success story was highlighted again in 1972 with continued growth in GNP of about 15 percent, full employment and the second highest per capita GNP in Asia. The manufacturing sector was again the fastest growing. The government announced policies for concentrating on more sophisticated production to double per capita income and make Singapore the regional technological center in Southeast Asia by 1975. Imports from the United States increased by about 20 percent in the first half of 1972. This growth reflected in part heavy U.S. investment, which is now well over 310 million dollars and increasing rapidly.

In national elections, the ruling People's Action Party (PAP) won 70 percent of the vote and captured every seat in Parliament. The PAP emphasized planning for rapid economic growth, at the same time placing heavy stress on social progress, particularly in family planning, housing and antipollution efforts.

### Indochina

Despite the remarkable turnabout in 1966 from the disastrous policies and economic downslide of the Sukarno period, it remains evident that Indonesia faces a long, uphill fight to surmount still enormous problems in overpopulation, unemployment and fundamental deficiencies in education and administrative structure. With half the population and more than 40 percent of the territory of Southeast Asia, Indonesia's success or failure will be a potent factor in the future of the entire region.

During his visit to Jakarta last June, Secretary Rogers commented that Indonesia is "a major contributor to stability in Asia," in large part because the Indonesian Government recognizes "the close link between sound economic development and stable political development." Noting Indonesia's economic progress as well as the many challenges which still lie ahead, the Secretary pledged that the United States will continue "to assist Indonesia's efforts to improve the life of its people."

During the past year Indonesia was instrumental in promoting a constructive initiative by the members of ASEAN for a peaceful resolution of the Vietnam war. More recently, the Indonesian Government agreed to participate in an international commission to supervise a cease-fire in Vietnam.

Basing much of its foreign policy on the further strengthening of ASEAN, Indonesia strongly advocates a doctrine of regional "resilience." This doctrine calls for national and regional cohesion and strength in all spheres -- economic, social, cultural, political and military -- to develop a security fabric capable of withstanding any external thrust. Last year President Suharto carried out a series of successful visits to Australia, New Zealand, the Philippines and Japan which served to strengthen the increasingly amicable relations between Indonesia and its neighbors.

Internally, Indonesia continued its economic stabilization policies, maintained a consistent growth rate of over six percent and laid the foundations for its second five-year plan. There was good progress in petroleum, mineral and timber production, and both domestic and foreign investment increased rapidly.

Against this progress must be recorded a setback in food production. In 1972 Indonesia experienced one of the worst droughts of recent years. Although the resulting rice shortage had a serious impact on prices, it is hoped that the problem will have only a temporary effect on the stabilization program and progress toward self-sufficiency in food. The United States increased its rice shipments to Indonesia by 50,000 tons to help alleviate this problem.

The Government of Indonesia encourages foreign investment as a necessary means to rapid development. U.S. investment increased during 1972 and is now about 1.5 billion dollars. President Suharto reiterated the Indonesian welcome for foreign investment in his August 16 Independence Day speech, emphasizing joint ventures and the need to insure both maximum benefits for Indonesia and balanced growth in domestic and foreign investment.

The United States pledged economic assistance to Indonesia for fiscal year 1972-73 amounting to 203 million dollars -- 138 million in non-food aid and 65 million in food aid. Since the resumption of aid to Indonesia in 1967, U.S. assistance has been pledged through the Intergovernmental Group on Indonesia (IGGI), a multilateral body consisting of 12 donor countries,

the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the Asian Development Bank (ADB). With our active support to encouragement, the multilateral group has played a vital role in assisting Indonesian stabilization and development efforts.

IGGI donors agreed in 1972 to provide approximately 724 million dollars in aid. In view of Indonesia's size, strategic importance, and constructive leadership within the region, it is very much in the U.S. interest that we join Japan, Australia, and the Western European countries in continuing to provide assistance for Indonesia's long-term development effort.

### The Philippines

The Philippines has been moving away from its former special relationship with the United States and is strengthening other bilateral and multilateral ties. At the same time, the United States, mindful of the strategic importance of the Philippines and of the longstanding friendship between our countries, has contributed over the years to -- and intends to contribute to -- Philippine development and security programs.

The year 1972 has been troubled and eventful for the Philippines. Even as the 320 elected delegates to the Constitutional Convention worked to complete a draft of a new constitution, which would provide for a parliamentary form of government, internal unrest and acts of violence were increasing. During July and August a deluge of 180 inches of rain inundated the plains of Central Luzon, and a serious drought afflicted the southern areas of the Visayas and Mindanao. The resulting havoc caused great suffering and deprivation for hundreds of thousands of people, extensive damage to irrigation works, roads, buildings, and crops and delivered a crippling blow to the economy.

On September 23, 1972, in accordance with a constitutional provision, President Marcos declared martial law throughout the Philippines. In explanation, the President attributed his action to increasing insurgency, declining law and order, and the need for national reform. Major emphasis has since been placed on land reform, reform of the civil service and armed forces, and on the drive against corruption and crime, including narcotics trafficking.

The Philippines has been deeply involved in the expanding activities of ASEAN, and at the same time has continued as a responsible participant in SEATO. U.S. foreign policy initiatives have met with explicit approval from the Philippines, especially the President's trips to Peking and Moscow, our Vietnam policy and the strategic arms limitations agreements.

The United States has continued its military assistance program and has also provided approximately 75 million dollars in FY-73 in economic and technical assistance to the Philippines. The impact of these programs is illustrated by the rural electrification program, under which a U.S. development loan will finance the construction of 36 rural electric cooperative systems. The project is scheduled for completion by the end of FY-76 and will provide service for domestic, agricultural, commercial and industrial users in areas inhabited by about five million people. Another program with great impact is the Philippine Government's birth control program which, with its current rate of participation, could reduce the 3.2 percent annual population growth to a rate of two percent a year by 1970.

In addition, the United States, along with other nations and international agencies, responded promptly to the flood emergency. Over 30 million dollars in emergency relief aid was authorized. A subsequent longer term rehabilitation and reconstruction program for an additional 50 million dollars has been approved by the U.S. Congress.

The Philippine Government continued its efforts to overcome balance-of-payments and debt service problems. The rate of growth of GNP in the first half of 1972 was about 6.5 percent in real terms. Inflation slowed during the first half of 1972, but shortages and dislocations caused by the July and August floods brought a sudden spurt of food price increases. Added to these reverses was a sharply mounting trade deficit of \$100 million for the first six months of 1972. The debt service ratio, at 28.1 percent for 1971, continued to be high.

The United States and Japan shared about 65 percent of total Philippine trade, with U.S.-Philippine trade totaling 836 million dollars in 1971. The United States participated actively in the consultative group, which was organized in 1970 for the Philippines by the IBRD.

#### Australia and New Zealand

Australia and New Zealand share with the United States a common culture, a common language, and a long tradition of cooperation and good will. We also share the goals of economic development, stability, and security for Asia and the Pacific. The United States relies upon both countries, and the parts that they play in the region, to help make the Nixon Doctrine work.

The keystone in our partnership with Australia and New Zealand is the ANZUS Treaty of 1951. At the last meeting of the ANZUS Council, held in Canberra in June 1972, the three partners reaffirmed in their communique "the deep importance that each of them continued to attach to the alliance."

General elections were held in Australia and New Zealand in late 1972, and in both countries labor governments were elected. Before the year's end the new governments departed from previous policies by recognizing the P.R.C. and terminating all military aid to South Vietnam. Australia also expressed reservations about SEATO as a military pact; the United States pointed out the continuing usefulness of the alliance in the light of the tensions that would likely remain in the wake of a Vietnam settlement. Both governments have reaffirmed their intention of continuing their strong ties with the United States, including the ANZUS pact, and of strengthening their ties with Southeast Asia.

Playing an active role in their region, Australia and New Zealand participate with the United Kingdom, Malaysia and Singapore in the FPDA. They also worked with other nations in the Pacific (Fiji, Western Samoa, Nauru, Tonga and the Cook Islands) to establish in 1971 the South Pacific

forum, and in 1972 its auxiliary, the South Pacific Bureau for Economic Coordination; and they work with other countries in Asia in the Asian and Pacific Council (ASPAC).

Bilaterally, Australia provides generous assistance to its near neighbor to the north, Indonesia, and to its neighbors in the Pacific, the newly independent states of Fiji, Western Samoa and Tonga. New Zealand has concentrated its aid assistance on its Pacific island neighbors and on other countries in Asia.

Since 1945, Australia has devoted nearly two billion dollars to external aid. In 1972 some 264 million dollars went to official development assistance. Of the 16 members of the Development Assistance Committee (DAC), Australia in 1971 ranked fourth in official development assistance in relation to GNP. New Zealand increased its aid expenditure in 1972-73 to over 18 million dollars, up from 13 million dollars the previous year. A substantial part of the increase will go to assist Bangladesh and Indonesia as well as the countries of the South Pacific area. Both Australia and New Zealand will participate in efforts directed toward the reconstruction and rehabilitation of Indochina. Australia will continue civil aid with a total of more than 15 million dollars pledged in 1970, and Prime Minister Kirk of New Zealand has pledged a total of 12 million dollars over the next five years to be used throughout the area.

Secretary Rogers met twice during the year with the then foreign ministers of Australia and New Zealand -- first in connection with the SEATO and ANZUS Council meetings in Canberra and later when both foreign ministers attended the 1972 session of the U.N. General Assembly. While he was in Australia, the Secretary met with the then Australian Prime Minister, William McMahon.

Our economic ties with both Australia and New Zealand are strong. Australia imported from the United States 1.2 billion dollars in goods in 1971 (principally aircraft and other machinery) and exported to the United States goods worth 584 million dollars (principally meat, ores, chemicals and fish). Total U.S. direct investment in Australia is

about five billion dollars, the fourth largest concentration of U.S. foreign direct investment in any country. Both the outgoing and the present governments of Australia have felt the need for a closer watch on foreign investment, showing particular concern for foreign takeovers of existing Australian businesses. Screening procedures for foreign purchases of controlling interests in Australian firms were established in October 1971. At year's end the government announced plans to make finance companies (a number of which are foreign-owned) subject to regulatory controls similar to those applied to Australian banks.

New Zealand is also an important trading partner for the United States. For the year ending September 1972, its imports (primarily aircraft and machinery) from the United States totaled 156 million dollars, and its exports (principally meat and wool) to the United States amounted to 287.28 million dollars. U.S. direct investment in New Zealand totals about 180 million dollars.

Both Australia and New Zealand are major suppliers of meat (beef, veal, mutton) to the United States. Prior to the suspension of the voluntary restraint program in June 1972, Australia's allocation was for 52 percent of U.S. imports of meats, subject to the meat import legislation of 1964, and New Zealand's allocation was 21.7 percent. Since the program was suspended, both have accelerated shipments to meet U.S. needs.

### South Pacific

The U.S. Ambassador to New Zealand and to Western Samoa was accredited to two additional countries of the South Pacific in 1972; in May to Fiji, and in November to the Kingdom of Tonga, thereby further strengthening our presence in that area. Although maintaining only one resident diplomatic mission in the South Pacific (Fiji), the United States is well represented through the Peace Corps that operates highly effective programs in Western Samoa, Fiji, Tonga and the British Solomon Islands protectorate.

The United States participates in the South Pacific Commission, an organization set up in 1947 to assist the peoples of the region in social and economic development. Other members of the commission are Australia, Fiji, France, Nauru, New Zealand, The United Kingdom and Western Samoa. The U.S. contribution of 20 percent of the commission's budget amounted to 263,080 dollars in 1972.

In late October, Fiji and the Ellice Islands were badly hit by a typhoon that caused damage amounting a several million dollars and left thousands of people homeless. The United States, working with Fijian and Ellice Islands authorities, responded quickly to the disaster by providing cash, foodstuffs and other supplies, many of which were brought by airlift.

#### East Asia -- 1972

January 6-7 -- President Nixon and Japanese Prime Minister Eisaku Sato meet at San Clemente.

January 25 -- U.S. reveals existence of secret negotiations beginning in August 1969 between Dr. Kissinger and North Vietnamese politburo member Le Duc Tho.

February 21-28 -- President Nixon visits the P.R.C. and has discussions with Chairman Mao and Premier Chou. The joint communique issued in Shanghai on February 28 declares that progress toward normalization of Sino-U.S. relations and development of scientific and cultural relations and trade between the two countries are desirable.

March 10 -- Cambodian chief of state Cheng Heng resigns, transfers powers to Prime Minister Lon Nol. Later disagrees with draft constitution and dissolves constituent assembly.

March 30 -- North Vietnamese offensive opens.

April 30 -- Cambodian voters approve Lon Nol's revised constitution in referendum.

May 1 -- Quang Tri Province in South Vietnam falls to the North Vietnamese.

May 8 -- President Nixon announces plans to mine D.R.V. ports, offers to end the mining and bombing and withdraw U.S. troops within four months following an internationally supervised cease-fire and the return of U.S. POWs.

May 10 -- Martial law is declared in South Vietnam.

May 15 -- U.S. relinquishes administrative rights over Okinawa to Japan.

May 20 -- President Chiang Kai-shek inaugurated for his fifth term as President of R.O.C.

May 26 -- Premier Kim Il Sung of North Korea is interviewed by New York Times correspondent, his first meeting with an American journalist not representing a communist or radical publication.

May 26 -- Chiang Ching-kuo elected Premier of the R.O.C.

June 4 -- In close Cambodian election, Lon Nol wins Presidency over In Tam and "Sihanoukist" candidate Keo An.

June 19-23 -- Dr. Kissinger visits Peking for consultations to further the normalization of U.S.-P.R.C. relations.

June 27-28 -- 17th SEATO Council meeting, Canberra, Australia.

June 28 -- Emergency powers granted to President Thieu of the Republic of Vietnam.

June 28 -- South Vietnamese army launches counter-attack in Quang Tri Province.

June 29 -- ANZUS Council meeting, Canberra, Australia.

July and August -- Luzon is struck by extraordinarily heavy monsoon rains. Resulting floods damage some of the nation's best rice lands and kill hundreds of people, making this the worst natural disaster in Philippine history. U.S. quickly pledges 50 million dollars in emergency relief and rehabilitation aid.

July 4 -- A South-North joint communique announces the goal of eventual Korean unification by peaceful means without outside interference, proposing deescalation of propaganda and the establishment of a Seoul-Pyongyang hotline and a coordinating committee to further explore South-North contacts.

July 5 -- Kakuei Tanaka is elected President of the Liberal Democratic Party (LDP), thus succeeding Prime Minister Sato as Japanese Prime Minister.

August 1 -- Dr. Kissinger resumes meetings with the North Vietnamese in Paris after hiatus of three months.

August 25 -- P.R.C. casts its first Security Council veto, to prevent admission of Bangladesh to the U.N.

August 31-September 1 -- President Nixon and Japanese Prime Minister Tanaka meet in Honolulu.

September -- In its largest purchases yet of U.S. products, the P.R.C. contracts to buy 10 Boeing 707's and 400,000 tons of wheat.

September -- Meetings in Pyongyang and subsequently in Seoul of Red Cross representatives: first such exchange since division of country in 1945.

September 3 -- Lon Nol's Socio-Republican Party is victor in National Assembly elections in Cambodia. Opposition parties boycott elections and claim that voter turnout is poor.

September 23 -- President Ferdinand Marcos announces martial law in the Philippines, retroactively effective as of September 21, citing dangers of communist insurgency and need for reform.

September 23 -- The proposal in the U.N. General Assembly to inscribe the Korea question on the agenda is defeated.

September 25-30 -- Prime Minister Tanaka of Japan makes official visit to Peking.

September 29 -- Republic of China (R.O.C.) and Japan sever diplomatic relations, following Japan's recognition of the P.R.C. the same day.

October 8-11 -- D.R.V. presents U.S. with its nine-point proposal during secret sessions in Paris.

October 17 -- Republic of Korea (R.O.K.) President Park Chung Hee declares martial law, announcing forthcoming constitutional changes.

October 17 -- Royal Lao Government and Lao Patriotic Front delegations open peace talks in Vientiane.

October 26 -- North Vietnamese release a summary of the draft peace agreement; U.S. confirms substance of Hanoi's statement. South Vietnam launches a public campaign stressing opposition to the terms of the draft agreement.

November 1 -- President Thieu, in National Day address, reaffirms South Vietnamese opposition to terms of the draft peace agreement.

November 4 -- South-North coordinating committee, meeting in Pyongyang, announces an end to all hostile propaganda and sets the formal structure for the committee.

November 17 -- Amendments to R.O.K. Constitution approved by national referendum.

November 25 -- New Zealand's Labor Party gains majority in parliamentary election, returning to power after 12 years.

November 30 -- Philippine constitutional convention approves a new constitution which would, when finally accepted by the nation, change the Philippines from a presidential to a parliamentary form of government.

December 2 -- Australian parliamentary elections are held, and the Labor Party gains a victory after 23 years out of power.

December 10 -- Japanese elections result in retention of Liberal Democratic Party majority in lower house of Diet, but substantial gains by Socialist and Communist Parties.

December 14 -- Martial law in the R.O.K. lifted.

December 16 -- U.S. announces temporary suspension of the Kissinger-Le Duc Tho talks in Paris. On December 17, U.S. resumes bombing in North Vietnam above the 20th Parallel.

December 23 -- Kuomintang, the majority Nationalist Party in Taiwan, sweeps local and national elections.

December 23 -- President Park is indirectly elected under the new constitution to a six-year term and is inaugurated December 27.

December 24 -- President Marcos of the Philippines announces the postponement of the constitutional plebiscite formerly scheduled for January 15, 1973.

December 27 -- President Thieu issues decree stiffening requirements for political party registration in South Vietnam. Emergency powers end.

December 27 -- North Korea announces a new constitution and subsequent government revisions.

December 30 -- U.S. announces halt to bombing in North Vietnam north of the 20th Parallel and resumption of the talks in Paris January 8, 1973. (end text)