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Asian Security and Hong Kong's Role in the War on Global Terrorism

By

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[The following were excerpts of the keynote remarks presented at the Center for Strategic and International Studies Conference, Washington, D.C, April 28, 2003.]

Globalization and its Effect on Terrorism

I think it is fair to say that, during much of the 1990s, most of us thought of globalization primarily in terms of increased economic integration, including increased trade, increased flows of information, capital, technology, and increased foreign investment. This economic integration and technological development often led to increased economic growth, as well as greater social and cultural interaction.

In recent years, however, we have come to appreciate that globalization brings with it not just potential benefits, but also significant threats and vulnerabilities. It is now clear that problems, which may once have been contained to a single country or region of the world, can today spread rapidly throughout the world, whether by electronic and financial networks, by an integrated global transportation system, or by our increasingly efficient trading system. One recalls, for example, the negative effects of the financial crisis in Asia in 1997 and 1998 that rippled throughout economies across the globe. And as we speak we are seeing the spread of Severe Acute Respiratory Syndrome (SARS) due to international travel within Asia and to other cities worldwide, outpacing efforts to contain it.

Unfortunately, we have seen the impact of globalization on terrorism. We can no longer safely assume that we will be insulated from the problems of failed societies, from political or religious extremism, or from rogue regimes in distant countries. Indeed, the attacks of September 11, 2001 made clear that terrorists in countries half way around the world can present significant and immediate threats to our security. In short, we now face a new form of terrorism, one that does not focus on narrow or geographically-confined political objectives, one that does not seek to negotiate solutions, one that observes no red lines and will use suicide attacks if necessary, and one that often does not even take credit for its heinous actions. This new breed of terrorism is intent on destroying our freedom, our tolerance, our diversity, and our economic well being indeed, the values that are shared by both the United States and Hong Kong.

The challenge of confronting and preventing terrorism in today's world is made all the more difficult by the very attributes of our societies, our openness, the integrated nature of our transportation systems and information networks, and the widespread availability of technology. The same technology and communication networks that are essential for modern trade and commerce are also used by global terrorist networks to advance their nefarious goals worldwide.

The threat posed by global terrorism and rogue states is, regrettably, alive and well in Asia. There have been numerous reports that Osama bin Laden's al Qaeda network has been working and coordinating actions with indigenous terrorist groups in Asia, groups that were previously viewed as only local or regional problems. The mainstream press has reported at length on apparent ties between al Qaeda and Jemaah Islamiyah, the Indonesian terrorist group that bombed a Bali nightclub last October, killing 190 people and wounding several hundred more. There also have been reports of connections between al Qaeda and Abu Sayeff, the terrorist group in the Philippines allegedly responsible for several bombings causing the loss of lives and economic damage in that country. And connections of a Singaporean group to al Qaeda were suspected in a plot to bomb the U.S. Embassy and other Western targets in that country, a plot that was foiled by cooperative efforts between the United States and Singapore.

Economic Cooperation and Security Cooperation Are Intertwined

Just as terrorism has increasingly acquired a global character, so too must our efforts to fight terrorism be coordinated on a global basis. Indeed, with globalization, both our economic well being and our security are now more closely intertwined than ever before. Today, the health of any nation's economy and the global economy is dependent on security, including the security of borders, transportation systems, computer networks, and mail systems. That is why security should be viewed not as an obstacle to economic activity, but as the foundation for it.

Asia-Pacific Economic Cooperation and the Secure Trade in the APEC Region Initiative

That is also why, today, the Asia-Pacific Economic Cooperation (APEC) forum focuses not just on economic issues, but also on security issues. The Asia-Pacific economic region accounts for over fifty percent of the world's trade, twenty-one of the world's thirty top container seaports, and twenty-three of the world's thirty busiest airports. In the year 2000, U.S. exports to APEC totaled \$500 billion, making the APEC economies as a whole the largest export customer of the United States. And U.S. imports from APEC in 2000 totaled nearly \$700 billion. In addition, Asia is the home of a number of significant financial and banking centers, including Hong Kong. Indeed, the overall health of the Asian economy is one of the keys to ensuring a strong global economy.

Significantly, therefore, the United States launched, at the APEC Ministerial meetings in Los Cabos, Mexico in the fall of 2002, the Secure Trade in the APEC Region (STAR) initiative. The objective of the STAR initiative is to commit APEC economies to accelerate action on screening people and cargo for security before transit, increasing security on ships and airplanes while en-route, and enhancing security in airports and seaports. This is a critical initiative for the U.S. government, given the significant economic relationship between the United States and the APEC countries. We greatly appreciate the fact that Hong Kong has actively supported the STAR initiative, and we look forward to continuing our work together in this area.

Container Security Initiative

Hong Kong also has been an active participant in other U.S. led and multilateral efforts to protect the global trading system from terrorist activity. As many of you know, a significant amount of global trade passes through a handful of "megaports," which serve as key distribution points in the global economy. Many such hubs are located near countries that pose proliferation concerns, and potentially could be used by terrorists or rogue nations to divert sensitive items to unauthorized destinations or end-uses. Hong Kong is one of the world's major "megaports" and currently the world's largest container port. The sheer amount of commerce that passes through the port of Hong Kong in a given year is staggering. Indeed, trade flows account for greater than two and one-half times Hong Kong's gross domestic product. Thus, Hong Kong is a natural and essential partner in efforts to improve security at major transshipment hubs.

We are therefore gratified that Hong Kong is participating in the Container Security initiative. This initiative, which is led by the U.S. Customs Service, focuses on ensuring that containers destined to the United States from foreign seaports are screened and cleared prior to the time that they arrive at U.S. ports. Given the size of Hong Kong's port and the fact that Hong Kong is the largest single supplier of containers destined for the United States, accounting for almost ten percent of all containers shipped to our country, Hong Kong's enthusiastic participation is critical.

Transshipment Country Export Control Initiative

In addition to efforts to secure containers bound for the United States, we must address the possibility that sensitive items originating in the United States or other nations that produce high-technology goods could be diverted through Hong Kong or other major ports to terrorists or rogue nations. To focus specifically on these diversion concerns, the Commerce Department launched the Transshipment Country Export Control Initiative (TECI).

Transshipment Country Export Control Initiative seeks to channel existing and new export control resources toward curtailing the illegal diversion of products that can occur at the major transshipment hubs. We are working in both the inter-governmental and public-private arenas. At the government-to-government level, the Commerce Department works with its counterpart export control agencies in key transshipment countries, such as the Hong Kong Trade and Industry Department to strengthen the export control regimes, to have export control laws apply to both goods produced in country as well as goods in transit, and to strengthen the enforcement of such laws so as to prevent the illegal diversion of sensitive goods and technologies to terrorists or other unauthorized end-users. At the government-to-private sector level, the Commerce Department is working with industry in particular, companies involved in the transportation of goods through transshipment hubs, to enlist their support in preventing the illegal diversion of such goods.

Since the inception of TECI in late 2002, Hong Kong has worked closely with the U.S. government to further the goals of this initiative. Hong Kong delegations have made presentations at several international conferences on the issue of transshipment controls and have been instrumental in developing a set of best practices for transshipment hubs. Hong Kong's continued cooperation in these efforts will be essential, because many other major global trading centers look to Hong Kong as a model of balancing effective trade controls with the successful expansion of economic activity.

Operation Greenquest and the Disruption of Terrorism Financing Networks

As one of the world's leading financial centers, Hong Kong is also playing a key role in efforts to identify and disrupt the financial networks that support terrorism worldwide. The U.S. government has blocked the property of, and prohibited transactions with, designated terrorists, terrorist organizations, and individuals and governments that support terrorism. In addition, the U.S. government has launched "Operation Greenquest" an interagency effort led by the U.S. Customs Service to bring the full scope of the U.S. government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding.

Hong Kong has pledged full cooperation with these efforts. Using lists of terrorist organizations and individuals supplied by the United States and the United Nations, Hong Kong financial regulatory authorities have directed financial institutions to check records and undertake other efforts to uncover terrorist assets. Hong Kong also has played a key role in encouraging the intergovernmental Financial Action Task Force on Money Laundering to adopt stringent anti-terrorism measures in the wake of the September 11, 2001 attacks, to implement recommendations against terrorism financing, and to build global support for the work of the Task Force among non-members.

Strategic Trade and Export Controls

Let me now switch gears for a moment and move from steps that the United States and Hong Kong are taking together to combat terrorism and enhance security in Asia, to some of the issues related to our strategic trade relationship which can involve terrorism concerns, but also goes beyond that. As you may know, the Commerce Department and, in particular, the Bureau of Industry and Security, is responsible for administering and enforcing U.S. export controls on "dual-use" goods and technologies. "Dual-use" items are those that have both a legitimate commercial use and a use in the development or production of advanced conventional weapons or weapons of mass destruction. For example, machine tools can be used to make civilian aircraft, but they also can be used to manufacture jet fighters for the military. Or chemicals can be used to produce agricultural pesticides, but they also can be used as precursors for chemical weapons.

Under the U.S. "dual-use" export control regime, Hong Kong enjoys a special status. This derives from Hong Kong having been a British dependent territory prior to its unification with China in 1997. Today, under the "one country, two systems" model established in the *Sino-British Joint Declaration of 1984* and formally recognized under both U.S. and Chinese law, many items

that are controlled for export to China such as high performance computers, certain telecommunications equipment, and certain semiconductor testing equipment and materials do not require a license for export to the Hong Kong Special Administrative Region. This special treatment for Hong Kong is based on the continued autonomy of Hong Kong's customs territory from China, as well as the strong support of the United States for the values that Hong Kong represents in Asia open markets, free trade, and the rule of law.

Hong Kong derives significant benefits from this special status, including access to a wide range of sensitive "dual-use" items and technologies from the United States. Indeed, in 2002 Hong Kong received \$54.4 million worth of sensitive "dual-use" goods under licenses issued by the Commerce Department and many times that amount under license exceptions. The licensed trade alone includes a number of items that fuel Hong Kong's economy, such as precursor chemicals and magnetic metals as well as various high-technology items, such as electronic equipment and information security equipment and software. Seventy-five percent of all applications to export controlled items to Hong Kong were approved in 2002, with 21 percent returned without action, usually because a license was not necessary, and only 4 percent denied.

To maintain this favorable and preferential status in the U.S. export control system, Hong Kong must continue to ensure that the integrity and autonomy of its customs territory is not compromised and that its actions do not undermine the reality or the perception that Hong Kong is separate from mainland China. This will be especially challenging in light of Hong Kong's plans for increased economic integration with China, for streamlining border controls with China and co-locating customs facilities, and for negotiating a free trade agreement with China. Any weakening of Hong Kong's autonomy would cast doubt on the rationale for its special status under the U.S. export control system.

Much to its credit, Hong Kong has put in place a world-class system of export controls relating to strategic trade, and has repeatedly emphasized its commitment to maintaining the effectiveness of this system. The Hong Kong strategic commodities control system applies to all items and technologies listed on the internationally-agreed control lists of the multilateral regimes. As previously noted, the Hong Kong system applies both to goods exported from Hong Kong and to goods that are in transit through the port of Hong Kong. Recent improvements to Hong Kong's system include the establishment of an online database of controlled items and the creation of an industry liaison position. Indeed, the Hong Kong system is often appropriately held up by the United States as an example for other nations that lack an effective and efficient export control system. And we very much support Hong Kong's increasing efforts to engage in outreach to its own exporters and shippers regarding the applicability and requirements of the strategic commodities control system.

A world-class export control system by itself, however, is not sufficient. In order to prevent the diversion of sensitive goods and technologies, export control laws and regulations must be vigorously enforced. Hong Kong has long cooperated with the United States on export enforcement matters, and we want to continue and enhance that cooperation. For the past six years we have held regular bilateral talks with Hong Kong trade officials on issues of mutual concern. We just concluded last week two days of very productive discussions as part of this dialogue.

These meetings have been a testament to the importance of our relationship and provide a strong foundation for future cooperation. One recent step toward our goal of increased cooperation on enforcement matters was the exchange of letters last month between myself and Hong Kong's Director General of Trade and Industry on mechanisms for sharing information. This new agreement should enhance our ability to share export licensing and enforcement data, and lead to more effective enforcement efforts by both the United States and Hong Kong.

Conclusion

The U.S. relationship with Hong Kong is as important as it is unique. The open markets and free trade necessary for the health of our economies cannot thrive in an environment where the threats of proliferation and terrorist attacks cause our citizens and our companies to disengage from the world economy. Our future prosperity will be tied directly to the success of our cooperative efforts to eliminate the global instability caused by terrorism.

Two important components of these efforts are our cooperation in administering and enforcing strategic trade controls to prevent the illegal diversion of sensitive items and technologies and our cooperation in identifying and tracking down financial assets and networks that support terrorism. In addition, our mutually-beneficial strategic trade relationship will continue to flourish if we are able to remain confident in the autonomy of Hong Kong's customs territory and export controls under the "one country, two systems" model. We look forward to working with our counterparts in Hong Kong to ensure that this is the case.