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ASIA SOCIETY
HONG KONG CENTER

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FACULTY OF SOCIAL SCIENCES
UNIVERSITY OF HONG KONG

PANEL THREE

THE RISK OF DESTABILIZATION:

MAINTAINING STABILITY FOR ECONOMIC GROWTH

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

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PANEL I: ASIA'S CHANGING BEDFELLOWS: DE-COUPLING FROM THE U.S. AND COUPLING WITH CHINA?

Moderator:

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LUNCHEON PANEL: CHINA'S FUTURE TRAJECTORY AND IMPLICATIONS

Opening Remarks and Moderator:

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

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PANEL III: THE RISK OF DESTABILIZATION: MAINTAINING STABILITY FOR ECONOMIC GROWTH:

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P R O C E E D I N G S

JOSEPH STERNBERG: Thank you for joining us on the last panel of the day. I know people tend to get a little tired as the day drags on so we'll do our best to give you a lively conversation up here.

I'd like to briefly introduce our panelists and then launch right into our discussion here. So to my immediate right we have Simon Tay of the Singapore Institute for International Affairs. To his right we have Shen Dingli of the Fudan University. And to his right we have Richard Bush joining us from Brookings.

And our topic this afternoon is stability in Asia. And I'm hoping that this discussion will tie together some themes that we've heard about already in other panels today, particularly economic issues and then also the discussion we just heard on security, and particularly highlight some of those security issues that affect Asia's economic prospects because, you know, you talk about Asia and security and it's a very broad issue with a lot of different flashpoints. And I'm keen to understand a little bit more about what -- from the perspective of people who care about China, you know, Asia's economic progress, what are the particular security issues that we need to be focusing on and how can we best address those?

So to get us started I'm wondering, Richard, if maybe you can lead us off with a broad overview of what you think are some of the most economy-relevant security problems facing Asia right now.

RICHARD BUSH: Well, I would -- I guess I would cite three and do so briefly. The one that was the worry between 1995 and 2008 was Taiwan Straits and the possibility that the two sides through conflict of interest or miscalculation might slide into some sort of conflict, even as their two economies were becoming more and more integrated. I think we took a turn for the better in 2008 with the election and inauguration of President Ma Ying-jeou and what we have seen since then is the normalization of economic relations, the liberalization of economic relations, the two societies having an increasing stake in stability.

Now, we have an election coming up in 88 days in Taiwan. I don't -- I think that if the opposition candidate, Tsai Ing-wen were to win it would not be a disaster. It's more likely that the process of -- or the momentum that's been established would in some way stall. But it's not going to be a reversal going back to the situation pre-2008. And things might slow down a little bit even if Ma is re-elected because up until now the two sides have been doing the easy issues and now they're getting to hard ones even in the economic area but there's a lot of creativity. And one can have a certain confidence that they will be able to sustain the momentum. And this is the process that the United States supports.

The problem that I was more worried about in the last year or so is the one that

Jusuf referred to, and that's the Korean Peninsula where the situation got kind of dangerous in 2010. And this is a complicated story but basically I think North Korean decided because of stronger Chinese support that they had more of a free hand in dealing with South Korea and so engaged in conventional provocations and assumed that South Korea would just take the blows. This created stresses within South Korea, and what has happened is that the United States and South Korea have sought to increase deterrence and at the same time engage with the Chinese to say that if China saw this situation as a problem for its own national security, it could work harder to restrain North Korea. And in fact, that seems to be what has happened in the last year. We haven't had a serious incident of provocation since November of last year. I hope it lasts.

Then there's the question of frictions in the maritime area, whether it's East China Sea or South China Sea, and 2010, again, was a problem year. But -- and I think that on the Chinese side a lot of the problem had to do with poor command and control over the various maritime agencies on the Chinese side that are out there sailing around. We seem to have -- or there seems to have been established more control and so the situation seems to be more stable. As Jusuf pointed out, this doesn't solve the problems; the problems still exist. But, you know, it's a better situation.

So all of this is good for business. If any of those were to go badly it would affect a broader economic environment but it seems that leaders working together have sort of brought some stability into the situation.

MR. STERNBERG: I want to turn now to you, Dingli, because some of our correspondence before this conference here mentioned some internal issues that seem to be common to many countries throughout the region and perhaps particularly China that they're on this side issue of pro-growth stability. And I'm wondering if you can maybe flush out more the internal domestic side of this issue.

SHEN DINGLI: Well, I would echo with Richard in terms of your point regarding U.S.-China and other stakeholders' positions concerning stability either for the question of across the Taiwan Strait, Korean Peninsula, and maritime security, et cetera.

Turning to your question, internal factors, it's quite complicated. Actually, in my view it's a double-sided sword. When a stakeholder has less internal restraint and check and balance, it attempts to be more confident externally. Of course, we can experience certain curve of learning and to reach finesse at the end, but some damage will be done. But if a stakeholder has lots of domestic problem then government might be more preoccupied with working external problem in fixing domestic problem. For instance, job creation and stabilizing the internal economic inflation situation, et cetera. So it's a double-sided sword.

For the case of China, China is becoming more rising in the last decade. So many domestic agencies could think we might not continue to bear the pressure from the U.S. to sell weapons to Taiwan. So when President Obama allowed the weapon to go to Taiwan, on January 28th last year, a year ago, the foreign ministry in Beijing made it tough. This time

we are going to sanction. It made a point. This time we are really going to sanction. Well, I think the sanction is the same, suspending high level military to military talk, which is a sanction to both. China sanctioning the U.S. and China sanctioning itself because Chinese military wants to engage with the U.S. When such opportunity has been suspended, it's a self sanction.

And in addition to this, I don't see additional economic sanctions. So virtually, the policy remains the same. So the government initially has felt we are more powerful. We are in a position to stop it. But finally, we want to stop it but we're not able to stop it, last year and this year as well. So this year's response was even more moderate. We did not say this time we are going to punish. Nobody would have believed. And probably, at the high level mil-to-mil contact would not be suspended. So that's the phenomenon. That does not mean that China welcomes the U.S. to continue this. That reflects China's realism. If we cannot defeat, let's handle it. And still working with it. And eventually when we rise (inaudible) reconciliation and accommodation the U.S. might be more realistic eventually to realize China's rising ability and the U.S. would make concessions eventually.

So I think this domestic effect is a different agency's view in how they affect the final foreign policy analysis and decision-making has been important in our foreign policy reflection in the past year. Overall, I think it's good. And probably it's unavoidable to experience such -- it's very hard for China to see the U.S. continue to sell weapons. Very hard. And some people will be very angry and think we are rising. We are able to stop. But finally, it's up to the top leader to have a cool mind to make the most reasonable decision which will not harm China's fundamental interests. But that does not mean we promote the U.S. to continue. So eventually this would be dealt with at a certain eventuality peacefully with mutually acceptable fashion.

MR. STERNBERG: Now, Simon, I'd like to turn to you with a slightly different question because I know one of the issues you've been looking at is the issue of intra-Asia integration or economic cooperation. And I'm just kind of curious about the bearing of that on regional stability. And I think there tends to be an assumption that this is a stabilizing process. I'm just wondering is that actually true or are there potential destabilizing factors that we have to get through as part of that?

SIMON TAY: I think, Joe, that's a very good place to start for me because clearly in a way all of us in the region have been hubbing around China more economically, of course for business but also an underlying idea that economy -- it's a dependence. It means that we'll be hurting each other if we had problems. And therefore, problems should be avoided.

In a way that's what so far -- I mean, we've avoided the problems. This long peace that Asia has enjoyed that Richard particularly mentioned, they've been there for a long time but never been settled. Just kind of put to one side. But the dynamic seems to be changing to me. One of them, as Dingli said, is China. Earlier today Strobe Talbott made a very good point. I hope it's true. That from Nixon to Obama there's been stability and

continuity in the U.S.-China relations. But my concern, and I think a lot of us are concerned this way, is in this last period things are changing. Nixon played China a good hand but he played from a strength -- a very strong hand. Obama, America is still ahead but the gap, I think, is closing and the perceptions have closed.

So, I mean, this is one of the challenges I think in thinking about continued long peace here in Asia. Put problems to one side for a long time. But the pillars we built upon the U.S. of guarantee of stability, the rest of us not having enough power to really harm each other. Those things are changing.

Look at the South China Sea. You know, we've had this problem in the mid-90s. It's come back. One of the things -- the reasons it's come back, what Dingli said about, you know, assertiveness, nationalism, lack of control, but fundamentally we kind of struck a truce because in the '90s both sides were pretty weak. And that's changing.

MR. STERNBERG: I want to pick up on that theme a little bit and actually return to something that Richard mentioned in his first answer related to China-Taiwan relations because it seems to me that the cross-Strait issue is actually a good test of this longstanding theory that greater economic ties would lead to better political calm. And I'm wondering if maybe you can flush out some observations, you know, where that model has worked in cross-Strait relations and where perhaps what we're seeing right now shares that sometimes the economic integration isn't enough.

DR. BUSH: I think if you looked at the history from the early '90s to today you would have to say that overall there's no real link. That integration occurred continuously through that period. And yet, for the 1995-2008 period it was quite conflicted politically when I think the lesson that both sides learned from that was that both politically and economically it was not in their interest to continue this. And so leaders on both sides, Hu Jintao and Ma Ying-jeou sort of forged some understandings about how to lay a floor on the political relationship and then sort of moved forward from that mainly in the economic area.

I think that this can continue to the mutual benefit of both sides as long as China remains confident that at some point in the long future it will achieve its goals. And therefore, it has no reason to rock the boat on the Taiwan side as long as there's a belief that somehow they can protect their fundamental interests, however they define them. Then, again, there's no need for a breakout. That's going to get a little bit harder. I hope that neither side sort of pushes the envelope too early, but one can be rather optimistic that they've sort of figured out at least how to avoid disaster, if not create eternal harmony.

MR. STERNBERG: That's interesting because it sounds a little bit at odds with Simon's observation that Asia is reaching a point where you actually do have to start addressing some of these problems that people have been putting off. I'm wondering, Simon, if maybe you can elaborate a bit more on that. And are there actually some problems that we're still better off not addressing?

MR. TAY: I guess there are some differences between me and Richard but I've just been to Taipei. I came straight from there. And I think one thing in the last year or so that China has handled very well is the cross-straits. Compared to the problems it's faced in Korean Peninsula, South China Sea, I think that's been handled very well. The ECFA, the Economic Framework Agreement, cooperation agreement that has pulled them together I think has really helped not just the Ma administration but the business community and the Taiwanese people as a whole realize that closer ties doesn't mean being swamped by China.

And then Richard earlier said about creativity. I think this 911 -- 1911 period has just seen that, you know. China celebrated -- maybe Dingli will tell us more about why domestically it did so. 1911, very strongly this year, not just 100 years but trying to trace a root that said, you know, in a way these two very different polities are linked in this deep way. And this recent statement I think is today but perhaps going forward truce. And Richard is really the Taiwan expert here. Again, it shows a creativity on both sides. Ma Ying-jeou is calling for eventual truce, very short of their reunification that the Chinese (inaudible) but still, keeping the ball kind of in play within those markers that I think Richard talked about.

DR. BUSH: I have a slightly different view of it. I think actually the first example of Chinese assertiveness came vis-à-vis Taiwan in 2009 where there was a push to move towards political talks. And it was politically complicating for Ma Ying-jeou and so China wisely backed off and they stayed backed off. I think that President Ma's statement of yesterday offered something to the mainland that this sort of thing is possible, a peace accord was possible, but I think he was also cautioning let's not push this too quickly. Let's let circumstances develop. Let's lay a foundation and then move forward.

MR. STERNBERG: If I can bring Dingli into this conversation because he had talked about the relationship between domestic factors and how countries will then behave as they look beyond their borders, I'm wondering if perhaps, you know, perhaps that also goes in the other direction. I mean, to the extent to which perhaps actually something like closer economic ties between Taiwan and China might in turn shape internal approaches or expectations on both sides.

DR. SHEN: Certainly this has been the case. As I mentioned, for all three cases across Taiwan Strait, South China Sea, and Korean Peninsula there is a learning curve. Fifteen years ago we responded to Taiwan's leadership's visit to the U.S. and your high-handed approach, which ended with controversy. So there is a reflection. Now I think the leadership realized that we have to admit there was something happening in Taiwan that may better shape, slow our better understanding and better interaction, rather than causing. You have to do this. Then the repercussion would create some opposite result. So I think leadership is more experienced, smarter, mature. Sometimes I realize that U.S.'s ability to handle this might also be limited and it's also crucial to maximize our common interest with the U.S. by reducing our ultimate expectation, a reunification to a realistic objective which is anti-succession to prevent de jure independence from happening. And that is something the U.S. has openly professed not to be happy with. And, of course, we're against. So this is a common denominator that we can work with the U.S. If we were to raise the stake higher,

unification now, that is a change in status quo that the U.S. may have some difficulty.

So let's make an even difficult things to be handled later now be more realistic to do workable things. So I think through 1996 cross-Taiwan Strait interaction and the China-U.S. kind of harsh action and reaction. U.S. sent an aircraft carrier and we shoot empty warheads, military exercise. And Mr. Lee Teng-hui's visit to Cornell and U.S. leadership's meeting with Liu Huaqing asking him to call with a message to Beijing to immediately stop the military exercise. And we did. So we have to prevent this from happening again. That is I think we have been doing pretty well.

Now the economic framework is there, even for another administration in Taiwan. To change this framework -- that would be very difficult. And Ma Ying-jeou has proposed to have some peace talk, peace accord to be considered if he would be reelected. Even so, it would not touch upon unification. So the Mainland would think this agenda would be possibly indefinitely postponed and that we are unhappy. But at least you have some peace for stable framework that will assure that peace and stability across strait and potentially in the U.S. That's very good. China needs peace now and in the future. And if we are confident we can make this -- at a future time we may not lose the opportunity of unification. So I think we have expressed we welcome this. And even if Tsai Ing-wen would be elected, I think the Mainland would be more mature in dealing with her and her government that this is Taiwan people's will that we have to respect. They may not elect her and her government for independence and she is not talking about de jure independence.

So expend, maximize wherever we have shared common interest through the experience 10 years ago. I believe that China was confident that the Korean Peninsula can be handled but it failed last year. And through turbulence we refixed, I think now we grow stronger to realize that we may lose control and we cannot let it happen again. And therefore, we have to reign in certain stakeholders on the peninsula. And the U.S. shares common interest with us. U.S. sent aircraft carrier to the region not to threaten China as perceived by some PLA or PLA Navy, but to protect its ally. Its ally deserves not to be threatened by anyone in the wake of Cheonan sinking and in the case of Yeonpyeong Island.

Our kids deserve to live free and secure. The U.S. has a legal obligation and if the U.S. can protect, okay, well, China will be secure. So we should think this way rather than you sent a ship. Yes, physically your capability may present some pressure but the purpose is not to threaten but to threaten anyone who has threatened ROK. And China is a strategic partner of ROK. China has a legal responsibility to defend ROK and any other countries legitimate in security at the United Nations Security Council. So we share lots of interests.

I think through this learning curve China grows stronger. And for South China Sea it's still going on. Lessons are being produced. And I hope all stakeholders can draw the lessons in a calm way, and interact in a collaborative, responsible way. That would make us not waste a lesson but eventually we would appreciate that the U.S. has played a role, China has played a role, and they would make necessary cooperation and concession.

MR. STERNBERG: I want to pick up on that issue of U.S. role and perhaps turn to Richard and Simon to talk a little bit about this because much of what you were just saying, Dingli, presumes that the U.S. will continue to play a role in the region but I think particularly at a time when people in Washington are facing some very difficult fiscal decisions, you know, not just entitlements and domestic spending but the military as well, I think it's perhaps asking the extent to which the U.S. will continue to play a security role out here and what that role might be. And I'm wondering, Richard, if maybe as someone who is based in Washington you can talk a little bit about how that debate seems to be unfolding.

DR. BUSH: Well, one of the nice things about being in Hong Kong is that I'm not in Washington. *(Laughter)*

But this is a really important question. I do think that within the sort of centrist consensus that Strobe Talbott was talking about at lunch there is an understanding that over the long term Asia is the most important arena for international politics and the U.S. hurts its own interests if it absents itself from Asia and doesn't play a proper role.

Simon is correct that we are in a time of power transition and so what Richard Nixon was able to do, Barack Obama or Governor Romney can't do. I think that President Obama's response is, well, even though we are in power transition, let's make the most of our common interests and work together to meet serious challenges facing the international system. That can be trust building. That can be stabilizing for the world. And China has responded pretty well to that as Professor Shen has said.

But it's important to recognize that we are involved in a fundamental debate over two things. Mainly about the role of the federal government in American society and the consensus was created in the wake of the Great Depression and that consensus is now being called into question. I also think -- the second issue where this is at play is the role of the United States in the world and the key question is whether our political class will be willing to allocate the resources to underwrite the internalist and activist role that we have played for the benefit of all, I think. And we actually are coming up on an inflection point with the deadline for the Super Committee coming before our Thanksgiving holiday. The two parties have, in effect, created a kind of mutual suicide pact and the horrible scenario is one where you can't get agreement on revenues, discretionary spending and entitlements, and you have massive cuts both on the domestic side and on the international side. And that could put -- have ripple effects, particularly in this region, and it could put the U.S. in a situation of even greater weakness.

I think over the long term the challenge to the United States but the opportunity to maintain a decent gap between the United States and China rests on a willingness to rebuild the pillars of national strength that served us so well since the Second World War. And these are mostly domestic. To sound fiscal policy, encouragement of savings, support for education as Chief Executive Tsang was talking about this morning, support for science and technology and so on and so on. We have allowed those pillars to

atrophy. We have the capacity to rebuild them; whether we have the will to do so is another question.

MR. TAY: Can I come in, Joe?

MR. STERNBERG: Yes.

MR. TAY: I think Richard's comments remind me that it's not just China's domestic policies. Clearly, America's attention capacity and will. And these are different things. I mean, I think the Obama administration has given attention but the body politic America, I think Richard shared with us, the question of the will. The capacity is still there but the question of whether you will put the resources to the capacity and the will really is something that a lot of us are concerned about in Asia.

In Singapore we had the Shangri-La dialogue where in one of the last speeches Secretary Gates said, "We're here." And then in the same speech he says we're going to have to cut spending. You know. So we hope for the best. Now, mind you, there are some people who are not in the room. There are people from Singapore, too, who basically think America is finished and that we better focus on keeping peace among Asians ourselves. And after this year I think China has done enough to really make people think about this idea of Asia going off alone.

Now, I'm not one of those. I think that America has to handle this transition well. And I'm very glad to hear both Dingli and Richard talk about common interests. But for every one Dingli there are any number of Chinese super nationalists who also for different reasons want to kind of make trouble. And that's the kind of political spectrum on both sides, not in the room that we have to worry about. I think in this sense we are going to go through quite turbulent times. I'm not predicting a war between two major powers but there will be political turbulence. And we're going through a time where, you know, as we've said earlier in this conference, Chinese leaders, learning curve -- Dingli has added to that -- America is going through an election. And those elections are about domestic issues. What did Strobe Talbott say? The jobs -- the economy, stupid. It's the economy, stupid.

Now, I think that some of the arguments are so easily linked up to Asia and China. I lost my job. It's gone to China or Asia. And I think that's the kind of thing that I think we're in for some stormy weather in the next few months that could disturb us.

MR. STERNBERG: Do wonder though, I mean, if we can play out perhaps a worst case scenario here. I mean, how -- can you give a sense of, I mean, what we would expect to see in terms of perhaps very short-term effects on stability in the region if the U.S. does find itself scaling back its presence out here? I mean, is it a matter that we would expect an immediate deterioration or would it be more that Asia would enter into a downward glide of some sort?

MR. TAY: Well, one of the scenarios that seems to be playing out -- and

perhaps the panel before this was talking about -- was how the other Asians start interacting with each other and China. You know, I mean, I don't work for China but I don't have to be paranoid to think that sometimes America is instigating the use of Asians to sort of gang up. The Vietnamese, for example, have pulled India into the South China Sea by looking for oil together. There are talks among the Vietnamese, the Americans and others. And you don't have to be paranoid in Beijing to think that people are ganging up against you.

DR. BUSH: We're not that Machiavellian. *(Laughter)*

MR. TAY: Not you, maybe, Richard. But, I mean, I think these are some concerns. And so in this transition, if you don't manage it correctly I think that a lot of these super nationalists in Beijing will actually gain more ground and suspicions will grow. And that's not good obviously for society but also businesses.

DR. SHEN: I think I can hardly perceive some worst case that would bring China and the U.S. to a greater jeopardy. For instance, for the sinking of Cheonan, South Korean announced again and again that U.S. aircraft carrier would go to the Yellow Sea. And Chinese spokesman of the Defense Ministry made it very firm. We are strongly opposed to the U.S. sending an aircraft carrier to the region, seemingly to educate Chinese that the Yellow Sea is China's internal river. That I certainly do not believe.

And the U.S. made it clear the U.S. will not come, not because China is demanding. I think this is politics. Because China strongly is opposed, the U.S. will not come because that is not conducive for China and the U.S. to reach a consensus how to better deal with DPRK. But when China would come the U.S. would come. The U.S. would not come -- would not refuse to come permanently -- the U.S. would choose a proper time to come. But the U.S. cannot admit that because China is refusing. The U.S. will accept that China's denial. China has no right to veto.

So I think this shows U.S. maturity. The U.S. would not yield to China but the U.S. would work with China in a way that will reduce unnecessary tension. Then North Korea may get the wrong message. It will push the envelope and then the U.S., regardless of whatever China will do, the U.S. would send an aircraft carrier. And China was relatively moderate last December.

So I was asked by a government newspaper to write something to be harsh on DPRK. And I did. The People's Daily published that Shen Dingli was striking a balance to be harsh on both DPRK and ROK but in substance more critical of DPRK for its irresponsibility. So that's a Communist Party's newspaper to be harsh on DPRK.

So this is China's message to send to the U.S. which was a lesson. China's message to DPRK, "You should not be spoiled." So this is, I think, maturity grown from such an engagement. So I still believe that these two countries have their wisdom. Even though China has multiple stakeholders internally and rising super ultra nationalism, but there are also many responsible voices and some responsible agencies in the country. For instance, I

would be critical of our army. The Yellow Sea is as wide as 400 nautical miles. China's sovereignty only touches upon 12 nautical miles, not 400. So the reason that China would say the U.S. is not entitled to come to China's part of the EEZ, which is arguable. (Inaudible) rejected China's argument that the U.S. aircraft carrier cannot go to the entire Yellow Sea because ROK also shares a part of the Yellow Sea. It's not China's Yellow Sea. It's China's, DPRK's, ROK's, and the entire world's Yellow Sea. It just has a name. It sounds like the China Sea. *(Laughter)*

China only has 12 nautical miles and we have economical rights that is economic sovereignty. It is not defense sovereignty. So our defense cannot speak irresponsibly. We can only say -- I think in December when the U.S. aircraft carrier would have come anyway, the foreign ministry spokespersons spoke more responsibly. They say we are opposed to (inaudible) foreign vessels -- military action in our EEZ. It's still arguable because if a foreign vessel would come, military vessel come to our EEZ for peaceful purposes, why only Chinese military vessel would go to other countries' EEZ for peaceful purpose? They cannot come to our EEZ for peaceful purpose. The UNCLOS of 1974 allows any country's ship to come to any other country's EEZ for peaceful sailing. So you cannot say it's a military ship; it must be unpeaceful.

So it's arguable but at least it will say if we don't approve, don't come. But we did not say you cannot come to ROK's EEZ. This is something that we should state in June, July, that we did not state. So I think the entire interaction makes China to draw a lesson how to balance to make the U.S. to play a constructive role, not to threaten DPRK, even if DPRK has had some problems. But when DPRK would come, let's talk together is the legacy of last year. So I think then internally the former ambassador Wu Jianmin and the ranking vice minister, he was our ambassador to France. He wrote openly in Chinese newspaper to criticize our military, to criticize their hijacking of our foreign policy. He thought the military has no right to speak about foreign policy. It's a civilian's job. It's not their turf. He was very tough.

And recently I tried to do the same. I ignored it. There was a senior military officer sitting there so I was very critical of the military. Then this guy was very unhappy. *(Laughter)* So there was internal bargaining. There are two trends. One is confidence, assertiveness, and aggressiveness. The other is a reason-based, law-based argument backed by force.

MR. STERNBERG: But, you know, I wonder if the questions all of that raises is certainly the kind of stability that China would provide if it were in charge of providing the stability for Asia, but I think actually what may be an interesting question is whether China actually has the capacity to do that right now because I think that we've often been discussing these issues in terms of if the U.S. doesn't do it, China will. But actually could China? And I wonder, Richard, if maybe you have some thoughts on is there actually an alternative to the U.S. right now?

DR. BUSH: Well, I think that in the case -- in your worst case scenario what

we would probably see is various varieties of accommodation in China's periphery. Japan, ASEAN, maybe South Korea, as they see that the United States is not there backing them up. I think you raise an interesting question of whether China could provide the sort of public goods, the kind of secure environment that everybody desires. It would certainly want the deference from its neighbors but, you know, could it sort of address the remaining conflicts in a constructive way? Could it keep countries that don't get along with each other apart as we have done from time to time? That's an open and very good question.

MR. TAY: If I can comment on this, I think not. And I think it's a very simple reason. We've all kind of gotten used to America. It doesn't mean all of us love it so very much. As the Indians once said, "Go home, Yankee, and take me with you." *(Laughter)*

But if you ask Indians and Japanese whether they would be willing to accept China. We're providing the public goods, but for them being number one in Asia, many of them wouldn't, honestly. There's a historical antagonism but also future onward, you know, going rivalries and competitiveness. And I think this is one reason why, you know, in my writings you don't see a substitute for America. It doesn't mean that we can't perennially depend on American guarantee that we've seen the past but we're in the middle of a transition and we've got to build new structures.

And one of the things we haven't talked about is the effort by Southeast Asia, ASEAN, to try, I mean, within its limited means. I'm not claiming it's a power. But it trying to emerge as kind of a normative community. I don't mean political science jargon, but basically a rules-based, peaceful minding way of dealing with problems. Now it's struggling. I mean, whether it's border problems in Cambodia, internal problems in Myanmar, ASEAN has struggled. But it's an experiment to try to get away from this idea of who's got the biggest stick.

DR. BUSH: I think that's an important development. Whatever happens, if the United States stays, then it's a useful supplement to the role we played. If the United States withdraws to some extent then perhaps it can sustain stability and peace.

DR. SHEN: Let me add to that. I think it's a mixture. For the Somali pirates China sent its ships till today to provide public goods. So there are cases that we want to go out and this provides the perfect reason to invite our ships. So it's not only to protect China's commercial ocean liner. Other countries commercial ships can join our ships to be protected together. But also there is a process of mind transition. Some people in China propose that we should work with other countries -- NATO, et cetera -- to divide the entire lane. So China would only be responsible for one sector. But the naval commander refused. First, they don't want to expose China's ships to the protection of another navy. So our ships, if they're not at our hand we feel uncomfortable. So the idea of collaborative security has not been fully established. And also, we do not know how to with a mix of international navy -- should we lead or they lead us? So we are not experienced. That takes more years for us to engage. And we may feel relaxed if another navy were to lead us or sometimes they would subject their navy to be led by our navy. So it's a process.

But for the case of the Korean Peninsula, I have not seen it. When the South Korean ship was sunken and the Yeonpyeong Island was shelled, China has not protected ROK. I don't see that kind of public goods provided. That would drive ROK to feel very nervous and that's what makes the strengthening of ROK-U.S. alliance more solid. In China's view it's not in our interest but how to make it not happen, we should stand out to provide public goods in a political, legal, or military way. It's not something I have seen. That's a bigger issue that I can conclude that China has not thought about it. It is a major power or alternative Super Power. It still enjoys the public goods other countries could provide and condemn the negative part that they have created. But not for status to think and to provide such a service.

MR. STERNBERG: Now, Simon, briefly before we turn to the audience Q&A, I wonder if we can actually revisit the ASEAN security issue a bit more because that seems like, as with mainland China and Taiwan, an interesting example of this combination of economic integration and, you know, security developments, I'm wondering if you can talk a little bit about the extent to which ASEAN really does or does not seem to be developing the kind of ability to deliver the stability that you need for economic growth, whether it's freedom of navigation or what have you.

MR. TAY: Well, I mean, as briefly as I can, I think that Southeast Asia has been an interesting experiment which bears mention for the rest of Asia. Among our members, you know, in the '60s, there was a lot of tension between Indonesia, Malaysia, and Singapore. I mean, occasionally they still fight about certain things like songs but, I mean, relationships got much better. And partly they haven't really resolved all the problems but they've just kind of decided to put them to one side. And now they're trying to build an economic community, a kind of not quite common market but (inaudible) in sectors by 2015, which is very soon.

And we think that among the core the idea of, you know, Indonesia going to war with Singapore, that's really I don't think that's going to happen. It doesn't mean that we don't have a military. We've still got a military but I think the chances of war among the core members has really been reduced. Where we've had problems sometimes is with the new members. Cambodia and Thailand for both, you know, present politics, talks, and everything else have had this border problems in the last year but I mean, as a whole I think that if you look back at the literature of the '60s, it talked about Southeast Asia as a kind of Balkans, falling apart, aggressively fighting each other. I think that's been a relatively good story. And in a way we would love to see the story told in a different way in Northeast Asia.

You know, one of the things about the Cheonan. I remember I was with you in Shanghai when it happened. It was so sad because at the time the three Northeast Asian economies, which are huge, were supposed to meet in Seoul and discuss an FTA together -- China, Japan, Korea FTA. They are so integrated already. And if they had an FTA it would help not just the economy but really Asian integration. But because of the sinking of the Cheonan, this really has taken a step back. It's been a year plus. They're trying again but it's

going to be difficult.

So think that for all limitations, and I'm not here to tell you the ASEAN is perfect. It is something worth thinking about. Whether -- now, that's internally. Whether it's able then to magnify itself to the border region, I think that's a lot of questions marks about that.

MR. STERNBERG: On that rather optimistic note I think actually it's time when we could perhaps be opening up things to questions in the audience. And I already see a couple hands shooting up. Perhaps that gentleman back there to start. And I would ask you to be brief so we can try to fit in as many questions as we can.

QUESTION: My name is Hiro Matsumura. My question goes to Dingli and possibly with Richard.

In a socioscience time as a factor is very important and listening to what you said about Taiwan it seems that you consider that timing is on the side of China. In 1996-97, China was the underdog and that's the reason why China and the Beijing government went wild a little bit in response to. So as you perceive time is on your side it can wait and then eventually the U.S. will yield to the more powerful China. China will not necessarily have to resort to the use of force.

That is one way to see. But in the earlier session, we talked about the economic side of the problem and one of the distinct Chinese economist said the best day of China, as a world factory, has been over and we also have discussed about demographic change of Chinese society and then so-called population boom will be over soon, particularly because China has an official One-Child Policy. You will face very rapid graying in the future, that's sort of rapid graying. No one country has ever experienced. So if you are seeing that from the economic perspective, time is running out for China. So what is your perspective? How do you identify the importance of time as a factor?

DR. SHEN: That's complicated. In terms of how the capacity, so far mainland has no reason to doubt its chance. But to mainland China's rice has been based on some facts of employing the cheap labor. And not to protect its environment ecology properly. That certainly cannot sustain. And without a proper institutional and technological innovation, that's not going to sustain. So yes, in terms of hard capacity, we have been rising but the cost is also huge. And it's not sustainable. China can be the victim of its own success. So the first part, how the capacity is rising or declining is up to you depending upon how you analyze it.

And the second part, the longer the two parties are separate, the less they would be emotional to hate and love. In the future mainland may have less emotion to ask for a unification, as some Taiwanese people today seem to behave. So it's always a question. Always a question. For instance, Hawaii. The U.S. has apologized to land its marines on Hawaii. There are some Hawaiian people, aboriginal people still ask for independence. But

probably with the passing of time are less and less descendants of those aboriginals would ask for it. So the time may not be our main sight. Therefore, I would conclude that it's complicated.

MR. STERNBERG: Other questions. I think there's one there.

QUESTION: Hi. Sean Quirk. Thank you all. So I wanted to bring up the concept of American declinism which I would say, of course, it's not a new concept and I would say every decade or two in the 20th century it came up, although I wasn't around to hear those debates. But my question is in actually looking at the landscape, I mean, the U.S. military budget is still larger than all other countries combined. And indeed, in the region it looks like the opposite is true. It seems that there's more U.S. engagement. We see Australian government reports calling to attract the U.S. military, naval partnerships, Vietnam, Singapore's deep water port to house U.S. naval ships. And in light of U.S. Assistant Secretary of State Kurt Campbell's efforts to build what he has called an Asia Pacific security architecture, I'm wondering what your opinions are on this potential collective security agreement vis-à-vis China and what the perceptions both ways will be.

DR. BUSH: I think there are sort of several different questions embedded in that. I applaud my friend Kurt Campbell for his efforts to assert the U.S. presence in East Asia and sustain that presence. I think it's had a salutary impact.

Ultimately, that must rest on budgets that ensure that the ships sail and the bases are manned and actually built. And I don't know what's going to happen in the budget battles. I don't know where we're going to come out on this debate of the future U.S. role but I do know from my own personal experience that when our congressional leaders make budget decisions they often do so with a sledgehammer rather than a scalpel. And it's based just on numbers and ratios and not on national interests. So I have these cobwebs of doubt.

MR. STERNBERG: If I can raise a quick follow up to that, I guess, you know, implicit in that question is the sense that the U.S. security presence in Asia is quite big right now. I mean, so how far, I mean, does Washington actually have some scope to cut before the impact would be felt seriously out here?

DR. BUSH: Well, our presence in Iraq and obviously Afghanistan are declining and that will have a good impact. I think that there are ways that we can cut in Europe. One of the big items in the defense budget that has nothing to do with our presence in East Asia is just entitlements within the military -- pensions and health care. And so there are probably savings that could be made there that would be real.

MR. STERNBERG: Okay. I think we have another question there.

QUESTION: My name is Ahn Sung-Kook from the Korean consulate here in Hong Kong. My question goes to Mr. Shen Dingli. You concluded that in last year December, the U.S. Navy should bring in an aircraft carrier to the Yellow Sea, misleading

North Korea so that North Korea understood that the U.S. Navy (inaudible) chance that much despite China's strong objections. But if we do (inaudible) factual speculations, in case the U.S. Navy didn't bring the aircraft carrier in the Yellow Sea, I think that North Korea might be misled in another way. What I mean is that they might understand it that the PLA has enough deterrence power against the U.S. Navy. In such a case, North Korea might be much more motivated to provocate against South Korea and Japan and some other countries.

DR. SHEN: For the sinking of Cheonan, China's idea might be that we sympathize with ROK government, army and your people, especially those people of the family. But we may not agree that the evidence of the multilateral investigation can convince us 100 percent. This might be our argument but we still sympathize with ROK.

On that case, we have some concern of U.S. introduction of aircraft carrier. If DPRK has not been handed behind and they have been threatened and if they are irresponsible simply because they are threatened for no reason, then they launch hostility. That would jeopardize the periphery of China's neighborhood.

This might be the explanation but we may have a different idea. And I still think that we have not enough to condemn the aggressor, to talk to DPRK seriously even if you are not caught 100 percent. We seriously taught you to become complicated. And we would do something. I think we have not done that. That would send a wrong message.

But then even for this, China is not in a legal position, not allow the U.S. aircraft carrier into certain parts of the Yellow Sea because the Yellow Sea -- not the entirety of the Yellow Sea belongs to China. But for the second case, the shelling of Yeonpyeong Island, that's on the record what DPRK did. And we have to condemn. And we have to punish. We have to sympathize the ROK even though we caution the ROK to be more cautious the next time shooting against the water that is being disputed by DPRK. Even though DPRK recognizes the water belongs to the ROK. In early 1990. But now they revoked. Understanding that the DPRK has revoked it and ROK still wants to shoot against the disputed water – that's ROK's problem. But that does not warrant DPRK's shelling against your people and your army. So China should state its policy clearly. That is what we say *shi fei qu zhe*.

Personally, I do not see that our government has made *shi fei qu zhe* clearly, personally. And then the U.S. would have more reason to come and we know we cannot stop the U.S. to come. And this time we make a more nuanced voice to please both domestic constituency because they don't like the U.S. ship to come. So we say we are against (inaudible) military action in our EEZ. So simply put, we are against military action, foreign military action in the area. So domestic constituency will be happy. But legally speaking, we're not blocking America.

And even for what we stated, it may be still legally controversial as we may not have a right to stop foreign ships military action in China's EEZ as long as that action is of a peaceful nature because that's what China has agreed per our joining of UNCLOS. So

scholars can find their interpretation. I think it's loose, the government speaking. But government wants to meet certain demand and expectation of everyone. For this it's successful.

So when President Obama met with China's president in the White House, he called earlier and he warned the Chinese leadership to play a more constructive role in this regard in reigning DPRK. I think I have no evidence to say we respond to American pressure. But for what has happened for the last 10 months, I think a larger situation has been under control and DPRK has behaved more moderately.

MR. STERNBERG: I think we have time for one more short question and a short answer so that we can wrap up on time. Maybe right at the back.

QUESTION: Thanks. I have two very quick questions. And I'm glad you're all political scientists. All the economics are saying that China is going to catch up with the U.S. on the total GDP side in 20, 30 years. This elementary mass. The key question is China is two-fifths of U.S. GDP right now but consumes similar natural resources with the U.S. By the time if we consume the natural resources in the same way as we have been, by the time we catch up with U.S., two countries will have consumed over 80 percent of natural resources. That's certainly not doable. That's number one.

Number two, U.S. will be forced to continue to debase its currency because they owe too much money. And you look at the total debt has almost doubled for the last three, four years. And I mean, venture capital goods, I know one thing and it's actually good news for a lot of people sitting here. We all are going to live much longer because of the medical technology advancement. That means entitlement will be far more for each government.

So from that point of view my question is are the conflicts in the South China Sea, Yellow Sea, the preshow of what's going to be something what I will call inevitable that we have not seen in the last 60 years but it has to happen.

MR. STERNBERG: Maybe we can start with the energy question and perhaps Richard you were reaching for your microphone.

DR. BUSH: I wanted to do the later one.

MR. STERNBERG: Oh, okay.

DR. BUSH: I don't have the answer for the resources.

MR. TAY: Actually, I'm not a political scientist; I'm an international lawyer who does look at sustainability.

I think that, I mean, I'm concerned about sustainability and energy and

resources and carbon, but one mustn't think of this as, you know, based purely on present technologies. You know, we are at the cusp of a number of renewable energies proving to be viable. And I think that China, with the U.S. it did refuse a carbon deal at Copenhagen, I think it turned a corner in the sense that not only does it want to be a factory of the world, it wants to be the green factory of the world. And of course, you know, I think as the price of resources rise as the earlier panel said, the price will drive questions of supply, not only supply those resources but to seek alternative resources. There will be more carbon light, more renewable.

So I'm a bit of an optimist in the sense that the club of wrong predictions proved wrong. And I think that given time technology markets, companies will respond in clever enough ways with the right policy emphasis.

MR. STERNBERG: Richard, maybe I can give you the last word and you can tackle the (inaudible).

DR. SHEN: Well, I'll conclude with just this one point that if China would match up with America according to China's current energy, the (inaudible) energy consumption. So it would hardly bear such consequence. In my view, we should not do and China's involvement cannot bear such a development. But at the same time I think China does not necessarily need to continue its current pattern. For instance, China's economic output is the same size of Japan's but China's energy spending is nearly five times bigger than Japan. Four hundred eighty percent as big as Japan. I understand China's population is 11 times as big as Japan, but that does not justify. China should have spent five times as big as Japan's energy spending to produce basically the same size of economy. If we can improve a bit by spending four times as big, we may not need to import oil. We may be able to export oil by earning money and to assure the world China's rice is benign and we may make some speculators of tapping such a high price of energy to lose money.

And if we increase our energy efficiency by 50 percent, China would be far more accepted as a peaceful rising country. Depending on how China's leadership's vision, they want to do short-term recipe so you grab coal and if you want to do medium-term, you import oil and gas. I think we should also have a long-term vision to invest in education, our mind, our vision, and to have the law not allow people to waste energy. That is huge because energy efficiency is so poor, there is huge room that China can improve.

MR. STERNBERG: Richard, perhaps you can briefly take on that last question.

DR. BUSH: Okay. Very briefly and then I will sort of close the whole thing.

I think, first of all, America is a very wealthy country. We do have the resources to deal with our debt situation. We just are in a huge argument over the proper level of taxation. But we can solve that problem if we have the will to do so. You correctly say that there are frictions in East China Sea, South China Sea, other parts of Asia. There are also

conflict avoidance mechanisms that are available to reduce those frictions if there's political will to do so.

With that, let me just say that this all day has been a very rich discussion and I've learned a lot. I hope all of you in the audience have learned a lot. But I think that the time for substance has ended, if only because Dingli and Simon need to get to the airport to catch planes to Beijing.

So I would just like to offer a few words of appreciation, first of all to the audience, particularly those of you who stayed to the bitter end. I would like to thank our partners in this, Hong Kong University and my good friend, John Burns, but also everybody at the Asia Society who has been involved with this. You don't have such a smooth program as we've had today without a lot of hard work. And so Ronnie Chan and Edith Chan get a lot of credit for their overall leadership. But Gauri Lakhanpal was the chief operating officer of this venture and we owe her a great debt.

Finally, I would like to thank my Brookings colleagues, particularly my staff -- Kevin and Aileen and Jennifer for all they did to make this possible and make this partnership work.

With that, thank you for your participation. Thank you for coming. Thanks again to the Asia Society and Hong Kong U, to all of the presenters. The meeting is now adjourned.

(Applause)

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