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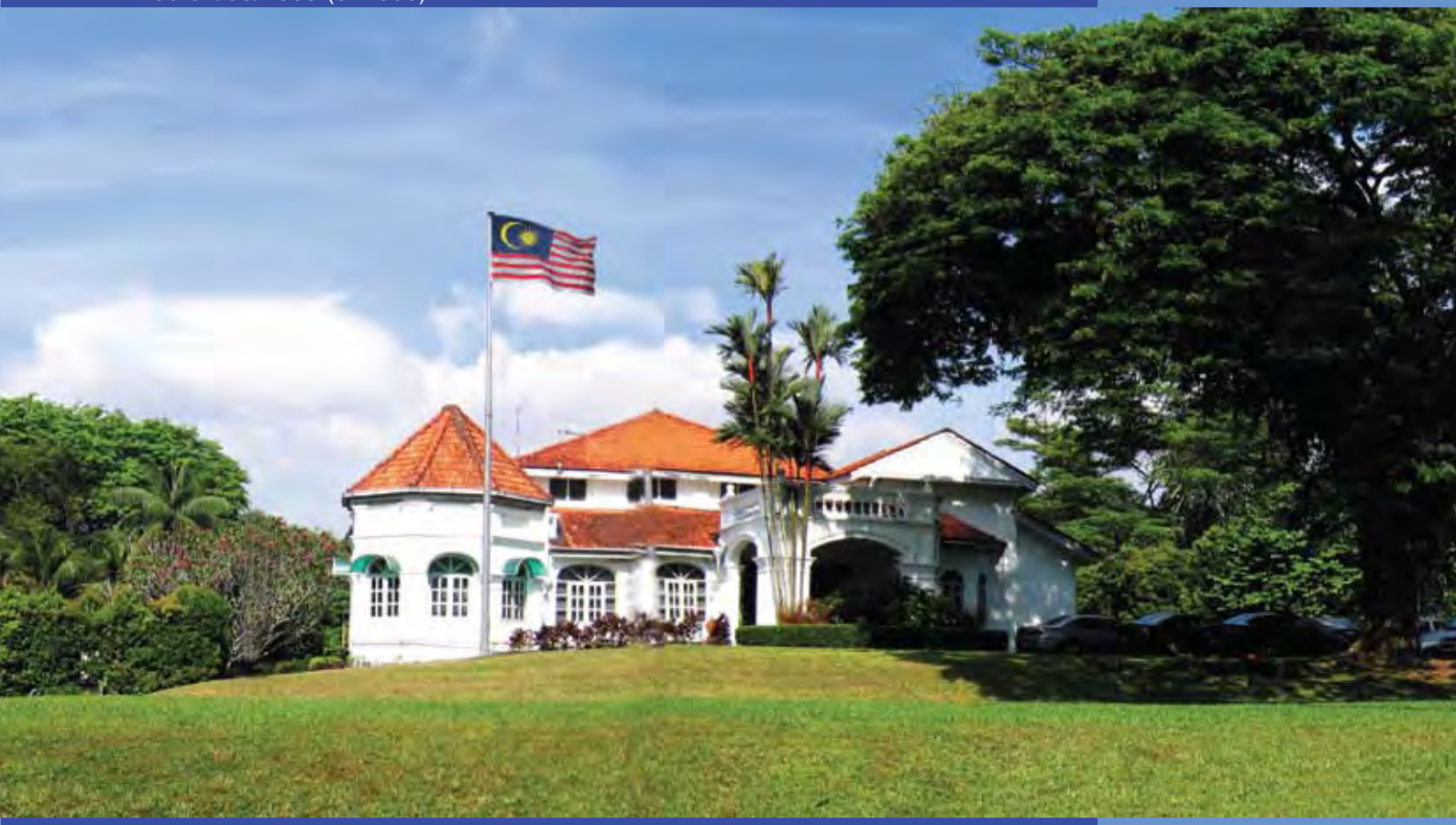

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INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA

ISIS MALAYSIA

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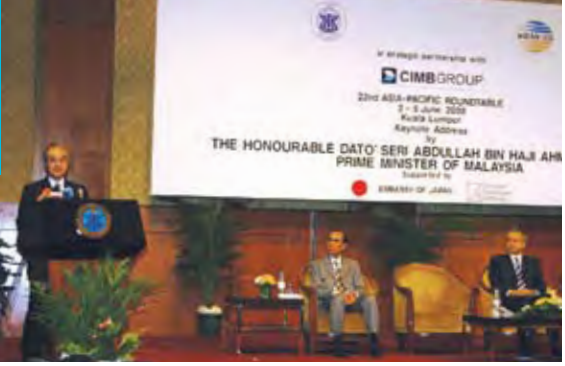
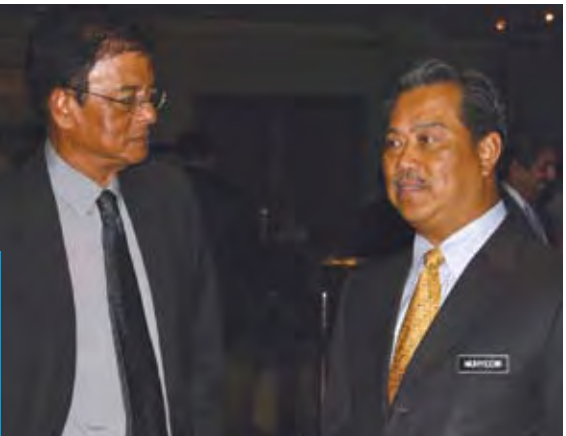




Contents

EDITOR
Tan Sri Mohamed Jawhar Hassan

EDITORIAL TEAM
Dr Mahani Zainal Abidin
Philip Mathews
Thangam Ramnath
Norhayati Mustapha
Wan Portia Wan Hamzah

PHOTOGRAPHERS
Jeffri Hambali
Halil Musa

PUBLISHED BY
Institute of Strategic and International Studies (ISIS) Malaysia
No. 1, Persiaran Sultan Salahudin,
PO Box 12424,
50778 Kuala Lumpur,
Malaysia.

Tel: + 603 2693 9366
Fax: + 603 2691 5435
Email: info@isis. org.my
Website: www.isis.org.my

(From left) Mr Sunai Phasuk, Prof Aries Arugay, Ms Malayvieng Sakonhninhom, Dr Ta Minh Tuan and Assoc Prof Victor V. Ramraj

Civil Liberties and National Security: A Zero-sum Situation?

The Global War on Terror and its subsidiary conflicts have seen a significant erosion of civil liberties in the nation states of the world, especially those in the Asia-Pacific region. Apologists of this development see it as necessary to ensure that a sense of national security prevails. Do civil liberties have to be sacrificed for the sake of national security and vice-versa? ***Keith Leong****, Researcher at ISIS Malaysia, reports on the First Concurrent Session of the 22nd Asia Pacific Roundtable:*

The Concurrent Session was chaired by Ms. Malayvieng Sakonhninhom, Acting Director-General of the Institute of Foreign Affairs within the Ministry of Foreign Affairs of the Lao People's Democratic Republic. The presenters were Mr. Sunai Phasuk, Adjunct Fellow of the Chulalongkorn University's Institute of Security and International Studies (ISIS), Thailand, Mr. Aries Arugay, Research Fellow for the Institute of Strategic and Development Studies (ISDS) in the Philippines, Dr. Ta Minh Tuan, Deputy Director for the Centre for Regional and Foreign Policy Studies of the Institute for Strategic and Foreign Policy Studies in the Diplomatic Academy of Vietnam and Dr. Victor V. Ramraj, Vice-Dean (Academic Affairs) of the Faculty of Law, the National University of Singapore.

Ms. Malayvieng opened the session by introducing the speakers and then turned the floor over to Sunai, who began by expressing his belief that civil liberties and national security cannot be separated and are in fact dependent on each other. He felt that an over-emphasis on national security by governments without adequate safeguards for civil liberties in fact undermines the former. Sunai then put forward two case studies of this scenario, namely the southern border provinces of Thailand and Burma.

Regarding southern Thailand, Sunai stated that the conflict between Muslim insurgents and the Thai Government there since 2004 has been one of the bloodiest in South East Asia, with 94% of all casualties being civilian. The insurgency is a new form of conflict that Thailand has not had experience in dealing with, namely the deliberate targeting of civilians by groups opposed to the government. It could be said

that the insurgents are attempting a form of ethnic cleansing in the region, namely to drive out all Buddhist residents from there, and indeed some have seen it as a Buddhist vs. Patani Malay conflict.

The situation has been complicated by the fact that Patani separatist groups like the Patani United Liberation Organisation, the Patani Freedom Party and the National Revolutionary Front have been increasingly radicalised, which has led them to adopt extreme platforms. The Thai authorities, in response have resorted to radical and unprecedented measures of their own, such as extrajudicial arrests and killings. The then Prime Minister Thaksin then went on to push through special legislation that authorised martial law in the resistive provinces and detention without trial. Both of these initiatives did much to damage Thailand's international image.

In response to this, the Thai authorities repackaged the controversial legislation as an 'emergency decree', primarily to avoid criticism that the laws were incompatible with the United Nation's Declaration of Human Rights (UNDHR). Regardless of the name, the decree created another level of infringement of civil liberties and human rights. Impunity was legalised and officials were allowed to commit crimes without fear of discipline. Sunai himself stated that he had lost three assistants who had objected to the Thai Government's actions and were then killed in consequence. He then went on to claim that the identities of the perpetrators of these murders were known, but that no action could be taken against them.

As victims of the emergency decree had no avenue for legal redress, the Thai Government's actions actually drove the Pattani Malays to support the militants. The former's actions gave them the impression that there was no other option but to fight. In this sense, the use of special laws to ostensibly ensure 'national security' ended up strengthening the threat to it and ended up making the citizens more vulnerable to terrorist acts. Furthermore, the Thai's Government's reliance on such laws to facilitate clearly illegal actions robbed them of whatever legitimacy they had to end the insurgency.

In the case of Burma, Sunai stated that the military regime there has never been shy of repressing civil liberties on every possible level. There is absolutely no functional mechanism to hold the Burmese Government accountable to ensure that it lives up to the standards of good governance.

There is, as a result also no way for civil society to prevent the military regime from utilizing unconventional methods to control challenges to its authority. The recent food price riots, for instance were put down with a staggering brutality, and all signs from the Government indicated that it did not feel obliged to explain its actions to either domestic or international audience.

In this sense, the use of special laws to ostensibly ensure 'national security' ended up strengthening the threat to it and ended up making the citizens more vulnerable to terrorist acts.

Referring to the devastation of the Irrawaddy Delta by Cyclone Nargis, Sunai stated that the military regime's initial refusal to accept foreign aid on the grounds of national sovereignty and security was another example of its petulance. There are, in fact reports stating that civilians were being forced to return to the Delta in order to give the world the impression that things are back to normal there. All of this, Sunai concluded, had the effect of causing even greater socio-economic and political turmoil in Burma.

The floor was then handed over to Aries Arugay, who chose to structure his talk around five basic points. The first was that the question of how to balance civil liberties and national security was a timeless topic, as old as politics itself. There was no finality to the matter, according to Arugay, but he felt that while the two are difficult to balance, they are never mutually exclusive either.

Secondly, he argued that there needed to be a greater emphasis on the nature, features and qualities of the 'security' discourse. How is security agreed upon? What constitutes it? Does 'regime security' necessarily mean the same thing as 'national security'? To Arugay, the definition of

'security' is complex and nefarious, depending a lot on the context and democratic qualities of a particular government, as well as the security threats it might face.

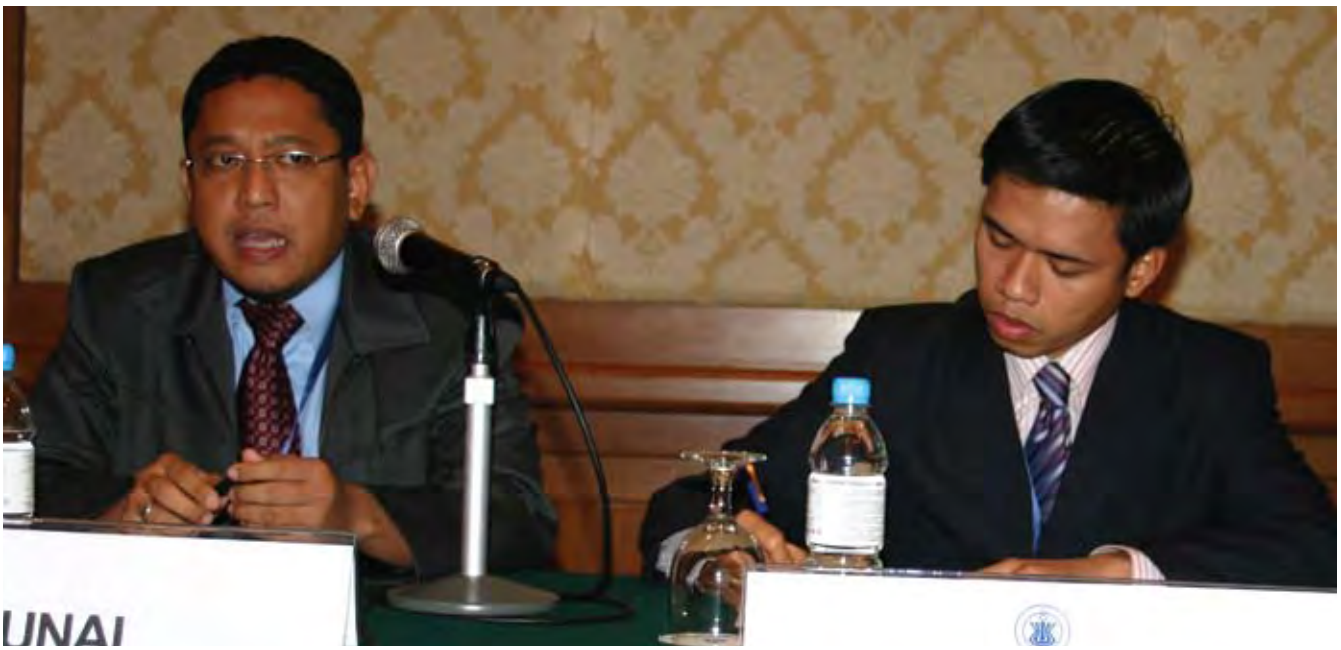
In this regard, he felt that there was a need to move away from a 'state-centred' definition of the security discourse, in the sense that the state should not be the prime beneficiary of and mover towards security. This often leads to states branding potential dissidents as 'terrorists', and then possibly develops into the repudiation of democracy and human rights in the name of cracking down on them. In the case of the Philippines, its standing on the Freedom House Index and Corruption Index has regressed primarily because of the abuses of the republic's security forces, who have been accused of carrying out extrajudicial activities in the name of national security.

Examples of this include the extrajudicial killings of perceived communists and critical journalists, which Arugay believes has been caused by the Philippine Government's own lack of confidence in its legitimacy. While there have been attempts to reform the security forces and implement a human rights-based approach to law enforcement, he feels that such initiatives have thus far lacked the proper autonomy and resources to be effective. Arugay's solution for this is for the Government to empower accountability and the rule of law.

> 'Those who sacrifice Liberty for Security deserve neither'.
>
> *- Benjamin Franklin -*

In his fourth point, Arugay stated his belief that there has been some degree of international complicity in the violation of human rights in the name of combating terrorism, especially as a result of the Global War on Terror. Terrorist fighters are often more acclaimed by international public opinion rather than human right's defenders. This, to him was a throwback to the Cold War, where anti-communist dictators were hailed by the West despite their appalling human rights records.

Arugay for his final point quoted Benjamin Franklin, who said that 'Those who sacrifice Liberty for Security deserve neither'. Arugay then went on to state that the question as to who benefits from such a regression of the former in favour of the latter needs to be asked by one and all. The answer, to him lies in the security discourse, which remains traditional and elitist that often leads to abuses such as when the military curtails civil liberties. Arugay concluded that there needs to be a shift away from such a traditional discourse to one that is more unorthodox and participatory, which he felt would make both civil liberties and national security compatible.



Mr Sunai Phasuk and Prof Aries Arugay

Dr Ta Minh Tuan and Assoc Prof Victor V. Ramraj

Dr. Minh then delivered his paper, declaring that he would adopt a theoretical approach. Like Arugay, he agreed that the debate between civil liberties and national security was not a new thing, but that the events of 9/11 had given it a new momentum. The question, to Minh was whether citizens would willingly sacrifice their liberties for security. In this regard, the discourse of what 'civil liberties' and 'security' means is very important.

He then proposed that what constitutes civil liberties vary from place to place and country to country. Two aspects, however, appear to be universal, the first being abstract rights like freedom of speech, as well as the rights and choices of the people. The other was contextual, in other words the conditions in which they are practised- in light of internal and external threats such as the Global War on Terror.

The impact of perceived threats are significant, threats to the "state" (i.e. a regime) are often equated as threatening 'national security'. Threats to private citizens, on the other hand do not receive such status. This gap in security perceptions is problematic as it gives the state the right to infringe on civil liberties but not to the people. The former, in fact can threaten individual safety through the use of draconian security laws such as the Patriot Act, etc.

Other concrete actions in this regard include censorship, the opening of mail, wire-taps or the restriction of movement or immigration and heightened airport security. This approach is limited as it concentrates purely on security domains. The people are therefore left afraid of personal security, but also reluctant to rely on law enforcement agencies as they represent an oppressive form of state intervention.

Minh stated that the lack of knowledge about human rights would decrease the support for civil liberties. It is important to him, therefore that education about them be increased. A lot also depends on the type of governmental system practised in a country. Democratic governments theoretically respect civil liberties more. They cannot escape legal procedures and are held accountable for their actions, which cannot be said for authoritarian or military regimes.

Regime survival is often equated with national security, and hence people are often forced to accept this 'reality' and hope for the former to ensure the latter. This is a dangerous development, as an increased focus on this brand of 'national security' will lead to other areas of national life being curtailed. Increased military spending, for instance diverts resources from health and education that could help people understand their civil liberties better. Could this be the real "trade off" in the debate? Minh concluded by agreeing that there needs to be a balance of national security and civil liberties, and that one is necessary for the other.

Dr. Ramraj began his presentation by challenging the framing of the Session's central question. He felt that it was an important question, but that another, more important one needs to be asked, namely 'what are the implications of emergency powers for constitutionalism and the rule of law?' To answer the latter question, Ramraj proposed to examine several case studies from South East Asia, including East Timor and Thailand.

He began with two approaches towards national security and civil liberties, the first being that the former is a precondition to the latter. Ramraj thought that this was true in the case of failed states, for civil liberties are useless if they cannot be enforced, but this would only be in extreme cases and generalisations are hard to make. The second approach would be that civil liberties are complementary or essential to national security. Quoting Colin Campbell, Ramraj stated that a state signalling that 'the gloves are off' regarding its survival will lead to the mobilization of oppositional violence and vice-versa. It is important therefore but this is difficult without the right mechanisms of enforcement.

He then proposed that the question be reframed not in terms of civil liberties vs. national security but rather emergency laws vs. the rule of law and constitutionalism. Ramraj pointed out that the 'rule of law' is not necessarily limited to formal, written laws, as the worst excesses of Nazi Germany and Apartheid South Africa were indeed codified into their legal systems.

What was important, rather, was to examine the substantive definition of the rule of law, although he admitted that this could be contested and controversial. As a solution, Ramraj advocated that a return to the rule of law could be affected by subordinating politics to the law.

Regarding emergency laws, especially ones related to preventative detention, Ramraj saw such laws as a challenge to the aspirations for constitutionalism. To him, a true sign of a state's achievement of civil liberties and national security is its commitment to constitutionalism and the rule of law even in the face of political emergencies.

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Turning to his case studies, Ramraj first highlighted the problems East Timor faces in trying to emerge and rebuild itself in the aftermath of its independence from Indonesia. Perhaps as a result of the abuses from the Indonesian era, the Timor Leste Constitution has a comprehensive emergency power framework which clearly defines and limits the state's power to act. The assassination attempt on President Jose Ramos Horta however led to the declaration of a state of emergency. Ramraj viewed the incident as a state facing tension between its commitment to constitutionalism and the need to handle threats both internal and external.

Ramraj then highlighted the case of Thailand, whereby an emergency decree put in place in 2005 survived three constitutions, namely the existing pre-2006 coup one, the interim document released after the coup and the new constitution that Thailand currently operates under. He saw Thailand as a state struggling to establish a sense of constitutional norms, seen by the existence of a Constitutional Court, but the sad fact is that the emergency law decree of 2005 is the only constant in the current political turmoil.

Ramraj concluded by stating that it was important to think of the tension between civil liberties and national security, but attention also has to be given to the impact that the use of emergency powers has on constitutionalism as a political ideal. Abstract ideas must not be ignored, and in this regard he saw the Global War on Terror as a threat to it.

Governments, according to Ramraj should not see constitutionalism as a threat, and should also make it clear that the courts of law are not threats to "national security" either. The new president of the United States of America, according to Ramraj, should mark his new term in office by closing down the Guantanamo Bay Detention Centre and reaffirming the country's commitment to constitutionalism.

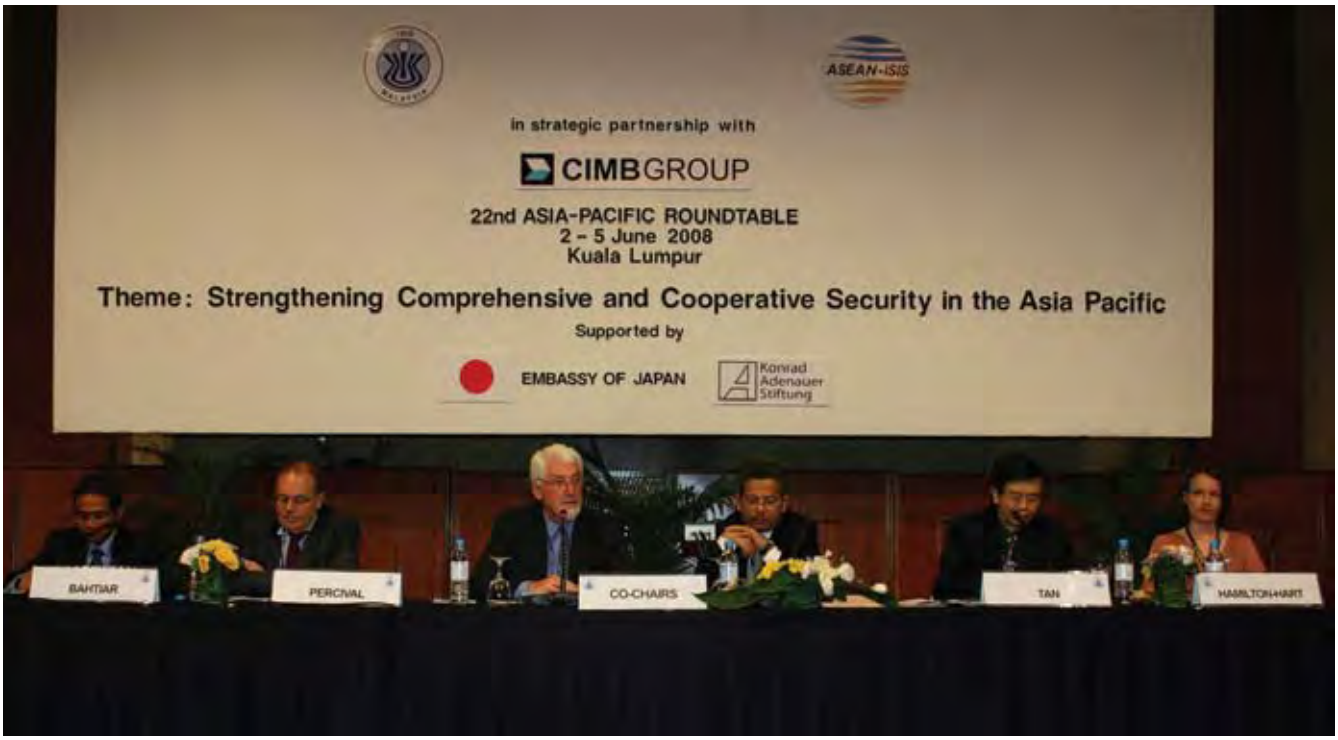
The Militant and Terrorist Threat in the Asia Pacific:
Current Situation and how it can be better Addressed

The war against terror is far from over as the recent devastating Mumbai terror attacks have shown. Southeast Asia has had to fight its own battles against terrorism, which have included international terrorism, regional terrorism and ethnic revolts. Four panelists discuss the current situation with regard to the militant and terrorist threat in the Asia Pacific and the question of how it can be better addressed. ***Benjamin Sandqvist****, Post Graduate Student at the School of Public Administration, Gothenburg University, Sweeden, currently a Research Associate at John Curtin Institute of Public Policy in Perth, Australia, reports on the Fifth Plenary Session of the 22nd Asia Pacific Roundtable:*

The session was chaired by Dr James A Veitch of the School of Government, Victoria University of Wellington, New Zealand, and co-chaired by Dr Rizal Sukma, Deputy Executive Director, Centre for Strategic and International Studies (CSIS) Indonesia. The panelists were Mr Bronson Percival, Senior Advisor for Southeast Asia and Terrorism in Asia, Centre for Strategic Studies, USA; Dr Andrew Tan, School of Social Sciences and International Studies, University of New South Wales, Australia; Prof Dr Bahtiar Effendy, State Islamic University, Indonesia; and Dr Natasha Hamilton-Hart, Faculty of Arts and Social Sciences of the Southeast Asian Studies Programme, National University of Singapore.

Bronson Percival in opening said that Southeast Asia had to contend with terrorism from three different sources. These were:

1. International terrorism (Al Qaeda)



(From left) Dr Bahtiar Effendy, Bronson Percival, Dr James A Veitch, Dr Rizal Sukma, Dr Andrew Tan and Dr Natasha Hamilton-Hart

2. Regional terrorist organisations (such as Jema´ah Islamiyah); and
3. Ethnic revolts in Southern Philippines and Southern Thailand.

It was absolutely crucial to distinguish between the different motivations amongst the various groups that have provoked different types of violence. He thinks that the governments of Southeast Asian countries did a remarkably good job in this and that their partners worked very well with them. So, from a Washington perspective he wondered if the Southeast Asian countries provided a model for dealing with terrorism.

Mr Percival emphasised that we have to bear in mind two things in such a discussion.

First, we have to distinguish between what the US has done in the Middle East and what they have done in other countries.

Second, we have to be aware that 2003 and 2008 are light years apart when we are dealing with terrorism.

The first point he made was that Southeast Asia did face a serious terrorist threat. In 2001 there was a great deal of political violence in Southeast Asia. How the different kinds of terrorism in the region were linked to each other did not become clear until 2002. When terrorism raised its head after the events of 9/11, especially in Southeast Asia, after the Bali bombing in October 2002, a number of countries with very different priorities had to sort out what roles they would play. People did not share a common perception as they had very different domestic issues to deal with. The Southeast Asian countries insisted that they did not want the US to see their region as the second front in dealing with global terrorism. On the other hand, they wanted the US presence and long term commitment to the region.

He did not think that the US had a 'one policy fits all' model when dealing with international terrorism …

In Indonesia the situation was chaotic; the country was transitioning towards democracy and was, according to him, in a state of denial about terrorism. However, after the election of a new president in 2004, Indonesia found its own way to deal with terrorism which has turned out to be quite effective. He also mentioned that all the countries had partly or entirely different approaches. The point is that Southeast Asian countries learned how to work together effectively and how to use the assistance of Australia and the US.

On the idea that the US was rather insensitive to Southeast Asian political concerns he said that he did not believe that that was the truth. He believed that there was a conflating of American policies in Asia and in the Middle East. He did not think that the US had a 'one policy fits all' model when dealing with international terrorism and he pointed out two reasons for this. First, Southeast Asia was considered an important area, not a secondary one that could be ignored. At the same time, it was not that crucial that there was great domestic pressure to deal with the area, employing military force together with already stretched resources. What that meant was that in Washington they were able to distinguish between international terrorist links, and minority Muslim and/or ethnical insurgencies in Southeast Asian countries. The US therefore had become more sensitive to the political situations in the different countries in the region.

By 2005 as a result of the governments of the countries in the region working together to address the terrorist situation, in 2008 there is nothing left of Al Qaeda that they know of and the links between Jema'ah Islamiyah (JI), the regional organisation, and Al Qaeda have been cut; there has not been any terrorist incident in Indonesia since 2005. The JI is under considerable pressure and are turning away from violence.

If we look at explanations for Southeast Asia's success, one argument is that Malaysia, the Philippines, Singapore and Thailand all moved against terrorism and contained it within Indonesia. Another is that Indonesia found its own way to deal with terrorism. A third argument according to Mr Percival is that governments showed restraint and did not overplay their hands, thereby preventing a backlash.

There are a number of remaining challenges. One of

them is the American attempt to quell insurgencies in Iraq. Another is that of insurgencies in Thailand and in Southern Philippines. Finally, although there is no direct link between poverty and terrorism, a global economic recession and continuing inflation in the prices of basic necessities, especially food, could challenge the legitimacy of governments and lead to new recruits for extremist organisations, if not necessarily to violence.

Dr Andrew Tan

Dr Andrew Tan in his presentation said we all remember the first major terrorist attack after 9/11, which occurred in Southeast Asia on the 12th of October 2002 and which was carried out by Jemaah Islamiah (JI). The JI was also responsible for various other attacks. However, the arrests of key terrorist operators in 2002 significantly weakened the Al Qaeda – JI nexus in the region. In November 2005 there was another counter-terrorist success when Azhari Husin, an important bomb-maker was killed by security forces in Indonesia. In 2007, police raids in Poso, Sulawesi, resulted in the deaths of 17 men and the arrest of more then 20 local JI members. The operation revealed links between the JI in Java and militant violence in Poso and led to further arrests in March 2007. The seizure of a huge cache of explosives and weapons as well as documents revealed JI's plan to assassinate police officers, prosecutors and judges. This counter-terrorist operation has dealt a major blow to JI's overall operational capabilities. However, a key JI leader, Mas Selamat Kasturi, on the most-wanted list escaped from detention in Singapore in early 2008 and remains a rather serious threat.

JI is not the only radical terrorist organisation in the region. In the Philippines the Abu Sayaff Group has in the past been responsible for many high profile terrorist incidences such as the kidnapping of tourists in 2000 and also the deadly ferry bombing in Manila Bay in February 2004. In 2006, the Philippine army launched a major operation which led to the death of ASG leader Khadaffy Janjalani and the capture of training camps. The main separatist group in the southern Philippines, the Moro Islamic Liberation Front (MILF) has proven amenable to negotiations. However, the presence of younger, extremist elements in the MILF and Moro National Liberation Front (MNLF), as well as in other radical groups such as Abu Sayyaf and the Rajah Solaiman Movement, virtually ensured that the violence would not end even if the MILF were to sign a peace agreement.

In southern Thailand the situation has gone from bad to worse. The mismanagement by the Thaksin government in the early part of the decade was epitomised by two shocking incidences. On April 28, 2004 security forces killed 108 young Muslims and on Oct 25, 78 Muslims protesters died of suffocation after being stuffed into police vans. The coup against the Thaksin government in September 2006 and apologies to the Muslims have not succeeded in ending the violence, because of the uncoordinated approach used and the lack of a strategic plan. The current lack of political leadership and the failure to address fundamental grievances in the South has increased the danger

> …Al Qaeda exists more as an ideology than as an identifiable, unitary terrorist organisation.

…after 2003, terrorism and insurgency have become conflated in the way global terrorism and Iraq somehow has become conflated.

that the current ethno-nationalist insurgency could be transformed into a radical movement.

Since the GAM (Gerakan Aceh Merdeka) gained power in 2006, after signing the peace agreement in August 2005 in Helsinki (under which GAM agreed to disarm and take part instead in the political process) they have failed to deal with many of the economic and social issues in the province. The peace treaty has also been undermined by political infighting within GAM and weakening of some of the provincial government authority. A return to violence by disaffected Acehnese cannot be ruled out, or even worse, their becoming more amenable to radical Islam.

In China, a growing radical terrorist challenge emerged recently from the Uyghur Muslim separatist movement in Xinjiang. The separatist umbrella movement, East Turkestan Islamic Movement (ETIM) has received funding and training from Al Qaeda and has carried out a number of attacks in China. In 2002, when the Taliban were captured by US forces in Afghanistan, ETIM was designated a terrorist organisation. More recently this year, Chinese authorities revealed that they had foiled an attempt by ETIM to hijack a passenger plane from Xinjiang, bound for Beijing.

The second part of Dr Tan's talk was on countering the threats of terrorism, on where we go from here, and how these things can be better addressed.

According to Bruce Hoffman Al Qaeda exists more as an ideology than as an identifiable, unitary terrorist organisation. It has become an international franchise with like-minded local representatives, loosely connected to a central ideological or motivational base, but advancing the centre's goals at once simultaneously, and independently of each other. The result is that today, rather than the single Al Qaeda, there are many Al Qaedas.

This evolution of Al Qaeda to a global insurgency has been aided by a number of global developments. First, many of the techniques and skills required for the deadly contemporary terrorist attacks that have taken place around the world since 9/11 were imparted by Al Qaeda through its training manuals and camps in Afghanistan during the 1990s. This has been the foundation for later terrorist attacks around the world. Second, the US invasion of Iraq in 2003 has turned Iraq into a vast training centre for urban terrorism. Finally, though Al Qaeda's direct operational links to Southeast Asia have been severed, local radicals and networks that feed on deep local political, economical and social grievances have replaced them.

How can we better counter terrorism?

As Gareth Evans of the International Crisis group noted, we need a complex multi-layered response – in other words, a comprehensive long-term strategy designed to win hearts and minds in the Muslim world, where the true centre of gravity of the war on terror lies. The best articulated construction of the newly evolving global counter insurgency strategy that is now replacing the global war on terror in Washington, comes from David Kilcullen, an Australian army colonel and chief strategist advising the US government on counter-insurgency. He has proposed a strategy called 'Desegregation' which focuses on 'interdicting links between theatres, denying sanctuary areas to terrorism, as well as destroying inputs from sources of radicalism in the greater Middle East.

In concluding, Mr Percival said the current fascination with adapting counter-insurgency strategy to meet present-day threats should come as no surprise, given that after 2003, terrorism and insurgency have become conflated in the way global terrorism and Iraq somehow has become conflated. Though Iraq and global terrorism had no linkages, the US actions in Iraq have made this a self-fulfilling prophecy. So there are no easy answers, and he thinks that in the

Despite information being available that terrorism could be at work, the government turned a blind eye to it.

final analysis, the war on terror is in fact a long-term ideological struggle. There will be no clear victory in sight and the focus has to be on containing the threat of terrorism within acceptable boundaries.

Prof Bahtiar Effendy began with an anecdote. Recently, the D-88, a counter-terrorist unit, stormed a senior high school in Indonesia; the raid was carried out not because terrorists were hiding in that particular school, nor because teachers or students were involved in terrorist acts. Rather this unit was instructed to storm the school because some teachers were trying to change the answers made by students sitting for the nationally administrated final exam. Why did such an agency seize such a group of humble teachers knowing that its task was to crack down on terrorism? That the D-88 was able to engage in such a non-terrorist act could indicate that terrorism was no longer the task that the unit needs to be preoccupied with. In other words, the long, hard effort has caused serious damage to institutions as well as individuals responsible for terrorism. But is this really the case?

When violence began to take place in Indonesia in the first few years after the downfall of President Suharto, it was believed to be the work of Suharto's cronies. Despite information being available that terrorism could be at work, the government turned a blind eye to it. Things began to change when terrorists attacked Bali in October 2002. Serious measures were taken since then; yet there have been frequent occurrences of terrorist attacks. After five years of hard work, and with the help of the US and the Australian governments, Indonesia was able to improve its capacity to counter terrorism. Many important terrorist leaders were arrested; around 400 suspects were captured and some killed. Many were brought to trial and given sentences ranging from death penalty to life imprisonment. In order to win the hearts and minds of the radicals, the government also conducted theoretical programmes aimed at transforming them into moderate Muslims who would in turn preach moderation to their colleagues.

> With the current approach, it is difficult to build trust among the coalition of the willing and especially between the US and the Muslim world.

This was supposed to result in the development of a discourse within the terrorist network that would ultimately advocate that bombing served no purpose, did not garner people's support for them, and indeed that it was a counter-productive move.

However, there is no clear picture that such a discourse has been received by, nor has had any effect on those involved in terrorist activism. Even if it exists among them it has certainly caused apprehension among the terrorist networks. While these measures have been regarded positively in eradicating terrorism, in the sense that they have caused serious damage to the terrorist networks, and have weakened their capacity to launch further attacks, some serious problems remain. In short, the threat of terrorism is still very much there.

First, there is the doctrine or the theological basis of terrorism which forms its ideology. This has not been fully addressed. There have not been any serious efforts to deal with this particular issue, other then just blaming it on the understanding, or interpretation of religions, or blaming certain religious educational institutions and holding them responsible for terrorist acts.

Secondly, the question of terrorism versus Islam remains unsolved. Many actors, if not all, have been identified as Muslims and because of that there has been a tendency, subconsciously, to align Islam with terrorism and as well as to imply that Islamic teaching breeds terrorism or radicalism. Though many have said that it is not Islam they are after, suspicion remains high.

Third, there is is a lack of sensitivity in dealing with the question of terrorism, particularly with regard to Islamic educational institutions, and towards those with such an Islamic educational background. The fact that some terrorists graduated from some of those institutions should not be used to generalise those institutions nor should the term jihad be used to portray those who are responsible for terrorism or radical acts.

Fourth, there is weak law enforcement. Despite the relative success of D-88, the government

has yet to demonstrate its willingness to uphold the law honestly. There have been a number of reports of school incidents similar to the above, and if they are true the government has to take necessary action to prevent talk of conspiracy. Furthermore, it is ironical that many imprisoned terrorists have access to high-tech instruments, computers and cell phones. Furthermore, they are allowed to make contact with and send instructions outside the prison. In a way, this has helped them to constantly adapt and metamorphose.

Fifth, there has been no constructive effort to include media Muslim figures in combating terrorism.

So what is to be done now?

First, he argues that trust is an important factor in fighting terrorism. All those participating have to put their cards on the table. With the current approach, it is difficult to build trust among the coalition of the willing and especially between the US and the Muslim world. To begin with, it is important for the US government to give the Indonesian counter-terrorism unit access to Hambali, one of the individuals most responsible for spreading terror in Southeast Asia and Indonesia. Symbolically it is an important instrument for building trust.

Second is the importance of upholding the law. The success of bringing suspects to trial and subsequent imprisonment needs to be followed by coherent efforts to prevent them from communicating with their outer network. It is important to give special attention to prison guards and wardens, as they can be bribed.

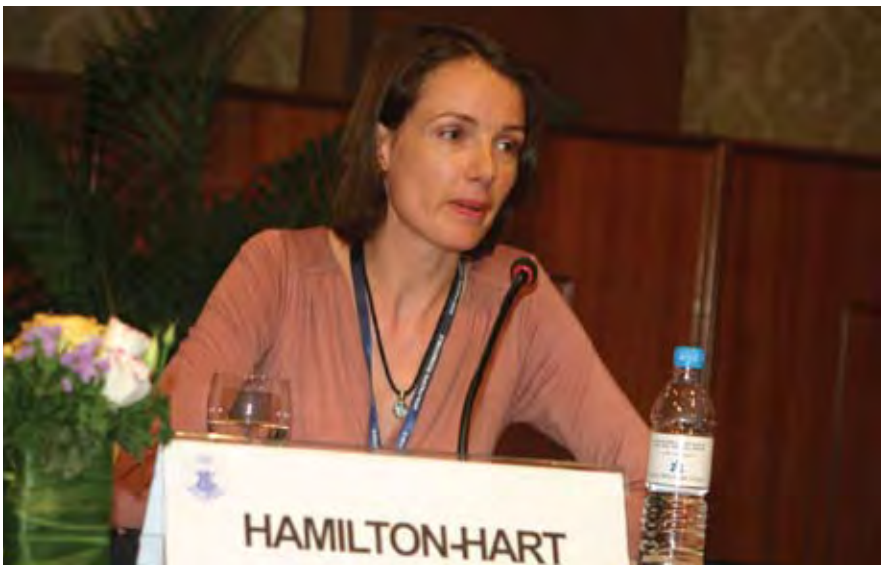
Finally, we should include Muslim figures in the campaigns against terrorism. This will help people understand the nature of terrorism and bring them into the arena of combatting terrorism. With their participation, insensitivity will be greatly reduced. The use of inappropriate terms, such as Jihad, should be avoided, and in an addition, we should gain Muslim support and minimise distress by convincing the Muslims that Islam is not what this counter-terrorism drive is after. Also, through this approach a coalition among willing Muslim moderates could be established. Through all these measures the doctrine and theological basis of terrorism, or radicalism, can be altered.

Dr Natasha Hamilton-Hart said that if you look at the global trends of recorded terrorist incidences, a sharp escalation can be seen over the last few years.

> …we should make a distinction between terrorism and political violence.

Looking at the US official tally of casualties of terrorism and the number of terror attacks, we can see that the figure rose from a little over 11,000 worldwide in 2005, to over 14,000 in 2007 which implies that if there is going to be a war on terrorism, it has a long way to run yet.

The global tally of terror acts is overwhelmingly dominated by attacks in Iraq and Afghanistan. The fact that these are the two places where the global war on terrorism and the counter insurgency campaign associated with it are waged most aggressively should send a warning globally that it is important to understand the threat and to fight the right war in the right way. Iraq is an example where the counter-insurgency campaign has aimed at reducing terrorism singularly, but has been unsuccessful.



Dr Natasha Hamilton-Hart

The threat in Southeast Asia, according to Dr Hamilton-Hart, can be seen as quite limited. However, there are threats of political violence, more broadly speaking, which are quite serious and in a sense not captured in the debate on terrorism. Basically, she said she wanted to add three things to the presentations made by the others:

One is that we should make a distinction between terrorism and political violence. The conventional definition of terrorism that is used by people who collate databases shows that most of Southeast Asia, (in terms of the number of terrorism incidences logged) is actually relatively terrorism-free. Over the last six or seven years, the incidences have been concentrated highly in three countries: Indonesia, the Philippines and Thailand. In Indonesia, most of the casualties that were logged over this period were not casualties of terrorism, (if you take away the first Bali bombing). Rather, they were a part of insurgent conflicts, separatist conflicts or communal conflicts that were intimately bound with contests for political power. That is why in Indonesia a certain spike in incidents was recorded as terrorism in the early post-Suharto period. In the last three years, there have been no major terrorist incidences in Indonesia.

Most of what is currently being recorded as terrorism in Southeast Asia takes place in Southern Thailand and Southern Philippines in which contexts they are mainly extended insurgencies. One of the most important things to remember about insurgencies is of course that they are ultimately politically-driven. While insurgents may use terrorist tactics, they are known to use these tactics towards a wide variety of actors. It is singularly unhelpful to view the insurgents through the lens of terrorism and to go around and call insurgents terrorists.

Dr Hamilton-Hart said we should do away with the term 'terrorist.' If we see terrorism as a tactic among a broad repertoire of tactics that groups employ when they consider it to be useful to them, we can more easily distinguish ways to end the conflicts that are driving these incidences. One of the first rules that anyone will give you when it comes to dealing with terrorists is that you don't negotiate with them. If that was strictly followed in the southern Philippines, for instance, it would dispel every attempt to negotiate a peace settlement. Because the principal groups that are leading the insurgency are actually also linked to acts of terrorism, though it might not be their main tactic. Yet, she hopes that most people will see the futility of saying 'we won't negotiate with these people because they have committed an act of terrorism.'

If we see terrorism as a tactic among a broad repertoire of tactics that groups employ when they consider it to be useful to them, we can more easily distinguish ways to end the conflicts that are driving these incidences.

The importance of distinguishing between the various tactics of terrorism is also important, because in countries such as the southern Philippines and southern Thailand, we do see groups which have less of a discernible political agenda and with which there is probably not much prospect of negotiating. It is very important to not confuse those groups, against whom the only thing that can be done probably is a police approach, with groups which are more politically-driven and with whom negotiations are not only possible, but also the only way to end the conflict in that particular region. According to a recent ICG report, the Philippine government's counter-terrorism campaign in the south of the Philippines, which chalked up some quite impressive victories in the last year, was in a sense also sowing the seeds of the future failure of the peace process which we have seen unravelling recently.

The research that is out there on the subject of suicide terrorism concludes very clearly that suicide terrorists are not marked by any particular ideological position nor any particular kind of religious fanaticism. It also asserts that religious beliefs, though they undoubtedly exist, do not constitute a fundamental driver of terrorism. We therefore should move away from the preoccupation with ideology and religion.

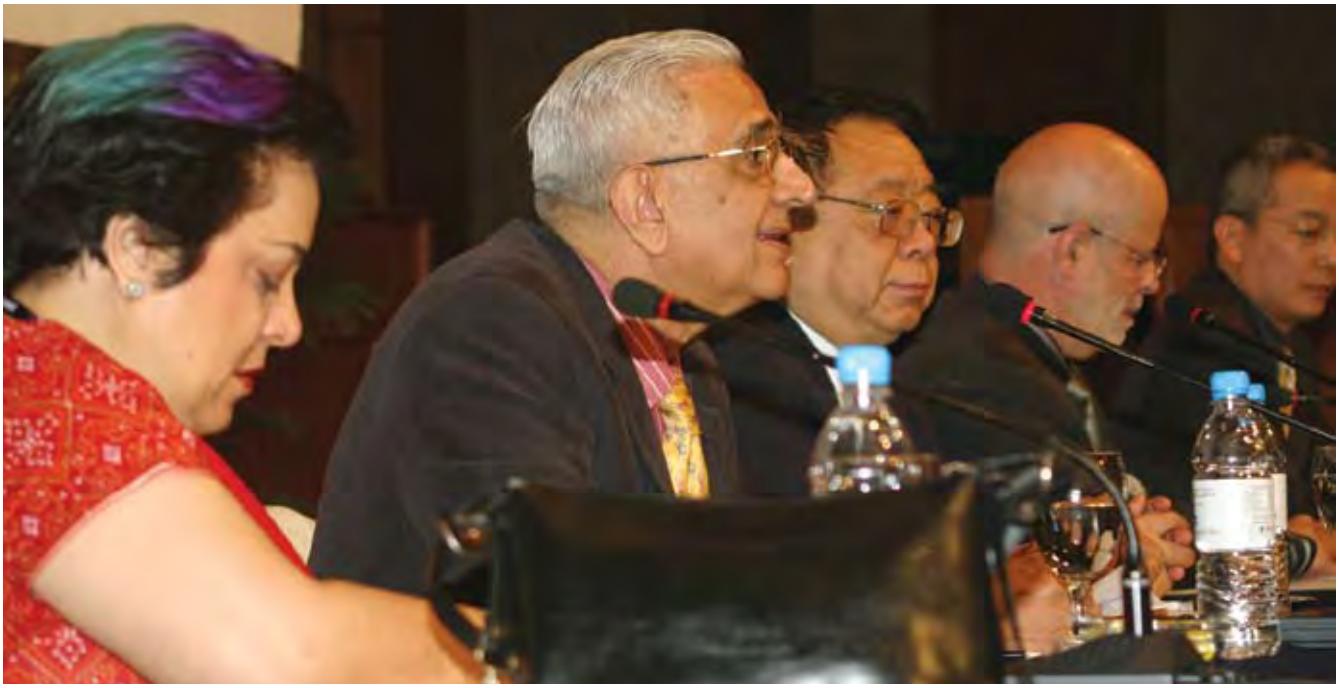
The Strategic Impact of a Rising India: Prospects and Challenges

Along with China, India is projected to rise as one of the new superpowers in the world. Indian military power is on the rise, while the economic potential for the country is boundless. Many, however, see India's transition to a developed country status as problematic, even unlikely. Despite its economic growth and strategic importance, India is still faced with widespread poverty and social problems. Relations with neighbouring countries, like Pakistan, remain tense. ***Keith Leong****, Researcher at ISIS Malaysia, reports on the Sixth Plenary Session of the 22nd Asia Pacific Roundtable:*

The Sixth Plenary Session of the 22nd Asia Pacific Roundtable focused on 'The Strategic Impact of a Rising India: Prospects and Challenges.' The Session was co-chaired by Ambassador Ma Zhenggang, Chairman of CSCAP China and Professor Vitaly Naumkin, President of the International Centre for Strategic and Political Studies, Russia. Presenting papers for the occasion were Ambassador Kishan S. Rana, Chairman of CSCAP India, Dr Rong Ying, Vice-President of the China Institute of International Studies (CIIS) and Dr. Shireen M. Mazari, Head of Strategic Technology Resources, Pakistan.

Ambassador Ma stated that three countries have been attracting world attention as of late. Russia, with the revival of its fortunes, China, with its continuing strength and India, with its rising prospects. Ma felt that while the Europeans and Americans would remain the main players in the Asia Pacific region, the rise of Asian countries like China and India, along with Russia, will rapidly change this definition.

Ambassador Rana noted that India's global presence had a long precedent, as far back as the entry of Indians into East Africa in 1907, an event that was noted by no less a figure than Winston Churchill. In this sense, the 'Asian



(From left) Dr Shireen M. Mazari, Amb Kishan S. Rana, Amb Ma Zhengang, Prof Vitaly Naumkin and Dr Rong Ying

Resurgence' of both China and India has long been current. The effects have only come to the fore in India, according to Rana, after the economic reforms it embarked upon in 1991.

It has to be admitted, however, that India's resurgence has received much less attention than that of China. This has led to the perception that India's economy is stalling, rather than going forward. The main problem for the Republic's leadership said Rana is to avoid triumphalism and hubris. India, Rana feels, has done reasonably well but it has a long way to go. With regard to the future direction of India, he put forward six propositions.

Firstly, India's rise to global prominence is real, but with qualifications. Its economy is enjoying a 7-8 per cent growth and while disruptions are possible, India is not particularly dependent on a particular market for foreign direct investment (FDI). These strong figures have surprised even the Indians, but there is also a downside to all of this. Its weak agricultural sector and limited career as well as educational opportunities, coupled with poor social indicators such as widespread malnutrition and illiteracy, mean that India will be perceived as a 'developing' nation for years to come.

Next, Rana highlighted the fact that the scope of India's foreign relations was growing. India enjoyed good ties with all the major powers since its Independence in 1948. On the other hand, the South Asian Association for Regional Co-operation (SAARC) body remains

Ma Zhengang

one of the least integrated regional groupings in the world, for which Rana believes India is at fault. While India-Pakistan relations have made some progress over the years, he felt that the rivalry between the two countries was stunting closer co-operation within the subcontinent.

Furthermore, it is also felt that India lacked the will to play a larger role in the Asia Pacific Region. Rana felt that the Republic maintained a primarily defensive role in this sense, supporting the status quo, and overly concerned with reacting to China's moves in the region. Regarding China-India relations, he felt that the relationship was one of competition and reciprocity, and that future developments between the two depended a lot upon how the Chinese view India's place in the regional order.

> …India is not particularly dependent on a particular market for foreign direct investment (FDI).

The fourth factor was India's knowledge-based economy, which according to Rana was crucial in its economic empowerment. The next was the need for India to refine and expand its regional democracy. Rana felt that this had been a weakness in the past, and India has to move forward to cement its position in South Asia.

Lastly, Ambassador Rana stated that India does not see itself as an 'exporter of democracy', but it does strongly believe that its multicultural experience offers a model for nations to imitate, and vice-versa. In concluding he lamented the fact that Asia was the only region in the world today that lacked a serious pan-Asian movement, intimating that perhaps the time for one to emerge has come. We may infer that he believed India, with its multicultural experience, would be best suited to launch, or even lead, such a movement.

Dr. Rong, the next panelist, agreed with Ambassador Rana that the rise of India is a reality and that the most immediate strategic impact of this would be the uplifting of the living standards of its one billion population. Dr Rong said that he felt that this would also help the South Asian region solve its problem of widespread poverty, which would be no mean feat when one considers that 1/5th of the world's population lives there.

Part of India's economic draw is that its new markets promise greater prosperity for both its people and its trading partners. More importantly, however, India has a key role in the general resurgence of Asia that can help change the world into a more equitable and fair one.

Rong then went on to mention a speech that Indian Prime Minister Manmohan Singh made to the Chinese Academy of Social Sciences. In his speech, Dr. Singh talked about several challenges that India faces in its push towards development. The chief amongst these challeges was how to ensure its growth was inclusive and equitable, and at the same time, transcending regional as well as urban-rural disparities. Dr. Singh also identified as priorities the need to strengthen India's agricultural sector, to create a productive job industry and to develop rural infrastructure. He said that education was a major priority for India, as was India's sustainable development through energy, and food and water security in the face of global climate change. Rong concluded this anecdote by stating that

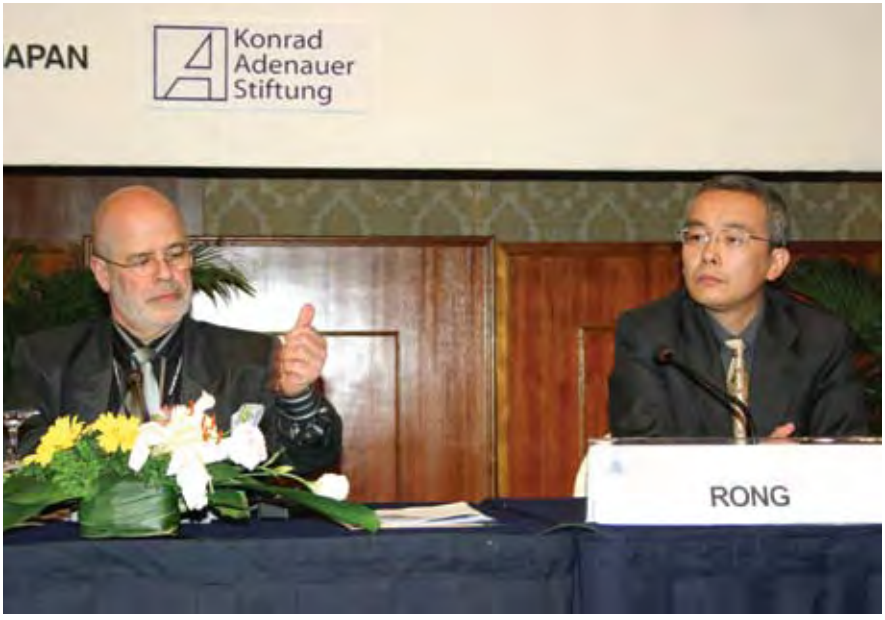
…India has a key role in the general resurgence of Asia that can help change the world into a more equitable and fair one.

Chinese Premier Wen Jianbao in responding to Dr Singh's speech had said that the People's Republic of China was facing similar challenges, while highlighting the common ground between the two countries.

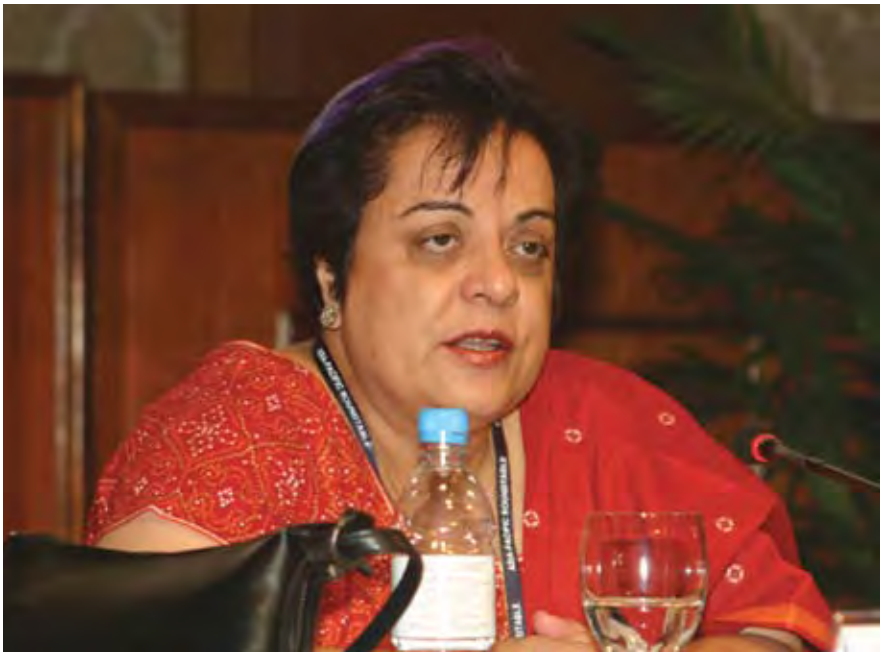
On a global scale, Rong said that the current perception is that the wider world is by and large more favourably inclined to India than to China. He sees two tasks necessary in India's charting of its future strategic direction. On the one hand, it needs to improve its relations with its neighbours, such as Pakistan, Sri Lanka and Myanmar. Rong feels that India cannot reach out to the wider world without regional stability. Furthermore, India needs to demonstrate its willingness to be a global stakeholder and to accept its share of global problems. In this sense, when it comes to foreign affairs, Rong believes that India is at the same crossroads as China.

Turning to the implications of India's rise, Rong listed the series of agreements that the Republic entered into with China in the last five years. Beginning with the historic 2003 agreement, followed by comprehensive co-operation, the two nations, then entered into a strategic partnership for peace and prosperity in 2005. This was followed up in 2006 with another agreement promising further co-operation, which then culminated in 2008 with China and India agreeing to a shared vision for the 21st Century.

All of this indicated said Rong that the two nations were taking pains to work together on the global stage. He believes that China and India do not threaten each other, and that there is a shared view amongst their respective leaderships that there



Prof Vitaly Naumkin and Dr Rong Ying



Dr Shireen Mazari

is enough space for both nations to develop and prosper together. The crux was how to realise this view: Rong felt that the external priorities of China and India were developing slowly, promising a better international environment that stressed the importance of closer neighbours.

Rong went on to elaborate on how relations could be promoted further between the two Asian giants. He felt that the emphasis had so far been on high-level contacts, which he felt had to be expanded to contacts at all levels. Furthermore, he felt that China and India needed to work together to strengthen and promote political and economic relations, which have already improved markedly since the Cold War.

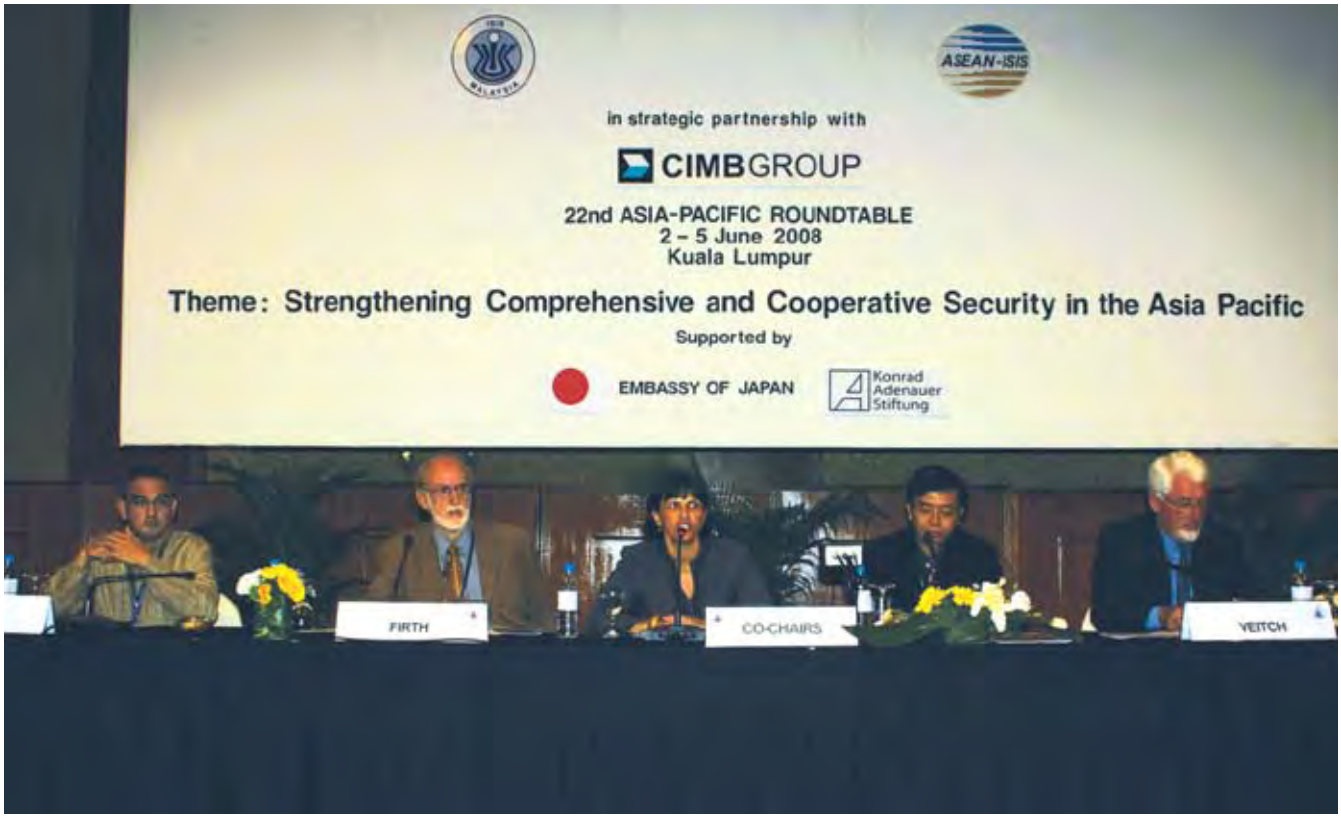
> …US's alliance with India had the effect of destabilising the region, especially in light of the former's desire to expand the Global War on Terror into Pakistan.

Lastly, Rong said he believed that China and India should solve their bilateral problems on the basis of equality and a mutually-beneficial relationship. He concluded his paper by responding to Ambassador Rana's question of how China views India – in his mind, China welcomes India and wants to see it successful, with the hope that the two nations can build a stable and peaceful world together.

Dr Shireen Mazari, in her presentation, focused on how India has charted its course as both a regional and global power. Mazari felt that the Asia-Pacific is a natural stage for India, as it possesses a large Indian Diaspora, massive economic opportunities as well as opportunities for defence expansion.

She went on to discuss India's goal of becoming a major player in the balance of power. This power, according to her, was first felt after India conducted its nuclear tests in 1998. Pakistan's own nuclear programme, she claimed, was to counter-balance India's, and the US alliance with India had the effect of destabilising the region, especially in light of the former's desire to expand the Global War on Terror into Pakistan.

India should therefore move to stabilise its own 'backyard,' especially with regard to Pakistan. Models to resolve bilateral disputes between the two, especially over the Indus water issue, already exist, according to Mazari. She however, felt that the Indian leadership's mindset was still stuck in the Partition-era rivalry. Despite this, prospects for co-operation between the rivals are tremendous, such as the proposed India-Pakistan oil pipeline which was opposed by the US, or the possibility of joint nuclear power generation. Mazari concluded by conceding that India's rise was a given, but that it was important that this development is not seen as a threat to the other states in the region.



(From left) Prof Herman Joseph Kraft, Dr Stewart Firth, HE Ms Penny Williams, Dr Andrew Tan and Assoc Prof Dr Jim Veitch

Security and Stability in the South Pacific: Issues and Responses

Security and stability in the South Pacific, a vast area of 22 islands containing under 9 million people, inherently of strategic importance yet long overlooked in Asia Pacific discourses, was for the first time brought to Plenary at the 22nd APR, chaired by H.E. Ms Penny Williams, Australian High Commissioner to Malaysia, and Dr Andrew Tan, School of Social Sciences and International Studies, University of New South Wales, Australia. ***Norhayati Mustapha****, Senior Analyst at ISIS Malaysia, reports on Plenary Session Seven of the 22nd Asia Pacific Roundtable:*

Defining 'South Pacific'

Dr Stewart Firth, Head of the Pacific Centre, Research School of Pacific and Asian Studies, The Australian National University, Australia, perceived the South Pacific (SP) as consisting of 22 political entities of the Pacific community, both North & South of Equator, divided into 3 cultural areas: Melanesia, Polynesia and Micronesia. (see accompanying maps).

Out of the 22, when we discount 8 which are territories of other powers (eg France & NZ) where security issues do not really arise, a further 5 which enjoy status of free association with outside powers (3 with US, 2 with NZ), and another 5 which are too small in size & population, we are left with 4 countries where stability has been seriously threatened since independence, ie Papua New Guinea (PNG), Solomon Islands and Fiji (the 3 most populous) and Tonga.

PNG lacks central government authority in some provinces and fought a 9-year war against secessionists on the island of

Bougainvillea in the 1990s; Solomon islands degenerated into a country of warring militias between 1998 and 2003, now governed in part by an Australian-led regional assistance mission which has no plans to leave; Fiji saw a 2006 Coup, the 4th in less than 20 years, and Tonga remains a traditional kingdom whose capital was partly destroyed by pro-democracy rioters in 2006. Again, because Tonga is currently not threatened and on its way to replacing monarchy with democracy, this leaves 3 countries around which the issue of political instability is discussed, i.e PNG, Fiji and Solomon Islands.

Root Causes of Instability in the SP

Dr Firth sees the most serious threat to stability and security in the South Pacific states arising in these 3 largest countries, PNG, Solomons and Fiji, for reasons that have most to do with the way politics works in those countries.

For PNG and Solomon islands, one has to consider their cultural heritage and the awkward fit between traditional Pacific politics/ qualities and the modern states. PNG being the most populous, is deemed the most diverse and least governable of all SP countries. PNG & Solomons share the characteristics of being states that are still under construction, emerging from the traditional past without having achieved effective central authority in the first place.

A paradoxical situation exists in PNG where peaceful and successful elections have been held since independence in 1975,

Dr Stewart Firth

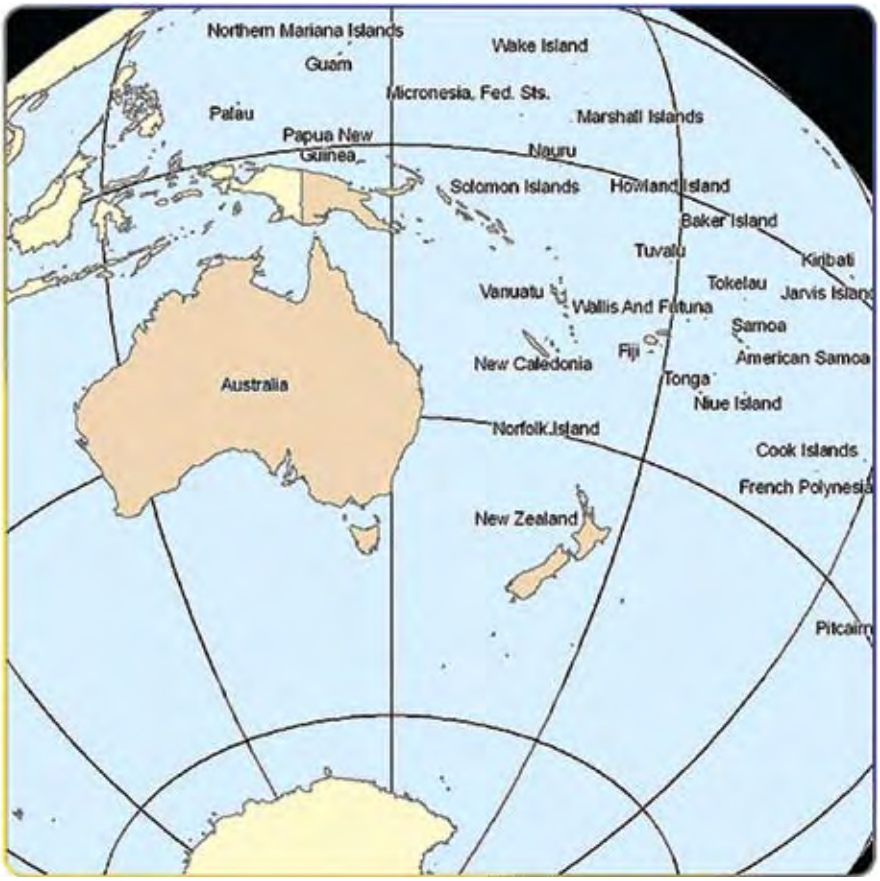
but not translated into successful government or development. There is a constant change at the top without much happening in the administration, and bureaucracy is extremely inefficient. Furthermore, other problems have arisen such as the rapid spread of HIV/ AIDS, with recent figures suggesting that infection rates in some parts of the country are of sub-saharan proportions.

Solomon islands is a country of small communities and small identities whose government broke down after a coup in 2000, and is now housing the regional assistance mission (RAM) which entered in 2003 with about 1700 military personnel. RAM's intervention force was initially very successful in disarming the place but they are now faced with the final difficult task of rebuilding the state, particularly in view of the 2006 riots in the capital, Honiara where the Chinese quarter was more or less completely burnt down, compelling the PRC to send in planes to fly Chinese nationals out.

Fiji on the other hand is not a weak state but a weak democracy, the origins of that weakness attributable to its ethnic legacy of colonial rule, and the complications (familiar to Malaysia), of accommodating aspirations of the indigenous population and of the descendants of immigrants, resulting in two methods of changing the govt since 1987, elections and coups. However, a unique asset to Fiji is the Republic's military forces whose size and professionalism, and long experience in UN peacekeeping account for their easy success in taking control.

Dr Firth went on to quote an Australia-led regional intervention mission in 2003, justified in terms of preventing Solomons from becoming a haven for terrorism, and categorically stated that the risk of island countries serving as bases for terrorism groups has been greatly overstated. Far more important is the fact that weak Pacific states are more likely targets of least resistance for transnational crime, which may include money laundering, drug trafficking, identity fraud and people smuggling.

The SP badly needs a developmental elite, to attach due legitimacy to the development of the whole nation(s), and their best educated people need exposure to the way things are done in the more successful and globalised economies of East Asia.



source: www.worldmap.org

He stressed the need for a 2-way information flow between people in the SP and people in South East Asia (SEA), who do not know enough about each other. The SP badly needs a developmental elite, to attach due legitimacy to the development of the whole nation(s), and their best educated people need exposure to the way things are done in the more successful and globalised economies of East Asia.

External Forces that shaped SP stability

Dr James A. Veitch, Associate Professor in the School of Government, Victoria Univeristy of Wellington, New Zealand, took up the cue from Dr Firth in citing the proximity of the SP islands to SEA, and thereafter expanded on the links. To begin with he highlighted the territorial footprints of France (French Polynesia, New Caledonia, Wallis and Fortuna Islands, all parts of metropolitan France), US (American Samoa, just 20 miles from Western Samoa), Australia (PNG and Solomon islands) and New Zealand (Cook islands and other territories administered at various degrees of control, on behalf of UN).

Dr Veitch maintained that the instability of the SP particularly over the last 40 years or so has been caused by the arrival of new external forces that have altered the balance of power over politics and economics in most of these island nations. Change was inevitable, as all these SP countries were in fact colonial states either from France or from Britain, and as a result of their colonial status, Christianity was a major force in shaping and reshaping the people who lived in these regions. In Samoa for example, the entire planned leadership is intertwined with Church leadership, so that the two things go hand in hand.

The religious influence has been quite critical, not only for countries like Samoa but also Fiji where people are not just Christian but Hindu and Muslim, because of the very nature of Fiji. Fiji is a country where the Indian Hindu population is roughly 41-42 %, and that has brought to the islands of Fiji another religious element altogether, and some of the conflicts that emerged in modern times are really conflicts that are stirred and protected in part by religious traditions.

Now the traditional non-indigenous influences in this part of the world were Britain, France and USA, NZ and Australia. Once Britain started granting independence to these territories the change was really underway. As a result of the independence and the new situation most of these island states found they could not compete with other countries in the modern world, and so they have come to depend very heavily on financial aid provided by donor countries. This is their lifeline of survival, and these needs, since Independence have brought new economic partners to the SP. The EU for example, Japan and the PROC and China Taipei, have become major financial contributors to this part of the world, and the money always comes with a tag to it.

American Samoa	US territory
Cook Islands	free association with NZ
Federated States of Micronesia	free association with USA
Fiji	independent
French Polynesia	overseas territory of France
Guam	US territory
Kiribati	independent
Marshall Islands	free association with USA
Nauru	independent
New Caledonia	overseas territory of France
Niue	self-governing in free association with NZ
Northern Mariana Islands	Commonwealth of the USA
Palau	free association with USA
Papua New Guinea	independent
Pitcairn Islands	dependency of the United Kingdom
Samoa (formerly 'Western Samoa')	independent
Solomon Islands	independent
Tokelau	territory of New Zealand
Tonga	independent
Tuvalu	independent
Vanuatu	independent
Wallis and Futuna	overseas territory of France

The 22 political entities of the Pacific Community, which constitute the 'South Pacific' or 'Pacific Islands' region

What is the attraction of the SP?

Dr Veitch summarily pointed at the very cheap fisheries and forests as being the attractions of the SP islands, resources that are purportedly exploited to the hilt by Malaysia, Singapore, China, Japan and the Philippines. The exploitation is sometimes quite extreme, and if continued at this rate, will denude the SP islands of their natural habitat, particularly the forests, in the next 20 years.

The other pulling factor was that each of these independent island countries represents important votes in the United Nations, eg pertaining to fishing / whaling rights. These countries have very important voting capacity, therefore they are wooed for their votes, as testified by the recent discovery that Japan, in particular, is using its influence in this part of the world to swing votes in the International Whaling Commission.

One spectacular phenomenon of recent times is the attempt of Fiji to find its own nationality and identity. Interestingly, when the more recent military coup took place, we saw for the first time the influence of Israel in this part of the world, because at the launching of the coup, an Israeli flag appeared in the background. Commodore Bainimarama, now Military leader of Fiji, explains that Israel had helped with the training of security forces.

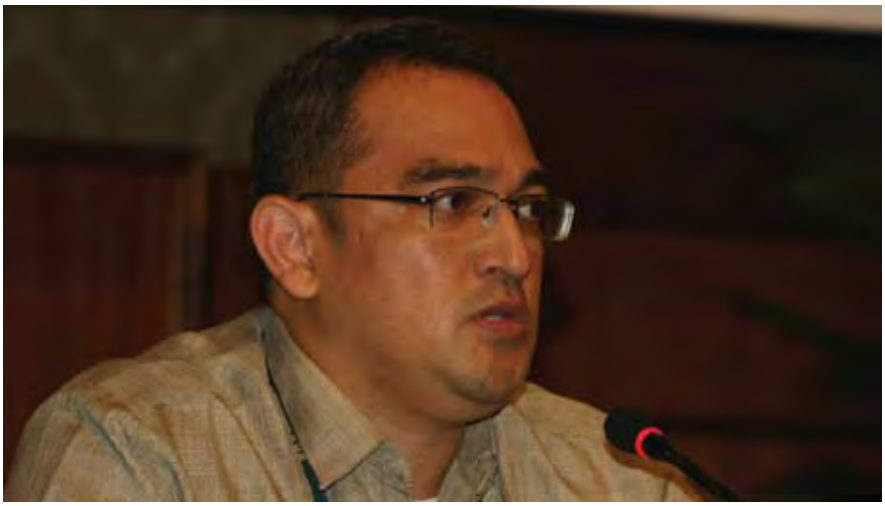
This new element was a sign that Fiji was using its involvement in the UN peacekeeping and peacemaking ventures that

brings in a lot more revenue to Fiji, more than that coming from tourism, even. The fact that they have actually discovered what the real world is all about in terms of the conflict in Palestine, meant that they can build on that and bring some of those 'lessons' back to the SP.

It would seem that a whole new world has opened up to the SP. It has become, concludes Dr Veitch, a 'playground' for great powers to discreetly endeavour to get cheap resources, to have boats on the cheap, and to accordingly 'play their cards' in other fora, in other parts of the world. This makes the SP, and its relationships with the Asia Pacific, a very significant partner, and an area that no one can afford not to watch, simply because of the 'games being played' in the SP, which the players think are hidden from the eyes of the rest of the world.

View from ASEAN

Prof Kraft, Executive Director of the Institute for Strategic and Development Studies, Philippines, revolved his observations around (i) the idea that security in the SP is very much an internal matter, or at least concerns internal issues, (ii) in spite of this, or precisely because of this, within the perception of security considerations as far as SEA is concerned, SP is to a large extent, ignored by SEA states, and (ii) the need for this state of affairs to change, given the kind of dynamics that are actually emerging in the SP, warranting more attention to this area.



Prof Herman Joseph Kraft

What had been discussed so far, according to Kraft, was to a large extent, having to do with governance issues, i. e. a question of how the SP islands govern their respective countries. Among them there may be states relatively capable of governing but at the same time not having enough resources to cover all the issues, such as welfare. On the other hand, you have cases like PNG for instance, where even with a central government, its ability to govern the country is extremely limited.

> …how astonishingly microscopic many of the islands actually are, or how tragically limited the resource pool is, both in human and natural resources, the lack of a professional, managerial world across the Pacific and the way in which acute isolation, competition over a small number of standard export items, has rendered these tiny islands acutely vulnerable.

The interesting thing about the region is the inapplicability of traditional security issues – even in the case of territorial disputes, only 3 countries have regular armed forces, ie PNG , Fiji and Tonga. All the rest merely have police forces, and the rest depend on Australia and New Zealand for their security. This raises the questions of security being a matter of governance, and therefore, to a large extent, becoming a concern that is somewhat isolated from SEA.

In any case, as inferred by both previous speakers, the issues can be divided into 3 – (i) social issues that contribute to national security and these include criminal activities, particularly violent crimes that are related to drug trafficking, gun-running, especially in PNG, Bougainville and Solomons. (Kraft agrees that organized crimes and those associated with terrorism are overstated), (ii) economic issues – weak and vulnerable economies

provided for by major states in the region, open to influence from other states that are quite happy to provide assistance, and (iii) competition over state power – coups that take place in Fiji for instance, where communal conflict was presented. Though these are largely endemic and internal to SP states, and again, a question of how the SP states govern themselves, looking closely, some of these issues have an impact over the region, as the trail may go back all the way to SEA, whether its gun-running or drug-smuggling.

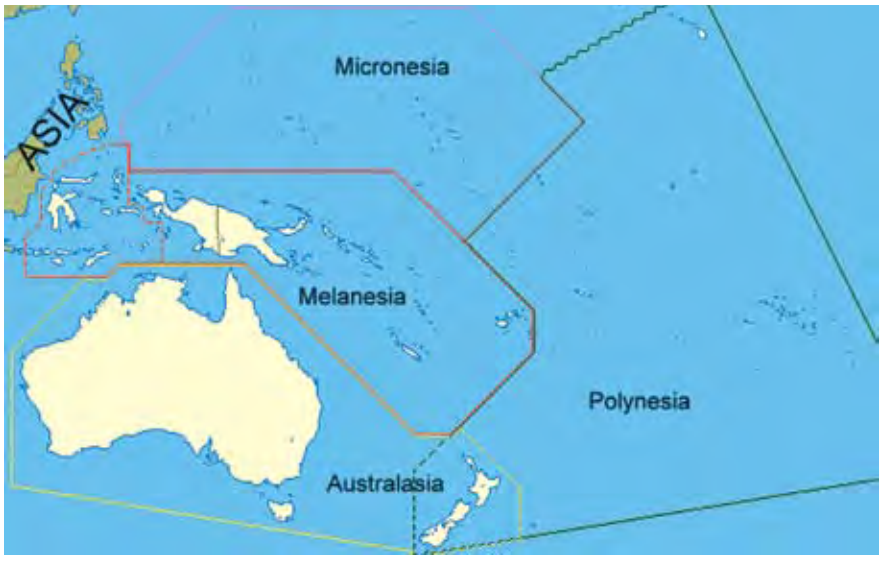
The China Factor

A major concern that SEA states have begun to take a look at, as far as security in SP is concerned, is how the economic weakness of the countries in the region exerts an impact in terms of their dependence on foreign assistance; the influence of China, in particular, becoming an important factor.

China has increasingly become more involved in the region, particularly as a country that has provided what is referred to as 'unlinked' aid. The whole process seems somehow connected to competition with Taiwan, over the One China policy, which makes it interesting to note how different countries in the region are lining up behind either Taiwan or China, depending on (whichever is) the highest bidder coming in. The implications of China's increasing influence over this area would be a major strategic concern.

The Philippine Perspective

Getting down to a very limited view, Dr Kraft noted one interesting thing about the SP, i.e. how it impacts on the 'third pillar' of Philippine foreign policy-the commitment to the protection of overseas Filipino workers, of which a significant number are in SP. One estimate is 20, 000 across the area, most of them in the 'trust' territories but quite a few thousand in the newly independent states. Even as SP is peripheral to its security concerns, the Philippines has to pay attention to what's going on in SP because insecurity there (in SP), would mean insecurity affecting Filipino workers in the region. It is this development that is beginning to colour the way that SEA should start to look at the SP.



source: wikipedia

Outlook for the South Pacific Islands

The session resulted in an overwhelming and virtually anonymous call for inclusion of South Pacific in future Asia Pacific Roundtables, and at Plenary level, at that. As Dr Boutilier of Canada indicated, the Asia Pacific world has been talked about for decades but we have really talked about Asia. Of the 22 AP Roundtables, the Pacific islands have featured possibly in 3, over more than 2 decades, and only a tiny handful of Pacific islanders have actually taken part in the deliberations here in KL.

Boutilier also remarked on the difficulty of appreciating "...how astonishingly microscopic many of the islands actually are, or how tragically limited the resource pool is, both in human and natural resources, the lack of a professional, managerial world across the Pacific and the way in which acute isolation, competition over a small number of standard export items, has rendered these tiny islands acutely vulnerable." Discussions following the panel presentation brought forth more thought fodder which may benefit future discourses:

i. *Regional Associations within the SP*

Unknown to many, there are regional associations up and

running in the South Pacific, including the Fiji-based Pacific Islands Forum, the Samoa-based South Pacific Regional Environmental Programme (SPREP), the New Caledonia-based Pacific Community, and the South Pacific Fisheries Agencies. The Pacific Islands Forum, being the principal organisation, has been rather active in recent years, and is now cooperating on what is called the Pacific Plan, which is about moving toward regional and economic integration of the Pacific islands region, and ultimately also with Australia and New Zealand.

ii. *Food Security*

The rate at which fish is being extracted from the SP is simply unsustainable and cannot carry on any longer; with questions arising- How are we going to prevent voracious extraction of fish? What is the effect on the people of the Pacific who have depended on this source of protein ever since antiquity? Have we managed this in a regional sense? Coincidently, the diet across the Pacific is being undercut; Nauru, for example has now one of the highest incidence of diabetes in the world. The diets across the Pacific have been observed to decline, and this has been accelerated in part by competition for marine resources.

iii. *Enforcement of International Conventions*

This relates to fish stocks depletion, fishing rights, and the necessary protection of the environment, which bring into play the Law of the Seas, the International Whaling Commission etc. Where the conventions are not already in place, neighbouring countries in Asia involved in the process should assist.

iv. *Security Mechanisms in the South Pacific*

There is a security dimension to the Pacific Islands Forum which most people are unaware of, i.e. the Beacon Tower Declaration, (apparently thought off long before people in East Asia region came up with anything similar), which provides for a regional security mechanism. The regional assistance mission that went into Solomon Islands in 2003 went in under the cover and justification of the Beacon Tower Declaration.

v. *Growth in Bilateral Relations*

Relating to the question on the roles that Australia and NZ should play to advance security in the region, and in the light of election of a new government in Australia, bilateral relations (esp between PNG and Australia) are expected to improve. The fact that Australia has a new Prime Minister who speaks Mandarin, is seen as a boost by some, given the influential role of China in the SP.

vi. *Labour Mobility*

This has been a key issue in SP for some years, because in return for free trade with Australia and NZ, the Pacific islands wanted access to the labour market. NZ has begun this process, bringing in for the first time, Melanesians from Vanuatu. In Australia, which currently faces a big skills shortage, the Rudd government was due to table this issue at the August meeting of the Pacific Islands Forum.

vii. *Law and Order*

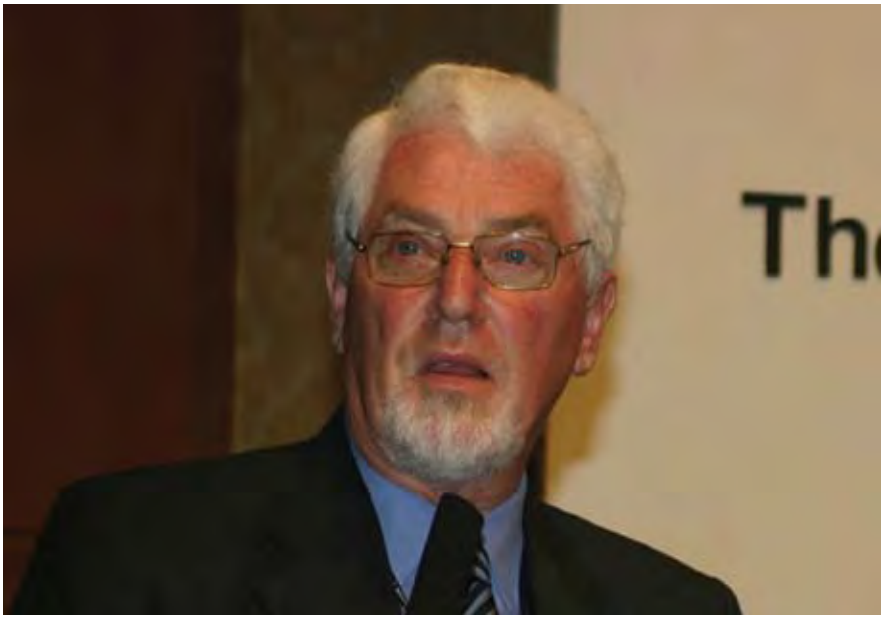
An association of police chiefs in the SP, with a Secretariat in NZ, and in existence since the 1970s, has created an area of law and order, area of consultation, and the area of trying to meet needs etc. There are also the customs agencies within the SP, and, as mentioned before, the fisheries associations, etc. As needs have arisen, Australia and NZ and the Pacific islands, working together have established mechanisms to deal with some of these issues before they become too difficult to deal with.

viii. *The Timor Leste Connection*

Increasingly, both Australia and NZ both regard Timor Leste (TL) as part of the SP, as Melanesia is deemed as originating from TL, and some see the SP as extending right across the Pacific to include even the French territories, Tahiti and beyond. This gives a wider picture of the whole region, leaving much more to discover, insofar that it may alter the mindset one has about security in this area.

ix. *NZ – Biculturality and Community Policing*

New Zealand, in Dr Veitch's words, has found its soul; when in the last 20 years it has begun to divest itself off the mindset inherited from its colonial past and professed itself a bicultural country. The Maori (the original people of NZ) had to be engaged face-to-face to resolve their grievances, and a way was found that did not involve violence. Thus, the way NZ sees the world has been shaped by its bicultural discoveries, and translated into



Assoc Prof Dr Jim Veitch

large numbers of Pacific islanders coming to live in NZ . One strong part of NZ foreign policy these days is community policing, the version of which is now being sought after by the Indonesian government and by other governments in SEA, i.e. unarmed police operating in the community areas to try and deal with violence in a different way.

x. *The Growing Asian Presence*

This has been likened to a cluster of tiny asteroids falling into the gravitational field of Jupiter, as the whole of Oceania is being drawn into the Asian orbit, both in terms of extraction of natural resources (timber, fish), appearance of Asian goods on the shop-floors in Oceania and labour migration. There are many ways by which the Asian presence is being manifested, e.g. in increased investment in the area, and questions arise relating to the way that fishing fleets have actually gone deep into the region. As for the growing influence of China, it especially took off in 2000 when China set up a special forum for trade and investment in this area. In 2006 it met with with the SP Forum for economic development cooperation. The process of Chinese relations with this area, is, according to Chinese scholarly opinion, business-oriented and goes far beyond the (competition with) Taiwan issue.

xi. *The Diaspora in Australia and NZ*

The dispersion of Tongans, Samoans and Fijians et al, are more numerous as a proportion of population in NZ than they are in Australia, although there is a growing Australia-Pacific island population. The pro-democracy movement in Tonga is deemed a reflection of the demonstration effect of Tongans having lived in Australia and NZ, and seen a different way of life. The Tongan population is only 100,000; but there is another 50,000 Tongans living outside mostly in Australia and NZ.

xii. *What the SP Needs Most*

Investment and economic development are quoted as SP's most urgent needs. However, it is thought that countries from around the world can respond in their own particular ways. What has been especially difficult for the SP has been the unrestrained forms of foreign investment, particularly in logging. The logging in the Southern Highlands, is said to be the cause for the government's undoing, leading to a coup in 2000. In any case, any country in a state of transition from a colonial past into independence is going to take some time to settle down and find its direction. New Zealand on its part had some influence on Timor Leste in a way, helping to shape its Constitution, building on some of the insights that NZ has had from its bicultural context.

xiii. *Playground no More*

The Pacific has been a playground for a long time, and one would remember that back in the 50s atomic weapons were exploded in the northern part of the area, viz. Bikini island, and when the French started to experiment with nuclear weapons in the same way, opposing reactions from NZ and Australia were quite clear. As Dr Veitch concluded, "… for better or for worse we need to learn about each other, … we need to understand each other … recognize that others who use this part of the world as a playground sometimes misuse it, and because they haven't been noticed, …will try to get away with it. This Forum will help that change."

Four panelists debate the question of Japan's relevance in the world today. While one believes that the essential ingredient that has eluded Japan in the post-war period is political legitimacy in Asia another believes Japan will play a major part in forging a new security order in the 21st century Asia and the Pacific. ***Susan Teoh****, Director of Information Services Division at ISIS Malaysia, reports on Plenary Session Eight of the 22nd Asia Pacific Roundtable:*

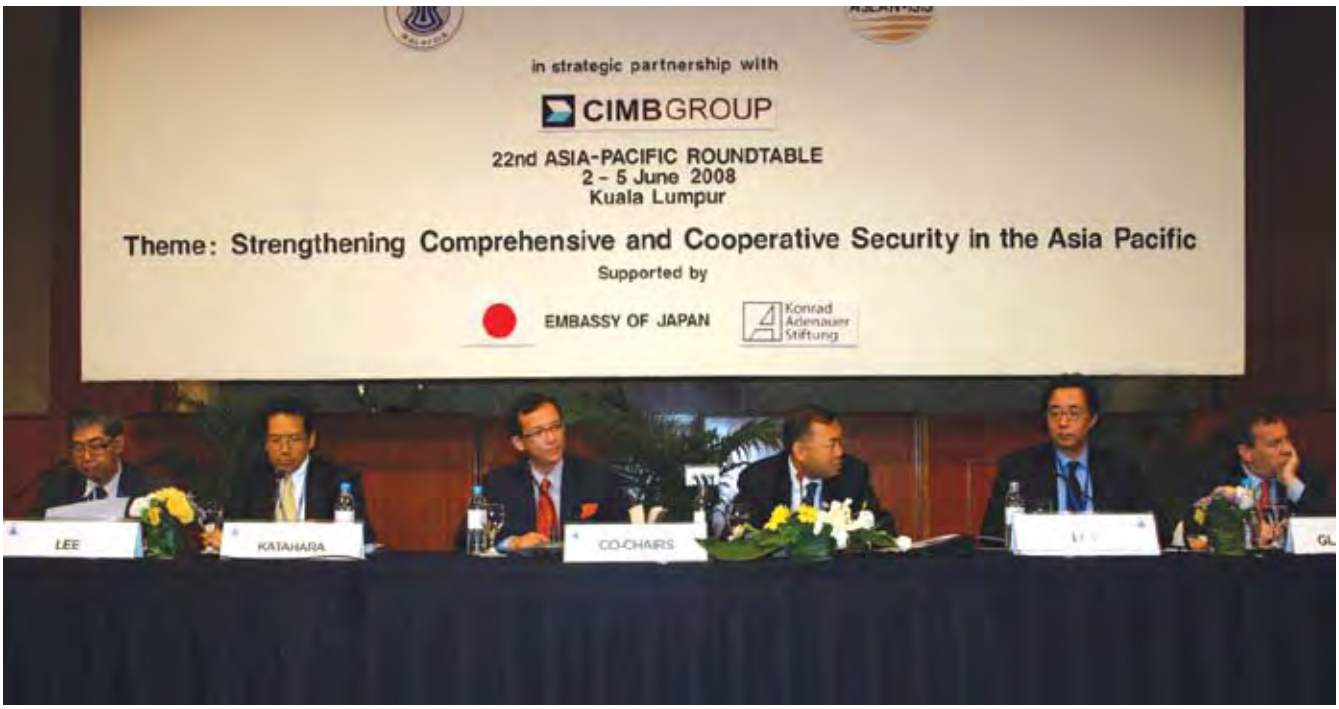
Has Japan Lost its Relevance?

The session was chaired by HRH Prince Norodom Sirivudh, MP and Chairman of the Board of Directors, Cambodian Institute for Co-operation and Peace (CICP). It was co-chaired by Mr Simon Tay, Chairman, Singapore Institute of International Affairs (SIIA). The panelists were Dr Eiichi Katahara, Professor and Chief, First Research Office, The National Institute for Defence Studies, Japan; Dr Chung Min Lee, Professor of International Relations, Graduate School of International Studies, and Director, Division of International Education and Exchange, Yonsei University, Republic of Korea; Prof Lee Poh Ping, Principal Fellow, Institute of Malaysian and International Studies (IKMAS), National University of Malaysia; and Brad Glosserman, Executive Director, Pacific Forum CSIS, Hawaii.

Dr Eiichi Katahara, the first speaker of this session, argued that Japan has not lost its relevance but instead has been increasing it in terms of regional and global security roles.

He put forth five reasons to substantiate his argument. Firstly, Japan is a strong democracy and a major economic and technological power in the world. In April 2008, a BBC world service poll released a statement saying that 'Japan remains one of the countries with the most positive ratings, a close second to Germany.' In the Asia Pacific region, Japan has participated in peacekeeping operations in Cambodia and East Timor, humanitarian and relief operations in the Indian Ocean tsunami, and was directly or indirectly involved in surrounding regional conflicts.

Secondly, Japan's security policy has changed; it has become more relevant and effective in tackling international peace co-



(From left) Prof Lee Poh Ping, Prof Eiichi Katahara, Mr Simon Tay, HRH Prince Samdech Norodom Sirivudh, Prof Chung-Min Lee and Mr Brad Glosserman

operation activities. Japan had about 5,600 Ground Self-Defence Force members participating in humanitarian and reconstruction activities in Iraq, from July 2003 to September 2006.

Thirdly, Japan's commitment to the Japan-U.S. alliance has ensured a robust US military presence in the Asia Pacific region, contributing to peace and stability. In recent years, there was a gradual transformation of the Japan-US alliance to meet new security threats and diverse contingencies of the 21st century, including non-conventional security challenges such as international terrorism, the spread of Weapons of Mass Destruction and natural disasters.

Fourthly, Japan has been strategically enhancing its foreign and security policy horizon, making the nation an extremely relevant international security policy player. He gave a few examples of what Japan was doing:

The first was the new Fukuda doctrine where the Prime Minister promised five concrete actions – to support Asean's efforts to realise the Asean Community by 2015; create a 'synergy' between the Japan-US alliance and promoting Asian diplomacy; calling for the establishment of a 'disaster management and infectious disease control network' in Asia; expanding youth exchange programmes and tackling climate change.

A second example was Japan's commitment to consolidating Tokyo's relations with China and South Korea. Relations between Japan and China have entered a new phase and the two countries

Brad Glosserman

are determined to promote comprehensively a 'mutually beneficial relationship based on common strategic interests,' as issued in a Joint Statement when President Hu Jintao visited Japan in May 2008.

Another notable development has been the trilateral co-operation between Japan, China and the Republic of Korea. The trilateral summit meetings and the Foreign Ministers' meetings are now held regularly and there has been momentum to further strengthen tripartite co-operation. This tripartite framework can serve as an instrument for enhancing not only economic and technical co-operation but also security co-operation strategically focused on Northeast Asia.

The third example of Japan's new foreign and security policy horizon relates to its growing strategic relationships with Australia and India. The purpose is not to encircle or contain China, but to enhance bilateral co-operation in non-traditional security arenas.

Another example is Japan's new policy towards Africa and Afghanistan. At a recent meeting Japan's Prime Minister, Fukuda pledged that by 2012, Japan would double its ODA to Africa, providing ODA loans of up to US$ 4 billion to improve African infrastructure. Similarly, Afghanistan will become a large agenda in Japan's security policy.

Finally, Japan's space policy may be taken as an example of Japan's expanding strategic policy, which has relevance to regional and global security. The Japanese Diet has enacted laws on the use of space which would allow the government to station equipment, such as early warning satellites and advanced reconnaissance statellites in space.

In concluding, Dr Katahara said that Japan as the second largest world economy, is transforming into a regional and global security policy player. It has strengthened its partnership with Asean, Australia and India, is consolidating stable relationships with China and South Korea, and extending

its influence to Africa and Afghanistan. Japan will definitely play a major role in forging a new security order in Asia and the Pacific of the 21st century.

Dr Chung Min Lee, the second speaker, in agreeing with Dr Katahara, asserted that there is no doubt that Japan is a major super power and is far from being irrelevant. However, the combination of forces of the demographic structure in Japan internally, and the rise of China externally, are basically reshaping Japan's post-war responsibilities.

Unless Japan can extricate itself from three basic essential dilemmas, Japan's long term relevance might decline. Firstly, Japan is perhaps the only power in Asian history that has become a global power. Yet it is not an Asian power. Japan has never been accepted as a major power by its Asian neighbours.

Secondly, Japan's commitment to democracy and universal values is basically 'etched in stone' with one exception. When it is dealing with its own historical legacies, Japanese history is not democratised. Though Japan is a democracy, when it seeks its own historical past, somehow it is not democratic. That is why though the US-Japan relationship is crucial, it does not resonate as Japanese influence to Asia. The quickest way to Asian's hearts and minds is not through Washington but perhaps through Seoul, Beijing, Jakarta and other Asian states.

The third dilemma is for Japan to project its power militarily, politically, economically, culturally and technologically, and this has increased well beyond the benchmark set by Prime Minister Yoshida of post-war Japan. But by 2015, China is projected to have displaced Japan as the biggest economy in the region and by 2040, Goldman Sachs and others predict that China will replace US as the world's biggest economy. So what Japan lacks is not hard power but what Dr Chung Min refers to as the 'currency of legitimacy'.

> . . . Japan's commitment to the Japan-U.S. alliance has ensured a robust US military presence in the Asia Pacific region, contributing to peace and stability.

The so-called peaceful rise of China's harmonious development can only succeed if China embarks on a non-militaristic peaceful Asian policy. However, China has often coveted, nurtured and employed high-powered equipment when it came to critical national interests: for example, large navy assets, nuclear submarines, and nuclear modernisation. These are some of the foot prints that we see in Asia. However, many Asian states do not contest China's rise of military power because of their increasing economic links with Beijing.

Japan's role in the 21st century Asia is crucial. First, the primordial task is that of accommodating Japan and China and their links with other Asian states. It should not lead to a situation where Asian states have to choose as in a black and white scenario – Are you with China or against China? Are you with Japan or against Japan? That sort of a no-win situation is what the Asian powers will wish to avoid.

Second, though Asia's rise is positive for the most part, it has the world's most deepest fault lines geopolitically. There are huge political fluctuations – a very large stream of democratic deficits, a large number of failed and failing states, deep pockets of poverty,

Chung Min Lee

and unbridled nationalism. The region also houses the highest concentration of conventional and nuclear forces outside the U.S. and Russia with matching hot-spots.

Dr Chung Min concluded by saying that Japan's lack of relevance in large part is self inflicted. A whole new sphere of positive powerful projection can be created if Japan takes a bold leap forward as the Fukuda doctrine really hopes to achieve. If Japan is able to do so, it will become a major player in Asia. Japan is Asia's most important powerful democracy and it is time to foster community and national democracy that will adhere to universal values even if it respects and upholds traditional values.

Instead of answering the question of whether Japan is relevant, the third speaker Dr Lee Poh Ping, dwelt on the question of how relevant Japan is. He highlighted three scenarios of Japan as suggested by scholars. The first scenario is where Japan is referred to as *Pax Nipponica*. Ezra Vogel, in an 1986 article in *Foreign Affairs*, suggested that there might be some kind of a limited Pax Nipponica in East Asia which is led by a country of modest military strength.

Another scenario is envisaged by some scholars who believed that Japan cannot go it alone as its economy is too interdependent on the American economy. Instead they suggested a 'bigemony', a term used by Fred Bergstein, to describe the domination of the Asia Pacific region by two powers, namely, Japan and the US. Japan can supply the funds for the US security role in the area and together they can become joint leaders in leading the world economy.

The third scenario is the belief of some scholars that Western Europe should not be left out. Kenichi Ohmae wrote about the role of the triad of powers consisting of Japan, Western Europe and the United States in the world. The Trilateral Commission was originally conceived by luminaries in the West to draw out an economically mighty Japan to play a greater role in the world.

None of the three scenarios came to pass as they were based on the belief that Japan was the dominant economic power, at least in Asia. With the bursting of the Japanese bubble in the early 1990s, followed by a period of economic stagnation, Japan found itself unable to rejuvenate its economy. People then realised that the Japanese economy was not what it was thought to be. The technological lead which Japan was presumed to have had over the West was not as great as was first believed and the West has been able to catch up. Moreover in the information economy, the US is far ahead of Japan. So instead of 'Japan bashing' it should be 'Japan passing' as Japan is not significant enough even to bash.

> The quickest way to Asians' hearts and minds is not through Washington but perhaps through Seoul, Beijing, Jakarta and other Asian states.

Dr Lee Poh Ping argued that neither the Japan 'boosters' nor the Japan 'bashers' were right. Japan still has a very important role to play. He proposed three theorists who in their writing viewed Japan as playing three different roles in the region.

Firstly, Japan can act as a counterweight against China. The great political scientist, Hans Morgenthau listed three patterns of power balance that can be at work – one is the pattern of direct opposition, where the two powers oppose each other and they try to get an alliance to join them. The outcome of this was the alliance system in the Cold War as seen in the Warsaw pact and Nato. The second pattern is direct competition, where both powers agree not to seek support from neutral countries. The third pattern is the holder of the balance where the balance of power between both is affected by a third power. An example was Great Britain, which in the 19th century was the holder of the balance in the European continent.

For this pattern of counter weight to work, it is assumed that there is an equivalence between the two powers and both have the will to balance against the other. The question arising is whether Japan has the capacity and will to balance China. He argued that of the two most important aspects of power – military and economic – Japan has yet to match China's military strength while in the economic arena, Japan is the second largest economy in the world. China is unable to match Japan in the amount of direct investments. However, Japan

though intending to play a more significant military role, has still not revised its constitution to allow its military force to deploy overseas for other collective security purposes. It will not be able to use its military power to balance China.

Secondly, Japan can theoretically play the role of a middle power. One proponent of this theory is Professor Yoshihide Soeya, who believes that Japan should forget about being a big power, geopolitically. Instead, it should take a central role in developing networks with other powers like South Korea, Australia and Asean, just as it is operating in the 'middle area between the United States and China'. Soeya argues that Japan should build on its success with its good relationship with Asean and it should try to weave these networks into establishing a community of middle powers with shared values which ultimately would lead to the development of the East Asian community.

By focusing on building non-military networks, Japan can avoid the contentious issue of its military strategy. Most of the other middle powers have accepted that such networking is a legitimate role for Japan. The weakness of this argument is that Japan as a middle power may not be totally in accord with reality and perception. Japan is a global economic power in terms of its GDP, and technologically is way ahead of Asean. It cannot make economic sense that Japan is a middle power. China, on the other hand, will not see Japan as a middle power as it sees this as an attempt by Japan to dominate Asia, while Asean is not in favour of Japan forming a community of middle powers that excludes China.

The third theoretical role was put forward by Nishimur Yoshimas: that Japan can be a peripheral state. Because of the tremendous development of the Chinese economy, and the aging population of Japan, there will come a time that Japan will be a peripheral state to China.'

Dr Lee Poh Ping argued that this view will not hold as it is very difficult for Japan to accept being a peripheral state. During Sino-Japanese relations in the past 100 years, Japan has always been a dominant power and psychologically it will be difficult for it to accept this idea. Secondly, modern power realities are such that China will not operate as the only power in the region. Rising powers such as India, Russia, and an established US presence, besides Japan, will continue to influence the region.

He concluded by saying that the most realistic option for Japan is a combination of the first two scenarios – to act as a counterweight to China, and to be a middle power. This means that Japan will still use its considerable economic capacity to achieve both regional and global ends, while being diplomatically active in winning over the so-called middle powers of South Korea, Australia and Asean to maintain peace and justice in the Asia-Pacific region.

Norodom Sirivudh

The final speaker, Mr. Brad Glosserman looked at ways in which Japan can ensure its relevance in a rapidly changing world. He gave a number of indices to show the relevance of Japan in the world. Japan has the world's largest economy, with a GDP of $5.1 trillion and a per capita GDP of $33,800. It is the third largest economy in purchasing power parity, behind the US and China.

While Japan stagnated for a decade after the bubble burst, it seems to have corrected itself. The country recorded 1.8 per cent

growth in 2003, 2.3 per cent in 2004, increasing to 2.7 per cent in 2006. Japan's direct foreign investment continues to grow, increasing 10.3 per cent to $50.2 billion in 2006. Japan has much more than economic clout. It is the second largest contributor to the United Nations, providing 19.5 per cent of the budget, ranking it second behind the US. In 2007, Japan was the World Food Programme's fifth largest donor with $119 million. Its Overseas Development Assistance (ODA) has been a pillar of Japanese foreign policy. In 2006, ODA totalled $11.6 billion, making Japan the world's third largest donor after the US and the UK.

This list of achievements has conferred upon Japan considerable standing in the world. A 2006 BBC poll of 33 countries found that Japan was the country most widely viewed as having a positive role in the world, with 31 of the countries surveyed giving Japan high marks. All these indices indicate that Japan can hardly be referred to as irrelevant.

However, in spite of all the achievements, the question of whether Japan is still relevant continues to be asked. Sceptics have pointed out to Japan's shrinking share of the world economy: totalling 18 per cent in 1980, it fell to 15.4 per cent in 2004 and is projected to reach 4 per cent in 2050. With its shrinking population, the IMF projects that 'Japan's current demographics (indicate) that the level of real GDP will fall by a cumulative 20 per cent over the next century compared with a baseline simulation with a stationary population.'

Japan's foreign investment has been abysmally low – only 2.2 per cent of GDP as compared to 13 per cent in the U.S., 18 per cent in Germany and 37 per cent in the UK. The image of irrelevance has been magnified by the failure of Japan's two biggest diplomatic campaigns in the last decade: the bid for a permanent seat on the United Nations Security Council and the failure to move forward in the normalisation of relations with North Korea.

> …Japan should overcome its mindset of introspective thinking and do more to make the most effective use of its increasingly limited resources.

Japan at one stage may be seen to be in the shadow of China. China has enjoyed growth since 1992, while Japan staggered through 'the lost decade' of the 1990s. As Japan grappled with a rapidly changing regional environment and a transformed global order, China was increasing engagement with the world. China seems to be involved in virtually every major regional and global issue while Japan is rarely seen as a key player in resolving global issues.

Japan has been slow in adjusting to changes both economically and culturally. Its leadership and its people are slow to respond. The leadership refuses to muster the political will to act on controversial issues because it refuses to risk offending the public at large or be seen to be undermining national interest. According to Mr Glosserman, insecurity in Japan is magnified by a fear of neglect by the United States. Strategists are keen to discern a shift in US attentions from Tokyo to Beijing. China's central role in the Six Party Talks, US attempts to enlist Beijing to deal with a wide range of regional and global issues, and Beijing's preference for 'great power relations' all trigger alarm in Tokyo.

What should Japan do to overcome this peception of irrelevance? First, Mr Glosserman argued that Japan should overcome its mindset of introspective thinking and do more to make the most effective use of its increasingly limited resources. It needs to develop a national strategy. It needs to focus on the quality of international contributions rather than the quantity.

Secondly, Tokyo must embrace more creative diplomacy, that plays up Japan's strengths: creative, highly skilled individuals, innovative technological solutions and skilled and patient diplomacy. It should use its foreign assistance programmes to make itself more relevant.

Finally, Japan continues to play an important role in US security strategy and its engagement with Asia. The US-Japan alliance is the cornerstone of the US alliance system in Asia and the primary means by which the US engages the entire region. Without Japan, the entire US regional presence would be shaken and US policy transformed, with indeterminable effects on regional security.

The ASEAN Charter and the Future of the ASEAN Community

Coming into its 41st year, Asean faces a number of serious challenges, including globalisation, terrorism, the rise of China and India, and maintaining the role of Asean as a driving force among regional organisations in East Asia and the Pacific. The newly-drafted Asean Charter represents a historic milestone in ensuring Asean's continued relevance, welcomed by both the elites and the people of Asean alike as a document that would help bind the region together as a comunity. At the tenth plenary of the 22nd APR, core intra-Asean views on the Charter and its perceived effectiveness were tabled. ***Terrence Too****, Analyst at ISIS Malaysia, reports:*

This session was chaired by Dr. Thitinan Pongsudhirak, Director, Institute of Security and International Studies (ISIS) Chulalongkorn University and Dr. Chung-Min Lee, Professor of Institue Relations-Yonsei University, Republic of Korea. Panel discussants were: HE Tan Sri Ahmad Fuzi Hj. Abdul Razak, Ambassador at Large, Foreign Ministry of Malaysia; HRH Prince Samdech Norodom Sirivudh, Chairman of the Board of Directors, Cambodian Institute for Co-operation and Peace; Mr. Jusuf Wanandi, Vice-Chairman, Board of Trustees, Centre for Strategic and International Studies; and Mr. Nguyen Hung Son, Director, Centre for Regional and Foreign Policy Studies, Institute for Strategic and Foreign Policy Studies, Diplomatic Academy of Viet Nam.

Tan Sri Ahmad Fuzi, the first speaker, provided an overall perspective on the drafting process, from the perspective of a member of the High Level Task Force. He began by noting that, although the Asean Charter was

(From left) Mr Nguyen Hung Son, HRH Prince Samdech Norodom Sirivudh, Assoc Prof Dr Thitinan Pongsudhirak, Dr Chung-Min Lee, Mr Jusuf Wanandi and Tan Sri Ahmad Fuzi bin Hj Abdul Razak

Drafting of the Asean Charter

- Asean Charter
  - Brief history
  - Eminent Persons Group (EPG) Broad Guidelines
    - Asean Security Community (politics and security)
    - Asean Economic Community (economics and finance)
    - Socio-Cultural Community (functional and civil society)
    - External relations, both bilateral and inter-regional
    - Narrowing the development gap among Asean member countries
    - Asean structure, including the decision-making process, administrative modalities, sources of funds, working methods, cross-sectoral co-ordination, conduct of meetings, documentation of meetings, roles of the Secretary-General and the Asean Secretariat
  - Issues – ratification, implementation, towards an Asean Community
  - How relevant is Asean? Will the charter mean a quantum leap for the organisation in the region?

a subject of long drawn debates, a combination of internal and external factors compelled the need for its establishment. To this end, the intention to draft the Charter was formally tabled in December 2005 at the 11th Asean Summit in Kuala Lumpur.

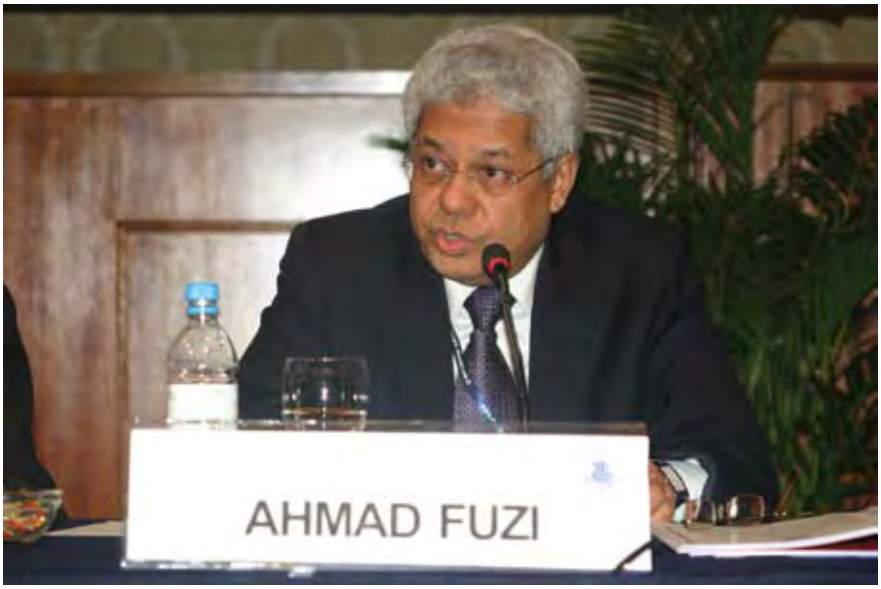
The drafting of the Charter was undertaken in a systematic and orderly manner. First, inputs were sought from elder statesmen, policymakers and other foremost personalities from Asean, through the establishment of the Eminent Persons Group (EPG). After this, the second stage consisted of the setting up of a High Level Task Force (HLTF) dedicated to drafting the actual text of the charter. This two-tiered approach allowed the drafting of the Charter to be completed within a two-year period as required, with the final draft of the Asean Charter completed in time for signing at the Thirteenth Asean Summit in Singapore on November 2007.

Tan Sri Fuzi noted that the drafting of the Charter was carried out according to a common set of seven guidelines. The members of the HLTF were fully aware of the governmental parameters within which it operated, and pragmatism was the keyword in the drafting process. He highlighted three guidelines, specifically that the Charter should be: brief, but comprehensive; written in clear and unequivocal statements; and flexible, in order to be an enduring document that can adapt to changing circumstances.

Indeed, a number of sources, materials and inputs were studied and considered in the process of drafting the Charter. These included prior decisions made by ministers and leaders; input from the EPG; discussions held between the HLTF and Asean sectoral groups, think tanks, NGOs, and the private sector; charters of the regional groupings; and lessons from the EU. This wealth of information enabled productive discussions to take place to create an inclusive document that sought to strike a balance between all inputs received.

As such, noted Tan Sri Fuzi, agreement on the Charter was the result of painstaking compromise among the ten Asean member states. One of the most difficult issues encountered by the HLTF in this process was the proposal for the establishment of an Asean Human Rights Mechanism. Long considered taboo, this mechanism was finally agreed upon in the Asean Charter, which Tan Sri Fuzi believed was a sign of the growing maturity of Asean member states, as well as their commitment to be more progressive on an issue that was becoming increasingly important for its people. In the end, despite these difficulties, all member states provided their input into the drafting process; unity was preserved over conflicting views and the principle of equality was maintained.

The completion of the Charter, with 13 chapters, 55 articles and 4 annexes, successfully formalized Asean's common position pertaining to its identity, purposes and principles, legal personality, membership, organs, immunities



Tan Sri Ahmad Fuzi

for entities associated with Asean, decision-making, settlement of disputes, budget and finance administration and procedure, and external relations. Of particular note in the Charter was the specific reference to the adherence to the rule of law, good governance, the principles of democracy and constitutional government, which allows the transformation of Asean from a policy-based regime to a rules-based organization.

Also of note was Article 52, which states that the Charter shall prevail in case of inconsistency between the rights and obligations of Asean member states under such instruments and the Charter. The clarity provided on the various aspects of the organization would allow Asean to be more efficient and effective, as many of the previous weaknesses with respect to decision-making, compliance, settlement of disputes and organizational structure can all be overcome within the framework of the Charter.

While the Charter provides Asean with a strong position and structure to move forward, Tan Sri Fuzi also stated that he was the first to concede that the Charter was not perfect. He was aware of various criticisms made, which included the Charter not being bold enough; it merely being a compendium of existing Asean principles and agreements; it did not contain any single big idea or overarching policy; it did not contain any specific provisions on mobilisation of resources; and it was not forward-looking enough as it preserved the consensus principle on decision-making with no provision for expulsion or suspension of member states.

However, he said that these criticisms were somewhat unfair and lacked understanding of the working of Asean and the complexity of the drafting process which involved ten sovereign Asean states. He further said Articles 48 and 50, on amendment and review of the Charter, should allow the Charter to be an enduring document that will allow Asean to adapt and respond to the ever changing dynamics of the region: the capacity of Asean to do so, should not be underestimated.

Looking forward, full ratification of the Charter to enable it to come into force was identified by Tan Sri Fuzi as the real test before Asean now. The Charter was not just another plan of action or a theological or academic thesis but was instead a legally binding framework for a set of rules and regulations for intra-and extra-Asean conduct and relations.

Special importance is given to the conduct of Asean's external relations under Article 41 of the Charter. In adhering to the purposes and principles provided in the charter, member states are committed to ensuring that Asean will be the primary driving force in the regional arrangements that it initiates, and maintain its centrality in regional co-operation and community-building. Under this Article, member states shall also co-ordinate and endeavour to develop common positions and pursue joint actions.

All these key provisions will shape Asean's approach towards the wider process in East Asia and Asia Pacific, as well as to other regional and international issues of common interest to member states. The qualitative change in approach would promote greater unity and coordination in Asean, while strengthening its common position in the conduct of its external relations.

Tan Sri Fuzi concluded that full ratification by all Asean

member states would ensure full compliance with the Charter for the common good of the people, and help build a fully integrated Asean community involving all the three security, economic and socio-cultural pillars. In turn, this enables Asean both to live up to being a truly people-oriented organization, and to take the initiative to be more proactive as a regional organization in engaging within the various frameworks of Asean +1, etc. and in meeting its objectives as an organisation.

Building an Asean Community through the Asean Charter

The second speaker, HRH Prince Samdech Norodom Sirivudh, presented his thoughts on the Asean Charter, specifically as it relates to the challenges of building an Asean community. First, he noted that many expected the Asean Charter to be a Charter for the people of Asean, and it was welcomed with high expectations by both the elite and the people of Asean in the belief that, after 40 years of existence, Asean would be better able to face the future of the region.

Presenting an analogy of a banquet table, Prince Sirivudh likened the Charter to the table upon which all the food will later be served; that is, the main common denominator among all Asean countries. As such, discussions around the drafting of the Charter needed to focus on this, and not on the specific details which should come after there is already agreement on the basic issues common to all.

Prince Sirivudh further pointed out that Cambodia was among the Asean countries that has ratified the Charter, while acknowledging that there were various issues and problems faced in the drafting of the Charter and its ratification by all Asean member states. This was because Cambodia has become politically stable and prosperous, enjoying strong economic growth, and believes that the Charter would bring benefits to Cambodia and not create problems.

However, Prince Sirivudh further noted that, with regard to the Charter and the backbone of the Asean security, economic and socio-cultural communities, it was important to take into account the way that Asean has formed and evolved, through different cultural heritages and political systems. This has resulted in an Asean preference for informalities and consensus, non-interference in internal affairs, and an aversion to legalistic procedure. As such, Prince Sirivudh identified a number of challenges towards building an Asean community as follows:

1. Setting acceptable norms among all members, keeping in mind the various different cultural and political backgrounds;
2. Achieving a free flow of trade and services, especially in light of the rise of India and China, and presenting Asean as a single market based on 550 million people;
3. Narrowing development gaps among member states, particularly the Cambodia, Laos, Vietnam, Myanmar (CLVM) states;
4. Addressing misplaced fears that the Asean Security Community is a movement towards forming a military alliance bloc, when in fact the Asean community is only making certain agreements and decisions according to the present regional realities; and
5. Addressing remaining challenges such as those presented by the case of Myanmar, which has shown that Asean is far from achieving its goal of an Asean socio-cultural community and a common regional identity.

In conclusion, Prince Sirivudh stated that the Asean Charter was a paralegal framework that binds members together into a rule-based group, with basic principles and appropriate mechanisms. It is meant to provide Asean with a more solid base both for regional co-operation and to respond to a changing regional and global environment. However, he also identified the two issues of human rights and wider participation by the masses as vital steps needed to further nurture regional identities and personal freedom in Asean.

Shortcomings of the Asean Charter

Drawing from his long and vast experience in Asean over the last 40 years, Mr. Jusuf Wanandi, the third speaker, also spoke on the various issues surrounding the Asean Charter, and the areas that

Jusuf Wanandi

needed to be improved for Asean to ensure its future relevance.

Pak Jusuf started by stressing the seriousness of the challenges faced by Asean over the next 40 years. First of these is the problem of implementation. Pak Jusuf noted that, according to the previous Secretaries General of Asean, even in the relatively less troublesome area of economic cooperation, only 30 per cent of what had been has been implemented. The second challenge is that of 'People's Deficit', where participation and active co-operation among the people of Asean is minimal and much too limited. Such co-operation must be much closer and deeper to face both the external and internal challenges facing Asean.

The third challenge is that of budget limitations, due to insufficient or minimal funding. Problems regarding the organization and effectiveness of Asean make up the fourth, where, with over 700 meetings a year, Pak Jusuf noted that there is little else that can be done, and what is done tended to be limited. The fifth challenge comprises the external challenges posed by globalization, terrorism, the rise of China and India, and maintaining the role of Asean as a driving force in the regional organisations in East Asia and the Pacific.

With these challenges as the backdrop, Pak Jusuf noted that the expectation of the leaders of the Asean countries when they gave the role of drafting the Charter to the EPG was to be bold and visionary. However, he also noted that there was too much secrecy surrounding the HLTF in the drafting of the Charter, which resulted in some shortcomings in the final document.

> . . . the Asean Charter was a paralegal framework that binds members together into a rule-based group, with basic principles and appropriate mechanisms.

The first of these shortcomings was that the Charter was not equipped to make Asean deeper and closer as a community, which Pak Jusuf believed was critical for Asean to meet its future challenges. The Charter, he noted, mentions a people-oriented Asean, but provides few details on how this group is to be served or established. The only relation to the people of Asean was expressed in the human rights mechanism; however, even that mechanism proved difficult to include in the charter.

Pak Jusuf noted that, there needed to be recognition in the Charter towards a political system that is more open and flexible in the future. He further stated that a timeline does not need to be specified for this, and each country may implement this in their own time; but this recognition is particularly important to ensure the human security of the people and societies of Asean.

The second limitation of the Charter was that too much continues to be stressed on consensus. This in turn has stifled not only the growth and development of Asean, but has also stifled its previous achievements. Pak Jusuf gave the example of the 'X-minus' formula for economic cooperation, where a few member states could initiate cooperation in an area, and the other Asean members could then join in if they so desired. However, with the Charter, this can now

only happen if the other non-participating countries approve it. This, he says, not only equates to consensus, but also places too much work on the leaders of the Asean countries, as multiple issues now must be presented repeatedly to the already busy leaders of the Asean member states.

Pak Jusuf identified limited funding as the third shortcoming of Asean in facing future challenges. The current budget of US$9 million was not enough, especially given the expanding demands made on the Asean Secretary-General and the increase in the number of deputies from two to four. He noted that the budget should be at least five times more than the current amount, with an additional allocation for a development budget to help close the gap between the old and new members.

The process of dispute settlement and sanctions represents the last shortcoming of the Asean Charter identified by Pak Yusuf. He noted that it is not practical for such claims and issues to all be sent to the Asean Summit, as too much is already required to be done at the Summit, and each issue should be dealt with within its own mechanism and community, where action plans can be drawn up and their progress monitored.

So what needs to be done to improve the Charter? From the Indonesian perspective, Pak Jusuf noted that two main things needed to be done to achieve the goals of the Charter to bring Asean towards a more rules-based organisation and better equip the organisation to face its future challenges. First, the human rights body must be credible, particularly to civil society leaders.

To this end, he hopes that a discussion between the Asean Secretary General and civil society organisations can be started for the latter to provide their views and feedback. Second, the foreign ministers, who will form the co-ordinating council in the future according to the Charter, must issue official statements now to clarify the official definitions and interpretations of some of the Articles of the Charter which remain unclear.

These would include Articles pertaining to issues such as: the budget; the decision-making process; whether communities have the right to organise themselves without being bound by the consensus process; and the mechanisms for dispute settlement and sanctions to be applied in event of non-compliance. As such, notes Pak Jusuf, addressing Indonesia's concerns do not entail any major rewriting or amendment of the Charter, but instead steps to clarify the interpretation of certain Articles and to ensure the credibility of the Human Rights Body.

> …the expectation of the leaders of the ASEAN countries when they gave the role of drafting the Charter to the EPG was to be bold and visionary.

Finally, Pak Jusuf noted that it would not be a major crisis for Asean should the Charter not be ratified by all member states by 2008 as requested. As seen in the ratification process of the EU Constitution, Asean will not cease to exist or lose its relevancy. He further pointed out that regulations included in the Charter are those which have already been agreed upon by Asean, and it should not be a major issue to postpone the ratification and have the Foreign Ministers review the Charter and make the necessary changes and clarifications to ensure that the Charter was as complete as possible before ratification.

CLMV Perspective on the Asean Charter

The final speaker, Nguyen Hung Son, spoke about the perspective of the new Asean Members, the CLMV countries on the Asean Charter. Son first highlighted the positive aspects of the Asean Charter, regarding it as one of the most important documents in the 40 years Asean has been in existence. This is not only because it has codified all of the important purposes, principles, shared values and aspirations into a single, legally binding document, but also because it serves as a birth certificate for all ten member countries as the founding members. Because of this, the Charter has brought about a number of changes to Asean which have greatly enhanced the sense of belonging, ownership

and responsibility of the newer member countries, which is crucial to building the Asean community.

The most important impact of the Asean Charter, as identified by Son, is that it creates an institutional framework for Asean to move forward by providing for a legal personality, a clearer set of rules and procedures, and more effective ways of doing business. An Asean legal personality, notes Son, gives the organisation an increased profile in international affairs, as well as the legal capacity to enter into treaties with other countries and organisations. A clearer set of rules and procedures as laid out in the Charter will, in turn, result in a more organised and disciplined Asean, particularly on how the various Asean organs and bodies will function vis-à-vis one another.

Finally, modifications to the Asean way of doing business as contained in the charter will make it more effective; for example, leaders will now meet more often, and their meetings will be less ceremonial and diplomatic, and more businesslike and focused. Additionally, while decision-making is still consensus-based, the Charter provides various formulas through which decisions can be made more effectively.

Son asserted that the ratification of the Charter should not be postponed. While he acknowledged that some reservations have been raised, the Charter, although not perfect, reflects the current state of unity and diversity of Asean's member countries. Asean will need the various bodies proposed under the Charter to improve its work, such as the Human Rights body and the Committee of the Permanent Representatives based in Jakarta, and it is not only beneficial but also necessary for the Asean community building process to have the Charter ratified.

Looking forward, the crucial issue at this stage is the implementation of the Charter. According to the speaker, Asean needs to be well-prepared to fix any problems that may arise in implementing the Charter. These potential problems are most likely to occur in the same new institutional elements introduced by the Charter as mentioned earlier. For example, with regard to the setting up of an Asean legal personality, it must be clear to the world who represents Asean and the scope of power of this position.

Also, the new bureaucracy created under the Charter to make Asean more efficient and streamlined may actually be counterproductive if it is not well organised, only resulting in adding to the 700 meetings a year currently held by Asean and its various bodies. Finally, given the pace of community-building at the moment, the target date of 2015 for the building of an Asean community looks increasingly challenging, even to the point of being unrealistic. While the economic community has had the benefit of a blueprint, there is no such blueprint for forming the social and security communities, despite there only being six years left to form the Asean community.

Son concluded that three things needed to be done in order to ensure a successful Asean community. First, greater, and more sustained effort was needed to narrow the development gap within the region. This issue has not been dealt with adequately in Asean, and any regional community will not be sustainable if segments of people continue to be denied access to, or distanced from development opportunities. Second, regional community building entails member countries giving a higher priority to regional interests, even if national interests are not maximised.

This concept has not always been followed by member countries. And third, it needs to be made clearer to other countries and organisations outside Asean that community building within Asean and a strong Asean identity will not only benefit Asean, but will also benefit all of East Asia. For example, the Asean community can serve as a core for East Asia and the wider Asia Pacific region in the future. As such, the other countries in the region as well as the international community could and should play an active and constructive role in this process.

(From left) Prof Dr Takatoshi Ito, Tun Hanif Omar and Dr Mahani Zainal Abidin

"What Policy Should Malaysia Pursue in an Environment of High Inflation and Low Growth"

Prof Dr Takatoshi Ito, the Fourth Holder of the Tun Ismail Ali Chair in Monetary and Financial Economics, University of Malaya, and Professor, University of Tokyo, gave a lecture at an ISIS International Affairs Forum. ***Veena Loh****, Senior Fellow at ISIS Malaysia, reports:*

I. Review of the Exchange Rate Regimes before the Asian Financial Crisis

Danger of the Dollar Peg

1. Prior to the Asian Financial Crisis 1997/8, the nominal exchange rates of most Asian countries were pegged to the US dollar. Whenever there are misalignments of the real effective exchange rate, as a result of higher inflation in an Asian country versus the US, that Asian country will suffer. At that time, Thailand's inflation rate was higher than that of the US. As the exchange rate was fixed, this meant that Thai exporters would lose out. Indonesia had a crawling peg to compensate against inflation but the crawl was not speedy enough to compensate against high inflation.

2. As Asian economies were growing faster than developed economies, the Asian countries attracted heavy short term capital inflows from global investors. Asia was thus able to borrow

in US dollars and sometimes even guarantee corporate borrowing in the US dollar and lend in the local currency.

3. Borrowers and lenders underestimated the currency risk involved. The misconception was that the dollar peg would continue indefinitely. The bank's balance sheets portrayed short term borrowings in US dollars and long term lending for infrastructure projects, etc in local currencies. However, due to the sharp depreciation in the Asian currencies, borrowers could not come up with the interest and principal payments in dollars to pay for the debt. The currency and maturity mismatch led to a twin crisis in currency and in banking, when the sharp depreciation made the financial institutions insolvent.
4. The Thai baht market was the first to collapse and this financial crisis spread to other Asian countries. Korea and Indonesia went to the IMF for aid while Hong Kong and China held onto the dollar peg. Malaysia floated for a while and in September 1998, Malaysia went back to the dollar peg.

Impossible Trinity

5. Asian countries found it impossible to pursue:

    1. a fixed exchange rate,
    2. free capital mobility and
    3. an independent monetary policy (ie interest rate policy differing from the US) at the same time.

6. In 1996-97 during the pre-crisis years, Thailand simultaneously pursued these three policies. Thailand fixed its exchange rate and at the same time, it pursued an independent monetary policy with interest rates higher than the US. Thailand was also liberalizing its capital market. This attract ed substantial capital inflows, which came in to take advantage of the high interest rates, capital gains in the stockmarket and rising real estate prices, and were able to exit at the fixed exchange rate. This was a recipe for a crisis in any part of the world.
7. Post-crisis, many countries in Asia adopted a managed floating exchange rate, partly because they had depleted their foreign reserves. With a floating exchange rate, Korea, Indonesia, Thailand and Philippines were able to pursue an independent monetary policy and allow free capital mobility.
8. China and Malaysia, however, adopted a fixed exchange rate and imposed capital controls. This allowed the countries to pursue an independent monetary policy. Eventually China and Malaysia de-pegged from the US dollar in July 2005.
9. In the case of Hong Kong, it adopted a fixed exchange rate, permitted free capital mobility but did not pursue an independent monetary policy. A Currency Board oversees the automatic contraction or expansion of the monetary base (converts local currency into an anchor currency at a fixed rate of exchange) whenever capital flows in or out of the country.

Two-Corner Solution Debate

10. What are then the optimal exchange rate regimes for Asia?
11. The debate on an exchange rate regime then went on to two-corner solutions, that is, either an exchange rate target that is perceived to be impregnable, as in the case of a currency board system (since it is 100% backed by foreign reserves), or a regime that does not involve any exchange rate target, as in a free float. 'Free-float' and 'Currency Board' were considered safe and sustainable corners in 1998 and popular among US economists after the crisis but was completely discredited after the demise of the Argentinean currency board.
12. The problems with the Currency Board was that it was not robust against residents taking money out, nor against weak fundamentals such as basket currency which comprises the weighted average of currencies of trading partners was proposed to minimise the fluctuations of the real effective exchange rate, thereby bringing about a more stable balance of payments. In addition to this, the fluctuations of short term capital flows will be minimised.
16. In the case of Asia where intra-regional trade is high,

Impossible Trinity	Fixed Exchange Rate Yes	Free Capital Mobility Yes	Independent Monetary Policy Yes	Example Pre-crisis Asia
Floating	No	Yes	Yes	Post-crisis Korea, Indonesia, Thailand, Philippines
Capital Controls	Yes	No	Yes	China, Malaysia before 2005
Currency Board	Yes	Yes	No	Hong Kong

the Asian currencies should float together against other currencies.

II. Post-crisis Inflation Targeting

1. Under managed floating, countries can pursue a relatively more independent monetary policy to control business cycles. However as most Asian countries still follow the Federal Reserve Policy, there is a danger of importing inflationary pressures from the US.
2. In many emerging economies, including Korea, Thailand, Philippines and Indonesia, inflation targeting has been adopted.
3. Up till 2006, inflation targeting has been a success. But in 2007-2008, some countries were hit by a supply shock which posed a serious challenge to inflation targeters.
4. What is inflation targeting (IT)?
5. An inflation nutter would keep the inflation rate in the target range always, no matter what.
6. A flexible inflation targeter will take the target range as a medium range target and look at other variables and allow the inflation rate to deviate from the target range in the short run depending on the types of shocks, output activities and adjustment costs.
7. If the central bank is credible, the expected inflation rate will be anchored around the target inflation target (centre of the range).
8. To do this, the Central Bank has to announce a desirable inflation rate and be committed to achieving it. Although there may be times when inflation levels will deviate from the band in the short term, the people must believe that the inflation levels will be brought to the desired target within the medium term, say 2-3 years time.
9. The purpose of this exercise is to anchor inflation expectations so that when prices fluctuate significantly in the short term, expectations of wages do not follow suit. For this to work, the Central Bank must be credible enough to bring prices down to the inflation targets in the medium term. This is dependent on 2 factors: transparency and accountability. Transparency can be transmitted if minutes of Central Bank's discussion are published as in the case of UK.
10. Many OECD countries have introduced Inflation Targeting. New Zealand's central bank has introduced an inflation target of between 1% - 3% since 1990; Canada introduced a target of 2% +/-1% since 1991 and UK 2.5% +/-1% since 1992. (Targets of 13 countries were given)
11. Up till 2006, inflation targeting has been a success for advanced countries like New Zealand, UK, Sweden, Canada and Australia. Performances vary among emerging countries.
12. The S. Korean Central Bank has declared an inflation target of 8%-10% in

December 1997 under a situation of severe currency crisis. The bank was able to bring the inflation down to a lower target of 2%-4% by 1999. After establishing its credibility for successfully keeping inflation levels within its target for 5 years, the Central Bank narrowed its target to 2.5% to 3.5% in 2004 and 2005.

- Thailand's Central Bank was also successful in inflation targeting but used a wider band of between 0% – 3.5% for 6 consecutive years since 2000 to build up its credibility.
- The Philippines and Indonesia, however, was not as successful as Korea and Thailand and missed most of their targets.

III. Challenge of Stagflation

1. Stagflation is a situation of slow economic growth accompanied by a rise in prices, or inflation. Stagflation can result when an economy is affected by an unfavourable supply shock, such as an increase in the price of oil in an oil importing country, which tends to raise prices at the same time it slows the economy by making production less profitable. Stagflation is being faced by the US, EU and Japan.
2. One should distinguish between a demand shock situation or a supply shock situation. A demand shock situation is experienced by India, China and the Middle-East. These countries are facing a situation of rising demand for food, and for raw materials for factories, due to a rise in purchasing power and a boom in domestic construction and real estate activities.
3. Countries which are not resource-rich will face a supply shock when they experience rising prices of imported food, commodities and fuel due to limited world supplies.
4. Malaysia, Indonesia and Australia are resource-rich countries and they experience both shock and blessing, as some of their natural resources such as oil and palm oil fetch good export revenues while other sectors such as steel and food items experience high prices.
5. As a result of this supply shock, countries are missing their inflation targets. Is this a sign of failure? The answer is that this is not necessarily the case.

> Stagflation can result when an economy is affected by an unfavourable supply shock, such as an increase in the price of oil in an oil importing country…

IV. Optimal Policy Responses

1. The problem is that both fiscal and monetary policies cannot cope with this supply shock situation.
2. If the Government tightens fiscal and monetary policy, output stagnation will worsen.
3. On the other hand, if the Government provides a fiscal and monetary stimulus, inflation will become worse.
4. The country's terms of trade (relative prices of a country's exports to imports) has deteriorated in favour of the oil producing countries. For e.g. Japan now has to export 2 cars as opposed to one to receive the same amount of oil imports. The country has to accept the fact that income will shift from oil-importing to oil-producing countries like Saudi Arabia and Abu Dhabi which will experience windfall gains.
5. Politicians have to explain to the people about losing this income to oil-producing countries.
6. The nation cannot blame the Central Bank for missing the inflation target. In fact, many inflation targeters have missed their targets since 2007. The last adverse supply shock hit the world 27 years ago.

Then, why is there Still Inflation Targeting?

7. Because a flexible inflation targeter emphases on hitting the target in the medium term. Depending on the nature of the shock, going outside the band should be tolerated.

What is the Benefit of Claiming 'Inflation Target?'

8. It is a device to put an anchor to the medium-run inflation rate (which is where it should come back to) and the expectation should be anchored there. With inflation expectation anchored there, no second round effect will take place.
9. If the central bank is credible enough to anchor the expectation, is 'inflation targeting' not needed? The answer is yes.
10. UK missed its inflation target of 2% with a tolerance band of plus/minus 1% when the inflation rate hit 4.4%. The Governor sent a letter to the Chancellor of the Exchequer on Aug 13, 2008 stating 'Rising food and energy prices have pushed CPI inflation to 4.4% in July. …But the impact of these increases in commodity prices will diminish in 2009. They cannot by themselves generate sustained inflation unless other prices begin to rise at a faster rate. And it is the task of the Monetary Policy Committee to ensure that they do not. So the current period of above-target inflation, although very marked, will be temporary and inflation will return to the 2% level.'

Application to Other Nations

11. Japan may consider fiscal stimulus without monetary stimulus. Inflation is tolerated as CPI is only 1.9%. Otherwise, it is best not to compensate income losses for consumers and pensioners which are inflationary in themselves.
12. EU is tightening to fight inflation because output losses are not expected to be significant and the credibility of EU is being tested.
13. US has kept interest rate low due to its major concern with financial instability.
14. A resource-rich economy, on the other hand, must tighten to stop overheating.
15. Resource-poor emerging market economies which are directly hit by price increases will have to tolerate inflation just like Japan.

Monetary policy should not be too tight just because inflation rate is high, but if growth rate is maintained high, monetary policy should respond to an increase in inflation rate.

Application to Malaysia

16. If Malaysia is resource-rich, then the impact of the commodity price increases have beneficial effects on producers and the Government while consumers suffer. Thus, it is a mixed blessing.
17. Monetary policy should not be too tight just because inflation rate is high, but if growth rate is maintained high, monetary policy should respond to an increase in inflation rate.
18. It is important for domestic prices to reflect world prices. It was correct to withdraw subsidies, but with social safeguards to the most disadvantaged.
19. The nation should fare better than other countries as the Government is in a position to transfer the windfall gains from the highly profitable sectors such as oil and palm oil to those sectors in greatest need.

ISIS calendar

Upcoming Events

The "Global Financial Crisis and the Economic Slowdown: Implications for Southeast Asia and the United Nations Response" by Dr K.S. Jomo

15 January 2009, Grand Millennium Hotel, Kuala Lumpur

Roundtable Discussion on "Malaysian Responses to the Global Financial and Economic Crisis."

19 January 2009, ISIS Conference Room, Kuala Lumpur

31st CSCAP Steering Committee Meeting

1 June 2009, Kuala Lumpur, Malaysia

23rd Asia-Pacific Roundtable

2-4 June 2009, Kuala Lumpur, Malaysia

Past Events

6th East Asia Congress

3-6 December 2008, Nikko Hotel, Kuala Lumpur

Lecture on "Making Economic Policy in Weak, Democratic, Post-Crisis States: An Indonesian Case Study" by Prof Hal Hill

27 November 2008, ISIS Conference Room, Kuala Lumpur

International Affairs Forum on "US-Malaysia Relations Under the New U.S. Administration" by H. E. Ambassador Stuart E. Eizenstat

21 November 2008, Nikko Hotel, Kuala Lumpur

International Affairs Forum on "Potential and Promise of US-Malaysia Relations in an Obama Administration" by H.E. James R. Keith

19 November 2008, ISIS Conference Room, Kuala Lumpur

Asia Pacific Regional Water Conference 2008: "A Shared Future In Water"

17-19 November 2008, Sheraton Subang Hotel & Towers, Malaysia
Jointly organized by ISIS Malaysia and Water Association of Selangor, Kuala Lumpur and Putrajaya (SWAn)

JEF-ISIS Malaysia International Symposium "EAFTA, CEPEA, FTAAP and Beyond"

29-31 October 2008, Mandarin Oriental, Kuala Lumpur
Jointly organised by Japan Economic Foundation (JEF) and Institute of Strategic & International Studies (ISIS) Malaysia

U.S.-Islamic World Regional Forum

12-14 October 2008, Imperial Hotel, Kuala Lumpur
Jointly organised by The Asia Foundation, Saban Center at Brookings Institute, U.S. and ISIS Malaysia

ISIS International Affairs Forum: "What Policy Should Malaysia Pursue in an Environment of High Inflation and Low Growth?" by Prof Dr Takatoshi Ito

20 August 2008, ISIS Conference Room, Kuala Lumpur
Organised by ISIS Malaysia in strategic partnership with CIMB Group

MoA-UPM-ISIS Seminar: "New Strategies Towards Food Security in Malaysia"

14 July 2008, Putrajaya International Convention Centre (PICC)
Organised by Ministry of Agriculture, UPM and ISIS Malaysia

International Institute of Advanced Islamic Studies/ISIS National Affairs Forum on "An Islamic Perspective on the Commitment to Inter-Religious Dialogue"

4 July 2008, ISIS Conference Room, Kuala Lumpur

World Economic Forum on East Asia

15-16 June 2008, Kuala Lumpur

ISIS National Affairs Forum on "Islam and the Future of Inter-Ethnic Relations in Malaysia" by Dr Chandra Muzaffar

11 June 2008, ISIS Conference Room, Kuala Lumpur

22nd Asia Pacific Roundtable

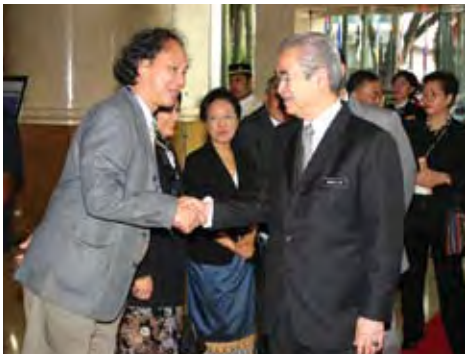
2-5 June 2008, Nikko Hotel, Kuala Lumpur

29th CSCAP Steering Committee Meeting

1-2 June 2008, Nikko Hotel, Kuala Lumpur

At the 22nd Asia Pacific Roundtable (APR)

Tan Sri Mohamed Jawhar Hassan speaking at the opening session of the Asia Pacific Roundtable (APR)

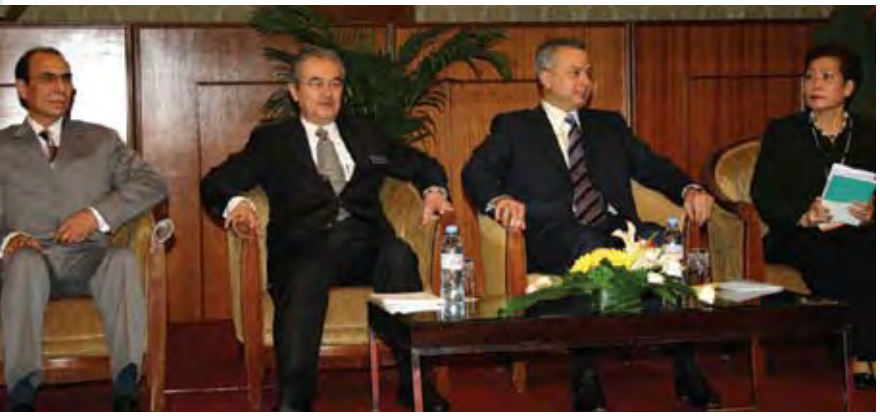


Prime Minister, Dato' Seri Abdullah Ahmad Badawi greeting Mr Kavi Chongkittavorn

The Regent of Perak, H.R.H. Raja Dr Nazrin Shah with Ms Hardev Kaur and H. E. T. Jasudasen

(From left) Dato' Seri Abdullah Ahmad Badawi, Prof Carolina G. Hernandez, H.R.H. Raja Dr Nazrin Shah, Tan Sri Mohamed Jawhar Hassan and Simon Tay

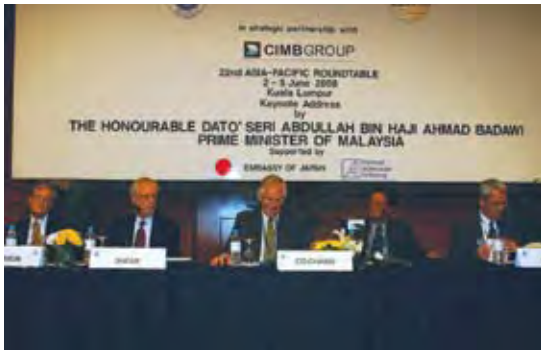
(From left) H.R.H. Prince Samdech Norodom Sirivudh, Mr Ralph A. Cossa, Dato' Seri Abdullah Ahmad Badawi and Simon Tay



Dato' Seri Abdullah Ahmad Badawi and H.R.H. Raja Dr Nazrin Shah at the opening ceremony of the Asia Pacific Roundtable (APR)

A section of the audience at the 22nd Asia Pacific Roundtable

(In foreground) H.R.H. Raja Dr Nazrin Shah and Dr Mahani Zainal Abidin



Panelists at Plenary Session One. (From left) Dr Charles E. Morrison, Mr David B. Shear, Prof Anthony Milner, Tan Sri Razali Ismail, Prof Robert G. Sutter

Mr Joan Fleuren Delivering the Special Address on "Food Security in the Asia Pacific: Crisis and Response"

Institute of Strategic and International Studies (ISIS) Malaysia
No. 1, Persiaran Sultan Salahudin
P.O Box 12424, 50778 Kuala Lumpur,
Malaysia
Tel: +603 2693 9366
Fax: +603 2691 5435
Email: info@isis.org.my
Website: www.isis.org.my