

SENIOR POLICY SEMINAR



**Challenges for  
U.S.–Asia Pacific  
Policy in the Second  
Bush Administration**



EAST-WEST CENTER



SENIOR POLICY SEMINAR 2005

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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 2005 Senior Policy Seminar at the East-West Center was the sixth in this annual series of high-level seminars focusing on security issues in the Asia Pacific region. The Senior Policy Seminars bring together senior foreign policy officials, private sector leaders, and analysts from countries around the region for nonofficial, frank, and non-attribution discussions of the differing perspectives on these issues.

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 contemporary 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.

As in previous years, the 2005 Seminar and this report reflect the efforts and contributions of many individuals. Ambassador Raymond Burghardt, director of the Center's Seminar Program, this year took on the overall task of organizing the Seminar and served as a moderator. Dr. Muthiah Alagappa, director of the East-West Center Washington, D.C., office, again served as a co-convenor and co-moderator. Richard Baker, special assistant to the East-West Center president, also helped organize the Seminar and coordinated the preparation of this report. Dr. Satu Limaye of the Asia Pacific Center for Security Studies served as rapporteur and drafted the report. Brad Glosserman of the Pacific Forum/CSIS assisted in the note taking.

The Seminar was ably supported by East-West Center Program Officer Jane Smith-Martin, Seminars Secretaries Marilu Khudari and Carol Holverson, Seminars Program Assistant Suzi Johnston, student assistant Rachel Nabeta, student volunteers Wang Qinghong, Wu Peng, Sriwattana Dongkham, and Takuya Murata. The staff of the East-West Center's Imin Conference Center under Marshal Kingsbury again prepared an excellent conference venue and associated facilities. Editorial and production assistance for the report were provided by copyeditor Deborah Forbis, and the East-West Center Publications Office under Publications Manager Elisa Johnston. All have my deep appreciation.

As always, however, our greatest appreciation for the quality of the Seminar discussions and the content of this report goes to the participants for giving their time and expertise to a lively exchange of views on a wide variety of delicate and complex issues facing all of us in this increasingly critical region of the world.

# EXECUTIVE SUMMARY

Asians continue to regard the United States as the key contributor to regional peace and prosperity. However, they express concern that U.S. policy toward the region is characterized by a relative lack of attention, insufficient appreciation of underlying strategic changes, and ideological polarization. The tone as much as the substance of recent U.S. policy was blamed for low regard for the United States in Asia.

Despite efforts at Asian regionalism in terms of both institutions and identity, a U.S.-led regional management system is not expected to wither any time soon. In fact, U.S. bilateral relationships are strengthening, and regional multilateral efforts face formidable obstacles.

The emergence of China as an economic, political, and military power was seen as the most important factor in shaping the new strategic environment. Long-standing strategic challenges in such regions as the Taiwan Strait, the Korean peninsula, and the India-Pakistan border were seen as relatively quiescent but far from final resolutions.

Despite China's rise, India's activism, and Japan's incremental normalization, the balance of power in the Asia Pacific region is still based on American pre-eminence. In an environment of relatively benign great-power relations, Sino-Japanese relations stand out as an important exception. This has significant implications for the United States.

The management of globalization, and specifically the distribution of its benefits, remains the key economic challenge for Asian states. The economies of major Asian states are generally sound, but frictions between states over the effects of the diversion of foreign investment, oil prices, and trade and currency valuations create frictions. Despite the growth of intra-regional trade, Asia remains dependent on the world economy.

Domestic changes in many Asian countries have contributed to increased interstate tensions. Asian countries are also grappling with the demands of the international community for democracy and human rights, on the one hand, and counterterrorism requirements, on the other.

Transnational challenges such as human and drug trafficking, terrorism, and the proliferation of weapons of mass destruction are ongoing and pressing. Coordinated action, however, is impeded by the constraints of sovereignty and capacity.



## SESSION I: U.S.–ASIA PACIFIC POLICY AGENDA FOR THE SECOND BUSH ADMINISTRATION— A FIRST LOOK

**U.S. commitments in Iraq, Afghanistan, and the Middle East peace process will limit the second Bush administration's attention to the Asia Pacific region.** American participants expressed marginally more concern than their Asian counterparts about the lack of U.S. attention to the region—although the questions from Asians tended to focus on the nature of U.S. attention. There were differences of view on how to measure the degree and nature of U.S. attention to the region, with one participant citing the numerous U.S. regional visits and initiatives in 2005 as concrete indicators of U.S. engagement. Another warned that policy pronouncements such as the upcoming Quadrennial Defense Review would likely “say all the right things” about American interests in Asia, but that a more limited flow of resources and practical actions would probably belie the rhetoric. Barring major surprises, participants anticipated that America's high-level engagement with Asia for the immediate future would be dominated by the six-party talks on the North Korean nuclear problem. Some worried that this preoccupation would sidetrack U.S. consideration of emerging structural changes in the region.

**No major changes were anticipated in official U.S. priorities for engagement with the region.** Most participants accepted that the United States will continue to work toward security and stability in the region, particularly by addressing potential regional flash points, while promoting free markets, democratization, and human rights. Many Asian participants were critical of these priorities, which they saw as insufficiently attuned to the changing regional context. American participants tended to criticize the priorities as insufficiently cognizant of fundamental U.S. interests. Several participants called for a more considered focus on emerging structural challenges posed by the rise of China, changing power balances across the Taiwan Strait, North Korea's nuclear developments, efforts at building Asian regionalism, and shifting power relationships—and in particular, the increasingly troubled China-Japan relationship.

**Based on the first six months of the second Bush administration, most participants rated it as more “realistic” and “pragmatic” than his first term of office.** Temperate official comments about China and recent flexibility in negotiations with North Korea were cited as reflecting the new

approach. Nevertheless, considerable concern was expressed about what both American and Asian participants described as a “deep ideological divide” in the United States manifested by issues ranging from the use of American power to the handling of the rise of China. Even where some flexibility is apparent, as regarding North Korea, one participant warned that reversals could occur due to the underlying polarization in the domestic American debate. One American participant stated that the ideological divide in America is not limited to the administration, but reflects a society grappling with the dislocations of globalization and a sense of vulnerability exacerbated by the terrorist attacks of September 11, 2001. These ideological differences were said to explain the current profound, pointed debates about U.S. foreign and security policy. Participants expressed broad agreement that the style and tone of these debates is unhelpful in America’s dealings abroad, as is a continuing tendency to ignore “traditional niceties” and “cultural forms.”

**The difficulties of calibrating U.S. global and regional policies were viewed by participants as a natural result of the unique U.S. position and role in the world, but many observed that these factors had been especially disruptive to smooth U.S. foreign relations in recent years.**

Pessimists argued that U.S. global priorities such as counterterrorism and nuclear nonproliferation complicate relations with Asia Pacific countries that do not share the same priorities or at least not in the same rank order. A specific concern is the widespread perception in the region that U.S. policy equates Islam with terrorism. American difficulties in calibrating global and regional priorities were expected to become deeper and wider as political, economic, and social changes proceed in the Asia Pacific region. Other participants were more sanguine. They noted that asymmetries in priorities are inevitable given U.S. global interests and the fact that many Asia Pacific countries have the unfinished business of nation- and state-building, but participants argued that both regional countries and the United States are pragmatically managing these asymmetries. Considerably more troubling to some participants is the Bush administration’s emphasis on freedom while much of the world is increasingly focused on economic justice. They also criticized the United States for its willingness to make activist decisions that have wider implications without consulting other countries.

**It was generally agreed that the transition from a U.S.-led regional management system to a region-led management mechanism is a long way off.** The prospects for emerging Asian regionalism were seen as mixed, with Asian participants interestingly more circumspect (or realistic) than their American counterparts. According to one participant, the problems faced by the Association of Southeast Asian Nations (ASEAN) include diversity,

growing nationalism, increasingly frequent regional problems (e.g., financial crises, potential pandemic diseases, and terrorism), and mutual suspicions—all of which create barriers to institutionalizing regional cooperation. ASEAN was said to be “running out of gimmicks,” such as expanding its membership, that divert attention from its inability to deal with crises. In this view, external actors can do little to help address these problems. Others were more optimistic, citing ASEAN’s recent success in dissuading Myanmar (Burma) from taking the chairmanship in 2006 as a demonstration of the organization’s ability to deal with sensitive problems. Nevertheless, the net assessment of ASEAN was fairly bleak. One participant emphasized that the burden is on the organization to demonstrate its relevance. Similarly, the ASEAN Regional Forum (ARF) was seen as having made little substantive contribution despite opportunities to do so in areas such as maritime security. As for the embryonic East Asian community, it was noted that the Plus Three countries of China, Japan, and South Korea have more problems with each other than with the United States. Thus, the prospect that they could join with the ASEAN countries to solve or respond to major, fundamental regional problems “leaves much to the imagination.” Tensions between China and Japan, it was agreed, would be an increasingly important obstacle to East Asian regionalism—particularly as it involves northeast Asia. Another view expressed from Asian participants was that it was precisely to help contain such frictions that East Asian regionalism is being constructed.

**There was some disjuncture between the relatively guarded expectations of regional multilateralism and expectations regarding the U.S. attitude toward regional cooperation.** Both American and Asian participants called on Washington to be “more receptive to an East Asian community.” Both American and Asian participants also agreed that the United States could not be considered a formal member of the East Asian community, but that it could have enormous influence on the direction of that regionalism simply by virtue of its position as both a global and a regional power. By the same token, at least one participant warned that the East Asian effort toward community building must also develop a “right relationship” with the United States, arguing that the geopolitical reality is that the very existence of East Asian regionalism is made possible by the regional role of the United States. Another participant pointed to the evolution in American thinking about regionalism, noting that after outright opposition to proposals such as the East Asian Economic Grouping in the 1990s, the United States now is inviting the region to try to form a regional grouping if it wishes—indicating that the United States will respond when it sees something to respond to. Others suggested that the United States should not simply respond to regionalism but rather encourage it because this would serve U.S. interests in further

integrating and socializing China into the regional and global system as well as helping it develop constructive norms of behavior. Others were more skeptical, saying that regionalism might be dominated by a rising China in ways counter to U.S. interests, and that norm building has traditionally been frowned upon within Asian groupings. In this debate, the ASEAN decision on Myanmar's chairmanship was seen not as an example of norm building within the region, but rather as reflecting external pressure.

**Effective U.S. management of crises was seen as predicated on its long and positive role in the region.** For example, the U.S. ability to swiftly and successfully respond to the devastating tsunami of December 2004 was made possible by long-standing alliance relationships with countries such as Thailand. The United States was able to center its relief operations at the Utapao airbase—with ready consent from the Thai authorities—and to respond from that location to needs in Sri Lanka and Indonesia. Further, ongoing U.S. regional engagement through such multilateral mechanisms as military exercises will allow the lessons learned from the tsunami to be shared with regional participants as in the then-ongoing “Cobra Gold” exercise. Regional organizations such as the ARF are encouraged to anticipate problems and implement response measures when necessary in order to supplement U.S. crisis management capabilities.

## SESSION II: PERCEPTIONS OF THE UNITED STATES IN ASIA

**Perceptions of the United States in Asia today combine the pragmatic receptivity of regional governments, acute public criticisms, and, on the part of both, great expectations.** Among the most important factors shaping Asian attitudes is U.S. global actions. U.S. policy in the Middle East and toward Muslims is having an increasingly negative effect on Asian attitudes about the United States. A second factor in perceptions of the United States is its wider regional role. An example that was cited by several participants was the U.S. decision to work toward providing India with civilian nuclear energy. This was seen as complicating relationships with a number of regional countries, in particular Washington's negotiating posture with both Iran and North Korea. A third determinant of Asian attitudes toward the United States is bilateral relationships. Most agreed that in general U.S. bilateral relationships with allies, friends, and others in the region are manageable, and in some cases have significantly improved. The final factor cited is U.S.-China relations. Sound U.S.-China relations are welcome in the region, especially in Southeast Asia, because this means these countries do not have to make a choice between the two major powers. The fact that this single relationship importantly affects Asian attitudes toward the United States reflects the growing weight of China in regional calculations.

**Regional governments welcome U.S. participation in regional affairs, and view the United States as an essential economic partner and the most important military power.** Southeast Asian countries today have expectations of the United States for their security and even public safety assistance as demonstrated in the case of the December 2004 tsunami. Perhaps because of these expectations and needs, Southeast Asian governments remain acutely sensitive about their sovereignty and exhibit uneasiness about getting assistance for their national security or even cooperating in nontraditional areas such as maritime patrolling. On a more pragmatic level, regional governments worry that accepting conventional security assistance from the United States could compel them to take sides and become involved in issues that could either compromise their security or where their security is not at stake. Regional governments are also sensitive about dealings with the United States due to their own domestic politics and public attitudes.

**The accumulation of regional sensitivities and uncertainties about the United States, especially in the past few years, is leading to hedging strategies. India was cited as an excellent example.** While India is steadily

improving its relations with the United States, it is also seeking to improve relations with China and Russia. Several other countries were seen as being engaged in similar hedging activities.

**Public and parliamentary attitudes in Asia toward the United States were described as more negative than those of governments.** As politics and society in Asia become more open, the general public and representative political institutions will exercise an even greater influence; several Asian participants called on the United States to essentially win back public support. Asian participants, however, provided few substantive recommendations as to how to achieve this objective other than “don’t equate terrorism with Muslims” and “be more balanced on the Israel-Palestine dispute.”

**There was very little discussion of the U.S. military presence in the region.** It was suggested that this might be because Asians understand that the United States is not trying to dominate militarily or depart from its commitments in the region. Changes in the U.S. regional military presence are proceeding in coordination with regional allies.

**Despite mixed views of the United States, there were enormous expectations on the part of both American and Asian participants about the role of the United States.** Washington was called upon to manage China-Japan relations, to recalibrate the balance between democracy and counterterrorism in order to continue support for democracy and human rights (but not too intensely and not everywhere), and to distinguish between Islam and terrorism. It was also agreed that the United States must be more receptive to regionalism and revise its global policies so that they do not impact negatively on relations with Asia Pacific countries. These very expectations speak to both the complexity of perceptions about the United States and the fundamental regional assessment of the centrality of the United States in the Asia Pacific region.

**Domestic changes within the United States were also cited as an important factor shaping regional attitudes.** The growing influence of institutions and individuals from outside the traditional elite segments of American society was seen as understandable given demographic changes, but also as a cause of a “less friendly” and “more unforgiving” tone in public discourse. One participant lamented the lack of clarity about “who Asia should pay attention to” in the United States. For example, one participant pointed out that, unlike in the past, when the ideological divide was at the elite level (e.g., Fulbright vs. Goldwater), the divide today is within the grassroots.

## SESSION III: MAJOR SECURITY CHALLENGES

**Asia's potential regional flash points were generally considered to be relatively quiet, but no nearer to resolution.** It was noted that among the flash point problems in Asia, the United States has articulated a resolution process only in reference to the Korean peninsula. The United States has not expressed a view on what the ultimate resolution should be in the case of the Kashmir dispute or the Taiwan Strait issue. However, it was noted that while the status quo on the Korean peninsula may not be desirable to Washington, other countries might not only disagree, but actually oppose efforts to fundamentally change the status quo because, however problematic, the present situation serves their current interests.

**Given that resolutions of these major security challenges are not near, it was recommended that emphasis should be placed on creating conditions that would manage these security threats in a peaceful manner.** Most participants agreed that peaceful management is possible, as has been demonstrated, but that greater attention should be paid by all parties, particularly the United States.

**The United States was acknowledged as having played a constructive role both in cross-strait relations and in the India-Pakistan dispute over Kashmir, and was seen as increasingly doing so regarding North Korea.** Participants welcomed the U.S. role.

### The North Korean Situation

**The handling of the North Korean situation in the second Bush administration is reflective of the lingering ideological divide and a simultaneous effort at realism and flexibility.** While the first Bush administration was considered as confrontational in dealing with North Korea, it also offered few of what former U.S. Ambassador Don Gregg calls “carrots or sticks” to resolve security issues. This approach was described by one participant as “an attitude rather than a policy.” The 13 days of six-party talks that concluded in August 2005 suggested a more accommodative approach. For example, the Bush administration is ready to support South Korea's proposal to provide energy to North Korea. However, U.S. insistence that North Korea cannot have nuclear energy may turn out to be an “element of rigidity that may need to change.”

**North Korea unfortunately shows few signs of flexibility.** Its demand for light-water reactors is an indication of the North's unwillingness to agree to

common principles and its continuing efforts to find ways of dividing the five other negotiating parties. Pyongyang, on the other hand, has returned to talks with the ostensible purpose of arriving at a process for denuclearizing the Korean peninsula and of creating more openness toward South Korea's energy proposal. It is far from clear whether North Korea is willing to ultimately make the strategic decision to give up its nuclear weapons program, although some participants believed North Korea will cooperate if it is sufficiently rewarded.

**As a whole, the six-party talks appear to be more genuinely multilateral, including bilateral and trilateral engagement among the United States, South Korea and North Korea, and China becoming more active in pressing Pyongyang.** And although participants acknowledged that the talks may not bring an immediate solution, they do help contain the problem, build confidence among the parties, stabilize the situation so as to make it possible to deal with other issues such as human rights and Japanese abductees, smooth the process of reunification, and help deal with the link between technology and terrorism.

**The relationship between the United States and South Korea was seen by some participants as even more important than U.S. talks with North Korea.** Without agreement between the two allies, forging a workable and common position on North Korea would be extremely difficult. At least one participant noted that a key reason for the second Bush administration's flexibility on North Korea is an effort to improve relations with Seoul and develop a more cooperative relationship.

### The Taiwan Cross-Strait Situation

**The situation in the Taiwan Strait was described as a "tenuous form of stability that leaves tough problems unsolved."** One positive development is that both Beijing and Taipei appear to be setting aside, for the near term, their maximum positions of reunification on the one hand and de jure independence on the other. Each of these goals was described as "unrealistic" by participants.

**Taiwan President Chen Shui-bian was described as having "changed the terms of debate," and China has responded with some remarkable nuances in its earlier positions.** For example, Beijing's statement of willingness to have talks in which each side would speak to the other on an equal basis and its invitation to Taiwan opposition leaders were signs that China's President Hu Jintao is more flexible than the former president, Jiang Zemin.

China's anti-secession law may be viewed as a form of domestic cover for flexibility shown toward Taiwan. China has also made overtures on agriculture and tourism that would benefit Taiwan's economy, but even in these areas it seeks to avoid working with the Chen administration. Nevertheless, at present Beijing is unprepared to offer a deal that Taiwan would be willing to accept. China's demand for a one-China approach as a basic principle for negotiation remains an obstacle from Taiwan's perspective.

**The role of the United States was described as positive on two counts.** In 2003, the Bush administration made clear that there should be no unilateral steps by either side. And in 2004 the administration made clear that force would be unacceptable under any conditions. The net result has been to reduce U.S. congressional interest and involvement, a development that has had the effect of reducing Taiwan's ability to play the "congressional card" against the executive branch but which seems to be insufficiently appreciated by Chen.

**The quiescent status quo has dangers.** China is strengthening its military abilities to deal with a conflict in the Taiwan Strait. This has the potential to alter the domestic U.S. debate about the nature of the Chinese threat, which would in turn potentially bolster Taiwan's activism and give the U.S. leadership less room to maneuver.

## India-Pakistan Relations

**The crises in India-Pakistan relations are increasing in frequency, but in the past two years there have been notable efforts at rapprochement.** Major crises occurred in 1999 and 2001–2002. Subsequently, new and restored transportation and family links across divided Kashmir, ongoing diplomatic negotiations about disputed territory, and wider forms of engagement such as energy cooperation are showing signs of progress. It was agreed that it is far too early to predict the future sustainability or progress in these talks. Water resource management disputes are assuming a more important role in regional relations and could complicate the current rapprochement.

**The role of the United States is now both critical and substantially changed from the past.** U.S. intervention has been effective in averting outright conflict in recent crises. Today the United States does not just influence South Asia; it is a power in South Asia because of its presence in Afghanistan and substantially engaged relationships with both Pakistan and India. Another aspect of the new dimension of U.S. relations with the region is the impact of September 11. This is one reason why the United States has pressured

Pakistan to abandon its proxy war and support for militancy in Kashmir. The United States does not want to see the jihadists who have been trained to fight in Kashmir and Afghanistan turn their attention elsewhere.

**The main challenge for the United States is to manage simultaneously its relationships with India and Pakistan.** Efforts to deal separately with the two countries will be difficult. For example, while Pakistan did not respond strongly to the earlier signing of a U.S.-India defense accord, the recent signing of an agreement between the two countries on nuclear cooperation has elicited considerable negative reactions in Islamabad. As a result, some said, “Pakistanis have already reverted back to type,” with resumed support for the jihadists. The Indians have warned that if cross-border terrorism does not halt, recent progress in India-Pakistan relations could suffer serious setbacks.

## SESSION IV: RELATIONS AMONG THE LARGER POWERS

**China's rising role is accepted by most participants as the most important factor affecting relations among the major powers and shifts in the balance of influence.** However, it is also clear that the rise of China is eliciting widely differing responses. For example, one participant recalled that in the past Indonesia had been acutely suspicious of China—requiring visa applications from Chinese to be in true ink and refusing faxed applications—but today Indonesia provides the Chinese with travel visas upon their arrival. Another participant noted that for the first time military-to-military exercises were being conducted by Russia and China, which was a source of concern in some countries. In South Pacific nation states, four changes in government have occurred due to the China/Taiwan recognition issue. One participant asserted that “China is a difficult country to negotiate with,” pointing to its active campaign to block Japan’s bid for a permanent United Nations Security Council seat, and warned that “as time goes by, China is bound to be aware of the views of the international community and the costs of using its power.” It was noted that as many regional countries are hedging in their relations with the United States, so too they are hedging in their relations with China.

**Sino-Japanese tensions are increasing rapidly and mounting in intensity.** The causes of these tensions are numerous and include fundamental shifts in the two countries’ relative power, complex trade relations, respective ambitions for regional and global roles, historical hangovers, and trends regarding nationalism and identity. Only a few participants considered it likely that these tensions would diminish in the near term. Most participants agreed that the United States has an important role to play in managing these tensions, both through calibrating its ties to Tokyo and Beijing and in articulating its relationship to the East Asian community. Some participants complained, however, that Washington was too focused on getting Japan to balance China.

**Despite the current state of Sino-Japanese tensions, overall relations among the great powers were seen to be manageable.** An assessment by one participant concluded: “In terms of big strategic developments, we are getting what we wanted. The region’s interests are well served if China integrates, Japan normalizes, the United States remains engaged and maintains military primacy, and India plays a greater role.” Some frictions were seen as inevitable byproducts of these evolving adjustments in regional relations.

**There were significant disagreements regarding the degree to which the trajectories of power and influence among the great powers are creating a multipolar system.** Some participants argued that the region is indeed on the “cusp of a structural shift in the balance of power,” while others noted that this very shift is only possible due to the continued hegemonic position of the United States.

**While focusing on the larger powers, the role of powers adjacent to the Asia Pacific region is also seen to be important.** Countries such as Russia, Australia, New Zealand, and India were specifically mentioned, and it was noted that they are all playing an increased role in the region.

**Several commentators spoke about the hedging behavior of regional countries such as India, Japan, South Korea, Vietnam, and Indonesia.** Australia was described as trying to position itself in a way that will allow it flexibility if a concert of powers system were to emerge in place of the prevailing unipolar order.

**The role that regionalism can play in the management of great power relations is unclear.** Regardless, participants generally agreed that regional institutions are a very long way from being at the stage where they can manage or shape regional bilateral relationships.

## SESSION V: ECONOMIC CHALLENGES—MANAGING GLOBALIZATION AND COMPETITION

**Managing globalization, and specifically the distribution of its benefits, remains a key economic challenge.** Unlike during earlier phases of globalization, such as the period between the two world wars, the losers in the globalization process today are more capable of organization and mobilization and therefore have greater influence in affecting political and economic outcomes. One participant pointed out that all countries, even the most advanced such as the United States, are grappling with the domestic politics of managing globalization—with mixed outcomes. One example cited was that the U.S. federal government spends less than \$2 billion on helping workers whose industries are dislocated by global competition, while it spends \$40 billion on agricultural subsidies to prevent global competition.

**The motives and impacts of free trade arrangements (FTAs) in the Asia Pacific region were debated.** It was noted that there has been a proliferation of bilateral FTAs over the past two years and several more are currently being negotiated. Some participants emphasized that FTAs are being driven by the stagnation of global trade talks, while others argued that such deals allow countries to escape the real need for domestic structural adjustments—especially in agriculture. In either case, countries are responding to the difficulties of managing globalized trade. The longer-term impact of such arrangements is unclear, though some participants argued that the “provisions of the World Trade Organization are being undermined by FTAs” and that this is very damaging to the multilateral trading system. Another problem with these agreements is that they lack coherent standards. Hence, one bilateral agreement may be more advantageous than another—further complicating the negotiations not only of additional FTAs, but also global trade arrangements.

**Foreign direct investment (FDI), it was agreed, has overwhelmingly positive effects.** However, taking full advantage of FDI is possible only if adequate physical and institutional infrastructure is in place. Some of the world’s poorest countries, which do not possess this kind of infrastructure, tend to get left out. At least one participant urged that the global community assist the poorest countries to attract FDI by facilitating the development of infrastructure.

**Financial management in the context of globalization poses increasingly complex challenges.** It was noted that before opening the capital market, a very good regulatory mechanism must be in place. Moreover, it is essential

that financial institutions be healthy—primarily by dealing with debt and bad loans and “solving balance sheet problems.” It was suggested that in moving toward capital market opening, a sequence should be followed in which the long-term capital market be opened first and then the short-term market. One participant argued that South Korea had made a mistake in this area that was partially responsible for its financial problems after 1997.

**The issue of exchange rates has also attracted considerably more attention in recent years—mainly because of debates about the valuation of the Chinese currency.** The U.S. Congress has been particularly active, and held two hearings on the subject before the 2004 elections. Congress has tended to blame China for the loss of three million jobs in the United States. For its part, China is mainly concerned about the country’s financial stability in light of the transition of its banking system. It was noted that all countries in the region are not being equally pressed to adjust their currency exchange rates. It was argued, for example, that the United States had not pressured Japan to revalue the yen because of its support to the Iraq war effort. On the other hand, in contrast to the Chinese renminbi, neither the Japanese yen nor the South Korean won is pegged to the dollar.

**The changing picture in commodity consumption is another significant trend.** In 2003, China overtook the United State as the world’s largest consumer of commodities. As a result, China is beginning to look at signing FTAs with its major commodity suppliers, such as Brazil and Saudi Arabia. China was also said to be increasing its ability to physically secure its commodity needs. Specifically mentioned was the dispatch of Chinese police to Sudan to protect oil pipelines. China is also promoting infrastructure development in countries where it gets commodities. One participant asserted that “in the future, it will be the Chinese business cycle that determines international commodity prices rather than the U.S. business cycle.”

**Many participants expressed the view that China’s economic rise requires the assistance and support of the international community.** The international community, one participant argued, could help China to adopt a well-sequenced liberalization program. It is important for the international community to make sure that China’s economic transition occurs smoothly because there could be calamitous results if, for example, the Chinese renminbi were to collapse as the Thai baht did during the 1997–98 financial crisis. Similarly, China has an enormous stake in the outcome of world trade talks because foreign trade accounts for nearly 35 percent of its gross domestic product—three times the level of other major trading countries. However, so far China has tended to align itself with developing countries in the trade

talks. It was stressed that China will ultimately have to rely on domestic demand for long-term sustained growth, and not just exports, because continuing to increase exports at the current rate is unsustainable. Other participants focused on the challenges to China's "peaceful economic rise" such as the need for agricultural reform and environmental degradation.

**The role of regionalism in the management of economic issues remains very important, but there were a number of criticisms of the current structure.** The International Monetary Fund (IMF), it was argued, does not play a very clear role in designing capital market liberalization and the proper currency valuation. The IMF was also said to give inconsistent advice. This suggests the necessity of reform of the international financial architecture. At the same time, participants noted that much could be done at the regional level. One such initiative would be a regional monetary authority. Another suggestion was for a wider regional trade agreement built around the East Asian summit.

**The economies of major players such as the United States, China, South Korea, and even Japan and India are generally sound. But, economic issues between states are increasing.** Concerns about diversion of foreign direct investment, oil prices, and trade and currency valuations account for some of the anxieties.

**Energy issues will become increasingly important for economic health in the Asia Pacific region.** China's emergence as a major energy consumer resembles that of Japan in the 1970s. Some participants welcomed China coming on the energy scene because it could help in developing new energy sources. Moreover, Chinese companies are willing to develop sources that American private companies are not. The net effect of such activities has been to make more energy resources available on the world market and therefore keep prices down. Several participants argued that China will not seek to ensure its energy security by acting unilaterally and predicted that China would be buffeted by oil prices like all countries, including the United States.

## SESSION VI: DOMESTIC POLITICAL CHANGE AND REGIONAL RELATIONS

**Assessments of the state of democracy in Asia generally stressed the unevenness of the picture.** One participant described the situation in South-east Asia specifically as a “mixed bag” while another, referring to the broader region, contended that over the past 25 years “there has been remarkable progress on governance” but that a net assessment would conclude that the “glass was more than half full, but not full.” The difficulties confronting the consolidation of democracy in the Asia Pacific region were acknowledged. Much of the region is comprised of post-colonial, multinational, and new states that must simultaneously build state capacity and institutions and the sense of nationhood. It would therefore be unfair to expect these objectives to be achieved quickly or smoothly. These processes of nation- and state-building by themselves generate communal violence, insurgencies, and internal conflicts. It was pointed out in this context that, in the post-World War II period, nearly 18 million persons have been killed in internal conflicts in Asia and only about 3.5 million in international conflicts.

**In Southeast Asia, a principal concern expressed was that election campaigns and domestic politics are becoming more negative and hence complicating both domestic management and regional relationships.** Election issues, it was argued, are being framed in ways that exacerbate public fears of foreigners and external dominance and interference. Moreover, issues of nationalism and ethnic chauvinism are increasingly highlighted in electoral contests. One participant noted that a major challenge was how to deal with “nationalism that is created at the end of the election process.” In the case of Thailand, these tendencies are said to be creating problems for management of the Muslim insurgency in the south and complicating Thai relations with both Malaysia and Indonesia. Institutionalization of the ongoing democratic transition in Indonesia is expected to take up to two decades. Indonesia, it was suggested, could help shift the “weight of gravity” toward democratization in Southeast Asia. Leadership changes are also occurring in Malaysia and Singapore, and both countries appear to be relaxing some of their internal controls. More than one participant considered that Thailand’s democracy is eroding; there is uncertainty in the Philippines, and no change among non-democracies such as Myanmar. One participant asserted that coups are basically ruled out today, but creeping authoritarianism could continue to threaten democracy.

**The democratic situation in South Asia was described as “disturbing.”**

The democratic transition in Nepal has stalled, and some saw an urgent need for “massive international pressure on the king.” It was argued that in Afghanistan, despite parliamentary elections, the current system makes it difficult for political parties to have a voice, and therefore the transition to democracy has been effectively stalled by the lack of a role for political parties. The democratic transition in Bangladesh was described as disintegrating.

**The contributions of nongovernment organizations (NGOs) and civil society to democracy were recognized.**

One participant emphasized that even as political leaders or state institutions seek to curtail rights, it would be difficult to do so. The example cited was Thailand, where Prime Minister Thaksin Shinawatra has sought to “crack down on the scene of openness” but was finding it difficult to “put civil society, a free press, and NGOs back in the bottle.” It was recalled that the last Thai coup attempt in 1992 provoked unrest in the general public and civil society. Other participants were less sanguine. One speaker argued that “civil society is not a virtue” and that “NGOs are not civil society, [but] just one dimension,” or in other words, another form of interest group. Whether civil society promotes democracy was contested. It was also argued that while the number of NGOs has grown, space for them might not be guaranteed due to the weakness of the state.

**It was the general consensus that, while democratization has positive elements, it will not reduce regional frictions and in many cases might even exacerbate them.**

One participant pointed out that the breakdown of authoritarianism in ASEAN has led the general public of these nations to be more watchful of neighbors as public opinion enters the calculus of regional relationships, and mutual criticism becomes more possible. One example was Indonesian sympathy for Anwar Ibrahim, the jailed political leader in Malaysia. Another was China-Japan relations; for example, every time Beijing criticizes Prime Minister Junichiro Koizumi’s visits to the Yasukuni Shrine, he becomes more popular in Japan. One participant cautioned that such frictions are not the results of domestic political change per se, but rather relate to the exercise of leadership and policy choices.

**The competing demands of the international community for democratization and human rights, on the one hand, and counterterrorism, on the other, received considerable attention.**

In particular, there was criticism that the U.S. concentration on the war on terrorism is resulting in insufficient attention to violations of democratic norms and human rights. This allows regional leaders to use terrorism as a way of gaining space for their authoritarianism. Others rejected this argument, saying that the United States

continues to insist on human rights and democracy as objectives, and they pointed out that U.S. involvement in Iraq, for example, had not given Asian leaders a free pass on democracy and human rights concerns.

**The role of regional multilateral community building in consolidating democracy was debated.** Some participants argued that community building in East Asia leads to the creation of new norms of behavior. Accountability and transparency were cited as two key attributes that could be developed through such a community-building process. In the long term, community building could even help to shape common values. Other participants were more skeptical, noting that a key factor that has facilitated regional community building thus far has been the tacit agreement among political leaders not to make judgments about each other's countries. One optimistic note was that the development of active parliaments provides "some hope for breaking old obstacles to norms."

## SESSION VII: TRANSNATIONAL ISSUES AND REGIONAL COOPERATION

Participants shared a consensus that the challenges posed by transnational issues—ranging from human and drug trafficking to terrorism and the proliferation of weapons of mass destruction—are interlinked and require regional solutions and global cooperation. However, there were considerable differences in assessments of the progress achieved to date and possible ways to address these issues.

**Positive features mentioned included greater capability on the part of U.S. allies, capacity improvements in several regional states, and more coordinated and multilateral cooperation.** A major example was the 2004 Indian Ocean tsunami, where “layers” of response embodying these features were demonstrated. U.S.-Japan-Australia-India cooperation as a “Core Group” was supplemented by the “habits of cooperation” of such countries as Thailand as well as international and regional NGOs.

**Perceptions about the U.S. commitment to true regional cooperation and initiatives were mixed.** One participant noted that both the tsunami core group and the Proliferation Security Initiative (PSI) were U.S.-led initiatives since generally the United States does not appear to encourage countries in the region to take the initiative. Another countered that the United States could “do almost anything alone,” but that in the Asia Pacific region, it had occasionally been willing to “play the Javanese role of leading from behind.” One participant felt this was inherently difficult for Washington. Another responded that “there is change on the third deck of the Pentagon.” He saw evidence of growing appreciation for regional security cooperation. It was also noted that the United States often welcomes another country taking the lead—for example Australia’s role in the East Timor operation.

**Terrorism continues to be a key regional security concern, but efforts toward controlling terrorism are far from coordinated.** One reason is that many regional states are to some degree complicit in terrorism and have difficulty in extracting themselves. Sovereignty concerns are also another major impediment to cooperation. There are also objections to the current approach that considers the best tactic is to attack terrorists rather than to address the roots of the problem. In this regard, it was argued that one reason for emphasizing the tactical approach was that it avoids having to address the underlying “policy mistakes and choices that have been made.”

## CONCLUSION

In an environment of flux, and on the cusp of potential strategic changes, the United States and the second Bush administration have opportunities to influence the shape of the Asia Pacific environment in ways compatible with U.S. interests and regional peace and prosperity.

Initial indications, such as those displayed in negotiations during the recent six-party talks regarding North Korea, suggest that the second Bush administration is adopting a more pragmatic and flexible stance. This does not necessarily mean that goals have changed, but that approaches toward achieving those goals may change with different personnel and in light of different experiences. The net effect is that changes in the U.S. tone provide a fresh impetus and facility to a renewed engagement with Asia.

Asian counterparts welcome such a revised approach from the United States because it serves their countries' national interests, diminishes divisions between governments and the general public and reduces uncertainty and anxiety.

Asia Pacific expectations of the U.S. role remain enormous, occasionally contradictory, and even contrary to U.S. national interests. But these expectations do underline that U.S. interests and opportunities in the Asia Pacific region are profound.

# APPENDIX

## Seminar Participants

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