

## APEC Rises Again Post-Beijing Summit: A More Connected Asia-Pacific?

By Oh Ei Sun

“WATER CUBE”, the 2008 Beijing Olympics water sports complex, was perhaps a potent venue for the gala dinner of the recent Asia-Pacific Economic Cooperation (APEC) summit. For water, at least in some versions of traditional Chinese culture, symbolises wealth and prosperity. Indeed, the host country, China, announced huge amounts of future capital investment throughout the APEC summit, mainly to shore up the infrastructural development in its Asia-Pacific neighbours, and henceforth to connect them with China’s huge market and production base.

### A Revitalised APEC for a Region-wide FTA?

APEC was instigated a quarter of a century ago with the explicit aim of promoting free trade and thereby regional prosperity. Over the years, APEC member economies, most notably China, have generally performed well economically, accounting nowadays for more than half of the total global trade volume.

Nevertheless, APEC’s role as the region’s main free trade promoting institution has decidedly waned over time, with close to 50 different bilateral and multilateral free-trade agreements that have either entered into force or been negotiated at present, largely outside of APEC’s purview.

President Barack Obama of the United States, for one, has shunned the APEC summit at least twice in recent years, and his administration has instead assiduously pursued negotiations on the Trans-Pacific Partnership (TPP) which, though owing its inception to APEC, has outgrown the latter in both form and substance.

Nevertheless, TPP, with its many free-trade “plus” elements encompassing anything from stringent intellectual-property protection to heightened labour policy, was unsurprisingly met with strong reluctance from most negotiating partners that are developing countries. This slowed down the negotiation process, necessitating President Obama to attempt to resuscitate it on the side line of the recent APEC summit.

In contrast, China, which has acceded to the World Trade Organisation (WTO) only at the turn of the century and is now the world’s second largest economy, seized the moment as this year’s APEC host to kick-start the momentum toward a Free Trade Agreement for Asia-Pacific (FTAAP) under the aegis of APEC, in a sense

### What’s Inside

APEC Rises Again Post-Beijing Summit: A More Connected Asia-Pacific?	1
Expert Talk: Malaysia and the ASEAN Economic Community: The Way Forward	2
RSIS-Economic Growth Centre Conference on ASEAN’s Long-Term Economic Potential and Vision	3
Fixing Global Finance: Unfinished Business	3
Australia and the China-US Relationships	4
Is ASEAN Ready for the ASEAN Community?	4
G20 After Brisbane	4

restoring APEC’s central role in moderating free-trade trends in the region.

It is understood that unlike TPP, the FTAAP process will work on more modest and traditional free-trade goals in line with prominent regional free-trade setups such as the ASEAN Economic Community, which will be effective next year, and its future extension, the Regional Comprehensive Economic Partnership (RCEP). FTAAP, which will overlap with TPP in membership, is thus expected to be more acceptable to most countries in the region.

### Infrastructure and region-wide connectivity

The series of APEC peripheral activities actually started in Beijing more than two weeks before the summit.

*(continued on page 5)*



22nd APEC Economic Leaders’ Meeting, November 11, 2014. Courtesy of Flickr account of DFATD/ MAECD and used under a creative commons license.

## Expert Talk: Malaysia and the ASEAN Economic Community: The Way

### Forward

The Association of Southeast Asian Nations (ASEAN) enters a critical period in its history come 2015 with the realization of the ASEAN Community. An important aspect of ASEAN's community-building effort is the ASEAN Economic Community (AEC). The AEC envisions ASEAN to be a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. At the helm of ushering ASEAN into a new phase of economic cooperation in the region is Malaysia. As the country chairman of ASEAN for 2015, outcomes from the various ASEAN processes most especially in its community-building efforts would depend on the able leadership of Malaysia.

*Multilateral Matters* invited three distinguished analysts to share their views on these issues. What can we expect from Malaysia's chairmanship of ASEAN especially in realizing the AEC? What can Malaysia do to ensure adequate progress can be made in achieving the vision of an AEC by 2015?

#### Prof. Dr. Jörn Dosch

Professor of International Politics and Development Cooperation and Head of the Department of Political and Administrative Sciences, University of Rostock, Germany

We do not need a crystal ball to predict two developments in the near future. First, on 31<sup>st</sup> December this year, Malaysia as chair of ASEAN will – with great fanfare – announce the establishment of the ASEAN Economic Community. Second, this community will be anything but a single market and production base in the common international understanding of the term. Throughout the history of ASEAN, Malaysia has been among the most active proponents of regional economic integration and, as one of the most developed Southeast Asian economies, has much to gain from the AEC. The Malaysian government is likely to do everything in its power to speed up the AEC implementation process which lags significantly behind the timelines of stated objectives. However, even Kuala Lumpur as an experienced ASEAN chair and trusted regional broker will not be able to overcome the realities of political and economic diversity in Southeast Asia, where Singapore's GDP per capita is more than 60 times larger than Myanmar's and where democracies co-exist with authoritarian regimes. The basic conditions for creating common regional rules and procedures for the free flow of goods, services and labour or even for harmonising national legislative frameworks and enforcement practises among ASEAN countries are not yet in place, owing to considerable disparities in technical and institutional capacities, economic development and political priorities. The AEC will remain work in progress long beyond 2015. ■

#### Prof. Dr. Tham Siew Yeap

Deputy Director, Principal Fellow  
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Malaysia's chairmanship will be challenging as it has to manage between what can be delivered with what is expected of an ASEAN Economic Community. As chair, Malaysia will have to focus on two key issues, namely finishing the unfinished agenda of meeting the AEC Blueprint requirements while at the same time, it has to shift ASEAN economic integration forward. The latter is especially difficult since there will be comparisons with the EU model of economic integration. As chair, Malaysia has the onerous task of ensuring a clear, acceptable, and achievable 'new' model of economic integration is articulated by the end of its chairmanship. ■

#### Sanchita Basu Das

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ISEAS, ASEAN Studies Center, Singapore

In the next 12 months, Malaysia would get the member countries together to work on four key issues: first, with the drop in crude oil prices, there are downside risks for not only the oil producing economies of ASEAN but also of a global economic recession. In this scenario, Malaysia needs a cooperative stance for a stable macroeconomic and financial market fundamentals regionally. Second, Malaysia would try to address the domestic weaknesses in infrastructure and would try to work on Public-Private-Partnership model of financing cross-border projects, especially mentioned under Master Plan of ASEAN Connectivity. Third, as ASEAN is said to have achieved 82% of its AEC targets, Malaysia would urge all members to speed up implementation of the tail-end of AEC Blueprint. These are mainly in areas of ASEAN Single Window, Harmonization of standards, Services sector liberalisation, Transport connectivity and Mobility of professionals. Fourth, as community building is a continuous process and is a key form of ASEAN diplomacy in the recent times, Malaysia will deliver on the next AEC Vision. This would most probably for the next ten years and will focus on further deepening of economic integration, sustainable development, SMEs, and a people-oriented economic community. ■



Logo of Malaysia's Chairmanship of ASEAN in 2015. Photo taken from the website of Malaysian Chairman of ASEAN 2015, Ministry of Foreign Affairs of Malaysia. <http://asean2015.gov.my/index.php/gallery/photo-gallery/category/5-asean-2015.html>

## RSIS-Economic Growth Centre Conference on ASEAN's Long-Term Economic Potential and Vision

Around 25 participants from the academic and policy communities attended a regional conference co-hosted by the S. Rajaratnam School of International Studies–Centre for Multilateralism Studies and NTU's Economic Growth Centre. The event was held at Hotel Jen Tanglin, Singapore on 20-21 November 2014. The conference focused on the long-term aspirations and challenges facing the Association of Southeast Asian Nations (ASEAN) together with the blocs' long-term potential and vision. The event was organized in response to the need to look beyond the 2015 deadline regarding the establishment of the ASEAN Economic Community. The event also builds on RSIS' expertise and prior experience researching on the topic having been requested by the

High-Level Task Force on ASEAN Economic Integration last 2014 to prepare a "Vision Paper on the AEC Beyond 2015" together with ISEAS. The papers presented were written with the end view of helping policymakers in designing a long-term vision and roadmap for ASEAN.

Notable speakers presented the draft outcome of their research. Papers presented were organized under five topics including (i) ASEAN's strategic issues including long-term aspirations; (ii) modalities for ASEAN integration; (iii) institutional issues facing ASEAN; (iv) progress in key pillars of the ASEAN Economic Community; and (v) ASEAN centrality and its engagement with the rest of Asia. While the theme of the conference focused mainly on the ASEAN Economic Community, other cross-cutting issues such as climate change, and rule of law were also discussed.

The conference provided an opportunity for the participants to flag their ideas on the challenges and opportunities facing ASEAN beyond 2015. The presence of policymakers in the conference allowed for a more grounded discussion on the practical issues facing community-building in ASEAN.

Speakers were given comments and feedback regarding the papers they presented. These comments will be used to improve the quality of the research of the presenters. The revised papers will then be subjected to double-blind peer review and those accepted will be published in a Special Issue of the Singapore Economic Review on ASEAN's Long-term Economic Potential and Vision. ■



Dr Pradumna Rana with other conference participants

## Fixing Global Finance: Unfinished Business

Dr. Stephen Grenville, NTUC Professor of International Economic Relations, RSIS; Nonresident Fellow at Lowy Institute for International Policy, delivered a Distinguished Public Lecture on "Fixing Global Finance: Unfinished Business" at Sheraton Towers on 11 November 2014.

In this public lecture, Dr. Grenville revisited the consequences of financial reforms in the wake of the global financial crisis of 2008-2009. First, he explained the causes of the 2008-2009 global financial crisis in three dimensions: (1) macroeconomic policies; (2) the evolution of financial markets over the past few decades; and (3) inadequate or ineffectual regulatory and institutional frameworks. First, Dr. Grenville suggested that every financial crisis has preceding macroeconomic problems and/or policy errors, and that poorly designed macroeconomic policies after the crisis tend to make the recession associated with the crisis much worse than it needs to be. In this vein, he pointed out that the 2008-2009 crisis was extremely costly. The post-crisis recovery was both lower and flatter than it should have been, and GDP in the United States, the United Kingdom and other European countries did not get back to the old trend easily.

Dr. Grenville then proceeded to address his thoughts on financial markets and the market efficiency myth. He maintained that we would have been better served if there had been more recognition of the possibility of market malfunctions and a higher degree of skepticism about what the market would achieve if left to its own devices. Lastly, Dr. Grenville also maintained that the regulators in the crisis countries were so ineffectual because of the resistance of vested interests against central authority as well as the powerful belief on the beauty of free self-regulating markets.

Dr. Grenville ended his lecture by putting his policy suggestions in a more general context. He specifically suggested that we should work far more boldly to enforce a sharp distinction between the guaranteed banking sector and the shadow banking sector. In order to do so, the institutional framework should enact two strategies: first, enforcing a clearer "caveat emptor" modus operandi on financial sectors; and second, limiting the interconnectedness with the intermediate sector. Dr. Grenville also highlighted that all of these measures should be accompanied with strong political backing for regulators, so that they would effectively counter the powerful vested interest groups which have been resisting financial reforms. ■

## Australia and the China-US Relationships

Professor The Honourable Bob Carr, RSIS Distinguished Visiting Fellow; Director of the Australia-China Relations Institute, University of Technology, Sydney; and Former Minister for Foreign Affairs, Australia delivered a Distinguished Public Lecture on the topic "Australia and the China-US Relationships. The talk was held at Sheraton Towers on 15 October 2014.

The lecture focused on the strategic importance of the US-China relations and the impact of this bilateral relationship on Australia's own foreign policy. Bob Carr noted that the rise of China has profound effects on the Asia Pacific region. In this regard, the evolution of China's character and personality would have strategic implications in the area of peace and security in the region. Bob Carr emphasized that Australia can play a role in helping shape China's character to one that is more outward looking and internationalized.

Bob Carr noted that Australia's foreign policy strategy has always been to align itself with the dominant maritime power of the region and the world. While this means that its alliance with the United States will remain to be strong, it does not preclude Australia to seek strategic partnership with other countries including Japan. In order not to be mired in the ongoing sovereignty dispute between China and Japan, Bob Carr suggested that Australia should actively reassert its neutrality on issues involving determination of sovereignty.

While China-US relations loom large in Australia's foreign policy thinking, another crucial relationship that is important to Australia is its relationship with ASEAN. In this regard, Bob Carr noted that Australia's renewed focus on its neighbor give Australia strategic advantages especially as the potential of ASEAN in the economic front, is fully realized. In the end, Bob Carr shared that Australia can make a bigger contribution to global affairs if it is able to maximize the opportunities afforded to it in the region. ■



Prof The Honourable Bob Carr delivering his Distinguished Public Lecture.

## Is ASEAN Ready for the ASEAN Economic Community?

Associate Professor Pradumna Rana joined a video-conference panel discussion between Jakarta, Washington and Singapore which focused on ASEAN's readiness for the AEC. The event was held last 26 November 2014 and was organized by the Bakrie Center Foundation. Other members of the panel include Satish Mishra and Derry Habir of Strategic Asia and Vikram Nehru of the Carnegie Asia Program.

Some of the issues discussed include the importance of the AEC to the economic future of ASEAN and its member states and the consequences of the AEC for firm-level competitiveness, unemployment, structural change, the balance of payments, and flows of skilled labor across national borders among various member-states of ASEAN. It was highlighted in the panel discussion that AEC 2015 is an ambitious project and December 2015 is a milestone and not the end. ASEAN countries will have to continue their effort to improve connectivity and integration in their community building effort. ■

## G20 After Brisbane

Dr Stephen Grenville, NTUC Professor of International Economic Relations and Visiting Fellow at the Lowy Institute for International Policy delivered a lecture on G20 after the Brisbane Summit as part of the RSIS Colloquium series last 25 November at RSIS.

Dr Grenville talked about the shortcomings of G20 such as in the area of inclusiveness and effectiveness in fulfilling its mandate. One problem area highlighted in the talk is the broad agenda of G20 which includes global political and economic problems that sometimes overlap with the issues being addressed by other multilateral institutions such as the UN, IMF and WTO.

Dr Grenville highlighted some progress made during the G20 Brisbane Summit such as in the area of "too-big-to-fail" where new rules relating to liquidity and capital requirements of globally-systemic international banks have been agreed. While these progress are noteworthy, the true measure of effectiveness of these reforms lies in their implementation. To strengthen governance of the global financial architecture, partnership and cooperation between other regional and global institutions should be further strengthened. ■



Dr Stephen Grenville speaking at the RSIS Colloquium

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(continued from page 1)

The most conspicuous of these was the official launch in late October of the Asian Infrastructure Investment Bank (AIIB), a China-led regional development-banking initiative which were announced more than a year ago.

Distinct from the traditional development-banking model such as that practised by the Asian Development Bank (ADB) is AIIB's emphasis on co-investment by both public- and private sector capitals in Asian infrastructure outlays, with expectations of the new bank becoming eventually self-sustaining after initial contributions from member states, with China presumably taking up the main bulk of the capital as well as undertaking the role of de facto guarantor.

It is worth noticing that one of China's potential regional competitor, India, and also two of China's recent antagonistic neighbours in the context of the South China Sea claims - Vietnam and the Philippines - also signed up as AIIB founding members.

And just before the APEC summit, Beijing again gathered some of the APEC leaders for a forum with new maritime and continental Silk Roads as main theme. President Xi Jinping announced a US\$40 billion fund for investing in the infrastructure and resources of the mainly Central (continental) and Southeast (maritime) Asian countries along these ancient Silk Roads.

The investment focus will be on improving the connectivity – via road, rail, sky and telecommunications – between China and these neighbouring countries to improve trade and other exchanges. The scope and depth of these Chinese initiatives are impressive, and may be said to have set a high bar for future APEC activities.

### Prospects for APEC and Asia-Pacific

The much anticipated meeting between President Xi and Prime Minister Shinzo Abe of Japan duly took place during the Beijing APEC summit, after intense huddling between senior officials of both countries that culminated in a joint statement almost at the eleventh hour before the summit which for the first time acknowledged, albeit cryptically, “different views” on the tensions surrounding the much contested Senkaku / Diaoyu Islands.

The actual meeting between the two leaders could at best be described as icy, lasting less than half an hour. It was nevertheless an ice-breaking restart after a two-year hiatus on Sino-Japanese high-level exchange.

On the other hand, China and Korea announced the conclusion of their free-trade negotiations during the APEC summit, in stark contrast to the glacier-like Sino-Japanese thaw. The United States could arguably be said to have played second-fiddle to China during this round of APEC meetings, being unable to “match up” to most of the wide-ranging and ambitious regional initiatives proposed by China. The two sides were nevertheless able to reach agreements on reductions for tariffs on high-tech products and for carbon emissions.

The recently concluded APEC summit in Beijing may well go down in history as the most fruitful APEC event thus far, with various funding and developmental initiatives for the region proposed by the host country, China, as well as the significant, though piecemeal, free-trade agreements reached.

APEC thus has regained a new lease of vitality, as the FTAAP agenda has moved to the forefront of regional free-trade efforts. And with an Asia-Pacific that will be better connected as a result of these myriad initiatives, opportunity and prosperity for the traditionally vibrant region should follow. ■

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### Selected Publications

- [Asian Infrastructure Investment Bank: An Idea Whose Time Has Come?](#) Don Rodney Ong Junio, The Diplomat. 4 Dec 2014.
- [If SAARC Stumbles: Go for Sub-Regional Alternatives](#) Pradumna Bickram Rana, RSIS Commentaries, 3 Dec 2014.
- [\[Book\] New Global Economic Architecture The Asian Perspective](#) Masahiro Kawai, Peter Morgan, Pradumna Bickram Rana (editors), 28 Nov 2014.
- [G20 and Global Governance: Can It Do Better?](#) Stephen Grenville, RSIS Commentaries, 14 Nov 2014.
- [Governing ASEAN e-Commerce: Getting Cloudier](#) Kaewkamol Pitakdumrongkit, RSIS Commentaries, 08 October 2014.

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### About CMS

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