

## Session 2: Political Implications of the Crisis in Regional Economies May 12, 2009

**CHARLES MORRISON, International Co-Chair, PECC:** One thing we know about economic crises is that they're not just economic crises. They also have political implications because people's confidence in government and organizations is shaken.

There are both domestic and international implications to financial crises and we have a great panel here to explore these implications with us: Amb. Nogami, president of the Japan Institute for International Affairs; Mr. Jusuf Wanandi, president of *The Jakarta Post* and senior advisor at CSIS, Indonesia; Mr. Shen Shishun, dean of the Department of Asia Pacific Security and Cooperation Studies at the China Institute of International Studies; and Amb. J. Stapleton Roy, chairman of the U.S. Asia Pacific Council. We will start with Amb. Nogami.

**YOSHIJI NOGAMI, President, Japan Institute for International Affairs:** Thank you, Charles. In describing the current crisis, I am reminded of a line from Leo Tolstoy's *Anna Karenina*, which said that happy families look almost the same everywhere, but unhappy families suffer from their unique problems.

This diversity in difficulties reveal the vulnerabilities of each economy, or if I may call it, their idiosyncratic structural programs.

In fact, at an earlier stage of this crisis, many European leaders described this as a financial problem. Before the G20 meeting in Washington last year, they talked about things like a new international financial architecture. But in reality, in Asia, the crisis

has been and still is a crisis in the real economy rather than just a financial crisis.

Some of those political leaders have said that since this is a global crisis, the response has to be global. I think there is some truth to this, but at the same time, if Leo Tolstoy is right, then the response has to meet the idiosyncratic difficulties each economy is facing. The response has to be not only global but also very close to those specific difficulties.

### Demand Gap

Take the case of Japan, for example. The difficulty Japan currently is facing is the existence of a huge demand gap, which is close to the 5 percent of GDP. This is mainly a result of the loss of export demand in the auto and electronic sectors.

The share of exports in Japanese GDP historically has been around 13-14 percent, which is not much different from that of the United States. During the boom period preceding the crisis, 2003-2007, the share of exports in GDP shot up nearly to 20 percent. As a result of a sudden decline or sudden evaporation of an export market, again, the share of exports in the GDP has gone down to 13-14 percent historical level, which is equal to the size of demand gap.

### Labor Market

The crisis also revealed problems in the labor market. It exposed the increasing gap between the formal employment market and informal employment market, resulting in a slumping of the labor share of the market. Our response has to meet these difficulties with idiosyncratic programs.

Let's take a look at the Asian economies in a wider sense. The Asian economies have learned a lesson from



Amb. Yoshiji Nogami, President,  
Japan Institute for International  
Affairs; formerly Deputy Foreign  
Minister of Japan

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the previous crisis, that is, the financial crisis of 1995 and 1998. As you know, the previous crisis revealed the lack of depth of foreign exchange reserves in those countries.

### Reserves Accumulation

As a result of the lesson they learned from the 1997-98 crisis, the Asian economies have accumulated foreign exchange reserves. Actually, this accumulation of foreign exchange reserves is described as structural imbalances. Asian economies are in a way avenged by the lessons they learned from 1997-98 crisis. This is the ironic outcome.

If you take a look at the economic structure of the more advanced Asian economies, you will note one thing. That is a fairly low level of private consumption in the total GDP structure. The typical example is China. About 36 percent of China's GDP is actually from the private consumption.

### Low Consumption

Singapore is another case. Taiwan also has fairly low level of private consumption. Even in the case of Japan during this boom-and-bust cycle, the share of private con-

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### *A lesson from this current crisis concerns the importance of more resilient social economy policy structures*

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sumption decreased from about 62 percent to 58 percent. In other words, while the economy was rapidly growing, the private consumption has not really expanded. As a result, the export share is much larger. In the case of China, about 36 percent of GDP is from exports.

There is nothing wrong with this, but at the same time, if you look at this situation from a different angle, the people of those countries are not reaping the benefits of the economic growth. The policy lessons we learned from the current crisis is that maybe it's about the time the Asian population did better. We would share the benefits of economic growth more widely amongst our people instead of accumulating foreign exchange reserves.

### Social Safety Nets

In Japan, we now are proposing to take up the concept of more resilient Asian societies. In other words, we are going to talk about improving the social safety net within the region, improving the educational system, and developing more sustainable community development strategies. As we learned lessons from the previous crisis, we should learn lessons from this current crisis, such as

the importance of more resilient social economic policy structures.

There does exist a fairly well-established social safety net structure in most of the Asian countries. But the level of benefits is far too low compared to the region's dynamic growth. The U.S.-style Medicare system does exist in the Asia Pacific region, for example. The labor market insurance scheme is not well established. Old-age pension plans, which Japan is still struggling with, must be introduced in the region because many of the countries are rapidly aging.

Japan is leading the group in terms of "aging" populations, but many countries are following. For instance, China may be aging as fast as Japan after 2015. Many Asia Pacific countries have yet to introduce a mechanism to manage various issues related to aging societies. This is the political challenge that most of the Asian countries will have to face in the wake of this very serious economic crisis.

Many people say, "Yes, the objectives are shared," but the most important thing is to understand how to deal with the problem. Objectives are shared but the "how to" is very difficult.

### Regional Dialogue

We would like to utilize an informal regional structure such as APEC to launch a region-wide dialogue on the issues that Asia has not dealt with in the past, and that would include the social policy aspects of our regional cooperation. Thank you.

**JUSUF WANANDI, International Co-Chair, PECC; President, *The Jakarta Post*:** The political implications of the crisis in regional economics, the Asia Pacific case, is a matter I would like to put forward with some thinking.

There are many new security challenges in East Asia, such as terrorism, proliferation of WMD, transnational crime, climate change, energy security, pandemic diseases, and natural disasters.



Mr. Jusuf Wanandi, International Co-Chair, PECC & President, *The Jakarta Post*

### Security Impact of Crisis

But in the last 18 months or so, a new political security challenge has arisen that has overridden everything else, not only in the East Asian region or the Asia Pacific region but also globally, namely the financial and eco-

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conomic crisis, starting with a subprime mortgage problem in the United States.

This has been recognized by Adm. Dennis Blair, President Obama's top national intelligence director. He considered this new threat as one that is global and overriding everything else in this security field, because it could have so many impacts on the world, all the regions, and all the countries, developing and developed.

This crisis is definitely very damaging to developing countries in the East Asian region. The greatest danger to them is that they will become failing or failed states. Although they are not directly responsible for the outbreak of this financial crisis, the resulting deepest recession since the 1930s is felt by the whole world and is going to have an impact on exports, developing assistance, and capital flows, including foreign direct investment. It has increased poverty and unemployment, and could even cause deflation, political instability, and possibly even anarchy, civil strife and a regime change.

### Protectionist Risk

For the more developed nation, new challenges will arise and a tendency towards "beggar thy neighbor" policies, such as protectionism. The withdrawal of capital from other places will create tensions, dissidence, and possibly frictions and conflicts, although wars are not imminent.

However, this means that regional cooperation and global efforts for reforms will cease or will experience a setback. Solidarity will be much weakened, as already happened with the EU in relation to the debt problems of Central European countries as well as experienced recently in East Asia in responding collectively to the crisis.

Tensions between big countries could be possible due to different policies towards finding a solution to the crisis which has been caused by structural imbalances with-

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*The Chiang Mai Initiative could be expanded to include India and Australia in order to increase its global credibility*

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in them. For instance, that happened earlier between Sarkozy's expansionary policies in France and Angela Merkel's more moderate policies in Germany to overcome the crisis. That is why global and regional efforts to overcome the crisis are of critical importance.

At the global level, the G20 is becoming the most important forum to find a way out of the crisis and in the medium term, to establish new rules and institutions, such as reforms of the IMF and IBRD, or the World Bank, which can incorporate the rapid changes that have happened over the past two to three decades.

## G20 and East Asia

To be successful at the G20, East Asian governments and transpacific ones have to cooperate closely to have the necessary impact at a global level. There are six countries from East Asia in the G20, namely China, Japan, India, Indonesia, South Korea, and Australia. And in the North American, transpacific region, there are the United States, Canada, and Mexico.

The ASEAN + 3 members have already come together at a summit level on the sidelines of the ASEM meeting in Beijing in October 2008 and have instructed the ministers and senior officials to take steps towards the multilateral decision of the Chiang Mai Initiative (CMI). This is conceived of as an emergency fund whose amount will be increased from \$80 billion to \$120 billion. The finance minister's meeting in Phuket has endorsed it.

Supposedly, the summit of the ASEAN + 3 scheduled for April 2009 was expected to formalize the creation of this fund. But alas, the summit was postponed due to political strife in Thailand where it was to take place.

This initiative could be expanded to include India and Australia in the future in order to increase its credibility at a global level. And at the end, of course, how to create a transpacific caucus in the G20 might be a very important step to take in the future.

One of the points to be made at the G20 by East Asian countries and transpacific countries is the need to include some funding for stimulus in developing economies and there is a need to do so in the future. At the Washington G20 summit in November 2008, Indonesia made this suggestion and this was supported by the president of the World Bank, Robert Zoellick.

### IMF Reform

While the London G20 meeting again has given the IMF the role of assisting emerging markets in case of liquidity problems, the Fund should be willing to change some of its governance structure and rules. Short of this, East Asia will not be very supportive of the IMF, because it created havoc in the 1997 Asian financial crisis due to the conditionalities it put on the East Asian governments.

It should be noted that despite the urgency, it has taken the ASEAN + 3 (APT) a lot of time to implement the idea of the regional fund. Although the idea has been there for some time and APT leaders had given a go-ahead at the ASEM Beijing Summit, it took about four months before finance administrators finalized the deal and another few months for the Summit to endorse it.

This process has been too slow for the initiative to have an effect in overcoming the crisis. This is why it has become more urgent than ever for the East Asian members and the North American members of the G20 to coordinate.

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### Transpacific Caucus

And this opens the way for informal meetings to be established among them in the future as kind of a transpacific caucus. While there has been an intense transatlantic dialogue and cooperation, there is only limited transpacific cooperation. It is critical that this relationship be established soon.

In the meantime, every country has its own stimulus plan to get the economy going again. It may well be that greater stimulus will be required in the near future because it seems that the bottom has not yet been reached. There's still a great deal of uncertainty about the U.S. economy and its financial sector. But there is definitely a greater need for some policy coordination to have greater impact globally and to be more effective as we have heard this morning. Thank you.

**SHEN SHISHUN, Dean, Department for Asia Pacific Security and Cooperation Studies, China Institute for International Studies:** Mr. Shen's PowerPoint presentation is available at—  
[http://www.pecc18.org/materials/shen\\_pecc.ppt](http://www.pecc18.org/materials/shen_pecc.ppt)

It's my great pleasure to join PECC activities. First, I would like to analyze the political implications from a broad point of view, because the financial crisis not only is in the Asian Pacific, but also the whole world. So I would like to mention some of these points. [Slide 1]

### Washington Consensus

The first point is that the financial crisis has already led to sharp debate on some of the political issues like which developing model, road, or system is better, or whether we should adopt a market economy or planned economy, or capitalism or socialism or combination of both.

There also is discussion of the so-called Washington Consensus, European values, or Beijing Consensus. Those questions are being argued in the media here and in China.

One of the questions I was asked by reporters is why President Obama would take the road of a socialist. Americans will still keep some of their own road, although they've observed some of the experience or best points from the other countries or systems. You may notice that British Prime Minister Gordon Brown said at the G20 meeting that the Washington Consensus is out of date, but personally I don't think so. The very simple reason is that the United States became a superpower under the Washington Consensus, although presently you have met many setbacks because of the financial crisis.

The financial crisis also, of course, influenced the comprehensive national ability of big powers, like Russia,

China, India and Brazil. [Slide 2] Those countries, presently speaking, are on the rise and United States, Japan and some developed European countries are on the decline. That's a very general comparison according to the financial crisis inference.

### Multinational Cooperation

Although the economic crisis is a bad thing, if we turn the crisis into an opportunity to analyze our experiences, the crisis might be able to generate some positive effects. [Slide 3] The first one is there is more coordination among the big powers.

The second is that there is more multinational cooperation. You can see that from the development of the G8 and the G20. In our region, of course, we have ASEAN and ASEAN + 3, the latter of which includes the 10 ASEAN countries, plus China, Japan, and Korea. And, of course, there is the East Asia Summit, which is composed of the 10 ASEAN nations plus six. In addition, there is the BRICs, VISTA, Next-11, and other new developing country groupings. All of those have intensified regional integrity and also multinational cooperation among those countries.



Mr. Shen Shishun, Dean, Department for Asia Pacific Security and Cooperation Studies, China Institute for International Studies

### Foreign Policy Effects

The third positive effect is the influence of foreign policy orientation. We can notice that influence on U.S. policy-makers. For example, President Obama already has decided to withdraw U.S. troops from Iraq. Washington also may take less unilateral actions and pursue more multinational cooperation. In addition, the United States may use more smart or soft power rather than force as well as change its nuclear stand.

As Mr. Steinberg said earlier, the United States is going to sign the Treaty of Amity and Cooperation with Asian countries and also seek solutions to the Burma problem. These are positive policies toward the Asia Pacific region.

### Domestic Problems

Of course, there are some of the negative effects. [Slide 4] These include domestic problems, such as unemployment, social unrest, instability, and power

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shifts, for example, in Thailand, Japan, Myanmar, Philippines, and of course, China, too. Those countries are all paying attention to their domestic troubles. You can see that all those governments have to take positive measures to improve the internal situation.

If regional issues or domestic issues are not handled properly, they could lead to possible conflicts and even a war that would shift the crisis. These might include tensions on the Korean Peninsula or in South China Sea or Yellow Sea or East China Sea. They are all the potential hot points.

### Proposed Solutions

I would like to mention some of the solutions. [Slide 5] The first one is to jointly fight the financial crisis because we are all in the same boat; we are more integrated into each other's economies. We are living on the same planet, so that means we have to fight the crisis together.

The second solution should make full use of existing dialogue mechanisms to increase the mutual understanding and trust and reduce the wrong judgment. For example, China and the United States have developed a dialogue mechanism.

The third solution is to strengthen multinational cooperation even more. The fourth solution is to abolish the Cold War mentality and adopt a new security concept.

The fifth solution [Slide 6] is to solve domestic trouble by themselves and not shift the crisis on to others. The sixth is to refrain from the use of force or sanctions to solve international or regional issues in order to prevent conflicts or even a war. The final solution is to solve the potential issues through dialogue and negotiations, and if the problems cannot be solved right now, to postpone resolution.

If we want a better future [Slide 7], we should establish sound relationships based on relevant international laws to bring a win-win result to all of us. We also should learn from each other and perfect our own social systems. China's proposal is aimed at establishing a harmonious world.

**J. STAPLETON ROY, Chairman, U.S. Asia Pacific Council; Director, Kissinger Institute on China and the United States, Woodrow Wilson International Center for Scholars:** Coming last in this series of speakers, one has to cast around for political implications that haven't already been mentioned. I would begin, however, by noting that because of the severity of the current economic and financial crisis, 2009 could well be a defining moment in world affairs.

Indeed, the current economic downturn could be as significant in its longer term consequences as the collapse of the Soviet Union 20 years ago.

Most of us don't think in those apocalyptic terms at the moment, but it's worth considering because history has shown that major economic downturns produce major consequences.

We already see evidence that the crisis will have both short-term and longer-term political implications. Let me touch on some of them, and as I say, many of them have been touched on by earlier speakers.



Amb. J. Stapleton Roy, Chairman, U.S. Asia Pacific Council; Director, Kissinger Institute on China and the United States, Woodrow Wilson International Center for Scholars

### Focus on United States and China

First, to an extent not seen in the past, the global financial crisis has focused attention on the leading role of the United States and China in world economic affairs. To a significant degree, this is merely the acceleration of an existing trend. China's rapid economic development

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***If China emerges faster and in a relatively stronger position from the financial crisis, this could feed Chinese threat theories***

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over the last 50 years has already generated a prolonged debate over the significance of the rise of China. This debate is continuing but the crisis has given China's role additional prominence.

Some observers, including Dr. Fred Bergsten [Director of the Peterson Institute for International Economics], who's well known to all of you, has characterized China and the United States as the Group of Two, or G2, as a means of highlighting the importance of these two countries. Not surprisingly, China rejects the concept of a Group of Two, which it correctly believes exaggerates its power and influence at a time when it still faces enormous development tasks at home.

But in many ways, China is behaving as though it were a member of this elite club. In London, President Obama and Chinese President Hu Jintao pledged to work together in addressing the crisis and agreed on the need for sweeping changes in the global governance structure of international financial institutions.

Quite frankly, a few years ago, such a statement coming from the United States and China would have been inconceivable. In fact, it would be much more characteristic of a U.S. meeting with its European allies or with

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Japan. So there has been a change.

Second, how well or how poorly major countries handle the crisis will affect perceptions of them, and as I noted, can also affect their relative strengths. The United States and China are the two countries that have launched the most dramatic stimulus packages, although I think as we all know, Japan and Korea have also launched very significant stimulus programs.

In the case of China, for the moment, the government seems to have reversed the dramatic drop in Chinese output that occurred in the second half of last year and the Chinese government is confident in predicting it can attain an 8 percent growth rate this year. The World Bank has been more conservative, projecting a 6.5 percent growth figure, but the reality is that either figure under current economic conditions would be truly remarkable and would single out China from virtually every other country in the world if it is able to reach that goal.

### China's Rise

If China emerges faster and in a relatively stronger position from the financial crisis, this will effect global attitudes and it will have domestic resonance both in China and in the United States and other countries.

In fact, this could be China's greatest danger. It could feed Chinese threat theories by making it appear that China's relative standing was increasing more rapidly than people had expected. It could alter regional alliances and it could foster the emergence within China of a dangerous combination of hubris and nationalism.

We've already seen glimmerings of this phenomenon in a recently published Chinese book called *China is Unhappy*. The book both derides the West and wants China to seize a position of global leadership. The Chinese government has firmly rejected such viewpoints, but they have popular appeal. Not to everybody, but to some within China.

Significantly, a recent edition of *The Economist* magazine featured China on its cover and reported that there was a sense in Beijing that the reassertion of the Middle Kingdom's global supremacy is at hand. Obviously, that type of attitude has political implications.

### Asian Self-Reliance

Third, as was the case in the Asian financial crisis 12 years ago, the current crisis could add impetus to Asian efforts to rely on their own resources to deal with severe financial shocks. We've already seen actions to flesh out the Chiang Mai Initiative through the creation of an emergency currency fund and through bilateral currency swap arrangements. But there will also be political implications in how the policies of individual countries affect others for better or worse.

We all recall that during the Asian financial crisis,

there was a negative reaction in Asia to the U.S. response—particularly strong in the case of Thailand, but also discernable in other countries—whereas China gained credit by not devaluing its own currency. We could see some variation of this pattern again depending on how this crisis plays itself out.

Fourth, as Mr. Shen has already noted, a crisis of this sort can either strengthen international cooperation or can, depending on how individual policies are developed, foster international disputes that could be severe. So it can go either way.

### Ideological Debates

As we look down the road, and Mr. Shen also touched on this, we should also assume that the current difficulties of Western capitalist economies will sharpen ideological debates over the relative merits of different economic systems, a debate that has been largely quiescent since the end of the Cold War.

This debate could touch on issues such as the correct mix of private enterprise and state-owned entities in developing economies and the proper balance between free markets and government interventions in economic systems.

Such debates could influence the direction of China's

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### *The current difficulties of Western capitalist economies will sharpen ideological debates over the relative merits of different economic systems*

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reform and openness policies and it could have broader impact, as well. Indeed, it could be a global debate over relative merits of economic systems. Certainly if China escapes the worst of the global downturn, this will legitimate in the eyes of some China's form of market socialism with Chinese characteristics.

### Domestic Political Impacts

Finally, it is worth remembering that the Asian financial crisis produced political change in a number of the regional countries. This has not yet been the case, but the crisis hasn't fully played itself out. In the case of the United States, it's worth remembering that the last U.S. president to take office during a comparable economic downturn was Franklin Delano Roosevelt, who served as president longer than any other president in U.S. history. Now, there are certain constitutional limitations on a repetition of that pattern, but I cite it to simply illustrate that politics can be deeply influenced by an economic crisis of this magnitude.

I think, again, as Mr. Shen noted, that Secretary

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Clinton during her Asian trip found the right metaphor in referring to the fact that we're in the same boat together in dealing with this crisis. She was referring at the time to the United States and China, but I think the reality is that given the nature of the globalized economy, in fact, all countries in the world are affected by how individual countries, particularly the major economies, handle the downturn. Thank you.

### **QUESTION & ANSWER PERIOD**

**CHARLES MORRISON:** Thank you. This morning, in our first session, we talked about whether the crisis might follow a pattern that looks like an Arabic character or looks like a Chinese kanji or maybe even a Thai character. But in any case, I thought the responses to that question reflected the acceptance that the future growth pattern will not reflect just economic forces, it will also reflect policy responses and political forces.

Now, we have in our panel two members whose countries are actually facing elections. One, Indonesia, is having an election as we speak. The other, Japan, will be having an election very soon. We didn't talk about that, but the question really is the capacity of national governments to sustain the courses of reform and recovery that are needed.

In fact, there's a question about that even in the United States, where very significant policy changes have taken place as they have in Japan and China, but where you see a question about the capacity of Congress and the public to sustain the course that has been taken.

Questions also have been raised about the regional response, the ability of the countries to engage in cooperation. I think there was a general sense from the panel this morning that there needed to be greater regional cooperation and that was the case in the second session as well.

But some panelists, particularly Prof. Park Yung Chul, questioned whether the governments would actually engage in this kind of cooperation; he said not likely. So these are some questions I think that will come up as we respond to this panel.

**[UNIDENTIFIED]:** I hear a lot of speakers talked about more cooperation in the Asian region. Are you implying that the Asian region should have more integration to build capacity to face these kinds of global crises in the future?

**IAN BUCHANAN, Chair, Australian Pacific Economic Cooperation Committee:** As Amb. Roy said, the 1997 financial crisis sent the first tsunami of shock waves to test the region. The full impact of unemployment going through the region has not fully tested the

second wave, so I have a primary and a secondary question for each of the speakers on this.

The first is for Amb. Roy. What are the implications of a possible second wave on further dividing the rural "poor Richards" from the urban elite "yellow shirts" in Thailand at a time when we don't have a clear royal succession plan for an acceptable new ruler to hold the country together.



Ian Buchanan, Chair, Australian Pacific Economic Cooperation Committee

Second question: to what extent do you see the weakening of PAP's monopoly on power in Singapore as a result of generational change and the deep economic downturn?

The second question is about Malaysia because of the close links. With the end of the Suharto era in politics, do you see the emergence of a stable coalition along the lines of the early days.

Next one is for Dr. Shen.

A number of the speakers focused on policy rather than politics. China's made great steps at democratization at the lower level and democratization of the flow of information. To what extent do you see that naturally moving towards a path less of a monopoly on political power at the center of the Communist party? Is there a path forward to greater contestability of political ideas at the national level?

Lastly for Amb. Nogami, to what extent do you see a reduction in the paternalistic role of political leadership in Japan for the business system and implications for the stability of the *zaibatsu*? Thank you.

**CHARLES MORRISON:** Stape, why don't we start with you, and don't forget the first question of regional integration.

**J. STAPLETON ROY:** The first question was the implication of a possible second wave of this financial crisis sweeping through the region and having political consequences. It's certainly possible, but there is no formula that is followed.

For example, if we look at the political changes that took place in Asia in the 1997-1998 period, Suharto's rule in Indonesia came to an earlier end than most people anticipated, largely because he lost legitimacy because of the sudden drop in Indonesia's growth rate and he proved unable to deal with the instability that had emerged in Indonesia at that time.

But there were also changes as I recall in the govern-

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ment in Thailand where you already had a form of democratic governance. I believe in Korea there was also a change in the government. Crises of this sort can impact on democratic governance and they can also affect authoritarian systems whose legitimacy rests on economic performance without an additional way through elections or some other means of legitimizing the political systems.

The conclusion clearly is that governments such as Myanmar and North Korea that showed very little impact from the Asian financial crisis must be superior in some way, but I find that most people don't come to that conclusion. I certainly don't myself.

Is there a potential weakening of the PAP position in Singapore? Well, of course, those of us who have lived in Singapore these many years find that an inconceivable proposition. I think it's unlikely not for that reason, but I don't think there's a perception that the difficulties that Singapore is now encountering were a result of errors by the Singaporean government.

It's seen as a problem the Singapore government needs to cope with and I think it might actually have the opposite effect—that there will be confidence that the Singapore government will do the best job it can by keeping the current government in power rather than moving to a totally untested opposition government of some sort.

**SHEN SHISHUN:** I will answer two questions. One is the question about the integration of East Asia. You can see that East Asia is far behind in terms of integration compared with NAFTA or the European Union, of course. And we have to quicken our steps on the road of integration.

East Asia is divided into two parts; the northeast region and the southeast region. Southeast Asia already has quickened steps to establish its own community there. For example, there is the China-ASEAN Free Trade Agreement.

With respect to Northeast Asia, we still are on our road. Relations between Japan and China are on the right track. So I think our Southeast Asian neighbors also are so glad to see Northeast Asia coming together economically. Of course, we are the two parts joined together. ASEAN + 1, ASEAN + 3, or ASEAN +6—all of those regional mechanisms will serve as the basis for integration.

The second question concerns the progress of democracy in China. You can see that the democratic process in China is making progress comparatively. I grew up with the establishment of the new China, so I have the personal experience under a democratic situation and could see that it improved a lot.

For example, during the Cultural Revolution, if you said something, you might become a counter-revolution-

ary. You couldn't speak freely. When foreigners or reporters interviewed you, you had to adhere to prepared speeches. I'm often interviewed by journalists and on TV shows. I can't express my opinions freely. So China's democratic process also is not so satisfactory. It still has its own problems.

But I think over time the democratic processes gradually will improve in China. The former leader of



From left, Amb. Yoshiji Nogami, President, Japan Institute for International Affairs; Mr. Jusuf Wanandi, President, *The Jakarta Post*; Mr. Shen Shishun, Dean, Department For Asia Pacific Security and Cooperation Studies, China Institute for International Studies; Amb. J. Stapleton Roy, Chairman, U.S. Asia Pacific Council

Singapore, Lee Kwan Yew, said that maybe stability is more important than democracy. You know, without stability, there is no chance of democracy and that means something. But now, Chinese leaders cannot decide the themes by themselves. They must draw some suggestions from scholars and even public opinion. Thank you.

**JUSUF WANANDI:** Well, first concerning regional integration. As I proposed earlier, definitely more cooperation is needed in the Asian region, especially the East Asian region and transpacific region so that we can have more capacity to face the crisis much better.

On Indonesia, first I think support for the ruling party is not as extensive as you think. They got 19.6 percent in the last election of Parliament compared to the 21 percent they had previously. So it's still there but they have to demonstrate better leadership.

Second, whether there's a possibility of a stable coalition will depend on the PDI. The leadership has been approached by the Democrats under SBY [Susilo Bambang Yudhoyono] to line up and have a coalition with SBY. So, as you know, there is nothing impossible in politics and that is also what we are looking for.

This president is a nice man but he is not a very strong personality. His party is him. There's nothing else; no ideology, no infrastructure, no leaders. So if there is to be a coalition with the four Muslim parties, although they are different in variety of Islam, there will be pressure on him for this Islamic ideology. And he might give in and that is the worry.

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But I think race-based politics are going to change. It has already changed because the opposition, as you know, is lining up kind of a coalition of nonracial-based parties. Thank you.

**YOSHIJI NOGAMI:** Paternalism in Japan and the *zaibatsu* in Japan. I think it is some time since I heard those words last and I am amazed that the people still remember those words. Thank you.

**STEVEN YAO, Malaysia National Committee for Pacific Economic Cooperation:** Mr. Shen, you mentioned the China threat, particularly with respect to restoration of the Middle Kingdom complex. I must say, coming from a small country like Malaysia, flying all the way out here, I was looking at development of the international arena over the last 50 years or so. Somehow I couldn't help but feel that in coming to Washington, I was coming to the Middle Kingdom, especially in the last eight years. So I would like to see your response to this notion of the China threat. Thank you.

**[UNIDENTIFIED]:** I have a question for Amb. Nogami. He was an eloquent spokesman for APEC and the APEC process. Given the fact that APEC did not distinguish itself in terms of the proposal for a Free Trade Area of the Asia Pacific and in terms of prodding WTO to complete the Doha Round, is it possible that the APEC component countries of the G20—I'm talking about the nine—can have a decisive impact? Is it possible? Is it desirable? And is there a role for business to play in that process? Thank you.

**LYNN KNIGHT, U.S. Commonwealth of the Northern Mariana Islands :** A question for Amb. Nogami. What do you think would have the most impact in terms of building a social safety net? What would the elements be?

My second question: I haven't heard the word tourism this morning. We've talked about cooperation again and again and we always knock ourselves out on trade and we don't talk enough about tourism as a part of trade.

I see China with growing incomes and the most rapidly growing outbound market in the world. It has far surpassed Japan already. We're not doing very well at welcoming Chinese tourists in the United State and, in fact, we take eight weeks to even give them an appointment to obtain a tourist permit. And there are a lot of other countries that have problems with Chinese tourists. What, if anything, is being done to help open up the opportunities for Chinese tourists in Asia and with the United States? Thank you.

**[UNIDENTIFIED]:** Thank you. Just now, Mr. Shen mentioned a Washington Consensus and I think most of the politics in the past decade in the Asia Pacific or in the world has been around the Washington Consensus. Given the current world financial crisis, what do you think is wrong with the Washington Consensus or what is right with the Washington Consensus? And what is the future of the Washington Consensus? I direct this question to Amb. Roy and to Mr. Wanandi.

**JOHANNA YUK CHUN KU, PECC Youth Delegate, Hong Kong:** I have two questions for the four speakers. My first question is that we are all in the same boat but there are small economies and larger economies and obviously larger economies play a bigger role in steering through the economic crisis. But are there any roles for the small, open economies such as Hong Kong in steering through the economic crisis?

And my second question is that how do you view the roles of trade blocs? Are they bringing more merits in solving the problem or do they bring extra challenges in solving the problem of the current economic crisis?

**CHARLES MORRISON:** Thank you for so ably representing the APEC youth. And now we'll start with Amb. Nogami.

**YOSHIJI NOGAMI:** The question about the social safety net. I'm not really sure about the structure of, let's say, pension schemes or the Medicare system in the United States. In the region, we are not really talking about those things amongst ourselves. I don't have a very good knowledge of the various elements of the social safety net, in fact, because this aspect has not been dealt with by the countries in the region in a cooperative manner.

So what I'm proposing is just to launch a first stage of sharing experiences and sharing good practices. Each economy faces different problems, different difficulties. These aspects must be written about and information shared through open discussion. I don't have a specific recipe for your programs because, frankly speaking, I don't know the problems. I don't understand the detailed situation.

On the last question posed by the representative from Hong Kong, what is needed here is for each economy to rectify or to address their own problems first. In the case of Japan, as I said, there is a huge demand gap and this is being addressed through the stimulus package and the other means. The big demand gap issue has to be addressed.

There also are employment aspects. As I said, we are creating a two-tier labor market and the gap is widening. Something has to be done to narrow the increasing gap between formal and informal labor markets.

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But problems individual nations may be facing could be totally different. We know the programs of the Japanese economy best and Mr. Wanandi knows the programs of Indonesia best. Each country has to tackle with their programs first and foremost. The contributions to the wider economy will come later. Thank you.

**JUSUF WANANDI:** The transpacific caucus within the G20 that I have mentioned in my earlier statement definitely will be useful because it will be enable political input from the region into the G20 process to ensure that effective, productive, and acceptable policies are developed. And then, of course, you need all these countries as well if they are going to be together for the socialization of those policies in the future.

East Asia alone has tried and I think there will be a little bit more pressure needed and that's why we also need the transpacific input so that East Asian integration will move quicker.

Regarding trading blocs, if they are closed, that will be devastating, as we found in the 1930s. Therefore, if you have a trading bloc, it has to be completely open according to the ability or rules, otherwise it is going to be devastating for the future.

**SHEN SHISHUN:** Regarding the so-called China threat, of course, Asian countries are worried because of China's size or proximity. They are neighbors, so they have some worries. I think that's natural.

In the past, Southeast Asian countries worried that China might export revolution or might organize the overseas Chinese to do something. Many years passed and now we see that China did nothing about those things in the past years. To reduce the concerns of ASEAN countries, China has supported their efforts to politically and economically integrate East Asia. We advocate a win-win result.

With respect to a China-ASEAN Free Trade Agreement, China might make concessions as part of a so-called early harvest because we see that as having mutual benefits. And internationally, of course, we have been mentioned as a G2 power with the United States.

But we are firmly against big power monopolies or control of this world. We should allow more countries to sit in United Nations or even participate in the G20s. We also advocate global collective decisions, not monopoly decision-making by one or two powers. Thank you.

**J. STAPLETON ROY:** If she's willing, I would like to yield the floor to Amb. Carla Hills to comment on the Washington Consensus. Carla, would you be willing to say a word or two about that? The question was what's wrong with it and what's right with it?

**CARLA HILLS, Chairman, Hills and Company:** It certainly is right in that I think it generates growth. There are no governments that have had a history of wealth creation that have not unleashed capitalism and entrepreneurial spirits. Where our capitalist system has been weak is in providing a safety net.

I've always been an advocate of having a grand bargain in our great democracy. The one party, the Republicans, believe in entrepreneurialism, open markets, capitalism.

The Democrats have been less fond of those policy choices, but they have been quite concerned about unemployment insurance and the fate of workers who lose their job through no fault of their own and what awaits them. They do not have health insurance, they do not have training for new positions and they have very little assistance during their unemployed period.

So a grand bargain would be to say let's keep our markets open and let's be more generous on the programs that could effect our populations.

There have been economic studies that show that the U.S. economy has grown by \$1 trillion a year since World War II as a result of globalization. To fund programs that would provide assistance, would cost an estimated \$15-25 billion. Now, that's a lot of money when we're facing an economic crisis. But we have been talking about the grand bargain, what it costs, what the benefits are for a long period of time and I don't think we should take it off our radar screen.

To use a very parochial statement, we don't want to throw out the baby with the bath wash, so we have to figure out how to help our workers while we keep our markets open or we will forfeit the wealth that open markets, capitalism, entrepreneurial spirits have created and can continue to create.

**CHARLES MORRISON:** I'd just like to make a couple of comments.

### Societal Resilience

First, about the resilience of different societies to financial crisis, I think there's a tendency to think that politics is isolated and different but in fact there are some



Amb. Carla Hills, Chairman,  
Hills and Company

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systemic factors explaining how deeply each economy is affected.

The reason North Korea and Burma are not particularly affected politically is that they're not very connected to the world economy. Whether there is an established sense of nationhood, or an established political culture, that obviously helps in dealing with crises. Whether there are social safety nets or not, I think democracy is very important.

Stape mentioned that the Indonesian government fell in 1997. That was the last days of an autocratic regime. But the changes in Thailand and Korea came about through the democratic system. They were not changes of the system, they were changes of government.

### **Political Will**

Another thing that's very important, obviously, is the political will of leaders, their ability to recognize problems and to move quickly on problems. I think we've seen some considerable positive features of that in Asia and in North America in this crisis.

### **Regional Cooperation**

As far as regional cooperation is concerned, I think it is a very difficult time to get countries to work regionally. People are thinking about their own situation, their own national situations, and so I think one of the important things is to inform leaders and particularly to inform publics and the media.

That's one of the reasons why we have these kinds of meetings of PECC, to try to get the word out that in fact issues like increased trade interactions are not part of the problem, they're part of the solution as we go forward. Thank you very much. Thank you, panel. ♦