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**China and East Asian Community Building:
Implications and Challenges Ahead**

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PROCEEDINGS

DR. RICHARD BUSH: Thank you all for joining us today for the first event in a series we are putting on this fall, presentations by our six CNAPS visiting fellows. We are very pleased to begin the series with our 2007-2008 visiting fellow from Hong Kong, Dr. Richard Weixing Hu.

Dr. Hu is an Associate Professor in the Department of Politics and Public Administration, Faculty of Social Sciences, at the University of Hong Kong. He is in a sense an old Washington hand, as he received his M.A. at the Johns Hopkins SAIS and Ph.D. in Political Science from the University of Maryland. A prolific writer, Dr. Hu is the author of numerous books and academic journal articles on China's foreign policy, Sino-U.S. relations, East Asian regionalism, and security issues.

During his fellowship at Brookings, Dr. Hu's research will focus on "China, the United States, and Future East Asian Regionalism: Managing the Changing Balance of Influence."

DR. HU: Thank you, Richard. I thank you very much for bringing me here to this year's CNAPS Fellows program and to Washington, DC, a city I am quite familiar with because I began my graduate studies twenty years ago, across the street at the Johns Hopkins University SAIS.

I also want to thank your staff, Kevin, Jiyoung, and Aileen for their wonderful work accommodating and facilitating our research here. I think all the fellows in this year's program would agree with me on that, and we look forward to a very productive and fruitful year at Brookings.

Today my topic is "China and East Asian Community Building." I plan to divide my talk into three parts: First, I am going to discuss the current state of community building in East Asia. Second, I will turn to China's efforts in East Asian community building and what motivates China's policy on East Asian regionalism. The third part will be about implications and challenges for the United States and for China's own efforts in community building.

I don't have many slides today, as a matter of fact only eight of them. For the sake of time, I will just spend 30 minutes to give you an outline of the issues, in big strokes, and then I will leave more time for Q&A and discussion afterwards.

Now let me start with my first topic—the new momentum of community building in East Asia. I think everyone here remembers that the first round of serious community building in this region started after the Cold War, with the APEC process which was basically a process driven largely by trade liberalization efforts. It was a process for trans-Pacific community building. However, after the Asian financial crisis of 1997-98 it took a new turn, and we are now witnessing a new trend toward an Asian-only or Asianized community building process.

The Asianized community building process—it's a separate but parallel process with APEC—is more dynamic and more active in recent years. Let me just give you some brief ideas about what is going on in the region. Starting from 1997 ASEAN initiated a new dialogue process with three Northeast Asian neighbors, China, Japan, and South Korea so we call it the ASEAN+3 process. And in 2000 there's a new project called the Chiang Mai Initiative, in which a series of bilateral currency swap agreements were signed among the ASEAN+3 countries to prevent another round of financial crises.

In the 1998 ASEAN+3 Summit Meeting, leaders commissioned a new study group, what we called the East Asian Vision Group, to study the future direction of East Asian community building. And this group produced a report in 2001 to report to the 10+3 Summit. The name of the report is called *Toward East Asian Community*, with the community spelled with a capital letter “C.” After adopting this East Asian Vision Group's report, the 10+3 leaders decided to set up a new study group, called East Asian Study Group to study the concrete measures to implement these goals. So in 2002 the study group came back with a report recommending 17 short-term measures as well as some medium-term measures for community building. All these measures are now underway for implementation. At the end of 2005, the first East Asian Summit took place in Malaysia. And so you can see the pace of development was quick and very steady upward.

On the trade front, remember that APEC served as the driving force for the Pacific community building mainly because of a series of trade liberalization measures. Now, under the new ASEAN+3 framework there is a series of bilateral and multilateral FTAs signed. First and one of the most important ones was the China-ASEAN Free Trade Agreement in 2002. This triggered Japan to follow suit. Japan also started its FTA. It's called the Economic Partnership Agreement (EPA) with ASEAN. And South Korea also started FTA talks with ASEAN. So you can see it has triggered a series of bilateral and multilateral FTA agreements. Among the three Northeast Asian countries (the Plus Three) there are feasibility studies and preliminary talks on the FTA. At the subregional level you also see a lot of projects going on as well. First, there is a so-called “GMS,” Greater Mekong River Sub-region project. It involves all the Indo-China countries and China. There's also an Indo-China Transportation Network Project.

Addressing different functional issues, there are also a lot of projects going on. Today we have about nine ministerial level meetings within the 10+3 framework, from foreign ministers, economic ministers, finance, industrial, and even tourism ministers, they meet regularly to discuss functional issues, from energy issues, human trafficking, Avian flu, and transborder crime, et cetera. And two years ago China also set up in Nanning, Guangxi a permanent site for the ASEAN-China Expo, like a big trading fair for the regional countries.

On the Track II front, we also have a Track II dialogue called the *Network of East Asian Think Tanks*, the nickname is “NEAT.” So you can see there are a lot of different projects going on in this region. But, does that mean the regional community building is going smoothly without any problem? I don't think so. We still have a lot of problems. The situation of community building in East Asia is still fluid, and a lot of doors have been opened, and there are lots of doors to be opened. There are many directions we need to decide where we go, but there's disagreement about where we go.

So, first, there's a challenge on the future vision of East Asian community building. Secondly, there's a challenge about the membership: who should be in this community, who should not be in? And related to that, the third problem is who shall be the leader in this process. And lastly on what model we should be building the community.

Now, all these problems are not solved and are still under debate. We will not resolve this problem in a short term, but I think it is healthy. It is healthy to debate about these issues. I will come back to these problems later. Now, all these problems I think at the root have something to do with the characteristics of East Asian community building. To use simple language to characterize this community building, it is the ASEAN-way type of community building; so it's based on the ASEAN way. One of the Chinese scholars Professor Zhang Yunling said, "This is the ASEAN-way plus type of community building." Now, what is the ASEAN way?

The ASEAN way focuses on process, consensus building process. So you continue to talk about confidence building and then you will not make decisions until you reach the consensus. Another thing about the ASEAN way is it moves at a pace when everybody feels comfortable. So we call it the "comfortable level." In essence, the ASEAN way is also called the lowest common denominator approach. It is the way that makes everybody happy, everybody can accept, and this is the way that drives the process going on.

Okay, for the sake of time I need to move a little bit quicker.

Now, the second question I want to talk about is the China's role in this community building process. As you know, in the middle of 1990s China was still not quite positive about regionalism. It was a little bit defensive or conservative on regional community building activities. I remember the first time in 1994 when China was invited to the ASEAN Regional Forum, Chinese delegates were very defensive, being prepared to defend against any attacks on China's policy. But gradually you find their attitude began to change. They found regional community, regionalism, regional multilateral talks are not something scary; they are not something China should be afraid of. And the ARF instead provides a good platform for China to elaborate, to speak out about its policy. So later on in the ASEAN Regional Forum, China has become more active and even proposed and promote something of its own, like the new security concept, in the forum.

China became ASEAN's regular dialogue partner in 1996. And in 1997 the ASEAN+3 started, and China was very active, supportive, and even initiated the free trade agreement ideas with ASEAN. China also tried something of its own, which is Shanghai Corporation Organization.

Another thing China did in the regional community building is to be very supportive of ASEAN playing a leading role in this regionalism project, and, you know, China -- both China and Japan -- are not on the driver's seat in this regional community building; they are rather in the passenger seat because if both of them want to be leader, neither of them will get that. It will trigger power competition. So they better let the small guys to drive the car.

China on the sideline did a lot of things to facilitate and help the 10+3 dialogue process. It also did a lot of things, like ad hoc multilateral projects, to help the regional community

building. One example is the six-party talks on North Korean nuclear issues in Beijing. China also came out with a lot of money to support aid relief when the tsunami occurred in Southeast Asia in December 2004. The figure of the Chinese relief aid to the tsunami victim countries was something like \$1.2 billion RMB, which equals to \$148 million U.S. dollar. It was unprecedented and the largest Chinese relief aid in history.

China has also involved in subregional projects, especially the Greater Mekong River Subregion Project. China has traditional ties with Indo-China countries. So China, bilaterally, pumps in a lot of money helping these countries. In some ways people say China is talking multilaterally and doing more in bilateral ways.

Now, the next question will be why China did so. What is the motivation behind China's effort in regional community building? There are several reasons for that. I have listed a couple of them here. First, we need to go back to the post-1989 situation. After Tiananmen Square, we saw the Western countries organize a network of sanctions on China. So in order to break through the sanction network, China had to undertake an overall rethinking about its future strategy. So after 1989, China's foreign policy was reconfigured and refocused on region, especially the East Asian region. I remember Samuel Kim used to call China a regional power with a global strategy before the end of the Cold War. Now after 1989, China really became a global power, but with a more regional focus, especially on East Asia. China has realized East Asia as its power-base. A good Asian policy, a good-neighbor policy would be very helpful for future Chinese foreign policy.

The second driver for China's refocusing on East Asia, on a good-neighbor policy is its domestic need on economic development. It needs a peaceful intermediate external environment for its economic development. Another angle to look at this is after the Open Door policy, China became economically integrated into the region. And the Chinese market becomes more open and China attracts about \$40-50 billion in foreign investment each year, and all of the major corporations now have to reorganize their productions in the region, and that makes China a regional manufacture center.

The third factor, if you look at China's motivation from its regional policy perspective, it is interesting to know since the 1990s there's lot of discussion about the China threat. So in order to dismiss this China threat theory, what can you do? And leaders think hard about that, and they find your policy toward regions has to become more reassuring in nature. I call it "reassurance diplomacy."

Now, how you can reassure your neighbors? You need to open up your market; you need to integrate yourself into regional institution; you need to change your policy behavior. You really need to show good intentions, which is a real good-neighbor policy. So in the words of Chinese leaders, we want to make this region a good neighborhood, we want to make it a rich neighborhood, and we also want to make it a secure neighborhood. So in Chinese it's called *Mu Lin*, *Fu Lin*, and *An Lin*.

The fourth motivation behind China's regional policy is, as China rises peacefully, you need to have a good image to the international community and to your region. An image of "responsible great power" is a very important asset for China's future foreign policy.

The last point I want to talk about is China's domestic regions. After the reform and opening policy, a lot of provinces are very interested in opening up to their neighbors across national borders. Say to ASEAN countries, Guangxi and Yunnan Provinces are very interested and even eager to reach out. Guangxi offered to have the China-ASEAN Expo here in its province. When we talk about Central Asia, Xinjiang is very interested. Let's open up, and we will have more cross-border trade. Remember the Tumen River Delta Project from the middle of the 1990s. That was Jinlin Province's idea and it was later supported by Beijing and sponsored by the UNDP. So you have to look at it from an inside-out perspective. A lot of provinces are the driving force behind the scenes for China's regional outreach.

China now has a more positive and benign regional policy. How about other Asian countries' reaction to it? Did Asian countries dance with China? In general, I think the reaction has been very positive with the exception of Taiwan and Japan, which I will explain later. Why? Because the rise of China and its peaceful regional policy have created a lot of opportunities for them. There is the market attraction for them. They have a lot of trade opportunities with China. Look at China's foreign trade picture these years. Last year China's foreign trade volume was something like \$1.7 trillion U.S. dollars and the No. 1 trading partner, obviously, was the United States. China had a big trade surplus with United States, around \$200 billion. But if you look at China's trade situation with its Asian neighbors last year, you will find China ran a big trade deficit with almost all the major trading partners in East Asia. With Japan, China had about a \$24 billion trade deficit, with ASEAN \$18 billion, with South Korea, the largest -- I'm sorry, the second largest at \$45 billion. Taiwan was the largest at \$66 billion, and Russia \$1.8 billion. So put all of these figures together you will see China ran about a \$160 billion-dollar trade deficit with its East Asian neighbors. So China's trade surplus with the U.S. was built on its trade deficit with its Asian neighbors. The U.S. trade deficit with China is not just a pure bilateral issue; it is a regional issue.

East Asians' reaction to the China rise and its regional policy has been relatively positive. The other reason, in my view, is the way China conducts its foreign policy in recent years has really changed. A lot of people name it as "soft diplomacy," or "economic diplomacy," or "commerce diplomacy," whatever name you want to call it.

The last reason I want to discuss is the third-party factor in regional politics. This third party factor is relatively the decline of the United States' role in this region. The U.S. role in this region has been described as "benign neglect." In some way it created opportunity for China to move in into this region. The U.S. policy toward this region after September 11 is the "benign neglect" plus "selective engagement" with the preoccupation on anti-terrorist war, or war on terror. This policy has created a lot of room for China to move in economically, diplomatically, and even culturally.

Yet, not all the East Asian countries see China's rise in this region and China's role in regional community building as positive. Japan, as I said earlier, has felt the heat from China's regional policy. In 2001 when China announced an FTA with ASEAN, Japan felt the pressure to compete. It had to follow up, so Japan initiated its own EPA ideas with ASEAN. Japan later on in recent years proposed what people called "principled regionalism," which argues regionalism and regional community building must be based on some principles, on some common values. I will talk about that later.

Obviously, Taiwan is getting more isolated in this process, for the reasons everybody here knows and I don't want to elaborate on that.

Now, let's move quickly to my third part of the talk, which is about implications and challenges. For this audience, first of all I want to talk about what is the implication of China's effort in regional community building for the United States? The U.S. concerns in this are obvious. There are three issues I want to address here: first, the US is concerned with whether China's rising soft power in the region is at the expense of the United States. Is China pursuing a "Monroe Doctrine" in Southeast Asia, trying to exclude the U.S. from this region?

This has been discussed a lot in the academic circle and also in the policy community. My answer is simple. I think this concept is a little bit questionable. First, the U.S. decline or perceived decline of soft power is not because China's soft power in this region has increased. The decline of the American soft power is because of the U.S.'s own reasons, and so there's no causal relation between these two things. They may be correlated, but they are not causing each other. But, as I said earlier, the U.S.'s declining role did create opportunity for China to move in, and China wisely took the opportunity or took the advantage of it and expanded its influence in this region.

Is China trying to have an exclusive sphere of interest in Southeast Asia? I think this is also a little bit questionable. China's influence in this region in Southeast Asia is increasing, no doubt about that. This is because of Chinese diplomacy and soft power, but I don't think China has reached the level of influence or magnitude of influence in this region as the U.S. has. The ties between Southeast Asia and the United States are still very strong. Southeast Asian countries do not want to take sides between China and the United States. So there's no way China will have an exclusive sphere of interest in Southeast Asia, and also in East Asia in general at all.

The second issue is: will an East Asian community eventually become a closed, exclusive trading block against the United States? This is a natural concern of the United States. Although we have no answer to this question now, I think, intentionally or unintentionally, it might become a closed, exclusive trading block, but at this point nobody is intentionally trying to have a closed and exclusive block against the United States. At least nobody says that, even China. The Chinese leaders make it very clear we want to have an open and inclusive regionalism, not excluding any major powers, especially the United States from this region.

The U.S. has natural concerns about that. One of the concerns about that is the loss of trade opportunities. With a series of FTA agreements, whether they are bilateral and multilateral FTA agreements, will have cumulative effects affecting the U.S. trade benefits. But at this point you can see, if you study these FTA agreements, most of them are what Fred Bergsten calls "low quality FTAs." They are less intricate and would not create the kind of spaghetti bowl effect, excluding U.S. interests in the region.

The U.S. also took a two-tier strategy toward this region. On one hand, the U.S. wants to have the APEC dialogues continue. On the other hand, the U.S. also pursues its own bilateral free trade agreements with East Asian countries. There is U.S.-Singapore FTA, U.S.-South Korea FTA, and Washington is also negotiating FTAs with Thailand and Malaysia. The United States is well plugged in this region.

I think the U.S. attitude toward regional community building is part of the problem. On one hand, the U.S. is concerned with whether it will be exclusive, closed one or not. On the other hand, it watches whether these regional projects, like the East Asian Summit, are going to be an action-oriented body or just talking shop. It seems the American President does not want to go to this kind of summit, especially twice in two months every year—because the APEC yearly summit in November and the East Asian Summit yearly in December. So can you imagine the United States president goes back to Asia twice in two months every year? So this is the problem. Some State Department officials called it “meeting fatigue.” So that’s part of the reason why the U.S. has its concerns here.

Let me turn to the last issue about the U.S. concerns. The United States is increasingly concerned about, down the road, the long-term impact of East Asian community building. That is, whether China is trying to build a China-centered community against the U.S. dominant structure in this region. Because increasingly you can see China's trade relations within this region and China is becoming the trading hub in East Asia as I've described by the trade figures earlier. China is also in the investment hub, capital hub, and with the spokes linking with different East Asian countries. On the other hand, the U.S. has maintained its security hub-and-spokes relations with East Asia states. But, is China transforming this trading hub-and-spokes arrangement into a political structure in the future? If that’s the case, it will be a big challenge to Washington.

Now, you can see China is getting involved in a number of different regional organizations, such as, in Northeast Asia, the six-party talks. China has played a coordinating role there and wants to convert it into a permanent multilateral mechanism in future. In the north, China has developed a strategic partnership with Russia. In the West and Northwest, China has the Shanghai Cooperation Organization linking with Central Asian countries. In the South, China is trying to join the South Asian Association for Regional Cooperation (SAARC). In Southeast Asia, there is the ASEAN-China and ASEAN+3 dialogues. So if China successfully gets involved in all of these regional organizations, it would put itself in an institutional hub position. This is something U.S. policymakers really get concerned about. My answer to that is, it's possible, but everything now is still fluid and uncertain. It's up to and it should be a major issue in the U.S-China bilateral dialogues, down the road in future.

As my time is running out, let me quickly move to the last slide I have, which is what challenge it has created for China and the regional community building? Now, as I said earlier, the regional community building is still fluid, and also it is uncertain because of a lot of reasons I discussed earlier. One of the key problems is we still lack a common vision about where the East Asian community should go and on what model this community should be built. In the Chinese view it should continue move on the basis of the practical functionism, and community building should be based, institutionally, in the 10+3 framework. And we should continue to nurture the functional cooperation and then eventually turn this functional cooperation within the framework of 10+3 into “East Asian Community,” or whatever you call it – “East Asian Organization.” There's a disagreement on that. The other side of the argument, especially from Japan and, to some extent, India and Singapore also subscribed to this view, which argues for more principled regionalism. That is, community building should be based on some common values. The common values include good governance, rule of law, democratization, respect for human rights, and etc. This is, I think, a major issue for debate. Japan last year proposed a

so-called “arch of democracy” or “axis of democracy”, which involves a dialogue between Japan, Australia, the United States, and recently, India into this multilateral initiative.

Another issue related to this is so far ASEAN has been the driver of this community building process. Whether ASEAN will continue to be the driver depends on the capacity building within ASEAN itself, and also depends on the major powers' attitude--whether they will continue to let ASEAN in the driver's seat. So, obviously, there's a big question about whether Japan and China can be the co-leader. This depends on whether Japan and China can have a genuine national reconciliation in their political relations.

The third problem is about China. As China has become more positive in multilateral cooperation with other Asian countries, it is in my view that this cooperation has not been multidimensional. This will be a major challenge for future Chinese foreign policy because as you engage and integrate with regional countries on economic terms, at state-level institutional building, but down the road, based on EU experience, we need to encourage society to society and people to people interactions in a civic society manner. And this will be the weak part of Chinese regional integration and community building.

Early this year in January, ASEAN leaders adopted the prominent persons' recommendation that the ASEAN Charter will be soon in place. Included in the ASEAN Charter are some of the common values like respect for human rights, democracy, good governance, and the rule of law. So if you want to continue to involve in this regional community building, you need to address these issues. That's why I call the Chinese involvement in this region community building has been multilateral but yet to be multidimensional.

The last and probably the hardest problem is whether we will have a pan-Asian structure or we will have a trans-Pacific structure. This is an issue not just about economic structure versus securities architecture, but also concerning the overall structure in the region. This is also about how to involve the U.S. or its role in regional community building. I don't have an answer to this question now. I want to just raise the issue, and we can discuss and debate it. So I better stop here now.

Thank you.

(Applause)

DR. RICHARD BUSH: Thank you very much, Richard, for a very rich and -- only appropriate that Richard should give a rich presentation. We now open it up for questions. I'll invite you to field the questions. When you're recognized, please give your name and your affiliation and wait for the microphone. Somebody will bring a microphone to you. So who would like to ask the first question? Rust Deming.

QUESTION: Thank you, Dr. Hu, for a very interesting presentation. When you talked about Chinese motivations, Chinese drivers, you didn't mention regional competition with Japan. How much of that is a factor in pushing the more active Chinese role in regional integration?

DR. HU: I think that's one of the major motivations for China being actively involved in regional community building. Everybody knows the problem in China-Japanese relations, and the problem, to use academic jargon, is a structural problem. Now, a structural problem means it is not just a bilateral relations issue. It is involved -- it is a fundamental issue involving the regional structures, which means after the Cold War there's no longer a bipolar system, and who will be the regional leading powers in this region? Japan and China are two natural candidates for that, so there will be a natural power rivalry between the two countries.

To solve this structural problem, I think in my view -- and also there are a lot of Chinese scholars agree with me and even some Japanese scholars agree with that -- we need to have a regional solution to address this bilateral problem. And the regional solution is both Japan and China need to be seriously involved in the regional community building, become part of this common community, and then we can gradually take care of the bilateral problem within the regional structure.

So that's why both China and Japan yield their leadership to ASEAN, not play the leading role in this process. And, hopefully, the regional community building process will gradually cure the wounds in the Chinese/Japanese relations.

Lady in the back. Microphone.

QUESTION: A question about China and the community building regarding science and technology. Is there any mechanism within this community building to allow for this exchange of scientists or technologists?

DR. HU: That's not my expertise. But anyway I'll answer from the FTA perspective. Now, the Asian type of FTA is a little bit different from the European model. The European economic community building starts from preferential trade status and then moving up to free trade areas, common market, and monetary cooperation, and an economic union. If we look at Asians' economic integration, it starts at a higher level, starts at financial cooperation first. Remember the 2000 Chiang Mai Initiative, which is a financial cooperation agreement, and later on they began to address the trade issues. Now, in the so-called low-quality trading agreement, they do have concerns about economic -- technology transfers, and this is becoming their common position in APEC trade talks.

They demand the developed countries to allow more technology transfers to the developing countries. And, secondly, when it comes to the environmental debate, they demand the developed countries should transfer technology, especially environmentally-related technology for free or at a low cost. A lot of NGOs support this idea.

QUESTION: Thank you, Dr. Hu. My name's Takashi Ohde from the Hitachi corporate office in Washington, DC. I just want to ask you your idea -- you didn't mention India in your lecture, but I think the many countries, not only Japan and the U.S., now are looking at India to invest. You know, plus the investment of China, the other, maybe, the extent of contingency planning for the input of our company; Hitachi has invested 130 companies in China now, and they are seeking a possibility of the investment to India? What do you think about this kind of attitude taken by the many companies to our countries?

DR. HU: Thank you for that question. Very interesting. My talk is based on a relatively narrow definition of East Asia, so India is not included. But if we take a broader view, it makes sense India should be brought in. The first East Asian Summit has included India, Australia, and New Zealand, and why? Because some countries, especially relatively smaller Southeast Asian countries as well as Japan, are concerned about how China's community building and influence will be increased disproportionately, and China will become a dominant player in this game. So India, Australia, and New Zealand were brought in to balance China in the process.

Well, China has been relatively open-minded on this. That's fine. Let's create another dialogue forum, including India and Australia and New Zealand. And so that's why the East Asian Summit was created. And I think you can see this is based on 10+1, 10+3, 10+6, and then who knows 10+X will be what number? So this is one of the very interesting features of East Asian community building. Everybody is open-minded. If you want to have one more layer, let's go ahead. Let's have one more forum. And that scares the United States. There are lots of meetings, lots of dialogues, and that's meeting-fatigue. So this is one way China is positive to have India in this community.

Secondly, China and India began to repair -- I'm sorry, began to warm up their relationship and heal the old wounds and have a relatively good relationship these years. So China does not have negative views on India these days, and China even implied to support India becoming a permanent member of the Security Council.

Another point I want to mention about India, as -- I share your view, you know. India is very important. India is also in the course of rising, becoming the next China in the world economy -- and, actually, we're talking about in Asia, not just the rise of China but also the rise of India -- but these two rises are parallel development. And both leaders understand that, you know, so nobody wants to mutually exclude each other in the region. So in some way India joining in this process is positive. I see -- I personally see this as positive, but in terms of community building, it creates some complications. What community? It blurs the vision of which community we're talking about. So I think that's probably the problem that China is having with other countries now.

This gentleman here, yes?

QUESTION: Thank you. Harvey Feldman, Heritage Foundation. You mentioned in ASEAN or regional organization built on principle, and you mentioned as principles rule of law, human rights, democratic development. It seems to me that there are many countries within ASEAN that don't fall into that series of parameters: obviously, most recently, Burma, but also one could say Laos, Vietnam, to a degree even Singapore. So it seems to me that this is a -- using these principles you induce splits within ASEAN.

If I could ask a second question, it would be I noticed the absence of one country of the region. I don't think you mentioned South Korea at all. And I don't know a lot about South Korea, but I would imagine that they're involved as well, are they not?

DR. HU: Yes. Good questions. Second question first. South Korea is also in the driver

seat. South Korea shares the driver role with ASEAN because if you look at the East Asian Vision Group, it was proposed by the South Korean President Kim Dae Jung, and also South Korea hosted and facilitated East Asian Study Groups's work. So South Koreans fed lot of ideas into the community building process.

Now, the first question, I agree with you. A lot of countries will feel uneasy with this principled regionalism. And this is a new idea, I think mainly initiated by Japan. And to some extent Indians agree with that. And Japan, the U.S., Australia have a trilateral talk on the sideline of the APEC meeting and also the ARF. This year in the ARF, on the sideline, the multilateral talks took place with India, Japan, and Australia and the United States, and some Indian people labeled it as the "axis of democracy" in Asia.

So the idea is to influence future community building. We need to base community building on common values, those common values as you just mentioned. Yet, not everybody is easy and happy with this principle, as you mentioned and correctly observed. I think China is not very happy with this, so this is one of the issues under debate now in East Asia, and this definitely will influence the future direction of community building, and on which model?

Now, if you're looking back on East Asian community building, you will see that first it started with some ad hoc cooperation project. And, second, it was the APEC process which is open regionalism. And, third, it is based on functionalism, functional cooperation, which is the main driving force for East Asian cooperation. Now, Japan wants to move it into the fourth stage which is the principled regionalism, and a lot of countries have a problem with that. And, as you said, a lot of countries will have similar problems, like China, whether they want to practice multidimensional regionalism and community building.

So that's the problem, and I don't have answer to this; this will be -- you can see especially China, the Indochina countries and also Malaysia, a lot of countries will be on one side, and on the other side, which is the --I believe they will start a new track.

Can I suggest we go around like -- go around the room to make sure I can finish all the questions by noon. So we'll start from this side, and then move around, okay?

QUESTION: Thank you, Dr. Hu, I'm Pat Mears from the National Association of Manufacturers. My question is in regard to the FTAs. One of our concerns, of course, from the United States perspective, is that the East Asian nations become knit in a, either a series of FTAs or a larger FTA that doesn't include the United States.

One of the -- the question that I have really goes back to your comment, you know, Fred Bergsten's comment on low-quality FTAs and those that don't cover the WTO definition of essentially all trade. How do you see this progressing? Our concern, of course, is this can add another layer of tension to the relationship, especially with China. But I would like you to comment on how you see this developing.

DR. HU: I think the U.S.'s concern is understandable, given the experience the United States has had with European integration and the growth of the European Union. And the European Union's experience shows that if they turned inward-looking, becoming a trading block, that did hurt U.S. trade interest. But as the European Union experience also suggests,

they were ready to open up in terms of investment. So the U.S. could still get into the market.

And now for East Asia, for practical reasons, because they are based on practical functionalism, so their FTA, as you said is low quality, and with a lot of exemptions. And so because with low quality-- with a lot of exemptions, that did leave a lot of chance and access for the U.S. to get into the market. And, secondly, as China and the ASEAN sign the FTA agreement and also as well as the Japan-ASEAN EPA, they all comply with WTO general rules. So as long as they're still interested in WTO, not violated WTO rules, I don't think U.S. interests will be seriously hurt.

DR. RICHARD BUSH: Richard, I find the emphasis on functional regionalism as a rationale or driver to be a little puzzling. Some functions are definitely region-bound, but some had nothing to do with geography. Some are global or Trans-Pacific in their scope. And so it's not clear why they should be necessarily sort of be the basis for regionalism.

DR. HU: It's a very good question. You're right, a lot of functional issues, it is not confined to East Asia only, the narrowly defined East Asia. For instance, security issues were never defined just as the East Asian answer to security issues. The six-party talks is a good example. And also the 2004 tsunami relief effort, it was not just the pure East Asian answer to this, and also there are a lot of other issues. There are no pure East Asian answers.

So this shows exactly what kind of stage East Asian community building is at; it is still relatively open regionalism. Nobody wants to exclude the United States or other countries not in the region to play a role. And, secondly, that's the weakness of East Asian community now, which is who will provide the public good for this region?

And because of the limited capacity of regional countries have, so on a lot of these functional issues they still need the United States and other countries outside of this region like in the tsunami relief, like six-party talks, and also the energy issues. And I'm glad the U.S. is very positive to involve China, Japan, and South Korea, and Australia in the energy club. There are a lot of ad hoc multilateral efforts still there to -- I think I consider them part of East Asian community building.

Thank you.

QUESTION: Ching-Lung Huang, CNAPS visiting fellow. Do you have any suggestions for Taiwan? Well, you know, actually, it lists -- this question, Taiwan is also a very controversial issue. You know, in one way we know that now Taiwan's isolated from the trend of community building in East Asia, and so we have to involve in. But on the other hand, people feel about this trend that, because they think it will -- that immediately the Taiwan issue to join the common market between, especially in China, and that we all force Taiwan to be a -- gradually to the reunification in the future.

I heard one saying that before the 1990s Taiwan, the Taiwanese people, they love the United States 100 percent because Taiwan's security depends on the United States 100 percent as well as the economical relation. But now, Taiwan only love -- Taiwanese people only love United States 75 percent, and because -- well, in the security years we depend on -- still it depends on United States 100 percent, but in the economical relation maybe, you know, between China and United States Taiwan now we have 50/50 percent. So one day maybe

Taiwan will get in the situation that we -- Taiwan's security with 100 percent depends on United States, but like economical relation 100 percent depends on China. So this is a very controversial issue in Taiwan. Well, if you are the leaders of Taiwan, what can you do?

DR. HU: Okay, this is a very hard question. I'll give you a short answer, which is Taiwan needs to come to terms with China so we'll find a solution to this.

Now, since I come from Hong Kong, let me just make some remarks about when China signed the FTA with ASEAN, and pushing for regional FTAs how Hong Kong feels. Hong Kong feels certainly a loss of access to these regional markets, because Hong Kong is a trading city, which depends on this market. So the shortest way is -- to get this access, is through Beijing. So Hong Kong lobbied the central government to have the CEPA. We call it the Closer Economic Partnership Arrangement (CEPA). So this is similar like the FTA, and the CEPA gave Hong Kong two or three years ahead of China's market complete opening to outside under the WTO obligations. So Hong Kong benefits from this. So the short answer for Taiwan is if you feel economically increasingly dependent on the mainland, you need to talk to the mainland seriously about the future. And I understand there's lot of domestic problems, debates, and the public is very divided on that. I share that feeling. But you need have a wise government to make the right choice.

I will go to this part of the room first. Next? No questions, okay. Okay, in the second row, this gentleman here.

QUESTION: My name is Tetsuya Jitsu for the Nikkei newspaper. Would you give your assessment of the future of APEC? Do you think the country tried to make an effort to be with the community in the region? Will APEC be marginalized in the future or would APEC play a more different role in the future?

DR. HU: Okay, now, I'm not saying APEC is dead. APEC will continue to have its informal summit meeting annually, but the role of APEC is not like before the Asian Financial Crisis used as trade liberalization measures to drive the regional community building. And the prospect for that is declining. So that's why we see another track which is Asian only, Asian-oriented community building.

For the future role of APEC, I see it mainly it is -- it's a good platform for the regional leader to move, to dialogue. And what is the -- the APEC declaration is more symbolic, less substantive, but on the sideline of APEC meetings, the bilateral talk is much more substantive. And that still has some -- you know, from that we can see there is still a lot of utility for the APEC.

But secondly, in terms of trade liberalization, President George W. Bush proposed FTA of Asia-Pacific, FTAAP. I think the reaction to that is mixture. A lot of countries have doubt, you know, we can -- this is a realistic goal. We'll have FTA, of such a huge, vast region, especially across the Pacific. So I think the more practical goal is to have the FTA in the relatively well-defined region. So 10+3 will be a good place to start, and 10+3 will continue to be the main vehicle to drive regional trade liberalization.

QUESTION: Richard Shin with LECG. Two questions. The first one concerns that

trade surplus and deficit that China has in -- by economics. If you have a huge surplus, you either have to have a trade deficit with other countries or have investment outflow from China. So in this case you have a huge surplus, which means that the deficits are going to come from other countries around the region, especially since this directs investments. China is large. They all have to, in the end, have come to zero.

Now, my question in that regard is, how much of that deficit you have with neighboring countries really are parts that you import to be assembled and re-exported to United States versus consumed within China? So that is, and all these deficits still rely on U.S. as the final market?

And the second question is that I think the economic regional cooperation is inevitable, this talk of an Asian Monetary Fund. There's been talk of using common currency. I mean a lot of cooperation among countries, but I think the key problem that exists is, you know, obviously, there are economic issues, but I think those could be overcome. It's more of the long history of regional conflict, hostilities, and mistrust, especially with China and Japan, China and Korea, Korea and Japan, and possibly with other countries.

So what steps has China taken to kind of -- positive steps to allay these kinds of conflicts? Now, one incident that I know involving Korea is the claim of Koguryo history as Chinese versus Korean. So would you comment on that?

DR. HU: Thank you. Two big and broad questions. Now, first if you look at China's trading picture, China has a big trade surplus with the United States. As I said, it's a reflection of China's trade deficit with neighboring countries, because China's role is increasingly becoming manufacture-center, or you can say a processing center. So China imports a lot of parts and components from its neighboring countries, and makes the final assembly and then exports to the United States, which is the largest export market for China as well as East Asia. So the picture is reflective of that.

Now, look at the overall balance of payments. You will see China has a big trade surplus with United States, but China is also becoming of the largest creditors in the world. China invests back in the United States, and China purchases over \$350 billion Treasury notes and bonds. So China is financing U.S. consumptions. And it is because of China financing U.S. consumption, U.S. can spend more to purchase China's goods. So this relationship, if you look at from that way, you will feel relatively good about this relationship. Right?

Now, if China fell off, you will feel that this is becoming a very serious situation. That will definitely impact the dollar value. And so that's why when the U.S. demands China push it faster, and you look at it from the East Asian perspective, how other countries feel about this, they have mixed feelings. So you need to consider the regional picture. So I don't want to further elaborate on that.

Now, the second question I think of East Asian community building is, as I said, open lot of doors. Lot of doors that need to be opened have not yet opened, and the currency, common currency issue, is a hard issue. So based on the Chiang Mai Initiative, and down the road the next step is the Asian Monetary Fund, and then in ADB there is also a project talking about the ACU, Agency Currency Unit. And so there's lot of work that is underway to study the

future, more in-depth cooperation.

Now, what's the implication for the regional political problem? We know this is a hard problem, this is still a hard neighborhood in this region, the territorial dispute; Japan/China's problem, and also you mentioned issues between China and South Korea and as well, North Korea. I think leaders, they don't want to let these hard political issues block their way of community building. I think this is practical, because only if you have good community building, you can address the hard political difficulties. So community building is part of the answer for this regional problem.

QUESTION: Harrison Moskowitz, the Scowcroft Group. My question is related to the second question you just asked in regards to the future of security cooperation in the Asian community. And you attributed kind of the rise of Chinese influence to the departure of the U.S. and basically an environment that would allow Chinese leadership in the region.

And do you see -- I just wanted to ask, do you see in the security environment of the future, given the rivalries that you just spoke of, do you see China emerging as kind of the arbiter in the security of issues? Or do you see an institutional leadership in some of the organizations we've discussed here?

DR. HU: Several points. First it is not in China's interest to see the United States leave this region, and still anchoring the security relations and the structure in this region. That is a big help for China and for the region to have stable relations; otherwise there will be chaotic security situation. And so in that sense China is still free-riding on the United States for regional security.

Secondly, now, given the current security structure, East Asian leaders need to find some of their own solutions to their problems. They need to find a new approach to address their security issues. So that's why regional community building is one of the avenues to that problem.

Thirdly, I don't think China will compete for leadership with United States or with other countries in the region in the security arena. And, as I said, the major theme for Chinese regional policy is reassurance diplomacy. And how you can reassure East Asian countries your rise will be peaceful, will not be a threat to their security. So nobody in China is stupid enough to shift their focus. And if you want to be regional hegemon, that will mean the positive, regional environment you have created since the 1990s will disappear.

QUESTION: I was thinking -- I have a just a brief question. A country you really didn't mention was probably North Korea. I think North Korea is geographically the center of East Asia, if then do you think North Korea is a member of East Asia or not? Or how, if it's not, how it will be? Thank you.

DR. HU: North Korea so far is not part of the East Asian community except on two occasions: North Korea's part of the ARF, and the second, North Korea is part of the six-party talks. So if we have a good solution to North Koreans' nuclear issues, and the six-party talks will be transformed to a regional, multilateral security mechanism, I think that will open the

door for North Korea to further join the community, and down the road in the future why not give North Korea membership to APEC and to other regional organizations, so that will have a positive role on North Koreans.

DR. BUSH: We've come to the end of our time. Maybe you can talk to him individually. Thank you, Richard, for a great presentation and stimulating good conversation. Thank you all for coming.

(Applause)

DR. HU: Thank you.

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