Next generation on Asia

Geoffrey K. See An East Asian development fund for North Korea?

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Tobias Harris Towards a new security consciousness in Japan?

Veeramani Choorikkadan Can India become a manufacturing powerhouse too?

Sherry Tao Kong Economic and political transition in China and Indonesia

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and more . . .
From the Editor's desk

This issue of the EAFQ takes the top 12 essays from a large international competition, and other invited contributions, that address the theme Asia's economic and political challenges and how to deal with them. The authors are all rising stars and this edition of the EAFQ showcases the best from the new generation on Asia.

The Asian region is diverse, dynamic and it faces immense challenges. Domestically, most countries are experiencing rapid economic, social and political change, and in the region there is a huge change taking place in the structure of power and influence.

Nowhere are these changes more remarkable than in China, where the scale and pace of its growth is unprecedented in history. Managing China's rise is a top priority for all the countries in the region.

A new Japanese government is struggling to articulate its foreign policy and to position Japan between a rising China and its long-time ally, the United States, which has underpinned its security. Can Japan reinvent itself and lead regional cooperation initiatives with its neighbours in Northeast Asia and beyond in the formation of an East Asian Community?

Challenges that other countries face are numerous: it is difficult to predict which in the end will be most critical to the future peace, prosperity and the stability of the East Asian region. There is the issue of breaking the deadlock in Northeast Asia around North Korea, the deepening of democratic institutions in Indonesia and how political transition can be managed in others, such as China and Burma. And there is the heightened question of US engagement with Asia—whichever way, a key to security and stability in the region.

India is looking East, not just for new markets, but for lessons in opening up to investment and reaping the benefits of globalisation. There are clearly lessons from East Asia for the whole South Asian region, which lags in intra-regional integration across most dimensions.

These are some of the big, long-term strategic questions that the essays from a new generation of analysts on Asia address in this issue, with a few shrewd tactical observations along the way.

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An East Asian development fund for North Korea?

GEoffrey K. SEE

During my last visit to Kim Il Sung University in Pyongyang, a student told me that she wanted to be a business leader. I asked her why. She said that she wants to show that ‘women can be good business leaders’. I later quizzed her on politics and she responded by asking me if I was interested in such issues. When I said ‘Yes’, she said ‘Politics are for men only’.

Maybe she has a point. Not so much that ‘politics are for men only’, but rather that in bringing North Korea back into the international system, we should separate politics from business. Encouraging trade and investments in North Korea can only make the country more cooperative on other issues. And the interaction and incentives that trade brings look a lot better when compared against alternative non-solutions.

The United States is short of good ideas on dealing with Pyongyang. One policy that is sometimes advocated is a ‘wait and see’ approach. But those holding their breath waiting for North Korea’s government to collapse should try not to suffocate. Even the 1994 famine that killed an estimated 500,000 to 3 million people did not trigger regime collapse. Perhaps a succession struggle could destabilise the system, but this scenario will not occur soon, and, in any case, it is far from certain that such a struggle would cause the collapse of the North Korean government.

The idea of isolating North Korea through sanctions is another idea that is popular in certain corridors of Washington. But this notion also appears misguided. The North Korean government has shown that a severe famine cannot dislodge it from power. And without China’s support, a full blockade is simply impractical. Even if China supported debilitating sanctions, a policy of starving a nation into submission is ethically unjustifiable. While international sanctions against trading arms and luxury goods with North Korea are justifiable, they do not amount to a long-term solution. No one knows how effective these sanctions are anyway.

If North Korea’s government will not fall on its own, why not send in the troops? America can scarcely afford another military adventure abroad. Seoul and China are unlikely to join in the action. And Iraq and Afghanistan have shown that conflict, even for a purportedly good cause, is nasty and brutish for both sides.

What, then, is the solution? Some policymakers have an almost allergic reaction to dealing with North Korea. They forget the Cold War is over. There is no need to be inherently hostile to a communist system. Rather, trust- and incentive-building is needed to coax North Korea out of its shell.

A North Korea development fund (NKDF) should be created to invest in infrastructure and technical training in North Korea, as long as these projects facilitate regional trade. Such a fund can exist alongside current measures to contain North Korea’s nuclear proliferation, but should remain free of political entanglement. The idea is that a North Korea that trades with its neighbours is a country that can be re-integrated into the regional and international system. The fund’s architecture should involve South Korea, China and Japan.

The question may be asked—why these three countries?

The answer is because such a fund would bring profound benefits to each of them.

The benefits to South Korea of a cooperative and secure North Korea...
are so obvious as to need little further explanation. But South Korea cannot carry the full costs of this project on its own. As for Japan, as obnoxious as it might find development aid to North Korea, it is within Japan’s long-term economic and security interests to have a prosperous and internationally integrated neighbour. And as for China, its long-term goals are also best served by a prosperous and stable North Korea. This is the common vision which can serve as the foundation for cooperation in the region.

China should be the key player in the NKDF architecture. It can channel aid through the NKDF and so encourage North Korea to tap this mechanism. While China will trade away direct leverage over North Korea by moving itself into a regional structure, it will be able to apply greater pressure on Pyongyang by tying its aid to conditions imposed by the NKDF. China does not want to keep writing blank checks. But it cannot stop doing so without coordinating with its Asian neighbours to ensure that North Korea’s economic situation does not further deteriorate under changing political winds. And China’s participation in a regional financial body can only make the NKDF a more attractive option to the US, which is looking for China to become a responsible stakeholder in the international order.

When visiting North Korea, I find that government officials are not inherently hostile towards trading with capitalist ‘heretics.’ The Korea Taepung Investment Group, established this year to attract international investments, is an example of North Korean openness to trade. And through trade, North Korea is likely to become more open in other areas. The question is how other countries in the region can encourage and nurture such pragmatism. It helps to have good incentives waiting for North Koreans at the other end.
Water, leadership and geopolitics in continental Asia

HUW POHLNER

At the turn of the 21st century, 22,000 of the world’s 45,000 large dams spanned Chinese rivers. In China between 1949 and 2000, construction of large dams proceeded at a rate of more than one per day. Whilst domestic dam-building continues apace, Chinese energy and construction companies are increasingly looking beyond their borders for new and more lucrative business opportunities in developing economies. Completed, ongoing or pending projects are scattered throughout Southeast, South and Central Asia, in the Middle East, across Africa and now also in South and Central America and Eastern Europe.

Chinese dam projects in Asia have previously, and continue to have, significant environmental and social implications, at least in part because the practices of Chinese companies are often inadequately subject to impact assessments, stringent or otherwise. Although the relevant Chinese government ministries have produced rules and guidelines governing both the construction of dams in China and the operations of Chinese companies abroad, international expansion is rushing ahead of regulatory adaptation. This has led to adverse environmental and social outcomes and, in some cases, the flagrant abuse of human rights. The many damaging effects of improperly implemented dam projects have been well-documented.

An opportunity exists for Chinese companies to become leaders in best-practice hydropower implementation in Asia, as the countries in which they operate frequently lack even the flawed regulatory mechanisms which guide the industry within China. Chinese companies have also accrued a wealth of experience in dam management over decades of construction.

For now, Chinese hydro companies (many state-owned) continue to operate in environmentally and socially harmful ways. This is particularly the case when profiteering in countries like Burma, where most loan providers and foreign institutions shy away from involvement with an almost universally discredited regime.

In countries that border China, dam construction can take on an added strategic and geopolitical dimension. Firstly, hydropower deals will often lead to energy import options for China. In Burma, for example, the state-owned China Power Investment Corporation has partnered with the Burmese military junta to build the Myitsone Dam. The project, to be built on the Irrawaddy just below the confluence of its two source rivers, will flood a large area of forest rich in biodiversity and force the relocation of 45-60 villages. The 3,600mW of anticipated annual electricity production at Myitsone will be sold...
back to Yunnan, lining the pockets of the junta with an estimated US$500 million a year. The deal has provoked harsh criticism from international non-government organisations and representative bodies for the Kachin people, who populate the affected villages.

Secondly, Chinese dam construction in continental Asia may trigger tensions as transboundary river systems are altered in unpredictable ways. For example, the proliferation of large dams across Southeast Asia, where many long rivers cut across numerous international borders, could lead to serious concerns over water resource management. Chinese leadership will be critical in managing those concerns: the headwaters of rivers such as the Mekong and Salween are located in China; China is the political heavyweight within the region; many of the dams are Chinese-built or funded; and China possesses the greatest quantum of knowledge and experience in relation to large dam construction and management.

Managing the potential implications flowing from aggressive Chinese pursuit of construction deals and energy sources on its neighbours’ major waterways will present a challenge to the governments concerned. This challenge can only become more significant as water politics emerges as a critical pressure point across Asia.

Until now, restricted consultative and deliberative fora have encouraged unilateralism in water resource management. Such strategies come at a cost to both the overall health of river systems and water security of individual user states. This year’s drought in southwest China has highlighted the real possibility for tensions incited by dam management. The countries of the Mekong River Commission—Cambodia, Laos, Thailand and Vietnam—have accused China of retaining excessive water in up to 11 dams on its stretch of the Mekong, causing water levels downstream to fall to record lows. Though agreeing to provide data on reservoir levels, China has essentially responded that it requires the water to deal with the drought.

With stresses on Asian water resources certain to worsen over coming decades, immediate action needs to be taken to ensure future crises can be foreseen, mitigated and inclusively managed. China is the logical leader of such action. Improvements in its environmental and social track record in dam construction will help to assure its neighbours that China can be the regional leader needed to tackle the rising challenge of water management in continental Asia. Some progress is evident in the recently published internal policies of China Exim Bank and Sinohydro, but whether China will ever genuinely seek to pursue a cooperative multilateral approach to regional rivers management remains to be seen.

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Trilateral co-operation and the East Asian Community

JOEL RATHUS

Since its inception on the sidelines of the ASEAN Plus Three (APT) summit over a decade ago, China-Japan-Korea trilateral cooperation has deepened significantly. The trilateral cooperation process is an important development in regional politics and economics. But the way in which it will affect an East Asian economic community remains uncertain.

Cooperation between China, Japan and Korea has historically been stunted. In 1999, an agreement was reached for heads of state from each of the three countries to meet on the sidelines of the APT summit. This agreement initially constituted little more than an annual informal breakfast, and was established more to right perceived imbalances between the ‘plus three’ countries and ASEAN within the APT than because of any desire to improve problematic relations. In any case, Japan’s worsening relations with its neighbours under the Koizumi administration precluded any deepening of the process.

In December 2008, the trilateral cooperation finally formally separated itself from the APT process and acquired its own identity. It was reached for heads of state from each of the three countries to meet on the sidelines of the APT summit. This agreement initially constituted little more than an annual informal breakfast, and was established more to right perceived imbalances between the ‘plus three’ countries and ASEAN within the APT than because of any desire to improve problematic relations. In any case, Japan’s worsening relations with its neighbours under the Koizumi administration precluded any deepening of the process.

In December 2008, the trilateral cooperation finally formally separated itself from the APT process and acquired its own identity. But the scope of the trilateral cooperation remained relatively limited, focusing upon annual meetings at head of state and foreign minister level, discussions in the areas of environment, energy and education, and continued informal study of a trilateral free trade area.

Even as a separate forum, it seemed unlikely that the trilateral cooperation would be able to lead the creation of an East Asian Community and therefore be of any great significance.

This all changed in 2009, when Japan, China and Korea were forced to coordinate and cooperate more closely to manage the regional effects of the global financial crisis. In their joint statement on the crisis, the trio identified the need to cooperate on global issues (such as financial risk) and in global institutions, including at the G-20. While a reaction to global events, this cooperation began to significantly affect the management of East Asia. Over the course of 2009, the three nations resolved their long-running dispute over contributions (and thus voting weight) in the Chiang Mai Initiatives, the first major ‘success’ of the APT process. The three nations also worked together to push through a general capital increase at the Asian Development Bank to help it fight the effects of the global financial crisis, a decision mandated by the G-20 but about which the US appeared ambivalent.

The fact that 2009 was the tenth anniversary of the establishment of the trilateral cooperation process also provided an opportunity to make that cooperation more meaningful. Japan’s then newly installed PM, Yukio Hatoyama, provided impetus by proposing that the long-delayed China-Japan-Korea FTA be subject to an official international study. Hatoyama’s offer represented a major break from Japan’s previous policy to avoid negotiations over an FTA without actually having to say no. Between 2002 and 2009 Japan requested that further domestic and unofficial study be undertaken as an excuse not to start the negotiations. Indeed, some the economists involved in informal FTA studies declined to participate after becoming aware of this delaying strategy.

By contrast, the 2010 (official) study appears to be a concrete step
towards a plus-three FTA that has been undertaken in good faith. The first round of research is already complete, and a commitment is in place to conclude the study before the trilateral summit in 2012. Additionally, trade ministers from Japan, Korea and China are scheduled to meet on 23 May, presumably with a view to getting some preliminary agreement in place for the trilateral summit the week after. It is suggested that this agreement will most likely focus on business, climate and similar issues.

But even if a trilateral FTA is signed down the track, what will be its significance for the establishment of an East Asian economic community? Certainly, as China, Japan and Korea represent 90 per cent of the APT’s total economic size, any agreement reached between these three nations would almost automatically become the benchmark for the East Asian FTA (EAfTA) under discussion, thereby calling further into question ritualised statements about the centrality of ASEAN in regional cooperation. But it will be the actual content of the trilateral FTA that will determine how significant a development it will be.

Agriculture is a sensitive sector for both Japan and Korea, and China has already exhibited flexibility in relation to the agriculture sector in its FTA with ASEAN. It is therefore possible that the trilateral FTA will exclude trade in agricultural goods. If this exclusion is carried over to negotiations on an EAFTA, it would represent a significant watering down of regional free trade.

Trilateral cooperation is a significant development in regional politics and economics. But advocates of a comprehensive regional FTA will necessarily view its deliberations with some caution.

Ayesh Zara Naeem

Low-income earners in Pakistan have been offered financing opportunities for the first time, thanks to a recent surge in the activity of microfinance institutions (MFIs). Microfinance theoretically involves the provision of loans or other financial services to lower-income-bracket borrowers, with little or no collateral required. These borrowers are able to take out small loans from MFIs to improve their businesses or living conditions. In Pakistan alone, the potential market for microfinance is an astounding US$27 million, with active borrowers and national gross loan portfolio size increasing in every financial quarter.

Self-regulation means enforcing and adhering to self-proclaimed codes of ethics and practices and avoids the costs incurred due to governmental regulation.

Despite the benefits that accompany the growth of MFIs, one aspect of microfinance lending that must be addressed is consumer protection, or the right of the consumer to make autonomous, well-informed decisions. In Pakistan, such protection is especially vital. Not only does almost 56 per cent of the population have no access or experience with formal finance, but the majority of the individuals targeted by these institutions have extremely low literacy levels. The lower literacy factor, be it financial or otherwise, disadvantages most consumers by obstructing their understanding of the complexities of loan transactions. This lack of understanding can lead consumers to believe that access to finance is more essential than the appropriateness of the product’s costs or risks. This is sharpened by the fact that, for many lower-income people in Pakistan, microfinance is the only financing option available.

The MFI sector in Pakistan is highly differentiated and largely unregulated. Where some MFIs have a strictly non-profit social motive such as poverty alleviation or female empowerment, others may cater to slightly higher-income-bracket individuals and thus may become for-profit organisations. The unregulated environment effectively means that MFIs do not have to observe adequate financial assessment before passing on a loan. In a poorly regulated developing
nation, MFIs often justify higher costs by virtue of the added expense of providing individuals with basic levels of financial literacy, and the higher cost of enforcing compliance. This is often used as an excuse for not opting for responsible financial practices.

For close-knit communities, such as those found in most rural areas of Pakistan, the ‘trust’ factor plays a major role in decision-making. A lack of alternatives causes lower-income-bracket individuals to rely faithfully on the MFIs for their financial needs. This should serve these institutions well, as often these individuals become long-term customers with the ability to make better financial decisions and fewer missteps in terms of unmanageable debt or repayment issues. This trust factor is a product of transparency in, and dependability on, the words and actions of the MFIs and cannot be stressed enough.

To achieve greater consumer protection within the MFI industry in Pakistan, there must be greater regulation. MFIs must develop transparent, unbiased, and nondiscriminatory ways of dealing with consumers. While this need could be addressed by greater governmental regulation and policies, the adoption of self-regulatory methods by the MFI industry of Pakistan could better serve the institutions as well as the customers. Self-regulation means enforcing and adhering to self-proclaimed codes of ethics and practices and avoids the costs incurred due to governmental regulation—which ultimately makes credit more costly and limits the accessibility of microfinance. Ultimately, customers are more likely to use the financial services of a trustworthy institution, while the government is less likely to have to enforce regulation on a sector which adheres to general standards of customer protection.
On May 13, the Chinese State Council released a new set of guidelines on domestic private investment. Its 36 measures mirror a similar policy review published five years ago on the non-state economic sector which promoted equal treatment of both state and private sectors. Commentators have dubbed the recent guidelines as the ‘New 36 Articles’.

The measures are aimed at lowering the entry barriers for private investors in sectors such as infrastructure, municipal services, financial services, logistics and defence which have all traditionally been dominated by state titans or excluded from private-sector participation altogether.

Despite the fact that the private sector is responsible for 60 per cent of Chinese GDP and generated 56.4 per cent of fixed urban investment between January and November 2009, it is grossly under-represented in many lucrative sectors. Private investment accounts for only 13.6 per cent of electricity and heat generation, 9.6 per cent of financial services and 7.8 per cent of telecommunications. Surprisingly, it fares worse than its foreign counterparts: where foreign investors are allowed to invest in 62 out of 80 plus sectors, private investors have access to just 42.

Senior government officials from the powerful National Development and Reform Commission (NDRC) openly acknowledge that there are ‘glass doors’ in place that hinder private investment in industries dominated by state monopolies. This is true even for the sectors such as aviation, which is both sympathetic and open to private investment. Private operators find it hard to establish new routes or favourable scheduling times. Many investors subsequently exit the industry or fall victim to predatory state takeover bids.

Aviation is symptomatic of a much broader malaise in the Chinese economic landscape. Though there are no overt legal restrictions on private investment, a cumbersome administrative approval process and discriminatory industrial policy impose a straitjacket on expansion into it by the private sector.

Private investors have also been starved of vital credit from a largely state-controlled banking sector. State-owned enterprises became the principal beneficiaries of Beijing’s massive fiscal expansion and stimulus package while the private sector was left to scrape the bottom of the barrel.

While the private sector struggles to maintain a foothold in profitable sectors such as telecommunications and energy, the Chinese government actively encourages and supports SOEs to consolidate their positions. The recent government-led coal industry restructuring in the resource-rich Shanxi province resulted in substantial losses to private investors from Wenzhou, a hotbed of entrepreneurial activity in southern China. State coal companies benefitted to the detriment of private investors, who had been enticed to invest in Shanxi when commodities prices were depressed. The soaring coal price in recent times saw an end to the official welcome mat for private capital, a policy change that has badly shaken investor confidence and damaged the government’s credibility.

According to Han Chaohua of the Chinese Academy of Social Sciences, between 2004 and 2008 private firms were on average 1.6 times more profitable than their SOE counterparts.
The May policy review came at a critical juncture in the development of the Chinese economy. The massive fiscal expansion unleashed by Beijing worked quite effectively as a buffer against the worst excesses of the Global Financial Crisis and the Chinese economy was one of the few bright spots amid the global gloom. Though the government’s decisive action might have saved the day, the largely government-led fixed investment driven growth and credit expansion is no long-term solution for sustaining growth.

For China to further deepen its market-based economic reform, private investment must be freed from the shackles of government restrictions and allowed to compete on a level playing field across all sectors. This would not only unleash a new locomotive for economic growth in China but it would produce important gains in efficiency and productivity.

It is widely acknowledged that the private sector is more effective in using resources than its state counterparts. According to Han Chaohua of the Chinese Academy of Social Sciences, between 2004 and 2008 private firms were on average 1.6 times more profitable than their SOE counterparts. He extrapolates that if the resources allocated to the state were given to private firms, the government would earn an extra 2 trillion yuan in tax revenue and profit.

Hopefully the new policy will not fall victim to the same fate as its predecessor: a reform plan that was suffocated by bureaucratic red tape and nepotism for state enterprises. This is a litmus test for Beijing’s reform credentials on unshackling China’s private sector engine of growth.

**GEARING FOR GROWTH**

Can India become a manufacturing powerhouse too?

VEERAMANI CHOURIKKADAN

India’s growth during the last two decades has failed to transfer surplus labour away from the agriculture sector. Agriculture remains a disproportionate source of Indian employment—it is responsible for about 18 per cent of India’s GDP but employs about 60 per cent of the Indian labour force. This over-concentration on agriculture is unsustainable, and is closely related to idiosyncrasies in India’s pattern of growth.

So what has driven Indian growth over the past two decades?

India’s growth success has been driven by service-producing industries that mostly employ relatively skilled labour. Even within the manufacturing sector, India tends to specialise in relatively skill- and capital-intensive activities. This is despite the fact that India’s true comparative advantage lies in unskilled labour-intensive activities. Slow growth of industries that mainly employ low-skilled workers has caused manufacturing as a share of GDP to remain constant at about 16-17 per cent during the two decades of economic liberalisation. The share of manufactures in India’s merchandise exports declined from 72 per cent in 1991 to 63 per cent in 2008. By contrast, in China in 2008, manufacturing accounted for 34 per cent of GDP and 93 per cent of merchandise exports.

Why is this lack of unskilled labour-intensive manufacturing a problem for future growth in the Indian economy?

Today, a large and growing share of international trade consists of intermediate and unfinished goods shipped from one country to another to combine manufacturing or services. This is what has driven growth in the East Asian economy. This type of trade is the result of the increasing interconnected production processes that form a vertical trading chain stretching across many countries, with each country specialising in particular stages of a good’s production sequence. China, through specialisation in labour-intensive processes and product lines, has successfully integrated its manufacturing sector with global production networks. This phenomenon, often referred to as vertical specialisation, is an important factor in its export success. Vertical specialisation has also increased growth in newly industrialised Asian countries. But vertical specialization is not a phenomenon restricted to East Asia alone. Between 1970 and 1990, as Hummels, Ishii and Mu-Yei point out, growth in vertical specialisation-related exports accounted for 30 per cent or more of the growth in overall exports of 10 OECD and four emerging market countries.
Because it lacks labour-intensive industries, India lags behind other fast-growing Asian countries in integrating domestic manufacturing with the global vertical production chain. India’s import substitution policy regime created a bias in favour of capital- and skill-intensive manufacturing, and the reforms have not been comprehensive enough to remove this bias. Although policy changes have gone a long way toward easing barriers to the Indian market, multiple barriers preventing non-viable production units in the organised manufacturing sector from exiting the market remain. These barriers primarily have their source in India’s rigid labor and bankruptcy laws, and discourage firms from investing in manufacturing in India, as they mean that foreign firms fear being locked in to a cycle of diminishing returns. If India continues to discourage vertical specialisation, it will find itself stagnating as it is locked out of global supply chains.

A lack of openness to foreign direct investment (FDI) is another problem that afflicts the Indian economy. Inward FDI has been instrumental in integrating China’s manufacturing with the global vertical production chain. Vertical FDI represents the international fragmentation of production process by multinationals, and involves locating each stage of production in the country where it can be done at the least cost. Vertical FDI was initially concentrated in South Korea, Taiwan, Hong Kong, and Singapore. After the mid-1980s, as wage levels in these countries (in relation to labor productivity) began to rise, vertical FDI shifted to China and other Asian countries, including Thailand, Indonesia, Malaysia, and the Philippines. Currently, the bulk of the FDI flows to China and other East Asian developing countries are vertical in nature. According to the 2003 World Investment Report, FDI has contributed to the rapid growth of China’s merchandise exports at an annual rate of 15 per cent between 1989 and 2001. In 1989, foreign affiliates accounted for less than 9 per cent of total Chinese exports, but by...
2002 they provided 50 per cent.

In contrast, inward FDI into India is primarily horizontal (market-seeking) rather than vertical (export-promoting). FDI has been much less important in driving India’s export growth, accounting for less than 10 per cent of manufacturing exports.

What explains the fact that India has been attracting horizontal rather than vertical FDI while the opposite has been the case for China?

For one thing, there exists a powerful incentive for multinationals to undertake horizontal investment as Indian tariff rates, despite the reduction since 1991, remain relatively high, and horizontal investment seeks to avoid tariffs. In addition, trade is necessary for vertical FDI, and trade costs are high in India because of inefficient infrastructure, burdensome regulatory environment, and poor trade facilitation. Finally, India’s labour laws hobble labour-intensive manufacturing in general and vertical FDI in particular. An India that finds itself unable to attract vertical FDI will find itself unable to grow as fast as others.

The grand idea of India building a ‘self-sufficient industry’ is meaningless in the current landscape of international commerce, where countries engage in trade by specialising at the level of distinct product lines and processes. What is important is the creation of an environment that encourages entrepreneurs to search and identify opportunities in the vertically integrated global supply chains of various industries. Labour market reforms, investment in physical infrastructure and efficient trade facilitation are crucial if India is to become a manufacturing powerhouse.

ROGER HUANG

Myanmar (Burma) is at an important juncture this year as its first election in 20 years approaches. Well known for its charismatic opposition leader Aung Sang Suu Kyi and the ruling, military-dominated State Peace and Development Council (SPDC), it comes as no real surprise that a series of recently announced electoral laws would effectively prevent Suu Kyi and other political dissidents from participating in the upcoming election.

Members of the Free Burma Coalition during a protest in front of the Myanmar embassy in Manila on March 19, 2010.
Irrespective of the wave of criticism the electoral laws attracted from pro-democracy forces and foreign governments, it seems clear that the multi-party election will take place with or without the participation of non-junta-supported parties. This includes the main democratic opposition, the Suu Kyi-led National League for Democracy (NLD), and provides a serious challenge to the NLD and other political stakeholders.

Regardless of the mockery that the 2010 Myanmar elections may make of the democratic process, it would be an even bigger blow for the country if no genuine opposition participates. Under the new laws, the NLD will face dissolution as a legal entity if it continues with its current plan to boycott the election.

Despite the undemocratic clauses of the 2008 Constitution on which the 2010 election is based, it will essentially allow a pseudo-civilian government to be formed after the election. This will include the re-introduction of a parliamentary system in Myanmar, albeit with 25 per cent of the seats guaranteed for the military. Despite the unfair practices and challenges any opposition may face, the election also provides an opportunity for opposition groups to challenge the SPDC by competing for seats against junta-backed proxy parties.

Hundreds of genuine democratic enthusiasts not affiliated with the NLD will still be keen to compete in the elections. Some may succeed in the polls even in the face of open intimidation and junta manipulation.

By participating in the election, even without Aung Sang Suu Kyi’s approval or the NLD’s involvement, opposition groups may garner enough support to become viable players in the Burmese political landscape. Additionally, from within the SPDC-ascribed framework, opposition politicians will finally have a ‘legitimate’ platform to push for gradual political liberalisation and, perhaps even more importantly, to address key pragmatic social and economic concerns of the state when the parliament finally convenes after a hiatus of several decades.

For the last two decades, the NLD and the international community have continued to condemn and dismiss the SPDC. However, continued isolation, Western sanctions and moral condemnation of the generals have done little to sway the junta’s position. Such policies have in fact only strengthened the junta’s resolve to develop the Burmese state at their own pace and on their own terms.

Irrespective of what Aung Sang Suu Kyi stands for, and the noble sacrifices she and others have made in their demand for a democratic Myanmar, the reality is that Western support and continued focus on Suu Kyi and the NLD, along with their sanctions, have failed to influence the ruling junta.

Participating in the election within the constraints set by the junta may seem like kowtowing to the military regime and falls far short of the international norms in upholding a credible democratic process. However, for a nation that has been plagued by civil war, ethnic tensions, factional politics, and bureaucratic inefficiency ever since its independence, participation in the election is perhaps the only viable option at present for any constructive development.

Aung Sang Suu Kyi will remain an important figure for the future of Myanmar, whether as a living martyr or as a figure for peace and reconciliation in a more politically-relaxed nation. However, the political realities of today’s Myanmar suggest that pragmatism must prevail over abstract notions of democracy and simplistic moral positions.

For the betterment of the Burmese populace, gradual, incremental political changes will be more constructive than continued absolutist positions which insist on vague and unrealistic goals aimed at direct and immediate ‘democracy’ in the Myanmar state.

As the former Burmese UN Secretary-General u Thant reportedly once said, ‘Governments, systems, ideologies come and go, but it is humanity which remains.’ Similarly, in order for Myanmar to move beyond its political impasse, dogmatism must be abandoned by the NLD and other oppositional stakeholders. As long as the democratic forces survive the 2010 electoral games, hope will remain for Myanmar.
Beyond free-market ideology

AASIM SAJJAD AKHTAR

n the last decade, a series of political and economic crises have undermined the Western model of free-market democracy. First, the reaction of ordinary citizens to American-led wars in south-west Asia delegitimised liberal democracy. More recently, the implosion of radical free-market capitalism—with global financial speculators at the helm—triggered an unprecedented economic crisis. These crises, combined with the spectre of climate change, reveal the urgent need for a new model of economic development in Asia.

Commentators have long predicted that global economic and political power will shift from the West to the Asia-Pacific this century. The crises currently afflicting North America and Europe have reinforced this prediction, with China and India expected to become global superpowers.

There is, however, a misguided optimism among the Asian nationalists who downplay the interdependence between Asia and the rest of the world. Economic recession in the Western countries has and will dampen growth prospects in Asia. Moreover, Asia is stricken by a crisis of imagination much like that which exists in the Western countries.

It has been two decades since the end of the Cold War and Francis Fukuyama’s claim about the ‘end of history’. The past decade has revealed that free-market democracy, as conceived since the 1990s, is anything but a pinnacle of political, economic and cultural development. In fact, East Asia’s experience of systemic financial collapse in 1997 was a clear alarm signal.

A considerable body of scholarship discusses the uniqueness of Asia’s development model. Much emphasis has been placed on grooming powerful technocratic elites, a strong work ethic which derives from shared cultural values, and balancing private and public enterprise. Given the diversity of the Asian experience, some of these oft-quoted features of Asia’s development model are arguably little more than caricatures. Even if there is an ‘Asian model of development’, such distinctions between development models are irrelevant when all are nonetheless grounded in free-market ideology. This ideology must be superseded if Asia’s economic and social progress is to continue in the long term.

Even if India and China develop rapidly in the short term, they will soon be significantly constrained by an acute global shortage of energy resources. The Copenhagen conference only scratched the surface of the sustainability problems that burden the prevailing development model. Then there is the inescapable fact that all of Asia does not have China or India’s natural endowments, economies of scale and internal markets.

In short, it is imperative to start imagining the broad contours of an alternative political-economic model. The continent has the ability—both in terms of its cultural, and therefore intellectual, vibrancy as well as its vast economic capacity—to re-imagine its approach to development. The experiments being undertaken in Latin America by popularly elected regimes are worth considering. Among other initiatives is a regional economic integration strategy which features an alternative continent-wide financial system. If nothing else, Asia may be able to learn what not to do if it becomes clear that the Latin American alternative will not achieve material progress in a sustainable and socially inclusive manner.

More generally the political process in many Asian states must be deepened. This will generate the debates required to evolve dynamic and innovative development strategies. The greatest challenges exist in the one-party states (China, Vietnam) and those struggling with overpowering militaries (Burma, Pakistan, Thailand), but even India’s feted democracy is not without its contradictions: 25 per cent of the state’s territory is wracked by insurgency.

Greater democratisation within Asian states and the articulation of more sustainable and equitable development strategies are two sides of the same coin. A premium should be placed on garnering intellectual input from within the Asian academy, popular media and also the diaspora that departs from the norm. Intellectual independence and integrity are vital ingredients in building future Asian societies that can come to grips with the crises that we currently confront. In the first instance we need to remove the limits to our imagination and unburden ourselves of rigid ideological blinkers. This is the first step towards the building a 21st century for the peoples of Asia, and indeed of the rest of the world.
Serious change is coursing through the Philippines’ electoral system. On Monday, 10 May, the Philippines held its first-ever automated national elections. This lends credibility to the next president, ‘Noynoy’ Aquino. The election also involved all executive posts, from the national to the local level, and so was a rare opportunity for the electorate to pursue a fresh start by choosing its leaders well.

At the same time, in support of the incoming 15th Congress, the Secretariat of the House of Representatives has been preparing for the next legislative agenda. A series of roundtable discussions centered on reforms have been organised. Measures filed and enacted during the 14th Congress have been evaluated.

But the question remains – will the next set of leaders be able to effect real change?

This is doubtful. Ultimately, if Philippine society, from the polity to the populace, remains in thrall to a prevailing culture of self-interest, its leaders will remain relatively powerless.

This is not to impugn the motives of all putative reformers. The Philippines is no stranger to legislative action, and the legislature has already formulated some very good laws. But venal politics at all levels of the governing system intrudes even into matters that should be apolitical. As the Supreme Court’s recent ruling allowing President Arroyo to appoint the next Chief Justice (despite the two-month ban on appointments prior to the presidential elections) indicates, politicians in this country will always have the means to fiddle with enacted laws.

In addition, even security of tenure has failed to shield the bureaucracy from politics. A government employee’s chances for advancement usually depend on whoever is in power. A culture of obeisance permeates the civil service and several years of faithfulness to duty does not guarantee that one’s future career will be agreeable.

Further, an incessant concentration of power within the political elite has bred mass distrust in the government, exacerbating the vertical fragmentation of society. Civil society has grown stronger, but has remained unable to coordinate with the government to influence policy and foster public accountability.

Specific measures such as a Freedom of Information bill would certainly help hold government to account, but experience suggests that legislators are hesitant to enact such bills into law.

Too much scope is given to the president’s discretion, which covers pork-barrel disbursements, civil service executive appointments and 57 per cent of the national budget.

What is to be done? The World Bank recommends reducing the president’s discretionary powers and designing incentives and disincentives to direct the behaviour of government officials. The bank’s experts have even prescribed specific action points to this end.
But only individuals within the electoral system can shape such reforms and, as discussed, these individuals are vulnerable to political pressure. No reform, no matter how well intentioned, can combat this entrenched deficiency. The challenge, therefore, is to mould each individual in a way that benefits the country. This requires a common thread to bind all Filipinos together – a national values education agenda that will shape Filipino society.

What kind of values education is needed? Piecemeal values education initiatives have been unsuccessfully attempted in the past and would not work. Instead, a core set of values, repeatedly communicated on a massive scale, is needed to modify the current mindset of Filipinos from every socio-economic background. Values such as love of country, care for the environment, prudence, honesty, and, perhaps, a simple morality of what is right and what is wrong, would be essential to the program. Inculcation of these values would act as a counterweight to the unhealthy concentration of power at the top of Filipino society, and would ensure that real change is able to flow through the political system.

Where should such values education be implemented? Schools reach no less than 35 per cent of the population. They should be the heavy lifters in this reform. To pursue this agenda, schools would have to change how they view their contribution to development. Specifically, schools would have to focus their attention not just on quantitative targets, not just on skills acquisition, but also on the values that shape each individual’s character.

Implementing values education will be a long and hard process, but it is definitely worth the investment.

**HIGH chromaticity EDUCATION**

**Plagiarism and China’s economic development**

**PETER FRIEDMAN**

Much has been made about whether China is a rising power that can go the distance. The numbers posted by the world’s soon-to-be second-largest economy (measured in market exchange rate terms) indicate that China has already gone this distance and is positioned for more growth, but what happens behind the numbers is not always as cut and dry. China’s economic miracle, built largely on major capital investments and inexpensive labour, is now attempting to shift to the next level of economic development, built upon innovation and design or the value-add components of economic growth. China’s universities will be the source of much of the brainpower propelling China to this next level. But problems endemic to China’s higher education system, specifically plagiarism and the lack of academic integrity, will render this journey quite difficult.

When given English-language writing assignments, it is common for Chinese students to rely upon translating Chinese sources into English and passing it off as their own work, or simply copying and pasting directly from Wikipedia. Acknowledgement from students that copying the ideas of another person, combined with threats of a failing grade and being expelled from the class, still did not deter plagiarism. It is not such a surprise that this behaviour was not easily curtailed when plagiarism extends into the upper echelons of Chinese academia. Understanding why plagiarism and a lack of academic integrity are embedded in the Chinese higher education system is important to understanding why China will find it difficult to take its economic growth to the next level.

Plagiarism and the lack of academic integrity it engenders are intricately connected to the larger debate about intellectual property rights (IPR) in China and the government’s promoted idea of a harmonious society (和谐社会) to support stability. Western countries, either unilaterally or through the World Trade Organisation, continually threaten to impose sanctions against China for piracy of products ranging from movies and computer software to semiconductors. IPR are hard to enforce from the outside, and only gain traction when there is an
indigenous respect for such rights. Running counter to IPR enforcement is the idea of community, which is very strong in China. Harmony is a historically important value in Chinese society, vigorously marketed by the Communist government to encourage stability. A strong sense of community promotes both stability and harmony, but subsumes the individual. The powerful force of community that envelopes the individual begets the idea that all parts of the community can be used by the members of that community any way that they see fit, including ideas. In this paradigm, it would be absurd for an individual to lay claim to an idea and receive credit from other individuals for that idea when the community is supposed to be paramount. IPR cut across the idea of community and the ownership of ideas because they create a competitive marketplace of individual ideas, which could ultimately undermine the stability and harmony of the community.

This explanation may seem abstract, but taking this explanation and applying it to a university classroom illuminates why plagiarism will remain a serious problem for China. When students write, they often transcribe rote statements learned since primary school without any substantive analysis of or critical thinking about those statements. When asked, students do not know where this wisdom originated, except that year in and year out their teachers told them that this must be learned. Ask a mainland Chinese student why Taiwan is an inalienable part of China and at most the response will be ‘because it is.

The ‘why’ behind these statements is not taught in school and the tools with which to figure out the ‘why’ are generally withheld from the students to perpetuate the idea of community. These statements belong to no one and are not attributed to any particular source because they belong to the community. Due to repetition, these ideas also begin to have no intrinsic value. As ideas belong to the community, they can be used and reproduced by the students as they see fit. Community ideas are the norm and there is no respect for individual ownership, so the students fail to see any value in crediting the source of the original idea.

The notions of harmony and stability, combined with the triumph of the community over the individual, are not inherently bad. However, these ideas serve as a possible explanation for the prevalence of plagiarism in Chinese higher education, and why academic integrity is an idea whose time has not yet come in China. Until plagiarism is curtailed and academic integrity instilled in Chinese students, China’s journey to the next stage of economic growth is going to be fraught with peril without the necessary protections to encourage innovative thought.
Internet usage is on the rise in China, especially among the younger generation. Faced with the problem of extensive online censorship, this generation has designed software packages to ‘scale the Great Firewall’ which blocks content deemed sensitive by the Ministry of Public Security.

What does this internet usage say about a burgeoning Chinese demand for democracy?

A defining feature of a functioning democracy is the active involvement of ordinary people in discourse about the nation. The internet is extremely important in facilitating such involvement. In fact, in China, internet use plays such an important role in public discussion that the central government has started to rely on it as a channel for policy feedback.

Further, the ordinary masses – not just the younger generation – now possess the awareness and capacity to use the internet for collective action. Examples of this include recent internet movements facilitating
donations to victims of natural
catastrophes, and defending citizens’
rights against property management
fee increases.

So it appears the Chinese
population is ready to move toward
some level of democracy. But is the
Chinese Communist Party (CCP)
ready to move with them?
The most obvious answer is no.

At an institutional level, the CCP
remains firmly wedded to one-
party rule and this is not likely to
change any time soon. Local and
central governments are linked via
the nomenklatura system rather
than formal elections. Further, far
from reflecting grassroots demand
for democracy, rules of promotion
within the party have become more
institutionalised in recent years.

On a more philosophical level,
the CCP’s standard response to calls
for democracy has been to respect
the economic freedom of the market
and adopt growth-oriented policies
to achieve outstanding economic
performance. In short, it has relied
upon economic growth to secure
acquiescence to one-party rule. But as
the discussion of the internet above
indicates, this strategy is beginning
to look frayed. Experience elsewhere
— in South Korea, Taiwan and Chile
— suggests that economic freedom
is often positively correlated with
political freedom.

Yet China does not appear to be on
the brink of political transformation.
What explains this apparent
contradiction?

Put broadly, the CCP has already
moved with the times, employing
gradualism to combat public
dissatisfaction with one-party rule.

This strategy can most clearly be
seen by looking at institutions in
China. The most eye-catching of all
institutions in this context is probably
that of village elections, which date
back to the early 1980s. At that time,
People’s Communes had just been
dismantled, and national leaders
were eager for a solution to prevent
peasants retreating from villages. They
realised that effective local governance
would be a key factor in preventing
such a retreat. Local self-governance
entails a capable leader, and the CCP
realized that the nomenklatura system
would not work at the village level,
simply because the country was too
vast. As a result, village elections were
born.

The Organic Law of Village
Elections was trialled in 1987, and
villages were given an extended
timeframe to adopt the election
system. Subsequently, in 1998, a
procedural version of this law was
introduced, emphasising open
nominations. Despite some vote
buying, the elections have had a
significant positive impact on village
development. Statistical research and
case studies show that the elections
largely follow a meritocratic selection
procedure. This means that individuals
with higher levels of education and
managerial experience are more likely
to win.

The elections have enhanced the
level of public investment within
villages—a long-term obstacle for
development in the countryside—and
have facilitated stronger growth.
Elections have also helped reduce
income inequality, as elected officials
have mandated pro-poor public
investment rather than ineffective one-
off populist redistributions.

What does this say about prospects
for democracy in China?
The short answer is: ‘not much.’
Similar to the economic reforms
launched in 1978, China is pursuing
political reform marked by gradualism.
China has a long way to go in its
democratic transition, and no one can
definitively say whether gradualism
will confine popular demand for democracy, or set it alight.

Regardless of the answer to this question, it
is gradualism that explains the
contradictions inherent in the Chinese
political system, and it is gradualism
that provides a key in trying to
understand political change in China.
Economic and political transition in China and Indonesia

China and Indonesia are two of the world’s largest countries. Combined, they account for nearly 30 per cent of the developing world population. Surprisingly few studies have put them side by side, even though these two Asian giants share comparable political and economic growth experiences over the past 60 years.

The initial conditions of China and Indonesia can be described as those of underdeveloped agrarian economies. At the founding of both republics, each had political institutions dominated by their respective charismatic leaders, Sukarno in Indonesia and Mao in China. The rule of each of these leaders ended in economic disasters where development was severely set back. In the aftermath, both countries embarked on a journey striving for economic prosperity. As a result, both economies subsequently experienced decades-long rapid economic growth combined with deepening integration into the global economy.

Up to this point, the two countries shared remarkable similarities in their economic and political development. The Asian financial crisis in 1997-1998 changed Indonesia’s economic and political landscape virtually overnight. Indonesia was one of the worst casualties of the krismon (monetary crisis), and the resultant economic disaster severely damaged the legitimacy of the New Order regime, eventually triggering President Suharto’s political demise. This in turn catalysed a swift transition in Indonesia characterised by deep political and economic decentralisation. During the 10 years since this ‘big-bang’ reform occurred, Indonesia has displayed modest yet positive economic growth, dealt with major separatist movements, and established arguably the most democratic state in the region.

China, by contrast, was much less affected by the Asian financial crisis. It kept its economic development in the fast lane with an average annual growth of 10 per cent and maintained a seemingly unchanged political landscape. Yet China too has unmistakably become less authoritarian over the past two decades. To an increasing extent, the government delegated responsibilities previously exclusive to central or provincial governments to other economic and social actors. In the absence of fundamental change to its political structure, China’s political institutions have evolved into what is often referred to as ‘fragmented authoritarianism’.

Against this backdrop of hard-earned optimism, both countries are pursuing their long-term development goals. The Indonesian economy is driven significantly by domestic consumption, which arguably sheltered Indonesia from unfavourable external shocks during the recent global financial crisis. In the long run, Indonesia aims to be better integrated into regional production networks and the global economy. However, some of its long-identified impediments to development, such as infrastructure deficiency and pervasive corruption, remain to be addressed. To assess these economic challenges, one needs to view them in the context of politics and institutions.

As democracy deepened, political strife in Indonesia shifted up a gear, bringing political contests into the open. Two major events occupied the Indonesian domestic political stage over the past 12 months, the KPK (Corruption Eradication Commission) saga, and the case of Bank Century. The KPK affair eventually ended with the final clearing of two troubled KPK senior officials. The Bank Century case cost Indonesia a very capable finance minister and resulted in the regrettable departure of a number of key macroeconomists.

What does this suggest about Indonesia’s reform path? The Bank Century case may be seen as the somewhat understandable outcome of the fact that the government is still a so-called ‘rainbow coalition’ and that President Yudhoyono’s Democrat Party remains as a minority in the lower house of parliament. This case alone does not suggest that the anti-reform block is winning an upper hand over the liberal technocrats. Nevertheless, the loss of a champion of reform in the Indonesian Finance Minister, as well as disappointment in the extent of President’s compromise, must necessarily cast some doubt over Indonesia’s reform agenda.
A further consequence of democratisation and decentralisation, Pemakaran daerah, the proliferation of jurisdiction, has emerged as an additional concern for Indonesia. Between 1999 and 2009, more than 200 new autonomous jurisdictions were established. The staggering number of new jurisdictions has yet to deliver the intended purpose of responding to heterogeneous needs and aspirations across different localities. Instead, electoral financing, local capture and inadequate capability may have undermined local political and economic authorities and even raised doubts over the motivations behind the formation of new jurisdiction.

Democratisation and decentralisation can be messy, since the process necessarily involves bringing in together diverse and often conflicting interests and agendas. Indonesia will likely go through a long and complex process before the current political institutional setting grows into a fully-fledged democracy. But Indonesia’s decentralised democracy as a political system must deliver economic prosperity in order to ensure its legitimacy. The question remains as to how to unleash the power of checks and balances of a democratic system and ensure the accountability of those in positions of authority.

China faces similar development issues. Rapid urbanisation, limited social protection and widening internal social-economic disparities are but a few of the most pressing concerns that need to be addressed. China must juggle the often conflicting organisational and political interests of various vertical agencies and spatial regions. On the one hand, the party-state system exhibits much liveliness and continues to attract well-educated members of younger generations into its apparatus, resembling a powerful meritocracy. In addition, the public sectors have been engaged in wide-ranging reforms, from improvements in social welfare policies and fiscal rules to the introduction of performance-based measures to govern the promotion of civil servants.

On the other hand, China faces growing unresolved grievances caused by issues such as misappropriation of private property, rampant corruption and widening inequality. Even official statistics indicate a ten-fold increase in the occurrence of social unrest between 1993 and 2005 (reaching 87,000 per year by 2005). The government appears to be struggling to respond to the public’s increasing demands for governance quality and accountability. The recent case of the outspoken chief editor of Caijing Magazine, who resigned with a large number of her fellow journalists, serves as a testimony of the self-censorship enforced by the authority. But the public’s discontent is more expressed in the hope that it can be addressed within the current system rather than a plea for anything other than the status quo.

Keenly aware of the potentially prohibitively high costs and uncertainty of the success of a democratisation process, the Chinese government seems to advocate a measured approach towards political reform. The mixed signals suggest that the government envisions a future that shares elements of contemporary Western-style democracies but remains distinctively Chinese. But the question remains whether, in the absence of democratic checks and balances, the government will be able to maintain legitimacy in the eyes of its people by achieving economic prosperity and improving social justice.

How will these two countries evolve economically and politically? The questions that both face highlight the similarity of the fundamental challenges confronting the Chinese and Indonesian governments, and contrast their respective choices and associated risks. Economic progress is the objective China and Indonesia share. In each case, however, the political and institutional evolution ahead involves a degree of danger. Pushing forward a political and institutional reform agenda might awaken popular demand for a more accountable and effective government, yet too fast a political reform may be deemed to be politically unviable. To achieve an improvement in living standards for the majority of people, each country needs to devise its own strategy that is compatible with the prevailing political and institutional context. Given time, economic performance feeds back to politics and institutions, and thus completes the circle of co-evolution of economic development and political institutions.
President Barack Obama’s political philosophy has been the subject of intense debate in the United States. The protean nature of the President’s pragmatism leaves hardened ideologues frustrated, unable to plot his views on a simple x-y axis. But if you want to know where Obama stands, you need only examine the moral philosophy that undergirds his politics. In this, the most explicit common thread has been the need for empathy in policymaking—placing the ‘empathy deficit’ alongside the budget and trade deficits as structural problems that American strategy must address.

This is no less true of Obama’s instincts on foreign policy than it has been of his instincts on healthcare or judicial nominees; in the preface to the second printing of Dreams from My Father, Obama speaks at length about the need for empathy in foreign policy. We saw elements of this interest in empathy in his administration’s early approach to bilateral relationships in Asia. There was a concerted effort to not just listen, but to understand better the concerns of American allies, partners, and other countries in the region, and then address those concerns by making them shared concerns.

The US-Indonesia Comprehensive Partnership Agreement, to be signed when the president finally makes a long-delayed trip to Indonesia later this year, is a good example of this effort. The United States made clear early on that it was eager to address Indonesian concerns as well as American concerns, both because American interests are indeed more “comprehensive” than security and public health—two issues that had previously received much bilateral attention, at American insistence—and because such a solicitous approach is likely to build a more durable partnership. The focus on specific deliverables shows that the rhetoric about empathy is backed up by substance, despite the unfortunate postponement of the President’s visit.

On the broader issue of regional institutional architecture, however, the administration’s efforts at empathy have been less successful. Secretary of State Hillary Clinton has attempted to address concerns, from Hobart to Hokkaido, that the United States does not particularly care about the results of the ongoing dialogue on architecture, giving a much-heralded address on the subject in Honolulu earlier this year. She has made clear that the United States understands that our allies and partners want us incorporated into any emergent institution, and has promised increased attention to discussions on the issue. But across the region, many officials remain wary of the promise of American interest in the subject.

Asian partners are rightfully concerned on this point, and not just because of the logistical difficulty in convincing the President to visit (which, though illustrated in a particularly unsubtle manner by the continual postponements, has long been a concern of officials on both sides of the Pacific when discussing American inclusion in any organization). More problematic still, some American officials look at the ramen noodle bowl of Asia Pacific institutions—overflowing
with complicated, thin, and weak organisations—and wonder what the fuss is all about.

They fail to grasp that concerns about regional institution-building are based as much upon a preoccupation with the construction of regional identity as they are on economic arrangements or the balance of power. The existence of these regional institutions, though their meetings allow officials to brag of very few deliverables, legitimise their members’ claims to inclusion in a regional community. That legitimacy will allow members to make arguments for greater economic and strategic prerogatives within the community as the institutions mature. The question of Asian identity, particularly for the liminal countries, is thus foundational. The failure here is one of empathy—empathy which can and should extend not only to the everyday concerns of those living in the region, but to these strategic preoccupations of their leaders.

President Obama’s philosophy and background ought to position him well to turn this failure into a success. Of course, as the White House has noted, his personal identity is anchored to the region, as the first ‘Pacific President’—born and raised on Oahu and Java—and he has written eloquently of his formative struggle to shape this identity.

His interest in empathy, moreover, ought to lead him to the realisation that getting Asia right means showing up when invited, and not just for sentimental reasons; rather, because our partners view American participation in regional organisations and their leaders meetings as constructive of a regional identity that includes the United States, thereby ensuring the long-term legitimacy of the American role in the region.

Non-leading powers: lost in transition

JAIAN CHONG

Power transitions in international relations—real or perceived—are unsettling. This is especially so for non-leading states. Their interests depend on shifts in the international system that they cannot shape. Leading powers should, however, pay attention to how non-leading states react to expectations of change in the global political environment. Their reactions, especially when considered together, can exacerbate or moderate security dilemmas among the leading powers and have the potential to affect regional and even systemic stability. Beijing and Washington should be particularly concerned that non-leading powers in the Asia-Pacific find much uncertainty in China’s rise as well as America’s future regional role.

Recent writing on US-China relations reveals that much thinking about power transitions understandably concentrates on conditions surrounding the relative rise and decline of major states. The international system is fundamentally affected by transition among these powers. But this focus only provides a partial picture and under-emphasises the broader consequences of non-leading powers’ behaviour, especially when considered as a whole.

Transitions heighten anxieties about abandonment and entrapment for non-leading powers. Non-leading states fear that major powers in relative decline will be unable to honour the institutional and security arrangements they used to underwrite. This implies that weaker states may have to rely less on existing bargains to secure their interests and turn more to fending for themselves. On the other hand, non-leading powers also worry that prior commitments to declining, but still important, partners will hinder their ability to strike new understandings with ascendant powers.

Attempts by non-leading states to address these concerns can have wider security implications. On a sufficient scale, the premature departure of non-leading powers from existing institutional arrangements before new ones are ready to replace them can undermine existing international cooperation. This may weaken the position of powers in both relative decline and ascent. If enough non-leading states show weak or delayed support for organisations sponsored by emergent powers, this could frustrate those on the rise and jeopardise collaboration in areas of common concern. Such dynamics can aggravate security dilemmas between rising and declining actors by amplifying perceptions of uncertainty and threat.

Current disarray over multilateral cooperation in the Asia-Pacific underscores the unease non-leading powers have over entrapment and abandonment. Debates about the East Asian Summit, particularly over participation and the grouping’s relationship with the United States, suggest that many non-leading
regional actors are not ready for China’s direction of Asia-Pacific affairs. This is the case even though they seek extensive cooperation with Beijing. Doubts about APEC’s future, especially among its smaller members, reveal anxieties about Washington’s regional role. Most non-leading states are comfortable with an active American presence for now, but are unsure about how to face potentially reduced US engagement.

Left alone, the anxieties of non-leading states in the Asia-Pacific could intensify security dilemmas between Washington and Beijing. China’s efforts to consolidate a leadership position could expand perceptions that Beijing is trying to reduce American influence. American attempts to reinvigorate engagement may feed beliefs that Washington is actively countering China. Wariness toward heightened American activity may easily arise since US-backed arrangements seem to be in flux, and America’s longstanding partners appear increasingly reliant on China economically. Such conditions fuel mutual suspicions in Washington and Beijing.

Commonly discussed approaches for non-leading powers to safeguard their interests can complicate matters too. Relative weakness and collective action problems make balancing unrealistic for non-leading states. Hedging—seen in ASEAN, Australian and Taiwanese engagement of both leading states, as well as recent Japanese defence posture reviews—could leave Beijing feeling insufficiently accommodated and make Washington more concerned about exclusion. Bandwagoning on a ‘Chinese world order’ may alienate Washington before Beijing is ready to lead. Keeping America normatively ‘enmeshed’ can prove tricky, given questions over the United States’ long-term capacity to commit and China’s doubts about American intentions. Circumstances in the Asia-Pacific should behove Washington and Beijing to cooperate in keeping their differences in check and reassure other regional actors. This could prevent non-leading states from individually behaving in ways that can collectively undercut stability during an uncertain time. Responsibility for avoiding this instability clearly rests with today’s two leading powers. They alone can affect the entire region through overt policy measures. However, both China and the United States have to deal with nationalist passions, protectionist impulses, and divergent domestic demands. These realities may impede effective Sino-American management of regional affairs even if they both have a common desire for stability.
**JAPAN’S ‘NEW ASIANISM’**

**Laying to rest the ghosts of history’s controversies**

DAVID FEDMAN

We are well into the Democratic Party of Japan administration and it is patently clear that Japan’s leadership is taking engagement with its East Asian neighbours seriously. Major missions of DPJ lawmakers to China, high-level cabinet meetings with South Korean counterparts, and northeast Asian trilateral summits have signaled a newfound interest in and commitment to diplomacy and détente in the neighbourhood.

This ‘New Asianism’—to borrow a phrase from Daniel Sneider—was clearly outlined in the DPJ’s pre-election manifesto: ‘the DPJ will make the greatest possible effort to develop relations of mutual trust with China, South Korea and other Asian nations, and to strengthen the bonds of solidarity with Asian countries within the framework of the international community’.

Cloaked in the mantle of former Prime Minister Yukio Hatoyama’s elevated yu-ai, or fraternity, rhetoric, Japan has poured sugar on its regional relationships, especially with China. But what concretely has Japan done to demonstrate its commitment to rapprochement with its neighbours?

Not much. Aside from bolstered dialogues, envoys and high-level cabinet exchanges to South Korea and China, the DPJ hasn’t really shown a radically different diplomatic tack.

The real story here is what the Japanese government under the DPJ hasn’t done — namely, incense its neighbours with acts of historical contempt. So far, and to Hatoyama’s credit, there has been no Toshio Tamogami moment. No Yasukuni hullabaloo. No gaffes and guffaws.

To the contrary, history has been addressed candidly in the intervening months since the DPJ’s ascension.

Perhaps most sensational are whispers of a historic exchange of contrition between Japan and China: the Japanese prime minister to Nanjing and Chinese President Hu Jintao to Hiroshima. If carried out this would mark a watershed moment in high-level contrition. Set against the perennial historical rows that have beset bilateral ties for decades—textbook protests, Yasukuni shrine visitations, and so forth—this exchange is mind-blowing in scale.

Indeed, the DPJ has shown an impressive commitment to rein in the historical contretemps that have long roiled ties with Japan’s neighbours, and in so doing has opened the door for unprecedented progress. It is perhaps too early to tell if this trend will continue uninterrupted, but Hatoyama did his part to set expectations for his government and court goodwill.

Hatoyama first articulated this initiative in his address before the UN this past northern autumn: ‘Given the historical circumstances arising from its mistaken actions in the past, Japan has hesitated to play a proactive role in this region. It is my hope that the new Japan can overcome this history and become a ‘bridge’ among the countries of Asia.’

Notably, Hatoyama reaffirmed his commitment to the Murayama Statement, a landmark apology offered by former prime minister Tomiichi Murayama in 1995, made on the 50th anniversary of Japan’s surrender. He also made it clear that he would avoid visiting the controversial Yasukuni Shrine. The coalition government has even been playing around with the idea of a secular alternative site to Yasukuni that would surely do much to shore up support and goodwill from those frustrated with Yasukuni and the formal visitations.

Some analysts have interpreted this new diplomacy as a repudiation of the LDP’s failed China containment strategy ... that sought to box in China’s influence and growth.
new diplomacy as a repudiation of the LDP's failed China containment strategy, one which was founded on a series of strategic hedges in the Asia-Pacific that sought to box in China’s influence and growth. No longer, say many in the DPJ, party kingpin Ichiro Ozawa foremost among them. ‘In the view of DPJ policy advisers,’ writes Sneider, ‘this pseudo-containment strategy is doomed to failure.’

It isn’t exactly clear where this priority was born. Some point to Ozawa, who has long cultivated ties between China and the DPJ, and demonstrated an interest in mending Sino-Japanese ties since well before he defected to the DPJ. His recent mission to China with 143 DPJ lawmakers in tow certainly underscores this point.

Foreign Minister Katsuya Okada also seems to be at the crest of the wave of New Asianism, and has done his part to cultivate closer ties and move beyond the corrosive historical rows of the past. During a recent visit to South Korea, he offered a frank and unequivocal apology for Japan's past actions. He also backed the creation of a joint history textbook by China, Japan and South Korea.

The real question is whether or not the Japanese defence establishment is on board. They are likely the greatest source of opposition and will doubtless raise legitimate concerns about the long-term security implications of these policies. It’s no accident that Toshio Tamogami came from the military establishment in Japan, where revisionist thinkers are in no short supply.

H. D. P. ENVALL

‘To lose one decade may be a misfortune …’ ran a recent article in The Economist, the unstated quip being that the next one was lost due to carelessness. Another ‘lost decade’ would further justify such dark humour and would also present the Asian region with a significant security challenge.

Japan’s economic decline is well established. That country’s stock market, which was just below 40,000 points in 1989, finished 2009 at just over 10,500. Yet Japan’s underlying economic problems are wider and more complex. They range from low growth and deflation to expanding public debt and rising inequality. And the global financial crisis has further exacerbated matters.

What makes Japan’s economic woes a regional security challenge is the important role of the US-Japan alliance in maintaining regional stability. If the alliance were weaker, it would have serious implications for regional stability. As a Japanese analyst recently observed, a US downgrading of the alliance or withdrawal from the region could well lead to faster Japanese military growth (notwithstanding its current economic lethargy), heightened regional threat perceptions and a greater scope for global insecurity. Alliance troubles would make it harder if not impossible for the US to pursue its ‘double assurance’ strategy of instilling confidence in strategic partners and competitors alike.

How could Japan’s fiscal weakness potentially undermine the alliance? Worsening economic troubles would add greater constraints to the already considerable political and cultural restrictions on Japan's ability to contribute to the alliance and thus negatively affect America’s confidence in Japan as an ally. Declining military spending over the past seven years illustrates Japan’s predicament, and the trend, in light of the country’s public debt, could well continue. Shifting greater amounts of the total bill for ongoing agreements to the US, as a recent report on the alliance’s future postulates, ‘would undoubtedly put strain on the alliance.’

Economic weakness together with export dependency could also influence Japan to mismanage its current hedging strategy in dealing with China and the US. Japanese leaders describe its current approach as pursuing a more autonomous foreign policy, but the rise of China has provoked Japan to respond to the resulting geostrategic pressures in Asia. This ‘return to Asia’ policy might resolve some of Japan’s problems associated with its dark history, but there is no guarantee that any such policy would be more repentant than chauvinistic.
How might these problems of economic capacity and political image be addressed? Japan has received abundant economic and diplomatic advice during the post-war era. However, owing to the difficulty of the necessary reforms, and the limited role played by outsiders, the utility of such advice seems minimal. The more immediate challenge is to manage the wider security consequences of the decline, meaning that solutions should focus on strengthening the region’s security architecture.

The first option would be to strengthen Asia’s multilateral institutions. This might take the form of further developments to regional bodies such as the ASEAN Regional Forum (ARF) or sub-regional bodies such as the Six Party Talks. Or it could develop from former Prime Minister Hatoyama’s vision of an East Asia Community. Policymakers would be aiming to establish institutions that could facilitate major power security dialogue, further enmesh Japan into the region, and ensure a continued US presence.

Yet region-wide institutions have many problems. Their talk-shop style, emphasis on ‘non-core’ security issues and faith in socialising states echo E. H. Carr’s descriptions of the League of Nations in *The Twenty Years’ Crisis*. Furthermore, underlying these institutions in recent years has been a rising competitiveness between the region’s two major powers, China and the US, and so they seem an unlikely venue for resolving core security challenges.

Another option, described by one analyst as ‘multilateralising the US alliance system’, would be to reform the San Francisco alliance system and the US-Japan alliance as its lynchpin. Bilateral alliances still play the key role in regional security but are supplemented or extended by multilateral processes and instrumentalities. Such an approach could consolidate America’s double assurance strategy: it could produce a stronger security architecture to compensate for a weaker US-Japan alliance while also ensuring that Japan stays within the architecture.

Such ‘extended bilateralism’ also raises questions, however. Would Japan still be satisfied with US strategic deterrence guarantees under such circumstances? Would China see it as a hardening of Western containment postures directed against it? And would America’s partners and allies be willing and able to increase their own defence burdens?

Unfortunately, continued economic stagnation in Japan will present policymakers with many such dilemmas. If Japan were to ‘lose’ another decade, however, the US-Japan alliance, America’s Asian grand strategy and the Asian security order would all be severely tested. Whatever its specifics, any policy should address the region’s core security concerns, and the most practical path seems to be to extend or multilateralise the region’s bilateral security architecture in case there is further misfortune.

Former Japanese Prime Minister Yukio Hatoyama: visions of forming an East Asia Community.
Towards a new security consciousness in Japan?

During Japan’s 2009 general election campaign, the Democratic Party of Japan (DPJ) ran on a platform calling for a more ‘equal’ relationship with the United States. While the party’s leaders left the meaning of the phrase vague, the general idea was that a DPJ government would be more assertive in defending Japan’s national interests in its dealings with the US, arguing that under the Liberal Democratic Party (LDP) Japan was too submissive when the US came asking for help in Afghanistan and Iraq.

The first test of the DPJ’s new approach to US-Japan relations was the dispute over the US Marine air station at Futenma in Okinawa. According to a 2006 bilateral agreement that was reaffirmed in early 2009 by an outbound LDP government, the US would relocate some 8,000 US Marines plus their dependents to Guam, while vacating Futenma for a replacement facility built at Henoko Bay near Camp Schwab, another Marine base. While in opposition, the DPJ drafted an ‘Okinawa vision’ paper that called for a process of moving the air base out of Okinawa, and then out of the country. While the DPJ backed away from this program in its electoral...
manifesto—where, in addition to calling for an equal relationship with the US, it promised only that it would ‘review’ the agreement on the realignment of US forces in Japan—the new Hatoyama government, pressed by the Obama administration to accept the agreement or provide a viable alternative, struggled for months to find an alternative as the Okinawan people demonstrated against the Marines staying in their prefecture and as Washington worried about former Prime Minister Yukio Hatoyama’s ‘dithering.’

At the end of May, Hatoyama ultimately decided to accept a modified version of the original agreement, with the exact details about the replacement facility to be hammered out in negotiations with the US.

It is a matter of opinion whether that decision marks the failure of the DPJ’s promise of a more equal relationship or a step in the right direction as the government was able, despite US pressure, to conduct a review of a controversial policy on its own timeline. However, there were worrying signs for Japan’s future in the DPJ government’s approach to the Futenma dispute. Even as the government debated a policy matter with implications for US deterrent power in the region, and therefore Japan’s security, it rarely couched its arguments in these terms, despite an audience in Washington that thinks almost entirely in these terms. It was only late in the review process, when it appeared that the government was preparing to accept the existing agreement, that the prime minister began talking about the deterrent capabilities of the Marines—at which point few were convinced by the argument.

The vast distance separating the US military from all other militaries, including those of its allies, means that there really is no such thing as an equal security relationship with the US. However, if Japan is going to disagree with the US constructively—a Japan that can say ‘No, but...’—its leaders must be able to speak the language of realpolitik convincingly. By being unable to articulate Japan’s security policy independent of the US, its leaders remain dependent on the US.

The DPJ government is not the first Japanese government to struggle with this problem. Ishiba Shigeru, a leading LDP politician who has twice served as minister for defence, writes in his book of politicians uninterested in national defence, criticising fellow LDP members for focusing only on the size of the defence budget and not on why Japan has a defence budget in the first place. Japanese leaders, to say nothing of the public, have long been insulated from the Self-Defence Forces of which they were nominally in charge.

Accordingly, any discussion of Japan’s taking greater responsibility for its own defence—especially spending more on the SDF—must begin with changing Japanese security discourse. The Japanese public and its representatives have to first understand the value of the SDF before they will comfortably support more defence spending or new roles for the SDF.

It is questionable, however, whether the rising generation of Japanese politicians is any more capable of articulating Japanese security policy before the Japanese public and in dialogue with the US. Although a number of taboos surrounding discussions of security policy appear to have fallen, what Ishiba points to as the obsession with the cost of national defence may prove to be more resilient, particularly as Japan faces its mounting debt and its aging population. It may take more than mere sabre-rattling by China or North Korea to change this underlying brake on the development of a Japanese ‘security consciousness.’
Japanese politics has been all mixed up after the change of ruling party last September. With an emphasis on regional community building and the December 2009 visit of Chief Cabinet Secretary Ozawa to Beijing, some have speculated that Japan is restructuring its foreign policy radically by retreating gradually from the alliance with the US.

This is far from the truth. Foreign policy under former Prime Minister Hatoyama has actually been a nuanced continuation of past policies. The detail of his policy stance is best characterised as ‘dual hedging.’

Specifically, debates in the Diet and associated policy proposals are centered around economic partnerships within Asia. Simultaneously, Japan has attempted to deepen the US alliance. In an Asian context, Japan has also sought to develop security partnerships with South Korea, Australia, and India that are aimed at tackling traditional and new security challenges, including international terrorism, proliferation, piracy and failed states. In the last eight months, Japan has also upgraded its partnership with Australia and India and concluded an Acquisition and Cross-Servicing Agreement with Australia.

Chinese Premier Wen Jiabao waves to children during a welcoming ceremony at Japanese Prime Minister Yukio Hatoyama’s official residence in Tokyo in May this year: community-building is not enough to respond to the rise of China.

PICTURE: YURIKO NAKAO / REUTERS
Hatoyama’s delicate ‘dual hedging strategy’ was to be commended. But it lacked three key components. First, it did not take into account the ongoing security cooperation that exists amongst the US and its allies and friends in the region. Second, it was an insufficient practical roadmap for the establishment of an East Asian community. Finally, Hatoyama’s strategy failed to take into account the need for cooperation beyond the Asia-Pacific region in order to deal with China’s rise.

Dealing first with ongoing security cooperation, in the case of disaster relief, peace-keeping, and capacity building for new security challenges, Australia, Japan, and the US already play the key roles within the Asia Pacific. This is largely because of insufficient policy implementation by ASEAN-led mechanisms. As a result, any Japanese proposal for an East Asian Community must be designed specifically to give the US an appropriate role in regional cooperation. The need for US involvement is especially great, given that most new security challenges in Asia have a maritime component, and the US is the most effective naval peacekeeper. Put simply, to have a security mechanism without including the most efficient available naval assets does not make sense. As to the problem of regional consent to such a role, the recent proposal of an enlarged defence ministers’ meeting, consisting of the ASEAN plus Six nations, alongside the US and Russia, shows that ASEAN states have started to recognise the importance of the US within the region.

Second, Hatoyama’s remarks have not provided a concrete roadmap to an integrated regional architecture. At the very least, in the areas of trade and finance, some further practical guidance is needed.

Who should lead any steps towards the formation of an East Asian Community?

Some policy experts have argued that the ‘plus three’ countries, China, South Korea, and Japan, should take the lead, while others have contended that other middle powers, like Indonesia or Australia, should play a guiding role. The promotion of ASEAN is the only organisation that is truly able to avoid a power struggle within the region.
of cooperation between China, Japan and South Korea is a laudable goal. But ultimately, the two proposals mentioned above miss the central point—it would be irrational to strip ASEAN of a major regional driving role.

Why is ASEAN’s leadership so important?

ASEAN is the only organisation that is truly able to avoid a power struggle within the region. Further, ASEAN is home to a talented network of human and institutional policymakers—these policymakers have the tools to facilitate further regional integration. But most importantly, ASEAN is the only organisation that can deal with China’s rise in an impartial and effective manner. It is the only option in the region that represents the consensus of a number of interested parties.

Finally, Hatoyama’s emphasis upon community-building is not enough to respond to China’s rise. The growth of China is an issue that carries far beyond the Asia-Pacific region. Indeed, China’s position on the world stage is a matter for all nation-states. To properly foster a liberal order, Japan and the US must act in concert with EU states, as well as other interested parties such as Australia.

Nobody wants to see a second Cold War within Asia. Hatoyama’s nuanced East Asia Community proposal is a welcome start. But in order to really ensure stability within the Asia-Pacific, ASEAN must take the lead in community-building, and the US and world community must continue to play a major role in maintaining the peace.

AMY KING

In its 50th year, the US-Japan Security Treaty has come under scrutiny in Washington and Tokyo. Calls by former Japanese Prime Minister Hatoyama for a more equal place for Japan within the alliance, and the Hatoyama government’s fumbling over the Futenma base relocation, have caused tension in the bilateral relationship. At the same time, Hatoyama increased the rhetoric about building a more cooperative relationship with China, and is leading the charge for a stronger ‘East Asian community’, which potentially excludes the United States. Together, these shifts depict a more assertive Tokyo that is at least beginning to consider the future of US-Japan relations and Japan’s place in Asia. More worryingly though, Tokyo’s assertive stance has led to the emergence of a ‘losing Japan’ narrative—a narrative which suggests the US risks losing Japan to China—in Washington and Western media more generally. At a time when US-Japan relations are experiencing difficulty, any slight upturn in the Japan-China relationship tends to be read in zero-sum terms.

Yet these developments are not new. In the late 1950s, as Tokyo and Washington began renegotiating the 1951 US-Japan Security Treaty, many of these issues—Japan’s desire for a more equal US alliance, Japan’s relationship with China, and Japan’s place in East Asia—were debated at the highest levels in Washington, Tokyo and Beijing. A similar ‘losing Japan’ narrative emerged in Washington during the first decade of the Cold War. Washington feared that Japan’s desire for closer ties with Communist China, and its frustration with the unequal US-Japan relationship, could encourage Japan to follow some of its Asian neighbours down a path of neutrality in the Cold War.

Washington’s concerns were well-founded. At the height of US-Japan negotiations to revise the US-Japan Security Treaty in 1959-1960, a group of pro-China representatives from Japan’s ruling Liberal Democratic Party travelled to Beijing. These LDP politicians were attempting to forge a closer political and economic relationship with Communist China across Cold War lines. Chinese Foreign Ministry records tell us that during these talks, Premier Zhou Enlai and other Chinese officials worked hard to draw Japan away from its alliance with the United States, advocated that Japan adopt a position of ‘peaceful neutrality’ (heping zhongli...
Recent polling shows the majority of Japanese citizens have been concerned about the direction the Democratic Party government is taking the US-Japan relationship.
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