



24TH ASIA-PACIFIC ROUNDTABLE

Part I

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CHINA'S RELATIONS WITH ASIA: PAST, PRESENT AND FUTURE

Penary Session One was co-chaired by **Tan Sri Hasmy Agam**, Distinguished Fellow, Institute of Strategic and International Studies (ISIS) Malaysia and Chairman, Human Rights Commission, Malaysia, and **Dr Kim Dalchoong**, President, The Seoul Forum for International Affairs, and Professor Emeritus, Yonsei University, Republic of Korea. The presenters were **Prof Dr Ma Ying**, Director, Centre for Asia Pacific Studies, Shanghai Institute of International Studies (SIIS), China, **Mr Jusuf Wanandi**, Senior Fellow, Centre for Strategic and International Studies (CSIS) and Vice-Chair, Board of Trustees, CSIS Foundation, Indonesia, and **Associate Prof Dr Michael J. Green**, Edmund A Walsh School of Foreign Service, Georgetown University, Senior Advisor and Japan Chair, Centre for Strategic and International Studies (CSIS), USA. **Dr Jorah Ramlan**, Senior Analyst at ISIS Malaysia, reports.



From left: Michael J Green, Ma Ying, Hasmy Agam, Kim Dalchoong and Jusuf Wanandi

Prof Dr Ma Ying's traced China's developments from the founding of the People's Republic of China (PRC) in 1949 to the late 1970s and from late 1970s to the present. She ended with prospects of China-Asia relations.

China's initial priority was to establish diplomatic relations with various countries, especially its Asian neighbours. This it carried out through various initiatives. China advocated the Five Principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each others' internal affairs, equality and mutual benefit, and peaceful co-existence.

China also realised that its development was dependent on establishing stable relations with its Asian neighbours, hence it advocated the principle of 'seeking common ground while reserving differences.' On border issues, China's approach was to advocate peaceful negotiations through agreements and treaties with some of its neighbours.

China's international relations policy changed with time. From the late 1970s to the early 1990s, China's primary aim was to improve and develop relations with Asian countries, through country-to-country relations, party-to-party relations, external economic relations, and

the peaceful settlement of disputes. The security situation had changed significantly in the region and the rest of the world at this time, with greater security cooperation among the major nations.

In the 21st century, China has emphasised common development with Asian countries, and the further expanding of strategic partnerships. This policy has become a component of China's general diplomatic strategy of peaceful development, encompassing settling of disputes by peaceful negotiations, creating new cooperation mechanisms, enhancing strategic mutual trust, and promoting common development.

China's aim is to be instrumental in creating harmony in the region since it believes that a 'harmonious Asia' will lead to a 'harmonious world'. Through enhancing dialogue and understanding with Asian countries, China hopes to be accepted as a participant of Asia's development and not be seen as a threat to it. In conclusion, Dr Ma said that China believes that only on these bases will a 'harmonious Asia' be achieved.

Through enhancing dialogue and understanding with Asian countries, China hopes to be accepted as a participant of Asia's development and not be seen as a threat...

Mr Jusuf Wanandi began with a brief historical perspective of China, and continued with highlights on Asean-China relations, and US-China relations. He touched briefly on China's relations with Japan, India, Russia, and Central Asia, and on challenges facing the nation. He ended with some recommendations.

China's strategic partnership with Asean has created cooperation in many fields. From an economic perspective, there have been concerns in recent years over trade imbalances: Asean exports to China have not increased as much as China's exports to Asean. And as China has the upper part of the Mekong river, which is critically important to many Asean countries along the banks, Asean is expecting China to cooperate more closely on the joint development of the Greater Mekong Delta.

From the security perspective, it is important for Asean and China to be able to formulate an agreement on a code of conduct over the South China Sea issue, which if not handled cooperatively, may hamper future security and become a source of tension and distrust.

Japan-China relations are expected to improve further under the current Japanese government. As for relations between China and India, mutual efforts have resulted in improved relations though there are unresolved problems concerning boundaries, Tibet, and Indian support for the Dalai Lama. China's extended border with Russia will always have a bearing on the trust and relations between the two countries.

The Central Asian countries are important to China as sources of energy and natural resources, and the search for these can be another reason for competition or cooperation between these countries in the future. It is a geographic fact that the presence of Chinese migrants in the sparsely-populated eastern part of Central Asia and along the border, while important for trade, is increasing security and social concerns.

The relationship between China and the US has changed mainly due to the rise of China's economic power. The internal and external issues that the US has to face and to overcome have provided greater economic opportunities for China. While China acknowledges that the US

military presence in the region has ensured sustained peace and stability, it is questionable whether China will continue to acknowledge US primacy in the region in view of China's rising military and economic strength.

China faces many challenges. These include increasing discrepancies in incomes, in particular between the coastal and inner regions, between rural and urban areas, and between manufacturing and agricultural sectors. There are environmental issues relating to water shortages and air pollution, political issues facing Chinese leadership, besides increasing demands for civil liberties and government transparency. There is also negative perception of China's increasing defence budget that is causing apprehension among its neighbours.

Mr Wanandi proposed two recommendations to alleviate the problem of China's credibility. Firstly, China should be more transparent about its domestic political policy, as well as the changes it is making in its defence policy. Secondly, China should become a trusted member as well as leader of regional institutions which are important platforms for it to convey its policies to other members in East Asia and the Asia Pacific. The US should also be invited to the East Asian Summit so that it can have more dialogue and exchanges with the Chinese in a regional environment, to complement bilateral relations.

Mr Wanandi predicted that while China's remarkable development and growth could continue for another 15 to 20 years, it should not be over-confident or hubristic. The challenges it faces are multiple, and indeed huge. One can expect that China will be more likely to exercise a veto in future when it comes to its 'core interests,' as its history suggests. In conclusion, he said it is important for Asean to have a balanced bilateral relationship with China for the development of regional cooperation.

...while China's remarkable development and growth could continue for another 15 to 20 years, China should not be over-confident or hubristic

Prof Michael J Green emphasised the value of studying historical precedents as a guide to understanding the present and forecasting the future. Specifically, he considered the lessons of China's own tributary relationship with Asia before the 16th century arrival of the Europeans and the decline of the Qing Dynasty; the rise of American power in the 19th century; the more tragic consequences of the rise of Japanese and German power shortly after that; and finally the Cold War.

An examination of the Central Kingdom's relations with Asia in the distant past will offer one possible interpretation of China's future relations with Asia. It has been argued that China's power under earlier dynasties reinforced stability because it was always based on mutually beneficial trade (described as the peaceful development precedent) and not on European-style conquest and colonisation. This historical precedent, however, may not be an accurate indicator of China's future relations with Asia.

One reason for this is that the modern, globalised economy bears little resemblance to the trade that China's former dynasties engaged in. While intra-regional trade in East Asia is over half of all trade in the region compared with less than 50 per cent for Nafta countries, the reality is that the vast majority of trade in Asia is still intermediate trade, passing through a massive Chinese assembly floor, to markets in North America and Europe.

A second problem with the tributary or peaceful rise historical model is that it existed before the development of the modern nation state. Nationalism in all its forms in neighbouring states has led to a backlash against rising Chinese power, even as trade dependence on China has grown. Public opinion polls in Japan, Korea, Australia and India have exposed a correlation between a growing trade with China and an increase in the identification of China with threat. Five hundred years ago, it may have been possible for princes in subservient neighbouring states to enrich themselves through trade, but in the modern state era, that is no longer possible.

Finally, surveys have demonstrated that in East Asia, the attraction of China's cultural, political, and social values rank below those of the US and Japan. In short, the much vaunted 'Beijing Consensus' around the authoritarian development may resonate in countries like Cambodia, but it is hardly the ideational glue necessary for a Sino-centric system that would subsume democratic Japan, Korea, Indonesia or India.

G-2 (Group of Two) or other forms of bipolar condominium between the US and China seem highly unlikely in the foreseeable future. It is difficult to see the US making concessions to China in Asia, given continued uncertainties about Chinese intentions -- uncertainties caused in large measure by the nature of the political system in Beijing.

In the Japan-Germany revisionist power precedent, the two nations challenged US and British power. China has carefully avoided being cast as a revisionist power, with Hu Jintao remaining a solid Dengist. However, the clamouring for more assertive foreign and economic policies by netizens, PLA officers and rent-seekers within the Chinese economy is putting enormous pressure on the current leadership. Much will depend on China's economic development and the stability of the global economy.

Chinese officials and scholars warn that American strategies, focusing on values and the balance of power, risk starting a 'new Cold War' in Asia. While many of China's neighbours have been hedging against a more assertive stance by Beijing through closer collaboration with the US, none of them – including Taiwan – have any stomach for a zero sum competition, given trade dependency. Finally, the US would be hard-pressed to implement a 'containment' strategy given economic interdependence.

Green concluded that no model of China's past interactions with the world serves as a predictor for the future. However, elements of each model are evident in the dynamics of China's relations with Asia and the US today.

...the clamouring for more assertive foreign and economic policies by netizens, PLA officers and rent-seekers within the Chinese economy is putting enormous pressure on the current leadership

The Asia Pacific's Regional Architecture

Penary Session Two was co-chaired by **Amb Kishan S Rana**, Chairman of CSCAP India and **Amb Rodolfo C Severino**, Head, Asean Studies Centre, Institute of Southeast Asian Studies, Singapore. The presenters were **Mr. Hitoshi Tanaka**, Senior Fellow, Japan Center for International Exchange (JCIE) and former Deputy Minister of Foreign Affairs, Japan; **HE Mr Miles Kupa***, Australian High Commissioner to Malaysia (designate); **Mr Simon Tay**, Chairman, Singapore Institute of International Affairs (SIIA), Singapore; and **Dr Amy Searight**, Adjunct Fellow and Research Consultant, Center for Strategic and International Studies (CSIS) & Adjunct Professor, George Washington University, USA. **Susan Teoh**, Director of ISIS Information Services reports.



Participants at the Roundtable

Mr Hitoshi Tanaka said that the Asia Pacific region cannot expect to have a supranational or single architecture because it is so diverse. It should envisage a common architecture in which opportunities and prosperity are maximised. He proposed four guiding principles for Asia Pacific's regional architecture:

1. The 'functional' approach;
2. The multi-layered approach;
3. The open and inclusive approach; and

4. A balance in relation to the creation of architecture in the region.

Functional Approach

There are two basic functions in the 'functional' approach. The first is the security function, in which the US would have to be included because it is the resident military power in the region. The second is the economic function, wherein the

**HE Mr Miles Kupa's paper was read by Mr Arthur Spyrou, Counsellor for Political and Economic Affairs, Australian High Commission in Kuala Lumpur*

architecture should fulfil the requirements of the universal system established by the WTO.

Security Function

There are four layers in the security function of the multi-layered approach.

- First, there is the bilateral security system as seen between US-Japan, US-Korea and US-Australia.
- Second is a trilateral confidence-building mechanism in which there is a need for transparency in relation to China's military capability as well as the US-Japan security system.
- Third, there are semi-regional institutions such as the Six-Party talks which have security impacts on East Asia, denuclearisation, and the concord in Asean as an institution in the handling of the problems of Myanmar and Thailand.
- Fourth, there are joint military operations in the region with regard to non-traditional security issues such as disaster relief and counter-piracy operations. These joint operations should include countries such as US, China, Korea, Japan, Asean, Australia, New Zealand and India, following the East Asia Summit (EAS) format.

...a trilateral confidence-building mechanism in which there is a need for transparency in relation to China's military capability as well as the US-Japan security system

Economic Function

Two different areas can be identified in the economic function:

- The Free Trade Agreement (FTA) Zone where EAS members should have equal

partnership to create maximum benefit for free trade and where the rules are compatible with the rules in WTO and OECD;

- The need for economic policy coordination on issues of the environment and the energy policy, based on the EAS context.

Open and Inclusive Approach

The third principle is the open and inclusive approach in which regional institutions or countries are willing and capable of making contributions towards regional integration. It includes only a selection of members.

Balanced Regional Architecture

The fourth principle is the creation of a balanced regional architecture so that the region will be prosperous. There is a need to establish the right balance between developed and developing nations as well as a balance between democracies and non-democracies. Including the US in the EAS membership would form a balanced architecture in this region.

Mr Miles Kupa stressed that Australia is committed to the strengthening of Asia Pacific cooperation. It became Asean's first dialogue partner in 1974, was a founder member of Apec in 1989 and of the Asean Regional Forum (ARF) in 1994. It has been an active member of EAS since 2005.

Australia's interest in strengthening regional cooperation stems from a belief that it has a role as a creative and coalition-building middle power, and that it has a stake in the region. The Asia Pacific region has been growing economically and strategically, with the increasing inter-dependence of countries creating more opportunities and challenges in the region.

With this in view, the regional architecture should be reviewed to meet the challenges of the

future. In June 2008, Prime Minister Kevin Rudd proposed the idea of an Asia-Pacific community (APc) so that the countries of Asia Pacific can begin a dialogue on a regional architecture that can meet future needs.

This proposal was not intended to criticise existing institutions such as Asean. On the contrary, Australia felt that the region has been well served by institutions such as Asean, Apec, ARF and EAS. Mr Rudd emphasised that an effective regional architecture needs to:

- Engage all countries that make up the region;
- Be able to traverse all major issues;
- Shape the habits of transparency and trust, and foster cooperation; and
- Meet at the leaders' level.

Miles stressed that Mr Rudd has recognised that Asean is an example of regional cooperation that has played an important role in building a stable, strategic foundation for Southeast Asia. It has not only assisted its member nations to grow from strength to strength but has also increased its influence in the broader Asia Pacific region.

Australia has welcomed Asean leaders' commitment to develop deeper engagement with the US and Russia, in evolving regional architecture via the EAS or the Asean+8. Australia will continue to cooperate closely with Asean and others in helping to reform and strengthen regional architecture in this region.

Mr Simon Tay, in discussing the regional architecture in the Asia Pacific, highlighted three fundamental issues in the region.

- First is the post economic crisis scenario where Asia is seen to be rising economically, continuing to regionalise and bringing itself closer together for cooperation;
- Secondly, within Asia there is the phenomenal rise of China and India. There is some doubt whether Asia can keep

rising economically when the Asia Pacific region has been interdependent in the areas of security and the economy;

- Thirdly, since the economic crisis, the US has been on a relative decline and Americans are coming to terms with the fact that the US is no longer in a position of dominance. While the US may lean towards a multilateral approach, some Americans have become more cautious towards globalisation.

...Asean is an example of regional cooperation that has played an important role in building a stable, strategic foundation for Southeast Asia

What should be the response in view of these three fundamental issues? Tay says that there is a need to look beyond a single institution because one institution cannot solve the problems. There is a need to have a multiplicity of institutions in the economic and security spheres.

He said that every Asean nation views Asean as the centre and the driving force. If that is the view, then the organisation must be able to fully lead this region. Asean, however, is unable to compete economically with China whose economic growth rate has outstripped that of the former.

The Asean-US Summit was inaugurated in 2009. The agenda, the building up and the sustaining of interest in the summit is still an open question. Currently, the date for the second summit is not confirmed yet, although the US President has said that he is open to the idea. Tay feels that with the US President also committed to Apec and his other priorities at home, his visit to Asia or attendance at the summit is questionable.

Even his planned visit to Indonesia has been postponed three times.

Tay shares Tanaka's view of an open and inclusive approach in regional architecture. However, he questioned Hatoyama's idea of an East Asia community and Rudd's APc as there is no in-depth discussion of the modalities of these two institutions. He favoured the idea of EAS plus US and Russia (EAS+2) with separate meetings with the two powers. This would be a better suggestion as it would be very difficult to expect the US President to be able to attend the yearly meeting of EAS.

Besides, EAS is now looked upon as 'a luncheon meeting'. It needs to have a more in-depth agenda. He felt that the Asean+8 or the EAS+2 would be better options for Asean to host and a more feasible commitment from the US in view of its many priorities at home or in other regional bodies. Tay concluded by saying that US engagement in Asean or this region is an important factor, not just for security but for economic reasons. There is no ready substitute for the US in terms of its market and its investments.

Dr Amy Searight presented an American perspective of the Asian regional architecture, particularly on the proposals from Japan and Australia. These proposals have been very useful in stimulating discussion on the current effectiveness and future development of regional architecture.

Her first comment was that there seemed to be a proliferation of forms of regional architecture in Asia, with too much focus on the over-arching design – that is, who should be in, and what issues are on the agenda. Little attention has been paid to how to achieve tangible progress on functional cooperation.

The European experience has served as an inspirational model to the region, including Hatoyama's and Kevin Rudd's proposals. She said

that 'regionalism works best when it is built up from the ground, on the basis of concrete progress in functional cooperation across the range of areas, before drawing up architectural designs'. However, these proposals have proved to be beneficial, such as in the formation of ARF, which was formed when there was a momentum to create a Northeast Asia peace and security mechanism that would exclude Asean.

She felt that the US would be spurred into action if it thought it would be marginalised or left behind. The US has always been highly reactive to Asian regionalism.

...Asean+8 or the EAS+2 would be better options for Asean to host and a more feasible commitment from the US...

Another constraint relates to the structural position of the US as a major power. The US has to keep its focus on several key regions in the world, including Europe and the Middle East. These other bureaucratic constraints have made it difficult for US government officials as well as the President to give sustained attention to developments in Asia.

In addition, the US Congress has been a serious obstacle recently because of its growing resistance to an active US trade policy, hampering an effective regional engagement strategy in Asia with regards to negotiating trade agreements.

Another important factor is the cultural predisposition of US policy makers to favour results-oriented multilateralism rather than Asean style multilateralism that emphasises consensus and a heavy commitment to frequent meetings and dialogues. Americans prefer substance over process, and action over dialogue; this is deeply ingrained in American foreign policy.

There are many reasons for this attitude, namely: Americans' pragmatism or 'can do spirit' of getting results; the short time horizons for political leaders to accomplish something before they leave office; and the influence of American legal culture. Even during Hilary Clinton's speech in January 2010 in Hawaii, she listed results-oriented multilateralism as one of her top priorities, saying: 'the formation of groupings should be motivated by concrete, pragmatic considerations. It is more important to have organisations that have results rather than producing more organizations.'

Searight said that Hatoyama's proposal served as a wake-up call to the US, indicating that the Asian region is ready to move forward, with or without the US. The Obama administration has thus come in to change its image from that of a power disinterested in regional multilateralism to one which is willing to sign the Treaty of Amity and Cooperation (TAC), and to hold the first US-Asean Summit. Eventually, it wants to establish an ambassadorial post in Jakarta linked to the Asean Secretariat.

The question whether the US should seek to join the EAS is still unanswered. Searight felt that there are advantages in the US seeking membership. It would demonstrate greater seriousness about US engagement in Asia's new regionalism, that will allow discussions on broad strategic issues. However, it is still a serious question as to whether the US can commit to send its President to the region twice a year every year, for the EAS in addition to other meetings like Apec.

The hosting of Apec by Japan this year and the US next, will see how Apec can be reformed to make itself more relevant. In addition, with the rise of the Trans-Pacific Partnership (TPP), some are in favour of US involvement in TPP as an incremental approach towards achieving an FTA Asia Pacific. It is still unclear which approach the US would really want to be deeply involved in. It is also unclear whether these institutional

frameworks can replace Apec in delivering meaningful results in regional economic cooperation. Too many questions still remain about US regional policy and the trade-offs of these various institutional approaches.

...Hatoyama's proposal served as a wake-up call to the US, indicating that the Asian region is ready to move forward, with or without the US

The Dawn of the Asian Century: Southeast Asian Perspectives

Penary Session Three was moderated by **Dr. Rizal Sukma**, Executive Director, Centre for Strategic and International Studies (CSIS), Indonesia. The presenters were **Tan Sri Mohamed Jawhar Hassan**, Chairman, Institute of Strategic and International Studies (ISIS) Malaysia, **Amb Kishan S Rana**, Chairman, CSCAP India, and **Prof Anthony Milner**, Basham Professor of Asian History, Faculty of Asian Studies and Centre for Asian Societies and Histories, The Australian National University, Australia. ISIS Analyst **Zarina Zainuddin** reports.



From left to Jawhar Hassan, Rizal Sukma, Anthony Milner and Kishan S Rana

The first speaker **Tan Sri Mohamed Jawhar Hassan** stated unequivocally that the real issue, in his opinion, was not whether Asia will be the leading power of the 21st century, but what Asia will make of the power. While it is undeniable that the Asian presence will be prominent in the economic sphere, he does not expect the next century to belong exclusively to Asia. There is no doubt that China and India will catch up with the US and Japan in terms of economic size, but he expects the US, Europe, Brazil and Russia to have a strong economic presence along with the other Asian countries.

Although Jawhar expects the economic scene to be a multi-polar one, as far as the military sphere is concerned, the world will still be led by

the US and US-led alliances. China is likely to emerge as a regional power. It still lags behind the US in terms of military superiority and is not likely to overtake the US on the global stage. Asia, in Jawhar's words, is 'a house deeply divided,' a region where rivalries and suspicions remain strong. The situation does not seem likely to change for a long time.

The spectacular rise of Asia, nevertheless, cannot be denied. Millions of people have been lifted from poverty and former empires are regaining their power. The interesting aspect about Asia is its peaceful ascendancy, unlike previous shifts of power that were often accompanied by violence and destruction.

The interesting aspect about Asia is its peaceful ascendancy, unlike previous shifts of power that were often accompanied by violence and destruction

In the economic sphere, the old powers and establishments worked to accommodate rising nations, providing them with greater voice and presence in the global economic scene. Unfortunately the same cannot be said for the security and political fronts. The UN structure is still the same as it was right after WWII. The Permanent Security Council still excludes powers such as Japan, Germany and India.

In referring to the Prime Minister's keynote address at the Roundtable on regional architecture, Jawhar said he felt that it is most important to concentrate on bilateral relations as the basic building block of regional cooperation. If bilateral relations are taken care of, 'then the region will take care of itself.' And the most important bilateral relations in the region, he pointed out, are China-Japan and China-US.

Next in importance Jawhar said, is the sub-regional mechanism of Asean. Asean success is vital because it not only serves Asean but underpins the entire regional architecture for political, security and economic cooperation, save that of Apec. Hence it is crucial that if Asean desires leadership then Asean must show it is capable of leading.

Geopolitics is out of sync with the converging geo-economics of the region. Military alliances should be more inclusive, not exclusive. Further strengthening of existing alliances where there is no real need to do so, would only encourage provocative reactions he said.

In concluding, Jawhar reiterated his original premise that the rise of Asia must ultimately be meaningful, not only to its elite, but to its people in general.

Amb Kishan S Rana, in looking at the rise of the Asian century, highlighted four points.

First, he said, one should not overlook India and Indonesia. The achievements of these two countries were often underestimated until recently. He pointed out that even now, information on India's economic pace is backdated. While India was and still is known for its software and outsourcing centres, not many are aware of its excellence in 'frugal engineering'¹ and its prowess as innovator. Rana also pointed out to the spirit of entrepreneurship and the growing sense of confidence in the economy among Indians. However, Rana acknowledged the number of problems that are still prevalent, especially in infrastructure.

Further strengthening of existing alliances where there is no real need to do so, would only encourage provocative reactions...

Another aspect that is often neglected is demography, specifically the dependency ratio (number of population working to support those not working). The bottom line, he said, is that a

¹Footnote: Frugal Engineering is the science of breaking up complex engineering processes into its basic components and then re-building each component in the most economical manner. The end result is a simpler, more robust and easier to handle final process, and a much cheaper final product, which does the same job, qualitatively and quantitatively, as a more expensive complexly engineered product. It is generally believed that Indians and other South Asians are the most adept in frugal engineering, because resources and capital are scarce in this region.

great deal of growth is yet to take place in India and Indonesia.

The second point was that the role of democracy and good governance has been underestimated as well. The right of people to choose the government democratically is important for stability and growth. Rana urged the relevant think tanks to engage in empirical studies on the positive impact of democracy on economic growth within the region.

The third point was the failure to address people-to-people contacts within the region. While applauding the creation of ISIS think tank networks or track two processes, Rana said he felt more had to be done to increase people-to-people contacts. The European Union (EU) was an example of how to proceed. The EU came to be because France and Germany, two countries that had contentious relations, initiated and expedited people-to-people contacts.

Rana's fourth point was the need to have an inclusive approach for all the security, economic and political architectural structures. He pointed out the differences between the Asean plus Three (APT) mechanism and the East Asia Summit (EAS). The APT mechanism has about 50 smaller programmes designed exclusively for its members. But for EAS, other than the leaders' meetings, there are no other supporting mechanisms. He hopes that such programmes can begin soon, citing the former Japanese and Australian Prime Ministers' ideas of community as attempts to address the void.

In conclusion, Rana cautioned that Asia should not be over-confident. There is nothing preordained about the Asian century. He recalled the 80s when Japan was predicted to become the number one economy. This did not happen. Japan failed to top the US, and has been overtaken by China; it is now the world's third largest economy. While Asia should stride ahead with growth programmes and efforts to improve its citizens'

well being, it must also be mindful of potential pitfalls and be prepared for them, he said.

Prof Anthony Milner began with a discussion on the MacArthur Asia Security project report, which outlines four possible Asian future security scenarios: continued US primacy, an Asian balance of power, an Asian concert of powers, and finally, Chinese primacy over the region.

The EU came to be because France and Germany, two countries that had contentious relations, initiated and expedited people-to-people contacts

The study is based on the assumption that power distribution determines strategic order. Milner feels that while the study is useful, a more in-depth look is needed to examine the premise of the Asian Century. The study of the region's future is often wrapped around the premise of the rise of China. In Australia at least, universities are allocating more resources towards Chinese studies, at times at the expense of studies on other countries such as the US, Japan, Indonesia, India, etc.

He said that while the various aspects of Chinese ascendancy should be studied, it could also be true that China's rise is the most predictable element of the Asian century. The more interesting aspect, said Milner, is how other countries react to the rise of China.

Milner pointed out that as the colonisation of Asia went on for a long period of time, prevalent Western values permeated the Asian way of thinking and doing things long after the colonial powers left. He wondered whether the rise of Asia would lead to the rise of Asian thinking, values and norms, and whether traditional ideas would be investigated and

reformulated, with the new realities giving rise to modern Asian values.

He said the Asian values project of the 1990s was an attempt by the region to identify the reasons for Asia's economic success, to define the values that underpinned the desire for social harmony, and to try to establish how far a Southeast Asian and East Asian community might find common ideas, and a common sense of community in local heritage, values and norms.

Some liberal western concepts such as the notion of sovereign states, ethnicity and race, the focus on the rights of the individual, justice, human rights and so forth, had parallel Asian concepts, with concomitant histories and legitimacy, before they were overthrown and replaced by colonialism.

Is it enough to assume, Milner questioned, that as power shifts, its building blocks remain the same? Can we assume everyone will play the usual Western game? That English will remain the lingua franca of the region, or indeed the world? Will business suits and western norms continue in Asia or will new ideas from Asia rise and begin to dominate?

Concern over national sovereignty is assumed as a given in Asia, but there is no such thing, said Milner. Asia has enormous experience in overlapping sovereignty; centres define instead of nation states. The region is well prepared for the rise of mobile hierarchical city states rather than territorially-equal, nationally-defined relations.

The dawn of the new Asian thinker might very well lead to the loosening of rigid social structuring, at least at one level. In the language of Asia, the government has a duty to guarantee order in the community, at the level of thoughts and spiritual life. The government has a duty to promote a cultural and religious calm as opposed to liberal western ideas. It is possible, Milner said, that we will see increased policing of thoughts,

and intrusions into citizens' lives — a revival of an earlier moral understanding of the duties of the rulers.

On the one hand, the Asian century might bring about a reduction in demands for rigidity of nation states or social classifications of race and ethnicity, moving towards city states or city centres in a mobile flexible hierarchy. On the other hand, governments may take on the new responsibility of what today might be seen as idea or cultural management.

Milner admits that his speculations on what the Asian century might bring, primarily in terms of shifts of power, might prove to be nothing more than a superficial exercise. Efforts should concentrate on the deeper structural changes, and what the shifts away from the Western idea influence can eventually usher in.

*Asia has enormous experience
in overlapping sovereignty
with layers of status;
centres define instead one
of nation states*

Asean Connectivity: Advancing Economic Development and Community Building

Panelists at the *Fourth Plenary Session* argued for greater connectivity in Asean to promote its economic growth and community-building efforts. Presentations were made by **Mr Pushpanathan Sundaram**, the Deputy Secretary General (Asean Economic Community) of Asean Secretariat; **Prof Dr Fukunari Kimura**, Chief Economist of Economic Research Institute for Asean and East Asia (ERIA); **Nguyen Hung Son**, Director of Center for Regional and Foreign Policy Studies, Diplomatic Academy of Vietnam; and **Dr Dionisius Narjoko**, Researcher at Economic Research Institute for Asean and East Asia (ERIA). The co-chairs for the session were **Dr Satu Limaye**, Director of East-West Centre, USA and **Amb K. Kesavapany**, Director of Institute of Southeast Asian Studies (ISEAS) Singapore. **Nor Izzatina**, Researcher at ISIS reports.



Participants of the Roundtable in rapt attention

The Asean leaders' concept of Asean Connectivity was introduced during the 15th Asean Summit in Cha-am, Hua Hin, Vietnam, in October 2009, as the way forward to intensify and strengthen Asean community-building efforts. Realising Asean's vibrancy as a region and its increasing importance in the world stage in terms of GDP contribution and world trade, it was believed that Asean Connectivity should be the next step in bringing about greater economic integration, and reducing

development gaps within the region.

Mr Pushpanathan Sundaram defined the following types of connectivity needed by Asean in order to enhance its regional integration, and to reduce its development gap:

- Physical connectivity;
- Institutional connectivity; and
- People to people connectivity.

The physical connectivity refers to hard infrastructure like logistics-related and telecommunications infrastructure. At the same time, institutional connectivity focuses mainly on efforts and capacity-building, even through trade and investment in the region. Both physical and institutional connectivity are important to reduce trade costs and increase economic spill over. Most importantly, it can pave the way for a people-centric Asean, with activities like tourism, education and employment.

Newer Asean members' capitals are well-connected by air but the cities are still unable to provide auxiliary services like storage facilities and forwarding services

Continuing on physical connectivity or hard infrastructure, Pushpanthan referred to the importance of intra and inter-Asean linkages. On land transportation, it is clear that the building of roads is not in tandem with the increase in demand in Asean (particularly in Thailand, Indonesia and Vietnam). There seems to be a lack of good roads, especially in the Mekong sub-region.

For example, the highways linking most of Asean, from Singapore to Myanmar, are of differing standards, ranging from good to bad. Apart from the Asean Highway network that passes through all Asean member states, a railroad from Singapore to Kunming in China will play a great role in connecting Asean.

Currently substantial investments have been made in sea and air transportation but efforts should be intensified to connect roads and railways so that connectivity can reach peak efficiency. Newer Asean members' capitals are

well-connected through the air but the cities are still unable to provide auxiliary services like storage facilities and forwarding services.

There is also the need to better harmonise the open skies policy among Asean members due to the rapid expansion of low-cost carriers that are providing connectivity at lower prices. Apart from creating supplies for logistics connectivity, in the shape of new and better transport/logistic services, Asean has to streamline several of its agreements, such as the 2005 Multimodal Transport Agreement, and to liberalise its logistics ancillary services, which will fall under institutional connectivity.

The core challenges in efforts to connect Asean through hard infrastructure are in terms of:

- Implementation of existing agreements;
- Privatisation of infrastructure;
- Consolidation of Asean open skies agreements; and
- Mobilisation of resources needed on identified projects

On the resources needed, he quoted as an example that US\$9 billion will cover funding for just 66 per cent of the Kunming rail services. While the challenges in obtaining resources to increase hard connectivity in Asean are huge, the benefits from it will be even greater, stressed Sundaram. The money spent on building infrastructure can act as a stimulus for recovery from the financial crisis and importantly, it will reduce the market distance in terms of logistics cost and time, particularly for the landlocked countries with huge populations that still live in rural areas. Opening up connectivity to this sub-region, will bring greater opportunities and services to Asean as a whole.

Sundaram concluded by reiterating that increasing connectivity in Asean will empower Asean and will help it reach its full potential. At the same time, there is a need to have credible initiatives for investments in infrastructure.

Mr Nguyen Hung Son pointed out the importance of institutional connectivity to fiscal connectivity not only to prevent logistics bottlenecks such as long waiting times at ports due to a lack of services, but also to increase efficiency in the region. He went on to elaborate on the types of connectivity needed in Asean.

The first type is physical connectivity. While more affluent Asean members appear to be better connected to other regions logistically, poorer Asean members are greatly polarised. Therefore, much of future physical infrastructure projects should focus on regions with the least connectivity, such as the Mekong sub-region, and the Brunei Darussalam-Indonesia-Malaysia-Philippines-East Asean Growth Area (BIMP-EAGA). For middle income Asean countries that have heavy regulations in their logistics sectors, Nguyen suggested that Asean should implement a multimodal transport connectivity plan or roadmap. Its planning can be carried out by logistics ministries under Asean.

The second type of connectivity is institutional connectivity. Current and future efforts under Asean or even the Asian Development Bank (ADB) must be handled concomitantly with physical connectivity.

The third type of connectivity is that between the people or citizens of Asean. This can be fostered through, for example, student-exchange programmes.

While benefits from Asean connectivity will be huge, especially for less-connected regions, there is a downside to it. Connectivity will induce even greater movement of people, with concomitant risks for bigger human trafficking incidents. In conclusion Nguyen said that the target year of 2015 is too early for the region to reach concrete connectivity, as not much consideration is being given now to aligning transportation and logistics programmes and master plans among Asean members.

Dr Fukunari Kimura's presentation was based mainly on the simulation of logistics enhancement in East Asia and the potential benefits from it. He pointed out that the fragmented production network models used by multinationals today are possible by dispersion and agglomeration effects that enable them to reduce trade costs. However multinationals' efforts to spread out their production networks were hinged on the connectivity of the region where the production is based.

While more affluent Asean members appear to be better connected to other regions logistically, poorer Asean members are greatly polarised

An earlier study by the Economic Research Institute for Asean and East Asia (ERIA) showed that countries that have a comparative advantage in the manufacturing sector are the ones that have higher nominal gross regional domestic production per capita. Therefore, increasing connectivity in Asean will address income level differences among Asean members, helping their industrialisation process.

The geographical simulation model employed by ERIA estimates that the economic benefits that come with the connectivity are from the improvements in land, sea and air transport connectivity. The economic effect from the logistics infrastructure is measured as the percentage ratio of cumulative gains in regional GDP over 10 years, subject to completion of the scenarios of infrastructure development and trade facilitation in 2010.

Three scenarios are taken into consideration in estimating economic effects on Asean after logistics improvements. The first is connectivity of the Indochina Peninsula, which will

benefit greatly the poorer Asean members like Myanmar, Cambodia and Lao PDR, while Asean as a region will have a positive effect of 6.24 per cent cumulative GDP gains.

The second scenario is that of the increasing connectivity in a country, particularly Indonesia, bringing about huge impacts on the region as a whole. By having better highways from Bandar Aceh to Jakarta, and roll-on/roll-off (RO-RO) vessels between Belawan and Penang Ports and between Dumai and Malacca Ports, the welfare of the region will be enhanced by 16.24 per cent of cumulative GDP gains.

The third scenario focuses on improvements in the Jakarta-Surabaya and Manila-Davao land routes and the Manila-Singapore-Jakarta sea-routes. With these, Asean as a region seeks to benefit by 30.52 per cent cumulative GDP gains. However the efforts to improve connectivity still need synchronisation of logistics arrangements in Asean.

Dr Dionisius Narjoko pointed out that the connectivity framework in Asean encompasses sectors and value-chains that facilitate movement of goods and services. Part of this connectivity is financial, in order to synchronise financial resources and utilise it for greater benefits.

On the trade-in-services front, the Asean Framework Agreement on Services (AFAS) is deemed to be not progressive ...

Narjoko then went on to examine the initiative by Asean to increase connectivity in the region, particularly institutional connectivity. While there are many initiatives to increase the free flow of goods and services, persistent problems especially in rules-of-origin (ROO) and

non-tariff barriers (NTBs) remain unsolved. On the trade-in-services front, the Asean Framework Agreement on Services (AFAS) is deemed to be not progressive. Moreover, it is substantially varied across countries. On the issue of FDI in AFAS, deviation from most favoured nation status is a challenge itself. At the same time, the logistics core issues on cabotage* are yet to be resolved.

Despite these institutional setbacks, Narjoko said that there is plenty of room to develop as regards Asean connectivity, and the current initiatives have to be pushed harder. He proposed more intensive and extensive participation in institutional capacity to promote greater economic activities in Asean.

**Trade, shipping, or navigation that takes place in coastal waters within the boundaries of a single country*



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