



The Estonian Development Fund and the Foreign Affairs Committee of Riigikogu, the Estonian Parliament, held a future strategy seminar titled „Rise of Asia: Impact and Strategic Choices for Estonia“ on September 30th, 2011. The seminar was led and facilitated by global futurist and Asia strategy expert Rohit Talwar, CEO of Fast Future Research.

The 'Rise of Asia' is among the biggest megatrends currently affecting the world economy, business and the global political landscape. Estonia's interactions with Asian countries have so far been modest. However, the question has now been raised as to whether and how the country should deepen its economic and commercial ties with key Asian economies.

To help explore this issue, the Estonian Development Fund has adopted Asia as a key focus for its foresight work. In addition, the Foreign Affairs Committee of Riigikogu is holding a year-long series of briefings and consultations on possible options for a national 'Asia strategy'. The results of this enquiry will be compiled in a report to be presented in spring 2012. The seminar was designed to provide focused inputs for both initiatives. The seminar was co-designed by EDF and Fast Future.

The participants were a cross-sectoral group of 30 decision-makers and opinion-leaders drawn from parliament, governmental institutions, universities and private sector (see Annex 1 for list). Rohit Talwar opened the session with a context setting presentation on how key Asian economies are developing and the key drivers of their future growth and evolution. He also presented a set of four possible scenarios for Asia's development over the next decade (see Annex 2). A videocast of Rohit's presentation and the slides can be viewed at <http://www.arengufond.ee/videocasts/videocast2049/>.

The presentation was followed by a discussion of the key issues and questions that had arisen. The participants then divided into six smaller groups to outline alternative strategies that Estonia could pursue in relation to its future engagement with Asia. To encourage full participation and generate debate, three alternative strategies were considered with two groups discussing each option. Presented below are the outlines of the draft strategies developed by each of the six work groups:

- **Accelerated Engagement** – rapid build-up of engagement across a range of countries and sectors
- **Cautious Engagement** – gradual build-up of engagement focusing on a few key countries and sectors
- **No Engagement** – no formal plans or objectives for Asia, retaining a focus on Europe and the West, only reactive responses as *ad hoc* opportunities come from Asia to Estonia.

The aim of this consultation paper is to spark ideas and encourage wider discussion and debate on Estonia's options for engagement with Asia, going beyond the seminar. Hence, the Estonian Development Fund will maintain this document as an open discussion paper and welcomes all comments and reactions to the ideas raised in it. **Specifically we are interested in your views on the scenarios, the strategic options outlined, alternative strategies that could be considered, and ideas on how best to select and develop the right option for Estonia.**

Please send your views, comments and requests for further information to Siim Sikkut, Economic Expert at Estonian Development Fund, siim.sikkut@arengufond.ee.

To discuss the scenarios, feel free to contact Rohit Talwar, CEO, Fast Future, rohit@fastfuture.com.



Strategy Option	‘ACCELERATED ENGAGEMENT’ - GROUP 1	‘ACCELERATED ENGAGEMENT’ - GROUP 2
Objectives (<i>eesmärgid</i>)	<ul style="list-style-type: none"> • Technology and R&D cooperation • Investments into Estonia • Exports into Asia 	<ul style="list-style-type: none"> • For ‘new economy’: FDI, talents (researchers, students, skilled labour), venture capital for start-ups • For ‘traditional economy’: export markets, own outward investments, tourism
Possible Outcomes and Benefits (<i>võimalikud tulemused ja kasu</i>)	<ul style="list-style-type: none"> • Asian R&D companies in Estonian science+tech parks • Human touch, personal relations • Rising FDI, tax revenues 	<ul style="list-style-type: none"> • Knowledge and technology spillover to Estonian economy • Labour-pool inflow • Mid-term window of opportunity for market expansion
Implications (<i>muud mõjud</i>)	<ul style="list-style-type: none"> • Growing competitiveness, because of more openness • Positive social impact (increased openness to diversity, hospitality) • Rising flexibility, less red tape 	<ul style="list-style-type: none"> • Need to invest into capacity building to act fast and comprehensively (in public sector) • More multicultural society • The rationale for this strategy needs wider buy-in and be clear for larger group of people than already Asia-interested and foreign affairs related decision-makers • Pre-condition: whole-of-government approach and proactivity, clear set-up of foreign economic policy arm of government
Risks (<i>kaasnevad riskid</i>)	<ul style="list-style-type: none"> • Limited human resources: can limit the benefits and attainment of objectives • Visa regime issues, regulatory issues – if unsolved, remain a barrier • Limited social services for incoming people (e.g. limited education in English) 	<ul style="list-style-type: none"> • Execution hardships: going from strategy to action (requires leadership, focus-setting, proactive approach to action) • Closed nature of society • Insufficient linking between FDI and local economy (not enough spillover) • Wrong strategy selection: FDI remains based on current economic structure and not enough knowledge inflow occurs
Focus Countries (<i>fookusriigid</i>)	<ul style="list-style-type: none"> • HK, Taiwan, South-Korea, Malaysia – where size differences with Estonia are the smallest • Also Vietnam, Mongolia as next stage • In FDI attraction also China and India 	<ul style="list-style-type: none"> • Country selection is determined by focus areas (e.g. Singapore, Korea, etc) • In big markets/countries, need to dig deeper: target at regional level • China and India surely target for talent attraction
Timescales (<i>ajaline raam</i>)	<ul style="list-style-type: none"> • Need to start ASAP • Move forward flexibly, build on initial successes (possible after 12 months) 	<ul style="list-style-type: none"> • First key research, then strategy development – 6 months • Next 6 months for first actions, then another year of follow-up and revised actions (learning and adapting) • Critical is to reach actions



Strategy Option	'ACCELERATED ENGAGEMENT' - GROUP 1	'ACCELERATED ENGAGEMENT' - GROUP 2
Key Actions <i>(võtme-tegevused)</i>	<ul style="list-style-type: none"> • Define priorities • Start with pilot initiatives • Common strategies for cluster development • Regulatory changes to increase human inflow (needs to be solved at once) • Efficient, focused use of foreign envoys 	<ul style="list-style-type: none"> • Need to create strong incentives for pioneers, but also deal with building of long-term capacity • Longer-term actions: <ul style="list-style-type: none"> ○ Asia education: in business schools, language study, student exchange ○ Integration of new immigrants to society • Shorter-term actions: <ul style="list-style-type: none"> ○ Selection of focuses and testing and revising them as needed ○ Creating learning system: to share and adopt market and cooperation lessons of pioneers
Success Measures <i>(edu mõõdikud)</i>	<ul style="list-style-type: none"> • FDI into Estonia • Growth of export figures • Knowledge-based jobs in Estonia 	<ul style="list-style-type: none"> • FDI and value-added rise in focus areas • Number of Asian students and R&D cooperation in focus areas • Venture capital investments to Asia-related companies



Strategy Option	‘CAUTIOUS ENGAGEMENT’ - GROUP 3	‘CAUTIOUS ENGAGEMENT’ - GROUP 4
Objectives (<i>eesmärgid</i>)	<ul style="list-style-type: none"> • Ride the Asian success wave • Primary objective is to get investments from Asia • Developing connections, information exchange in focused industries • Cooperation with innovative Asian companies in key sectors 	<ul style="list-style-type: none"> • Exports • Development of knowledge-intensive areas where Estonia has/could have competence/expertise (selected priority areas)
Possible Outcomes and Benefits (<i>võimalikud tulemused ja kasu</i>)	<ul style="list-style-type: none"> • Sustainable economic growth through Asian market demand • Continuous investment in key sectors • Technology transfer in various sectors • Heavy Asian economy gets feedback from fast “test site Estonia” 	<ul style="list-style-type: none"> • Rise of exports to Asia • Rise in number of Estonian companies who have made it internationally (in priority areas)
Implications (<i>muud mõjud</i>)	<ul style="list-style-type: none"> • Social benefits • Enhanced skills for local workforce • Global competitiveness index rises 	<ul style="list-style-type: none"> • Increased interest towards Asia in other sectors beyond the priority ones • Increased interest towards partnering with focus country companies
Risks (<i>kaasnevad riskid</i>)	<ul style="list-style-type: none"> • Are minimized by choosing the right strategy – “cautious engagement” indeed • Might lose ground to aggressively expanding countries • Confucius says – “knowing and not doing is not knowing” ☺ 	<ul style="list-style-type: none"> • Current capacity of own enterprises is small – few ‘stars’ • People factor – insufficient human capital • Lack of expertise in crucial areas, too few or little developed expertise areas
Focus Countries (<i>fookusriigid</i>)	<ul style="list-style-type: none"> • Pragmatic approach does not rule out any target countries automatically • Focus on countries where: <ul style="list-style-type: none"> ○ the match between our offering and market demand is biggest ○ ability to invest in Estonia ○ favourable business climate • Align with Asian regional policy leaders 	<ul style="list-style-type: none"> • Highly developed states with high GDP (e.g. Singapore, Japan, also HK) • Or: highly developed or fast-developing regions/cities within states (e.g. Gujarat in India)
Timescales (<i>ajaline raam</i>)	<ul style="list-style-type: none"> • Gradual strategy, cautious approach • 2 years – Asia strategy creation for key sectors • 5 years – engagement 	<ul style="list-style-type: none"> • First year for mapping of opportunities, second for developing action plan and third for applying measures • By 2018 could have case studies to tell on European level (Estonia will hold presidency of EU then and can set example for rest of Europe with own Asia activities ☺)



<p>Key Actions (<i>võtme-tegevused</i>)</p>	<ul style="list-style-type: none"> • Twofold actions: <ul style="list-style-type: none"> ○ Actions related to defining target country based strategy getting investments into Estonia ○ Actions related to defining target country based strategy selling our key products and services • Enhancing cooperation between governmental agencies, ambassadors, trade unions, etc. 	<ul style="list-style-type: none"> • Mapping of enterprises with export potential towards Asia + target markets research • Development of action plan, then support activities and providing resources (agreeing on the strategy) • Constant learning and enhancement of activities
<p>Success Measures (<i>edu mõõdikud</i>)</p>	<ul style="list-style-type: none"> • Volume of investments both ways • No of rep offices of Asian companies in Estonia • No of Asian tourists / business visits • No of jobs related to Asian projects 	<ul style="list-style-type: none"> • Stable export revenues • Number of employees involved in export sector • Number of companies active in Asia



Strategy Option	‘NO ENGAGEMENT’ - GROUP 5	‘NO ENGAGEMENT’ - GROUP 6
Objectives <i>(eesmärgid)</i>	<ul style="list-style-type: none"> • Be open to all opportunities: focus on global market and value chains, also global security perspective • Not to miss out on opportunities once they emerge; while minimize negative impacts of less-desired opportunities • Tying into European/Nordic value chains – can get to Asia through these 	<ul style="list-style-type: none"> • Be an alternative to Asia: cost-effective, near-shore • Target those companies who are discouraged by Asia • Ready to reach to opportunities (no geographical focus – but sectorally focused action still needed)
Possible Outcomes and Benefits <i>(võimalikud tulemused ja kasu)</i>	<ul style="list-style-type: none"> • Can put more focus on actual opportunities (once they emerge): less chance of mistakes and no restriction from predetermined focuses • Minimizing public costs • Get most out of Europe • Benefit from Asia possible through European partners 	<ul style="list-style-type: none"> • Get near-shoring business to Estonia – closer to our core business and (current) competitiveness factors, playing on our strengths • If we do great things, Asia will afterwards come to us perhaps (can still attract interest from Asia by being active in Europe) • Estonia becomes a winner within Europe
Implications <i>(muud mõjud)</i>	<ul style="list-style-type: none"> • Companies should be capable to react to opportunities that emerge (need to flexible, innovative, have know-how – also about Asia still) • Still need some activity towards Asia – if not showing interest ourselves, reduced interest and opportunities from other side as well • Vertical diversification/cluster development: creates scale, arises interest/opportunities • Less stress on immigration policy 	<ul style="list-style-type: none"> • We do not have to spend on studying Chinese language, but can target the educational resources to other areas more (e.g. real sciences) • Asia market entry will be done by others for our companies (e.g. Nordic partners) • No Chinatown will emerge in Tallinn 😊, no contradiction with nation-state desires
Risks <i>(kaasnevad riskid)</i>	<ul style="list-style-type: none"> • Question of sustainability: how long can last on this road, how many interest/opportunities will we get • Competitor countries can sprint ahead with more activity towards Asia • Europe may not be enough for our development goals • Self-complacency can easily set in • Can lead to insufficient coordination between agencies / overlapping 	<ul style="list-style-type: none"> • Becoming a backyard of Europe, condemned to mediocrity • Playing on ‘losers’ as partners; we are cut off from best markets • We become inactive, too reactive
Focus Countries <i>(fookusriigid)</i>	<ul style="list-style-type: none"> • MNC headquarter countries in Nordics and Europe • Also some focus on maintaining relations with Asian countries that are similar to Europe business-wise advanced (e.g. Singapore, South Korea) 	<ul style="list-style-type: none"> • None from Asia – instead focus on Nordics, Germany, perhaps USA



<p>Timescales (<i>ajaline raam</i>)</p>	<ul style="list-style-type: none"> • Need to start asap to make necessary smaller changes (e.g. set up signal gathering and changing grant schemes) • Most activities are long-term, e.g. cluster development – and essentially rolling tasks 	<ul style="list-style-type: none"> • 6 months for study on which business to attract and intensify in our surrounding region / Europe – leads to long-list, then short-list and then use brand ambassadors to make it happen • First results possible in two-years
<p>Key Actions (<i>võtme-tegevused</i>)</p>	<ul style="list-style-type: none"> • Signal gathering / monitoring / foresight on opportunities – what to target • Cluster development efforts: including education/capability development and changing of enterprise policy grant support logic (more flexible and compact measures of support) • Strong FDI promotion efforts towards Nordics and Europe 	<ul style="list-style-type: none"> • Developing sector focuses, cluster development • Looking for partners in Europe • Building up social wellness infrastructure and environment (e.g. international schools) • Transport connections with Europe need to be improved
<p>Success Measures (<i>edu mõõdikud</i>)</p>	<ul style="list-style-type: none"> • Share in world trade (measure of general success) • Big FDI projects inflow (number and financial value) • Exports to Asia (total value and share in total) <p>All these also in comparison to competitor countries.</p>	<ul style="list-style-type: none"> • Export • FDI • Value-added creation

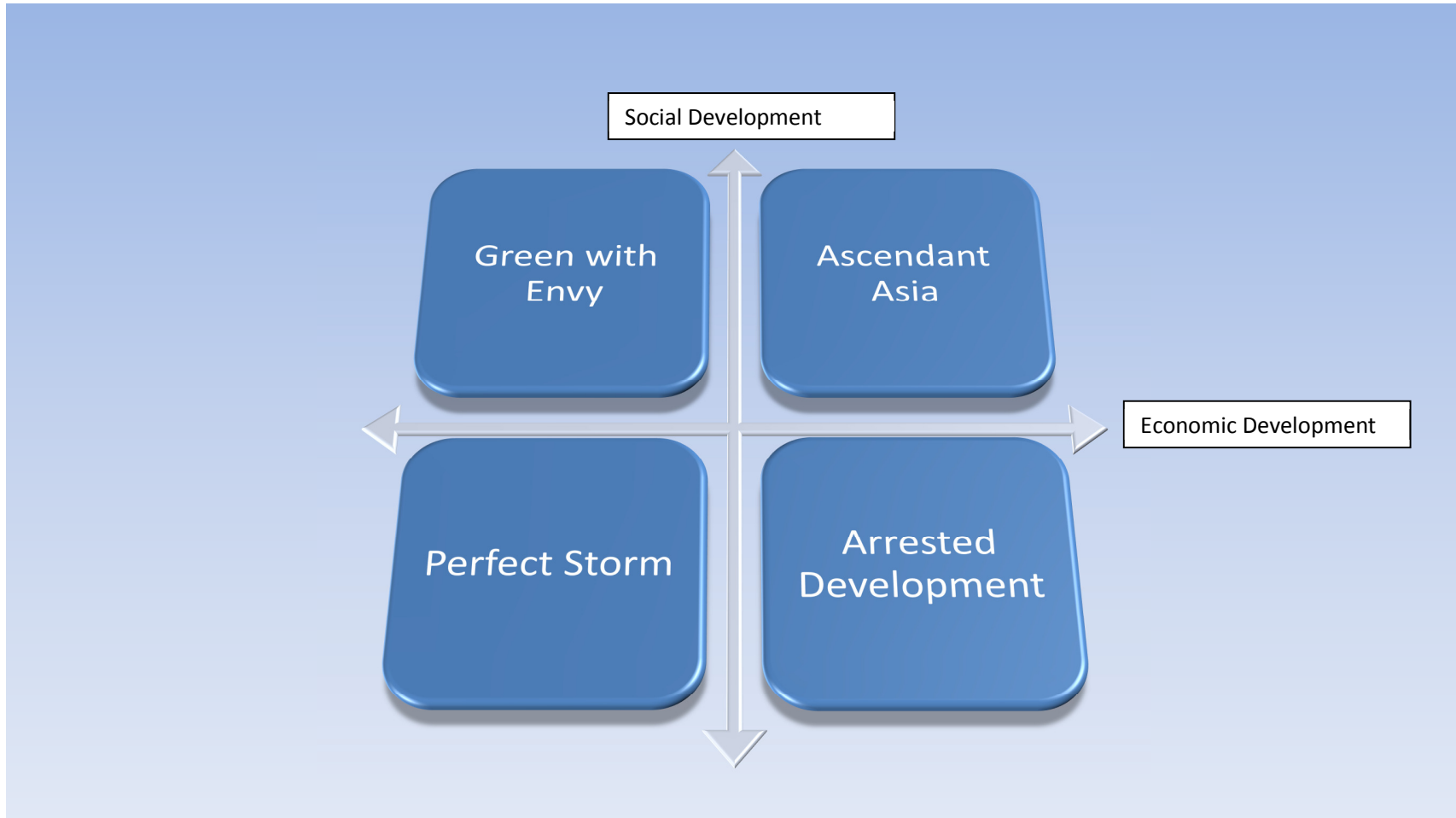


Annex 1: Work-shop participants

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Ilmar Lepik	Vabariigi Presidendi Kantselei (Office of the President)
Ivar Mölder	Riigikogu väliskomisjon (Estonian Parliament, Foreign Affairs Committee)
Janek Kalvi	Liviko AS
Jevgeni Ossinovski	Riigikogu (Estonian Parliament)
Keit Kasemets	Riigikantselei (State Chancellery)
Kitty Kubo	Eesti Arengufond (Estonian Development Fund)
Kristjan Lepik	Tarkinvestor.ee
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Margus Rava	Välisministeerium (Ministry of Foreign Affairs)
Maria Alajõe	Ettevõtluse Arendamise SA (Enterprise Estonia)
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Siim Esko	Eesti Arengufond (Estonian Development Fund)
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Annex 2: Asia 2020 Scenarios by Fast Future





1) Ascendant Asia

In this scenario Asia successfully realigns many of its economies towards internal consumption whilst continuing to invest heavily in green economy schemes to enable the emergent consumer economy to gain greater sustainability. This paves the way for greater economic potential beyond 2020, and it is this potential vis-a-vis the west, that ensures strong external investment in the period to 2020. Significant infrastructure investment helps accelerate the development path for most Asian economies.

The economic muscle offers Asian players a greater platform internationally, including a bigger role in the shaping of international institutions. Although disagreements with both the U.S. and Europe occur with regard to this and many other policy issues, such as climate change, engagement remains non-confrontational militarily and trade continues to flourish between Europe and Asia. China, India, Japan, Singapore and Taiwan lead the push into global markets and firms from a number of Asian countries seek a foothold in most European markets – increasingly partnering with and acquiring local players where legislation allows it.

In this scenario social problems are mitigated by widely rising GDP per capita figures. At the same time, corruption, mismanagement and environmental abuses are increasingly highlighted and curtailed by an active and well educated civil society. Western businesses, increasingly dependent on Asian growth for profits, actively contribute to this new found civil voice in more Asian countries than ever.

2) Arrested Development

In this scenario, economic development continues apace through the continuation of the export model but with slow progress towards the further development of civil society. Whilst wealth accumulates for the elite and the middle class grows, in many economies the pace of addressing social problems and poverty is slow. As a result, the region is unable to bypass some of these key social barriers to success and development becomes increasingly polarized both within countries and between them. Under this scenario, social and political problems manifest themselves and nationalism and regionalism become increasingly strong conduits for dissatisfaction. Regional governments increase their presence across society and economy as they seek to address imbalances, often with mixed results. Increased government presence in economy leads to fewer opportunities for foreign firms.

In this scenario, Asia continues to be an unwilling leader/participant when it comes to most international institutions, partially through disillusionment with continuing western dominance. Many Asian countries selectively engage Europe at a myriad of policy levels but are more concerned with sourcing raw materials from southern hemisphere countries. This expansionist policy



causes concern amongst those countries that stand to lose – principally the U.S and Europe. Asian businesses continue their expansion into Europe and other key markets. Whilst the eastwards flow of R&D and the development of Asia based green technology continues unabated in this scenario, the effects of the latter are blunted somewhat by the continued growth of carbon intensive industries.

3) Green with Envy

Under this scenario, several of Asia's economies successfully transform into greener economies yet overall progress is undermined by several structural and political issues. Economic growth is derailed by a hard landing for the Chinese economy. Although spare capacity in other regional economies partially compensates for this, the breadth and depth of economic links between China and the region prove central in dampening GDP across Asia-Pacific and raises the perception of increased emerging market risk. As a result, growth rates, although impressive by western standards, fail to reach previous heights. Increasing percentages of GDP are needed to fund the rapid growth in social programmes in the region as authorities implement a firewall against public unrest at the stagnating economic situation.

Asian countries continue to rely on European consumer markets and are more amenable to European concerns regarding the environment, international institutions and governance. Nevertheless, anger from weak economic growth could be directed at the U.S and European companies and governments, leading to changing rules about FDI and increased distrust of western economies mired in their own political and economic malaise. Asia's role in global economic and political affairs stagnates somewhat as several countries orient inwards in attempts to resolve domestic issues. As a result, the regional discourse is shaped by fewer of its countries, allowing the stronger economies an even greater say in affairs.

4) Perfect Storm

The global economy endures a strong recession, which accentuates structural imbalances within many Asian economies. The Chinese have room for stimulus but are weary of local government indebtedness. Outright recession is avoided in China and India, but lower growth acts a catalyst of demands for change across the region. Foreign policy debate in the region becomes more active as elites seek diversions from the economic malaise, which further stokes regionalism and nationalism.



In this scenario, Asia-Pacific region wide differences are accentuated, leading to a rise in complexity for European politicians and companies. The breakdown in social stability and economic growth leads to both anger at those deemed responsible for the global crisis (the west) as well as domestic political crises and change. Under this scenario the region becomes engaged in many internal disputes involving the plethora of nationalist or else socialist governments that have assumed power. In one sense the region withdraws from the international arena and focuses inwards, yet distrust of Europe and the U.S. sees a more belligerent and aggressive tone in political and economic terms.



Table 1: A Detailed Comparison of the Asia 2020 Scenarios

Parameter	Ascendant Asia	Arrested Development	Green with Envy	Perfect Storm
Regional GDP excl. Japan (7.5% in 2011 – ADB ⁱ)	Climbs at 8-9% p.a. to 2020	Climbs at 6-7% p.a. to 2020	Climbs at 4-5% p.a. to 2020	Growth possible up to 3%
Inflation	Commodity price spikes lead to inflation. Food inflation up as a response to increased demand and volatile supply. Monetary tightening restricts length of inflationary environment.	Weakening global demand lowers commodity inflation favourably, yet food inflation remains an issue for many in the region.	Inflation moderates after the 2011-2012 period.	Attempts to boost the economy via loose monetary policies leads to high inflation in some countries whilst others such as Japan continue to suffer from deflation.
Unemployment	The region moves up the economic value chain but is still replete with manufacturing jobs for the masses, and so witnesses declining unemployment.	Unemployment remains more or less stagnant as a percentage but the overall standstill hides increasing numbers of the unemployed in certain geographic areas and socio-economic groupings.	Unemployment remains low as governments attempt to buy off public disquiet with job creation in schemes of dubious value. Underemployment becomes an issue.	The export model splutters for several years leading to wide-scale unemployment.
Situation in Developed Economies	The European Union and a modified Eurozone survive and enact structural reforms that lead to modest but steady growth. The U.S. embarks on tax reform and infrastructure projects to spark economic growth.	The worst fears of the U.S. or Europe are not realized but political and economic utility is exhausted. The result is that low growth rates become entrenched in some economies whilst others flourish. A two-speed Western world emerges.	Structural change and long term measures to growth are avoided in preference of short-term band-aid solutions that sell easily to a public desperate for a quick return to pre-2008. As a result the west enters a decade of Japanisation.	Europe endures a severe recession following the disorderly breakup of the Eurozone, which also tips a weak American economy into a severe double dip recession. Subsequent austerity measures radically reduce U.S. output.



Parameter	Ascendant Asia	Arrested Development	Green with Envy	Perfect Storm
Regional Stability	Economic growth is increasingly used as a carrot to prevent regional tension although questions over Taiwan/China, Korea/DPRK remain embedded.	Political rhetoric aimed at diverting blame for diverging economic opportunities and outcomes leads to increasing tensions. International set up remains stable but several states witness upswings in dissatisfaction from minority ethnic areas.	Regional instability is to be expected as governments spend their reserves in attempts to buy off unrest. This leads to increased regional competition to secure resources and sources of wealth. Border tensions escalate as immigration becomes an issue and burden for recipient countries.	Regional tensions boil over in more than one location, possibly resulting in a small to large scale confrontation. A negative feedback loop is established as investment flees the conflict which in turn feeds regional and intra-national assertiveness.
Social Conditions	Economic growth ensures generally content societies despite increasing economic inequality.	Polarization of the wealthy and poor becomes more apparent.	Inequality is lessened as per the Gini-Coefficient and long term environmental sustainability gains a footing. However disquiet at economic slowdown leads to demands for increased government spending and social programs	Several conditions which were 'manageable' under benign economic conditions erupt – including gender imbalances, governmental corruption and environmental issues. These create dangerous conditions for the ruling elites. Crime flourishes.
Growth Industries	Internal consumer markets. R&D, strategic industries and many new economy segments such as biotechnology and green energy flourish.	Asia continues to rely on its export model but can only moderately stimulate its internal demand. It remains strong in developing infrastructure projects and solutions.	Asia successfully lowers the carbon intensity of its economies as demand for green technology and solutions grows. However its export model is in decline thanks to global	Selective government spending on infrastructure projects in an attempt to create jobs.



Parameter	Ascendant Asia	Arrested Development	Green with Envy	Perfect Storm
			weakness and consumer industries have yet to fully develop.	
Relationship with Europe	Internationally competitive but also trade friendly	Selective engagement with Europe but expansionist policies abroad cause friction	Distrust of western governments and institutions following financial crises in the U.S. and Europe	Characterised by mutual distrust and lack of political and economic cooperation
Asia's Global Role	Asia increasingly seeks global roles consummate with its economic growth, rivaling the U.S and Europe as economic and political equals.	Asia is an unwilling global partner, seeking roles to enhance status but unwilling to accept responsibility that comes with these roles.	Asian involvement in international affairs is restricted to a select few countries. Regionally mercantilist policies ensure discord and lack of partnership outside of ASEAN.	Asia is host to many flashpoints with the potential to severely impact global economic growth further. Its inability to effectively police itself discredits any international efforts,

ⁱ <http://www.bworldonline.com/content.php?section=TopStory&title=ADB-trims-forecasts&id=38310>