

A SEMINAR REPORT FROM THE EAST-WEST CENTER

SENIOR POLICY SEMINAR 2009

The Global Economic Crisis and Implications for the Asia Pacific Region



EAST-WEST CENTER
COLLABORATION • EXPERTISE • LEADERSHIP

A SEMINAR REPORT FROM THE EAST-WEST CENTER

SENIOR POLICY SEMINAR 2009

The Global Economic Crisis and Implications for the Asia Pacific Region



EAST-WEST CENTER

COLLABORATION • EXPERTISE • LEADERSHIP

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:

Publication Sales Office
East-West Center
1601 East-West Road
Honolulu, Hawai'i 96848-1601
Tel.: 808.944.7145
Fax: 808.944.7376
EWCBooks@EastWestCenter.org
EastWestCenter.org

© East-West Center 2009

Table of Contents

v	Preface
vii	Executive Summary
1	Session 1: The State of the Region
4	Session 2: China
7	Session 3: Northeast Asia
10	Session 4: Southeast Asia
13	Session 5: Climate Change and Energy
16	Sessions 6 and 7: The Future—and Lessons Learned
21	Appendix: Participants

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 2009 seminar, tenth 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.

The 2009 Senior Policy Seminar focused on "The Global Economic Crisis and Implications for the Asia Pacific Region." Participants discussed the recovery underway throughout the region and the possibility of some countries adopting new growth strategies. There was considerable discussion about how the economic crisis has affected relations among the major powers. One session was devoted to climate change and energy issues. The seminar also examined the Obama Administration's approach to Asia and looked ahead to raise questions and make some projections about U.S.-Asian relations.

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. Richard Baker, Adjunct Senior Fellow at the East-West Center, chaired the session on South and Southeast Asia.

Jerry Burris, consultant to the East-West Center, served as rapporteur and drafted the report.

As in other recent years, the 2009 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, Fair Goh, Thomas Lee; and student volunteer Ray Parsioan. 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 were 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

In early August, a group of senior officials from government, the private sector, academia, and elsewhere gathered in Honolulu to discuss the state of Asia today and, more generally, the state of East-West relations.

The picture that emerged, looking westward, was relatively benign. After the global economic shock of 2008–2009, nations are slowly recovering, most dramatically in the surge of economic activity in China. Political conditions are generally stable, the conferees agreed, although the issue of North Korea remains a major challenge. (By coincidence, the group met just as former President Bill Clinton was in North Korea, accepting the release of two American journalists.)

Looking the other way, toward the United States and Europe, participants saw an equal measure of confidence that matters were on a stable, if not spectacular, track. The new Obama administration, several participants pointed out, seems comfortable with a policy of stability toward Asia, largely maintaining the contours and focus of the previous Bush administration.

Yet beneath the general calm, a series of worrisome issues surfaced during the two days of open, off-the-record discussions. The mood, if not negative, was at least somber and serious.

Among the background concerns in the face of relative quiet and recovery were these:

1. Japan is in the middle of a political malaise that leaves it unable to exert as much regional leadership as many might expect from an economy that powerful. For the first time in 40 years, it appeared likely that the ruling Liberal Democratic Party (LDP) would be replaced by the Democratic Party of Japan (DPJ)—which has since happened—but that party is more a coalition of disparate interests than a focused political entity, many participants said.
2. The nations of Southeast Asia continue to struggle to come up with an architecture that unites the region. The region's chief organization, the

Association of Southeast Asian Nations (ASEAN), has been charged with building an economic community, but thus far has been slow to make significant progress.

3. The economic crisis of 2009 has forced nations throughout the region to rethink their development and growth policies. For many, it seems clear that a traditional export-driven approach no longer makes sense. But a practicable alternative has yet to emerge, and some argued that the rush to change direction may be shortsighted.
4. China is roaring back economically, but is still reluctant, perhaps unable, to take a leadership role in developing regionwide solutions to ongoing problems—what some called the “collective good”—ranging from the environment and transportation to social concerns (poverty and disease, for instance).
5. Insularity, or a retreat from open markets and open trade, is an ever-present threat as governments try to make sense of the economic collapse and their own country’s course for the future. This is particularly worrisome in the United States, some participants said.
6. The role of rising India in the region has yet to be determined. As China figures out what it wishes to do and the United States (and Western powers in general) move to more subtle “partnership” roles in the region, what will India do?
7. While there is general hope for the new Obama administration, there are specific concerns about how Washington will treat the matter of trade, which seems to be driven more by domestic politics (the influence of unions and campaign promises) than by external factors. This raises the question of whether an overall U.S. policy for Asia can be developed without a coherent trade policy.
8. The era of Western domination or lecturing to Asia is ending. No one can claim that the United States or the European Union (EU) were prepared to deal with the economic crisis in a particularly effective way. So while it was clear among this group that the United States is not going away, its presence in Asia might become more muted.

9. On the security front, there are worries about the emerging role of China throughout the Northeast Pacific as that nation beefs up its ability to project “blue water” power. But there were firm affirmations from American officials and observers that the United States is determined to remain a powerful presence in the region for a long time to come. There will likely be a refiguring of the American role; the word “partnership” was used constantly throughout the seminar.

At the end of two days, conferees generally agreed there is a significant need is for a regional, mutually supportive approach to the needs of the region in the wake of the economic crisis of 2009. An emerging but somewhat unready China will play a major role in any regional approach. The United States’ role is also likely to be significant, but its place in the developing regional architecture is still uncertain.

Unhappily, in the view of many participants, a clearly identified and focused regional approach has yet to emerge.

Session 1: The State of the Region

'DECOUPLING AND REBALANCING'

The discussion began with a conversation on the impact of the economic crisis on the regional picture in general. While the general assumption was that the crisis will pass, what kind of balancing will take place in its wake? Will there be a greater stress on domestic consumption and stability in the region? Will the immediate impact of the economic crisis delay work on trade, the environment, and so forth?

One participant suggested that the economic stress may trigger a general retreat from the gradual trend toward capitalism, with a greater emphasis on direct government involvement in economic matters. After all, if the American government is shifting toward more direct involvement (in the capital markets, for instance), why should Asian governments take a different approach?

An economics specialist argued that the economic uncertainty has led to at least three major “debates”:

The first is “decoupling.” That is, is it possible for Asia to have autonomous growth prospects? That view lost luster in the wake of the Lehman Brothers failure, which impacted economic markets around the globe. Today, there is talk about some limited decoupling as Asia seems to be recovering a bit faster than other parts of the world. That may be the result of the fact that some nations in Asia had better preconditions—i.e., stronger government policies (more reserves, less debt) and more pent-up demand internally.

The second big debate is over rebalancing growth strategies between export-driven policies and those that focus on domestic demand. The alternatives are particularly stark in China. Short-term fiscal reflation does not amount to long-term rebalancing of investment or sectoral growth. Conferees agreed that China’s fiscal stimulus has been initially very successful, but that it has focused primarily on infrastructure rather than the traditional export sector or manufacturing for domestic consumption. Several participants questioned whether this is sustainable. As another participant put it: “China has the ability to do it, but will it?”

The third big debate is over regional integration and cooperation, especially in such areas as coordinated protection of reserves, cross-border infrastructure, and comparison of safety-net policies. Some participants asserted that the current crisis *should* lead to greater cooperation and integration, as did the Asian economic crisis of 1997–98. One argued that although the global economic crisis has weakened progress toward integration in the EU and perhaps among the North American Free Trade Agreement (NAFTA) nations (where Canada worries about the “thickening” of its border with the United States), there is a sense that the crisis might actually increase regional cooperation within Asia. But others pointed out that, thus far, this has not happened.

SHIFTING RELATIONSHIPS

What about relationships between the nations of Asia and the West in the context of the economic meltdown? An American participant observed that relations among the major powers, including with the United States at a time of dramatic change in U.S. administrations, are actually “quite good.”

However, the American participant continued, some areas need to be watched carefully. Specifically, one can now say with credibility that North Korea has nuclear weapons. Correspondingly, there has been a change in the role of China, which now has a major involvement in this and other issues. Nothing significant will happen on North Korea without “China’s active involvement and even acquiescence.” Another Western participant added: “The evolution of the U.S.-China relationship is the key determinant in the security environment in East Asia over the next several years.”

THE ECONOMIC FUTURE

It is possible, said another participant with a background in economics, to be “vaguely optimistic” over the economic outlook. China is “roaring back,” with an emphasis on domestic growth and a relatively stable export sector. The rest of the region is following, if not always as robustly. Retail sales in China have fully offset the decline in U.S. domestic consumption. The question is whether this is sustainable.

For instance, much of the investment has been in the property market and export industries. But there are signs that the housing boom (sprawling

suburbs outside Shanghai and Beijing) is over, or at least slowing, posing problems for developers and banks. And continued reliance on export sectors must face the fact that U.S. and European markets remain anemic.

In the United States, the recession may be over—in the words of one participant, “We have stepped back from the brink”—but that only means the economy is no longer contracting. Problems ahead include the possibility of a “double dip,” that is, a negative rebound, where production is up, but inventory is ahead of sales. Unemployment remains high by historic standards. And unsold housing inventory is still high. At best, the recovery will be “lethargic.”

The point here is that Asia cannot export its way out of the crisis. “There will be no spending spree,” said one participant.

Another participant suggested an alternative scenario. If China focuses on infrastructure and creates its own Tennessee Valley Authority (TVA) and other projects, the United States and the EU might see this as a new “demand sector” and put more emphasis on selling to China (and to India). One interesting phenomenon, said an attendee, is the ability in China to buy because of the effectively state-enforced accumulation of domestic savings that need to be used somewhere. Another added that bookstores in China are full of titles about consumption and how China has used its pent-up financial energy.

In summary, there is some optimism about the economic future, although many worry whether it will be a “V” shape that bounces back, or a “W” shape, oscillating wildly.

But the basic question remains: Is this sustainable?

Session 2: China

China, participants agreed, is “opening up” and “roaring back.” The outlook for China was described as at least, if not more than, “half full.” But state control and a ponderous central authority remain inhibiting factors.

Numbers help tell the story, said one seminar attendee. From zero growth in the fourth quarter of 2008, the Chinese economy is projected to hit 14 percent growth in the second quarter of 2009. Because of low household debt and other structural features, China will not have to raise taxes or cut government spending to “get its fiscal house in order,” said this attendee. This is in strong contrast to the United States and many other Western economies.

State control or authority has its drawbacks, many agreed. But it also comes with its benefits, argued one participant. China’s stimulus package of \$586 billion (which would be equivalent to a \$2.4 trillion U.S. stimulus package) pumped huge amounts of money into housing, rural infrastructure, transportation, health and education, the environment, high-tech industry, disaster reconstruction, tax relief, and the like. On a per capita basis, the U.S. effort was “relatively stingy,” noted one participant.

HELPING THE HINTERLAND

While the amounts that China has pumped into stimulus are remarkable, it is also important to note *where* the stimulus money is going, noted one participant. The focus is on the sometimes neglected rural interior, where the stress has been on power grids, water reservoirs, transportation (including subways and airports), and road and rail links to “the rest of the country.” The funding for education and health also emphasizes rural health clinics and junior high schools, and the financial reform includes more credit for rural areas and an end to loan quotas for private lenders. In short, said this participant, what we are seeing is the Chinese equivalent of Franklin D. Roosevelt’s New Deal.

Another participant said the Chinese “are taking the economic and financial crisis very seriously, and are using it as an opportunity for change.” The debate is whether and how to shift from an export-driven model, “which is not sustainable,” to more domestic consumption, a more low-carbon

economy, and economic integration of the entire nation. At the same time, according to this participant, China's leaders are very conscious that rising economic power could lead to rising nationalism—which is a potential danger in an era where regional cooperation is critical.

Playing off a familiar refrain, one non-Chinese participant wryly commented that what is happening might be called “a New Deal with Chinese characteristics.”

BENEFITS FROM THE BAD

Other positive implications cited of China's reaction to the economic crisis were, first, that the government is actually listening to its citizens (albeit out of concern over the possibility of instability) and, second, that the stimulus package is benefiting ordinary, poorer people.

For the longer term, the picture is acknowledged as being more mixed. The big question is whether the Chinese domestic market can replace the export market. “Probably the answer is no,” one contributor suggested, but at least “this does represent a diversification of export markets and a spreading of risks.”

Participants differed as to how much of the stimulus-generated investment is going into export industries. One argued that too much investment is going into this sector, especially with U.S. and European markets remaining anemic. Another acknowledged that rapid growth of lending by the financial sector and weak growth of manufacturing for and consumption by the domestic market are problem areas, but did not believe that much of the new investment is going into export industries.

For the longer term (post-recovery from the current crisis), there remains the question of whether China will once again pursue a largely export-driven model and the world will watch “the same movie all over again.” Most who spoke to this point believed it will not. They argued that relatively little lending is going to manufacturing, while most is going to infrastructure, particularly to rectify areas ignored in the past.

CHINA AND THE WORLD

If China is, as expected, the “first big economy off the bottom,” what will this mean for its global role? One participant said that this inevitably will mean a rise in China’s regional (if not global) standing, as the United States declines somewhat in influence. It is projected that China’s economy will surpass Japan’s by 2010. “There is a potential for a significant shift in China’s global stature and a decrease in the importance of Western economies,” one participant noted. China will certainly be increasingly involved in the various multilateral institutions and systems.

REGIONAL ISSUES

One participant wondered whether China, as it grows economically, might use its expanding military power and capability to become more aggressive in disputed areas, such as fishing grounds and the South China Sea.

Another participant commented that in this regard although there may be increased competition in the South China Sea, there will not be a “huge impact” on energy supplies “because there is not much there.” China must continue to look outward for its energy needs, becoming an increasingly important market for Iran, Saudi Arabia, Angola, and others.

A tour of the blogosphere in China suggests there is little interest in seeing China “take over the world,” said one attendee. “The obsession is in getting their own economic house in order. The idea that there is interest in climbing up the [global] power ladder is largely illusory.”

POLITICAL FUTURE

Economic crises almost always become political crises, noted one participant. Chinese leaders—constantly focused on stability and harmony—are keenly aware of this. “China thus had to deal effectively with the economic crisis,” he said. “A successful demonstration of the ability of the Chinese system to deal with the crisis will increase the system’s credibility for some time to come.”

Session 3: Northeast Asia

South Korea, North Korea, Japan, and the looming presence of China dominated the conversation about Northeast Asia.

THE KOREAS

A long-time Korea observer commented that although the economic crisis did not hit South Korea as hard as it hit the United States and the South Korean economy is actually in recovery, the recovery has been tepid. In addition, there is a question of how sustainable this recovery is. After the Asian economic crisis of 1997–98 and the more recent global crisis, the South Koreans have become much more focused on internal economic security, including building up foreign reserves as a form of self-insurance. In short, South Korea is retreating within its own economic borders. But building up massive reserves is a misguided policy, noted one participant, adding, “What good is insurance if you can’t use it?” The reserves are held, but they are difficult to use.

North Korea clearly presents a more complex picture. One participant expressed skepticism about the prospects for resolution of the nuclear issue in the absence of regime change. Kim Jong-il is ill, and there are three centers of power seeking to move into his place: the family, the military, and the party. North Korea’s “transformation” over the past 20 years has been largely unplanned, and is an unwanted response to failure. Policy has been moving backward since 2005, and the latest moves, both external and internal, reflect a more fundamental Stalinist style, while reformers (at least in North Korean terms) keep their heads down. For understandable reasons, very few North Koreans actually complain.

A recent survey of North Korean refugees in South Korea and in China indicates that government policy has little impact on most of society outside the capital. The army is no longer seen as the way to get ahead; rather, the focus is on business (which, within the government, means corruption). The survey found an “overwhelming” yearning for reunification. Although it was not specifically asked, one participant believed this probably meant on South Korean terms.

“Overall,” said this participant, with regard to North Korea, “we should have modest expectations. They don’t respond much to outside pressure and influence.”

STRUGGLING JAPAN

Japan, participants agreed, is in a period of political malaise. While the rise to power of the Democratic Party of Japan (DPJ)—anticipated at the conference and now a reality—promises change, it will be hard to come by. Said one participant: “From the days when all the talk was about the Japanese miracle, today it is almost all about China. Japan is still one of the largest economies in the world, but it does not draw much attention. It is true, [Japan] is in decline.”

Without major changes to the political culture in Japan, said one attendee, “the economy will not revive.” And that, said several others, will be difficult because the DPJ is not a cohesive political organization with a cohesive economic program. Rather, it is more a “hodgepodge” group than an organized second party to the long-standing Liberal Democratic Party (LDP). “A two-party system will not happen,” said one participant. “Instead, we’ll have a messy, chaotic political situation—a multiparty system in a structure designed as a two-party system—which might last for several years.”

A key problem, observed one participant, is that Japan’s government was effective and focused when the primary goal was economic development. But after economic power was achieved, bureaucratic infighting became the norm. So what replaces the overwhelming push for economic growth and stability? One participant suggested what he called “human security.” “Japan should be a major power in terms of contributions to global issues such as communicable diseases,” he said. “This might generate broader public support and recognition from abroad. Japan can become a major human security power.”

An inspiring thought, another responded, but the truth is that while the Japanese people “adore” the word change, they really dislike change and reform. They are concerned with their own economic security. Toward that end, noted one participant, Japan has done a fairly good job of engineering domestic economic stimulus packages that rival what China

has accomplished on a per capita or GDP (3.5–4 percent) basis. Overall, participants agreed, the immediate future for Japan is an “inward-looking agenda.”

Numerous and differing views were offered as to the import of Japan’s inward focus. One Japanese participant stated that a process of “self-marginalization” has been taking place in Japan for at least a decade; the economy will still rank second or third in the world, with good technology and a good energy policy, but both the general public and corporate leaders seem to have a “who cares?” attitude. It will take strong foreign pressure or demands from the Japanese public to spur Japan’s leaders into action, he said.

Another Asian participant countered that Japan has handled its decline in a mature and stable manner. “Japan is at ease in its own skin. It will be a center for technological innovation and a pioneer in clean energy. And for ordinary Japanese, things look good. The streets are clean, food is good, and they are enjoying life.”

Others argued that it is in the interest of the region for Japan to have a larger impact. An American participant noted that Japan is not playing much of a role in the aftermath of the economic crisis, and asked whether Japan or the region can afford this. An Asian participant asserted that there is demand in the region for broader leadership—leadership that China is not yet ready to assume. “Many expect Japan to take that role,” he said.

MULTILATERAL COOPERATION

There were differing views around the table on the feasibility of various forms of multilateral cooperation in Northeast Asia. One believed that, other than the Six-Party Talks on the North Korean nuclear issue, bilateral negotiations were the most effective method. Another advocated five-party talks (i.e., the Six minus North Korea) on the whole regional agenda, but said that the U.S. government opposes this (a point confirmed by other American participants). However, they noted that there have been some China–South Korea–Japan three-party talks on economic issues. But none of the participants anticipated any significant initiatives or movement on Northeast Asian regional cooperation in the near future.

Session 4: Southeast Asia

OVERVIEW

The seminar attendees agreed that in Southeast Asia, the economic crisis had bottomed out. But recovery may take several different directions, since there is no singular approach to dealing with the crisis in the region.

While there is general movement toward a more regional economy, attendees generally agreed that what happens in Southeast Asia will be impacted by what China does or does not do—and they noted that China’s role in the crisis to date has been useful and cooperative. In other words, no matter how strong the regional “architecture,” the fate of nations within the region depends to a substantial degree on what happens outside the region.

One participant noted that it is simplistic to talk about Southeast Asia as a unified whole. In mid-2009, Thailand was in negative growth, but Vietnam was in positive growth, as was Indonesia. Singapore, whose economy is arguably the most developed and globalized, was hardest hit. Compare that to the less dramatic impact on other economies in the region. “Sometimes we lament we are just midrange economies, but that can shelter us from global trends and currents,” said one participant. Said another: “Sometimes it is good to be poor and primitive. None of us really invested much in secondary mortgages and exotic instruments.”

LESSONS LEARNED

One participant pointed out that the economies of Southeast Asia were not without experience in global economic shakeups. Many remembered the Asian economic crisis of a decade ago and learned lessons from it. One would have expected an immediate regional reaction. But, he argued, the problem was not recognized, and there were no major Southeast Asian initiatives. “Right after the collapse of Lehman Brothers, they should have gotten together and discussed what we can do to keep this from affecting us. But they didn’t. Why? Because regional leaders do not realize this is a region in decline,” hampered by the inability of Southeast Asia to integrate itself and play an important role in the larger regionalization process.

There is an effort to integrate the region economically by 2015, but many generally agreed that this effort is going slowly. A number of causes were cited, including apathy on the part of public officials, a weak ASEAN Secretariat, and a lack of real vision on the part of leaders. However, other participants disagreed that the region is “in decline,” arguing that the pace of integration is the real question. As one said, much background work has been accomplished and a number of steps taken to meet the crisis. “Over time,” said this participant, “this will become a meaningful group.”

So, what should be done today?

First, said one participant, “We have to have our own financial house in order, including adequate reserves.” That includes reducing foreign debt as much as possible.

Second, recognize that the crisis will inevitably lead to pressure for greater protectionism, and that to prevent this, trading and investment regimes need to be restructured.

Third, as money is spent to react to the economic crisis, it becomes increasingly important to put money into the social safety net, quality of life for domestic consumers, and infrastructure.

Participants generally agreed that the economic crisis forced governments in the region to focus more closely on domestic issues, including social welfare and security. But the record thus far is of middling success, at best. Singapore and Malaysia are having trouble managing their (inherited) retirement plans, the Central Provident Fund (CPF) and the Employees Provident Fund (EPF). The Philippines has a wonderful national health care system on paper, but only on paper.

THE FUTURE

Internal development and domestic investment are the keys, argued one participant. Transfer payments and export profits will no longer be enough.

But not everyone agreed. Another insisted the role of exports, which has been the central driver of the “rise of Asia,” remains strong. “This part of

the world is the center of growth in the world,” he argued. Another participant agreed, saying the “debacle of last year” is no reason to throw out everything learned about how to run an economy.

Participants also argued about the pros and cons of opening economies to the world, through open financial markets and cross-national economic organizations. Some noted that South Korea’s experience in opening its markets has caused some misgivings and that the nation is now shrinking back from complete openness. Others argued that several regional efforts, such as the Mekong regional grouping and India’s “Look East” policy, have been less than a complete success.

Finally, said one participant, “the future is bright. We have become more global. More integrated. We have much to learn, but we are better prepared than before. And at home, we need to be more caring and think more about democratization.”

Session 5: Climate Change and Energy

Everyone agrees, conferees said, that climate change and global warming are critical international issues. The problem is this: How do we address them?

The economic crisis may offer a window of opportunity, some said. “Many developing countries are getting more involved because they have a better appreciation of the risks,” said one.

On the one hand, the crisis could help if it leads to local “green” approaches to development challenges. But the crisis could also weaken the resolve of many countries to impose greenhouse gas-reduction rules because it could hurt their international competitiveness.

This, said another participant, puts extra pressure on developed countries to lead in the crafting of mitigation strategies. Less economically strong nations might follow such strategies if they make sense, but may well be reluctant to commit to taking the lead in light of the economic crisis. Another suggested that what we can expect is a move toward “nationally appropriate” measures, which implies something short of international standards.

NEW APPROACHES

A “one-size-fits-all” approach to climate-mitigation rules may be out of the picture for the time being, several people suggested. Negotiations have not moved much, and the divide between developed and developing countries is only getting deeper. One participant noted that the Kyoto process appears likely to go the way of the World Trade Organization (WTO), focusing on the long term. This does not mean, said another participant, that nations are not doing anything about climate change and improving the environment, only that they are doing things unilaterally, according to their own needs. China was cited as an example in this regard, where there is a strong focus on energy efficiency.

One possibility mentioned was that the G-20, or Group of Twenty Finance Ministers and Central Bank Governors, may provide a platform for an international agreement on climate. Another possibility would be for medium-size regional countries (e.g., Australia, Korea, Indonesia) to set

their own targets. But others suggested that regional agreements might make more sense in the current economic climate, becoming a “game changer” as medium-size countries agree to set their own goals to which others could subscribe. One example would be an East Asian initiative.

UPHILL BATTLE

The problem, argued one participant, is that government pronouncements on energy, climate, and the like are only valuable if they are “doable.” And the plain fact is that many agreements signed over the years are not, in fact, doable. An example is the frequent pledge to move away from fossil fuel (oil) into alternative energy. That’s a good idea, but may not be possible at the moment. Some 85 billion barrels of oil are used globally every day. That’s hard to move away from. “Just because governments pledge something does not mean they can do it,” he argued.

A further point is that, while renewable energy may be on the horizon for power, this is not the case for transportation. Electric cars are a decade or more away from being a reasonable alternative to gas-fueled transportation. One participant cited his favorite argument that the quickest way to shift people away from gas-guzzling transportation is to significantly raise the tax on gas, but added that for political reasons this is unlikely to happen.

CARBON TAX VS. CAP AND TRADE

Cap and trade is a popular option now, but there was agreement that it will have little impact until a trade exchange is established. One participant noted that the U.S. Congressional Budget Office had identified \$50 per barrel as the price needed to make cap and trade work, while the current energy bill, has set the price as \$20 per barrel. As for a carbon tax, it was argued that economically this would work, but it immediately becomes political and is difficult to impose.

LOOKING TO COPENHAGEN

Conferees agreed that the next international round of climate talks might come up with a set of “aspirational goals,” but is unlikely to produce binding targets for reduced emissions. “We might be moving away from hard numbers to something like a process,” said one participant.

Another suggested the East Asian initiative might prod decision making in more advanced countries, particularly the United States.

In the end, participants agreed that international meetings and lofty goals will only work if there is a “catalyzing event,” such as another major oil shock, that would force fundamental change in the energy and climate debate.

Sessions 6 and 7: The Future—and Lessons Learned

Clearly, the economic crisis has caused disruptions and concern throughout the region. But taking the long view, argued one participant, “Asia is rising.”

The evidence: China has bounced back, the “four tigers” of Asia—Hong Kong, Singapore, South Korea, and Taiwan—remain healthy. The 1997–98 Asian economic crisis taught a great deal about how to manage economic shudders. “Asia keeps growing despite the crisis,” said one. “We face a wonderful time.”

One small piece of evidence cited that the growth of Asia has benefited the entire world, including the United States: “In 1971, nothing made in China could be found in U.S. stores. Today, it is very difficult to find a gift not made in China!”

AMERICA AND ASIA

Several participants agreed that the United States has maintained a steady and forward-looking policy toward Asia, despite the important shift in administrations. “You can blame [Bush] for many things, but his Asia policy was right,” said a participant. “And Obama didn’t negate Bush’s policy, while moving toward a more multilateral approach. America is on the right track.” Another suggested that, while President Barack Obama inherited a decent hand from former President George W. Bush, with the exception of Korea, this was largely due to inattention—that is, the level of attention to Asia by the Bush administration did not match the pace of change in the region.

Participants pointed to signs that the Obama administration has a clear-headed approach to Asia, including China. As evidence, they noted that Obama avoided the usual inclination to “talk nonsense” about China during the political campaign, and then reverse course upon taking office. The exception to this record was the “disturbing” protectionist tone to some of Obama’s comments during the campaign.

Another participant noted three positive strains about U.S. attitudes toward Asia, which he described as “remarkable.”

The first was that Secretary of State Hillary Clinton’s first overseas trip was to Asia. That trip included Indonesia. And Clinton took time to deliver a major Asia policy speech before the trip. All of this adds up to a deliberate and encouraging focus, he said.

Other hopeful signs: Obama has signaled willingness to engage with North Korea, indicated an intention to sign the ASEAN Treaty of Amity and Cooperation, and agreed to appoint an ambassador to ASEAN. A Southeast Asian participant added that the Obama administration is saying “the right things” about the rule of law. One possible problem area mentioned was maintaining balance in the United States’ relationships in the region. For example, relations with China are going so well that this could cause concern in Japan and South Korea. And while U.S.-India relations improved remarkably under the Bush administration, today some Indians are feeling “neglected” because of the high level of attention paid by the Obama administration to China. Finally, in addition to the ongoing conflicts in Afghanistan and Pakistan, Burma and Taiwan remain problem areas for the region and U.S. policy.

REGIONAL FUTURE

The United States, said several participants, needs to clarify its role in the region. Does it wish to become part of the East Asia Summit (EAS)? How will it balance the tensions between North and South Korea, China and Japan? One participant argued that it is unlikely the United States will take much interest in the EAS unless its structure is changed, and that might not be wise. “East Asians need their own organization without the U.S.,” he said.

China, some said, faces its own challenges. As it grows in economic and military power, what is its larger regional role? One suggested that China is “no more prepared for its global role than the United States was after the Cold War era.” Said another, “China is not ready for its new global role. That means the United States must remain engaged, not as an ally, but as a partner.”

A Chinese participant argued that the new order requires the United States to accept cultural diversity and different approaches. When Japan was on the rise, it felt it could not afford that luxury and that it had to “behave like Americans.” (Another responded that, actually, in the end, Americans eagerly adopted Japanese industrial and corporate management practices.)

With respect to China, the Chinese participant added, the United States must recognize that China is different in fundamental ways. “For the Western world, you have to accept that China is different. China cannot accept the idea that ‘you have to do it my way or no way.’ We have different values. You have different values. And we need to accept the differences.”

The Western “paradigm,” this participant continued, which has dominated for four centuries, is bipolar, seeing good vs. evil, “beauty vs. beast.” In the twenty-first century, Asian culture, which emphasizes diversity and coexistence, will become more influential.

One American rejoined that it is perfectly legitimate for people who have concerns about democracy, transparency, and democratic values to be concerned about the rise of authoritarian posers. Another American participant expressed disagreement about the extent to which differing values are immutable. Other societies have been transformed, he noted, including some into democracies. (The Chinese participant countered that the United States should tolerate other forms of democracy, such as China’s.)

An American participant turned the discussion to a consideration of U.S. foreign policy. He observed that bringing about change has been a long-standing “bogeyman” of American foreign policy. Against this, he argued that America can change others not by imposing change, but rather by exposing them to outside influences. Change ultimately comes from within. This is what is happening in China, for example from students who have studied overseas. In the same way, Japan’s success changed U.S. thinking by challenging us, for example, in industrial production, leading Americans to travel to Japan to study their example.

Another participant said that, despite the fact that there is “lots of good news,” he remains “uneasy” about how things are going. Foremost is the matter of human security issues over the next twenty years—energy,

food, and water. These are not being adequately addressed and are receiving even less attention in the wake of the economic crisis. On this front, said one participant, it is unreasonable to expect the United States—also reeling from the economic crisis—to continue to provide for the “public good” at the level it has in the past. And China is not yet ready to take up the slack.

This raises a question, said another: Which system is more efficient in dealing with economic turmoil, authoritarian or democratic? Another responded that this sets up a false distinction. Instead, he said, “Let’s focus on common interests, common objectives.”

LOOKING FORWARD

For their own reasons, said one participant, none of the three leading economies—Japan, China, and the United States—is eager to take on a regional leadership role. (The exception to this is the U.S. military, which participants agreed is involved in the region and unlikely to recede in the foreseeable future.) China is busy building up its own internal security, Japan is uneasy after the collapse of the bubble, and the United States is facing “shell shock” as a result of the economic crisis—in short, there is a leadership vacuum.

But, said one American, do not think this is the twilight of the American era in Asia. “The U.S. will not disappear from the region,” he said. The economic crisis slowed things down, and Asia is stepping forward “as never before.” But the American presence will continue.

This participant listed a number of major open questions:

- Should the United States strive to be a dominant leader or a leader among others? Will the United States look inward or will it adopt a partnership role?
- Can the United States have a successful Asia policy without a coherent trade policy? (As one participant put it: “How can the U.S. lead if it treats trade as [domestic] politics rather than trade as trade?”)

- When will China be prepared to accept its global role in the new political and economic order?
- How can India become part of an integrated global system, and can Asia succeed without India's involvement?
- How will the institutions of the region—Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN), the East Asia Summit (EAS)—be organized and staffed?

Another participant stressed the necessity of taking care of those who are negatively impacted by change and carry the burden of adjustment. The traditional approach of “self-insuring” is no longer adequate. However, leadership has been lacking, and Asia is not stepping forward. Without a small group stepping up to move things along, institutional development on the economic side will only be incremental.

An Asian participant applied this assessment to the general question of regional architecture. “We know the ideal,” he said, but “how do you get leadership to change? There is no appetite for new institutions.”

In a concluding comment, one of the organizers noted that in Europe, young people are no longer worried about military conflict between their countries. This is not yet true in Asia. The region is on a positive course, but it still has a long way to go. It is a long-term vision, but we need to keep the vision and optimism alive.

Appendix: Participants

Senior Policy Seminar
August 3–5, 2009
East-West Center
Honolulu, Hawai‘i

Mr. Richard BAKER

Adjunct Senior Fellow
East-West Center

Amb. Stephen W. BOSWORTH

U.S. Special Representative for North
Korea Policy
Dean, The Fletcher School of Law and
Diplomacy

Amb. Raymond BURGHARDT

Director, East-West Seminars
East-West Center

Dr. Victor CHA

Director of Asian Studies
and D.S. Song Chair
Department of Government
Georgetown University

Amb. Gene CHRISTY

Foreign Policy Advisor
U.S. Pacific Command

Dr. Roberto DE OCAMPO

Chairman, Roberto F. de Ocampo Center
for Public Policy and Regional Economic
Cooperation, Manila

Dr. Wendy DOBSON

Professor and Director
Institute for International Business
Rotman School of Management
University of Toronto

Dr. Barry EICHENGREEN

Professor of Economics
and Political Science
University of California, Berkeley

Dr. Fereidun FESHARAKI

Senior Fellow
East-West Center

Mr. Daniel FUNG

Chairman
Des Voeux Chambers, Hong Kong

Adm. Timothy KEATING, USN

Commander
U.S. Pacific Command

Mr. Spencer KIM

Chairman
CBOL Corporation, Los Angeles

Hon. Mr. James KOLBE

Senior Transatlantic Fellow
The German Marshall Fund
Washington, D.C.

22 The Global Economic Crisis and Implications for the Asia Pacific Region

Dr. Nicholas LARDY

Senior Fellow
Peterson Institute for International Economics

Dr. Le Dang DOANH

Former Advisor to the Minister
Ministry of Planning
and Investment, Hanoi

Dr. Kyung Tae LEE

President
Institute for International Trade KITA, Seoul

Dr. Charles E. MORRISON

President
East-West Center

Amb. Yoshiji NOGAMI

President
The Japan Institute of
International Affairs

Dr. Marcus NOLAND

Senior Fellow
Peterson Institute for International Economics
and East-West Center

Dr. Michael G. PLUMMER

Professor of International Economics
The Johns Hopkins University, SAIS-Bologna
Senior Fellow, East-West Center

Amb. J. Stapleton ROY

Director
Kissinger Institute on China and the
United States

Amb. Charles SALMON

Foreign Policy Advisor
Asia-Pacific Center for Security Studies

Dr. Hadi SOESASTRO

Executive Director
Center for Strategic and
International Studies, Jakarta

Mr. Mark THIRLWELL

Program Director
International Economy
The Lowy Institute for
International Policy, Sydney

Dr. Sarasin VIRAPHOL

Executive Vice President
Charoen Pokphand Group, Bangkok

Mr. Jusuf WANANDI

Senior Fellow
Centre for Strategic and
International Studies, Jakarta

Ms. Barbara WEISEL

Assistant U.S. Trade
Representative for Southeast Asia

Mr. Yuen Pau WOO

President and CEO
Asia Pacific Foundation of Canada

Amb. WU Jianmin

Professor
China Foreign Affairs University

Mr. Tadashi YAMAMOTO

President
Japan Center for International Exchange

Mr. Jerry BURRIS

Rapporteur

The **East-West Center** promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the U.S. Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center is an independent, public, nonprofit organization with funding from the U.S. government, and additional support provided by private agencies, individuals, foundations, corporations, and governments in the region.

The **East-West Center Senior Policy Seminar** brings together senior security officials and analysts from countries of the Asia Pacific region for nonofficial, frank, and non-attribution discussions of regional security issues. In keeping with the institutional objective of the East-West Center, the series is intended to promote mutual understanding and to explore possibilities for improving the problem-solving capabilities and mechanisms in the emerging Asia Pacific community.

East-West Seminars | East-West Center
1601 East-West Road
Honolulu, Hawai'i 96848-1601
Seminars@EastWestCenter.org
808.944.7384

EastWestCenter.org/seminars

Cover photo: Franzen Photography



EAST - WEST CENTER

COLLABORATION • EXPERTISE • LEADERSHIP