

IN THIS
ISSUE[Indonesia: Jakarta Bombings and Southeast Asia's Newest Democracy](#)[DPJ Set to Win a Historic Victory in Japan](#)[Rebalancing and Restructuring Growth for Asia](#)[Asia's Rise: What's for Real and What's Not?](#)[Vision for APEC's Third Decade](#)**Indonesia: Jakarta Bombings and Southeast Asia's Newest Democracy**

Indonesian President Susilo Bambang Yudhoyono's landslide re-election on July 8 was quickly overshadowed by suicide bombings in the nation's capital. Will the July 17 Jakarta bombings have an impact on Indonesia's surging economy and its political progress? Analyst Hans Vriens argues that "the attack sets back Indonesia's counter-terrorism efforts, but its political and economic impact has been minor." In [his article](#), Vriens concludes that the bombing is unlikely to weaken the government or prompt a crisis, and the July election highlights both the rewards and the risks of Southeast Asia's newest but most stable democracy. Indonesia has now the freest media in Southeast Asia, more grassroots power, and much less corruption. Vriens expects Indonesia to play a more active role in international affairs, as it is already a member of the G-20, and the natural leader of ASEAN due to its share of population. Despite the positive outlook, however, a key weakness is that the political system depends too much on Yudhoyono.

Rebalancing and Restructuring Growth for Asia

Recent economic data from the [Asian Development Bank](#) confirm that emerging East Asia is moving from recession to recovery. GDP growth is coming more from domestic stimulus than a resurgence in external demand. However, it is becoming clear that longer term growth in Asia must include deeper institutional changes. In [this article](#), ADB Chief Economist Jong-wha Lee says that larger economies in Asia are beginning to see government stimulus boost domestic demand. Asia's possible V-shaped recovery, led by China, could in turn lead the global recovery. More importantly, Asia's ability to sustain long-term growth will require economic rebalancing and safeguarding financial market stability. These require institutional changes, including financial regulatory reform, expansion of social safety nets, broadening and deepening of financial markets, and better support of small and medium enterprises (SMEs).

DPJ Set to Win a Historic Victory in Japan

Japan is likely to experience a dramatic political shake-up. The opposition Democratic Party of Japan (DPJ) appears poised to win a historic victory over the long-ruling Liberal Democratic Party (LDP) in the August 30 general election, as voters defect to the opposition because of anger over Japan's economic troubles and the performance of Prime Minister Taro Aso. According to [Japan Today](#), the DPJ favors a more independent stance from the United States, a smaller bureaucracy, and more international peacekeeping missions for military. The DPJ recently promised dramatic administrative reform and generous social spending, including establishing an annual child allowance, unifying the pensions system, free public high school education, waiving road tolls, and cutting taxes on SMEs. The ruling LDP portrayed the DPJ's planned generosity as "irresponsible populism for an increasingly debt-burdened state." Read [more](#).

Asia's Rise: What's for Real and What's Not?

The degree to which Asia can lead the world is still being debated. [Kishore Mahbubani and William Weld](#) and [Minxin Pei](#) offer contrasting views. Mahbubani and Weld predict that Asia's adherence to Western ideas at a time of crisis could lead to better Asian economic performance. Asia continues to embrace trade liberalization while the West is more protectionist. Combined with Asians' belief in a prominent government role to ensure good governance, the result may be the "Asianization of globalization." On the other hand, Pei argues that Asia is still a long way from closing the gap with the West in terms of economic output per capita and military spending. The region is also burdened by social, environmental, and political threats that could reverse the positive development trajectory. One common thread that emerges from this debate is that Asia has not yet emerged as a thought leader with a new formula for global growth and stability. Whether or not government intervention has made Asian capitalism succeed is arguable, as many economies flourished when their governments allowed more freedoms. While the Washington Consensus was accepted for many years, an Asian Consensus for development emerging from Beijing, New Delhi, or another Asian economic and political hub has yet to take shape.

Vision for APEC's Third Decade

Do the Asian members of APEC want to prioritize economic cooperation within East Asia, or do they want broader cooperation of economies around the Pacific? APEC enters its third decade facing tensions over its purpose and priorities. In [this article](#), Fred Bergsten, director of the Peterson Institute for International Economics, offers four options for APEC: 1) Terminate APEC; 2) Conduct business as usual; 3) Support major reform of the global economic architecture; 4) Renew aggressive leadership of the Asia Pacific. APEC will be chaired over the next three years by Singapore, Japan, and then the United States offering the group an opportunity to pursue the latter two options in order to strengthen trade ties within Asia and solidify relations with the United States. In light of the large drop in global demand and the toll it has taken on trade-dependent Asian economies, [Jeffrey Schott](#) recommends implementation of policies that do not limit market access, acceleration of Doha negotiations, and broader measures on energy and the environment as well as regional integration, united under the Trans-Pacific Partnership (TPP). To read about more detailed proposed actions from the recent meeting of APEC trade ministers in Singapore, click [here](#).