Asia Pacific Community

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From the Editor’s desk
Welcome to the second issue of East Asia Forum Quarterly (EAFQ).

EAFQ has grown out of East Asia Forum (EAF) online, a platform for the best in Asian analysis, research and policy comment on the Asia Pacific region in world affairs. EAFQ aims to provide a further window into research from leading research institutes in Asia and expert comment on key areas of regional policy.

This issue includes essays by leading commentators on the idea of an ‘Asia Pacific Community’, floated last year by Australian Prime Minister Kevin Rudd. Richard Woolcott, Rudd’s special envoy on the initiative, reviews the findings of his consultations on this issue with hundreds of interlocutors around the region.

In the first issue of EAFQ we noted that there was no effective and collective Asian response to the global financial crisis. Its regional structures were still not up to the task of effective global participation. Much in the last six months has changed the drivers of regional initiative on the global stage, as the essays by Young, Soesastro and Dobson in this volume make clear. The Asian 6 – Japan, Korea, China, India, Indonesia, and Australia – within the G20 have emerged as a regional leadership group. Coordination among the Asian 6 has been an increasingly important feature in their approach to the global dialogues, and at Pittsburgh and in the lead-up to Seoul.

Together with the United States and perhaps Canada and Russia, the Asian 6 appear like the potential core of an Asia Pacific community for security dialogues, the key gap in regional architecture on which Rudd’s idea focused.

Woolcott’s consultations reveal three things clearly: there will be no rush towards a new regional arrangement. There is a need to link whatever is invented to what is there now, in the form of APEC and the East Asia Summit. And more discussion is needed about what is sensible and how to do it – for which purpose Rudd has convened a meeting in Australia in December. Meetings in Tokyo and Seoul before that will make important contributions to that dialogue and the EAFQ will undoubtedly come back to the debate again.

The EAFQ, like EAF online, is an initiative of the EAF and its host organisation, the East Asian Bureau of Economic Research, located in the Crawford School of Economics and Government in the College of Asia and the Pacific at the Australian National University. It draws on the research base at the ANU to link together over 40 leading institutes in East and South Asia in research and discourse on public policy and international affairs in the region.

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Cover: Chinese Premier Hu Jintao, Australian Prime Minister Kevin Rudd and Indian Prime Minister Manmohan Singh at the Toyako Summit.

PICTURE: GETTY IMAGES NEWS /GETTY IMAGES
The Asia Pacific region is fast becoming key in the international system. A new regional architecture is required to help frame cooperation with the Asia Pacific core as well as shape regional strategies towards global issues. A Pacific Economic Cooperation Council (PECC) report suggests: ‘so long as the multilateral architecture fails to incorporate Asian economies in a manner central to systemic issues, these economies will remain secondary players on global issues and sometimes even regional issues. The world cannot afford this.’

The need to reassess the Asia Pacific’s regional institutional architecture has been under discussion by the council since 2006. A PECC task force published a report on the subject in July. The relevance of this exercise was underlined by Australia’s Prime Minister, Kevin Rudd, in his address to the Asia Society AustralAsia Centre in Sydney on 4 June 2008, when he suggested a new vision for an Asia Pacific Community (APC). Has the moment arrived for a significant transformation in the Asia Pacific’s institutional architecture?

A regional architecture must address four basic functions. These are: (a) to provide a collective forum for regional leaders to address the full range of critical regional and global issues that affect them all; (b) to strengthen and deal effectively with the consequences of economic integration, particularly its trade and investment dimensions; (c) to address issues of political change and security; and (d) to provide a basis for educating the public and opinion leaders about the region.

None of the existing institutions in the region fulfils these needs, as Kevin Rudd also recognised. That does not mean that all functions need to be served by the one organisation. Accepting ‘variable geometry’ would seem a practical way forward. The PECC report argues for having institutions operating at the sub-regional level, particularly in East Asia, where there is a legacy of historical suspicion and the need for intensive community building.

There is no need to reinvent such key existing institutions like APEC and the ARF (ASEAN Regional Forum) to deal with regional economic and political security issues, but they must be fundamentally reformed.

A renewed drive for reform will come from a clear understanding of the need for a regional forum that can address the full range of regional and global issues affecting all regional countries. These include issues that might arise in APEC or ARF. This points to the need for a new heads of government meeting or Asia Pacific summit – a forum that cannot be too large, because that would make it ineffective, but needs to be broad enough to make it representative. It would not need its own secretariat. APEC and ARF would develop issues for consideration by this new Asia Pacific Summit.

There will be sensitivities in creating a new summit involving a limited number of countries, the ‘larger’ players in Asia and the Pacific. At one extreme is the proposal for a G2 (China and the United States), which is unacceptable even to China. The most practical proposal, and most logical to date is that the summit should include the Asia Pacific members of the G20. A caucus of these countries does not entail creating an additional institution as G20 leaders are likely to continue to, and should, meet beyond the current financial crisis. This should be an important consideration in making the next steps towards realising the Asia Pacific vision.

The message coming from the consultations in the region undertaken by Kevin Rudd’s envoy, Richard Woolcott, is that ‘no-one wants more meetings,’ and that there is ‘no appetite for additional institutions.’ That paves the way for institutional innovation built on what we already have, as the PECC group suggests.

The broader strategic picture underlying this proposal is the recognition that global economic governance after the global financial crisis, which is led by the G20 as its steering committee, needs to be supported by effective regional efforts. Regional effort helps strengthen the G20 process itself and at the same time helps ensure that decisions made by the G20 will have the support they need globally, through the ‘regional representatives’. It is through the existing regional structures that even...
the smaller countries can channel their aspirations.

At the recent, scheduled, but aborted, East Asia Summit (EAS) in Pattaya (Thailand), there was the plan to brief all members about the outcome of the G20 London summit. If that briefing had taken place, it would have marked the beginning of a new process of purposeful regional-global interactions that would help strengthen the world’s economic governance structure.

East Asia can lead the way. There is a Korean proposal to create an East Asian caucus of the G20 that would include the 6 G20 members in the region, namely Australia, China, India, Indonesia, Japan, and Korea (see page 10). This proposal has received support in Korea and elsewhere in the region and its relevance is widely seen in the group’s potential to make a major contribution to the strengthening of the G20 agenda when Korea chairs the G20 next year, and beyond.

This East Asian group can help establish the processes involving a larger Asia Pacific group as the core of the new Asia Pacific Summit. This G10 of the Asia Pacific includes Australia, Canada, China, India, Indonesia, Japan, Korea, Mexico, Russia, and the United States.

This G10 represents half of the members of G20 and will be able not only to make a stronger appeal at the global level but, more importantly, it can make a more effective contribution to the better functioning of global economic governance. This G10 needs to be integrated with the reformed and strengthened APEC and ARF processes. There is opportunity to take this proposal up in APEC, especially since the three consecutive APEC chairs, Singapore, Japan, and the United States, are capable of producing purposeful and coordinated processes under strong leadership.

Architectural momentum is now possible in the region. But there will need to be systematic efforts to bring the wider public on board in the process if the momentum is to be sufficient to entrench the new structure that PECC recommends.

The Rudd initiative, and the support by Kurt Campbell (at the confirmation hearing as US Assistant Secretary of State for East Asian and Pacific Affairs) for a regional discussion on institutional architecture, only serve to strengthen this momentum. EAF
Realising the Asia Pacific Community: geographic, institutional and leadership challenges

Since the end of the Cold War, many have considered what should be done institutionally to secure peace and prosperity in Asia. Some argue that the existing bilateral military alliances offer the best chance for sustaining peace and prosperity in the region. Others prefer multilateral cooperation mechanisms. Many believe the existing matrix of various bilateral and multilateral arrangements presents the best we can hope for. But some argue that none of these is good enough. Instead, they propose the idea of an alliance of democracies, meaning the US, Japan, India and Australia—an alliance which former Japanese Prime Minister Taro Aso described euphorically as an ‘Arc of Freedom and Prosperity’. So far, the third argument appears to have prevailed.

Australian Prime Minister Kevin Rudd’s proposal to build an Asia Pacific Community (APC) belongs to the second kind of argument. It has quite a few merits. First, the APC is inclusive. Rather than excluding some, it is designed to include representation of all countries in the region. Inclusiveness is important, not only in terms of representation, but legitimacy and authority. Second, inclusiveness reduces the risk of division. Unlike
some exclusive arrangements, like military alliances, it does not create or reinforce an ‘us versus them’ mentality among countries in the region, and is thus good for reducing suspicion and promoting cooperation. Finally, it is future-oriented. No one is very satisfied with the existing cooperative mechanisms in the region. Most people hope that countries will develop a region-wide cooperative mechanism similar to that of the European Union. If the APC can be realised, the region would see fewer summits and more efficiency in cooperation. The proposed APC may be the cooperative medium for which the region should aim.

Despite all these merits, the idea of building a region-wide cooperative architecture, as many have pointed out, will be hard to put into practice. Firstly, as with other efforts to build region-wide cooperation schemes in Asia, it may be difficult to decide which countries should be included in the ‘Asia Pacific’ category. If you include Australia, you should include all the Pacific Island states. If you include Brazil, you should include almost all the Latin American states. If you include India, you may well need to include such countries as Iran, Iraq and Saudi Arabia, all of which are also Asian countries in some sense. As the previous experience with the East Asian Summit shows, there may be a way out by developing a mental map in place of the geographical map in constructing regional organisations. It is not yet clear what Rudd’s mental map of the Asia Pacific region looks like and whether he can persuade the rest of the region to accept it.

Secondly, it is not clear how Rudd sees the relationship between the APC and the existing bilateral and multilateral arrangements in the region. He has stressed the importance of US military alliances in the region, as other Australian leaders have in the past. Does he envisage an APC replacing these alliances, if not now, then at some later stage? If not, how can one build a viable APC when some of its members are allies and others are not? And what are the implications of an APC for the future standing of other multilateral regional institutions such as APEC, ASEAN Regional Forum (ARF), Asian Summit, and the Shangri-La Dialogue? Does Rudd envision their phasing out to make space for the APC in the future? It is not clear how he can persuade countries, especially those with vested interests in these institutions, that the APC would not undermine their national interests.

Thirdly, there is the question of leadership. Who should sit in the driver’s seat? So far, several multilateral institutions in the region see the ASEAN countries taking the lead. Does Rudd want to replace them with the big powers like the US, Japan, China, India, and maybe Australia? If so, can he expect support from the ASEAN countries? If not, can he expect countries other than the ARF members to endorse ASEAN leadership?

Last but not least, there is the problem of how to develop a decision-making mechanism that is both efficient and also receptive of the views of the smaller states. Rudd thinks that by bringing all the big powers together, the APC would more effectively address regional challenges. The smaller states may fear that they would be ignored, and therefore demand a voice. The APC can allay smaller states’ concerns by adopting a unanimous voting principle on important decisions. However, the big powers, especially the US, may fear that this would weaken the decision-making process.

These and other problems may make it difficult for Rudd to sell his idea to people in the Asia Pacific region. But the proposal has already created the desired effect, that is, to encourage people in the region to take another serious look at the effectiveness of the existing regional organisations and ways to improve them.
The financial crisis and East Asia

WENDY DOBSON

East Asian economies were relatively well insulated against the financial impacts of the global financial crisis, but their dependence on trade through regional production networks and export-led growth strategies made them vulnerable to the sharp contraction of demand from the North American and European economies. The IMF projects sharp real GDP declines in 2009, with Japan’s economy shrinking by 6.2 per cent, Taiwan’s by 7.5 per cent, South Korea’s by 4 per cent and Singapore’s by 10 per cent; China is the outlier, with positive growth expected to be 6.5 per cent. Even so, China has experienced a huge growth contraction from 13 per cent in 2007. Japan was hardest hit by the contraction of export markets: its current account surplus is expected to shrink from 4.8 per cent of GDP in 2007 to 1.5 per cent in 2009. China’s will shrink slightly but Korea’s and Taiwan’s will expand.

There is a strong reaction in the region to this revealed vulnerability. Governments are asking how they can reduce their dependence on exports to the advanced industrial economies and rely more on regional and domestic demand. This reasoning leads to an emphasis on alternative growth engines in the region (such as potentially large demand in China and India) and on ways to deepen the linkages among the region’s economies. Unexpectedly, the G20 leaders’ summits organised on an ad hoc basis to manage the financial crisis may turn out to be the catalyst for a sharper focus on deeper regional integration. Six Asian economies are members, the three Northeast Asian nations plus Australia, India and Indonesia, and each is an equal at the global table. This new ‘definition’ of the six as equals in global strategy could be the basis for a more strategic approach to trade and finance in the region that replaces current ad hoc arrangements.

Northeast Asia gets high marks for promoting and maintaining economic openness, and peace and stability in the region, with some exceptions. Although Northeast Asian governments, like other G20 governments, took some protectionist measures during the crisis, leaders at the first Japan-China-ROK Trilateral Summit in December 2008 expressed their determination to avoid protectionist actions. Openness to trade and foreign direct investment (FDI) is pursued through ad hoc regional trade agreements but the impacts are mixed when they are riddled with exceptions and when inconsistent rules of origin raise transaction costs. Efforts are also under way to create an emergency financing mechanism through the Chiang Mai Initiative and to increase the depth and liquidity of regional financial markets through the Asian Bond Market Initiative and the Asian Bond Fund, but progress on governance frameworks is slow.

Some prominent East Asian thinkers see the region at a crossroads. Asia is unique: by 2030, three of the world’s four largest economies will be located there and the world’s two largest populations live side by side. By 2020 China will produce 44 per cent of Asia’s economic output and India and Japan will account for 17 and 15 per cent respectively (as estimated by the Asian Development Bank in its 2008 study, Emerging Asian Regionalism.) The three will be 20 per cent larger than the US economy. As China and India emerge as economic powerhouses they will compete with Japan and each other for influence and leadership of the region – unless a serious commitment to community building creates common goals and channels for closer cooperation. Evolving regional institutions have ASEAN at the core and other countries joining extensions depending on the purposes of the group. This ASEAN-plus architecture expanded after the Asian crisis, when the heads of the ASEAN economies joined Japan, China and South Korea to form ASEAN+3 to draw lessons and prevent such a calamity from happening again. Since then ASEAN+3 has taken both finance and trade initiatives, most of which are bilateral in scope. The East Asian Summit expands the group to include Australia, New Zealand and India, a logical extension based on jurisdictional criteria but also one that dilutes China’s influence.

The absence of an acknowledged leader, however, constrains the scope and speed of deeper integration in East Asia. Without an accepted champion to provide focus and set priorities, governments have to be
content with incremental change. For some time ASEAN has been regarded as the core, particularly by China, which assumes any initiative it might take would be considered suspect by the smaller countries. Cooperative regional institutions serve China’s objective of developing closer friendly relationships in the neighbourhood and its desire to counter-balance US influence but the impetus must be provided by others. Good relationships with its neighbours also allow China to concentrate on its many distractions at home. Regional leadership is further complicated by the relative absence of the United States, which is not part of the ASEAN-plus institutions and participates mainly on a bilateral basis and through APEC.

The long-term prospects for Asia’s nascent economic institutions will depend on support from the large players, on consistency with global institutions – and on results. The G20 meetings were both a missed opportunity for regional responses to the crisis and a catalyst for future action. They were a missed opportunity in that governments acted on their own. The Chiang Mai Initiative swap mechanism was inactive. National treasuries and central banks responded in an uncoordinated fashion. There was no collective Asian strategy that pulled together the domestic, regional and global impacts of the large stimulus packages in China, India and Japan and other members. No prescriptions were forthcoming from the group and no targets for their own cooperation were set. Indeed, one reason the Chiang Mai Initiative mechanism was not drawn upon during the crisis may be because most economies have more confidence in unilateral actions to ‘self-insure’ against financial crises by running current account surpluses and managing their exchange rates to build

Since the Asian crisis, the ASEAN + 3 countries have taken both finance and trade initiatives, most of which are bilateral in scope.
foreign exchange reserves. At the end of 2008, according to IMF statistics, the combined reserves of China, Japan, Singapore, India and Hong Kong totalled almost US$4 trillion, which is far in excess of any guidelines for protecting against balance of payments shortfalls.

Yet the G20 was also a catalyst in addressing the leadership ‘deficit’ in regional cooperation. The membership of the ‘Asian 6’ countries confers an expectation that they will think and act in the global interest. This expectation could translate into this or a subgroup providing strategic leadership to replace the ad hoc initiatives of the past. A more strategic approach would serve the objective of rebalancing the dependence on export-led growth by Asian economies with more regional and domestic demand. But there was little talk about allowing exchange rates to be market-determined or to reduce self-insurance. Instead they looked to exploit the vast potential demand in China and India, arguing that more of the region’s savings should be intermediated within the region and that intra-regional production networks could be deepened by investing in regional infrastructure to speed up intra-regional shipments, by promoting trade in green technologies and by greater reliance on trade in services.

In conclusion, the G20 opened a new channel for both regional and global cooperation and may serve as a catalyst for strategic leadership within the region. This catalytic role is still playing out since there was no coordinated regional response to the global crisis in 2008-09. The G20 is a convenient and timely bandwagon which, while still led by the Americans and Europeans, is also a vehicle for initiative and leadership from its Northeast Asian members and the Asian 6.

The case for an East Asian Caucus on global governance: a Korean perspective

SOOGIL YOUNG

Asia’s confidence in the global economic architecture and its outward-oriented development strategies has been shaken profoundly by the financial crisis. The crisis showed that Asian economies face bleak prospects for continuing economic growth and development under existing global economic arrangements. Asian countries need to be actively engaged in reform of the international financial architecture.

There is a sense of déjà vu in this. Asian countries argued for a new international financial architecture in the wake of the 1997-98 Asian financial crisis. Under the auspices of the G7, a number of international financial reforms were implemented, but these reforms, promoted by the finance ministers from seven industrialised nations, did not go far enough in addressing the fundamental concerns of developing countries.

The G20 was created in 1999 in order to provide emerging economies with an opportunity to participate in the discussion of the international financial system. The G20 has not, to this point, been very effective in injecting the concerns of emerging economies into the discussion of the reform of global financial architecture. The emerging economy participants in the process have failed to articulate and press their concerns.

East Asian countries, especially ASEAN+3, have focused on the promotion of regional financial and monetary cooperation in order to supplement the global financial architecture. These regional efforts have made progress under two headings: the Chiang Mai Initiative (CMI) and the Asia Bond Market Initiative (ABMI). The current crisis underlines the need for Asian economies to accelerate the CMI process toward the creation of the Asian Monetary Fund augmenting the IMF. The ABMI could be expedited as well, creating integrated regional capital markets, making regional savings more readily available to regional borrowers at lower cost.

Whatever efforts there are to create a new Asian regional financial architecture, they cannot supplant the need for reform and strengthening of the international financial system. As a new system of global economic governance unfolds in the aftermath of the financial crisis, the 11 non-advanced G20 member countries need to provide substantive, creative and
constructive input to reform so that they are recognised as major players in the new global financial architecture.

An ‘East Asian Caucus’ could form in the G20, consisting of the three non-advanced Asian members (Korea, China, and Indonesia) plus a rotating representative of ASEAN (Thailand, for now). This ‘East Asian Caucus’ should steer the reform of the international financial architecture in directions which would best serve the developmental interests of emerging market economies. This caucus should form a coalition of the like-minded in the form of a possibly looser Asia Pacific Coalition, including Japan, Australia and India.

Korea is scheduled to chair the G20 in 2010 and, for this reason, is currently among the triad countries – along with Brazil and the United Kingdom – which will be steering the G20 process this year. The G20 process has been assured of a leading role in global economic governance reform by the launching of the G20 Summit. Participation by the heads of state from the non-advanced countries, especially from the nations that would comprise the East Asian Caucus and the broader Asia Pacific Coalition, can critically strengthen the voice and influence of East Asian countries in the G20 process. During 2009-2010, the Korean government should play a leading role in mobilising the East Asian Caucus to make this happen.

Asian countries should also seek to preserve their trade-led economic growth. They should lead international efforts to fight the protectionist backlash from the global recession. Korea has been leading the call in the G20 for a standstill commitment
against all protectionist trade policy measures. Other Asian countries should support Korea on this, and work together to push for its effective implementation. By leading international efforts to keep domestic markets open through the recession, Asia can claim a larger role in global economic governance.

Asia can further strengthen this role by pursuing unilateral trade liberalisation. Korea continues to seek further opening of its domestic market by maintaining its policy to build a network of bilateral free trade agreements (FTAs) around itself. Having entered into FTAs with Singapore, Chile, the European Free Trade Agreement (EFTA) and ASEAN countries, the Korean government is now intent on pushing for ratification of the Korea-US FTA, and on completing the Korea-EU FTA, the Korea-Canada FTA, and the Korea-India FTA. Even after the onset of the crisis, the Korean government announced that it was preparing to launch FTA negotiations with Australia and New Zealand, while also reviewing its present stance of reservation on a Korea-Japan FTA and a Korea-China FTA.

Korea’s stance on FTAs seems broadly representative of the East Asian countries’ trade policy strategies. They tend to view trade liberalisation, rather than protectionism, as the right response to economic crisis. This being the case, the leaders of the Asian economies may want to go further than just ‘standing still’, by collectively pursuing unilateral trade liberalisation at a regional level, launching negotiations towards an ASEAN+3 FTA or an ASEAN+6 FTA, whichever is easier to implement.

Given the plethora of bilateral FTAs Korea has been pursuing, it seems well positioned to provide leadership for such a regional trade liberalisation move. President Lee Myung-bak should seriously consider proposing these initiatives at upcoming ASEAN+3 or East Asian Summit meetings.

To preserve and strengthen their trade-led economic growth, Asian countries need to promote intra-regional aggregate demand, reducing dependence on extra-regional markets such as those in the United States. Region-wide FTAs, like those discussed above, may be a start. Regional financial and monetary cooperation along the lines of the CMI and ABMI may also help.

...the current global financial crisis reminds Asians of the need for a new, bold vision of their economic and societal progress. But beyond these efforts, Asian economies can also work together to create new engines of regional economic growth, launching coordinated investment in infrastructure, cooperating on climate change mitigation, and ‘green growth’. They may also promote coordinated reforms to deregulate and modernise the services sector behind the border in individual economies. An Asia Pacific version of the OECD would promote and facilitate the transfer of developmental policy as well as technological know-how between member countries.

By exposing the fundamental vulnerabilities of Asian economies to external shocks for the second time, the current global financial crisis reminds Asians of the need for a new, bold vision of their economic and societal progress, and a new approach to regional development beyond the piecemeal steps which have been taken thus far.

These efforts of Asian countries to play an active, creative and constructive role in reforming the global financial architecture will help facilitate the shift in global economic governance from a bipolar to a tripolar structure, with East Asia as the new, third pole.

The East Asian G20 Caucus can promote this shift by working through the Asia Pacific Coalition. 2009 has been the year of opportunity for this initiative. And it is incumbent upon Korea to lead as the next host of the G20 process.
East Asia and the new world economic order

Now that the dust has begun to settle, it’s time to assess British Prime Minister Gordon Brown’s claim that the G20 London Summit saw the creation of a new world economic order.

This was a remarkable event. In under a year, the leaders of the G20 countries met for a second time to address the global economic crisis.

They and their advisers have crafted a coherent set of strategies to turn the international economy around and to deal with the structural frailties that sent world markets into free-fall.

The crisis bears sobering witness to the interconnectedness of the global economy today. Open trade and open capital markets and the breakneck speed of the flow of ideas and technologies have delivered huge benefits through globalisation and lifted millions of people, especially in Asia, from poverty to relative prosperity on a scale of which there is no historical precedent. But, as we now see more clearly, this was also a global economy fraught with system risk, without institutions and structures of governance that gave proper attention to the global impact and repercussion of national policy strategies and market failures.

There are three major achievements to come out of London.

The first is in world leaders’ acceptance of the reality that the global economy today is one that can...
only be managed successfully – with stable markets offering continuing opportunity for human development and growth – if it is managed jointly.

The second is the crafting of a coherent set of strategies to address the challenge of the crisis. Doing ‘what it takes’ in the way of fiscal expansion and monetary policy stimulus may not satisfy everyone, but the political energy that has surrounded these commitments, and the substantial range of programs that have already been put in place globally, will be more secure for what has been done in London.

By the end of the year the concerted fiscal expansion should amount to US$5 trillion, lift world output by 4 per cent and lead restructuring towards a more sustainable pattern of production. The dramatic lift in International Monetary Fund funding, from US$250 billion to US$750 billion with extra provision for developing economies, the new Special Drawing Rights allocation of US$250 billion, an additional US$250 billion for trade financing, and an extra US$100 billion for the multilateral development banks, will boost confidence in access to liquidity for vulnerable economies and provide all up an additional US$1.1 trillion to restore the world economy. Commitment to reform the governance of the IMF and the other international financial institutions will better reflect the changes that have taken place in the world economy – including the increased stature and responsibilities of China and the emerging economies. The commitment to strengthening financial supervision and regulation includes domestic and international action through a new Financial Stability Board to improve international capital market regulation, including targeting tax havens and extending oversight over credit rating agencies. And there was reaffirmation of the standstill on trade and investment protectionism.

Third, G20 leaders agreed to meet again before the end of the year, and did so at Pittsburgh. Reconvening early is an important statement about both the priority attached to the process and the seriousness of purpose on its substance. Success in engineering a rapid and sustained recovery depends crucially on entrenching the G20 as the theatre for global economic action, building an infrastructure that will help to make its work effective and continuation of a process that must shift the emphasis over time from stabilisation to sustainability and growth.

Now the real job of implementing the London agreements and the G20 process itself begins. That is a task that must begin at home, in our region, to deliver on the expectation that East Asia can be at the leading edge of global recovery. And the Asian G6 must ensure that the whole region’s weight is directed at making that happen.

This course represents a major step forward in reform of global economic governance and the creation of a new world economic order. It is a triumph of initiative and vision over established power and institutional reversion. But it is only the first step. There is a constituency beyond the G20 yet to be engaged. In Asia, that means bringing along and mobilising the region beyond the Asian G20 participants. In Europe, that challenge is even more formidable.

The Asian participants in the G20 were an important and constructive force. China stepped forward with the promise of a significant elevation of its role in the funding and governance of the IMF. Japan made a substantial contribution to the expansion of IMF liquidity. Indonesia pursued an effective agenda on easing the bottleneck in trade credit. Korea was a staunch advocate of the standstill on trade barriers. India pushed the expansion of credit to the developing world. And Australia played a key role in framing the entire strategy and in the diplomacy that won support for it.

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Kevin Rudd's multi-layered Asia Pacific Community initiative

CARLYLE A. THAYER

In a speech delivered to the Shangri-La Dialogue in late May, Prime Minister Kevin Rudd once again advanced his proposal for an Asia Pacific Community (APC), this time calling for a one-and-a-half track conference to be held in Australia later this year. There has been widespread academic and diplomatic scepticism of the proposal since it was first promoted in an address to the Asia Society in Sydney in June last year. Veteran Singaporean diplomat Barry Desker declared the proposal ‘dead in the water’ shortly after Rudd spoke. More recently, the retired ABC foreign correspondent Graeme Dobell argued that the Prime Minister had cut his losses and ‘moved on’ by demoting the ‘c’ in community from upper to lower case. And, as the East Asia Forum has shown, The Australian got it wrong when it asserted that Kurt Campbell, in his confirmation hearing for appointment as Assistant Secretary of State, had opposed the idea.

Before throwing the baby out with the bath water, it is worth considering what a conference on the APC might consider. Rudd’s central premise was that ‘none of our existing regional mechanisms as currently configured’ were capable of engaging ‘in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges to security’. He therefore proposed a regional institution that spanned the entire Asia Pacific region that was capable of achieving these objectives.

Rudd’s proposal was aimed at overcoming the compartmentalisation of existing regional institutions by creating an effective leadership forum where major political, economic and security issues could be dealt with holistically rather than piecemeal. For example, APEC has focused mainly on trade liberalisation, while the ASEAN Regional Forum (ARF) has dealt with confidence-building measures. The ASEAN +3 and East Asia Summit (EAS) processes overlap in membership and their explicit roles have yet to be clearly defined.

There are several major challenges that must be faced if Rudd’s proposal is to become a reality. The first concerns what specific organisational form the APC should take. More than a year after it was first proposed, it has become apparent that there is little regional backing for the creation of a new regional institution. But there appears to be some support for modifying or expanding existing multilateral arrangements in order to create a more effective regional architecture.

Both APEC and the EAS have emerged as front runners. Either APEC or EAS could be upgraded to serve as the foundation for APC, and both could be upgraded and assume greater responsibility, respectively, for economic and political-security matters.

The second major challenge concerns membership. In 2008, Rudd initially nominated the United States, Japan, China, India, Indonesia and other states in the region’ as members. As a result of Australian diplomatic soundings, it is clear that if Rudd’s proposal is to get off the ground, ASEAN must be at its core. This means that Myanmar, viewed by many as a pariah state, would be included along with poverty-stricken Laos and Cambodia.

The question of membership could be addressed by expanding existing institutions such as APEC by including India, or the EAS by adding the United States and Russia. In either case, adding additional members to these institutions raises the complication of deciding what to do with countries (or...
A three-tier approach to Asian regional architecture

RYO SAHASHI

The ongoing global financial crisis has forced us to reconsider the way to achieve peace and stability in East Asia.

We cannot remain blindly optimistic about economic growth and the future of democratisation in Asia. The region still has potential for growth, but it is likely to be slower. Moreover, many governments have not met adequate governance, accountability, and rule of law standards.

The financial crisis of the 1990s surely enhanced regionalism in East Asia, but how can we envision a brighter future for this region? What kind of economic and security architecture is necessary?

Weakened economic prosperity, both in China and the rest of the region, and the continued accumulation of military strength will also create new security challenges.

The financial crisis, coupled with the accumulated burden of the global War on Terror (or Overseas Contingency Operations, if you prefer) has affected the perception of America’s relative power.

During the Obama administration’s first 100 days, there were two interesting events in this context: the first, Secretary Clinton’s conciliatory attitude in Beijing; the second, the renewal of the minister-level bilateral dialogue between Beijing and Washington.

In January, former National Security Adviser Zbigniew Brzezinski proposed the ‘group of two’ (G2) idea in Beijing and in the Financial Times. In April, the Obama administration announced it would send Secretary Clinton and Treasury Secretary Timothy Geithner to head the new minister-level dialogue, and Chinese State Councillor Dai Bingguo and Vice Premier Wang Qishan would be their counterparts.

Even though I appreciate the importance of bilateral ties between Beijing and Washington, the G2 cannot be the foundation of an emerging regional architecture.

To cope with two key security challenges in Northeast Asia, the Korean peninsula and Taiwan Strait, the US has enhanced its partnership with South Korea and Japan, and it has maintained its security relationship with Taipei. The hub-and-spoke alliance system has provided the basis for both military capabilities and US forward defence against an uncertain security backdrop in the region.

Brzezinski looked at Iran, South Asia and the Middle East as potential areas for US-China security cooperation, but addressing security issues in East Asia, where military
spending is increasing and sources of tension still exist, is a more complex exercise.

These sources of tension, regarding both aggregate military capabilities and US forward defence, are significant. For any diplomatic negotiations regarding North Korea (and, potentially, Taiwan), it is hard to imagine that G2 bilateral negotiation is necessary and desirable, since it would create serious credibility problems for the US amongst Washington’s partners.

The rise of Chinese military budgets and its development of maritime, air, and space technology is a common security concern for neighbouring countries. It, also, cannot be solved solely by G2 dialogue. Unlike the 1970s, merely stable Sino-American relations can provide peace because we now do not regard the tensions between China and the US as the key problem to be overcome.

Economically, the US, Japan, and other advanced economies – including EU countries – will maintain their global dominance, and their relatively strong position vis-à-vis newly emerging economies like China and India will continue for the foreseeable future.

It is unlikely that China and India (and possibly Russia) will form their own international institutions to provide an alternative for the established ones. It is important to keep a coalition of advanced economies in rule-based international institutions.

Simply put, my temporary solution relies on a ‘three-tier approach’: distrust amongst the bilateral relations of other states, the first tier, must be acted upon introducing strong minilateralism, the second tier, especially with regards to the China-Japan-US trilateral dialogue. Gaining consensus on regional security, economic architecture and global governance (including China’s seats and voting weight in each institution) forms the third tier.

The point is this: we need an inclusive framework for all major states, and it would be desirable for China, Japan and the US to first relinquish their mistrust towards the other two parties’ bilateral relations, and incline this minilateral framework towards broad, regional institutions.

The Obama administration’s ratification of the Treaty of Amity

Japan needs to move beyond looking at things through a traditional alliance lens
and Cooperation and joining the established ASEAN-based regional framework is a welcome development.

To make the most of this opportunity, we should not repeat past experiences and miss the opportunity for community building, especially before the first East Asian Summit, and we need to design the inclusive and dynamic framework with China as a key participant. US Vice President Joe Biden has spoken positively about the idea of an official China-Japan-US dialogue, which is also a welcome move.

Since there is a newfound impetus towards non-traditional security and peacekeeping missions, in addition to financial and functional cooperation, there is potential for China and neighbouring countries to work together during key operations, and promote confidence through educational seminar diplomacy amongst the various military forces.

The next few years may well be the epoch-making period for new regional architecture. We need to find out the best frameworks for each role, against the background of many existing multi-layered regional relationships in the Asia Pacific region. The most important thing to do is bind China and the US together in this emerging regional architecture.

Considering its unique position and relations with China and the US, Japan needs to change its strategic thinking and move beyond looking at things through a traditional alliance lens. I also believe Australia and some Southeast Asian countries could be a good mediator to help create this new architecture.

Northeast Asia and the chance of a new security architecture

KIICHI FUJIWARA

There is now a great deal of literature on security architecture in East Asia.

Thus far, however, a stable international institution is conspicuously absent in the region, an absence that is all the more problematic with three nuclear powers – Russia, China, and North Korea (the DPRK) – in the region, with no credible or stable mutual deterrence mechanism among them.

All the literature has not yet amounted to very much in terms of its impact on policy direction.

Here I’ll play the role of devil’s advocate, by pointing out some basic challenges that work against the construction of regional security architecture in Northeast Asia. The purpose is not to rule out future prospects; in the end, I have some concrete proposals that may make it possible to work against, or rather work around, the challenges for multilateral institution building in our region.

Developing credible and long-standing international institutions is a tall order in any area, but institution formation in the security area is, without doubt, the most challenging. Security, after all, is an area premised on the anxiety among powers. Building security institutions in the Northeast Asian region is made even more difficult because of the following circumstances:

1. Only a decade ago, Japan was the dominant economic power in Northeast Asia; now few would not acknowledge that China is the rising power, and Japan, although still the largest economy in the region (if measured in market exchange rate terms), seems like an ailing old man. The location of the regional capital is shifting from Tokyo to Beijing. And there is the question: how can we build credible institutions when there is a significant shift in the distribution of power, raising new anxieties?

2. Sino-Japanese relations have been marred by contending views of the past, seriously harming present relations. This is no longer simply an issue of governmental education and propaganda; popular right-wing movements in Japan are challenging national history textbooks as distorting the past, while public protests on the history issue in China are now addressed not only to Japan but to their own government.

The history issue is now intermingled with the role of domestic public opinion in East Asian relations, where contending memories over the past merge with other areas of contestation, such as...
terrestrial issues. How, then, can we tackle this combination of historical interpretation and public outburst that surfaces with disturbing regularity?

3. The tensions of the Cold War may well have relaxed in Asia, but the region still exhibits a variety of regime types, including de facto one-party rules both in socialist states (China, North Korea, Vietnam, Laos) and in capitalist states (Myanmar, Singapore, Mongolia, Brunei), and regimes with formal democratic political procedures. The degree of actual openness of these regimes varies wildly.

As a region with mixed political regimes, we cannot expect peace among democracies, as seen in Europe. Democracy and human rights, moreover, may be used for political purposes: when the Chinese mention history, the Japanese will raise democracy and human rights, each trying to build a loose coalition of governments that favour their political needs.

The question, then, is: how can we form a credible basis for regional institutions that crosscuts political diversity and heterogeneity in political regimes?

The Six-Party Talks on the North Korean crisis are the first multilateral security dialogue in Northeast Asia, and that alone is a major achievement. Just 15 years ago, Russia and China could not agree with the US, Republic of Korea (ROK), or Japan on nuclear disarmament and the DPRK; today, five nations agree on that precondition. Whether the Six-Party Talks offer a prototype for security architecture is, however, a totally
different question, the answer to which will very heavily depend on possible responses to three questions:

1. Is North Korea ready to come back to the table and make concessions? North Korea may be interested in rejoining the Six-Party Talks, but its plans so far have been limited both in scope and implementation. This pattern goes back to the days of the Sunshine policy, when South Korean initiatives invited constructive reactions from the North. These raised expectations but in the end had limited effect. If the future of any Six-Party Talks depends on the DPRK rejoining and making concessions, the past record does not bode well at this point. And if the Six-Party Talks are the starting point for multilateral security architecture, the progress toward such architecture may be too slow.

2. Can we link the Six-Party structure to other regional bodies? Northeast Asia is not a region with a strong record of active intergovernmental-regional engagement; that credit should go to Southeast Asia, where ASEAN became a basis for other spin-off bodies such as the ASEAN Regional Forum (ARF), ASEAN+3, or the East Asian Summit. It is not too much to say, in fact, that ASEAN is the only effective regional institution in Asia, and that all other successful bodies were formed with ASEAN as the core element. The Six-Party Talks, however, are geographically limited to Northeast Asia, and it is highly unlikely that the Six-Party structure will gain much from regional bodies that include ASEAN. At the same time, if Southeast Asia is left out of the multilateral security architecture, we cannot properly utilise the institutional resources that have been developed in the region.

3. How far can we go? The Six-Party framework is strictly for the purpose of managing the North Korean crisis, and although proposals have been made to start a Northeast Asian ministerial meeting, the agenda for the proposed meeting is as yet unclear. So long as the Six-Party framework is limited to solving the North Korean issue, few nations aside from DPRK will have to make major concessions. If we intend to develop this Six-Party structure into a comprehensive regional security arrangement, we immediately face a myriad of problems.

Can the issue of Taiwan’s international status be discussed in this framework? Should this body take up territorial conflicts between ROK, PRC, and Japan? Will any power aside from the DPRK be seriously interested in nuclear arms control? Can the Six-Party framework be so arranged as to manage a potential growth of the security predicament in the region?

The role of the United States has also been viewed in a positive light, compared to the past. Compare China’s attitude to the US in early 1960s, and you see a different world. That North Korea is willing to participate in a lengthy negotiation with the United States shows how relations between the two have progressed in the past two decades. The United States, in fact, is generally seen in a more favourable light in East and Southeast Asia than in South Asia or the Middle East. This is a great advantage, as the United States can play the role of an honest broker without inviting suspicion or anxiety, unlike in other regions of the world.

These positive elements have yet to translate into forces that resolve the thorny agenda that I have listed above. For one thing, all nations, whether limited to negotiations among six actors or expanded southward, are powers that are eager to keep the status quo, and their geopolitical intentions are more defensive than aggressive, even in the case of North Korea.

This most certainly was not a given in the past: Japan after 1937 is a clear example of an aggressive strategy, and China in the early 1960s, or the dPRK in the 1970s were also inclined to challenging the status quo each in their own time. If powers prefer the status quo over aggression, the possibility of diplomatic accords is considerably higher.

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The Asia Pacific Community concept: right task, wrong tool?

Hugh White

The launch of Kevin Rudd’s Asia Pacific Community (APC) was marred by failures of preparation and presentation. But we should look past these to consider the proposal on its merits, and we should do that in severely practical terms. What purposes is it intended to serve, and how well does it serve them?

It is important to approach these questions with an open mind. The region already has lots of regional multilateral forums, but as circumstances change, the region’s needs for international dialogue and cooperation change too, and so should its institutions. We should not for a moment assume that the forums that have served us well in the past will do so in future.

When Kevin Rudd launched his APC proposal, he suggested its purpose would be to manage the transformation of Asia’s international system to accommodate the growing power of China and India. This is undoubtedly a major and urgent priority. It might be worth reminding ourselves exactly why that is so important, and why it might prove to be quite hard.

The decades since Nixon met Mao have been the best in East Asia’s long history. Peaceful relations among Asia’s major powers have provided the foundation for a harmonious regional order, which in turn has enabled a remarkable period of economic growth and social development nourished by an extraordinary expansion of economic interactions between Asian countries, and between Asia and the wider world.

Now, amidst many short-term challenges, we face a major long-term one: to ensure that as Asia transforms, we can preserve the harmony which has made it all possible. It is easy to assume that this will happen automatically, because it is so obviously in everyone’s interest that this should occur. But when we look at what will actually be required for Asia to build a new order that preserves and prolongs the peace of recent decades, the difficulties become plain.

The plain fact – unpalatable as it may be – is that Asia’s new order will be negotiated between its most powerful states.

As China’s power grows, its relationships with the US and Japan will change, and that will change the way Asia works. China has so far been very patient in pushing those changes, but that may only make the adjustments all the harder to manage when they come. As China’s economic power grows to approach America’s, and as its strategic power begins to impinge on US maritime primacy, the US will face a momentous choice: does it treat China as an equal, or does it contest China’s challenge to American primacy? And Japan too faces momentous choices: can it feel secure as US-China relations move towards equality, and if not, what can it do?

Whatever happens, a new set of relations will need to be built between these three powers, and with India as well, which reflects and accommodates new power relativities. The best prospect is to construct a kind of concert among Asia’s great powers in which leadership is shared, but that is hard to do, because it will require big and difficult decisions from each of them. China would need to accept a continuing major US role in Asia, the US would have to accept China as a genuine equal, and both would have to accept a new more independent role for Japan as a major power in its own right, and all would have to accept India’s place as an equal player in Asia’s affairs. All therefore would have to make difficult and unpopular choices – just as Nixon and Mao had to in 1972. Their strong and shared interests in doing so will in every case have to confront and
overturn deeply-held policy precepts and pungent domestic opposition.

The question, then, is how valuable would Kevin Rudd’s APC concept be in this process? Rudd is right that none of the existing regional multilateral forums will help: APEC is too wide and diverse, and Taiwan’s involvement is a major liability. The East Asia Summit (EAS) and ASEAN+3 exclude the US. So if a regional multilateral forum can help to build Asia’s new regional order, Rudd is probably right that we need a new one with the kind of membership he envisages.

But that is a big if. At the heart of Rudd’s proposal is the idea that Asia’s new order can and should be negotiated between all the powers of the region – big, middle and small. He probably has in mind something like the San Francisco conference of 1945 which established the post-war global order. But of course that is not how it worked: San Francisco was only possible because the Big Three had already reached a clear understanding about the future relationships, hammered out in closed bilateral and trilateral conferences. And when that understanding fell apart with the Cold War, the system built in San Francisco fell apart too.

The plain fact – unpalatable though it may be – is that Asia’s new order will be negotiated between its most powerful states, and the painful process of compromise and concession will be best done away from the glare of big meetings. In its most important aspects it will not be negotiated in any literal sense at all, but will emerge as each major power remodels their policy to meet emerging realities. The challenge then is not to organise grand conferences, but to do whatever can be done to ensure that as the major powers adjust their relations to new power relativities, they do so in ways that produce a peaceful and harmonious region and not a contested and divided one.

There could easily be a role for Australia in that. As America’s closest ally in Asia we do – or at least should – have the capacity to help persuade...
Washington to define its role in Asia in ways that minimise the risks of strategic competition. There may well be merit in building a quiet regional consensus among the middle powers about the kind of order that we would like to see the major powers build. Australia will never play more than a modest role in all this, but our most vital interests are deeply engaged, and we can have no higher diplomatic priority than to do what we can to push things in the right direction.

For Australia, then, and for others, it boils down to a matter of priorities and focus. The APC is not a bad idea in itself, but it is unlikely to help us address the most urgent problems, and has become a distraction from them. Australia’s diplomatic resources are scarce indeed, and our reservoirs of political will are no deeper than they should be either. While we have been pursuing the APC, Australia has done nothing to help promote the emergence of the new Asian order on which our future depends. One reason is probably that the promotion of a new Asian order would be much harder than floating ideas for new forums. It will require us to have a serious talk to Washington about the future of its primacy in Asia, and that is a cat no one wants to bell.

Eventually – once the major powers have reached a sustainable new set of relationships – a regional forum of the kind Rudd proposes could indeed be needed, and will almost certainly emerge. But today it is important that APC not become a distraction from the region’s most urgent tasks.

The Asia-Pacific Community: objectives, not institutions

GARY HAWKE

An Asia Pacific Community – though not in the sense intended by Kevin Rudd – is already being built. Its content can be traced in the work of the Economic Research Institute of ASEAN and East Asia, the Asia Development Bank, APEC and analogous institutions in the political-security field.

This community does not require stimulation, let alone direction, from a new Australian prime minister. The clearest message given to Rudd’s envoy, Dick Woolcott, as he tested reaction to Rudd’s speech was that the evolution of any Asia Pacific Community should be entrusted to existing institutions.

Many Australian politicians, officials and commentators like the idea of Australia having a seat in a select group entrusted with high policy decisions.

Peter Drysdale, on East Asia Forum, has referred to:
‘the strategic role of the Asian five within the G20 process (the Asian G7 if you rightly include Australia and the Chair of ASEAN, who was invited to the London meeting) as a pointer to the major players from our part of the world in that and other processes.’

The ‘Asian five’, presumably, are China, India, Indonesia, Japan, and Korea. Australian enthusiasm would surely diminish if that group, along with the ASEAN chair and secretary-general, emerged as the executive committee of an Asian community.

Leaving Australian issues aside, the concept has structural flaws. Outdated ideas continue to rule us. The clockmakers of the early modern period permeated a lot of thinking about tidiness and the folly of duplication. How many hours have been wasted by APEC officials trying to eliminate duplication?

Public administration more generally is driven by simplistic ideas of tidiness and these same ideas have infected the disciplines of political science and international relations.

Apart from these simplistic notions, nothing supports the idea that there should be one Asia Pacific Community, rather than a set of institutions supporting the various aspects of a deep community. It is surely time that our thinking was in terms of networks and their interrelationships, rather than in building an old-fashioned institution.

Asian integration, and the building of a community, has given a prime place to economic integration and an economic community. That was how living standards were most readily improved, and where Asian countries
could most readily demonstrate their capacities to the rest of the world.

The ‘Asian miracle’ was above all an economic achievement (demonstrating a need to revise conventional international thinking). Creating an opportunity for China to participate in APEC along with Hong Kong and Chinese Taipei depended on making APEC an organisation of economies.

Economics, however, is a style of thinking rather than a discrete aspect of life, and APEC networks, especially the Leaders’ Meeting, have always discussed what members wanted to discuss.

The notion that APEC is ‘economic’ in some narrow sense is a defensive mechanism by officials and commentators who, unlike Peter Drysdale, are unable to participate in discussion that utilises economic concepts and analysis. They would be just as handicapped in any network which focused on developing an Asian community.

There also needs to be an honest appraisal of the role of the United States. In security affairs, which tend to dominate the high politics of the Asia Pacific, the US is a key player.

In economic affairs, the US is important but recent momentum has been towards Asian economic integration, with the US simply part of the global environment in which that is occurring.

Social integration and trends in the political field, other than those closely related to security, resemble economic integration more than they resemble security management. (There are lots of overlaps; human security differs from defence relations.)

From the US point of view, it is as unlikely that the US would want to be part of an Asian organisation as that it would want to be part of the European Union. But just as it seeks leadership in NATO and in other North Atlantic organisations, so it would want a leadership role in the Asia Pacific (and Latin American countries would want to participate as well).

It has been convenient for Asia to try to tie the US into an ‘Asia Pacific’ vision, but the US will insist on a global perspective. The vision of ‘open regionalism’ can be a contribution to world affairs, but Asia Pacific integration has to be compatible with Asian integration just as it will proceed alongside regional arrangements elsewhere.

This conception of an Asia Pacific Community is simplistic. An effective network needs more than a wiring diagram. It requires people committed to maintaining relationships throughout the network and ensuring that agreed initiatives are implemented.

Finally, commitment to agreed objectives is what is important, for this idea and for others, not the size of political entities.
Japan’s unsurprising silence on the Asia Pacific Community

CHARLES PRESTIDGE-KING

When Kevin Rudd gave his first speech on the Asia Pacific Community (APC) in June last year, he would have been forgiven for thinking his call for a new regionalism would have been echoed by Japan.

Rudd and his advisers should not take Japan’s relative silence on APC to heart. Unlike Singapore, Japan’s silence should surprise nobody.

Japan and Australia are typically seen as natural partners in the Asian region, and in foreign policy, Japan and Australia’s aims, particularly with regard to regional institutions and to the future shape of the world affairs, are similar. And, of course, APEC was significantly the product of Australian-Japanese cooperation.

So why is Japan keeping so quiet on this front?

Most immediately, Japan is suffering from a pronounced leadership deficit. While Fukuda had some creative foreign policy ideas, leadership after Koizumi has been inconsistent and unstable, and the Democratic Party of Japan is still partly an unknown quantity.

Sceptics say that Hatoyama’s plan for a centralised, cabinet-led ‘national strategy bureau’ will lead to antagonism in the policy making process rather than reform. This is to say nothing of inter- and intra-ministry rivalries, which – in the case of the Ministry of Economy, Trade and Industry, and the Ministry of Foreign Affairs especially – have frequently proved detrimental to Japan’s foreign policy coherence over the last decade.

Even if Japan’s political leadership was more certain, and its ministries committed to regional goals, it’s still an open question as to whether they would back an initiative like APC.

The Japanese economy has suffered the worst downturn since the Second World War, shrinking by a monumental annual rate of 15.2 per cent in the first quarter of 2009.

Some may be optimistic about the path through the crisis – especially if, as in hedge fund parlance, slightly down is the new up – but nobody in Japan is forecasting the end yet. All is not well on the home economic front.

Significantly, many in Japan feel it already has enough on its plate. North Korea’s rocket tests and the reality of North Korea’s nuclear program are more alarming to the Japanese public than perhaps any other group.

Right now, Japan’s political leadership is concentrating on settling into the unfamiliar position of government after a big election win. In the medium term, the dominant foreign policy issue that will demand its attention is the North Korean issue.

The other concern, of course, is the rise of China, and what this means for Japanese interests, regionally and globally. Bilateral and multilateral cooperation between Japan and China has taken a small turn for the better with the activation of the trilateral dialogues with South Korea, but the propensity to descend into zero-sum bilateral exchanges is still evident.

With Northeast Asia taking up so much time and attention, spending time, energy, and political will trying to reinvent regional institutions has simply not been on the agenda, especially when those institutions, rightly or wrongly, are not perceived as being aimed directly at tackling proximate issues surrounding China or North Korea’s continued aggression.

If Japan had any time to spend on a new regionalism, as Takashi Terada says, the present priority would instinctively be pushing for ASEAN+6, Japan’s rival to ASEAN+3.

Put simply, Japan is not in a position to take leadership on regional initiatives, particularly ambitious, pan-regional moves like the APC. With Singapore unconvinced and Japan otherwise engaged, Prime Minister Rudd and Ambassador Woolcott still have some legwork to do on the APC.
KIA – Asia’s middle powers on the rise?

JONAS PARELLO-PLESNER

China and India (Chindia) is on everybody’s lips when talking about a rising Asia. Then what is KIA? A car, most people would reply. Yet it could also be the new brand-name for Asia’s middle powers; (K)orea, (I)ndonesia, and (A)ustralia. They are Asia’s 4th, 5th, and 6th largest economies. All three are often dwarfed by the big power play between China, India and Japan and the region’s – and the world’s – superpower, the US.

Yet look at Indonesia’s population as the world’s third largest democracy, Korea’s economy, and Australia’s size – a continent in itself. They are solid middle powers. Relocate them to Europe and they would be large countries on most accounts. In Asia, they are too small to be large powers, but too large to be small powers.

Korea, Indonesia, Australia are all members of the G20 – a forum which has gained preeminence in the ongoing economic crisis. In G20 they are sitting at the table with an equal say, alongside China and India.

All three have individual ambitions to leave their own print on Asian multilateral institutions and regional integration in the making, ranging from the Asia Pacific Community (APC) to the G20 Caucus and E8.

South Korea, which used to describe itself as a shrimp encircled by whales, has new-found ambitions to play an independent role in Asian multilateralism. Lee Myung-bak has launched a New Asia Initiative that focuses both on strengthening Korea in Asia and Asia’s global voice.

Korea sees itself as in a position to mediate between the large powers – notably with China and Japan through its seat in ASEAN+3, which held its first independent meeting last year. It is expected to continue doing that. ASEAN+3 also produced Asia’s only joint and multilateral response to the economic crisis with the multilateralisation of the Chiang Mai Initiative, largely at the instigation of Korea. At the same time, Korea also sees itself as a voice for small countries and a bridge to the West with its democratic system and alliance with the United States.

What is certain is that a democratic, rising Indonesia also will be looking for increased leverage to assert its independent status as middle power in Asia.

All in all, Korea perceives itself as the right middle power to mediate in a global shift towards Asia. And South Korea will hold the chair of the G20 and will work towards an East Asian grouping to ensure that Asia’s united voice – if possible – is heard. Korea sees itself as able to secure the interests of smaller countries in Asia in that context. Korea’s commemorative summit with ASEAN on 1 and 2 June showed a determination to gain individual relevance towards the grouping. In Korea’s terminology, it’s the meeting of the equal size ‘shrimps’ that don’t feel threatened by each other.

Among other things, the election of South Korean Ban Ki-moon as UN Secretary-General also showed that Koreans are generally liked in Asia with little political and historical animosity associated with the country or the people.

Indonesia is full of new confidence following a continued affirmation of democratic principles in the recent parliamentary and presidential elections combined with continued growth, notwithstanding the economic crisis.

That new confidence is displayed in fresh foreign policy thinking. Executive Director Rizal Sukma of the influential Jakarta-based think tank, the Centre for Strategic and International Studies (CSIS), has been arguing for an E-8 (China, Japan, India, Russia, Korea, Australia, USA, and Indonesia) as an informal forum to meet in connecting with Asian multilateral meetings and the G20.

Sukma has also argued for a more independent Indonesian foreign policy less held back by ASEAN membership and geographical proximity. The genuine lack of progress on human rights and democracy inside
ASEAN – even with the Charter and Human Rights Commission in place – combined with Thailand’s internal instability has reduced ASEAN’s role in the driving seat of regional integration. That is one of the motivations for reducing Indonesia’s reliance on ASEAN in formulating foreign policy. For Indonesia as a middle power, it is time to secure an independent place at the high table of Asian power.

Australia is on the multilateral stage with Prime Minister Kevin Rudd’s proposal for the APC as a forum for the better governance of great power relations, a proposal widely discussed in Asia. Where APEC 20 years ago, also partly an Australian initiative, was about securing the economically rising Japan in an appropriate multilateral framework, APC (with one letter fewer) has a larger ambition of managing great power relations in the Asia Pacific, in both the economic and security fields.

APC is also about continuing to make Australia relevant in Asia. As a primarily Pacific power its credentials can be questioned, as has been done in the inclusion process of Australia in the East Asia Summit, where Malaysia’s former Prime Minister Mahathir Mohamad was very vocal in saying that they were neither ‘East (n)or Asians.’ The next step in Australia’s initiative will be when Prime Minister Rudd is expected to brief Asian leaders at the East Asia Summit in October on APC.

KIA is not yet a united force. But

South Korean President Lee Myung-bak and Indonesian President Susilo Bambang Yudhoyno: leaders of nations keen to ‘leave their own print on Asian multilateral institutions’.
they might want to be. All three want to brand themselves individually with their proposals and initiatives. Yet on their own, as middle powers, they might not be relevant enough with their individual proposals to secure the acceptance and interest of Asia’s great powers.

And all three still have their individual particularities and handicaps. Australia as a Pacific power continuously has to show its relevance in an Asian context. Indonesia, even with new-found independent ambitions, will continue to be anchored in ASEAN. Korea still gets bogged down in its immediate surroundings in the complicated relationship with its difficult twin brother, North Korea.

So they should coordinate their efforts. Two areas where KIA could take a common stance and make a difference are the G20 and free trade agreements.

The April G20 meeting was in many headlines interpreted as China's coming out as a world power. That headline could have been captured by Asia’s united entry into the world stage. It wasn’t. Asia did not come out united or coordinated against the ongoing economic crisis. ASEAN was out of play because of the chairman, Thailand’s, incapacity to hold the summit meetings for ASEAN and EAS. So no early discussion of the G20 agenda took place or any debriefing on the meetings afterwards. It is time to make up for that.

The suggestion for a G20 Caucus should be enacted in order to ensure that Asia’s big powers are obliged to meet and coordinate before the G20 meetings and to report to a broader Asian setting afterwards (EAS, ASEAN+). Korea as coming host of G20 could ensure this. Indonesia could work along and work to ensure that ASEAN does not feel left behind and is fully participating through the chairman’s continued inclusion in G20.

In that sense, the last A in KIA could also be representing ASEAN. Australia should be pragmatic and see a G20 Caucus as a good stepping stone for its intentions behind APC – namely, to manage great power relations in Asia.

KIA is aware that even as emerging middle powers it will be difficult to get a seat at the negotiation table - and once seated – a real say.

Another area where KIA could show a united front is the evolution of free trade agreements (FTAs). In Asia, FTAs are mired by a patchwork of individual agreements. Both Korea and Australia are active participants in this. Indonesia is not on the FTA train yet, apart from the slow process inside ASEAN towards a free trade area. The middle powers would have an interest in coordinating and pushing for a region-wide agreement probably in ASEAN+6 format – which would include all three middle powers. That would remove the FTA-process from the current power play structure where FTA offers are part of a political charm offensive from Asia’s big powers.

Finally, can middle powers really drive Asia forward?

The remaining question is if the middle powers will really get a seat at the table of the real negotiations. Rudd’s APC proposal to manage great power relations reflects a common characteristic of the KIA grouping.

Alongside the nice sounding initiatives there is a growing powerlessness faced with the real power play in Asia, where KIA is aware that even as emerging middle powers it will be difficult to get a seat at the negotiation table – and once seated – a real say.

KIA is still a small car by all measurements. There will be limited space for KIA to influence the direction of Asian multilateral integration and great power relations. It should be coordinated to be effective and to influence China, Japan, India and the USA. Only in that case can KIA hope to also push the accelerator for rising Asia’s power structure.
An Asia Pacific Community: an idea whose time is coming

RICHARD WOOLCOTT

Why did Kevin Rudd put the proposal for an Asia Pacific Community forward in the first place, on behalf of Australia?

What is Rudd’s actual proposal, given that although the broad objective is clear, he is still developing his ideas on the detail of the arrangements he would want to pursue?

What was my role as his Special Envoy, and what were the outcomes of my consultations?

What are the next steps to advance the idea of an Asia Pacific community?

This essay addresses these four questions.

On 4 June last year Prime Minister Rudd put forward his proposal. It can be seen as a response to major global economic and geo-strategic changes, just as in 1989 former Prime Minister Bob Hawke put forward the idea of an Asia Pacific Economic Cooperation forum (APEC) in response to a situation in which he feared the world could be moving towards three major trading blocs – a Dollar bloc, a Yen bloc and a Deutschmark bloc, from which countries like Australia might find themselves excluded.

Twenty years later Rudd came to the view that Australia and other countries
of the region needed to respond to a seismic shift in economic influence taking place, from the Atlantic to the Pacific, or from the United States and Europe to Asia, driven mainly by the spectacular economic growth of China and the substantial growth of India, in addition to the established strengths of the Japanese and South Korean economies and the potential for growth of countries like Indonesia and Vietnam. Such an increase in economic influence will be accompanied by the growth of political and security influence, especially on the part of China and India, as well as, potentially, Indonesia.

This major shift in economic, political and security influence will produce new challenges over the next few decades, such as possible competition for scarce resources, not only for oil and gas but also for water and food. There are also a number of important transnational issues such as nuclear proliferation, unresolved territorial claims, climate change, the illegal movement of people, and action to combat terrorism which require multilateral as well as bilateral and trilateral approaches.

As Rudd said in Singapore on 29 May, the countries of the Asia Pacific region have a choice. That choice is really to seek actively to shape now the future of our wider region by finding and establishing the most appropriate consultative arrangements we are going to need; or to wait passively to see what evolves. Rudd believes that it is important to act now to refine regional arrangements in ways which will reinforce and advance a more stable, cooperative and peaceful Asia Pacific region as this 21st century unfolds. Is it not wiser to anticipate likely issues and prepare for them in advance, rather than simply respond to developments as they occur? ’I do not believe we can afford to sit idly by while the region simply evolves – without any sense of strategic purpose.’

What he has in mind is not an EU type of institution or the creation of some supra-national bureaucracy.

There are three other reasons why it is appropriate for Australia to launch such an initiative.

Firstly, Australia is part of the Southeast Asian and Southwest Pacific region.

Secondly, Australia is committed to ‘active middle power diplomacy’. We already have a sound and established record in acting to promote regional cooperation, the main examples being the creation of APEC in 1989, our role in the Cambodian peace process and our efforts which were instrumental in the lead up to the establishment of the ASEAN Regional Forum.

Thirdly, it is better for a middle-sized country like Australia or, say, Malaysia to put forward new ideas for the region than for a major power like the United States, China or Japan to do so. If a major power does so, smaller countries may suspect there might be some hidden or self-serving agenda.

The objective is to see a meeting at heads-of-government (HOG) level of the six major regional countries – United States, China, Japan, India, Russia and Indonesia – and other countries in the Asia Pacific region to discuss in a congenial atmosphere how best to handle the challenges which our region is likely to face.

There are already a range of institutions in the Asia Pacific region dealing with various issues. The main ones are ASEAN, APEC, ASEAN+3 (the 3 being China, Japan and South Korea), the East Asia Summit (EAS, which includes Australia, New Zealand and India), the ASEAN Regional Forum (ARF) and the Shanghai Dialogue.

So why should we be suggesting additional arrangements?

The problem is that none of the existing institutions has the mandate, the membership or the ability to deal comprehensively with all of the economic, political and security issues that Kevin Rudd has in mind. For example, APEC does not include India and its mandate is primarily economic. The EAS does not include the United States and Russia. While the ARF does include all of the principal countries, it is widely seen as being too large, with 27 countries; it does not meet at HOG level; and when a serious regional issue arose, such as North Korea’s nuclear capability, it was handled by a new arrangement, the Six Party Talks, although all six countries were members of the ARF. So there is a clear need for more effective arrangements in the future, especially to deal with political and security issues.

My role as Special Envoy was essentially consultative. Prime Minister Rudd did not want to be prescriptive. Indeed, had he put a firm plan on the table without extensive prior consultation it would have naturally attracted criticism in the...
region and in Australia itself. Thinking needed to be refined with the benefit of the ideas of regional partners. So, he asked me to consult at a high level with all of the 10 ASEAN countries, with the exception of Burma, and all of the APEC and EAS countries, with the exception of Hong Kong and Taiwan, which, while members of APEC, are not sovereign states. This meant I needed to visit 21 countries. In fact I made 22 visits, because I visited New Zealand first under the Clark government but returned in January after the Key government had been elected.

This extensive consultative mission bought me into personal contact with one monarch, the Sultan of Brunei, two presidents, five prime ministers, and some 33 ministers of foreign affairs and/or trade, as well as a large number of deputy or assistant foreign ministers. In addition I met with a large number of senior officials, academics and those involved in regional think tanks. In all, I discussed Mr Rudd’s proposal with some 300 people.

During this process I submitted, at the Prime Minister’s request, an interim report before he attended the APEC Summit meeting in Lima last November, and a final report in March after I had concluded my last visits, which were to Canada and the United States. Naturally, it was necessary to wait until after the Obama administration had been inaugurated before discussing the concept in the United States.

As Rudd has said, a major aspect of his initiative was ‘to begin the conversation about where we need to go’ to strengthen cooperation in the Asia Pacific region.

What should the next steps be? Kevin Rudd intends to maintain the momentum on the initiative. In his speech in Singapore he acknowledged that I had reported there was little appetite for the establishment of a new institution. Nor did he want to see the pressures on regional leaders and senior ministers to attend meetings unnecessarily increased.

Rudd said the idea is an important one which needs proper consideration. He said he would brief leaders at the EAS Summit, now scheduled for October 23-25, and also at the next APEC Summit to be held in Singapore on 20 November. He has also written to all 21 heads of government in the 21 countries I visited, indicating that he looks forward to discussing ideas for an Asia Pacific Community with them, including how we might develop our institutions to meet more effectively the challenges we all expect as the 21st Century unfolds. In addition, Rudd announced in Singapore on 29 May that Australia would convene a ‘one-and-a-half track conference’ of prominent government officials, academics and opinion-makers to continue the discussion of the form an Asia Pacific Community should take. This conference is planned to take place in December after the APEC Summit, or early in 2010.

The case for modernising global institutions so that they can respond more effectively to this century’s challenges is strong.

The greatest gap in the present global systems is the absence of a driving centre, which reflects the changing balances of global economic, political and security influence. This challenge also applies to regional institutions, including in the Asia Pacific. The G20 is seeking to fill this gap in respect of a coordinated approach to the global economic crisis.

I am encouraged by the level of interest and by the mostly positive reactions, especially at senior government levels, which I have encountered. In coming to this judgment I make allowance for what is often called ‘traditional Asian politeness’ and for the fact that I know personally many of my interlocutors. I believe the initiative is continuing to gather momentum. In 1989, I thought APEC was an idea whose time had come. Twenty years on – in 2009 – I believe that another Australian regional initiative — that is, the development of an Asia Pacific Community, based on fostering habits of cooperation — is an idea whose time is coming. EAFQ