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SOVIET POLICY TOWARDS THE ASIA/PACIFIC REGION

1. A few months ago Planners and Research Department produced a joint paper on "Soviet Policy Towards Africa", which was approved by DUSs and Ministers. Soviet Department suggested at the time that it would be worthwhile to carry out similar studies of Soviet foreign policy towards other regions, in order to assess what impact Gorbachev's "new thinking" was making on the ground. Accordingly Planners, again with considerable help from Research Department, have produced the attached paper on "Soviet Policy towards the Asia/Pacific Region" for consideration by DUSs at their meeting on 26 July.

2. We have taken the "Asia/Pacific region", in terms of Soviet foreign policy, to be the region covered by Gorbachev in his Vladivostok speech of 28 July 1986 ie as far East from Vladivostok as the Pacific coast of North and Central America (but not South America) and as far West as Afghanistan. Some areas are covered much more fully by Gorbachev in his speech than others; for example Canada and Mexico are mentioned only in passing whilst large sections are devoted to Japan and China. Some FCO departments considered that the Planners' paper too treated their particular

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countries too sketchily. Obviously in a broad-brush paper of this kind some choices have to be made and we tried to concentrate on those areas where Soviet policy was clearly undergoing change and where the Russians were devoting particular attention.

3. A case in point is India. SAD and others have argued that we should either cover Soviet/Indian relations in much greater depth or leave the whole South Asian region (including Afghanistan) out of the paper altogether. Yet Gorbachev himself skated over South Asia in his Vladivostok speech (apart from a nod in the direction of India's leadership of the NAM), although he did have quite a lot to say about Afghanistan. Why? Probably, firstly because he realised that Afghanistan had become an international rather than just a regional issue, whose solution would affect Soviet relations across the board and secondly, because he calculated that, important though Soviet relations with India were, they were likely to remain stable (for the reasons we mention in para 7 of the paper) and that he could afford to concentrate his efforts on other countries long neglected by his predecessors. We too consider that Afghanistan is too important a piece to leave out of the Asia/Pacific jigsaw, although we ~~otherwise~~ mention ^{other parts of} South Asia only briefly.

4. Otherwise, we have tried to take everyone's comments into account in this revised version of the paper. There is a new section on nuclear-free zones and a paragraph on the possible effects in the Asia/Pacific region of a change of US Administration. On this latter point it is obviously too early to do more than speculate on how US policies might change, so we have not drawn policy conclusions for the UK at this stage. Planners will however be drafting a paper on US foreign policy under the next Administration later in the year.

5. Finally, none of the policy recommendations which we make at the end of the paper are designed to substitute for the detailed reviews of UK policy towards the countries of the Asia/Pacific region carried out by FCO geographical departments. Apart from anything else, it would be quite wrong to make UK policy in reaction to Soviet foreign policy. Instead, the paper should be seen as a contribution to UK policy-making and we suggest that departments take those recommendations which are approved into account when they draw up their own, more detailed, reviews.

D A Gore-Booth

SOVIET POLICY TOWARDS THE ASIA/PACIFIC REGION*

(I) Introduction

1. The Asia/Pacific region is a high priority area for Soviet foreign policy. In terms of strategic importance it comes second only to Europe and the North Atlantic. In political and economic terms, the Russians have traditionally tended to pay it far less attention than Europe or the Middle East. But recently, especially under Gorbachev, it has become an area of growing interest and concern to them, for three basic reasons:

i) Soviet awareness of the increasing economic and political strength of the Pacific rim countries, especially Japan and the NICS. Soviet perception too that the US is becoming more Pacific oriented and is better placed than the USSR to benefit from the region's future economic and political development.

ii) the need to realise the economic potential of Soviet Asia (as an important element in the overall process of perestroika) for which foreign (especially Japanese and Chinese) assistance and investment are regarded as crucial.

iii) developments in the geostrategic rivalry between the USSR and the US. The USSR is responding to perceived shifts in US defence concerns: increased US naval capacity in the Pacific; the heightened emphasis on SLBMS and SLCMS in the wake of the INF Agreement; the potential of an even stronger Washington-Tokyo-Seoul military triangle; the possibility of growing US strategic cooperation with China.

2. This awareness of the need for Soviet foreign policy to focus more effort on the Asia/Pacific region is apparent in General Secretary Gorbachev's report to the 27th Congress of the CPSU on 25 February 1986, which launched his "new thinking" in foreign policy:

"The significance of the Asian and Pacific direction is growing. In that vast region there are many tangled knots of contradictions and, besides, the political situation in some

* ie the region covered by Gorbachev in his Vladivostok speech of 28 July 1986

places is unstable. Here it is necessary, without postponement, to find the relevant solutions and paths."

3. Gorbachev sees the Asia/Pacific region as a challenging one, offering the Soviet Union both new threats and new opportunities. Opportunities in that it is a diverse, complex, rapidly modernising region which could offer new scope for economic cooperation and for Soviet political influence. Threats because this very diversity and instability means that the Soviet Union is confronted with a multiplicity of potential competitors, of whom some are former enemies, some are rapidly growing in economic strength and most are basically sympathetic to the West. Moreover, the USSR has thousands of miles of land and sea border to defend in Asia - all this in an area of sparse population and poor infrastructure. The sense of vulnerability which these geographical conditions create is heightened by the absence on the USSR's eastern border of any established and predictable political framework for managing tension such as exists on the Western front between NATO and the Warsaw Pact. The challenge facing Gorbachev is how to maintain Soviet security effectively enough to meet these changing circumstances without incurring rising defence costs which would cripple perestroika, and without alienating the Asia/Pacific countries who he hopes will assist his ambitions of bringing about the Soviet Union's economic revival and projecting it as a major Asian power in the twenty-first century.

(II) Changing Soviet Attitudes towards the Asia/Pacific Challenge

a) Old Thinking:

4. Gorbachev's apprehension about developments to the East is nothing new. The Soviet leadership was already aware of the rising strategic, economic and political importance of the Pacific in the 1960s. The Soviet response from the mid 1960s was substantially to increase the USSR's military forces in the region and to adopt a generally aggressive posture even towards non-aligned Asian countries, such as those in ASEAN. This heavy-handed approach extended even to Soviet diplomacy. Japan, for example, regularly received as ambassadors demoted Soviet officials with no knowledge

of, and little sympathy for, the country. In general, the Soviet Union paid little attention to developing political or economic relations with the neutral or Western oriented Asian/Pacific countries, concentrating instead on forging or consolidating links with socialist allies: Laos, Cambodia, Vietnam and North Korea.

5. The Soviet Union's preoccupation during the 1960s and 70s with its strategic/military posture in the Asia/Pacific was the result not only of a lack of political flair and imagination on the part of its leadership. It was also shaped by the state of the USSR's relations with its two great rivals - the United States and China. By the early 1960s the close relationship which had existed between Mao's China and the Soviet Union during the 1950s had fallen apart, ostensibly over ideological disputes about Soviet "revisionism" and Maoist "adventurism", although old-fashioned chauvinism was undoubtedly the major factor. Each side began to build up its forces along the Sino-Soviet border, culminating in the armed clashes of 1969. Relations with the United States in the Pacific during the late 60s and much of the 70s were dominated by the war in Vietnam and by US success in dramatically improving its relations with China (Nixon played his "China card" in 1972).

6. By the end of the 1970s the Soviet leadership may have regarded its achievements in Asia as substantial. From the military point of view the situation had undoubtedly improved: a considerable increase in military strength had brought the Soviet Union closer to parity with the US in the region; an alliance had been struck with Vietnam, at China's expense; the pro-Chinese regime in Cambodia had been removed; and Soviet control over Afghanistan had increased.

7. Yet what Brezhnev does not appear to have faced up to at the time was that these military-expansionist successes were being paid for at the expense of the USSR's political and economic relations in the region. By the early 1980s Moscow found itself alienated from the non-communist Asian countries (with the important exception of India which, not least because of its determination to project its own power in the region in competition with China and Pakistan, could not afford to disturb its longstanding friendship with the USSR). The non-aligned countries condemned outright the Soviet

invasion of Afghanistan in 1979, and the Soviet Union found itself regularly pilloried in the United Nations. Moreover, the all-too-apparent failure of the Soviet political and economic model had by now caused the non-aligned countries, socialist Burma, and even some of the non-ruling Communist parties in the region to decide to keep their distance. By contrast the US, despite its military humiliation in Vietnam, had come out the winner in the region in political and economic terms. The newly independent and industrialising Asian and Pacific countries looked towards US markets and grew wealthier on liberalised trade. American influence in the region flourished. As Dr Gerald Segal points out:

"The majority of decolonised states did not look to Moscow for revolutionary guidance. What is worse, the NICS demonstrated that North-South relations need not always be hostile and that cooperation that excluded the communist states could be fruitful. The NICS offered a model for development that excluded and challenged the Soviet Union." *

By the mid 1980s the USSR had as its Allies the poorest countries in the region, heavily dependent on Soviet aid, whereas the United States had links with some of the fastest growing economies in the world.

8. What the Soviet Union had once regarded as the gains of the 1970s had turned into politically and/or economically costly encumbrances. Perhaps the only achievements of Brezhnev's policies which will stand the test of time (and glasnost) will be the maintenance of close relations with India and the beginnings of the rapprochement with China in 1981/2.

b) New thinking; reassessment of Soviet interests/tactics in the region

9. Changes in the Soviet attitude to third world client states - notably disillusionment with the high economic and political cost of supporting them - had begun under Brezhnev and were reinforced by Andropov. But it was not until Gorbachev came to power in March 1985 that a major reassessment of Soviet policies towards the

* "The Soviet Union and the Pacific Century"

Asia/Pacific region was undertaken. Gorbachev was the first to recognise - and his spokesmen the first to admit - that earlier Soviet policies had been misconceived and counter-productive to Soviet interests.

10. The extent of the change in thinking can be measured by comparing Brezhnev's report to the 26th Party Congress in 1981 and Gorbachev's to the 27th in 1986. Brezhnev devoted a major part of his report to the Third World, citing the "fresh victories" of the "revolutionary struggles of peoples" as evidence that the "correlation of forces" were moving inexorably in the Soviet Union's direction. Five years later Gorbachev paid scant attention to the Third World, nor did he mention any of the Soviet client states by name. His speech contained a warning that Soviet priorities had shifted away from support for world revolution and towards the revitalisation of the Soviet economy:

"the CPSU sees as its main internationalist duty the successful progress of our country."

Instead of boasting about shifts in "the correlation of forces" Gorbachev laid emphasis on the need for "mutual security" and "peaceful co-existence".

11. Gorbachev had inherited a much improved defensive capability in the Pacific. He could probably afford to decide that, barring new Western moves, the development of the Soviet Pacific fleet had already gone far enough to ensure the USSR's basic interests of protecting Soviet security and free movement. His urgent priorities in the region now were to:

- repair the political and economic damage caused to Soviet interests in the Asia/Pacific region by the narrow-minded policies of his predecessors.
- emphasise the need to demilitarise the Pacific so as to hinder any further improvement in US and Japanese military (especially naval) capability

- concentrate resources on domestic reconstruction, including the development of Soviet Asia

12. Gorbachev registered his interest in the Asia/Pacific region soon after taking office in March 1985. He took the opportunity of the Indian Prime Minister's visit to Moscow in May 1985 to revive Brezhnev's proposal for an "All-Asia Security Forum" (a hasty and rather ill-judged move which was poorly received in the region). In January 1986, Foreign Minister Shevardnadze travelled to Asia, visiting Mongolia, North Korea and Japan (Gromyko had not visited any Asian country other than India since 1976). This visit, and a Soviet Government statement on the region issued in April 1986, set the stage for a major speech by Gorbachev on 28 July 1986 spelling out the new Soviet policy towards the region.

13. Gorbachev's choice of Vladivostok as the venue for this key speech was designed to:-

- underline that the USSR wanted a stake in the political and economic future of the Pacific Basin;
- give a boost to the economic development of Soviet Asia;
- draw attention to the strategic importance of the Asia/Pacific region to the USSR.

More than half of the Vladivostok speech was devoted to the importance of the development of Soviet Siberia and the Soviet Far East. The section on foreign policy was striking for its tone - conciliatory, activist and moderate - which marked a deliberate departure from the defensive and clumsy approach of the past. The speech presented the Soviet Union as a non-threatening and constructive power with a legitimate role to play in the region, willing to improve relations with all countries and hopeful of creating a new political framework to lower tension and enhance mutual security in the region. This time Gorbachev proposed not an "All-Asia Forum" but a "Pacific Ocean Conference", which would

include the United States. (There is a parallel here with Soviet tactics in Europe: the Russians pressed hard for a European security conference without the Americans until political realism eventually forced them to change tack). Gorbachev hinted in his speech at flexibility over the border dispute with China, announced limited troop withdrawals from Mongolia and Afghanistan, and proposed a number of confidence- building measures (not all new) on the reduction of naval activity and maritime security. Finally, he stressed that any security arrangements worked out for the region should be integrated into the "Comprehensive System of International Peace and Security" (CSIPS) which he had proposed at the 27th Congress of the CPSU (and which the Russians were planning to launch as a UN General Assembly Resolution later that year).

14. If Gorbachev had hoped that enthusiastic rhetoric, vague proposals and a couple of token troop withdrawals would be enough to change the course of Soviet relations with the Asia/Pacific he was in for a disappointment. China, Japan and the other major Asian countries all reacted cautiously and reminded the Russians of the various "obstacles" which lay in the path of better relations. Other Soviet proposals have since followed in an attempt to keep the Vladivostok initiative alive. Exactly one year later, in an interview published in the Indonesian magazine "Merdeka", Gorbachev announced his offer to remove all SS20s from Asia, clearing the way for a global INF deal. The Russians also set up a "National Committee for Asia/Pacific Cooperation" to foster Soviet trade with the region, to develop Soviet Siberia and to help the USSR gain admission to the Pacific Economic Cooperation Conference (PECC). Consideration is now being given to opening Vladivostok as a duty free port, and to the establishment of Chinese-style special economic zones in the Soviet Far East. Last but not least the Russians are now withdrawing from Afghanistan and are putting pressure on Vietnam over Cambodia. The Russians will have to work harder still if they are to overcome the wariness of their closest Asian neighbours and the indifference of those further away to make a real impact on the region; but they have already shown that, under Gorbachev, they are prepared to put ideology aside and to think imaginatively rather than defensively about their foreign policy. We can expect more initiatives to follow.

III Soviet Diplomacy

(a) Bilateral Diplomacy*

15. In the Asia/Pacific region, as elsewhere, the first manifestation of the new Soviet tactics was a major diplomatic effort - the so-called "smiling offensive" - aimed at improving the level and frequency of bilateral contacts. Such an approach is hardly surprising (although it took a Soviet leader of Mr Gorbachev's finesse to think of it) since smiles cost little. These initial diplomatic approaches almost certainly enabled the Russians to test the water and to gauge what more, if anything, they would need to concede. Although their activities have been stepped up all over the region, the Russians have so far concentrated their greatest diplomatic effort on the major economies closest by - China, Japan and the ASEAN countries. At the same time they have worked hard to strengthen links with their longstanding socialist allies, whilst taking a firmer line with these countries to encourage them along the path of economic and political reform.

China

16. The slow improvement in Sino/Soviet relations began in 1982 after Brezhnev's Tashkent speech, when regular political consultations and some economic and cultural contacts were established. Since then mutual doctrinal hostility left over from the Mao era has gradually given way to tolerance and to a recognition that each country might learn and benefit from the other's experience in undertaking economic and political reforms. But the Chinese are well aware that Gorbachev is a man in a hurry and are too hardheaded to let him brush aside the past without extracting real concessions in return. Deng Xiaoping's "three obstacles" to high level and party-to-party relations (Afghanistan, Cambodia and Soviet troops massed along the Sino/Soviet border) remain firmly in place, despite Gorbachev's repeated efforts to make a Sino/Soviet political summit the first priority. In recent months the Russians have however moved on from rhetoric to begin to make progress on all three obstacles. There is now a real prospect over the next few years of a full normalisation of political and economic

relations, although the Chinese have explicitly ruled out any return to the kind of alliance which existed during the 1950s. Such a return would not in any case be in China's interest as long as she continues along the path of economic reform, since the Chinese need Western technology and markets.

Japan

17. Gorbachev's decision to send his new Foreign Minister Shevardnadze to Tokyo in January 1986 marked a dramatic shift in the Soviet attitude towards Japan (Gromyko had last visited Japan in 1976; after that he had refused to revisit Japan while Tokyo maintained its claims to the Northern Territories). The communiqué signed at the end of the visit contained an agreement to discuss post war problems, including by implication the disputed Northern Territories. An increase in political exchanges followed, and a visit by Gorbachev was mooted. But the new atmosphere was short-lived. Relations were set back by the Toshiba scandal involving the export from Japan of Cocom embargoed technology and by a Soviet espionage case. An agreement for an annual exchange of foreign ministerial visits was subsequently allowed to lapse.

18. In the last few months, however, the Russians have made renewed efforts to recover from this setback. Shevardnadze may visit Japan later this year. Although it has been stated firmly that Moscow will not shift on the fundamental question of sovereignty of the Northern Territories, some ideas are now being floated, eg a possible demilitarisation of the islands or the return of the two southernmost (less strategically important) islands, and the Russians have already made a small but well-received gesture in allowing Japanese visits to grave sites on the two southernmost islands. The Northern Territories issue is a formidable obstacle for the Russians to overcome since the islands are strategically valuable to them for the defence of the Okhotsk Sea. But Gorbachev needs Japanese technology and investment in Soviet Siberia more than the Japanese need Soviet raw materials, so concessions in this area could well be made once Gorbachev judges that the time is right. In the meantime the Russians may be hoping that the prospect of improved relations with ASEAN and of an eventual Sino/Soviet

rapprochement will help to put pressure on Japan to accept a compromise.

ASEAN

19. As with China and Japan, the Russians have tried in their dealings with the ASEAN states to side-step the key strategic/political issues in order to improve diplomatic and economic relations. ASEAN reactions so far have been universally wary. They have long mistrusted the Soviet Union because of its support for Vietnam, particularly over Cambodia. They are pragmatic countries whose main interests are inward investment and exports, on both of which the USSR has little to offer them. The main targets for increased Soviet attention have been Thailand (the front line state with Cambodia) and Indonesia (potentially the major ASEAN power). The Russians have tried to make the most of the difficulties created by the oil price decline (for Indonesia) and by growing US protectionism (eg by offering to buy Thai exports kept out by US trade barriers). Trade with ASEAN, however, remains at a disappointingly low level (\$487 million in 1986 compared to \$29 billion between ASEAN and Japan and \$24 billion between ASEAN and the US) and Cambodia is still a major obstacle to improved political relations. Nevertheless there has been a high level exchange of defence visits with Thailand and in May this year the Thai Prime Minister visited Moscow.

20. The Russians have moved cautiously towards the Philippines. They made a bad mistake in 1986 by clinging on to Marcos right up to the day of his departure - evidence both of their poor judgement and of their poor access to information in this area of predominantly US influence. Since then they have been doing their best to put this right and formal political contacts with the Aquino Government have recently been stepped up. At the same time the USSR wants discreetly to help those on the left in the Philippines who are pressing for the removal of US bases. The Russians have said publicly that if the US bases were withdrawn they "would not fail to respond" (whatever that means). They have formally pledged to Mrs Aquino that they will not help the communist New People's Army (NPA) and have offered her a substantial economic package. But the

economic agreement has yet to be signed and there have been hints of covert Soviet contacts with the NPA.

The Socialist Allies

21. Gorbachev has made clear that the Soviet Union cannot afford to go on indefinitely supporting Third World client states who pursue policies which have brought them to the brink of economic collapse. Current Soviet aid to Vietnam, for example, approaches \$2 billion annually, mostly in the form of subsidies. Shevardnadze, during his March 1987 visit to South-East Asia called for better use of aid and for a speedy resolution of the conflict in Cambodia. Yet the Russians have not scaled down their commitments to these countries. Nor is there any evidence that, in their anxiety to improve relations with the non-Communist world, the Russians would be prepared to put their military facilities or their influence in Vietnam or North Korea at risk, for example by pushing the Vietnamese too hard for a settlement on Cambodia. On the contrary, Gorbachev (unlike his predecessors) has been keen to improve relations with North Korea and to step up Soviet economic and military assistance to Kim Il-Sung, despite the unpredictable behaviour of his régime. Gorbachev is evidently still optimistic that in time he will be able to have his cake and eat it ie retain his military facilities and transform his socialist allies from a state burden into an economic and political asset.

(b) Security/Regional Issues

22. Security considerations are paramount in Soviet foreign policy towards the Asia/Pacific region. That Gorbachev should now be emphasising "mutual security" and an improvement in political and economic relations, rather than the military build-up favoured by his predecessors, is primarily because:-

- (i) that build-up has now reached a sufficient level in the region to afford the USSR adequate protection of the homeland (although modernisation will obviously continue);
- (ii) the "gains" of the 1970s by the USSR and its communist

allies have turned out to be military, economic and political burdens which those countries can ill afford;

- (iii) Gorbachev believes that, at best, he can turn the setting up of new frameworks for "mutual" security to the USSR's strategic and political advantage at little cost. Failing that, he hopes at least to persuade the non-socialist countries of the region to adopt an even-handed approach in their dealings with the US and the USSR, which would work to Soviet advantage.

23. Gorbachev's revival of the "Asian Security" concept was in some respects surprising given the failure of similar proposals advanced by Brezhnev since 1969. That the Russians have persisted with the idea (albeit in modified form), and have shown flexibility over US and Chinese participation, is a measure of the importance they attach to an eventual Helsinki-type security agreement for the Asian region. Although greater stability and predictability in the region is a major (and legitimate) Soviet concern, the Russians obviously hope to make good propaganda use of their security proposals (eg for nuclear-free zones and limits on naval activity) to play on regional anti-nuclear sentiment, to restrict US naval activity and generally to portray US policies in the region as aggressive and destabilising.

24. So far, Soviet proposals have made little headway. Asia/Pacific countries are wary of Soviet intentions and have made it clear that the Soviet Union will need to demonstrate that it is serious about "mutual security" by withdrawing completely from Afghanistan and pushing Vietnam to withdraw from Cambodia. Even then, those countries closest to the Soviet Union, especially China and Japan, are well aware of Soviet land-based nuclear capability and of the fact that the USSR has been careful to omit its own territory from all proposals for nuclear-free zones. The only good developments, from the Russian point of view, have come from the Southern hemisphere Pacific countries, who regard themselves as well away from the Soviet threat and more at risk from US fishing interests and from French nuclear tests. The Russians were particularly heartened by New Zealand's ban on nuclear port calls,

which led to the US suspension of its defence and intelligence cooperation under ANZUS, and by the signing of the South Pacific Nuclear-Free Zone (SPNFZ) Treaty (both the Soviet Union and China hastened to sign the protocols of this Treaty, while France, the US and the UK declined to do so).

25. Of the various Soviet security proposals probably the one with the most promising prospects for the Russians is the establishment of nuclear-free zones. This is because similar ideas were already gradually gathering political momentum in the region before the Russians jumped on the bandwagon. New Zealand's anti-nuclear policies, for example, were the result of domestic public opinion and cannot be said to owe anything to Soviet propaganda - indeed the New Zealanders remain basically antipathetic to communism. Equally, the drawing up of the SPNFZ Treaty was inspired by French nuclear testing policies and by irritation with being pushed around by the big nuclear powers - although the Russians did what they could to turn the event to their political advantage. Further north the ASEAN countries as early as 1971 signed a declaration whereby they said they were "determined to exert initially necessary efforts to secure recognition of, and respect for" a "Zone of Peace, Freedom and Neutrality" (ZOPFAN). The same countries (plus Brunei which joined ASEAN after the signing of the ZOPFAN declaration) have long been edging towards the establishment of a "South East Asia Nuclear Weapon Free Zone" (SEANWFZ) and the December 1987 ASEAN summit agreed to "intensify efforts" towards the realisation of both the ZOPFAN and the SEANWFZ. Yet the ASEAN countries remain fundamentally anti-Soviet and these proposals reflect their own concerns and political ambitions. If anything, worries about playing into Soviet hands have tended to slow down what would otherwise have been a strong political movement within ASEAN and the NAM in favour of these policies.

26. What will change the climate in Asia (and perhaps remove some countries' worries about "playing into Soviet hands") will be if the USSR faithfully executes a total withdrawal from Afghanistan and if it succeeds in persuading Vietnam to withdraw in good faith from Cambodia. At present, the prospects for both look good. Even the initial withdrawals we have seen so far are beginning to make

countries in Asia and the West ask painful questions such as:-

- If the Russians withdraw from Afghanistan should economic support continue to be given to Afghan mujahaddin who refuse to participate in a broadly-based government and insist on the rule of Islam?
- If Vietnam withdraws from Cambodia how to prevent the return to power of the Khmer Rouge or prevent them from undermining any agreement which excludes them?

Western mishandling of either of these issues could create new frictions with Asian countries which the Soviet Union would hope to exploit.

27. Yet, given longstanding tensions between the major Asian powers (eg between Pakistan and India, India and China and China and Japan) and the great diversity of the region it seems unlikely that the Russians would succeed, at least in the foreseeable future, in drawing the major Asian/Pacific countries into a formal security arrangement of the kind they would like to see. Probably the best that they can hope to achieve over the medium term is a more neutral and even-handed approach by some countries in their defence dealings, especially over the granting of naval access, and a new momentum behind existing proposals for the establishment of nuclear free zones, both of which would operate to the detriment of US freedom of manoeuvre in the region and further curtail Western strategic superiority.

(c) Economic Relations

28. Gorbachev realises that a major test of Soviet perestroika will be whether it eventually enables the USSR to benefit from the expected economic dynamism of the Pacific Rim in the twenty-first century. If the USSR continues to fall seriously behind the emerging Pacific countries in economic terms its superpower status will soon be called into question. (By some estimates 1990 will see Japan overtake the USSR in total GDP). Important to success - and to projecting a credible Soviet presence in the Asia/Pacific region

- will be the economic exploitation of Soviet Asia. Although rich in natural, especially energy, resources, the region is underdeveloped, underpopulated and economically stagnant. Even fuel has to be imported from European Russia. Gorbachev sees industrial cooperation with Japan/the NICS and agricultural cooperation with China as the way forward, although he recognises that his reforms will need to be carried further before serious foreign investment can be expected.

29. Yet how seriously should we take Gorbachev's claims to want to shift Soviet priorities in the Asia/Pacific region away from strategic and political rivalry with the West and towards peaceful economic cooperation? After all, the region still only accounts for around six per cent of total Soviet trade. Moreover, the real growth in Soviet trade with the region so far has been not with Japan and ASEAN but with the USSR's socialist neighbours. In the period 1980- 1987 Soviet trade with the socialist East Asian states more than doubled, from 27 to 60 per cent of total Soviet trade with the region. Over the same period Soviet exports to the socialist states had risen from 42 to 75 per cent of total Soviet exports to the region. By contrast, Soviet trade with non-socialist Asian/Pacific states is fractional (and declining) compared with those countries' trade with the United States and other Western countries. The Russians certainly need to trade more with the rest of the world. But it is questionable whether they can realistically expect ever to catch up with the advanced Western countries economically and technologically, except perhaps in certain limited sectors eg space technology.

30. If the reform processes in the USSR and China were to make headway and if Vietnam and North Korea became more peaceful and successful probably the best the Russians could aspire to would be some kind of loose 'socialist' trading group (on the ASEAN rather than the COMECON model). The Russians could reasonably hope that such a group might trade with other middle-ranking, middle technology countries (India, Iran, Indonesia, Australia etc) and that it might eventually become a model for the economic development of poorer countries which could rival the capitalist one politically. But it could not be expected to compete with the West economically within an open global market (hence Soviet hankering after a "New Economic Order").

Might Gorbachev privately acknowledge these economic limitations but believe nonetheless that with a combination of political and economic reform at home and imaginative diplomacy abroad he will in time be able to achieve a synthesis between a more competitive socialist market and a more managed world economy? Even under such a scenario there would still be strong incentives for the USSR to push its socialist allies towards economic reform and towards the settlement of costly regional disputes.

31. Whatever Soviet long-term ambitions may be, in the shorter term they badly need Western technology. The Soviet Union has said for some time that it would like to attract Japanese technology and investment to Siberia, but so far the Japanese have proved a hard nut to crack. Japan is by far the largest individual Soviet trading partner in the region, accounting for around 46% of Soviet imports from the region and around 25% of Soviet exports to the region (although this latter figure has fallen from 52% in 1980). The Japanese are now less anxious about alternative sources of energy than they were in the 1970s and the Northern Territories dispute remains for them an important obstacle which the Russians so far have been reluctant to tackle (although there is clearly scope for concessions at some stage). If the relationship with Japan fails to develop then the Russians and their allies may concentrate on trying to obtain the technology they need from the less security-minded NICS. Already they are stepping up trade links - the Hungarians for example recently opened a trade office in Seoul and a number of South Korean businessmen have recently been to Moscow.

32. In this respect it is hard to predict how constructive a role the USSR would play within the Pacific Economic Cooperation Conference (PECC) and the Asian Development Bank (ADB) if it were ever allowed to become a full member (it has so far been granted only observer status in both. The PECC is the most promising of the two, since the Russians will be reluctant to pay the c.US\$100- 200m hard currency fee for full membership of the ADB. The question of Soviet membership of the PECC is likely to come up at the organisation's next meeting in New Zealand in late 1989). The fact that the Russians are now seeking to participate at all in these Western-dominated economic organisations represents a major change

in Soviet attitudes since the Brezhnev years. The Russians see the PECC as a useful channel for building up pragmatic trading relations with the NICS. But they also see themselves as in direct political competition with the US and Japan and will be keen to use the PECC to extend their political influence. The problem for Japan and the US will be preventing the Russians from muscling in on the PECC, given that many of the farther-flung PECC members are less worried about the Soviet threat and some will be hoping to boost their trade with the USSR.

33. Australia is a case in point. It is the Soviet Union's fifth largest trading partner in the region, and third largest exporter to the Soviet Union overall. There have recently been an unprecedented number of high-level exchanges, including Australian Prime Minister Hawke's visit to Moscow in late 1987 and a visit to Australia in July 1988 by Soviet Deputy Prime Minister Kamentsev. Mr Hawke has commented publicly that he sees the Soviet Union as having "legitimate" interests in the South Pacific and a senior Australian official recently commented to our High Commissioner in Canberra that Australia and the Soviet Union had important complementary interests, particularly over timber and wheat, and that these were good enough reasons for a closer relationship.

IV. Conclusions

34. The key objectives of Gorbachev's policies in the Asia/Pacific region are to:-

In the shorter term:

1. Recover from the misguided economic and political policies of the previous leadership by:
 - dismantling the Soviet Union's threatening/expansionist image and encouraging Asian/Pacific countries to adopt a more even-handed approach towards the two superpowers.
 - giving up territorial gains which are an economic and political burden, and encouraging the USSR's socialist allies to do

likewise.

- promoting perestroika and revitalising the economies of Soviet Asia and of the socialist allies.
- improving political and economic links with non-socialist countries in order to obtain Western technology and to enhance the Soviet Union's political influence at the expense of the West and China.

2. Consolidate existing Soviet military strengths and improve on them where this can be done at low political and economic cost.

3. Prevent the United States and Japan from building up their strategic (especially naval and Anti-Submarine Warfare) assets in the Pacific and restrict their freedom of movement wherever possible.

In the longer term:

4. Possibly create a viable, middle-technology, socialist trading group which can act as a model for developing countries and can trade with other middle-ranking countries.

5. Thereafter use the USSR's enhanced image with non-aligned and developing countries, and within the United Nations, to bring about the creation of a Pacific Ocean Conference (if possible as part of a Comprehensive System of International Peace and Security (CSIPS)) and a more managed world trading system which might help restrict the West's capacity to make competitive use of its technological superiority both in the security and economic fields. From the Soviet Union's point of view, such systems of political and economic management would make for a more stable and predictable world.

V. Implications for UK Policy

35. Gorbachev's longer term aims are extremely ambitious. They depend entirely on the ability of the Soviet Union and its allies to restructure and revitalise their economies without breaking up

either internally or as a group. Many in the West would be highly sceptical that revitalisation could be possible without such a degree of decentralisation and liberalisation that it would be impossible for the Soviet leadership to retain control of the process or for what emerged at the end still to be identifiable as 'socialist'. The fact remains, however, that if against the odds Gorbachev did succeed then the international political structures he would be trying to create would ultimately be at odds with Western concepts of nuclear deterrence and an open, competitive, world market. (This need not concern us unduly so long as Soviet competition remained peaceful and so long as Western trade and defence concepts continued to be attractive to newly emerging/industrialising countries).

36. They would probably also be at odds with China's vision of its own future. The Soviet Union will undoubtedly be working hard to engage Chinese political support for its long term aims (the Russians have already made great efforts to try to overcome Chinese indifference towards the CSIPS). Yet China, unlike the Soviet Union, might reasonably hope over the next 50-100 years to succeed in trading and competing effectively with the West. Moreover China, like the UK, has an independent nuclear deterrent which it would not wish to give up.

37. Given that the UK has in common with China:-

- an independent nuclear deterrent;
- a seat on the UN Security Council;
- a strong perception of the Soviet threat;
- concern over the future success of Hong Kong,

We should be well-placed to encourage China to continue to look eastwards for trade and investment and to keep its distance from Soviet propoganda ploys such as the CSIPS and the New Economic Order.

38. Nothing would serve Soviet interests better than a rise in protectionism in the US and Europe which began to exclude the developing Asian economies from Western markets. The UK (and the EC generally) shares with Japan and the developing Asian countries an interest in keeping world markets open. We can work together in the GATT and, to some extent, through the Economic Summit Seven grouping to achieve this. It would however be unfortunate if the European countries and Japan and the Asian economies, who have certain shared political and economic interests, were to become divided into two separate economic groupings - the OECD and the PECC - as risks happening if the Americans and the Japanese continue to strengthen the role of the PECC and if Western countries continue to resist admitting the NICs to the OECD. We should consider very carefully what we can do now to prevent this from happening.

39. On the security front the creation of a Helsinki-style Pacific Ocean Conference would clearly not be in our interests since it would enhance Soviet influence in the region and enable the Soviet Union to play the European and Asian negotiations off against each other. Moreover, since the Asian countries are not used to coordinating their negotiating hand as the Western countries are, they would risk being outmanoeuvred, with possible knock-on consequences for the West. In practice however, the Asian countries appear well aware of the dangers and have been wary of Soviet proposals. Even the Russians acknowledge that the creation of such a conference is at best a long way off.

40. The more immediate challenge will be to ensure that the West does not misplay its hand over Afghanistan, Cambodia, the Philippines and the nationalist aspirations of the South Pacific countries. All four issues could if wrongly handled encourage Asian/Pacific countries to adopt a more non-aligned stance and threaten Western political and strategic assets in the Pacific and Indian Oceans. The Americans and the French have traditionally tended to take a tough and high-handed approach towards the countries in the South Pacific. The Russians are now trying to reap the political benefit by treating South Pacific countries more diplomatically and by offering fishing and other trade arrangements. On Afghanistan and Cambodia we shall have to work hard to prevent

the Soviet Union and Vietnam from picking up cheap political credit by withdrawing their forces, whilst leaving the West to cope with the ensuing political and economic problems.

41. How successful the Russians will be in fostering more non-aligned policies in the region will to some extent depend on how the next US Administration plays its hand. The Reagan Administration was successful in bringing the Russians to the negotiating table on nuclear issues and gained much credit in the region for pushing through the global INF deal. The Japanese and the Chinese have admired the tough US approach on defence issues (if anything, the main Japanese concern has been to stiffen the American negotiating stance eg, on SLCMS). If Dukakis becomes the next President the Japanese will be more worried than they were about US commitment to a strong defence posture in the Pacific. In other respects, however, a Democrat Administration which decided to:

- give lower priority to the US military presence in the Pacific;
- place more emphasis on operating multilaterally, including through the United Nations, and on negotiated settlements generally;
- (perhaps even) reconsider US policy towards the establishment of Asia/Pacific nuclear-free zones;

might ultimately be more effective than the Republicans in countering Soviet political influence in the region, provided that the US continued to drive a tough bargain at the negotiating table on issues directly affecting Western security. Either way, we in Europe will need to watch carefully for any changes in US policy, especially over nuclear-free zones, which could leave us exposed.

VI. Policy Recommendations

42. The Asia/Pacific is an area where the UK now has few purely national interests (Hong Kong until 1997, Pitcairn), and where the

Americans and Japanese are the key Western players. Nevertheless we are important traders and investors in the region. Moreover, a number of Asian/Pacific countries do look towards the European Community both as a politically moderate grouping counterbalancing the two superpowers and as a possible model for future regional structures. The UK is probably the best-placed EC interlocutor from the Asia/Pacific countries' point of view because:-

- English is the most widely-used international language;
- Britain has close historical links with the region, which the Commonwealth helps to maintain;
- Britain has the closest relations with China because of common concern over Hong Kong;
- Britain understands and can sometimes influence US policy..

We should take full advantage of these assets to help protect the wider Western interests which are at stake in the region, by building up an effective political dialogue, bilaterally or through the Twelve as we judge appropriate, with key players.

A. Security Issues

43. We should:-

(a) Help counter long-term Soviet ambitions to create a CSIPS and a Pacific Ocean Security Conference by:

- encouraging the new US Administration to work with the UN, rather than dismissing it out of hand and leaving the field clear for the Russians (c.f. Sir Crispin Tickell's despatch of 15 June 1988)
- using our regular official and Ministerial contacts with China to monitor the developing Sino/Soviet relationship and to encourage the Chinese to maintain their current distance from the CSIPS (para 37 above).

- taking the lead in fostering closer political relations between the Twelve EC countries and key Asia/Pacific countries (China, Australia, New Zealand, South Pacific states), similar to the link already established between the Twelve and ASEAN.

EC countries have yet to take full political advantage of their trade and aid relations with the Asia/Pacific countries (the EC is for example a major aid donor to the Pacific Island states). They could use political contacts to discuss Soviet foreign policy, regional conflicts, global issues such as terrorism, drugs, nuclear and CW proliferation, and perhaps US policies, since this could help to anticipate and defuse problems.

- (b) Ensure that posts inform the FCO in good time of major conferences in the region on political/security issues at which Soviet representatives are likely to be present. It would be useful where possible to field UK specialists to monitor Soviet policies and to ensure that Soviet propaganda is challenged (Soviet institutes such as IMEMO have recently been making a major effort to attend conferences and to build up non-official links in the region).

B. Regional Conflicts

44. A full review of UK policy towards Afghanistan has recently been completed (Mr Burn's submission of 11 July 1988 to PS/Lord Glenarthur). Work on Cambodia is currently in hand (Mr Colvin's minute of 4 July "Cambodia: Elements of a New Policy").

From the point of view of countering Soviet policy in the region the following elements of any UK policy on Cambodia seem worth stressing - we should:-

- (a) Continue to press for full Vietnamese withdrawal;
- (b) Draw public attention to the economic conditions in Vietnam and to the refugee problem, both of which are the consequences of

communist military expansionism and misconceived domestic policies;

- (c) Bring UK and EC pressure to bear on China to remove Pol Pot in the event of a settlement, to limit the role of the Khmer Rouge within any new government and to cut off military aid.
- (d) Encourage Japanese involvement in future aid/peacekeeping efforts (within the limits set by constraints on Japan's military role). Use our expertise to assist the Japanese, to help coordinate the Western effort generally and to ensure maximum publicity for Western efforts.
- (e) Press the Soviet Union to contribute to multilateral aid efforts.

If either Pakistan or China were to succeed in replacing Soviet-backed governments in Afghanistan and Cambodia with new extremist and unpopular régimes, Western interests in the region and in the UN would suffer and the Soviet image would be enhanced, with unpredictable long-term consequences.

B. Economic Issues

45. We should:

- (a) Continue to make full use, in our contacts with Asia/Pacific countries, of our efforts to reform the EC Common Agricultural Policy, to ensure that 1992 does not lead to "Fortress Europe" and to work through the GATT to maintain the open trading system.
- (b) Consider our policy towards the eventual admission of the NICS into the OECD, in the light of the growing importance of Pacific Economic Coordination Conference (PECC). The latter is currently not an inter-governmental organisation (although officials attend, along with businessmen and academics) but it could eventually turn into a Pacific-based alternative to the OECD which included the USSR but excluded Europe. Consider too

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whether to seek UK observer status at the next PECC meeting in Wellington in 18 months' time (action on this latter point is already in hand - Mr Carrick's minute of 1 July 1988 to Mr Gore-Booth).

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