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in cooperation with the

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WELCOME REMARKS AND OPENING ADDRESS

DONALD TSANG
CHIEF EXECUTIVE, HONG KONG SPECIAL ADMINISTRATIVE
REGION

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:

ALEX FRANGOS
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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?

Moderator:

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Co-Founder and Vice Chairman
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PANEL III: THE RISK OF DESTABILIZATION: MAINTAINING STABILITY FOR ECONOMIC GROWTH:

Moderator:

JOSEPH STERNBERG

Editorial Page Writer
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Panelists:

SHEN DINGLI

Director, Center for American Studies
Executive Vice Dean, Institute for International Affairs
Fudan University

RICHARD BUSH

Director and Senior Fellow, Center for Northeast Asian Policy Studies
The Brookings Institution

SIMON TAY

Chairman
Singapore Institute of International Affairs

Closing Remarks:

RICHARD BUSH

Director and Senior Fellow, Center for Northeast Asian Policy Studies
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PROCEEDINGS

JOHN BURNS: It is our honor to have participated and organized. Whether the rising of China and other Asian countries has any influence or poses any challenges to America's global dominance has been a hotly debated topic in the 21st century. Because of the economic strengths of these countries some people tend to believe that they will have a much greater weight on the global stage, especially in the light of the economic difficulties and, arguably, the strategic over extension of the United States. Others argue that not until Asia and China work out their differences can their influence on the world arena be sustained. These issues form the theme for today's discussions.

We are gathered here today for a conference organized by two prominent NGOs: the Asia Society and The Brookings Institution. It is entirely fitting, therefore, that I let you know that the University of Hong Kong has just embarked on a new program of activities designed to build capacity and empower NGOs in Hong Kong. This should remind us that in our discussions today, although we focus on nation states and their sovereignty, we should be mindful of the role played by civil society and domestic forces in shaping the relations among states. These include, of course, political parties, religious groups, business groups, trade unions, and the media. In Hong Kong, NGOs can be found in every corner of society and nowhere, of course, in the greater China area are they more robust than in Taiwan.

I'm pleased that some of our teachers and students from the University of Hong Kong will join the discussions today to share with you their views and also to learn from you. I look forward to a whole day of fruitful debate.

And finally, let me close with a warm welcome to you all.

It gives me great pleasure now to introduce Strobe Talbott, the president of The Brookings Institution. Strobe. *(Applause)*

STROBE TALBOTT: Thank you, John, very much, and thank you, Edith. Thanks to the Hong Kong University and to the Asia Society for making it possible for the Brookings Institution to be here as part of what promises to be a very full and productive and stimulating day. I want to express not only on my own behalf, but on behalf of Richard Bush, the director of the Center for Northeast Asian Policy Studies at the Brookings Institution, and our other colleagues who have come from Washington, how appropriate it is we feel that we're meeting here in Hong Kong at this time.

Just a quick word about the Brookings Institution and the Center for Northeast Asian Policy Studies. The Brookings Institution is now in its 96th year. For quite a number of decades we have had a very full program that embraces international economic and political affairs. We're lucky to have with us from Washington Barry Bosworth, one of our most distinguished economists specializing in the international economy and the United States, who will be participating in this symposium later this morning.

The Center for Northeast Asian Policy Studies is in its 15th year. It was the brainchild of Mort Abramowitz and Mike Armacost. Mike was, of course, my predecessor as

the president of the Brookings Institution. One of the many good things about CNAPS as we call it, the Center for Northeast Asian Policy Studies, is that it brings to the Brookings Institution visiting scholars, scholars in residence from a number of the neighbors of Hong Kong. Hong Kong itself has been well represented in the program over the years as has Taiwan, the PRC, South Korea, Russia, and most recently Vietnam and Mongolia.

I think that given the debate going on in Washington, most of the debate going on in Washington, of course, is on the American Economy which has immense implications for the rest of the world, but there are some foreign policy issues that have been front and foremost in our minds during Richard's and my travels around the region. We actually were in Korea before coming here, and that was on a fairly auspicious occasion because it's when the United States Congress finally got around to passing the U.S.-Korea Free Trade Agreement.

We are here in Hong Kong at a moment -- and Richard has checked his BlackBerry just in the last 10 minutes to make sure I'm up with the news -- where there is a little bit of suspense, but I don't think a great deal of suspense about what will happen to the efforts of some legislators in Washington to punish the Peoples Republic of China for its currency policies. I think there are reasons to believe that efforts will not go through the Congress with approval, largely because the House of Representatives will turn it down. I've just done something that may be totally foolish, which is making a prediction about what'll happen back in Washington. But this is one of many issues that we'll have a chance to offer some perspective on from an American standpoint. During the course of the day we'll also be touching on strategic issues. And I think we're now just waiting for the chief executive to arrive and he will be here very shortly.

In any event, obviously it's been -- those of us who have come from Washington have used the last couple of days to meet with a number of thought leaders and political leaders here in Hong Kong. We've had a chance to have kind of a family reunion of those who have passed through the CNAPS Visiting Fellows Program over the past several years. We had a very lively dinner, and Edith and John were good enough to join us for part of that last night. And we're ready to go.

By the way, the chief executive, of course, will be introduced by a particularly distinguished citizen of Hong Kong, and that's Ronnie Chan, who has been a very, very good personal friend to many of us at Brookings as well as an institutional friend, both in the work that we have done through CNAPS -- the Center for Northeast Asian Policy Studies -- here in Hong Kong and also in Beijing. When we brought a group of Brookings trustees to Beijing several years ago, he organized a rather extraordinary dinner party in the Forbidden City. So he has provided a lot of color, hospitality, good food, and wise counsel. So when he gets here I'm going to tell him that I've already introduced him, and now all we need is Ronnie.
(Laughter)

Welcome to the chief executive and to Ronnie Chan. Ronnie, I'm not even going to let you sit down. I'm going to ask you to come on up here and get us started.

RONNIE CHAN: So good seeing you.

MR. TALBOTT: So good to see you.

MR. CHAN: So good. (*Applause*) Good morning. Let me tell you about Strobe. He was supposed to join me at Yale University last weekend. I didn't see him. Were you there, Strobe?

MR. TALBOTT: Yes, I was there.

MR. CHAN: Very good. You just didn't see me. You were trying to avoid me. (*Laughter*)

MR. TALBOTT: No.

MR. CHAN: Anyway, ladies and gentlemen, good morning. It's so good to have all of you here in Hong Kong. Welcome.

I think most of us would agree that this is the Pacific century. Surely we need the two sides of the Pacific: we need the United States and we need Asia. And we're so delighted that in the last 20, 30 years, the rise of China has really given us perhaps a little bit more balanced position where the two sides -- the United States and Asia -- are both in a leadership position in the world economy.

And of all the cities in the part of the world, I think it is fair to say that Hong Kong occupies a very, very unique position. We are part of China and yet you may say in some ways we are not part of China. We know the world. We're connected all over the world. And this is truly a wonderful city and I want to welcome all of you to this lovely place.

And at the head of this city is the chief executive, and we're so delighted and so honored that Donald Tsang, the chief executive of Hong Kong Special Administrative Region is here with us today. Donald, you have certainly earned yourself a place in history. I think history will remember Hong Kong, this wonderful place, under your leadership has thrived in the last several years. And we look forward to a wonderful conference, and we're so honored and so pleased that you can grace us with your presence and to deliver some opening remarks.

Ladies and gentlemen, Donald Tsang, the chief executive, Hong Kong SAR Government. (*Applause*)

DONALD TSANG: Ladies and gentlemen, well, thank you very much for the invitation to speak with you today. The discussion today is one of such depth and breadth that it's very hard to know how or where to begin. Indeed, we could easily speak a week discussing the challenges of, say, the U.S.-China relationship or the U.S.-India relationship, let alone trying to cover the entire spectrum of the U.S.-Asia relationship in the 21st century in just one day. Fortunately, we have the combined intellect, brain power, and resources of the Asia Society, the Brookings Institution, the University of Hong Kong to give it a good shot. Well, I must thank all three of these august institutions for holding this conference here in Hong Kong.

To those of you who are visiting us, welcome. I hope you find some time to experience the contrast of East and West and ancient and modern that define our city, our heritage, our culture, and outlook, but, more important, our future. It is an honor that you have all come together in Hong Kong to discuss such a far-reaching subject. I hope I can provide a Hong Kong perspective on some of the issues that I believe we will all face in the 21st century.

Seventy years ago, in February 1941, the renowned publisher Henry Luce expounded the idea of the American century in an editorial he wrote for *Life* magazine. It was a remarkably prescient piece of journalism that some say still reflects U.S. foreign policy today. Luce was actually born in China, the son of missionaries. Given his background and upbringing it's no surprise that his case for the internationalization of American values and ideals was written in the tone of a preacher. He made it his mission to change the American psyche from an inward-looking and isolationist way to embrace its role as a global economic, cultural, and moral power. At the time, his view was not in the majority, but it did represent a deep understanding of opinion and felt America could best protect its interests and way of life only if it played a greater role in shaping world affairs.

The shock and utter disbelief of the attack on Pearl Harbor in December 1941 was the tipping point that forever altered the U.S. views of its role and responsibilities. And America's entry in World War II not only changed the course of that global conflict, it also changed the course of the 20th century. The UN, NATO, IMF, World Bank, GATT, WTO, and the WHO -- all post-war institutions championed by the U.S. and its allies -- provided a global institutional framework for peaceful coexistence, economic development, and social progress. That is unprecedented in human history.

But as we enter the second decade of the 21st century, which some are calling the Asian century, what does the future hold for the U.S. role in global affairs? Will the influence of American civilization wane as Asian cultures and values come to the fore? Will a market-led Western capitalist model of development maintain its primacy? Will global institutions need to be reformed or recalibrated to reflect a changing tide of global economic and political power? Well, I don't have a crystal ball to answer all these interesting questions with any certainty. Indeed, only time will provide such answers. But what I can offer are some Hong Kong perspectives on some of the challenges we face as one of the most open, connected economies and societies in the world.

I believe this is relevant to your discussion today because the world in the 21st century will be more open, more interconnected, more dynamic, and probably more volatile than ever before. But by volatility I do not necessarily mean war and conflict, but rather uncertainty, increasing uncertainty, or sudden changes such as financial crises or outbreaks of disease.

Hong Kong has thrived as a global center for trade and commerce. The impressive skyline that you see is a bar chart of our progress over the past 50 years. I think it will be an even more bar chart over the next 50 years. One reason is simply luck or fate or kismet or whatever you want to call it. We have been blessed with a superb location, a natural deepwater port perfectly placed at the center of global and Asian trade routes. And all

of this all happens to be in a strategic location for China, which will be the world's largest economy in the next 20 to 30 years.

But location is nothing unless we can leverage it, and that is why we have invested huge sums over the years in fiscal infrastructure to make the most of our location and increase our connectivity with the world. Our container port, our airport, and the railway, highway network, railway lines we are building, all intended to keep us connected, competitive, and relevant globally, regionally, and nationally. We will continue to invest heavily in infrastructure, and I believe that Asian economies generally will spend a huge sum in the next few decades upgrading their physical infrastructure. Asia and the rest of the world will become even better connected. The modernization of Asian infrastructure will continue apace.

Another reason we have thrived is a system we have put in place: open market, free flow of information, level playing field for business, clean government, and a trusted legal system. All of this combined has given global businesses the confidence to set up shops in Hong Kong and manage a regional or China operations from here. American companies have led the way with almost 820 regional headquarters' offices in Hong Kong, more than one-fifth of all regional headquarters' offices in the city.

All of these systems are protected by our basic law and our legal system. We understand very deeply that no matter what happens in the future, we must protect this institutional framework because it provides the certainty and peace of mind that international businesses need to operate efficiently and effectively.

Well, looking ahead, I believe that companies and investors will continue to gravitate to those countries and economies in Asia that have a solid institutional foundation and which play by the rules. I believe Hong Kong has a definite edge in this regard.

Apart from location and institutional strength, Hong Kong has thrived because we have a flexible and well-educated workforce and a substantial concentration of service industry brainpower. In the '60s and the '70s, Hong Kong prospered as a manufacturing base. In the '80s and '90s, the manufacturing operations moved into the Pearl River Delta and elsewhere in Asia. At the start of the new century we refined and honed our expertise in global supply chain, management, and logistics as well as design, marketing, and management. We have transformed from an economy that makes things into one that makes things happen.

That trend and transformation into knowledge-based economies continues. We will see Hong Kong grow and lead in new areas such as creative and cultural industries, medical services, testing certification, environmental industries, innovation technology, and educational services. At the same time, we will strengthen our traditional pillar industries of financial services, trading and logistics, business services, and tourism.

Education is lynchpin of our future development. To ensure that we have the human capital needed in the years ahead we will continue to ensure that education and training remain the largest single item of government expenditure. We spend more than 22 percent of our annual budget on education and training, probably the highest percentage in

any First World economy. To invest in our future we need to invest in our people. Education has always been highly valued in Asian society, but, unfortunately, not always widely available. As Asian economies grow and prosper, more children will benefit from better education and opportunities, and the human capital of Asia will be enhanced as a result.

In India and China alone tens of millions of students will be striving to move up the value chain, to boost their earning power, and improve their living standards: to buy a phone, a laptop, then a car, and eventually an apartment, raise a family, and then send their kids to school and, hopefully, a better school than they one they attended. Education will become an increasingly important growth industry for Asia and will present huge opportunities as well as challenges for exporters of education services such as United States, Canada, Australia, and the United Kingdom. Resource allocation and quality control will be the two main challenges that I see.

Here in Hong Kong we have the highest concentration of international schools in Asia, and we are working hard to increase the international mix of students at our universities and colleges. We are making it easier for those college students to remain in Hong Kong and work here after they graduate. We want them to become part of Hong Kong's success stories. Tens of thousands of Hong Kong kids have also studied overseas and returned home with new experiences to share and a new take on life. Coupled with a high concentration of international businesses in Hong Kong, the return of our students means there is a constant flow of new ideas into Hong Kong, a perennial blending of East and West that enriches and enlivens our culture and nurtures creativity and innovation. The more interconnected we become, the more we'll see similar blending and adaptation across the region.

When we think about the future of the Asia, or indeed the world, we are actually talking about how the students and young adults of today and their kids will shape that future. It's not so much about what our generation talks about today. It's about the value systems and life experiences that our current generations are growing up with, the type of world they're living in now, and the type of world they want to create for their families.

That's why I believe a defining characteristic of the Asian century will be the extent to which pluralism takes root and how people from all cultures and different ways of life will come together as global citizens. I believe we will see a crystallization of shared values, but at the same time a more diverse range of views, systems, and government models on how best to realize or live those values.

It's happening now. Kids today are more connected. They have more information at their disposal than any other time. That trend will only accelerate. Facebook has more than 800 million users of which three-quarters, 75 percent, are outside of the United States. If it was a country it would be the third most populous country in the world. There are more than 70 languages available on the site. Then we have YouTube, Twitter, LinkedIn, Sina Weibo, Douban, MySpace, Ning, Google Plus, just to name a very few, which will easily have 8 million users or more between them as of today and growing at an exponential rate.

The rise of social media and a huge upsurge in the amount of information available on the Internet represents fundamental changes to government around the world.

For example, we have seen in North Africa and the Middle East, but in the way in which stable governments and established democracies engage their citizens or not to engage their citizens as we see in Wall Street.

Our young people want to be heard. There is actually nothing new in that, but is new is the way in which our young people are able to harness the power of technology to amplify their voices and sway public opinion. What I find interesting in all of this is how people from different cultures, with different languages, and from different social strata have all used advances in communications technologies to effect social change.

Why does a YouTube video go viral around the world? Because it highlights, it taps into a common human trait, human feeling, and human experience. The rise of social media is teaching us, sometimes in a very stark way, that there are common values shared by people regardless of culture, language, upbringing, or religion. Justice, fairness, freedom, respect, empowerment are common threads. This trend can't be reversed because, for a start, we will only see more advances in information technology that is allowed to take root and is a trend that will be taken forward by the current generation here in Asia and all around the world.

Looking ahead to U.S. engagement in Asia I feel that respect and fairness will be two of the major values that can bring us closer together as well as potentially pull us apart. As Asian economies grow and prosper they will become more confident about what they want and what they want to achieve, how they want to achieve it. I believe that the U.S. and the West need to better understand the development aspirations of Asia, particularly in light of a global financial crisis which has severely eroded trust in the Asian financial model.

Asia suffered terribly in 1997/'98 due to the predatory practices of some banks and investment houses. As Europe struggles with its debt rolls and the U.S. tries to wean itself off cheap money, Asia will inevitably be affected by a looming economic downturn. Fourteen years ago, Asia learned its lessons and took its medicine. It was very painful medicine, I can tell you. Hong Kong, for instance, our economy dived by two-thirds. Well, our value assets dive for two-thirds. Our GDP did a lot better, though.

But as a result, Asia, and Hong Kong, also, emerged leaner, stronger, and more resilient than ever. Sitting in Hong Kong, looking across the Pacific and then across the Atlantic, all I would say is that we know from bitter experience that sometimes you just have to knuckle down and take the pain.

Ladies and gentlemen, I can't finish today without saying a few words about China because a Sino-U.S. relationship is so important to the peace and prosperity of the world, and particularly of the Asia-Pacific. Of course, here in Hong Kong, we want to see deep, broad, and positive engagement between my country and the U.S. that benefits both sides. Despite the remarkable achievements of the past two decades, China's emergence on the global stage is still in an early stage. The process of modernization, urbanization, opening up, and reform still has a long way to go and will proceed at a pace that suits China's development needs, its own circumstances, its own systems, and which are in the best interest of a country and its 1.3 billion people. America will do the same for their own people and you must expect China to do the same for her people.

Our history and our culture stretches back 5,000 years. One of the fundamental concepts that we adhere to is that of harmony. That is best represented by the symbols of yin and yang interlinked and combined to make a perfect circle. Confucius once said that we find harmony in diversity, which means to achieve harmony we must recognize, we must respect, and we should also try to accommodate the differences in the world. One of the reasons Hong Kong has been so successful is because we have been able to absorb and adapt many different experiences and outlooks from people all around the world. Our history is deeply rooted in China's culture, but we have also embraced and celebrated all that the rest of the world has to offer. That is why Hong Kong is such a unique and beguiling place. I see the same process unfolding within my country. And after the reform will come the renaissance.

Looking ahead to the Sino-U.S. relationship in the 21st century I believe that America and China can achieve so much more together and they can achieve so much more for the world if the relationship is based on mutual trust, mutual respect, and mutual benefit. In other words, more can always be achieved as partners rather than competitors, as friends rather than foes.

Well, ladies and gentlemen, I wish all the best for discussions today. And I welcome all back to Hong Kong in the future for similar deliberations. Thank you very much.
(Applause)

GAURI LAKHANPAL: May I request the chief executive to stay on stage and invite Mr. Ronnie Chan to present the –

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