



# State of the Region

September 2011

## Keynote Address: The Honorable Kurt Campbell, US Assistant Secretary of State for East Asian and Pacific Affairs

### Dr. Charles E. Morrison

We are quite honored that our keynote speaker is Kurt Campbell, US Assistant Secretary of State for East Asian and Pacific Affairs. As you know, PECC is a tripartite organization, composed of academics, business, and government officials who

participate in their private capacities. In his lifetime, I think Kurt has combined all of those sectors.

Kurt has been a teacher, an author, and a founder of a major think tank here in Washington, DC.

However, he probably is best known for his service to the United States government in many different agencies. He has held important positions at the Department of the

Treasury, the Department of Defense, the White House, and now the Department of State.

As Assistant Secretary of State, in particular, he has brought to this position an incredible dedication, zeal, enthusiasm, and willingness to represent the United States in important regional forums in the Asia Pacific. There's been no country too small that Kurt has not visited. He's a great friend of the region, a great friend of regional cooperation, not to mention, a very close personal friend. Please join me in welcoming him.

### Hon. Kurt Campbell

Thank you, Charles. I very much appreciate your warm introduction and I am grateful for your leadership of PECC, but also of the East-West Center. In my view,

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### REPORT OF THE 20TH GENERAL MEETING OF PECC

The East-West Center (EWC) hosted the 20th General Meeting of the Pacific Economic Cooperation Council (PECC) on September 29, 2011, in Washington, DC. The U.S. Asia Pacific Council (USAPC), an EWC program that provides the secretariat for the U.S. Member Committee of PECC, organized the conference.

The theme for PECC 20 was "State of the Region." This also was the title of a report released during the conference, which drew more than 200 people comprising delegations from the organization's 26 Member Committees.

The plenary session featured speeches by senior US government officials and panel discussions from leading economic and political experts from the Asia-Pacific region. The topics explored included: Asia Pacific Regional Outlook; Regional Dynamics; and the future of Regional Economic Cooperation.

PECC 20 also featured three concurrent sessions aimed at examining in greater detail salient topics in regional economic relations. These sessions focused on: Enabling 21st Century Services in the Asia Pacific; The Trans-Pacific Partnership: Views from the Inside and the Outside; and Paths to Inclusive Growth.

PECC 20th General Meeting Report published by the

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no institution plays a role like the East-West Center. We strongly support that endeavor and are working on a number of innovative projects on English language training in Southeast Asia that will be channeled through the East-West Center. We believe such projects will underscore the Center's strategic importance well into the 21st century.

The US government, and particularly the State Department, treasures the Center's role, not just on critical issues in Asia, but also on some important work that has received less recognition. I also am very grateful for the chance to address the PECC General Meeting and to discuss issues on which you've been working.

**Framework** – I'd like to offer my overarching framework for American policy in the Asia Pacific region. I've often found that when executive branch officials are invited to address a large and informed group like PECC, they usually provide a long list of accomplishments. When I was out of government, I remember thinking that was not very helpful or interesting. It has a way of sounding a little defensive.

Instead, I would like to explore the challenges we face in the region. This is a profoundly bipartisan and comprehensive challenge that the United States faces, not only with important components of the US government but also with key allies, friends, and partners in Asia.

I would argue that we are in the midst of something that is not well-recognized and only will be understood when we look back on it.

**Pivot Points** – We are in the midst of one of the most important pivots or rebalancing acts in the history of American foreign policy and commercial policy. Again, this is something that even some of the main participants don't fully recognize or understand.

The pivot concerns the process of responsibly, gradually, and carefully downsizing and transitioning away from an extraordinarily taxing and expensive presence in the Middle East and South Asia – expensive in every capacity – blood, treasure, and credibility. We are now transitioning towards new and important challenges for the 21st century in the Asia Pacific region.

There is a broad and strategic recognition that most of the history of the 21st century will be written in Asia. There will be important chapters that reflect other critical transnational issues and other regional challenges. But the history of the 21st century will be written in Asia, and the United States wants to play a large role in writing that history.

We're going to have a major chapter devoted to a continuing strong American role there. And that pivot, that rebalancing act, is more delicate and more difficult than many people recognize and appreciate.



*Hon. Kurt Campbell, US Assistant Secretary of State for East Asian and Pacific Affairs, delivers the keynote address to the 20th PECC General Meeting*

**Domestic Nation-Building** – When you look historically at how the United States generally proceeds after major periods of military activity – following World War I and World War II, the Korean War, and the Vietnam War – there has been a tendency on the part of the United States to want to come home. The tendency has been to re-focus on domestic pursuits. In the current environment, you don't have to look far to hear even internationalist voices arguing that it's time to do nation-building at home.

But the truth is that no other region is more closely tied to domestic performance, excellence, capacity, and wealth-creation than the Asian Pacific region. I know I don't have to explain that fact to this group but in large swaths of the United States, many people still do not recognize or appreciate this.

Our challenge is in knowing how to manage this extraordinarily difficult transition. We do not want to leave the Middle East in a more difficult set of circumstances than we found it. We want those countries to succeed in making difficult transitions, whether this is Libya, Egypt, Iraq or Afghanistan. And going forward, we are going to continue to play an important role in those places because of strategic interest.

But it is also the case that the Asia Pacific region demands more attention now. It demands more focus and a comprehensive strategy aimed at effective US engagement.

We are at a pivot point in this rebalancing right now, and over the next several weeks a whole host of critical

relationships and endeavors will be developed. There are many facets to this rebalancing, and I'll go through a couple of them.

**Allied Cooperation** – First, at its core, the most important thing that the United States can continue to do is work closely with allies and friends, countries with which we share values, countries with which we have strong and long-standing security commitments. Over the course of the last several months, for example, we have responded to the greatest challenge in Japanese history following the tsunami and nuclear crisis. We have seen our partnership with South Korea reach new heights. And we have concluded a ground-breaking agreement with Australia that will lead to a more intimate relationship between our two countries going forward.

One area in which we need to devote greater focus is in further developing our traditional and strong alliances with our friends in the Philippines and Thailand. And I would just simply say, "Watch that space going forward."

**New Partnerships** – Second, we must recognize that there are a whole host of new partners with which to develop stronger relationships. The United States has sought to build deeper, more intrinsic links on a broad array of issues, ranging from non-proliferation, to trade, to military interactions or political dialogue, almost every country in Southeast Asia.

In addition, you will have noted that on a variety of fronts we have sought to build stronger relations with countries such as Indonesia and India. Concerning India, in particular, we are increasingly weaving this country into our conception of the East Asian fabric.

We also are seeking a closer and more dynamic partnership with Japan and indeed with China. In fact, the United States has put forward what we think are innovative approaches that will increase communication between the three emerging states of Asia – India, China, and the United States. Again, there will be more to come in that area.

It is also the case that we have laid out very clearly our desire to have a more hardworking and intense set of strategic interactions with a number of other partners, such as Vietnam. But as we made very clear to the Vietnamese leadership, we will need to see improvements in their human right practices.

**US-China Relations** – The most consequential and challenging relationship that the United States will ever develop and maintain is its relationship with China. At every level, this relationship requires constant attention. The US government recognizes that our relationship will simultaneously encompass areas of cooperation and common interest as well as intense competition. There are many economic issues on which the United States and China will have to work more closely, such as intellectual property protections and macroeconomic policy.

**Avoiding Miscalculation** – But it seems to me that over the course of the next several years, the areas that really will demand more work between United States and China are those where miscalculation and accidents can happen. It is only natural that as China grows as a military player, its forces will extend beyond its shorelines and its military activities will assume a higher profile in the Asia Pacific region.

Although not widely recognized, over the past 15 years the United States, too, has stepped up its military interactions in the Asia Pacific region. What this means is that US and Chinese forces rub up against each other all the time. We have many, many encounters.

Increasingly, what we are seeing is the potential for unanticipated or accidental interactions that potentially could have major consequences in our bilateral relationship. The United States therefore is seeking to develop a mechanism that will enable the two countries to build confidence and trust and to take steps if there ever were an accident.

**Differences from Cold War Era** – There is an interesting contrast between US relations with the former Soviet Union versus US relations with China. Part of the US strategic community was raised in the era of US-Soviet competition. As a consequence, there is an intellectual residue, if you will, to sometimes think about China and other strategic challenges within the context of the Cold War. Nothing could be more wrong or more different.

The US relationship with China is completely different from the US relationship with the former Soviet Union. And the important thing for Americans to recognize is that for virtually every country in Asia, the number-one priority is to improve that country's relationship with China.

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Any US strategy that does not recognize that fact is a strategy that will not succeed. The nations of the Asia Pacific region simultaneously want to have a good relationship with the United States and China. They want a relationship with the United States that is consistent, present, active, and focused on building a region at peace.

At a very early stage in the Cold War, US and Soviet national security advisors understood the potential for miscalculation. And so we put in place mechanisms, such as the Incidents at Sea Agreement, to deal with cases in which US and Soviet ships bumped into each other.

**Special Agreements** – Similarly, when US and Soviet troops were stationed together in still-unpredictable Berlin, we put together the Berlin Liaison Mission, which enabled the two countries to sit down and work through problems and develop common approaches. When military technologies became more sophisticated, we concluded the Dangerous Military Incidents Agreement, aimed at precluding certain kinds of operations that could spur competition or crisis between our two countries.

One of the greatest challenges that we have encountered is the reluctance of China to enter into these kinds of agreements. Fundamentally, China does not want any mechanism that will either inadvertently or directly acknowledge that US military forces are operating near its shores.

**Fostering Trust** – What China really wants is for the United States to stop those activities, even though US military forces are operating in international waterways. In reality, during the last 30 years it has been that American presence that has enabled the most impressive and dramatic period in Chinese history.

One could argue that China's growth and dramatic arrival is largely because of the innovation of the Chinese people. But the American forward presence and the openness of the US market also have enabled China's arrival on the international scene. Ultimately, we have to build institutions that will foster greater trust and confidence and, in turn, allow us to navigate potential challenges going forward.

**Asian Institutions** – In addition to these key individual states with which the United States is endeavoring to develop stronger relations, we are making major

investments in Asian institutions. For the first time, President Obama will participate in the East Asian Summit (EAS), which will be held in Bali, Indonesia on November 19. And just prior to the EAS, he will attend the APEC Leaders Meeting in Honolulu, Hawaii on November 12-13.

Particularly with respect to APEC, the United States will be participating with a whole new approach that seeks to re-discover the origins of APEC on issues aimed at improving economic interaction. Obviously, security issues are important, but we think they probably are better addressed in other institutions. We believe this is one of our last chances to restore some vitality and dynamism to APEC.

And we mustn't forget that on November 3-4, the leaders of the industrialized world will gather in Cannes, France for the G-20 meeting. The G-20 does not get enough attention as a new Asian institution even

though fully half of the members come from the Asia-Pacific region.

**G-20 as Asian Institution** – The transformation of the G-8 into the G-20 is one of the most important shifts in global institutional life that we have witnessed in recent years. It will be the challenge of our age to ensure that this institution has the appropriate mechanisms to deal with macroeconomic, environmental, and political challenges.

In the process of transitioning from this pivot point, the military role is going to be important. The United States needs to diversify and think more creatively and strategically about our presence. Our commitment is enduring and strong in Northeast Asia, but we have to do more in Southeast Asia and elsewhere.

Let's recall that during last ten years, the United States has spent an enormous amount of time investing in what we might call "post-conflict reconstruction." The new era calls for major innovations in air and maritime power and new thinking about how we can respond to a host of challenges, whether they be environmental challenges or natural disasters.

**Economic Engagement in Asia** – Finally, without question, the most important thing that the United States needs going forward is an active and engaged economic strategy in the Asia Pacific region. I see former US Trade Representative Carla Hills in the audience, who historically has been a strong voice for economic

engagement in this part of the world.

It is absolutely essential that the United States make clear to Asia that we are determined to be activists, not only to ensure that this vibrant region continues to flourish but also to ensure that American exports grow in a manner that supports US workers and US jobs creation.

It is also the case that in the coming months and years we must engage in more straight-forward conversations with friends, such as Japan, about areas where we can work together.

**New Course for US-Japan Relations** – Sometimes when US and Japanese officials meet, we must deal with huge challenges, such as Japan's post-tsunami nuclear crisis. The United States and Japan must focus on charting a new course not just strategically but also economically. We are beginning to chart that course with Korea as well. This is a comprehensive approach.

Importantly, there are no partisan divisions on this strategy. Members of both US parties generally are in agreement. So, the real challenge is not so much resolving fights between Republicans and Democrats. Rather, it is enlarging the base of American people who understand that this is one of the most important endeavors for American foreign policy in the 21st century. Thank you all very much. ♦

## Morrison

Thank you, Kurt. The Assistant Secretary has agreed to take a few questions.

## Question #1

You mentioned how important it is to increase the number of Americans studying in Southeast Asia. But in FY2011, the Department of Education's budget for Title VI Centers under the Fulbright-Hays exchange program was reduced by 40 percent. How is that consistent with the State Department's aspirations? Are we going to rely solely on financial gifts from Brunei?

## Campbell

It is completely inconsistent. If you want to experience a real challenge, please look at the US Federal budget and come fight with me for budgets and jobs.

**New Kinds of Exchanges Programs** – Our most successful programs have been innovative public-private partnerships. That is a fact. Two years ago, we established

a program called, "100,000 Strong," which is aimed at increasing the number of American students who study in China to 100,000.

We've made enormous progress – we've already raised more than \$20 million. All of that money – and 20,000 scholarships from the Chinese government – will not go to what you would call your usual suspects. By that I mean major US universities with well-established Asia studies programs.

Rather, this money is being targeted at two-year colleges and minority universities to broaden the pool



*Assistant Secretary Campbell  
takes questions from PECC  
Delegates*

of students who will have an opportunity to study in China. This is precisely because we recognize how important it will be for more and more Americans to learn about China.

This program already has been a model for exchanges in other parts of the world. I would love to tell you that the trend in the future is going to be substantial new public monies for these kinds of exchange programs. But that is highly uncertain in the current budget environment.

**Public-Private Partnerships** – My focus therefore has been to design these public-private partnerships. The problem is that the US government is not structured to easily accommodate the conclusion of such partnerships. Immediately following our announcement of the "100,000 Strong" initiative, we had an army of lawyers with us everywhere we went to make sure that we did not say anything that was inappropriate.

But this is the future. We have to do it. We have to be more effective. And I am grateful for the support we received from the governments of Brunei and Malaysia toward this end.

The public-private partnership forces us to innovate and forces us to recognize that some of our strongest supporters are in the business community.

Some people will say, "Oh well, that's not really diplomacy. That's on the side." But one of the things I'm

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most proud of, frankly, is the “100,000 Strong” initiative. I get more compliments about it. We have more people who want to talk to us about similar initiatives, such as a “100,000 Strong” for Japan or for India. So, I’m very enthusiastic about it.

**South Pacific Tour** – We organized a tour this past summer of about 10 islands in the South Pacific. It was the first tour to this region that included every aspect of the US government. What I was struck by was that in almost all of these places, there were black and white pictures that seemed like anthropological finds from a different era.



*Mr. Ian Buchanan, Chair of Australian Pacific Economic Cooperation Committee, poses a question to Assistant Secretary Campbell*

Most people don’t realize how much money the United States had in the 1950s to underwrite exchange programs and economic development assistance. We’re not in that environment any longer.

And so, if we’re serious about these educational exchanges and other kinds of engagement, we will have to develop public-private partnerships to fund them. Rather than just throwing up our hands, I really encourage people to pursue these kinds of innovative approaches.

### Question #2

Could you say a little bit more about how US–China security relations might improve over the medium term? Do we need more [non-governmental] Track 2 discussions? Is there more scope for military-to-military engagement?

## Campbell

**Importance of Track 2 Discussions** – Very good question. First of all, I am a huge supporter of Track 2 and even Track 1.5 discussions, the latter involving some governmental participation. The more we undertake these discussions with Asian friends and with China, the better.

In reality, private foundations have been quite slow to recognize the challenges we face in the Asian Pacific region.

But more than ever, we will need them to host Track 2 and Track 1.5 dialogues. I agree about the need for greater scope in military-to-military engagement with Beijing. That makes enormous good sense.

**Cross-Cutting Endeavors** – We also have tried cross-cutting endeavors between our two countries’ national security establishments. Too often, there is a division between the Chinese military and the Chinese Foreign Ministry and other agencies.

Through the US-China Strategic and Economic Dialogue, we’ve sought to create mechanisms that enable members of both countries’ diplomatic, intelligence, and military establishments to sit down across from each other and discuss an array of complicated issues. We’ve already had important discussions about how to deal with accidental collisions of naval vessels, which I discussed earlier, as well as cyber-security.

We want to have a broader conversation between our two governments, but that will not happen overnight. This will take an enormous amount of study, usually on the Chinese side, but we are slowly but surely making some progress. Going back to my earlier point, the discussions don’t end there. We need more exchanges at universities. We need a better and broader discourse.

And as importantly, the conversation on security issues cannot be just between the United States and China. Other countries – Japan, Korea, the countries of Southeast Asia – must join in those conversations and recognize that in new institutions, like the ASEAN Regional Forum or the East Asian Summit, these matters should be debated and discussed.

### Question #3

You spoke about the potential for miscalculation between the United States and China. Are you confident we can avoid this miscalculation?



## Campbell

If you recall, the collision between the Chinese fighter jet and the US Navy EP3 back in 2001 put US-China relations in a real tailspin. And you can imagine how in current circumstances a similar incident could really set back relations between Washington and Beijing. It therefore is incumbent on our two countries to not allow this to happen.

**Making Common Cause** – Asia increasingly will be the cockpit of the global economy. As both the United States and China build our capabilities, we must make common cause with Beijing and our other friends in the region to clarify that we share the same goals in terms of the larger maintenance of peace and stability in the Taiwan Strait and across Asia.

### Question #4

Currently, there is a moderate democracy in Jakarta, Indonesia. But the last time I traveled to Java, I was horrified by the shift in political attitudes at the generational level and the rise of rural Islam. What are US plans to engage Indonesia, not just at the leadership level, but in the outer areas. Future elections could lead to major changes at the local government level.

## Campbell

The US-Indonesia Comprehensive Partnership is not simply at the leader-to-leader level. There is a profound recognition in Washington that major changes have taken place in Indonesia. I would simply say that you've identified one trend, but there are other trends as well.

**Indonesia's Complexity** – Lots of polling data suggests that a large group of Indonesians recognize that the integration of ASEAN and a strong relationship with United States are in their country's larger interest. Given Indonesia's complexity, we must always look carefully at the dynamics on the ground and how that may affect election results.

After the tragedy of 1997-1998, many people projected a very dark future for Indonesia. But in fact, Indonesia has performed brilliantly for the last ten years. There are always questions about capacity, that is to say, whether promises can be upheld. Overall, however, I think we should feel very gratified by what we've seen.

**Transition to Modernity** – We must recognize that this is a long-term challenge. There will be major issues, not simply questions associated with the rise of rural Islam, but

also questions about transitioning from certain state-led economic practices to more open practices, whether this relates to fuel oil pricing or whatever. It will be difficult. The process of moving towards modernity in any society is challenging and this will be the case in Indonesia as well.

One could consider every country in Southeast Asia – whether it's Burma, Thailand, Malaysia, Philippines or Indonesia – and identify worrisome challenges to watch. But you would also find areas of hope and confidence. I think the US role going forward is to be an actor that promotes regional integration and the forces of progress and close-coordination.

### Question #5

My question is about the Trans-Pacific Partnership [TPP] negotiations. You mentioned the importance of the US-Japan friendship, but it seems that the Japanese government has been slow to decide whether to join the TPP talks.

What do you expect from the Japanese government at the upcoming APEC Leaders meeting and how will you push Tokyo on the issue of joining the TPP process?

## Campbell

Concerning the technical aspects of the trade dialogue between the United States and Japan, there are other people in the US government who are far more skilled than me to answer those questions. I would simply say that at a strategic level, there is a profound argument for finding areas where the United States and Japan can work together. And TPP is a potential venue for that.

**No Pressure on TPP** – We have to be careful not to be perceived as pushing Tokyo on an issue about which it has not yet decided. At the same time, however, we don't want to appear apathetic and disinterested about how trade integration might benefit our closest friend.

The TPP was raised at a recent bilateral meeting in New York between President Obama and Prime Minister Noda. The United States stands ready to work with Japan as we go forward.

I will be in Japan in early October and will be underscoring our desire to develop an agenda for the United States and Japan that will enable us to work together in the 21st century and play leading roles in tackling challenges facing the broader Asian community.

Thank you all very much again. ♦



## The Pacific Economic Cooperation Council (PECC)

PECC is a track-two, tripartite organization in the Asia-Pacific region composed of senior individuals from business and industry, government, academic, and other intellectual circles. All participate in their private capacity, and thoughtfully discuss and consider areas of cooperation and policy coordination aimed at promoting economic growth and development in the Asia Pacific region.

PECC was founded in 1980 because of the need to facilitate policy dialogues among the economies of this region, which were becoming increasingly interdependent. There currently are 26 Member Committees, including two institutional members, the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC), and one associate member, the France Pacific Territories National Committee for Pacific Economic Cooperation (FPTPEC). PECC's regional community-building efforts led to the establishment of the official APEC process in 1989. The Council is one of the three official observers of the APEC process. PECC has provided information and analytical support to APEC ministerial meetings and working groups. Also it channels and facilitates private sector participation in the formal process.

PECC Full Member Committees include:

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## The East-West Center

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center's 21-acre Honolulu campus, adjacent to the University of Hawai'i at Manoa, is located midway between Asia and the US mainland and features research, residential, and international conference facilities. The Center's Washington, DC office focuses on preparing the United States for an era of growing Asia Pacific prominence.



## The United States Asia Pacific Council (USAPC)

The United States Asia Pacific Council was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization composed of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater US engagement with the Asia Pacific region through human networks and institutional partnerships. The Council also serves as the US secretariat for the PECC. In addition, it supports and strengthens the US National Consortium of APEC Study Centers and is available to facilitate other regional cooperation processes.