



Summary Report

Asia at the Crossroads: Regional Priorities for the Twenty-first Century

Council of Councils Asia Regional Conference
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Traders Hotel, Singapore

Regional institutions and arrangements can be leveraged to address major governance challenges, from containing nuclear proliferation to resolving disputes over territorial claims. To examine governance challenges and regional response mechanisms in East Asia, the S. Rajaratnam School of International Studies and the Council on Foreign Relations invited members of the Council of Councils (CoC)—a network of twenty-four policy institutions based in established and emerging states—to Singapore on October 30–31, 2012, to exchange ideas and generate practical solutions.

The conference, “Asia at the Crossroads: Regional Priorities for the Twenty-first Century,” marked the first regional conference of the CoC. Held on the eve of the U.S. presidential election and the leadership change in China, the conference convened seventeen institutions from across East Asia, Europe, Africa, and the Americas and provided an opportunity to explore regional governance issues and foster policy collaboration. The sessions stimulated lively discussion on how to promote regional security cooperation, how countries should advance trade liberalization, and how to respond to emerging issues such as nuclear proliferation, maritime disputes, and financial instability. The conference featured keynote addresses from K. Shanmugam, Singapore’s minister for foreign affairs and minister for law, and Professor Tommy Koh, chairman of the Centre for International Law at the National University of Singapore.

Keynote Address: A Conversation with Minister K. Shanmugam

Minister Shanmugam opened the conference by highlighting Asia’s strong economic performance and, more specifically, the rise of China and India, as among the most remarkable economic achievements in recent history. The Association of Southeast Asian Nations (ASEAN)—comprising 650 million people and \$2 trillion in gross domestic product—has enjoyed a period of unbroken growth stretching several decades and has steadily grown into the third-largest economic region in the world. In particular, the minister highlighted the cosmopolitan nature of Singapore as a city that attracts global talent and maintains stable growth. He argued that its competitive advantages of zero

tolerance for corruption, transparent laws and enforcement mechanisms, and public safety are not easily replicated elsewhere.

However, recent maritime and territorial disputes have increasingly overshadowed these economic achievements and created new tensions among regional powers. Other multilateral arrangements like the ASEAN Plus Three, ASEAN Regional Forum, ASEAN Defense Ministers Meeting, and East Asia Summit address maritime and other security issues, but they have been unable to prevent the escalation of current disputes.

Beyond regional institutions, Minister Shanmugam noted that the Group of Twenty (G20) has been effective in tackling the global financial crisis. Nevertheless, the G20 faces questions of legitimacy, given its rather arbitrary membership, and must make additional efforts to secure buy-in from nonmember states. There are also concerns, particularly within the developing world, about the failure of the multilateral system to complete the Doha Development Agenda. Clearly, no single body can address the full range of global issues. Singapore thus promotes the concept of variable geometry, whereby the countries most affected by issues should play a decisive role in their resolution. Though the United Nations (UN) continues to confront major challenges to its effectiveness, it remains the only international organization with the legitimacy to discuss and solve issues that affect all 193 member states. To that end, Minister Shanmugam argued that the G20 should not seek to be a counterpoint to the UN in dealing with global issues, as it would face backlash from nonmember states.

Finally, Minister Shanmugam highlighted the valuable role that small states, such as Singapore, play as honest brokers in maintaining regional stability and supporting regional institutional architecture in East Asia. At the same time, small states should be transparent about their national interests (particularly to regional powers) and understand that international law is only as effective as its enforcement by regional players.

Stabilizing the Global Financial System

The 2008 financial crisis exposed inherent weaknesses in the transnational and interdependent global financial system. For the most part, the international community responded effectively to the crisis, through a mixture of domestic reforms of fiscal and monetary policies, on the one hand, and successful macroeconomic policy coordination on the other. At a regional level, Asia has several crisis prevention and management mechanisms to reduce the risk and consequences of financial crises, although these could be strengthened. First, the availability of contingency funds is limited and their disbursement tends to be slow, with significant repercussions for struggling Asian economies. Second, linkages between regional mechanisms like the Chiang Mai Initiative and global institutions such as the International Monetary Fund (IMF) should be strengthened.

In retrospect, the depth and reach of the global financial crisis demonstrated two overarching realities. First, the interconnected nature of the existing global financial system means that domestic policies alone cannot prevent or protect countries from large-scale crises. Second, the world cannot afford to rely simply on reactive measures to control such crises.

Participants called for the creation of an ex-ante framework that would more effectively coordinate national, regional, and global actors and policies to forestall future financial crises. In addition, some advocated more rigorous analysis of the underlying factors that contributed to the 2008 financial

crisis. For instance, one participant argued that institutions at all levels had underperformed in monitoring and regulating the global labor boom, which was a major factor leading to the crisis.

Although the global economy has, for the most part, stabilized, it continues to face uncertainties. These include the fiscal and debt crises in the United States, the ongoing sovereign debt crisis in the eurozone, the declining investment rate in India, and potential economic implications of the political leadership change in China. Participants agreed that the financial health and stability of the eurozone carries significant ramifications for export-driven Asian economies. In addition, the experts agreed that the eurozone crisis demonstrated the importance of continued regional integration in Europe itself. Monetary integration is not sufficient; rather, integration efforts require a comprehensive framework that includes a centralized budget and even political union.

In order to deepen the involvement of Asian economies in global economic management, participants agreed that emerging countries should have a greater role within the IMF and G20. Such reforms are easier recommended than accomplished, however, as advanced economies continue to resist yielding chairs and shares to rising powers, despite negotiated commitments. Participants suggested that major Asian economies within the G20 should collaborate more closely to amplify their presence and prioritize their collective interests within global bodies, such as the IMF. Several participants also noted that while Western economies often prioritize financial stability over growth, the opposite was generally true in Asia. Striking the proper balance between growth and financial stability is likely to remain an ongoing topic of multilateral bargaining. More broadly, participants considered it imperative to equalize the institutional environment across advanced and developing countries, including by adopting universal banking standards; to liberalize technology transfers from advanced to developing economies; and to develop and implement collective financial risk assessment mechanisms.

Advancing Trade Liberalization

The dynamics of international trade have shifted dramatically in the era of globalization. Today, the global economy resembles an “assembly line” of value chains encircling the world. In this context, traditional trade barriers such as tariffs are less important than other factors, for instance misaligned currencies. The world is also experiencing an ongoing shift in economic power from the West to Asia. However, it is the view of many non-Western participants that decision-making authorities within international trade institutions—foremost the World Trade Organization (WTO)—continue to be dominated by advanced Western economies serving their own interests.

For its part, the European Union continues to pay lip service to multilateralism while in practice showing preference for bilateral trade arrangements with non-Western economies, particularly in Asia, that provide it access to some of the world’s most dynamic markets. Participants diverged over whether major emerging economies should continue to work within the framework of the traditionally Western-dominated WTO, or increasingly enhance their collaboration with like-minded economies to pursue new alternatives.

Overall, experts were skeptical that the world was prepared to launch another major round of multilateral trade negotiations. First, any such move would presumably require strong leadership from a more economically confident and less politically gridlocked United States than currently exists. Second, depressed global demand—thanks to sluggish growth in Brazil, Russia, India, China, and South Africa—and persistent structural imbalances (given China’s continuing struggle to find a new economic growth model)—would pose obstacles to global trade liberalization. Conference

participants argued that the restoration of global market demand and adoption of new approaches in international trade negotiations are necessary prerequisites for advancing trade liberalization. Finally, bearing in mind the failure of the Doha round, they agreed that new trade negotiations should, instead of centering on comprehensive deals based on antiquated “North-South” divisions, focus on narrower, more tractable sector issues such as services and telecommunications.

Generally, participants predicted that future trade liberalization was more likely to occur at the regional and subregional levels. However, to avoid the establishment of “trade fortresses,” regional trade arrangements should be more effectively coordinated. Otherwise, commercial disputes could potentially escalate into political conflicts (albeit not to the extent of provoking armed confrontation). Finally, pragmatism and flexibility should prevail in future negotiations over trade liberalization. In this regard, conference participants generally supported both the Regional Comprehensive Economic Partnership and the U.S.-favored Trans-Pacific Partnership as complementary approaches to trade liberalization in East Asia.

Keynote Address: “Will the U.S. and China Live at Peace with Each Other?” with Professor Tommy Koh, Chairman of the Centre for International Law, National University of Singapore

Professor Koh focused his keynote address on U.S.-China relations. He argued that there are five reasons why the United States and China might go to war, offset by six reasons why they might not. On balance, Professor Koh concluded that China and the United States would coexist peacefully.

The first factor predicting a Sino-U.S. conflict is rooted in the history of power transitions. According to political scientist Graham Allison, there have been fifteen shifts in influence between the two most powerful nations since the Peloponnesian War, and eleven of those shifts led to war. The second factor is a widespread perception in the United States of China as a competitor. This has led to strident rhetoric in U.S. political discourse, particularly during the recent presidential election campaign, when President Barack Obama referred to China as an adversary in the last debate. Third, Republican presidential candidate Mitt Romney declared that he would increase tariffs on Chinese imports due to alleged currency manipulation, a move that could have escalated into a trade war. Fourth, Professor Koh contended that the United States is not ready to share power with a rising China. Finally, he concluded, China continues to blame the United States for instigating regional conflict, such as in the South China Sea disputes, even though these heightened tensions are largely the result of China’s legally dubious claims and activities.

Despite these risk factors, Professor Koh predicts that the United States and China will avoid a violent confrontation, for six compelling reasons. First, economic interdependence between China and the United States ensures that both countries would suffer in the event of a full-blown conflict, especially given that China is the largest creditor of U.S. debt. Second, China still does not possess the military strength to challenge the United States. Third, the majority of ASEAN member states would likely remain on the sidelines, rather than join an anti-China coalition spearheaded by the United States. Fourth, despite U.S. perceptions of China as a competitor, the population as a whole does not view China as an enemy, and thus public support for direct conflict with China is likely to remain low. Fifth, thirty years of Sino-U.S. relations have, on the whole, produced more cooperation than competition. While U.S. political rhetoric regarding China escalated in the lead-up to the presidential election, continuity is likely to prevail in the aftermath of the contest. Finally, although there are certainly more historical cases of conflict during global power shifts, the significant common interests in Sino-U.S. cooperation point to a continued relationship based on peace rather than conflict.

During the ensuing discussion, Professor Koh underscored the important role played by regional actors in promoting regional cooperation. He also argued that China should be more cognizant of the growing responsibilities and expectations that come with its increasing stature as a great power. The Chinese political leadership should devote greater efforts to restore its strained ties with ASEAN, following the regional grouping's failure to issue a joint communique over the South China Sea. Beijing should also exercise greater leadership and responsibility in mediating flashpoint issues like the North Korean nuclear crisis.

Overall, Professor Koh indicated that while economic interdependence does not guarantee peace, it does favor a peaceful—if strained—coexistence between China and the United States. As a result, the existing trust deficit should be overcome so that the two countries can better cooperate on critical foreign policy issues.

Strengthening Maritime Security and Freedom of Navigation

There has been a flurry of recent activity in the South China Sea due to a number of factors. Countries began submitting maritime sovereignty claims there in 2009 to comply with provisions of the UN Convention on the Law of the Sea (UNCLOS). Some of these claims ignited disputes among regional claimants, due to the potentially vast supplies of natural resources, including undersea oil and gas deposits. These disputes were amplified by broader shifts in the balance of power—underscored by the rise of China and the recent U.S. pivot to Asia—that provided avenues for third countries to exploit those changes in pursuit of national agendas. Currently, conflict management in the South China Sea is the short-term challenge, while conflict resolution is a long-term endeavor.

Given the complex nature of the South China Sea disputes, a regional approach would offer the best solution, with ASEAN playing a leading role. However, while ASEAN has attempted to resolve the disputes based on UNCLOS, China has maintained its position based on historical claims to the disputed territories and has preferred a bilateral approach.

To resolve the escalating crisis, both ASEAN claimants and China should commit to establishing a code of conduct in the South China Sea. Joint development of resources in the sea, a proposal originally presented by former Chinese leader Deng Xiaoping, can only come to fruition after the Chinese government clarifies the extent of its claims, in order to identify areas for such cooperative activities. China should make a more concerted effort to minimize ambiguity over its intentions in the South China Sea, especially in light of its increasing assertiveness and the rapid build-up of its military capabilities. However, participants agreed that it is unlikely that China would resort to drastic measures that could endanger freedom of navigation, given its economic dependence on maritime shipping through the sea.

In contrast, participants argued that a bilateral approach to conflict management would be most effective in the case of the East China Sea, where China and Japan are at loggerheads regarding the question of sovereignty over the Senkaku/Diaoyu Islands. Given their mutual interests, China and Japan should work to reduce tensions, tamp down nationalist passions, and begin negotiations aimed at averting unnecessary clashes. In the absence of official channels, these bilateral talks could take the form of a private-sector dialogue or Track 2 diplomacy. A Track 1.5 dialogue involving both academics and policymakers of both countries, known as the Tokyo-Beijing Forum, was created in 2005 and could be an ideal platform for negotiations.

Assessing the Proliferation Threat in Asia

Four of the world's nine nuclear-armed states are in Asia. China, Pakistan, and India all maintain substantial nuclear weapons stockpiles, and there is increasing concern in the international community over the security of nuclear weapons in Pakistan and North Korea. Several countries in northeast Asia have the technological capacity to acquire nuclear weapons, although most are committed to the Nuclear Nonproliferation Treaty (NPT). Many maintain nuclear power facilities and are involved, albeit to varying degrees, in the export of nuclear technology. Despite these risks, perceptions of the threat of nuclear proliferation in East Asia remain weak, outweighed by concerns over equality between the nuclear "have" and "have not" states.

There are a number of multilateral frameworks and initiatives to prevent nuclear proliferation, although all suffer from varying gaps and weaknesses, such as failure by the most important states to ratify critical treaties or the absence of legally binding enforcement mechanisms. Although UN Security Council Resolution 1540 required UN member states to prevent nonstate actors from acquiring nuclear weapons, implementation has lagged. Furthermore, many initiatives fail to address commercial and technological interests that have a vested interest in proliferation. Participants agreed that confidence building and renewed commitments in regional security architectures would foster progress toward nonproliferation rules and norms.

The conventional view is that nuclear weapons are a rising threat; however, most participants agreed that, on the whole, the global nonproliferation regime is functioning effectively. Since the establishment of the NPT, only two states have acquired nuclear weapons: Pakistan and North Korea. Experts observed that, historically, too much pressure on states could lead to increased efforts to move beyond simply acquiring the bomb to building a nuclear infrastructure, including the production of nuclear warheads and delivery systems. As a result, some participants suggested, the nonproliferation regime should strike a fragile balance between pressure and accommodation. Many participants argued that the punishment and containment strategies pursued in North Korea and Iran had produced counterproductive results.

The proliferation threat posed by nonstate actors is a function of the availability and control of nuclear weapons, which are affected by three factors: political stability, terrorist activity, and domestic operational preparedness. However, most participants argued that the risks of nonstate actors possessing a nuclear weapon are declining—with the notable exception of Pakistan.

The Future of Asian Security Cooperation

The security environment in Asia is uneven. On one hand, there is an enhanced awareness of the need for common, cooperative, and comprehensive security mechanisms and joint efforts for crisis management; the region has embraced political accommodation and regional cooperation and long-term socioeconomic growth has increased interdependence among Asian countries. On the other hand, Asia has not been immune to a complex range of traditional and nontraditional security challenges, and the reconfiguration of the power balance in Asia has also resulted in new strategic anxieties and suspicions. This is amplified by the rise of nationalist sentiments in some countries, leading to greater political pressure on leaders to adopt extreme positions on national security issues.

Four possible challenges could impede regional pursuit of peace, security, and stability: the possibility of making wrong strategic judgments; the resort to military solutions over intractable interstate rivalries; the prioritization of Asian security objectives that favor military over developmental aspects of national security; and the mishandling of regional hotspots.

In order to overcome these challenges, participants emphasized the importance of caution and strategic judgment to avoid misperception and misinterpretation of other countries' intentions. In particular, some argued, security policies and military deployments that appeared to explicitly or implicitly target other countries should be avoided. Instead of focusing on military means of security, countries in Asia should place greater emphasis on development and regional cooperation.

Asia has largely managed to avoid armed conflict since the end of the Cold War, and security institution-building efforts have flourished, most notably in the cases of the ASEAN Regional Forum and the Shanghai Cooperation Organization. Within the next decade, Asian countries should focus on two goals: translating the ideas and philosophies of peaceful thinking into reality, and focusing on enhancing existing institutions and creating new mechanisms to cope with present and future security challenges. In particular, Asia needs to enhance institution capacity-building in the realm of nontraditional security challenges, such as piracy, transnational crime, and terrorism.

Still, the future of security in Asia is not solely dependent on how countries in the region cope with the challenges, but also on how U.S. leadership tackles some of the most prevalent security issues. The financial doldrums suffered by the United States could hamstring its ability to continue providing public goods for international security in Asia. Emerging powers should be expected to take on larger roles and become more capable of shaping and influencing rules of existing global institutions.

In the foreseeable future, participants forecasted a rise in regional and subregional security cooperation. "Mini-lateral" problem-solving initiatives akin to "coalitions of the willing" might be an increasing threat to security cooperation. In view of the global and transnational nature of security challenges, a flexible blend of formal and informal mechanisms of cooperation should be adopted. As a result, security cooperation could witness the rise of issue-based partnerships among state and nonstate actors; a reduced dependence on formal security alliances; and new approaches and strategies toward governance.