



# PANORAMA

INSIGHTS INTO SOUTHEAST ASIAN  
AND EUROPEAN AFFAIRS



Konrad  
Adenauer  
Stiftung



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## PREFACE

The 10th Europe-East Asia Think Tank Dialogue jointly organised by the Regional Politics Programme Asia of the Konrad Adenauer Stiftung and selected East Asian and European Think-Tanks was held in Tokyo in October 2008. Bringing together Track II representatives from East and Southeast Asia as well as EU countries, this annual event once again lived up to its three-fold *raison d'être* of facilitating dialogue between Europe and Asia on common issues facing the respective regions; to exchange best practices and lessons learned in meeting similar challenges; and to provide inputs to inter-regional cooperation promoting intellectual exchange and research collaboration. This year's dialogue, like its predecessors, was topical and focused on inter-regional relations *vis-à-vis* current global challenges – particularly, the current global financial crisis.

Twenty years on from the end of the Cold War, instead of benefitting from the heralded peace dividend, the world appears to be an even more dangerous place than ever before. Globalisation – in the spheres of economics, culture and politics – has brought with it both challenges and opportunities. The key challenge posed by globalisation is that we find ourselves truly in the same boat as each other. No country is totally insulated from the threats we have to collectively confront and at no other historical epoch has the fate of both Europe and Asia been so interlinked. The threats we face range from the traditional to the non-traditional – ranging from traditional inter-state war to new threats such as terrorism, the environment and the health of the

global economy. Compounding this problem is the fact that these issues are so intricately interwoven with each other.

In these challenging times, we must resist the kneejerk reaction of attempting to withdraw from each other with the false belief that going it alone will be the panacea for our woes. There are undoubtedly, arguments currently put forward by many a pundit that international and regional integration has run its course and the ramparts in the form of protectionism must be raised. It is doubtful that these measures would work and it is possibly foolhardy to attempt to do so – globalisation has cut-off that escape route. Indeed, the financial crisis should act as a warning to those who argue for a retreat from integration. Before the crisis, there was much talk of a de-coupling of regional economies and it did not matter if one region was in crisis, growth in the other regions would carry on. Time has shown the falsity of such theories.

Instead, the only viable solution on the table may be to soldier on with integration – to learn from and aid each other in these tumultuous times as my neighbour's problems today may be my own tomorrow. In fact, never before has there been a better opportunity for greater cooperation between and within regions. For example, Asia is taking big steps towards working more closely by ratifying the ASEAN Charter and reconfirming the goal of establishing an ASEAN community by 2015. Also, Europe and Asia together with the US now have a chance to work together in order to build a sustainable global financial system.

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It is hoped that the papers collected from the Europe-East Asia Think Tank Dialogue in this issue of Panorama will go some way towards contributing to this drive towards greater cooperation by offering very important insights into the future of both inter-regional and regional cooperation.

A handwritten signature in black ink, reading "Colin Dürkop". The signature is written in a cursive style with a large, sweeping initial 'C'.

Dr. Colin Dürkop  
Singapore, December 2008

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## AUTHORS

**DR WILLEM VAN DER GEEST** was educated in economics and social sciences in several European universities (Leiden, Stockholm and Cambridge) and has worked extensively for leading academic institutions, including the Universities of Oxford, Leiden and Brussels (ULB). He received his PhD in Economics from the University of Cambridge. Dr van der Geest takes a particular interest in the study of global economic and financial institutions and their impact on local, national and regional development. He has published on 'negotiating adjustment' and 'adjustment and employment' in the context of East and Southern Africa as well as on 'trade diversification in LDCs' globally. In his present position, directing a think tank for the EU, he has developed fresh research into the processes of regional integration and accession, esp. in the contexts of EU-China and EU-ASEAN relations. He has extensively worked on trade policy issues including trade in services and horizontal issues including IPR and TBT/non-tariff barriers. Working closely with the EU institutions, he has gained unique insights into EU's external relations in the domains of its foreign policy as well as its economic and trade cooperation. His current research focuses on (i) EU-China relations; and the sustainability impact of its trade; and (ii) the impact of emerging Asian economies on the EU. He has been the Team leader of several studies for the European Commission on the implications of economic and political developments in Asia, looking in particular at China's role in the region, Asia's demographic change as well as the 'rise of India'.

**DR CAROLINA G. HERNANDEZ** is Professor Emeritus of Political Science at the University of the Philippines. She is the Founding President of the Institute for Strategic and Development Studies (ISDS Philippines), an independent non-profit policy research and advocacy institute that is also involved in training activities in cooperation with other training institutions at home and abroad. She holds the degree of Bachelor of Science in Foreign Service from the University of the Philippines, a Masters degree in International Relations from the University of Karachi, and a PhD in Political Science from the State University of New York at Buffalo. During the past 20 years, she has been involved in various policy research networks including the ASEAN Institutes of Strategic and International Studies (ASEAN ISIS) that provides policy inputs to the ASEAN processes, the Council for Security Cooperation in the Asia Pacific (CSCAP) in relation to the ASEAN Regional Forum (ARF), and the Council for Asia-Europe Cooperation (CAEC) in relation to the Asia-Europe Meeting (ASEM). She is also a Member of the United Nations Secretary General's Advisory Board on Disarmament Matters since January 2006.

**DR YEO LAY HWEE** is Senior Research Fellow at the Singapore Institute of International Affairs and Honorary Fellow at the Contemporary Europe Research Centre (CERC), University of Melbourne. The focus of her research includes peace and development in Southeast Asia, ASEAN's external relations (particularly with

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the European Union), the Asia-Europe Meeting (ASEM) process and comparative regionalism. Dr Yeo has written and lectured extensively on different dimensions of Asia-Europe relations and issues on regionalism. For her exemplary research and policy work in these areas she has recently been awarded the Nakasone Yasuhiro Award in Tokyo.

**DR. BERNHARD MAY**, born in 1952, is Secretary-General of the German Group of the Trilateral Commission. Prior to joining the organisation he worked for more than 15 years at the German Council on Foreign Relations (DGAP) in Berlin, first as a research fellow and later as the Head of Program for U.S. / Transatlantic Relations. He was also the deputy director of the Council's research institute. Dr May studied economics, political sciences and political economy at the universities of Mannheim and Cologne as well as at the Pennsylvania State University (U.S.). He holds a *Diplom* and a Ph.D. from the University of Cologne.

Dr. May worked for two years as Guest Scholar at The Brookings Institution in Washington, DC. In 1986, he was Krupp Senior Associate at the Institute for East-West Security Studies in New York. Since 1987, he has been a Visiting Fellow at the following institutes: the Japan Centre for International Exchange in Tokyo; the Institute for International Economics in Washington, DC; the East-West Centre in Honolulu; the Foundation for Advanced Information and Research (FAIR) in Tokyo; Keio University in Tokyo; and the Chinese Peoples Institute for Foreign Affairs in Beijing.

Dr. May has published widely on matters relating to European integration, American foreign policy, Japan's foreign policy and world trade issues. He has written and co-authored several books and published numerous articles. Titles include: "Kosten und Nutzen der deutschen EG-Mitgliedschaft" (1982); "Reagan und die Entwicklungsländer" (1987); "Japans neue Entwicklungspolitik" (1989); "Kuwait-Krise und westliche Energiesicherheit" (1991); "Die Uruguay-Runde" (1994); "Ein 'normales' Deutschland" (1995); "Japan in der Krise?" (1996); "Asia, Europe and the Challenges of Globalisation" (1999); "The Uncertain Superpower. Domestic Dimensions of U.S. Foreign Policy after the Cold War" (2003); and "NATO versus EU? Security Strategies for Europe" (2005).

**DR. MICHAEL REITERER** was appointed Adjunct Professor of International Politics at the University of Innsbruck/Austria in 2005. He is specializing on EU-Asia relations in general and EU-Japan relations in particular, the Asia-Europe Meeting (ASEM), inter-regionalism, EU foreign and foreign trade policy. The author of two books (*The Diplomatic Protection of Refugees by Their State of Asylum; Asia – Europe: Do They Meet?*) he has also published about 90 articles in international journals.

In addition to a *doctor iuris* of the University of Innsbruck, Michael Reiterer holds diplomas in international relations of the Johns Hopkins University, Bologna



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Centre and the Graduate Institute for International Studies, Geneva/Switzerland. He lectured at various universities and participated in academic conferences in Europe, USA, China, Singapore, South Korea, the Philippines and Japan. In 2008, he was invited as guest professor at Keio University, Tokyo.

He is also an official of the European Commission, serving presently as the Ambassador to Switzerland and the Principality of Liechtenstein. He contributed this article, which is based on a KAS dinner speech delivered in Tokyo, November, 28, 2008, solely in his academic capacity.

**DR. MAHANI ZAINAL ABIDIN** was appointed Director-General, Institute of Strategic and International Studies, Malaysia in May 2007.

She was Professor in the Department of Applied Economics at the Faculty of Economics and Administration, University of Malaya. In 1998, Dr. Mahani was appointed a member of the Working Group for the National Economic Action Council, a body established by the Malaysian Government to formulate measures to initiate recovery from the economic and financial crisis. She also served as Deputy Chairman of the National Accreditation Board from May 2003 until October 2007. In 2005, Dr. Mahani was appointed as the Deputy Director-General, Department of Higher Education, Ministry of Higher Education Malaysia.



# 10<sup>th</sup> EU-East Asia Think Tank Dialogue, 13-14 October 2008

*Yeo Lay Hwee & Willem van der Geest*

## **Summary of Session 1: Europe and East Asia in 2007-08: Political and Security Issues and Challenges**

Sebastian Bersick's paper focused on the state of relations between the European Union (EU) and East Asia. He argued that firstly, there is no doubt that since the mid-1990s the EU is becoming increasingly active in East Asia due to the latter's economic dynamism. Secondly, however, despite the fact that it is becoming more active in the region, the EU still lacks a clear and coherent strategy towards East Asia.

Thirdly, the EU's engagement with East Asia still takes place at both bilateral and multilateral level. Bilaterally, the EU proclaimed to have strategic partnerships with India, Japan and China while also negotiating a Partnership and Cooperation Agreement (PCA) with the latter. Relations with China have recently hit a rough patch because of increasing trade deficits and the EU's arms embargo which remains in place. The EU is also keen to develop a more balanced and reciprocal

relationship with China in the future. The EU, argued Bersick, is also seeking to intensify its bilateral engagement with India and is even considering a Free Trade Agreement (FTA). While South Korea is not a strategic partner of the EU, it is also in the process of negotiating a FTA. At the multilateral level, the EU is strengthening its partnership with the Association of Southeast Asian Nations (ASEAN) and participates in both, the Asia Europe Meeting (ASEM) and the ASEAN Regional Forum (ARF) processes.

Fourthly, compared to the US, the EU is much more active in supporting the region-building processes in the East Asian region. Bersick maintains that this is in line with the EU's or, so he suspects, Germany's vision of strong regional structures as the cornerstones of an evolving global order. Germany sees the need to remain an active and strong player in the EU and is looking towards China as crucial to the region-building process in East Asia. Fifthly, although the EU does participate in the ARF and has been successful in its first European Security and Defence Policy (ESDP) mission to Aceh, on the whole the EU's security engagements with East Asia remain relatively underdeveloped.

Herman Kraft's paper examined the current global banking and credit crises and their likely impact on the East Asian region. What initially started off as a crisis on Wall Street has now spread to affect the American Main Street and is likely to spread even further to affect the real economies of East Asia because of the latter's dependence on the markets in the US and the EU. Even before the crises Asian countries already suffered from insecurities and political instabilities. How the crises are likely to affect these problems is something that needs to be considered. Equally important to the region are the following questions; firstly, how will the crises affect the US elections and consequently, the country's foreign policy, and secondly, how will the US capacity to continue its military engagements globally be affected.

While there are political uncertainties in several of the East Asian countries from Japan, Malaysia to Thailand, at the regional level, the picture is mixed. Cross-straits tensions have eased with the election of Ma Ying-jeou as Taiwan's president in May 2008. North Korea's pursuit of nuclear weapons, the ratification of the ASEAN charter and its likely strengthening of ASEAN's regional role and capacity, Russia's natural resource diplomacy and increased cooperation with China, and China's military modernisation are some of the uncertainties that shape the politico-security landscape of the region. The global financial crisis, concluded Kraft, will sharpen the vulnerabilities that already exist in several Asian countries because of domestic political conditions.

In his comments, Willem van der Geest, agreed with Bersick's observation that the EU is increasingly active in East Asia but lacks a clear and coherent strategy. In its pursuit of so-called strategic partnerships with China, India and Japan, the exact meaning of these special relations lacks a clear definition as the nature and substance of the EU's relations with these three powers are quite different. Van der Geest also agreed with Kraft's observation that many of today's uncertainties in Asia are the result of endogenous rather than exogenous factors. However, the question how US insecurity in the midst of the global financial crisis might affect its relations with the emerging powers in Asia, which in turn would impact the political and security situation in Asia, needs to be seriously looked into.

Tadashi's comments focused on the need and importance of stronger EU – East Asian engagement. However, he also recognised the challenges from his own experience of trying to cement the partnership between the EU and Japan. Substantial cooperation between the EU and Japan remains low despite the launch of the Trilateral Commission in 1973 and political and security links between Japan and Europe remain weak. However, he suggested two possible ways to bring the EU and East Asia closer together. Firstly, both the EU and East Asia should focus on the common challenges of governance. This is not just an issue of values and norms, but concerns the broader question of how to manage the complexities of plural societies. Secondly, if both the EU and Asia focus on human security issues rather than traditional security

issues, they would find that there is much in common in terms of the challenges they face, and that there is much value in working together in order to address these challenges.

In the discussions that followed, the audience raised the following questions.

A key question concerned the issue of burden sharing. One of the examples mentioned referred to Asia's contribution toward the fight against the Taliban in Afghanistan. It was stated that there is a growing perception amongst Europeans that Afghanistan is not a 'European' war, and that Europe should retreat from Afghanistan as soon as possible. Questions regarding Asia's military contribution to Afghanistan were raised.

In response to the specific example of Afghanistan, however, it was clarified that within Asia, some countries see the fight as an American war, and consider it to be morally and politically difficult to propose cooperation. Furthermore, even if the US was to turn to Asia for support and help in Afghanistan, it would turn to its traditional allies such as Japan, rather than to other Asian countries such as China.

It was emphasised that the question of how Asians and Europeans can work together to shoulder more responsibility in addressing the various challenges confronting the world deserves more attention. To some extent, it was argued, the EU and Asia are free-riding on the US security guarantees in the Asian region. This is not a sustainable solution. Particularly with a view to the

uncertainties linked to the global financial crisis, the issue of burden-sharing must be addressed urgently.

In discussing the EU's engagement with East Asia, it was cautioned that the EU's pursuit of a value-based foreign policy and the emphasis on the "export of democracy" may not be reconcilable with regional realities and the specific political culture in East Asia. This question led to the broader issue of how much of foreign policy is interest-driven and how much of it is value-driven. The question was asked whether "brandishing" a "value-driven" foreign policy may not obstruct true dialogue and equal partnership.

A second key question asked the following. If the EU's cooperation with East Asia is to be value-based, should the EU, South Korea and other like-minded countries sharing the same values of democracy form a club of like-minded powers to cooperate more closely in addressing common challenges?

The politicisation of economic issues constituted a third concern in the discussion. This refers particularly to the relationship between the EU and China which is overshadowed by an increasing trade deficit. The question was raised whether problems that have arisen from economic liberalisation should be politicised or if a solution could be found through market mechanisms. This, however, begs the question whether a clear distinction can be made between political and economic issues.

A fourth core issue raised in the debate referred to the nexus between traditional and non-traditional security

issues. It was argued that it appears as though in East Asia, non-traditional security issues will always be put on the back-burner as many traditional security issues in the region remain unresolved. It requires further examination how to address this and how to use other concepts, such as comprehensive security, to show the inter-connectivity of both traditional and non-traditional security issues.

Among the additional comments and recommendations were the following.

Concerns were expressed about increasing competitive nationalism in East Asia. The EU is interested in supporting East Asian region-building. As such, it should invest more resources to try to convince the US that ASEAN's collective approach towards security needs to be supported. This is related to the question what the EU's strategy towards supporting East Asian regionalism, in the face of US ambivalence towards such region-building efforts, should be. Community-building in the broader East Asian region, it was argued, is not just a regional process, but can be influenced by various external actors.

The need for ASEM to discuss and to issue a statement about the global financial crisis to ensure that it won't suffer the same fate as APEC was dismissed as entirely irrelevant in the midst of the Asian financial crisis.

Finally, it was remarked that US foreign policy towards Asia is not going to change drastically no matter who is to become the next president. Its central interest in Asia will remain focused on

Northeast Asia and, increasingly, India and Pakistan.

## **Summary of Session 2: 'Economic developments in the EU, East Asia and the US'**

The second session focused on 'Economic developments in the EU, East Asia and the US' and coincided with the global credit crisis which had recently pushed stock exchanges around the world into double digit losses. The central question was whether observers are witnessing the start of a 1929-like depression, or whether the global economy was likely to recover after experiencing 'just' a recession? Pavin Chachavalpongpun of Singapore's Institute of Southeast Asian Studies (ISEAS), and Heng Bunsong of the International Relations Institute of Cambodia (IRIC) chaired this session.

Mahani Zainal Abidin, Director-General of ISIS, Malaysia described the unfolding credit crisis as a 'financial tsunami', namely an overpowering wave sweeping away everything in its path. He argued that this was a second stage of global instability following a wave of 'triple f-inflation', involving extraordinarily fast rising prices for food, fuels and finance. Indeed, during the first quarter of 2008, he noted, the inflation rates peaked at levels not witnessed for more than a decade all around the world. The higher food and energy prices, in particular, became a source of social tension in many

countries and the fear of stagflation – rising prices coupled with decreasing growth levels – was widely expressed.

However, in the course of 2008 the financial uncertainty, which had been increasing steadily since bank runs and financial panic began in August 2007, transformed into a full-blown global credit crisis. This crisis was characterised by a severe loss of confidence in the repayment capability of investment as well as commercial banks, hence leading to severe problems in the interbank lending markets. The liquidity crisis had forced Central Banks around the globe to supply short-term finances to banks in order to maintain monetary circulation and to service credit markets. Furthermore, Central Banks had been forced to buy stakes in underperforming banks, which were strapped for capital injections after suffering huge losses in their equity base.

Financial institutions were in deep troubles, interest rates in the US were lowered sharply and the Treasury was promoting public participation in the troubled assets. With a multitude of problems – wide-spread lack of confidence, lack of liquidity, bankruptcy of major investment banks such as Lehman Brothers, the shot-gun merger of Bear Sterns and America's leading insurer AIG unable to meet its credit insurance obligations – it seemed obvious that US policy-makers were unable to weather the financial storm. Further losses of the Dow-Jones and other stock market indicators were to be anticipated, pension funds were loosing significantly and the long-term trend for the dollar vis-à-vis the Euro and Asian currencies could 'only be

downwards'.

Mahani Zainal Abidin's sobering observations raised questions of a more ideological nature. Was the functioning of the capitalist financial system, as the world has known it, going to be irreversible changed? With nationalisation of banks proceeding in the EU, including in the UK, as well as the United States, and China looking still rather robust, it was questioned whether this was going to result in a shift from a 'Washington consensus', with its emphasis on liberalisation and deregulation, towards a Brussels or Beijing consensus with primacy for public intervention and direct policy interventions?

Günter Dufey, Emeritus in Finance and Corporate Strategy of the University of Michigan and presently teaching at Singapore's Nanyang Technological University, expressed his disagreement with the conventional perspective that the global credit crisis was due to a deficit in regulation and supervision. In his view, the liberalisation had been driven by IT-based financial innovation and engineering which had allowed for new forms of trading via the internet, bringing new financial products to new buyers and sellers.

On the history of financial regulation in the United States, he emphasised that the Federal Reserve Bank was a relatively new institution, less than a century old, created only in 1913. The financial sector, he explained, had been weak and fragmented, with the new settlers arriving from Europe having a profound dislike for Europe's monopolistic banks and wishing to ensure that the US financial system

would not go in that direction. At some point the US had as many as 15,000 independent banks, as well as 3,000 saving and loan associations. Small credit brokers hawked commercial paper on Wall Street, without dependence on deposits. These operations were high-risk, but offered also high rewards. The consolidation of the US banking system had only come about after the savings and loans crisis of the 1980s, when many of the S&L's had to be nationalised to salvage them, but were later sold off.

In the US regulatory context of today, banks continue to be narrowly defined as 'deposit taking institutions', leaving a regulatory vacuum for non-bank credit institutions that did not depend on depositors. Within the weakly regulated context, the business model of the investment banks, including the big investment banks such as Lehmann Brothers and Goldman-Sachs, thrived, with their assets (i.e. obligations taken) being a high-multiple of their equity-base (own capital). Indeed, the assets-to-equity ratio had rapidly deteriorated in recent years, reaching multiples above 30, implying that there had been only 1 dollar of equity for every 30 dollars the banks had borrowed from third party investors. This unsound practice had led to bankruptcy and a discrediting of their business model.

Controversially, Prof Dufey suggested the continued viability of this business model, even though he acknowledged this opinion lacked popular appeal and political support. He emphasised the incentive incompatibility between investment

banks – with their earnings largely through bonuses – and deposit-based banking offering long-term security to their staff as well as their depositors. Forcing investment banks to become deposit takers and subjecting them to similar regulation carried the risk of inappropriate regulatory demands being levied, which would hinder capital market development. This would lead to rising costs for borrowers and decreasing access to credit for businesses and households. The long-term costs of 'value-destroying' regulation should not to be ignored. While Prof Dufey conceded that risks needed to be allocated more efficiently, he argued that no-one would 'stop all traffic because a casualty has occurred'.

The first discussant, Hang Feng of the Chinese Academy of Social Sciences in Beijing argued that the standard IMF policy recommendation of liberalising capital controls and allowing larger foreign ownership was now suffering from serious problems. Within China an important debate was ongoing, calling for a re-adjustment of its development strategy. However, it had to be emphasised that China alone could not save the situation, even if it were to curb its large trade surplus with developed countries, including the EU and the US. He also noted that recent months had seen a sharp reduction in inflation, while RMB appreciation was steadily happening.

The second discussant, Renato Reside Jr. from the University of the Philippines noted that the origins of the crisis had been in the US economy, but that the impact through macro-economic transmission to Asia was



likely to be considerable. Moreover, the deteriorating macro-economic conditions across Asia were correlated with political risks. In his discussion, he also emphasised that the short-term effects were likely to be quite different from the long-term effects. While the former were likely to be a slow-down of growth in response to a credit-freeze, the latter were likely to concern international financial regulation. He suggested that the strengthening of the IMF, as well as the Bank for International Settlements, needed to be looked at carefully.

Sri Adiningsih of the Centre for Asia Pacific Studies, Gadjah Mada University in Yogyakarta, Indonesia noted that real insiders, like billionaire investors Warren Buffett and George Soros, as well as IMF Chief Economist Olivier Blanchard were anticipating a long and deep recession, for which no end was in sight as yet. Not only a small economy such as Iceland became bankrupt but even a strong and advanced economy as South Korea was not immune to the current problems. As for Indonesia, the monetary authorities had kept the Jakarta Stock Exchange closed for days, fearing unsustainable capital outflows.

The central question in the open discussion was whether East Asia and ASEAN were likely to be as severely affected as the US and EU economies, or whether they were better prepared and less vulnerable. Two schools of thought were articulated; the first pointing out that the impact with near-certainty was going to be dramatic, if not catastrophic, whereas the second school argued that East Asia might be proportionately less affected.

The main arguments underpinning the views of the first school revolved around the anticipated falls in export demand for goods and services. Given the importance of exports in the growth strategies of most major economies within the region, notably China and Vietnam for manufactured goods, Singapore and the Philippines for port and labour services, a dramatic impact was believed to be inescapable. The metaphor used was that 'if the mother is sick, the children will be affected'. The second school of thought was by no means underplaying the likely severity of the impact of the global credit crisis, but noted that the Asian Financial Crisis, a decade earlier, had meant that the economies were in a better shape with more cautious prudential supervision in the banking sector and closer coordination amongst central banks and regional institutions. Asian banks and investors had not been 'so clever' to overexpose in hedging-bets which were now costing dearly. Furthermore, the levels of foreign exchange reserves held across the region were at unprecedented high levels and this would help to cushion aggregate demand in the downswing. Although a consensus view seemed to be possible, incorporating both aspects, the uncertainty at the time of the Dialogue meeting (mid-October 2008) was such that it was felt premature to reach any conclusions, except that a severe slowdown and recession were distinctly possible and that a 'great depression' could not be ruled out. IMF resources were deemed too little and coordination was deemed too late.

### **Session 3: Institutional Development: The ASEAN Charter and the EU Lisbon Treaty**

This session was chaired by Cesar de Prado Yepes of the University of Salamanca in Spain and Shin-Wha Lee of Korea University.

The first presenter, Miguel Santos Neves of Lisbon's Institute of International and Strategic Studies focused on the Lisbon Treaty, which had been proceeding quite smoothly through the EU Member States parliaments and referenda, until the Irish no vote had thrown a major spanner in the works.

He argued that the Lisbon Treaty was more than a down-sized version of the ill-fated EU constitution. Particularly significant innovations of the Lisbon Treaty had been that (i) the link with the 'Lisbon agenda' was made very explicit; and (ii) the question of subsidiarity had been formulated much more profoundly. With regards to the first, there was now a very sharp focus on building the EU's knowledge society, with research, education and development services being a major thrust of the new approach.

Flagship programmes, like Erasmus Mundus and the formation of a European Institute of Technology, had become central to the revised strategy. On the principle of subsidiarity, there had been a host of initiatives to bridge the gap between the EU institutions and the national and local decision-making. The participation of EU citizens was being sought at all levels,

not merely at the level of the EU institutions. Member States were tasked to share information about their engagements and commitments in Brussels. However, the Treaty had still missed the dimension of the regions; indeed some of these were key players as "knowledge regions" and could drive the Lisbon agenda forward.

The critique that the EU was 'punching below its weight' remains still valid, argued Yeo Lay Hwee, Associate Director of the European Union Centre in Singapore. The EU was still unable to speak with one voice. She reiterated the long-held critique that the Common Foreign and Security Policy (CFSP) was not based on a systematic assessment and that foreign policy actions largely remained Member States' competence. The six-months rotating Presidency had led to incoherence and lack of systematic pursuit of a strategy.

Attempts to rectify these weaknesses had been made through the Amsterdam and Nice Treaties – and now the Lisbon Treaty. She noted that the institutional changes proposed through the latter were indeed quite far-reaching including a High Representative for Foreign Affairs and Security, a Foreign Affairs Council, an External Action Service, the ending of the rotational Presidency, and single legislative procedures. The new European Security and Defence Policy (ESDP) would also entail a solidarity clause on mutual defence commitment, therewith enhancing cooperation. Moreover, the EU's single legal personality would enable it to act as one. Nevertheless, her overall assessment remained that these

institutional changes, though necessary, were still not sufficient to make the EU a single effective actor in international affairs.

As one of the discussants, Maria Elena Atienza of the Philippines Institute of Strategic and Development Studies (ISDS) noted that the EU experience of institution-building offered valuable lessons. The rejection of the constitution in France and the Netherlands, and now of the Lisbon Treaty in Ireland had shown that the EU still lacked transparency. Although an attempt had been made at creating convergence of policies, several countries including the UK and Denmark had chosen to opt out of the chapter on Justice and Home Affairs issues. Was a multi-speed EU now about to become a reality?

Michael Reiterer, Ambassador of the EU to Switzerland, speaking *à-titre-personnel*, addressed the question of the expectations gap between what was wanted and the EU's actual performance. This was not merely a wish emanating from third countries. Indeed, the *Eurobarometer* opinion survey had shown that some 60 to 86 per cent of those polled wished to see a more effective EU. Dr Reiterer stressed the importance to realise that the EU was seeking to achieve an unorthodox objective from an idealist perspective – soft power diplomacy projection in a post-Westphalia system. This was inevitably at variance with East Asian liberalism, which was deeply rooted in the realist school. Some intellectual tensions were inevitable.

In his view, the expectation gap was narrowing and he offered eight examples

to counter the view that the EU's CFSP was as ineffective as people claim, even though he admitted that the disagreement over the Iraq war had been divisive. First and foremost, the 2004 and 2007 enlargements, adding 12 countries to the Union had been a big external relations success, even though this was now covered within the domain of regional policy. Second, the EU's response to crisis in Georgia had been effective, as had been other instances of energy security diplomacy vis-à-vis Russia. Third, the issue of Kosovo's independence, though remaining controversial, had been achieved in a peaceful way. Fourth, the International Criminal Court – a long-standing demand of human rights advocates – had been created and was showing its determination and ability. Fifth, ambitious climate change targets, now under negotiation within the Bali process, would not have gone ahead but for the EU. Sixth, the Asia Europe Meeting (ASEM) would not have moved forward without the European Commission's informal leadership. Seventh, the European Commission's political assessment capability, though often through informal papers, was certainly well developed and the Commission had been highly influential in several policy fields, for example with regards to the possible creation of a Mediterranean Union. Eight, direct elections proved citizens' participation and turnout was not below voters turnout in many US elections, even though improvements would be desirable.

In the subsequent discussion, a wide variety of issues were raised, including unfortunate and politically-inspired

attempts to blame the EU institutions for difficulties, while claiming credit at the national level for successes achieved through the EU. It was noted that the EU, inevitably, posed challenges for multi-level governance and that the Lisbon Treaty could have put more emphasis on the role of regional governments. It was argued that even ardent supporters of EU-style integration would still like to see truly fundamental decisions, such as entering into a war, legitimised by national governments.

### **Summary of Session 4 – The ASEAN Charter and Implications for East Asian Regionalism**

Alan Collin's paper attempted to answer the question what type of regionalism is emerging in Southeast Asia by examining the ASEAN charter for any evidence that a new ASEAN might emerge from the provisions contained therein.

Collin's expressed his scepticism about the promotion of democracy, good governance and human rights in the relevant article of the Charter. He argued that the article in question lacks political realism given that ASEAN is composed of a majority of soft authoritarian regimes. Since ASEAN is essentially an inter-governmental entity and its policies reflect the sum of the member states' interests and policies, he maintained that it is difficult to conceive ASEAN as an organisation that would promote democracy. Collin suspected

that the article in question might have been added because some ASEAN member states including Indonesia and the Philippines are undergoing a process of democratisation. The article thus reflects the desire of these member states to see democratic values that are evolving at home reflected within ASEAN. This also raised the broader issue how the conduct of foreign policy is increasingly tied to the domestic agenda of ASEAN member states. The political reforms taking place within member states are thus also reflected in the desire to reform ASEAN.

A positive result emerging from the process of drafting the Charter is the increased involvement of civil society and non-governmental organisations (NGOs) in Asia. ASEAN's profile has also been raised within the civil society sector. Civil society activists and NGOs are increasingly interested in ASEAN's activities and have expressed disappointment with the ASEAN Charter by producing an alternative People's Charter containing a wish-list of what they wanted ASEAN to achieve.

While ASEAN is still not open to lobbying by NGOs and civil society activists, and while there is still no commitment within ASEAN to institutionalise consultation of NGOs, the fact that the political leadership has begun to engage the civil society sector is a positive step. The willingness of NGOs and civil society activists to engage with ASEAN reflects the growing appreciation that ASEAN is trying to change and hence the need to be involved to help shape the changes. On the part of officialdom, there is also

increasing recognition that civil society and NGOs can be harnessed to help address many of the non-traditional security challenges.

Overall, however, the provisions of the ASEAN Charter do not provide clear evidence of an emerging new ASEAN. Many of the old institutional norms and mechanisms, such as consensual decision-making, remain and ASEAN is no closer than before to introducing supranational elements. The ASEAN approach has remained essentially top-down and paternalistic albeit with a slight element of flexibility and a more functionalist approach toward regionalism.

Carolina Hernandez' paper was divided into two parts. The first part of the paper provided an overview of the initial success of ASEAN as a regional organisation. In the first 40 years of its existence, ASEAN has managed to keep the peace in the region and has worked to prevent big power rivalry from operating in the region. It has also been an initiator and active player in various regional processes, such as the ARF, ASEM and APEC.

In contemplating the future of ASEAN, its leaders have promised for the Association to become a community based on three pillars and for it to be transformed into a rules-based organisation. ASEAN leaders have also expressed their desire for ASEAN to remain at the core of East Asian regional processes and as such in the driving seat of region-building. These statements by the ASEAN leaders have raised expectations that the ASEAN Charter, to be adopted on the occasion of ASEAN's 40<sup>th</sup> anniversary, would be a

forward looking one.

However, many of the recommendations that had been made by think tanks and civil society during the consultation process in the drafting of the ASEAN Charter were not taken into consideration which has resulted in disappointment. Hernandez expressed concern that the Charter only served to codify old norms and practices, such as the strict adherence to the principle of non-interference. She argued that decision-making has remained essentially based on consensus while the proposal for some issues to be decided by majority voting has not been approved.

The Charter also failed to address the implementation deficit ASEAN suffers from due to a lack of institutional mechanisms that ensure or enforce compliance on decisions taken. While paying lip service to the need to strengthen the ASEAN Secretariat, for it to be able to help monitor the progress of ASEAN member states in fulfilling their commitments, no additional budget has been allocated so far.

As ASEAN continues to progress at the pace of its slowest members, there is genuine concern that ASEAN may not remain at the core of the various regional architectures. Significantly, the Prime Minister of Australia recently proposed the creation of an Asia-Pacific community driven by a number of key players – the US, China, Japan, India, Indonesia and Australia. Reconciliation amongst Northeast Asian countries, Hernandez maintained, would lead to a shift of the focal point of the regional building processes from Southeast to Northeast Asia. ASEAN's partners in

the various regional processes including the ARF are also becoming impatient with the slow pace of progress because of a weak, disunited ASEAN.

In response to the two papers presented, Klaus Hedrich cautioned that democracy has never been and is unlikely to become ASEAN's *raison d'être*. He argued that ASEAN is essentially an inter-governmental framework with advantages and disadvantages. ASEAN and its Secretariat, he maintained, will only be as strong as its members want it to be. However, Hedrich expressed some optimism that with a pro-active and articulate Secretary-General as Surin Pitiswan, there are opportunities and possibilities for the Secretariat to play a stronger role in driving the ASEAN processes.

Hedrich also advised ASEAN against going the way of the EU and becoming "over-bureaucratized". He expressed his interest in the proliferation of the various regional processes, for example from ASEAN+ 3 to ASEAN+ 6, and wondered if more could be done to streamline the various processes.

Nguyen Hung Sun was more optimistic about the future of ASEAN and its Charter. He acknowledged that the drafting of the ASEAN Charter was necessarily full of compromises as ASEAN remains essentially inter-governmental while its member states are fundamentally Westphalian in their understanding of sovereignty. However, he also believed that by providing ASEAN with a legal personality the Charter would make ASEAN a stronger entity, particularly when dealing with its external dialogue partners. ASEAN's

strength does not only lie in its ability to forge cooperation among its member states but also in its ability to serve as a platform and catalyst for other forms of international cooperation. Already, ASEAN has emerged as the hub of major FTAs. Sun also expressed his optimism that the ASEAN Secretariat could be further strengthened to manage the implementation of various agreements.

In the discussions that followed, the audience raised the following questions.

Drawing particular attention from the audience members with an economics background was the question whether ASEAN constitutes an optimal economic area. While the goal of creating an ASEAN Economic Community is laudable, one could not help wonder whether it may not be better to focus on building the East Asian community and linking ASEAN to the other major key Northeast Asian powers. Related to this issue was a widely shared belief that ASEAN's own integration process benefits from the challenge of having to deal with stronger partners, for example in the format of the ASEAN+ 3 and ASEAN+ 6 processes.

A second question concerned the centrality of ASEAN. Against the background of improving Northeast Asian relations, ongoing discussions of separate Northeast Asian summit meetings among China, Japan and Korea, and the possibility of some sort of Northeast Asian security mechanism resulting from the Six-Party Talks, is

ASEAN it was asked whether ASEAN is going to lose its centrality in the region-building processes in East Asia? This gave rise to the broader question whether it is absolutely necessary for ASEAN to be in the driving seat of region-building. ASEAN, it was argued, should perhaps be more modest about what it can and cannot do, and be content that AFTA has been relatively successful. As there are limitations to what ASEAN can achieve on its own the Association, it was proposed, should be satisfied with being one of the players in the greater East Asian region-building process. If other players can take East Asia regionalism further, ASEAN should support it wholeheartedly and be part of it. Furthermore, the question was raised whether the insistence on the centrality of ASEAN was perhaps a defensive strategy that really reflected ASEAN's own insecurity.

Thirdly, the decision-making process in ASEAN received particular interest. Some participants suggested that ASEAN lost a unique opportunity for implementing a rules-based mechanism when the Charter failed to embrace a system of majority voting. While decision based on consensus (which is different from the principle of unanimity) should always be the rule, putting in place a system of decision by voting would have moved ASEAN away from a diplomatic settlement paradigm to a more rules-based, and at the same time, more flexible system. The ASEAN Charter as it is now has only reaffirmed the system of coordinating rather than pooling sovereignty. Without the transfer or pooling of sovereignty, the idea of ASEAN with a legal personality

is diluted.

The decision-making process in which decisions are referred to the highest summit level whenever there is deadlock has also confirmed the elitist-driven, top-down process of ASEAN that does not conform with the declarations of making ASEAN more people-centred. Nonetheless, it was maintained that a positive reading of the ASEAN Charter is possible too if one remembers that ASEAN is a political construct driven by political will and with the latter present much can be achieved.

The importance of the ASEAN Charter to the future of East Asian regionalism constituted a fourth key concern in the debate. Several participants argued that the ASEAN Charter does not really serve East Asian regionalism in a meaningful way while also having implications for the broader relations ASEAN has with its partners. It was argued for instance that if the ASEAN Charter does not provide for a more efficient, effective and cohesive ASEAN, the question emerges whether the EU should continue to adopt a more post-Westphalian, regional approach towards its relations with ASEAN. More precisely, should the EU adopt a more Westphalian paradigm in its dealings with ASEAN by pursuing relations at a bilateral level – conform to Realist approaches – with individual member states rather than continuing its inter-regional approach?

Fifthly, the role of civil society was examined by the participants. While Alan Collin's paper was positive about the role of civil society in ASEAN, Carolina Hernandez' expressed

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reservations suspecting instead that the so-called engagement of civil society by ASEAN officials accounted to little more than smokescreen. ASEAN officials might have hoped to gain a cloak of legitimacy by allowing for “token participation” by civil society. By taking the bait civil society unwittingly legitimises the process.

In the subsequent discussions on the role of civil society calls were made to acknowledge the increased input track 2 and track 3 people have on the official ASEAN integration process.



# The ASEAN Charter and Implications for East Asian Regionalism<sup>1</sup>

*Carolina G. Hernandez, PhD*

## Introduction

Since its establishment in 1967, the Association of Southeast Asian Nations (ASEAN) has played a key role in the initiation and development of regional mechanisms for comprehensive security cooperation in East Asia as well as the broader Asia Pacific region. ASEAN's performance record in tension reduction and conflict prevention is unparalleled in the developing world. Globally, it is bested only by the European Union (EU), the world's exemplar in regional economic integration and supranationalism within a highly resilient Westphalian international system, consisting of a diverse set of member states, but with similar systems of domestic economic and political governance.

ASEAN has managed to develop this key role as the core, center, and driving force<sup>2</sup> of East Asian regionalism over the past 40 years for many reasons. It has managed to respond positively to past challenges that appeared to undermine this role, and aspires to sustain this role into the future despite numerous challenges and barriers it continues to face. The building of an ASEAN Community of three pillars – an economic community, a political

security community, and a socio-cultural community – is an attempt to mitigate these challenges and barriers. The ASEAN Charter is intended to help in this mitigation effort, but the document has been faulted for doing too little to help ASEAN become a more effective regional actor – among more powerful ones – in order to sustain its key role in East Asian regionalism.

This paper inquires into this issue by articulating some of the demands of building this community of three pillars and investigating whether and how the ASEAN Charter that has recently come to force could facilitate this community-building process on whose success ASEAN's role as core, center, and driving force of East Asian regionalism depends. It provides a brief background of how ASEAN acquired this role, cites some evidence of this role in regional mechanisms and institutions, and notes challenges facing ASEAN in sustaining this role. It then analyses whether the requirements for building the ASEAN Community described in relevant ASEAN documents including the Bali Concord II, the Vientiane Action Program, and the blueprint for an economic community can be facilitated by the ASEAN Charter. It then proposes measures

ASEAN might take to ameliorate the deficiencies of the ASEAN Charter before it makes its concluding remarks.

### **ASEAN as the Core of East Asian Regionalism**

ASEAN has been regarded as the core, center or driving force of East Asian regionalism since the advent of regionalisation in what is now known as East Asia (this originally included ASEAN 10 plus China, Japan, and South Korea or ASEAN+3, and was later enlarged to 13 countries since the East Asia Summit of December 2005 to include Australia, India and New Zealand).<sup>3</sup> By creating peace, stability, and prosperity in Southeast Asia, ASEAN has earned the role of initiator of regional mechanisms for cooperation and peace. To date, there is no regional mechanism for comprehensive security embracing Southeast Asia, the +3 countries, and the broader Asia Pacific region which does not acknowledge the important role of ASEAN, whether in the economic field (the Asia-Pacific Economic Cooperation forum or APEC), or the political security field (such as the ASEAN Regional Forum or ARF). Even the inter-regional mechanism of East Asia and Europe, the Asia-Europe Meeting (ASEM), demonstrates ASEAN's key role.

Born out of the Asian financial crisis of 1997, the ASEAN+3 emerged as the principal expression of East Asian regionalism some 20 years ago. While the +3 countries are larger economies and bigger powers than the ASEAN 10

combined, East Asian regionalism would not have been possible had ASEAN not led the way. It is to be recalled in this context that the original proposal for the creation of a political security dialogue mechanism for the Asia Pacific after the end of the Cold War was made by the Japanese Foreign Minister Taro Nakayama in Kuala Lumpur (Malaysia) in 1992.<sup>4</sup> The proposal was not supported and came to fruition only when ASEAN initiated the establishment of the ARF the following year. This incident shows that political security initiatives that originate from big powers in this region are likely to die in the water, so-to-speak. However, proposals of this nature from ASEAN have almost always been welcomed by prospective participants. Even APEC would not have moved beyond the Australian initiative had the late Indonesian President Soeharto not persuaded his counterparts in ASEAN, including Dr. Mahathir to support this regional economic forum.

### ***Basis of ASEAN's Central Regional Role***

ASEAN took on this regional role due to several reasons. The most important ones are (1) its performance record beginning with its establishment in 1967 during the Cold War; (2) the composition of its membership of small and medium-sized countries apparently free from malign motives combined with historical and other barriers against Chinese, Japanese, or Korean leadership in East Asian regionalism – often called 'leadership by default'; (3) its development and firm commitment to a set of practices, norms, and principles

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collectively known as the 'ASEAN Way'; (4) its engagement of all relevant actors in response to changing needs and contexts; and (5) its economic dynamism making it the fastest economically growing region in the world by the early 1990s.

Indeed, since its establishment in 1967, ASEAN has created a regional environment conducive to peace, stability, and prosperity in its immediate neighborhood. Through conflict avoidance, divisive issues were put on the back-burner while issues amenable to cooperation and assistance created bonds that yielded mutual benefit. It helped that the leaders of the older member states (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and by 1983, Brunei) held office for long periods of time enabling the development of personal ties, even if these ties were short of mutual trust and confidence. Its record of intra-regional reconciliation is outstanding among developing countries and could be set up as a model for Northeast and South Asia, for example. By avoiding conflict with each other, ASEAN member states were able to devote their meager resources to the redress of social and economic problems such as low education levels, poverty, disease, and ethnic/religious issues; they prevented their territory from becoming arenas for superpower competition, and built the foundation for economic take-off by the 1980s with dialogue partners from the developed world. By doing so, their leaders gained political legitimacy that fed into the realisation of a degree of political stability and domestic peace.

The fact that ASEAN is composed of small and medium-sized countries has helped it gain the support of bigger powers in its cooperation mechanisms and initiatives. Bigger powers almost inevitably invite suspicion from others, particularly from their competitors in a system based on the structure of power in the region or in the world. Thus, the structure of power would obviate the leadership of either China or Japan or even South Korea in East Asian regionalism, a situation that could change in the future, but one that serves ASEAN interests for the moment. In this regard, ASEAN is seen as non-threatening, worthy of the support and the confidence and trust by others. At the same time, none of the +3 countries would seriously rally behind any one of them to take on the present role of ASEAN in regionalism. Thus, it is said that ASEAN enjoys its present central and driving force role by default.

Moreover, the practices, norms, and principles collectively labeled as the 'ASEAN Way' whereby consultation and consensus, mutual respect and non-interference, pragmatism and inclusiveness, voluntary compliance and equality, peaceful settlement of disputes, among others have enabled the association to enlarge its membership to include former 'enemies' such as Vietnam as well as those external partners that share an aversion to the notion of pooling national sovereignty, of compulsory compliance to commitments, of non-consensus decision-making, the application of sanctions for non-compliance, and the like. The so-called CLMV countries<sup>5</sup> (and for that matter China as a dialogue

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partner, ARF participant, and close associate in the ASEAN+3 process) would have thought long and hard on the issue of joining ASEAN had the 'ASEAN Way' not been responsive to their own way of conducting business.

ASEAN's flexibility in expanding its external relations beyond the original dialogue partners from the developed world<sup>6</sup> to embrace all relevant strategic actors after the end of the Cold War, including those that were not yet developed countries and were either communist or former communist, helped create its central role in the processes of regionalisation and regionalism in East Asia and the broader Asia Pacific. This role has extended to inter-regional cooperation processes including the Asia-Europe Meeting in the mid-1990s.

Finally, its economic performance record as the fastest growing region in the world prior to the Asian financial crisis of 1997 drew numerous actors from various parts of East Asia, the Asia Pacific, Europe, and other parts of the world to support its leadership role in various intra-regional and inter-regional cooperation mechanisms. It also forged partnerships with inter-governmental organisations such as the UN Development Programme (UNDP).

Thus, until the Asian financial crisis, ASEAN had been able to establish its central role in regionalism and community-building processes in East Asia which has lasted beyond the crisis.

### *Institutional Evidence*

The region's principal cooperation and dialogue mechanisms were either initiated by or enjoy the support of

ASEAN. There are several examples that might be cited to show institutional evidence of ASEAN's central role in East Asian regionalism. Among them are those initiated by ASEAN itself and supported by the world's big powers, or those in which ASEAN's support was critical to its development. Among the first category are the ARF, the EAS, and ASEM (as an inter-regional mechanism) which ASEAN initiated and for which it obtained big power-support. APEC is an example of the second category of regional mechanisms which took off after it gained ASEAN support and participation.

ASEAN initiatives became the basis for the establishment of a political security dialogue mechanism for the Asia Pacific region following the end of the bipolar world order of the Cold War that hitherto underpinned global and regional stability. As already noted, the idea was first proposed by former Japanese Foreign Minister Nakayama which was articulated at the ASEAN Post-Ministerial Conference (PMC) in Kuala Lumpur in 1992. This idea was based on an understanding reached between Australian, Canadian, Japanese, and ASEAN security specialists meeting in a track 2 context in Jakarta in June 1992. The meeting took place under the auspices of the Center for Strategic and International Studies (CSIS) and concerned the need for a post-Cold War dialogue mechanism in their region. The ASEAN Institutes for Strategic and International Studies (ASEAN ISIS) led by CSIS requested the Japanese participant at the meeting to seek the support of the Japanese Foreign Ministry once ASEAN made the proposal. An

apparent misunderstanding took place within the Japanese Foreign Ministry that led to the premature initiation and procedural lapse in the making of the proposal by Japan in the 1992 PMC, an idea that was later realised in the form of the ARF only after ASEAN took the initiative.<sup>7</sup>

The present EAS deviated from the East Asia Summit proposed by the EASG in 2001 based on a slow evolution of summits of ASEAN+3. The latter would have limited participation to the ten ASEAN member states plus China, Japan, and South Korea. ASEAN supported the EASG report at a time when the effects of the Asian financial crisis undermined its standing in the region and the world.

However, once its key economies recovered, in part due to close ties with the rapidly growing Chinese economy, the ASEAN leaders embarked on the expansion of external relations beyond the ASEAN+3 to include other relevant strategic players such as Australia, India, and New Zealand. They ensured ASEAN's central role as the driving force of East Asian regionalism by launching the EAS in Kuala Lumpur in December 2005 after setting ASEAN-centered criteria for participation. These criteria are (1) substantive relations with ASEAN; (2) full dialogue partnership with ASEAN; and (3) accession to the ASEAN Treaty of Amity and Cooperation. Although the launching of the EAS contributed to the further proliferation of regional cooperation and dialogue mechanisms requiring their rationalisation in a fairly coherent regional security architecture, it was seen as a necessary step to ensure

that China would not dominate East Asian community-building and/or to serve as a safety net in the event that a fully risen China, should it become malign, would not gravely undermine the interests of its smaller neighbours.<sup>8</sup>

Even as concerns over the implication of the EAS for the future of the ASEAN+3 process have been expressed in some quarters in East Asia, the new mechanism continues to enjoy the support of its participants. Other likely participants, such as the US (provided it accedes to the TAC) and Russia (which has acceded to the TAC, but whose relations with ASEAN member states might not be sufficiently 'substantive') appear not to be strongly opposed to the EAS or may even consider joining it in the foreseeable future.

As for ASEM, it is well-known that the initiative for its establishment following the EU's 1994 new strategy for Asia came from Malaysia and Singapore, with Thailand hosting its inaugural meeting in 1996. Singapore provided substantial financial support, primarily through the establishing of the Asia-Europe Foundation (ASEF). Despite the problems caused by ASEAN's admission of Myanmar and the subsequent temporary suspension of the political dialogue between ASEAN and the EU, the latter's objection to the inclusion of Myanmar in ASEM was rescinded in a bargaining process that admitted the new EU members whole sale in exchange for the admission of new Asian participants into ASEM, including Myanmar.

Finally, it is also well known that the Australian-initiated APEC was not

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supported by ASEAN in the beginning. ASEAN member states were concerned that their own efforts at regionalism might be undermined and their regional role diluted were they to join a mechanism where the big powers of the Asia Pacific region, including the US would be present. It took the informal leadership of Indonesia which hosted the APEC summit in Bogor to get other ASEAN member states onto the APEC wagon. However, key ASEAN member states have not been keen to sustain APEC, particularly since it began to include security concerns into its agenda. This is a particularly sensitive point in ASEAN circles many of whose supporters think that APEC should restrict itself to economic cooperation issues and leave the political security issues to ASEAN-led mechanisms such as the ARF and the EAS. This view is strengthened by the participation of Taiwan in APEC, a fact that would inhibit APEC's legitimacy to deal with political security issues as a consequence of the 'One-China principle' subscribed to by a majority of states in the region..

Having said all this, it is also important to acknowledge that although ASEAN-initiated regional dialogue mechanisms have been sustained and continue to see the presence of bigger players, criticisms that they are mere 'talk shops' and dissatisfaction with their failure to address security issues in Northeast Asia, for example, have led to plans or moves to organise alternative mechanisms for security cooperation, including the proposed conversion the Six Party Talks on the North Korean nuclear weapons development

programme into a Northeast Asian Security Mechanism. ASEAN cannot remain impervious to these developments and must act decisively and quickly to arrest these developments that could otherwise undermine its role as core, center or driving force of East Asian community-building.

### *Challenges Facing ASEAN in Maintaining its Role*

Numerous challenges stand in the way of ASEAN in its desire to maintain this central regional role. Among the most important are (1) the dilution of its coherence as a consequence of its two enlargement rounds in the 1990s, and (2) its unwillingness and inability to transform its processes, norms and principles as dictated by a constantly and rapidly changing world.

The debate on whether ASEAN should have adopted a strategy of 'deepening' instead of 'widening' in its evolution resembles the debate going on in the EU. In the case of ASEAN, it chose to 'widen' without taking serious steps to 'deepen' despite rhetoric to the contrary. Official documents, from the ASEAN Vision 2020 to those adopted after the Bali Concord II, stress the need to 'deepen', 'enhance', and 'strengthen' regional integration or words to this effect. Yet, ASEAN's actions belie this rhetoric. It may wish to 'deepen', but it has failed to adopt measures to achieve this goal; instead it has widened not only its membership and external relations since the 1990s, but also its scope of cooperation to include the building of a community of three pillars (and to remain the core of East Asia community-building).

The enlargement of membership has meant a dilution of ASEAN's cohesion. While the association was already diverse when membership was confined to the six non-communist, export-oriented original members, with ten members the diversity of its membership has multiplied, and consensus has become more difficult to achieve with the pace of progress – still dictated by the comfort level of its slowest member – becoming even slower than before. Consensual decision-making, reified in the ASEAN Charter only requires the objection of one member state for an initiative to be blocked. Thus, the dilution of ASEAN's internal cohesion – stemming from the diversity and fission among the ten member states and the lack of adequate mechanisms and programmes to create cohesion – could render ASEAN paralysed and eventually irrelevant if business were to continue being conducted as in the past 40 years of ASEAN's existence.

The ASEAN Charter is telling evidence of the unwillingness and inability of its member states to allow ASEAN to prosper by making it more effective in dealing with the serious challenges presently facing this highly interdependent and globalised world. Where a flexible interpretation and practice of national sovereignty and non-interference is required to deal with transnational challenges, ASEAN chose to strengthen the Westphalian norms that define the 'ASEAN Way' of doing things. Where sanctions for non-compliance would strengthen its capacity to become more effective, ASEAN chose to sustain the practice of voluntary compliance. Where making

decisions could be better served by different types of majorities, ASEAN chose to stick to consensual-decision making and to pass responsibility for making decisions in the event of failure to reach consensus to the Leaders' Summit now taking place twice a year under the Charter. Given this situation, can ASEAN walk the talk of building an ASEAN community of three pillars and remain the driving force of East Asian regionalism?

### **The ASEAN Community and the ASEAN Charter as a Response**

Indeed, if ASEAN were to realise its vision of a community of three pillars, the ASEAN Economic Community would represent an embodiment of deeper economic integration making possible the creation of a single market of about 500 million consumers and a single production market, thus making ASEAN competitive in the face of a rising China and a rising India. The political security pillar would yield an ASEAN Political Security Community consisting of a more cohesive and peaceful ASEAN where its member states would no longer be too different in political governance, values, and practice of popular participation, democracy, rule of law, human rights observance and protection, and where the values inherent in a more responsive interpretation and practice of sovereignty would contribute to regional peace, development, and prosperity. The ASEAN Socio-Cultural Community would signify the emergence of a caring

and sharing society in Southeast Asia where poverty, inequality, ignorance, disease, and crime rates would be reduced if not eliminated altogether and where overall human security is assured.<sup>9</sup>

However, to realise this vision, ASEAN needs to be empowered to erode or break the barriers that block the realisation of this community. These barriers are both external and internal to ASEAN. The external barriers consist of competitive economies organised around single states (China and India), and the current global financial and economic meltdown that are certain to constrain ASEAN competitiveness on the one hand, and to contract its export-oriented economies at some future time on the other. Obviously, decision-making is easier and faster in single states than in a grouping of states.

In this regard, ASEAN needs to become more united and cohesive to become a single market and production base. But to realise this goal, ASEAN must become more politically and socially cohesive, must be at peace to maximise the use of its resources for social and economic development instead of dissipating them in internal conflict whose effects often cross national boundaries. To become a caring and sharing society, ASEAN members must not only cooperate more earnestly with one another, but they must also pool their sovereignty in order to address multidimensional problems which threaten their peoples and which no single state – no matter how powerful – can ever hope to redress and ameliorate alone, much less could small and medium sized states such as ASEAN's

members.

The ASEAN Charter, which the present ASEAN Secretary-General Surin Pitsuwan recently described as the answer to the challenge of remaining as the core, center, and driving force of East Asian regionalism,<sup>10</sup> unfortunately gives too little in this regard.

### **Some Thoughts on the Way Forward**

To remain on track and empower ASEAN to realise its twin goals of establishing the ASEAN Community of three pillars, and thereby to keep its role as core, centre or driving force of East Asian regionalism, ASEAN decision makers, particularly the ASEAN Leaders, must remedy the deficiencies of the ASEAN Charter.

#### ***A Proactive Leaders Summit***

Among the claims of the defenders of the ASEAN Charter is the inclusion of some institutional innovations that to them signify 'progress' in ASEAN governance. Among these institutional innovations is the increase in the number of times the ASEAN Leaders will be meeting in a summit as well as a reform of the summit format (i.e., a working summit rather than a ceremonial one). Instead of once a year during which much of the agenda is formalistic, procedural, symbolic or ritualistic the two Leaders Summits provided for in the ASEAN Charter would have working agendas where debates and discussions between and among them would be the basis of official decisions. It is also claimed that



failure to reach consensus on an issue at levels of decision-making below the Leaders Summit will occasion the transfer of these issues to the Leaders Summit.

However, while it may be the case that the Leaders Summits will be transformed into a real working and 'negotiating' body, the issue remains whether the Summit could ensure that consensual decision-making would give way to various majority formulae authorising action by ASEAN. ASEAN experience shows how closely fitted its principles and practices are to those of the United Nations (UN). In the UN, stricter rules of decision-making apply to substantive matters, always requiring unanimity of the five Permanent Members of the Security Council (P5), while procedural matters are decided by simple majority not including the unanimity of the P5. However, the matter of determining whether an issue is substantive or procedural is in itself a substantive matter! What is to prevent the ASEAN Leaders Summit to follow this UN practice? For example, when an issue fails to receive consensus and the Summit takes hold of it, might the Leaders not insist on consensus to decide what kind of voting procedure would be used (consensus or a majority formula)? Even amendments to the Charter could suffer this fate and block positive reform of the way ASEAN conducts business to become more effective even as it leaves the matter in the hands of the Leaders Summit.

Moreover, the Charter avoided providing for compulsory compliance of decisions arrived at by member states, as well as sanctions or punitive measures

for non-compliance. The implementation of the blueprints for the three pillars of the ASEAN Community requires compliance by all. Short of this outcome would compromise the realization of the ASEAN Community.

In this regard, a proactive Leaders Summit is essential to the empowerment of ASEAN and the realisation of the ASEAN Community. To what extent the ASEAN leaders understand this matter is another hugely critical issue.

### *A Credible Human Rights Body*

Another institutional innovation of sorts is the inclusion of an enabling provision to establish an ASEAN Human Rights Body (AHRB) based on terms of reference (TOR) to be set by the Foreign Ministers of ASEAN. A High Level Panel (HLP) has been formed for this purpose. Unfortunately, most of its members are either active-duty foreign ministry officials of ASEAN, retired ambassadors, or members of the High Level Task Force (HLTF) which drafted the Charter. Some human rights advocates from civil society groups had been recruited to join the process of drafting the TOR for the AHRB, but even this can serve as a double-edged sword, serving on the one hand, the positive function of ensuring that progressive ideas enter the decision-making process, while on the other hand, legitimising a process whose outcome, much like the ASEAN Charter, might have been pre-determined by conservative ASEAN governments themselves.

This institutional innovation has

divided civil society in ASEAN, especially among those that worked for the ratification of the Charter on the basis of this enabling provision for an AHRB without looking at the overall importance of the Charter *vis-à-vis* the Bali Concord II and the Vientiane Action Programme (VAP). The VAP already specified the need to set up mechanism(s) for two international human rights instruments ratified by all ten ASEAN member states – the CEDAW for women’s rights and the CRC for the rights of the child. It even sought the assistance of the Working Group for a Regional Human Rights Mechanism (Working Group) to help it think through this issue. But even as the Working Group has begun its deliberations, the ASEAN Charter was adopted, signed, and ratified.

Among the divisive issues around the AHRB are the following. (1) How many human rights bodies should ASEAN establish? Should it establish one each for the CEDAW and the CRC, and another AHRB of general application? One that allows for growth and development in its mandate as an increasing number of international human rights instruments are ratified by all ten member states? (2) What is the process of selection, nomination, and appointment of membership? Should members be appointed by governments, by civil society, or by both? Should members be chosen on the basis of merit or position in government? (3) What kind of powers/mandate would be provided – promotion, protection or both? Would the human rights body have only investigative powers? What about

prosecutorial and punitive powers? (4) What kind of tenure would it have? (6) To whom should it be accountable?

The creation of a credible human rights body in ASEAN would serve as concrete evidence that despite the infirmities and deficiencies of the Charter, ASEAN can deliver even on a highly sensitive and divisive issue such as the establishment of a regional human rights body. This would confirm leadership in a larger context. The question is; can ASEAN deliver?

### *An Adequate Funding Mechanism*

A third important task for ASEAN is the provision of adequate funds for the institutional innovations the Charter has introduced, including for the two additional Deputy Secretaries-General. Equality of contribution should not be seen as a guarantee for equality of the rights and privileges of membership.

Right now, the Charter provides for equal contribution from member states with huge gaps in their capacity to pay based on their wealth. They are spread across a wide economic plane – from prosperous Singapore to low income Laos. In this regard, the burdens of membership in ASEAN can even be too heavy for lower income countries in the region.

### **Concluding Remarks**

Surely, ASEAN has earned the trust and confidence of its partners in East Asia and beyond which enabled it to craft a central role for itself in the region prior to and after the Asian financial crisis of

1997. Adept at pragmatism, conflict avoidance, constructive engagement of all relevant partners as well as at postponing definite solutions to divisive issues but working on the areas of the politically possible, ASEAN has much to be proud of in the first forty years of existence.

Having set such high goals for itself, however, particularly the realisation of an ASEAN Community of three pillars and keeping its role as core, centre, and driving force of East Asian regionalism, ASEAN has to come to terms with its inability or unwillingness to change the way it has conducted business in the past. In particular, it must deal with the imperative that reforming ASEAN is a pressing concern that cannot take

another forty years to accomplish. It must act on the urgent need to reform its decision-making processes; seriously consider adopting compulsory compliance of decisions made including a system of sanctions for non-compliance; ensure that its financing and budgetary principles and arrangements deliver the material requirements for building the ASEAN Community; and demonstrate its credibility to act including on sensitive issues like human rights promotion and protection. These steps are required for ASEAN to become more coherent, effective, and credible – qualities required for holding the centre in East Asian regionalism.

## Endnotes

- 1 Prepared from a presentation delivered at the 10<sup>th</sup> East Asia-Europe Think-Tank Dialogue on “Institutional Development in Regional Organizations: Charter-Making in the EU and ASEAN, Perspectives from Europe and East Asia”, jointly organised by the Institute for Strategic and Development Studies, and Konrad Adenauer Stiftung, Shangri-La Resorts, Mactan,, 12-15 October 2008.
- 2 It is problematic to use the term ‘driver’ to refer to ASEAN’s role in East Asian regionalism as the metaphor does not fit a ten-member body. ‘Driving force’ is a better term, and one that has been used in official ASEAN documents.
- 3 This region of the East Asia Summit is different from the region seen as such by the East Asia Vision Group (EAVG) and East Asia Study Group (EASG) whose regional footprint consisted of the ASEAN 10 member countries plus China, Japan, and South Korea.
- 4 An account of this episode is found in Jusuf Wanandi, “ASEAN ISIS and its Regional and International Networking”, in Hadi Soesastro, Clara Joewono, and Carolina G. Hernandez, editors, *Twenty Two Years of ASEAN ISIS: Origin, Evolution and Challenges of Track Two Diplomacy* (Jakarta: Center for Strategic and International Studies, 2006), p. 32.
- 5 These are Cambodia, Laos, Myanmar, and Vietnam which joined ASEAN between 1994 and 1999.
- 6 ASEAN’s original dialogue partners were from the OECD countries and as such sources of development assistance as well as partners in functional cooperation. Like the original

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## The ASEAN Charter and Implications for East Asian Regionalism

ASEAN 6, they were also non-communist.

- 7 The author is privy to these events as a participant in the Jakarta track 2 meeting and a founding member of ASEAN ISIS. An account of this episode can be found in Jusuf Wanandi, “ASEAN ISIS and its Regional and International Networking”, in Hadi Soesastro, Clara Joewono, and Carolina G. Hernandez, editors, *Twenty Two Years of ASEAN ISIS: Origin, Evolution and Challenges of Track Two Diplomacy* (Jakarta: Center for Strategic and International Studies, 2006), p. 32.
- 8 See Carolina G. Hernandez, “The Rise of China: Responses from Southeast Asia and Japan”, in an edited volume to be published by Japan’s National Institute of Defense Studies, forthcoming 2009.
- 9 The Bali Concord II, Vientiane Action Programme and the Blueprint for the AEC would support this interpretation.
- 10 Keynote/Dinner Speech of Dr. Surin Pitsuwan delivered on 3 June 2008 on the occasion of the 25<sup>th</sup> Anniversary celebration of ISIS Malaysia at the Kuala Lumpur Convention Center.

# Economic Developments in the EU, East Asia and the US, 2007-2008

*Mahani Zainal Abidin*

## Introduction

Never before have we seen such a sudden and profound reversal of fortune. The world economy has moved in the time span of only a few months from a condition of robust growth, from commodity shortages and steep price rises, to the complete opposite – collapsing prices, almost invisible consumer demand and declining public confidence, particularly in the banking sector. Governments have reacted more swiftly than ever before and have been quick to realise the severity of the problem. In the early part of 2008, the world was confronted with the problem of sky-rocketing commodity and food prices, global surplus imbalances between energy producing and energy consuming countries and the threat of global inflation. At the same time, banks were rushing to generate short-term profits on the backs of little publicised and even less well understood financial instruments. Finally, the failure of one small sector of the loans industry, the sub-prime housing loan market in the US, spread to all parts of the global economy. Based on the knowledge gained in the last economic depression, conventional wisdom holds it that the same prescriptions can also

remedy today's problems, albeit with some modifications and improved coordination between countries.

The financial crisis in the US and the European Union (EU) has now spread to the real sector in these economies. In 2009, shrinking consumer demand is pushing the US, the EU and Japan into a recession. East Asian countries will not be spared from the spill-over effects of the turmoil in these parts of the world. For East Asia it is important to learn the lessons from the experiences of the US and the EU so as to allow the region to respond adequately and to help build a more stable and sustainable interlinked global economy.

## Commodity prices and inflation

In 2007 and in the first half of 2008 commodity, mineral and food prices surged upwards. This development created major global concerns because it caused global inflation. In July 2008, the oil price hit US\$147 per barrel and was forecast to reach US\$200 per barrel by the end of 2008. The price for palm oil also reached an all time high of

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## Economic Developments in the EU, East Asia and the US, 2007-2008

US\$1237 per tonne in March 2008. Since those days, prices of commodities and food items have collapsed. Minerals such as steel and gold have followed a similar pattern with prices first increasing and then decreasing. Even more alarmingly, food prices rose too bringing with it the threat of social tensions. Prices for wheat, rice and corn increased by more than 30% between mid-2007 and mid-2008. In some parts of Asia, the situation led to riots and long queues of consumers who feared a rice shortage. Many East Asian governments have resorted to subsidising food retail prices to ensure that these essential items remain affordable to their people. However, some East Asian countries could not afford the heavy burden of subsidy of oil and gas, and

were forced to increase the prices of these products. The latter led to sharp increases in prices generally. Table 1 below shows the inflation rate of selected countries during the first quarter of 2008, with many reaching record levels.

The dramatic increases in the price of commodities, minerals and food products were caused by a combination of factors; speculation, the growing demand by emerging countries such as China and India, a shortfall of production, and the alternative use of food crops to produce biofuel. Rising global inflation stirred the fear of stagflation, namely high inflation rates coupled with stagnant growth and high unemployment rates.

**Table 1: Countries experiencing record inflation**

	Inflation rate	Highest in
US	4.1 (1Q/08)	16 yrs
European Union	3.8 (Mar/08)	10 yrs
Australia	4.2 (1Q/08)	17 yrs
China	8.7 (Feb/08)	11 yrs
S. Korea	3.9 (Mar/08)	7 yrs
Singapore	6.7 (Mar/08)	26 yrs

From September 2008, we witnessed a sudden downturn in the hitherto upward trend in commodity, mineral and food prices. In October 2008, the price of oil had fallen to US\$86 per barrel which meant a 41% drop since its peak in July 2008. By January 2009, the price of oil had dropped even more dramatically to below US\$40 per barrel. Likewise, minerals and food prices also fell.

Lower prices eased inflation and provided relief to governments in terms of decreasing subsidies and to the general public as goods and services became more affordable. Many countries also lowered their interest rates, which had earlier been increased in an effort to battle rising inflation. However, for commodity producing countries such as Indonesia and Malaysia, lower commodity prices led to lower export revenues which, in turn, negatively affected government funds.

## **The US financial and economic crisis**

The problem of rising inflation witnessed in the first half of 2008 suddenly receded in the face of the collapse of the global financial system in the third quarter of 2008. Although the stress in the US financial system could be detected in as early as 2007, the total ramifications and high severity of the threat were not clear at that time.

The US became the epicentre of a global financial turmoil which quickly spread to the EU. Financial institutions

in the UK, Germany and France became early casualties of the crisis. The bankruptcy of Lehman Brothers, one of the world's biggest investment banks, severely affected public confidence in the financial system. Banks became much more reluctant to lend to one another. As a result, the global financial system nearly came to a halt and credit almost dried up. In addition to Lehman Brothers, many other major financial institutions needed to be rescued; Fannie Mae and Freddie Mac, the USA housing loan providers were nationalised through a capital injection by the US government of US\$100 billion each. There was also a government bail-out of AIG, a global insurance company, the sale of Merrill Lynch (a top investment bank) to the Bank of America, the sale of Wachovia Mutual (a major lender in the US) to JP Morgan (another major investment bank) and most shocking of all, the sale of Bear Stern to JP Morgan for US\$2 per share. In addition, the remaining two US investment banks were transformed into commercial banks.

The US Treasury and Federal Reserves took the unprecedented move of proposing a package to help troubled US financial institutions. The US\$700 billion worth 'Troubled Asset Relief Program' (TARP) which will buy toxic assets of financial institutions was welcomed but has not met the objective of restoring market confidence. Furthermore, TARP may not be big enough in value to remove enough toxic assets so that the financial institutions can begin to lend again. Many of the implementation problems related to TARP are not yet fully resolved. Many observers also believe that the toxic assets actually exceed the size of the rescue package. Thus, more money may be

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## **Economic Developments in the EU, East Asia and the US, 2007-2008**

required to return the US financial system to normal and, more importantly, to provide relief to the sub-prime borrowers. Lower interest rates are hoped to encourage re-payments and banks are urged to work out loans re-payments with borrowers to minimise default.

However, the injection of liquidity by the US government was not enough to calm the markets and to restore public confidence. Measures to deal with the problem, namely the rescue of troubled financial institutions, the injection of liquidity and the lowering of interest rates, have failed to halt the deteriorating situation. The injection of liquidity also failed in its objective of allowing banks to lend again. To overcome this problem, the Federal Reserve Bank introduced the unprecedented measure of lending directly to companies. The situation is no longer just a liquidity problem but has turned into a crisis of confidence. 'Cash is king' as banks would prefer not to lend but to preserve capital. Similarly, consumers would rather save their money than spend it.

The crisis in the financial sector quickly spread to the rest of the economy, or, as some analysts would have it, the 'real economy'. However, recent events have shown in the clearest possible way that the banking sector is very much integral part of the real economy and has the power to 'infect' otherwise healthy sectors. The impact of the troubled banking sector on the rest of the economy is also referred to as 'from Wall Street to Main Street'. The measures adopted in order to solve the problem in the financial sector failed to arrest the loss of consumer confidence and public spending. Although the Federal Reserve Bank slashed interest rates to 0.5% per annum

consumer spending continues to slide. This is caused by a number of factors, primarily limited access to credit and the collapse of house prices, which traditionally play an important role in supporting loans and thus consumer spending. Personal wealth, savings and pension entitlement were strongly hit by the 36% decline of the world-wide stock market valuation in 2008. Although a fiscal stimulus programme with direct cash transfer to individuals was introduced, its impact was minimal. Weak consumer demand has taken a very heavy toll on the automotive industry. The three auto giants – General Motors, Ford and Chrysler – have asked for a huge government bailout to stay afloat. Unemployment rates have also increased.

Contrary to expectations and long established wisdom, the US dollar exchange rate rose in relation to other currencies, with the exception of the Japanese Yen. Continued purchases of US Treasury bonds ensured continued capital flow into the US. The repatriation of capital to meet redemption by savers in equity funds in the US and to reinforce the financial position of parent companies increased the demand for US dollar. However, in the long run, the US dollar may weaken because of the deep economic contraction and the huge need to finance the recovery programmes.

## **The financial and economic crisis in the EU**

Financial institutions in the EU were among the first to be affected by the problems in the US, because they were



linked to the US financial sector through liberalisation that allowed financial instruments to be traded across borders. The system of financial engineering that has been developed in the last 10 years has created complex financial instruments in order to put prices at risks. These include the following.

- Future contracts which lock in participants to buy or sell assets.
- Options which pay a premium for rights to exercise option to buy or sell should prices move in a specified direction.
- Swaps which issue bonds in one currency and exchange (swap) them for another currency, creating lower interest rates for borrowers.

These instruments have one common characteristic; with a small initial position, they can multiply the amount at stake, which then leads to much larger exposure.

Securitisation is another popular financial instrument which spread the effects of the financial meltdown from the US to EU. Asset-backed securities are collateralised debt obligations where loans were bundled into packages and then sold to outside investors. The US sub-prime loans were bundled together with other financial assets to become new financial products. With good ratings, these products were then bought by insurance companies, banks, local authorities and pension funds in the originating and even in other countries.

There were a number of casualties in the EU. For example, Britain had to nationalise the Northern Rock bank, the German government had to bailout Hypo Real Estate with a €35bn credit guarantee, and Fortis, a Belgian-Dutch financial group, came under stress. As the EU's banking problems were

unfolding, the European Central Bank injected €95bn worth of funds to provide liquidity for the system and for banks to continue lending. EU governments also guaranteed bank deposits and have agreed to widen their fiscal deficits.

A well-coordinated response was taken by the 15 EU zone countries. The EU along with the national governments of its member states are considering a relaxation of the present cap imposed on each nation's fiscal deficit. A higher fiscal deficit is one way to stimulate growth.

The crisis is taking a particularly heavy toll on the UK economy. Low consumer demand has resulted in the closure of retail business. For example, the iconic Woolworth high street UK retailer recently closed its shops nationwide. The UK also saw unemployment levels rise, particularly in the financial sector.

## **The Impact of the global financial and economic crisis on East Asia**

With the exception of Japan, the impact of the global financial crisis on East Asia is so far limited. Learning from the experience of the 1998 financial crisis East Asian countries have strengthened their financial sector by introducing more stringent practices of governance and by building up the capital base of their financial institutions. East Asia's financial sector has also adopted a more cautious approach to financial liberalisation which helped minimise the region's exposure to more complex but also riskier financial instruments. Consequently, only a few of

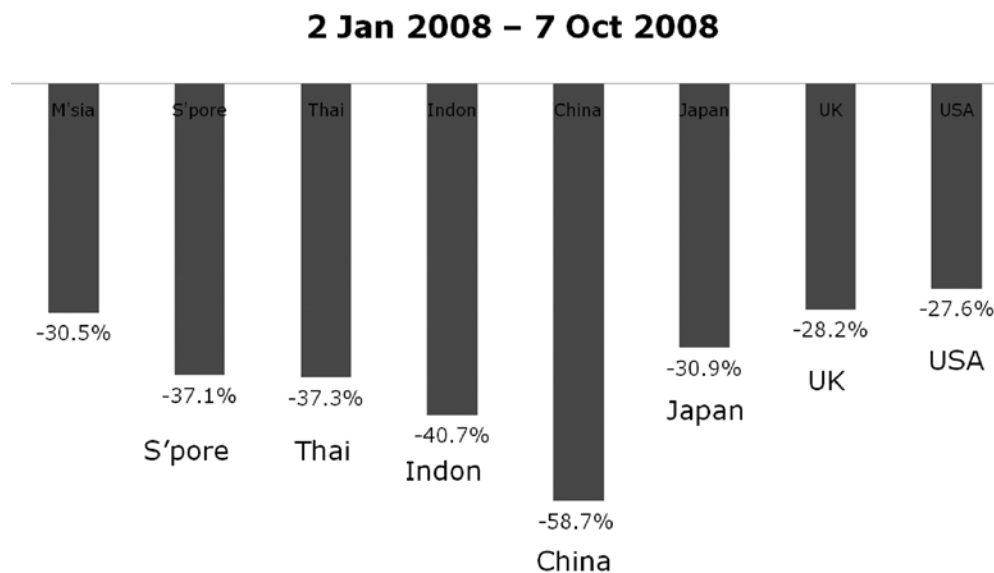
## Economic Developments in the EU, East Asia and the US, 2007-2008

the East Asian banks and other financial institutions suffered losses from the US sub-prime loan defaults. These institutions' capital bases were not impaired and they could continue lending.

East Asia, however, has not totally avoided the effects of the sharp stock markets decline in developed countries. The stock market drops in East Asia were in fact larger than the decline in the US and UK as shown in Figure 1 below. For the period from 2 January to 7 October 2008, the Shanghai stock market (China) fell by 58.7% as compared to a 27.6% decline of the Dow Jones (US). Similarly, ASEAN stock markets suffered large reductions between 30% and 40%. This contagion effect was immediately felt on the same timescale as the falls in US and EU

stock markets, which shows that East Asian markets have not de-coupled from the US and EU as previously claimed. Global investors became more risk averse and withdrew their investment in emerging markets as the latter were considered more risky. Instead, funds were reinvested in safer investment instruments or in the markets of developed countries. Many of these investors were also forced to liquidate their investment in East Asia to meet redemptions in their home countries. Up to October 2008, East Asian stock markets had a cumulative net capital outflow of more than US\$15 billion whereas in 2007 the region recorded a net capital inflow of more than US\$16 billion.

**Figure 1: Performance of Selected Stock markets**



## Economic Developments in the EU, East Asia and the US, 2007-2008

By contrast the global financial and economic crisis took longer to affect the real sector in East Asia. The strong local financial sector provided a buffer. Since financial institutions were not affected, the credit system continues functioning, which in turn helped preserve business and consumer confidence. The impact on the East Asian real sector will instead be felt more closely through exports; direct and indirect East Asian exports to US are large. Although some analysts had formerly believed that China's high economic growth would make East Asia less reliant on the US and EU, the US economic slowdown in 2008 and the lower export performance from East Asia have discredited the theory that East Asia has de-coupled from the US. Hence, East Asian countries with large export exposure will likely to be hit the hardest.

Table 2 shows the degree of trade dependency of East Asian countries. Singapore tops this list with a Trade to Gross Domestic Product (GDP) ratio of 397%, followed by Hong Kong at 356% and Malaysia at 161%. Therefore, it is not surprising that Singapore's non-oil exports plunged by 14 % in August 08 (year-on-year) due to a smaller demand for electronic exports. Malaysia's export growth in August 2008 stood at its lowest rate in five months, moderating to 10.6% (year-on-year) which was less than half the 25.3% growth in July and 20.8% export growth in the second quarter of 2008. China is facing a similar situation with export levels significantly decreased. News reports indicate serious social problems in China's export processing zones where many factories have been closed because there is no export

demand. It remains to be seen how the Chinese government will respond to the challenge of rising unemployment.

**Table 2: East Asian Dependency on Trade**

2007	Trade/GDP (%)
Singapore	397
Hong Kong	356
Malaysia	161
Taiwan	120
Thailand	110
South Korea	74
China	64
Japan	15

Another immediate impact of the global financial crisis has been the fall in value of most East Asian currencies. The exception is the Japanese Yen which has appreciated significantly. Unlike the 1998 Asian financial crisis, this time around East Asian countries could not take advantage of their depreciating currencies to increase their exports because the demand for exports has declined.

### Growth prospects

It is often asked whether these financial and economic troubles will lead to a global recession or whether they might even lead to a depression. A depression is any economic downturn where real

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## **Economic Developments in the EU, East Asia and the US, 2007-2008**

GDP declines by more than 10%. A recession is an economic downturn that is less severe. The Great Depression in the United States lasted from August 1929 to March 1933 during which time real GDP declined by almost 33%. Another less severe depression took place from May 1937 to June 1938, when real GDP declined by 18.2%. The worst recession since those times took place from November 1973 to March 1975, when world real GDP fell by 4.9%. Using this definition, countries such as Finland and Indonesia have suffered depressions in recent memory. The current global financial and economic crisis could be called a recession and it is unlikely that it will deteriorate into a depression. This view is supported by the International Monetary Fund (IMF) which has ruled out the return of the Great Depression. The coordinated and prompt response by the world's leading countries will help prevent this crisis from worsening. However, this is the first time that the key global economies – the US, the EU and Japan – are all experiencing a recession at the same time.

In October 2008 the IMF predicted that world economic growth would fall from 5.0% in 2007 to 3.9% in 2008 and then even lower to 3.0% in 2009. This is shown in Table 3 below. However, these forecasts had to be downgraded further in November 2008 because of rapid economic deterioration. In its latest published outlook, the IMF predicted that the US economy will contract by 0.7% in 2009; the EU economy will decline by 0.5% while Japan will suffer also a decline of 0.2%. In 2009, the World economy is predicted to grow at a slower rate of 2.2%.

Presently, it is estimated that the world's largest banks may need US\$ 675 billion in fresh capital over the next few years to recover from the credit crisis. The seriousness of the crisis prompted the world's central bankers and finance ministers to gather in Washington DC in October 2008 to discuss a global response to the credit crunch amid the worst financial crisis to hit advanced economies since the 1930s.

**Table 3: IMF marks down global real GDP forecasts (%)**

<b>Countries</b>	<b>2007</b>	<b>2008</b>	<b>2009(f) October 2008 estimate</b>	<b>2009(f) November 2008 estimate</b>
<b>ASEAN</b>	6.3	5.5	4.9	4.2
<b>Japan</b>	2.1	0.7	0.5	-0.2
<b>India</b>	9.3	7.9	6.9	6.3
<b>China</b>	11.9	9.7	9.3	8.5
<b>US</b>	2.0	1.6	0.1	-0.7
<b>EU</b>	3.1	1.7	0.6	-0.5
<b>World</b>	5.0	3.9	3.0	2.2

*Source: IMF World Economic Outlook Database*

In this global turmoil, East Asia remains as an engine of growth, albeit a slower running one than before. China and India are the key drivers for growth in 2009, with the former estimated to grow at 8.5% and the latter at 6.3%. These growth rates are below past levels achieved, and in the case of China, there are concerns that the current rate of expansion is not sufficient to create jobs for the new entrants into the labour market. Slower economic growth in China will have serious implications for intra-regional trade as the country has become a major trading partner for many countries in the region. For example, China has overtaken the US as Japan's largest trading partner.

Following the general trend, growth projections for ASEAN economies in 2009 have also come down. ASEAN is expected to grow by 5.5% in 2008 and by 4.9% in 2009. In the latest IMF forecast, ASEAN economies are expected to grow by 4.2% in 2009.

Nevertheless, Singapore is already in a technical recession (experiencing two consecutive quarters of negative economic growth in 2008) and its GDP estimate for 2009 is between minus 2% and minus 5%. Being a small and a very open economy, the impact of the reduction of global demand on Singapore exports was far greater than on other ASEAN countries which have a more balanced economic structure. The sizeable domestic populations of Thailand, Malaysia, Indonesia and the Philippines may boost their domestic economies and help create domestic demand as a way of compensating for the fall in exports. In addition, given its role as a regional financial centre and its extensive linkages to the global financial system Singapore also suffered the most among the ASEAN countries from the financial crisis.

## **Conclusion**

East Asia will surely be adversely affected by the financial and economic crisis in the US and the EU. The impact on East Asia's financial sector is likely to be limited to those with large export exposure because the region's financial institutions and systems were strengthened after the 1998 Asian crisis. However, East Asia is at risk in terms of financial flows and its international reserves which are invested in the US and the EU. The most strongly felt effects for East Asian economies and markets were liquidity problems; US and European investors withdrew capital from East Asia in order to cope with cash flow problems in their own countries. The large fall in the East Asian stock markets is a sign that capital from developed countries has moved out from the region.

However, East Asia is not the only region experiencing this outflow. Capital has moved out from most emerging markets. Most East Asian countries have sufficient international reserves to finance the outflow. These large reserves were built after the bitter experience of the 1998 Asian crisis. However, Korea, Indonesia, and the Philippines may face the greatest risks in terms of financial flows because the size of mobile capital relative to their foreign exchange reserves is higher than in other East Asian nations.

East Asia is beginning to feel the economic impact of the global crisis. Since exports are crucial to most East Asian countries, falling demand for East Asian products from the US and the

EU will seriously affect the region's growth prospects and its socio-economic welfare. A slowdown for labour-intensive exports such as textile and wearing apparel, furniture, footwear, toys and selected electrical and electronic products will mean higher unemployment rates which will hinder East Asia's efforts to boost domestic demand. Unemployment or wage cuts will also have far-reaching implications on social dimensions because East Asia does not have a well established social security system to act as a safety net.

The prompt and well coordinated response by the world's major economies in dealing with the financial turmoil has significantly helped prevent the world from going into a deeper recession or even a depression. Lessons have been learned. Unlike the Great Depression that needed a world war to bring back full employment in the US and the UK, led by the US and the EU this time many governments intervened. Massive liquidity was loaded into the financial systems to ensure that market confidence remained intact. Interest rates were lowered to record levels to lower the cost of capital. Similarly, the world's major countries should quickly coordinate measures to deal with the problems in the real economy, namely falling consumer demand and businesses in distress. While East Asia may be able to experience positive growth in 2009, predictions of further deterioration of the global system will make the region's outlook much less positive. Therefore, it is imperative that East Asia works closely with the US and the in bringing back growth.

# Asia-Europe: Quest for Change vs. Preference for Status Quo – The roles of Regionalism, Inter-regionalism, and International Global Governance

*Dr. Michael Reiterer*

The process of change, following the 'unilateral moment' of the post- Cold War era, brings Asia back onto the world stage after having overcome the Asian Financial Crisis of 1998. The history of the 2008 international financial crisis has not been written yet, neither in Europe nor in Asia; but it is unlikely to change the newly emerging balance of power in Asia. Although Japanese banks do relatively well compared to the US and Europe, China will not cede its role to Japan. Japan's real economy will suffer more than the Chinese one because of the weak domestic demand.

Europe is facing the challenge by developing various solutions to the problem, the primary approach being to save financial institutions as the engines of (inter)national economies instead of sweeping up bad loans. These ideas have also come to be accepted by the US. While the Financial Summit of November 15, 2008 was not earth-shaking in its results, it showed that the international community can indeed react. The Summit also demonstrated the strength of the enlarged G20 (instead of the G8) which brought

China to the table – in addition to Japan which had so far guarded its prerogative as main Asian representative in the G8 and the OECD.

Asian banks seem to have been comparatively less exposed to risks emanating from the US. However, the real economies of Asia, too, will be affected by the world-wide recession. Japan is once again officially in recession – if it had, in fact, ever overcome it. China, again, played a responsible role demonstrating – if there was still a need to do so – that it is integrated into the international system. Indeed, China has a vested interest in the recovery of the US domestic economy and, as an integral part of it, in the global economy at large. This is perhaps a new experience for the country.

Looking back at the Asian Financial Crisis of 1998, Asian partners are rightly struck that the advice given to them by the international financial establishment at the time is apparently no longer applicable to today's crisis. In 1998, state intervention was rejected in favour of market forces. Today's approach appears to be the exact opposite. As I

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## Asia-Europe: Quest for Change vs. Preference for Status Quo – The roles of Regionalism, Inter-regionalism, and International Global Governance

experienced a while ago in Singapore, this creates some feelings of uneasiness. With a few years hindsight this crisis might thus present itself as a global turning point just as the 1998 Financial Crisis was a turning point for Asia. The comparison of the state of Asian economies prior to and post 1998 reveals the following picture.

Instead of the 'flying geese formation' with Japan in the lead and the disguised 'tigers' in pursuit, we witness the rise of **China**. China's progress has been initiated by Deng Xiaoping, was symbolised by the 2008 Olympic Games and will be further reinforced by the World Expo to be held in Shanghai in 2010. The country's accelerated participation in the international competition to explore space and to develop space technology is just another example of China's efforts to put the country on various maps, not least to cater to its domestic audience.

The US Security Council forecasts China's GDP to overtake that of all states, except that of the US, by 2020 while the GDP of India is expected to overtake that of Europe. Goldman Sachs puts the date to 2050 and bets on **BRIC**, Brazil, India, China, in general.

After having courted the EU for a decade with the aim of counterbalancing the US, China has become more assertive and challenges the EU. The short notice cancellation of the November 2008 bilateral summit in Lyon and the threat to reduce economic relations with France because of President Sarkozy's meeting with the Dalai Lama prove this point.

This incident raises the question on how to deal with countries such as

China and Russia, which are of particular importance to the EU yet do not share the same values, for example the rule of law, respect for human rights and fundamental freedoms, good governance or democracy in general. The soft power<sup>1</sup> of the Union works the better the more interested a partner is in joining the Union or the closer the interdependence between both actors is. Thus, without being able to enter the military component into the equation of power politics, the way the Union uses its soft power becomes crucial. These so-called special relationships have to be built on firmness, the readiness of the EU to use the tools at its disposal without wavering, and internal unity that rules out any possibility for divisions. The present financial crisis proves the interdependence between states and reevaluates the economic and financial tools of diplomacy.

We also witness **India** catching up after having changed its economic policy from import substitution to a more open economy. However, the Indo-Pakistani conflict impacts negatively on the country, the 2008 terrorist attack on Mumbai have confirmed this point. Furthermore, the latent tensions between Hindus and Muslims can easily be exploited by political forces and erupt regularly in violence or terrorism.

We witness attempts by **South East Asia**, with ASEAN at the centre, to deepen cooperation and integration – for example in the form of ASEAN+3, the East Asian Summit, and various FTAs – in order to prevent it from losing control over developments in



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the region and from becoming the playground of international politics. The **ASEAN Charter**<sup>2</sup>, which was adopted in 2007 and ratified by all ASEAN members in 2008, attempts to create greater internal cohesion and seeks to compensate for a lack of institutionalisation. While the EU certainly acted as a role model, the Charter is neither an adaptation nor a copy of the European approach which has resulted in the pooling of sovereignty and the creation of distinct EU institutions. The strengthening of the ASEAN Secretariat and the introduction of a human rights mechanism as well as elements for dispute settlement reflect a move towards broader institutionalisation of a traditionally rather informal and sector-driven process. However, the principle of non-interference in the domestic affairs of its member states remains a pillar of ASEAN which is likely to weaken rather than to strengthen the Association in the long run. The most prominent example here is Myanmar. The fragility of the ASEAN family is highlighted by the re-occurrence of tensions between the Association's members – Thailand and Cambodia regularly reach the brink of war over unresolved territorial disputes, such as the UNESCO protected Preah Vihear Temple.

The genie, however, is out of the bottle; a Charter for an East Asian Community – either building on ASEAN+3 or the East Asian Summit – although still a long shot – is already being discussed within academic circles<sup>3</sup>.

We witness **Japan** struggling to regain ground after the 'lost decade' of

the 1990s, yet with limited success, both economically and politically. In today's Japan, old habits of short-term prime ministers have resurfaced and political instability prevents the country from claiming a leading role in Asian politics. Indeed, Japan's leadership is faced with a string of acute challenges. The need to reposition the country in the light of China's economic and political rise including the latter's participation in various international regimes such as the G20; Indian claims to be part of East Asia and its FTA negotiations with ASEAN; a possible redefinition of the relationship with the US under a new democratic administration following the election of Barack Obama; a review of Japan's role in international politics, in particular with a view to the country's participation in international efforts to curb terrorism world-wide; and an acknowledgement of the country's diminished influence in international economic matters, for example with a view to the changing structure of the WTO. Finally, Japan's leadership is called on to help manage the present global crisis.

Japan is trying to find a balance between an Asian led economic community while relying on a US-lead security community; this is often referred to as "comprehensive security"<sup>4</sup>. This concept will be further challenged as I would expect the new US administration to ask for a more symmetrical relationship with Japan by asking the latter to become part of its global security concept. Thus, Japan will have to position herself between the US, losing power on the economic level, and China, aspiring to gain

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influence on the strategic-military level, at least regionally, while already having turned into an economic power, on which Japanese industry depends to a growing degree. Gaining the trust of the regional neighbours and overcoming the shadows of its own history remain the unresolved challenges which need to be met if Japan is to assume a regional leadership role.

We witness the **Russian Bear**, beefed up by energy revenues, seeking to reclaim power and influence over the now defunct Soviet Union causing frustration among its former satellite states while also challenging the dominant role of the US. The short war with Georgia was also a wake-up call for the West as it showed only too clearly how easily energy supply lines, which try to circumvent Russia, can be cut. Indeed, the Russian army stopped only a few kilometres before the gas pipelines. At the same time, Russia is dependent on energy revenues and is in need of investments to modernise the energy sector, including energy extraction and transport, all of which are suffering from high inefficiencies, rather desperately. While Russia is involved in Asian politics, it does so less visibly and less active in East Asia, as its attention focuses on Central Asia and domestic politics. Russia is a participant in the Six Party Talks and technically still at war with Japan because of the unresolved dispute over the Kurile Islands.

We witness a **European Union (EU)** that is not completely at ease with itself. Not only is the EU forced to come to terms with the rejection of the Constitutional Treaty, the Lisbon Treaty, is also has to digest its own enlargement

and to try and meet the expectations of its own peoples and of the world at large. Nonetheless, the EU has reacted much more decisively and in a much more coordinated manner than expected to recent challenges, e.g. climate change, Russian ambitions, securing energy supplies, and more recently the Russian-Georgian war and the turmoil in the international financial system.

**Thus, while Europe generally gives the impression of remaining committed to the *status quo* Asia is advocating change.**

- Asia requests for a larger role in international policy-making.
- Japan and India call for permanent seats on the UN Security Council.
- Asia calls for a larger share and a bigger role in international financial institutions including the IMF and the World Bank as Asian countries, and China in particular, are holding a large and ever increasing share of international reserves.
- India and China are sharing with the US the doubtful merit of having blocked a deal in the WTO Doha negotiations in July 2008. India and Brazil are part of the new G4 replacing Canada and Japan of the former Quad of the Uruguay Round.
- China has globalised in terms of trade and foreign direct investment and has accepted the WTO rules. China has become the second most important trading partner of the EU while the EU has become the number one partner of China.

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- China uses its emerging power as organiser and broker of the Six-Party-Talks on North Korea, representing itself as a regional power broker and a responsible partner.
- China distinguishes itself as harvester of raw materials and energy in areas it has not been active before including the Middle East, Africa, and Latin America thus chartering new ground on the former ‘home turfs’ of European powers and the US. China, thereby, challenges these powers in what they previously considered to be their ‘hinterland’.
- China, India and Pakistan are nuclear powers.
- Ban Ki Moon became the second UN Secretary General.

### **What are the consequences of these and other developments, and which conclusions are to be drawn?**

- The trilateral relationship between the EU, the US and Asia will gain in importance which, in turn, sees the trans-Atlantic partnership losing its dominant role in international politics.
- This new tripartite relationship translates into a relative loss of influence of the two other players; however, particularly the EU will clearly fall into second place behind the US.
- Asian ideas, models, and ways of doing things will gain broader acceptance. The Asian value discussion of the 1980s has to be understood as a form of precursor to these developments.
- Europe, however, has the opportunity to leave its mark globally as regionalisation and integration are gaining ground in Asia. This is evident in ASEAN+3, the ASEAN Charter and the East Asian Summit. However, the EU will have to deepen its engagement and move from mere rhetorical advocating of open regionalism to practical support by offering its experience in an open dialogue.
- The international system will be faced with an indigestible spaghetti bowl of rules of origins because of a dense network of regional, intra-regional and inter-regional FTAs with differing scopes, depths and political intentions.
- The EU will have to further develop its 2003 Security Strategy<sup>5</sup> which had singled out Japan, China and India as strategic partners. This is due to changes in the political situation since 2003 but also the emergence of new threats such as the security implications of international climate change. Due to the importance of this issue, climate change has been taken up in a special joint paper by the High Representative for Foreign and Security Policy and the European Commission entitled ‘Climate Change and International Security’<sup>6</sup>.
- China, the only country in the Asian region which has developed its own European strategy, would clearly like the EU to counterbalance the influence of the US. The latter,

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at the same time, hopes to strengthen India (e.g. nuclear deal) as a counterweight to China.

### What does a short risk analysis of Asia reveal?

Asia is still a fragile continent.

- The Korean peninsula remains divided, the Cold War has not ended, and we observe another phase of winter in the uneasy relationship between the two Koreas.
- A regime change in North Korea where the succession of Kim appears unresolved could challenge the crisis management capacity of the sub-region.
- The status of Taiwan is unclear, although the change of administration in China-Taipei has led to an encouraging *détente* across the Straits.
- Territorial disputes among several states persist as a source of instability.
- Asia is fragmented along ethnic, linguistic and religious lines – the region-building process is still under way and is stronger in sub-regions (East Asia, South Asia, North East Asia) than at the overall regional East-Asian level.
- Asia houses instable political systems, ranging from democracies to dictatorships, including failed states.
- The recent troubles in Thailand show that democratic structures are still weak, an experience also made several times in the Philippines. This has given rise to a discussion on the possible reasons for the failing of democracy in Asia and means to strengthen it<sup>7</sup>. For Thailand, the Detroit of the East, enduring political instability has a negative effect on foreign investment. In addition, the Thai tourism industry which is still in the process of overcoming the trauma following the 2004 tsunami will suffer further from the effects of global TV coverage of thousands of stranded tourists at the country's various airports.
- The quest for raw materials induces not only competition but also tensions among Asian states.
- There is still a high percentage of poverty and absolute poverty in Asia threatening social instability, not least in China where social unrest is reported more often.
- The risk of pandemics remains high as demonstrated by SARS, Avian Flu and AIDS.
- Sustainable development remains unattained and economic development and demographic increase lead to a widespread disregard for environmental protection contributing to aggravating climate change which is regarded as unsustainable by many.

These and other issues, including regional and international migration, the fight against organised crime, human trafficking and non-proliferation of weapons of mass destruction

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underline the need for cooperation. Contacts at cultural and academic level along with people-to-people exchanges need to be intensified in order to end the period of benign neglect.

**The challenge for the European Union in Asia** remains to present itself as **one** player, acting in addition and in cooperation with its Member States. Asian admiration for the European integration project focuses strongly on its economic and financial success. The Single Market and the successful introduction of the Euro, which became an important reserve and transaction currency within only 10 years, has raised the visibility of the EU in Asia. The psychological impact of the Euro being “worth” more than the US-Dollar should not be undervalued. This positive image has been enhanced during the 2008 financial crisis when the Euro turned out to be a solid anchor for many countries, in turn inciting those not yet being part of the euro-zone to accelerate the process of joining.

Therefore the **EU** is challenged to get its act together. This accounts for its external representation and the need to become a more coherent and more efficient international player. The institutional changes enshrined in the Lisbon Treaty could be a useful first step although institutional change cannot replace political will. In addition, the EU needs internal reforms by implementing measures based on the ‘Lisbon Strategy’ aiming to make Europe more competitive.

The upheaval in the international financial system which we are presently witnessing offers opportunities to both,

the EU and Asia. After some initial hesitation the EU showed leadership in devising solutions. Some Asian countries, especially China, have amassed large foreign reserves – a lesson certainly learnt from the 1998 Asian Financial Crisis – which can now be used efficiently in injecting liquidity.

If there was any need for proving inter-relatedness, interdependence or the existence of globalisation, the present financial crisis drove the message home that nobody can act or survive alone. On the contrary, the US playing in a monopolar world in the area of hard security, experiences the need to engage in and play by the rules of the multipolar world as it depends on international efforts to reorganise and restart its economy. The need for global governance in an ever-growing number of sectors – financial and insurance industries; the car industry; the aviation industry; energy supply, energy security, energy efficiency; environmental protection and the fight against climate change; poverty alleviation, social cohesion and development policies; demographic developments and migration – to name just a few, will shape the conduct of international politics among states and regions. The latter will potentially become more important. This is not only due to the EU, but to regime building tendencies that can be observed world-wide, triggered by the realisation that due to the nature of the aforementioned problems a common effort is required in the attempt to find solutions. Thus regionalism, inter-regionalism and international regime-building efforts that aim to achieve better and more

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conclusive global governance are developments that need to be actively steered.

The EU's experience of focussing on multilateralism and engagement instead of containment or isolation, the concentration on the use of the instruments of soft power – not just in terms of 'carrot and stick' but to act as a norm and rule setter and thereby exporter of standards – appears to be more suitable to the development of international regimes. It may also be a

potential model for a system of global governance. However, the definition of this concept certainly needs more discussion with our Asian colleagues, in my opinion particularly with Japan, which shares the European Union's preference for a multilateral, soft power-based approach to international politics. In promoting multilateralism the EU could use the Asia-Europe Meeting (ASEM) as "a vehicle for fostering a broader relationship with Asia".<sup>8</sup>

### Endnotes

- 1 Michael Reiterer (2008). "EU Foreign Policy: From Cooperation to Diplomacy". *EU Studies in Japan*, no. 28; pp. 27-44.
- 2 *Panorama* (2007) no.2; pp.87-102.
- 3 *Social Science Japan* (2008) no. 38 on 'The Draft Charter for an East Asian Community' with articles by Nakamura Tamio "A Proposed Charter for an East Asian Community"; pp.3-7. Sato Yoshiaki. "Unity in Diversity' and Legalisation of East Asia"; pp. 8-11; Takao Suami. "Community Policies in the Draft Charter of the East Asian Community"; pp. 12-15; Usui Yoichiro. "The Draft Charter for an Evolving East Asian Community: Finding a Politics-Law Interface"; pp. 16-20.
- 4 Richard Samuels (2007). *Securing Japan*. Cornell University; p. 200.
- 5 A Secure Europe in a Better World – The European Security Strategy. <http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf>
- 6 [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressdata/en/esdp/99388.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/esdp/99388.pdf)
- 7 Hannah Beech (2009). "democracy". *TIME*, no.2; pp.28-32.
- 8 Michael Reiterer (2008). "Asia Europe Meeting (ASEM): fostering a multipolar world order through inter-regional cooperation". *Asia Europe Journal* (2008, published on line October 31 at [www.springerlink.com/content/h7045g71733576g0](http://www.springerlink.com/content/h7045g71733576g0)) and the literature quoted therein on interregionalism and ASEM.

# The Role of Leaders in an Era of Globalisation: the need for better cooperation among the Asia Pacific, North America and Europe

*Bernhard May*

We are living in a globalising world. New technologies are making geographical barriers redundant. Policies of liberalisation create new opportunities for people and societies. There are, however, major challenges involved too, as everybody who is watching the current global financial crisis unfold is aware. Globalisation creates opportunities and challenges for North America, as well as Europe and the Asia Pacific.

In my paper I will focus, firstly, on what I call the global triangle between the Asia Pacific, Europe and North America. Secondly, I will examine the opportunities and challenges for these three regions. Thirdly, I will discuss the importance of the role of leaders in today's globalising world. Concluding I will argue in support of better cooperation in global governance among the Asia Pacific, North America and Europe.

The topic of my paper is: "The role of leaders". The question, therefore, is how to define "leaders" and "leadership". As Joseph S. Nye Jr. points out in his latest book "The powers to lead",

*"There are many ways to define leadership. One recent count collected 221 definitions from the 1920s to the 1990s, with the earlier ones stressing the ability of a leader to impress his or her will and later ones seeing more mutuality in the relationship between leaders and followers."*<sup>1</sup>

I will use Nye's definition of "*leaders as those who help a group create and achieve shared goals.*"<sup>2</sup> This definition is very simple and straightforward. Nye defines "*leadership [as] a social relationship with three key components – leaders, followers, and the contexts in which they interact.*"<sup>3</sup>

I will, therefore, first discuss the context of a globalising world as well as the opportunities and challenges for the three regions in question. Subsequently, I will analyse the role of leaders in the three regions as well as in today's international system.

The hypothesis for my paper is as follows. As we are living in a globalising world we require global governance. To create global governance we need leadership. Leadership, however, requires both, leaders and followers as well as an understanding of the

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challenges to and the opportunities for the world we are living in.

### The global triangle between the Asia Pacific, Europe and North America

On November 15, 2008, the heads of state and government of 20 countries met in Washington, DC. The goal of this G20 Global Financial Summit was to tackle the current global financial crisis and to work out a new framework for the global financial markets. The G20 countries are representing about 85 % of world GDP. The participants in the G20 are the members of the G7 (i.e. United States, UK, France, Germany, Italy, Canada and Japan) including some of the countries most affected by the crisis in the developed world as well as emerging markets such as Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

In a press statement the White House described the purpose of the G20-Summit as follows: *“The leaders will review progress being made to address the current financial crisis, advance a common understanding of its causes, and, in order to avoid a repetition, agree on a common set of principles for reform of the regulatory and institutional regimes for the world’s financial sectors.”*<sup>4</sup>

But this reform of the world’s financial system will be a difficult process. The goal is to agree on a new regime that could be called “Bretton Woods II”. This process does require

that the states involved – that is the leaders who are participating either sitting at the table or accepting leadership responsibility in their own countries – first analyse the global financial crisis in order to answer two important questions: What went wrong? And who has to accept responsibility for what? Secondly, the states involved will have to agree on measures to change and improve the global financial system. We are at the end of 2008 (when this paper was written) just at the beginning of this difficult and painful process.

How difficult this process is could be seen during the ASEM Summit of 43 states on October 24-25 2008 in Beijing.<sup>5</sup> Even though the 43 leaders gathering around a big table (plus the EU Commission and the ASEAN secretariat) succeeded in producing a statement that called for new rules governing international finance and an entrance role for the International Monetary Fund, it will be extremely difficult to attach some specifics to those goals.<sup>6</sup>

The heads of state and government of the 27 member states of the European Union agreed at their EU Summit in mid-October 2008 on the principles and goals of the reform of the international financial system. The EU member states decided: *„The European Union must work with its international partners on a genuine, all-encompassing reform of the international financial system based on the principles of transparency, sound banking, responsibility, integrity and world governance. The aim is to take early decisions on transparency, global standards of regulation, cross-*



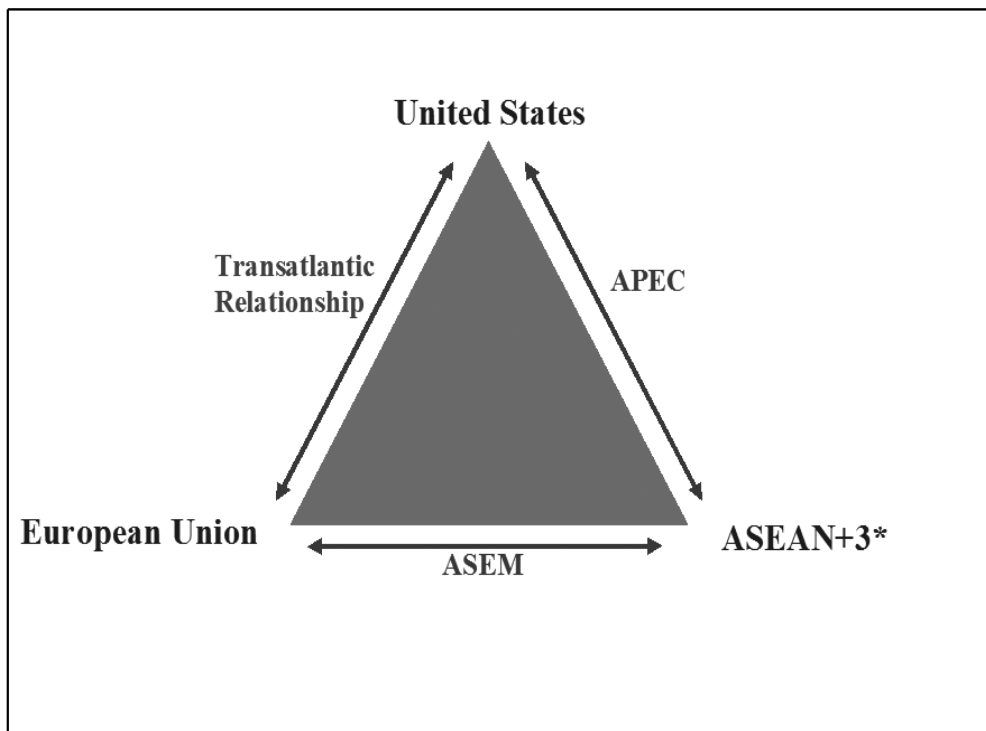
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*border supervision and crisis management, to avoid conflicts of interest and to create an early warning system, so as to engender confidence among savers and investors in every country. The Union will quickly take appropriate initiatives in consultation with its main partners and the relevant international financial institutions. These initiatives will be carefully prepared within the EU.”<sup>7</sup>*

Despite the current international financial crisis that affects almost all countries in the world in one way or another, it is fair to say that there exists a global triangle (Fig. 1) between the Asia Pacific, Europe and North America. These the three regions are linked together by trade, finance, investment, international agreements, common rules and to a certain degree also by common interests.

**Figure 1: The global Triangle**



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From a European point of view, the global triangle has three sides with quite different importance to European and American foreign policy as well as international relations in general. For this global triangle, the following organisations are the most important; ASEM, ASEAN, APEC, EU, and NATO.

### **APEC, ASEM and ASEAN: competition or cooperation?**

For the US and Europe the transatlantic relationship remains the most important aspect of the global triangle. The US and Europe are the two most important actors in international relations who are also each other's biggest trading and investment partner. In terms of political and security relations, they share common values and common interests while also facing common challenges. Both players share a long history of close cooperation, especially during the Cold War era in the second half of the last century. Both actors find it difficult to consider a replacement of the current transatlantic relationship.<sup>8</sup>

Mitchell Reiss, Director of the Policy Planning Division, Department of State, explained at the German Council on Foreign Relations in Berlin in May 2004;

„I am a convinced Atlanticist, just like my boss, and just like his boss. We believe in the utility of partnerships, especially the transatlantic partnership. We

cannot imagine any replacement for the relationship that we have developed over more than half a century, even though we all realize that new circumstances require us to adjust that relationship.”<sup>9</sup>

The second most important relationship for the US is the relationship with East Asia or Asia/Pacific, i.e. US cooperation with the APEC-countries. On the one hand, APEC has lost in importance since the 1990s with the US focusing once more on bilateral relations. On the other hand, US relations with East Asia especially China, Japan, and ASEAN-countries are becoming increasingly important.

Regarding the third aspect of the global triangle, i.e. ASEM – the relationship between East Asia and Europe, one has to admit that ASEM is the weakest relationship of all three. From a US point of view, ASEM is considered less important and does not feature highly on the American “political radar screen”. Is the US right to think that ASEM is not important?

From a European point of view, ASEM is the strongest link between Europe and East Asia. ASEM is an interregional forum composed of the European Commission, the twenty-seven members of the European Union (EU), the thirteen members of the ASEAN+3 regional grouping and, as of 2008, India, Mongolia, and Pakistan. The three pillars of the ASEM process, which has so far been loosely organised, include political dialogue, security and the economy, and education and culture<sup>10</sup>.

## **ASEAN - Association of Southeast Asian Nations**

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 in Bangkok by the five original member countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Today, ASEAN has 10 member countries. Brunei joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in the year 1999.

The ASEAN Declaration states that the *“aims and purposes of the Association are: (i) to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations, and (ii) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.”*<sup>11</sup>

## **APEC - Asia-Pacific Economic Cooperation**

While APEC is a much younger and even less institutionalised association both ASEAN and APEC are consensus-based groupings. APEC was established in 1989 to further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community. APEC’s website states

proudly *“Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC is the only inter governmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis.”*<sup>12</sup> Key to achieving APEC’s vision are what are referred to as the ‘Bogor Goals’ of free and open trade and investment in the Asia-Pacific by 2010 for industrialised economies and 2020 for developing economies. These goals were adopted by Leaders at their 1994 meeting in Bogor, Indonesia.

APEC has 21 members – referred to as „Member Economies“ – which account for more than a third of the world’s population, approximately 60% of world GDP and about 47% of world trade.

## **ASEM – the Asia-Europe Meeting**

ASEM was established in 1996 at the first summit in Bangkok. It consists of the ten ASEAN members joined by China, Japan, South Korea and the 27 members of the EU. The ASEM process is characterised by informality, multidimensionality, emphasis on “equal partnership”, and a focus on

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high-level meetings.

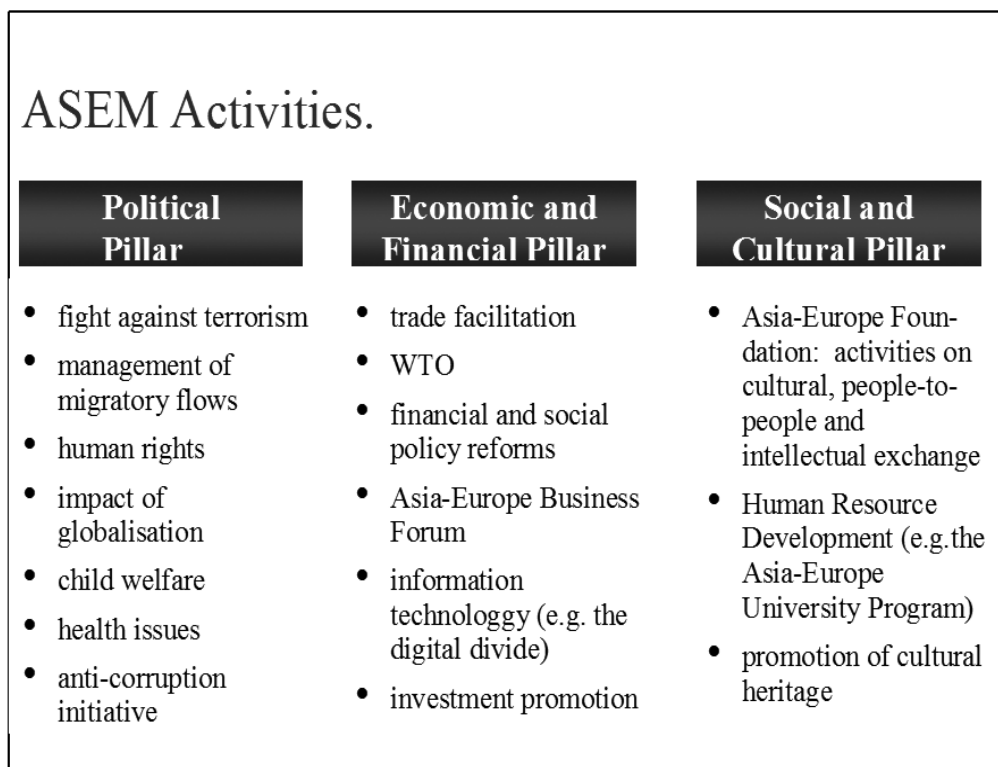
As can be seen in figure two below, issues on the agenda of the political pillar include the fight against terrorism, management of migratory flows, and human rights. The most important issues on the agenda of the economic and financial pillar include trade facilitation, WTO and world trade, and financial and social policy reforms while the social and cultural pillar sees the Asia-Europe Foundation (ASEF) dealing with human resource

development and the promotion of cultural heritage.

The member states consider the ASEM process an important element to deepen and improve the relations between Asia and Europe at all levels and to achieve a more balanced political and economic world order.

ASEM is implementing a high-level approach. There are regular Ministerial meetings as well as biannual summit meetings.

**Figure 2: ASEM activitie**



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The latest ASEM Summit (ASEM 7) was held in Beijing on 24 and 25 October 2008. The Summit was attended by heads of state and government of 16 Asian and 27 European nations, the President of the European Commission and the Secretary-General of the ASEAN Secretariat, making it the first gathering of leaders of 45 ASEM partners since its second round of enlargement in 2006.

Against this background I will attempt to answer the question how important ASEM is and how the US looks at ASEM?

### ASEM and US misperceptions

How does the US perceive European-East Asian relations? An honest answer would be with benign neglect. On the one hand, the US is right to think that ASEM is not the powerful and important link between East Asia and Europe it was supposed to become. On the other hand, the US is following the misperception that ASEM is not important. As will be explained below ASEM is important to both, EU-East Asian relations and to global issues.

Even though the US does not think very highly of ASEM, it was instrumental in pushing for its establishment. It was the success story of APEC in the early 1990s that worked as a wake-up call for Europe to improve its relations with East Asia. Europe was afraid that the US, by establishing APEC, would create an alternative free trade area in case the ongoing world trade negotiations at the

time, the so-called Uruguay Round, could not be concluded successfully.<sup>13</sup> In a world without the World Trade Organization (WTO), for the US and for the East Asian countries APEC would have become the second-best solution – and Europe would have been locked out of this market.

It is fair to say that APEC created the necessary political pressure for Europe to wake up to the challenge of improving its relations with East Asia. This is the reason why the US was always “the invisible third party at the table” – as Godement, Maull, Nuttall and Segal put it<sup>14</sup> – at the ASEM founding as well as at succeeding meetings. From an East Asian point of view, Yong-Sang Cho and Chong-tae Chung explain “*ASEM was formed by ASEAN’s interests and the EU’s fear to restrain American influence in the Asia Pacific.*”<sup>15</sup>

For some Europeans, ASEM was also “*designed to provide a counterweight*”<sup>16</sup> to APEC and to reduce “overdependence” on the US and to “*balance the love-hate relationship [...] with the USA*”<sup>17</sup>. For Sadahiro Takashi, the US has an important role to play to make ASEM successful because “*Asia and Europe will score successes at the ASEM forum if they [...] succeed in making the US become jealous of Asia-Europe relations.*”

But how did the US and how does the US look at ASEM? ASEM was never seen as a threat to US interests. The policy elites were convinced that strong ties to the US were and remain too important for Asia and Europe to be endangered by creating ASEM as an alternative. Furthermore, the US

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expected that divisions among ASEM members would prevent any collective action that could threaten US interests. Neither is ASEM seen as a security threat to the US. From an American point of view, US security predominance in Asia is not endangered in any way by ASEM. The US political elites do not see any major shift in the global power structure because of ASEM. ASEM is seen by US policy and business elites as supporting US interests and values as well as US economic interests in the region.<sup>18</sup>

Because of all these reasons, little attention is being paid to ASEM by US policy, media and business elites. However, that does not mean that ASEM is not beneficial to the US as it supports major US foreign policy goals including its activities for regional and global stability. ASEM is putting emphasis on the fight against transnational crime and international terrorism which is another major US foreign policy goal. By including China, ASEM is supporting US efforts to engage and to integrate China into the world economy and the global community. The European members of ASEM are pushing to improve the human rights situation in Asian ASEM countries – and by doing so are supporting US human rights efforts in East Asia. Last but not least, ASEM efforts to further trade and FDI liberalisation are beneficial to US economic interests as well.

If all this is true, why is ASEM not acknowledged by the US as an important and beneficial forum in international relations? Firstly, the powerful engine that helped to establish ASEM, i.e.

APEC, is no longer seen as a shining Asia-Pacific alternative for multilateral organisations such as the WTO. APEC's success in the early 1990s provided a powerful argument for establishing ASEM. As APEC became a sleeping giant, ASEM is no longer being pushed along by its example.

Secondly, Europe is no longer worried about APEC – and, therefore, the domestic push for moving ahead with the ASEM process is losing strength. At the same time, Europe and East Asia ran into problems regarding the substance and procedures governing ASEM. It took many years to agree on the second ASEM enlargement and it remains difficult to discuss human rights issues at ASEM summits.

So maybe the US is right to think that ASEM is not important and must not be taken seriously. Two reasons speak against this conclusion. Firstly, there are misperceptions amongst the US policy elite about ASEM. Secondly, we are living in a globalising world with common challenges and ASEM is playing a role in coping with these.

ASEM 7 was proof of a more active and more global agenda. With the overarching theme of '**Vision and Action: Towards a Win-Win Solution**', the Summit was held against the backdrop of a global financial crisis alongside other pressing issues such as energy and food shortages and natural calamities. This gathering of leaders could not have been more relevant and timely.

The dialogues at ASEM 7 resulted in major documents for furthering co-operation between the countries of Asia and Europe including the "Beijing

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Declaration on Sustainable Development” and the “Statement of the Seventh Asia-Europe Meeting on the International Financial Situation”.<sup>19</sup>

With regard to finding solutions to common challenges in a globalising world, the solution necessarily has to see Europe, East Asia and the US working together to strengthen trilateral relations. This approach is in the interest of the countries involved as well as the people and countries not taking part in this trilateral world. One could even argue that these three actors are producing a global public good by working together and focusing on the new global challenges.

### Opportunities and challenges in a globalising world

We are living in a globalising world with new opportunities and challenges. The world community will have to work together to cope with these challenges, in particular to fight new security threats. These include international terrorism, proliferation of weapons of mass destruction, failing states, regional conflicts, and organised crime but also environmental problems, poverty, and pandemic diseases.

However, the benefits and opportunities of globalisation for millions of people around the world cannot be underestimated. The end of the Cold War coupled with an intensified process of globalisation allowed for almost three billion people to be

integrated into the world economy. Estimates are that the newly emerging middle classes in China and India alone are more numerous than the population of the EU and the US. This is a success story no professor told me would be possible when I was a student in the 1970s.

At the same time, the world is facing major challenges that demand international action. A major step was taken when the UN member states agreed on the “UN Millennium Development Goals” in 2000 in order to eradicate extreme poverty and hunger, to achieve universal primary education, to promote gender equality, to reduce child mortality, to improve maternal health, and to combat HIV.<sup>20</sup>

The promise of the world community – i.e. the promise of the heads of state and governments of all member states of the United Nations, so we are talking about global leaders exercising global leadership – is to achieve these goals by the year 2015. The world is moving in the right direction, but there is still a long way to go.

The fight against global climate change has recently dominated the global agenda. The question poses itself whether climate change should not be seen as integral part of global challenges instead. Many experts and political leaders support the current focus on stopping global climate change arguing that if the world community fails to do so the world will be facing a global disaster within this century.

Some experts and political leaders – especially from developing countries – counter that the world should focus on achieving the UN millennium goals

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first as this would improve the living conditions of millions of people across the world.<sup>21</sup>

The major challenge for the coming years will thus be to work out a balance between fighting global climate change and trying to achieve the UN millennium goals. Key is also to secure the support of the OECD countries as major foreign aid donors. The current global financial crisis will make this challenge even more difficult.

All of these problems make it necessary for the major actors in international relations to work together more intensely and more efficiently. No country, not even the most powerful one, can fight these new challenges alone.<sup>22</sup>

### The role of leaders in today's globalising world

What kind of role could and should leaders play in today's globalising world? Most of the countries of the global triangle are democratic countries and their citizens enjoy the benefits of democracy. However, some of the challenges facing leaders and leadership are similar in both, democratic and non-democratic countries. The question remains whether leaders matter more or less in democratic or non-democratic societies?

Nye argues *“Leadership is changing. [...] The information revolution is transforming politics and organizations. Hierarchies are becoming flatter and embedded in fluid networks of contacts. [...] Soft power is becoming more*

*important.”*<sup>23</sup>

However, do leaders matter all the time or only under special circumstances? Nye maintains *“that leaders matter more in some conditions than in others, particularly in fluid times of crisis.”* He adds that a crisis could be seen as an opportunity for leaders. *“Events create windows of opportunity, which may close in a relatively short period. Many opportunities for change go unfulfilled. Leaders matter when they have the intuition and skills to take advantage of those windows while they are open.”*<sup>24</sup>

So what is a leader? Are leaders born or “made”? For Nye *“a leader [is] someone who helps a group create and achieve shared goals. [...] The leader need not be a single individual, and the goals may be derived from the group, but leadership is the power to orient and mobilize others for a purpose.”*<sup>25</sup>

The good news is that Leadership can be learned. This is important because good leadership matters even more in today's globalising world. Of course, one also has to examine the goals and methods of each leader as well as the consequences of their actions. History shows that there are many types of leaders. The political leader in North Korea is quite different compared to the religious and spiritual leader Dalai Lama.

Interestingly, one of the most prominent writers in East Asia, Kishore Mahbubani, dedicates an entire chapter to this issue in his latest book *“The New Asian Hemisphere. The Irresistible Shift of Global Power to the East”*. However, neither does he define ‘leadership’ nor does he tell the reader how he would define ‘leader’ or ‘global



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leader'. Instead, Mahbubani explains why "*the time to restructure the world order has come*". He states that there are "*only four real candidates to provide global leadership today: the United States, the European Union, China, and India.*"<sup>26</sup>

Mahbubani argues in favour of reforming and strengthening the existing global institutions as well as implementing global rules of the game. In terms of the principles necessary for a global order he argues that "*in the absence of a natural global leader*", the world will have to "*resort to time-tested principles to produce social and political order.*" He continues "*Three of the best principles are Western principles: democracy, rule of law, and social justice.*"<sup>27</sup> He concludes by stating that "*the challenge in the twenty-first century is to apply them globally in a careful and prudent fashion.*"<sup>28</sup> However, he recognises that "*the West will not be able to apply (the three Western principles) on its own. The West represents only 12 percent of the world's population; it will have to learn to work with the remaining 88 percent to achieve the goal of global stability.*"<sup>29</sup>

It is interesting to note that Mahbubani is concluding his book with a plea for pragmatism and against "*Western ideological assumptions*".<sup>30</sup> The question would be: what about Eastern ideological assumptions?

With regard to the challenge of solving some of the most urgent global problems, Mahbubani's latest Foreign Affairs article states that "*the West has gone from being the world's primary problem solver to being its single biggest liability.*" He states that "*Some Asian*

*countries are now ready to join the West in becoming responsible custodians of the global order.*"<sup>31</sup>

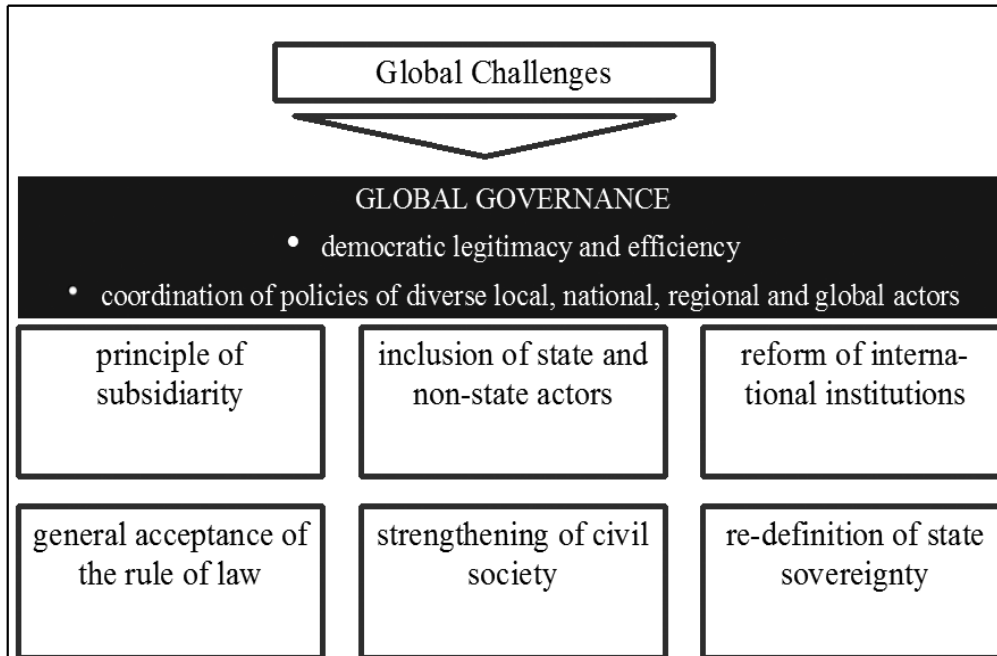
Unfortunately, Mahbubani is not telling the reader about the global problems 'the West' should nowadays be the 'single biggest liability' nor is he telling the reader which Asian countries are able and willing to take over in terms of solving global challenges to bring about, what Kishore Mahbubani calls, the 'Asian Century'.

Regrettably, Mahbubani is missing the point with the proposal of an Asian Century in the sense of Asia taking over from the West. On the one hand, he criticises outdated 'Western ideological assumptions' – and rightly so. However, on the other hand he argues in favour of an Asian Century in such a manner it reminds of a new Cold-War because his arguments are often dangerously close to the old Cold-War logic of 'us' against 'them'. This is the outdated ideological language of the last century.

In today's globalising world characterised as a system of global interdependence – and that is primarily true for the global triangle – what is needed is a new global approach to cooperation with the aim of solving global challenges. That is the reason why the world needs more global governance and the world needs better global governance.

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**Figure 3: Global Challenges and Global overnance**



However, global governance requires some preconditions including democratic legitimacy, coordination of policies, inclusion of state and non-state actors, the rule of law, the principle of subsidiarity, strengthening of civil society, re-definition of state sovereignty, and the reform of international institutions.

One of the easier preconditions for global governance should be reforming international institutions. The last 50 years have seen the emergence of many global institutions including the UN system with a multitude of programmes and funds as well as specialised agencies such as UNICEF, UNDP, UNHCR, WHO, World Bank, IMF, UNIDO,

WTO and IAEA. In addition, there is the OECD, BIS, ADB, ASEAN, IAB, and many more.

The Economist concluded a special report by stating “*The post-war global institutions have largely worked well. But rising countries and growing threats are challenging their pre-eminence.*”<sup>32</sup>

As political leaders of many countries came to realise in the 1960s and 70s that international organisations are too big and too slow to cope with an urgent crisis international groupings including the G7, G8, G3 or G20, were created. Private citizens and business people, too, felt the need for increased international cooperation. One example is The Trilateral Commission, a non-

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governmental discussion group of intellectuals, politicians, business leaders, and journalists from Asia, Europe, and North America, which was launched in 1973 as the first forum to analyse and promote cooperation among the three regions through meetings and publications.<sup>33</sup>

Keeping in mind Nye's definition of leadership as "*a process with three key components: leaders, followers, and contexts*", it is important to, firstly, focus on global challenges that require global cooperation, and, secondly, to educate the 'followers', i.e. the people in the countries involved because the support of the people is necessary for the leaders to survive as politicians. Of course, this process of selecting political leaders by the people is a basic democratic rule, but leaders in non-democratic systems also have to get the support of their 'followers'. A political leader has both, to lead and to listen to the people. A good leader has a vision and knows how to implement his ideas in respect to solving problems and improving the living conditions of the people in his or her country as well as in the world.

### Conclusions

In this paper, I have focused, firstly, on the global triangle between East Asia, Europe, and North America. I have concluded that this relationship is the most important form of global cooperation in terms of global governance. Secondly, I have described some of the opportunities and challenges of today's globalising world stating the

fact that millions of people are enjoying higher standards of living because of globalisation but noting that the world has to cope with serious challenges at the same time. And, thirdly, I have discussed the importance of the role of leaders in today's globalising world arguing in favour of good governance and especially better cooperation within the global triangle.

Maintaining that leaders are important in a globalising world does not give us an answer to the simple question how do we get good leaders? Leaders are not born as such but obtain these roles. They also very much depend on the support of the people. In democratic systems this requires for them to be elected. In fact, this is a basic rule in any democracy. The problem is, however, that there are no 'global citizens' who elect 'global leaders' to form a 'global government'. Therefore, the world has to work together to produce 'good global governance'.

To sum up, capable political leaders are a prerequisite for producing successful cooperation in global governance among East Asia, North America and Europe. This kind of global political leadership within the global triangle could be the driving force for coping with the world's most pressing challenges. Countries and leaders from other regions will have to join in, but without political leadership exercised by the global triangle we will not see the necessary progress in terms of global governance that is needed in the 21<sup>st</sup> century.

## **Endnotes**

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- 4 See: US to host G20 world summit over crisis: Fresh global financial system to be discussed, in: *Financial Times*, October 23, 2008.
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- 20 These United Nations Millennium Development Goals were decided at the Millennium Summit of the United Nations in New York on September 8, 2000. See: [www.un.org/millenniumgoals](http://www.un.org/millenniumgoals).

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- 21 The experts working together in the so-called Copenhagen Consensus are pushing for an approach of the world community to take all global challenges in consideration before deciding on the priorities for global programs. For more details see: Bjorn Lomborg (Hrsg.), *Solutions for the World's Biggest Problems: Costs and Benefits*, Copenhagen 2007.
- 22 This problem is analyzed in detail by: Joseph S. Nye jr., *The Paradox of American Power. Why the World's Only Superpower Can't Go It Alone*, (Oxford University Press) Oxford 2002.
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- 24 *Ibid*, p. 10 and p. 11.
- 25 *Ibid*, p. 18 and p. 19.
- 26 Kishore Mahbubani, *The New Asian Hemisphere. The Irresistible Shift of Global Power to the East*, New York 2008, p. 235 and p. 236.
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- 28 *Ibid*, p. 240.
- 29 *Ibid*, p. 263.
- 30 *Ibid*, p. 279.
- 31 Kishore Mahbubani, *The Case Against the West. America and Europe in the Asian Century*, in: *Foreign Affairs*, May/June 2008, pp. 111-124, here p. 124.
- 32 *Wresting for influence: Who runs the world?*, in: *The Economist*, July 5, 2008, pp.35-38, here p. 35.
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## Web Links on Europe and Asia

Timely and up-to-date information is a necessity for policy-makers and researchers. In an increasingly information-dependent world, the Internet is an unsurpassed medium for rapid dissemination of news. The following is a compilation of websites that offer invaluable insights and timely information on Southeast Asian issues and Asia-Europe relations.

### ASEAN Secretariat

<http://www.aseansec.org>

The homepage of the Association of Southeast Asian Nations (ASEAN) Secretariat, this site provides information on the latest ASEAN meetings as well as archived documents.

### Asia News Network

<http://www.asianewsnet.net>

Established with support from Konrad-Adenauer-Stiftung, the Asia News Network (ANN) website offers news updates and commentaries from 13 major dailies in Southeast Asia who are members of ANN.

### Asia Daily

<http://wn.com/s/asiadaily/index.html>

Part of the World News Network, Asia Daily offers news pertaining to Asia as well as links to the various Asian news sites.

### Asia Source

<http://www.asiasource.org>

A project of the US-based Asia Society, Asia Source provides information on various aspects of Asia, such as arts and culture, business and economics, policy and government and social issues. It also offers access to information by experts and also links to pages that focus on Asian lifestyle, education and statistics.

### Asia-Inc

<http://www.asia-inc.com>

Asia-Inc is a monthly regional business magazine targeted mainly at Asian executives, with emphasis on business news in Singapore, Hong Kong and Malaysia. The website offers articles featured in its publication, which provide insights into the Asian business community.

### Asia-Europe Foundation

<http://www.asef.org>

The Asia-Europe Foundation was established by the members of the Asia-

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## Web Links on Europe and Asia

Europe Meetings (ASEM) on 15 February 1997 with the objective of promoting better mutual understanding between the peoples of Asia and Europe through greater intellectual, cultural and people-to-people exchanges between the two regions. The website provides a listing of the activities and events of the Foundation as well as speeches delivered at ASEM events, media articles, press releases and book reviews with special interest in Asia and Europe.

### **The Asia Society**

<http://www.asiasociety.org>

The Asia Society is an American nonprofit, non-partisan educational organisation dedicated to fostering understanding of Asia and communication between Americans and the peoples of the Asia and the Pacific. The website features details of the events organised by the Society, the speeches delivered and a selection of the Society's publications.

### **BBC News Asia Pacific**

<http://news.bbc.co.uk/2/hi/asiapacific/default.stm>

Part of the British Broadcasting Corporation (BBC) Internet network, this site is updated daily with top stories from the Asia-Pacific region.

### **CNN Interactive – World Regions – Asia Pacific**

<http://edition.cnn.com/ASIA>

Part of the Cable News Network (CNN)

online news portal, this site is updated daily with the top stories from the region. It also has links to other media such as TIME magazine and The New York Times belonging to parent company AOL Time Warner.

### **The East-West Center**

<http://www.eastwestcenter.org>

The East-West Center is an education and research organisation that helps promote the establishment of a stable, peaceful and prosperous Asia Pacific community. It is a source of information and analysis about the Asia-Pacific Region, including the United States. Some 2,000 scholars, government and business leaders, educators, journalists and other professionals throughout the region work with Center staff annually to address issues of contemporary significance.

### **The European Union Online**

<http://www.europa.eu.int>

The server of the European Union provides access to the homepages of the EU institutions with news, press releases and on-line documentation of EU meetings in several European languages.



## **Far Eastern Economic Review**

<http://www.feer.com>

The online version of the weekly magazine on Asia's economic and business news. It contains some of the stories and features carried in the magazine. FEER also offers a free e-mail news service which is a digest of the major features carried on their website.

## **German Council on Foreign Relations (DGAP)**

<http://www.dgap.org/english/summary.htm>

The main goals of the German Society for Foreign Affairs (DGAP) are: to stimulate interest in international questions, to promote worldwide scholarly cooperation, and hence to increase understanding between nations. The DGAP was founded in 1955 as an independent, non-partisan, non-profit association. Its aims, organisation, and mode of financing are similar to those of the Council on Foreign Relations in New York and the Royal Institute of International Affairs (Chatham House) in London.

## **Institute for Southeast Asian Studies (ISEAS)**

<http://www.iseas.edu.sg>

Established in 1968, ISEAS is a regional research centre dedicated to the study of socio-political, security and economic

trends and developments in Southeast Asia and its wider geostrategic and economic environment. The ISEAS website provides details of its research programmes as well as a full catalogue of publications.

## **Organisation for Economic Cooperation and Development (OECD)**

<http://www.oecd.org>

The OECD has an exclusive membership of 30 developed economies that share a commitment to democratic government and the market economy. Since its establishment three decades ago, OECD has moved beyond a focus on its own members to embrace the entire global economy, with active relationships with some 70 other countries, NGOs and civil societies. Its website contains an on-line bookshop covering the policy studies undertaken by the OECD as well as details of the workshops.

## **European Union in the World**

[http://ec.europa.eu/external\\_relations/index.htm](http://ec.europa.eu/external_relations/index.htm)

The website of the European Commission's Directorate General External Relations (DG Relex) provides information and documents relating to the Union's external affairs listed by country, region and policy area.

## **Centre for European Policy Studies (CEPS)**

<http://www.ceps.be/index3.php>

The Brussels-based Centre for European Policy Studies (CEPS) serves as a leading forum for debate on EU affairs. With a strong in-house research capacity and an extensive network of partner institutes throughout the world, the Centre runs a number of research programmes on EU politics and policies including on the EU's Foreign and Security Policy. The website contains information on its research activities, events, networks and publications.

## **ASEAN Regional Forum**

<http://www.aseanregionalforum.org/>

Established in 1994, the ASEAN Regional Forum (ARF) is an informal multilateral dialogue in the Asia Pacific region. Its aim is to foster dialogue and consultation on political and security

issues and to contribute to efforts towards confidence-building and preventive diplomacy in the region. The website is maintained by the ASEAN Secretariat and contains information on ARF activities, related documents and contact details.

## **Asia Institute Europe (AIE)**

<http://www.asia-institute-europe.eu/>

Asia Institute Europe (AIE) is a Brussels-based independent intellectual resource on Asia and a public platform for innovative research, knowledge partnerships and policy exchange. AIE analyses socio-economic and political developments and anticipates trends in the EU-Asia context and their impact on Europe, Asia and globally. AIE boasts a comprehensive network of key experts and policy-makers. The website contains news from China, India and Asia, a list of the institute's publications as well as information on its activities.

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## ABSTRACTS

**N**oting that the current financial crisis in the United States and the European Union has now affected the “real” sectors of these economies where shrinking consumer demand is pushing the US, the EU and Japan into a recession, **Mahani Zainal Abidin**’s article attempts to draw lessons from the crisis for East Asia. The region must respond to the current challenges in the short-term to ensure continued economic growth and to help build a more stable and sustainable interlinked global economy.

**E**mploying Joseph Nye’s definition of leaders “*as those who help a group create and achieve shared goals*” and leadership as “*a social relationship with three key components – leaders, followers, and the contexts in which they interact*”, **Bernhard May**’s article argues in support of better cooperation in global governance among the three regions of Asia Pacific, North America and Europe. The author first discusses the wider context of challenges and opportunities arising from an increasingly globalising world for the three regions in question. Following from this, the article assesses the importance of the role of leaders in today’s globalising world.

**C**arolina G. Hernandez’s paper analyses ASEAN’s goal of building a community of three pillars and investigates how the ASEAN Charter may facilitate this community-building process. Arguing that the success of regionalism depends on ASEAN’s success as core, centre, and driving force of the process, the article investigates the historical background of how ASEAN acquired this role, cites some evidence of this role in regional mechanisms and institutions and notes challenges facing ASEAN in sustaining this role. It then analyses whether the requirements for building the ASEAN Community described in relevant ASEAN documents including the Bali Concord II, the Vientiane Action Program, and the blueprint for an economic community can be facilitated by the ASEAN Charter. The article concludes with the proposal of possible measures for ASEAN to ameliorate the deficiencies of the ASEAN Charter.

**M**ichael Reiterer’s article studies the economic, military, social and political spheres of global interaction. His analysis offers not only an assessment of the stability of Asia but it also presents an insightful appraisal of the European Union’s ever-evolving relationship with the region.

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**W**illem van der Geest and Yeo Lay Hwee provide an insight into the debate at the 10<sup>th</sup> EU-East Asia Think Tank Dialogue. This annual dialogue brings together eminent voices from leading think tanks in Europe and Asia to promote intellectual exchange, policy oriented collaboration and mutual understanding. Participants at this year's event, which took place in Tokyo in October 2008, exchanged ideas on economic and political challenges faced by the two regions and jointly explored opportunities for inter-regional cooperation.



