

SENIOR POLICY SEMINAR 2008



**Shifting Currents of
U.S. and Asia Pacific
Economics, Resources,
and Security**



EAST-WEST CENTER

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The Senior Policy Seminar Series summarizes discussions and conclusions at an annual meeting of senior security officials and analysts from countries of the Asia Pacific region sponsored by the East-West Center. These seminars facilitate nonofficial, frank, and non-attribution discussions of regional security issues. The summary reflects the diverse perspectives of the participants and does not necessarily represent the views of the East-West Center. The price per copy is \$7.50 plus shipping. For information on ordering contact:

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Preface

CHARLES E. MORRISON, PRESIDENT, EAST-WEST CENTER

The Senior Policy Seminar is a keystone event in the East-West Center's annual calendar. The 2008 seminar, ninth in the series, brought together senior foreign policy officials, private sector leaders, and analysts from countries around the region for nonofficial, frank, and non-attribution discussions of security issues in the Asia Pacific region.

In keeping with the Center's founding mission, the objective of the Senior Policy Seminar series is to promote mutual understanding and to explore possibilities for improving the problem-solving capabilities and mechanisms in the region. The seminar series also supports the Center's current operational objective of contributing to the building of an Asia Pacific community by facilitating dialogue on critical issues of common concern to the Asia Pacific region and the United States. In addition, the discussions at this seminar series help inform the agenda of the East-West Center's other research, dialogue, and education activities.

Although the 2008 Senior Policy Seminar took place in July, before the economic crisis that led to unprecedented steps by the U.S. government to restore confidence, the overarching theme of the meeting was the turmoil in the global economy—including financial markets, resources, and trade—and the related challenges to sustaining economic growth and to the regional order. With the U.S. presidential election campaign entering its final phase, the seminar also considered how these issues will impact, and be impacted by, the next president, and the likely views of the next president on foreign policy issues, particularly in the Asia Pacific region.

This report presents the rapporteur's summary of the group discussions and the theme sessions. As in past years, the report adheres to the "Chatham House Rule" under which observations referred to in the report are not attributed to any individual participant. All views expressed in these documents are those of the participants and do not necessarily represent either a consensus of all views expressed or the views of the East-West Center.

The Senior Policy Seminar series reflects the contributions of many individuals. Ambassador Raymond Burghardt, Director of the Center's Seminars Program, was the overall organizer again this year and served as a moderator. Dr. Satu Limaye, Director of the East-West Center in Washington, D.C., facilitated the discussion on Management of the Regional Order: Economic

and Political Challenges for Major Powers and Institutions. Richard Baker, Special Assistant to the East-West Center President, helped organize the seminar and facilitated the discussion of “soft power,” and again coordinated the preparation of this report. Jerry Burris, consultant to the East-West Center, served as rapporteur and drafted the report.

As in other recent years, the 2008 seminar was ably supported by East-West Center Program Officer Jane Smith-Martin; Corporate Secretary Carleen Gumapac; Seminars secretaries Marilu Khudari and Carol Holverson; student assistants Alyssa Valcourt, Alexandra Hara, and Fair Goh; and student volunteers Wang Qinghong and Ellen Kim. The staff of the East-West Center’s Imin Conference Center under Marshal Kingsbury again prepared the conference venue and managed the associated facilities. Editorial and production assistance for the report was provided by the East-West Center Publications Office.

The principal value of the seminar, however, is always found in the insights and contributions of the participants, both those who made opening presentations at the various sessions and those who participated in the frequently lively discussions. It is their observations that provide the analyses and judgments recorded in this report. We are very much indebted to them.

Executive Summary

The next American president will face an Asia Pacific region enjoying a “long peace,” but threatened by turmoil and uncertainty in health, the environment, and particularly the international economy. These were among the central conclusions of a gathering of policy experts, academics, and current or former government officials who met in Honolulu for the East-West Center’s annual Senior Policy Seminar.

“In terms of security, we are in the best of times of the new century,” said a participant. “But in economic terms,” he said, “we are facing tremendous challenges.”

The seminar offered front-line experts a chance to exchange views and formulate policy on core issues facing the Asia Pacific region today. At the top of the agenda of this year’s gathering, held July 8 at the Center, was the current turmoil in the U.S. and international economies, its impact on the region, and how these issues will impact the next U.S. administration.

HIGHLIGHTS:

Security: There was strong agreement that the security situation in Asia has rarely been better. “The arms are silent in Asia,” said one participant with a strong military background. However, the point was made—and accepted—that the region is still plagued by internal conflicts in many countries and that longstanding problems such as tension between North and South Korea and across the Taiwan Strait have not yet been resolved. The positive security assessment was also tempered by the sober realization that the region faces serious health threats such as the near-certainty of a global pandemic, sweeping environmental problems including climate change, and—most critically—a fragile international economy.

Economy: The economy was particularly troublesome to the group. Some worried that a continuing focus on growth and development in a region “still fighting the last war” (the Asian economic meltdown of 1997) would leave officials unwilling or unable to cope with new challenges such as inflation. Inflation presents a different challenge in Asia than it does in the United States today. But because Asian economies (and economic thinking) are so closely coupled with the United States, these participants argued that the wrong choices are being made. Decoupling the Asian and U.S. economies and a tightening of credit might make sense, but that is unlikely to happen, in part because of continuing pressure to maintain high-growth rates in Asia.

Resources: The resource crunch will hit in just about every sector: energy, food, water, and even the air Asia breathes because of the impact on air quality of global warming plus the gray pollution that comes with industrialization. The No. 1 resource issue for Asia, the conference agreed, is energy, which at least for the foreseeable future means oil. Experts stated that the plain truth is that the world is running out of usable and available supplies of the stuff. The world is capable of producing approximately 95 million barrels of oil per day. Today, we are at 87 million per day, and demand continues to grow. Once demand outstrips supply, today's high oil prices will become but a memory. Oil is ultimately a nonrenewable resource. Food, water, and air are renewable, but they pose their own challenges. The recent round of food shortages and higher prices for basic commodities such as rice represent a warning of what is to come if policymakers in Asia and in the United States do not come to grips with the implications of food security, the conference was told. In many ways, conferees agreed, food scarcity is as much a matter of delivery as it is of production.

Trade: The place where commodity scarcity, economic insecurity, and global interdependence come together is on the issue of trade, conferees said. The next U.S. president, whether it is Democrat Barack Obama or Republican John McCain, will have difficulty forging a strong and forward-looking trade policy, several conferees argued. In part this is due to domestic politics, with some in Congress pushing for strong trade barriers and others more concerned with what might be called neoisolationism than they are with global issues. Many Americans are deeply worried about the possibility of losing their jobs. One specific and mounting concern is whether they can afford or maintain health insurance. This means that the next president will probably need to address the health system in America in addition to broader economic conditions if he wants to ease the way toward broader open-trade agreements between the United States and the rest of the world.

One Asian participant pithily summarized the consequences for the United States by saying that it will be up to the next president to focus on common interests that the United States shares with the rest of the world rather than concentrate on differences. "Maybe this is based on your culture," he said. "The United States likes to transform others into an American-style democracy. This will fail. The world is too diverse." And finally, "Please make peace with Islam. No one can afford to alienate 1.6 billion people."

Sustaining Economic Growth

TURMOIL IN THE FINANCIAL MARKETS

Decoupling American and Asian economies? Several participants suggested that decoupling of the Asian economies, while difficult, might help them escape the worst ravages of the slowdown that is originating in the United States. And unlike in the United States and, generally, Europe, in Asia the “household sector” is still a supplier of money (savings) as opposed to being a “taker” of money (borrowing).

However, other participants argued that it is unlikely that the managers of Asian economies could decouple themselves from the global market even if they wanted to. Further, while the credit market problem has its roots in the United States, which is expected to see zero real growth through next year, Asia is not immune. Inflation is picking up in Asia, including core inflation after the impact of soaring oil prices is removed. One economist said few expect the Asian economies to stop growing, but they will slow down. And because growth has been so high in Asia, the decline will appear to be sharper.

Wrong medicine for Asia? Several participants argued that a major problem for Asia is that central bank managers and others in Asia are generally prescribing the wrong medicine for the economic malaise. While cuts in interest rates make sense in the U.S. context, they do not in Asia. Nonetheless, interest rates in Asia have generally “shadowed” rates in the United States when, if anything, they should have been held steady or even increased to dampen inflation. “The United States was slowing while Asian economies were growing full-out,” said one participant. “The last thing Asia needed in 2007 was lower interest rates (more demand stimulus) but that’s what it got.”

Participants discussed what will come next for Asian economies and their managers. It is a situation of what they “should” do and what they more likely “will” do, said one participant. Central banks should raise rates, but except for a few “halfhearted” efforts, that hasn’t happened. A more common decision has been to cut rates, which stimulates demand for consumption. “That’s why the slowdown is not yet apparent in Asia,” this participant argued.

Another participant noted that inflation targeting, while an important goal, is not the only objective of the managers of Asian economies. They are also

tasked with the job of maintaining the growth that has been so spectacular in the region for years. Asian central banks, said one participant, are “wedded” to the idea of constant growth. “They don’t want to kill the golden goose.” These conflicting responsibilities create a “very serious test of their credibility” in the coming months. “We are about to find out whether the central banks are up to the task. If they do not tighten modestly now, they will have to do much more later.”

There was broad agreement that an ideal prescription would be to hold back inflation through interest rates while maintaining consumer demand and growth prospects through fiscal policy—that is, tax cuts either targeted or general. Participants also generally agreed that most of the Asian economies have the capacity to achieve both of these goals.

One participant noted that this “growth” critique has been raised against China, which has experienced rapid growth for 20 years or more, and has yet to suffer negative consequences. Another commented that this might be explained in part by the Asian economic collapse of 1997, which taught bankers the lesson of maintaining stability at almost any cost. “We are very reluctant about raising interest rates because of that (the Asian meltdown) experience,” said a participant. But, responded another, that day is coming because the banks cannot continue to “fight the last war (’97) forever.” Several participants concluded that all this adds up to zero real growth for the United States through next year, at least, and a shallower rate of growth in Asia. One participant added the further caution that because growth has been so high in Asia, the decline will appear to be sharper.

Domestic politics and regional competition: Several participants stated that domestic politics and regional competition in Asia pose a problem for those who are struggling to maintain a rational economic policy. “No one wants to move first to lose competitiveness against their neighbors,” said one. While the need is for regional cooperation, the reality is that economic managers are acting in different ways. China still has the capacity to let its currency increase in value without seriously harming its export economy, but others, such as the “Asian Tigers,” are facing an economic slowdown and need to do all they can to maintain a competitive export system.

An example cited of domestic politics impacting broader economic thinking was South Korea, which elected a strongly pro-growth candidate in the last election. Bankers cannot ignore that message. The other internal political strain links back to the ’97 meltdown, which was absorbed particularly by the lower 20 percent of the economic ladder in most countries. This group still

has not recovered, and the middle class, while doing better, continues to demand policies that promise growth. That poses an interesting problem for economic managers, said a South Korean participant. “If a tight monetary policy is introduced, then what happens to investment and household consumption?” this participant asked. “This is really a dilemma.”

Another participant noted that the inability of the United States to satisfactorily manage the impact of globalization (loss of jobs, migration of economic sectors) is due in part to the frailty of the U.S. health care and pension systems. That is, it is difficult to make strong decisions on trade and globalization when domestic political pressure is focused on preserving jobs as well as fragile health and pension benefits.

Even if policymakers do “everything right,” one participant predicted, the forecast for Asia is a drop of two percentage points off growth. If serious policy mistakes are made, growth rates will fall by half.

PRESSURES ON RESOURCES: ENERGY, FOOD, WATER, AND AIR

Outlook uncertain: Economic forecasting and speculation about resources necessarily involve a “lot of guesswork,” but will the guesses be optimistic or pessimistic? While not excessively pessimistic, most of the participants agreed that responding to the challenges of dwindling resources such as food, water, and fuel will be a major focus in Asia in the coming years. Resolving these problems will require greater cross-national cooperation.

Demand for all resources—not just energy, but even food, water, and clean air—will continue to grow and will be long term, participants agreed. One speaker noted that the resource demand is driven in good measure by across-the-board subsidies and growth driven by low-to-negative interest rates, policies that are unlikely to change.

Oil: Underlying every resource issue, participants agreed, is energy, most often expressed in terms of oil. Demand continues to grow but supply is hampered, in part due to geological constraints and in part due to political concerns. There is only a limited amount of oil that can be productively extracted, and some producers are holding back because they see no point in increasing production of a resource that is limited and will in time be needed by their own citizens.

One expert participant offered the view that the “practical” limit of oil production is around 95 million barrels a day; today we are at 87 million

barrels. The limit will soon be reached and, since there is little possibility of a strong decrease in demand, prices will inevitably rise. This participant further argued strongly that governments should accept this inevitable rise of prices and turn it to their own use by taking the politically difficult step of imposing taxes that will bring the price of fuel to its natural peak. Since this moment is bound to come, why not capture the extra cash paid at the pump for domestic needs or energy research rather than letting it end up in the pockets of oil producers? “If we don’t tax it, the market will.”

Problems are seen with energy “all along the supply chain,” with production limited and environmental concerns stanching the development of other energy sources such as coal or even nuclear energy. Price increases for non-renewables such as oil are a certainty for a long time to come. The only offsetting factor, one participant noted, will be a drop in demand if prices become intolerable. Speculation is a factor, participants agreed, but a relatively small factor compared with demand. “It is more a matter of government policies that drive people into energy use and consumption,” said one participant. In this regard, participants noted the effect of government subsidies in pushing up energy demand in many Asian countries.

Another participant pointed out that in Japan the imbalance between demand and the availability of affordable energy is already producing social changes. Japan leads the world in energy-efficiency technology, and socially, he noted, “young men in Japan do not feel they have to buy cars.” By comparison, the United States is still living in a “never-never land” where fuel prices seem unrealistically cheap.

Food: The situation facing food supplies in Asia is somewhat different from that of oil and energy, participants noted. Food is a renewable resource, but a “temporary Malthusian crisis” forged by price subsidies, rising incomes, and a shift in diet away from grain to more intensive protein-based foods is creating widespread shortages. Those shortages can be dealt with, one participant said, by market changes, the shift of more land to cultivation, and new technologies. Another participant warned, however, that these “cures” come at a substantial cost, so in the short term at least “the poor will bear the burden.”

In the discussion, one participant recommended that each nation in Asia should make a commitment to producing more food for its own people. “This is an opportunity for us to face the problem, and as we deal with the problem of a rise in the price of food, we have to become more efficient and more innovative,” this participant said. When the market for food improves, suppliers would then be ready with a more efficient production and delivery

system. Still another participant said the timing is right for another “green revolution” that relies on technology and a willingness to reach out to Africa and other regions where the capacity for food production is underutilized.

There was general agreement that food scarcity is more than a matter of increasing demand and lagging production. It is also a matter of poor distribution systems. The same applies in many cases to the shortage of quality water, another participant noted.

Water: Water is another resource shortage problem, one participant noted, due in part to the lack of adequate enforcement of environmental regulations leading to unpotable or unusable water. Further, water infrastructure is often old and deteriorating, particularly in places such as India.

Air: Finally, one participant argued, air is “the collective challenge” facing Asia in the years to come. Quality air, which is imperative for good health and economic progress, is threatened by pollution, greenhouse gases, and climate change. One example cited of the interconnectedness of problems is China’s drive to build scores of new coal power plants, while at the same time exporting oil. “This might provoke other countries to build more coal plants, and this will cause environmental problems,” a participant said. “We might have to pay to breathe purified air, just as we do today for purified water.”

What is missing, a participant said, is a thorough “incentive system” of pricing and regulation that would lead to cleaner air. One Asian participant complained that it was “troubling” when people demand a “China-first” policy to reduce pollution and greenhouse gases. “Why should we bother, when you have not?” said one participant, stating the point of view of many Chinese. The air problem will not be solved through the actions of individual countries, participants agreed. “Local political pressures are leading to an unbelievable patchwork of responses. If ever there was a place where cooperation and a unified response are needed, this is it,” said another.

Political impacts and political will: As in every situation, one participant noted, politics and social policy play big roles in resource issues. “Most countries may not have the ability to provide subsidies (for key resources) at the level needed.” This leads to a difficult “Asian reality, as Asian citizens see their lives negatively affected by events outside their national borders. It impacts their attitude toward globalization.”

In general, participants commented, the linkage between various commodities and their shortages is becoming more transparent. A drought in Australia

is felt in grain markets around the world, for instance. The transparency of this linkage offers a ray of hope, several participants said, as nations realize their own commodity shortages are part of a global problem that can only be solved by the political will to accept broad collective action.

Management of the Regional Order: Economic and Political Challenges for Major Powers and Institutions

The various challenges of economic turmoil and declining access to key resources play out in many ways, but among the most immediately vexing in 2008 are trade negotiations and rationalization of the regional institutional order.

Broader negotiations toward a sensible regional or Asia Pacific trade regime appear stalled, participants were told, under the pressure of financial market turmoil and the uncertainty of elections, in Asia but particularly in the United States. While there is desire for greater openness and flexibility within economic markets, the equally likely political response in 2008–2009 is serious reregulation of the financial markets in a way not seen since the 1970s.

American conundrum: With the United States appearing to lack a clear vision of how it is going to handle the international economic order, there is a growing possibility that Asian institutions and governments will go their own way. In effect, conferees were told, a retreat to the past. This suggests a drift to a pattern of bilateral issue-by-issue trade deals while broader negotiations stall. While some participants saw a broad underlying consensus for free trade throughout the region and across the Pacific, the immediate and more likely prospect is a deteriorating environment for progressive trade policy within the United States. One participant stated, “I don’t believe there is a consensus for free trade. Support for free and open trade has never been very deep with the American public.” He argued that even Republicans, usually the strength of the free-trade movement within the United States, are losing interest.

Some argued that the path toward trade liberalization would be difficult no matter who is elected president of the United States in November. Barack Obama may be at heart an internationalist, but he is constrained by political pressure and by a skeptical Democratic Congress whose leaders are senior to him. John McCain is a free trader, but he too would face a reluctant and overwhelmingly Democratic Congress, which will be responding to a

deteriorating U.S. economy and union pressure. One participant repeated the argument that the cause of freer and broader open trade with Asia will depend on the ability of the next U.S. administration to come to grips with the need for an enhanced social safety net at home, particularly in affordable and transportable health insurance and pension guarantees.

A major political challenge for stability in the regional order is for the United States to regain its moral authority in the region, one participant argued. “The United States has lost a great deal of moral authority,” this participant noted. “We need to regain soft power. We used to stand for free or open trade. We stand today for open and ‘fair’ trade. But Asia is asking, what does ‘fair’ mean?”

Other players—rising and returning: As with so many regional topics today, there was agreement that the position of a rising China is critical to any analysis of the regional order. One American participant contended that the outgoing Bush administration “got it right” by engaging China as a “responsible stakeholder” in the region. The best thing, he argued, would be to leave U.S.-China relations as they are for the time being to avoid—as another participant predicted—the traditional “downward fall” of relations between China and the United States that customarily follows a heated election. “Everyone in Asia is hedging on China, and China is hedging on everyone in Asia,” one participant quipped.

Participants also agreed that accurately assessing the evolution of the regional order requires careful attention to the role of India as well as that of Russia, which is emerging once again as a player in the Asia Pacific region.

Providing for the losers: Several participants noted that the domestic dynamics of trade, specifically the winners and losers from trade deals, is a critical dimension of the politics of trade policy. As people become anxious about their economic status, which appears to be a given in 2008–2009, they become resistant to change and globalization. Any trade deal will produce winners and losers. One example: many trade deals produce better jobs for some, no real change for others, and declining circumstances for still others. The losers often tend to be married women, frequently the holders of the family’s second jobs that are lost when factories shut down and jobs go elsewhere. How do you deal with this sector? Is some kind of wage insurance scheme the answer?

Multilateral approaches: While much of the conversation looked at the prospects for regional order from the U.S. perspective, the same picture was

also viewed from the Asian side of the Pacific. In terms of regional stability, participants agreed that the ASEAN-Plus-Three (Association of Southeast Asian Nations with China, Japan, and South Korea) grouping is the major player, and one participant strongly suggested that the United States can and should participate in this leading Asian institution through the East Asian Summit. From the Chinese perspective, another argued, the United States must behave as a multilateralist in Asia; it won't work any longer to take a unilateral approach. The United States could also help itself (from the Asian perspective at any rate) by understanding that the true unifying value in the region is not "democracy" per se, but good governance. "This is what (the United States) ought to be promoting, not democratic values," this participant argued.

Another participant contended that the way forward is to let go of trying to negotiate any kind of grand deal and instead focus on what can and should be done: complete the Doha Development Round of trade negotiations, hammer out agreements on climate change, deal with food security on a regional basis, finish a free-trade agreement with South Korea, and focus on stability.

Implications for the Next U.S. Administration

The American presidential elections are creating an atmosphere of uncertainty and transition that, at least in the short term, makes it unlikely that any dramatic transformation of relationships within the region will happen.

Time of transition: Asians are looking at the rhetoric and background of the presidential candidates with caution, one participant said. McCain's Asian experience is, understandably, somewhat bitter, and "conservative" Asians are concerned about Obama's mantra of "change," one participant said.

One Asian participant offered the view that fundamentally this is a matter of "habits of the heart.... The United States is in transition, politically, mentally, and psychologically. When people are in this kind of transition, don't try to do anything big. Any decision made when people are nervous doesn't produce good results in any event."

Participants generally anticipated that the period of nervousness and transition is likely to last in the United States at least for a couple of years, in large part because of the ongoing economic uncertainty. An Asian participant

added that the loss of “moral edge” by the United States is contributing to the unsettled situation. “One of the problems of the current administration is that they were very much tied up with the situation in the Middle East. They did not offer the opportunity for intellectual discourse globally. Whoever comes in, they will have to talk to the other countries, not just to the Mideast,” this participant argued.

More cooperation needed: Cooperation, dialogue, and flexibility will be the key in the coming year, participants agreed. While the security situation is improving in the region, the need for stronger cooperation between the United States and Asia has never been stronger. Further, the current economic turmoil, while troubling, does open the possibility of larger regional and cross-Pacific cooperation as the dimensions of the problem become more apparent. To do this, one participant argued, the United States “has to focus on common interests with the rest of the world rather than on its differences.”

Primacy of the home front: An American participant argued that progress in Asia Pacific cooperation actually rests on success on the American domestic front. The United States must come to grips with the energy shortage and the need to make sacrifices, and the next president must also make domestic social issues—particularly health care and other social services—a top priority. At the same time, a number of participants argued that it will be important for the next president to—in the words of one—“liquidate” its disastrous involvement in Iraq and Afghanistan. On trade, said another, policy-makers within the United States will have to “make some compromises on the social agenda to get what they want in the international arena.”

Integrating security and resources policies: One suggested way forward would be to synchronize more closely the conversation over security (which is going relatively well today) with the parallel issues of resource scarcity, environmental challenges such as global warming, and the looming possibility of pandemic disease in an increasingly interconnected world. “I was really struck,” said one participant, “by how swimmingly it is going in the security arena and how difficult it is in the economic sphere.” Said another: “When we look at the rosy (security) picture, we have to look at environment and health as well.”

Integrating policy on South Asia: It was noted that while the principal focus of seminar discussions was on East and Southeast Asia, South Asia would have to be included in any comprehensive look at regional stability and progress in the coming years. A problem in this area, one participant noted, is that the United States has yet to come up with a fleshed-out military policy for the

Indian Ocean region equal to that in Northeast Asia and the Pacific in general. This is critical, this speaker said, because the American military presence has been a vital part of the stability that has led to a “long peace” between nations in the region and has provided the framework for the region’s economic success stories.

One participant listed the specific issues in South Asia that will face the next administration as including: the Indian nuclear energy deal; the reality that India and Pakistan are nuclear powers; simmering intrastate conflicts in Sri Lanka, Nepal, and the Kashmir region; the role of Pakistan in the war against terror; and maintaining the “moderating” influence that the United States has exercised in the region under the Bush administration over the past six years. Indeed, one participant argued, “If there is a Bush legacy in the region, it is India.” Another participant contended that it makes sense to define “Asia” still more broadly to include the Middle East and Central Asia. It is increasingly difficult to compartmentalize problems and opportunities.

Regional institutions: There was strong agreement that the next U.S. president will have to pay closer attention to existing regional institutions and the idea that Asia now has multiple centers of power. “Elites, at least, are thinking Asia,” said one participant. “They are not thinking region or country. This regional integration, which should be supported, is a major reason why there has been relative nation-to-nation peace in recent years,” one noted. “When you build economic ties, shooting your neighbor is like shooting yourself in the foot. The next president will also have to deal with an odd disconnect between Asia’s “good news” and some larger structural problems, another participant said. “The real disconnect is with the macroeconomic and trade picture, which is disconnected from the rosy scenario we’ve been talking about.... There will be a gap between Asia’s integration and U.S. policy to affect integration. The United States may have difficulty getting around this on policy terms.”

This disconnect, concluded one participant, is really the key question. “Any of the issues discussed (trade, economic turmoil, resource shortages, etc.) could be the cause of a crisis not of the next administration’s making and not of its desire.” But the practical reality is that domestic politics may make it tough for the next administration to deal with these issues. “Absent a crisis, the chance of us picking up the cudgel on any one of these issues is slim to none,” an American participant said. “They will be focused on domestic policies.”

Conclusion

The final session considered the question of what will be the basis for the United States' Asia policies in the next administration.

An Asian participant argued that U.S. policy must be based on patience, respect for different values and different perspectives, and a willingness to let democracy and human rights evolve in their own Asian context. "We are facing an opportunity to rise together."

An American participant suggested that the basis for a successful American policy would be modesty and modest expectations. Rather than thinking of a vigorous, engaged America, the new administration will have to give up pride of place and privilege to focus on its domestic agenda while Asian leadership and Asian institutions take on greater responsibility. He quoted the former British prime minister Lord Salisbury, who said in 1877: "English policy is to float lazily downstream, occasionally putting out a diplomatic boat hook to avoid collision."

Said another American: The larger powers—including China, India, the Japanese, and Americans—should work together to create a "new architecture of the world" different from the Atlantic architecture the world has become used to. But this has to happen gradually, even stealthily, focusing first on those issues of health, climate change, resource shortages, and the food crisis—given that 55 percent of the people eating in the world today are in Asia.

"The test is, you don't wait for a crisis. In fact, we already have a crisis, the economic crisis. We have to be proactive on this if we think the Asia Pacific is the future of the world. There is real opportunity here, and I hope the next president will have a genuine interest in the region," this participant concluded.

Appendix: Participants

Senior Policy Seminar

July 7–8, 2008

East-West Center

Honolulu, Hawai'i

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