

FUTURE *of* ASIA

2016 CONFERENCE

The Los Angeles World Affairs Council's inaugural "Future of Asia" conference on Sept 15th-16th revealed a continent where economic pragmatism increasingly trumps political animosity, where Asian millennials are focused on the promise of future growth rather than historical grievance, where private entrepreneurs are making inroads into the state-dominated economy in China, where an inward-looking India is starting to engage with the outside world, where a formerly flailing Japan has found some stable political leadership... but where air quality and food safety are suspect, and inter-state rivalries require, more than ever, a stabilizing US presence. Asia is a continent where the stakes are rising rapidly - both in economic promise and expansion of individuals' horizons, but also in environmental and security challenges.

57 speakers and 414 attendees engaged in broad-ranging conversations at the Fairmont Hotel in Santa Monica about the future of the Asia-Pacific and its relations with the US, under the overarching theme of "Asia's Emerging Middle Class" - predicted by the OECD to grow from 500 million in 2009 to 3 billion by 2030. Building on the success of this year's conference, next year the Los Angeles World Affairs Council's "Future of Asia 2017" conference will focus on "Leadership in Asia", both in the political arena and

in the business world. Videos of all the talks and panel discussions from "Future of Asia 2016" will be posted online in the coming weeks.

Growth in Asia

The conference opened with 10 speakers talking for three minutes on their vision of Asia in 2030. Shivshankar Menon, former Indian National Security Adviser, said that by 2030 "Asia will surpass the combined economic and military might of North America and Europe - this is not that the US is declining, but that China and India are rising." Liu Ming from the Shanghai Academy of Social Sciences said that while China today is a significant regional power, by 2030 it will be a global power, "more open and self-confident." Tatsuo Yamasaki from Mitsubishi Corporation warned of an intense competition for natural resources in the future in Asia, and Bloomberg View's Mihir Sharma cautioned that the 500 million Indians under 25 will grow up to be angry and aggressive if India does not become as economically prosperous as they have been given to dream. But the upside for the growing middle class is already showing itself in the travel market - cruise ship passenger numbers are up by 39% in Asia, compared to 4% growth in the rest of the world, according to Jan Swartz of Princess Cruises. Martin Drew of Etihad said that in India, currently only 3% of the population travels overseas - a "mere" 40 million people, while in China just 4% of the population has passports - and Chinese tourists still spend more money around the world than any other nation. Wait until they reach American levels of 35%, or European levels where 70% of the population has a passport!

Much of Asia's growth will occur in the cities - 82% of Americans live in cities, but still just 48% of Asians are urbanized, a figure that is changing rapidly - "One Canada is being built every year in Asia" said Benjy Ward from the architectural firm Gensler. But the breakneck pace of China's urbanization has created daunting concrete megablocks, often with

inadequate basic services, including clean, running water. "The number one threat to humanity is water scarcity, and China is facing that, from leaks and pollution," said Neal Gordon from JM Eagle, the world's largest plastic pipe manufacturer. "Our dream is for Chinese to turn on their tap and have clean, healthy water."



Opening Session: Asia 2030 "Panel of Ten"

Andy Xie, former top China economist for Morgan Stanley, reminded the audience that China is a "reemerging economy", not an "emerging" economy, since it was quite prosperous in the 1920's and '30's. Today he said that despite rapid growth it is being held back by the high level of state investment, compared to private investment: "the nominal GDP is up by 22 times, but nobody has made money off the stock market - that is totally nuts!" As an example of the state's overinvestment, he points out that China builds 10,000 kms of new highway every year. The highway system is already larger than the US - and yet China's automobile fleet is only half of the US. "All China's problems can be traced to this misallocation of capital.

Notwithstanding the drag effects of China's state owned enterprises and India's unyielding bureaucratic red tape, both economies are set to become

powerhouses with enormous buying power. "China and India will account for half the Asian middle class by 2030 and one-third of the global middle class," said Alan Siqueira of Wells Fargo. "The numbers are staggering and will generate significant growth opportunities for multinational companies."

The interdependence of Asia and the US came up repeatedly during the conference, both in terms of the business and investment opportunities spanning the Pacific, and also in the desire of most Asian countries for the US to continue to guarantee the peace in the region, even as they increase their economic ties to China. Bilahari Kausikan, ambassador-at-large from Singapore, said that South East Asian countries "want to have the best possible relationship with both the US and China, and do not want to have to choose between them - the US will play a vital role in maintaining this balance." Kausikan said that the disputes between the US and China may not be able to be solved, "but they can be managed." Jeff Bader, who was President Obama's top Asia advisor on the National Security Council, said that there has been considerable progress between the US and China on climate change and other areas, but said one dark spot was the need for more cooperation on North Korea: "if North Korea continues on this path, we will need to take action against them that China will not like."

Duncan Clark, who has just written a book about Alibaba's Jack Ma, recounted the riveting rise of Ma from tour guide to one of the wealthiest entrepreneurs on the planet through his extraordinary ability to "lead and inspire - he is a fantastic talker." Clark said "If you really want to annoy anyone in Alibaba tell them they are the Amazon of China - they will punch you - because they are really more than that." With the world's biggest IPO of \$25 bn in 2014, Alibaba is responsible for 30 million packages being delivered daily and processes one third of all global online payments. Now the Communist Party has to work out how to deal with such a powerful figure in private enterprise: "The PRC is the 'pragmatic republic of China'," said Clark. "They know they have to adapt - we are talking about a negotiated

transfer of power from the government to the private sector." Albert Wong of Hong Kong Science and Technology Parks said "in the next 10 to 20 years, startup entrepreneurs will take over China and Hong Kong." And while China's legal system is still far behind the US, Christopher Tang from UCLA Anderson School of Management said Americans need to get used to the lack of legal clarity: "that is the way it is - the opportunity is that you can try new things!" Andrew Pan of East West Bank said the US needs to continually encourage China to be an international player. China has "opened the door" to foreign banking, but kept it at a very low percent. And former US Trade Representative Charlene Barshefsky said that 70% of US companies complain that China's regulations are the single biggest barrier to investment in the country. But at the same time Chinese companies realize they need to engage in the west. In a panel on the future of cars moderated by Michael Dunne of Dunne Automotive, Patrick Duan of BYD from Shenzhen said that the reason his company chose to begin making electric cars in California and not back in China was because "the US is a quality market, it is good for brand image. If we made the cars in China and tried to sell here it would not be successful."

Meanwhile as India's growth rate has overtaken China for the past year, Bloomberg's Mihir Sharma sought to deflate the India-China league ranking: "the comparison has always been misleading because China has always had a more effective state - these were not comparable countries for the past 1,000 years." But clearly there has been progress of late, with India's economy predicted to grow by 7.9% this year. Gunjan Bagla of Amritt said that under Prime Minister Modi "corruption in the higher levels of India has been pretty much eliminated." Rafiq Dossani from RAND Corporation reminded everyone that in India, "conditions for the poor are miserable," but said that at the very least in democratic India "there are important election cycles every year putting pressure on the government to perform." But Sharma, who said "I love India - it is so complicated!" warned that India still

lags in education and social services: "an uneducated and unhealthy workforce cannot build strength in a 21st century economy."



Pyongyang-Seoul Panel: Katharine Moon, Yon Young-kwan, Hyeonsoo Lee, Chung Min Lee

On the Entertaining Asia panel, Angela Killoren of CJ Entertainment pointed out how the Korean dance bands of K-pop transcended borders to appeal to many different cultures in Asia and beyond, driven by social media: "Youtube is the primary music discovery platform across the globe." What is more, the high production quality of K-pop videos that have spread around Asia has raised the bar for what audiences in China and elsewhere expect in terms of production quality from their domestically-produced TV and music products - nobody wants to watch shoddily-produced shows any more. Man Jit Singh from Sony Pictures said that there was a similar spreading of Bollywood dance movies which are starting to become popular in China and Korea - "For Indian entertainment the spread out has been bigger than the spread in." Outside the music world, with films and TV dramas audiences are most interested in local content. "People want stories told in their local language with their local stars they know and love," said Killoren. On Thursday night Jonathan Friedland of Netflix said that to appeal

to local markets in Asia - an area that Netflix has only been operating in for less than a year - they were already making multiple shows in Japanese and also producing shows in Hindi, Korean and even in the Cambodian language. "Incomes are rising enormously across Asia and there are lots of adaptations for mobile businesses," said Friedland. "All of this benefits the consumption of entertainment."

Challenges to Growth

Despite the overall optimism amongst most of the speakers on Asia's future prospects, there were some challenges, and none more urgent than the nuclear threat from North Korea, as elaborated by Admiral Harry Harris, the Hawaii-based PACOM commander in his keynote speech on Thursday evening. Noting that North Korea is "the only nation to have tested nuclear weapons this century," Harris, who commands 380,000 US personnel across the Asia-Pacific, said "I want you to stop for a minute and think about this - combining nuclear warheads with ballistic missiles in the hands of a volatile leader like Kim Jong-Un is a recipe for disaster." He called on China to do more to pressure Pyongyang, and said he also prioritized US-South Korean-Japan cooperation against North Korea.

Hyeonseo Lee, a defector from North Korea, told the "Pyongyang-Seoul" panel moderated by Kathy Moon from Brookings how "we woke up some days with whole families disappearing overnight." The government's line was that the disappearances were "the Americans' fault". But today as more and more Chinese cell phones are being smuggled into North Korea the regime's propaganda is less airtight. Yoon Young-kwan, former S Korean foreign minister, said the more contact there is between the two parts of Korea, the more likely it is there will be an internal transformation of the Pyongyang regime, as opposed to a sudden - and potentially dangerous - collapse.

Chung Min Lee from Yonsei University in Seoul called Asia "the department store of security dilemmas", and said "the big debate in Tokyo and Seoul for the next few years is between social security versus national security." As rising prosperity has allowed states to pour money into military resources, Bud Cole from the National War College ticked off a long list of countries in Asia who have begun building a submarine fleet in response to China's submarine program - "China's actions are almost counterproductive," he said. But despite a widely-shared concern over North Korea's nuclear and ballistic missile program, there was notably less anxiety amongst conference participants over the South China Sea that has grabbed the headlines of late. "There is a low probability of conflict breaking out over the South China Sea," said Admiral Dennis Blair, former PACOM commander and Director of National Intelligence. He pointed to a long string of disputes over small island groups from northern Asia between Russia and Japan all the way down to the equator. Adm Blair said the region was used to managing these territorial squabbles, and "all the maneuvering over the South China Sea islands is also bumping and grinding its way through to a balance." Eiichi Katahara from the National Institute of Defense Studies in Tokyo expressed paradoxical concerns about China: "Yes, we are concerned about China's growing [military] capacity, but we are also concerned about China collapsing. We need China to be stable!"

Changing Demographics

In the Asian Healthcare panel UCLA Center for World Health's Tom Coates observed that care in Asia is over-centralized in hospitals, and needs to spread out more. And environmentalist Wen Bo pointed out the toll of increased cancer and other diseases from widespread pollution in China: "think of China as a boxer - he can be very tough and very big - but if he has cancer, he will die."

On the Change in Japan panel, Barrenrock's Clay Chandler pointed out that Japan is losing a million people a year in net population shrinkage, and yet there is little support for increasing immigration into the country. In an earlier session on Friday Tokyo University Professor of Gerontology Hiroko Akiyama had talked about her pilot programs designing communities for Japan's aging society, including giving seniors "workplaces for a second life" with part time jobs growing vegetables on roof-top gardens or providing childcare support. But she too saw little change in the near term on the country's immigration policy.



Dinner Key Note: Admiral Harry Harris

At least the current government of Shinzo Abe is relatively stable, said Tsuneo Watanabe of the Tokyo Foundation - largely thanks to the previous "bad" administrations that nobody wants to return to. Richard McGregor of the Financial Times pointed out the paradoxical relationship between Japan and its large neighbor China, on whom they rely economically but whom they view with suspicion politically: "Japan is not sure if they want China to succeed or fail."

But when asked about the future of Japan-Chinese relations, both Liu Ming from the Shanghai Academy of Social Sciences and former vice finance minister in Japan Tatsuo Yamasaki said that despite the political differences between the two countries, they would have to learn to live together. "I think our countries are both very smart," said Liu Ming. "We will have half competition and half cooperation." And Yamasaki said, despite the areas where they disagree, both countries' economies are closely linked. "We cannot live without each other." Speaking after breakfast on Friday, Richard Wike of the Pew Research Center said that despite the political friction between Tokyo and Beijing, a plurality of Japanese polled (47%) said that China's economic growth "is a good thing" for Japan.

Talking about the "China Dream" as enunciated by President Xi Jinping, Huang Jing of the Lee Kuan Yew School of Public Policy said that, unlike the "American Dream" which is centered on individuals' hopes and achievements, the "China Dream" is a collective, national aspiration, coming from the top down. Or as Claremont's Minxing Pei put it, "What Xi Jinping dreams of is the survival of a one-party system." Meanwhile as for the Chinese middle class and the desire for democracy, Huang said that clearly Chinese citizens want more control over their lives, but "they want evolution, not revolution".

Jeff Wasserstrom of UC Irvine and Chu Dongmei of the Chinese Academy of Social Sciences discussed China's "One Belt One Road" strategy of expanding investment and development across Central Asia. Many countries in the region are keen to have Chinese involvement to balance against Russia's power. But Wasserstrom cautioned that by trying to build railroads in violence-prone countries like Pakistan, China might be overstepping - "China is venturing into dangerous territory there."

The Future of Asia is, of course, uncertain territory - full of opportunity, but pricked with risk and unknowable unknowns. Who could have imagined a

penniless tour guide from a small Chinese city rising to become the world's largest online seller in the space of 15 years? As Asian countries continue to grow in economic and political might, one of the defining questions for their future, and for the future of the world, will be the quality of leadership in Asia - in government, in board rooms, and in society at large. We hope you will join us for "Future of Asia 2017" - "Looking at Leadership."