President Charles E. Morrison and a panel of East-West Center analysts discussed the outlook for Asia in 1999 at the first of an on-going series of briefings for media representatives in Hawaii. The session focused on the consequences of the economic crisis, Indonesia’s future, as well as issues related to political security and energy consumption in the region.

Morrison began with comments on the economic situation. “There’s a sense we’re in a period of stability,” he said. “Some economies may have turned the corner. South Korea looks better. Thailand looks like it’s been able to adhere to its International Monetary Fund program.”

But he said observers have raised questions about whether this recovery is real or the result of movements of short-term capital, and whether necessary structural reforms have been made and investor confidence in the region has returned.

“We have questions about Japan and its program and its huge impact on the rest of the region,” he said. “We have questions about China and whether it can maintain the growth rate. And we have questions about the global system, whether there will be more crises in other countries that will affect markets and plunge us into a serious global crisis, whether growth can be maintained in the United States.”

The U.S. trade deficit in Asia has been growing not so much because of increased consumption in the U.S. but because exports to the region have fallen. “If our economy slips into a slower growth period, these trade issues could become much more problematic politically,” Morrison said. “It’s amazing to me in the last year, how rapidly the trade deficit has grown with as few political consequences, aside from the steel industry, which has been particularly affected.”

The crisis has also affected regional organizations, APEC in particular, he noted. APEC has become identified with trade liberalization and facilitation, and the environment for promoting that is much poorer now, he said. There is a sense that APEC has to reinvent itself and adjust goals to fit present circumstances.

**China and Devaluation**

In response to a question about the impact of the financial crisis on China, economist Manuel Montes suggested that China’s leadership has taken diplomatic advantage of the fact it has not devalued its currency while there are very sound economic reasons for their actions. These include double-digit growth rates of
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continued from page 1

exports to the United States and Europe, and adequate resources to clean up problems in the domestic banking system.

“The problem is Hong Kong,” Montes said, “how to shore up Hong Kong using China’s resources.”

He advised that rather than devalue its currency, China find a way to a more stable, sustainable growth rate of perhaps 6 to 8 percent. “If they try to grow too fast, then they run into other problems.”

Indonesia’s Stability

Politically as much as economically, Indonesia continues to be of grave concern to the region. “Indonesia is undergoing a genuine revolution,” said Richard Baker, an international relations specialist. “This is not just an economic crisis. The current situation is grim, the level of political conflict and human suffering is extreme.”

The best case plausible scenario is that elections this year might bring to power a coalition of groups advertising an agenda of change but also providing some protection and reassurance to the vested interests, Baker said. Then an election five years hence might produce a coalition of opposition groups winning a majority of Parliament which enables the negotiation or election of a president, from among the opposition leaders.

The worst case scenario would see the disintegration of the country. “It would be a messy kind of political transition,” he said, “maybe not exactly in the Soviet model of some kind of federation. But a very chaotic situation at a human cost that would be dreadful.”

“The disintegration of Indonesia would be a severe blow to the region, certainly to Southeast Asia. Indonesia has been at the center of ASEAN. It’s of major importance to Japan because of the flow of oil and there are a number of American interests at stake. One of the key factors in the future of the country is whether the military can recover from the loss of morale and legitimacy with the public and once again provide a basis of stability for the country.”

Chances for Confrontation

North Korea continues to be a potential flash point and during the first half of the year there will probably be difficulties over maintaining the framework agreement on nuclear weapons, Morrison said.

And he anticipates problems this year in U.S.-China relations, affected by Chinese crackdowns on democracy and opposition movements. “Behind that are very different visions of what each of these countries view as their roles in the region. China would like to contain U.S. influence, the U.S. would like to modify the kind of China that it sees.”

Impact of Lower Energy Prices

Energy is of importance to a region dependent on outside sources for its needs. More than half of Asia-Pacific’s oil consumption comes from outside the region, predominantly the Middle East. The good news for the region is current lower oil prices, especially welcome among countries hard hit by the economic crisis, observed Widhyawan Prawiraatmadja, an energy specialist. “We think oil prices aren’t going to reach a higher level for many years to come,” he said. “We foresee that by 2005 or even 2010, the price of oil in real terms will not be as high as the 1996-97 level.”

However, he pointed out the bad news is that with lower prices, there will be less incentive to protect the environment, especially in countries with the worst economic problems.

Pacific Islands Difficulties

While small in population, the Pacific islands haven’t been immune to the economic crisis in Asia. The number of tourists from Asia, particularly Japanese and Koreans, has declined dramatically, said Sitiveni Halapua, director of the Pacific Islands Development Program at the East-West Center. While the numbers of tourists to the region are small — 400,000 tourists to Fiji; half of that to Tahiti — this decline in visitors has a large impact on small economies.

At the same time, there has been an increase in the number of Asian entrepreneurs and laborers to Micronesia, the Northern Marianas and Belau, although it isn’t clear whether this phenomenon is related to Asia’s problems, he said. “Because these communities are relatively small, this will have a tremendous social and economic effect on the population and, of course, political influence.”

Harvesting of fisheries resources by foreign investors in the Pacific islands continues to be an issue since about 90 percent of foreign fishing vessels in the region are from Japan, Korea, and Taiwan. “Management of fisheries resources in the area is a problem because of the dichotomy between ownership of resources by Pacific island countries and the use of resources by foreign investors,” Halapua explained. “It is difficult to reconcile these two conflicting interests. The Pacific islands are interested in management of resources in a sustainable way, whereas most of the foreign investors are interested in maximizing profits in the short run. So it’s an issue that affects the bilateral relations between the Pacific islands and the major fishing countries.”

Of long-term importance are the negotiations between the Federated States of Micronesia and the Marshall Islands, and the United States over compact agreements which must be renegotiated in 2001. Morrison said meetings to negotiate these agreements may take place at the East-West Center.
Malaysia, Singapore, and Indonesia face domestic political and economic challenges that have strained relations among these three Southeast Asian neighbors. While Singapore and Malaysia have the mechanisms to cope with these challenges, it will be years before Indonesia regains the kind of political stability of the Suharto era, predicts Muthiah Alagappa, director of studies at the East-West Center.

Alagappa presented an update of domestic politics and economics in Southeast Asia at a January Asia-Pacific briefing for Honolulu business leaders, sponsored by the Bank of Hawaii. Alagappa, a specialist on international politics and security in the Asia-Pacific region, regional governance and political authority and change in Asia, recently returned from extensive travel to the area.

“I think one has to be fairly cautious in terms of drawing generalizations about this region as a whole,” he said. “I think there are many strengths in Southeast Asia, however, I will also argue that there are several weaknesses that were not noticed during the period of high growth and have now become much more visible.”

Alagappa began by tracing the economic growth in Malaysia, including the strides made in the past decade under Prime Minister Mahatir bin Mohamad, when per capita income rose from $500 to $5,000. He also discussed the political situation in the country, which has been rocked by the trial of former deputy prime minister, Anwar Ibrahim and anti-Mahatir demonstrations.

“I think the political system in Malaysia is still relatively strong and quite capable of weathering this particular crisis,” Alagappa said. He foresees Mahatir, who is in his mid-70s, leaving office some time in the next two years. “I think, after Mahatir, there’s enough strength for the political system to be rebuilt. The key question is what will be the long-term consequences of the economic policies he has pursued.”

Singapore, well-managed and with relatively strong financial institutions, has not been as badly affected by the economic crisis as other Southeast Asian countries. However, because of its location and size, Singapore is substantially affected by developments in Indonesia and Malaysia.

While Singapore is stable politically, there are questions about how the nation will fare in the long-term, he noted, whether there is enough flexibility in such a technocratically, tightly managed system. Economically, Singapore has ambitions of becoming the financial center of Southeast Asia and East Asia but Alagappa questioned whether Singapore has the human resources and freedom to achieve that goal.

With only three million people, “Singapore will have to be a regional and global city to stay competitive,” he said. “That is the challenge for Singapore.”

Far more serious are the problems facing Indonesia, which Alagappa enumerated. These include the credibility of the Habibie government; the elections in the middle of this year and whether they can produce a strong, stable government that can undertake necessary economic policies; the role of the military; and whether Indonesia will be able to continue as one country. Along these lines, he raised the question of whether Indonesia’s political system will remain a unitary state or move toward a federal system with more powers given to the provinces.

“One should not forget Indonesia is really a country of countries,” Alagappa explained. “There were many countries which under the Dutch rule came together and formed as Indonesia in the post-Dutch period. So Indonesia is very much in the nation-state formation process.” Many of the challenges Indonesia faces today are the result of problems ignored while Indonesia was experiencing economic growth.

“So you can draw parallels with Malaysia and Singapore,” he observed. “In those two countries you had political development which accompanied economic development. In the case of Indonesia, you had economic growth and development but you really did not have political development.

“What you have in Indonesia is political chaos and anarchy that have completely wiped out economic growth and development. More than 40 percent of the population is under the poverty line. So you can see how important it is that politics and economics go hand in hand.”

Alagappa concluded his talk with a discussion of relations among the three countries. For years, relations between the three countries were sound because relations between Malaysian Prime Minister Mahatir, Singapore Prime Minister Lee Kuan Yew, and Indonesian President Suharto were sound. However, with different leadership emerging, current relations between the countries are strained because these personal ties do not exist.

“It goes to show that institutional development in these countries is still not strong enough,” Alagappa said. He does not expect relations between these core countries of the Association of Southeast Asian Nations (ASEAN) to improve until there are some changes in leadership and a return of political stability and economic growth.

He suggested that after May elections in Indonesia the political situation there should be less volatile but nowhere as predictable as during much of Suharto’s rule. “My guess is there will be a weak coalition,” he said, “which means you are not going to get the kind of stability that was provided under the Suharto era.”

Challenges for Stability in Southeast Asia

Muthiah Alagappa
3 Receive EWC Distinguished Alumni Awards

Three recipients of the 1998 EWC Distinguished Alumni Awards were honored at the East-West Center Association's regional conference in the Philippines, January 27-29. Awards were presented to:

■ Kwang-Kuo Hwang, professor, Department of Psychology, National Taiwan University. An EWC grantee who received his Ph.D. from the University of Hawaii in 1976, Hwang served as president of the EWCA Taiwan chapter in 1983-86.

■ Abdul Rashid, principal scientific officer, National Agricultural Research Center, Land Resources Research Institute, Islamabad, Pakistan. An EWC grantee in 1968, he has been instrumental in developing the Pakistan chapter of the EWCA.

■ Tin Myaing Thein, executive director, The Immigrant Center, Honolulu. While an EWC grantee, she earned a B.S. degree in microbiology in 1966. Thein served as a member of the EWCA Executive Board from 1989-92.

The Distinguished Alumni Awards honor former EWC participants for exceptional accomplishments in their professions and contributions to East-West relations and understanding. It was established through an endowment from the late Dai-Ho Chun, director of the Center's former Institute of Technical Interchange.

Japan Gives $363,000 to PIDP

The government of Japan presented a $363,000 contribution to the East-West Center's Pacific Islands Development Program (PIDP) in February.

“The government of Japan has always supported the East-West Center and the PIDP activities for their worthwhile causes,” said Gotaro Ogawa, Japan's consul general in Hawaii. “This contribution expresses the strong commitment of the Japanese government to the sustainable development of the countries and the improvement of the people’s well-being in the Pacific region.”

EWC President Charles E. Morrison said, “We are very grateful for the support provided by the government of Japan to our Pacific Islands Development Program. Japan has been our foremost partner over the years, and this support is all the more appreciated since it comes against the backdrop of severe Japanese fiscal constraints.”

Since 1978, Japan has provided more than $3.6 million to the Center, primarily to assist PIDP in meeting the research and training needs of the people of the Pacific islands region.

Abe Fellowship to Valencia

Mark J. Valencia, a senior fellow at the EWC since 1977, has been awarded a prestigious Abe Fellowship for research on promoting cooperation among Northeast Asian countries in the settling of marine policy problems.

Valencia plans to identify conditions and policies that constrain or enhance regime formation and design a specific regime for cooperative marine management in Northeast Asia. His recent books include “Sharing the Resources of the South China Sea,” “The Russian Far East in Transition,” and “Atlas for Marine Policy in East Asian Seas.”

The Abe Fellowship Program, created in 1991, is a central component of the Japan Foundation's Center for Global Partnership (CGP) and is administered by the Social Science Research Council in cooperation with the American Council of Learned Societies.
A Americans and the U.S. media are still struggling with the way we think and write about the relationship between our public and private lives, between the personal and the political, observed Ellen Goodman, columnist and associate editor at the Boston Globe and the recipient of the Pulitzer Prize for Distinguished Commentary in 1980.

In December, Goodman delivered an address at the East-West Center as the 1998 George Chaplin Fellow in Distinguished Journalism. An audience of more than 350 people heard her speech, “The Personal Is Political, The Political Is (Too) Personal,” in which she discussed what this change in media coverage means for the way Americans do and don’t deal with pressing problems in the United States.

She traced the transition in American journalism from packaging “the world into nice little sections” such as politics, foreign affairs, public policy, family, home, women, children, and relationships. A slogan coined by the women’s movement, “the personal is political,” suggested a new way to cover social problems as well as our political leaders. It implied that someone’s character was only fully understood by knowing about someone’s private as well as public behavior, Goodman said. A leader’s personal life carried within it some meaning about how he or she would lead us.

“It seemed to me we couldn’t exclude the personal man or woman when we wrote about the political,” she said. “I was an advocate for change, of personalizing our coverage. Be careful what you wish for.”

Coverage of American political leaders changed dramatically from that of a half century ago when Franklin Delano Roosevelt was almost never photographed in a wheelchair to the present when “adultery became a national issue,” Goodman noted.

“But the truth is that even before Monica Lewinsky became a household name, we had not achieved any sophisticated balance of the public and private side,” she said. “It became harder and harder to figure out when writing about private behavior was a serious matter of character investigation and when it was an invasion of privacy.

“Political reporting has become more a matter of psychology and less of politics. We have become more familiar with our leaders and in this democratic process of bringing them close we have also brought them and our institutions further down. Institutions have become so thoroughly personalized that the Congress seems to us to be nothing more than the dubious sum of its flawed members.”

“The good news — and there is a tiny bit of good news in all of this — is that the public has essentially begun to make up its own mind,” she noted. “Citizens don’t need the Washington Establishment to tell them what they think. They have rejected wholesale the desire of the Washington media that Clinton had to go. They read and they think differently. This election proves that they are way ahead of us in the media. So do the polls.”

But what troubles Goodman is that “for all the humanizing of politics and despite the attempt to bring the process up close and personal, put a face on it, more people than ever feel that politics has nothing to do with their lives. We may have brought our politicians into our readers’ and viewers’ homes but we haven’t brought our audience into the political process. We haven’t even closed the gender gap.

“It’s the connections that are still missing, misfiring although perhaps in another direction, the connections that make us see the whole. If Republicans learn that people want to hear less of Monica and more about their schools, will the media learn it? How will we deal with it?”

Goodman proposed some perspective for the future, including upholding the principle that asks “whether this piece of personal behavior is relevant to the performance of someone’s public duties.” The people the media covers also have a right not to answer the media’s questions — “I say this with a reporter’s lump in my throat,” she quipped.

“We can also be less hasty and more layered in our analysis. We can try and fit one event into the context of a life or a career far more sensitively than we do now. Fundamentally we have to encourage people to know more not less so that we are not at the risk of being a bumper sticker society. And finally, of course, we can learn to make character judgments the way porcupines make love — very, very carefully.

“As the pendulum swings back, that’s the connection we have to restore, it’s the unfulfilled meaning of that phrase, ‘The personal is political and the political is personal,’” Goodman concluded.

“Restoring that connection is as hard a task as any we encounter. It’s perhaps more likely to happen, as it is, at a local level where people can see the school, the waste dump programs, but it has to happen as well in our nation. It’s a tall order for us journalists and for those of you who read and watch us and demand more.”

(The George Chaplin Fellowship in Distinguished Journalism was established by an endowment from Duty-Free Shoppers Hawaii.)
Publications in Review


The popular image of a Vietnamese landscape is of a verdant plain checkered by rice paddies. But most of the country is actually hilly and mountainous, and a third of Vietnam's people live in upland areas. What happens there has serious ramifications extending to the whole nation, and beyond it to other mountainous regions in Southeast Asia and Southwest China.

Environmental degradation, the loss of biological diversity, the deterioration of watersheds and the marginalization of ethnic minorities are just some of the problems occurring in Vietnam's uplands and throughout this vast mountain region.


Asia has undergone sweeping demographic and social change in recent decades, much of it involving youth. In part because of the dramatic growth in their numbers and in part because they can be a source of problems as well as a major resource for national development, young people have become the focus of intense interest to policymakers. This report assembles data on demographic and social changes affecting youth — defined as the 15-24 age group — in 17 Asian countries over the period from 1950 to 1990. It also projects trends in key demographic and social indicators to 2025 for the region as a whole, its three subregions, and the 17 countries.


The challenges of globalization have taken on a new urgency in light of the profound effect of the Asian financial crisis on regional stability. The region and the entire world must review both the positive and negative impact of globalization as national societies attempt to make needed adjustments without undue dislocation and economic pain.


A team of Indonesian and American experts explores the impact of economic change on 12 major Indonesian institutions, including the armed forces, the bureaucracy, the media, and political parties. The growing gap between a slow-to-change government structure and the dynamism of the broader society poses dilemmas for the next generation of leaders and Indonesia’s development.
The Consortium for Teaching Asia and the Pacific in the Schools (CTAPS), an East-West Center project initiated in 1988, has received a $520,000 grant from the Freeman Foundation to expand Asia-Pacific studies in elementary and secondary classrooms nationwide. “A major national task facing the United States is to increase American understanding of contemporary Asia,” said Elizabeth Buck, EWC director of Asian and Pacific studies. “Educators at all levels have a responsibility to prepare students to engage in a world where Asian countries play important economic, political, and cultural roles.”

The Freeman grant will fund a 1999 field work summer seminar in Laos, Cambodia, and Vietnam; field work seminars in 2000 and 2001 in Indonesia and the Philippines; teacher workshops in Boston, St. Louis, Seattle, Chicago, Denver, and Eugene, Oregon; and expansion of the CTAPS website on the Internet.

Over the last two years, the Freeman Foundation has supported two field seminars to Southeast Asia and four U.S. mainland teacher workshops.

Five grants totaling $2.3 million were awarded to the EWC for population- and health-related research, training, and dialogue.

The grants include two subcontracts from the U.S. Agency for International Development (USAID) for projects over the next two years. In addition, the Center received funding from the William H. Gates Foundation, the United Nations Population Fund, and the Rockefeller and Packard Foundations.

The grants include:
- $1,088,790 from USAID through the Carolina Population Center, University of North Carolina-Chapel Hill. The funds are for a comparative study of young adult reproductive behavior, sexuality, and fertility in Asia; a study of primary determinants of variations in HIV prevalence in Asia; and population and health training workshops for participants from Asia at the EWC Summer Seminar on Population.
- $516,993 from USAID through the Rockefeller and Packard Foundations.
- $1,088,790 from USAID through the Carolina Population Center, University of North Carolina-Chapel Hill. The funds are for a comparative study of young adult reproductive behavior, sexuality, and fertility in Asia; a study of primary determinants of variations in HIV prevalence in Asia; and population and health training workshops for participants from Asia at the EWC Summer Seminar on Population.
- $174,097 from the United Nations Population Fund for population- and health-related research, training, and dialogue.
- $280,000 from the William H. Gates Foundation to prepare and disseminate a report on the future population of Asia. The report, to be written in a non-technical style, will be disseminated widely and published on the Internet, where an electronic forum will be established to solicit reactions and ideas.
- $244,403 from the United Nations Population Fund for analysis of the India National Family Health Survey. The EWC proposed and implemented the first national family health survey, which was a collaborative research and training activity.
- $174,097 from the Rockefeller Foundation and an equal amount from the David and Lucile Packard Foundation for a forum on development cooperation in the reproductive health and family planning sectors.

The East-West Center has been designated as the permanent secretariat for the U.S. Consortium of APEC Study Centers. The EWC served as the first temporary secretariat for the Consortium until 1996, when the secretariat was rotated to the Kenan Institute in Washington, D.C. Last year, however, Consortium members decided to establish a permanent home to facilitate continuity and strengthen international liaison.

Established in 1994, the Consortium links resources of institutions of higher education to advance the work of the Asia Pacific Economic Cooperation (APEC) forum. The Consortium interacts with governments, foundations, and business groups to connect the world of education with the world of policy management. Internationally, the Consortium promotes collaboration between U.S. institutions of higher learning and their counterparts in other countries.

Members collaborate on policy-related research on major issues in the Asia-Pacific region to promote the exchange of ideas and technologies. They also work to promote the exchange of students and scholars engaged in advanced studies related to economic development, cooperation and stability in the region.

“The decision to place the secretariat here is a natural for the Consortium and for the East-West Center,” said EWC President Charles E. Morrison, who served as chair of the Consortium in 1996-98. “We have established Asia-Pacific community-building as the institutional objective of the Center, and this is also the function of the APEC Study Center network. Our support for the secretariat is part of a broad set of activities that we have that strengthen the process of Asia-Pacific regional cooperation.”

The joint APEC Study Center of the EWC and the University of Hawaii was a founding member of the Consortium. Other U.S. study centers are at Brandeis University, University of California at San Diego, Columbia University, Michigan State University, North Carolina State University and the Kenan Institute, University of Washington, and Washington State University. Other Consortium members are located in New Jersey, New York, and Texas.

International members are in Australia, Canada, China, Indonesia, Japan, New Zealand, the Philippines, Singapore, and South Korea.
MANILA — Asian countries must strengthen their financial sectors and ensure that public and private investments are more efficient, a top official of the Asian Development Bank said.

The bank is helping countries reform their financial systems by providing funds aimed at strengthening the independence of central banks and attacking institutional deficiencies that breed official corruption, said Shoji Nishimoto.

Manuel M. Montes, a senior fellow with the East-West Center, stressed the importance of establishing more realistic and stable exchange rates as a precondition to economic recovery in Asia.

“The bottom has been reached. Asian economies are beginning to recover,” he said.

The main threats to an Asian recovery this year would be a collapse of the Japanese banking system and a crash on Wall Street, said Mr. Montes, who considers U.S. stocks to be sharply overvalued.

“The real issue for Japan is not economic stimulus, but weakness in the banking system,” he said in an interview during the conference (sponsored by the Honolulu-based East-West Center). Until the Japanese banks begin to write down assets, they don’t know whom they can lend to, Mr. Montes said.

If the Japanese banks collapse, funds would flow out of the country to a safe haven in the United States. That, in turn would cause a depreciation in the value not only of the yen, but also of other Asian currencies. Likewise, a stock market crash in the United States would bring an end to U.S. economic growth and therefore lead to reduced U.S. imports, throttling Asian exporters that are heavily dependent on continued buying by U.S. consumers.

The strong growth in the West has bought Asian countries a lot of time,” says Andrew Szamoszegi, senior research fellow at the Economic Strategy Institute, an international trade think-tank in Washington. “If that growth slows, it could make it more difficult for them to recover.”

That’s why many economists argue that it’s in Asia’s interest for commodity prices to stay low, as they are forecast to. Some countries, notably oil-rich Indonesia, might benefit from a rebound in prices. But higher commodity prices would likely put pressure on Organization for Economic Cooperation and Development central bankers to raise interest rates to head off inflation. That would slow economic growth and, in turn, noncommodity imports from Asia. The effect, overall, would probably hurt most Asian countries more than it would help them. “Keeping inflation at bay worldwide is the biggest single factor in Asian recovery now,” says Michael Delaney, an international trade specialist and diplomat-in-residence at the East-West Center in Hawaii.

SINGAPORE — China’s crude oil imports are expected to bounce back to record levels in 1999 as continued growth in demand and falling domestic production take effect, Chinese official and industry sources said.

A consensus view was that imports would be around 35 million tons, or 719,178 barrels per day (bpd). This would compare to the record import volume set in 1997 of 35.47 million tons and imports of 27.3 million tons in 1998.

China has long expected its trade balance in crude to move in favor of greater imports as domestic production wanes and strong economic growth continues.

China has long expected its trade balance in crude to move in favor of greater imports as domestic production wanes and strong economic growth continues.

It has embarked on building a portfolio of crude exploration acreage abroad, most notably in Central Asia and Iraq, to meet future demand growth.

Official media reported crude consumption was expected in 1999 to reach 190 million tons.

Other forecasts put expected consumption at a lower level of 184 million tons.

Kang Wu of the East-West Center in Hawaii, a research group, said forecast 1998 consumption of 171 million tons in crude would grow four to five percent in 1999. Wu’s forecast implied consumption at 179 million tons.

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Thank You For Your Support!

Building An Asia-Pacific Community, the East-West Center Foundation’s 1998-99 Annual Membership Campaign, raised $59,175 in contributions (from 6/98 to 1/99) from alumni, staff, volunteers, businesses and community supporters.

WOULD YOU LIKE TO GET OFF THE STOCK MARKET ROLLER-COASTER?

The stock market took investors on quite a ride over the last few months of 1998. Just in the last half of the year the market went from record highs to a precipitous drop and back to new highs.

Against the stressful backdrop of a roller-coaster stock market, interest rates have continued their downward trend to historically low levels. This leaves investors even less incentive to sell and generate taxable gain since reinvestment of their net proceeds will produce only meager fixed-income returns.

Essentially, these concerns boil down to questions of risk and reward for the investor:
- How can I protect my stock gains without incurring a large capital-gain-tax bill?
- Is there any way to get a reasonable return on my assets given the current interest-rate climate?

The hard truth is that the stock market does not offer any guarantees. Even if the general direction of the market remains positive, any given stock can fall on hard times. And there are few options for attractive yields from traditional sources in the marketplace without significant risk.

Protect Your Gains With A Charitable Remainder Trust

A charitable remainder trust is an excellent vehicle to use to lock in gain in securities and produce attractive cash flow. If a donor uses long-term appreciated securities to fund a charitable remainder trust, he or she can take a deduction — and receive income payments based on the full fair market value of the securities and not have to recognize or pay tax on any paper gain.

There are two types of charitable remainder trusts:
- A charitable remainder unitrust (CRUT) makes variable payments based on a specified percentage of the value of the trust as it changes annually.
- A charitable remainder annuity trust (CRAT) pays a fixed amount each year regardless of any change in value of the trust's principal.

The distribution percentage designated for either type of trust must be at least five percent (5%). A charitable remainder trust can be created for the life of one or more beneficiaries or for a specified term not to exceed 20 years.

Either type of charitable remainder trust can be used to create a source of increased retirement income or supplemental cash flow payments. However, a CRAT may be a better choice for a donor who is looking for the security of fixed income without being subject to the risks of the market.

Example: James and Betty Jones, both aged 70, have done quite well in the market. Recent market fluctuations, however, have left them a bit unsettled about future prospects of one particular stock they bought a few years back for $25,000 that now is worth $250,000.

Now that they are retired, they would like to convert that stock — which pays no dividends — to an investment that produces retirement income. Despite these concerns, the Jones are reluctant to liquidate the stock and realize a $225,000 gain that would generate tax of $45,000 (20% capital-gain tax on $225,000 of long-term capital gain). Invested at 5%, the net proceeds of $205,000 ($250,000 – $45,000) would produce $10,250 in income for them each year.

By transferring the stock to the CRAT, they would avoid tax on the paper gain. Since the stock paid no dividends, all the payments from the trust represent an increase in their available annual resources.

The gift entitles the Jones to an income-tax charitable deduction of $76,893. In their 39.6% tax bracket, this saves them $30,449. Note: The tax savings invested at five percent (5%) would produce an additional $1,522 of income. Added to the $17,500 generated by the trust, the charitable plan would produce $19,022 each year compared to $10,250 if they had sold the stock and reinvested the net proceeds.

For more information, please contact Gary Yoshida, EWC Foundation development officer, at 944-7196 or by email: yoshidag@ewc.hawaii.edu

The East-West Center Foundation’s share of the 1998 Hawaii-Pacific Combined Federal Campaign (CFC) donations is $876. The CFC is the only authorized charitable fundraising drive in the federal workplace. This was the first year in which the EWC Foundation was eligible to receive CFC funds.
On behalf of the East-West Center, we would like to thank those individuals, corporations, businesses, foundations and organizations who have generously contributed to the East-West Center Foundation.

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Corrections to Previous Issue

The gifts listed in the Fall 1998 insert of the Observer were received between April 1, 1998 and September 30, 1998.