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PANEL TWO

THE EMERGING INTRA-ASIA DYNAMIC:
WHERE TO FROM HERE?

THE U.S.-ASIA DYNAMIC IN THE
21ST CENTURY:
CHALLENGES AHEAD

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PROCEEDINGS

MARIKO SANCHANTA: (*in progress*)-- Raja Mohan, senior fellow at the Centre for Policy Research in New Delhi. He's also a member of the National Security Advisory Board in India. Thank you for joining.

I'd like to invite Mr. Wonhyuk Lim joining us from Seoul. He is the director of policy research for the Center for International Development, the Korea Development Institute. Thank you for joining.

I'd also like to join Mr. Jusuf Wanandi, who is here from Jakarta. He is the co-founder and vice chairman of the Centre for Strategic and International Studies in Jakarta. Thank you.

And last but not least I'd like to invite Tsuyoshi Sunohara, otherwise known as "Go". He is the director for the Office of Global Studies at the Japan Center for Economic Research. Thank you so much for joining.

So our discussion today is about the intra-Asian dynamic, which, of course, is a very broad topic but one that we grapple with almost daily at The Wall Street Journal in our coverage. As I like to say, the world is tilting east and our readers are extremely interested in what we have to say, whether it's the Japan-China maritime spat or debating the viability of trade deals in Asia and whether they will ever come to fruition.

So without further adieu I'd like to start quite broadly. I'd like to ask, and we'll start with you Jusuf, about the focus of Asia's rise and its impact on the world, where is the internal balance in Asia headed?

JUSUF WANANDI: That's a very good question. Mainly, as you have seen so far, the stress of development in East Asia is on the economic front and the fall, because economic power is tilting towards the East, so for that matter political power and even military power is also arising.

If you ask me, of course, the internal balance of the whole of Asia, it's a very, as you know, complicated thing and the ASEAN -- I'm sorry, the Asian Development Bank has studied that possibility of Asian regional cooperation, the whole of Asia. But if I take, for instance, the focus on East Asia, well, the balance will be actually in the future still to a very large extent being defined by the relationship between China and the United States. But I do think, however, that it will not be enough. And that's why I think regional institutions in the future might play a greater role in keeping some balance in this part of the world. And that's why all this soup of regional institutions, you know, in the future still center on ASEAN supposedly will be (inaudible) to recognize, I think. And that will be -- that kind of dynamics, I think, will be defining the balance.

MS. SANCHANTA: Thank you very much. Raja, I'd like to hear your views on

this, of course, coming from New Delhi. Do you think the region's dynamic will be defined by the U.S.-China relationship or do you think there are other factors that will be in play?

RAJA MOHAN: I think there are many factors. The first thing I think I want to say is that when we posed this U.S. and Asia, the assumption is that Asia is united or that Asia will be united. Well, Asia has made much progress in terms of coming together on a range of areas. I think the notion of Asia itself is a contested one. Most of the time we don't agree on what is Asia, and even in building the regional institutions which Jusuf talked about, every attempt at constructing a regional institution ended up in a contest of who is in, who is out, who belongs to Asia. So therefore, it's a much more complex process. There is no single Asia that has to deal with the West or the United States in a single manner.

Many of our own countries have tended to define their nationalism, their identity, often in opposition to the West. And sometimes actually escaping the East. That you needed to escape the East and modernize the West. So I think it's a complex, ambiguous relationship with the West. And many of the notions of Asian unity in the past came under stress because of the deep internal divisions. So I think the challenge for Asia is going to be it's not just about redefining the balance with the West or the United States but finding a balance, a harmony within Asia itself. And I think that's going to be quite a difficult enterprise in the coming years and therefore, the question of how the U.S. deals with this region. Because after all, the U.S. had alliances in this region which are bilateral alliances. U.S. now is trying to build new partnerships. So I think it's going to be a far more messy process than merely U.S.-China relationship. While it's important, it is not the only factor.

MS. SANCHANTA: That's a very interesting thought. I'd like to throw a question to Go. Is an Asian regional balance even possible with China in the mix? I mean, how dominant do you think China will be over the next 10, 20 years? And will it just completely dominate the region in terms of its powers and its politics?

TSUYOSHI SUNOHARA: As you might know, after the 3-11 earthquake and the Fukushima nuclear incident, we Japanese are suffering from kind of huge pessimism nationwide. And long before that tragic accident in Japan, we are experiencing sort of a Japan passing phenomena, which means the U.S. is shaking hands directly with China to create the kind of new system -- which they say G2 system -- all over the world. And now people in Washington and also in Tokyo now find, I think, that the G2 is sort of an illusion. And I think that the United States is going to keep her commitment to this region, and of course, we have to cope with the rise of China, not only politically, economically, and militarily. And as my friend from Jakarta told, I think the multilateral approach would be very much key. Of course, in addition to the U.S. bilateral relationships, not only with China, Indian, South Korea, and Indonesia, of course, with Japan. And in addition to that, I think that the regional powers, like India, Jakarta, again, and South Korea, Japan, should consider sort of our own multilateral networks to cope with any sort of uncertainty or new potential unknown threat.

Recently, secretary, U.S. former defense secretary, Don Rumsfeld came to Tokyo last week and I chatted with him almost more than 60 minutes. And he told me that the like-thinking minded nations should create a kind of new network to cope with some uncertainty in

this region. And I think that's correct. We can of course invite American friends; we can of course invite Chinese friends. But anyway, we have to create kind of an atmosphere that anything which could destabilize this prosperity or peaceful situation should not be welcome.

MS. SANCHANTA: Mr. Lim, I'd like to hear your thoughts on that matter, particularly given the tensions between North and South Korea, and North Korea and the region in general.

LIM WONHYUK: Well, I think it's useful to look at Europe first, and Asia afterward there was no comparable project to the European project in Europe. If you go back in history in Europe, what basically happened was that France and Germany were able to, you know, patch things up and include the United States within the larger European project as a balance and stabilizer and they created a multilateral transnational institutional framework to ensure peace and prosperity.

Now, in Asia, the situation was rather different in that we had for a long time seen a centric world order and imperialist powers penetrated Asia around the late 19th century, early 20th century. And after World War II, what happened was that instead of rapprochement between Japan and China, China went communist and Japan became a junior alliance partner of the United States. And the United States had a hub-and-spoke alliance with key countries in Asia. And the situation went on for a long time. But then what happened was that China began to reemerge and quite different from what political scientists usually talk about, was able to include multinationals in China's own development. So there's a very interesting interpenetrating network that goes beyond sort of international politics that forms the basis of interaction in Asia.

And I think what's important going forward would be to make the connection more solid and include the United States, as well as China, and Japan, and India, as major players in a multilateral, regional framework to ensure that we constrain the powers of superpowers, if that's possible, and also to have a mechanism to ensure peace and stability.

MR. WANANDI: May I add something?

MS. SANCHANTA: Of course.

MR. WANANDI: I do think though that -- and this is, of course, related, you know, whether according to the realist theories, you know, we have to go always bilateral and always more or less dependent of our own capabilities. Well, so far, you know, except for 2010, China has always been a good member of multilateral institutions in East Asia. And so I'm not talking about Asia in general; I'm talking only about East Asia. And in that sense, except for 2010 as I said, China has always been a good member of multilateral institutions that have been established in the region. 2010 was a bad year because I think China misbehaved and I think the whole region got shocked and she knows that. And that's why you see in 2011, she tried, you know, to improve that image of being a member of the region.

Now, second, I would like to argue also it is not an impossibility of multilateral

institutions in the future. And one example is, of course, this Chiang Mai initiative on financial cooperation. We thought at the beginning in East Asia that trade should be the leading actual factor for integration. But now we found out that in our region finance has become the one that integrates the region. And we have reached in finance, which is the most related to national and actually very much an inward looking part of the economy in most cases is a very much related as friendly, but we have been able there in finance to cooperate fairly closely and to a fairly large extent successfully. Not only we have this fund for potential actually crises, we have also bonds and last but not least we have established this year, actually in Singapore, the kind of mechanism to look into and study domestic economic indicators and economic developments. It is just a very political issue if you want to really cooperate in the financial field. And it is headed now by a Chinese scholar and next year it will be headed by a Japanese scholar.

So to that extent, you know, between Japan and China on such a very sensitive issue as finance, they can cooperate. Made it for me, at least, not impossible that we can cooperate also in other fields. And there is one institution, the East Asian Summit coming up in November for the first time at the summit level, and we hope that could become definitely, you know, maybe the highest institution in the region which could drive possibly in the future a concert of power of sorts in East Asia.

MS. SANCHANTA: That's a very interesting thought. I'm just going to ask a question further to your point, Jusuf. Next year, of course, in China, we're going to be seeing huge changes within the government in China. Now, with these changes how will the tide shift? Are we going to see a more hegemonic China? Or are we actually going to see China taking a more harmonious approach when it comes to their neighbors? Go?

MR. SUNOHARA: We have done a lot of reports from Beijing and all over the world. The next Chinese leader is sort of a second generation guy, which means he has a lot of connections with the PLA people, as well as communist leaders. It is a good thing or bad thing. We are asking each other in Tokyo whether as you pointed out this new generation would be more hegemonic or more peaceful. We answer it we don't know yet. We hope they can continue their current posture or policy, but we don't know yet. For example, when U.S. Secretary Bob Gates went to China, all of a sudden the PLA revealed what they said that the future generation stealth jet fighter J20 without any full explanation. It's widely reported that when Mr. Gates pointed out in a meeting with Hu Jintao, president of China, clearly, Mr. President didn't know that. And my longtime pal, former U.S. assistant to the president, Mike Green told me that this indicates clearly that there's no full communication line between military leadership and the civilian leadership in Beijing. If that would be the case as Mike Green pointed out, this is our source of concern about the future course of China.

DR. MOHAN: Let me just — I think what we clearly did is much uncertainty in terms of how China is going to behave, but what we do know is Chinese power is going to grow with each passing year that the Chinese capacity to translate even a small portion of its economic power into military strategic capabilities that will have a dramatic effect on the region.

The second aspect is that until now we've always talked about American dominance, American hegemony. But the problem is going to be for us the American weakness.

If the U.S. military power -- and I think given what the U.S. is going through today -- so if the U.S. power begins to decline or is seen as declining, then I think we're going to have a complex dynamic in the region. And there I think the whole question of fundamental tension between U.S. and China, a rising China and a stronger China would want to loosen itself the space around it. And that is in contradiction to the American strategy of maintaining a forward presence and maintaining security alliances in Western Pacific.

So these two, something has to prevail or some kind of an accommodation has to be worked out. But the problem for the rest of us is whether to fight or whether to make an accommodation is going to be problematic for us because we can't accept a condominium of U.S.-China, nor are we prepared to deal with a confrontation between U.S. and China. So it is not about a G2 managing the region because the region itself constitutes big countries, like Indonesia, India, a whole lot of them, Korea. So we're going to act and try to alter the balance. It's not from outside, what U.S. and China can do to stabilize the region. Every one of us is also going to play this game. So it's going to be inside out as well. And within the context of rising China and the perception of a declining U.S., I mean, that's going to be the real problem.

MS. SANCHANATA: Jusuf, do you have anything?

MR. WANANDI: I think, you know, if China is really serious about the harmonious, you know, relationship in the future, in the world as well as domestically, I hope that (inaudible) understands that as Raja said, the others are very much concerned. And there is definitely now, still, you know, a very good opportunity that we can cooperate together. And I hope China sees that also as a possibility for us to become a member of this region as such. Because otherwise, as Raja said, of course we are not per se anti-China but just to preserve the stability and the balance. It's a natural development that will happen if there is vehicle in case, for instance, the United States is less involved in the future.

MS. SANCHANTA: Mr. Lim.

DR. LIM: Instead of guessing and hoping, I agree with Raja that it would be much more important for other actors in the region to clearly show what they're going to do depending on what others are going to do. So, I mean, Korea had, as you know, a historical controversy with Japan, as well as with China. And our main lesson is that it's important to take a very proactive posture on these issues rather than just guessing whether China is going to be hegemonic or peaceful or whatever.

MS. SANCHANTA: That's very interesting. Just keeping on this topic of China, obviously last week we saw the U.S. Senate passing a bill trying to urge China to push the Yuan higher and there was a back and forth between the two countries. I mean, I only see this issue getting worse honestly over the next few months, if not years. How will that have any impact, if at all, on the U.S. security commitment to China and to Asia as a whole? Will there be any impact?

MR. WANANDI: Well, I hope not very much. I hope, of course, that this will not go through the House. But anyhow, you know, one of the main questions in the future is not

only China's lies and what China is willing to do; it's also what the United States is willing to accept because in the longer term, 20 years ahead, let's say definitely there will be a balance of power, even military power, then what is the United States going to do? Is she willing to accept another power as equal? It's a very political issue, you know, to be answered by the United States. And hopefully it will be a peaceful approach in the future.

DR. MOHAN: I think that takes us to the question of domestic politics. I mean, now, we think tankers — the Asian Society, Brookings Institution, all of us -- we think we've got these considered rational policies. We kind of offered to the systems in each of her countries. But the rednecks get in the way, that it is not the enlightened self-interest argument that is given by experienced people. Certainly in democracies, there is the power of the domestic politics which intrudes constantly. And incidents like this can have a spiraling effect of their own. And China, too, I mean, has a very strong internal augmentation. And I think it is this domestic politics in U.S. and China and in the other countries which is going to be the, I think, very interesting, very decisive variable that's going to complicate the carefully calibrated augmentation that the experts, mainly the economists, I mean, economists normally are more (inaudible) but politics is despondent signs. Security studies is (inaudible) signs. So, the others are going to come in and make things far more complicated for this calibrated augmentation that we tried at present.

MR. WANANDI: Whenever I talk with my Chinese friends they say that we are learning a lot from you, namely so-called famous Plaza Accord made in back in the 80's between U.S. and Japan which we are forced to accept a much stronger yen. Ever since that time our economy was somehow damaged. Of course, are in a fight, a so-called trade war against Washington, D.C., and we are forced to accept that because we are heavily depending on the U.S. market at that time. And then I'm sure that the Chinese are learning a lot carefully what happened after that. And that means, that indicates that they were not easy to accept any sort of pressure from Washington in that regard. And then what kind of steps would Washington take? That is another question.

DR. LIM: As far as economics is concerned, I think the exchange rate is something like a red herring in that if the Chinese maintain their nominal exchange rate under the current circumstance, inflation is going to shoot up and the real exchange rate will adjust anyway. So as economics is concerned I think there's not such a big deal. But as Go said, there's, you know, back and forth between the United States and China. It's almost like a childish fight in that sense.

But more importantly, I think U.S. domestic politics is important in this regard because as Financial Times' Martin Wolf so memorably put it, the interest rate on U.S. government bonds and so on is giving a clear signal that U.S. should borrow and spend and invest in its people and infrastructure to overcome its economic difficulties. But the republicans are not willing to go along with that and instead are picking an issue that's going to be very contentious internationally but has very little substance. And that is the essence of the concern I have with respect to the exchange rate issue.

MS. SANCHANTA: That's very interesting. Going back to what you were

saying, Go, about Japan and the Plaza Accord, let's talk about Japan for a second. We've spent a lot of time on China, but is Japan ever going to take a lead once again in East Asia or Asian, you know, multiregional dynamics or will they ever have a place at the table or is it too late for them?

MR. SUNOHARA: In view of what's going on in the Arab world and they say spring (inaudible) but I think that the Northeast Asia major key players -- South Korea, Taiwan, and Japan -- are now going through sort of our version of spring. I mean, ever since the end of World War -- sorry, Cold War, a lot of countries that connected closely with the United States have experienced how to transform their nation system, national system, into something new. As you may recall, Taiwanese president, former president, tried to be more independent. As you may recall, former South Korean president tried to be more independent. And now our former prime ministers under the DPJ leadership namely Yukio Hatoyama and Naoto Kan two prime ministers of DPJ, they did try to be more independent from the United States. But now we have learned -- I'm sure that they have learned. And the new Prime Minister Noda sounds like very much pragmatic and practical. And every single message from him or his office is very much pragmatic, realistic. Say, for example, nuclear energy or if the Futenma deal with the United States, whatever. And his supporters, including my longtime pal, former Foreign Minister Seiji Maehara or current Foreign Minister Gempa Koichiro. They are very much pragmatic.

And so I think Japan could revive again in the near future but we are still in the transitional period to reshape again our national system. Of course, they unanimously say that the U.S.-Japan alliance is vital or a padlock for security policy but in addition to that we need to think about what we discussed, multilateral forum or a much deeper bilateral relationships with those countries like India, Indonesia, South Korea, and of course, China. But long before that we need to reestablish a firm alliance relationship with the United States. We are now in the middle of that process.

So I think security policy-wise we are moving forward. But at the same time we have a huge economic problem that we are talking about in Tokyo these days. Tax hike, social security problem, and we need to tackle those very difficult problems in the future. So we are still struggling, including in the TPP case. And according to today's -- my newspaper *Nikkei*, Noda indicated at yesterday's press conference very much forward leaning posture to participate in the TPP negotiation. I hope that will be the case but again, still a lot of pros and cons in those regards in Japan. So we are not yet. But once we would get some grant consensus in those regards, I think economically Japan could somehow revive again. That's my hope. Maybe too much wishful thinking. (*Laughter*)

MR. WANANDI: I don't know. We think that Japan is important, and we hope that Japan will have the renaissance in the not too long future. And if I listen to my Chinese friends, you know, of course there is that emotional part they have had in the past but I do think that in the future that Japan very much is part and parcel with who they have to cooperate with. And that's why there is hope that we can cooperate in East Asia.

MS. SANCHANTA: Can I ask you, Mr. Lim, I was quite surprised to see how President Li was received by President Obama in the states. They seem to have an extraordinarily close relationship. Can you tell us how the U.S.-South Korea dynamic is

changing and strengthening?

DR. LIM: I was surprised, too, actually. *(Laughter)*

But I think the sort of personal rapport between President Li and President Obama is not really totally reflective of the relationship between the two because my feeling is that President Obama has something -- a sense of empathy with President Li because of his humble background and so on. So he's one of the few sort of national leaders that he can relate quite well to. So I think that's a very important dynamic, personal dynamic there. But as far as the relationship is concerned, in Korea there was some concern that President Li's open statement in the interview with a U.S. newspaper that, you know, Asian countries now fear China and the United States is more needed than ever and so on. Many people felt that was kind of unwise. Okay, when you visit the United States you say something positive about the United States but you try and, you know, sort of abstain from criticizing other countries. And when you visit China you say something positive about China. But you don't see something negative about the United States. So that kind of thing is still a major concern in Korea as we still try to form a good relationship with China as well as the United States.

MR. SUNOHARA: To some extent a good relationship between Seoul and Washington is kind of a cross between a bad relationship between Tokyo and Washington. President Obama strategically picked up Mr. Lee Myung-bak as a very much reliable partner in Asia because he couldn't find any good reliable partner in Tokyo. And at the same time during the Bush-Koizumi some left wing people in Tokyo criticized Mr. Koizumi, then prime minister, as kind of "Bush's puppy". The Asian version of Tony Blair. And a lot of DPJ people criticized Mr. Koizumi -- okay, your personal chemistry with Mr. Bush is fine but what happened in Iraq? What happened in Afghanistan? You didn't do anything positive. And what is the consequence of implementation of these kinds of developments in Korea and Japan, I think both alliances with the United States, South Korean-U.S. or Japan-U.S. alliance, they are not yet institutionalized yet. It only depended very much on personal, shallow, superficial, temporary relationship. And that's why the majority of the Korean people and the majority of Japanese people are not sure if we should continue this close alliance business with the United States or not. Why? Of course, because of the rise of China.

And so we have to prepare good answers to people. Not only our domestic people but American friends and Chinese friends and other regions. And why we should keep this alliance structure. Of course, to bring us stability and prosperity in the future, to hedge any sort of potential threat. That's the answer. But unfortunately, our political leaders, I can't speak about South Korean political leaders, but Japanese political leaders have not yet done good business. That's the reality.

MS. SANCHANTA: Raja.

DR. MOHAN: I just wanted to say that I think the security in East Asia can no longer be constructed in an (inaudible) conceived framework of East Asia itself. It is one reason why India and now Russia are in the East Asia Summit. It is not because everyone thinks the geography teacher has decided India is part of East Asia but because of the larger polities. I

think the rise of China and the emergence of India has begun to bend the space in Asia that they no longer separate Northeast Asia, Southeast Asia, or South Asia, but China is on both sides. China's interests in the Indian Ocean are growing. Indian interests in the Western Pacific are growing. So what you're going to see is the emergence of a larger Indo-Pacific in the maritime domain. And the construction of a more broader Asia rather than the narrowly conceived East Asia. And that's why you're seeing that balancing or dealing with the rise of China and the weakening of the United States in more broader partnerships or the network of relationships. That's why India and Japan are doing a lot more and Korea are doing a lot more and Indonesia are doing a lot more. So what you're going to get is a whole set of network of relationships which transcend merely the U.S.-China relationship or the traditional U.S. alliances. So you're going to have a much more richer texture of security order in this part of the world.

MR. SUNOHARA: Sometimes with strong U.S. commitment of engagement. Sometimes without U.S. fingerprints.

DR. LIM: What's most important is internal political and economic development within each of our countries. And oftentimes international relation scholars get into the habit of looking at nations as sort of pawns. But I think what's important to keep in mind is that political and economic development within a country becomes the basis for that country's power. And as Go said, in Japan and in South Korea, there's an underlying yearning to have a more sort of equal partnership with the United States. And that doesn't change even if the United States is really the only hedging power against China. So if there's something that really touches on people's sensitivities in Japan and in Korea, there's going to be a protest. Likewise, towards China. If there's, you know, a historical controversy or other military threats or anything like that, there's going to be pushback from these countries. And I think that's very important to keep in mind.

MS. SANCHANTA: Let's throw it forward a little bit. What are some of the strategic developments over the next few years that are really going to define the intra-Asian dynamic? Jusuf?

MR. WANANDI: Well, one definitely is Korea because we have seen, as I said, in 2010, how dangerous actually the peninsula could become. And so adventurism of one leader could create havoc. And not only that, of course, you know, in the medium term, you know, the others I would think also if we are not going to get, you know, the problem of North Korea nuclear power or nuclear weapons under control one way or the other, there is also the possibility they are going to go nuclear as well. It's not impossible, especially if the extended security of the United States is going to decline. So that is a very critical issue I think.

Second, of course, you know, Taiwan is still an issue but it's a domestic issue. And I hope that they have stabilized and they will stabilize that in the next decade or so among themselves. The South China Sea, of course, has become a new issue. Now, here again as I said, 2010 was a bad year in our relationship with China. 2011, a lot of improvement has happened. And we are now talking to China -- ASEAN, I mean -- how to make this declaration of conduct which is only principles, you know, into a real code of conduct. So now we are having this bilateral ASEAN-China actually negotiations. So that hopefully will not be too long

and we could conclude that. That does not mean that the bilateral relationship of the counterclaims and claims, you know, are going to be solved. That will be solved later by themselves, of course, bilaterally. But the problem of the code of conduct is mainly for the region. That means security of sea lanes, problems of, you know, possible actually naval accidents, problem of environmental and so forth. So that -- and hopefully with that we could cap and this is a political issue towards a joint possibility of a joint operation in the sense of a joint exploration and exploitation of some parts of this overlapping region. So that is critical so that we are not going to go into what has happened in 2010 particularly.

MS. SANCHANTA: Raja.

DR. MOHAN: I think what we have seen in 2010 and 2011, I mean, I think is the principal expression of the emerging conflict in Asia is going to be in its waters. The South China Sea or the U.S.-China-Japan conflict or the islands. It used to be China solved all its boundary problems with everyone except India, so therefore we are not very different, it's true. But what we're seeing today is as China becomes a maritime power, China 1.3 billion people turning to the seas for the first time and India, too, is following the same footsteps because as a trading nation it's inevitable that China will build a powerful navy. And that process itself is going to need to do different things. One, I think, is the question of the naval balance between U.S. and China. You can't fax a navy. You still have to physically deploy it and the number of U.S. ships is declining. So those who say that the American Navy is still going to be one of the most powerful forces in the world, China doesn't have to alter the global balance with the United States. If China alters the balance in the Western Pacific on the naval side, you are going to look at a very, very different order in this part of the world.

A second aspect, if the U.S. cannot keep the Chinese maritime ambitions in some kind of a check mail for lack of a better word, you're going to see all the others already beginning to line up and produce their own expansion of their own navies. So we're going to see a broader armistice.

Second, I think every little island has become a contested one in this part of the world. And the fact is it's not guidance on their own (inaudible). Historically Mohan told us that, look, islands are points where actually the calling stations, today they're a slightly different bearing location of facilities, that today the capacity to operate over long distances depends on who controls these island. So therefore, the contestation for the islands is going to be beyond the oil issue, territorial issues. There is that larger dynamic.

So therefore, what happens on Asia's waters -- you can call it the Indo-Pacific or you can call it -- all across, as Asia becomes economically more dynamic, all the trade now takes place between West Asia to East Asia along the sea lines. Until now, the U.S. provided the good order at sea and because of its overwhelming power. Today the growing capabilities of others and the Chinese challenge leave us in a situation which is -- we have not had this kind of situation for the last 60 years. And this is going to be I think the source of much conflict in this part of the world if we don't find a solution. Everyone says that we're all for the law of the sea, but we don't agree on what it means. If we are all agreed on what the law of the sea means, there would be no problem in the South China Sea or East Sea or West Sea. Everybody has a different

geographic name for it. But we don't even have agreed principles of international law to deal with the new challenges. I think that's going to be the real challenge for us in the coming months.

MS. SANCHANTA: Go.

MR. SUNOHARA: I think a key factor in the future threat to development is I think China's political reform including civilian control. As I told about J-20 case or the satellite shoot down case so many things tell us that we are not sure to what extent Chinese civilian leaders could control their military power. And my longtime friend Strobe told and the U.S. policy toward China is engagement. That is the case with Japan and I believe that with Jakarta and Seoul and New Delhi. But if we would analyze the engagement policy I would say it's a hedge on integration. Integrated China into our global community as a stakeholder. We as existing stakeholders in this region, we have to welcome, we have to co-exist together with China as stakeholders in this region. But, because of uncertainty in military and with security policy on China, we have to prepare to hedge against any potential threat. So that is a big question. If China could demonstrate a good political reform, including civilian control, I think we don't have to pay a lot of money to make preparation or hedging. I think it may be surprising but I don't think the North Korean nuclear thing is not any more huge, huge problem for Japan. We know we can deal with it that problem together with the United States or South Korean friend, even China.

But the major concern is, again, the future course of China. And last February I went to Texas to see Mr. Bush -- Bush 43 -- and he explained what happened about EP3 case right after he took office of the United States president. And he tried to contact with then-Chinese president Jiang Zemin nine times but every time he escaped. He didn't pick up President Bush's phone call. And remember what happened between China and Japan in the Senkaku Islands when the Chinese fishery boat attacked a patrol boat. There was no communication channel between DPJ government and the Chinese Communist Party. And to my surprise, Chinese leaders tried to contact the former ruling party LDP people. Could you tell me how to deal with those DPJ people?

This is a reality and this is very much dangerous. I think we need to establish kind of a sort of real substantial hotline between Beijing-Washington, Beijing-Tokyo, and Beijing and other capitals. And then make it more possible for us to seem more confident about China's transparency and accountability in every regard, especially with regard to their military intention.

DR. LIM: I think the baseline scenario that drives Asia for the next few decades is the possibility that Asia's share of global GDP would increase from something like 27 percent now to about 51 percent by 2050. If you haven't done so I suggest that you read Asian Development Bank's Asia 2050, realizing the Asian century. And I think that prospect with good demographics, human capital infrastructure and so on would lead many of the key players to try and participate in this shared prosperity. So although there are, you know, troubling prospects like naval rivalry, political transition and so on, many of these negative developments I believe can be contained. I don't think China will try as the United States is doing now to spend,

you know, close to 50 percent of global military expenditure by itself. And if, you know, free navigation, free passage, that is challenged by China, I think other countries would join forces with the United States to try and ensure free passage is maintained.

And as for political development, yes, the possibility of a military takeover with the Chinese government and things of that nature may be worrying, but I think on the whole Chinese governance has improved quite a bit over the past few decades. If you measure it with things like more microscopic, micro data, like participation, transparency, and accountability. And going forward I think given the attention that the Chinese leadership is paying to increasing disparities and so on, I think much of that can be addressed. And on the whole if I were to put a bet on it I would say the baseline scenario is going to be the driving force.

MS. SANCHANTA: Thank you so much to everyone. Yeah, I'm going to open up the floor to questions now. Please don't be shy. Are there any questions?

QUESTION: Thank you for another great panel everyone. We've lived here in Hong Kong for 15 years after coming for a short visit. It happens. You know, a lot of us do that. But we're still paying U.S. taxes. And one of the things several of you noted is that the U.S. has been bearing a great responsibility here in policing its sea lanes of the world, you know, other things this way. And, of course, it's very expensive. Following your comments, could it be the case that the countries here in the Asia region maybe pick up the security ball to a greater extent? You know, Japan and Korea, you know, policing the sea lanes, for example, in the North Pacific, Indonesia in the Southeast Pacific, and of course, India in the, well, Indian Ocean. Is this likely to happen in a coordinated and peaceful way?

DR. MOHAN: I think if you remember, the U.S. American strategy of 2007 called for a multilateral cooperative framework to deal with this whole question because recognizing the structural changes, redistribution of the global naval power, that the U.S. will not be able to do it all alone. So that much is clear. But the question is whether you do it through a collective security type of arrangement involving everyone, that -- I'm a skeptic of collective security arrangements that you can actually do this through a collective security structure.

The second way in which you could do it is through a burden sharing system. I think to some extent the U.S. is actually talking about it with India, with Japan, with everyone else. That seems more doable where likeminded navies, without excluding others. There's, of course, even grander conceptions of maritime democracies. The moment you say that, of course, you're excluding China and then we get into the problem. But I think there are ways in which the American burden will have to be shared by others because it can't be done by the U.S. alone in the coming years.

DR. LIM: But, I mean, going to burden sharing, if the United States just says we are going to police the waters, you pay, that's not really going to work down the road. So I think the likely compromise, as you suggested, would be a Korean Navy has its own blue water champions and the Japanese Navy does, too. So there's going to be some coordination down the road.

MR. WANANDI: So that means, you know, there is definitely a change needed about this hub-and-spoke strategy of the United States because your cooperation then until now is I define everything and you might do what we want. So that has to change before we are going to into the park.

My second one is, of course, the alliance around you has done their part. It's not that they are not doing anything. And so they are paying and they are doing their part as well. And that even includes Singapore. So that is, I think, already part of game. So it will be increasingly different depending on development, strategy development of our part of the world.

MR. SUNOHARA: My short answer to your question is yes, we are ready. We have to be. And we Japanese are paying more attention to what they say, Americans say (inaudible), what Chinese say access denial zone or air symmetry warfare in Asia. We are very much concerned because sea lane protection is kind of vital for national interests.

But as you might know, we have a kind of internal problem which we call "collective self defense" based upon our constitution. Whether we can go beyond our self defense, namely can we fight together with the United States or India in case of emergency? Now, Japan's conventional wisdom tells us no, you can't. But legally speaking we can. And now younger generations, you know, the young political leaders inside DPJ or even LDP, they are unanimously saying we should change the interpretation, not just for the sake of alliances management with the United States but also our own self interest. And then so we are trying to tackle that issue. At the same time we are trying to be a kind of crystal clear balancer between U.S. and China and Japanese are very much concerned about air-sea battle concept made by the United States. But at the same time we are very much uncomfortable with the Chinese concept of access-denial zone.

So I think that Japan's future is going to persuade those strong, big partners across the Pacific. Okay. Let's have a huddle about discussion and hopefully Japan could be a part of that. But first as a start I would urge American friends and Chinese friends could talk more as I pointed out so that they can enjoy more transparency and accountability. That is kind of the easiest way and the very much reliable way for us to ensure sea lane protection in this region.

MR. WANANDI: So that, I think, is an important point. I think China should take that up. That more intensive relationship between the two, not by hegemony but definitely, that is critical for the region to be in that sense to be more transparent and credible.

QUESTION: Thank you. This is a most interesting panel. My question is addressed to Mr. Wanandi and a little bit of clarification upon the bilateral discussions that you are having with the Chinese if I understood this correctly regarding the South China Seas and the territorial claim as we all appreciate is very extensive all the way down to Brunei across the Philippines to Malaysia and Indonesia and Vietnam.

It sounds from your comment that you have accepted or the ASEAN has accepted the Chinese claim for all the territorial area and that you are simply accepting the prospects of collaboration on drilling.

MR. WANANDI: I don't say that. And I don't imply that, too, if I may explain because, you know, the Chinese actually last year -- or was it 2010? 2010 -- put up the claim to the UN when you have to register in relation to the law of the sea, you know, a report that has to be made. And they put that dotted line on the South China Sea. Nine, yeah. And that was May. In July, we put our (inaudible) to the United Nations rebutting this claim that belonged to China or something like that. And actually, we have many times asked China what does this dotted line exactly mean? Where is your claim? You cannot claim the whole sea. You know, but it has not been answered up till now.

So the idea of having this code of conduct is not accepting that but as has been said, you know, the security of the sea lanes are important and we have to take care for that together. And also other issues like accidents and environmental problems, fisheries, et cetera. So that is actually what we are talking about, not about the claim. As I said, the claim has resolved bilaterally, maybe I don't know, according to Deng Xiaoping, in another 100 years or so. *(Laughter)*

MS. SANCHANTA: Yes. Next question.

QUESTION: Hi. I'm Edith Terry. The Eurozone crisis and the slow death of the WTO Doha round are kind of giving a bad name to multilateralism and regional economic integration. However, I wonder, you know, looking at this range of issues from security to economic growth, how useful do you see the regional economic organizations in Asia ranging from APEC to EAC to the East Asian Summit to the ASEAN +3 system?

MR. WANANDI: Well, if I may first, you know, I think you cannot get the maximum out of these regional institutions. At the end, as we said, the United States has to talk to China on their own right, you know, to stabilize the region as well. But these regional institutions (inaudible) in case, you know, where you cannot have just bilateral. Sometimes it didn't happen, as you know, then we have these regional institutions where there is the opportunity to talk about these issues such as is happening with the North Korea and South Korea in the last ASEAN meeting. It was followed up then with the United States and North Korea. And, you know, with the Chinese, of course, and the South China Sea because we have this bilateral. With China and ASEAN we can talk about these issues quite openly and quite hopefully quite positively, you know, an outcome.

So, I suspect that this will be, of course, an ongoing process. It's not fixed and our cooperation is not as intense as the European one. You still have a much more open fact of cooperation regionally then the European one that is more close and much more intense.

DR. LIM: I think it would be very useful to have a regional cooperation organization and although European countries are now getting a rap for their problems, at the end of the day the European project did a great job reintegrating Germany and kept peace and prosperity for a long time. It's just the imbalance between the currency union and fiscal union that has caused the problem. And they are going to fix it.

And in Asia, as Jusuf mentioned, you know, AMRO is now beginning to be operational and Chiang Mai Initiative is going to be expanded and probably the linkage with the IMF should be reduced, not eliminated completely but reduced to sort of similar to the European level. And this is important because intraregional trade and interaction has increased a great deal over the past three decades and it would be important for Asia to have its own cooperation organization to deal with many of the transnational problems.

MS. SANCHANTA: One last comment. Oh, are you okay? Great. Well, thank you so much for the questions. I'm afraid we're out of time but you can approach the panelists after we end.

I just want to thank each one of you with some gifts from the Asia Society. I believe it's tea, if you want to pass it down. Thank you so much. And thank you very much for joining. (*Applause*)

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