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Multilateral Matters

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East Asia Summit 2012: Power Game in Asia Unfolds

By Yang Razali Kassim

The Seventh East Asia Summit (EAS) held in Phnom Penh on 20 November 2012 turned into a stage for a new “Asian Drama” as member countries converged for the most intense power diplomacy in the region in years. The convergence of key actors of varying degrees of influence and sizes was unprecedented, yet the desired outcome of the diplomatic efforts to manage these clashing interests in Asia is still a long way off.

Indeed, the full impact of the unfolding power game will not be known for some time. What is certain, however, is that something hugely significant has just taken place. The uncertainty surrounding Asia’s future is compounded by the several layers or dimensions of this power game that were at play all at once.

Firstly, the world’s established power, the United States, expanded its “pivot” or strategic rebalancing towards Asia, led personally by a newly re-elected President Obama. His presence at the EAS underscored his self-image as America’s “first Pacific president” who launched the pivot strategy last year with a marines base in Darwin, Australia. This was subsequently expanded into Southeast Asia in the run-up to the EAS.

The U.S. rebalancing culminated in a direct engagement at the EAS with Asia’s emerging power and potential rival, China, which will be led in the next decade by a new leadership whose attitude towards the United States and Southeast Asia remains untested.

The U.S.-China engagement in ASEAN’s backyard was a manifestation of two conflicting goals—competition for influence in Asia by the two powers even as they declared their mutual desire for greater cooperation as the world’s two largest economies. China sees the pivot as an Obama-led ring-fencing of its peaceful rise; China responded to this

at the EAS with another push to keep the United States out of Beijing’s South China Sea disputes with several ASEAN states.

Indeed, Beijing’s assertiveness to shape the resolution of the South China Sea disputes was the second dimension of the power game. It led to a replay of the proxy tussle, leading to internal divisions within ASEAN caused by host Cambodia’s poor handling of the increasingly divisive issue.

The third layer of the power game was the entry of a new race for economic influence and preponderance: ASEAN officially launched the Regional Comprehensive Economic Partnership (RCEP) to pull together Asia’s major economies as one integrated dynamo for growth. The RCEP, a huge free trade area likely to be dominated by China through its sheer size, is a potential rival to the U.S.-led Trans-Pacific Partnership (TPP). Manifesting yet another layer of the diplomatic tussle, China, Japan and South Korea within the RCEP will form their own Northeast Asian free trade area despite current tensions over their maritime disputes in the East China Sea. *Continued on Page 3*



Photo: U.S. State Department

Expert Talk: Prospects of an Asian Monetary Fund

Over 400 participants gathered at the Shangri-la Hotel in Singapore for the Third Singapore Global Dialogue held on 21 September 2012. This year, one of the panels delved into issues concerning global economic governance as it grapples with the challenges of a leadership vacuum, shifting power configurations and the inability of instruments and institutions to adapt to changes in the global political and economic landscape.

Against this context, one critical issue raised was the role for regional financial institutions. One of the highlights of the panel was the discussion on the revival of the Asian Monetary Fund (AMF) proposal.

We asked experts to share their views on the prospects of an AMF. Given the rejection of the proposal in 1997, are there any changes in political and economic conditions that could revive the AMF today?

William Grimes

Chair of International Relations and Professor of International Relations and Political Science, Boston University

The main challenge for emergency liquidity arrangements is avoiding moral hazard. To prevent this, they must attach conditions to lending. The ASEAN+3 is a small group and the major lenders in the Chiang Mai Initiative Multilateralization (CMIM) are China and Japan. Since neither wants to be associated with tough conditions in the event that a partner has a currency crisis, they have so far relied on the International Monetary Fund (IMF) link.

Enhanced surveillance through the ASEAN+3 Macroeconomic Research Office (AMRO) would, in principle, be a way of creating ex-ante conditionality. Leaving aside the question of whether AMRO will ever be big enough or capable enough to do effective surveillance, the problem is that it does not constitute effective delegation. That would require the citizens of crisis-struck countries to believe that AMRO is in fact autonomous. However, all indications are that the staff of AMRO will be composed primarily of economists (perhaps even mostly seconded officials) with close ties to the member governments. There will likely be, in short, no plausible deniability of AMRO judgments for either China or Japan.

This returns us to the question of whether China and Japan are prepared to take the blame for imposing tough conditions on CMIM partners. If they are not, they should stick with the IMF link. However, they may well have committed themselves to a significant future role for AMRO with the Manila agreement in May 2012. This could create new vulnerabilities for East Asia.



Ramkishan S. Rajan

Professor of Public Policy and International Economic Policy, George Mason University, and Visiting Professor, Lee Kuan Yew School of Public Policy



The external environment has become a bit more favourable to the possibility of an AMF. In particular, the IMF is likely to be much less against it as long as they have some role (possibly as an adviser or an observer). Similarly, the United States has its own issues to deal with and the Obama administration in particular is unlikely to be in opposition. However, circumstances have changed over the last few years that should make one somewhat cautious about pushing for greater financial coordination/cooperation.

One, despite the formation of AMRO and buttressing of the CMIM, the pace of intensification of regional cooperation has been extremely modest and the CMIM to date has been ineffectual, even during an environment of relative stability and limited regional tensions. Given that regional tensions appear to be growing, in such an environment, steps towards regional monetary cooperation like the AMF seem unlikely and may not even be desirable as they could become overly politicised.

Two, the eurozone crisis offers a number of important lessons. Among the lessons is that enhancing regional coordination must involve much greater emphasis on ensuring that all members meet certain minimum economic criteria (macroeconomic sustainability and competitiveness) else there could be negative spillovers from weaker members. So while extra-regional roadblocks have diminished, intraregional roadblocks may have grown (in the form of regional tensions) and even more importantly, the economic rationale for the AMF must be seriously questioned in light of the eurozone crisis.

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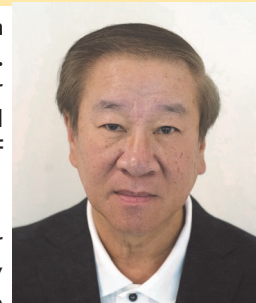
Expert Talk: Prospects of an Asian Monetary Fund

Continuation

Chalongphob Sussangkarn

Distinguished Fellow, Thailand Development Research Institute, and Former Minister of Finance, Thailand

Since the AMF idea first fizzled out in 1997, East Asia has developed its own safety net mechanism culminating in the current CMIM fund of US\$240 billion together with a small surveillance unit, AMRO. Because of the moral hazard issue, the use of the CMIM is still closely tied to the IMF. Only 30 per cent of a country's swap quota can be used without being under an IMF programme. This is too small to be useful for either crisis prevention or resolution. So countries will most likely need to be under IMF supervision if liquidity problems occur, so there is little difference to the 1997 situation.



AMRO is moving towards becoming an international organisation, which can be seen as a precursor to a small AMF. However, for CMIM/AMRO to really operate as an effective regional monetary fund, the IMF unlinked portion of CMIM needs to be large enough to be useful to countries so that the IMF need not be involved in all situations. The system can be designed so that CMIM/AMRO can be complementary to the IMF, for example as a first line of defence to deal with situations of temporary liquidity shortages. For a future AMF, a completely separate operation to the IMF is unlikely to be appropriate, as countries in the region, such as China and Japan, are important parts of the global economy, so they would prefer any regional mechanism to be complementary to the global mechanism.

East Asia Summit 2012: Power Game in Asia Unfolds

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Still, the emergence of the RCEP and TPP and ongoing discussions for a future China-Japan-Korea trilateral FTA, not to mention older initiatives such as the ASEAN Free Trade Area and the Asia Pacific Economic Cooperation forum, is more than coincidental. It reflects what U.S. Secretary of State Hillary Clinton described as the strategic power of economic forces—the rise of the “economics of power” and the “power of economics”.

The Asian power game can have one of two possible outcomes for ASEAN: either it gets trampled underfoot in the proverbial jungle of fighting elephants. Or it survives by staying together through agility and wit like the proverbial Malay sang kancil or mousedeer. What we have just seen at the back-to-back regional summits is ASEAN struggling to steer itself between a rock and a hard place. But the motivation is the same—survival in the face of the growing pressure from competing forces out to shape and react to the evolving architecture in the Asia Pacific.

Unfortunately, the inherent weaknesses of ASEAN caused by conflicting interests among members have been exposed once again; yet at the same time, their overriding desire to stay on top of the power game is evident. The group has a codeword for this herculean task: “ASEAN centrality”.

The battle for ASEAN centrality is, however, hardly over; the EAS in Phnom Penh was just the opening chapter. Over the next few years, especially towards 2015, more drama may unfold as the geostrategic tussle gets more intense and complicated while ASEAN seeks safe passage through the unfolding power game of the giants.

The U.S.-China engagement in ASEAN's backyard was a manifestation of two conflicting goals—competition for influence in Asia by the two powers even as they declared their mutual desire for greater cooperation as the world's two largest economies. China sees the pivot as an Obama-led ring-fencing of its peaceful rise; China responded to this at the EAS with another push to keep the United States out of Beijing's South China Sea disputes with several ASEAN states.

Yang Razali Kassim is Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University where he also contributes to the Centre for Multilateralism Studies (CMS) and the Centre for Non-Traditional Security (NTS) Studies.

An earlier version of this article appeared in Today and as part of the RSIS Commentaries series.

RSIS Colloquium: Professor William Tow Speaks on the Strategic Geometries of Asia-Pacific Order-Building

Ngee Ann Kongsi Professor of International Relations William Tow was the featured speaker in the RSIS Colloquium on Strategic Trends in the 21st Century held on 5 October 2012. The topic was on “Pivots and Architectures: The Strategic Geometries of Asia-Pacific Order-Building”.

Cold War bipolarity and alliance politics left a vacuum as the regional security architecture in the Asia-Pacific has yet to be defined. Professor Tow presented alternative approaches to the understanding of current Asia-Pacific regional security politics. He identified three schools of thought driving scholarship on this issue: (i) the critics who argue that a regional security architecture is not possible as zero-sum politics will prevail; (ii) the agnostics who believe that a regional security architecture can exist only if certain preconditions are met; and (iii) the pluralists who assert that a complex regional security architecture which incorporates different structural approaches at different levels exists.

The open discussion focused on factors which will shape regional order in the Asia-Pacific, including historical and cultural factors, U.S. presence and balancing implications and the role of middle powers. The RSIS Centre for Multilateralism Studies spoke to Professor Tow to get his insights on other related issues:

1. Given the significant divergences in the interests and capabilities of middle powers in the Asia-Pacific, what kind of strategy do you think will they employ in engaging and containing major powers?

Before I answer this question, we first need to clearly define what a middle power is. The problem is, while the concept is often used, there is currently no consensus on the definition of a middle power. To begin with, a middle power would practice good international citizenship and possess entrepreneurial and intellectual leadership. It would have sufficiently advanced infrastructure in foreign policy behaviour and construction with enough material resources such that it can have an impact.

Defining this group should not be limited to power dimensions but focus more on the country's ability to spot opportunities and initiate leadership in specific policy niches, as demonstrated by the case of Australia in regional order-building and climate change and Indonesia's role in convening informal workshops leading to the 2002 Declaration on the Conduct of Parties in the South China Sea.

On the middle powers' strategy in dealing with major powers, a history of collective action is clearly absent. The various ASEAN security initiatives could spearhead efforts but the problem is, ASEAN has thus far failed to perform. At the end of the day, the member countries' national security agendas will prevail and no concessions will be made. We cannot expect much at this point as ASEAN still does not have what it takes to play the role of a unified middle power actor.



Professor William Tow

2. How do you think ASEAN can maintain its centrality in the regional security order?

If centrality is defined as “being in the driver's seat”, ASEAN does not have the hard power to carry this out effectively. It has no influence in the three biggest flashpoints in Asia—Kashmir, the Korean Peninsula and the Taiwan Straits. It remains to be seen how effective ASEAN-centric platforms are. Right now, they mostly just engage in rhetoric. China and the United States may find that it is in their interest to preserve ASEAN centrality under normal conditions but the actual outcome will be different in the event of major regional crises.

3. Do you foresee any prospects for historical differences in Northeast Asia to give way towards diplomatic negotiations/concessions to resolve security dilemmas?

At this point, I do not see any immediate prospects for defusing tensions as there are too many contrasting interests among the parties involved.

In the case of China, its strategy has been largely oscillating. While there is no delineation when defining hard versus soft power, and I do not think it is always clear how it figures in calculations of foreign policy, perceptions of China's use of “smile diplomacy” have been exaggerated and the same goes with its use of hard power. China's foreign policy will not be shaped by the choice of one over the other. The country's leaders are increasingly consumed with domestic affairs, and this will continue over the next 2–3 years. As they face the challenging task of sustaining legitimacy and authority in a one-party system, such concerns will spillover to its foreign policy and affect China's dealings with its neighbours.

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RSIS and ADBI Hold Joint Workshop on FDI Promotion

The RSIS Centre for Multilateralism Studies and the Asian Development Bank Institute jointly organised a workshop on “Sharing Asian Experiences: Promoting FDI Effectively”, which was held at the RSIS Lecture Theatre on 8–10 October 2012. The workshop drew experts and government officials from across the region as they shared the experiences in their respective countries in attracting FDI.

Presentations by the participants from China, Japan, South Korea, Taiwan, Thailand and Vietnam highlighted lessons from their countries’ successful experiences in developing and implementing policies to attract FDI. Attendees from Central Asia, South Asia and the Greater Mekong Subregion focused on the challenges they face in creating an environment conducive to foreign investment.

The workshop ended with a field trip to International Enterprises (IE) Singapore where officials from the Ministry of Trade and Industry, IE Singapore and the Economic Development Board spoke on Singapore’s success story as well as trends in overseas investment.

As FDI flows into the region have slowed down in the recent years due to the slow recovery in the United States and protracted economic uncertainty in Europe, Asian countries must intensify their efforts to attract FDI. This is especially critical in the case of the emerging economies in Central Asia, South Asia and the Greater Mekong Subregion as FDI plays an important role in these countries’ development through the provision of capital, production and technological expertise.



Participants at the RSIS-ADBI workshop on
“Sharing Asian Experiences: Promoting FDI Effectively”

RSIS Staff Presents in Conference on the Role of Regional Organisations in Supporting Demographic Governance

On 22 November 2012, Joel Ng, Associate Research Fellow at RSIS, presented a paper at a conference in Brussels on the theme “After the Arab Spring: Rethinking the Role of Regional Organisations in Supporting Democratic Governance”.

The event was hosted by the United Nations University Comparative Regional Integration Studies, UN Economic Commission for Africa and International IDEA.

The central questions in the wake of the Arab Spring were the role regional institutions could play in facilitating democratic reform, especially as events in North Africa and the Middle East had taken many by surprise and events unfolded faster than the international community could

effectively react. Together with Andreas Stensland of the Norwegian Institute for International Affairs, Mr Ng spoke on the role the African Union played in the political crises of Cote d’Ivoire and Libya, as well as ASEAN’s role in the political reforms in Myanmar.

Other presentations at the conference looked at major regional organisations, including the European Union, the South Asian Association for Regional Cooperation, the League of Arab States and the Economic Community of West African States. Many were in the midst of rethinking their mandates as they were not designed to deal with popular domestic upheaval, and the papers presented during the conference provided lessons from the experiences of these regional organisations.

RSIS Colloquium: Professor William Tow Speaks on the Strategic Geometries of Asia-Pacific Order-Building

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4. Are there alternatives to the post-Bretton Woods liberal model—which remains predominant—as a rising Asia builds pressure for change?

The Chinese have not officially criticised the current model but they have not explicitly acknowledged any benefits either. As the country reiterates its calls for a harmonious world, peaceful coexistence and respect for sovereign interests, the challenge now is how to reconcile all three elements.

I foresee a different China in 20–30 years—it will undergo significant transformation and evolve because of the immense pressures from globalisation. The youth will be a critical driver of this change as increasingly nationalist sentiments combine with rising expectations from the state. Change will be driven from below and it will be more sustained and subtle.

SELECTED PUBLICATIONS

See Seng Tan and Bhubhindar Singh were lead editors of a special issue on [“Defence Diplomacy in Southeast Asia”](#) published in the journal *Asian Security*, vol. 8, no. 3, 2012.

[China’s New Leadership: Can the World Expect Any Reforms?](#)

Benjamin Ho and Liu Liu, *The Nation* (Thailand), 17 December 2012

[North Korean Rocket Launch Could Unite Neighbours](#)

Sarah Teo, *The Straits Times*, 14 December 2012

[Trade Intensity and Business Cycle Synchronization: East Asia versus Europe](#)

Pradumna B Rana, Tianyin Cheng and Wai-Mun Chia, *Journal of Asian Economics*, vol. 23, no. 6, pp. 701–706, 2012

[Faced with the Dragon: Perils and Prospects in Singapore’s Ambivalent Relationship with China](#)

See Seng Tan, *Chinese Journal of International Politics*, vol. 5, no. 3, pp. 245–265, Autumn 2012

[Sharing Asian Experiences: Promoting FDI Effectively](#)

Theresa Robles, Pradumna B Rana and Joann Saw (eds), RSIS-ADB Workshop Report, 8–10 October 2012

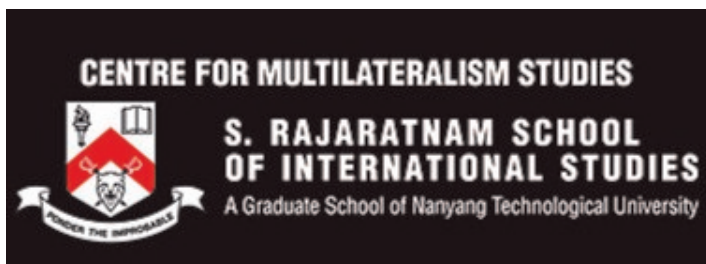
[Is Northeast Asian Regionalism the Centre of East Asian Regionalism?](#)

Bhubhindar Singh (ed), RSIS Centre for Multilateralism Studies Special Policy Report, October 2012

UPCOMING EVENTS

Seminar on “Eurozone Crisis and Its Impact on Asia”, 17 January 2013

RSIS-APU Roundtable, 18 January 2013 (by invitation only)



CONTACT US

Centre for Multilateralism Studies
S. Rajaratnam School of International Studies
Nanyang Technological University
Block S4, Level B4, Nanyang Avenue
Singapore 639798
Phone: +65 6790 6982
Fax: +65 6794 0617

ABOUT THE CENTRE

The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training and networking on cooperative multilateralism in the Asia-Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in the Asia-Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

For more information, contact us or visit our website:

<http://www.rsis.edu.sg/cms/>