

“REBALANCING” AMERICA’S TIES TO ASIA: AN ASSESSMENT OF THE OBAMA INITIATIVE

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WELCOME/MODERATOR:

Douglas Paal

Vice President for Studies
Carnegie Endowment for International Peace

SPEAKERS:

Dino Patti Djalal

Indonesian Ambassador to the United States

Vikram Nehru

Senior Associate, Asia Program; Bakrie Chair, Southeast Asian Studies
Carnegie Endowment for International Peace

Anindya Bakrie

Founder
Bakrie Center Foundation

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DOUGLAS PAAL: Good afternoon, everyone. Thank you for joining us here at the Carnegie Endowment for International Peace. My name is Doug Paal. I'm vice president for studies here and director of the Asia program.

And it's our pleasure to welcome you today to a discussion of President Obama's recent efforts to rebalance American attention from the conflict on terrorism toward a greater focus on American involvement and interests in East Asia.

[0:01:24]

This is a special event and we have some wonderful visitors from Indonesia. And I want to ask Anin Bakrie, who is the chairman of the foundation which donated a chair, the Bakrie Chair, to the Carnegie Endowment a year ago, to come up and inaugurate our session today.

We will be joined shortly by his father, Aburizal Bakrie, who is the chairman of the Golkar Party. He is tied up in traffic right now, so he will be slipping in in a few minutes and we'll try to recognize him when he arrives.

But Anin, would you please join us?

[0:01:58]

ANINDYA BAKRIE: Thank you, Douglas, once again. So it is not only Jakarta that has traffic like this. (Chuckles.)

My friend, Dino Djalal, Indonesian ambassador to the U.S.; Mr. Douglas Paal, vice president, Carnegie Endowment; Mr. Vikram Nehru, Bakrie Chair in Southeast Asian Studies, Carnegie Endowment; excellencies; ladies and gentlemen, thank you for coming here today.

In particular, I would like to also thank my family – I have my mother here with me, and my father is going to be coming in a bit late – and also the Indonesian delegation for coming all the way from Jakarta.

[0:02:49]

I stood here more than a year ago under glare of similarly very distinguished audience to launch this Bakrie Chair in Southeast Asian Studies. It was our hope then that the Bakrie Chair will contribute to policy-relevant research on Indonesia and Southeast Asia by identifying and analyzing key strategic trends in the region.

This seminar today on “Rebalancing’ America’s Ties to Asia: An Assessment of the Obama Initiative” meets such an objective. I would like to again thank you, Mr. Vikram Nehru, for joining the chair, and thank you for Douglas to throw Mr. Vikram into the lion’s den.

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[0:03:39]

And this is my second trip to the U.S. this month. Last year I had the opportunity to run New York Marathon and then went to APEC in Honolulu. And I'm here in D.C. today, and as you see I always try to find excuses to come here because I cannot – you know, I never can get enough of the U.S.

Without further ado I will let Douglas Paal and the panel to take over for what should be a very interesting discussion on U.S. foreign policy toward Asia. Thank you very much. (Applause.)

[0:04:18]

MR. PAAL: Well, by prearrangement among the panelists – thank you, Anin – we are going to hold our very distinguished speaker, Ambassador Dino Patti Djalal, to the very end. He is going to try to trump all of us with his concluding remarks, as only he can.

He has come to Washington and become, very quickly, the most able, most active, most understanding ambassador that we've ever seen from Indonesia before, and he probably will set the records for a lot of years to come. He knows us well and he knows how to communicate, and I'm sure we'll all look forward to hearing from him.

[0:04:59]

But I'm going to start off first, talk a little bit about the Obama trip. This is the dull part of the occasion because a lot of you already know what happened, but I'd like to offer some judgments about it, and then ask my colleague and new chair occupant in Southeast Asian Studies here at Carnegie, Vikram Nehru, to offer some thoughts. And then finally we'll have the wrap-up from Ambassador Djalal.

President Obama took 10 days to travel through the Asia-Pacific region in November. This is, by any measure of any presidency, a very long time in the modern era for a president to be abroad – although part of that time was in Hawaii – to be away from the cut and thrust of Washington where a lot of things are being decided, including the supercommittee's work on the future of the American budget.

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I think this encapsulates the importance which the administration has assigned to Asia. We have been – those of us who are Asia specialists – and a lot of you who are in the room qualify in that category of self-appointed specialists – (laughter) – have been waiting for 30 years for the promise of an administration that says it's prepared for the "Pacific century" to actually deliver on that promise.

Ronald Reagan of course was the first Pacific president, but people have forgotten that. But, as always, his attention was drawn to other parts of the world in the great competition with the Soviet Union. President Obama, from Hawaii, calls himself a Pacific

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president, but this time he seems to be determined to follow through and to really address the lack of attention that Southeast Asia in particular, and Asia generally, I think, has suffered.

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Now, my Republican colleagues and former colleagues of mine in various administrations will say that the Bush administration did not ignore it and Clinton did not ignore it. And it's true; we can't ignore a place as important and as big as Asia, but you can put less effort into it than it deserves.

And I think that is a fair characterization of what we've seen, in part since the end of the Vietnam War in 1975, more sharply after the Asia financial crisis in 1997 when the rise of China and the troubles of Southeast Asia and East Asia caused people to start to look at the opportunities China presented as it joined the WTO and to pay less attention to our existing interests and our potential developing interests in Southeast Asia and the region as a whole.

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Mr. Obama, coming into office, decided that the U.S. needed to get away from its focus on counterterrorism in the Iraq and Afghanistan wars. And we can, in the Q & A, go into the politics of how these decisions got made and the sequencing, but I think it's fair to say that the president and his team have decided that they'll make a good pitch to the American people for reelection if they can say, I promise to get us out of Iraq and to reduce our involvement in terrorism. He's been effective by virtue of the killing of Saddam – excuse me, killing of Osama bin Laden, and he's not vulnerable on that count.

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People are concerned about the rise of China and they want to see the U.S. being firm in that part of the world, and I think he's trying to signal through this term "rebalancing" – which Mrs. Clinton, in an article in Foreign Policy Magazine last month, said was to kind of pivot away from our expensive involvement in blood and treasure in Afghanistan and Iraq toward investment – diverse, intense, well-distributed throughout the Asia-Pacific region because that is the Pacific century that will be very important to America's economic and security future. More than 50 percent of exports, 50 percent of investment from the United States goes into the region and it's important to have our policy involvement reflect that.

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Now, early on in the administration the president agreed, and Mrs. Clinton took an activist lead in getting the U.S. reengaged. If you remember, her first trip overseas after becoming the secretary of state was to East Asia – stopped in Japan, Korea and China. That was very clearly stated to be a signal that she was not going to be a Europeanist first and then Asianist second. She was going to reverse the priorities – meaning no disrespect to Europe, of course.

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In the following months and two years, Mrs. Clinton has been an assiduous participant in the ASEAN Regional Forum and the ASEAN associated meetings in the region. We've had people at all levels of the government regularly take part, whereas in the previous administration a number of people had missed meetings or failed to get to some important state visits in the region.

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The president then authorized Mrs. Clinton to sign the Treaty of Amity and Commerce, which the U.S. had not supported in its earlier years, which was a condition set by ASEAN for membership in the East Asia Summit, which is still amorphous but emerging base of future regional architecture.

Asia may never look like the European Union – and of course this week you don't want to look like the European Union – (laughter) – but if it's ever going to have internal organizations, it has to start somewhere, and it appears the starting point is the East Asia Summit. And after five years of existence with non-participation by an American president, the president advisedly chose to be a participant.

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This means that he has not only a commitment to come every year to the Asia-Pacific Economic Cooperation meeting, which this year he hosted in Hawaii in November, but that he would stay for extra days. And, of course, tearing time out of the president's calendar is really tough business in this town. The people who run the calendar really run the White House. And to get him to decide that he would commit to the extra time year after year to participate in the East Asia Summit is an important symbolic gesture.

Now, in the course of this trip through the region, the White House people love to point out, and they do so quite correctly, that he ended up meeting in group settings with the leaders of 26 countries from the region, including India and Russia; held nine bilateral meetings with leaders from the region; and he kicked off a major effort to construct a Trans-Pacific partnership, a trade agreement of high quality, largely with countries that already have free trade agreements with the United States, but including some who do not, in the hopes of creating a magnetic kind of force where, with really high-quality trade agreements among the parties, such as Chile, New Zealand, Australia and others, that this would in time attract others to try to be part of it.

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He wanted to have the full benefit of trade tariff avoidance and facilitation that you get with a free trade agreement. So they have a core of nine countries, announced in Hawaii at the APEC forum. The president spent a lot of time talking about how this is going to help restore jobs, and I think you can make a fair case that's going to be good long term for employment. And they've set a very ambitious deadline for the middle of next year, or by the end of next year, to reach agreement with these parties on some very tough trade issues.

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And there are different issues in each relationship, and so it's very difficult to sort of say three things that will be done by this, because there have been lots of complications. I would recommend you go to the U.S. trade representative's website and they will give you, country by country, the things we're hoping to do with each of the trading partners.

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And, with luck, this will be the kind of regional answer to the demise of Doha round, where Doha seems to be really stuck. There may be possible – may be possible, as was the case in the early 1990s, to sort of motivate the Uruguay round to completion by having a larger group of states within regions develop their own free trade agendas. And people will want to be part of that.

So the president, in between Hawaii, where he attended the APEC – led the APEC meeting, and his visit to Bali, Indonesia, where he did two things – he attended the East Asia Summit for the first time and he also hosted, with his Indonesian counterpart President Yudhoyono, the U.S.-ASEAN Leaders Meeting. This is the third one – welcome, Chairman Bakrie – hosted the U.S. ASEAN Leaders Forum.

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This was created three years ago by the Obama administration to bring the ASEAN leaders together. And, quite important and symbolic in this meeting, it included the president – the relatively new president of Burma – Myanmar. Burma had been excluded in the past because of the many human rights difficulties and objections that the U.S. and other countries have had to internal policies in Burma, and President Thein Sein has started a process – which we can talk about a little more later – that people are taking to be a credible start at serious reform in Burma.

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This is important to the ASEAN process because in two years Burma, or Myanmar, is nominally very likely to be the chair of ASEAN, host the next – that year's East Asia Summit and other meetings. And if Burma has debilitating allegations of human rights abuses and other things hanging from its neck, it may be very awkward to get a president or secretary of state to attend their meetings. If Burma can make change, Burma can become a proud host of this kind of organization. It may be one of the factors driving the Burmese internally.

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Now, one of the – in between those two visits, the president stopped in Australia. He had twice before hoped to get to Australia on a state visit, and the first time it was knocked off by the Exxon – excuse me, the BP oil spill in the Caribbean, and the second time by the vote in the health care bill in the Congress. And so this time he was determined to get there.

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He had a very – I think what can be called a very successful state visit over two days. And the emblematic announcement from that visit was the stationing of 250 U.S. Marines at a training facility in Northwest Australia near Darwin, where Australia has a very high-quality training facility for air and ground activities – live fire drills and the like.

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These things – places like this are harder and harder to find around the world because we are getting so congested in most of our countries that having a place to exercise is getting difficult to find, but this spot in Australia is particularly suited. The president and Prime Minister Julia Gillard announced the facility's opening, and within five years they expect it to grow from perhaps 250 permanently stationed American service people to maybe 2,500 – very much in the formative stage.

Now – (clears throat) – excuse me – along the way on this trip there was – apart from the good policy, which, as I said, Asian specialists are happy to see, which is attention to the region, promoting a free trade agenda, getting into the state visits, meeting and doing business with each of the leaders of the region, there was an additional element that emerged in the media coverage, and that was a strong anti-China flavor that came through a lot of the press briefings and a lot of the news coverage.

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The president met with President Hu Jintao of China in Hawaii, and after that meeting he came out and said some tough things about China's need to move on currency and market access issues that have been on the agenda for a long time without enough progress.

And when he went to Australia, the training facility in Northwestern Australia was portrayed as a base, which I think is not quite the right word. It's not a military facility with missiles pointing out or ships heading out. It's a training facility. But it was seen as part of an effort to build a string of bases around China that would help to contain the rise of China's influence and military capabilities.

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And his meetings in Bali, Indonesia, especially the U.S. – excuse me, the East Asia Summit was portrayed as also scoring a new high in pulling the Asia Pacific region together, especially Southeast Asia, to resist Chinese efforts to dictate the outcome of territorial disputes in the South China Sea.

I think this characterization is also a bit off. There was an effort by China to prevent discussion of the American topics that were proposed, which were maritime security and nonproliferation in the Asia-Pacific region. The Chinese wanted maritime security off the agenda. In my view, that was unwise but predictable.

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And when the time came for the leaders to gather in an informal retreat on the second day, of the 18 countries present, 16 chose to speak up in polite but principled and firm terms on the subject of the need to maintain maritime security and to conduct a resolution of disputes in the waters of that region under the Law of the Sea Convention and not doing it through armed force or unilateral action. This was again also portrayed in the media as ganging up on China and pushing China back after China's aggressive behavior in the South China Sea in 2010.

I think we have to take a lot of this anti-China rhetoric that emerged from this as part of what goes into a pre-election year. I think, one, the media wanted a simple story, and that's understandable. But, two, I think the White House would also be happy if it can, on the one hand, at an official level, work in a cooperative and constructive fashion with China and the many other parties in the region, but at the same time leave the American people with the impression that he's being firm on American interests and regional interests in dealing with a rising China and its potential implications.

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So, in a sense, we have policy which is improving the structure, developing the architecture, and advancing the economies of the region. And then you have the politics, which is showing the American people that you can be tough when you have to be. And, given that the presidential candidates on the Republican side have, to a person thus far, lined up to kick China at every opportunity, I think Mr. Obama sees himself not getting put in a position where he has to defend China but to be in the same position as the others, also being critical of Chinese economic or security behavior that's a source of concern. So we have a political agenda that has been woven into this visit.

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Just as a concluding remark, I would point out that when you do this sort of thing, you have to be careful. This is – 2012 is going to be a very sensitive year. The United States will have an election: a third of the Senate, all of the House, and the president. Taiwan is going to lead the year off in January with an election that could produce results that would be quite destabilizing if not handled very well. And part of the reason we talk about the South China Sea these days is things have gotten calm around the Taiwan Strait, and if we have to talk about the South China Sea and the Taiwan Strait at the same time, it's going to get a little more complicated.

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Korea, at the end of the year, will have an election – South Korea. Malaysia will have an election in the next few months. So it's a sensitive year for politics. And in periods like that, people on all sides who are sophisticated will expect a certain amount of rhetorical excess, and we're seeing some of that now. The anti-China characterization of Obama's travel I think is part of that.

But it's also necessary to try to deal with the real issues. We have a visit coming up from China to the United States in the first part of next year, prearranged by Xi Jinping, the

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vice president of China, who is virtually certain to be president of China for the next term, and maybe two terms. And his visit needs to be one that sets a positive tone if we're going to have a constructive relationship with him in the years ahead. We certainly don't want the opposite to happen.

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The rhetorical excesses surrounding President Obama's trip have been bouncing around the Chinese media in recent months. Chinese officials have refrained from responding to it forcefully, but the media in China, which are newly liberated in some areas, and the Internet community have been picking up on the military-sounding terms and language and the concept of a base in Australia, and seeing an effort to strengthen what China considers to be a policy of containment to hold China down to prevent it from reaching its natural heights of achievement now that it's made major reforms.

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We need to – this is creating static in the system, and I think it's important for policymakers here in Washington to try to discharge that static before it starts to get into the ways of doing business with people like Xi Jinping on his visit here, or the follow-on meetings to the year ahead, the security and economic dialogue, and others.

Fortunately, this week we have some sacrificial lambs heading over to China. The Defense Consultative Talks are taking place. Michele Flournoy, the undersecretary of defense, will be in Beijing with a team to hear about Chinese objections to what's been said and done recently. Hopefully she can absorb that static and we can move on to some constructive discussion and improve the quality of the dialogue.

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But there is no question in my mind that one of the reasons we're seeing the Chinese respond cautiously and responsibly in their official reaction is that, in fact, in 2010 China did cross some lines – the East China Sea, support for North Korea on the Korean Peninsula and in the South China Sea, and it was caused a reaction in the region.

The Japanese government is no longer flirting with a balanced policy between China and the United States. The Korean government in Seoul has never been more tightly bound to the U.S., and the alliance is extremely healthy and strong.

And in Southeast Asia we've seen the governments, in their special soft way, warmly welcoming a greater American attention, not because they want to ally with the U.S. against China but because they feel more comfortable when the U.S. is playing its part in the region and serves as an effective counterbalance to the natural growth of Chinese influence. On the whole, this is a healthy outcome, but I would give a high score to the Obama administration and declare this trip a winner.

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Now, that's the end of my prepared remarks. I look forward to talking – there's a lot of stuff we could go into in detail that many of you are aware of, but I'd like to turn the floor over now to my colleague Vikram Nehru to address a couple points. (Applause.)

VIKRAM NEHRU: Thank you very much, Doug, Bakrie Aburizal, Bakrie Anindya, Ambassador, *bapak bapak, ibu ibu* – (inaudible) – Indonesia, ladies and gentlemen.

[0:25:12]

You know, in his introductory remarks, Bakrie Anindya said that I was thrown into the lion's den. That couldn't be further from the truth, Bakrie Anindya. I'm just delighted to be working on Southeast Asia. For me – and I lived in Indonesia for nine years in two different stints. I've developed a great affection for Indonesia and an enormous respect, not just for Indonesia but also for the region. And for me to be given an opportunity to work on Southeast Asia at Carnegie is truly an enormous opportunity, and I'm very grateful for it.

What I propose to do is to actually look at these developments, which Doug has laid out, from a Southeast Asian perspective. And to start with, to give you some context as to what sort of situation Southeast Asia is in right now, for the longest time, the world's attention has been focused on China and then on India – China because it's had 9.9 percent growth rate, all the way from 1978 until now, but a growth rate that's expected to decline. India, which has had a growth rate of between 5 and 6 percent a year for the last 20 years, but a growth rate that's expected to increase over the coming years.

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But very little attention, really, has been paid to Southeast Asia. Southeast Asia, the 10 countries on which I focus which form ASEAN, have also had a very stellar record. Take Indonesia, for example. Indonesia grew from 7.8 percent a year on average from 1968 to 1998. It had one of the most stellar reductions in poverty that the world had ever seen, from over 60 percent poverty rate down to an 11 percent poverty rate.

After the Asian financial crisis, the Southeast Asian economies have once again resumed growth and Indonesia is at the top of the pack. Its growth rate is the highest. It's not just the largest economy; it's now the fastest-growing economy in Southeast Asia. But, more important, it's been able to do this with a profound transition towards a very vibrant democracy and towards a highly decentralized economy.

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And, really, Indonesia is emblematic of the story of Southeast Asia. And if you ask yourselves, what exactly has given Southeast Asia this dynamism – and I would point to, really, two very important and fundamental factors.

The first is Southeast Asia's geographic location, the fact that it sits astride the Malacca Straits, through which about 50 percent of the world's shipping passes every year. It is the most – it is the busiest sea lane, not just for goods but also for energy supplies to the energy-thirsty countries of Asia, especially China, Japan and Korea.

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But, not just does it sit astride this very important sea channel, which makes it a natural center for trade, it is also a region which has opened up to trade since 1968 in Indonesia, but also in the rest of Southeast Asia. And this opening up has benefited from Japanese investment in the '70s and '80s as a result of the hollowing out of the Japanese economy.

But, more recently, after the rise of China in 1978, Southeast Asia has become part of the production network of East Asia, whereby Southeast Asian economies provide components and supplies which conform to its comparative advantage, supply them to China, which then puts them together in assembly factories, highly concentrated on the coast, and these are then shipped out to the advanced economies.

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This trade in East Asia has grown so rapidly that East Asia – now intra-East Asian trade has become almost as high as a share of GDP to intra-European trade. So it hasn't had to follow the European model necessarily; it is just geographical factors, the proximity of these countries and the rise of China that has driven this enormous expansion in trade within the region.

One of the reasons for this has been the fact that markets have been able to trade very easily because these countries are simply close to one another. This has allowed for intra-industry trade, which allows firms to expand to develop economies of scale, which allows for localization economies, which allows for urbanization economies, thanks to very rapid urbanization, not just in Southeast Asia but also in China.

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And following these market developments of trade have followed free trade arrangements. I'm making a very strong point here. What I'm suggesting to you is that actually policy has followed markets; policy has not created markets in these countries. These free trade arrangements – and there are now something like 49 free trade arrangements in East Asia, 84 if you could those that are in the making or that are with countries which are outside East Asia, such as the European Union, a real noodle bowl of free trade arrangements which have followed this very rapid expansion of trade.

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And this really brings me to the events of the last couple of weeks because what you've seen has been the headline-grabbing news of the Trans-Pacific Partnership which President Obama announced in Honolulu at the APEC meetings. What really grabbed the headlines was the fact that Japan announced its intention to join the Trans-Pacific Partnership, or the TPP for short.

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And as Doug has mentioned, the TPP is supposed to be a trade arrangement which is billed as a 21st century trade agreement – 21st century in the sense that it goes well beyond arrangements at the border, reflecting tariffs and non-tariff barriers, and goes to behind the border policies that might affect trade. In fact, I would argue that to call the TPP a trade agreement actually does it a disservice.

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The TTP intends to focus on things that go well beyond trade, on competition policy, on e-commerce, on procurement policy – anything that might affect the equalization of competitors, whether they are from the domestic economy or from a trading partner economy. So this is a very profound proposal that's been put forward as part of the – part of the APEC – in the APEC forum.

Now, the reason why Japan's inclusion or agreement to participate in the TTP is big news, incidentally – Mexico, Canada and Korea also signaled their intention to join the TTP, but that didn't make very great news because Korea has just agreed to a free trade arrangement with the United States, and Canada and Mexico are of course part of NAFTA. But Japan is big news because this is new and because Japan actually has a GDP which is 2 ½ times the size of the GDP of the remaining eight economies other than the United States in the Trans-Pacific Partnership.

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So if the Japanese are successful in negotiating an agreement as part of the Trans-Pacific Partnership, the Trans-Pacific Partnership would truly become a very, very important vehicle for advancing trade and development in the East Asia region.

At the same, however, just a week after Prime Minister Noda announced Japan's intention to enter into consultations towards a negotiation of inclusion in the Trans-Pacific Partnership, just a week later in Bali, at the East Asia Summit, Prime Minister Noda also announced his intention of supporting efforts to create the Comprehensive Partnership for East Asia, which is another term for a free trade arrangement for the ASEAN Plus Six economies. That is the 10 countries of ASEAN, together with the six others that have joined – Australia, New Zealand, China, Japan, Korea and –

MR. PAAL (?): India.

MR. NEHRU: – and India. Thank you very much. So the ASEAN Plus Six.

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You may ask yourselves, why is it that the prime minister of Japan has, on the one hand, agreed to entering into TTP discussions, and on the other, supporting the creation of an ASEAN Plus Six free trade arrangement? And I would point to two reasons.

First, I think he is keen, as indeed are the other members of ASEAN, to ensure that they lock into a trade arrangement with China to make sure that the current very intensive

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trade patterns are cemented with the Chinese and that there is no future possibility of a retreat into protectionism by either party. Indeed, China now has become the largest trading partner for Japan and Korea. So that's a very important proposition for them.

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But, secondly, I think there is a certain amount of ambivalence. There is a certain amount of concern that the high standards which the U.S. is very keen to have in the Trans-Pacific Partnership might prove a step too far for Japan. And this ambivalence therefore would suggest that the current free trade arrangements they're pursuing in the region could act as an insurance policy against the possibility of possible failure of the TPP going forward.

Because the possibility of failure is certainly there, given the complexities of the agricultural sector in Japan, the complexity it poses and has posed for a long period of time, that has prevented Japan from entering into sort of high-quality trading arrangements with its trading partners.

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But you may well ask whether the time has now come for Japan to overcome that particular barrier. Korea, after all, in its view of the KORUS – the Korea-U.S. free trade arrangement – in that arrangement, the Koreans, which have a larger agriculture sector, which was more protected, which has more people employed in the sector, was able to develop and agree on a very high-quality set of arrangements for the agriculture sector. And if the Koreans can do it, the real issue is why can't the Japanese?

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But if this is going to prove such a challenge for the Japanese, spare a thought for the Vietnamese. The Vietnamese have also agreed to join the Trans-Pacific Partnership. The Vietnamese have a large state-owned enterprise sector. They have 11 state enterprise groups which literally span the economy. And this has – these have enormous weight in the Vietnamese economy and they will definitely be part of the negotiating process to ensure that there are fair competition policies with Vietnam.

So there's a real question as to whether Vietnam and, indeed, Malaysia, the other Southeast Asian country involved, will be able to arrive at high-quality agreements on the TPP by the scheduled time, which, incidentally, is next year.

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Now let me shift my attention from the trade initiatives which President Obama announced, and its implications, with what Doug mentioned, the announcement of the stationing of Marines in Australia and the implications for the South China Sea.

Now, the South China Sea is only going to grow in strategic importance in the years to come. Not only will there be more shipping through the straits, as I've mentioned, as China continues to grow, but the South China Sea is also a repository of large reserves of gas

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and oil. The estimates are very wide, between 20 (billion) to 200 billion barrels of oil equivalent of gas and oil. And this clearly gives it enormous strategic value.

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As I see it, there are three big issues that face the problems – that face the countries that have claims to the islands in the South China Sea, and there are two sets of islands, the Spratlys and the Paracels. Incidentally, the combined area of those islands – there are over 200 of them – is only 26 square kilometers. So these are very small – very small islands, but they have enormous implications because of the implications of the Law of the Sea, the areas of the sea surrounding these islands.

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So there are three big issues, as I see. The first is overlapping and competing claims on the islands themselves. On this, of course, the Law of the Sea is silent because it only deals with the sea; it doesn't deal with land. And these have to be – these competing claims have to be resolved by the parties concerned – Vietnam, Malaysia, Brunei, Philippines, Taiwan, and of course China. But the prospects of such an agreement are not very good.

First of all, China wants to have bilateral discussions on these issues, whereas the ASEAN countries involved certainly want to have multilateral discussions through the framework of ASEAN. So there's a big issue out there as to whether this will be resolved at all in the near future.

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The second big issue is actually the different interpretations of the Extended Economic Zone – that is area surrounding these islands – and the big question there is whether military vessels of foreign origin can pass through these areas without due interference if they are engaged in reconnaissance, in surveillance or in intelligence gathering exercises.

Here China believes that these would be considered hostile activity and therefore is not prepared to accept that, whereas the overwhelming majority of nations believes that, in fact, that the Law of the Sea allows such ships to conduct these activities within the 200-mile extended – the EEZ, the Extended Economic Zone. And the question there is, how will this be resolved?

[0:40:15]

The United States is amongst the overwhelming majority of those countries that – it clearly has an interest in this, but the United States has, incidentally, not ratified the United Nations Convention of the Law of the Sea.

The third big issue, of course, is related to, then, rights to the Continental Shelf around these islands, and that also is now becoming – there are overlapping claims by these different countries and could become an issue.

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So the bottom line, as far as the South China Sea, is that the prospects are that these tensions are likely to exacerbate. And they're likely to exacerbate for three reasons. First, China's capability of flexing its muscles, its ability to defend its interests in the South China Sea are increasing every day.

[0:40:59]

Secondly, I think there is a view – and I subscribe to it – that there is increasing confidence as well as increasing nationalism within China that in a sense is driving its leaders to ensure that these claims are vigorously defended.

And the third is now rebalancing of the U.S. policy towards Asia and the South China Sea, and the fact that the U.S. has enormous naval capability to intervene if necessary in the event of coercion or conflict if it should erupt.

So I think there are all the ingredients of possible flashpoints in this area. And I must admit that when I took this job, I was worried about how I could draw attention to Southeast Asia because of the fact that the EU and the United States and China were grabbing all the headlines. But I really need to thank the rebalancing of President Obama's policy, which really has drawn enormous attention towards this area.

[0:42:10]

Let me conclude by two other remarks very quickly. The first is on Myanmar. I think Myanmar is strategically very important because it lies at the connection between Southeast Asia on the one hand, China to the Northeast, and India to the Northwest – it's at the very crux of that area – and provides a land bridge for Southern China to the Bay of Bengal.

So it's strategically very important for the provinces of Yunnan and Sichuan in Southern China, which are rapidly industrializing, which are energy thirsty and which are very keen to get their products out to the coast as well as of course to India and the South China Sea.

[0:42:55]

So the opening up, or the sparks or the signs of opening up, are attracting a lot of attention, and it's terribly important. It's important to remember that this opening up really began, in my view, after Cyclone Nargis in 2008 when ASEAN – through ASEAN's good offices there was an international effort to support the victims of Cyclone Nargis, and this created a small space for dialogue, initially on logistics and that sort of thing, but gradually that space increased, and I think has eventually resulted in a gradual change within Burma.

And the recent cancellation of the Myitsone dam, the hydroelectric dam, by the Burmese – which has of course attracted the ire of China, since it's a damn which is financed and being built by China for production of electricity to support South China. The timing of that has turned out to be very fortuitous.

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Even though it was driven by internal concerns, the reality is that it was just at the time when this summitry was going on in East Asia and prompted the visit of Hillary Clinton to Myanmar, and I think is beginning to change the very dynamic in that very important part of the world.

[0:44:23]

And, lastly, on India. You know, the question is, how do all of these factors impact India? What's happening is that India's trade with China has been increasing very rapidly. China has become India's largest trading partner, even though India is China's seventh-largest trading partner. But India's trade with Southeast Asia has not been growing very rapidly, and that's for various reasons, in part because the two economies of India and Southeast Asia are not particularly complementary to facilitate very rapid growth.

But from India's perspective, the arrival of the United States into the East Asia Summit, the EAS, has implications. The EAS could potentially be transformed into an organization that focuses on security issues in the region, while APEC could potentially become transformed into the institution that focuses on economic issues in the region.

But India is not part of APEC and this has implications therefore for India's participation in economic coordination discussions within the region. But frankly, India should not worry about this because India is part of the G-20. It's in fact a very important member of the G-20. It co-chaired a very important working group in the G-29 together with Canada on sustainable growth.

[0:45:50]

And it therefore has access to policy coordination venues but one thing it really has have to develop a much more active risk policy, as Secretary of State Hillary Clinton said, India should not just have a "Look East" policy. It should have an "Act East" policy because it hasn't followed through with the ASEAN-India free trade arrangement with really aggressive actions to try and promote integration with the rest of Asia and become part of this very rapid, very dynamic region.

So in conclusion, I mean, I just want to say that what we are witnessing is a very important part of economic – of economic history where we have a rising power and the balance of power is going to be tested in the world.

And the area where it will be tested is going to be in the Asia Pacific. And this is going to make this area a focus for the world and for our attention for many years to come. Thank you very much. (Applause.)

[0:47:00]

MR. PAAL: Ambassador Djalal, please?

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DINO PATTI DJALAL: China – actually that’s a little trick I learned while in Washington, D.C. I find it hard to get it somebody’s attention, I just mention the word China and everybody goes, what, where, including my staff all the way back there. (Laughter.)

[0:47:27]

Well, thank you very much. First, thank you Carnegie Endowment and thank you Bakrie Foundation for organizing this event. And you know, to be honest, I feel a little bit out of place to be in what looks like a very GQ lineup, you know, with Anin, the best-looking interpreter in Indonesia, Doug with his pinstripe suits and everything.

So I feel a bit out of place. But it is great to be here and this is a great topic. And I want to share a couple of points with you today on the subject of U.S. rebalancing in Asia or what has the Obama administration done.

Let me begin with this one point. We welcome very much the reengagement of America with Asia. I mean, the statement and policy positions made by the U.S. administration, particularly by Secretary Hillary Clinton, that America will undertake to do a strategic pivot from the Middle East, from conflict areas in Afghanistan and Iraq towards Asia is a welcome – is a welcomed statement.

[0:48:37]

And I do – I must say that the Obama administration has made a series of right moves when it comes to Asia and Southeast Asia. You know, it has done the annual U.S.-ASEAN summit now. It has signed on to the treaty of amity and cooperation after so long. It has agreed to the Southeast Asia nuclear weapons free zone, as had agreed, and although it hasn’t been signed yet. It has done policy shifts on question – on the issue of Myanmar. And it has engaged Southeast Asia and Asia a lot more actively, including in its policies towards China.

Now, all this is very important because I think America does need to reclaim some of its space that had been somewhat – not lost, but reduced in recent years in the changing region. I mean, one example is Indonesia’s relation with America.

Indonesia’s trade with America is about \$23 billion annually. But with China, where the relationship – trade relationship was very minimal a few years ago, we have crossed the 20 billion (dollar) mark, we have crossed the 30 billion (dollar) mark and now we are aiming for the 50 billion (dollar) mark.

[0:50:00]

Another example is education. Twenty years ago there were about 14 Indonesian – 14,000 Indonesia students studying in the United States and almost zero in China. But now, there are more Indonesian students studying in China. It’s about 8,000 and studying in the U.S. is about 7,000.

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So again, there are some spaces – political, diplomatic, economic spaces that America needs to reclaim in Southeast Asia and Asia. There was a feeling that America had been too bogged down in Afghanistan and in Iraq and in other places.

And while all this happened, Asia changed and changed faster. Asian – ASEAN plus three happened – ASEAN with Japan, China and South Korea. ASEAN community happened. East Asia Summit happened. The Bali Democratic Forum happened. The Trans-Pacific Forum happened, again, all this without the involvement of the United States.

[0:51:07]

So it's not necessarily the U.S. is becoming slower but the others and the region is becoming much faster. And you need to keep up with it and you need to plug into it again. Again, the term used by President Barack Obama, the term of reengagement is very important and this is happening at a time when everybody's capacity to reshape the regional architecture has increased considerably in ways that was never seen before.

So it's the right time to reengage. What you must keep in mind is that what you see will be a new Asia, all right. Even Asians feel this. There is an excellent report by the Asian Development Bank. It's called "The Asian Century." I would urge you to get a hold of it.

And that report predicts that in 2050 – Asia already accounts for about half of the world's trade and investment. But in 2050, there will be 3 billion more people added to the middle class in Asia, 3 billion more – not 3 billion but 3 billion more. The total GDP will be \$161 trillion under that scenario. And there will be no poor country in Asia and about every country in Asia at least will have a living standard similar to what you have in Europe today.

So that is the Asia that is forming now. You know, you see a lot of confidence, a lot of dynamism. Vikram is very right and this is in contrast to the declining confidence that we see in Europe.

[0:52:49]

And we think and we hope that this is something that will be for the long term. But in that new Asia, you see a lot of diplomatic repositioning, a lot of diplomatic rebalancing. Countries that were not there before now are quite up there and doing a lot of things, so a lot of repositioning and a lot of rebalancing, not just by America into the region but among countries in the region.

Let me try to highlight in this new Asia what are the geopolitical trends that is relevant that has been happening in recent years. First, geopolitical trend is you see a realignment of interests throughout the region. Again, this is something that was released and unleashed since the Cold War crumbled globally and especially in Asia. You see relationships being de-ideologized.

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You know, if you see relationships in the '60s – 50s, '60s and '70s, ideology is very much a factor in foreign policy, the relationship between states. But now, if you see toward Asia, maybe accept North Korea. Relationships have been de-ideologized and this produces a lot of impetus for convergence of interests, although there are still a lot of divergent of interest. But the space, the area for convergence of interests have been enhanced significantly.

[0:54:20]

This is reflected also in Indonesia's foreign policy. Now, we have strategic partnerships with many major powers and many countries. With the United States we have a comprehensive partnership. With China we have a strategic partnership.

With India, we have a strategic partnership, with Korea, with Australia, with Pakistan, with South Africa, with Brazil and others. But this proves that we have a new foreign policy environment where convergence of interests dictates us to engage in more partnerships.

And the fact that now we face a lot more time fighting and dealing with nontraditional threats also matter. You know, Indonesians don't think that there is going to be a foreign country that will invade Indonesia, right?

I mean, we are quite realistic about this and a lot of our security issues are cross-border, transnational issues, be it terrorism, be it natural disasters, people smuggling and so on, right? So the right nature of the threats have changed and again, in addressing these threats, the raison d'être to engage in more cooperation is much greater.

[0:55:28]

The second regional trend that is strong in the new Asia is the rise of regionalism, particularly in Southeast Asia. You know, if you ask ASEAN countries what they wanted to do since they came to form, it's always saying, look, we don't want to be objects of the major powers. We want Southeast Asia for the Southeast Asians. We want to be masters and subjects of our own regions. That has always been what ASEAN is all about. And this is where we are now. We've come a long way, you know?

You look at a lot of the things that has happened in the region. A lot of it has been done by the regional countries, the ASEAN community, the expansion of ASEAN from six – from five to six to 10, the resolution of – (inaudible) – and (Ligitan ?) disputes, the management of Thai-Cambodia border, the ASEAN free trade area, a lot of the things, the resolution of the conflicts in the Southern Philippines.

[0:56:28]

A lot of these things were done by Southeast Asians and without involving America, without involving China or India or other countries. And it is good. It is good for the region because the regional countries are saying we can deal with this on our own. And I

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think it's part of a healthy regional maturity that is happening and something that we should encourage and advance more.

Third geopolitical trend that is significant is China's inroad into Southeast Asia, right? It has been – I think if you ask me what is the most important geopolitical development in the last 10 years, it is China's diplomatic, economic inroads into Southeast Asia. It is very significant and you see it in the numbers of trade.

[0:57:15]

You see it in the numbers of investment. You see it in the numbers of Chinese tourists and Chinese workers, Chinese factories, Chinese diplomatic initiatives that engage the region. And I say this not as a negative thing. I think it's good for the region. It's good when it is based on strengthening the regional order and improving relations with countries in the region and it's good when it leads to more investment, more trade and investment and other cooperation.

We in Indonesia have a term called competing for peace and this is what we ask China and the U.S. and other major powers to do. Don't come here competing for power and influence because then you polarize the region. But you compete for peace and prosperity, whether you compete over who has the most students or who has technology, investment and trade, everybody wins. And in fact, we want you to compete even more for peace and prosperity.

So that is the third geopolitical trend. Fourth is the proliferation of partnerships. Again, this is something that is very significant and something that has never happened in the region before. Now, what do I mean by this? You take every country in the region, right, probably about 18, 20 countries and you draw lines among these x and y columns and find out which has actually some kind of bilateral partnership treaty or trilateral or regional partnership treaties with one another.

[0:58:47]

And you will see the boxes full with checkmarks. And if you compare this to the list 40, 50 years ago, you would see a lot of empty boxes, right. But the point is partnership diplomacy now is very prominent in the region. It's changing the face of the region. I know America's engagement in the region is centered on the concept of alliances, you know, with Japan, with Korea, with Australia and so on.

America still thinks in terms of alliances. But for much of Asia, no one really thinks about alliances, right. People think in terms of diplomatic partnerships and economic partnerships. And this is a diplomatic mindset that is strong in Indonesia, in ASEAN and throughout the region.

[0:59:30]

The fifth geopolitical trend that I see is the rise of emerging powers. Again, this is not particular to Asia but this is particular to the global theater. You see this reflected in the

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transformation of G-8 to G-20. You see this in what I think is one of the most significant diplomatic trends which is the creation of diplomatic spaces among the emerging powers, among Indonesia and China, China and India, India and Brazil, Brazil and Mexico, and Turkey as well.

Among all these emerging powers, new diplomatic and economic and political spaces are being created very, very strongly and in a very fast way. You can see it in the number of trades and investments, also in the number of diplomatic partnerships that is happening. And this means that there is bound to be a new dynamic equilibrium in the Asia Pacific to accommodate and address the rise of these emerging powers.

[1:00:40]

It also means in our view that the Indian Ocean will become a more important strategic and economic theater. My president – President Susilo Bambang Yudhoyono – has spoken about the Asian Pacific century in Hawaii, I think partly in reply to the notion of the Pacific century.

Whereas the Pacific century focused on the Pacific Ocean, the Indonesian concept of the Asia Pacific century focused on both, one, Asia including China and America as drivers of the 21st century but also as Pacific Ocean plus the Indian Ocean as the key oceans of strategic – geostrategic regions of the world. But again, the rise of the emerging powers will change the weight and the dynamics of this region.

[1:01:36]

Now, one thing that I know the United States will find comfortably as it reengages in the new Asia is what a phenomenon that is called the rise of the individual. Again, I don't mean to be philosophical about this but this is a very real development. The middle class will rise but what is different this time is that every individual now is becoming more than just a vote, more than just a consumer.

Every individual now with the social media tools of Facebook, Twitter, email, websites, bloggers and everything will become actually a voice and a force. You know, we've been quite amazed at what the individual can do these days. I think what happens in the Arab Spring attests to the fact that individuals are really becoming a force in ways that was never before, right.

[1:02:29]

And the rise of the middle class throughout Asia – Indonesia already has the largest middle class in Southeast Asia – will be a very relevant geopolitical factors. You know, you asked me what is the most powerful geopolitical force in the 20th century.

I would say it's nationalism and democracy because it changed the political landscape. But I think the 21st century is not big ideas but small gadgets that will be the very strong geopolitical force – you know, hand phones, fax, emails, Twitter, you know, all these

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small gadgets are changing the way individuals perform and changing the concept of boundaries and international relations.

[1:02:08]

And what this means for Asians themselves is this. We have always been transfixed on the concept of community, you know. I grew up in that kind of intellectual and political environment. Western is about individual and Asia is about the community.

But with the rise of the individual in the 21st century, every Asian nation will have to get more used to the notion that it's not just a community but it has to be more space for the individual. Whether you're Chinese, Indian or Indonesian or Vietnamese or Myanmar, the notion of community must start to give more ways and more room and more space to the individual.

So finally, as a conclusion, let me give some concluding thoughts on what we should expect and what to be done. I think for ASEAN, you know, I like sports and I think a good metaphor for ASEAN as it does the regional architecture is to think regional architecture not so much in terms of volleyball – you know, non-contact sport, very polite, distant – but more like rugby, you know.

[1:04:19]

And I feel that this Bali and Asia summit, especially what Doug described as how we dealt with South China Sea issue and other issues, that you know, there's a lot of contact. And for ASEAN, I think the challenge is how to deal with the weight – the enormous weight of China and the enormous weight of America, which will want to have its agenda included and how do you manage that, right.

So ASEAN should be more used to this contact sport and more rugby than volleyball. For America, for America – look, think of the world and especially Asia Pacific not as football. You know, you have American football, yeah, the one that you throw. But soccer, right, you don't.

Know why? Because it's the one sport where you really have to earn your place in the world. Everybody is getting good. Everybody is great and, you know, you really have to earn your place to be good in the world of soccer. I mean, you're already great in football. Think about it. No one plays football really, right, just Americans.

[1:05:28]

But again, think of it as soccer where you really have to train and practice hard and try to make it into the World Cup because everybody is really training hard and everybody is very talented. There's going to be a lot less room for unilateralism, no matter what your circumstances are. There's going to be a lot less room for unilateralism.

There's going to be a lot less appetite in Asia for the politics of confrontation and there's going to be plenty of space for new players and new thinking. And my last point

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about America is that, look, you're going to be going into elections in the next one year. But remember, this election is not just about America. This election is also about the world, right. I know it's easy to think that it's just about America but it's not.

[1:06:18]

I think the world is watching very closely what every candidate is saying. And it is important that you project – every candidate projects that you are not retreating from the internationalism that has always been the hallmark of America's foreign policy.

It is very important that you do not pit nationalism against internationalism because in today's world, as China has discovered, as Indonesia, India, ASEAN has discovered, nationalism and internationalism go hand in hand. And that is the one lesson that at least the United States should be able to apply in our region. Thank you very much. (Applause.)

MR. PAAL: Well, thank you, Ambassador Djalal, for sage words of insight and advice and even admonition about contact sports. I can tell you as a father of two daughters, I – you know, you have your beautiful daughters and you want them to be ladylike and well-dressed and behave appropriately but when my daughter went to Yale, my older daughter, she took up rugby. So we're getting ready. We're getting ready. (Laughter.)

[1:07:42]

We've had a rich discussion today on a host of issues, touching on the theme of rebalancing. And some of the big issues which the ambassador has put on the agenda looking forward. And so now it's time to open the floor to your questions or if you have a statement to make, very short statements to make, please.

If you have cell phones on, please turn them off. And when you are called upon, wait for the microphone so that the cameras can hear what you say and identify yourself and keep your questions short please. So I see a question two-thirds of the way back.

Q: Hi, Douglas. My name is Ray Pulungan. I'm from the Indonesia Chamber of Industry and Commerce. You spoke about the U.S.'s delicate engagement with China. I want to know basically a bit more on your thoughts about India vis-à-vis China.

[1:08:40]

Both nations are jostling for influence in the region. I just want to know how you think it will play out and the extent to which India's relationship with the U.S. either aids or inhibits their ambitions. Thank you.

MR. PAAL: Well, that question I guess was addressed to me about what I see as the Indian role in future U.S.-China relations. One of the great advantages for countries who have to look after their security and have to be concerned about the direction China takes is that China is geographically bordered by a number of powers. And it's not aligned with any but perhaps North Korea.

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If Chinese behavior departs from the past 30 years of reform and uplift and economic modernization and becomes aggressive, you know, you have Japan, the number two, three economy in the world. You've got India, a rising economy, and the United States. And they have the potential to bandwagon together to protect their own interests.

[1:09:45]

But in the absence of some kind of behavior that forces us to bandwagon together, there is no need for an explicit alliance. There's no need to send a message of threat to the Chinese. Again, to the spirit of what Ambassador Djalal just said, internationalization and community building have been the message to China for some time. And we still hope that that message will be received and acted upon for decades to come.

There has been some talk about the U.S. building a strategic relationship with India for the long-term and of building a tighter military-to-military relationship with India. My thinking on that is that there are – there is some potential for that because India has migrated from a heavy dependence on the Soviet Union in the Cold War through a period of rediscovery of hedging and counterbalancing relationships.

[1:10:43]

But I also think that there's kind of a limit to how far India will go in the absence of a major outside threat. Nonalignment is a very powerful ideology even today in India. And I would expect that to be the case for some time to come. Vikram, would you care to offer something? Yes, over on the aisle?

Q: Thank you very much for your thought-provoking comments. My name is Susan Aflorian (ph). I'm with Parson's. And I'm basically addressing my comment to Mr. Paal, wondering how do you reconcile the fact that diplomacy, defense and development are intertwined and they require pretty serious funding with this austerity that is going on now in the United States and budgets being reduced.

Can you address how this is being envisioned to actually be successful? We all know China has, shall I say, unlimited amounts of money to spend internationally while we really don't. Thank you.

[1:11:48]

MR. PAAL: If everybody heard the question about how the U.S. can afford to be active in the current environment. One, the U.S. is drawing down its forces in Iraq and Afghanistan and that will liberate somewhere between \$30 to \$60 billion a year now spent in and outside the defense budget.

President Obama, second, during his presentation to the Australian parliament made a profound commitment, which I believe he fully intends to implement and that is to declare a floor on American involvement in East Asia. Even as we will necessarily draw down in the Middle East and presumably continue our patient drawdown in Western Europe where stability has prevailed, there will be resources available to deploy to Asia Pacific.

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I personally don't think the resource requirement for an active and effective role for the U.S. in the Asia Pacific requires a lot of money. This is – it's more a question as you led off in your comment. You integrate diplomatic and defense and other activities to get a better outcome.

[1:12:58]

And I think that's what's on the mind of people making decisions today. Finally, I would just observe I tend to be optimistic about the United States and its economic future. We're going through the wasting political struggle and it's part of our constitutional process. But I'm powerfully impressed by the deleveraging that's taking place in the business and household sectors in America.

They're going to put the U.S. in a strong position to have a growing economy a few years from now. Yes, get used to the noise and all the complaints and the fighting over budgets. But the healthy part of the U.S., which is the private sector, is regaining its health and its strength.

MR. DJALAL: Could I just add quickly to that?

MR. PAAL: Please, of course.

[1:13:39]

MR. DJALAL: You know, that is a very important point to mention the linkage between defense, development and I think a lot of times the question is how well do you use the resources at your disposal even though it has declined. I mean, one of my favorite anecdotes is what does 1 billion (dollars) get you in defense or in development.

One billion (dollars) may get you how many F-16s or how many F-111s. But in development terms, that 1 billion (dollars) can get you 10,000 MBAs. And you produce 10,000 MBAs in Afghanistan or in Iraq, you change the nation. So again, how you use these resources will be important, not just how much money there is.

MR. PAAL: Yes?

Q: (Inaudible) – journalist and consultant on political and social issues. Thank you, first of all, for such an interesting panel. And my question is to Ambassador Dino Patti Djalal. Ambassador, you concluded that 21st century for Asia will be a century for individuals and community will not be playing such a big role as it was.

[1:15:04]

But I would like you to give more information how you see this relationship between individual and community. Would it be challenging or it will go smoothly?

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MR. DJALAL: Well, I hope it will go smoothly, right. But you know, in Indonesia itself we feel that you look at all the changes that are taking place. A lot of it are being done – more changes are being done by groups and individuals than by government these days. And we accept that as fact, you know, because – you know, for example, the government can only produce so many jobs in the bureaucracy.

But it is the private sector that can produce millions of jobs that we need to move the economy. But in diplomacy also, there used to be a time in the past when contacts between countries are done mainly by government officials through diplomatic notes or telephone calls and meetings and so on and very few by individuals.

[1:16:15]

But now in the age of social media, the number of contacts between citizens way, way are a lot more than contacts between government officials, right. So again, I think we're only seeing the tip of the iceberg and I really feel that individuals are becoming a force, right. You know, one of the things that I would remember most in the U.S. is when I went to Arizona to attend a conference.

And there was this black kid, 9 years old, and he was the speaker. And I'm wondering, you know, what's this 9 year old going to say. And he gave a speech and his speech was about how at 5 years old somebody introduced him about giving money to the poor and he got addicted to it.

[1:17:01]

So he gave more money from his parents to the poor and he organized the event so that his neighborhood can start giving money to the poor through him. And by the time he is 9 years old, he has organized ways to feed 7,500 poor people and he's 9 years old, right.

He – again, this is the best example that an individual is a force, you know, not just a vote, not just a consumer. And you'll see that rising phenomenally across the United States, across Asia and across the world. And I think it's one of the most significant, again, geopolitical and social changes that we will ever see.

Q: Thank you –

MR. PAAL: There's a microphone coming.

Q: My name is – (inaudible.) I am coming from Indonesia together with Mr. Djalal – (inaudible) – is chairman of the Golka Party. Mr. Nehru and Mr. Paal mentioned just now there are two issues regarding the reengagement of United States in Asia, that is the TPP and the Darwin station. You mentioned there is a Darwin Air Force station, something like that.

[1:18:23]

First, about the TPP, I understand that it is one of the big issues domestically in the United States also with the free and fair trade and then when you come to Asia, it is also an –

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(inaudible) – to exercise the free and fair trade. Still in the context of partnership, it is also followed with mixed feeling in the region, ASEAN and Asia as a whole, as a matter of fact, as we follow only three of ASEAN countries already joined the TPP.

That is Malaysia, Singapore, if I am not mistaken is also Philippines, Philippines. Why don't you just use up the – (inaudible) – the existence of the – DFID or bilateral trade between the United States and many other countries you have already exist India, ASEAN countries. And why don't you just use also the APEC to maximize and optimize the free and fair trade to be more getting progress of this?

[1:20:07]

It is also – but my opinion is since you are talking about free and fair trade, it is the more you have competition in this area, it is the more open, the trade, the more competitiveness and the more you reduce the barrier, either economic barrier or social barrier for reaching the objective of free trade. And then in the end of course it is in the effectiveness of the nations and the people of this region.

But still, this has to be more explanation and more exercise of this. But compared to the other idea, that is the Air Force station in Darwin, it is also still many question about this because what we know that America contributed a lot – very significant – to the peace and stability that has been achieved by ASEAN during these last 30 or 40 years and with this it can – ASEAN can be proud also with the economic and prosperity has been achieved. It is a very icon of ASEAN. Peace and prosperity make stability.

But with the existence of the presence of this station, many of us in the region mention this as a military base although it is not true perhaps.

[1:22:02]

With the existence, with the presence of this station, is a place can create tension in the region because other countries – at least in the neighborhood of Australia for instance – will be thinking of what is the target, what is the target, because for instance, Asia itself with Australia have at least problems in the border, the fishermen of Indonesia coming to Australia and then denied and sometime escape down by the Australia and many other problem.

[1:22:43]

But it is also can create tension by neighboring countries in the region to expand their military expanse, their military expanding and then not to mention China, although other colleague around this forum also mentioned that China is the target of this. I'm not so sure about that. But at least we are – Mr. Paal also mentioned about South China Sea problem and now it is one of the effect of ASEAN to be solved peacefully.

But so far it has not come to the achievement. But it is – do you see? It is the way of thinking of how to a new paradigm of peace and stability – peace and stability by create such a station.

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Although it is mentioned also only for natural disaster but if only for natural disaster, helping natural disaster efforts, something like that, why don't you just support the effort of ASEAN countries who has already been trying to form or to establish station for peacekeeping or not for peacekeeping, for natural disaster relief of ASEAN.

[1:24:21]

MR. PAAL: Why don't we get a response to – ?

MR. NEHRU: Thanks. On your trade question, Patiu, my starting point is, first of all, and I hope you agree with me that trade is a very strong propellant for growth. So trade and growth tend to go very well together and it's been a key part of the Southeast Asian story as well as the East Asian story.

So I start with that very important position. But how do you ensure that trade is free and fair? While I think we've learned that at the border, countries may impose tariffs and nontariff barriers, but even when they are removed, there are ways by which countries can apply domestic policies, credit policies, allocation of fiscal resources, favoritism in terms of allocation of land, use of regulations to try and favor some firms, exporters as opposed to other firms which may be foreign firms.

So there are ways by which countries can protect their firms, even though there may not be trade barriers in place. So the idea of TPP is to try and get at those issues. For example, what China has done incredibly well is it has adhered to all the WTO regulations. But at the same time now it's using its exchange rate and using domestic policies to continues to support its export enterprises.

[1:25:55]

And how do you address that issue unless you have a much deeper trade arrangement. The second point is that entering into this kind of trade arrangement actually provides an external discipline to domestic reforms.

The sorts of reforms that are needed, even I would argue in Indonesia or in Malaysia or in Thailand, are very difficult second-generation reforms – investment reforms, reforms in fiscal policy and so forth. These are difficult things to do. And what these trade arrangements do is provide an external discipline because once you've entered into them, you have to ensure that you actually meet those obligations.

[1:26:34]

MR. PAAL: On the question of the use of Darwin facilities, I think it's important first to say there is a global shortage of places for training the Marines or other forces that support the Marines. And so there's generally a desire to welcome this opportunity in Australia. This has been on the table for quite a long time.

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Some years ago, I was asked by the chairman of the Joint Chiefs whether I thought it was a good idea to enter into a new arrangement on this sort of facility because it had been proposed by the Australians. And the chairman said to me he thought it was not a good idea to have a base there because you put your bases where the trouble is, not where the trouble isn't.

[1:27:22]

And I think that sort of sets the stage to say this is not – there is a mistake made in the process of selling this new idea, several mistakes. One mistake was not properly informing Indonesia as an interested party of what was intended. Second mistake was once it was announced, to allow the media line to be taken that it was a new base. As I said in my remarks earlier, there are no missiles pointing out. There are no ships being based there.

There are no airplanes that can launch attacks. Furthermore, if you wanted to have such a base to deal with, say, the South China Sea or China, you wouldn't be that far away in Australia. So it does raise questions in minds of what's the purpose. Training is needed.

You can't have an effective force, even for humanitarian aid and disaster relief, which has become the principle function of American Marines in the Pacific in recent years since the tsunami and other major efforts to provide relief in the region.

[1:28:23]

So I think there's been a bit of a mis-salesmanship in the way this has been presented and we need to educate people that this is a – in no realistic way a source of threat to either the nearby neighbors or far away neighbors. But it's a necessary part of the infrastructure of training one's forces. Thank you. Back in the blue shirt?

Q: Thank all three gentleman for a stimulating panel. I'm Paul Eckert of the Reuters News Agency here in Washington. I worked in the news business in and around China for about 20 years, Mr. Ambassador, and I like how you opened your speech because I used to always maintain half-jokingly that if you put China in a headline, no matter what, even if it said nothing happened in China today, you'd still – you would still get people calling the Carnegie Endowment saying, nothing happened in China, what's happening?

But anyway, on a serious note, concurrent to the pivot diplomacy that we witnessed in the last several weeks and unfolding with the Obama administration, we've seen a very sharp focus from the USTR and other economic agencies.

[1:29:39]

Part of it, you know, attending the 10th anniversary of China, the WTO, to really focus on the state role in China's economy critically, negatively. Mr. Nehru touched on that as sort of the inside-the-border trade barrier type things and the statism. The report cards that are being written about China and the WTO are very critical of that.

And my question mainly focused to Doug Paal. Are we – I mean, China – we don't intend – the U.S. doesn't intend to contain China. But it could be perceived that way. But

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when trade complaints go from things like currency or tariffs or this or that to really looking at the wholesale way China runs its country, are we courting an angry pushback, especially in the year 2012 when we know there's a lot of delicacy in the air.

MR. PAAL: Well, thank you, Paul, for attending the session today and for your question. There's been some very good research and publication recently on the retardation and rollback of reform in China since about 2004, 2005. And we have seen a deterioration in the market conditions.

[1:30:49]

One of the forces for good U.S.-China relations throughout the last 25, 30 years has been the promise of better market opportunities which pull together the American business community to support the relationship with China through thick and thin. That has deteriorated in the last few years because we do see the rise of state-owned enterprises in dominance in some sectors of the economy.

And this has caused a split, if you will, in the business community. Some American businesses still do quite well in China and don't want to upset the apple cart. But an increasing number, maybe as much as 50 percent of American business in China, is seeing the ground shift under them in the marketplace and they're looking for action.

And to go to your question, I would expect in early part of 2012 that people in the Congress long associated with taking a free-trade approach to international trading issues will be crafting omnibus legislation that will try to put on the record concern about China's indigenous innovation policy, its rigged currency policies, its intellectual property rights, failure to protect and the rest of the issues.

[1:32:02]

Hopefully the legislation will be drafted in a form that's intended to test the limits of the WTO but not go outside the WTO. And to send a signal to China that business as usual or business as it's become-usual in the last few years needs to be revised. This is a delicate process.

I mean, in the current international trading environment, as my colleague know better than I, it's easy to start a trade war. History is full of recessions leading to trade wars and I don't think anybody really wants to go that far. But it may be necessary to send China a wakeup message in its own very sensitive political year when leaders are making decisions about how they're going to handle policies in the years to come. Thank you. Question here in the front, third row?

[1:32:48]

Q: Hi. Li Xiaokun from China U.S. Daily. Thank you all the panelists for the extraordinary presentation. I have no question but for Doug, you mentioned that in 2010, China crossed some kind of red line with assertiveness and arrogance. But in 2011, China controlled its behavior and mad some compromise, also toned down its tone.

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But it seems that Obama administration is quite aggressive in the Asian policy and also the words are quite – words of Obama and Hillary is quite strong towards China.

[1:33:35]

You also mentioned that before – (inaudible) – visit – you also mentioned that this aroused some kind of China suspicion and caution about containment from the United States. Before – (inaudible) – visit, you think U.S. should discharge China such caution and suspicion. So how do you think U.S. should compromise or build mutual trust in that kind of circumstances?

MR. PAAL: Well, thank you for your question. As I tried to indicate in my opening remarks, the United States, you know, in an election year we're going to sometimes have rhetorical excesses. But officials have to be very careful with their remarks. They can't try to change the terms of the situation.

After the upsetting events of 2010 from the spring through December, the Chinese government in response to an invitation from the Obama administration agreed that President Hu Jintao would come for a successful state visit. And indeed, we had a successful state visit and a more moderate rhetoric and behavior from China over the course of the year.

[1:34:50]

That should be on record as understood. And therefore, when people choose language today about how to deal with China, even though the region is pulling together more closely out of concern of what happened in 2010, we shouldn't overdo it in response.

And as I said in my remarks, the current talks tomorrow in Beijing between the Defense Department of the United States and General Ma Xiaotian and his colleagues in Beijing will be a chance to talk in real terms about some of these issues away from the cameras, away from the microphones.

And I hope that in the process of the conduct of our foreign affairs over the next few months we can make sure that there is an understandable difference between the kind of rhetoric that goes on in politics and the real conduct of our diplomacy and security policy.

[1:35:40]

Ladies and gentleman, I'm going to take one more question and then we have a wonderful reception to welcome the Bakrie family and their traveling party and the rest of you to join us. So first, let me take one last question here in the third row.

Q: Thank you. My name is Noro al-Athim (ph). I'm member of parliament from Indonesia and I'm also member of Golkar Party. My question is for you, sir, both of you. What is your perception about Indonesia today as our ambassador felt about Indonesia and

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also what is kind of leadership in your perception we need to bring Indonesia being part of the ASEAN plus six or global society?

MR. PAAL: Thank you.

[1:36:40]

MR. NEHRU: Do you want to take that first?

MR. PAAL: No, you go first.

MR. NEHRU: Well, let me give you my perceptions about Indonesia, and I am an economist so I tend to think things from an economic perspective. And as I've already said, the Indonesian economy has been remarkably resilient over the last several years.

It did extraordinarily well through the global financial crisis and continues to do well. And I think that's – that's testimony to the reforms that the Indonesian government took through the last decade but primarily after the Asian financial crisis.

[1:37:14]

So what we're seeing now is a very resilient Indonesia. But I daresay there are three or four issues that the Indonesians have to worry about going forward. The first big – the first big question is going to be obviously infrastructure. You just have to go to Jakarta and know that urban infrastructure is desperately in need for development.

Otherwise Indonesian cities could literally be smothered by their own congestion and that is not a way to move forward in growth. But secondly, I think, there is a big – there is a big concern that Indonesia is, thanks to very high commodity prices, rapidly becoming a commodity exporting economy.

So there's a big question about how do you develop manufacturing because manufacturing provides the dynamism, the technology and the advancement. And there I would say that Indonesia has a big deficit in terms of skilled people and higher education. So I think higher education and infrastructure would be the two big priorities going forward for Indonesia.

[1:38:17]

MR. PAAL: On the issue of perceptions of Indonesia, it has been typically a country that was – as Paul Wolfowitz, our former ambassador there used to say, if Indonesia were in the middle of Europe, no one would talk about Germany.

But as it is, people don't focus on Indonesia very much in this country. But among those people who do pay attention to Indonesia, the script has changed dramatically over the last 10 years.

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You know, in the aftermath of the struggle over Timor's fate, the policy circles spend all their time talking about sanctions and military severance of connections and the like and that changed dramatically with the reforms that Vikram's talking about domestically. And I think that the opportunity the tragedy brought in Aceh and the tsunami helped us to get onto a positive dialogue. And that has opened doors.

[1:39:18]

Doors don't open easily on some of these things that were closed legislatively. And the banning of certain travelers and the banning of certain kinds of education or military training and the like had to be forced – those doors had to be forced back open.

But the conduct of the Indonesian armed forces, the government of Indonesia, the adjustments and internal reforms have made it – put some grease into the hinges and the doors have moved more and more open. And I think the situation now is as best as I can remember in U.S.-Indonesian relations.

[1:39:50]

But it's not to say there isn't greater scope for Ambassador Djalal to make an even broader relationship in the years ahead.

MR. DJALAL: Sure. Just one last small point to that, just my ambition as ambassador here, I don't know how long I have here, is one day – you know how I started my speech by saying, China, right, and everybody's like – so at the end of my term as ambassador, I would begin my speech by saying, Indonesia. (Applause, laughter.)

MR. PAAL: Thank you to the Bakrie Center Foundation. Thank you to all of you who have come to participate. You're welcome to join us for the reception now. Thank you.

(END)