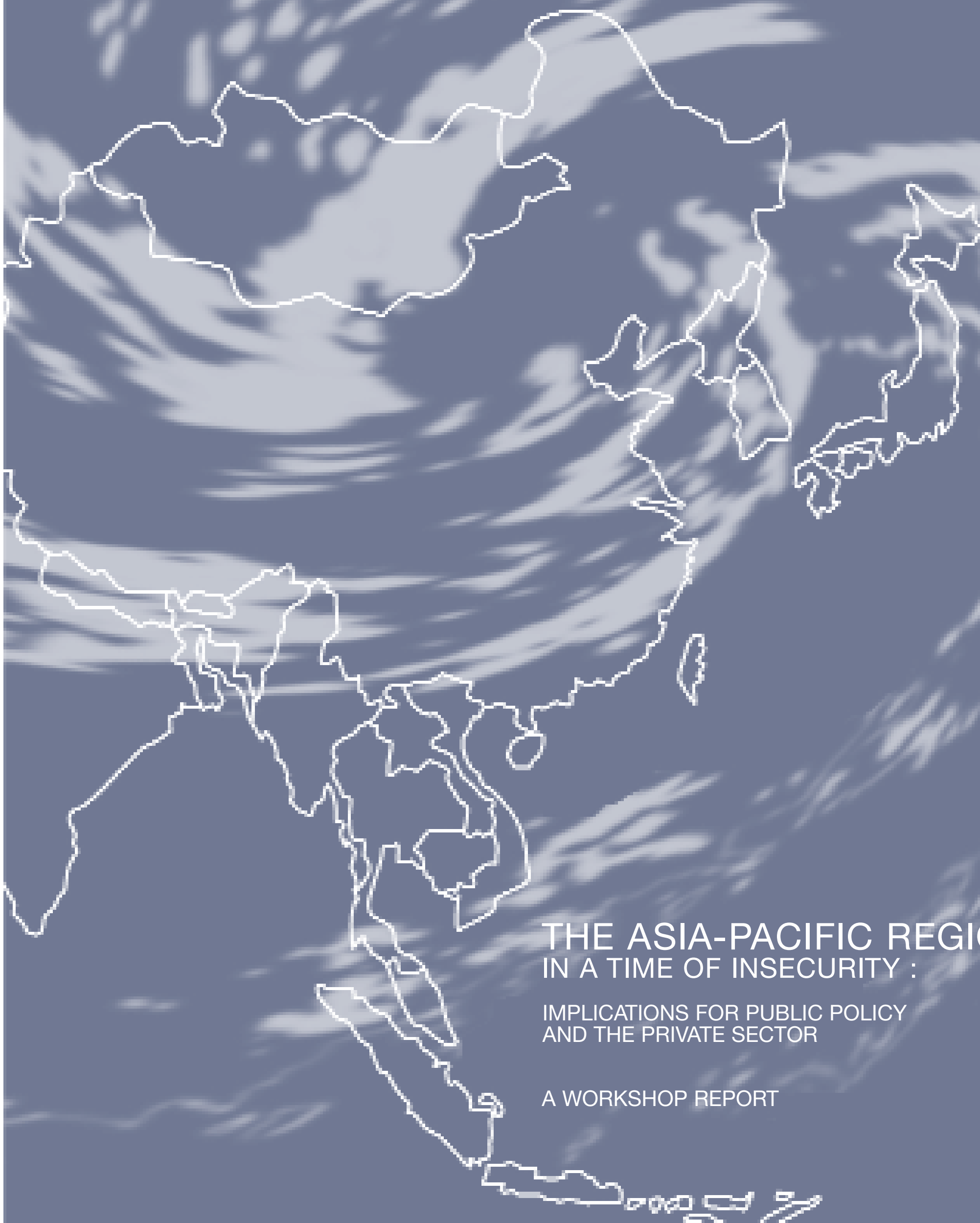

THE ASIA-PACIFIC REGION
IN A TIME OF INSECURITY :

IMPLICATIONS FOR PUBLIC POLICY
AND THE PRIVATE SECTOR

A WORKSHOP REPORT

FIRST ANNUAL PACIFIC RIM WORKSHOP ORGANIZED JOINTLY
BY THE PACIFIC COUNCIL ON INTERNATIONAL POLICY AND THE
UNIVERSITY OF SOUTHERN CALIFORNIA

DANIEL C. LYNCH, RAPPORTEUR • FEBRUARY 2004

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THE WESTERN PARTNER OF THE COUNCIL ON FOREIGN RELATIONS

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PREFACE

This report—prepared by Dr. Daniel Lynch, Assistant Professor of International Relations at the University of Southern California—summarizes discussions from the first of a planned annual series of "Pacific Rim" workshops organized jointly by the Pacific Council on International Policy and the University of Southern California. The aim of the series is to bring together top-flight analysts to discuss pressing issues affecting Asia, Latin America, and North America. It seeks to reinforce the role of the Council and the University as leading conveners of regional expertise, with an emphasis—although not an exclusive one—on expertise based in West Coast institutions. We want the proceedings of this series to be of interest to policy makers and those in the private sector, as well as to scholars.

For our first workshop, held May 8–9, 2003, in Los Angeles, we chose to focus on the changing strategic environment in the Asia-Pacific region, with special emphasis on the consequences of the growing sense of insecurity for both private- and public-sector actors. The evolving struggle against terrorism two years after September 11th, the SARS crisis, and nuclear frictions with North Korea—all at the forefront of international debate in the months leading up to our meeting—provided the backdrop for our discussion. The workshop clearly underscored the ways in which transnational risks, new and old, are reshaping the behavior of governments, businesses, universities, and policy institutions. Dr. Lynch's report gives a good sense of the wide-ranging and provocative discussion that took place among a diverse group of observers. It raises more questions than it answers—a reflection of the extraordinary flux in Asia-Pacific affairs and, not least, American policy toward the region.

We anticipate that our next workshop, planned for Spring 2004, will focus on developments in Latin America.

We wish to thank the Office of the Provost and the Center for International Business Education and Research (CIBEAR) at the University of Southern California, and the Hong Kong Economic and Trade Office (San Francisco) for their generous support of this effort. We are also most grateful to our participants for the time devoted to our proceedings and the very open and thoughtful character of our discussion, and to Dr. Lynch for preparing this report. Jennifer Faust of the Pacific Council staff handled most of the administration and logistical arrangements for the workshop, and we thank her as well.

A video of our proceedings is available at:
http://www.pacificcouncil.org/public/Studies/prw/agenda.html.

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I. A CHANGING STRATEGIC LANDSCAPE

Terrorism and the implications of the Spring 2003 SARS ("severe acute respiratory syndrome") epidemic are challenging the models and approaches that analysts most frequently use to map Asia-Pacific dynamics. They are also forcing analysts and actors alike to develop new conceptual schemes more capable of capturing the Asia-Pacific region's complex and turbulent reality. At present, the most influential approaches to mapping regional dynamics remain the "power transition" model and the "globalization" model. Put simply, the power transition model argues that America's relative strength in the region declined as the comprehensive power of other countries—Japan in the 1980s and China in the 1990s—increased. The result has been a bevy of tensions that impede regional cooperation as key actors strive for dominance.

The power transition model became popular in the 1980s after the publication of historian Paul Kennedy's bestseller, The Rise and Fall of Great Powers (1987). It gained credibility with the collapse of the Soviet Union, which made it dramatically clear that great powers can indeed fall. Initially, many pundits predicted that Japan would surpass the United States as the most powerful country in Asia and might one day challenge U.S. global hegemony. A few years later, as Japan entered a quasi-permanent economic stall, others began talking about a "rising China" sure to roil the waters of international affairs.

Competing with the power transition model is the globalization model. Much more optimistic than the power transition approach, the globalization model argues that even if some countries start surpassing others in aggregate national strength, they will face a strong incentive to cooperate harmoniously if they invest across borders and trade extensively with one another—ideally within the framework of such institutionalized interaction as the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) forum. Globalization generates an increasingly dense web of transnational interactions and gives every state an incentive to solve its problems with other states peacefully. Thus, in the presence of extensive cross-national trade and investment, the United States benefits from the rise of Japan and the rise of China. Ultimately, it may even be argued that all Asia-Pacific countries benefit from the rise of the others.

Recent developments suggest that both the power transition model and the globalization model are far too rigid to capture the complex and challenging reality of Asia-Pacific international relations and development. September 11, 2001 and the wars in Afghanistan and Iraq certainly distracted the United States from concerns about an imminent rise of China, and almost all states in the Asia-Pacific have devoted strenuous energies to uprooting terrorist networks within their borders. The dominant conflict has therefore come to be cast as something more akin to "civilization versus barbarism" than to traditional conflicts among the great powers—all of which are now cooperating to combat terror.

But if joint prosecution of the war on terror reduces tensions among the great powers, it also throws stones in the path of smooth, ineluctable globalization. Countries are tightening their borders and beefing up immigration controls, and governments and private firms are strengthening their physical security—creating a climate of fear that reduces the flow of investors, tourists, and students across borders and threatens to make some areas "no-go zones" for foreign direct investment (FDI). Institutions established primarily for the purpose of facilitating deepened regional economic integration (such as APEC) are now being mobilized to help put in place joint security measures that paradoxically create obstacles for deepened integration and increase the costs of globalization.

SARS, meanwhile, arrived with full force and fury in the spring of 2003, and in the summer and fall, the world waited to see whether the virus would become an annual scourge in the Asia-Pacific region (and beyond) or would fade away. If SARS becomes an annual scourge—a question that could take several years to sort out—the implications for Asia-Pacific prosperity and security will be enormous. Even if SARS is contained, its devastation in the spring of 2003 is sufficient to remind the world of the increasing threat epidemics pose in a global ecology characterized by increasing population densities and high-frequency travel.

SARS and other epidemics challenge both the power transition model and the globalization model in many ways. SARS challenges the power transition model because, if the virus returns, it could set in motion a chain of events that would slow down or even stop the rise of China, which seemed irreversible as late as Hu Jintao's ascension to the Chinese presidency in March 2003. Epidemics generally weaken the globalization model because they threaten to sharply reduce regional economic integration. Tourists and purchasing agents refuse to travel and investors postpone decisions—particularly those concerning whether to begin or implement new projects in affected countries such as China.

In short, two completely unexpected developments—the September 11th terrorist attacks and the 2003 SARS epidemic—fundamentally challenge the dominant models that policy makers, business people, scholars, journalists, and other observers have been using (implicitly or explicitly) to understand and map the trajectory of the Asia-Pacific region for more than a decade. Clearly, a new approach to mapping regional relations is needed, an approach that can account for the complexity of the Asia-Pacific scene and for the likelihood that seemingly random or chaotic events will continue to introduce turbulence into the region's tightly woven cross-border networks, seriously disrupting economic and social exchanges, and potentially threatening political stability. Such a new approach will take time to develop and can only emerge if observers of the region suspend preconceived notions and allow themselves to "think outside the box" for a sustained period, to see what develops in the region and to allow patterns to emerge.

STRUCTURE OF THE REPORT

This report summarizes a focused discussion among seasoned regional experts in May 2003. It questions both the power transition and globalization models without asserting any complex new approach to conceptualizing Asia-Pacific trends and developments. It invites readers to take its observations and begin the work of generating a new model themselves.

SECTION II focuses on China's response to SARS in the context of a broader discussion of the difficulties surrounding governance in China, despite the country's stunning economic success.

SECTION III asks, is Japan really adrift, as pundits say? Or does its apparent drift serve only to disguise the emergence of a new—albeit unsatisfying—equilibrium?

SECTION IV focuses on the dangerous Korean peninsula, site of Asia's most serious unresolved security problem. Will the pressing need to "get Korea right" convince the United States to take a less unilateral approach to the peninsula than it is perceived to have taken in recent years? Will Korea cause the United States to deepen its cooperation with China?

SECTION V focuses on Southeast Asia, a complex sub-region still suffering the after-effects of the 1997–1998 economic meltdown and now having to contend with China's economic rise. Can Chinese competition and growth be made to benefit Southeast Asia economically? What are the implications of the war on terrorism for political stability in countries such as Indonesia?

SECTION VI offers overall observations and conclusions on transnational security problems facing the Asia-Pacific region and threatening to slow the pace of regional integration. Will challenges such as terrorism and the SARS epidemic serve to unite the region further, or will they spawn increasingly serious squabbles? What are the roles of private and public-sector institutions in promoting regional cooperation under these conditions?

II. CHINA: CHALLENGES OF GOVERNANCE, REFORM AND INTERNATIONAL COOPERATION

China has been central to both the power transition and globaliztion models of Asia-Pacific affairs. It is unquestionably a rising power, but it will not necessarily compete in a hostile way with the United States and its Asian neighbors if drawn into webs of global exchange. Under China's policy of "reform and opening" since 1979, its economy and society have undergone enormously important changes, resulting in more than a quadrupling of China's per capita income between 1980 and 2003 and the rise of a distinctive, high-consuming middle class. In 2002, China was the world's fifth-largest trading nation, up from 32nd place in 1978. Also in 2002, China surpassed the United States as the world's largest recipient of FDI. During the past ten years, China has received increasingly large proportions of inward-bound FDI in Asia, displacing investment that formerly went to countries of the Association of Southeast Asian Nations (ASEAN). In the mid-1990s, China and Hong Kong together received about 56 percent of inward-bound Asian FDI, a figure that increased to 77 percent in 2001. During the same period, ASEAN's share of inward-bound Asian FDI fell from about 33 percent to 10 percent. China's admission to the WTO in November 2001 promised to accelerate this trend. At the same time, however, China has become a major purchaser of ASEAN exports, ameliorating to some extent the dislocations caused by diverted investment flows.

On the diplomatic front, the Chinese government under Jiang Zemin (who ruled from 1989 to 2003) succeeded in staving off strident nationalistic forces and directed China toward a relatively internationalist foreign policy. Although Beijing continued to aim missiles across the Taiwan Strait and otherwise acquire the military capacity to coerce Taiwan into unification, it also began in January 2002 to develop a softer approach toward the island state—primarily by encouraging cross-strait economic integration. China cooperated with the United States in the war on terror and—under Jiang's successor, Hu Jintao—took the initiative to host an important meeting on North Korea in April 2003. It also dispatched its new premier, Wen Jiabao, to Bangkok for an ASEAN meeting designed to open a more serious regional discussion of the SARS epidemic and how governments should respond. All these actions created a sense that China was becoming a more responsible and constructive member of the international community—a status symbolized by the International Olympic Committee's decision to award Beijing the Summer Games of 2008.

At the same time, however, some workshop participants noted that serious problems were churning beneath the shiny surface of prosperous new China—problems that threatened to undermine or reverse its achievements. First, deep-seated demographic pressures—stemming from the fact that the population will increase by 300 million by 2030—has combined with initial reform of state-owned enterprises (SOEs) to create a burgeoning demand for jobs. Unemployment has become a structural problem of such severity that Chinese leaders concede it would take sustained growth of 7–8 percent a year, possibly for decades, to absorb both the new entrants into the labor force and those losing their jobs as WTO entry increases pressures for efficiency. Achieving a 7–8 percent annual growth would likely be impossible in the absence of massive state investment in infrastructure and a continued inflow of foreign capital. But state expenditure on infrastructure—enormous since the late 1990s—has caused the government to accumulate dangerously high debts. Government debts, combined with debts owed by poorly performing SOEs, are putting such severe pressure on the financial system that some experts predict a banking crisis is likely within a decade. On top of these existing structural problems, SARS reduced domestic economic activity mildly during Spring 2003 and threatened to reduce FDI. The end result could be extreme difficulty keeping unemployment down to a rate consistent with social and political stability.

Unemployment has been accompanied by worsening inequality. During the 1990s, another participant noted, inequality—as measured by Gini coefficients—roughly doubled in China: among classes in cities, between cities and the countryside, and between the vibrant eastern seaboard and decaying sections of the interior and northeast. Increasing inequality has generated political tensions as the poorer members of Chinese society watch a minority of their fellow citizens become wealthy, frequently through corrupt and questionable practices. In many cases, connections seem to matter more than honest hard work; the rules seem stacked against a vast number of people who might come to feel structurally disenfranchised and permanently angry. The migrant "floating population" and laid-off workers, in particular, smolder with resentment. Hu Jintao and Wen Jiabao repeatedly expressed concern about these developments in the weeks following their elevations to leadership positions in the spring of 2003, but it was unclear whether their public statements heralded genuinely new policies designed to remedy unemployment, inequality, and corruption or were merely empty slogans.

Indeed, there is a growing sense among China specialists—including workshop participants—that the country is stuck in "a constant state of grave unresolution," certainly in a "transition period," but with the "transition toward what being completely unclear." In fact, among Chinese elites, there is no agreed-upon end goal of the reform and opening process, and at various times in the past when political leaders and intellectuals have sought to articulate end goals boldly, they have been ousted from positions of power and influence. As a result, China "seems like a boat with a powerful engine but no rudder." Certainly the country is being sold by promoters of various stripes as confidently striding forward, headed for eventual democratization or at the least a convergence with the developed societies of the Asia-Pacific. But while some trends indicate that liberalization of the Chinese economy and society will eventually translate into serious political reform, others suggest that repression and corruption will continue. There is no question that the government remains avowedly antidemocratic in its propaganda and practice. These contradictions make it exceedingly difficult to predict the kind of country China will become ten years hence—a serious challenge to educators, policymakers, investors, and others interested in projecting Asia-Pacific trends.

Almost all workshop participants agreed on one fact: China suffers from poor governance, which is why social problems fester and epidemics like SARS can run out of control. As a prerequisite, good governance requires sufficient and regular revenues, an efficient and uncorrupt budget management system, and an efficient and uncorrupt personnel management system—none of which China currently has. Government revenues rose from 11 percent of GDP in 1994 to 16 percent in 2002, but expenditures more than kept pace. At the same time, non-tax revenues—miscellaneous fees, user charges, and the like—were estimated to amount to twice the tax revenues. These unpredictable assessments cause problematic dislocations and costs, further eroding the possibilities for achieving good governance. The opportunities for corruption alone are devastating for regime legitimacy. In recent years, bad governance has been papered over by rapid growth—but how long can such a strategy continue to be effective in the face of unemployment, inequality, and new challenges such as SARS?

THE SARS PROBLEM

The key questions posed in the workshop concerned not only whether the virus would become an annually recurring scourge, but also whether the Chinese government will meet the SARS challenge with greater openness and responsiveness or with vigorous new authoritarianism. To date, the government's responses have shown elements of both tendencies, with a clear effort made by the central Ministry of Health to gather reliable data and report extensively on the epidemic so that leaders throughout the Chinese hierarchy will be aware of the problem and know how to address it. At the same time, however, the effort to mobilize the entire country in a "people's war" against SARS brings back memories of Maoist totalitarianism and suggests the kind of enthusiastic mass participation that generates more heat than light. An additional problem is that, in early May 2003, the government made a strategic decision to stop focusing exclusively on the SARS problem—as it had done since coming clean about the municipal Beijing cover-up on April 20th—and to start "grasping with both hands": managing SARS but also keeping the economy growing. Obviously, continued economic growth is essential to dealing with inequality and unemployment. But pressuring lower-level governments to "grasp with both hands" creates incentives for them to resume obfuscation about their local health situation to avoid scaring away tourists and investors. Should SARS recur annually, the tensions of trying to "grasp with both hands" could become extremely difficult to manage. An out-of-control SARS problem would produce serious socioeconomic consequences, but trying to cover up recurring outbreaks could lead precisely to the sort of dangerous epidemic that threatened the world in the spring of 2003.

China's SARS threat has both domestic and diplomatic dimensions. Internationally, failure to manage recurring outbreaks effectively would, in the first instance, sharply reduce the accelerating trend of cross-strait economic integration by which Beijing hopes to induce Taiwan into eventually agreeing to some form of unification. If China becomes an unpredictable and unhealthy place to live and work, Taiwanese may stop investing there and turn instead to Southeast Asia or even to Eastern Europe and Latin America. Such a development would, in the view of one workshop participant, frustrate Chinese leaders and perhaps shift the power balance within the elite toward hawks who call for a more militaristic policy.

Similarly, failure to manage recurring SARS outbreaks would damage China's image among other Asian and Western investors and call into question the continued development of the fabled "China market," in which so many companies dream of selling large quantities of their products. The socioeconomic difficulties accompanying reduced FDI flows could combine in Beijing with a sense of international isolation to produce desperate and short-sighted policies. These, in turn, could set in motion a chain of events culminating in tensions between China and many of its Asia-Pacific neighbors.

Fortunately, the spring and summer of 2003 witnessed new commitments by APEC, ASEAN, and the World Health Organization (WHO) to work with China in trying to contain and manage the SARS virus and to establish mechanisms that would reduce the likelihood of widespread propagation in the event of future outbreaks. As a result, suggested one workshop participant, SARS could actually serve as the catalyst for deepened regional cooperation, just as September 11th propelled cooperation in combating terrorism. In this way, China's domestic governance problems could increasingly come to be redefined as collective governance problems for the entire Asia-Pacific community. Such a development would be consistent with the optimistic "globalization" model of Asia-Pacific international affairs outlined at the beginning of this report. Many Asia-Pacific leaders appear committed to furthering regional coordination along these lines, but their early efforts could yet be undone by future random and chaotic events.

III. JAPAN: A SOCIETY ADRIFT?

The rise of China is frequently juxtaposed against the aborted rise of Japan, a country that continues to be mired in economic stagnation. Yet Japan remains the second-largest economy in the world and an enormously important player in Asia-Pacific affairs. It possesses potent military forces that—for the first time since World War II—fired in anger at a North Korean spy ship caught sailing too close to Japanese waters during the tense period in December 2001 that followed the U.S. campaign in Afghanistan. Japan had already sent ships to the Indian Ocean to assist the United States in refueling operations and was otherwise playing a supportive role in the Afghan war—a minor role but still significant because it involved the Japanese navy in its first foray into a combat theater distant from Japanese shores since 1945. Consistent with these developments, the Diet voted in July 2003 to allow Prime Minister Koizumi to dispatch Japanese troops to Iraq in noncombat roles. Nevertheless, many observers continued to argue that Japan is failing to live up to its potential to become a "normal" country in international affairs: a country that flexes its muscles militarily and diplomatically in a way consistent with its economic strength and that vigorously pursues its interests outside the shadow of American protection—yet in a way consistent with American interests.

The reason for Japan's lack of "normality," two workshop participants stressed, is that Japanese strategic thinking will remain underdeveloped as long as Tokyo persists in relying on the U.S. alliance and Article 9 of the Japanese constitution (the "peace clause") to avoid making hard choices in international affairs. True, Japanese foreign and security policy can be more subtle than casual observers appreciate; for example, Tokyo's reluctance to join more overtly and enthusiastically in the U.S.-led campaign in Afghanistan was partly motivated by a perceived strategic necessity to avoid alienating the oil-producing Muslim countries of the Middle East. Yet, the sense persists that Japanese strategy is unfocused and reactive, leaving the United States to make the tough decisions and to think ahead. Partly, this is because Japanese grand strategy tends to be plotted by the economic bureaucracy while the Self-Defense Agency plays only a supportive role. But it may also be related to culture and a deep-rooted paralysis that grips Japanese politics and keeps the country from forging ahead.

In many ways, Japan is a highly active country internationally. For example, it provides enormous amounts of overseas development assistance, especially to its Asian neighbors. It trains Asian students in technical fields related to development and, through the networks the students form, maintains lines of influence throughout the region. It hosted the 1997 convention that produced the Kyoto Protocol on global climate change. It promised $500 million to help pay for the reconstruction of post-Taliban Afghanistan—more than any other country. And it agreed in 1999 to participate with the United States in developing a theater missile defense (TMD) system. Yet all of these actions are typically pursued quietly and without significant accompanying hype—which contributes to the perception that Japan lacks a coherent strategic vision. This posture stands in stark contrast to that of China and the United States, which tend to advertise all their (positive) international actions. It combines with economic stagnation, the aging (and soon declining) population, and Japan's traditional postwar pacifism to convince even the Japanese people, and certainly foreigners, that Japan lacks strategic vision and weight.

One workshop participant noted that inside Japan, the debate over whether and how to become a "normal" country has in recent years taken an unexpected turn toward trying to redefine "normal." Must it necessarily mean "normal by Western standards"? That is the assumption embedded in much of the international criticism of Japan. In such criticism, Japan is assessed by yardsticks developed in the European and U.S. policy tradition and is found to be "in danger" of becoming "the Switzerland of Asia": wealthy and well-armed but not behaving in a manner "appropriate" to its strength. In response to such critiques, some Japanese strategists have begun to argue that "normal" needs to be redefined and that granting aid generously abroad and hosting environmental conferences while still sharing significantly in collective defense—at least, near one's home territories—is perfectly normal and is perhaps more normatively desirable and healthier for the evolution of world affairs than trying to remake the world according to templates developed elsewhere. In fact, the very act of defining Japan as abnormal is seen by some Japanese as simply a sophisticated technique for forcing Japan to accept U.S. hegemony.

Some Americans, of course, would argue in response that probing the definition of normality in this way is actually little more than a thinly disguised attempt to avoid international responsibilities. Certainly it is true that Japan shares objective material interests with the United States and other Western powers, and it is surely holding back the international community by not making the tough decisions needed to reform its economy and political system. But even if Japan were to implement serious reforms and become reinvigorated, would the country necessarily emerge as a normal power along the lines of models expected in the West? Reinvigoration combined with a serious international crisis—such as a North Korean security challenge (see below)—could call forth a new Japanese posture in world affairs. But anticipating what forms the new posture might take requires suspending the impulse to interpret Japan exclusively through the lens of European and American experience and allowing for the possibility that the Japanese debate on normality could well lead to the rise of an internationally responsible and strong Japan whose policies defy both the stereotype of "resurgent militarism" and the "drunk on peace" Switzerland of Asia.

Other workshop participants noted that the very definition of Japan is currently being challenged by a heated debate within the country over immigration policy. As the wealthiest society in Asia, Japan has attracted hundreds of thousands of economic migrants from Southeast Asia and China in recent years—people who in many cases now demand the right to reside in Japan indefinitely and be granted access to social benefits. Some Japanese welcome the immigrants and have organized on their behalf—providing free legal services, lobbying bureaucrats and Diet members, and appearing before the media. The pro-immigration groups argue that Japan should become more open to globalization and should abandon its traditional insularity. Others—not necessarily nationalistic—oppose immigration, arguing that Japan can ill afford to take on complex new social responsibilities at a time of continued economic stagnation and political paralysis. However the immigration debate is resolved, it seemed obvious to some workshop participants that the immigration issue would interact with the debate over Japan's becoming a normal country. An increasingly cosmopolitan Japan bound up in webs of transnational migration seems likely both to participate more energetically in the resolution of international security concerns and to behave with the caution of a country whose global responsibilities have increased.

IV. KOREA AND UNRESOLVED SECURITY CHALLENGES IN NORTHEAST ASIA

The tense situation on the Korean peninsula should be understood in the context of the collapse of the Soviet Union and China's strategic abandonment of hostility toward the West, because those developments of more than a decade ago have combined with secular economic decline in North Korea to cause Pyongyang's leaders to contract a case of "existential insecurity." Rival South Korea's continuing economic and diplomatic successes—interrupted only briefly by the 1997–1998 Asian economic crisis—contributed to a mindset in which North Korean leaders concluded that they must threaten the world to consolidate their own security. They might even need to threaten the world to ensure basic survival for themselves and their people, since only by remaining prominent as a source of international turbulence can Pyongyang attract the kind of high-level policy attention that will facilitate the flow of food, energy, and economic assistance from abroad. The result of this strategy is a disturbing set of questions the world must now urgently address: Does North Korea possess nuclear weapons? If it does, would it try to sell such weapons to terrorists and "rogue" states? Will the United States try to eliminate suspected North Korean nuclear capability by using military force? If not, will North Korea's possible possession of nuclear weapons convince South Korea and/or Japan to go nuclear themselves? What role will China play as an interlocutor with Pyongyang? Such questions roil the waters of diplomacy in Northeast Asia, and most recently have contributed to sharply rising tensions between a South Korea hoping to pursue an updated "sunshine policy" with the North and a United States pursuing a more confrontational strategy (while also continuing diplomacy). The underlying problems facing North Korea and driving these dangerous developments are hunger and malnutrition, coupled with extravagant defense spending. Some North Koreans were already starving in the early 1990s, because—following the collapse of the Soviet Union—the North Korean economy had lost some 50 percent of its value between 1993 and 1996. Subsequently, drought and flooding struck an already environmentally ravaged countryside, devastating agriculture and resulting in perhaps two to three million people (some 10 percent of the population) starving to death between 1995 and 1998. Annual per capita income hovers around $74; the country's trade volume is only about 1 percent of South Korea's. The minor economic reforms introduced in July 2002 accomplished little more than to produce 400 percent inflation.

As a result, an eventual collapse of the North Korean state "is probably inevitable." The only questions is when it will happen and what the immediate triggering event will be—and, of course, the secondary consequences and spillovers. The collapse of North Korea would cause serious complications in Northeast Asian international relations because it would threaten to drive a wedge between the United States and South Korea and between the United States and China, with Japan probably on the U.S. side (at least on most issues). Questions over who pays for North Korean reconstruction, what form reconstruction should take, whether U.S. troops should remain on the Korean peninsula, under what terms they should remain, and what should be done with North Korea's weapons of mass destruction (WMD), would present enormous policy and political challenges for Washington, Beijing, Tokyo, and Seoul—and probably also for Moscow and the European capitals. A few missteps could result in serious consequences and, in particular, create deep rifts between Washington and Seoul. The prospect of a powerful and independent unified Korea would also alarm Japan and could precipitate the crisis that finally calls forth an assertive new Japanese posture in world affairs—with an unpredictable response from China.

So serious are the implications of mismanaging the North Korean crisis that workshop participants agreed it clearly behooves the governments of not only the United States and South Korea, but also Japan and China, to develop a shared understanding of North Korean contingencies and to align their policies accordingly. Only such a coordinated approach can prevent mutual misunderstandings from degenerating into serious disagreements. In this context, it seemed promising that Beijing hosted the special meeting on North Korea in April 2003 and in other ways began putting delicate (some say too delicate) pressure on Pyongyang to abandon its confrontational tack. But the United States, too, must work harder to understand the subtleties of the Korean situation and to prevent the further alienation of South Korea through perceived unilateralism. South Korea's initial response to Washington's call for a global war on terror after the September 11th attacks had been decidedly lukewarm, underscoring the growing rift between the two countries. President Bush's January 2002 categorization of North Korea as part of the "axis of evil" suggested that Washington was either insufficiently aware of trends in Korean politics or was willing to override the preferences of a key ally. In either case, the result was a corroding of the relationship.

Even if the current WMD crisis is resolved peacefully and to the general satisfaction of all the major players, the long-term question of the future of the North Korean state will continue to hover as a huge cloud of dark uncertainty in the Asia-Pacific—unleashing a storm at any time. Should a future domestic crisis in North Korea once again tempt Pyongyang's leaders to generate an international crisis, the collective response might be affected significantly by another dramatic new development in the region: the decision by the United States to draw down its forces in the demilitarized zone (DMZ) and in general to move toward a reduced military footprint in Asia, relying increasingly on technological advantages that permit use of less-exposed "over the horizon" strategies. Almost certainly the United States will retain the doctrine of preemption as it moves to implement this new posture. With American forces no longer directly exposed to North Korean artillery and WMD, will the United States be tempted in a future crisis to take preemptive action in a way that could endanger South Korean security? This was initially a serious concern in Seoul but was somewhat reduced in intensity during the spring of 2003 as the Blue House came to accept Washington's plan. There are still American citizens living in Seoul (and Tokyo), and in any case no American leader would lightly put the lives of allied countries' citizens at risk. Nevertheless, the Pentagon's increasing ability—and commitment—to strike its adversaries from afar suggests that the dynamics of any future North Korean crisis might be even more unstable than in the past.

This is especially the case given that—as one workshop participant argued—American pessimists believe that security in Northeast Asia will be established only if the North Korean regime is replaced—a maximalist approach implying that one source of future instability in the region might actually come from Washington. After all, both South Korea and China fear North Korea's collapse, hoping instead for a modified "soft landing" or Pyongyang's adoption of reform and opening policies similar to China's. Neither South Korea nor China relishes the prospect of hundreds of thousands of hungry refugees pouring into their territories. China worries about refugees taking up residence in its Manchurian rust belt, home to millions of laid-off SOE workers and birthplace of the anti-state Falun Gong spiritual movement. If American policymakers feel emboldened by the new U.S. military posture and justified by the doctrine of preemption to attack, a serious rift could develop between the United States and China, on the one hand, and the United States and South Korea, on the other.

V. SOUTHEAST ASIA: FROM THE PERIPHERY TO THE CENTER OF NEW SECURITY CONCERNS?

In the years since the 1997–1998 economic meltdown, especially in the face of persistent Indonesian weakness, concern has grown among Southeast Asia specialists that ASEAN will go adrift. The concern has been intensified by the regional diversion of FDI to China. Fundamentally, however, ASEAN continues to keep the peace in Southeast Asia—its original mission—even while integrating such erstwhile adversaries as Vietnam, Cambodia, Laos, and Burma. Moreover, ASEAN remains the only plausible forum bringing all the major countries of the region together for regularized exchanges, with the result that it continues to be courted by outside powers. China, for example, has cultivated ASEAN intensively in recent years, partly to prevent the organization's member states from forming closer ties with Taiwan, a major investor in the region and employer of Southeast Asian migrant workers. ASEAN is too weak to do very much on a proactive basis in the region, but it does a good deal to keep negative developments at bay—and is at the hub of discussion about the Asia-Pacific region's future.

In the relatively optimistic view of one workshop presenter, Southeast Asia looks set to enjoy stable politics and moderate growth over the next 5 years—although resurgent SARS or more terrorism could well undercut the forecast. Thailand under Thaksin Shinawatra is currently stable and enjoying unexpectedly high rates of growth, but Thaksin's authoritarian tendencies (including a sanguinary crackdown on suspected drug dealers) make predictions of sustained continuity hazardous. Malaysia, which has firmly suppressed both terrorism and dissent, awaits Mahathir Mohammed's 2004 retirement to see if the acerbic and outspoken prime minister—an ASEAN elder statesman—completely steps aside or instead takes up a role akin to that of "retired" Singapore founding father Lee Kwan Yew, whose son will succeed to Singapore's prime ministership after Goh Chok Tong's current term expires. In the Philippines, the 2004 presidential election will produce a new leader who, in any case, is likely to continue the Arroyo administration's drift toward increasingly tough "law and order" policies—a trend motivated primarily by continued frustrations in suppressing Muslim terrorists in the south. One workshop participant summarized the situation by arguing that all of Southeast Asia is witnessing the consolidation of "illiberal democracy," a type of sociopolitical order characterized by effective states presiding over moderate economic growth but sharply curtailing public discourse through rigorous restraints on popular expression—an approach consistent with the global interest in countering terrorism. But other participants argued that generalizing about Southeast Asia in this way is an exercise fraught with risk, since some societies (such as Thailand) could yet become more liberal, while others (such as Burma) are not only illiberal but also undemocratic.

Indonesia stands somewhat apart from the rest of Southeast Asia, both because of its enormous size and complexity and because it continues to suffer from the perturbations produced by Suharto's 1998 fall from power. Since the Bali bombing in October 2002, the Indonesian government and military—under President Megawati Sukarnoputri—have pursued a policy of firmly trying to restore order to the archipelago while at the same time avoiding alienation of Indonesian Muslims. The strategy appeared to be working fairly well as of April 2003—at least judging from the Muslim community's mild response to the U.S. invasion of Iraq, which sharply contrasted with Muslim fury at the U.S. attack on Afghanistan 17 months earlier. But in May 2003, the Indonesian army's sudden assault against Acehnese separatists introduced a new level of uncertainty to the situation as some Muslims compared it to the U.S. attack on Iraq and vowed to resist indefinitely. Subsequently, the bombing of the Jakarta Marriott Hotel in August 2003 on the eve of the first conviction in the Bali bombings suggested that Megawati's government still had arduous work to do in suppressing terrorism and would find it increasingly difficult to balance this pressing need against efforts to address the multiethnic country's "fissiparous tendencies" and continued political liberalization.

The chief reason the Army launched the Aceh crackdown is that Megawati desperately wants to increase stability in advance of 2004's parliamentary (April) and presidential/vice presidential (July) elections. Given the parliament's increased post-Suharto autonomy and responsibility—and given the fact that the president and vice president will be elected directly for the first time—2004 will be an exceptionally important year in Indonesian politics.

The elections could prove pivotal in determining whether Indonesia can finally put the 1997–1998 crisis behind it and consolidate a trajectory of increased stability and liberalization in public life. Looming in the background is burgeoning population growth coupled with persistent economic difficulties. About two million Indonesians enter the labor force each year, requiring an economic growth rate substantially higher than the 3–4 percent achieved recently. But stimulating more-vigorous growth will continue to be difficult because of the huge $60–70 billion domestic debt and the fact that FDI has actually declined in Indonesia as investors, frightened by both terrorism and more prosaic manifestations of political instability, wind down old projects and move their capital elsewhere. Public and campaign spending in the months leading up to the elections will surely give the country a short-term economic boost but will not address the deeper problems of sluggish financial reform, economic nationalism (partly fueled by the foreign disinvestment), corruption, and the disorder that drives investors away. Another participant noted that Indonesia might actually appear to the outside world to be becoming even more disorderly in the months leading up to the elections, as politically activated groups demonstrate. In fact, however, this sort of activism should be considered healthy—and is of course far preferable to the terrorism that, after Bali, the government seems committed to suppressing, though with decidedly mixed results.

The full impact of SARS on Southeast Asia is of course not yet clear, and some regional actors express a perverse hope that if outbreaks recur in China, companies might shift some of their investment back to ASEAN. The turmoil following the 1997–1998 crisis, coupled with the diversion of FDI to China, caused soul-searching and business reorganization in Southeast Asia—with the result that Southeast Asian firms are now much more competitive than they were in the mid-90s. They are now ready, some participants said, to offer themselves as a (literally) healthy alternative to Chinese business partners. ASEAN nations may not receive all the FDI that might otherwise go to China, but they could get a substantial part of it as foreign firms come to realize the wisdom of diversifying their investments and working with a broader range of regional partners. A better balance between Southeast Asia and China could only be good for the region as a whole.

VI. CONCLUSION: THE CHANGING TERRAIN OF ASIA-PACIFIC INTEGRATION

Terrorism and SARS have increased the costs of all forms of interaction in the Asia-Pacific region and subtly threaten to block deepening integration and to alter patterns of globalization. Such changes could interact with specific national and regional developments to intensify challenges to policymakers and other actors in their efforts to understand and address regional complexity. Of course, terrorism and SARS could prove to be mere short-term diversions or even catalysts for increased integration—but only if consciously concerted actions are taken to reduce their incidence and mitigate their harmful effects. Workshop participants agreed that concerted action requires shoring up weakest-link countries, troubled zones, and regional organizations so that incidents and outbreaks can be prevented and contained. Addressing disasters only after they occur will prove seriously corrosive of regional cooperation and stability.

Specifically, transnational risks, whether terrorism or epidemics such as SARS, increase the costs of interaction (and thereby threaten integration) by imposing new burdens on governments and private-sector actors, including the need to tighten controls on the flow of people across borders and money through financial systems, which deters investment and trade, the need to invest in the hardening of infrastructure, and the need to devote additional resources to personal security, which imposes unanticipated costs on private as well as public entities.

Some areas of the world were already considered "no-go zones" for foreign investment in the years prior to September 11th. Now, such zones might be expected to extend, in the absence of preventive measure, to parts of the Asia-Pacific. At the very least, the perception of risk in parts of the region will increase, and perception of risk is itself a brake on deepened integration. Even the United States, forced to attract \$40–50 billion a month in net foreign investment to finance its annual \$500 billion current account deficit, faces the need to reassure investors. (The city of Los Angeles alone has 605 identified high-risk public places that might possibly be targets of interest to terrorists.) As a result, the United States and other Asia-Pacific countries must invest not only in improved security but also in making their economies more attractive to foreign investors. Both kinds of investment divert resources from other public-sector needs, such as education, health care, and social welfare.

Manufacturing and other conventional forms of economic activity are not the only sectors burdened by the costs associated with terrorism and public health crises. Costs are also increasingly being imposed on universities and research institutes. In the United States, the federal government has dramatically increased requirements to screen out potentially "undesirable" college and graduate students. The main concern is to prevent potential terrorists from coming to the United States and learning to use the principles of nuclear physics, chemistry, and biotechnology to make weapons of mass destruction. Distinguishing potential terrorists from legitimate young scientists and scholars is proving to be extremely onerous and difficult. In some cases, graduate students from countries under the microscope—such as Pakistan—are already deciding to go elsewhere for study (or to stay at home). They might, for example, go to China. The result in the long run might be enhanced security in a narrow sense. But another effect—besides reduced U.S. competitiveness—will be disrupted patterns of cultural and scientific exchange that might otherwise help foster a worldwide elite sympathetic to American institutions and values, if not always to specific U.S. policies. A more general effect of these restrictions will be to introduce a new source of turbulence to patterns of globalization in the Asia-Pacific. This turbulence will increase if SARS recurs annually and begins regularly disrupting academic and other exchanges.

Terrorism and epidemics focus regional attention on weaknesses of governance. In the United States, the desire to respond decisively to terrorism in particular has had the effect of stimulating demands for quick and easy solutions to complex problems. Recent American policy has given rise to a widespread perception of unilateralism and triumphalism emanating from Washington, antagonizing leaders and publics worldwide—even in countries otherwise friendly to the United States, such as Australia and South Korea. Workshop participants noted a growing gulf across the Pacific over this issue, a gulf which threatens to become highly disruptive if not addressed soon.

New security challenges and divergent trans-Pacific perspectives make it imperative to draw more actors into the broader processes of governance. Actors that should play responsible roles include not only central and federal governments but also regional and local governments, universities and think tanks, policy-oriented forums and foundations, the media, other nongovernmental organizations, and businesses. Each has a distinctive role to play, but all contribute to the formulation and implementation of the nuanced and sensible policies that are essential to managing complexity. Debate and discourse is, of course, central to this plural policy-making process. One participant argued that private policy forums play a particularly important role here, facilitating interaction among different sectors and focusing attention on debates concerning: broad aims and priorities, issues on which decision-makers urgently need updated information, challenges to conventional views, expert judgments, and newly emerging issues that are "not yet on decision makers' radar screens."

Another participant felt that universities should focus on medium- and long-term issues and on questions that can be settled by research, rather than value-based discussions. In all cases, greater efforts should be made to engage younger generations and emerging elites in countries throughout the Asia-Pacific region.

In contrast to the situation elsewhere, notably in Europe and the Middle East, the issue for Asia is not whether there is "too much" U.S. presence, but rather the direction and predictability of American engagement. The United States should recognize its enormous power in the Asia-Pacific region and cultivate heightened awareness of the ways in which perceived unilateralism alarms its friends and partners. It should recognize that many allies and others regard it as an increasingly unpredictable power and should work to assuage their concerns by developing a more collaborative approach to leadership and policy planning.

National responses to terrorism and SARS have weakened the predictive power of the "power transition" and "globalization" models. Analysts of the Asia-Pacific region will be called upon to develop more-complex models that can incorporate new drivers of the security environment, broadly defined, including public health challenges, energy availability, environmental stability, infrastructure vulnerability, and the intersection of new technologies with old grievances as sources of geopolitical instability.

Finally, in addressing transnational challenges, national governments should eschew the temptation to rely on old-fashioned and ineffective authoritarian "solutions." Such solutions may bring short-term successes but will certainly fail to address the problems' deeper sources. The nature of most new transnational problems defies unilateral approaches. Illiberal, nationalistic policies, driven by traditional sovereignty concerns, are a recipe for more regional insecurity rather than less.

THE ASIA-PACIFIC REGION IN A TIME OF INSECURITY :
IMPLICATIONS FOR PUBLIC POLICY AND THE PRIVATE SECTOR

FIRST ANNUAL PACIFIC RIM WORKSHOP ORGANIZED JOINTLY BY THE PACIFIC COUNCIL ON INTERNATIONAL POLICY AND THE UNIVERSITY OF SOUTHERN CALIFORNIA
MAY 8—9, 2003

ALL WORKSHOP SESSIONS AND LUNCHEONS WILL BE HELD AT THE UNIVERSITY OF SOUTHERN CALIFORNIA DAVIDSON CONFERENCE CENTER, 3415 S. FIGUEROA BOULEVARD, LOS ANGELES, CA 90089.

WORKSHOP AGENDA :
THURSDAY, MAY 8

8:45 Welcome and Introductory Remarks

LLOYD ARMSTRONG, Provost & Senior Vice President, University of Southern California

ABRAHAM F. LOWENTHAL, President, Pacific Council on International Policy and Professor of International Relations, University of Southern California

9:00 I. Geopolitical Contours

CHAIR: BARRY SANDERS, Senior Partner, Latham & Watkins, L.L.P.

CHINA'S TRANSITION AND REGIONAL ROLE

RICHARD BAUM, Director, Center for Chinese Studies, University of California, Los Angeles

CHRISTINE WONG, Henry M. Jackson Professor of International Studies, School of International Studies, University of Washington

ORVILLE SCHELL, Dean, Graduate School of Journalism, University of California, Berkeley

10:45 Break

II. Geopolitical Contours 11:00

CHAIR: MICHAEL PARKS, Director, School of Journalism, University of Southern California and Board Member, Pacific Council on International Policy

NEW DYNAMICS IN NORTHEAST ASIA

NORMAN LEVIN, Senior Policy Analyst, RAND

GREGORY TREVERTON, Senior Fellow, Pacific Council on International Policy

MICHAEL ZIELENZIGER, Visiting Scholar, Institute of East Asian Studies, University of California,Berkeley and former Tokyo Bureau Chief, Knight Ridder Newspapers

Break 12:45

Luncheon Discussion: "Outlook for American Engagement in Asia" 1:00

KURT CAMPBELL, Senior Vice President and Director, International Security Program, Center for Strategic & International Studies, and former Deputy Assistant Secretary of Defense for Asia and the Pacific

III. Geopolitical Contours 3:00

CHAIR: EDWARD R. MULLER, Private Investor and Member of the Corporate Advisory Board, Pacific Council on International Policy

INDONESIA AND SOUTHEAST ASIA: INTERNAL AND REGIONAL DEVELOPMENTS

JUSUF WANANDI, Chairman of the Supervisory Board, Center for Strategic and International Studies, Jakarta

ANDREW MACINTYRE, Director, Asia Pacific School of Economics & Government and Professor of Political Science, Australian National University

DONALD EMMERSON, Senior Fellow, Institute for International Studies and Professor, Stanford University

Break 4:30

IV. Business and Economic Dimensions 4:45

CHAIR: JEFFREY NUGENT, Professor of Economics, University of Southern California

THE MACRO-ECONOMIC OUTLOOK

CHRISTOPHER FINDLAY, Professor, Australia-Japan Research Center, Australian National University

CHANGING INVESTMENT STRATEGIES

AKIRA KOHSAKA, Professor, School of International Public Policy, Osaka University

Adjourn 6:00

Dinner (Omni Los Angeles Hotel) 6:30

Remarks by LLOYD AXWORTHY, former Foreign Minister of Canada; Director & CEO, Liu Institute for Global Issues, University of British Columbia

"BEYOND NAFTA: THE FUTURE OF NORTH AMERICAN INTEGRATION"

WORKSHOP AGENDA : FRIDAY, MAY 9

9:00 **V. Business and Economic Dimensions**

CHAIR: TODD SANDLER, Dockson Professor of International Relation and Economics, University of Southern California

NEW EXPOSURES, NEW COSTS—IMPLICATIONS OF HEIGHTENED SECURITY AND PUBLIC HEALTH CONSCIOUSNESS FOR GOVERNMENT, BUSINESS AND SOCIETY

IAN O. LESSER, Vice President, Director of Studies, Pacific Council on International Policy

JOHN M. LEEDOM, M.D., Professor Emeritus, Department of Medicine of the Keck School of Medicine, University of Southern California

JACK WEISS, Member, City Council of Los Angeles

RICHARD DROBNICK, Vice Provost for International Affairs, University of Southern California

10:30 **Break**

10:45 **VI. Policy Challenges and Next Steps**

CHAIR: STEVEN L. LAMY, Director, School of International Relations, University of Southern California

IMPLICATIONS FOR PUBLIC POLICY, POLICY INSTITUTIONS AND UNIVERSITIES

MARSHALL M. BOUTON, President, The Chicago Council on Foreign Relations

DAVID LYON, President and CEO, Public Policy Institute of California

LLOYD ARMSTRONG, Provost & Senior Vice President, University of Southern California

ABRAHAM F. LOWENTHAL, President, Pacific Council on International Policy

12:00 **Concluding Remarks**

RICHARD DROBNICK, Vice Provost for International Affairs, University of Southern California

IAN O. LESSER, Vice President & Director of Studies, Pacific Council on International Policy

12:15 **Luncheon**

WORKSHOP PARTICIPANTS

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THE ASIA-PACIFIC REGION IN A TIME OF INSECURITY:
IMPLICATIONS FOR PUBLIC POLICY AND THE PRIVATE SECTOR
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