

The Trilateral Commission

CHALLENGES
to
TRILATERAL
COOPERATION

The Trilateral Commission Tokyo
Plenary Meeting 2006

The Trilateral Commission was formed in 1973 by private citizens of Europe, Japan, and North America to foster closer cooperation among these three democratic industrialized regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together. Since the Commission's inception, the European group has widened with the ongoing enlargement of the European Union, the Japanese group has widened into a Pacific Asia group, and the North American group now includes members from Canada, Mexico, and the United States.

See our website for more information: <http://www.trilateral.org>

North American Chairman
European Chairman
Pacific Asia Chairman

THOMAS S. FOLEY
PETER D. SUTHERLAND
YOTARO KOBAYASHI

Contents

Foreword	vii
Opening Remarks by Prime Minister Junichiro Koizumi	ix
I. FACING NEW CHALLENGES TO THE INTERNATIONAL COMMUNITY	
1. In Search of New Global Frameworks for Energy Security	3
STEVEN E. KOONIN NAOKI TANAKA STEFANO SILVESTRI <i>Summary of Discussion</i>	
2. International Trade and the Doha Round after Hong Kong	16
PAUL A. VOLCKER PETER D. SUTHERLAND NARONGCHAI AKRASANEE	
3. The New Challenges of Nuclear Proliferation	26
<i>Excerpts from the Task Force Report</i>	
II. WHITHER PACIFIC ASIA?	
4. Economic Reform, Rising Nationalism, and Japans Changing Role in the World	31
KAKUTARO KITASHIRO YOICHI NISHIMURA YASUHISA SHIOZAKI BILL EMMOTT GERALD CURTIS <i>Summary of Discussion</i>	

5. Prospects for East Asia Community	49
AKIHIKO TANAKA QIN YAQING YOUNG SOOGIL BARRY DESKER <i>Summary of Discussion</i>	

III. DOMESTIC DYNAMICS AND INTERNATIONAL RELATIONS

6. Europe's Internal Dynamics: Absent Without Leave?	71
OTTO GRAF LAMBSDORFF	
7. The Impact of Domestic Politics on U.S. Foreign and Security Policy	79
THOMAS S. FOLEY	
8. Engaging With Russia: The Next Phase	87
<i>Excerpts from the Task Force Report</i>	
Program	101

Foreword

The 37th annual plenary of the Trilateral Commission was convened in Tokyo, Japan, on April 22-24, 2006. With more than 200 attendees it was the largest meeting of the Trilateral Commission ever held in a Pacific Asia country, and the level of participation and the dynamic discussions that ensued seemed to reflect a growing awareness of the increasing relative weight of Asia in global affairs. Meanwhile, the contributions of the Trilateral Commission over the past four decades were recognized by Prime Minister Junichiro Koizumi, who opened the meeting, and Foreign Minister Taro Aso, who hosted a reception for the participants at the government's official guest house.

The plenary discussions were characterized by a sense that heightened global cooperation is needed in a number of critical areas, yet existing institutions and patterns of behavior may be insufficient to meet the fundamental challenges facing the international community. Energy security was one topic of active debate and, for once, there was general consensus that concerted measures need to be taken to enhance the stability and security of global energy supplies and to counter climate change, although it was not clear how this might effectively be done. Likewise, a panel of prominent economic leaders saw the breakdown of the Doha Round of World Trade Organization (WTO) negotiations as another symptom of the loss of momentum in broad-based multilateral institutions—a trend that needs to be countered.

Even more chilling was the session on nuclear nonproliferation, chaired by Henry Kissinger, which warned that the world may be dragged into a "second nuclear age" if North Korea and Iran are permitted to acquire nuclear arms and if that drives the proliferation of nuclear weapons and technologies to other states and nonstate actors around the world. This session featured a set of exceptional presentations by Graham Allison, Herve de Carmoy, Therese Delpech, and Chung Min Lee, all four of them members of a Trilateral Commission task force on the topic. An excerpt from the full task force report, *Nuclear Proliferation: Risk and Responsibility*, is included herein.

A second key focus of discussions was the spread of regional cooperation and the growing sense of its limits. In one session, analysts from around the region assessed the progress of community building in East Asia, agreeing that while the region is characterized by a lack of institutionalization, integration is bound to continue proceeding steadily on the ground. On the other hand, a session entitled "Europe's Internal Dynamics: Absent Without Leave?" highlighted the lack of political leadership among long-term EU members in allowing short-term political imperatives to hinder efforts to further deepen integration and ensure the long-term benefits of economic liberalization.

The discussions also revealed a heightened awareness of the growing linkages between domestic political dynamics and international relations. Sessions on the United States, Japan, and Europe each were premised on the recognition that the line between domestic politics and foreign policy has become increasingly blurred as the impacts of global developments are felt more acutely at home. This sentiment also underpinned a very active discussion on Russia during a session in which a Trilateral Commission task force consisting of Roderic Lyne, Strobe Talbott, and Koji Watanabe presented the findings of a yearlong study on how the Trilateral countries should relate to Russia. This publication includes excerpts from the task forces final report, *Engaging with Russia: The Next Phase*, which was published in June 2006.

The following report records the stimulating debate that took place on these issues—issues that are central to the future of the international system and the capacity of the Trilateral countries to jointly face this era's most pressing challenges. The meeting was characterized by a series of outstanding presentations by speakers from the three regions, all of whom deserve our deep appreciation. Of course, we would also like to express gratitude to the indefatigable staff of the European, North American, and Pacific Asia secretariats for all that they did to make the meeting such a success.

Opening Remarks

Prime Minister Junichiro Koizumi opened the Trilateral Commission's 37th plenary session with the following greetings to the participants.

As you once again convene a plenary meeting of the Trilateral Commission in Tokyo after six years, I am delighted to welcome so many eminent intellectuals from North America, Europe, and Asia and the Pacific.

Those of you who attend the plenary meeting held here six years ago will perhaps recall that Japan, in the aftermath of the bursting of its bubble economy, had appeared to have lost confidence in itself and its future.

Over the past five years, under the policy of "without reform there will be no growth," I worked hard on structural reform in order to revitalize Japan and create a society which has both confidence and pride. The Japanese economy is moving along the recovery track led by the private sector, and the confidence and vitality of the Japanese people have returned.

We live in a world in which we reap the benefits of globalization in our daily lives. And yet we are also confronted with serious global issues like the proliferation of weapons of mass destruction, international terrorism, infectious diseases, and environmental issues.

In Asia, the rise of China and India has had impacts on the global order, but various challenges remain, such as the situation on the Korean peninsula.

Such common values as freedom and democracy, the market economy, and respect for fundamental human rights are not only shared by North America, Europe, and Japan, but also becoming increasingly widespread in Asia. Against this background, I believe that the Trilateral Commission is poised to play an even more significant role than it has in the past.

In particular, the themes which will form the core of the discussions here, including nuclear proliferation, energy security, and the development of free trade, are those which are of common relevance to all of our regions. It is therefore imperative for our nations to work together, hand in hand.

I very much hope that this meeting will be characterized by a frank and active exchange of views among all the participants.

During the five years of my administration, we have been working to create an economy in Japan that is attractive to foreign investment. We have also been promoting the Visit Japan campaign, through which foreign visitors can come to know Japan as a country of warmth and hospitality.

I very much hope that during your stay in Japan you have the opportunity to do more than join in these deliberations, but also take this as a chance to experience the newly-revitalized Japan for yourselves, enjoying the many delights that Japan has to offer.

Junichiro Koizumi has served as the prime minister of Japan since April 2001.

I

FACING NEW CHALLENGES TO THE
INTERNATIONAL COMMUNITY

In Search of New Global Frameworks for Energy Security

By April 2006, oil prices had climbed over US\$70 per barrel and analysts were warning that the rise in prices was not merely a short-term phenomenon but would persist in the face of steadily increasing demand from rapidly growing economies such as China and India. Meanwhile, an awareness of the potential scope of climate change stemming from carbon emissions had been spreading among mainstream political leaders in the Trilateral countries, particularly after natural disasters such as Hurricane Katrina in September 2005. Against this backdrop, Steven Koonin, chief scientist for BP; Naoki Tanaka, president of a Tokyo-based think tank, the 21st Century Public Policy Institute; and Stefano Silvestri, president of the Institute for International Affairs in Rome, shared their views regarding alternative energy technologies, the prospects for international cooperation to safeguard energy supply and distribution networks, and schemes to ameliorate the long-term environmental impact of energy consumption. Condensed versions of their remarks follow, as well as a summary of the subsequent discussion.

STEVEN E. KOONIN

There are four drivers that will shape the energy future over the next 30 years: growth in demand; the challenges of providing supply to meet that demand; issues of security of supply; and environmental impacts or constraints.

If one looks at primary energy use per capita against GDP per capita over the past two decades, the picture is most informative. It shows, for example, that energy use per capita in the United States has been growing very slowly but is higher by about a factor of two than most other developed countries, whose energy use is also growing relatively slowly as their GDP increases. In terms of developing countries—particularly China and India—it seems almost inevitable, perhaps a law of nature, that their energy use will grow

proportionately as their GDP grows. There are about 1 billion people in the United States and OECD as a whole. There are roughly 2.5 billion people in China and India. The expected economic growth together with growth in population—which is projected to reach 9 billion by mid-century—will drive a strong growth in energy use over the next 25 years. There is expected to be 60 percent growth by 2030, three-quarters of which will be in the developing world, with the balance in the OECD and transition economies.

Turning to supply, the first headline is that there are significant fossil fuel resources. The world is not going to run out of oil or gas or coal anytime soon. However, it is going to take significant investment in infrastructure in order to produce those resources, and for various reasons we expect to see a rise in non-conventional fossil fuels as well.

If one looks at simple straight-line projections of energy sources over the next 25 years, 85 percent of the world's energy now, and 25 years from now, is expected to come from fossil fuels. The resources to handle that do exist. Right now, the world has 41 years of proven reserves of oil, an equal amount plausibly there to find, and a significant amount beyond that in unconventional oils. There are 67 years of gas supply, again an equal amount plausibly yet to find, and a large amount of unconventional gas. For coal, we have at least 160 years, and in some estimates as much as 1,000 years since no one has really gone exploring for coal yet.

Roughly 1 trillion barrels of oil have already been produced in the world. There are a trillion barrels yet to be produced in the Middle East and another trillion in the rest of the world, and more exotic sources and locations provide yet another 2.5 trillion barrels. The world is expected to need about 1 trillion barrels over the next 25 years, and so it seems that there is plenty of oil in the ground and produceable at reasonable prices in order to meet that demand.

Whether the world will create the infrastructure to produce it at the rate required remains to be seen. Right now, the world produces only about 35 percent on average of the oil that is known to be in the ground in any given field. Accordingly, enhanced oil recovery technologies are an important area to work on for the future.

Beyond the liquid hydrocarbons that we might be able to find in the ground, there is the possibility of producing liquid hydrocarbons from either gas or coal. You can make diesel fuel out of gas at about us\$25-us\$30 a barrel, and you can make diesel fuel or other liquids out of coal at about us\$40-us\$45 dollars a barrel. It seems inevitable that those technologies will become more prominent should the price of oil remain at anywhere near the level it is at currently.

Turning to the issue of security of supply, it is important to recognize the "dislocation of supply and demand." The three largest energy markets in the world—North America, Asia Pacific, and Europe—currently consume 77 percent of the world's oil production yet have only 10 percent of the world's oil reserves. If you look at gas, the situation is not quite as unbalanced but it is still significantly misaligned: those same three regions account for 60 percent of consumption as compared with 15 percent of reserves. For coal, on the other hand, there is a much better balance between where the reserves are and where the consumption is. If energy security becomes a growing issue, therefore, it seems likely that coal will revert to being the fossil fuel of choice.

Turning to the environmental constraints, local pollution is in many ways a solved problem. In the developed world, increasingly stringent regulations have been matched by a series of technical developments such that cities really are becoming cleaner. I saw that firsthand living for 30 years in Los Angeles. The same has happened here in Tokyo. It is a question of whether one wants to pay the costs for cleaning up the local pollution. The expectation is certainly that as the developing world develops, they will also want to do that.

Much more problematic is the issue of climate change. Whatever uncertainties remain in the scientific picture, I think everyone agrees that it is a very bad idea to be putting as much carbon dioxide as we are into the atmosphere. Most of that anthropogenic carbon dioxide comes from the burning of fossil fuels, and so of course it is intimately linked with energy issues. Historically, carbon dioxide emissions have gone up almost monotonically and are projected to rise at 1.5 percent a year absent any major action. The concentration in the atmosphere is the cumulative effect of those emissions because carbon dioxide lives in the atmosphere for many hundreds of years. This is a different situation than local air pollution—if we put it up there, it stays up there effectively forever compared to time scales that matter to us. The carbon dioxide concentration in the atmosphere has gone from 280 parts per million (ppm) before the industrial revolution to its current value of 384 ppm, and it is projected to reach 550 ppm by mid-century. At that level, many in the scientific community believe that there will be the real possibility of a dangerous influence on the climate system. In order to stabilize carbon dioxide concentrations at less than 550, the world must stabilize its emissions at the current level and then decrease them by a factor of two by the end of the century, and it must do so in the face of a doubling of energy demand by mid-century.

What many people do not realize is that doing a little bit for this problem really does not solve it. Because the atmosphere accumulates the carbon dioxide that we emit, we really have to make drastic reductions in carbon dioxide emissions in order to have any impact. In fact, a good rule of thumb is that every 10 percent reduction in emissions simply delays the time at which we will face dangerous concentrations by about seven years.

The carbon dioxide situation is further complicated by the differences in emissions and perceptions of the threat around the world. If you look at carbon dioxide emissions by GDP levels, the picture looks pretty much like the energy usage chart except for two outstanding differences. One is that France is now below the other European countries and Japan. Eighty percent of France's electricity is produced by nuclear energy. Brazil is also low compared with other countries with similar GDP due to two factors: the significant amount of hydropower in Brazil, and the ethanol that Brazil uses to power its transport.

The heterogeneities of emissions around the world lead to several sobering conclusions that condition any discussion of how we are going to address the carbon dioxide problem. One is that, in this century, emissions from the developing world will be actually more important than those from the industrialized world. The developing world emissions are growing at 2.8 percent a year, while the OECD emissions are growing at 1.2 percent a year. Today, they are just about equal, but they will cross in about 10 years. Therefore, every 10 percent reduction in emissions that the industrialized world might be able to make is offset by less than four years of growth in the developing world.

If you were to take China's per capita emissions and make those equal to Japan, which is among the most emissions-light of the developed countries, global emissions would go up by 40 percent. Again, remember we need to halve emissions rather than having them go up by 40 percent. The way I like to say it is that there are two big numbers in this problem. One is the per capita emissions in the developed world, and the other is the population in the developing world. One concludes from this that one is going to need new technology to solve this problem. It is not going to be solved by economics and politics alone.

This brings us to the question of the technologies. There are really two dimensions in which to think about technologies. One is the issue of security of supply, and the other is the issue of carbon emissions. By putting technologies on those two axes, you can understand which ones can play a role where. In the transport sector, for example, absent concerns about

climate change, technologies for coal to liquids, heavy oil, gas to liquids, and conventional biofuels are things that one would be developing to address security of supply concerns. The only material supply-side option addressing both security and climate change is advanced biofuels. On the demand side, hybridization and vehicle efficiency seem to be eminently sensible things to do, and are really not so much about technologies as they are about political will and social choice.

In the power sector, it is sobering to look at where electricity is generated right now. Forty percent of the world's electricity comes from coal, 20 percent from gas, and roughly one-sixth each from nuclear and hydro-power. The renewables that consume a lot of media attention—including solar and wind—currently account for only about 2 percent of the world's electricity.

If you look at options for power, there are several that are attractive. Wind is probably good for at most about 10 percent of the world's electricity because of intermittency issues and the cost of backup. My own feeling is that there are really only two technologies that the world will need to develop, or could develop, if it is going to solve the carbon dioxide problem. One is nuclear. The other is hydrogen power, also called sequestration or capture and storage, in which the carbon dioxide from fossil fuels is captured at the power plant and reinjected into the ground. One expects that it will a) stay there for several thousand years, and b) enhance oil recovery as well. BP is pursuing two projects of this sort right now, one in Scotland and one in California. A number of other companies and governments are very interested in this technology as well.

Looking at the cost of electricity generation, right now fossil fuels remain by far the cheapest. Nuclear power and capture and storage (hydrogen power) are about 30 percent more expensive than those. Onshore wind is competitive at the best sites. Everything else is significantly more expensive in terms of producing electrical power. So if you look at how much it costs to save a ton of carbon dioxide emissions, what you discover is that onshore wind, capture and storage, and nuclear are by far the cheapest methods. Transportation options are factors of three to five more expensive per ton of carbon dioxide saved. That is alright, though, because in fact only 20 percent of the world's carbon dioxide emissions comes from transportation. Eighty percent comes from stationary sources.

The potential for demand-side reduction is significant. A big target is building efficiency. Fifty percent of the world's energy is consumed in buildings, and learning how to make them more efficient seems to be an eminently sensible thing to do.

Finally, let me describe my own vision of the probable 30-year energy future. Hydrocarbons will continue to dominate transportation—the energy density and convenience of liquid hydrocarbons is very hard to beat. A succession of conventional crudes, heavy oils, biofuels (which I believe have a lot of potential), and coal- and gas-to-liquids should give us continuity of supply at reasonable cost if we have the foresight to invest in the infrastructure. Vehicle efficiency can be doubled with various technologies. Hydrogen in vehicles, much discussed in the United States and elsewhere, is in my opinion—and in that of many knowledgeable persons in the industry—a long way off if it is there at all, and there remain serious problems about how the hydrogen will be produced in an economic and environmentally responsible manner that also enhances energy security. And for power, the best options will be gas for cleanliness and nuclear for security. Coal will be a decreasing fraction of supply if carbon dioxide is to be addressed. Renewables will find niche applications but will not be a material fraction of the total. Demand will be reduced only when it is economically effective or mandated by policy, and carbon dioxide emissions are going to keep going up unless the world does something dramatic.

Steven Koonin is chief scientist for BP, the world's second largest independent oil company.

NAOKI TANAKA

I will begin by offering a brief summary of the trends in energy-related data from the viewpoint of Japan. The first trend we see is a rapid increase in the Chinese demand for oil, which has already surpassed that of Japan. A second clear trend is that, while Japan's demand for oil follows a seasonal cycle, the growth trend is very large in the case of China, making seasonal cycles hard to distinguish. That means a very radical change in imports. Around 2008, the year that Olympic Games will be held in Beijing, Chinese oil imports will surpass domestic production. And around 2010, the year that the World Expo will be held in Shanghai, Chinese oil imports will surpass those of Japan. So the regional context is changing very rapidly.

Another important trend is related to the emission of carbon dioxide. India is now catching up to Japan, and Chinese emissions are more than three times greater than those of Japan. The U.S. emissions are more than four times those of Japan. But, the United States, China, and India all refused to commit to the Kyoto Protocol, and that is a problem.

Looking at the fluctuation of oil prices, there was a decrease in Iraqi oil production of only 500,000 barrels per day after the Iraq War. But this had a big effect on prices because it coincided with increased demand from China and India, as well as the start of the economic recovery in the developed countries. That led to huge fluctuations in prices.

Now we are focusing on the Iranian situation and their plans for full-scale uranium enrichment, which may lead to economic sanctions. Oil production in Iran is more than twofold that of Iraq. If economic sanctions are carried out against Iran, the oil situation will further deteriorate.

Finally, I want to note Japans efforts to control inflationary expectations. Of course oil prices have been very high, but in other areas our government and central bank have controlled inflation.

Based on these various trends, I would like to focus on three points. The first point is about differentiating between the Chinese oil and energy situation and the viewpoint of Japan. In connection with the economic growth in China, there has been a great deal of wasteful use of energy. Chinas investment as a portion of GDP is around 40 percent, and when you visit Chinese cities, you will see a lot of commercial buildings that are empty. They cannot find tenants. Huge investments are being made in rural areas of China as well, and there have been many efforts to attract Western investment in factories. But these efforts have not been successful in most cases. So a huge demand for energy is now coming from China. Because of that, neighboring countries like Japan have to be differentiated from China.

Some people say joint projects should be undertaken to develop oil supplies. However, the current data show that Japans oil demand is not going to increase. Our demand for oil is leveling off. As you know, our economic recovery started in 2003, but oil consumption is leveling off because of efforts by Japanese businesses to streamline the supply side and because our government committed to the Kyoto Protocol. So, we should see a reduction in oil consumption from current levels. The Kyoto Protocol commitment entails an almost 15 percent reduction in carbon dioxide emissions, and through streamlining and R&D activities, Japanese industry should be able to stay within the protocol ceiling.

The second point involves the environment. We are now committing resources to this area, which is closely related to our search for greater

energy independence. Our efforts to become less dependent on oil are very important. We hope to be able to contribute to the improvement of environmental problems.

The third point is related to the characteristics of the Japanese economy. We are now starting to see the post-industrial characteristics of the economy that have resulted from deep industrialization. We have experienced a deflationary process and, even though the price of petroleum products has increased 30 percent over the previous year, the price of motor vehicles and electrical machinery and equipment—the frontrunners of Japanese industry—have shown a very different trend. The increase in motor vehicle prices was almost zero over the previous year, and electrical machinery and equipment fell. The automobile and electronics industries have made impressive innovations and they are now leaders in the world industry. The Japanese economy recovered thanks to their efforts, but prices have remained under control.

Now, the U.S. economy is relying a great deal on the outside world. In terms of labor-intensive goods, a lot of imports are going from China into the U.S. market. Meanwhile, in terms of high value-added industrial goods, Japan has been keeping prices down through R&D and by streamlining business activities. So, in order to understand the future course of inflationary expectations, we should focus on Japan's process of deep industrialization. Many economists and analysts are paying a lot of attention to the industrial innovation process in Japan and, if there continues to be considerable industrial innovation, inflationary expectation will be controlled.

One of Japan's leading economic commentators, Naoki Tanaka is president of the 21st Century Public Policy Institute.

STEFANO SILVESTRI

When we first began speaking of energy security, when we set up the International Energy Agency, the main problem was the disruption of supply because of the risk of oil embargoes. Today, though, the problem is probably more complex and growing. We are looking at a complex set

of factors that are affecting the entire energy supply chain, including of course production, but also transport and transformation. These can all be threatened by natural or manmade events. And while supply levels might be maintained, there will apparently be fewer countries involved in the growth of the supply. The diminished number of producers might itself create a security problem in the longer term. But nonetheless, the situation is becoming more fragile in the short term because increasing consumption and the absence of diversification policies has created a diminished element of flexibility. So there is less spare capacity to compensate for unforeseen events or crises.

Of course, there are some nightmare scenarios, although they do not seem likely. One such scenario is the collapse of Saudi Arabia. There could be an escalating confrontation between the Sunnis and Shiites, an effective terrorist campaign conducted by the Saudi "veterans" returning from Iraq, or divisions within the Saud family. This scenario, however, is generally considered unlikely, mainly because Saudi Arabia now runs—thanks to the high price of oil—a very comfortable surplus. It is estimated at more than US\$30 billion for the current year, and there is no debt. Moreover, there has been a recent increase in per capita income, which had declined from US\$20,000 per capita at the beginning of the early 1980s to about us\$6,000 by the end of the 1990s. It has started climbing again, rising to about US\$13,000. So the expectations of the Saudis may be that the situation is going to improve, not worsen. There will, however, still be some disaffected parts of the population, especially among the Bedouins, who may be more attracted by the jihadist, Wahhabi, or Al-Qaeda positions.

Another nightmare scenario would be an Iran crisis, which could escalate into economic sanctions, embargoes, a blockade, increased violence in Iraq and Saudi Arabia, attacks on oil facilities and tankers, and possibly a regional war. In that case, of course, not only would there be problems in terms of supply, but suddenly the price of oil would increase to more than us\$100 per barrel—the objective set by Osama bin Laden in one of his messages.

One does not have to go to these more unlikely extremes, however, to have energy insecurity. There are other questions that should be considered, including the various segments of the energy supply that have been threatened in the recent past. Natural events such as Hurricane Katrina shut down the electric grid and effectively shut down most of the refinery capacity in the United States, thus creating a shortage. Attacks have been conducted, for instance by Al-Qaeda in Saudi Arabia or against pipelines. Even years ago, this was occurring in Algeria with differing degrees of effectiveness,

but it had the cumulative effect of diminishing supply. Political crises in Nigeria, Venezuela, and elsewhere have also had the same effect.

Pipelines are vulnerable. They can also be used as a tool of influence by the exporter, as well as by the importer or the transit country depending on the situation. Sea lines of communication have choke points, of course, and vulnerabilities include the security of terminals, which seems to be a bit undervalued presently and should probably be heightened. Normally, the most effective way to protect such a complex system is through redundancy. But, of course, redundancy is what we are lacking today because of its high cost and because of the greater rigidity of the relationship between supply, demand, and consumption.

Politically speaking, what are the possible scenarios that should be considered in terms of the future of energy security? I would raise three potential approaches for discussion, which are very theoretical but might help us to define the range of options.

The first is market fragmentation. Market fragmentation would require more than a mercantilist approach of bilateral agreements between consumer and producer, or generalized attempts by individual nations to guarantee energy security through preferential deals—"unholy" exchanges involving military technologies for energy supplies and so on, which have happened in the past and could happen on a larger scale in the future. To succeed, this must entail a pervasive attempt to protect critical infrastructures and strategic lines of communications from disruptions. It requires that there be no regime change that will threaten the countries' bilateral relations. Such a strategy would be very expensive and at the same time vulnerable, and it may multiply the need for military interventions overseas.

A second option, the opposite, would be greater market integration. This would require setting up global, institutionalized markets—a kind of WTO for oil and energy. The starting point would be the existing Energy Charter of 1991, and the aim would be to increase energy security by recognizing and protecting the vital interests of all of its members, increasing redundancy, managing conflicts, and sharing a joint approach to the physical security of the infrastructure and transportation.

A third option is an intermediate approach, falling between these two, which would entail a number of large regional agreements. Some are more possible than others. I can imagine, for instance, a regional agreement among the American countries, producers, and consumers. It is, however, much more difficult to imagine a regional agreement among Mediterranean countries, or between the European Union and the Gulf countries. It is more likely—despite the many political difficulties—to imagine an agreement

between the European Union and Russia. This would involve preferential agreements based on an increase in infrastructure for transportation, for transformation, etcetera, in which there would be a shared interest to try to increase respective security.

These three approaches, of course, all have weaknesses and all create problems. The first option, fragmentation, is very fragile, not only because it creates a general element of confrontation among all the countries, but also because it creates a need to protect infrastructure, which may become very difficult to achieve on a national basis. The global approach is certainly the most stable in its result, but is very difficult to achieve. Also, it might create the need to police security on a global scale, which may create opposition and raise accusations of imperialism or that the rich are working against the poor. The third option, the regional approach, is also very risky because it may create different patterns of solidarity that are completely contrary to the kind of agreements and alliances existing today. For instance, one can imagine the political effect of a strong agreement between Europe and Russia on this basis.

In conclusion, in order to avoid the negative effects on global governance and on the present international system, alliances, and relationships, the best approach is the attempt to build up, even if slowly, a global governance system for energy. This could start with a gradual increase in the competencies of the International Energy Agency, giving it the task of looking at the security of the entire energy supply chain. And it would start with an examination of the best ways to cope with these issues in a multilateral fashion.

Stefano Silvestri is president of the Institute for International Affairs in Rome and a commentator for Il Sole 24 Ore.

Summary of Discussion

Seemingly convinced that high energy prices are here to stay, conference participants debated the dual challenges of energy scarcity and the long-term environmental damage stemming from energy use. The linkages between energy access and national security were at the forefront of

discussants' minds, and several cited how China, India, and other countries are increasingly modifying their diplomatic approaches in order to diversify and safeguard their energy sources. China, for example, has moved closer to Russia; it has increasingly provided support for despotic governments in Africa and Asia as part of its quest to secure energy access; and some participants suggested it is likely to face stronger pressures to expand its naval capacity so that it can depend less on the U.S. military to safeguard vital oil shipping routes. At the same time, in China, concerns about energy access seem to be fueling a greater desire for energy cooperation with the United States and other countries. Similar tensions are shaping geopolitical considerations for policymakers around the world, as energy security has been thrust to the top of the international agenda.

The diverse group of participants seemed to share a sense that climate change as a result of energy consumption is one of the greatest long-term challenges facing the human race, and this gave a new urgency to the discussion of the tradeoffs between energy security and environmental protection. While stressing the long-term necessity of stemming climate change, several participants remarked that it is already becoming clear that security concerns and national interest, particularly on the part of rapidly growing countries such as China and India, are liable to trump environmental considerations. The G-8 countries, noted one participant, may already be on the verge of accepting the domestic costs of stabilizing carbon emissions, but the dilemma that faces the world lies in finding the political will to underwrite the costs of doing so for the Chinas and Indias of the world, which cannot afford to stem their own increasing emissions. This was tied to a degree of pessimism on the part of some participants about the prospects of heading off climate change and a sense that greater attention now needs to be paid to adaptation techniques, such as gradually relocating low-lying cities, building seawalls, and using innovative construction methods such as painting roofs white in urban areas.

A general consensus seemed to take shape around the pressing need for greater international cooperation on the political, economic, and environmental aspects of energy and environmental issues. First, energy production needs to be increased, especially as consumption rises in the developing world, and numerous participants argued that, in addition to various industry incentives for oil production, there is a need to diversify energy sources, for example investing more in safer nuclear power. Alternative fuels, especially biofuels, received special attention as a very promising area, albeit only over the long term, and numerous participants pointed to the Brazil's promotion of sugar cane ethanol as one model case.

Second, considerable focus was also placed on energy lines and networks. Several participants who focus on security issues noted that there is much room for cooperation in protecting oil shipping routes and pipelines, and others concerned with energy efficiency pointed to the plentiful opportunities to improve energy storage and transmission.

According to various participants, a third key area of cooperation involves improving the efficiency and cleanliness of energy production. In many instances, technology to produce cleaner energy already exists, but it is still not being deployed. For example, there have been significant advances in technology related to the sequestration of carbon dioxide from power plant emissions, but nobody has yet built a large-scale plant that completely sequesters it. Infrastructure tends to take so long to go online and to have such a long life span, that it is critical to incorporate advanced sequestration technology into power plants in rapidly growing countries such as China and India over the next 20-25 years in order to have any chance of impacting atmospheric carbon dioxide levels. And at the same time, international cooperation is needed in order to make this economically feasible.

International Trade and the Doha Round after Hong Kong

As the WTO's Doha Round teetered on the brink of collapse, three leading figures from Europe, Pacific Asia, and North America offered their prescriptions for the global trading system. Paul Volcker, former chairman of the U.S. Federal Reserve, argued that the 'globalization fatigue' that has become evident around the world had made it important in the short term to focus first on consolidating rather than advancing progress on free trade. Peter Sutherland, the first director of the WTO, stressed the need to continue momentum toward free trade in the face of recent setbacks. Meanwhile, former Thai Commerce Minister Narongchai Akrasanee urged developed countries to return to WTO negotiations after a brief respite in order to resume multilateral efforts to liberalize trade. Their presentations are summarized below.

PAUL A. VOLCKER

My views of the Doha Round reflect my own prejudices as a man largely of the financial world who grew up at a time when the vision of the Bretton Woods system was first being promoted, and with it openness and multipolarity. That world vision was epitomized by the IMF and the World Bank. The GATT did not quite make it to Bretton Woods and it was always kind of a lesser "stepsister." It did not have the big, marble building in Washington nor a sizable staff, and it was not clear what it did. It had something to do with free trade, but it always involved a lot of haggling and was crippled by particular business or political interests arguing with each other. Central banks do not have to worry about that kind of thing.

As I began learning about Doha, I was struck by its mind-boggling complexity. Despite my prejudices, I believe that trade negotiations have been the great, dramatic area of success over the last 50 years. In relative terms, we have ended up in 2006 with open markets and we have a long record of increased trade supporting economic growth. There may have

been other factors, but it is certain that the success of the GATT, of trade negotiations, and now potentially of the WTO, has contributed enormously to today's globalized world.

Globalization is here and that is one of the reasons that Doha is in trouble. It is, in a sense, a victim of past successes. Trade is in fact booming. The gains that we are looking for now are important in the agricultural area, but agriculture only accounts for about 10 percent of trade. The further potential gains from trade are no doubt sizable, but those gains would be spread very widely, and the pain would be rather selective and concentrated. It is hard to get excited about incremental gains for the already affluent average American consumers when there are other people who feel strongly that they would be adversely affected by trade liberalization.

And more importantly, there is a certain feeling of globalization fatigue. Globalization is a good thing, but the general public recognizes the difficulties as well. There are other priorities that people worry about more than trade at the moment—economic imbalances, current account deficits and surpluses, and the need for potential exchange rate adjustments. There are security concerns that are easily aroused, as the Dubai Ports World incident demonstrated. There are environmental problems. There is the rise of Asia. There are uncertainties in Latin America. These worries have to some extent depressed the priority given to trade negotiations.

What is at stake in this particular area of economic policy? As I understand it, Doha was slow to get started. After 9/11, however, it was thought that Doha would provide an environment for assisting economic development and for assisting poor and emerging countries that believed they were adversely affected by existing trading arrangements, particularly in the agricultural area. The development agenda that emerged was to concentrate on agriculture, but there had to be some balance as well. Emerging countries were expected to do something in return about industrial access and service access. That was the initial conception. It was a grand bargain. It appears, however, barring a miracle, that the grand bargain has been lost.

So, what do we do? What can be retained? There is a theory that I hear from my trade policy friends all the time that we are on a "trade bicycle," and that if we do not keep on that bicycle, churning away and pumping away with new trade breakthroughs every few years, we will fall off the bicycle. I keep telling them that there comes a time, if you have been peddling hard enough and long enough, that you can stop peddling for a while to put the bike on a rack and make sure the tires are OK. As an outsider looking at this situation, I wonder whether there might be a way in the time remaining—presumably by the middle of next year, when American

congressional authority expires for so-called "fast track"—to come up with some smaller, but nonetheless important, agreements. For example, current tariffs are often much lower than required by international agreement. It ought to be possible to bring the legal tariff restrictions down to where current practice is, which would then prevent the backsliding that some people are concerned about.

Some people, myself included, have expressed concern about the great proliferation of bilateral and regional trading arrangements. When the Bretton Woods agreement and the GATT were introduced, the basic principle was multilateral agreements; selective agreements were bad. But somehow we have turned 180 degrees and now selective agreements are somehow becoming good and the multilateral bad. If nothing else is achieved in the Doha negotiations, I would hope that there is some recognition that we do not want more selective bilateral and regional arrangements. If the rules need to be stiffened in this area, why not stiffen them?

Finally, maybe less realistically, there are some areas of egregious restrictions that should be addressed. I will take up the problems of the United States, although the United States is certainly not the only culprit: anti-dumping regulations, sugar quotas, rules for safeguards, and dispute settlement arrangements all need to be addressed. They may not be central issues, and they may not be as dramatic as eliminating all agricultural protection, but nonetheless they are very important.

The difficulties at Doha seem to be part and parcel of a much larger problem. The enthusiasm for multilateral cooperation and institutions has clearly been waning. There are questions about the role of the IMF. No one needs to borrow these days, and people try to avoid borrowing from the IMF. It is an institution with expertise and a building, but less activity and function. The World Bank used to lend to a lot of middle-income countries, but for infrastructure those countries can borrow on their own. Moreover, although not in its original mandate, the World Bank has rightfully become concerned about corruption and it may face increasing difficulty finding borrowers who are not corrupt.

I think the WTO is in some sense reaching its limits. We have so much trade already, how much further can you go? The suggestions I have made are in the area of good housekeeping. That is important, and there is a lot to be done in that area. Essentially, however, we have come a long way, and I believe we could easily pause for a deep breath and retain what we have. That itself would be a considerable accomplishment. I am reminded that even Lance Armstrong once in a while has to take a rest.

Paul Volcker served as chairman of the Board of Governors of the U.S. Federal Reserve System from 1979 to 1987 and is honorary North American chairman of the Trilateral Commission.

PETER D. SUTHERLAND

The Doha Development Round, as it is now called, was launched at the wrong time, with the wrong agenda, and for the wrong reasons. The circumstances under which it was launched were that Leon Brittan had very little to do after the Uruguay Round was over, and he announced that there was going to be a Millennium Round. His own member-states in the European Union were taken a bit by surprise, the United States said it was a bad idea, and the developing world was completely against it. That is the historic truth. Why did he do it? I think probably to obscure the ongoing agenda inside the Uruguay Round, which would have required agricultural liberalization under that round without any new round. Everything was loaded into it, including the so-called "Singapore issues" of competition policy, investment, transparency in government procurement, and so on. They have all been dropped since then, however, and we are more or less back to where we started.

The developing countries ultimately said that they would do it, but that they really wanted a development round. That was a singularly bad idea, because it gave the impression that this was going to be one-way traffic—basically, further liberalization by the industrialized world would be delivered, and there would be nothing delivered or expected from the developing world. That was never doable because if you do not have a balance, you are not going to get the domestic constituency to move forward; whether it is the agricultural policy of the United States or of the EU, the same thing applies. Nonetheless, it became the Doha Development Round. There were—and have been for a long time—legitimate complaints in the developing world about a range of issues, textiles and agriculture being just two. But that does not take away from the fact that there has to be a balance in the negotiations.

Before I start heaping odium on the developed countries, it should also be noted that indeed some of the developing countries of the world are

among the most protectionist countries imaginable, and it has done them immense damage. India and Brazil are two examples of countries that carry a significant degree of culpability for the problems that we are in now because we need concessions not merely from the developed, but from the developing countries too. These two huge countries together account for just 1.7 percent of world imports and for just 1.9 percent of the exports, which shows how open their borders are.

And then there is China, which negotiated its way—with great difficulty both for them and for those who negotiated with them—into the WTO. They feel that they have given everything they are going to give, so they are pretending that they do not exist during this negotiation. In my view, that is a dangerous stance because if this round fails, the consequences are extremely serious for developing countries in particular. We have a wave of protectionism in Europe and the United States. We have seen the ports issue in the United States. We have had cross-border mergers being blocked in Europe. We had the French referendum on the EU, which was not so much a vote on Europe as it was a vote against China, a vote against enlargement, a vote against globalization. It put the fear of God into European politicians everywhere because they saw this as a rejection of the threat of globalization. There is a fear of delocalization. Everyone is getting used to the phenomenon that we are all being told about—the rise of China and India. To my mind, unmitigated good comes from this, but one can understand that it creates uncertainties in the world around us.

What will happen if this round fails? I believe it would very seriously undermine the credibility of the most important institution that has been founded globally since the inspired period of institution building immediately after the Second World War. It would perhaps undermine the dispute settlement mechanism, which is the first working international adjudication mechanism that we have had in almost any context.

The failure of the round would proliferate what Jagdish Bhagwati christened the "spaghetti bowl" of bilateral agreements. What is the effect of the spaghetti bowl? First of all, small and medium-sized enterprises—the types of entities we should be stimulating, particularly in the developing world—cannot handle it because it means they face different rules with every country they deal with: different rules of origin, different tariffs, and different rates. It creates preferences, which then leads to a situation where the country that has the preference will object to greater liberalization on a global basis because it will reduce their preference. So the more preferences you give, the bigger the vetoes you are creating against future trade liberalization. The banana producer in Jamaica does not

want liberalization of agricultural markets in regard to bananas into the EU because they have privileged access as it is. The same can be said in a number of other areas.

The WTO, therefore, would become weakened and perhaps damaged to an extent that would make it difficult to function as an umbrella for the kind of interdependence that the Trilateral Commission fundamentally stands for. That is the risk of the absence of success here. It would be very difficult for developing countries, while the developed economies would have a greater impetus towards protectionism and less of a bulwark against that protectionism.

What will happen with the integration of China? One of the great consolations we have in this exciting period of growth in China is that there is a rule-based system that they have used to transform their own economy. Everything that has happened in the Chinese economy domestically has been driven by the statement, 'We are obliged to do this under the WTO.' If we take that rule-based system and knock it around, we have a real danger.

The failure of the round will create very serious divisions. Bilateral agreements ultimately distort global trade and investment. They create confusion for companies, and particularly for smaller companies. And they create an environment that is against the sort of "one world" that we thought we had in the immediate aftermath of the collapse of the Iron Curtain. We had a brief moment of glory, and when we finished the Uruguay Round, in part that was why. There was euphoria about the fact that we could now at last recognize that one world existed and the world economy and the basic principles of the market economy were being accepted everywhere.

What, finally, are the realities of where we now stand? I went to a meeting behind closed doors in Davos where amongst those attending were former U.S. Trade Representative Robert Portman, EU Trade Commissioner Peter Mandelson, and Foreign Minister Celso Amorim. Mandelson made the comment, "We all know how we could settle this round. Everyone of us here could write down on an envelope exactly what is required to settle this agreement."

I am not going to go into the detail of it, but I think I could write it out on the back of an envelope pretty well. The problem is that it may not be politically deliverable. We have not got any momentum going for this, and the price as far as vital constituencies are concerned is impossible. If you take the common agricultural policy of the EU, for example, there may be enough there for a possible settlement, but probably not enough to satisfy the other constituencies—the U.S. exporting interests, for example, or those

in other parts of the world. Europe has just gone through an enlargement, and the total subsidies in the EU—which I am not justifying—are €105 billion. I do not think it is possible to unravel that just after enlargement.

In conclusion, we are a long way from the type of conditions that might give us any real possibility of settling by May 2007, in time to get the fast-track extension that is really driving the deadline on this matter. It is increasingly difficult, for a whole range of reasons, to imagine everything coming together. We have not got the groundwork done to deliver the agreement.

What do we do? I simply think we have to keep the show on the road. Do not declare failure. Secondly, if we do not have the prospect of getting the big package, let us at least try for "Doha Lite." I do not think that is deliverable either, because if the concessions are not sufficient, they are not going to provide the basis either for the developing countries or for the United States, in particular, to bring the thing to an end.

This is not an optimistic scenario. It is a very important subject, however, with very serious consequences. We must be very careful that our apocalyptic visions are not converted into reality. So at all costs, keep the show on the road.

The European chairman of the Trilateral Commission, Peter Sutherland is the founding director general of the World Trade Organization. He currently serves as chairman of BP plc and as chairman of Goldman Sachs International.

NARONGCHAI AKRASANEE

My views of the Doha Round can be summarized as follows. The Doha Round is dead. Long live the Doha Round.

Let me elaborate why I say this. My assessment is that Doha Development Round is unlikely to have the kind of conclusion that was envisioned from the beginning—the "Doha single undertaking." In fact, East Asia does not mind this conclusion.

Why do I say this? And why do I say that this Doha Round is dead and long live Doha Round? There are two basic reasons. The first is that East Asia has not taken the Doha Development Agenda seriously. Second, the

United States and EU have not taken it seriously. Both share blame for the lack of success of the round.

With regard to East Asia's position, let me give you a real example. I have been trade policy advisor to the Thaksin government for the last four or five years, and for the last four years we have had no meetings on the WTO or Doha at all, not even one single meeting. I think this is typical of all Southeast Asian countries. Neither did we have any seminars or conferences on the Doha Round or WTO. Nobody paid attention to it at all in East Asia.

Why is East Asia not interested? Because the current trade regime is fine for us. We are enjoying robust growth in production, in trade, in everything. If you look at the statistics of the last several years' performance in East Asia, you will see that we are doing very well under the present regime. The lower tariff rates of manufactured goods in the United States and EU are very good for us. Agricultural subsidies in the United States and EU are also very good for us, as are limited access for services in East Asia and the high border protection for East Asian business practices. These are all issues to be negotiated under Doha, so why should we bother to negotiate? The current situation is already good for us. And when we talk about agricultural protection and so on, I must confess that East Asia is a sinner. We may be small sinners or big sinners, but we are all sinners.

Turning to the EU and the United States, it seems the EU is now much more interested in expanding from 15 to 25, while the United States is much more interested in free trade agreements with selected countries. Why are the United States and EU not serious about Doha? I think that from their perspective, the issues included in the Doha Round are not the relevant ones. There is too little on services, and too little on intellectual property rights. And in terms of the method, they have no control anymore over the WTO.

I remember when I went to the first WTO ministerial meeting in Singapore in 1996, we were negotiating some issue very seriously, but then suddenly Leon Brittan and Charlene Barshefsky left the room with the representatives from India and Brazil. Brittan and Barshefsky were massaging those representatives to get them to agree to their terms. Once they had agreed, they all returned and announced their agreement. We just had to follow. That is no longer true. I was told that on the last day at Doha, when they negotiated the agenda, the debate on the inclusion of antidumping went on until almost morning for only one reason: the Indian negotiator, Minister Nath, would not agree until antidumping was included. Bob Zoellick was so sleepy at the end that he agreed just to finish it off.

I have also been observing the situation in the United States during my discussions with U.S. negotiators over the past years on free trade and regional trade agreements. Just a few weeks ago, Rob Portman was removed from his position. If you remove a commander of an army during a battle and the battle is about to be concluded in a week, it means that you are giving up the battle already. Susan Schwab has been appointed to replace him, but she is not going to be the kind of commander that would win this so-called battle. Accordingly, I believe that neither the EU nor the United States are serious, and if they are not serious, it is very likely that we will not have an agreement. Again, East Asia will not mind that at all.

I believe that for the last few years, people have been trying to do things outside the WTO. The WTO is getting less priority and becoming more irrelevant among many countries. That becomes obvious if you look at the last director-general of the WTO, Dr. Supachai Panitchpakdi. He went on from the WTO to UNCTAD. How could you be more irrelevant than that?

On the positive side, I have been involved with FTAs for the last four years, and I can tell you that FTAs are not the solution. The United States will not get what they want through FTA negotiations because what interests the United States most is trade in services and intellectual property rights. We have been negotiating with the United States for the last two years. Our Prime Minister Thaksin, the strongest prime minister in the world, told me to conclude an agreement. But I could not do so because the ways in which our countries operate are polar opposite in services and intellectual property rights. On services, we work on a positive list; the United States wants negative list. We work on discretionary supervision; the United States wants an automatic system for getting permission. We work on pre-approval; the United States works on post-audit. It is not possible to agree.

There was a huge demonstration in Chiang Mai when the U.S. delegation was there to negotiate on intellectual property rights. We are drug consumers; the United States has drug innovators. How could the two interests be similar? And in terms of animals and plants and so on, we have biodiversity; the United States has biocreativity. They want protection under the World Intellectual Property Organization; we want protection under the Convention on Biological Diversity. You see, we have a lot of plants and animals, but we do not know what to do with them. The United States does not have that many plants and animals, but they know what to do with them. How can you agree on this sort of this thing? In the end, we could not conclude an agreement with the United States. I am sure they will not be able to conclude agreements with Korea or Malaysia either.

In the end, I think developed countries will find that their best option is to rely upon the WTO system. I hope that the Doha negotiators will be able to agree on a little bit lower degree of undertaking than the "single undertaking" and then let the issue die down for one or two more years. I believe that then they will definitely turn back to the WTO for the kind of future liberalization that all of these countries want to have.

Narongchai Akrasanee is director and chairman of the Board of Executive Directors of the Export Import Bank of Thailand. He has served in various public and private capacities, including as minister of commerce and as a member of the Thai Senate.

The New Challenges of Nuclear Proliferation

Amidst growing concern about Iran's nuclear weapons program and with the six-party talks at a standstill, a Trilateral Commission task force was established to examine the erosion of the nuclear nonproliferation regime and what the world's leaders can do to halt and reverse the spread of nuclear weapons. The four task force participants—Graham Allison, Herve de Carmoy, Therese Delpech, and Lee Chung-min—presented their recommendations in a session chaired by former U.S. Secretary of State Henry Kissinger. The full report of the task force was published in September 2006 as Nuclear Proliferation: Risk and Responsibility, and Henry Kissinger's foreword is excerpted below.

There is no greater challenge to the global nuclear order today than the impending proliferation of nuclear weapons and the increasing likelihood that terrorists may conduct a nuclear 9/11, devastating one of the great cities of the world. The papers presented in this report from the Trilateral Commissions 2006 annual meeting in Tokyo offer a comprehensive and insightful overview of this urgent challenge.

During the Cold War, a balance of terror was precariously maintained between the two superpowers. Leaders of both knew that their first imperative was to avoid a nuclear Armageddon, of which both would be the first victim. Even then, the disparity between the vast consequences of a decision to use nuclear weapons on the one hand and any conceivable political outcome that could be achieved on the other hand had a paralyzing effect on decision making. The deliberate choice to use nuclear weapons in a preventive or preemptive manner defied the principles of rational conduct, since it guaranteed casualties among the civilian populations of both superpowers that were beyond comprehension.

If one imagines a world of tens of nations with nuclear weapons and major powers trying to balance their own deterrent equations, plus the

deterrent equations of the subsystems, deterrence calculation would become impossibly complicated. To assume that, in such a world, nuclear catastrophe could be avoided would be unrealistic.

As the world's unmatched military superpower, the United States has a unique role in preventing the spread of nuclear weapons. The Bush administration's National Security Strategy explicitly warns that "there are few greater threats than a terrorist attack with WMD" and that "the greater the threat, the greater is the risk of inaction-and the more compelling the case for taking anticipatory action to defend ourselves, even if uncertainty remains as to the time and place of the enemy's attack."

But a preemptive strategy for using force to deny the spread of nuclear weapons is based on assumptions that cannot be proved when they are made. When the scope for action is greatest, knowledge is at a minimum. When knowledge has been acquired, the scope for preemption has often disappeared.

The tension, therefore, is between preemptive and preventive uses of force. Preemption applies to an adversary possessing a capacity to do great, potentially irreversible, damage, coupled with the demonstrated will to do so imminently. The right to use force unilaterally in such circumstances has been accepted for centuries.

Preventive uses of force are measures to forestall the emergence of a threat not yet imminent, but capable, at some point in the future, of being potentially overwhelming. Preventive force is not an issue applicable to relations with an established major nuclear adversary. First-strike threats against established nuclear powers might, if such powers felt their weapons were very vulnerable, tempt them to make a preemptive strike of their own. A policy of using preventive force against aspiring nuclear powers, however, creates incentives for them to acquire nuclear weapons as rapidly as possible and, if thwarted, to develop chemical or biological weapons-either for their own security or as a safety net for assertive or revolutionary policies.

All major powers have a responsibility to take the challenge of preventing nuclear proliferation seriously. A common approach may be possible because what used to be called the "great powers" have nothing to gain by military conflict with each other. They are all dependent on the global economic system. They should recognize that, after the explosion of just one nuclear bomb in one of their great cities, their publics will demand an extreme form of preventive diplomacy to assure that this can never happen again. Without waiting for such a catastrophe, statesmen should now be building a viable international order that will prevent such nightmares from ever occurring.

As the papers in this report argue persuasively, the entire nonproliferation regime is now at risk. North Korea and Iran threaten to become nuclear weapons states. Osama bin Laden seeks nuclear weapons to realize his stated goal of killing millions of American citizens. At the conclusion of a most productive discussion of the Tokyo meeting, members of the Commission were united in the hope that this report will spur all our governments to greater urgency in combating this grave and growing threat.

Nuclear Proliferation: Risk and Responsibility

Task Force Report #60

Nuclear Proliferation: Risk and Responsibility, the full report of the Trilateral Commission task force on nuclear nonproliferation, was published in September 2006. Information on obtaining the report is available on the Trilateral Commission website at www.trilateral.org.

Report Contents

Foreword (Henry Kissinger)

1. Global Challenges of Nuclear Proliferation (*Graham Allison*)
2. Iran Case Study. Is There a "Plan B" for Iran? (*Herve de Carmoy*)
3. Iran Case Study: Time Is Running Out (*Therese Delpach*)
4. East Asia and Weapons of Mass Destruction in North Korea: Strategic Drivers, Future Paths, and Nonproliferation Dynamics (*Chung Min Lee*) Comment: Challenge of Deterring Nuclear Proliferation (*Pierre Goldschmidt*)

Authors

Graham T. Allison is director of the Belfer Center for Science and International Affairs and the Douglas Dillon Professor of Government at Harvard's John F. Kennedy School of Government.

Herve de Carmoy is chairman of Almatris and European deputy chairman of the Trilateral Commission.

Therese Delpach is director of strategic affairs at the French Atomic Energy Commission and senior research fellow at the *Center for International Studies* (CERI) in Paris.

Pierre Goldschmidt is former deputy director general and head of the Department of Safeguards at the International Atomic Energy Agency.

Henry A. Kissinger is chairman of Kissinger Associates. He was U.S. secretary of state from 1973 to 1977 and assistant to the president for national security affairs from 1969 to 1975.

Chung Min Lee, an expert on East Asia security, is a visiting professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore.

II

WHITHER PACIFIC ASIA?

Economic Reform, Rising Nationalism, and Japan's Changing Role in the World

With an economy finally on the rebound, growing tensions with its Northeast Asian neighbors, and an imminent leadership transition, Japan was the focus of the plenary's leadoff session, which featured assessments of current trends by three Japanese leaders and two non-Japanese commentators. Kakutaro Kitashiro, chair of the Japan Association of Corporate Executives, shared his optimism about Japan's economic prospects; Yoichi Nishimura, a prominent journalist, drew a connection between rising income inequality and the regional emergence of nationalist tendencies; and Yasuhisa Shiozaki, a leading politician and senior vice minister of foreign affairs, described Japan's new sense of confidence and its potential regional and global contributions. Meanwhile, Bill Emmott, former editor of The Economist, explained why Japan's economy has moved from its "exceptional unhealthiness" to the "normal unhealthiness" that characterizes most of the world's advanced economies, and Gerald Curtis, a leading political analyst, underscored how Japan stands on the threshold of a new era. Condensed versions of their presentations and a summary of the discussion session are below.

KAKUTARO KITASHIRO

Japan's economy is clearly back. The sun also rises. From the business perspective, we have very healthy conditions. GDP is growing at a rate of around 3 percent, the exchange rate is favorable for manufacturing, and interest rates are very low.

The often-asked question is whether this is the accomplishment of the Koizumi government. I believe that this is the result of the Koizumi Cabinet's structural reform. The prime minister's five-year policy has had a significant impact on the recovery of business, particularly in wiping out nonperforming loans. As a result, financial institutions are much healthier today. His structural reform policies have been very important, in particular the deregulation of the economy, the shift from government-led sectors to

the private sector, and a particularly important initiative, the decision of the government not to increase public spending to stimulate the economy. In the past, our business community used to ask the government to spend more when the economy was bad. But Prime Minister Koizumi clearly said that, without reform, there will be no economic recovery and no economic growth. That message clearly drove significant changes in the business community, and businesses faced the tough issues of excess employment, excess capacity, and excess debt. With strong economies in China and the United States, these businesses could deliver significant returns, and with lower employment numbers, much stronger balance sheets, and much healthier capacity, there is a strong recovery. So, I give significant credit to the Koizumi Cabinet for the recovery of the Japanese economy.

The question is whether this recovery or this healthy economy is sustainable. In the short term, I am optimistic. There are a lot of risks: the risk of higher oil and resource prices, the sustainability of the U.S. economy, exchange rate stability, and rising interest rates. But all in all, considering the risks, I think it may well continue to grow in the short term.

The biggest risk for business today involves the successor of Prime Minister Koizumi. Koizumi clearly stated his policies in the form of a manifesto, such as privatization, no additional public spending for economic growth, and improving the fiscal situation of the government. He made a commitment to the people that he would follow these policies. But his successor will not have that political capacity because he has not publicly stated his policy and will have just succeeded the Koizumi government.

Mid- to long term, Japan has many issues. In addition to the issues that all nations have, such as the environment, energy, and the proliferation of nuclear weapons, Japan has its own difficulties. The biggest risk is the fiscal situation. As you know, the debt of our central and local governments is more than 150 percent of GDP—the highest amount among developed countries—and it is not clear whether this is sustainable. The government is taking actions to reduce fiscal deficits and, by 2011, it is hoping that the primary balance will be positive. We need to reduce government spending, particularly in the areas of social security, welfare, medical care, and elderly care, and it may be necessary to increase taxes.

The second difficulty we have is the declining population. The birth rate is less than 1.3 children per woman and it is declining. If the statistics are right, in 100 years, Japan's population will be half of what it is today. This alone may not be a major issue, but a steep, significant decline in the short term coupled with the huge government deficit is a concern. With a falling population, we need to significantly increase productivity to drive

GDP growth so that the government's fiscal situation can be maintained. And obviously, an aging population is a burden for the social welfare and elderly care systems.

Another area of concern is the vitality of the Japanese economy. People are discussing the gap between the haves and have-nots and whether structural reforms have caused this disparity. We need to continue to work on structural reform so that we can be more competitive, but the backlash from the have-nots may cause structural reform to stall. Education plays the most important role in addressing this disparity. If people have an equal opportunity to obtain quality education, the children of those who have not may be able to learn. But the education system has a lot of problems in terms of the quality at both the K-12 and university levels.

Turning briefly to international relations, in the late 1990s, about one-third of our exports went to Asia, but today about half do so. In the past we had a huge dependence on exports to the United States and Europe, but today our exports depend on Asia, including China. And maintaining good relations, particularly political relations with China, Korea, and South Asia, is a major issue. Our businesses are diversifying their investments so that we will not just rely on investment in China, but still relations with China, Korea, and other Asian countries are a major issue we need to address.

In the long term, I am cautiously optimistic that, once we recognize all of these issues, the Japanese people will take action. We are somewhat slow to recognize problems, but once we do, I am sure that we will take significant steps to improve the situation.

Kakutaro Kitashiro is chairman of the board of IBM Japan as well as chairman of the prominent business organization Keizai Doyukai (Japan Association of Corporate Executives).

YOICHI NISHIMURA

In Tokyo, predictions about the successor to Prime Minister Koizumi and the implications for domestic politics and diplomacy have begun to dominate the political agenda. I would like to talk about two big political issues today. The first is the widening gap between the haves and the have-nots,

or the disintegration of the middle class. And secondly, I would like to talk about Japan-China and Japan-ROK relations, in other words, Japan's Asian diplomacy. Both are related to the topic of nationalism. If you go to bookstores in Tokyo, you can easily find the two bestsellers, which epitomize my point. One is entitled *Lower Class Society*, and the second is *Ken Kanryu*, which can be translated as "Hating the Korean Wave."

When I was a correspondent in Moscow, I heard that an aide to Mr. Gorbachev once said, "The Japanese economy and society is the most successful socialist one in the world." The Liberal Democratic Party (LDP) had been conducting a policy in which liberalism aimed at economic growth was harmonized with socialism in pursuit of egalitarianism. In fact, 70 to 80 percent of the Japanese public considered themselves as middle class.

Today, the poverty rate has nearly doubled, the number of households receiving welfare has reached 1 million, and the number of part-time and temporary workers is going up. Polls show that a significant number of people believe they have dropped out of the middle class. More than 30 books focusing on the widening income disparity between rich and poor have been published and their brisk sales reflect the public's interest in this area.

Of course, we have been witnessing a strong economic recovery as a result of Mr. Koizumi's policy of small government and deregulation. And Japan still has a long way to go before it shows the levels of income disparity found in the United States. But the debate on the widening gap as a dark side of Koizumi's policy reforms is an emerging political issue and a constant topic in parliamentary discussions. Not only the opposition leader, Ichiro Ozawa, but also some of the candidates to succeed Koizumi are pointing this out.

In Japan, the formation of a middle class-focused society happened at a time of steady economic growth and played an important role in stabilizing the nation's democracy. In contrast to Japan, where the disintegration of the middle class is occurring, in China the middle class is expanding—not in the style of 1960s national capitalism, which formed a huge Japanese middle class, but with the process of global neo-liberalist market capitalism, which tends to disintegrate the middle class in many industrially advanced countries. In Japan, Koizumi has been consistent in his commitment to break away from conventional LDP politics, which shaped a gigantic middle class-centered society by distributing the fruits of high economic growth to every corner of the country. But both restructuring and the end of the era of old pork barrel politics are placing a heavy burden on the younger

generation rather than on the baby boomers. The losers may be the younger generation, particularly "permanent temporary workers," who will feel a keen sense of uncertainty. In China, it is also reported that wider gaps are opening up between the haves and the have-nots, which is also changing what was once the world's most equal country to one of the least equal.

This sense of uncertainty among the younger generation at a time of globalization may lead to emotional nationalism in both countries. Voters who no longer feel affiliated with the political system in terms of gaining benefits from politics could become increasingly influenced by emotional nationalism.

If nationalism and the disintegration of the middle class is a potential issue, nationalism and Japan-China and Japan-ROK relations is an urgent issue. We have three disputes with China and South Korea. The first is a dispute over territory, sovereignty, and resources; the second is over history; and the third is over security in the long term.

Politically, the biggest issue is Yasukuni Shrine. The Chinese president, Hu Jintao, set a clear precondition for dialogue between Japanese and Chinese leaders, and this is for Japanese leaders to stop their visits to Yasukuni Shrine, where 14 Japanese war criminals are enshrined. Many political leaders said that a decision not to pay homage at Yasukuni should not be made on the basis of external pressure, and it seems politically impossible for Japanese leaders to appear to have their action dictated by Beijing. Koizumi has described his visits to Yasukuni Shrine as a "matter of the heart" and found it beyond his "understanding" that foreign governments would "try to intervene in a matter of the heart and make Yasukuni into diplomatic issue".

The Yasukuni issue is more damaging to Japanese regional influence than two or three years ago because, due to its growing political and economic clout, China is emerging as a skilled diplomatic player that can use the history card more effectively to marginalize Japan than previously. Many of my friends in the United States and Japan have said that it is almost tragic to see the Japanese political leadership responding to the "rise of China" with such a reactionary emotionalism. It has done great damage to Japans national interests, it has damaged Japans relationship with both China and South Korea, and it may hurt the U.S.-Japan relationship. Certainly China also has serious problems with "history issues." But this situation has decreased Japan's influence in Asia, which may not be in the U.S. interest either, and it has narrowed Japan's policy options toward Asia.

Many politicians and regular people in Japan question China's motives. They think stirring up historical tensions with Japan helps deflect attention

away from China's own internal social problems and that China's criticism of Japan has less to do with historical grievances and far more to do with a desire to stem Japan's influence or marginalize Japan.

Both states are adopting confrontational stances partly because of rising popular involvement in politics and resurgent nationalism. According to polls by the Cabinet Office, in October 2005, 32 percent felt warmly towards China—down from 48 percent in 2001—and 63 percent had cool feelings.

Japan's conservative postwar administrations have maintained a kind of balance between improving Asian relations and returning to old traditions. On the one hand, they advanced reconciliation based on the refutation of and reflection on Japan's prewar conduct. On the other hand, there has been a trend to return to traditional ways that could lead to an affirmation of prewar Japan. The double face of postwar Japanese politics is symbolized by these two contradictory trends. Reconciliation and patriotism have been the specialty of LDP governments. But can the next prime minister maintain this balance?

Some specialists say that, given deepening economic relations, it is possible to avoid a crisis. But now that the political and economic dynamics are changing in Asia, it seems risky to think that deepening economic interdependence will automatically improve difficult relations. It is possible to face unintended conflicts if politically emotional and narrow nationalism rises.

In Beijing and Tokyo, post-Koizumi politics and the implications for Japan-China relations has begun to dominate the political agenda. Former Foreign Minister Tang said, "We no longer expect anything from Koizumi. There is little possibility that our relations will turn for the better while he is in office." Looking ahead, Beijing moved to engage Japan's political leaders, and Prime Minister Wen called for an expansion of economic ties and people-to-people exchanges to build mutual trust and cooperation for "win-win results."

At the same time, many leaders including former Prime Minister Yasuhiro Nakasone, Foreign Minister Taro Aso, and LDP policy chief Hidenao Nakagawa began to point out the necessity of managing and controlling nationalism in East Asia. In this context, what interested me most were Nakagawa's remarks. He said, "Japan's GDP will be overtaken by China's in the 2010s. Are you satisfied with the status of such a low-growth country? If Japan will be a 1 percent growth nation, in the future how can we help Asian nations at a time of financial crisis or a tsunami disaster? We have to have the political will to maintain our status as the world's number

two economic power. There is no precedent in Asia for two big countries to have a strategic partnership based on equality. We want to establish a strategic partnership with China based on equality."

What we see right now may be a struggle between a mature power and a rising power. If nationalism in China is the nationalism of a rising power, the nationalism of Japan can be called nationalism due to a sense of psychological helplessness at a time of shifting power. What Nakagawa meant was that it will be necessary for Japan to convert anti-China emotions into constructive energy to rebuild a strong economy in order to have a strategic partnership with China when it replaces Japan as an economic power.

Generally speaking, growth and new economic dynamism in Asia is resulting in a deepening economic interdependence, but with the byproducts of psychological friction, frustration, and emerging nationalism. The expansion of personal and business communications and the Internet culture has given us extensive, real-time knowledge of important issues, but easy, instantaneous access to detailed information often triggers widespread emotional reactions in each country, making it difficult for the respective leaders to control or contain public opinion. This may cause a spiraling escalation, which impedes easy political solutions.

In China, because of limited political freedom, people target Japan to vent their pent-up feelings. And in Japan, populist trends allow politicians to paint China, an easy emotional target, as the bad guy. As interdependence deepens, there is a built-in mechanism that strengthens short-term friction and confrontation.

This autumn, we will see the LDP's post-Koizumi election, as well as intra-party elections in the opposition party and in Komeito, the coalition partner. Together with widening gaps in our society and Asian diplomacy, the management and control of narrow nationalism will potentially be a big issue in this political season, and this may be a common challenge throughout East Asia.

Yoichi Nishimura is the political editor of the Asahi Shimbun, one of Japan's leading daily newspapers.

YASUHISA SHIOZAKI

Japan now finds itself standing at a new stage. After the difficult reforms during the last decade or so, Japan has finally emerged from the economic crisis and successfully revived its industries. This nation is beginning to regain confidence. Inspired by the rise of China and India, a sound competitive mind in this region is also beginning to arise. At this historical juncture, what is Japan trying to achieve and where are we headed?

Ever since the Meiji Restoration 150 years ago, one of the most important sources of Japan's power has been the diligent nature of its people. In Japanese society, everybody—even the leaders of society—is careful about details and does his or her job by him or herself. This moral standard regarding diligence and self-discipline has enabled Japan to become a model for success. Many developing countries had taken Japan as an icon when they set out on their own paths toward prosperity. Japanese people well recognize the fact that it is not just a handful of entrepreneurs but rather the moral values shared by the common people on the street that serve as the driver for prosperity and democracy. I strongly hope that, based on our essential virtues, Japan will continue to serve as a global model in the 21st century.

We must keep improving our domestic structure of national governance in order for Japan to play a more active role in the international community. Needless to say, these efforts must be made by the next administration as well. Human resources in both the public and private sectors will have to be utilized for diplomatic purposes. While the younger generation now tends to choose careers with some flexibility, many people with tremendous potential still confine themselves within the domestic system, which is evidenced quite typically in the Japanese government. Political commitment is required to enhance the effectiveness of Japan's capabilities in the international arena.

The Japan-U.S. Alliance and International Cooperation

You may then ask what are Japan's specific capabilities? First, the Japan-United States Alliance ensures that Japan has the capability to support stability in Asia. Japan is located as the United States' gateway to Asia. We are determined to keep the Asian Sea a sea of prosperity, safety, and freedom. In addition, Japan-U.S. Alliance cooperation has progressed to cover

global issues like Iraq, Afghanistan, North Korea, and parts of Africa, step by step, careful step by step. I hope this progress will continue.

Second, Japan will start active international cooperation in close collaboration with the United Nations and other players. We must enhance our role in international standard-setting bodies as well as in decision-making processes on global issues; the UN Security Council may be one example of the latter. We hope to be a frontrunner in the world community in the 21st century by committing ourselves to sharing these responsibilities.

A majority in Japan now feels that our constitution should be amended. An increasing number of Japanese look forward to Japan taking on positive roles on the international front. That said, the draft constitution formulated by the Liberal Democratic Party has maintained the current first clause of Article 9, which renounces war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes. I believe that Japan's commitment to peace, which was made after the traumatic experiences of the mid-20th century, will never change in the years to come.

Japan's Relations with Neighboring Countries

In this century, I earnestly hope to see Japan continue to be a model in Asia. Obviously a bright future lies ahead for this region. But unfortunately more people are having concerns about Japan's relations with neighboring countries. One could raise the issue that sovereign nations do not appreciate being guided by others, however well intentioned. And yet, by no means should we allow disputes about the past to negatively impact our future. Amazingly enough, 4 million people a year—more than 10,000 per day—travel between Japan and China and between Japan and Korea. We hope to engage in a future-oriented manner with these countries.

The rise of China and India might offer both dynamism and instability to the world. I believe that a medium- to long-term pursuit of democracy and sound economic growth in both China and India ensures significant opportunities for other Asian countries.

In this context, Japan could serve as an honest broker, paving the way for regional stability and prosperity. Japan is working toward the establishment of an open and transparent East Asian community, with the participation of Australia, New Zealand, and India, among others. I very much hope that the concept of East Asian community receives the positive interest of the United States and Europe, because the concept is one of an open and non-exclusionary Asia.

Japan's Relationship with Europe

As I am chair of the UK-Japan 21st Century Group, I have come to the conclusion that the trilateral nations indeed share common values, and we must work together to address global challenges. In the Iranian nuclear case, all members of the Trilateral Commission, both public and private, must take steps for an effective solution.

On the *economic* front, Japan wishes to maintain its sound and competitive links with Europe by keeping markets open for goods, services, and investment. Since we have much we can learn from each other, we must not take any actions *to* undermine our links by damaging Asia's security balance. We may have to show an accurate picture of the regional security situation to our European counterparts.

The New Japan

In conclusion, a new spirit is now emerging in Japan, although it is still embryonic. Japan will provide a stable power base, which helps to improve the standard of living for people in the global community, though not in an intrusive or noisy way. In the field of human security, Japan has been active in providing support for refugees and community rebuilding. Japan can play an enhanced role in many areas of operations conducted by the UN or by nongovernmental organizations. Japan can also expand its role in global energy conservation. Its energy efficiency now stands at three times that of the United States and 10 times that of China. With advanced technology, we should be able to live comfortably without supply constraints.

Japan has shaped its own history for thousands of years, maintaining our independence and integrity through our unique model and power. In our history, there have been as many failures as successes. We have always been mindful of past errors, but it is time to build a successful future by overcoming the past.

A fourth-term member of the House of Representatives, Yasuhisa Shiozaki, was senior vice minister for foreign affairs at the time of the plenary. He was subsequently appointed chief cabinet secretary by Prime Minister Shinzo Abe.

BILL EMMOTT

Is Japan's economy now healthy or is it still unhealthy? My answer is that it is now healthy in the sense that it is just as unhealthy as every other country in the world. In other words, Japan's economy has moved from a time of exceptional unhealthiness, and now it just has normal unhealthiness like everyone else.

How has this happened? My first observation is about the importance of time in this process. It has taken almost 15 years. The great strength of Japan has been that it is a very stable society, and this provides the opportunity for implicit decisions. I think it was always implicit that Japan should change slowly rather than dramatically. Time really has healed many wounds, particularly the excess production capacity, the excess debt, and the resultant excess labor in many companies.

A second question is whether we should give Prime Minister Koizumi and his administration the credit for bringing this period to an end. My answer is that we should not give the Koizumi administration full credit. Actually, this has been a product of more than 10 years of reforms, and there has been striking continuity in those reforms. Deregulation began in the 1990s and efforts to deal with the banking systems began under the Hashimoto administration. The efforts to cut public spending and the abandonment of the great Keynesian public works *schemes* also began under the Hashimoto *administration*. So there is a lot of continuity.

However, we should give credit to the Koizumi administration for continuing and then reinforcing these reforms—particularly the clean-up of non-performing loans—and for reinforcing the trend toward a more limited state role in the economy by limiting public spending, public works projects, and most importantly the privatization and reform of state financial institutions. These have been big contributions.

The reform that is most important for international audiences to recognize is the labor market reform during the Koizumi administration. This has led to a two-tiered labor market through the creation of temporary contract workers and new opportunities for part-time workers, who now make up 30 percent of the labor force as compared to 17-18 percent around 12 years ago. That has produced a very successful outcome in Japan, namely the restructuring of many companies and the reduction of labor costs that lie behind what is now happening.

Another reform that we should mention is the reform of company law. There has been a fundamental overhaul of the commercial code, which

really took place in the Diet committees more than in the Koizumi administration itself.

So, how optimistic should we be about the future about this now healthily unhealthy economy? I think we can now be quite optimistic about the short term. In the short term, while the economy depends a lot on exports to China, there is also a revival of corporate investment, capital expenditure, and the beginnings of the revival in consumption. It is beginning to be an economy that is supported by domestic demand as well as export demand. And the reason that it is now being supported by consumption is that excess labor is being absorbed, wages are beginning to rise again, and full-time jobs are now being created more rapidly than part-time and temporary jobs.

What about the long term? Productivity is the key thing to look at in terms of the long term. Productivity growth is necessary if the declining labor force is to be overcome and the growth rate of the economy is to be above OECD projections, which are based on recent productivity growth rates and on labor force predictions that suggest a long-term growth rate for the economy of only 1.3 percent a year. If you can increase the productivity growth rate from the 1.7 percent a year that has been recently seen to American-style rates of 3-4 percent a year, then Japan can in fact have rapid economic growth despite the falling labor force. What matters is the continued reduction of the role of the state, which has been responsible for a lot of distortion in the economy. And secondly, there needs to be much better allocation of capital and more competition.

How important will the choice of the next prime minister in September be? The limits are set for future prime ministers in terms of the role of the state by the level of public debt. If the debt-GDP ratio is about 150 percent, there is not much freedom to maneuver in terms of reversing reforms, increasing public spending, or reestablishing a strong role for the state. This means the role of the state is likely to decline.

Allocation of capital really depends more on the reforms of the past than on those of the future. The bubble period of the late 1980s and then the huge Keynesian rescue of the 1990s saw a spectacular misuse of capital. Capital was often put to the least efficient uses, supporting bankrupt companies, building bridges to nowhere, and laying concrete on the bottom of rivers. That was a huge misallocation of capital. The question now is whether capital is going to be used more efficiently in the future. I think with the withdrawal of the state, the reform of company law, and the pressure from the labor shortage, there is a high possibility that capital allocation will be much better.

As a final point, in my view, the new prime minister will matter most in terms of politics, rather than economics, and particularly in terms of the politics of China-Japan relations. We now have a situation we never had before—a confident, strong Japan facing a confident, strong China—and this is what is going to shape the future.

Bill Emmott served as editor of The Economist for thirteen years until March 2006.

GERALD CURTIS

Three eras are simultaneously coming to a close in Japan: the end in September of five years of the Koizumi administration, the end of 15 years of economic stagnation, and the end of 50 years of timidity, or what the Japanese call a low posture on the international political stage. These simultaneous endings raise fundamental questions about the direction Japan will take in the new era that is now beginning.

The past five years have been a period of both political stability and impressive political and economic change. Koizumi has been a prime minister who has behaved like a president. He treated those in his party who opposed his policies as his enemies and went over their heads to secure support directly from the public. His charisma, his willingness to gamble, and his political instincts put him in a political league of his own. None of his possible successors will be able to duplicate his approach. Koizumi succeeded by flouting the rules; his successor will have to play by the rules and work with the party to succeed.

The next prime minister is going to be under great pressure to restore some of the traditional LDP ways of doing things, but he has to do so without giving the impression that the party is simply going backwards. It is going to be very difficult to do. And there is the danger that if his popularity starts to sink, he will resort to populist appeals, especially involving relations with China, to shore up public support.

The LDP is not as strong as it appears. Its recent success is due to the extraordinary popularity and electoral skill of Prime Minister Koizumi. The Democratic Party of Japan (DPJ) is not as weak as it seems. It lost

badly in the last parliamentary election, but its vote total was a little more than it was in the previous election. (It lost because the voting rate went up and the new voters voted for Koizumi's handpicked candidates). If the LDP gets a weak leader and the DPJ a strong one, given the disintegration of the LDP's traditional vote-gathering machine, party politics may become much more competitive than they are now. One should not assume that the political stability of the past five years will characterize the next five years.

Secondly, this is the end of a roughly 15-year period of economic stagnancy. The 1990s are regarded as a lost decade but it was more than that; it was a watershed decade in which values, behavior, assumptions about the future, and institutions changed. Wherever Japan goes in the future, it cannot go back to what it was before the 1990s.

The next government will have to deal with issues that Koizumi did not try to tackle. Koizumi focused on cutting government spending by slashing the public works budget, shrinking the government bureaucracy, and privatizing the postal savings system. The next government is going to have to face the question of what to do about reforms on the revenue side, and especially whether and when to raise the consumption tax.

Moreover, there is the now widespread perception in Japan that inequality is increasing. The situation is not as serious as some people make it out to be. And as the economy improves, inequality will decline. Already there is evidence that companies are increasing the hiring of lifetime employees and reducing the proportion of contract and part-time workers. Nonetheless, in politics perception is reality and the government will be pressed to address the issue of how to strike a balance between equality and competition. It has to do so in the context of a rapidly aging and now shrinking population.

It is a new era requiring new policies and new thinking, especially about education. The quality of public K-12 education in major urban centers has declined precipitously and the inadequacies of university-level education in meeting the needs of a globalized economy are issues of major and growing concern in Japan.

This year can also be seen as marking the end of a 50-year period of Japanese timidity in international politics. Japanese are tired of being told by others how they should manage their economy and society and how they should write their history textbooks and pay respects to those who died fighting for their country in past wars. *Gaiatsu*, the public use of outside pressure, has become counterproductive. The Bush administration deserves credit for recognizing that emphasizing respect and a strategic dialogue

work much better than insults and threats. Unfortunately, China has not gotten this message.

U.S.-Japan relations are excellent; the problems that exist can and will be managed. Military-to-military relations have never been better. American concerns about economic relations are focused on China. And there is now optimism in American business circles about the opportunities presented by Japan's economic recovery and future prospects.

But the relationship faces two major challenges and dangers. One is the danger of concluding that Japan is about to become a normal country. Too many Americans underestimate the continued power of constraints on Japanese military policy. The only proposal for the revision of Article 9 of the constitution that has any hope of being adopted would provide for a quite modest change, recognizing the legitimacy of Japan possessing a military and specifying that it is constitutionally permissible for the military to participate in UN peacekeeping operations. Unrealistic American expectations about Japan's role in regional and global security run the danger of turning into anger that Japan is failing to live up to commitments it in fact has not made.

The second challenge is that posed by China. The United States wants China to act as a responsible stakeholder in the international system. It does not want relations between China and our ally Japan to deteriorate further.

The next prime minister will have to deal with the serious deterioration in Sino-Japanese relations. Resolving the controversy over prime ministerial visits to Yasukuni is not going to necessarily result in better Sino-Japanese relations. Yasukuni is not the fundamental reason for tensions in Sino-Japanese relations. The key problem is that East Asia has never known a time when both Japan and China were great powers and these two countries have not yet figured out whether and how to accommodate such a new reality.

Resolving the Yasukuni issue, however, is a necessary precondition for improving relations, or at the least for shifting the onus of responsibility onto China for a failure to make relations better. Koizumi got himself into an argument with China over Yasukuni without intending to do so. But the next prime minister knows full well that if he goes to Yasukuni, relations will only deteriorate further with China and Korea. Moreover, as long as China is successful in focusing world attention on the history issue, criticism of Japan will continue to grow in the United States and elsewhere. Japan has simply chosen the wrong issue on which to dig in its heels against Chinese pressure.

The United States should quietly urge politicians who have aspirations to succeed Koizumi as prime minister to exercise self-restraint. (And it should impress on the Chinese government that if it would like to see an anti-Chinese, hard-line government in Tokyo, it should continue to deal with Japan exactly as it is doing now; if it wants to normalize relations, it needs to change its tone and its tactics and seek a grand bargain with Japan.) The United States should also encourage the creation of a quadrilateral (U.S.-Japan-China-Korea) dialogue on Northeast Asian security issues. And the United States should encourage the formation of a track-two dialogue on territorial issues modeled on the track-two dialogue between China and ASEAN on the Spratly Islands dispute.

Relations between Japan and Korea also are strained by the history issue and by a territorial dispute, but these problems are encased within what is overall a strong and increasingly intimate relationship. Never has Japanese sentiment been as positive as it is today about Korea. Korean popular music and movie stars are the rage in Japan. Tourism is booming, and Japanese and Koreans no longer need visas to visit each other's country. As long as Japanese and Korean political leaders remain cool-headed and resist the temptation to attempt to use bilateral disputes to mobilize nationalist support, the Korean-Japanese relationship is bound to grow closer.

Koizumi is in every sense a tough act to follow. The next prime minister cannot succeed by imitating his leadership style. He needs to adopt different economic priorities and social policies, and he needs a bold, imaginative, and courageous policy to deal with China. And in that regard, he needs, most of all, to take a positive approach to improve relations and avoid pushing the two countries further toward confrontation.

Japan is on the threshold of a new era in its domestic politics and foreign policy. It behooves the rest of us to pay attention.

One of the leading analysts of Japanese politics, Gerald Curtis is Burgess Professor of Political Science at Columbia University.

Summary of Discussion

Two significant domestic issues, Japans growing income disparities and the September 2006 selection of a new prime minister, emerged as key topics of interest in the discussion period. A number of experts noted that the emerging income gap is not actually as serious as it is sometimes made out to be, but that it has gained political traction in the hands of politicians opposed to Prime Minister Junichiro Koizumi. They argued that in reality, the area where energy really needs to be invested is in Japans education system, which is failing to meet the needs of an increasingly globalized world.

Meanwhile, the race to succeed Koizumi was the topic of intense discussion, with a general agreement that he has been a transformational figure in domestic politics. One participant, a leading Japanese politician, remarked that the prime minister's central achievement has been to overhaul Japanese political culture, partly by destroying the old system of factional politics. Other observers noted, though, that the intense attention on Koizumi and his LDP has obscured the fact that the opposition DPJ is much stronger than it appears and the LDP weaker, an observation with important implications for the course of post-Koizumi politics.

It was foreign policy, however, particularly Japan's tenuous relations in Northeast Asia, that dominated the discussion. The continuing visits of Japanese leaders to Yasukuni Shrine despite the enshrinement of war criminals were interpreted by most of the non-Japanese participants as a troubling sign of emergent nationalism. One Japanese participant defended this nationalism as a healthy sign that Japanese are finally taking pride in their heritage, but others condemned it as narrow-minded and damaging to Japans long-term interests in the region.

While the Yasukuni Shrine visits were seen as detrimental to Japanese relations with Southeast Asia, South Korea, and other countries, the greatest amount of concern was expressed over the damage that has been done to Sino-Japanese relations. A number of Japanese and Western experts noted that even if the Yasukuni Shrine dispute were to vanish overnight, China-Japan relations would still be characterized by tension and a sense of competition. In fact, they asserted, just as Japanese nationalism is fueling Chinese resentment and being exploited by some Chinese leaders, China's approach to Japan has been almost as if designed to stoke Japanese nationalism.

To change these dynamics, several participants called for a grand bargain between China and Japan, one which bundles mutual commitments not to politicize "history issues," greater dialogue on security policy, and

cooperation on key issues such as economics and energy efficiency along with an agreement that the Japanese prime minister refrains from visiting Yasukuni. Going further, one current Japanese policymaker noted that, while China and Japan may not be able to settle on common goals and values in the bilateral context, perhaps they can build them together through the construction of some form of East Asia community.

Prospects for East Asia Community

Five months after the launch of the East Asia Summit brought greater attention to regionalism in Asia, four experts assessed the prospects for deeper regional integration and community building in a session moderated by Jusuf Wanandi, co-founder and vice chair of Indonesia's Centre for Strategic and International Studies (CSIS). Akihiko Tanaka traced the origins of regionalism in Asia, Qin Yaqing argued that neither China nor Japan can lead the regional community-building process, and Young Soogil outlined the progress made in terms of trade and financial integration. Meanwhile, Barry Desker emphasized how the region has become home to a renewed vitality while the United States continues to be distracted by developments elsewhere. The following includes condensed versions of each presentation and a summary of the discussion session.

AKIHIKO TANAKA

In discussing the future of East Asian community building, it is necessary to recognize how recently the rapid regionalization has started in East Asia. The concept of East Asia itself is still in flux. Traditionally, "East Asia" has long been regarded as an area centered on China, i.e. China, the Korean peninsula, Japan, and Vietnam.

It was only in the 1990s that the usage of "East Asia" as an area consisting of both Northeast Asia and Southeast Asia started. In the 1950s and 1960s, under the shadow of the Cold War and various regional hot wars, no meaningful regions existed in what we now call "East Asia." Instead of creating a region, countries in the eastern edge of the Eurasian continent were fighting each other or fighting civil wars. The Indochina peninsula was in constant military turmoil, and an "East Asia" comprising Northeast and Southeast Asia was impossible because of the big war zone between the north and the south.

Rapid Regionalization

New developments occurred in the 1970s, gradually proceeded in the 1980s, and expanded in the 1990s. The Sino-American rapprochement in 1971 and Deng Xiaoping's initiation of the "reform and opening" (*gaige kaifang*) policy in 1978 began to connect China with the rest of the world. The Cambodian Civil War was the most difficult and complex remnant of the final phase of the Cold War in Asia, but no new inter-state wars have occurred in East Asia since the Sino-Vietnamese war of 1979, and no new large-scale civil wars have been fought in East Asia since the 1991 Paris accord on Cambodian peace.

This quarter-century-long inter-state peace is unprecedented in East Asia in the 150 years since the Opium War of the 1840s. The 14-year peace without civil war is further unprecedented. Although this East Asian peace is not without instabilities and uncertainties, such as the tensions over the Korean peninsula and the Taiwan Strait, it is clearly one of the most important conditions for the current regional economic, political, and social integration.

Coinciding with the gradual emergence of peace, the impact of economic globalization has spread throughout East Asia. As a result, from 1980 to 2003, the total nominal GDP of East Asian economies grew 4.7 times, exports 6.9 times, and investment inflows 16.3 times. Now the economic size of East Asia is comparable to that of Western Europe and North America.

Economic interdependence within the region has also grown. Intra-regional imports have grown from 34.8 percent in 1980 to 58.6 percent in 2003.

Also, social interaction within East Asia has grown rapidly in the late 1990s to early 2000s. In the past, the "ugly tourist" behavior was dominated by Japanese because they were the only Asians who traveled abroad in groups. Now, many other Asians are traveling all around the world, especially in their neighboring countries. Many items of popular culture such as comic books, karaoke, popular songs, movies, TV dramas, and video games, are being widely shared, especially in the urban centers of East Asia. Some scholars have begun to argue that there is an emergence of what might be referred to as the East Asian way of life among the new middle classes.

Along with the regionalization in economic and social dimensions, regional multilateral political frameworks have also developed: Asia Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARE), the Asia-Europe Meeting (ASEM), ASEAN+3, and the East Asia Summit.

Characteristics of the East Asian Political Process

There are several characteristics of the development of regional political frameworks in East Asia. First, many political frameworks are organized with ASEAN as the hub: the ASEAN Post Ministerial Conference (ASEAN PMC), ARF, and ASEAN+3 are obvious examples.

One of the worries of ASEAN countries in establishing the East Asia Summit was that the centrality of ASEAN might be reduced by dropping "ASEAN" from the name of the summit. In fact, however, the pivotal role of ASEAN was again reconfirmed through the process of discussing the participants in the East Asia Summit. As is known, some ASEAN+3 members, such as Malaysia and China, did not want to add new members to the summit while others, such as Japan, Indonesia, and Singapore, wanted to add Australia, New Zealand, and India. In the end, the ASEAN foreign ministers meeting at Cebu in April of last year resolved this issue by creating a set of criteria for participation. The three Northeast Asian countries gave consent to the criteria made by ASEAN, thus reconfirming that ASEAN continues to occupy the driver's seat in terms of regional cooperation in East Asia.

Second, the "ASEAN way" tends to prevail as a modality of most political frameworks, that is, that decision-making should be based on consensus. The ASEAN way also implies a strong attachment to the principle of non-interference in the domestic affairs of other countries and a resistance to hard institutionalization.

Third, discussions in political frameworks such as ASEAN+3 about main areas of cooperation centered not on controversial political and military issues but on "functional" areas such as finance, trade, energy, environment, science and technology, and culture. Political and security issues are discussed, too, but more emphasis is placed on nontraditional security issues such as antiterrorism and anti-piracy cooperation.

Fourth, discussion of "visions," "ideals," and "norms" for regional integration came very slowly. If regionalism is defined as an articulated idea of creating a region with specific goals in mind, East Asian regional integration may be characterized as regionalization without regionalism. The facts of regionalization preceded ideas and visions of regionalism. The first ASEAN+3 summit of 1997 was planned as an ad hoc gathering without any "vision statements."

However, as political leaders gather together, it seems inevitable for them to attach some meaning to their gatherings. The emergence of regionalism

thus seemed inevitable as the degree of regionalization proceeded to a certain degree. Therefore, in 1999, at the third ASEAN+3 meeting, the leaders issued a "Joint Statement on East Asian Cooperation" as the first official statement of their cooperative activities. President Kim Dae-Jung proposed to establish an East Asia Vision Group as an advisory panel to the ASEAN+3 summit, and this was tasked with presenting a report to the 2001 summit.

The idealistic and universalistic tone of the Vision Group report was expressed very well by its first sentence: "We, the people of East Asia, aspire to create an East Asian community of peace, prosperity and progress based on the full development of all peoples in the region." However, there are tensions in the East Asian discussion of regionalism between those emphasizing the universal values and those emphasizing specific local conditions. The report used concepts such as "progress," "human security," and "good governance," but not "democracy" or "human rights."

Challenges of Community-Building in East Asia

The characteristics of the political process already imply some of the challenges facing the people of East Asia in proceeding with East Asian regional integration.

First, one major challenge involves visions of regionalism and how to reconcile the tension between the principle of noninterference and the emphasis on universal human values. The current way to reconcile this tension seems to accept both principles and regard the entire process of regional integration as an evolutionary process of realizing universal values without making apparent attempts to interfere in other countries' domestic affairs. Setting up norms of universal values as clearly as possible but not hastily pressuring those not willing to follow these norms seems the current formula for an "evolutionary strategy" of regional integration. Obviously, this strategy does not resolve the problems that countries like Myanmar pose. In the end, this strategy cannot but depend on the hope that the process of regionalization eventually fosters the process of democratization in currently undemocratic countries.

Second, there is the big problem of political reconciliation among important countries and other political entities in the region. The current political tension between Japan and its Northeast Asian neighbors is a case in point. Although Prime Minister Koizumi asserts that Japan's relations with China and South Korea are good enough, the current situation

in which national leaders cannot get together for a frank discussion over various bilateral as well as multilateral issues is not conducive to constructive regional development.

There are other political divisions in East Asia that hinder further regionalization. North Korea is one and the Taiwan Strait another. Unless these two persisting political divisions are resolved, true regionalization in East Asia will not be complete.

The third challenge of East Asian regionalism involves its boundaries and its external relations. If political divisions on the Korean Peninsula and over the Taiwan Strait are resolved, it seems natural to give proper places to North Korea and Taiwan in East Asian cooperation. The roles of Australia, New Zealand, and India can be rather controversial in the future discussion of East Asian regional integration. However, to the extent that the current process of regional integration is a long-term process of evolution, this controversy may not need to be settled immediately. As in the past, the concept of "East Asia" may evolve as the process of regionalization further progresses.

East Asia's relations with North America and Europe are also important. In terms of political frameworks, these challenges should partly be translated into the management of APEC and ASEM because the key members of East Asia are at the intersection of APEC and ASEM.

The management of relations with the United States could be more difficult and challenging for East Asians because in the past the United States has expressed strong opposition to East Asian groupings, such as the East Asia Economic Caucus (EAEC) and the Asian Monetary Fund (AMF), and because the United States has special strategic interests and roles in East Asia.

So far, the American opposition to further regional integration in East Asia has not been as categorical as it was in the case of the EAEC or the AMF. Many American leaders now seem to feel that it is in the U.S. interest to embrace East Asian regionalism rather than oppose it. Few in East Asia argue for creating schemes to exclude the United States in substantive areas. As long as the fate of East Asian economies depends on good economic relations with the two large markets of North America and Europe, the East Asian Community that eventually emerges should be a community friendly to both North America and Europe.

The fourth and final challenge may be the most difficult task—that is the task of realizing concrete and substantive achievement in many functional areas. If functional cooperation only means holding meetings and conferences, it is easy. And if functional cooperation only means

that the participants join activities on which they can easily agree, again it is easy. Further still, if functional cooperation means that countries contribute to the activities that do not require much cost, it is easy. But if functional cooperation is limited to these easy activities, it does not achieve much, let alone produce spill-over effects into other, more politically charged areas.

Free Trade Agreements (FTAs) and financial cooperation are the two most important areas of functional cooperation that now face East Asian countries. If East Asian countries can agree only on a "dirty FTA," and if East Asian countries cannot agree on truly effective financial surveillance systems, strong impetus toward more substantive regional cooperation may be lost. East Asia may have to suffer another round of unexpected crises.

In the late 1990s, APEC lost momentum partly because it did not produce concrete results. The current process of ASEAN+3 and the East Asia Summit should not repeat the same mistakes of APEC. The ASEAN+3 Summit and the East Asia Summit last December were good gatherings. But to proceed further, leaders and diplomats should talk more on substance in preparation for future meetings rather than about such formalistic subjects as which countries should participate in the meetings.

One of Japan's leading international affairs experts, Akihiko Tanaka is a professor at the University of Tokyo and was the Japanese member of the East Asia Vision Group.

QIN YAQING

Regionalism did not really start to develop in East Asia until the mid-1990s, when ASEAN expanded to include 10 Southeast Asian countries and set up the ASEAN Plus China, Japan and the ROK cooperation framework. During the last decade, East Asian regionalism, led by a group of ASEAN states and characterized by openness, informality, comfort, and consensus, has witnessed unprecedented dynamism and development.

Throughout history, and especially during the Cold War, East Asia was a place of strategic importance in terms of competition and confrontation among the big powers. Today, when there is neither a clear power structure

nor highly formal institutionalization accompanying the rapid integration process, people cannot help wondering where East Asian regionalism is going and how the big powers will position themselves. In this respect, three concerns stand out: first, East Asian regionalism could be closed and exclusive; second, there could be a tense competition for the leadership in the regional process, especially between China and Japan; and third, the U.S. role could be reduced especially as China continues to grow.

To address these three concerns, I argue that East Asian regionalism led by ASEAN is by nature and by necessity open, that no nation or grouping can take the lead role except for ASEAN, and that the United States has important roles to play and should help to make the region peaceful, prosperous, and progressive.

Open Regionalism

East Asian regionalism is, by nature and by necessity, open regionalism. It cannot be exclusive. The openness of East Asian regionalism is shaped by history. U.S. alliances with several East Asian countries and its hub-and-spokes security system have made it impossible for the region to be a closed one. In addition, the end of the Cold War enabled many other countries to develop relations with the United States, Europe, and other regions of the world. Thus, in politics and security East Asia is closely connected with actors in other regions.

Second, the openness of East Asian regionalism is determined and maintained by its market-oriented nature. The development of Japan and the four tigers and China's recent rapid growth have followed an export-oriented strategy, which decides that the region is open. While growth in intra-regional trade has been rapid, East Asia's economic connections with the outside world have been moving forward too. The market-oriented nature of East Asian regionalism makes the region inseparable from the world economic system.

Third, the internal process of East Asian integration with ASEAN as the core parallels the development of the regions linkages with the outside world. ASEAN was designed to be an open process and continues to keep this openness. It first enlarged its membership from 5 countries to 10, and then further opened the process to other nations. At last year's East Asia Summit, it opened further to countries outside the geographical region; India, Australia, and New Zealand were all present at the summit. ASEAN+3 has been recognized as the main vehicle of East Asian community building

but, at the same time, the inclusion of China, Japan, and the ROK has not reduced the openness of East Asia to the outside world.

Regional Leadership

Many have been talking about the leadership of East Asia's multilateral regionalism. Some have used the European Union as an example, believing that the major powers in the region are natural leaders. With this line of reasoning, some have begun to talk about the rivalry between China and Japan to take the leading role in the regional process, for one is developing at a high speed and the other is the largest and most advanced country in the region.

It is true that China and Japan are large and important nations, but neither can lead the East Asian multilateral process. Although China has been developing very rapidly and has become a major power in the region, it is impossible for it to lead the regional integration process. China is a latecomer, so it is not positioned to lead. The rise of a country with 1.3 billion people at such a speed has no parallel in history; there are too many domestic problems and there is still suspicion and uncertainty about China both inside and outside the region. What China needs to do now is to focus on domestic issues, to strengthen trust and relations with other actors in the region, to demonstrate its intention to develop peacefully, and to join the regional integration process in order to help create a better regional order.

Japan is not in the position to lead, either, despite being the largest economy in the region and a close ally of the United States. First, like China, Japan is a latecomer. Although it once led regional economic growth, it joined the ongoing regional process as a follower. Second, Japan still faces somewhat of an identity problem. The debate over joining the West or the East has persisted and even today people in Japan are continuing to argue over whether Japan should or should not join in regional multilateralism and promote East Asian community building. Third, there are thorny problems between Japan and some neighboring countries in the region. Especially in recent years, Japan's relations with neighboring countries have been problematic.

Realistically speaking, if we want to make East Asian regional integration possible and workable, ASEAN is the only qualified driver in the regional process. ASEAN countries initiated the regional process and have gained successful experience in developing ASEAN as a regional organization. As

the hub of the regional institutional structure, ASEAN has been playing the pivotal role in coordinating cooperation. It has developed extensive connections not only with China, Japan, and the ROK, but also with major players outside the region. Moreover, ASEAN sets up norms and rules for the region. The ASEAN way, characterized by informality, minimal institutionalism, and respect for each other's sovereignty and territorial integrity, has been expanded to the ASEAN+3, and to some extent the bigger countries such as China and Japan have been socialized into the ASEAN way. Without these norms, we would not even see today's regional development.

China and Japan have had problematic political relations in the past few years, and this adds to the rivalry argument. However, we should not forget that the two countries and the two peoples have enjoyed largely good and stable relations for more than three decades since the establishment of diplomatic relations. The three important documents, namely the 1972 Joint Statement, the 1978 Peace and Friendship Treaty, and the 1998 Joint Declaration, set the political basis for bilateral relations as friendship, peaceful settlement of disputes, and no pursuit of hegemony.

Sino-Japanese economic relations are basically well grounded, although political problems tend to affect the overall relationship. The two countries are highly interdependent in terms of trade and investment. By November 2005, foreign direct investment (FDI) from Japan into China amounted to US\$52.8 billion. In 2004, China (including Hong Kong SAR) became the largest trading partner of Japan. And Japan became China's biggest trading partner from 1993 to 2003. Japan's economic aid has helped China's reform, and the rapid development of China helped the economic recovery of Japan.

Thus, while some people argue for rivalry between China and Japan in East Asia regionalism, I argue for cooperation. There is plenty of room for cooperation. For example, China is confronted with serious environmental problems and costly energy consumption, and Japan has first-rate environmental protection and energy conservation technologies. As the two biggest economies in the region, China and Japan account for 85 percent of the total regional economy. It is evident that successful East Asian regionalism needs the cooperation of the two nations.

Under such circumstances, should there be a rivalry between China and Japan for the leadership in the multilateral regional process, the process itself would be doomed. On the one hand, a deterioration of Sino-Japanese relations would also be harmful to this regional process and its aims of peace and prosperity. Here, we have to face a tough fact: the history issue continues to be the most formidable and immediate obstacle

to be overcome for either the improvement of Sino-Japanese relations or for better cooperation in the multilateral regional process. It is a matter of right and wrong. It is a matter of principle. And it is a matter that we must face and try to solve rather than to deny or dismiss as a purely domestic issue. On the other hand, it is also important to understand that relations cannot be maintained only by close economic ties and should be taken care of conscientiously. Strategic measures to build long-term friendship between the two countries are particularly needed to promote understanding and friendship, including exchange programs for young people. Educational efforts are needed to promote a healthy mentality and reduce extreme nationalistic feelings, and the media has a responsibility to help make a better atmosphere.

The Role of the United States

The United States has important interests in East Asia. Traditionally, the United States was not very keen about East Asian multilateralism and sought its interests mainly through bilateralism. In fact, it did not support East Asian multilateralism during the first years of the Cold War. Even in the early 1990s, the United States did not welcome the idea of former Japanese Foreign Minister Nakayama for establishing a forum to discuss regional security issues or the idea of former Malaysian Prime Minister Mahathir of an East Asian grouping. During the Clinton administration, the United States shifted its attitude and began to join the region's multilateral activities, such as the APEC forum and the ARE

With the rise of China coinciding with the development of East Asian regionalism, some people are concerned about the possibility of China replacing the United States in terms of influence in the region. Thus, for the United States, its present policy seems somewhat unclear. While it is not opposed to East Asian multilateralism, it is not actively supportive of it. There are two major concerns for the United States: first, whether East Asian regionalism might replace or threaten the U.S. bilateral alliance system, i.e. the hub-and-spoke structure; and second, whether this regional multilateral process will be dominated by China. The United States worries that this would diminish its role in the region.

These worries seem not to be realistic. First of all, China has no intention whatsoever to take the place of the United States in East Asia. U.S. interests in the region have developed historically and China recognizes these interests. The fundamental and foremost task for China at present

and for a long time in the future is to solve various domestic problems and improve the wellbeing of its people.

Second, China does not have the capacity to reduce the United States' influence in the region, which lies in both its military presence and its economic strength. China has been on the rise. With a GNP per capita of US\$1,700, however, its capabilities lag far behind the United States. The United States still plays a key role in regional security—both traditional and nontraditional—as well as in economic affairs.

Third, East Asian regionalism is not a zero-sum game between China and the United States and should not be taken or thought of as such. Otherwise, it could be constructed in this direction. China's rise does not come at the expense of U.S. interests or automatically result in the decline of U.S. influence in the region. East Asian countries do not and will not have to choose between China and the United States.

One decade's practice has shown that East Asian regional integration can bring about stability and prosperity in the region, which is not only in China's interests, but also in the interests of the United States as well as other regions and actors around the world. China welcomes constructive contributions of the United States to the regional integration process. It is highly desirable that the two countries cooperate to make the region peaceful and prosperous.

Specifically, there is a huge amount of room for the United States to play crucial roles in three areas. First, East Asia has yet to have a collective security arrangement. The six-party talks could serve as a step toward a multilateral security framework including major powers such as China, the United States, Japan, and Russia. Second, the United States is an important actor in helping to improve bilateral relations in the region, for example, between China and Japan. Bad bilateral relations between East Asian nations are not in the interest of the United States and will be a big hindrance to East Asian community building. Third, the United States should help harmonize relations among East Asian nations rather than watch a hostile political culture develop in the region. Confrontation among nations and suspicions about each other's intentions will damage the regional process.

Although the regional order, institutional arrangements, and the regional identity of East Asia are still at an initial stage of development, East Asian regionalism has already displayed its distinctiveness and has helped to maintain regional stability and prosperity. With ASEAN playing a pivotal role, establishing and spreading norms to the bigger powers and socializing them, it is sensible and desirable for China, Japan, and the United States to

cooperate rather than compete for leadership in the region's community-building process.

Qin Yaqing is executive vice president and a professor of China Foreign Affairs University. He concurrently serves as vice president and secretary general of the China National Association for International Studies.

YOUNG SOOGIL

I would like to begin by recalling the vision of an East Asian community that was proposed by the East Asian Vision Group in "Towards an East Asian Community," its report to the ASEAN+3 Leaders at their Fifth Summit held in Brunei Darussalam in November 2001. In this report, an East Asian community was defined as "a bona fide regional community with shared challenges, common aspirations, and a parallel destiny." According to the report, it is "the economic field, including trade, investment, and finance," which "is expected to serve as the catalyst in the comprehensive community-building process."

The report recommended many measures for economic integration. In the area of trade, these included the formation of an East Asia Free Trade Area (EAFTA) ahead of the Bogor Goals set by APEC. In terms of investment, it recommended the expansion of the Framework Agreement on the ASEAN Investment Area (AIA) to an East Asian Investment Area (EAIA) that would cover East Asia as a whole. In regard to financial and monetary cooperation, the report recommended the establishment of regional self-help arrangements—i.e., regional swap arrangements or an East Asian Monetary Fund—as well as a suitable exchange-rate coordination mechanism for the region.

Regional Integration in East Asia to Date

I would like to review the progress toward the Vision Groups vision of an East Asian community in two major areas of interest—trade integration and financial integration.

Trade Integration

The main development in the area of trade and investment integration has been the rapid proliferation of bilateral FTAs involving regional economies—mostly, though not all, between regional economies. Most of these agreements are of the "FTA+" type, in the sense that they go beyond the elimination of tariff barriers and border measures restricting imports to measures to facilitate trade and investment, including the liberalization of foreign direct investment.

We observe the following pattern in terms of FTAs in the region. First, there is not just the ASEAN FTA itself, but ASEAN is building a network of ASEAN+1 FTAs, with China, India, Japan, Korea, and the CER region (the Australia and New Zealand Closer Economic Relations Trade Agreement region), etc., each as a partner. ASEAN is seeking to become the hub of the regional FTA network. But then all other countries, especially China, Japan, Korea, India, Australia, and even individual ASEAN countries such as Singapore and Thailand are doing the same in competition with one another.

The East Asian countries began to actively seek FTA deals after the Asian financial crisis of 1997-98, with Korea as the first to announce this strategy. However, the proliferation of FTAs in the region was triggered by China when the country made a surprise announcement of its proposal to negotiate an FTA with ASEAN in Brunei in November 2001. It seemed at that time that this movement was politically motivated rather than economically. This in turn "forced" Japan to propose the same the next year and thus set off the competitive "FTA-hubbing" process in the region.

The first fact to be noted about these FTAs is that they go against the grain of the EAFTA that was proposed by the Vision Group. These bilateral agreements distort the pattern of regional trade through their trade-diversion effects. The situation is made worse by the fact that each deal consists of provisions unique to itself, such as those on exemptions and rules of origin, so that a product originating from the same country would be subject to different trading rules and costs depending on which FTA partner country it is destined for.

The consequent "spaghetti-bowl" effects would be very costly to the countries involved as well as to the whole region, and they might undermine the efficacy of the regional cross-border supply-chain production networks, which are helping to make the regional economies competitive suppliers.

An important question that arises here is whether, over time, these bilateral FTAs would or could be amalgamated with one another and evolve into

an East Asian FTA. In other words, are these bilateral agreements building blocks or stumbling blocks toward a region-wide free trade regime?

Financial Integration

There have been two major developments in the area of financial integration. Much progress has been made in launching regional financial arrangements. At their meeting in Chiang Mai in May 2000, the ASEAN+3 Finance Ministers agreed on the Chiang Mai Initiative (CMI) to expand the ASEAN Swap Arrangements to all ASEAN countries, and further to set up a network of bilateral swap arrangements among the ASEAN+3 countries. Under this initiative, ASEAN+3 countries had, as of May 2005, signed 16 bilateral swap arrangements for a total amount of \$47.5 billion, increased the percentage of swaps that can be disbursed without IMF-supported program from 10 percent to 20 percent, and agreed on a collective decision-making system for the swap agreements—the first indication that the ASEAN+3 countries may be willing to sacrifice some amount of national sovereignty for their collective initiative.

There has been no clear regional initiative in the area of exchange-rate coordination. Tensions continue to mount over the persistent and rising trade imbalance across the Pacific, especially, between the United States and China. There seems to be a clear need for greater exchange-rate flexibility for the Asian currencies. An important hurdle, however, has been the lack of an appropriate exchange-rate coordination mechanism in the region that would help overcome the collective action problem. In July 2005, China and Malaysia joined Singapore in adopting a managed floating exchange-rate regime based on a currency basket. This suggests that the basket-pegging regime is becoming popular in the region. This could lead over time to enhanced exchange-rate coordination. However, the adherence to export-led growth and weak financial institutions at home on the part of many regional economies, as well as the lack of trust between them, indicates that this will be a long, drawn-out process.

In the area of financial market cooperation, East Asia has launched a number of initiatives to develop regional bond markets. The idea has been that the absence of such markets, as well as the underdevelopment of domestic bond markets, exacerbated capital outflows in East Asia during the Asian financial crisis. It has also been pointed out that the absence of regional bond markets has, in part, been responsible for the massive increase in the region's overseas portfolio investment since the crisis.

There have been two major initiatives, with active contributions from a number of countries including Japan. First, the Executives Meeting of East Asia Pacific Central Banks (EMEAP) created two Asian Bond Funds (ABFs) to buy bonds issued by the Asian member economies. A major objective of the ABF initiative has been to help the bond-issuing economies create and develop the appropriate capital market institutions. Also, the ASEAN+3 finance ministers launched the Asian Bond Market Initiative (ABMI), creating several apex bodies and working groups to begin to develop elements of a regional financial infrastructure, such as a clearing and settlement systems, credit guarantee institutions, and credit-rating agencies.

The success of the regional bond market initiatives depends critically on each economy strengthening and deepening its own financial system. But there has been backsliding on the reform in some regional economies. In addition, these initiatives raise a question of fundamental importance. These economies would like to create financial systems that channel East Asian savings to East Asian investors. There is, however, no reason that this should not happen within the framework of a global system. But the global system of financial intermediation is very efficient. Accordingly, the challenge is to create an East Asian regional financial system that is at least as efficient and even cheaper than the global system. This will be a huge challenge, to say the least.

Prospects and Implications

On the trade front, there has been a proliferation of bilateral FTAs. Bilateral FTAs can be useful instruments of liberalization, but they also have features which are problematic from the perspective of regional integration. In order to make progress toward an EAFTA, the regional governments should make a conscious collective effort to create such a region-wide FTA, on the one hand, and to develop a set of rules or guidelines for bilateral FTAs that would constrain these agreements so that they would serve as "building blocks" toward an EAFTA, on the other hand.

At their meeting in Busan, Korea, in November 2005, the APEC Economic Leaders endorsed their ministers' agreement to promote "high-quality" regional trade agreements and FTAs so as to make subregional and bilateral agreements serve as building blocks toward the realization of the Bogor Goals. It is yet to be seen how this objective will be pursued by APEC. But APEC's work on this objective will also help the ASEAN+3

members work out their own FTA guidelines in a manner geared to the realization of the EAFTA. In fact, the East Asian guidelines for bilateral FTAs should also be designed so as to be consistent with APEC's principle of "open regionalism" so that the EAFTA itself would be consistent with APEC's Bogor Goals, which embody this principle.

All in all, the EAFTA is unlikely to be realized in the foreseeable future unless very determined joint political leadership is forthcoming. The same assessment applies to the Bogor Goals too. These prospects make it all the more important for the East Asian economies to work together to promote further multilateral trade liberalization through a successful and meaningful conclusion of the Doha Development Agenda negotiations.

As for exchange rate coordination, it will require a lot of preparatory work in terms of domestic financial reform, regional monitoring, and surveillance. Progress with the Chiang Mai Initiative and Asian Bond Market Initiative would help promote this work. This will be an arduous process, however the goals of these initiatives are not impossible to achieve. In fact, East Asian governments and organizations already have been harvesting specific achievements, modest as they may be, and these efforts are contributing to the strengthening of the financial systems in the individual economies as well as for the whole region.

All of these community-building efforts will depend on the quality of collective leadership provided by those governments. Such leadership should be based on mutual trust, but such trust is sorely missing from East Asia. This, it seems, has been hampering speedier progress on a number of community-building projects.

Most recently, the launch of the East Asia Summit in December last year revealed an intense rivalry between China and Japan. As a result, we have ended up with two similar community-building institutions in the region, the ASEAN+3 and the East Asia Summit, with overlapping but disparate memberships. The mission and agenda for the latter process has yet to be clarified, with a consequent impact on the former. And so long as China and Japan work at cross purposes, this will not be an easy task. The consequent confusion is likely to further slow down the community-building work of the region.

The missions and the agendas for ASEAN+3 and the East Asia Summit should be appropriately clarified and defined, and the membership criteria for each clarified as well, so as to ensure a synergic division of labor between the two. And it seems that the necessary political leadership will now have to be provided jointly by the ASEAN countries and Korea.

Young Soogil is president of the National Strategy Institute, a private Seoul think tank.

BARRY DESKER

The absence of the United States, the "800 pound gorilla" in the region, as East Asia moves towards the establishment of an East Asian community highlights the changing dynamics in the region and the emergence of a debate over the future security architecture. Some have said that East Asian Community is only a community on paper. I would, however, argue that the East Asia Summit in Kuala Lumpur last year was a historic event, and its future impact is likely to be as significant as the first ASEAN Summit held in Bali in February 1976. If you look back at the coverage in the major international newspapers at the time, the conference was written off as a hopeless case by hopeless states. However, the first Bali Summit led to the emergence of a cohesive ASEAN-5—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—in the aftermath of the emergence of communist regimes in Indochina. Today, the presence of a rising China and a resurgent India at the East Asia Summit, and the absence of the United States, which has played the role of an Asia Pacific hegemon since the end of the Second World War, suggest that we are on the cusp of a new era. The East Asian community is being created at a time when East Asia demonstrates a new vitality following its recovery from the trauma of the Asian financial meltdown and subsequent economic crisis and while the United States is distracted by its commitment in Iraq.

The first point I would like to make is about the inclusiveness of the East Asian community-building process. The December meeting was significant because it went beyond narrow geographic definitions and ethnic or racial identity in attempting to lay the groundwork for a new regional institution. The annual ASEAN Summit, separate meetings of the ASEAN leaders with their counterparts from China, Japan, and South Korea, and the ASEAN+3 Summit preceded it. The inclusion of India, Australia, and New Zealand in the Kuala Lumpur meeting and the presence of Russia's Vladimir Putin demonstrated an outward-looking, inclusive approach to participation in the emerging East Asian regionalism.

This broader inclusive identity is likely to subsume the earlier focus on an East Asia comprising the ASEAN-10 plus China, Japan, and South Korea. Its emergence is somewhat accidental. In Vientiane in 2004, Prime Minister Abdullah Badawi of Malaysia offered to host an East Asia Summit involving the ASEAN-10 Plus Three. Premier Wen Jiabao of China offered to host the second summit.

However, from the ASEAN perspective, the center of gravity would move from Southeast to Northeast Asia, an unwelcome development. This led to a desire to include other states that had substantial interactions with the region. The participation of India, Australia, and New Zealand was seen as ensuring that ASEAN remained at the center of any emerging East Asian community. India was also seen as a balance to China. Indonesia, for example, sought to avoid aligning with China while retaining friendly ties to other powers such as the United States, a classic "hedging" strategy. However, since then, the interest of Russia in membership in the East Asia Summit and France's announcement of its willingness to accede to ASEAN's Treaty of Amity and Cooperation—a prerequisite for participation in the summit—as well as similar expressions of interest by other Asian states such as Pakistan, has now led the ASEAN Foreign Ministers meeting in Bali to declare a moratorium on expanding the membership of the East Asia Summit.

A second point is that the concern in Southeast Asia with growing Sino-Japanese antagonism has led to a discussion of the need for a cooperative security mechanism in the region, which would help to prevent the outbreak of conflict. Antagonism between China and Japan makes Southeast Asians wary of being enmeshed in a new regional cold war. China continues to remind the region of Japanese expansionism during the Second World War and the lack of Japanese remorse is evidenced by Prime Minister Koizumi's annual visits to Yasukuni Shrine and the downplaying of Japanese atrocities during the war. Chinese criticism has evoked a strong reaction in Japan. Most worrying is the ultranationalistic response of young Japanese and Chinese. We are reminded of these trends by the heightened rhetoric between Chinese and Japanese decision-makers at closed-door international and regional conferences, even as substantive economic links and other links between China and Japan increase rapidly

While ASEAN members have had four decades of institutional experience in regional reconciliation, Northeast Asians have focused on bilateral ties and multilateral forums with a specific agenda such as the six-party talks. The East Asia Summit provides an opportunity for informal confidence building and discussions on broad strategic issues concerning the

region. But this will take time to develop. China's decision not to proceed with a separate summit in Kuala Lumpur of China, Japan, and South Korea suggest that the ASEAN approach has not yet laid down roots.

Thirdly, the United States needs to regain the initiative in the region. It needs to take up this diplomatic challenge. APEC needs to be revitalized. And the Secretary of State needs to attend the ASEAN Regional Forum, which Condoleezza Rice skipped last year.

Fourthly, what role shall ASEAN play? During the Cold War, while nominally nonaligned, ASEAN was identified with the West. Today, as sophisticated Chinese diplomacy leads to the establishment of multiple regional organizations, ASEAN is developing closer linkages with China. These relationships are perceived as a balance against U.S. unilateralism. Some of the newer members of ASEAN such as Myanmar, Laos, and Cambodia have benefited from Chinese largesse and are supportive of Chinese concerns within ASEAN. Older members such as Malaysia and Thailand are beginning to bandwagon with China. For ASEAN states that prefer a regional balance of power, a regional security architecture that is outward-looking and promotes the observance of international norms and codes of conduct is preferable to one dominated by a single power. An active U.S. presence enables this vision of the region's future to be sustained.

Barry Desker is director of the Institute of Defense and Strategic Studies at Singapore's Nanyang Technological University and served as Singapore's ambassador to Indonesia among other diplomatic posts.

Summary of Discussion

In principle, support for efforts to deepen community and regional cooperation in East Asia ran high among Asian participants as well as among those from Europe and North America. Nevertheless, a number of them voiced skepticism about the current prospects for the emergence of an East Asia community. The large number of countries involved threatens to slow the community-building process. There is a remarkably high degree of economic, political, and cultural diversity among the participating countries, and doubts persist as to the extent of their shared values and

objectives. Furthermore, one American commentator pointedly noted that East Asian regionalism that excludes the United States, as the East Asia Summit has so far, is useful only if Asians do not want to accomplish anything, since U.S. participation is essential in dealing with the most pressing security issues in the region, particularly tensions over the Taiwan Strait and North Korea.

A prominent Japanese member countered by insisting that there has been considerable confusion about what the proponents of an East Asia community are seeking to build. Rather than establishing a new security community or a closed economic bloc that excludes the United States, she argued that supporters of East Asia community building seek primarily to institutionalize existing trends toward regional integration. Economic integration is proceeding apace as intra-regional trade rises—it is nearing the level of the European Union—and production networks and supply chains have become increasingly regionalized. Therefore, she noted, there is a deeply felt need for serious efforts to construct an institutional structure with the capacity to better harmonize and manage these developments.

Other Asian participants added that current long-term efforts to build an East Asia community exclude hard security issues because of the recognition that U.S. involvement is indispensable in dealing with these. Instead, several noted, it is more appropriate for community-building efforts to focus on areas of functional cooperation, including issues such as environmental protection, rule of law, public health, and nontraditional security.

Beginning with the potential reaction of external powers such as the United States, which have vital interests in the region, participants cited numerous obstacles to the emergence of a regional community in East Asia. One burning question was whether the bilateral trade agreements that are proliferating throughout the region can be effectively subsumed into a regional system as well as the global system. The tension between the competing frameworks of ASEAN+3 and the East Asian Summit is also critical. Plus, there is growing concern throughout the region about the permanent damage that may be done by a vicious cycle of deepening nationalism in China, Japan, and South Korea.

All the same, several participants argued, while it will take decades for these obstacles to be overcome, the agenda before the region is so pressing that it is time to move beyond conferences and talk to the serious work of institution-building.

III

DOMESTIC DYNAMICS AND INTERNATIONAL RELATIONS

Europe's Internal Dynamics: Absent Without Leave?

Less than a year after the rejection of the European constitution, Otto Graf Lambsdorff, honorary European chairman of the Trilateral Commission, warned that European integration has entered a crisis of leadership. Noting how long-term members of the European Union have started taking for granted the benefits of economic integration, he called for a renewed attempt to strengthen the EU and address its weaknesses. The session was moderated by former Polish foreign and finance minister Andrzej Olechowski.

OTTO GRAF LAMBSDORFF

Europe stands before a crisis. But it is not a crisis of real substance; it is one of attitudes, of ideas, and most of all, of leadership. It is, therefore, a lack of internal dynamics that we confront in Europe these days.

Europe continues to be a paradox. The European Union and especially its common market—the biggest in the world—is the envy of its neighbors. The possibilities and benefits afforded to those states which are part of the Union are great, in both an economic and a social sense. This is reflected in the wish of many to be party to these benefits. Membership is aspired to by almost all those within its geographic reach—the only exception is our common neighbor Russia.

And yet one would not guess it to observe present events in the EU. A culture of fear, skepticism, and national protectionism has spread inside its borders among political elites and the wider public.

The EU Constitutional Treaty has stalled after the referendums in France and the Netherlands; economic growth in the continental heart of Europe is slow and in some cases stagnant; and the nasty row over the 2007-2013 budget was only defused by some compromise-seeking mediation by Chancellor Merkel and some very traditional German "checkbook diplomacy."

But more worrying is the resurgence of nationalist protectionism inside the common market. Moves by national governments to prevent takeovers of national energy companies by other companies from inside the EU illustrate this new nationalist protectionism.

The reason for the current state of affairs in Europe is the lack of political leadership, which is called on to add force to the European idea and integration process. It is decidedly lacking in current political affairs, especially from two of Europe's largest countries, where leadership should be expected to be forthcoming.

In England, Tony Blair is now a political lame duck who will not stand for office again. Instead, he keeps watching his political capital both at home and abroad being sapped away slowly but surely as all wait for Gordon Brown to take the reins.

In France the situation is not any rosier. President Chirac is on his back foot politically after the referendum on the Constitutional Treaty. Many Frenchmen took it to be a referendum on the French president, and therefore answered in the negative. His poll numbers continue to be disappointing and the campaign for his successor has begun in the open. The recent dispute between Prime Minister Dominique de Villepin and the Minister for Home Affairs, Nicolas Sarkozy over modest labor market reforms show that the current French leadership is disintegrating. The reforms as such concern an employer's right to fire someone who is on his or her first working contract within 24 months of the signing of such a contract.

Now, this does not seem revolutionary and in fact, in Germany, this is precisely what socialists and conservatives have agreed to introduce during their term of office. However, in France it has sparked pseudo-revolutionary demonstrations, further damaged the Villepin government, and breathed new life into the Socialist Party that may field a very attractive female candidate, giving them a real chance at victory.

So, on balance, any real direction or drive from either Britain or France is now really out of the question in European matters. Great Britain is out until Gordon Brown steps up as the new prime minister. There, we know who the new person will be; it is unclear, however, when he will take over. In France, we know that the election will take place in the spring of 2007 and that a successor to Chirac will be chosen. Here we know when to expect a new face; we just do not know who that new face will be.

This has bad consequences for Europe: the lack of political leadership has led to stagnation in European political affairs and thus to the emergence of dangerous protectionist tendencies.

Let me say a word about Poland, the most important of the new EU member states. It was understandable that the Poles threw out their socialist government in the last elections. The alternative, however, does not look promising. The dominant force in Poland, the very conservative Law and Justice Party, has teamed up with two groups that are described as radical right-wingers: one is a party made up of Catholic fundamentalists, the other of agricultural populists. It is hard to conceive of a democratic party more conservative than Law and Justice in the first place, but two of them? The other Europeans have been bitterly disappointed by the failure to form a center-right government in Warsaw between Law and Justice on the one side and the Civic Platform on the other. Sometimes it appears that the Poles themselves do not really seem to know where they are going. What is clear in such a situation, however, is that one should not expect any substantial contributions from Warsaw that might be helpful for Europe as a whole.

There is, however, not all bad news on the leadership front. In Germany, things may look up a bit. Now, you may say that it is a little undiplomatic that I first deliver a criticism of the situation in three neighboring countries and then go on to exalt my own. Remember, however, that I belong to the opposition in Germany and I am not inclined to give the current government more than its due.

Up until now, nothing meaningful has been done for tax reform, reform of the labor market, our health insurance system, and our underfinanced social security systems. These are the issues which will decide whether Ms. Merkel will be a successful chancellor. With the existing grand coalition, her chances are very small.

But truth be told, Germany's new chancellor may yet turn out to be a beacon of hope, a leader with a European vision, a healthy stock of still-fresh political capital and drive, and, most importantly, a willingness to strike deals. Ms. Merkel is said to have learned a lot from Helmut Kohl. She served in his cabinet as minister for the environment in the 1990s. She has already changed one tenet of the inept red-green government's foreign policy and returned to the tradition of Kohl and Genscher. I would like to add, "pay attention to the smaller ones." Inviting and listening to smaller neighbors pays off. A broad basis of support for the EU's new direction will be vital. Merkel can play a crucial role in the further success of the European project if she can ensure the support of the smaller member states. This is a mission that she has already begun, thus laying the groundwork for the German EU presidency in the first half of 2007. She also had a very good start with her role in the recent European budget negotiations; in the mold of ex-Chancellor Helmut Kohl, she stepped in and brokered a compromise

between the British and the French, and thus a solution to the problem. It cost a little, as Germany threw in €100 million for Poland, but on balance it was worth it as another festering crisis could be avoided.

However, while haggling over how much money Europe wants to spend, another problem was not addressed, and that is the manner in which we should spend our money. The EU budget is a relatively modest €100 billion per year, or about US\$120 billion. Nearly half of that is spent on agricultural subsidies. Now, it is true that this is also due to the fact that national agricultural subsidies are outlawed in Europe and that therefore all such money has to come from the EU. That does not explain, however, the fact that Europe continues to spend tens of billions of euros on agricultural subsidies in the first place. This, unfortunately, had not changed with the recent budget deal and Ms. Merkel could not do anything about it in the face of staunch opposition from France. A modern, progressive attitude toward the future of Europe's economy, however, would require a structural change in the way we spend our money.

At the national levels, it is social welfare spending that constitutes the bulk of the budget plus interest on debt, which has spiraled to a level unheard of in earlier decades. And on the European level, we spend nearly half of our money on agriculture. Combined, these show that we invest way too much in consumption and in repaying past debt while neglecting investment in the future. That is bad enough and it is a structural problem that will require courage on the part of all national and European leaders if it is to be overcome anytime soon.

A much more current problem that is just as serious is the recurrence of economic nationalism in Europe. There is no question that the European internal market is both the foundation of Europe's wealth and one of the core pillars of Europe's postwar political construction. After enlargement, the EU has become the world's biggest internal market. The 10 countries that joined the EU on May 1, 2004, brought with them 75 million new citizens. The total EU population now is approximately 455 million. Moreover, the combined economic weight of the newly expanded EU has increased 5 percent in monetary terms and 10 percent in purchasing power parity as compared to the economy of the "old" EU. The EU now accounts for 19 percent of world trade and a quarter of the world's GDP. In addition, it is the source of 46 percent of the world's outward FDI and is host to 24 percent of inward FDI. For the people, it means that they find new markets, can choose from a larger range of goods, and probably pay less for these goods than they would otherwise have to. It also means more and better possibilities for European companies to do business. All in all, therefore,

enlargement is a success story. But the market encompasses the famous "four freedoms"—the freedom of people, goods, services, and capital to move freely inside the EU. Three of these are in danger. Limitations on labor mobility so far as workers from the new member states are concerned have just been extended by countries such as Germany, Austria, and others.

As far as services are concerned, the plan to pry open the sector in the way Frits Bolkestein envisioned has regrettably been abandoned. Services are responsible for about 70 percent of Europe's GDP, but the market is still fragmented. Achieving a truly free internal market for services would have meant a big boost for growth and jobs in the EU. It does not look good right now, though. The heads of state and government have accepted a bad proposal from the European Parliament that will leave the situation more or less unchanged. The leader of the Socialists in the EU Parliament called the decision against the service directive a victory for the social model. That model includes 17 million unemployed!

The most worrying development, however, is taking place in the area of the free movement of capital. National governments have erected hurdles against such free movement in a number of important cases. In Luxembourg and France, there is great agitation about Mittal Steel's offer to buy Arcelor. Mittal is registered in the Netherlands, so qualifies as European. Luxembourg's Prime Minister Jean-Claude Juncker, an otherwise reasonable man, has spoken out against hostile takeovers altogether. In Germany, we still have the so-called "Volkswagen Law" lest our carmaker fall into foreign hands the way Nissan has been bought by Renault. And Italy has thwarted attempts to acquire Italian banks. Most absurdly, Poland was opposed to the merger of Italy's Polish Unicredit affiliate with the Polish affiliate of Germany's HVB, even though Unicredit has already acquired HVB in Germany in what was an encouraging exception to the rules of late.

The worst cases, however, can be observed in France and Spain these days, and they both relate to a strategic area in which competitiveness is paramount for Europe's future in a changing world—energy. When an Italian company, ENEL, wanted to take over Suez, the French government went into overdrive to stop this. All of a sudden, Gaz de France was told to merge with Suez. That is easy as Gaz de France is state-owned. At the same time, Prime Minister Villepin pronounced a new "economic patriotism" that was henceforth to govern France's attitude toward cross-border mergers. He identified a number of so-called strategic industries that were to be protected against immoral offers from the competition and called for the creation of "national champions."

Apparently, that call was music to the ears of Spain's government. Just after the announcement that Germany's EON would bid for the Spanish utility Endesa, Madrid rushed through a law that gives its national energy commission new powers. The law not only enables the commission to veto or impose conditions on takeovers of national utilities by foreign investors, it also widens the agency's mission to include national political considerations. This is clearly contrary to the principles of the internal market. So far, however, it is unclear whether the issue will be resolved in a reasonable manner.

It is deeply worrying that old nationalist fears are being allowed to reemerge and to put the continued prosperity and growth of the Union at risk.

French, German, Polish, or Italian "national champions" go against the very core of the vision of a united Europe. Compared to the market sizes of the United States, India, Japan, and China, these so-called national champions are "provincial champions" at best. They are nothing without the internal market. Therefore, the wellbeing of the entire union is what counts. In this context, "global champions" based in Europe are helpful, like Siemens, Accor, Airbus, or SAP. Talk of national champions, on the contrary, is not only shortsighted, it is outright dangerous.

Jacques Delors was right, of course, when he said that no one falls in love with an internal market. But you do not have to be in love in order to recognize that, these days, Europe must rediscover the concept of the internal market and must take it seriously.

And some countries actually feel a kind of love for that market—namely, the new member states who still remember what life looks like outside the EU and now feel that they are short-changed. This is especially true when the mobility of labor and services is hindered by the old member states. Therefore, a deeper sense of unity should be extended to nations in Eastern Europe, who feel somewhat excluded or relegated to part of a "second tier" of Europe. They must be included and seen as full and equal members of the European Union who are free to compete on the same level as other countries. Accusations of so-called "social dumping" directed against Eastern European countries and calls on them to raise their taxes are counterproductive. They also do little to add to a feeling of general purpose inside the EU.

In this context, a significant liberalization of the labor market is in order. First moves in this direction in France were a good start, but the opposition shown toward them there illustrates the need for unity and focus throughout Europe. The globalized economy is characterized by the

need for economic dynamism—the ability to move quickly to take advantage of new markets and opportunities. Europe will never succeed in this environment if it does not liberalize its labor laws to give companies and workers the ability to be flexible and adjust quickly to market conditions. A liberalization of unlawful dismissal laws would be a very positive step in this direction.

So, if 2006 is not the year of inspiration in Europe, where and when can we hope to see a more inspired leadership again?

For inspiration, I believe we can look to Japan, where three years ago the economy was only growing at about 1 percent per year. Today, continental Europe does not look much better with growth of under 2 percent. I think that European leaders can learn from Prime Minister Koizumi. His is exactly the type of courageous leadership that Europe needs, and that would lead Europe's economy back to growth and increased prosperity. Cutting back on red tape, reducing the role of the state in the economy, and privatizing industries that can be handled by the market are all moves in a direction that Europe would be well advised to emulate.

We can also look to the United States, as we heard earlier. They grow at almost 4 percent per annum. Contrary to conventional wisdom, the United States is heavily regulated in a number of areas, from environmental considerations to demands on product safety. But the ease and speed with which employees can be hired or fired lends a large degree of flexibility to the American economy, which is lacking in Europe. This essential element of economic dynamism needs to be brought to Europe as well. Both employers and employees must be quicker in addressing new challenges and making the most of new opportunities.

As to the timing of a new phase of leadership in Europe, we can look to 2007, when a number of factors will come together. There will be a new president in France and possibly a new prime minister in London. Some also point to the German EU presidency led by a new chancellor. I believe that this presidency will be very difficult, though, as it takes place at exactly the same time as the election campaign, and the election itself, in France. Heightened sensitivity is probably a euphemism to describe the situation in France one year from now. This will limit the room to maneuver for any EU presidency, no matter which country has the dubious privilege. What we can hope for, though, is a renewed attempt to overcome the problems of the Treaty of Nice. This can take place in the form of a new initiative concerning the so-called European Constitution or as a plan for the creation of a new, more modest treaty. Hardly anything, however, will be brought to a conclusion during that phase, as it would surely fall victim to French campaigning.

Instead, the German presidency should seek close cooperation with the Finnish presidency, which it will be succeeding, and lay the groundwork for some decisions to be taken during the second half of next year. This may well create a different political climate in Europe, bringing with it new opportunities for growth and progress.

So, it will be a difficult year ahead; that much is clear. But if Angela Merkel succeeds in laying the foundations for a renewed European impulse, we may see some real progress in the second half of 2007, as well as in 2008. This is important because the core goals and benefits of the EU are sound. We can see this reflected in the will of so many nations to join the Union. After all, if we did not have the European Union today, we would have to invent it. Now that we have it, we have to improve it. And with it, the lives and fortunes of Europeans and everyone else doing business with us. That is the challenge for the coming years.

Otto Graf Lambsdorff is honorary European chairman of the Trilateral Commission as well as honorary chairman of the Free Democratic Party. A former member of the German Bundestag, he served as minister of the economy from 1977 to 1984.

The Impact of Domestic Politics on U.S. Foreign and Security Policy

Thomas Foley, former speaker of the U.S. House of Representatives, shared his thoughts on the outlook for two U.S. elections with critical foreign policy implications—the 2006 midterm elections and the 2008 presidential race. Noting that Americans have become increasingly disenchanted with both the president and the Congress, he stressed how much growing polarization and hostility between the Democratic and Republican parties have become a serious obstacle to governance. The session was moderated by Allan Gotlieb, senior advisor at Stikeman Elliott, LLP, and former Canadian ambassador to the United States.

THOMAS S. FOLEY

I think most in Washington today would agree that recent days and months have been a kind of winter and spring of President Bush's discontent. The election that was won decisively in November 2004, which led to the president speaking about having earned political capital that he intended to spend, has been followed by a series of setbacks and reversals that have now brought him to the lowest level of public support in his presidency.

A new poll by Fox News that was released this week puts his favorability rating at 33 percent. It is also particularly bad news that the president's latest drop is not the result of increasing opposition by Democrats or independents, but falling support among Republicans. Having said that, Republicans are still very strongly in support of the president by almost any standard. For the first time in his presidency, however, support among Republicans has dropped below 70 percent. It has often been as high as 90 percent, and the recent drop has been continuous from January 2005 to the present day.

The president's strong support after 9/11, when he was seen as a unifier of the country, was his highest point and his greatest achievement. One

of his lowest points and most severe difficulties has been the sense of the collapse of the government response to Hurricane Katrina. Not only the federal government, but the state and local governments suffered a drop in public confidence. Only the National Guard and the military came out of Katrina with public respect and support. And frankly I do not think that many of our colleagues abroad ever appreciated the impact of 9/11 on the American psyche, or the reason why Americans rallied so strongly around an administration that promised retaliation and promised resistance to this great threat—the first threat to our continental security since the American Civil War. Nor do I think that many people appreciate the great damage that was done to the American psyche by Katrina. In the past, when citizens were asked to describe in one word what they thought about the president, the most common word was "trustworthy." In the recent poll, the most common word used by respondents was "incompetent." So the president has problems.

The Congress is even worse. The president's ratings are 33 percent, the ratings of the Democrats in Congress is 34 percent, and the Republicans 32 percent. And when asked indiscriminately, "What do you think about Congress?" they go down to 30 percent. This tends to be damaging to both parties, but most severely to the party in the majority. I know that because in 1994, when the Democrats lost majority in the House of Representatives, the country was very sour indeed about the Congress.

As I sit here today, knowing what we all know, I predict that the Democratic Party will not take control of either the House or the Senate in the coming elections. It is possible that they will, but because of redistricting and other factors, incumbent districts (both Democratic and Republican) are so secure that it would take a huge political tsunami to overcome that advantage. Moreover, we are not a parliamentary country. People do not vote for a party, they vote for a person, and the typical thing for many people to say is, "I think the Republicans have made a terrible mess of things, and I think they deserve to be thrown out... except for my Congressman. He's a splendid fellow, and he has my support, and I'm going to vote for him." When everybody does that, we have an incumbent party return.

Some have asked whether the Democrats should have an alternative program. In 1994, when Newt Gingrich led the overthrow of the Democratic 40-year reign in Congress, and I became the first sitting Speaker since 1826 to lose a seat, much credit was given to the so-called "Contract with America." Most people who talk about the Contract with America have never read it. It did not promise to enact anything. It promised to have votes within a year on certain subjects. And it was driven by polls that

indicated a great deal of consensus around these issues. It did not take on abortion, gun control, prayer in the public schools, or any highly charged issue. But it was enormously successful as a public relations instrument. The Republicans picked up 52 seats as a result of that election.

Today, the Democrats face a dilemma. Do they try to create a "contract with America," where they come up with specific, alternative programs to end the war in Iraq, provide for social security reform, deal with the problems of Medicare and Medicaid, and handle the issues of immigration? Or do they play the role of the opposition party, which is typical in many parliamentary countries? That was the attitude that was successfully used by the Republican Party in the first years of the Clinton administration on the so-called Clinton Health Program. The Republicans did not offer an alternative, just many amendments. Their basic decision was simply to oppose the policy. Many people think that probably the Democrats are better off just being an opposition party because it is very difficult to bring unity to the party, and it is very difficult to frame issues that unite all the different factions of the party. The problem is that if you are elected, then in an instant you must suddenly have a program. If the Democrats were to win control of the House, Nancy Pelosi, the presumed Speaker-elect, would have to be able to announce a complete policy program, or at least how *policy* would be formulated, by the time the *Democrats* actually took control. And that would be a difficult situation.

Here is another "disloyal" comment: I am not sure it would be good for the Democratic Party to win. I think it would perhaps be better for the Democratic Party to come very close to winning, but not quite make it. And I think the Republicans, who desire so much to keep their majority, may be badly served if they succeed in doing so, particularly if the Democrats pick up a couple more seats in the Senate and a few more seats in the House. Why? Even if the Democrats were to take control of one of the two houses, they could not pass legislation. The president will be empowered as president until January 20, 2009. He is not going to be impeached. He is not going to resign. And he can block any actions that a Democratic Congress is likely to be able pass, because if we win, we are only going to win by a few votes.

If you cannot affect legislation, what is the advantage of winning? The only advantage is the ability to control the grand inquest of the Congress. Congress is authorized to demand persons and papers, to investigate, to bring the executive department officials—with the exception of the president or the vice president—before Congress and make them testify under oath. So this would be a great opportunity for the Democrats to call up

everybody in the executive branch of government, to look under every rock to find out what could be deduced and explained and revealed that would make the party more likely to win in 2008. The disadvantage is that this also gives the president a great excuse for the failure to achieve anything in the second half of his second term.

Now, one could ask, "What has this all got to do with the good *of* the country?" Unfortunately, we are involved now in a political environment where we are in a permanent election cycle. In the old days, maybe the first year as a member of Congress, you would not have to think about running, and Senators used to spend about four years being Senators and two years being candidates. Today, the moment you are reelected, people are sitting down with you and saying, "Congressman or Senator, you must be ready for the next election." The development of television, the rise of political consultants, and the enormous increase in the cost of elections have forced members of Congress to be permanently engaged in fundraising. When I was elected in 1964, I spent \$61,000. In 1994, I spent \$1.4 million—and lost. So, the cost of campaigns has gone up and we are about to see another record set in this coming election.

So that brings us to the question of what happens if the Republicans keep control of the House and the Senate and we proceed from the elections of 2006 to the immediate foreground of the primaries for the election of 2008. Because the topic today is the effects on foreign policy and security policy, I should stress that the effect is total. Tip O'Neill once said that all politics is local. Certainly today all politics is domestic. The war in Iraq, our position on Iran, all of these things have deep connections to domestic politics.

A good example was the Dubai Ports controversy. The Democratic Party, having a loss of support among white males on defense issues, has for years found it attractive to get to the right side of the president of the United States on the security issue. Accordingly, they jumped on the issue when a foreign company was going to buy control some of our ports—notwithstanding the fact that 80 percent of all the port terminals in the United States are already operated by subsidiaries of foreign companies. Republicans, on the other hand, were delighted to have an opportunity to distance themselves from a president with lowered ratings. Not that they are disloyal to the president, but it is such good politics to say, "Look, I support President Bush. I think he's been a great president. I stand with him on most issues. But on this issue, where the security of our ports is involved, the security of my country is more important to me than my responsibility as a Republican loyalist." It makes for a wonderful speech to give anywhere in the United States. So, both parties enjoyed this opportunity.

It demonstrates another reality—that once the public has a certain truth in its mind, it is very difficult to dislodge it. For example, the Democrats would like to convince the public that the Abramoff scandal is a Republican scandal. And indeed there is substantial evidence that it is almost totally a Republican scandal. But the public thinks that both parties do it. One is just as bad as the other. And it *is* futile to try *to convince* them to the contrary. So the damage to Republicans on the Abramoff scandal will not be much worse than it is to the Congress in general, although the Republicans will take more of the responsibility because they are the majority party.

The current Washington wisdom is that Hillary Clinton will be the Democratic nominee in 2008. That may not be the case, but at the moment she is way ahead of any other Democratic candidate. Also, she has about 70 percent of all the money that has been raised for this kind of race, and she is expected to win the Senatorial race in New York, which she says is her total objective. You can believe that or not, but she is raising a huge war chest. I am personally an admirer of hers and think she has done a fantastic job in the U.S. Senate, but the problem Hillary has is that this fact is not well understood in Wyoming, Utah, and other places in the country. Her polls are sort of like the Alps, with great high peaks and low valleys. Her support among loyalists is in the high 80s, while Republicans tend to view her unfavorably in the high 80s.

On the other hand, John McCain is an unusual figure in American politics. The difference between the positive ratings of John McCain by liberal Democrats, which is in the 80s, and the Republican extreme conservatives, which is in the 80s, is a difference of about 6 points. That is unprecedented. And his "very unfavorable" ratings are all in the 10-14 percent range—across Democrats, Independents, Republicans, extreme conservatives, and extreme liberals. He has 69 percent support among Republicans, 53 percent support among Democrats, 52 percent support among Independents. Hillary Clinton has more support among the Democrats than John McCain has among Republicans, but Independent support for John McCain and the support on the other side of the party among Democrats and among extreme liberals is extraordinarily high. So many say that Hillary Clinton can get the nomination, but can she win? And can John McCain get the nomination, because if he gets it, then he will be a very formidable candidate.

We will have an election in 2008 that will be the first time since 1952 that neither a president nor a vice-president will be on the ticket. Now many things could happen. Among others, on the Republican side people like Senator George Allen from Virginia, Governor Mitt Romney

from Massachusetts might run. There are a number of candidates on the Democratic side among governors. Some people think there will be an "other-than-Hillary" candidate on the Democratic side, but I personally doubt at this point that other candidates could overcome her tremendous advantages and get the nomination.

Both parties in the United States are unrepresentative—to some extent in the extreme—of either the general party they represent or the country. Activists in the Democratic Party are much more left of center than Democrats generally, and much more left of center than the country. The Republican Party is the opposite. Its activists are much more right of center than the party, and much more right of center than the country.

Richard Nixon used to say that the way you get the Democratic or Republican nomination is to go as far to the margin as possible, and once you secure it, then run back to the center, where elections are won. The Karl Rove amendment to that is that the center has shrunk so much that the most important thing is to hold the base. I think we are likely to see both parties' conventions raise some question about who to nominate. I think the Republican activists would like to nominate somebody other than McCain if they have the opportunity. One Republican told me that the one thing that would drive him, if he's a Republican delegate, to vote for McCain is the thought that Hillary Clinton might be the candidate on the Democratic side and might win. He said, "I'd rather vote for McCain than leave the country."

Again, the tradition in the Democratic Party is that for the last seven or eight elections, there has been very low support among white male voters, mostly on the security issues. Now the male vote in the Democratic Party is augmented by African Americans, by Latinos, by Asian males, but the white vote has usually been about 38 percent as an average. That means that in some parts of the country it is 25-75 percent. The other problem of gender is that Republicans have had the so-called "soccer mom problem." Middle and upper-middle class women, who cancel out their husbands' votes by voting on so-called women's issues, vote for Democratic candidates rather than Republicans. And we will see if that continues to be a phenomenon. It was mitigated in 2004.

The effect of third parties in our system is pernicious because they distort it in a particularly perverse way. If you're running for Congress as a Republican, the last thing you want is a Libertarian candidate in the race, who will bleed votes—conservative votes—from your candidacy. And the last thing you want as a Democrat is a Green Party candidate, a Ralph Nader. Indeed, I do not believe that President Clinton would have been

elected had it not been for the Ross Perot candidacy, which drew enough votes away from George Herbert Walker Bush to win the election for Bill Clinton. And I do not think George Bush, the present president, would have beaten Al Gore by 547 votes in Florida if Ralph Nader had not received 92,000 votes in Florida.

Fortunately, I do not think we are going to see a third-party candidacy or a fourth-party candidacy in 2008. But the stakes are very high. The problem that the president has today, in addition to his reputation for incompetence—because of Katrina largely—is that most Americans are souring to some degree or other on the Iraq war. And that souring is reflected by polls that indicate most Americans think that the war was a mistake. Most Americans—a slight majority in some cases, but a majority—think that we are not as safe as we were before the war. But on the other hand, most Americans probably believe that we do not have much alternative except to try to stand up the Iraqi military and police forces and try to withdraw in some kind of good order, without a precipitate, sudden rush to Kuwait or someplace else and turn the country into a cauldron of civil war. But this produces very ugly politics. The attitude in the Congress is poisonous—the worst I have seen in my life. And it continues to be very destructive of good policy because the intense dislike that has grown up between the two parties is preventing compromises that might otherwise be possible.

There is some hope. There are two members of Congress—one is a member from New York named Steve Israel and the other one is a Republican from Illinois whose name is Tim Johnson—who found out that they got along pretty well in the gymnasium, when they were lifting weights together, and they suddenly discovered that when they got back on the floor, after showering and getting back in the suits, they fought again. So they organized something called the Center Aisle Caucus, which has been given an award by the Aspen Institute. But overall, the majorities are close, they are entrenched, the stakes are high, and the bitterness is there. The members of Congress do not live in Washington anymore. They go there on Tuesdays and they leave on Thursdays. Their families do not live there. Their children are not raised there. They do not know each other. They do not go to each other's parties or houses. All the things that led in the past to a social association that made it possible for them to cooperate no longer exist.

My final remark is one of hope. My hope is that somehow we will be able to get through this very difficult period. I grew up in a tradition that believed we have one president at a time. Once when I was at a White House dinner given by Ronald Reagan, a lady at my table told a joke about Jimmy

Carter. It was not offensive and was kind of funny actually, but somebody whispered in her ear that I was the Democratic whip and she started to apologize profusely for having offended me with her remarks about "my president." I finally said, "Well, wasn't Jimmy Carter our president—yours and mine—when he was in office, just as Ronald Reagan is our president tonight as he sits at the head table with the president of the Philippines?"

Harold Lasky, the famous head of the London School of Economics, once wrote a letter to Oliver Wendell Holmes in which he said, "Every American president is more and less than a prime minister, and more and less than a king." And it is true that the American presidency combines head of state, head of government, head of party, the bully pulpit, chief spokesman, the grand griever, the person who unites the country, and the person who divides it. And it is an extremely difficult office to carry off well. Today, more and more Americans see our president not as the symbol of unity and the symbol of the state, but the symbol of division and difficulty and disagreement—the prime minister, not the king. It is making our politics divisive and hostile, and interfering with our ability to solve the problems that face the country and the challenges that lie ahead.

I will end by quoting Bismarck, who once said, "God, in his infinite wisdom, has a special providence for fools, public drunkards, and the United States of America." I hope he was right.

Thomas Foley is the North American chairman of the Trilateral Commission and a partner at Akin Gump Strauss Hauer and Feld, LLP. He served as speaker of the U.S. House of Representatives from 1989 to 1997 and then as U.S. ambassador to Japan from 1997 until 2001.

Engaging With Russia—The Next Phase

As the G-8 member countries were preparing for the July 2006 St. Petersburg Summit—the first G-8 summit ever hosted by Russia—a Trilateral Commission task force convened to analyze how the Trilateral countries should respond to a Russia that remains in the midst of a fundamental transition. A draft of the task force's report was presented at the Tokyo plenary by its co-authors, Roderic Lyne, Koji Watanabe, and Strobe Talbott, each of whom has played a leading role in shaping their respective countries' policies toward Russia. The following excerpt is the concluding chapter to the task force report, Engaging With Russia: The Next Phase. Information on obtaining the full task force report is online on the Trilateral Commission website <www.trilateral.org>.

HOW SHOULD THE TRILATERAL COUNTRIES RESPOND? STRATEGIC PARTNERSHIP OR PRAGMATIC ENGAGEMENT?

In various ways, the states of the Trilateral area have signed up to "partnership" with Russia—collectively through bodies like the G-8, the EU and APEC, and in a host of bilateral documents and statements. With great relief they moved Russia from the list of problems on the agenda to the list of partners around the table. They welcomed President Putin's intention to stabilize and modernize Russia, integrate it more closely into the international system and fellowship, and be an ally in the struggle against terrorism. If the present trend in Russia is now heading in a different direction, if Russia for the time being does not wish to accept the constraints of partnership, a different approach is needed. We have important business to conduct with Russia. We should not abandon the long-term goal of partnership. But we have to deal with Russia as it is, not as we might ideally wish it to be.

This final chapter of our report looks first at the general and conceptual approach to Russia; then at certain specific issues of policy; and finally at instruments of engagement.

General and Conceptual Approach

Act with patience and understanding. There remains a gulf of ignorance between Russia and the world around. With regard to Russian policy makers, Sergei Karaganov has complained that "our knowledge and understanding of the rest of the world continues to deteriorate."¹ Much the same could be said of the Trilateral area, where the attention paid to Russia has declined markedly since the early 1990s. If we view Russia solely through a Western prism, we shall not reach the right conclusions. The current exasperation with Russia stems in part from a failure to appreciate the scale of the task. We need a more realistic understanding of Russian attitudes, of what is achievable, and of the time it will take. Russia has a 70-year gap in its political, social, and economic development to make up. We also need to understand the limits to the ability of outsiders to influence events within Russia. The Trilateral countries are not entirely without influence, but they cannot impose their point of view; attempts to do so tend to be counterproductive. Change will come from within, and the outside world will need to wait for events to unfold. This is not an argument for being mealymouthed. It is an argument for being realistic.

Stand by our principles... Part of our patient approach must be to be clear about our principles and stand by them. This is crucial to those in Russia who wish to move their country toward similar principles. Values are in no sense irrelevant to the debate. The dichotomy that some would draw between values and interests is false because promoting (not imposing) recognized values is an important interest and can enhance stability. The Russian state has subscribed to the values embraced by the United Nations Charter, the Universal Declaration of Human Rights, the Helsinki Final Act, and the Council of Europe. President Putin has declared that "the ideals of freedom, human rights, justice and democracy" are Russia's "determining values."² The Helsinki Final Act became both a beacon and a yardstick in the Soviet Union. Trilateral states should continue to show where they stand, and not give an impression that they are blind to dereliction of values.

... but avoid megaphone diplomacy, zero-sum approaches, and double standards. What we say is important. How we say it—and who says it, and

¹ Sergei Karaganov, "Russia's Road to Isolation," *Project Syndicate*, February 2005, www.project-syndicate.org/commentary/karaganov10. ² Vladimir V. Putin, address to the Federal Assembly, April 25, 2005.

even where it is said—is also important. Russian hard-liners like nothing better than Western attacks that they can depict as threatening, as showing a desire to weaken Russia, or as betraying double standards. Name-calling on both sides can play well with sections of domestic opinion but becomes an escalating and counterproductive process that does nothing to advance policy and undermines the advocates of moderation and sensible engagement.

Develop a consistent approach and a long-term vision. There has been a tendency for policy in Trilateral countries to lurch from euphoria to despair, from engagement to disengagement, from attention to inattention. We need to anchor policy with a long-term vision of the sort of relationship we are offering and seeking to build with Russia, a vision that looks well beyond the next half decade or presidential term. Three points should be articulated very clearly:

- **We want Russia to be strong, prosperous and successful, not weak, divided, unstable, and poor.** We have no argument with the Russian leaderships aim to build a strong state in the terms in which they define this: that is, a state founded on economic, not military, might. There is no substance to suggestions by certain Russian politicians that Western countries are trying to weaken Russia. This smacks of Cold War paranoia and is irrational to the point of absurdity. From an external perspective, the most threatening situation would be a weak and unstable Russia in which extremist elements might come to the fore, the security of stockpiles of weapons of mass destruction could be jeopardized, localized conflicts could ignite, and Russia would become a much less reliable source of energy and other raw materials. A strong Russia has the capacity to make a large contribution to global stability and the global economy. The more the Russian economy develops, the more important Russia will become as a partner in trade and investment—in both directions.
- **Strong, independent neighbors would be to Russia's advantage, not disadvantage.** Russia's strength should not be and need not be at the expense of the neighboring ex-Soviet countries. It will not benefit Russia to have weak and unstable countries on its borders. The successful development of these countries, and the evolution of a mature relationship between them and the former metropolitan power as sovereign states, will be mutually beneficial and will undoubtedly be good for Russian security and Russian trade. It follows that for Trilateral countries to develop close and supportive relationships

simultaneously with Russia and with other post-Soviet states should imply no conflict of interest. • There should be no dividing lines, no closed doors, and no exceptionalism. Russia should be treated according to its merits and judged by its actions—not by negative emotions from the past, nor by wishful thinking about the future. International associations and relationships should be open to Russia on the same basis as to others, and Russia should abide by the same rules as others. The EU and NATO should make very clear that they have no intention of drawing a new dividing line within the European continent, from the eastern end of the Baltic to the Black Sea; that it remains their aspiration to create a Europe whole and free, within which people and goods can travel freely and securely; and that they recognize the Russian people as part of the European family of nations. It is important to signal to the Russians that the doors are open to them and that there is no intention of treating them as second-class or alien inhabitants of the shared continent. None of this requires decisions to be taken at this stage on the hypothetical questions of Russian membership of the EU or NATO; At present Russia is neither qualified for membership, nor is it seeking it. It may choose never to do so, but there is no need to exclude any possibility for a future that we cannot accurately predict, and no sense in doing so.

Define the relationship honestly. Strategic partnership or pragmatic engagement? The many proclamations of a "strategic partnership based on common values and shared interests" were premature and have acquired a hollow sound. Strategic partnership is a worthy aspiration, but it has become no more than a slogan. To talk in these terms before we can make it a reality debases the language of diplomacy. At present neither Russia nor the Trilateral area (or countries within it) is ready to form a genuine partnership on terms acceptable to the other. We should acknowledge this fact without undue rancor or name-calling, cease to use the term strategic partnership, and find a more honest way of defining the relationship. This would help to limit the mood swings and acrimony that deceptive terminology engenders.

In practice, grandiose, baroque concepts such as strategic partnership do nothing to enhance relations or affect the agenda of day-to-day business. A partnership, like democracy, has to be built from the ground up. At its core is the idea that support will be given and received in the interests of advancing a common cause, not simply traded against countervailing benefits. This

win-win philosophy does not yet fit with the zero-sum approach still embedded in Russian official thinking. Whether in politics or in business, the Russians are deal makers who pursue and respect a hard-headed approach, not one based on sentiment. Where it suits their interests, they are ready to deal very realistically with others. We should do likewise. "Pragmatic engagement" should be our rubric, not strategic partnership.

The essence of pragmatic engagement should be to cooperate as closely as possible in the many and important areas where we have shared or overlapping interests. These will vary, but at the present time clearly include combating international terrorism; counterproliferation; climate change; inhibiting trade in narcotics; and stabilizing the Middle East, energy supply, and other aspects of trade and investment. This is a substantial agenda.

Global and Security Issues and Areas of Divergence

Design Western policy for Russia's long-term adjustment. The sovereignty and future of the post-Soviet states have become the fault line between Russia and the West. It is here that the corpse of the Cold War risks being exhumed. Western policy needs to be designed to help manage this process through a long period of adjustment.

It needs to be made clear that for the West this is not a zero-sum game. The West is not seeking to advance strategic interests at Russia's expense or to oppose legitimate Russian interests in these regions. It is not seeking to detach neighbors from Russia, and has no interest in encircling Russia (as some Russian politicians are prone to claim) or in neo-containment—**for** the simple reason that there is no need and no cause for such a policy. The West's prime interest is in the stability of the regions neighboring Russia (some of which also neighbor the EU). This ought to be Russia's prime interest, too.

Stability can best be achieved by ensuring that the sovereignty and right of the states concerned freely to determine their own future are inviolable; that ethnic and border conflicts within and between them are resolved through negotiation, not force; and that they are able to develop their governance, institutions, and economies. It is the belief of Trilateral countries that these countries would be best served by the growth of democracy; but this cannot be imposed, and the ideal must be tempered by the reality of the history, traditions, and culture of, especially, the Central Asian states, where fully functioning democracy is at best a very remote

prospect. It is in everyone's interests that, on a sovereign basis free from interference and bullying, Russia's neighbors should enjoy harmonious and productive relations with Moscow.

Four of the post-Soviet states are currently a source of tension between Russia and the West:

- **Belarus.** Aleksandr Lukashenko was reelected fraudulently (there is no way of telling how he would have fared in a fair election) and has a long record of abusing human rights, but he continues to enjoy Russian protection. Until the Lukashenko dictatorship is ended, the Trilateral countries will not be able to have normal relations with Belarus. Thereafter they should give primacy to the wishes of the Belarusian people—when they are able to express them freely. If the Belarusians freely and without coercion were to choose to unite or merge with the Russian Federation, the Trilateral countries would have no justification for opposing this. If, on the other hand, Belarus, as an independent state, sought to forge a closer relationship with the EU, perhaps with a view to eventual membership, the EU should respond positively. It has no need to try to attract Belarus into the union but would have no rational basis for turning Belarus away, should it at some distant point meet the criteria, especially as neighbors such as Poland and Lithuania are inside the EU.
- **Ukraine.** Principles similar to those in Belarus should apply in Ukraine. The West should oppose Russian coercion of Ukraine, not because it seeks to capture Ukraine or has strategic designs on the country, but in order to uphold the sovereign right of the Ukrainians to determine their own future. The EU has sat on the fence over Ukraine's eligibility for membership. It should cease using weasel words and state clearly that it recognizes Ukraine as a European country (no less so than others now in the queue) and would be ready to consider an application—at a point when Ukraine is ready to meet the criteria and so long as this is the democratic wish of a clear majority of the electorate. NATO should do the same. But what the EU and NATO should not do is apply coercion of their own or engage in a geostrategic game with Russia over the heads of the Ukrainian people. It should not be a Western objective artificially to accelerate the integration of states such as Ukraine into the EU and NATO; instead the West should defend the right of the Ukrainians to make a free decision. Opinion surveys in Ukraine suggest that there is no clear majority yet for EU membership, and a clear majority against NATO accession. On any assessment, it will be a long time before Ukraine is in a position to meet the necessary

conditions. Forcing the pace would play into the hands of hard-liners in Ukraine and Russia.

- **Georgia.** Georgia's history since independence has been unenviable. It has suffered from internal conflict, continuous Russian interference, Western inattention, and incompetent and corrupt government. The administration of President Saakashvili, carried to power on a wave of popular support, has disappointed the hopes vested in it for more honest and democratic government and better management of the country's problems. The West should not encourage the delusion that the solution to Georgia's problems lies through NATO or EU membership. It is hard to imagine circumstances in which Georgia could properly qualify for either organization within a time span of many years or could make a meaningful contribution to them; and NATO should think long and hard before even contemplating a footprint in such a fraught and sensitive area as the Caucasus. This is not a step to be taken lightly or frivolously. The Trilateral countries should firmly support Georgian sovereignty and equally firmly encourage attention to internal stability and institution building, a rational approach to relations with Russia and negotiated resolution of the frozen conflicts.
- **Uzbekistan.** The West does not have an untarnished record in Uzbekistan. Uzbekistan's support and willingness to accept the basing of U.S. forces played a crucial part in the operation to oust the Taliban in Afghanistan. The Russian government was supportive, on the understanding that the bases were needed only for a short term. In the interests of realpolitik, Western governments turned a blind eye to the dictatorial behavior of the Karimov regime, until they were forced to take a different attitude by the Andijan massacres. Since Andijan, Karimov has made common cause with Russia and China and has ordered U.S. forces out. This certainly represents a change in the Russian, as well as the Uzbek, stance, but to suggest, as some do, that it is a change in the Russian attitude to terrorism is to oversimplify a complex set of issues. More accurately, it reflects Russian opportunism and hypersensitivity to Western, especially American, military activity around Russia's fringes. In Uzbekistan, as throughout Central Asia, it is unrealistic to envisage a flowering of Western-style democracy in any measurable timescale. A more practical approach would be to build up economic links and seek to play a constructive role in countering instability, terrorism, and drug trafficking in the region while also paying close attention to respect for human rights obligations.

Insufficient attention is being paid to Central Asia. The EU, in particular, should devote more resources to the region, as a 2006 report by the International Crisis Group has recommended.³ The continuing conflict in Afghanistan is adding to existing pressures on regional stability. There is competition between Russian and Chinese interests in Central Asia. The Western and Asian powers should not seek to compete there with Russia and China but to forge a basis for cooperation *to* promote stable development.

Support Russia in the North Caucasus if Russia shifts its focus. On Chechnya and the North Caucasus, we have set out the approach that we believe would lie in Russia's best interests. We think the international community should be alive to the risk that conflict may become more extensive through the region of the North Caucasus. The international community should be ready to give active support to Russia, to the extent that the Russian government is receptive and is ready to adopt policies that respect human rights and international humanitarian law and that are geared to a broad approach to conflict resolution rather than solely to draconian use of force.

Promote a more sophisticated approach to Russia's energy security.

Russia is a significant supplier to the world energy market, especially to former Soviet states and the EU; and Russia can have a large influence on price levels in the market. However, the market does not literally depend on Russia because there are alternative sources, albeit more expensive. The reality is that there is a high level of mutual interdependence. Russia depends heavily on energy exports. Russian energy companies depend on external finance. For future production, Russia will need to exploit resources in more remote areas and will need external technology and partnership with foreign energy and oil field service companies. This interdependence offers a self-evident basis for a market-led approach, under clear and transparent rules on all sides, whereby Russian companies could extend their activities more widely on the international market (Gazprom, for example, has declared its interest in downstream acquisitions) while Russia benefits from investment by multinational companies.

Recognize overlapping interests in the Middle East. Our interests overlap in the Middle East, including in Iran. Sensible handling of Iran and other

³ *Central Asia: What Role for the European Union?* Asia Report no. 113 (Bishkek/ Brussels: International Crisis Group, April 10, 2006).

Middle Eastern problems risks becoming a casualty of the deteriorating Russo-Western relationship. As a neighbor of Iran (in the sensitive Caspian and Caucasus region) and a substantial trading partner, Russia has interests and a perspective not identical with those of Western Europe or the United States. Russia has a strong interest in an outcome that would be peaceful and would avoid the emergence of another nuclear-armed state on its borders. Western policy makers need to recognize this interest and work with Russia to find solutions, but they should not have to pay a price for Russian cooperation where it is manifestly in Russia's interests to work for the same outcome.

Welcome improved Russia-China relations. The improvement in relations between Russia and China should be generally welcomed. Only a generation ago, there was intermittent conflict between these two huge powers. It is far better for the world that they should be friends, having resolved their border dispute. There is a large degree of complementarity between their economies. Deeper cooperation, including the investment of Chinese human and material resources in the development of eastern Russia, would be a rational step. It would help to build confidence and underpin a more stable relationship in the *future*. *On some issues*, the *closer* relationship between China and Russia will turn out to be inconvenient to the interests of Trilateral countries, but this does not make it illegitimate. We should not overreact when this happens, or naively assume that Russia will take the side of the West when the latter is in disagreement with China. Nor is it illegitimate for Russia to supply armaments to China. Russia is not in breach of any United Nations sanctions. It inherited a huge defense industry from the USSR. With the end of the Cold War, it has lost many of its traditional markets to Western suppliers. China (followed by India) is by far Russia's largest remaining market for defense equipment, its largest manufactured export. The Russians have evidently decided that they cannot afford to forgo exports worth billions, despite their own concerns about China's military buildup. Some Russian politicians like to taunt the *West* and Japan with the *notion that* Russia might team up with China in an anti-Western axis. If our analysis is correct, the wariness and suspicion between these two neighbors (indeed, for many Russians, fear) and the strength of their separate interests in and with the West, including trade, make this an improbable scenario. It is more likely that, over time, nervousness about China's growing power could impel Russia to seek closer relations with the West.

Encourage Russia to enhance its cooperation with leading economies and advanced democracies. Russia's membership and chairmanship of the G-8 has been called in question. Russia plainly is not one of the world's eight leading economies and advanced democracies. It has disappointed the hopes vested in it when the decisions were taken on admission and chairmanship. But Russia's membership is a fact and, short of an outrage occurring, the decision to include Russia will not be reversed. To do so would be to create a very deep rift, in no one's best interests. Attention should therefore be focused on how best to use the G-8 summit to encourage Russia to return to a more cooperative path and on how to handle it so that the summit is not falsely presented as a seal of approval.

The controversy over Russian membership should also stimulate further thought about the future of the G-8, which, as we have noted, is not to be taken for granted. The G-8 is not a formal international institution, and it has no legal status or powers. That of itself makes Russia's anomalous membership an easier proposition. Since the group first began 31 years ago at an informal get-together of six leaders to discuss the world economy, it has proved to be an intermittently useful tool, essentially for high-level brainstorming and coordination. Russia's accession broadened the group beyond its origins as a small club of the West and Japan. Rather than seek to remove Russia or to wind the club up, there is a strong case now for the G-8 to institute, under the next chair (the German chancellor), a review of its purposes and methods. This could include the question of whether the membership should be broadened. China and India are obvious candidates (with a case also for thinking, perhaps at a later stage, about South Africa and Brazil). Ten members (actually eleven, as the EU also attends) would not be unmanageable. To those who argue that enlargement would change the nature of the event, we would say that it has already changed, thanks to Russia.

Instruments of Engagement

Reinforce mutually advantageous cooperation. Seeking to isolate or punish Russia, or to withdraw cooperation, would bring no benefit to the interests of the Trilateral countries. It would play into the hands of backward-looking isolationist elements within Russia. Far from thinking along such unproductive lines, we need, to the extent possible, to reinforce the channels through which we can foster mutually advantageous cooperation and narrow the ignorance gap, mentioned above. Six channels are especially important:

- **Business.** With politics in stagnation business has become potentially the most dynamic force for change in Russia. It attracts the young elite and interacts with the outside world; in a growing number of companies, it requires conformity with international standards of law, accountancy, and governance. Wider interaction—business partnerships, Russian entry into rules-based foreign markets, IPOs, shareholder pressure—will have a beneficial influence on all concerned. Trilateral governments and businesses should actively encourage this process, with the proviso that the rules of fair competition should apply equally to all actors. Trilateral governments should do all they can to promote open markets, the education and training of young Russian businesspeople, and interchange between businesspeople at all levels. This would be to mutual advantage, commercially and more widely. The freeing of trade can be a motor for change.
- **Information.** This is best left to market forces and the private sector, although there is a small role for governments, for example, in supporting broadcasting. The rapid dissemination of information has acquired such importance in the global economy that any attempt to constrict it by the Russian authorities would be not only highly unpopular but also damaging to Russian economic interests. Nevertheless, Trilateral governments need to be vigilant in defending the flow of information to and from Russia and should take very seriously any interference with it.
- **Travel.** From a standing start, Russia has become one of the world's main exporters of tourism. Russians are also traveling abroad on business in large numbers. Their exit from the country is not impeded, but getting a visa to enter Western countries is often not straightforward, especially for those outside the elite. Some countries refuse up to half the applications they receive, others as few as 5 percent, while others no longer demand visas from Russians. These are procedures worth keeping under constant review. Facilitating travel by Russians to other countries is one of the most obvious ways of helping them experience the benefits of modern and democratic societies.
- **Education.** Along with business, education should be the most significant instrument for bridging the gap over the next generation. Where there are resources available, there can be no better use of them than in sustaining and expanding the volume of educational interchange between Russia and the Trilateral countries. This can be effected at different levels, from school pupils to postgraduates and professionals, and in different ways, including delivery of education by

international institutions within Russia. Some countries, notably but not only the United States, have been generous in funding exchanges. The Russian government has also played a part, through scholarship schemes and a presidential program. The results can be seen in the success of young Russians who have benefited from educational experience abroad. If we are concerned about Russia's future, these various efforts should be redoubled.

- **Opinion formers and policy makers.** The spotlight of international attention has moved away from Russia, and a degree of Russia fatigue has set in abroad. In consequence, the level of interchange between opinion formers—parliamentarians, media figures, policy experts, academics—has declined. So, therefore, has the level of understanding. One finding from our consultations for this report was that the circuit of experts in Russia and the Trilateral area who meet to exchange views has become very narrow. Expertise is strongest and best resourced in the United States; it is thin in Asia; and it has become surprisingly weak in much of Europe. Given the scale and importance of the EU-Russia relationship, Europe would benefit from a better-connected network of expertise, linking with opinion in the United States and elsewhere and developing exchanges and contacts with a wider group of Russians than is currently the case.
- **NGOs.** There are estimated to be more than 300,000 NGOs of one kind or another in Russia. Most are small and purely indigenous, but some have benefited enormously from links with comparable organizations in other countries. This has certainly been the case in the broad area of learning about democratic practices, of which Russia had no previous experience, but international contact and best practices have been no less important in the social sector, for example in dealing with disability, homelessness, alcoholism, domestic violence, and a wide range of health-care problems. For such activity to be conducted by independent groups and associations is new to Russia; in Soviet times, it was handled exclusively under state or Communist Party control. As we have noted in the report, the urge to control civil society and NGOs, and suspicion about international contacts, has returned. We should do all we can to prevent unfounded suspicions from preventing normal and transparent support and encouragement being given to people who are working to improve life in their own country.

Endpiece

The year 2006 is not the easiest time to be advocating engagement with Russia—albeit engagement, as we have argued, grounded on mutual interests, with less starry-eyed rhetoric, fewer unrealizable ambitions, a firm approach to principles and standards, and a realistic appreciation of Russia's direction of travel. Russia is moving into a tense and difficult period as the Duma and presidential elections, of late 2007 and early 2008, respectively, approach.

The 2008 U.S. presidential election is beginning to cast its shadow. Leaders will be changing within this period also in Japan, the UK, and France. The conflicts in Iraq and Afghanistan are a major preoccupation, as is Iran's aspiration to nuclear status. The high price of oil imposes its own pressures. All of these have the capacity to complicate the management of relations with Russia.

Notwithstanding these distractions and the negative tone that has entered into the relationship with Russia of late, it is the common view of the three coauthors, from three continents, that the best interests of their regions will be served by pursuing a patient, long-term, and, to the extent possible, constructive policy of engagement. As they have stressed throughout the report, they see this as a task for a generation or more, from which we should not be deflected by twists, turns, and bumps along the way. Above all, engagement with Russia should not just, or even primarily, be a matter of engagement with state actors at the highest level. The most effective contribution that the outside world can make to Russia will be to use the many opportunities that now exist to engage with as wide a range of people and organizations as possible.

Roderic Lyne, former British ambassador to Russia is special adviser to BP Group and HSBC Bank. Strobe Talbott is president of the Brookings Institution and served as U.S. deputy secretary of state. Koji Watanabe is a senior fellow at the Japan Center for International Exchange (JCIE) and previously was the Japanese ambassador to Russia.

Program

Saturday, April 22

9:00

Opening Remarks

Yotaro Kobayashi, *Pacific Asia Chairman, Trilateral Commission;*
Chief Corporate Advisor, Fuji Xerox Peter D. Sutherland, *European*
Chairman, Trilateral Commission;
Chairman, BP p.l.c.; former Director General, GATT/WTO Thomas
S. Foley, *North American Chairman, Trilateral Commission;*
former Speaker of the U.S. House of Representatives

9:15

Remarks by Hon. Junichiro Koizumi, *Prime Minister of Japan*

9:30-12:15 **Session 1: Whither Japan: Economic Reform, Rising Nationalism, and Its
Changing Role in the World**

Chair:

Yotaro Kobayashi, *Pacific Asia Chairman*

Panelists:

Kakutaro Kitashiro, *Chairman, Japan Association of Corporate*
Executives; Chairman of the Board, IBM Japan, Ltd. Yoichi
Nishimura, *Political Editor, The Asahi Shimbun* Yasuhisa Shiozaki,
Senior Vice Minister for Foreign Affairs;

Member, House of Representatives, National Diet of Japan

Commentators:

Bill Emmott, *former Editor, The Economist, London* Gerald Curtis,
Burgess Professor of Political Science, Columbia University

12:30-14:30 **Luncheon Session: The Impact of Domestic Politics on U.S. Foreign and
Security Policy**

Chair:

Allan E. Gottlieb, *North American Deputy Chairman; Senior Advisor,*
Stikeman Elliott; former Canadian Ambassador to the United States

Speaker:

Thomas S. Foley, *North American Chairman, Trilateral Commission;*
former Speaker of the U.S. House of Representatives

14:45-18:00 **Session 2:** East Asia Community: Prospects and Implications

Panel Presentations

Plenary Chair:

Jusuf Wanandi, *Vice Chairman, Board of Trustees, Centre for Strategic and International Studies, Jakarta*

Panelists:

Qin Yaqing, *Vice President and Secretary General, China National Association for International Studies; Vice President, China Foreign Affairs University*
Akihiko Tanaka, *Professor of International Relations, University of Tokyo*
Young Soogil, *President, National Strategy Institute, Seoul*
Barry Desker, *Director, Institute of Defence and Strategic Studies, Nanyang Technical University, Singapore*

Concurrent Breakout Session: **Group A**

Chair:

Heinrich Weiss, *Chairman, SMS, Dusseldorf, former President, Federation of German Industries*

Panelists:

Qin Yaqing, *Vice President and Secretary General, China National Association for International Studies; Vice President, China Foreign Affairs University*
Barry Desker, *Director, Institute of Defence and Strategic Studies, Nanyang Technical University, Singapore*

Concurrent Breakout Session: **Group B**

Chair:

Stephen W. Bosworth, *Dean, Fletcher School of Law and Diplomacy, Tufts University; former U.S. Ambassador to the Republic of Korea*

Panelists:

Akihiko Tanaka, *Professor of International Relations, University of Tokyo*
Yu Xintian, *President, Shanghai Institute of International Studies*

Concurrent Breakout Session: **Group C**

Chair:

Dennis C. Blair, *President and Chief Executive Officer, Institute for Defense Analyses; former Commander in Chief, U.S. Pacific Command*

Panelists:

Young Soogil, *President, National Strategy Institute, Seoul*

Yuan Ming, *Vice Dean, School of International Studies, Peking University*

19:00 Reception hosted by Hon. Taro Aso, *Minister for Foreign Affairs of Japan*

Sunday, April 23

9:30- 12:15 **Session 3: In Search of New Global Frameworks for Energy Security**

Panel Presentations

Chair:

Peter D. Sutherland, *European Chairman, Trilateral Commission; Chairman, BP p.l.c.; former Director General, GATT/WTO*

Panelists:

Steven E. Koonin, *Chief Scientist, BP*

Stefano Silvestri, *Chair, Institute for International Affairs, Rome* Naoki Tanaka, *President, The 21st Century Public Policy Institute, Tokyo*

Concurrent Breakout Session: **Group A**

Chair:

Masashi Nishihara, *former President, National Defense Academy of Japan*

Panelist:

Stefano Silvestri, *Chair, Institute for International Affairs, Rome*

Concurrent Breakout Session: **Group B**

Chair:

Oscar Fanjul, *Honorary Chairman, Repsol YPF; Vice Chairman, Omega Capital, Madrid*

Panelist:

Steven E. Koonin, *Chief Scientist, BP*

Concurrent Breakout Session: **Group C**

Chair:

Peter Lougheed, *Senior Partner, Bennett Jones, Barristers & Solicitors; former Premier of Alberta*

Panelist:

Naoki Tanaka, *President, The 21st Century Public Policy Institute, Tokyo*

12:30-14:30 **Luncheon Session:** Europe's Internal Dynamics: Absent Without Leave?

Chair:

Andrzej Olechowski, *European Deputy Chairman; former Minister of Foreign Affairs and Minister of Finance, Poland*

Speaker:

Otto Graf Lambsdorff, *European Honorary Chairman; Honorary Chairman, Free Democratic Party, Germany*

14:45-17:30 **Session 4:** Report by the Task Force on Engaging Russia: The Next Phase

Chair:

Han Sung-Joo, *Pacific Asian Deputy Chairman, former Minister of Foreign Affairs, Republic of Korea*

Panelists:

Koji Watanabe, *Senior Fellow, Japan Center for International Exchange; former Japanese Ambassador to Russia*

Roderic Lyne, *Special Advisor, BP Group and HSBC Bank; former British Ambassador to Russia*

Strobe Talbott, *President, Brookings Institution; former U.S. Deputy Secretary of State*

19:00 **Dinner Panel:** Prospects for the Doha Round after Hong Kong

Chair:

Thomas S. Foley, *North American Chairman, Trilateral Commission; former Speaker of the U.S. House of Representatives*

Panelists:

Paul A. Volcker, *former Chairman, Board of Governors, U.S. Federal Reserve System; former Chairman, Wolfensohn & Co., Inc., New York; Frederick H. Schultz Professor Emeritus, International Economic Policy, Princeton University*

Narongchai Akrasanee, *Director and Chairman, Board of Executive Directors, Export Import Bank of Thailand; former Minister of Commerce, Thailand*

Peter D. Sutherland, *European Chairman, Trilateral Commission; Chairman, BP p.l.c; former Director General, GATT/WTO*

Monday, April 24

9:00-12:00 Session 5: New Challenges of Nuclear Proliferation

Chair:

Henry A. Kissinger, *Chairman, Kissinger Associates, Inc.; former U.S. Secretary of State; former U.S. Assistant to the President for National Security Affairs*

Panelists:

Lee Chung Min, *Visiting Professor, Lee Kuan Yew School of Public Policy, National University of Singapore*

Therese Delpech, *Director of Strategic Affairs, French Atomic Energy Commission; Senior Research Fellow, Center for International Studies (CERI-Fondation Nationale des Sciences Politiques)*

Herve de Carmoy, *European Deputy Chairman, Trilateral Commission; Chairman, Almatix*

Graham Allison, *Director, Belfer Center for Science and International Affairs, Harvard University*

12:00 Closing Remarks by the Trilateral Chairmen