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Leadership in the region

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From the Editors' Desk

Leadership in Asia today confronts the 'most interesting of times'. The emerging powers of China, India and Indonesia face the twin challenges of unprecedented economic and social transformation, and crafting an approach to manage their new weight in the world, including expectations among the established powers in North America and Europe about how they should share the burdens of international leadership. The consequent tensions are most evident currently over territorial issues in the South China Sea but there will be others.

Asian political systems, and political leadership, come in many shapes. Political dynasties, even in democratic polities, are a resilient feature. In Japan, Prime Minister Abe, with his three arrows, comes from a political line with impeccable conservative form. President Xi is a princeling of the Chinese revolution, set on a course of deep economic and political reform that apparently eschews overturning its authoritarian fundamentals. Modi and Jokowi are remarkable—the directly-elected leaders of large democracies, trying to break out of the mould of past leadership style and substance. They all face uphill battles in achieving their ambition for reform, while protecting their base of domestic political support.

Collectively these countries now account for close to half the world's real economic power. Japan excepted, they lag in terms of military power and technology. How can they assume their proper role in running global and regional affairs? What new structures are needed to assist the transit of Asian power, if any?

These are the questions with which this issue of *East Asia Forum Quarterly* deals. The sharp edge of these questions is about the evolution of the relationship between the United States and China. Recognition that the status quo of US leadership is unlikely to endure is one thing; China's replacing it without a revolution in its political system is equally unlikely. So what's the way forward? Can like-minded middle powers help to shape a stable order?

This *EAFQ's* Asian Review feature deals with some hugely important and related issues: China's corruption drive; normalising China–Japan security relations; and Jerry Cohen's reflections on Lee Kuan Yew.

Mari Pangestu and Peter Drysdale

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COVER: Two contemporary Asian lions admire a carving of the king of beasts: Narendra Modi and Xi Jinping at the Big Wild Goose Pagoda, Xi'an, in May 2015. PICTURE: INDIAN PRESS INFORMATION BUREAU / AFP PHOTO.



Presidents Xi Jinping and Barack Obama at their Annenberg Retreat bilateral summit in California in June 2013. A 'stable and collaborative leadership order' is only likely to emerge in Asia if great-power political leaders are willing to work hard and make real sacrifices to achieve it.

Asian century must begin with great-power accord

HUGH WHITE

A MERICAN geo-strategic leadership has been the foundation of peace and stability in Asia for so long that most people can hardly imagine anything different, and many certainly don't want anything different. But the Asia Pacific is going to get something different, whether we like it or not. Geo-strategic leadership in Asia is changing fast, in ways that have profound implications for the political and economic future of the entire region. How that change occurs,

and where it leads, matters deeply to everyone. Yet most are still in denial about the fact that it is happening and are therefore doing nothing to try to steer it in directions that might suit their interests or at least reduce the risk of disaster.

To understand the change we need to see what went before. The critical fact about Asia's strategic order over the past 40 years has not been the United States' position as the predominant regional power, but that this position has been uncontested by any other major regional country. It

has been this very unusual situation of uncontested US leadership that has given Asia such a long era of peace and prosperity.

Now this era has come to an end. China is resuming the challenge to US power in Asia that it suspended in 1972. The US and its friends and allies in Asia have been slow to recognise the seriousness of this challenge. They have assumed that China would share their view that US leadership offered the only possible basis for peace and security in Asia and was therefore essential for China's own stability and

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prosperity. And they have assumed that China still accepted that—despite its impressive growth—it remains too weak to confront the US in Asia directly. They think Chinese leaders accept that any conflict would impose far greater costs and risks on China than it would on the US, so it would be easy for Washington to deter Beijing from trying a test of strength.

But it has now become abundantly clear that both of these assumptions are wrong. Beijing does not believe that US leadership is essential for China's interests. On the contrary, President Xi Jinping has forcefully asserted his belief that China's interests would be better served by a new model of great power relations in Asia in which the US plays a much smaller leadership role and China plays a much larger one. More importantly, Beijing does not believe that the advantage of either economic or military power still lies with America—China seems to see the consequences of a potential clash being just as serious for the US as for China. It knows—and thinks the US does too—that what is at stake between the two matters more to China. It thinks that gives it an advantage—and it may well be right.

Not understanding this, the US and its allies have until recently underestimated the seriousness of China's challenge to the US-led status quo. They believed that a firm statement of US resolve would force China to abandon its recent assertiveness. President Barack Obama's Asian Pivot was intended to do just that. But the Pivot has not made China step back; instead China has become even more assertive.

This explains China's current approach to issues like the maritime sovereignty disputes in the South and East China Seas. These issues

are not simply about who owns these inherently insignificant rocks and reefs—China has chosen them as the arena in which the contest for the geo-strategic leadership of Asia is being conducted.

By using armed force to confront US allies over conflicting sovereignty claims, Beijing directly tests the United States' willingness to risk an armed clash with China in these waters, which have, until now, been a US domain. The construction of military facilities in disputed islands is just the latest of China's encroachments. Failing to stand up to these actions undermines the credibility of US alliances in Asia. And, because these alliances are the foundation of US leadership in Asia, this ultimately undermines US regional leadership.

CHINA is very deliberately asking whether the US is so determined to preserve the status quo in Asia that it would go to war with China. President Obama has said that he would, at least over the Senkaku/Daiyou Islands. But who really believes him when a clash is unlikely to produce a quick US victory and could conceivably escalate into a nuclear exchange? Clearly Beijing does not.

Perhaps China's leaders are wrong. But that will be of little consolation if their error only becomes clear once the question is put to the test. And they are probably right. Of course America wants to retain leadership in Asia, but it does not want to preserve the status quo more deeply than China wants to change it. Given the growing equality in power between them, that means some change in Asian regional leadership is now inevitable. The question is: what does it change to?

It would be a mistake to assume that the only alternative to US leadership in Asia is Beijing taking

over as regional hegemon. This is, of course, a possibility. But only if the US decides to withdraw from any substantial strategic role in Asia, and if Japan, India and other major players accept Chinese preponderance. It is just as likely that uncontested US primacy will be replaced by a long and bitter contest for regional strategic leadership among a number of great powers, with a real and growing risk of major war between them. This would be a disaster for Asia.

The only alternative is the construction of a new order in Asia in which leadership is shared on the basis of some kind of equal partnership

between great powers. Many hope that this kind of order will emerge more or less organically over coming years as enlightened self-interest effortlessly guides leaders in Beijing, Washington, Tokyo and elsewhere to wise and moderate mutual accommodations.

Well, that too is possible, but we shouldn't bet on it. Adam Smith's invisible hand works much less deftly in geo-strategy than in economics, because leadership is ineluctably a zero-sum game. It is much more likely that a stable and collaborative new leadership order in Asia will only emerge if political leaders are willing to work hard and make real

sacrifices to create it. As a first step, both the US and China would need to recognise and acknowledge the need for mutual accommodation. China's leaders need to acknowledge that it cannot expect to be Asia's uncontested leader in the future. US leaders need to acknowledge that they can't either. Only then can the two largest powers, and the rest of us, start to think about what model of leadership will work best in the Asian Century. **EAFO**

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CHINA'S RISE

Middle-power multilateralism bringing China into the fold

YOSHIHIDE SOEYA

CHINA is a central concern in the evolving East Asian order, and its aggressive behaviour toward disputed islands in the South and East China Seas is attracting growing concern. China's uncompromising attitudes reflect growing confidence in its ability to create or re-create a China-centred order in Asia commensurate with its power and interests.

But this aspiration does not necessarily imply that China wishes to compete with the United States over global or Asian leadership. For Chinese leaders, as President Xi Jinping has said, the Pacific Ocean is wide enough to accommodate both China and the US. But China remains unhappy with the dominant role of the United States in Asia and wishes



PICTURE: JEON HEON-KYUN / EPA / AAP

Australian Foreign Minister Julie Bishop and South Korean Foreign Minister Yun Byung-Se in Seoul in May 2015. Middle-power cooperation could provide the basis for productive coexistence with China.

to see the eventual withdrawal of the American presence from the Asian part of the Asia Pacific.

This is amply demonstrated by China's concept of a new model of major-power relations. While envisaging coexistence with the US across the Pacific and on the global stage, China also wants the US to leave the destiny of Asia in the hands of the Chinese. The new model of major-power relations helps China realise its dream of creating a China-centred Asia.

The process is bound to be a long-term one. The central players in this transformation of a regional order should be the countries in East Asia that are most directly and seriously affected by the rise of China and shifting American strategy. If East Asian countries' choice is simply to react to the larger trends of evolving US–China relations, this should signify the demise of an autonomous strategy on their part.

Against this backdrop, the concept of middle-power strategy can provide an important theoretical perspective for a new logic of cooperation among East Asian countries. A middle-power strategy is characterised by the absence of unilateralism, which is a defining trait of the thinking and behaviour of a great power. It cannot be executed by any single country alone. Crafting effective mechanisms of cooperation are the key to its ability to exert effective influence in the middle ground between great powers.

Middle-power cooperation in East Asia can give rise to a solid multilateralism, conducive to the harmony of the regional order. The more effective this multilateral cooperation is, the greater the cost is for China of smashing it. The ultimate goal of such endeavours for East Asian countries is to coexist with a strong

China in a democratic and stable Asian context, without necessarily being co-opted by it. A strong China is welcome, but the modern version of a Sino-centric order is not.

Non-traditional security cooperation among middle powers is a natural first step towards building a regional infrastructure based on a middle-power strategy. An example is the Japan–Australia Joint Declaration on Security Cooperation, signed in March 2007. South Korea and Australia also signed a similar, but much more comprehensive, agreement in 2009, the Joint Statement on Enhanced Global and Security Cooperation. A similar initiative was begun between Tokyo and Seoul towards the end of the Lee Myung-bak administration, with the two governments almost completing a bilateral Acquisition and Cross-Servicing Agreement. Trilateral, non-traditional security cooperation among the three middle powers of Japan, Australia, and South Korea, and also possibly ASEAN, would constitute an important step toward multilateral security cooperation in the region.

Whether and how regional middle powers can cooperate in setting the agenda and providing the drive towards regional integration will remain critically important in working with China and shaping the region in the years ahead. The challenge, in the

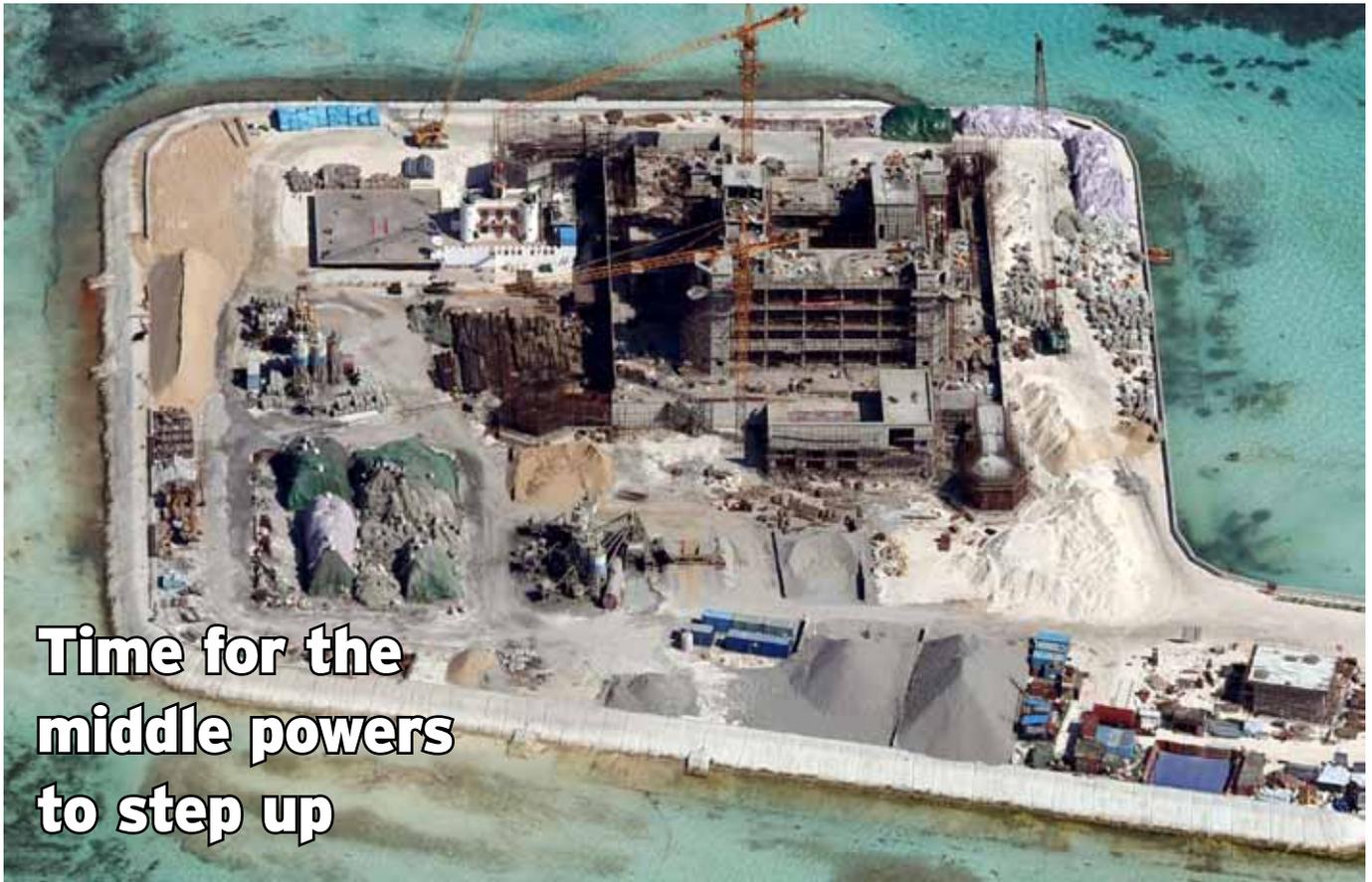
China's economic success is the result of Chinese engagement with the post-war liberal international order

short to medium term, is for middle powers to find a survival strategy amid the shifting power balance between the United States and China. In the long run, middle-power cooperation should strengthen their common ground and provide a basis for them to coexist with a strong China.

The foundation for this cooperation would be the shared values of the post-modern civil societies in many middle powers in East Asia. In this sense, the hope for the long term lies with Chinese liberal-internationalists. After all, China's economic success is the result of Chinese engagement with the post-war liberal international order. In order for China to continue to grow, let alone tackle the problems that will arise in the years ahead, it has to remain within the system. Therefore, middle powers in East Asia will need to construct a long-term strategy to build communications and relations with Chinese civil society.

Ideally, Japan should take the initiative in promoting cooperation among East Asian middle powers. China would certainly take Japan's involvement as a ploy to constrain China's rise. This is probably inevitable given the current situation of the bilateral relationship, but persistence is important and may eventually convince the Chinese—and sceptics throughout East Asia—otherwise. To repeat, the ultimate goal of such middle-power cooperation as a new form of East Asian multilateralism is to coexist with a strong China. Persistence in highlighting this central point is the surest way to rebuild the Japan–China relationship that is so critical for the stability and prosperity of Asia. [EAFQ](#)

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Time for the middle powers to step up

Chinese construction work at Chigua (Kennan) Reef in the disputed Spratley Islands in the South China Sea in February 2015.

GARETH EVANS

LEADERSHIP is one of those things about which it's sometimes wise to be careful what you wish for. In the context of Asia Pacific security, there has been far too much preoccupation with who is—and will be in the future—the top dog on the block, and far too little with building the kind of cooperative and collaborative arrangements that will make the region safe and comfortable for all its inhabitants—no matter who has, and for how long, the biggest GDP, the strongest military, the most allies and partners or the most evidently effective soft power.

The unwillingness of US leaders and presidential aspirants to speak publicly in any other terms than the need to

maintain 'dominance', 'leadership', 'primacy' or 'pre-eminence', both globally and in the region, has its own self-fulfilling momentum, and inevitably generates the kind of chest-beating pushback we are now seeing from Beijing in the South China Sea. Neither side is remotely attracted to settling the issue of who is number one by armed conflict, but one does not have to accept the inevitability of what some US scholars are now breathlessly calling the 'Thucydides Trap' to acknowledge that events can all too easily career out of control when nationalist emotion starts overriding rational calculation.

These considerations have long motivated those regional policymakers who have wanted to shift the focus away from bilateral competition

to cooperative security through multilateral institution building. All those efforts so far have been disappointing or incomplete, but the arguments for pursuing them remain compelling. And the most useful kind of leadership we can hope for in the years ahead will be from those states—perhaps more likely to be the region's middle powers than its great ones—who have the vision, energy and stamina to realise the dream of common security: finding our security with others rather than against them.

From the late 1980s on we have seen the evolution of a number of regional mechanisms of varying degrees of formality and effectiveness. APEC, initiated in 1989 with annual leaders' meetings institutionalised from 1993, remains a largely economic dialogue

and policy organisation. But security issues have regularly been discussed on its margins, nowhere more importantly than at the New Zealand meeting in 1999, which mobilised a response to the explosive situation in East Timor.

The ASEAN Regional Forum (ARF)—meeting since 1994 at foreign minister level, and now with 27 members—was intended to evolve through three phases over time, starting with confidence building measures, moving from there to more explicit conflict prevention roles and ultimately conflict management and resolution. It has done some useful work on initiating discussion on a code of conduct for the South China Sea and developing cooperative disaster relief capability, and there has been some useful regular dialogue on issues like counter-terrorism and transnational crime, maritime security and non-proliferation and disarmament. Nonetheless, it would be fair to say that the ARF is still largely stuck in the first groove—dialogue about confidence building—rather than living up to the hopes that by now it would be doing something more substantial.

The East Asian Summit (EAS) was initiated in 2005, involving leaders level meetings. It grew out of the ASEAN+3 grouping, added another 3 (India, Australia and New Zealand), and now, since last year, embraces the US and Russia as well. Although nothing very substantive has yet emerged from the EAS, it has the potential to be the the most significant grouping, not only because it has all the key regional players around the table, but because (unlike ARF) it meets at the highest level, and (unlike APEC) it can address both geopolitical and economic issues.

The impulse for all these institutions

and processes has been recognition to some extent that multilateral approaches are necessary in addressing security and related issues. There are certainly a number of good reasons for that approach.

Many contemporary problems in Asia and elsewhere are simply beyond the capacity of single countries, however powerful, to resolve unilaterally. These include terrorism, maritime security, arms control, drug and people trafficking, climate change, health pandemics, refugee management, and some major trade and financial imbalances—and all need cooperative and collective action. Global responses may be optimal, but problems that are primarily regional in scope and character are likely to be better dealt with at that level, given limitations of time, attention, commitment and resources at the global level.

Collective action beats unilateral action almost every time. Unilaterally volunteered actions can make an important contribution to problem solving, but unilaterally imposed solutions, even if possible, generate resentment and stress, are inherently more fragile than cooperatively agreed

We need real dialogue
and real policy
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ones, and very susceptible to changes in underlying power balances.

And multilateral action beats bilateral action most of the time. Some problems may appear capable of bilateral resolution but are much better resolved in more multilateral frameworks: for example, free trade agreements, and arms control and disarmament agreements.

Finally, regular meetings between regional leaders, in group as well as bilateral settings, help to build close and confident personal relationships, which makes shocks less likely, peaceful accommodation to new power realities more manageable, and stability more sustainable.

Of course, in all of this there is a need to be less preoccupied in the future with issues of form (who sits around what table when) and much more focused on issues of substance: what exactly will the leaders and their ministers talk about, and what practical outcomes can emerge from their discussions that are capable of real-world delivery. We need real dialogue and real policy cooperation, not just another expensive series of photo-opportunities with set-piece speeches endorsing pre-cooked lowest-common denominator communiqués. Improved regional architecture is not an end in itself—all the effort will only be worthwhile if it actually enhances stability, prosperity, state security and human security.

It remains my firm belief, based on my own experience as Australia's Foreign Minister from 1988 to 1996, working closely with Indonesia in the development of the UN peace plan for Cambodia—as complex a conflict resolution issue as the region is ever likely to face—and with ASEAN and other colleagues in building the initial APEC and ARF architecture, that the more energetic and creative

of the region's middle powers may be the most productive players in bringing about the new generation of cooperative mechanisms required.

The characteristic method of middle-power diplomacy is coalition building with like-minded countries, and its characteristic motivation is what I have long described as 'good international citizenship'. This is a belief in the utility and necessity of acting cooperatively with others in solving international problems, particularly those that by their nature cannot be solved by any country acting alone, however big and powerful. Recognising that being—and being seen to be—a good international citizen is at least as central a component of any country's national interests as the traditional duo of geostrategic security and economic prosperity.

There is plenty of scope for middle-power diplomacy in the Asia Pacific to advance regional security objectives. The biggest dogs on the block won't always be receptive to the smaller ones nipping at their heels. But—remembering the way the Permanent Five were roped into engagement on Cambodia by the Australia–Indonesia initiative, and how the initially reluctant US, Russia and China were persuaded to endorse and join the APEC, ARF and EAS initiatives—there is good reason to hope that the region's security leadership will be shared, and its destiny not forever hostage only to great power rivalry. [EAFQ](#)

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World needs new hands on the global finance tiller

KISHORE MAHBUBANI

IN OUR rapidly changing world, new global contradictions are emerging rapidly. Today, the biggest global contradiction is this: the demand for global leadership has never been greater but the supply seems to be diminishing.

Why is the demand increasing? I use a simple boat analogy to explain how our world has changed fundamentally. In the past, when seven billion people lived in 193 separate countries, it was as though they were travelling in 193 separate boats, with different captains and crews taking care of each boat, and rules to make sure that they did not collide. But today seven billion people no longer live in separate boats. Instead they live in nearly 200 separate cabins on the same boat. The problem now is that while there are captains and crews taking care of each cabin, there are no captains or crews taking care of our global boat as a whole. This is why the world is struggling to deal with new global strains, like financial crises, pandemics, global warming and terrorism.

One simple and logical solution to this global problem is to strengthen institutions of global governance, like the UN Security Council, the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO).

Similarly, we should be strengthening regional institutions, like the Asian Development Bank (ADB). Most of these global institutions were a gift from the West to the rest of the world at the end of World War II.

A supremely self-confident West designed global institutions to serve global interests, in the belief that the West would be the primary beneficiary of an open, rules-based global order. Today, a supremely self-confident West has been replaced by a nervous and increasingly insecure West. This partly explains why the Doha round of trade negotiations has stalled.

It also explains why the West fiercely resists changes to the governance of key global institutions. The UN Security Council, with its five permanent members, is a fossil from World War II. Even though the G20 agreed to marginally reshuffle voting shares in the IMF and increase resources, the US Senate has essentially vetoed reform.

Even worse, the West appears to be using its control of key global institutions to serve Western interests rather than global interests. The US dollar is a global reserve currency but the US uses it to serve American interests above all else. When the US applied its domestic laws in an extra-territorial fashion and punished European banks for financing internationally legal trade with Iran, US political scientist Ian Bremmer

called it the ‘weaponization of finance.’ The US had also threatened to cut Russia off from the international SWIFT Payment System.

Asia remembers well that the West has applied double standards in using these global institutions to deal with multiple global crises. Former Indonesian Trade Minister Mari Pangestu has noted that during the Asian financial crisis of the late 1990s, the IMF’s conditional bailout packages did not afford Asian banks any bailouts. But in 2009, when American banks failed, the US government did not hesitate to implement a program of fiscal stimulus. The result has been that non-Western nations have been left with no choice but to create alternative and inclusive global institutions.

The single most dramatic recent example of this was the Chinese initiative for an Asian Infrastructure Investment Bank (AIIB). When China launched the AIIB, Washington reacted in a Pavlovian fashion. It automatically campaigned against it without reflecting on whether it served global and Asian interests to have a

new multilateral bank.

The US Treasury, which led the anti-AIIB campaign, said it was concerned about the ‘governance’ of the new institution. *Financial Times* associate editor Martin Wolf responded wryly, saying ‘as a former staff member of the World Bank, I must smile. Mr Lew [US Treasury Secretary Jack Lew] might like to study the Bank’s role in funding Mobutu Sese Seko of Zaire, one horrifying example among many.’ It is ironic for the US Treasury to plead for ‘good governance’ of the AIIB when it steadfastly opposes meritocracy in selecting the leaders of the World Bank and IMF.

THE decision by several key European governments, led by the UK, not to join US opposition to the AIIB indicates that we have turned a significant corner in managing global governance challenges. How much of this was due to the US sanctions on European banks? If Europe is now prepared to cooperate with Asia to develop and strengthen new and old global institutions, we may finally

have an opportunity to respond to the increasing demand for global leadership.

This new window of opportunity for Asia–Europe cooperation can succeed if Asian governments are prepared to show wisdom in engaging Europe. China can surprise the world by demonstrating that it is prepared to support meritocratic governance of new institutions like the AIIB and the BRICS bank (now called The New Development Bank).

There is no doubt that the World Bank and IMF have become over-bureaucratic and sclerotic. If, by contrast, China is able to develop a lean and mean bureaucratic machine to run the AIIB, it may well demonstrate that Asia can do a better job of managing new global institutions. China could surprise the world by offering new rules of the financing game that others may find more congenial.

Jin Liqun, who has led the Chinese effort to set up the AIIB, has said that China is ‘committed to building a lean, clean and green bank.’ By this he means that it will be cost-effective and growth-promoting, with zero tolerance for corruption.

A simple statement of support from Washington for such laudable goals would indicate that the world has finally turned the corner in creating new global institutions. With Asia, Europe and—hopefully and eventually—America working together, rather than at cross-purposes, we may see institutions of global governance strengthened. **EARQ**

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China’s Minister of Finance, Lou Jiwei, standing, with representatives of other founding member countries at the Beijing ceremony at which the memorandum of understanding to establish the Asian Infrastructure Investment Bank was signed.

PICTURE: AAP



Regional leaders link up in the traditional ASEAN handshake during the opening ceremony of the Kuala Lumpur summit in April 2015. Indonesian diplomacy has widened the grouping's discourse.

Indonesia's diplomacy pays regional dividends

R.M. MARTY M. NATALEGAWA

INDONESIA'S experience within ASEAN has been that leadership in a world of sovereign states must be earned and nurtured, not imposed at will.

Geographically, demographically and economically speaking, Indonesia constitutes a significant part of ASEAN. But these elements do not automatically translate on their own into influence and leadership. The geopolitics and geo-economics of the Southeast Asian region depend on skills of statecraft and diplomacy—these are the qualities that translate the potential for leadership into reality.

Indonesia's approach has been to apply smart power—namely, a combination of soft power and hard power, together with a readiness to provide intellectual and policy leadership.

Drawing lessons from the past, and driven not least by a keen interest not to repeat the shortcomings of larger countries, recent Indonesian foreign policy has crafted a more nuanced, calibrated and deft approach to leadership within ASEAN. This is an approach that places primacy on the promotion of trust and confidence in Indonesia within ASEAN. Rather than being a country that throws its weight around, Indonesia's diplomacy follows the maxim that 'less is more' and so

is often more effective in influencing outcomes. Indonesia's approach is that of a country that can be entrusted to promote the common interests of the region. In ASEAN parlance, it seeks to be a country that works at the 'comfort level' of its regional peers.

At the risk of oversimplification, three themes at the national, regional and global levels illustrate Indonesia's leadership in ASEAN over the recent years.

The first is the introduction of the subjects of democracy and human rights in ASEAN discourse through the ASEAN Political-Security Community (APSC), one of the three pillars of the ASEAN Community (the

others being the ASEAN Economic Community and the ASEAN Socio-cultural Communities). The discourse was adopted in 2003 during Indonesia's chairmanship of ASEAN as part of the Bali Concord II platform.

While there is clearly a fair way to go to attain the kind of democratic community envisaged in the APSC, it is not possible to exaggerate the fundamental significance of the APSC vision. No longer can there be a blanket disregard of developments within each individual member state given that ASEAN now constitutes a 'community' or even a 'family'. For Indonesia, the 'democratisation' of ASEAN, while naturally occurring at different speeds, has been essential to ensure that there is no 'disconnect' between regional level developments and Indonesia's national level democratisation since 1998.

Indonesia's leadership in strengthening ASEAN's democratic architecture has not been limited to the building of norms and principles, through documents such as the ASEAN Human Rights Declaration, as well as institutions such as the ASEAN Intergovernmental Commission on Human Rights. Indonesia has also made significant strides in promoting certain practices, such as transparency around internal sovereign developments at ASEAN meetings, in the hope that they will generate a 'demonstrative spill-over effect' elsewhere. It is noteworthy, for instance, that the acceleration of reform in Myanmar in 2011 took place during Indonesia's chairmanship of ASEAN. This was the result of, among other things, a judicious combination of policies, formal and informal, regional and bilateral, which in total helped create conditions conducive for further reform.

A second illustration of Indonesia's

leadership in ASEAN has been on the issue of regional architecture. In recent years, Indonesia has been at the forefront in ensuring that the group's much-cited principle of being in the 'driving seat' of regional integration is tangibly realised in the association's engagement with its external partners. In this way Indonesia has, again in a judicious and consensus-building manner, sought to provide leadership in ASEAN. Hence, its vision of an East Asia Summit (EAS) that included India, Australia and New Zealand, rather than one that was limited to the ASEAN+3 (China, Japan and the Republic of Korea), came to fruition in 2005. In the subsequent evolution of the EAS, Indonesia was able to achieve the concurrent admission of Russia and the United States in 2011, representing the realisation of its 'dynamic equilibrium' policy. Indonesia has also been successful in having the EAS adopt the so-called Bali Principles in 2011 that inter alia provide for peaceful settlement of disputes and the non-use of force among EAS members.

Indonesia's leadership on regional security has clearly extended beyond

To successfully navigate,
and indeed lead,
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regional architecture-building. A case in point was its role in managing the real potential for conflict between Cambodia and Thailand in 2011 over the disputed Preah Vihear temple in the border region. Another was its unprecedented 'shuttle diplomacy' in 2012 that helped restore ASEAN unity on the issue of the South China Sea through the adoption of the so-called 'Six Point Principles'.

And Indonesia's leadership took ASEAN cooperation to a higher level through the Bali Concord III of 2011. The 'ASEAN Community in a Global Community of Nations' envisions a common ASEAN approach to addressing global issues. Much like the Bali Concord II, the Bali Concord III aims to ensure synergy between Indonesia's increasing global reach and the region's own global-level ambitions and aspirations. This is a true reflection of Indonesia as a regional power with global interests.

For Indonesia, leadership in ASEAN has had to be earned through sound policies. To successfully navigate, and indeed lead, the dynamic ASEAN framework has more often required quiet rather than megaphone diplomacy; an ability to master informal rather than formal channels of communication; and an emphasis on common rather than narrow interests. Last but not least, embracing a leadership role in ASEAN demands the capacity to be forward-looking—to shape and mould—rather than just react to developments.

Leadership in ASEAN is a process, not an event. It is one quite distinct from ASEAN chair alone. It must be nurtured, and above all, it must be earned. **EAFO**

R. M. Marty M. Natalegawa was Foreign Minister of Indonesia from 2009 to 2014.



Making footwear at the Korean-owned Tae Kwang Vina factory in Ho Chi Minh City, Vietnam. Asia's role leans towards supplying manufactured goods.

Who sets the rules of the game in Asia?

SRI MULYANI INDRAWATI

IT IS now a commonplace to refer to the 21st century as the Asian Century. With the world economy struggling to recover from the global financial crisis, the Asia Pacific region, and especially its developing countries, has provided much of the impetus for global growth. In 2015, developing countries in the East Asia Pacific region are likely to account for over one-third of global growth—twice as much as the rest of the developing world. China in particular is now an economic powerhouse. By some measures it is now the world's largest

economy as well as the biggest global manufacturer and exporter.

With this economic success has come increased scrutiny of the region. The rest of the world now wants to know: who sets the rules of the game in Asia?

The answer is not yet clear. But we do know that the Asia Pacific must avoid looking to a single country, single institution or single type of leadership.

If the Asia Pacific is to embrace its new role in the world and to demonstrate its newly-acquired economic heft, it needs to ensure that the rules of the game are developed

within countries, across the region—and the world—rather than unilaterally by one leader, one nation or one group of regional powers. This will ensure ongoing success for the Asia Pacific, with positive spillovers for the rest of the world.

Fortunately, there is already a strong base for such deep cooperation. The Asia Pacific's success is built on openness and creative efforts to harness globalisation. Trade in goods, services, knowledge, people, finance and technology is brisk and relatively unhindered. Asia is already an exemplar of intra-regional cooperation through ASEAN and ASEAN+3,

and extra-regional cooperation through APEC. New initiatives are also underway, including the Asian Infrastructure Investment Bank and the New Development Bank, formerly known as the BRICS bank. New trade agreements are in the works, including the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

The development successes of nations as diverse as Japan, Korea, Singapore and China reflect both their successful integration into the global economy and their active engagement with the multilateral system. All four have, in a few decades, gone from receiving foreign assistance to becoming large-scale providers of advice and money. The transformation of Korea from a low- to a high-income country in a single generation remains the most striking example of how well-used aid and a willingness to gradually assume regional and global responsibility can contribute ideas, build capacity and provide finance to sustain rapid growth and poverty reduction elsewhere.

China is another instructive case study. The domestic effects of its accession to the World Trade Organization in 2001 show how commitment to international rules and practices can help address domestic roadblocks to reform and transform the economy. In the past decade China has doubled its share of world manufacturing trade and now accounts for between one-quarter and one-third of manufacturing imports in Japan, the European Union and the United States.

So, how should the region mold its leadership for the future? Three aspects stand out:

First, broaden and deepen regional cooperation. Broader cooperation means including more partners

outside the region, as in the TPP and RCEP, so that the Asia Pacific won't turn into a high-walled fortress but becomes even more of a level playing field with low barriers to trade, knowledge and the movement of people, and the right incentives for innovation. The new agreements could help by bringing in new partners, new perspectives and new opportunities.

Deeper cooperation will mean tackling difficult, intransigent issues. For instance, as ASEAN moves towards the formation of the ASEAN Economic Community by the end of 2015 it can act decisively to reduce the still-high barriers to the integration of services such as finance, transport and telecommunications.

Second, look inwards and make governments more effective and more transparent. Despite its economic success, the Asia Pacific ranks lower than others on some dimensions of government like service delivery, policy formulation and implementation, and the quality of the civil service. Enhancing the effectiveness of the public sector will help both in sustaining economic

Greater tolerance of public scrutiny would allow citizens to provide more input and hold their governments accountable, contributing to better service delivery

growth in an unfavourable global economy and in addressing rising concerns about economic and social inequalities. More transparency would also be helpful. Greater tolerance of public scrutiny would allow citizens to provide more input and hold their governments accountable, contributing to better service delivery. Making more information about taxes and spending freely available would be a good first step.

Third, share lessons to help address global challenges. Asia's role and self-image lean towards being a supplier of manufactured products to the world, including by building regional and global value chains. It has enormous experience and acumen in this area, yet hesitates to see itself as a role model for other countries and regions who want to move to middle-income status.

And the region can go further in fulfilling its potential as a provider of global public goods. For instance, Japan is a leader in disaster risk management and has reached out to other countries in the region, and elsewhere, to share its experiences and expertise. Similarly, China is taking the lead in investing in energy efficiency. Such expertise embedded in the region can help other developing countries address the global challenge of climate change.

Sustaining success throughout this century requires that the rules in the Asia Pacific are set not by one country or by one institution, but rather through countries agreeing on principles and finding ways of deciding on the rules together. This means leading with others. Collective effort will secure progress. **EAFC**

Dr Sri Mulyani Indrawati is Managing Director of the World Bank and a former finance minister of Indonesia.



Lee Kuan Yew welcomes Chinese then Vice-Premier Deng Xiaoping to Singapore in November 1978. Some believe China is attracted to 'the Singapore model'.

Glimpses of Lee Kuan Yew

JEROME A. COHEN

SELDOM has the death of a great Asian leader commanded as much appreciation in the West as the passing of Lee Kuan Yew. The mind numbs at the number of well-earned tributes to the man who led Singapore to become a successful and influential nation-state.

Despite the huge disparity in size and political-legal culture between Singapore and mainland China, many observers have emphasised the seductive attraction that 'the

Singapore model' has held for Chinese communist leaders who are searching for a formula that will enhance China's phenomenal economic development without sacrificing the Party's dictatorial control.

Other writers have featured Lee's intellectual brilliance, self-confident personality and deep understanding of world politics, which he freely dispensed to political leaders of various countries eager to bridge the gap between East and West.

A few early post-mortems have even transcended the natural tendency, in

the wake of his departure, to minimise the costs of Lee's accomplishments, especially his authoritarian policies and practices.

This essay will provide a bit of grist for the historian's mill by offering an account of some fragmentary personal contacts that I had with Lee a generation or two ago.

It all started with Richard Nixon's election to the American presidency in early November 1968. Immediately afterward, Lee turned up at Harvard University, invited by the newly established Kennedy Institute of

Politics, not for the usual photo-op preferred by most world leaders but for a residence of over a month. While a law school professor, I had chaired the Institute's just-completed confidential study of the need for a new American policy toward China and so Institute director Richard Neustadt asked me to share some of the responsibilities for hosting Singapore's prime minister.

We knew that Lee, who had an outstanding record when a law student at Cambridge in England, had not come to us for an academic sabbatical that would merely recharge his powerful batteries. He made it clear at the outset that he was with us for work and that his work was to understand the forces that were then roiling America's volatile society, so that he might better chart Singapore's course.

EARLIER than most statesmen, he sensed that the United States, then wracked by the Vietnam War, was on the verge of changing its Asia policy—especially its relations with China, despite the ongoing madness of the Cultural Revolution. A year prior to his election, Nixon—although the arch anti-Communist—had hinted at the need for a more open approach to Beijing, if only to better balance Soviet power. Lee had decided that, by staying in one place in America, studying the media and tapping the ideas of the Boston-area foreign policy and political community, he could best anticipate Washington's new direction.

Lee did work hard at Harvard. He did not seek to make many speeches but took advantage of every occasion to learn. I invited him to give a lunch seminar to law students interested in Asia and we had a frank, relaxed conversation that covered both Asian affairs and American politics. Lee asked as many questions as he

answered and showed none of the arrogance of which he had already been accused.

I liked him. And so my wife—Joan Lebold Cohen, a specialist in Asian art—and I asked him to dinner at our house with a few of our Harvard colleagues. Again, the conversation was lively, informative and friendly. Perhaps because we were new to diplomatic entertaining, we had found it unusual to receive advance written instructions from Lee's staff that there should be no smoking in the prime minister's presence, that the room should be set at a particular temperature and that certain foods should not be served. But it was a convivial evening.

The following summer, in 1969, Joan and I visited Singapore briefly as part of an Asian research tour. Prime minister Lee proved a thoughtful host. He reciprocated our hospitality by inviting us for a small roundtable dinner with Singapore's legal elite, including the attorney general, the minister for law, the solicitor general, one or two law professors and his wife—herself a leading lawyer.

Several topics dominated the conversation. Knowing that I was advising Senator Edward Kennedy, who despite his youth was already expected to contest Nixon's re-election three years hence, we discussed American political developments since Lee had returned from Harvard. Lee, who during his stay had been disturbed by the university's anti-Vietnam war, anti-government atmosphere, expressed anxiety about the wisdom (or lack thereof) and influence of America's youth. After his return, Lee began requiring long-haired young Westerners who turned up at Singapore's airport to submit to haircuts before entering the country. He wanted to limit the

risk of contagion among their local counterparts!

That evening Lee also scorned the Malaysian government's recent announcement requiring all students to study the Malay language. With more verve than I had seen him show at Harvard, he asked rhetorically what good purpose could be served by such a requirement. If Malaysia was to get on with its modernisation, he said, it should be insisting that every student master English. He dismissed Malay as merely a passport back to the jungle.

The only other thing I recall from that evening was the conversation I had with the Attorney General, Tan Boon Teik, as he drove us to our hotel after dinner: 'I liked the way you talked up to the PM,' he volunteered. That highlighted the fact that no one else at the table had dared a word during my long exchange with Lee.

FOUR years later, in 1973 and largely as a result of Nixon's spectacular 1972 China trip, the world had begun to change, as Lee had anticipated. Some of my former Harvard law students wanted to take part in the new era. A cluster of them, having found jobs at the famed international law firm Coudert Brothers, asked me to help Coudert establish offices in Hong Kong and Singapore. Hong Kong's British colonial government had already allowed the entry of a Canadian law firm, but newly independent Singapore had not yet permitted any foreign firms to set up shop.

As in most of the Asian capitals attractive to foreign law firms, the local bar strongly opposed their entry in order to maintain its monopoly on law practice. But the Singapore government, guided by Lee's determination to speed the modernisation of the country,



Lee Kuan Yew, then Senior Minister, with French President Jacques Chirac at the Elysee Palace in Paris in 2003. Lee 'freely dispensed' his understanding of international politics 'to political leaders of various countries who were eager to bridge the gap between East and West'.

expected the arrival of major international law firms experienced in facilitating foreign direct investment to raise the standards of law practice. They were to provide better training and more jobs for the country's younger lawyers and bolster multinationals' confidence in Singapore.

The government, of course, did not wish to disregard the objections of the local lawyers. Lee himself had practised law for years before entering politics, and his wife and brother continued to operate one of the more lucrative local firms. Lee artfully made change gradual, with Coudert leading the way and other foreign firms admitted as the market for services developed.

Singapore's legal profession actually had little capacity to resist change,

for by then the limited influence and prestige it had inherited from the colonial English system had been significantly eroded.

One of the hallmarks of Lee's relentless drive to secure and maintain power was the increasing subjection to his will of lawyers as well as legislators, prosecutors and judges. His 'preventive detention' without trial of political lawyers and other democratic dissidents was only one of many tools he used to repress not only legal institutions but also the media, civil society and opposition parties. When in 1969 Lee, displeased with some jury verdicts in capital cases, completely abolished the jury trial—one of the common law's most hallowed institutions—lawyers who complained were threatened.

In May 1988 I made my last visit

to Singapore on an emergency basis at the request of international human rights organisations. Reverting to his penchant for detention without trial, Lee had been locking up a number of Catholic social activists and reformist lawyers. The activists and lawyers had been trying to educate the public about Singapore's exploitation of its most disadvantaged citizens and foreign workers, as well as the need to strengthen labour laws and regulation.

Relying on his time-tested formula of twisting legitimate dissent into an alleged threat to national security, Lee's administration improbably denounced the group as part of a London-based 'Marxist conspiracy' determined to overthrow the state. This unproven charge enabled the government to invoke the notorious Internal Security Act, which echoed

the British colonial regime's most repressive legislation, to arrest its critics without having to expose any relevant facts to the scrutiny of the courts or the public.

When Lee was reportedly also about to detain the principal defence counsel, Francis Seow, the international human rights community became more gravely concerned than ever. Seow, a feisty former solicitor general and president of the Law Society, had been unsuccessfully resisting Lee's dictatorial moves for many years, but had not been intimidated by previous efforts to inhibit and silence him.

I was working and residing in Hong Kong and since two international human rights organisations knew of my previous contacts with Lee, they asked me to fly to Singapore in an effort to dissuade Lee from arresting Seow. I quickly arranged an exciting day's visit. In the morning I went to court to watch Seow vainly attempt to obtain judicial relief for his clients' unlawful imprisonment by invoking the city-state's liberal constitutional protections before unsympathetic judges.

I then lunched with my old friend, Tan Boon Teik, who was still the attorney general. He politely heard all my arguments about why it would be disastrous for Singapore's reputation in Western legal and human rights circles if the government again blatantly violated the nation's constitution and undermined the rule of law by arresting the defendants' legal defender. As expected, he told me that everything would turn on the hour meeting I was scheduled to have with Lee beginning 4 pm. I knew it would be an uphill struggle.

Lee could not have given me a more cordial reception. As I left him at 5 pm, I thought that perhaps my trip had

not been in vain. Yet, when I returned to my hotel to watch the 6 pm television news, I learned that Francis Seow had been detained shortly after 4 pm for supposedly cooperating with an American diplomat to promote US interference in Singapore politics.

I rarely get angry but I did believe that Lee's reception had been genially abusive. When, after my return to Hong Kong, the BBC, virtually the sole Western press agency allowed free access to Singapore at the time, telephoned for my views on Seow's detention, I attacked Lee's action for what it was. Friends in Singapore soon reported that the interview had been aired many times that day and infuriated Lee, an inveterate Anglophile. I was subsequently advised to wait a reasonable period before planning another trip to the city-state. Although I was told over a decade ago that, while all had not been forgiven, another visit would be acceptable, I have never returned.

I T WILL now fall to historians to do the research required to strike a balanced and comprehensive perspective of Lee's complex career. This task has been hampered until now by the harsh restrictions that Lee and his followers have imposed on free inquiry and expression within their realm. Yet, fortunately, an impressive body of scholarship is already emerging concerning the achievements and shortcomings of Lee's distinctive and successful effort to coat Singapore's economic and social progress with the veneer of legitimacy that skillful manipulation of the 'rule of law' can confer upon an authoritarian and often arbitrary government.

Much of this scholarship has been done by Singaporeans who, unable to pursue their research at home,

have nevertheless managed to make major contributions from abroad. Outstanding among this group is Research Professor Jothie Rajah of the American Bar Foundation, whose 2012 book *Authoritarian Rule of Law* successfully reveals 'a configuration of law, politics and legitimacy that may have far-reaching consequences for theory and politics worldwide'.

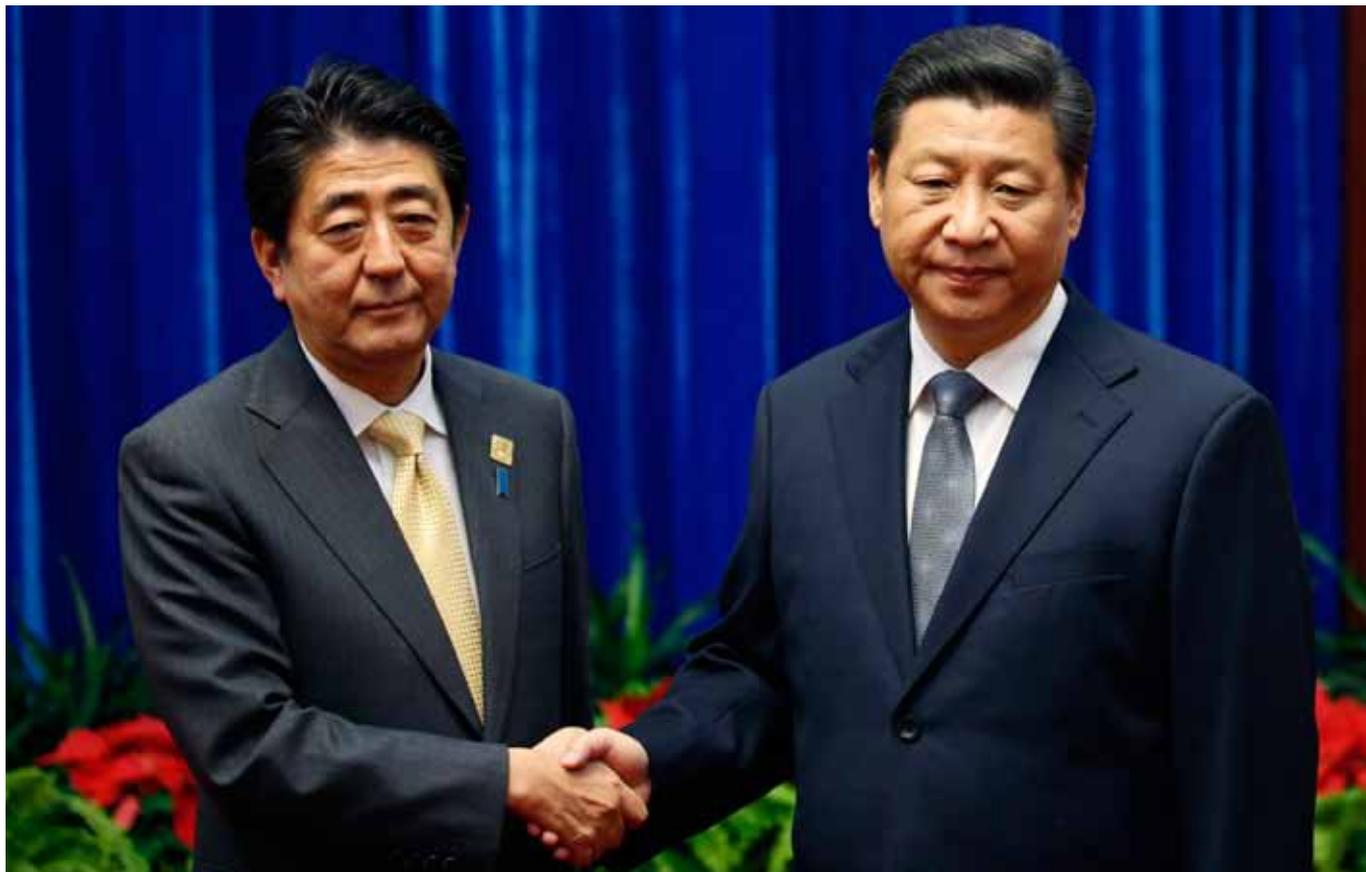
Rajah's stunning study of Singapore implicitly illuminates Beijing's ongoing struggle to develop a legal system appropriate to contemporary needs. Despite China's continuing reproduction of Western-style legal norms and forms, in practice President Xi Jinping seems intent on resurrecting and applying the spirit of traditional China's unique blend of hierarchical Confucianism and cruel legalism.

Xi must frequently regret that his Communist Party predecessors committed the People's Republic to respect the formal restraints on government of at least 26 international human rights documents. By contrast, Lee, although a proud Cambridge-trained lawyer, was too shrewd to commit his country to the main human rights covenants. Underneath its formal Western legal façade, his Singapore bears important traces of imperial China, which used law as an instrument of government control unconstrained by notions of individual rights—including the right to an independent defence lawyer.

In 1988, I had a glimpse of how such a system operates and it wasn't pretty.



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Japan's Prime Minister Shinzo Abe and China's President Xi Jinping in Beijing in November 2014, at that time the first leaders' meeting in more than two years.

China and Japan: how to normalise defence relations

TOMOHIKO SATAKE

TENSIONS between Japan and China have been high for the past few years. This has led many to argue that Sino–Japanese relations have entered a period of enduring rivalry and become a major source of instability in the Asia Pacific. An increasing number of regional experts believe that a Sino–Japanese military conflict is likely in the near future. But, if we look back over the postwar history of Japan–China relations,

we can see that the current state of relations—especially for the past five years—is rather exceptional.

During the Cold War Sino–Japanese relations were mostly limited to the economic and political fields, but since the end of the Cold War, Japan and China have steadily developed their defence and security cooperation on top of maintaining their long-term economic and political partnership. In fact, the continued efforts to sustain and advance this security cooperation despite the tensions of the last few

years suggest that Japan–China defence relations could still return to the right track if they are carefully managed by policymakers of both countries.

Defence exchanges between the two nations began in the mid-1990s. In February 1995, a chief of staff of the joint staff council of Japan's Self-Defense Forces (SDF) visited China for the first time. In August 1996, a Japanese administrative vice minister for defense visited China and met a Chinese defence secretary. It was

the first visit of its kind. In February 1998 the Chinese defence secretary reciprocated, visiting Japan for the first time, an event which was followed by a visit to China by Japan's defence minister.

Through these visits, both countries agreed to promote practical cooperation, including further reciprocal visits of high-ranking military officials, regular exchanges between members of military academic institutions and future naval port visits.

THIS does not mean that there were no political and security problems between Japan and China in this period. In fact, there were many incidents and developments that raised tensions, such as the CCP Congress's passing of the Law on the Territorial Sea and Contiguous Zone, which included the area around the Senkaku Islands*, in 1992 and its series of nuclear tests from 1995 to 1996. Former Japanese prime minister Ryutaro Hashimoto's visit in 1996 to the Yasukuni Shrine, which houses the souls of Japan's war dead, including 14 Class-A war criminals, provoked condemnation in China. And China's growing maritime activities, including in areas surrounding Japan, from the mid-1990s were an ongoing source of strain.

China's missile tests during the 1995 election campaign in Taiwan further inflated Japanese people's negative impression of China, while China harshly criticised the broadening of the scope of the US–Japan alliance in the mid-1990s to include the Asia Pacific.

In the early 2000s, bilateral relations between Japan and China were further

complicated, such that they are often described as 'politically cold, but economically warm' relations. While their trade relations continued to grow, there were many political issues, including the visit by the former president of Taiwan, Lee Teng-hui, to Japan, former Japanese prime minister Junichiro Koizumi's repeated visits to the Yasukuni shrine, and massive anti-Japan protests in China. It became increasingly popular to discuss the 'China threat theory' in Japan in this period.

Despite these difficulties, or perhaps because of them, Japan and China have always sought a pragmatic way to promote defence exchanges and stabilise their relations. In February 2001, both countries agreed to provide prior notification before conducting oceanic research activities in the other's claimed exclusive economic zone.

China later failed to meet this agreement. But China and Japan began new consultations for the joint development of maritime resources in the East China Sea from January 2004, and entered into an agreement in June 2008. In April 2007 the two nations also announced that they would jointly create a maritime communication mechanism in order to prevent an unexpected accident at sea.

One of the most important developments in the post-Cold War era was that both countries no longer relied on cooperation based on 'neighbourly friendship' sustained by personal relations between politicians or economists (as was often the case during the Cold War). While recognising that there were a number of ongoing problems, Japan and China sought to establish more mature relations by expanding areas of cooperation not only bilaterally but also regionally and globally.

After Japanese Prime Minister Shinzo Abe's first 'ice-breaking visit' to Beijing in October 2006, Japan and China agreed to establish a 'mutually beneficial relationship based on common strategic interests'. This was followed by several positive developments, including the observation of Chinese People's Liberation Army's military exercises by SDF officials and reciprocal naval port visits. After the 2008 Sichuan earthquake the Chinese government even requested an airlift by the SDF to deliver aid to the Chinese mainland—although China later withdrew that request after facing massive protests from the public.

Japan and China also agreed to establish a working group to study a possible maritime communication mechanism between defence authorities. The two countries also agreed to hold joint training for search and rescue missions, and expand dialogue between their respective militaries, including staff talks and unit-level exchanges. Until just before the Senkaku incident in September 2010, there was a relatively good atmosphere in the Sino–Japanese defence and security relationship.

BUT THE September 2010 incident surrounding the Senkaku islands suddenly changed the cooperative framework between Japan and China. And after Japan's nationalisation of the Senkaku Islands in September 2012, Japan–China defence exchanges were entirely suspended. But, even after all that, both sides sought to resume dialogue, although such efforts were often interrupted by domestic problems in both countries.

In Japan, the weak governance of the Democratic Party of Japan administration, including its frequent,

* Called Diaoyu by China (Editor's note).



A Japanese maritime patrol aircraft flies over the Senkaku/Diaoyu islands. The dispute 'did not completely diminish all aspects of cooperation' between Japan and China.

rapid changes of prime minister—three in just over three years—made it difficult to continue a sustainable dialogue between Japan and China. In China, Xi Jinping's accession to power in 2012 caused a power struggle and domestic turbulence which made it difficult for Chinese leaders to take a 'soft' approach toward Japan.

As President Xi consolidated his power, and as the new Liberal Democratic Party government under Prime Minister Abe stabilised Japanese politics, China moved to resume a dialogue with Japan. This was despite Prime Minister Abe's visit to Yasukuni Shrine in October 2013.

In November 2014, a Japan–China leaders' meeting was held for the first time in two-and-a-half years alongside the APEC meeting in Beijing. At the same time, Japan and China resumed negotiations for a maritime communication mechanism, including discussions about establishing hot-lines between two countries' defence authorities.

There has always been momentum

to continue improving defence and security relations from a pragmatic standpoint. The 2010 Senkaku incident exacerbated the strategic rivalry between two countries, which had continued to grow since the end of the Cold War, but it did not completely diminish all aspects of cooperation between them, nor did it change the course of Japan's defence engagement policy with China.

So how can Japan keep up the momentum for better Japan–China relations?

First and foremost, both nations need to put the recent tensions over maritime disputes into a broader context. While Japan and China have different views on the Senkaku Islands question, they should also recognise that this tension constitutes only one part of the overall relationship between the two countries. They must expand their cooperation—not only in defence, but also in energy and environmental management—no matter how symbolic it is. Such cooperation could help to generate

a friendly atmosphere between the two sides, which is necessary to promote more substantial cooperation, such as a maritime communication mechanism.

It is also essential for Japan to maintain and enhance credible deterrence capabilities as a foundation to promote confidence-building measures with China. Enhancing the US–Japan alliance is of particular importance in this context. The revised US–Japan defence guidelines, which were announced in April 2015, strengthen US involvement in regional contingencies, including in a so-called 'grey-zone dispute'—that is, an infringement on the Senkaku islands that does not amount to a full-blown armed attack. This will send a clear signal to China that any provocation in the East China Sea could potentially invite US military involvement.

At the same time, Japan should continue to explain to China that the revised US–Japan defence guidelines do not mean that the US or Japan intend to change the status-quo by force, nor do they change Japan's exclusively defence-oriented posture. Japan should also keep persuading China to refrain from its provocative behaviour, including sending ships to Japanese territorial waters or establishing artificial islands in the South China Sea. After all, it is only a continuous mixture of engagement and hedging that can help to normalise Sino–Japanese defence relations, and therefore ensure future stability in the Asia Pacific. **EAFQ**

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The politics of China's anti-corruption campaign

WILLIAM H. OVERHOLT

CHINESE President Xi Jinping's anti-corruption campaign has highlighted the seriousness of China's official malfeasance. The outcome of Xi's campaign will shape a new era of China's politics, economy and foreign policy.

'Corruption' covers quite disparate phenomena with different consequences. It may mean graft, which is taking a tip—even a multi-million dollar one—for doing your job, or it may mean corruption in the stricter sense, taking money in return for undermining national policy or the national interest. When a Chinese official gets a large illegal kickback for building a good road, that is graft.

Chinese 'corruption' is overwhelmingly graft, whereas, for instance, in the Philippines under former president Ferdinand Marcos and in India, corruption in the narrow sense predominates. How can we tell? We can do case studies. In the Philippines, for instance, many important projects were designed to fail. A hotelier would borrow US\$100 million with a government guarantee, then steal US\$40 million for personal use and let the hotel go bankrupt during an economic downturn, leaving the government with the debt. That is corruption.

Beyond case studies is the Biblical saying: 'By their fruits ye shall know them.' In China, good roads and ports get built, consistently. In India they don't. Likewise with primary

education, and with games like the Olympics and the Asian Games. In China graft predominates, while in India corruption predominates.

There is also what the Japanese term 'structural corruption'. In Japan, virtually all government officials and senior executives are personally honest: no bribes, much hard work. But five major interest groups—agriculture, retail, construction, property and banking—dominate the legislature to the extent that they can pervert national policy to their benefit. The construction lobby provides the template. For a long period, Japanese infrastructure spending (for a country the size of California) exceeded US infrastructure spending. There are world-class bridges used largely by deer and rabbits, and bullet trains to small towns.

So powerful was the grip of the construction lobby on the nuclear regulators that the operators of the Fukushima nuclear plant were allowed

Democracies in poor countries typically have much more crippling corruption than China, and it is rooted in the processes of democracy

to build in an inappropriate location, to inappropriate standards, ignoring even crucial safety rules like the one requiring a fire station inside the plant. And all the while public discussion was smothered by propaganda about safety.

The scale of graft in China has become a potentially fatal problem for the Chinese regime. The economic costs of Indian corruption are far greater. The economic costs of Japan's structural corruption dwarf both.

These varieties of corruption overlap. But the overall patterns are quite distinctive and predictive.

Probably the single greatest consensus in the literature about corruption in China is that the authoritarian system inevitably causes extreme corruption and that China would be much cleaner if it became more democratic. As the examples of the Philippines, Thailand and India show, this is an ideological conceit. Democracies in poor countries typically have much more crippling corruption than China, and it is rooted in the processes of democracy. In very poor countries, there are few or no political contributions other than bribes or candidate self-funding; peasants can't donate. In very poor democracies, the complexity of democratic judicial systems makes it very difficult to convict criminals and therefore empowers wealthy criminality. In Taiwan, a reforming Leninist government under Chiang Ching-kuo cleaned up world-beating corruption, but the advent of



Sensational front pages on 30 July 2014 report the decision to pursue a case for alleged graft against former security chief Zhou Yongkang.

democracy under Lee Teng-hui and Chen Shui-bian partially revived it.

In China, as in all emerging economies, most officials supplement their salaries with irregular income. But the forms and intensity vary. One characteristic of the Asian miracle economies is that the values of the top leaders have generally given priority to national service; they focus on how they will be seen by future historians. In the Marcos Philippines and in much of Latin America and Africa, the motivation to become president is that the president can become richer quicker. While some of their family members did well, nobody has accused Park Chung Hee, Chiang Ching Kuo, Lee Kwan Yew or Deng Xiaoping of being in it for the money. They were

obsessed with saving their countries through economic growth.

The core reason why graft rather than policy-defeating corruption prevails in China is that the growth-focused system demands performance at all levels. China is run like a business. Every village head, city mayor, provincial governor and party secretary has performance requirements—economic growth, domestic and foreign investment, building key roads and bridges, and improvements in children’s education—that must be met to gain promotion and avoid punishment.

And Chinese officials are held to high standards. Even in poor provinces like Anhui, Chinese roads are generally better than their

US counterparts. China’s railroad minister became obscenely rich but built extraordinary railroads. To get a promotion the mayor must not just fulfil his targets but also outperform ambitious colleagues. Although politicians everywhere orate about fostering growth, most countries do not hold political leaders at any level to performance standards.

Jiang Zemin and Zhu Rongji oversaw an economy characterised by pervasive graft but they knew how to keep it under control by using structural reforms. They sought to cut the top levels of government in half, while quadrupling salaries, to ensure that officials could live on their incomes. They gave every government and party bureau a quota

of regulations to cut, to reduce the number of opportunities for squeeze. They drastically reduced the number of state-owned enterprises (SOEs) and put the remaining ones on more of a market basis. They forced the military to give up over two-thirds of its non-military businesses. And they promoted competition and demanded increased transparency of various kinds. So corruption, while still pervasive, remained within limits.

Hu Jintao and Wen Jiabao reversed many of the Jiang–Zhu reforms. They took office at a time when the population was weary of market-oriented reforms, having seen 50 million state enterprise jobs and 25 million manufacturing jobs evaporate. Hu and Wen embodied the reaction against such stresses. Market reforms ceased and in some cases receded.

They also had to cope with the global financial crisis and, like leaders everywhere, they poured money into the only institutions that could create rapid increases in production: the big companies. The government and party bureaucracies nearly doubled, from 40 million officials to 70 million. The SOEs revived their pre-eminence and the 1990s campaign to increase competition dissipated. Senior military officers reverted to managing numerous and often huge side businesses and driving Mercedes 500s. Some top leaders and their families began making hundreds of millions or even billions.

Graft opportunities rose much faster than economic growth. As property development reached a huge scale, and as asset inflation magnified the fortunes available from property, official control over property allocations became the basis for great fortunes. Private equity Chinese-style became a particular specialty of many princelings. In the West, private equity

means buying a company, reorganising it, and selling it profitably based on arguably improved value. In China, it often means persuading the local party secretary to allow you to buy into a good SOE just before stock market listing—with stock market prices at three times the level of Western market prices for much of the Hu–Wen era. The scale of graft became astronomic.

Graft became such a high proportion of local officials' income that their behaviour began to shift in the direction of the Philippines' Marcos-era officials. Many became reluctant to approve smaller projects because small projects provided so little squeeze. This turned out to be corrupt in the narrow sense.

Most importantly, whereas the central tendency of the Jiang–Zhu era had been the successful centralisation of power—bringing the localities, the money supply, the SOEs and the military under firmer central control—the Hu–Wen era saw the cession of power to enormously influential interest groups: the SOEs, the big banks, the party and government bureaucracies, local governments and the military.

By the end of Hu–Wen's first term, leading thinkers at China's great universities were expressing openly their concerns that one day the centre might lose its ability to

A generalised sense of unfairness spread, potentially threatening the legitimacy of the regime

govern effectively. Zhou Yongkang's Petroleum Faction, built around controlled energy prices and oligopolies, provided the archetype of the emergent interest group—an economic empire larger than many national economies, with Zhou both managing the empire and serving as China's security chief. Leading corporate executives openly ridiculed the prime minister's key policies and ministers sometimes defied him. Rising interest group power entailed emergent structural corruption.

Along with these economic ramifications came crucial political developments. The Deng and Jiang eras, 1979–2003, were characterised by a sense of mobility and universal opportunity. In the Hu–Wen era, this sense of opportunity declined. Instead, the core social image was of a congealing party-government-SOE-military elite that controlled most of the opportunities.

In this context, inequalities of income and wealth became more politically salient despite the leadership's successful efforts to narrow the gap between the wealthy coast and the relatively impoverished interior. Resentment of a judicial system biased toward the elite became intense; viral stories spread about elite children who ran people over in their expensive cars and arrogantly defied the families of the victims to seek recourse. A generalised sense of unfairness spread, potentially threatening the legitimacy of the regime.

All of this came to a head at a decisive moment. China's successful economic strategies had reached diminishing returns. To continue rapid development, and to maintain political legitimacy, China had to shift its growth model in ways that would severely damage the interests of the



Wang Qishan, centre, 'China's most savvy economic leader and governmental operator', who has been chosen to head the anti-corruption drive, pictured at the 2011 US-China Strategic Economic Dialogue in Washington DC with Chinese State Councillor Dai Bingguo and the then US Secretary of State, Hillary Clinton.

preeminent interest groups.

Rapid growth had been based on net exports and infrastructure investments implemented by the SOEs. New growth would have to come from domestic not foreign markets, from consumption not investment, from small and medium enterprises (SMEs) not SOEs, and from services not manufacturing. An environmental crisis and a debt squeeze also required a strong centre that could impose new rules on resistant localities. This was the worst possible time for the emergence of powerful interest groups determined to defend and squeeze the status quo.

The shift to a new economic order requires interest rate liberalisation (which threatens the SOEs and

local governments), exchange rate liberalisation (which threatens export interests), more transparent and predictable regulation (threatening officials' power) and taking away the unfair advantages of the SOEs in finance, housing, access to land, and ability to gain approvals. An assertive foreign policy further requires military leaders who are not focused on making their next hundred million. In short, needed reforms fundamentally threatened the interests of every major component of the old order at a time when those components seemed on the verge of becoming the dominant forces in the polity. If the trends of the Hu–Wen era were to continue, not only would it jeopardise the ability of the central government to reform

environmental and financial practices, but incipient structural corruption would potentially cripple the system.

One of the virtues of the Chinese system is that its planners and political leaders face the future with clear eyes. Well before the end of the Hu–Wen administration Chinese planners were working with the World Bank to write China 2030, a vision of an economy transformed to meet the new challenges. They distilled the requirements into what became the radical reformist, market-oriented proposals of the third and fourth plenums under Xi Jinping.

Realising the magnitude of opposition they would face, they achieved a working consensus to restructure China's top political

leadership to confront and defeat recalcitrant interest groups. They streamlined the Politburo Standing Committee from nine to seven and stripped away the extreme factions from the top leadership. Old guard interference was reduced by arranging for Hu to leave the Central Military Commission in return for Jiang Zemin being less active. They chose a charismatic leader, Xi Jinping, and put him in charge of a set of coordinating 'small leading groups' that control the important aspects of Chinese governance.

This newly decisive leadership then announced economic plans that radically infringe the interests of every one of the newly powerful interest groups. Having taken on all the most powerful interests in China, they deployed their most powerful weapon: the anti-corruption campaign. To wield that weapon they chose China's most savvy economic leader and governmental operator, Wang Qishan. They struck immediately at the archetype of reactionary interest group power: Zhou Yongkang and his Petroleum Faction, followed quickly by top military leaders.

This is one of the most audacious gambits in modern history: taking on all the most powerful groups at the same time, betting on leadership unity, a technocratic economic strategy, an anti-corruption campaign as the core political weapon, and a huge wave of popular political support mobilised by the anti-corruption campaign.

Political leaderships facing comparable challenges in India, Brazil or the US take the political leadership structure as given and try to squeeze through whatever limited reforms the interest group coalitions will bear. A more audacious approach like Mustafa Ataturk's classic Turkish reform creates one coalition to ram through a

limited reform, then re-groups another coalition to ram through another until the job is done. The Chinese team has bet the farm on a campaign against every important group simultaneously.

So what are the prospects?

The history of anti-corruption campaigns suggests that structural reforms are crucial and sending in the cops is necessary but insufficient. Under Xi there are glimmerings of structural reform, particularly in the judicial system. Centralisation of judicial appointments, for instance, could radically reduce conflicts of interest in the courts. Marketisation and competition, somewhat compromised by efforts to consolidate national champions, promise to reduce the margins available for corruption.

Starting with the fourth plenum, the leadership has shown determination to reduce the costs of opaque, unpredictable, politicised governance. The most promising strategy is a determination to delineate property rights clearly, in both agriculture and industry, which should reduce theft of state assets and sequestration of private assets. But these are just

Continued popular support depends on delivering economic reforms and limiting an economic downturn, while coping with a financial squeeze

initial plans that have not yet been implemented.

Implementing economic reform has a paradoxical relationship to the anti-corruption campaign. The corruption campaign is vital to nullify interest group opposition, but it also frightens and immobilises the officials who should implement reforms. Any reform hurts someone and the offended person may respond with an accusation of corruption—which is very frightening because almost everyone has some vulnerability. So until the intensity of the anti-corruption campaign diminishes, economic reform will be limited. And that could take a while.

Fortunately, financial reform is politically easier than judicial, regulatory or SOE reform. Liberalisation of interest rates, stock market listings and the currency, and opening of stock markets, are accelerating and will be transformative. A campaign to internationalise the currency is being used the way Zhu Rongji used the WTO: to force the pace of domestic reform.

The outcome is uncertain. Xi's experienced, able leadership team has the initiative. They have a brilliant economic strategy. And, for now, they have overwhelming public support. But bureaucratic resistance may gradually coalesce. Continued popular support depends on delivering economic reforms and limiting an economic downturn, while coping with a financial squeeze. To do this President Xi must resolve the paradox that the anti-corruption campaign is prerequisite to economic reform, but at the same time inhibits immediate reform. **EAFC**

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Four reformers and the burdens of change

Will Modi lead India to new heights?

RAJIV KUMAR

THERE are some uncanny similarities between Narendra Modi and Barack Obama. Both have risen from humble beginnings, both are charismatic public speakers and consummate communicators on social media, both were relative outsiders to the capitals where they now hold the most powerful office, and neither is dependent on their political party for their electoral success. Each has also shown an exceptional ability to mobilise financial resources and human talent to their cause.

But one hopes that this is where similarities will end. Hopefully, Modi will be more successful in reforming the economic and administrative system he has inherited and will be a less divisive figure, politically and socially. To achieve this he will have to act resolutely and quickly against bigots and fringe elements in the Bharatiya Janata Party, which he led to a historic victory in the 2014 elections.

Modi has the ambition to transform India, and lead Indians out from poverty and beyond the middle income trap to prosperity. He holds significant credentials for this task based on his track record in Gujarat, the state that he ran for 12 years as chief minister. But India is not Gujarat. It is much more than even the sum of many Gujarats, because of the huge diversity, complexity and heterogeneity that characterises India. Modi will, therefore, have to consciously jettison his Gujarat experience and make the transition from being a CEO to a statesman. He will have to become

PICTURE: SAURABH DAS / AP PHOTO / AAP



Indian Prime Minister Narendra Modi, who to become a statesman will have to 'become comfortable with nurturing several CEOs like himself'.

comfortable with nurturing several CEOs like himself, and increase delegation instead of centralising all action in his office.

Modi brings total commitment to his position. He has built up a solid reputation as a hard task-master and a person who does not flinch from his chosen path, even if he risks unpopularity and ostracism within his own party. He has a laser-like focus on improving governance and the delivery of public services. That will bring succour to both investors and the marginalised. He has promised to root out corruption at the top. But he must also address ground-level corruption and official harassment, which is the bane of the middle class—his principal support base.

Modi has made it amply clear that the focus of his foreign policy will be India's neighbours in South Asia. By visiting 16 countries in his first year and decisively upgrading Indo-US relations, while also improving upon the status quo with Japan and China, he has clearly shown a desire to secure India's position on the high table of global governance.

Modi knows that the success of India's foreign policy will ultimately be determined by whether he can put his domestic house in order. We should expect him to focus far more on this critical task in the coming period. He has to also pay sufficient attention to strengthening India's democratic institutions. Modi has an historic opportunity to take India to new heights both domestically and globally, and he seems to have the talent, skill, passion and ambition to seize this opportunity. **EAFAQ**

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Jokowi's leadership lacking on corruption

LIAM GAMMON

THE higher they rise, the harder they fall. No politician in post-Suharto Indonesia has risen higher and faster than Joko Widodo (Jokowi), whose win in the 2014 presidential elections was considered a breath of fresh air for a vibrant but corrupt democracy. The reality of his presidency, though, is not what civil society, foreign governments and investors were crossing their fingers for. After eight months in office Jokowi looks surprisingly conservative, out of touch, and out of his depth.

As an outsider to the Jakarta establishment, his tenure was always going to be marked by a mishmash of deal making and confrontation, especially with his own PDI-P party and its leader, former president Megawati Sukarnoputri. Her determination to dictate to the president on personnel and policy matters has far exceeded analysts' predictions. Jokowi's surprising weakness in the face of lobbying from Megawati and other oligarchs has vindicated critics who brand him a 'puppet' of party bosses.

Serious moves to shake up over-

regulated and protected sections of the economy are off the table as long as his relationship with the political elite remains tense. A widely applauded boost to infrastructure spending is being largely channelled through state-owned firms to keep rent-seekers and ideologues happy. Fear of bad polls is also behind the partial reversal of the brave decision, made during his brief political honeymoon, to scrap Indonesia's ruinously expensive petrol subsidies. It seems that, under Jokowi, Indonesia's economy will continue to muddle through, with reform as constrained by the political economy of corruption as ever.

Politics has also spilled over into Indonesia's foreign relations. Jokowi's lack of interest in the wider world was expected to lead to foreign policy technocrats taking the lead. To some extent this has been true. Yet the president's focus on the home front means that decisions made for domestic political reasons, such as executing foreign drug convicts and sinking illegal fishing boats, are taken without serious consideration of their effects on Indonesia's reputation and relationships abroad.

The fight against high-level corruption has also suffered. Under pressure from Megawati, Jokowi shocked the public with an attempt to appoint a police chief tainted by serious allegations of graft. Indonesia's most respected law-enforcement institution, the Corruption Eradication Commission (KPK), has been cowed by sustained attacks from a police force increasingly hostile to reform. Jokowi's appointment of political party





President Joko Widodo: he 'still has several years to prove he is capable of making Indonesia's economy more competitive and its government less corrupt'.

figures to head the Attorney-General's department and law ministry shows how little importance he places on cleaning up the justice system. More concerning still have been quiet efforts by the military to get back into areas of civilian governance—such as delivering rural development programs and providing security for government facilities—from which reformers had extricated it.

Jokowi still has several years to prove he is capable of making Indonesia's economy more competitive and its government less corrupt—that is, if he wants to. But some insiders worry that he simply lacks the appetite to take on vested interests whatever the political circumstances. **EAFQ**

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Trapped in the past: what drives Shinzo Abe?

RICHARD KATZ

AROUND the world, Japanese Prime Minister Shinzo Abe is perhaps most famous for his 'Abenomics' program to revive Japan's economy. So far, it has not worked—mainly because it hasn't really been tried. Only the first of the famous 'three arrows'—monetary stimulus—has been fired. The indispensable third arrow, structural reform, remains lots of nice-sounding targets but little strategy to achieve them.

Abe became prime minister to institute the policies he cares about. But his heart does not beat to the

rhythm of reform and revival. Rather, his pulse races to the tunes of military security, overturning history's verdict on Japan's wartime actions in the 1930s and 1940s, and revising the constitution.

Achieving at least the appearance of good economic performance is a means to keep up his approval ratings in order to achieve policy dominance. Abe is one of just two prime ministers in the past 25 years to serve more than two years consecutively. His 50 per cent approval rating is the highest of any long-serving prime minister since Junichiro Koizumi in the 2000s and, before that, Yasuhiro



Prime Minister Shinzo Abe leaving the Chidorigafuchi National Cemetery in Tokyo in May after attending a ceremony commemorating Japanese who died overseas during World War II. He is prompting changes to school textbooks 'to better reflect his revisionist view of history'.

Nakasone in the 1980s.

Politics is about building up political capital and then choosing how to spend it. It is hard to think of a single major economic issue on which Abe has been willing to spend his political capital to really challenge a powerful domestic constituency. Instead, he is risking his approval ratings on issues of security and history.

There are two groups of politicians who wish to have Japan take an active role in collective self-defence and constitutional revision. The first group is motivated by cool consideration of present-day threat assessments. Abe, however, belongs to the second group, which is driven not just by present-day realities, but also by a romanticised view of the 1930s and 1940s. Abe in

particular is devoted to restoring the 'honour' of his beloved grandfather and role model, Nobuo Kishi, as well as the entire generation of wartime leaders.

Kishi served in Tojo's wartime cabinet, spent three years in Sugamo Prison as a suspected Class-A war criminal, and became prime minister in the late 1950s. Upon being elected to the Japanese Diet in 1993, Abe joined a Liberal Democratic Party 'study group' that published a book in 1995 calling World War II a war for self-defence and denying that Japan committed war crimes like the Nanking Massacre and the forced recruitment of 'comfort women' (sex slaves). In February 1997, Abe formed another group of Diet members with

similar views and became its executive director. Half of his cabinet ministers are members. He is forcing through changes in school textbooks to better reflect his revisionist view of history.

Despite all this, the accusation from some in Asia that Abe wants to—or could—lead Japan back to militarism akin to the 1930s is completely outlandish. Japan's actions back then were an artefact of that era in world history and Japan's own status as a traditional, rural, pre-democratic society. Today, Japan is a modern democratic society in alliance with the United States. There is no going back.



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Xi, the party's servant

KERRY BROWN

AFTER almost three years of Xi Jinping's leadership in China, it is a good time to take stock of what has been achieved.

Xi has been spoken of as the new strong man in Chinese politics, a dominant figure who has accrued an array of party, military and state positions. He sits as chair of four of the eight all-important 'Small Leading Groups', which have the most influence over formulating policy in key strategic areas. Since 2013, through his anti-corruption campaign, his leadership has ensnared powerful figures from former Politburo Standing Committee member Zhou Yongkang to a deputy director of the Ministry of State Security, and figures in provincial government and the state enterprise system.

Ideologically, he personally authored a statement after the Third Plenum in late 2013 that made the market 'necessary' rather than 'preferential' for reform. The themes of his first phase in power have been strengthening rule by law, enforcing higher standards of behaviour in the Chinese Communist Party, and focusing on reassuring China's emerging middle class through stronger property rights and greater social equity.

His leadership has also seen a new purposefulness about managing



Xi Jinping: his position is secure while his policies promote the party's stable and unchallenged rule.

China's serious environmental issues, the highlight of this being the historic accord signed with the US in November 2014. Xi has been a tireless diplomat, explaining China's role in the world in tours to Latin America, the US, Europe, Australia and within Asia. By establishing the Asia Infrastructure Investment Bank in 2015, he has even managed to steal some of the global economic management space from the dominance of the US.

But there is also a less positive side. A fierce crackdown on intellectuals who criticise the party's style of rule has been ongoing since 2013. Lawyers like Xu Zhiyong, journalists like Gao Yu and feminist activists have all been detained, and in some cases handed draconian sentences. A White Paper on Tibet issued by the Chinese State Council in April 2015 was categorical in its assertion that Tibet's current political status and management could not be changed, despite continuing self-immolations by protestors. Uyghur academic Ilham Tohti was sentenced to life imprisonment in 2014 on charges of 'separatism'. On Hong Kong and Taiwan, Xi's leadership is

hard-line. He supports a very highly managed framework for direct elections for a chief executive for the former, and demands that political issues need to figure in the current debate with the latter, rather than be pushed endlessly into the future.

China is, by the reckoning of its own leaders, in a period of tough transition. Growth is falling below 7 per cent. Healthcare and education are increasingly becoming focuses of government attention. The hunt for fast, diverse, sustainable growth is urgent. Xi Jinping is talked of as a Maoist figure: grabbing all the power to himself. But the political program and strategy since 2012 is better characterised as supporting one overriding objective: continuing stable and unchallenged rule by the Communist Party of China. As long as Xi Jinping is seen as promoting this, his position is secure. The party, not Xi, is the emperor of 21st Century China. **EAFC**

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Colossus in the making? India can take the lead in linking the subcontinent with East Asia and the Pacific if it emulates the dynamism evident in this statue of 17th-century general Lachit Borphukan, being erected in the Brahmaputra River.

Modi can lead South Asia's regional, global integration

SOURABH GUPTA

INDIA'S domestic and international economic choices have not always been the wisest.

At independence, India was determined to transcend the distorted pattern of economic integration with the world that two centuries of exploitative colonialism had engendered. But in the process, it ended up effectively locking itself out of global trade and investment flows altogether—just at the time when advanced countries were tearing down their mercantilist tariff walls to make way for the liberal, post-

war trading order. Central planners in New Delhi foisted an import substitution industrialisation model of development, one suited to middle-income, primary-product exporters, upon an impoverished agrarian society. In doing so they condemned all but a privileged pocket of urban and public sector employees to the margins of the modern economy.

Two decades later, as East and Southeast Asia's tiger economies were taking advantage of Japanese firms' outward direct investment (ODI) strategies to make labour-intensive and export-oriented manufacturing activities the centrepieces of their

inclusion programmes, New Delhi ushered in the high noon of license-raj socialism. To this day India's employment protection legislation in the formal manufacturing sector remains among the most restrictive in the world. The share of manufacturing goods in India's exports is declining. And Indian and South Asian small and medium enterprises are mostly absent from Asia's dynamic vertically-integrated, production-sharing chains.

India and Pakistan were founding members of the General Agreement on Tariffs and Trade (now the World Trade Organization), yet at its very outset opted to write a prohibitory

exception to mutual trade relations into its rules. In the bitterness of partition and their first war over Kashmir, New Delhi imposed a trade embargo to choke off the nascent Pakistani state—a legacy that has cautiously begun to be repaired since the late 1990s. Regionally, too, India to its detriment appears unable to purposefully engage within the current Regional Comprehensive Economic Partnership negotiations, despite the gradual evisceration by the West of the most-favoured-nation principle in the multilateral system.

A once integrated subcontinent is now among the least integrated spaces in the world. India must take the lead in restoring the economic unity of the subcontinent. The subcontinent's economic links to East Asia remain insubstantial. India must exercise a leadership role in constructing multiple lines of communication that imaginatively network the subcontinent with production processes and final markets in East Asia and the Pacific.

India must not pass up the latest grand opportunity presented by China's ambitious One Belt, One Road initiative to build complementary cross-border connectivity links that both bind it to the periphery and integrate it via the 'belt' and the 'road' to global networks, while respecting the interests of all parties involved. Elevating the periphery to the core of its relationship with China will also promote possibilities for Sino-Indian cooperation in Asia and undermine the geopolitical one-upmanship which has hitherto characterised their regional strategies.

In February 2014, at the 17th round of Special Representative talks in New Delhi, Beijing formally invited India to join its ambitious Maritime Silk Route (MSR) project.

The Narendra Modi government should aim to make China's activities in South Asia complementary to its own neighbourhood policy. India should exert its influence to craft the contours of the MSR's South Asian blueprint in order to chip away at the steep transaction costs associated with the subcontinent's post-1947 borders. It should also draw up an integrated view of how the various proposals under the rubric of China's One Belt, One Road initiative—the MSR, the Bangladesh–China–India–Myanmar (BCIM) corridor, and rail, road and port development in Nepal, Pakistan, Sri Lanka and Myanmar—can be harmonised to serve both India's peaceful rise within its extended Asian neighbourhood and Asia's peaceful rise to the forefront of world affairs.

At a time when New Delhi lacks the funds—and perhaps the intent—to underwrite the modernisation programs of its common neighbourhood, it must not be seen to undermine an initiative that it does not at any rate possess the wherewithal to subvert. One Belt, One Road is the centrepiece of the Xi Jinping administration's 'new type of international relations' concept—an imposing win-win scheme that aspires to embed the China Dream within a neighbourhood community of common destiny. Co-opting One

South Asia was once
a great entrepot for
commercial exchange
between China and
Rome

Belt, One Road in South Asia will liberate New Delhi from its penchant to oscillate between viewing the subcontinent as its exclusive sphere of influence and longing to vault over the neighbourhood to pursue flashier adventures abroad.

By recreating the famous historical land and sea routes along which commerce and civilisation once traversed, One Belt, One Road will also reawaken India in no small measure to its own golden age of cross-border contact. South Asia was once a great entrepot for commercial exchange between China and Rome. Asia's seas were a genuine *mare liberum* (free sea) that no sovereign sought to control. The spread of Buddhism from South Asia along the 'belt' and 'road' wove a common world of religious-cultural ambiance and sensibility that signified both integration and cosmopolitanism.

Standing in the UNESCO offices in March 2014, Chinese President Xi Jinping extolled the profound impact of Buddhism on China. For his part, Modi, a firm devotee of the Buddha, commenced his recent China tour at a shrine built to commemorate a famous Chinese Buddhist monk who had visited his ancestral village in Gujarat during the Tang Dynasty era. A 21st century infrastructure project geared to connect the Asian heartland to its hinterland and beyond might yet revive a set of loose integrative norms, which can foster principles of order and self-restraint in East Asia and South Asia.

Modi, unrestricted by the blinkers of his elitist predecessors, should exercise his abundant leadership qualities to walk India and South Asia confidently down this path. **EAFO**

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China aims to set the regional cooperation agenda

CHEN DONGXIAO

In late October 2013, the Chinese Communist Party Central Committee held a conference of Diplomatic Work with Neighbouring Countries in Beijing, where it unveiled new priorities under its New Neighbourhood Diplomacy guidelines. The new approach makes China's neighbourhood, covering both continental and maritime Asia, the top strategic priority for the first time. The key message of the conference was to reassure to the region that China will step up its proactive engagement with its neighbours. This is to be achieved by converting its rising economic and political clout into more regional public goods and paving the way for a community inspired by a common destiny.

Multiple strategic initiatives underpin China's new emphasis on regional diplomacy. On the economic side, the prospect of downward pressure on regional growth and the fragmentation of regional trade and investment negotiation processes are two major challenges for China. The Silk Road Economic Belt and the 21st Century Maritime Silk Road—now synthesised as the Belt and Road Initiatives—are arguably Beijing's boldest flagship proposals under the New Neighbourhood Diplomacy approach. The Belt and Road Initiatives aim to visualise a new mode of regional economic cooperation by tapping the huge potential for regional investment and trade,

and taking advantage of economic complementarities between China and other regional countries. It is also expected to further common interests by upgrading regional production, transportation and value chains.

For China, the initiative is already beginning to bear fruit. The Asia Infrastructure Investment Bank (AIIB), a new regional development bank initiated and led by China, has proved popular—attracting 57 founding members, including the UK, Germany, France, Australia, South Korea and many other advanced economies. More than 60 countries have expressed their interest in partnerships with the Belt and Road Initiatives. And many countries along the proposed Silk Road Economic Belt and the 21st Century Maritime Silk Road have already begun talks with Beijing on coordinating policy, connecting facilities and better integrating trade and finance, as well as establishing people-to-people ties.

Ambitious as it is, the Belt and Road Initiatives are also the most complex projects Beijing has ever undertaken. Without effective collaboration between the multiple

China is now engaging with regional security issues in a more active way

stakeholders—including governments, NGOs, enterprises and the general public, both at home and abroad—it is unlikely to succeed.

In parallel with the Belt and Road Initiatives, China is also promoting another landmark initiative: the Free Trade Area of the Asia Pacific (FTAAP). The FTAAP set the tone for the 2014 APEC economic leaders' meeting in Beijing. China's endorsement of the FTAAP demonstrates its commitment to more open, liberalised and high-quality trade and investment, as well as a more integrated regional economy. Beijing believes that the FTAAP can provide an overarching framework that transcends the narratives of competition between the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP)—the two leading regional trade negotiation groups in the Asia Pacific—and help develop a roadmap for mutual accommodation and co-evolution of various regional trade & investment arrangements. Like the Belt and Road Initiatives, FTAAP is a long-term process and can only be realised through cooperation with other key economies, particularly the US, Japan and India.

Even more challenging is the issue of regional security. Today, China faces multiple regional security challenges that range from diverging security perceptions, a rising security dilemma and deficiency of security public goods to managing maritime disputes and a plethora of other regional traditional



Indian soldiers roll out the red carpet for ceremonies marking the re-opening of the Silk Road's famed Nathu La Pass with China in July 2006. A decade on, Beijing's Belt and Road initiatives aim to coordinate policy in Asia, connect facilities, better integrate trade and finance, and improve people-to-people ties.

and non-traditional threats. Under the guidelines of the new neighbourhood diplomacy policy, China is now engaging with regional security issues in a more active way. It is participating in and sometimes leading regional security capacity and confidence building measures (CBMs), such as collective natural disaster relief, joint rescue and patrol, and anti-terrorism exercises, as well as rebuilding security in Afghanistan and mitigating tensions on the Korean Peninsula. China has also been building up regional security institutions by upgrading the security cooperation in the Shanghai Cooperation Organization (SCO), resetting the Conference of Interaction and Confidence-Building Measures in Asia (CICA) and initiating many bilateral and multilateral CBMs meetings with neighbouring countries, including those between China and the ASEAN defence ministers.

China fully recognises that there is not yet a consensus on what kind of security order is appropriate for the Asia Pacific region at a time when there is a major rebalancing between rising and established powers. For instance, there is disagreement over whether the US-led alliance system is still legitimate and sustainable given the relative decline of US influence in the Asia Pacific. The lack of agreement over the regional security order will hamper security cooperation in the long run.

In May 2014, at the CICA summit meeting, President Xi Jinping talked about developing a commitment to a new security order based on the ideals of common, comprehensive, cooperative and sustainable security. He also encouraged Asian countries to play a leadership role in building this new order, with the engagement of key players outside the region.

The Chinese understanding of a new security order in the Asia Pacific implicitly challenges the exclusiveness of the US-led alliance system. It has therefore caused suspicion and scepticism on the part of the US and some of its key allies in the region. How to reconcile these differences and develop a shared definition of regional security order among all major stakeholders? How to work out inclusive regional security architectures where China, the US and many other regional key players can not only peacefully co-exist but also cooperate in providing more security public goods for the whole region? These questions remain key challenges for China if it is to play a bigger role in regional leadership in the future. **EAFQ**

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**Will Xi
always be
obeyed?**

RYAN MANUEL

IT AIN'T easy being an autocrat. Take China's current President and Party Secretary, Xi Jinping. Since coming to power Xi has shown himself to be unhindered by former norms of collective decision making, and collective blame.

Rather than all decisions being portrayed as being made unanimously by senior leaders, each of whom is responsible for a different area of governance, Chinese media portrays Xi as making decisions and heading nearly every major policy reform and advisory group.

It is hard to say how much this portrayal is correct—the 'decisions are argued and made in secret' norm remains untouched—but either way, it

is a major reversal of former norms of collective governance.

Today, Xi is the face, heart and soul of all Chinese reform. Xi is the public face of China's anti-corruption campaign, of China's new foreign policy initiatives and of China's 'new normal' economy. He's become the so-called 'Chairman of Everything'.

To some, Xi's decisiveness should be praised. High-profile Chinese financier Eric X. Li, for example, argues that: 'In terms of the vision that he has articulated to the Chinese people, where he wants to take the country, and what he's been able to execute in the last 18 months, it [Xi's rule] has been beyond anyone's imagination or expectations'.

So Xi may currently be taking the plaudits for being a decisive and

successful leader. But what will happen when he makes a bad decision? By putting his face to China's policies, Xi is more likely to be personally associated with any missteps.

Personal accountability thus has its limitations. As Party Secretary, Xi has to not only govern China but manage an organisation of 87 million members. The top-down nature of this system means that Xi needs to guide others through his public speeches, pronouncements and statements. But being too prescriptive in one's guidance is likely to create bureaucratic losers. It also makes it easier for any potential scapegoat in the system to just say that they were following Xi's orders.

This risk of individual accountability is why a personification of policy

is very rare in the Chinese system. It's usually safer to assume public leadership of an area through *ex officio* means, and to make decisions reluctantly only when there is no other choice.

Normally in autocratic systems, collective decision-making reduces the number who lose from any reform. It's safer for the leader to leave different interests competing for his attention than to clarify responsibilities and policy directions once and for all.

And it allows the leader to avoid being held accountable by the people for any policy missteps. Should a problem occur, the autocratic leader can blame a convenient underling, or others lower down in the system, and retain their own popular legitimacy.

Collective decision-making is also popular because an autocrat's ability to weigh up costs and benefits may be hindered. The many actors competing for the top leader's attention won't always want to deliver bad news, and you don't want to be the leader left taking the blame should you receive bad advice. Xi's already been stung by a lack of independent analysis, being

... it is hard to tell what is genuinely 'popular' or not

caught off guard by the failure of internal Taiwan analysts to accurately predict the results of the 2014 Taiwan election.

So, to sum up, to take personal command of reform, Xi must arbitrate the many conflicting interests within the Chinese system. Any decision he makes will be used by actors throughout the system to justify any decision they may make. Xi also has to balance this with the reality that, in the public's eyes, credit or blame will be personally apportioned to him. And, finally, Xi has to juggle all these problems while accepting that he will have conflicting sources of information on any decision.

Who'd be an autocrat?

There aren't a lot of options for Xi to resolve this snafu. He probably thinks he can ride the situation out. While he risks popular unrest should

one of the reforms he is personifying take an unpopular turn, most of his policies so far have been very popular. And it is hard to tell what is genuinely 'popular' or not.

This doesn't mean that the international community will like Xi's reforms. With the possible exception of Hua Guofeng, party leaders normally begin their rule by 'backing away from tolerance' and cracking down on liberal expression. Xi so far has been no exception.

Xi will likely walk a delicate path on China's international diplomacy, especially with Japan. Should there be an incident that can be blamed on official actors, and especially one that makes China look weak, it will reflect badly on Xi. So expect lots of strong official rhetoric, more ambiguity and less actual leadership on all sides (these problems are not just limited to China). Decisiveness has its downsides. **EAFO**

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Are Asia's political dynasties in decline?

MARK R. THOMPSON

IT MAY seem that after several recent electoral defeats of prominent national dynasts, Asia's 'ruling families' are in decline. But a closer look suggests that reports of their political deaths are premature.

The most prominent recent setback was the crushing defeat of the Nehru-Gandhi dynasty-run Indian Congress Party in the May 2014 elections, which swept the Hindu nationalist Bharatiya Janata Party (BJP) to power and left the Congress Party with only 44 seats in the Indian parliament.

The Nehru-Gandhis have governed India directly as prime minister (Nehru, Indira, Rajiv Gandhi) or indirectly as the 'power behind the throne' (Sonia Gandhi) for more than a half a century. But a lacklustre campaign led by Sonia's son, Rahul Gandhi, who has little apparent skill or even interest in politics, seemed to mark the end of the political road. The BJP struck an anti-dynastic pose that appeared to resonate with voters, while the Congress Party has appeared directionless without a strong family dynasty to unite it and appeal to India's poor voters.

The shock defeat in Sri Lanka of president Mahinda Rajapaksa in January 2015 seemed to be another example of 'dynasty down'. Rajapaksa's defeat was attributed not just to his administration's growing dictatorial tendencies, but also to the blatant nepotism and corruption that saw him turning his family into the country's

new ruling clan. Besides appointing one brother Defence Secretary and another Senior Presidential Advisor, a third became Speaker of Parliament. At one point the Rajapaksa brothers were said to have direct control, through their ministries, of more than two-thirds of the national budget.

In Indonesia, Joko Widodo (Jokowi), a political outsider who campaigned on his image as a common man who understands the people, was elected president in July 2014. The narrow loss to Jokowi by former president Suharto's former son-in-law, Prabowo Subianto, seemed to be a further sign of dynastic decline.

In the Philippines—one of Asia's most dynastic democracies, where one child of a president, Benigno 'Noynoy' Aquino III, succeeded another, the discredited Gloria Macapagal Arroyo—the once popular Noynoy Aquino has lost public support following a major pork-barrel scandal and a botched anti-terror operation.

In Thailand protests, judicial activism and then a May 2014 coup

ended the government of Yingluck Shinawatra, who was seen as the puppet of her brother, Thaksin Shinawatra.

In Malaysia, dynasties seem to be facing a dual crisis. In government, Prime Minister Najib Razak—the son of a former prime minister, Abdul Razak Hussein—faces growing criticism for corruption. In the opposition, Anwar Ibrahim has come under attack for attempting to appoint his wife as chief minister of Selangor, Malaysia's richest and most populous state.

The death of authoritarian Singaporean leader Lee Kuan Yew in March 2015 raised questions about the political future of the Lee family now that the 'founding father' was gone.

Despite all this, a closer look suggests that the reality is more complex, and dynasticism is still very much alive and well in Asian politics.

In India, the Congress Party has come back from defeats before and may well again under Rahul Gandhi's sister Priyanka, who is said to closely resemble her grandmother Indira both physically and in terms of political savvy. Meanwhile, the BJP has itself adopted a 'dynastic strategy' with a number of its leading parliamentary candidates the scions of major families.

In Sri Lanka the new Prime Minister, Ranil Wickremesinghe, is nephew to a former president and leader of the United National Party—which is often derided as the 'Uncle and Nephews Party'.

Dynasts are only considered bad when they lose their mass appeal and are seen to represent only their own family



Congress Party vice-president Rahul Gandhi and his sister Priyanka were showered with flowers as Rahul drove to nominate for election in April 2014. But the family magic didn't work for Congress this time.

In Indonesia, Jokowi is beholden to Megawati Sukarnoputri, whose party, PDI-P, remains the chief basis for his influence in parliament. Megawati was president from 2001–2004 and is a daughter of Indonesia's founding president, Sukarno. In the Philippines, where new dynasties quickly fill the gap left by declining ones, Grace Poe—the adopted daughter of former presidential candidate Fernando Poe Jr—is now a frontrunner in the upcoming 2016 presidential elections.

In Thailand, Thaksin Shinawatra remains highly popular among a significant part of the electorate. The ongoing trial of his still widely admired sister, Yingluck, for a rice subsidy scheme has brought international and domestic pressure to bear on the country's military rulers.

Then there is Japan. Alongside the

US, Japan is the developed country with the most prominent political dynasties, with seven of eleven prime ministers in the last 20 years hailing from political dynasties, including the current Prime Minister, Shinzo Abe. In South Korea, President Park Geun-hye is the daughter of former dictator Park Chung-hee. And in Singapore, the 'dynasty' label remains extremely sensitive, with threats to sue anyone who applies the word to the Lee family. The current Prime Minister, Lee Hsien Loong, is the elder son of the first prime minister, Lee Kuan Yew.

In Pakistan, Prime Minister Nawaz Sharif is building up a family political dynasty to replace the Bhuttos, while Benazir Bhutto's son is attempting to revitalise his family's Pakistan People's Party.

Aung San Suu Kyi remains the chief

opposition figure to the reforming but still military-dominated regime in Myanmar. Suu Kyi is a reminder of a period when prominent female dynasts, the daughters, wives or widows of 'martyred' male leaders, led major democratic opposition movements across Asia.

North Korea's Kim Jong-un has preserved communist rule into a third generation despite appallingly low living standards. On the other end of the development scale, China is now led by a so-called princeling (the son of a prominent party leader), Xi Jinping, and there are many other princelings in high positions.

As I have argued elsewhere, political dynasties are flourishing in Asia, whatever the political system—electoral democratic, authoritarian, Stalinist-style totalitarian rule in North Korea or 'market-Leninist' in China. Asia's dynasties are modern hybrids in which elite political aims are linked to popular norms of charismatic legitimacy, often in the context of weak or decaying institutions. Dynasties often cultivate loyal followings through inherited charisma. Dynasts are only considered bad when they lose their mass appeal and are seen to represent only their own family and not the national interest. When dynasts first take power they are often lauded as heroes with an irresistible family legacy.

Descendants of charismatic leaders continue to play a major role in politics in Asia. They often remain key to the survival of a leading political party, an opposition movement or even the regime itself. [EAFQ](#)

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