

THE JOURNAL OF DIPLOMACY AND FOREIGN RELATIONS

Volume 10 Number 1 2008

CONTENTS

- Managing Peace and Conflict in East Asia 5
M. C. ABAD, JR.

- Building Relations Through Multi-Format Dialogue: 33
Trends in Bilateral Diplomacy
KISHAN S RANA

- 50 Years of Malaysia's 'Economic Diplomacy': 45
The Continuing Struggle for Peace, Security and Development
MOHD YUSOF AHMAD

- Rethinking the Non-Aligned Movement 67
GEORGE KLAY KIEH, JR.

- Road Map for the East Asian Community: A Malaysian Perspective 85
SHANKARAN NAMBIAR

BOOK REVIEWS

- Malaysia: Fifty Years of Diplomacy* 109
1957-2007
By CHANDRAN JESHURUN
Review by **MURNI ABDUL HAMID**

- The New Asian Hemisphere* 115
By KISHORE MAHBUBANI
Review by **SYED EDWAN BIN SYED ARIFF**

© 2008 Institute of Diplomacy and Foreign Relations (IDFR)

ISSN 1511-3655

URL: www.idfr.gov.my

All rights reserved. The Journal of Diplomacy and Foreign Relations encourages the reproduction of articles and other materials appearing in its pages. However no portion of this journal may be reproduced, by any process or technique, without the formal consent of the editors and publisher. For permission, please contact the Deputy Director of Research and Publication, Institute of Diplomacy and Foreign Relations (IDFR), Jalan Wisma Putra, 50460 Kuala Lumpur, Malaysia. Please email all inquiries about the Journal to research@idfr.gov.my

The *Journal of Diplomacy and Foreign Relations* is a foreign affairs periodical published by the Institute of Diplomacy and Foreign Relations (IDFR), Ministry of Foreign Affairs, Malaysia. Founded in 1999, the Journal brings together noted scholars and policy makers to address current themes in international studies, foreign relations, diplomacy, strategic and security affairs and development studies. Each issue presents a multidisciplinary perspective. Our readership consists of individuals in government, specifically from the foreign service, business, academia and education locally, regionally and internationally. It is a forum that provides room for multiple appraisals of and diverse intellectual discourses on international studies, foreign policy and diplomacy that both directly and indirectly influence Malaysian regional and international policy. The primary objective of the Journal is to enhance international understanding of international studies, foreign policy and diplomacy as an art and science within the context of Malaysia both in particular and in general.

In order to establish the international quality and high intellectual profile of the Journal, an Advisory Board has been appointed. It consists of prominent individuals in academia and the foreign service and diplomatic corps. Members of the Board ensure that the quality of the articles is up to standard while lending their expert intellectual opinions, providing additional intellectual input if necessary.

The *Journal of Diplomacy and Foreign Relations* welcomes manuscripts by experts in the field of foreign policy, diplomacy, international relations, security and strategic studies throughout the world. Submissions should be of interest to parties who specialise in the above areas as currently- or formerly-serving practitioners in government service as well as academics, thinkers and scholars. Papers from all regions around the globe are encouraged, as long as they are concerned with Malaysia's interest in global strategic, security, diplomatic and foreign policy issues.

Manuscripts should meet the professional standards of academic journals, make a significant contribution in empirical fact or interpretation, and use unpublished and primary sources or a broad range of relevant literature. Manuscripts that have been published elsewhere or that are under consideration for publication will not be considered by the Editorial Board of the Journal.

The Journal of Diplomacy and Foreign Relations (JDFR)

Guide to Contributors

SCOPE

The Journal of Diplomacy and Foreign Relations (JDFR) is committed to the advancement of scholarly knowledge by encouraging discussion among several branches of international studies, foreign relations, diplomacy, strategic and security studies and development studies. The primary objective of JDFR is to enhance international studies, foreign policy and diplomacy as an art and science within the context of Malaysia in particular and the world in general. Founded in 1999, the Journal publishes articles, book reviews and interviews whose content and approach are of interest to a wide range of scholars and policy makers. As such, readership consists of individuals in government, business, academia and education both locally and regionally as well as internationally. JDFR is published by an Editorial Board from the Institute of Diplomacy and Foreign Relations, Malaysia. In addition, distinguished individuals from the diplomatic corps, scholars and prominent policy makers have been appointed to serve on the Advisory Board of the Journal.

FORMAT AND STYLE

The editors invite submission of articles on subjects within the field of international studies, diplomacy, foreign relations, strategic and security studies and development studies. The length of a manuscript should be between 5000-7500 words (in Times New Roman, 12 points) for articles (exclusive of endnotes) and 1500 words for book reviews, which should contain full book details like the ISBN and total number of pages. Interviews should be up to 4000 words. All submissions should be double-spaced with one-inch margins (right margin unjustified) and conform to the latest edition of *The Chicago Manual of Style*. The citation method preferred is the social science rather than the humanities method; therefore, short author-date references should appear in the text and thus minimize the need for footnotes. Full bibliographical details, also in the social science style, should be provided at the end of the article. All articles must include an abstract of between 150-250 words describing its main points, followed by five keywords (separated by commas) identifying the manuscript's content, for the purpose of retrieval systems. Authors of articles selected for publication and book reviews must provide a short paragraph of their respective profiles.

All illustrations, including figures, charts, graphs, maps and photographs must be labelled and supplied on pages separate from the text. Responsibility for securing permissions from copyright holders for reproduction of visual materials for JDFR lies with the author. Visual material should be drawn in permanent ink or photographed in sharp black and white or color and reproduced in the form of high-contrast glossy prints or digital images and provided in camera-ready form.

SUBMISSION PROCEDURE

Manuscripts should be submitted in hard as well as soft copy (one copy each). JDFR does not accept manuscripts that have already been published or are being considered for publication elsewhere. Manuscripts will be edited for accuracy, organisation, clarity and consistency. Copy-edited manuscripts will be sent to the author for approval before a final proof is produced containing any final amendments before going to press. Further editions upon final proofs are strongly discouraged. All submissions should be addressed to:

Deputy Director
Research and Publication
Institute of Diplomacy and Foreign Relations (IDFR)
Ministry of Foreign Affairs, Malaysia
Jalan Wisma Putra
50460 Kuala Lumpur.

Tel: (603) 2149 1051; Fax: (603) 2144 3487
Website: www.idfr.gov.my

Managing Peace and Conflict in East Asia

By M. C. Abad, Jr.*

ABSTRACT

The management of peace and security in the East Asian region is one of the most important agendas in international affairs today because of the strategic importance of the region, not just for regional states, but also for the major powers and other countries which have legitimate interests in the region. This article describes the strategic significance of the region, outlines the security outlook, and finally, describes how conflict is managed and cooperative peace pursued by countries in the region and its partners. The article concludes that managing peace and conflict in East Asia is largely holding because, firstly, most countries in the region are preoccupied with nation building and economic growth or development; secondly, regional mechanisms have been established to promote norms, sustain multilateral dialogue, cooperative activities and, as much as possible, coordinated response; and finally, the major powers have decided to support positive trends in the region by maintaining stable relations among themselves and by actively engaging regional states. These factors have not come about by accident or chance. They were intended, continuously managed, and built upon. The way forward is to sustain them.

THE STRATEGIC SIGNIFICANCE OF EAST ASIA

East Asia is home to some of the world's oldest civilisations and where some of the earliest practices of centralised government emerged as early as 221 BC in China, earliest organised mythology centering on the Sun Goddess stretching back to 500 BC and earliest cultivation and domestication of rice dating from 4000 BC in mainland Southeast Asia.

By the time of Christ, the coastal towns of Southeast Asia had become major trading entrepôt and were being incorporated into the oceanic trade routes that

* The author was former Director of the Asean Regional Forum Unit based in Jakarta.

stretched from China in the east to the shores of the Red Sea and the east coast of Africa in the west. No particular merchant controlled this vast trade, representing nascent “world system,” like that of the Mediterranean world. Historian D.J. Steinberg wrote that, by the 15th century, Malacca was one of the major trading ports of its time and considered richer than London.¹

Today, East Asia is home to some of the world’s economic powerhouses. At the beginning of the 21st century, East Asia generated about one-third of the global GDP. It has a combined export value representing about one-fourth of the world’s total merchandise exports, compared to about one-third from EU and one-fifth from NAFTA countries. East Asia accounts for half of the world’s high-tech exports. Intra-East Asian economic integration continues to increase with trade value swelling from about US\$300 billion in 2005 to over US\$400 billion in 2007.² East Asian countries are now actively laying the foundation for an eventual establishment of an East Asian Free Trade Area.

East Asia has also accumulated foreign exchange reserves amounting to almost US\$4 trillion and is estimated to grow to US\$5 trillion before the end of the first decade.³ The IMF estimates that real per capita GDP in the East Asia has grown by about 4.75 per cent a year, on average, since 1960, resulting in a seven-fold increase in per capita income. Over the last forty years, life expectancy in East Asia and the Pacific has risen from 53 years to 70 years today.

Southeast Asia is endowed with strategic waterways on top of its rich renewable and non-renewable natural resources. It lies at the intersection of the Eurasian, Pacific Ocean, and Indian Ocean plates. The three ‘southern entrances’ into the region—the Straits of Malacca, Sunda and Lombok are particularly important chokepoints in the world trade system. Equally important in commercial and military navigation are the sea lanes passing the Spratly Islands in the South China Sea.

About 2,500 LNG/LPG tankers, half of the world’s oil, and one-third of the world’s shipping, pass through the Malacca and Singapore Straits every year. More than 300 vessels of above 300 gross tons use the Malacca Straits every day. The Port of Singapore, the world’s busiest port for shipping tonnage since 2004, services

about 1,000 ships at any one time. Japan has the largest volume of inter-regional trade and shipping through Southeast Asia's Sea Line of Communications (SLOCs). Australia is heavily dependent upon the Straits of Lombok, especially for the shipment of iron ore to China. This sheer volume of merchant shipping transiting the South China Sea gives the region global significance. Any disruption on these high seas, such as in the Straits of Malacca, can impact all shipping worldwide. The experience with the closure of the Suez Canal indicated that such a disruption might increase freight rates by as much as 500 per cent.

The strategic waterways of East Asia serve critical SLOCs to the U.S. Seventh Fleet—the largest of the U.S. Navy's forward-deployed fleets in the world. The U.S. has legitimate interests in the region. It is the largest non-Asian foreign investor in the region. Moreover, the Asia Pacific region accounts for \$1.6 trillion in U.S. trade, which is about two-thirds of the latter's global trade.⁴

In spite of some security concerns, the past several decades saw most countries in East Asia preoccupied with economic development and institution building, both at the national and regional levels. The past three decades saw the region's economy grow faster than all other regions of the world.⁵ The favorable regional environment has paved the way for the establishment of regional arrangements, such as the Association of Southeast Asian Nations (ASEAN), the Asia Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF), ASEAN Plus Three and the emerging East Asia Community. Many other non-governmental structures and processes have also been established, including the Council for Security Cooperation in Asia and the Pacific (CSCAP) and the ASEAN-Institutes of Strategic and International Studies (ASEAN-ISIS). These regional processes contribute in ensuring that shifts in power relations associated with rapid economic growths are managed in a positive sum way.

The strategic value of East Asia by itself and its implications for the rest of the Asia Pacific region and the world as a whole deserves serious attention by policy and decision makers to ensure and sustain its generally prevailing stability. The important gains achieved since the end of the Cold War, the increasing economic integration, the greater socio-cultural interaction eased by the revolution in information technology are some of the most important factors contributing to

sustaining peace in the region. Furthermore, the regional countries' greater self-confidence brought about by their national successes should be collectively directed towards productive and peaceful purposes.

REGIONAL SECURITY OUTLOOK

A number of regional issues have been on the watch list of threats or potential threats to peace and stability in East Asia. These include rivalry in major power relations, territorial disputes, and the volatility in the Korean Peninsula.⁶ The interests of four major powers—China, Japan, the Russian Federation and the United States—intermesh in the Asia Pacific region. Any deterioration of relations between any of them would create serious implications for other states in the region. Maintaining stability in large power relations is a continuing challenge to the region's security outlook. The future direction of their relationships and their individual roles will continue to influence the long-term prospects of regional security.⁷ However, with the end of the Cold War and the diminishing role of alliances, there is now no single overarching security dynamic in the region. Thus, although there are several threats or potential threats to peace, many observers believe that these are unlikely to escalate to systemic proportions in the foreseeable future.⁸

Unresolved territorial conflicts are the most widespread and considered the most volatile security challenges in the region. In certain circumstances, they could provoke nationalist sentiments which could lead to crisis situations. These territorial disputes include the Northern Territories issue between Japan and Russia, the Tok Do/Takeshima Island involving South Korea and Japan, the Senkaku/Diaoyu Islands involving Japan and China, the Paracels involving China and Vietnam, and the Spratlys involving Brunei Darussalam, China, the Philippines, Malaysia, Taiwan and Vietnam. The territorial disputes in the South China Sea is a major security concern not only of the claimant states but also of the large and middle powers which consider the area a strategic line of communication. Many land and maritime border disputes among the countries in the region have also remained unresolved. Most of them are leftover of historical circumstances, such as the imposition of territorial boundaries by the colonising powers and the rise of new power centres in place of several pre-colonial kingdoms, principalities and sultanates.

The Korean Peninsula represents an area of foremost security concern in the region. Notwithstanding the 1953 Military Armistice Agreement, inter-Korean relations remain minimal, while military forces on both sides are massive and deployed near the Demilitarized Zone—over 1 million troops in the North and about 650,000 in the South. Furthermore, the Democratic People's Republic of Korea's (DPRK) nuclear weapons development programme and long-range guided weapons capability create security concerns not only in the Korean Peninsula but also in the entire East Asia.

CONFLICT PREVENTION THROUGH COOPERATIVE SECURITY

To manage peace and conflict in East Asia, most countries in the region have been advocates of certain principles and norms in inter-state relations. These principles include respect for sovereignty and territorial integrity, non-interference in the internal affairs of one another, and peaceful coexistence. The principles of peaceful coexistence, originally articulated by China, India and Burma in June 1954, had been incorporated into the ten principles adopted by the Bandung Conference of 1955, which planted the seed for the Non-Aligned Movement.

All these principles have been incorporated in the Treaty of Amity and Cooperation in Southeast Asia of the Association of Southeast Asian Nations or ASEAN.⁹ The ASEAN Treaty, however, added an important principle—active cooperation among the contracting parties. The ASEAN Charter of 2007 further codified certain norms and principles including “collective responsibility” in enhancing regional peace and security, renunciation of aggression and of the threat or use of force, and reliance on peaceful settlement of disputes.

The establishment of norms and principles is central to efforts at building trust among countries in the region. Trust building, in turn, has been considered not only as a prerequisite for community building, but also as a central ingredient in preventing conflicts, maintaining stable security environment, and creating conditions for conflict resolution.¹⁰ They are important guidelines for mitigating structural imbalances and inadequacies in inter-state relations, particularly between small and large or between weak and powerful countries.

The 1976 Declaration of ASEAN Concord, for instance, mandated the member states to “strive individually and collectively to create conditions conducive to the promotion of peaceful cooperation among the nations of Southeast Asia.” This policy has been complemented by the Treaty of Amity and Cooperation’s provision on the pacific settlement of disputes, which states that, “The High Contracting Parties shall have the determination and good faith to prevent disputes from arising. In case disputes on matters directly affecting them should arise, especially disputes likely to disturb regional peace and harmony, they shall refrain from the threat or use of force and shall at all times settle such disputes among themselves through friendly negotiations.”¹¹ Taken together, these political and legal instruments have become the basis for conflict prevention through cooperative security in the Southeast Asian sub-region.

ASEAN maintains peace through comprehensive cooperation among its members. The organisation has more than 20 different ministerial bodies pursuing cooperative activities in various areas, such as political and security, economic, social and cultural spheres. Supporting these ministerial bodies are about 30 committees of senior officials and more than 100 working-level committees. In broad sense, peace is being promoted and maintained not just through conflict prevention but also through active, inclusive and comprehensive cooperation. The ASEAN leaders have explicitly declared that “cooperative peace” is a fundamental goal of ASEAN.¹²

Realising the security interdependence between Southeast and Northeast Asia, ASEAN has initiated the establishment of the ASEAN Regional Forum consisting not only of East Asian states but also of the major powers which have legitimate interest in the region. The role of ASEAN in this task is pivotal. It has a considerable record of maintaining peaceful and stable inter-state relations among its members. ASEAN poses no threat to anyone. It has no hegemonic designs. Under the prevailing circumstances, the region finds in ASEAN the best host for the development of East Asian security dialogue and cooperation.

The ASEAN Regional Forum’s confidence building activities, including the annual ministerial meeting, are aimed at preventing and managing conflicts in East Asia through multilateral diplomacy. The ARF has agreed to “foster the habit

of constructive dialogue and consultation on political and security issues of common interest and concern.”¹³ The regular exchange of views at the ministerial and senior official levels serves the purpose of information and perception exchange among the policy-makers on regional security issues. This way, the ARF is able to integrate the processes of political dialogue and collective threat monitoring and assessment.

By promoting transparency in security policy and defence posture, through regular exchanges of defence white papers and invitation of observers or participants in military exercises among others, the ARF hopes to help prevent military miscalculations and accidents resulting from lack of information and understanding. Transparency measures and notifications of troop movements are being encouraged in order to bridge the information gap and abate military surprises. The participation of military officials in the ARF activities has been increasing over the years. Cooperation between military and civilian agencies is being promoted in such areas as search and rescue, disaster relief and peacekeeping operations. Personnel exchanges from national defence colleges are also being promoted. The participation of defence officials in ARF makes them part owners of the regional cooperative security processes. This is expected to promote the sustainability of cooperative efforts beyond the structure of conference diplomacy. The ARF is in the process of forging consensus towards transforming the organisation’s confidence building activities into a more proactive preventive diplomacy. ARF’s Friends of the Chair has been established and envisioned to serve as a quick reaction mechanism to be convened in times of emergencies and situations likely to disturb regional peace and harmony.

Despite its very active agenda, the ASEAN Regional Forum is not a panacea for conflict management in the region. It is a consultative and cooperative mechanism whose decisions are not legally binding and are mostly carried out on a voluntary basis. It has no enforcement action capability and cannot impose sanctions against any of its members. The ARF exists at a very early stage of the slowly evolving security multilateralism in East Asia.

In addition to promoting operational activities for conflict prevention, East Asian states are also pursuing certain policies to address the structural sources of

security threats, such as through active adherence to nuclear non-proliferation. Thus, all Southeast Asian states are signatories to the Treaty on the Southeast Asia Nuclear Weapon-Free Zone of 1995. In Northeast Asia, the two Koreas issued a Joint Declaration on the Denuclearisation of the Korean Peninsula in 1992. The latter followed from the United States' decision to remove its nuclear weapons in South Korea in 1991. China made a declaration in 1964 that it "will never at any time or under any circumstances be the first to use nuclear weapons."¹⁴ Furthermore, in January 1994, China initiated the Draft Treaty on No-First-Use of Nuclear Weapons and proposed it to be concluded by all Nuclear Weapon States. Japan maintains its constitutional provisions on the renunciation of war and non-possession of war potential, which effectively deny its Self Defence Forces to possess ICBMs, long-range strategic bombers or offensive aircraft carriers.

CASE STUDIES

The South China Sea

The overlapping territorial disputes in the South China Sea is a matter of serious concern for most of the six claimant states—Brunei Darussalam, China, Malaysia, Philippines, Taiwan and Vietnam. In 1992, ASEAN issued a statement, which expressed "that any adverse development in the South China Sea directly affects peace and stability in the region." At the same time, the South China Sea issue is a security concern not only of the claimant states, but also of the major powers in the Asia-Pacific because of the area's geo-strategic significance.

As a semi-enclosed sea linking the Indian and Pacific Oceans and straddling mainland Asia and insular Southeast Asia, the South China Sea encompasses a number of vital sea-lanes. The Formosa Straits in the north and the Straits of Malacca at its southern entrance rank among the busiest navigational corridors in the world linking East Asia's seaports with the rest of the world. Estimates vary, but approximately twenty-five per cent of world shipping navigates through the South China Sea. Similarly, the area is critical for military sea-lanes because fleets moving from the Pacific region to the Indian Ocean and vice versa usually pass through the Malacca Straits. The strategic significance of the major passages to and from the South China Sea stems from the comparative ease with which they can be physically obstructed.¹⁵ Therefore, it is vital that no hostile government or group of states is in effective control of the shipping routes in the area.

Possible triggers that could heighten conflict among the claimants include unilateral statutory or political declarations; creeping occupation; armed displacement of civil/military outposts; exploration or exploitation activity in disputed areas; accidents or miscalculations; and other acts of provocation, such as seizure of fishing boats or other commercial vessels within claimed boundaries. An infringement or a threat to freedom of navigation in the high seas would, in all likelihood, immediately draw other major powers, including Japan, Russia, and the United States, into the conflict.¹⁶ A Track Two initiative has been exploring possible measures to address or respond to each of these kinds of trigger.¹⁷

Bilateral and inter-governmental conflict prevention efforts are aimed at forestalling a repeat of the armed confrontation between China and Vietnam over the Paracels between 1987 and 1988. The bilateral approach between governments has served an important role in keeping the line of communication open among the claimant states. Various forms of joint commissions or senior officials meetings involving claimants in the South China Sea facilitate this process. For instance, in February 1995, the Philippines had discovered Chinese-constructed structures on the Mischief Reef—about 30 miles from the Philippine province of Palawan and well within the country's Exclusive Economic Zone. Following the Philippine protest, China agreed to hold a series of consultations with the former starting in March 1995. Within five months, the two countries entered into a bilateral code of conduct in the South China Sea.¹⁸

In November 1995, Vietnam and the Philippines adopted a joint declaration containing principles, which constituted the two countries' bilateral code of conduct in the South China Sea. It included a commitment to enter into negotiations to resolve their disputes in the area. Also notable was the agreement to have a verifiable process, "based on certain targets and benchmarks."¹⁹

Bilateral consultations were held between China and Indonesia following the Chinese Declaration of May 1996, which "announces the baselines of part of its territorial sea adjacent to the mainland and those of the territorial sea adjacent to its Xisha Islands (the Paracels)." Notwithstanding its non-claimant position, Indonesia was "constrained" to convey to China in June 1996 its observation that the Chinese Declaration was not in conformity with the provisions of UNCLOS

because China was not an archipelagic state under the definition of the Convention. Based on Indonesia's interpretation of the Convention, China was not entitled to draw "straight archipelagic baselines" around its group of islands in the middle of the seas and oceans. Indonesia was concerned that if China used the same method in designating its territorial sea on the basis of the latter's claim over the entire South China Sea, Indonesia's sovereignty around the natural gas-rich Natuna islands could become a subject of territorial dispute.

Other than China and Taiwan, all other claimants in the South China Sea are members of ASEAN. Multilateral approach to managing disputes in the South China Sea, therefore, takes place in the context of ASEAN-China relations and through other regional arrangements, such as the ASEAN Regional Forum.

In July 1996, the Foreign Ministers of ASEAN requested for an explanation from China on the latter's announcement of the "baselines of part of its territorial sea" adjacent to the Paracels. Specifically, ASEAN wanted "to receive some clarifications from China on this declaration and what it means."²⁰ China expressed the view that, as a sovereign state, it had the right to draw the demarcation lines of its territory. China explained that the announcement of its baselines was intended "to create a better condition for negotiations and consultations between China and the relevant countries."²¹ Since 1995, exchange of views is held under the auspices of the annual ASEAN and China Senior Officials Consultations.

The commitment to conflict prevention in the South China Sea was elevated to the highest level when the leaders of ASEAN and China used the occasion of their first ever summit, held in Kuala Lumpur in December 1997, to reflect in the summit Joint Statement their concern over the matter. It stated that, "Recognising that the maintenance of regional peace and stability served the interests of all parties, they undertook to resolve their differences or disputes through peaceful means, without resorting to the threat or use of force. The parties concerned agreed to resolve their disputes in the South China Sea through friendly consultations and negotiations in accordance with universally recognised international law, including the 1982 UN Convention on the Law of the Sea."

With a view to operationalising this joint statement, ASEAN and China subsequently agreed to negotiate a code of conduct in the South China Sea. This idea was proposed by then Philippine Foreign Affairs Undersecretary Rodolfo Severino, Jr. and endorsed by the ASEAN Ministerial Meeting of 1996 “to lay the foundation for long-term stability in the area and foster understanding among claimant countries.”²² Six years later, the Declaration on the Conduct of Parties in the South China Sea was concluded by all ASEAN member states and China on 4 November 2002.

Basically, the accord binds the claimant states to uphold the status quo with regard to territorial claims and to predispose the concerned states to explore cooperative activities. Specifically, Parties have “undertaken to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays.” Pending the settlement of territorial and jurisdictional disputes, they could explore or undertake cooperative activities, such as marine environmental protection; marine scientific research; safety of navigation and communication at sea; search and rescue operation; and combating transnational crime, including trafficking in illicit drugs, piracy and armed robbery at sea, and illegal traffic in arms.²³ ASEAN and China have established a technical working group to carry out the provision of this Document, particularly the identified areas of cooperative activities.

The ASEAN Regional Forum provides another venue where the South China Sea issue is regularly discussed. The ARF even gives opportunity to non-claimant states to express their views on the subject and understand the positions of parties directly involved. This way, the ARF functions as a monitoring mechanism to keep the international community cognizant of the situation in the region.

Complementing the official processes is a Track Two initiative, which organises a series of workshops on “Managing Potential Conflicts in the South China Sea” since 1990. The series has received funding support from the Canadian International Development Agency through the Asia-Pacific Ocean Cooperation Programme of the University of British Columbia and the Jakarta-based Centre for Southeast Asian Studies as executing agencies.²⁴ According to

the Centre, although the workshop is non-governmental in nature, it is designed “as a platform for policy-oriented discussion, not merely for academic exchange of views.”²⁵ At the same time, the series hopes “to prepare the way for, or facilitate, such inter-governmental activities.”²⁶ Indonesia, as the host of the Workshop series, hopes that given the amount of work done under Track Two, “we may soon reach the stage where governments may deem it desirable and timely to upgrade the present Workshop format and to engage in more formal government-to-government discussions,” particularly in the sphere of joint development or undertaking cooperative activities in the area.²⁷

The entry into force of the 1982 UN Convention on the Law of the Sea (UNCLOS) prescribes certain modalities for peaceful settlement of maritime disputes, which could be brought to bear on the South China Sea. UNCLOS mandates states parties to settle disputes concerning the interpretation or application of the Convention by peaceful means and to seek a solution by the means indicated in Article 33, paragraph 1 of the United Nations Charter or by any peaceful means of their own choice. The Law of the Sea makes it an obligation for all parties to a dispute to proceed expeditiously to an exchange of views regarding settlement of disputes by negotiation or other peaceful means as well as, when circumstances require, consultation regarding the manner of implementing the settlement.

The 1982 UNCLOS also provides a legal basis for identifying viable cooperative activities among the concerned parties. Under UNCLOS, states bordering an enclosed or semi-enclosed sea are mandated to cooperate with each other in the exercise of their rights and in the performance of their duties. Cooperation could include the management, conservation, exploration and exploitation of the living resources of the sea; protection and preservation of the marine environment; and joint program of scientific research in the area.²⁸

The protracted engagement to prevent conflict and explore possible cooperative activities in the disputed area has not prevented the development of closer and productive relations between ASEAN and China. An annual summit between the leaders of the ten ASEAN member countries and China was inaugurated in December 1997. The leaders adopted a Joint Statement on

ASEAN-China Cooperation Towards the 21st Century, which “undertook to heighten cooperation at bilateral and multilateral levels in promoting economic growth, sustainable development, and social progress on the basis of the principles of equality, mutual benefit, and shared responsibility.”²⁹

The Korean Peninsula

The Korean Peninsula is a more unpredictable and dangerous area of conflict compared to the territorial disputes in the South China Sea. It is not about territorial dispute, although the ultimate solution to the current situation might be found in the Korean reunification. It was a legacy of post-World War II division of the spheres of influence between the United States and the then Soviet Union that extended through the course of the Cold War and beyond. It has a history of state aggression and major power intervention. It represents danger in the proliferation of weapons of mass destruction.

The Korean Peninsula has remained a major source of security concern in East Asia since the Korean War (1950-1953). The concerned states remain preoccupied with finding ways to dismantle the Cold War structure that has overlaid on the Korean Peninsula for the past half-century. The unstable relations between North and South Korea was further complicated when in the late 1980s, it became known that the North had embarked on a nuclear energy programme suited to nuclear weapons development. North Korea has also developed a capability to launch long-range missiles. A nuclear weapon capable North Korea undermines the viability of the international nuclear non-proliferation regime and the stability of East Asia.

A crisis situation developed in 1993 when, under pressure from the international community to subject certain sites to inspection by the International Atomic Energy Agency, the Democratic People’s Republic of Korea threatened to withdraw from the Non-Proliferation Treaty. A series of political and diplomatic negotiations ensued. In June 1994, former U.S. President Jimmy Carter met with DPRK leader Kim Il Sung in Pyongyang. The meeting obtained the latter’s personal pledge to freeze North Korea’s nuclear programme, to allow the inspectors to remain in place and monitor compliance, and to discuss the decommissioning of the reactors and reprocessing plants. Following his meeting

with the North Korean leader, Carter announced that “the commitment that I have received is that all aspects of North Korea’s nuclear programme would be resolved through good-faith talks.” This event has been regarded as a triumph of Track Two diplomacy.³⁰

In April 1996, South Korea and the United States proposed the establishment of Four-Party Talks, which would involve North and South Korea, China, and the United States, to negotiate a permanent peace agreement that would replace the 1953 Military Armistice Agreement. This call was followed by a series of six meetings over a period of two years to formulate the terms of reference of the Talks. Setting the agenda was the main stumbling block in starting the negotiations. North Korea wanted to include in the agenda the withdrawal of the U.S. military bases from South Korea and the conclusion of a peace treaty between the DPRK and the United States.

The Four-Party Talks finally commenced in Geneva on 9 December 1997. One year later, representatives of the four countries agreed to establish two sub-committees to discuss the establishment of a peace regime that would replace the existing armistice agreement with a peace treaty and identify ways to reduce tension through confidence-building and arms control.

The Four-Party Talks have created opportunities for formal dialogue among the concerned parties in the absence of a regional organisation in Northeast Asia. South Korea’s Foreign Minister Hong Soon-young said that, “just having North Korea continually participate in such a forum—thus keeping a channel of dialogue open—is not an insignificant progress in itself.”³¹ The U.S. State Department has recognised the importance of sustaining this essentially long-term process describing it as “a marathon, not a sprint.”³²

The Four-Party Talks did not have to start from scratch. Several political and diplomatic milestones had been undertaken over the past three decades. For instance, the North-South Joint Communiqué of 1972, signed by the Prime Minister of the Republic of Korea and the Premier of the Administration Council of the DPRK, proclaimed certain principles for inter-Korean relations. Thereafter, within the framework of the South-North High-Level Negotiations, they

established political, military, and economic subcommittees to implement their Agreement on Reconciliation, Non-aggression, and Exchanges and Cooperation of 1991. The joint military commission was mandated to carry out steps to build up military confidence and realise arms reduction, such as the mutual notification and control of large-scale movements of military units and major military exercises, the peaceful utilization of the Demilitarized Zone, exchanges of military personnel and information, phased reductions in armaments including the elimination of weapons of mass destruction and attack capabilities and verification thereof.³³ Although there have been no significant and concrete follow-up to these earlier agreements, they provide some indications of the range of possibilities for the current efforts to pursue.

The ARF has recognised that the Korean Peninsula issue has a direct bearing on peace and security in the whole of East Asia. On many occasions, the ARF stressed the need for a sustained inter-Korean dialogue and a new peace mechanism to replace the 1953 Armistice Agreement.³⁴ In the absence of a Northeast Asian regional arrangement similar to ASEAN, it has been suggested that the most feasible interim multilateral arrangement would be to create a subcommittee on Northeast Asian issues within the ASEAN Regional Forum where North Korea is a member.³⁵

Inter-Korean dialogue made a breakthrough with the unprecedented summit meeting between President Kim Dae-jung and Chairman Kim Jong-il in Pyongyang from 13 to 15 June 2000. The South-North Joint Declaration, signed by the two leaders, acknowledged the common elements in the two countries' proposals for a confederation. The summit was followed by a series of meetings between the defence ministers to promote measures aimed at reducing the threat of war in the Korean Peninsula. The summit has also paved the way for more economic and humanitarian contacts between the two Koreas.

As an integral part of the process to reduce the sources of threats in the Korean Peninsula, the multinational Korean Peninsula Energy Development Organisation was established in 1994 on the basis of the Agreed Framework signed by the United States and North Korea on 21 October 1994. The agreement required the DPRK to freeze and eventually dismantle its graphite-

moderated reactors and reprocessing-related facilities. In exchange, the DPRK would receive two light-water, proliferation-resistant, nuclear reactors (on a turnkey basis) with a total generating capacity of approximately 2,000 MW (e) by 2003. North Korea has also committed to remain party to the Nuclear Non-Proliferation Treaty and to take steps to implement the North-South Joint Declaration on the Denuclearisation of the Korean Peninsula.

Because of the major role and influence of the United States on the Korean Peninsula issue, its attitude and policy greatly influence the prospects of conflict management and resolution of the issue. Policy differences, if not inconsistencies, between the two major political parties in the United States indicate that confidence between the United States and North Korea has not reached an enduring level to sustain and ensure a peaceful relationship. The U.S. President's public denunciation in January 2002 of North Korea as part of "an axis of evil" was a manifestation of this fluid strategy if not policy.³⁶ Nevertheless, bilateral and multilateral avenues are available if they choose to engage peacefully. For example, after a considerable period of interruption of contacts, a ministerial meeting between the United States and North Korea was held at the margins of the ASEAN Regional Forum in Brunei Darussalam on 31 July 2002. This was followed by an official visit to Pyongyang of the U.S. Assistant Secretary of State for East Asian and Pacific Affairs in the first week of August 2002. This is a case of international power politics interplaying with preventive diplomacy.

At the Track Two level, the Institute on Global Conflict and Cooperation of the University of California organised a series of Northeast Asia Cooperation Dialogue (NEACD). The dialogue included government officials acting in private capacity and non-governmental academics and specialists on Korea. It involves South Korea, China, Japan, Russia, and the United States. The Japanese National Institute for Research Advancement, the Russian Academy of Science's Institute of Oriental Studies, and the Chinese Institute of International Studies have participated in NEACD.

The NEACD came up with a set of principles of cooperation in Northeast Asia and had offered it as a basis for developing a multilateral framework for cooperation in the sub-region. The NEACD proposal includes such principles as

refraining from the threat or use of force and settlement of disputes through peaceful means. It has also encouraged the states of Northeast Asia to promote dialogue, information exchange and transparency on security issues of common concern.³⁷ Despite its positive contribution in promoting dialogue among the concerned states, the NEACD's goals remain elusive because of North Korea's non-participation.

Recognising that the inter-Korean confidence building and unification processes require long-term outlook, South Korea has pursued a policy of separating business from politics to increase economic interaction and exchanges with North Korea. Seoul has raised the ceiling on the size of investment in North Korea by South Korean businessmen and simplified the legal procedures for inter-Korean economic interaction. This policy has created positive results, including the unprecedented initiation of an across-the-border tour programme starting in November 1998. Since then, thousands of South Koreans have visited Mount Kumgang, a scenic mountain on North Korea's eastern coast. The feasibility of building an industrial park on the West Coast or the development of Rajin-Sonbong free trade zone in the North is under consideration.³⁸

As a result of the Joint Declaration of June 2000, the two sides have agreed to re-open a liaison office, arrange exchange visits between separated families, reconnect a cross-border railroad severed some 50 years ago and increase economic cooperation between the North and the South. The re-opening of the Seoul-Shinuiju line and Munsan-Gaesong highway is expected to boost exchanges between the two Koreas by providing an additional transportation corridor. Over the past decade, inter-Korean trade increased four-fold.³⁹

Since the end of the Korean War, armed confrontation in the Korean Peninsula has subsided. The inter-Korean dialogue and the Four Party Talks, despite their slow pace, have initiated the process of potentially transforming the military truce agreement into a peaceful cooperative arrangement. The inter-Korean rapprochement should transform the situation in the Peninsula from confrontation to reconciliation. Inter-Korean efforts to employ political and diplomatic approaches to managing their disputes have created a valuable space, which could pave the way for a negotiated mutual threat reduction and

permanent peace regime. In the meantime, the increasing economic, humanitarian, and other forms of interactions between the two Koreas have broadened the constituency of inter-Korean reconciliation.

CONCLUSION

There are at least three common themes that can be gleaned from both cases cited above—promotion of dialogue, development of norms and principles, and undertaking cooperative activities. The process of dialogue remains the most important means of sustaining political and diplomatic approaches to conflict prevention. To some extent, any agreement to engage in regular dialogue could be an important achievement in itself. The case of the Korean Peninsula demonstrates how difficult it is even just to initiate a structured dialogue between the concerned countries. The direction of inter-Korean dialogue has profound implications for the post-reunification security outlook of Northeast Asia in particular, and the whole of East Asia in general.

Dialogue takes the form of either bilateral or multilateral forums, or a combination of these two approaches. It could also involve ad hoc contacts among eminent persons or special envoys. In principle, most governments accord greater importance to bilateral approach to conflict management, particularly because most conflicts in the region are border disputes between states. In practice, however, as shown by the above cases, multilateral forums and bilateral meetings at the sidelines of multilateral gatherings are useful structures in re-establishing personal contacts, and conveying signals, intentions and policies. The value of a regional arrangement could be more than the sum of bilateral relations of the same countries because such arrangements promote a sense of security community and collective accountability among the stakeholders.

Multilateral dialogue in the Korean Peninsula is necessary because of the historical circumstances highlighted by the presence of the foreign-armed troops on the ground. Nevertheless, the resolution of the Korean Peninsula situation will depend primarily on the political will of the two Koreas, while the South China Sea disputes are bound to be resolved only through a multilateral solution acceptable to the six disputants. To some extent, conflict containment has taken hold in the on-going process of managing the South China Sea disputes. Pending

the resolution of the disputes or the willingness of all claimants to resolve the disputes as soon as possible, sustained dialogue constitutes the most reassuring approach against conflict escalation.

Preventive diplomacy in the South China Sea need not always be linked with efforts to find solutions to the disputes. In fact, associating diplomatic initiatives with certain proposed solutions could even be counterproductive in a situation where some claimants are not even prepared to exchange views aimed at resolving the overlapping claims. Given its potential threat to peace not only in East Asia but also in the Asia Pacific region, preventive diplomacy is important enough to be pursued independent of the equally important search for permanent solutions to the South China Sea disputes. In other words, the way of peace should not be confused with the narrower process of conflict resolution.⁴⁰

Encouraging a disposition for dialogue is a worthy cause in itself. Such efforts inevitably raise questions about the agenda or parameters of consultations. In both the South China Sea and the Korean Peninsula, the dialogues are aimed at consolidating whatever peace exists among the parties to the disputes. Such efforts could create conducive environments for conflict resolution. Nevertheless, conflict resolution in itself would require a separate process that might or might not be an extension of the dialogue process.

The Track Two process for the Korean Peninsula misses its potentially most important contribution to promoting regional dialogue because of North Korea's non-participation. The convenors would do well to discern this situation, including the issue of the acceptability of external actors. This situation suggests the centrality of trust in any political and diplomatic approach to conflict prevention.

In the case of the South China Sea, while useful in identifying and developing confidence-enhancing functional activities that could be undertaken in the disputed area, the real value of Track Two initiatives lies in their contribution in nurturing the habit of consultation and cooperation not only among the claimants but also with other concerned countries and organisations. At the same time, one cannot underestimate the potential contribution to consolidating regional stability of any interim joint development in the area taking cognizant of the

protracted nature of the South China Sea conflict.

While preoccupied with building mutual trust among the concerned states, parallel efforts are necessary to develop the same between the government and non-government institutions working in the field of regional security. There is a need to develop the institutional capability of regional and national peace advocates in East Asia. The Track Two process has an important role in developing projects or pursuing certain direction, which some governments have not openly shown readiness to undertake or even discuss, but may be needed on short notice following a rapid change of the situation. Track Two could also take the lead in developing tools for measuring progress in conflict management. This should somehow make up for the essentially exhortatory, rather than obligatory, nature of inter-state declarations and codes of conduct.

In both the South China Sea and the Korean Peninsula, parties to conflicts have recognised the need to establish norms and principles to guide the conduct of parties and to define the framework and parameters of engagement. The process of arriving at certain agreed norms and principles is a confidence enhancement exercise in itself. Norms and principles could restrain the behavior of states in the pursuit of their interests. They could form the basis of judgment whether certain policies or actions enhance or are contrary to conflict prevention. Norms and principles are essential not only in constraining the behavior of states with regard to the subject of conflict but also in governing long-term relations among the parties concerned. They are built incrementally, either between two states or among group of states working together.

ASEAN members' adherence to the norms and principles contained in the Treaty of Amity and Cooperation has contributed to the stability of East Asia. The Declaration on the Conduct of Parties in the South China Sea between ASEAN and China incorporates most of these norms and principles. On the other hand, the principles of cooperation contained in the 1972 South-North Joint Communiqué between the two Koreas could serve as a basis for developing a multilateral framework for cooperation in Northeast Asia.

Comprehensive cooperation places in a broader perspective the overall relationship of concerned states. With or without intention to shelve conflicts, cooperative activities enable the concerned states to find a common ground where relations could be enhanced—not because of, but despite of the existence of conflict. Cooperation builds long-term confidence and trust among concerned states. Economic and functional cooperation makes concerned states share the same stakes in maintaining peace. Pending permanent resolution of conflicts, such cooperative activities serve as the next best preoccupation of all parties to be pursued on their own merits. Cooperative security, in this sense, serves as an interim solution.

Economic and functional cooperation in the context of cooperative security could pave the way for the establishment of bilateral and multilateral structures that could, in turn, consolidate such activities. However, the establishment of structures is not a precondition for conflict prevention. In fact, bilateral or multilateral arrangements thrive mostly in post conflict situations. The impetus for a Northeast Asian regional arrangement could come from the resolution of the Korean issue. The multilateral cooperative efforts that could lead to Korean unification might produce a consensus to establish a permanent regional mechanism to discuss broader issues in Northeast Asia.⁴¹

Cooperation in the broader Asia-Pacific region takes place in several multilateral arrangements. The ASEAN Regional Forum promotes cooperation in the political and security fields. The Asia-Pacific Economic Cooperation focuses on economic and development cooperation. The emerging East Asia cooperation aims to pursue the collective interests of East Asia in the international arena. Indeed, the adoption of the Joint Statement on East Asia Cooperation by the leaders of ASEAN, China, Japan and the Republic of Korea at their summit in Manila in November 1999 was a historic event toward community building in the region. This vision was reaffirmed at the November 2007 Summit committing towards greater consolidation and integration in the next decade.

Managing peace and conflict in East Asia is largely holding because, firstly, most countries in the region are preoccupied with nation building and economic growth or development; secondly, regional mechanisms have been established to

promote norms, sustain multilateral dialogue, cooperative activities and, as much as possible, coordinated response; and finally, the major powers have decided to support positive trends in the region by maintaining stable relations among themselves and by actively engaging regional states. These factors have not come about by accident or chance. They were intended, continuously managed, and built upon. The way forward is to sustain them.

ENDNOTES

¹ David Joel Steinberg (Ed.), *In Search of Southeast Asia*, Praeger, New York, 1971.

² Joint Media Statements, Tenth and Eleventh Consultations between the ASEAN Economic Ministers and the Ministers of People's Republic of China, Japan and Republic Korea (AEM Plus Three), Makati City, Philippines, 25 August 2007, and Singapore, 28 August 2008, respectively.

³ John Berthelsen, *Asia Ponders Its Astounding Foreign Exchange Reserves*, 14 January 2008, in www.asiasentinel.com.

⁴ Susan Schwab, United States Trade Representative, Foreign Press Center Roundtable, Washington, D.C., November 9, 2006.

⁵ See *The East Asian Miracle: Economic Growth and Public Policy*, The World Bank and Oxford University Press, September 1993.

⁶ See for instance, Charles E. Morrison, ed., *Asia-Pacific Security Outlook 1998*, Tokyo: Japan Center for International Exchange, 1998.

⁷ See Robert A. Manning, "Building Community or Building Conflict? A Typology of Asia-Pacific Security Challenges," in Ralph A. Cossa, ed., *Asia-Pacific Confidence and Security Building Measures*, Washington D.C.: Center for Strategic and International Studies, 1995.

⁸ Muthiah Alagappa, "Regional Security Dynamics," Paper presented at the 1996 Asia-Pacific Senior Seminar, Honolulu, 8-14 April 1996.

⁹ ASEAN's Treaty of Amity and Cooperation in Southeast Asia contains provisions that prescribe four stages of conflict prevention and pacific settlement of disputes: (a) that the High Contracting Parties shall have the determination and good faith to prevent disputes from arising and shall refrain from the threat or use of force; (b) that a High Council, comprising a representative at ministerial level from each of the High Contracting Parties, shall take cognizance of the existence of disputes or situations likely to disturb regional peace and harmony; (c) that in the event no solution is reached through direct negotiations, the High Council shall recommend to the parties in dispute appropriate means of settlement such as good offices, mediation, inquiry, or conciliation; and (d) that the High Council

may offer its good offices, or upon agreement of the parties in dispute, constitute itself into a committee of mediation, inquiry, or conciliation. Finally, the Treaty commends the High Contracting Parties recourse to the modes of peaceful settlement contained in Article 33(1) of the Charter of the United Nations.

¹⁰ See Liu Huaqiu, "Step by Step Security and Confidence Building for the Asian region: A Chinese Perspective," in Ralph A. Cossa, ed., *Asia-Pacific Confidence and Security Building Measures*, Washington D.C.: Center for Strategic and International Studies, 1995, pp. 119-136; and Pan Zhenqiang, "The Future of ARF: A Chinese Perspective," in Khoo How San, ed., *The Future of ARF*, Singapore: Institute of Defense and Strategic Studies, 1999, p. 53.

¹¹ Declaration of ASEAN Concord, 24 February 1976, and Article 13 of the Treaty of Amity and Cooperation in Southeast Asia, 24 February 1976.

¹² Bangkok Summit Declaration of 1992; For more on this theme, see Rodolfo C. Severino, Jr., "Cooperative Peace in Southeast Asia," Opening Remarks at the ASEAN-UNESCO Regional Symposium on Cooperative Peace, Jakarta, 11 September 1998, in *ASEAN Rises to the Challenge*, Jakarta: ASEAN Secretariat, 1999, pp. 77-81.

¹³ Chairman's Statement, First ASEAN Regional Forum, Bangkok, 25 July 1994.

¹⁴ Statement of the Government of the People's Republic of China, October 16, 1964. For discussion on China's no-first-use policy, see Liu Huaqiu, "No-First-Use and China's Security," Henry Stimson Center, October 1998.

¹⁵ See Michael McGwire, "The Geopolitical Importance of Strategic Waterways in the Asia-Pacific Region," *Orbis*, Vol. XIX, No. 3, Fall 1975.

¹⁶ See Ralph A. Cossa, "Security Implications of Conflict in the South China Sea," A Pacific Forum CSIS Special Report, Honolulu, June 1996. To reduce the structural sources of tension, Philippine President Fidel V. Ramos proposed in 1995 the demilitarization of the South China Sea.

¹⁷ The Institute of Strategic and Development Studies (Philippines) and the Pacific Forum CSIS (US) have been jointly sponsoring a series of South China Sea Confidence Building Workshops, which aims to identify appropriate confidence

building measures and anticipate triggers that could escalate tension among the claimant states.

¹⁸ See *Joint Statement of RP-PRC Consultations on the South China Sea and on Other Areas of Cooperation*, Manila, 9-10 August 1995.

¹⁹ Joint Statement on the Fourth Annual Bilateral Consultations between the Republic of the Philippines and the Socialist Republic of Vietnam, Hanoi, 7 November 1995.

²⁰ Statement by Datuk Abdullah Bin Haji Ahmad Badawi, Minister of Foreign Affairs of Malaysia, at the ASEAN-PRC Dialogue Session, Jakarta, 24 July 1996.

²¹ Statement by Chinese Vice-Premier and Foreign Minister Qian Qichen at the Third ARF, Jakarta, 23 July 1996.

²² See Joint Communique of the 29th ASEAN Ministerial Meeting, Jakarta, 20-21 July 1996.

²³ Declaration on the Conduct of Parties in the South China Sea, Phnom Penh, 4 November 2002.

²⁴ The series of workshops in Indonesia were held in January 1990, June 1991, July 1992, August 1993, October 1994, October 1995, and December 1997. A series of technical working group meetings have also been organized, such as, Marine Scientific Research (Manila, May 1993); Resource Assessment (Jakarta, July 1993); Legal Matters (Phuket, July 1995) and Shipping, Navigation and Communications (Jakarta, October 1995).

²⁵ Opening Remarks at the First Workshop on “Managing Potential Conflicts on the South China Sea,” Bali, 22 January 1990.

²⁶ “Brokering Cooperation in the South China Sea,” The South China Sea Informal Working Group at the University of British Columbia, 1996.

²⁷ Statement by Indonesia Foreign Minister Ali Alatas, ASEAN Post Ministerial Conferences, Singapore, 27 July 1993.

²⁸ Article 123, UNCLOS, 1983.

²⁹ Joint Statement of the Meeting of the Heads of State and Government of the Member States of ASEAN and President of China, Kuala Lumpur, 16 December 1997.

³⁰ Leon V. Sigal, "Jimmy Carter Makes a Deal," *The Bulletin of Atomic Scientists*, Vol. 54, No.1, January-February 1998. The agreement to hold high level talks came one month after the South Korean delegate to the inaugural meeting of the ARF Senior Officials Meeting in May 1994 proposed the establishment of a Northeast Asia Security Dialogue (NEASED). As envisioned, the four regional powers (China, Japan, Russia and the United States) and the two Koreas would participate in this regional arrangement. The concept of a NEASED was similar to a Northeast Asian Consultative Mechanism, which South Korea originally proposed in 1988.

³¹ FM, "The Peace Process on the Korean Peninsula: The Four Party Talks and North Korea Policy," Address at the University of British Columbia, March 12, 1999.

³² James Rubin, *Daily Press Briefing*, US Department of State, 14 October 1997.

³³ Article 12, Agreement on Reconciliation, Non-aggression, and Exchanges and Cooperation between South and North Korea, 13 December 1991 (entered into force on 19 February 1992).

³⁴ Chairman's Statement, Second ARF, Bandar Seri Begawan, 1 August 1995.

³⁵ Ralph A. Cossa, "Northeast Asia Security Forum: Is Such a Gathering Possible?" *PacNet Newsletter*, CSIS Pacific Forum, 14 May 1999.

³⁶ In his first State of the Union Address on 29 January 2002, U.S. President George W. Bush singled out North Korea, Iraq and Iran claiming that these states "and their terrorist allies constitute an axis of evil arming to threaten the peace of the world."

³⁷ "Principles of Cooperation in Northeast Asia," Northeast Asia Cooperation Dialogue VII, Tokyo, 3-4 December 1997.

³⁸ Seo-Hang Lee, *Reconciliation and Stability on the Korean Peninsula*, Paper presented at the 11th Regional Disarmament Meeting in Asia and the Pacific on Security Concerns and Regional Cooperation in Asia and the Pacific, Kathmandu, 18-20 March 1999.

³⁹ Seo-Hang Lee, "North-South Dialogue on the Korean Peninsula: Issues and Prospects," Paper prepared for the 13th Regional Disarmament Meeting in the Asia-Pacific Region, Kathmandu, Nepal, 9-11 March 2001.

⁴⁰ M. C. Abad, Jr., "Preventive Diplomacy in the South China Sea," Paper prepared for UNITAR Fellowship Programme in Peacemaking and Preventive Diplomacy and presented at the International Peace Academy, New York, 26 May 1998.

⁴¹ Jin-Hyun Paik, "Post-Reunification Korea: The Role of Multilateralism," *PacNet Newsletter*, CSIS Pacific Forum, 1 May 1998.

Building Relations Through Multi-Format Dialogue: Trends in Bilateral Diplomacy¹

By Kishan S Rana

Kishan S Rana, a former Ambassador, is Senior Fellow at the DiploFoundation, Malta and Geneva; Professor Emeritus at the Foreign Service Institute, New Delhi and Honorary Fellow at the Institute of Chinese Studies, New Delhi.

A new feature of international relations in our time is a speeding up in the application of innovations. Some of these take advantage of the increasingly plural nature of the diplomatic process, especially the participation of non-state actors in the building of closer relations with foreign states. One instance is the emergence of several tracks in the discussions among states, at bilateral and at regional levels. Many regional organizations now routinely involve ‘wise men’ in recommending new actions, and for the drafting of major documents that are subsequently taken up by the member-governments, for inter-government dialogue and adoption. Former French president Giscard d’Estaing headed the team that produced the first draft of the ill-fated EU Constitution, while the ASEAN Charter was similarly the work of a group of Asian advisers, principally drawn from outside the governments. Such activities reflect the opening up of the process of international relations, and recognition by governments that they obtain multiple benefits from such inputs.

INDIA-GERMANY EXPERIENCE

In September 1991, Germany and India jointly launched a small innovation. During Prime Minister PV Narasimha Rao’s visit to Germany, the two countries decided to create a bilateral ‘eminent persons’ (EP) group, as an experiment. The simple objective was to bring in eminent non-official personalities as advisers,

¹ This essay is based on an article titled ‘A Diplomatic Innovation’, published in *Business Standard* in 2002.

tasked to generate new ideas, with the aim of diversifying and deepening the relations between the two countries. In late 1988, a plan to create a similar group had been discussed between late Prime Minister Rajiv Gandhi and President Ronald Reagan, during the Indian PM's visit to Washington DC. Henry Kissinger had even agreed to head it on the US side (as he disclosed subsequently), but the plan was not implemented. It seems that New Delhi was slow in nominating an Indian co-chair, and the proposal fell by the wayside after Rajiv Gandhi lost the election the following year.

Other countries have used similar formats, where the official channels of inter-governmental communication are supplemented by bringing into bilateral exchanges distinguished individuals, drawn from different walks of life, who are not inhibited by convention or hierarchy. Several Western countries have long used such special mechanism for consultations that weave together different kinds of entities and institutions. One example is the 'Atlantic Bridge' established by the US and Germany in the 1950s, for partnership between different agencies, official and non-official, of the two countries. UK and Germany have another annual mechanism of their own, the Koenigswinter group, which involves about 80 scholars and others on each side; they meet in different committees and groups. The Pugwash Conference specialises in disarmament and security affairs, and played a unique role in sustaining East-West dialogue in the Cold War years, that worked at a wider level than bilateral relationships between pairs of countries.

The India-Germany Consultative Group (IGCG) came into existence in 1992. I had the good fortune to work for the first meeting of the group that was held in Bonn in September that year, during the time I served as the Indian envoy to Germany (1992-95), and I remained a non-official member of the group for another three years after I retired in 1995.

How have such groups developed since the early 1990s? Both Germany and India have set up similar EP groups with several other partner countries. India created a bilateral 'forum' with France around 1995, and this was shortly followed with a 'round table' with UK, and another EP group with China. 'UK-Japan 21st Century Group' reports to the two prime ministers. India and Japan have also

created a new style EP group a few years back.² Germany has used the success of IGCG to create new dialogue mechanisms with China, Japan, Brazil, and Egypt, plus a wider entity that reaches out to all the ASEAN states. One learns informally that Berlin and New Delhi consider IGCG to be one of their best.

SUCCESS FACTORS

The above experience begs the question: what makes a productive EP group, and how does such an entity contribute to building productive bilateral relations?

First, one should build diversity and depth into the EP membership on each side. It is customary to ask the EP group to work on the full range of subjects that feature in a relationship. Typically, this covers political, economic, cultural, media, education, science and technology, and people-to-people exchange. Accordingly, the 12 to 20 members from each side are drawn from these specialties, but it helps to have a preponderance of businessmen. Experience has shown that public-spirited businessmen are often the best drivers of productive discussions, even in relation to sectors that do not directly relate to the economic sector. On each subject, it is the specialists who lead the discussion, which are typically conducted in the group as a whole, usually over a period of two days. Among themselves, these eminent persons produce cross-fertilization of ideas. Much hinges on the individuals selected, the variety of their backgrounds, and the interest they take, in what is truly a *pro bono* activity for them. Wise selection of the co-chair is obviously important.

A typical, but not invariable, feature of EP groups is that key officials from both the governments join the discussions, in an *ex officio* capacity. They mainly play a listening role, helping to keep discussions on track, but do not, and should not, try to drive the discussions. These officials usually include a representative of the concerned territorial department of the foreign ministry, one or more from the economic ministries, and also usually a representative from the office of the head of government—he or she plays a crucial role in ensuring the credibility and

² India and Japan had created an EP group in the late 1950s to look at the experience of each country with economic planning and policy; as a young desk officer, I saw it in action in 1966, when it had become a rather sterile discussion forum. It continues with its annual meetings even now.

legitimacy for the group. On occasion, the non-official members, who are almost invariably strong personalities, do not hesitate to remind interventionist officials that they have other opportunities for conversations among governments, and that the EP group is not the place to re-play typical official discussions.

Second, the EP group is a brainstorming mechanism that throws up new ideas; it is not an implementation or oversight agency. It is pointless for an EP group to replicate or directly intrude into the official dialogue. For instance, after India's 1998 nuclear tests, the Indo-German Group discussed this issue and realised very rapidly that while it was good for the participants to be informed of the authoritative views of the two countries, they would do better to concentrate their own discussions on areas of direct competence. One might be tempted to think that the EP group focuses mainly on economic issues, but that is not the case, in practice. The full gamut of bilateral issues are important; for instance some European countries have found that the discussion on science and technology is especially valuable, the more so as it takes place in the presence of businessmen.

The EP group usually meets once a year, alternating between the two countries. The discussions take place in a closed-door format, and participants are enjoined not to publish the contents, in order to facilitate uninhibited exchanges. Typically, the end product of each round is an agreed paper that lists the recommendations addressed personally to the two heads of government. A few EP groups set up sub-committees that attempt to remain in contact between the sessions of the whole group, but that seldom works. For one thing, the members are busy people and can seldom spare more time than what they devote to each annual session. Governments are loath to see the EP group intrude into any kind of monitoring of their proposals. Sometimes, ideas that appear 'actionable' fall by the wayside owing to unforeseen problems, or doubt on the part of different government agencies. In other cases, the group may broach a new subject, and step-by-step move the dialogue forward to a point where it may be passed to the governments for further action. The group may also anticipate emerging trends, and flag this for the governments.

With the Indo-German Group, at its third meeting in 1994, when I was at the Indian embassy, we produced a short 'action taken' analysis, listing all the proposals made and the manner in which implementation had proceeded; this was presented to the group as a whole. We found that around half of the ideas advanced by Group had moved forward, which was not a bad outcome, considering that some ideas needed considerable time to fructify.

Third, and this is really the key element, the EP group must have a clear mandate, to focus on recommendations, rather than engage in 'an exchange of perceptions', or sterile debate. In the case of the Indo-German group, the first two co-chairmen, the late PN Dhar and Ulrich Cartillieri (then Management Board member of the Deutsche Bank) kept closely to this focus, over-ruling any grandstanding by individuals. Dr. Cartillieri also helped by insisting that the final recommendations be kept to a maximum of a page and half, because he knew that German Chancellor Helmut Kohl would not read anything longer! Verbosity is almost always the enemy of action.

Behind such a mandate is the personal support that an EP group needs from the concerned head of government. Nothing less than that will give the group credibility, especially when the recommendations come up for consideration by the government concerned. The fact that each potential implementation agencies will have to explain their action or inaction to the office of the head of government helps to keep their eyes on the ball. Without such a commitment, the non-official members of the EP group are likely to lose interest.

Finally, we should also consider the limitations of the EP group. It works well when a bilateral relationship offers real, untapped potential for growth. But it makes little sense to proliferate such groups to cover those countries with which either a relationship is 'saturated' or offers limited scope. Furthermore, since it is the foreign ministry that is typically the manager of the EP group, one would not normally expand the number beyond what is manageable. It may also be useful to consider a sunset clause for such groups, either by giving a mandate that is limited in time, say of five or six years, or winding them up when the sponsoring governments feel that they have achieved their purpose.

We should note that such an EP group is *not* a 'track two' mechanism; it lies along what many call 'track one-and-half'. It walks on a tightrope, seeking autonomy, and at the same time sustaining credibility with the government; if it gets too close to the official track, it loses value. Nor can it afford to stray too far from what the governments consider as acceptable. This element sometimes come to the fore in the case of EP groups with a country such as China, where non-official participants remain inhibited in advancing their own ideas, and often tend to repackage the official viewpoint in their contributions. That does not make for effective outcomes. It is the constant interaction between the eminent persons and the foreign ministry, each working in an autonomous manner that produces optimal results.

VARIATIONS

Thailand and Australia have a bilateral arrangement for annual discussion, established some years back, which involves the two foreign ministers, who lead diversified groups drawn from academia, science and other fields of public activity, for quiet discussions; businessmen are not included. In effect this blends the official and non-official tracks, and seems to work rather well. More information on this group is not available. It is entirely possible that other groups of a comparable nature exist, operated by countries in South East Asia, a region that has tended to be very innovative in its diplomacy methods.

China and Japan have come up with a different formula, under which the vice-foreign ministers meet, outside the capital and usually at holiday resorts, for 'informal' discussions. This is no more than a variation on the usual formula of official discussions—including what is called 'foreign ministry consultations' which are led by the permanent secretary level officials, who discuss bilateral issues as well as regional and international subjects. By using the format of informal discussion, states that have a number of complex problems are able to discuss problem issues in a quasi-off-the-record manner.

The range and modalities of 'back-channel' contacts pursued by countries facing contentious issues is limited only by their imagination. India and Pakistan have used a wide range of officials, personal emissaries, and quasi-authorised intermediaries for probing each other's intentions, and floating trial balloons. The

main advantage of such dialogue is flexibility, and deniability, which is important if there is premature leakage of the formulas that are discussed by such emissaries. Such activities belong to the well-established modes of conflict resolution.

We might also consider here the annual international conferences that many countries organise; Boao by China, Ditchley by the UK, Langkawi by Malaysia, and Shangri-La by Singapore. They expose the participants, official and non-official, to a range of issues, and create a regional or global forum for participatory discussions among them. These are a form of public-private partnerships. These dialogue processes, and the interaction among thinktanks and scholars, contribute to the plural and increasingly open diplomatic activities. One of the features of good governance in foreign affairs is the existence of a diverse ‘international affairs community’, made up of non-officials, including academics and scholars, media specialist and commentators, retired officials (civil and military), all working on the basis of epistemic communities and autonomous institutions, offering a menu of policy options to the decision makers. No less vital is their role in the development and articulation of public discourse on foreign affairs issues. External affairs are truly too important to be left to official representatives.

BUSINESS GROUPS

Another new trend is for businessmen, usually working in the name of chambers of commerce and industry associations, to sometimes create bilateral discussion groups that deliberately address political, economic policy and societal issues that go beyond the direct business domain. This may take place under the patronage of the concerned heads of government—which indirectly gives legitimacy to the wide agendas that they address. They are often called ‘joint business councils’ and meeting on a more or less annual cycle, they bring together businessmen to take up issues of direct concern to themselves.³ Typically, they do not include officials, though they report to their respective governments, as per the arrangements made by each side. They may take up issues that they perceive as a roadblock to closer relations, and even consider matters relating to international economic policy,

³ In India, by tradition, the Federation of Indian Chambers of Commerce and Industry (FICCI) handles all the bilateral JBCs; a total of over 50 are active.

such as WTO or global finance issues. Like the EP groups, these reflect the enlarged participation of non-official actors in subjects that in the past would have been seen as the exclusive preserve of governments.

In an essay that is to be published shortly in a collection of Indian experiences with economic diplomacy,⁴ Tarun Das, Chief Mentor of the Confederation of Indian Industry (CII), has written about the bilateral 'strategic dialogue' mechanism that Indian industry has established with key partners such as France, Israel, Japan, Malaysia, Singapore and the US (this ended in 2008). Das writes: the dialogue 'covers all aspects of the bilateral relationship—defence, security, terrorism, politics, economy, trade/investment, technology (including nuclear and space), energy/environment, health, education, regional issues, etc. Whatever is relevant is included, not necessarily in the agenda of every meeting...the membership is mixed...the chair is usually a former ambassador...' At the start of each session, the group calls on the head of government in the capital concerned and also meets the key ministers. The discussions are off the record, and robust in character. The aim is to generate mutual understanding, and to report to the government. It may be added that unlike in the case of the EP groups that function under the sponsorship of the governments concerned, serving officials do not join these groups. It is also important to note that such groups are different from 'joint business councils' and other business exchanges, in the wide agendas that are addressed by the 'strategic dialogue' groups. One has to admire the vision that drives such non-official initiatives.

More than any other component of external relationships, economics today permeates everything, in much the same fashion as politics has always done. Given the fact that the drivers of economic relations are the entrepreneurs and the captains of business, the public-private mechanism described in this essay acknowledges their legitimate role in the shaping of bilateral relations, and in the search for effective solutions to global issues, political, environmental and societal. Thus EP groups conform to the trend towards multi-stakeholder diplomacy, even while governments remain in the driving seat in external policy making.

⁴ This book is under finalization, to be published by the well-known Indian NGO, CUTS, Jaipur, by the end of 2008.

We should not be surprised at the way business acts as an active participant in bilateral relations across a wide canvas, especially between pairs of countries that either share a special connection and/or want to give new impetus to their mutual exchanges. At the multilateral level, we witness the same phenomenon at the annual Davos meetings of the World Economic Forum where typically more than 30 heads of government and scores of ministers rub shoulders with business leaders, academics, NGO heads, and other public figures, again affirming the plural nature of today's diplomatic process. It takes time and effort, and serendipity, to develop such non-official discussion venues. One is struck by the fact of relative paucity of such venues and institutions in the countries of the third world. ASEAN is one of the rarities among regional organizations, in having taken considerable effort in developing its own discussion locations, and the institutional arrangements that take advantage of this.

ADVANTAGES

What do governments gain from EP groups, and from strategic dialogue that is driven by business leaders, and others drawn from public life? For one thing, diplomacy is more plural today than it used to be, compared with even a decade back. At multilateral fora such as the World Bank and the WTO, we have seen the manner in which governments now make space for varied actors, especially the civil society organizations and NGOs, international and domestic, and representatives of business and industry. For the foreign ministry and the government, the different kinds of EP groups give them a 'legitimate', sustained connection with a broad range of non-state personalities. Their involvement in key bilateral relations gives the foreign ministry the insight that comes from these diverse societal perspectives. Additionally, these actors are able to leverage their own experience to serve the wider objectives of the country. In the reverse direction, their connection with the MFA motivates these individuals to appreciate the holistic nature of bilateral relationships, and learn something of the bilateral and international issues that lie outside their own specialties.

Often, these non-official persons have their own overseas connections that governments may not be able to match. They also have wider freedom of action. Smart diplomacy is inclusive by definition, and uses such a wide range of connections to national purposes. India's experience, after its nuclear tests of 1998

has been well-documented, when the government reached out to its business associations, CII and its counterpart FICCI, which is the apex Indian agency of the community of chambers of commerce. They were harnessed to cultivate US congressional leaders, to invite them to India and showcase the business and political opportunities that a globalizing India offered.⁵ This lobbying played a vital role in persuading this important segment of the US political trinity, to work for an end the policy of economic sanctions that the US government had applied, as it was required under US domestic law.

For the foreign ministry, the involvement of influential personalities in different bilateral relationships is a *potential* asset, which becomes operational only when the ministry reaches out to them, and takes advantage of the diverse connections that each of them possesses. One can visualise the MFA holding informal group consultations with them, which happens usually at the stage of preparations in advance of the annual EP group session. The co-chair of the group on one's own side serves as the point of contact for this purpose. Again, the extent to which this happens depends on the MFA's determination to use these options in its domestic outreach.

At the other end, for the embassy based in the capital of a country with which an EP group mechanism exists, the members of the group, both one's own and those belonging to the partner country, are on offer as natural allies in the embassy's permanent tasks of 'outreach' and 'promotion'.⁶ Individually, and as a collective group, the members of the EP group belonging to the partner country are usually available to the envoy and his embassy team for all the varied activities that are undertaken by a proactive embassy, to extend and diversify linkages in the political, economic, and the soft diplomacy segments. Similarly, the EP group members from the home country are dependable friends for the same purpose. Given that practical diplomacy is more and more about building networks, and winning influence, all the EP group members are partners of choice for these purposes.

⁵ See Rana, *Asian Diplomacy: The Foreign Ministries of China, India, Japan, Singapore and Thailand* (DiploFoundation, Malta and Geneva, 2007; Oxford Press, New Delhi, 2008), Chapter 3.

⁶ This is based on the author's experience in Germany. For instance the German academics and scientists provided valuable insight into that country's system, and became catalysts for useful new initiatives. In the same way the business leaders and the media personalities were of great use in promotional activities, in the different German states. See Rana, *The 21st Century Ambassador* (2004).

It is surprising that outside of Europe and in a handful of other countries, rather few foreign ministries have used EP group formula.⁷ The notion of a 'strategic dialogue' driven by a non-official entity is even more novel, and perhaps not easy to establish, unless a strong relationship of mutual confidence exists with one's own business leaders. ASEAN and the African Union (AU), and other regional groups, have used eminent personalities in their respective areas for the study of complex issues, and to offer recommendations. However, such groups have seldom been used for bilateral purposes. The method is equally unknown in Latin America. This is one more instance of inadequate exchange of experience among diplomatic establishments, to say nothing of mutual learning or benchmarking.⁸ The exception is the European Union where some—if not all—member states meet periodically to exchange experience on diplomacy management.

In the case of India, which has officially-sponsored EP groups with at least six countries (in addition to the business-led 'strategic partnerships' narrated above), it is striking that this bilateral EP mechanism does not as yet cover any immediate neighbour, other than China. India has multiple 'track two' dialogue processes with Pakistan, and to a lesser extent with Bangladesh; the Indian government funds some of these, and almost all of them report to New Delhi on the outcome. However, when it comes to EP groups, India has nothing in South Asia at a bilateral level, though the SAARC—the South Asian Association for Regional Cooperation—has used EP groups to brainstorm on specific issues, on a regional basis.

A further point regarding the EP groups in which India participates. The Ministry of External Affairs retains the old-fashioned mindset of a foreign affairs monopolist, and does not encourage participation in its EP groups by the representatives of other Ministries, like Commerce, Industry or Finance.⁹ This is shortsighted, because bringing more such agencies into the dialogue process would expose these ministries to the wider issues in each important bilateral

⁷ This observation is based on exchanges with students belonging to different foreign ministries, in the internet-based teaching I have carried out over the past nine years, as a faculty member of DiploFoundation (www.diplomacy.edu). Few of them had heard of EP groups being used in the manner described here.

⁸ This point comes across powerfully in comparative studies of foreign ministries, including my book *Asian Diplomacy*, (2007).

⁹ One consequence is asymmetry in the composition of groups, because the other side usually has representative of several other ministries, among the officials who hold watching briefs in such groups.

relationship. The Indian MEA has not fully understood that it needs these key ministries as allies, not as turf-adversaries. In fact, the EP group also serves indirectly as a mechanism for the foreign ministry's domestic outreach.

To sum up, the EP group is an interesting addition to the arsenal of options that are available in the pursuit of bilateral diplomacy. When supported by the two governments concerned, and given the other essential conditions for effective work as set out above, it contributes significantly to the growth of relations. Other kinds of business-driven groups, which need to function under the benevolence of governments, but not their direct participation, are useful variations on the standard EP format.

50 Years of Malaysia's 'Economic Diplomacy': The Continuing Struggle for Peace, Security and Development

By Mohd Yusof Ahmad

Dato' Dr. Yusof is currently a Principal Fellow and the Director of the Institute of ASEAN Studies and Global Affairs (INSPAG), Universiti Teknologi MARA (UiTM). A former Malaysian diplomat, he had served in various capacities in the Ministry of Foreign Affairs and at Malaysian missions overseas since 1975. His expertise and research interest covers the fields of international relations, diplomacy, globalization, negotiation, security studies, and regional and international politics.

Much has been written by scholars on Malaysia's continuing search for peace, security and development in the last fifty one years of the nation's existence. This article thus constitutes another addition to the current reservoir of literature on the subject. Its aim is to examine Malaysia's use of the economic instrument, referred to loosely in this essay as Malaysia's 'economic diplomacy', as an important policy tool to secure peace, security and development for the country since attaining independence in 1957. The primary focus on the economic instrument does not, in any way, obviate the importance of other policy instruments such as political, security, socio-cultural, religion, etc, in the pursuit of the same objective. Rather, it is meant to highlight the following propositions, namely; (i) Malaysia has been consistent in its preference for a multi-pronged strategy in the quest for national peace, security and development (ii) in the pursuit of the peace objective, the use of the economic instrument has played an equally important, albeit often under-rated or even overlooked, role in complementing the other strategies in ensuring the success of the national development agenda.

EARLY YEARS: THE CHALLENGE

Malaysia, then Malaya, became politically independent from Britain on 31 August 1957. Juxtaposed against the euphoria of this constitutional victory, Malaya's birth was celebrated amidst a grim national, regional and international environment.¹

Politically, the date marked the beginning of a more complex and daunting national endeavour for the newly independent Malayan government. High on the list was the task of crafting a new nation out of an ethnically diverse populace. The bulk of the nation's wealth however remained in the hands of British companies, which owned the major plantation and mining industries.² British colonial rule had brought in waves of migrant workers from India and China to work these plantations and mines. Consistent with its 'divide and rule' policy, Britain had also deliberately encouraged segregation of the populace along political, economic, socio-cultural and religious lines. Consequently, the Malays dominated agriculture, administration and politics; the minority Chinese monopolised business and trade; and the Indians worked the plantation and transport sectors.³

Regionally, Malaysia's immediate environment was no better. Indochina was the scene of proxy wars fought by Cold War protagonists in the name of freedom and democracy versus communism and totalitarianism. Newly independent Malaya too was not spared the ideological struggle. Domestically, the Communist Party of Malaya (CPM) had begun its struggle to convert Malaya into a communist state. A decade earlier, the CPM had started a violent campaign to pursue this objective with moral and party support from Moscow and Beijing.⁴ Malaya's survival was thus under very serious threat.

¹ The 50s and 60s witnessed major Cold War struggle between East and West also played out in Southeast Asia, in Indochina against the French and later the US, and raging communist insurgencies in Thailand, Burma, the Philippines, Indonesia and Malaya. American military involvement in the region particularly was driven by the belief of an inevitable 'domino effect' in the region in case of a communist victory in Indochina. See Pentagon Papers, New York, Bantam Books Inc., 1979. Also see *How the Dominoes Fall, Southeast Asian in Perspective*, (eds.), John S Esterline & Mae S Esterline, University Press America, Lanham, 1990.

² See Putucheary, James J., *Ownership and control in the Malayan Economy*, Singapore: Eastern University Press, 1960.

³ *Sustaining Growth, Enhancing Distribution: The NEP and NDP Revisited*, (eds), Jahara Yahaya, Tay Nai Peng, Yoh Kok Keng, Vinlin Press, Kuala Lumpur, 2003, p.75; Hajrudin Somun, *Mahathir: Secret of Malaysian Success*, Selangor: Pelanduk Publications, 2003, p. 67-53.

⁴ Robinson, Perry, *Transformation in Malaya*, London: Seckers & Warbug, 1956, p.26.

Against this grim national and regional backdrop, Malaya was entrusted the responsibility of securing peace, security, stability and development for the country. The top-most priority task confronting Malaya's new leaders then was therefore to protect the newly gained political freedom and to preserve domestic stability. Both factors were rightly seen as the necessary prerequisites for the nation-building process. Given the numerous constraints, the task was indeed daunting. Aside from the inherited former colonial administrative apparatus and a rudimentary army, the new Malaya was without a well-developed, indigenous-based economic, political, administrative, security or government infrastructure. Because of the shortcomings, continued dependency on Britain and the Commonwealth's security assistance thus became a matter of practical necessity.⁵ The success of the strategy, especially in the first decade of independence, was amply demonstrated by the fact that Malaya did not succumb to socio-political and economic chaos during these early difficult early years.

The success, no doubt, illustrates the important role of the military instrument in ensuring a safe environment for the pursuit of the nation's development objective. To attribute the success to military strategy alone, however, would be to deny the equally significant role of other non-military measures in the pursuit of the same objective. Although a military-based response to the immediate CPM threat was a practical necessity, it was clear to Malaya's early leaders that a more comprehensive multi-pronged approach was also needed if permanent stability was to be secured. Because the CPM threat was primarily seen as political and economic in origin, a longer-term political-economic strategy was thus considered equally critical in the quest for sustainable peace, security, development of the nation.

Viewed from this perspective, economic development was thus identified as a key variable in the equation. Thus, the combined use of both military and non-military instruments, it is argued, have been most critical in securing this longer-term national development agenda. As exemplified in the last five decades of the Malaysian experience, the use of the economic instrument, if rightly calibrated

⁵ Tunku Abdul Rahman, *Something to Remember*, Singapore: Eastern University Press, 1983, p. 83.

with that of other measures, can be an equally potent strategic tool for the pursuit of the nation's development and nation-building agenda. The strategy, it is argued, has remained the hallmark of Malaysia's domestic, regional and international policy ever since.

TUNKU ABDUL RAHMAN YEARS:

LAISSEZ FAIRE OR NATIONALISATION?

At independence, Malaysia's economic wealth derived primarily from plantation, agriculture and tin mining.⁶ Although it was the world's major producer of rubber and tin, British colonial rule had resulted in both sectors being monopolized by British companies, a fact fully exploited by the CPM to further its own political-economic agenda during the 'Malayan Emergency'.⁷

Malaysia's early leaders were thus confronted with difficult choices, namely to continue with the inherited 'laissez faire' economy or to go for an alternative left-leaning model. The former option would add credibility to the CPM's propaganda war against the evils of the western capitalist colonial system and confirm its claim that the newly independent government had joined the capitalist camp in the Cold War struggle between capitalism and communism. The move could win more support for the CPM from among the large local Chinese minority. On the other hand, the adoption of the then popular leftist-socialistic model would entail the nationalization of all foreign, including British, assets in the country. The latter move would antagonize Britain and the Western world, and make newly independent Malaya unacceptable to the British Commonwealth. It could also invite possible retaliation from the latter. More importantly, nationalization would disrupt the national economy, and drive away existing British and other new potential foreign investments (FDI). The latter was a crucial factor for Malaya's post-independence growth, development and nation-building strategy. Because of these considerations, the choice was thus made in favour of the continuation of the inherited free market model.

⁶ For history of tin industry, see Wong Lin Ken (1965) and Yit Yat Hoong (1969) and for the development of the rubber industry, see J H Drabble (1973) and Voon Phin Keong (1976).

⁷ In the effort to woo the Malayan populace to its cause, the CPM had made the elimination of the British imperialist colonial rule, seen as greedy capitalist exploiters of the nation's wealth and resources, its primary campaign objective during the Malayan Emergency. See Chin Peng, *My Side of Story*, Media Masters: Singapore, 2003.

Viewed against the country's political, economic and security scenarios then, the choice made good political, economic and security sense. At independence, Malaya possessed a reasonably good economic infrastructure, a legacy of British colonial rule. Despite CPM's violent campaign of sabotage, its economy remained fairly intact and operational.⁸ The fact provided the immediate post-independence government with readily available assets to jump-start the national development process. However, for the strategy to succeed, stability and a steady flow of new investments, both local and foreign, were critical and necessary. Continuing with the 'laissez faire' model will allow for this possibility. In addition, the strategy will also give time for the local indigenous communities to build up their own capacity to eventually replace or partner with foreign concerns. Historically too, Malaysia has a long tradition of foreign trade. From the time of the Malacca sultanates, international commerce has been the key feature of the Malay world.⁹ The choice of the free market model after independence was therefore a natural corollary of this historical fact. The closed socialistic model would, in this context, be anathema to the tradition.

Politically, the strategy provided readily available assets for Malaysia's post-independence leaderships to make good their promise of providing better living standards to the people through economic development. More importantly, the strategy would also open up new economic opportunities to Malaysia's multi-ethnic communities, particularly the backward and agriculturally-based Malays and the more business-minded Chinese. The latter had, by then, formed a substantial minority in the country. The prospects of greater political and economic stakes in the country to the latter group in return for political loyalty to the new nation would also help to defuse the CPM's vigorous efforts to win them over to its cause.¹⁰ Continuation of the free market model thus formed an integral component of the

⁸ Attacks and sabotage against economic targets, particularly British-owned plantations in remote areas, formed part of the CPM's strategy to cripple the colonial economy during the early years of its struggle. The strategy was de-emphasized after Malaya's independence. See Chin Peng (2003).

⁹ See K.G Tregonning, *A History of Modern Malaya*, Singapore: Eastern University Press, 1964; Reid, Anthony, *Charting the Shape of Early Modern Southeast Asia*, ISEAS, Singapore, 2000.

¹⁰ CPM's membership throughout the Emergency period comprised primarily Chinese although there were a few Malays among its committee members. Its inability to attract the support of other races was one reason for the eventual failure of its cause in Malaya during the Emergency. *Dialogue with Chin Peng: New Lights on the MCP* (eds) L.C.Chin and Karl Hack, Singapore University Press, 2005, p. 251.

government's combined strategy to counter the internal CPM threat while at the same time moving forward with the country's political, economic and nation-building objective of national peace, security and development.

The success of the strategy was due, in no small measure, to the continued flow of investments from Britain, other Commonwealth countries as well as other sources during this critical period of her history. For foreign investors, Malaysia's open economy, within the framework of an elected democracy, provided a more enticing environment compared to other alternative markets in the region. Whilst British-owned companies remained actively engaged, efforts were also taken to attract new non-British ones. Here, the role played by Malaysia's fledgling diplomatic and trade missions overseas was not insignificant. Initiatives were taken at the regional and international levels to sustain foreign confidence in the country's continued suitability for participation in the national development agenda. Hence, despite CPM's sustained campaigns against the government of the day and foreign-owned economic assets, domestic and foreign investments were not negatively affected. Politically too, the positive effect of the strategy was amply demonstrated by the ruling Alliance Party's landslide successes during the country's first and subsequent general elections in the country. In this connection, the choice of a socialistic model by the then newly independent government, it could be argued, would have brought about quite an entirely different outcome. Examples of such wrong strategic choices, particularly among many Afro-Asian countries, provide clear evidence of this.

THE FIRST DECADE OF INDEPENDENCE:

MALAYSIA'S FIVE YEAR PLANS

The success of the strategy witnessed uninterrupted efforts by the government to move the country's development forward under the various Five-Year Development plans. Progress in the economic sector also help feed the success of Malaysia's other strategies to secure and promote the national development agenda. Economic growth, driven by the tin and rubber industries, helped to create an environment of hope among the country's diverse populace. Increased stakes in the country's development, in turn, helped foster greater commitment and loyalty to the country. While the military instrument was used to ensure a safe physical

environment, the 'soft' economic approach was thus utilised to give real meaning to the word 'independence'. The end result of the combined use of both strategies was a sustained national environment of peace and stability, despite a less than conducive regional scenario. The picture would have been drastically different, one might argue, if the preferred strategy had only been the use of the military means.

Despite the remarkable political-economic transition from colonial rule during the first decade, fissures had begun to appear within the fabric of Malaysia's multi-ethnic community. Devoid of colonial patronage and protection and unable to fully exploit new opportunities offered by the free market system, the country's major ethnic group, namely the Malays, felt increasingly marginalised. While the economy had achieved remarkable progress, its rewards unfortunately were not equally shared among her multi-ethnic populace. To the Malay majority, former British monopoly of the economy had merely been replaced by that of the Chinese ethnic minority. The bigger ownership of national wealth, and virtual monopoly of trade and commerce by the Chinese, contrasted sharply with that of the majority Malays, who had remained predominantly agriculturalist, rural, backward and poor.

The inequality in wealth distribution was further compounded by the British 'divide and rule' legacy of racial identification with economic functions. Both factors became serious obstacles to the government's nascent nation-building process. Thus, by the end of the 60s, mounting inter-racial tensions between the Malays and minority Chinese eventually exploded into violent racial riots on 13 May 1969. The incident not only witnessed the loss of many lives but also threatened to destroy the country's socio-political and economic stability. The tragedy's potentially adverse impact on the country's development agenda was not lost to the government. To defuse the new threat, the government adopted the controversial New Economic Policy (NEP) as a means of tackling the problem at source.¹¹

¹¹ The New Economic Policy's (NEP) twin objectives were to eradicate poverty irrespective of race and restructure the Malaysian society to eliminate the identification of race with economic functions. *Malaysia Five Year Plan, 1971-1975*, Government Printer, 1971. For an assessment of the effects of the NEP see *Sustaining Growth, Enhancing Distribution: The NEP and NDP Revisited*, (eds) Jahara Yahaya, Tay Nain Peng, Yeoh Kok Kheng, Ceder Secretariat, Center of Economic Development and Ethnic Relations, Universiti Malaya, 2003.

While the exact cause of the May 13 violence has remained the subject of debate, the government's perspective was to view the incident as the result of unrestrained operation of the western open market model without consideration for the different context, environment and needs of different societies. In Malaysia, the inability of the Malays to compete on equal terms with the Chinese to fully exploit open market opportunities was seen as a serious flaw of the system. Given the absence of a level playing field between Malaysia's multi-ethnic populace, unrestrained exploitation of resources under the free market economy, it was felt, could only benefit the better equipped Chinese at the expense of the historically handicapped Malays. If left unresolved, the problem could disrupt national stability and undermine the government's national peace, security and development agenda. The May 13 incident was thus seen as a manifestation of this inherently flawed free market economic approach to national development.

THE TUN RAZAK ADMINISTRATION:

THE NEW ECONOMIC POLICY (NEP) AND NATIONAL STABILITY

If national stability was to be sustained, a strategy must be devised to enable all ethnic groups to share more equitably and fairly the opportunities available under the free market system. The solution came in the form of the New Economic Policy (NEP), a centrally guided socio-political and economic strategy, designed to correct the wealth and equity imbalance among Malaysia's multi-ethnic populace within the time frame of twenty years from 1970 to 1990. In essence, the policy sought to restructure the Malaysian society by targeting socio-economic disparity based on ethnic identification with economic functions among the various races in the interest of national stability.¹²

The success of the strategy was envisaged through the concept of an expanding economic pie. This was to ensure that the gains of one racial group did not occur at the expense of the others. Under the strategy, the Malays' share of national wealth was anticipated to grow from 2.4 per cent to 30 per cent; the Chinese from 34.3 per cent to 40 per cent; while shares owned by foreigners to

¹² Mahathir Mohamad, *A New Deal for Asia*, Selangor: Pelanduk Publications, 1999, p. 34.

fall from 63.3 per cent to 30 per cent by the year 1990.¹³ Through a deliberate policy of positive discrimination in favour of the Malays under a prescribed quota system in all sectors, it was expected that the expanding national economy could eventually help rectify the wealth-equity imbalance among the races. The system was expected to enhance the capacity of the Malays and minority Indians, under government guidance, to partake in the country's development process, thereby reducing the equity gap among the major ethnic communities in the country.

Integral to the success of the strategy was the concept of the expanding economic pie. The latter was premised on the assumption that continued and uninterrupted national economic growth would provide the opportunity for all the ethnic groups to participate. A critical ingredient for this to happen was the need for uninterrupted flow of investments, local and foreign, into the country. Malaysia's open economy, well-established economic infrastructure, relatively stable political environment and business-friendly investment policies were invaluable assets in this respect. Given her earlier success and continued attractiveness as an investment destination, the attainment of the NEP's objective, it was felt, was not entirely unfeasible.

The NEP, however, for understandable reasons, had also evoked misgivings domestically and abroad. Its visibly 'pro-bumiputera' bias was a constant sore point to the local Chinese and Indian minorities. The NEP requirements for government majority share in any joint-venture projects with foreign partners had also irked many potential foreign investors.

At the broader international level, the discriminatory nature of the NEP, notwithstanding its affirmative label, had also invited wide criticisms from the developed world. Given Malaysia's low domestic investment capacity and continued over-dependence on western sources of FDI, where NEP criticisms were loudest, a diversion in investment flow from these sources could spell disaster for the national development agenda. To avert that possibility, vigorous efforts

¹³ Ibid, p. 35.

were taken to defend, explain and limit the NEP's potentially adverse impact on the country's investment strategy.¹⁴ The efforts were largely successful as reflected by the continuing flow of investments, both domestic and foreign, into the country during the decades following the NEP's introduction.

Sustained pursuit of the NEP objective across sectors and the success of her 'economic diplomacy' in wooing foreign capitals as well as accessing new export markets were in large part responsible for enabling the Malaysian economy to attain remarkable growth performance during the period. Despite stiff competition from her regional neighbours, the Malaysian economy grew between 7 to 9 per cent annually in the decades of the 70s and 80s. The impressive growth allowed for the steady pursuit of both the NEP and the national development agenda. While the NEP's socio-ethnic restructuring objectives achieved mixed results, the economy was transformed from a dominantly agricultural to a more industrially-inclined manufacturing format. Expansion of the national economic pie was accompanied by similar increases in the Malay-Chinese stakes, albeit at different rates, in the nation's wealth and economy.¹⁵ The boom years were thus a bonus. They allowed for the uninterrupted pursuit of the NEP and national development agenda by the various parties for mutual benefits. By the mid-70s, efforts to redress the wealth-equity imbalance between the races had witnessed positive results as reflected by the increased number of Malay professional and entrepreneurial class actively engaged in the national development agenda alongside their Chinese counterparts.¹⁶

TUN HUSSEIN ONN: CONTINUITY AND CONSOLIDATION

Razak's intense domestic development focus was cut short by his untimely demise. His deputy, Tun Hussein Onn, succeeded him as Malaysia's third prime minister. Hussein's period did not witness any radical departure from the policies of his predecessor. If anything, the period saw more sustained pursuit and consolidation of Razak's development agenda at both the domestic and international levels.

¹⁴ Malaysian diplomatic missions abroad, particularly in Europe and the US, were especially tasked to defend and explain the rationale behind the policy to existing and potential new investors. A policy of market and investment source diversification as well as incentives for increased domestic investment also formed part of the strategy.

¹⁵ See *Sustaining Growth, Enhancing Distribution: The NEP and NDP Revisited*, (eds) Jahara Yahaya (2003)

¹⁶ Mahathir Mohamad, *A New Deal for Asia*, Selangor: Pelanduk Publications, 1999, p 35.

Aside from commitment to the NEP objectives, policies aimed at securing more foreign direct investments for Malaysia's industrialization strategy were continued at a steady pace. The return to relative peace in the region after the end of the war in Vietnam was an added bonus, which allowed for uninterrupted pursuit of the development agenda, domestically and internationally.

Domestically, the socio-economic and cultural engineering experiment to restructure the Malaysian society had also made significant progress, albeit less dramatically. Government intervention through various instruments had brought some positive results. To be sure, the minority Chinese still dominated the economy, business and industry. The Malays too continued to monopolize agriculture, the civil service, police, army and politics. The fact notwithstanding, penetration of one race into each other's traditional domain in sectors such as business, industry, housing, professional services, education and others, however, were clearly visible.¹⁷ Even though resentments against the NEP remained, overall support for its broad policy objectives and underlying spirit was forthcoming from all the parties concerned. This was primarily due to all around gains obtained from continued national economic growth. Interestingly, even the cap placed on foreign equity ownership and/or the policy to reduce eventually foreign equities with local content had not discouraged the flow of FDI into the country.

Within the region and internationally, efforts to woo more FDI to Malaysia also saw positive results. The period witnessed more aggressive pursuits of the strategy overseas through the establishment of many new Malaysian trade and investment offices in countries which constitute Malaysia's key traditional markets, namely the US, Europe, Japan, the ASEAN region and the Middle East. Hence through the deft 'adjustment' of the open free market system via the controversial NEP, Malaysia was not only able to preserve domestic inter-ethnic stability, but to also move the national development agenda forward without major disruption to the national economy.

¹⁷ See Jahaya Yahaya (2003).

THE MAHATHIR YEARS: PROACTIVE DIPLOMACY, CHANGE AND NATION-BUILDING

The vigorous pursuit of the national economic growth agenda, as envisaged by the NEP, was taken to another level under the premiership of Malaysia's fourth Prime Minister, Dr Mahathir Mohamad. Despite being a vocal critic of the western-centric international economic order, he was not unmindful of Malaysia's over-dependence on foreign trade and investment flows for her continued growth and development. If anything, he was the first to underline the close nexus between the country's external policy and the domestic development process. Foreign policy was not only redefined as an extension of the country's domestic needs, but also identified as a key instrument in the pursuit of the country's national development objective.¹⁸ National economic development needs were thus elevated and emphasised in the country's foreign policy activities overseas. Given the desire to move Malaysia further up the development ladder, various new policies were initiated to pursue the objective, domestically and abroad. These were aimed at reducing Malaysia's over-dependency on traditional sources of foreign investments and markets, continuing the unfinished national development agenda and enhancing Malaysia's capacity to survive in an increasingly competitive and globalised world.

The demise of the Cold War also witnessed the ascendancy of economics as a key factor in national growth and stability. Given its unfinished domestic agenda, open economic structure, over-dependence on foreign trade, markets and FDI flow, a higher premium was thus placed on the adoption of more aggressive economic posture overseas to ensure the sustainability of her economic development process.

A central pillar of this strategy at the national level was the desire to move the economy away from the earlier preoccupation with the labour-intensive import substitution model of the 50's, 60's, 70's and 80's to a higher-technology, manufacturing-based and knowledge-oriented industrial economy capable of remaining competitive internationally. Articulated as Malaysia's *Vision 2020*

¹⁸ Speech by The Honourable Prime Minister at the Malaysian Heads of Missions Conference, Wisma Putra, Foreign Affairs Malaysia, Kuala Lumpur, March 1981.

objectives, the strategy called for a more aggressive use of its economic instruments abroad to not only sustain the country's growth momentum but also to propel it further into a developed nation status by 2020.¹⁹ Several developments, nationally and internationally, were responsible for this move.

At the national level, two events were particularly significant. The end of the 80's coincided with the end of the twenty-year time frame given by the NEP to correct the economic imbalance among Malaysia's major multi-ethnic community. Although some progress was made, the results were viewed as far from satisfactory, particularly by the majority Malays. As a consequence, the latter had called for a continuation of the policy, albeit under a new label called the National Development Policy (NDP).²⁰ The mid 80's also saw the country experiencing severe economic recession brought about by down-turns in the US and European economies. Although the economy subsequently recovered after a negative growth in 1985, these developments posed a serious threat to the national development agenda, which had been premised on uninterrupted growth in the national economy.

The late 80's and 90's also witnessed the rise of China, India and to a lesser extent, Vietnam, as rival economic centres in the region. Their lower costs advantage and equally aggressive investment-friendly policies had posed serious challenges to Malaysia's traditional position as an attractive haven to foreign investors. Competition from these countries for FDI had thus compelled Malaysia to reassess her investment strategy to limit possible adverse effects on Malaysia's development agenda and to ensure Malaysia remained regionally and internationally competitive.

MEGA PROJECTS, PRIVATISATION, LOOK EAST AND GO SOUTH

At the organisational level, Mahathir's aggressive use of the economic tool to secure national development ends was evidenced from the enhanced role of the

¹⁹ Mahathir, *A New Deal for Asia*, p. 41-42

²⁰ The NDP was launched in 1991 to replace the earlier NEP. While maintaining the basic strategies of the NEP, it emphasised balanced development and growth with equity in order to create a more united and just Malaysian society. See *Sixth Malaysia Plan, 1991-1995*, National Printing Department, Kuala Lumpur, 1991, p. 4-5.

Foreign Ministry, and the Ministry of International Trade and Industries, in promoting the country's economic agenda at all regional and international forum. At the personal level, his proactive approach was reflected by his numerous foreign visits, usually accompanied by a large entourage of Malaysian businessmen, to potential new markets abroad. The latter feat, unprecedented among his peers, earned him the label 'Malaysia's number one salesperson.'

Domestically, the twenty-two year period of Mahathir's leadership witnessed numerous new measures and mega projects designed to propel the country into the developed nation status by 2020. Among these include the construction of the Penang bridge, the development of Malaysia's new administrative capital in Putrajaya, the new KL International Airport (KLIA), privatisation strategy, the Multi-Media Super-Corridor (MSC), the North-South Highway, the national car project, the Petronas Twin Towers, initiatives to push Malaysia to become a world steel and microchip producer, and efforts to emulate Japanese work ethics and economic development model under the 'Look East Policy' (LEP).²¹ Underlying this push is the firm belief that Malaysia's continued economic growth in an increasingly open and competitive international environment is dependent on her ability to remain internationally competitive. Failure to do so would undermine the national development agenda as envisaged in the NEP, NDP and Vision 2020 objectives.

Pursuit of these objectives at the regional and international levels necessitated the adoption of more proactive and robust marketing and investment strategies capable of fully tapping the potentials of the open market economy. In this respect, the Mahathir period witnessed aggressive forays into traditional and non-traditional markets for investments and marketing purposes, including Latin America, Middle East, Africa and the CIS countries. It saw, for example, the establishment of nationally backed foreign investment entities (GLCs) akin to the Japanese 'Sogoshos'; adoption of the Malaysia Incorporated concept (Malaysia Inc) for closer private-public sector collaboration in overseas investment ventures;

²¹ The LEP is premised on the principle of emulating the successful work ethics of Japan, Korean and Taiwan as an alternative economic model to that of the West. The policy saw Malaysia's adoption of Japanese work ethics, the sending of Malaysian students and trainees to Japan, and Japanese technical assistance and active involvements in Malaysia's national economic development programmes. See Mahathir Mohamad, *New Deal for Asia*, (1999) p. 83-84.

introduction of new export promotion policies; further streamlining of foreign investment rules; opening of new markets for Malaysian products overseas; establishment of more Malaysian trade, investment and tourism representative offices abroad; proliferation of bilateral trade and investment agreements between Malaysian and foreign partners; encouragement of more Malaysian investments within the region and beyond under the 'reverse investment strategy' and active participation in regional and international trade and investment fairs to promote Malaysia as an attractive regional investment destination. The 'Prosper Thy Neighbour' policy, premised upon the push for closer economic collaboration among neighbours and economic cooperation amongst South-South countries as a means to greater stability was another example of the increased emphasis on economic diplomacy as an important tool in the quest for security, peace and development, nationally and within the region.

On the foreign diplomatic front, Malaysia's proactive economic strategy was also reflected in Malaysia's strong stands on many issues affecting its economy and the economies of developing countries at major regional and international forums. Malaysia's strong support of fairer trade and investment rule for the developing countries, often at the annoyance of the developed countries, during GATT and WTO trade negotiation rounds and other multilateral economic forums such as IMF, IBRD/World Bank, etc, were further testimony of its aggressive use of Malaysia's economic diplomacy to promote the country's national development agenda.²²

To be sure, the aggressive pursuit of the strategy was not without misgivings to some of its major trading partners. Dr Mahathir's assertive stands on many international issues affecting the South and frequent vocal criticisms of the unfair trade and investment practices of the developed world vis-à-vis the developing world did cause uneasiness among some of its traditional markets partners. Its 'Look East' policy and 'Buy British Last' campaigns, support for the establishment of a new international economic and financial order, and vocal criticisms of countries which formed Malaysia's major market and investment sources often

²² Jeshurun, Chandran, *Malaysia: Fifty Years of Diplomacy, 1957-2007*, Singapore: Talisman Publishing, 2007, p. 189.

evoked fear of possible negative reactions from these countries. The Asian financial crisis of 1997, triggered by the fall of the Thai currency, followed by that of Malaysia, Indonesia and South Korea; Mahathir's attacks on the speculative feature of the western liberal market and financial system; and Malaysia's subsequent adoption of capital and exchange control, have added further fuel to the concern. His combative stance against the West also raised fear among certain domestic quarters of possible adverse effects on potential investments from these countries with negative consequences to Malaysia's growth and development agenda.²³

THE RISE OF ASIA AND GLOBAL TRADE LIBERALISATION

The rise of China and India in the 90's, and within ASEAN, Vietnam, also posed serious threats to Malaysia's national development agenda. China's rise as the region's economic giant, followed closely by India and Vietnam, and their popularity with western investors had caused a marked shift in FDI flow away from Malaysia to these countries. Because of cost, market size, and other considerations such as equity and ownership regulations, liberal incentives, etc., the decades of the 90's and the early 21st century had witnessed stiff competition for FDI from these new growth centres.²⁴ Against the backdrop of the loss of comparative advantage and the setbacks suffered during the Asian financial crisis, Malaysia was again compelled to re-strategise to ensure the country remained attractive as an investment destination and internationally competitive.

As a result, among the radical new measures adopted include the further extension of the already generous foreign investment rules and more aggressive export and investment promotion exercises at home and abroad. The latter strategy saw greater utilisation of her 'economic diplomacy' to limit the damage to the Malaysian economy caused by the Asian financial crisis, defuse foreign criticisms of the various unpopular counter-measures subsequently taken and to reassure existing and prospective new investors of Malaysia's continued

²³ Ibid, 185.

²⁴ Denis Hew, 'ASEAN: Economic Development and Financial Development, 2001,' in *Southeast Asian Affairs*, ISEAS, Singapore 2001, p. 18, 36; Anne Booth 'Southeast Asia's Economic Performance: Achievement and Challenges' in *Southeast Asian Affairs 2004*, ISEAS, Singapore, 2004, p. 22.

commitment to the open market system. As a result, after a short period of negative growth, Malaysia's successful recovery from the crisis saw the return of confidence in the national economy. This was evidenced from the resumption of foreign investments, albeit at a lower rate, and positive year-on-year growth figures from a negative growth of 7.4 per cent in 1998 to the average growth rate of 7.2 per cent per annum during the 1999-2000 period to around plus 5 per cent by 2006. Although the growth rates were lower than pre-crisis years, the quick recovery path provided another example of Malaysia's successful use of its 'economic diplomacy' instrument to pursue the national agenda of promoting peace, security, stability and development in the country.

THE ABDULLAH BADAWI ADMINISTRATION: RETHINKING NEW STRATEGIES

Abdullah Badawi, Malaysia's fifth prime minister, inherited a nation well on the path of economic recovery. In broad economic terms, he continued with the key policies set by his predecessors. Notwithstanding early criticisms of a slower decision-making style and an over-cautious development strategy, the policy of open economic liberalism did not see any radical departure from past practices. Because of changes in the investment flow into the region due to competition from China and India, sustained efforts were undertaken to pre-empt possible adverse consequences on the country's development agenda. Trade and investment missions overseas to old and new targeted markets continued. Existing investment policies were fine-tuned to enhance Malaysia's competitiveness as an investment destination. Badawi's second term in office not only saw the lifting of currency control and the Malaysian Ringgit's peg to the US dollar, but also witnessed the unveiling of her ambitious development corridors' projects to attract more indigenous, regional and international investors.²⁵ In keeping with the regional trend, bilateral FTA negotiations with the US, India, Pakistan, Australia, New Zealand and Chile and others were also initiated. Within ASEAN,

²⁵ The initiative comprises the Iskandar Development Corridor in South Johore; the East Coast Economic Region (ECER) comprising Terengganu, Kelantan and Eastern Pahang; Northern Corridor Development Region (NCER) comprising Kedah, Perlis, Penang and Perak; and East Malaysia Development Corridor comprising Sabah and Sarawak. The initiatives are aimed at attracting both domestic and foreign investments to jumpstart the opening up of these regions to development. *New Straits Times*, 30.01.2008; *Star*, 30.01.08.

Malaysia's strong support for the AFTA and the ASEAN-China free trade initiatives clearly underscore the continued robust use of its 'economic diplomacy' to ensure Malaysia's growth agenda remain resilient and competitive.²⁶

CONCLUSION

Malaysia's successful economic and developmental record of the last fifty years can, by no means, guarantee similar performance in the decades of the 21st century. Given the fast changing regional and global environment, sparked by the ICT revolution and the rise of new regional and global players, already, a host of new challenges have emerged on the horizon, not the least the world energy and food crises. If unattended, these could again potentially disrupt Malaysia's continuing pursuit of her national development agenda. Efforts to reduce the gap in wealth, equity and income levels among the various ethnic groups; preparing the majority Malays for eventual termination of the government's 'pro-bumiputera' policy under the NDP; further capacity-building initiatives among the diverse ethnic groups to cope with new regional and global economic challenges; structural and content adjustments in the economy to strengthen international competitiveness; follow through of the efforts to achieve its Vision 2020's objectives and managing the downward trend in FDI flow to the country are only some of the challenges that needs the country's urgent attention.

Within the region, regional competition for FDI flows; increased demand for greater market access from new global players; the loss of comparative advantage and mounting pressure to remain an internationally attractive investment destination are also problems that require appropriate strategies to ensure Malaysia's national development agenda remained on track. Globally, for Malaysia to achieve its Vision 2020 and to sustain its economic growth, it must continue to be internationally competitive in looking for new markets and continued investments in the country. Given these challenges, the time has come for Malaysia to redefine, reformulate and institute a more coherent and comprehensive 'International Economic Policy' to further enhance the capacity of her 'economic diplomacy' in the pursuit of the national development agenda.

²⁶ *Ninth Malaysia Plan, 2006-2010*, Economic Planning Unit, Prime Minister's Department, Putrajaya, 2006, p 512-524.

The task ahead, to be sure, is far from easy. The scope and type of challenges, in economic and development terms, are quite broad, numerous and complex. The choice of appropriate strategy is therefore critical. Given the success of the last fifty years, the unending quest for national peace, security and development through the robust use of its economic policy instrument can be expected to remain unchanged in the decades ahead. Whether or not Malaysia will achieve its Vision 2020 objectives will depend on how the instrument is effectively deployed in tandem with other national strategies to pursue the objective in an increasingly complex, rapidly changing and globalise environment of the 21st century.

REFERENCES

Bilas, Richard Allen, *The Economic Development of the Federation of Malaya, 1950-1960*, Charlottesville : University of Virginia, 1963.

Cheah Boon Kheng, *Red Star over Malaya, Resistance and Social Change during and after the Japanese Occupation, 1941-1946*, 3rd edition, Singapore: Singapore University Press, NUS, 2003.

Chin Peng, *My Side of Story*, Media Masters Singapore, 2003.

Clutterbuck, Richard, *The Long, Long War*, London: Cassell, 1966.

Dialogue with Chin Peng: New Lights on the MCP, (eds) L C Chin and Karl Heck, Singapore: Singapore University Press.

Dr Mahathir Mohamad, *Managing the Malaysian Economy, Selected Speeches of Dr Mahathir Mohamad, Prime Minister of Malaysia*, edited by Hashim Makarudin, Vol 2, Selangor: Pelanduk Publications, 2000.

Dr Mahathir Mohamad, *Regional Cooperation and the Digital Economy, Selected Speeches of Dr Mahathir Mohamad, Prime Minister of Malaysia*, edited b Hashim Makarudin, Vol 2, Selangor: Pelanduk Publications, 2000.

Dr Mahathir Mohamad, *Globalisation, Smart Partnership and Government, Selected Speeches of Dr Mahathir Mohamad, Prime Minister of Malaysia*, edited by Hashim Makarudin, Vol 2, Selangor: Pelanduk Publications, 2000.

Eight Malaysia Plan (2000-2005), National Printing Department, Kuala Lumpur, 2000.

First Malaysia Plan, 1965-1970, Government Printer, Kuala Lumpur, 1965.

Fourth Malaysia Plan (1981-1985), National Printing Department, Kuala Lumpur, 1981.

Fifth Malaysia Plan (1986-1991), National Printing Department, Kuala Lumpur, 1986.

Hajrudin Somun, *Mahathir, The Secret of the Malaysian Success*, Selangor: Pelanduk Publications, 2003.

Hanrahan, Gene Z., *Communist Struggle in Malaya*, Washington: Institute of Public Relations, 1954.

Henniker, M.C.A., *Red Shadow over Malaya*, London: Blackwood, 1955.

How the Dominoes Fall, (eds) John H Esterline and Mae H Esterline, University Press of America, Lenham, 1990.

Jeshurun, Chandran, *Malaysia: Fifty Years of Diplomacy 1957-2007*, Talisman Publishing Ltd, 2008.

Khor Kok Peng, *Malaysian Economy in Decline*, Published by Consumers Association of Penang, Penang, 1987.

Mahathir's Administration: Performance and Crisis in Government, (eds) Ho Khai Leong and James Chin, Singapore-K. Lumpur: Times Book International, 2001.

Mahathir Mohamad, *A New Deal for Asia*, Selangor: Pelanduk Publications, 1999.

Mahathir Mohamad, *Achieving True Globalisation*, Selangor: Pelanduk Publications, 2004.

Miller, Harry, *Menace in Malaya*, London: Harrap, 1954.

Morais, J.V., *Hussein Onn, A Tryst with Destiny*, Singapore: Times Book International, 1981.

Navaratnam, Ramon, *Winds of Change, Malaysia's Socioeconomic Transition from Dr Mahathir to Abdullah Ahmad Badawi*, Selangor: Pelanduk Publications, 2004.

Ninth Malaysia Plan (2006-2010), Economic Planning Unit, Prime Minister's Department, Putrajaya, 2006.

O'Balance, Edgar, *Malaya: The Communist Insurgency War*, London: Faber & Faber, 1954.

Reid, Anthony, *Charting the Shape of Early Modern Southeast Asia*, Singapore: ISEAS, 2000.

Seventh Malaysia Plan (1996-2000), National Printing Department, Kuala Lumpur, 1996.

Sixth Malaysia Plan (1991-1995), National Printing Department, Kuala Lumpur, 1991.

Southeast Asian Affairs, 1992, ISEAS, Singapore 1992.

Southeast Asian Affairs, 2002, ISEAS Singapore, 2002.

Southeast Asian Affairs, 2004, ISEAS Singapore, 2004.

Sustaining Growth, Enhancing Distribution: The NEP and NDP Revisited, (Eds.) Jahara Yahaya, Tey Nai Peng, Yeoh Kok Khrng, Centre for Economic Development and Ethnic Relations, University of Malaysia, Kuala Lumpur, 2003.

The Pentagon Papers, New York, Bantam Books Inc., 1979.

Tunku Abdul Rahman, *Something to Remember*, Singapore: Eastern University Press, 1983.

Tregonning, K.G., *A History of Malaya*, Singapore: Eastern University Press, 1964.

United Nations Development Programme, *World Investment Report*, September 2005.

_____, *The Malaysian Economy*, Consumers Association of Penang, 1983.

Rethinking the Non-Aligned Movement

By George Klay Kieh, Jr.

George Klay Kieh, Jr. is Professor of Political Science and African and African-American Studies at Grand Valley State University, Michigan, USA, and Senior Research Fellow in the Programme in Ethnic and Federal Studies at the University of Ibadan, Nigeria. He has written extensively on issues relating to International Cooperation in Africa and the Third World.

INTRODUCTION

The end of the Cold War and its associated ubiquitous ‘superpower rivalry’ was hailed as an opportune moment in the history of international system to promote cooperation between and among states. Specifically, in terms of ‘North-South relations,’ there was great optimism that the end of the Cold War would “untie the proverbial Gordian Knot” that laced the “box” in which ‘North-South’ relations were conducted. The resultant cooperation would then permeate all areas of the relationship between the two development poles—trade, investment, debt, etc. In order to create this ‘new epoch,’ the ‘North’ implored the ‘South’ to get fully integrated into the global capitalist economy, and to embrace the ‘new globalization,’ the post-Cold War phase of international capitalist development. According to the ‘Global North,’ the ‘new globalization’ would be a ‘positive sum game’ in which both the countries of the ‘Global North’ and ‘Global South’ would accrue mutual benefits. However, after more than two decades since the inception of the ‘new globalization,’ the repository of evidence shows that the ‘new globalization’ is cementing the exploitation and marginalization of the ‘Global South.’ In other words, the ‘new globalization’ is expanding the socio-economic gulf between the two poles. As the Draft Algiers Declaration of the Summit Meeting of the Heads of State of the Organization of African Unity (now the African Union) correctly notes, “...Ushered in with the promises of progress and prosperity for all, (globalization) has today aroused fears, in that it poses serious threats to our sovereignty, cultural and historical identities as well as gravely undermining our development prospects.”

Clearly, the Non-Aligned Movement (NAM) was not designed to deal with the challenges and threats that the ‘new globalization’ is posing to the Third World. Instead, NAM was conceived and designed to operate in a Cold War environment that was distinct from its post-Cold War successor, especially in this age of the ‘new globalization.’ Against this background, the central argument of this article is that the Non-Aligned Movement needs to be rethought and reconstituted in light of the realities of the post-Cold War era, especially the intensification of the inherent inequities in the international system during the ‘new globalization.’

CONCEPTUAL ISSUES

The article employs two major terms—non-alignment and pooled sovereignty—as its conceptual framework. Non-alignment is defined as an approach to international relations that rejected the ‘Cold War-based’ power bloc politics and its attendant antagonistic relations between and among the members of the opposing camps, and advocated the assertion of the decision-making independence of small and middle powers within a global framework of peaceful co-existence.

Using Mangala’s (2008:116) conceptualization, the study defines pooled sovereignty as “moving the centre of decision-making where both individual states and [the third world] as a whole can better achieve growth, development, peace and stability.”

THEORETICAL MODEL

The pooled sovereignty theory is used as the compass for providing direction for the study. The theory is based on several major arguments. At the vortex is an institutional arrangement in which sovereign states voluntarily transfer the authority over certain national and transnational policy areas to what Clausen and Nichol (2008:5) call a “collective entity.” It is important to note that the participating states maintain their individual sovereignty. In other words, this does not entail the creation of a new ‘super-state’ based on sovereignty only for the ‘centre’ as it is in domestic federal arrangements. Also, the participating states would play pivotal roles in collectively crafting the policies in the areas of collaboration.

Another major pillar is that the ‘collective entity’ consists of various institutions, rules and processes. The institutions are designed to serve as both the arenas for collective policy-making and implementation. The rules delineate, among other things, the specific areas of collective decision-making, and the responsibilities that are assigned to the institutions of the collective entity. Similarly, the processes, *inter alia*, stipulate the ways in which the collective entity and its institutions make decisions. Overall, the collective entity plays two sets of interlocking roles: It protect and promotes the common good, as well as reconciles and coordinates the various interests of the partners states (Seong-Chang, 2004: 76).

Also, a ‘community behavioral culture’ is critical to the success of the collaboration. Embodying such values as honesty, mutual respect and collective commitment to the greater good of the collectivity, the culture establishes the mutual expectations of the partners. The extent to which members fulfill the mutual expectations that originate from the culture’s values is a major determinant of the probability for the success or failure of the collective entity.

Yet, another major tenet revolves around the issue of the dividends to be accrued by the collaborating member states. Clearly, there are several benefits to be accrued, including ‘burden sharing’, solidarity, economic growth and development. That is, the partnership would yield several benefits at comparatively low transaction costs for the individual members.

HISTORICIZING THE NON-ALIGNED MOVEMENT

The end of the Second War World witnessed a major shift in the global ‘balance of power’. The United States and the Soviet Union replaced European states as the two dominant global powers. With their new status as the global ‘superpowers’, the two countries made the determination that it was imperative for them to establish their suzerainty over the world. The resultant imperial competition, which was dubbed the ‘Cold War’, witnessed the undertaking of sustained efforts by the two superpowers to acquire client states to constitute their respective power blocs or ‘spheres of influence’. The two superpowers used various means to acquire and maintain client states and groups—military aid, economic assistance, diplomatic and political support.

The inception of the 'Cold War' coincided with the process of decolonization in the Third World. Due to various reasons—ranging from the impact of the anti-colonial struggles to the tension between colonialism and the dominant international capitalist order—the various colonial empires crumbled. Consequently, the various European colonial and imperialist powers were forced to abandon their respective empires (however, Portugal maintained its colonial empire in Africa until 1975). This was followed by a 'wave of political independence' that swept through the Third World like a whirlwind. The resultant was the emergence of several new states in Africa, Asia, the Caribbean, Central and South America.

Excited by the large numbers of independent Third World states, the two superpowers launched 'full court presses' to cajole, entice and convince these new states to join their respective 'power blocs'. However, being cognizant of the polarizing, strangulating and exploitative nature of power politics, some of the leaders of the Third World made the determination that developing states' interests would best be served by unequivocally rejecting the overtures from the United States and the Soviet Union. Alternatively, a policy of non-alignment was proffered as the Third World's best route to participating in global politics and affairs. Accordingly, the Non-Aligned Movement was established more than four decades ago as the embodiment of the Third World's independence and rejection of power politics. Jawaharlal Nehru, the first Indian Prime Minister, provides an apt summation of the *raison d'être* for the organization:

We propose, as far as possible, to keep away from the power politics of groups, aligned against one another, which have led in the past to two world wars and which may again lead to disasters on an even vaster scale. We seek no domination over others and we claim no privileged position over other people (Nehru, 1946: 1).

Like every organization, especially of sovereign states, NAM had successes and failures during the 'Cold War' era. NAM's successes revolved around three major areas. First, the organization was a pivotal force in articulating the common issues that confronted small powers in the international system. One of the key issues was the positive role NAM played in pressing for the process of decolonization. As a result of NAM's sustained efforts, several Third World states gained their

independence from the various European colonial powers. Similarly, as has been argued, NAM deserves credit for the collapse of the diabolical apartheid system and the subsequent emergence of a multiracial South African polity. NAM's contributions spanned from the exertion of pressure on the Western patrons of the apartheid system in several areas to unswerving support for the forces of self-determination.

NAM also played a critical role in forcing the United States and the other Western powers to make little concessions to Third World states in the area of international trade, beginning in the 1970s. Based on the Third World's call for the creation of a 'New International Economic Order,' NAM in collaboration with the Group of 77 pressured the advanced capitalist states, the 'movers and shakers' of the global economy, to establish the 'Generalized Systems of Preferences' (GSPs). Under this arrangement, selected exports from Third World countries could enter the domestic markets of the advanced capitalist states free from the imposition of tariffs for particular time intervals.

Another major success was NAM's gallant role in advocating peaceful co-existence in a global environment that was plagued by the polarizing relationship between the two dominant power blocs. For example, NAM did this by developing cordial relations with the members of the two blocs. This action, among other things, helped to reduce global tensions (Jazia, 2005).

A related success was achieved in the promotion of bilateral arms control between the two superpowers and multilateral agreements among the states of the world. Ultimately, these efforts helped to move the two superpowers in the direction of undertaking talks, and subsequently signing various treaties that slowed down the spiraling military competition. Similarly, the various multilateral arms agreements helped to broaden the scope of NAM's efforts to slow down the global arms race, and to address the underlying tensions and suspicions on which the competition was based.

On the other hand, NAM experienced several failures. First, the overwhelming majority of the members of the organization were actually aligned with either the Soviet or the American power bloc. This was a major problem

because it undermined the fundamental contour of non-alignment. As Fryer (1999:1) argues, "... [NAM] was a movement that basically set itself up as something which it is not, rather than something which it is." Ultimately, this fundamental failure militated against NAM's desire to emerge as an alternative to bloc politics as the pivot of international relations. In short, most of the members of NAM advocated non-alignment in their policy rhetoric, but practised alignment in their policy acts.

Similarly, it was quite commonplace for various members of NAM to manipulate 'Cold War' politics. One of the major ways in which this was done was the practice of some of NAM's member states changing their patrons. For example, Egypt, which was one of the founding members of the organization, shifted from Soviet patronage under Nasser to the American one under Sadat.

Another failure was that NAM could not effectively referee superpower competition. This was because NAM lacked the economic and military power that was the pre-condition for mediating U.S.-Soviet rivalry. As a collection of economically and militarily weak and dependent states, NAM lacked the leverage that was exigent for becoming a 'buffer power bloc'.

Yet, the various conflicts between some of NAM's member states helped undermine the solidarity that was critical for the organization's rise as a 'third force' in the global 'balance of power'. For example, India and Pakistan fought three wars during the 'Cold War'. To make matters worse, both countries drew in external powers: the Soviet Union sided with India, and China intervened on behalf of Pakistan.

TOWARD RETHINKING THE NON-ALIGNED MOVEMENT

Background

Is the Non-aligned Movement still relevant in light of the end of the Cold War? I argue that it is not in light of the major purpose for which it was established. However, Third World solidarity is now even more urgent, against the background of the new challenges. Accordingly, I suggest that NAM needs to be rethought and restructure in order for Third World states to be well positioned to meet the emergent imperatives of the 'post-Cold War' era as embodied in the

nature and dynamics of the ‘new globalization’. As the former Malaysian Foreign Minister Syed Hamid Albar aptly notes, “...the challenge facing NAM in ensuring its continual relevance is, inter alia, one of repackaging and retooling itself in the context of the realities of the international order, which is in a state of flux” (Asian Political News, 2003: 1).

The “New Globalization” and its Challenges to the Third World

Against this backdrop, what are the challenges being posed to Third World countries by the ‘new globalization’? Clearly, the emergent nature of the ‘new globalization’ is akin to bloc politics during the ‘Cold War’. That is, the ‘new globalization’ is cementing and institutionalizing the global division of states into major powers, middle powers and small powers; powerful versus weak states; and core, semi-peripheral and peripheral states. The crux of the matter is that the ‘new globalization’ is consolidating the dominant political and economic positions of the industrialized capitalist states—United States, Japan, Germany, Britain, France and Italy.

In terms of its dynamics, the ‘new globalization’ is transforming the global political economy in fundamental ways. At the vortex is the ubiquity of the capitalist mode of production. This is reflected in the fact that every actor in the international system—state and non-state—has been incorporated into the system (Kieh, 2008). Accordingly, every activity in the global political economy is conditioned by the capitalist logic—the maximization of profit for the benefit of the members of the transnational ruling classes, especially the segment that owns the various multinational corporations based in the core states.

Based on the suzerainty of the capitalist logic, there are several derivatives. First, the core states and the international financial institutions—the International Monetary Fund and the World Bank—have launched concerted efforts to undermine and eventually ‘roll-back the state’ in the Third World through their various neo-liberal programs such as the ‘Structural Adjustment Programs’ (SAPs). The overriding purpose is to give the metropolitan-based multinational corporations carte blanche to exploit the natural resources of the Third World. In other words, with a weakened state, multinational corporations can, among other things, exploit labor, siphon off wealth through the unrestricted transfer of profits, and destroy the environment.

Second, the ‘movers and shakers’ of the global political economy are determined to force Third World states to dismantle their various social safety nets. The ostensible purpose is the capitalist imperative of privatizing every facet of life in the Third World. For example, the privatization of water in Third World states will force citizens to buy water from private corporations usually at an exorbitant price. Under this arrangement, these corporations are then able to generate profits. The resultant danger is that this will make life unbearable for the members of the subaltern classes (the lower classes), who do not have the financial resources. Ultimately, the rate of abject poverty will increase, and the masses of citizens in the Third World will continue to live perilously on the margins. Undoubtedly, this will be a recipe for fomenting increased violent conflicts in various Third World countries. Consequently, the assault on human security will contribute to the fueling of political instability and events such as civil wars.

Third, the ‘international division of labor’ in which Third World states are assigned the role of producing raw materials, while the core states produce manufactured goods is being institutionalized. That is, Third World states are being transformed into permanent enclaves for the production of raw materials to feed the industrial-manufacturing complexes of the core states. The major drawback is that under the perennial ‘system of unequal exchange’, Third World states will continue to receive less for their raw materials, while being required to pay more for manufactured goods from the core states. The resultant would be dwindling revenues from trade, and their concomitant adverse impact on the capacity to invest in basic human needs programs such as public education, health care, public housing, clean drinking water and sanitation.

Fourth, with the end of the ‘Cold War’, the United States is determined to build a ‘global empire’ in which virtually every Third World country will become an American neo-colony. As neo-colonies, Third World states will be forced by the United States to serve the latter’s imperialist agenda, including the establishment of control over major sources of natural resources—oil, etc. Importantly, any Third World country that resists American imperialism could run the risk of incurring military action, including a preemptive military strike as embodied in the illegal “Bush Doctrine of Pre-emption.” Clearly, the American imperialist project poses a grave danger to the sovereignty of Third World states,

especially their right under international law to make their own domestic and foreign policy decisions.

Repositioning the Third World through Pooled Sovereignty

Given the challenges currently being posed to Third World countries by the 'new globalization', they need to adopt 'pooled sovereignty' as the new collective strategy for repositioning themselves, so that they can effectively resist and address the deleterious effects of the 'new globalization'. Fundamentally, the strategy of 'pooled sovereignty' needs to be embodied in a new 'collective entity' to which decision-making in some critical policy areas would be transferred by the participating states. The new 'collective entity' could be created by merging the Non-Aligned Movement and the 'Group of 77'. This new 'collective entity' will serve as the overarching framework for promoting solidarity, development and peace within, and between and among the various Third World states, and for advocating for the imperative of restructuring the international system and its embedded structures, rules, processes and modes of interactions that are intrinsically based on asymmetries between the core states, on the one hand, and the semi-peripheral and peripheral states, on the other.

Based on their respective domestic objective conditions, the participating states would then make the determination regarding the policy areas that would be transferred to the collective entity within the context of the 'pooled sovereignty strategy'. However, some of the critical policy areas must include the restructuring of the international system, research and technological development, economic and social development. In the area of advocacy for the restructuring of the international system, this would involve two major dimensions: the transformation of international institutions, especially the power relations between the core states, and the semi-peripheral and peripheral states, and the transformation of the global economy. In the case of the former, for example, the collective entity would build on the efforts currently being made by the Non-Aligned Movement for the reconfiguration of the power relationships in the Security Council with the ostensible goal of allotting permanent seats with 'veto power' to the various regions of the Third World. Despite its limitations, such a new arrangement would end the monopoly of the major powers by giving the Third World a major role in the promotion of international peace and security. Similarly, the 'collective entity'

would lead the effort to restructure the World Trade Organization, the World Bank and the International Monetary Fund. In all of these organizations, the locus of the effort would be to reconfigure the power relationships and expand the agendas. The resultant effects would be real and meaningful decision-making roles for the Third World, and the discussion and ultimate resolution of trade and lending issues that are important to the Third World.

As for the restructuring of the global economy, several specific areas would need to be addressed. In the area of trade, the restructuring must seek to, among other things, reconfigure the 'international division of labour', and the 'system of unequal exchange'. In terms of the 'international division of labour', it needs to be transformed so that Third World states are no longer permanently assigned the role of producing raw materials to feed the industrial-manufacturing machines of the core states, and consuming the manufactured goods from the developed states. Among other things, the restructured framework would help enable Third World states to develop the technological base that would allow them to produce manufactured goods. Also, the predatory 'system of unequal exchange' under which the core states, based on their hegemony, make the determination to pay Third World states less for their primary products, but require them to pay more for the manufactured goods from the industrialised capitalist states must be changed. Under the new arrangement, the Third World would participate in setting the prices for manufactured goods and raw materials.

Another area is the imperative of halting the perennial predatory and exploitative policies of metropolitan-based multinational corporations, including the poor treatment of workers in Third World states, the siphoning of profits without making significant re-investment in the host Third World countries, the depletion of natural resources, and the destruction of the environment. The 'collective entity' could shepherd the process of developing a uniformed 'code of conduct' to govern the operations of metropolitan-based multinational corporations in Third World host countries.

Also, the nature and dynamics of technology transfer from the core to the semi-periphery and the periphery need to be transformed. The changes must include pricing and relevance. That is, the 'collective entity' would negotiate the

formulation of a new arrangement under which the usual inflated prices of various pieces of technology would be reduced, so as to reflect an approximation of their real production costs. Furthermore, efforts would be made to establish common standards for the purpose of ensuring that the technology purchased by Third World states is contemporary and relevant to the development need for which it is acquired.

In the area of debt relations, the 'collective entity' would develop a common approach that would have as its ultimate goal the cancellation of all debts. Given the fact that an appreciable amount of the debt owed by Third World states to core-based commercial banks is odious, the ultimate solution to the debt crisis that has bedeviled the Third World for more than two decades is debt cancellation.

Another policy area that should be under the purview of the 'collective entity' is research and technological development. Clearly, in order to ensure that the 'international division of labour' and the 'system of unequal exchange' are transformed into new arrangements based on equity, Third World states would need to industrialize. Central to industrialization is the development of a technological base. This would require investments in research. Rather than designing and implementing myriad individual research and development blueprints, Third World states would be best served to transfer this policy area to the 'new collective entity'. This would be cost effective because the participating states would share the 'burden'. Additionally, the creation of a central research and development institute would attract a host of 'scientific minds' from around the Third World. The technology that gets developed can then be shared among the participating states, and importantly be used to improve the lives of their respective citizens.

International economic policy is a major area that needs to be transferred to the 'new collectivity'. Specifically, this would involve such issues as trade, investment and debt. In terms of trade, the 'collective entity' would devise ways in which the volume of trade and the types of goods and services that are exchanged between and among the participating states can be increased. Certainly, as previously discussed, the development of a technological base would

help to increase both the quantity and quality of trade. As for investment, the 'collectivity' would formulate common policies for dealing with private investors, especially multinational corporations from the core states. One of the major benefits would be that the formulation of a common investment policy would make it difficult for multinational corporations to evade control. In the area of debt, the 'collectivity' would play the lead role in strengthening the participating states' advocacy for the cancellation of all debts from the core states, including their commercial banks.

The community culture should be based on several values. At the core must be the development of human-centred and pro-people public policies that are designed to address the basic human needs—jobs, education, health care, housing, clean drinking water and acceptable sanitation—of the citizens of the participating states. In other words, the resources of the state should be primarily invested in the improvement of the material conditions of the citizens. Undoubtedly, a healthy and educated citizenry would be indispensable to the development of the knowledge base that is critical to pursuing the research that would lead to the development of technology. By adapting such a value, the participating states would be rejecting neo-liberal orthodoxy and its emphasis on 'profits over people'.

Another value must be the requirement that all member states consistently demonstrate a sense of integrity. This would require that, among others, all member states must demonstrate honesty in their dealings with one another, and with the broader 'collective entity'. For example, a member state cannot be a neo-colonial agent of a major power within the organization, whose purpose is to ostensibly serve the interest of the neo-colonial patron. There is a repository of evidence that shows that several Third World state-based organizations have been weakened by member states that have worked to undermine those organizations from within as agents acting on behalf of various imperial powers.

Also, the 'solidarity value' must be a bedrock norm of the organization. Individual member states should be expected to assist fellow member states that are experiencing problems such as natural disasters, beyond the assistance of the collective organization. In other words, depending on its means, each member

state should provide moral, human, financial and other assistance. Such a communal ethos would be critical to decreasing Third World states' preponderant reliance on the major powers to help assist with addressing problems that confront the former. While the assistance of the major powers should be welcomed, Third World states need to provide the leadership and make meaningful contributions in human and material terms. By decreasing the reliance on the metropolitan powers, Third World states would reduce their vulnerability to manipulation by the major powers.

In terms of the institutional architecture, no matter the particular design, the community-wide entities, the rules and the processes must be fundamentally designed to promote the individual interests of the participating states, as well as those of the 'collectivity'. However, in order to militate against the dominance of the individual interests of states, the participants should not have, *inter alia*, 'veto power' over community-wide decisions. Instead, through the establishment of transparent and accountable institutions, rules and processes, member states would have the opportunity to articulate their positions on various issues. Then, once a vote is taken, the 'collectivity' should pursue the choice decided by the majority of the participating states.

Regarding the dividends that can be accrued through 'pooled sovereignty', they are legion. However, since it is not possible to discuss all of them in this article, few of them will be explicated. The overarching dividend is that participating states would benefit immensely from drawing from the collective resources of all of the member states in dealing with the deleterious effects of the 'new globalization'. As has been argued, the 'new globalization' is accentuating the intrinsic inequities and injustices that are ensconced in the structures, rules, and processes of the international political economy. Thus, given the peripheral position of Third World states in the global power matrix, they certainly cannot address the vagaries of the 'new globalization' singularly through an unrealistic reliance on individual sovereignty. Alternatively, by establishing a new organization that combines the Non-Aligned Movement and the Group of 77 through the pooling of their sovereignties, Third World states would be better positioned. The derivatives would be cultural, economic, political, social and solidarity benefits. For example, member states would accrue tremendous benefits

from shared technological development. The technology would be used to help improve the standard of living of millions of the citizens of the participating states.

Framing the Strategies

Undoubtedly, the success of the 'pooled sovereignty' model will require the formulation of strategies for the establishment of a new pan-Third World organization, and for waging the campaign for fundamentally restructuring the totality of the global political economy. Clearly, this would be a Herculean task given the political, economic and other differences between and among the current members of the Non-Aligned Movement and the Group of 77, and the unwillingness of the metropolitan powers to accept change. Accordingly, there is no existing 'cook book' from which 'recipes' can be pulled. Hence, the development of strategies would require the consideration of several variables. Despite the complexities that are associated with the framing of strategies, especially given the nature and dynamics of the international system, some general steps can be suggested. First, since the success of the proposed new Third World-based organization will depend on committed members, the focus should be to mobilize a group of such members. This is better than uncritically encouraging all Third World states, including those that are currently members of the Non-Aligned Movement and the Group of 77, to join. The point is that interested states should demonstrate their commitment to the organization by voluntarily transferring sovereignty over a policy area or areas to the collective organization. This should be the non-negotiable pre-requisite for membership. In other words, states that do not meet the aforementioned requirement should not be given provisional membership with the hope that they would at some point fulfil the pre-requisite for membership. Importantly, if the membership requirement becomes the major obstacle for disbanding the Non-Aligned Movement and the Group of 77 and merging them into the proposed organization, then the two organizations should be left intact and the new organization should be independently formed.

As for the challenges of dealing with the major powers, the framing of the appropriate specific strategies would need to take cognizance of both the strengths and the weaknesses of the collectivity of the membership of the new organization. Notwithstanding, the member states would need to maximize their numerical and

natural resources strengths. The numerical strength can be used to institute changes in the various international organizations that are based on 'one country-one vote'. For example, the United Nations General Assembly, within its limitations, can be used, as it has been in the past, to institute changes in the organization. In those cases where the limitations of the General Assembly pose obstacles to the institution of fundamental changes, the numerical strength could be used as a bargaining instrument to help bring about the desired changes. Another consideration is that natural resources—oil, minerals, etc.—should be used as effective bargaining tools as well. If necessary, these natural resources should be used to impose sanctions against intransigent metropolitan powers that are resistant to the transformation of the global political economy.

CONCLUSION

The article has attempted to argue that the Non-Alignment Movement (NAM) needs to be rethought in light of the end of the Cold War. Specifically, the article argues that because NAM was designed within the context of the Cold War, it is no longer suitable to deal with the post-Cold War era, especially the 'new globalization', the current phase of international capitalism. Accordingly, it is suggested that NAM and the Group of 77 should be disbanded and folded into a new Third World-based organization.

The pivot of the proposed organization should be 'pooled sovereignty', which basically entails member states transferring sovereignty over particular policy areas to a 'new centre'. Based on the 'pooled sovereignty' model, the new organization should be anchored on a set of common community institutions, rules and processes, and culture. This architecture would provide the conditions under which the interests of the participating states and the 'collectivity' can be harmonized. If this can be done, several benefits would be accrued by the participating members. The overarching dividend is that the member states would be better positioned to deal effectively with the deleterious effects of the 'new globalization' by benefiting from collective resources. Undoubtedly, given the marginal positions of Third World states in the 'global division of power', they do not have the capacity to deal effectively with the pathologies of the 'new globalization'.

Finally, the article stressed the importance of the development of effective strategies for actualizing the strategy of 'pooled sovereignty'. While recognising the complexities that attend the development of strategies against the backdrop of the nature and dynamics of the international system, the article suggests that the strategy formulation project must consider both the assets and liabilities of the 'collectivity'. Notwithstanding, the 'collectivity' should take full advantage of the numerical and natural resource assets as instruments of negotiation with the major powers.

REFERENCES

Asian Political News (2003). "Non-Aligned Movement Seeks New Role After Cold War," February 24, p.1.

Clausen, Kathleen and Timothy Nichol (2008). "*Reconstructing Sovereignty: The Impact of Norms, Practices and Rhetoric.*" Bologna Center Journal of International Affairs. 11(1), pp. 1-11.

Fryer, Jonathan (1999) cited in the *BBC News*, "Non-aligned and No Where to Go?" December 27, p.1.

Jazic, Zivojin (2005). "*The Non-Alignment Movement Yesterday and Today—In the Process of Globalization: A Critical View.*" Croatian International Relations Review. 11(38/39), pp. 59-66.

Kieh, George Klay (2008). "*The New Globalization: Scope, Nature and Dimensions.*" In George Klay Kieh, Jr. (ed.). *Africa and the New Globalization*. Aldershot, UK: Ashgate Publishing, pp. 13-28.

Mangala, Jack (2008). "*State Sovereignty and the New Globalization.*" In George Klay Kieh, Jr. (ed.). *Africa and the New Globalization*. Aldershot, UK: Ashgate Publishing, pp. 97-128.

Nehru, Jawaharlal (1946). Speech Delivered on the Occasion of the Formation of the Provisional Government of India. September 7.

Seong-Chang, Cheong (2004). "Establishing Supranational Institutions: European Lessons for a Unified Korea." *East Asia Review*. 16 (1), pp. 73-96.

Road Map for the East Asian Community: A Malaysian Perspective

By Shankaran Nambiar

Dr. Shankaran Nambiar is a Senior Research Fellow at the Malaysian Institute of Economic Research. He has written on trade policy, international economic relations and technology policy, and has been engaged as a consultant for various government agencies in Malaysia as well as for international organisations. He has also been involved in capacity-building programmes in Central Asia, Laos, Myanmar, Vietnam and Timor-Leste.

ABSTRACT

The purpose of this paper is to present some views on the directions that the East Asian Community should take. In light of recent developments in the region, specifically with respect to the drive that has been initiated by Japan to create an East Asian Community, it is useful to examine what Malaysia can expect such a community to do. While noting that Malaysia had floated the idea of such a grouping during the Mahathir era, this paper argues that Malaysia can positively contribute to this community by virtue of its development experience. Similarly, there are areas that should be placed on the East Asian agenda that can benefit Malaysia.

Key words: East Asian Community, Nikai Initiative, Asian Regionalism

INTRODUCTION

The purpose of this paper is to suggest a road map for the East Asian Community. This is an issue that deserves attention in light of current developments with which the Association of Southeast Asian Nations (ASEAN) is engaged. Following the 11th ASEAN Summit in Kuala Lumpur in December 2005, Japan drew up the Nikai Initiative, with an attempt to promote a 16-nation East Asia Free Trade Agreement (FTA). As part of the Nikai Initiative, Japan announced a

USD80-USD100 million fund that would be dedicated to establishing a Comprehensive Economic Partnership in East Asia (CEPEA).

Clearly, there is much interest in establishing an East Asian community. That being the case, it is relevant to clarify what Malaysia perceives of the entire project. The idea of such a community is not new to Malaysia; and it is, therefore, reasonable to expect that one would be able to formulate some thoughts on what could be expected of Malaysia's involvement in such a grouping. More specifically, this paper attempts to put forward some suggestions as to what Malaysia can expect from this project as well as how Malaysia can contribute in some meaningful way.

The notion of an East Asia grouping has its origins, at a political level, in an idea that was articulated by the previous Malaysian Prime Minister, Tun Mahathir Mohamad, who attempted to promote an East Asia Economic Group (EAEG) in 1990. There was opposition to this proposal from countries like the United States, Australia, Canada and New Zealand. Even Soeharto, the then Indonesian president, voiced his disagreement to the notion of a 'group', which resulted in the proposed entity being re-named the East Asia Economic Caucus (EAEC). The EAEC proposal was Malaysia's reaction to ASEAN joining APEC, and was basically an attempt to create a regional arrangement that linked ASEAN with China, South Korea and Japan.

Malaysia's reasons for forwarding EAEC were, probably, prompted as an extension of Malaysia's 'Look East Policy' and as a regional grouping that would counter the interests of the United States in this part of the world.¹ Although China had not yet achieved the growth rates that it now realises, it was clear to Malaysia that it would be to Malaysia's and ASEAN's benefit to form ties with the economic giants in the region (viz., South Korea and Japan) and to cooperate in economic, social and technical areas.

¹ Ganesan (1999) suggests that Malaysia was prompted by a desire to associate itself more closely with East Asia, than to be dominated by countries that were allies of the United States.

In a sense, the creation of an East Asian Community (EAC) brings to fruition Malaysia's proposal of creating a network of countries that can deepen the ties that bind the countries in East Asia through the mechanism of EAEC. It was thought that EAEC would create a more coherent and deeply integrated market that could encourage trade ties as well as enhance technological and social cooperation for Malaysia and the other member states. Similarly, it is expected that EAC would fulfill similar functions and see the enhancement of trade and accelerated economic growth besides promoting open regionalism.

The EAC is poised to fulfil the expectations that Malaysia thought was possible through EAEC, and thus, welcomes the initiative. Indeed, the EAC is a relevant response to the economic landscape that has evolved since the idea of the EAEC was floated in 1990. The involvement of India, Australia and New Zealand with ASEAN +3 in the formation of EAC indicates that the arrangement is more inclusive than Malaysia had originally conceived, making it a much more pragmatic approach to regionalism.

The organisation of the paper is as follows. The first section will review Malaysia's development experience. This will lay the foundation for the EAC programme in the sense that some of the striking features of Malaysia's development record provide the impetus for EAC. The second section will argue that the issues taken up at the East Asian summit meetings have been, by and large, in accordance with Malaysia's interests. This will be followed by a section which will examine the broad features of a road map for the East Asian Integration. Finally, some concluding remarks will be made.

MALAYSIA'S DEVELOPMENT EXPERIENCE

This section will briefly review Malaysia's development experience because the specific development record that Malaysia has enjoyed puts it in a unique situation to value the formation of EAC. We would argue that this development record gives Malaysia a special perspective to appreciate the deepening of economic integration and cooperation in the region. There are features in Malaysia's development that make the initiative behind EAC very relevant; both in terms of forging further development of the region as well as in further stimulating its own development.

There are several ways in which Malaysia's development experience is relevant to EAC. Broadly, one can conceive of Malaysia's development experience (in relation to EAC) as being composed of:

- a. the achievements in Malaysia's development, and
- b. the challenges that confront Malaysia's future development.

The justification for this observation lies in how Malaysia's development trajectory relates to EAC, particularly in addressing the question of how Malaysia perceives the EAC road map. The simplistic conceptualization of Malaysia's development as consisting of achievements and of challenges which have to be grappled with for future development has its own rationalization. Simply, the successful strategies that Malaysia has employed will serve as possible models for the less developed members of EAC, while the Malaysian economy at this point in history is faced with decisions and challenges that require it to reconsider its strategies. And that must be reconsidered if Malaysia is to continue to achieve the kind of growth rates that it is used to, particularly if it remains serious about attaining developed country status by 2020.

First, we would argue that the EAC road map is of interest to Malaysia because there are strategies that Malaysia can share with the CLMV countries by drawing from its past experience. Second, the sort of road map that Malaysia would suggest for EAC would be based on the fact that Malaysia is at a particular juncture in history where it needs to be better integrated with the rest of ASEAN, while ASEAN itself would need to strengthen its integration with East Asia. Of course, this process of integration needs the support of countries like Australia, New Zealand and India because of the scope of their activities in participating in Malaysia's and ASEAN's economic growth. The latter point of interest in EAC for Malaysia is associated with Malaysia's interest in taking advantage of the growth that is generated in countries like Japan, Korea, China and India.

Malaysia has enjoyed excellent economic growth since the 60s save a few episodes of poor growth, the most notable of the periods when this was the case were in 1985 and, again, in 1997. Otherwise, Malaysia's growth has averaged around five to eight per cent per annum in most years. In fact, in the late 90s, growth was close to eight per cent. Like the Newly Industrialising Economies,

Malaysia has had remarkably consistent growth rates since 1970, with the decade spanning 1988 to 1997 showing strikingly strong growth.

Another interesting characteristic of Malaysia's economic development has been the marked structural change in the sectors that have led economic growth. Immediately after its independence in 1957, Malaysia was predominantly an agricultural economy. However, over the period 1970 to 2000, the share of agriculture has been dropping decidedly. In the late 1980s, the output from the manufacturing sector outperformed that from agriculture. This structural change has been very distinct. We have only to note that in 1970, the share of agriculture was 29 per cent of total output, but in 2000, agriculture accounted for a mere 9 per cent of GDP. The manufacturing sector now contributes almost four times the output that comes from the agriculture sector. Unsurprisingly, employment derived from the two sectors reflects the changing patterns that they have witnessed. Agriculture's share of employment, over the years, has fallen by more than half, while that of manufacturing has risen by about 50 per cent. In fact, employment generated by the manufacturing sector surpassed that derived from agriculture by the mid-1990s.

Just as manufacturing has come to take precedence over agriculture, the services sector is also coming to assume a greater prominence in the economy. In 1970, the services sector contributed about 33 per cent of total output and increased to 41 per cent in 1975. The contribution of the services sector to GDP has hovered around 40 per cent between 1975 and 1997. In 2002, the services sector accounted about 47 per cent of total GDP. This signals the growing importance of the services sector as befits an economy that is marching towards developed country status.

Yet another interesting feature of the development process in Malaysia is the remarkable progress that has been achieved in the domain of poverty reduction. About 56 per cent of households in Malaysia experienced poverty in 1957. The incidence of poverty has fallen down to 3.6 per cent in 2005. This immense decline in the incidence of poverty is a creditable achievement for Malaysia. The excellent record in poverty reduction is the culmination of strategies that were consciously devised to eradicate poverty, and it was the result of a two-pronged

approach. On one hand, pro-growth macro policies were implemented, which ensured that there was employment generation as well as labour migration to the urban areas, where the manufacturing sector had taken root. On the other hand, the government introduced policies that were directed at the poor, and these included support programmes for the poor as well as micro-credit schemes. Many other programmes, too, were devised to encourage poverty alleviation.

In more recent times, some of the more engaging issues that have attracted attention in Malaysia have included the 1997 Asian crisis, the use of heterodox policies, the impact of September 11, and the negative effects of the severe acute respiratory syndrome (SARS). The commonality that links all these otherwise diverse events is the fact that they adversely affected Malaysia although their origins were oftentimes beyond the shores of this country. These incidents clearly indicate the interdependent nature of economies and why regional cooperation is valuable in facing these eventualities.

The Asian crisis perhaps had its origins in Thailand but was quick to sweep over East Asia. Malaysia did not need the assistance of the International Monetary Fund, but some of its neighbouring countries did. Since Malaysia did not have to rely on external agencies, it was able to pursue its own national policies without any disruption. However, the use of unorthodox economic policies, such as the imposition of capital controls and the pegging of the ringgit could possibly have caused the slowdown in the inflow of FDI. It should be noted that the slowdown in FDI inflow has not quite reached pre-crisis levels, and part of the reason could well be due to the dent that Malaysian policy credibility has had to take.

Similarly, the September 11 episode, too, had its effects on Malaysia. The impact of this incident caused Malaysia's growth to plunge: there was a decline in the fourth quarter growth (-0.5 per cent) of 2001. Tourist arrivals were affected due to the September 11 incident, and tourist arrivals dropped to 2.3 million in the fourth quarter of 2001 as compared to 3.2 million arrivals in the third quarter of 2001.

The SARS epidemic that spread across East and Southeast Asia in 2003 is yet another instance of the cross-border economic effects of disease contagion. The

SARS outbreak affected Malaysia negatively as did September 11. Tourist arrivals were duly affected, and dropped by as much as 52 per cent at its worst during the second quarter of 2003. The local hotel industry was also affected due to SARS, and the hotel occupancy rate went down to between 2-30 per cent in April 2003.

There are several strands of behaviour which indicate that Malaysia is reviewing its position within a globalised world economy. As we have just mentioned, the September 11 incident and the outbreak of SARS demonstrate with unfailing clarity the inter-connected nature of the world, and how Malaysia's economic fortunes can be easily disrupted by occurrences outside its shores. Aside from its recalculations in considering the inter-linkages that pervade the global economy, Malaysia is also reviewing its position as a consequence of recent developments within the region. This review of self-ascribed status relates to the structure of industrial policy that it needs to take. Three points stand out in this respect:

- a. Malaysia no longer has the comparative advantage in the production of goods that rely heavily on cheap labour
- b. several countries in the region fill the slot for production locations that feature cheap labour, and these include the Philippines, Vietnam, Indonesia, China and India
- c. Malaysia has to move up the value chain if it is to remain a competitive location for the inflow of FDI

As we can see, Malaysia's future development path is very much intertwined with the development experience of other economies in the region. There are two strategies that Malaysia can take as it charts its future course. The first possibility would be to engage in direct competition with the other countries that could pose a threat to Malaysia by virtue of their ability to offer a relatively cheap labour environment. The second possibility is to make a transition to a different growth model; one that is based on higher value-added, knowledge-based economy. There is no denying the fact that the cost of labour is much higher in Malaysia than it used to be 20 years ago; it, thus, stands to reason that Malaysia should take the second option.

Some official documents such as the Second Industrial Master Plan (IMP2) and the Knowledge Master Plan (KMP) unequivocally underline Malaysia's vision of achieving growth that is knowledge-based approach. The Knowledge Master Plan iterates its intention of pursuing a development strategy that emphasises the role of knowledge, both in the context of information technology and communications and in its broader context as it embraces training, innovation, and research and development. The stress on knowledge-based development is in tandem with Malaysia's plan to encourage industries that shift production up the value-chain; the aim is to encourage industries that support higher value-added production. There is a close association between IMP2 and KMP as both are jointly poised towards achieving the vision of a nation that seeks to develop its economy through growth that is knowledge-based and driven by higher value-added manufacturing.

Another interesting feature of Malaysia's development is the growing involvement with free trade agreements (FTAs).² This is to be expected since Malaysia's economy is an open, export-oriented one and it needs to strengthen its trade links with other countries in order to be competitive. Although one overarching trade system through the World Trade Organisation (WTO) would be preferable, the delay in reaching a consensual agreement on a number of issues makes it expedient to reach agreements through other channels. Malaysia has achieved much of its growth over the years through trade and investment and it is no surprise that Malaysia should seek trade links in keeping with its practice in past years.

There are two distinguishable levels at which Malaysia seeks to improve its trade links. The first level is through the agency of ASEAN. This route establishes trade initiatives which happen by virtue of Malaysia's membership in ASEAN and Malaysia does not have exclusive ties with the trading partners. Regional linkages of this sort include initiatives that countries such as China, Japan, Korea, Australia and New Zealand, India, Canada and Russia have or have proposed with ASEAN. On the other hand, Malaysia has, of its own accord and as a sovereign state, shown

² See Baldwin (2006) for a discussion on the proliferation of FTAs that countries are committing themselves to.

much interest in engaging in bilateral FTAs with certain trading partners. It has concluded its first bilateral FTA with Japan—Japan-Malaysia Economic Partnership Agreement (JMEPA). Other FTAs that are under various stages of discussion or negotiation include the US-Malaysia FTA as well as FTAs with other countries such as Pakistan, Australia, New Zealand, India, Korea and Chile.

There are many reasons why Malaysia is actively engaged in this flurry of activity over FTAs. For one, the multilateral process of trade liberalization has been slow and this has been cause for frustration. Further, it does not appear that there is likely to be any quick resolution of outstanding issues at the WTO. There is also definite concurrence within the government that FTAs are a useful mechanism for managing the challenges that can arise as a consequence of globalization. Although these agreements are discriminatory against non-members, they provide avenues for members of FTAs to gain from preferential market access on a reciprocal basis.

There are two specific reasons why Malaysia pursues FTAs actively. First, FTAs are seen as a route which enables Malaysia to achieve higher trade and growth. In most cases, FTAs record more benefits to all signatories. It should be noted that FTAs go beyond the reduction of tariffs. As the JMEPA demonstrates, this agreement is not restricted to reducing tariffs; it is also extended to include cooperation in automobile production, while also granting Japan access to the Malaysian automobile market. Clearly, in addition to tariff reduction, the JMEPA has a heavy focus on other arrangements which will stimulate technology transfer and, directly or indirectly, encourage economic growth. The second reason why FTAs are valuable to Malaysia, particularly if they are regional FTAs which involve ASEAN, is because they hold the promise of creating a single ASEAN market, and such a market, given the size of ASEAN's population, makes the region extremely attractive. Obviously, if Malaysia can find a niche for itself within a market of such size, it will establish itself as an important centre of trade as well as a key location for FDI, at least with respect to the areas for which it has established a niche.

As we have seen, Malaysia's development experience, both in the recent past as well as at the present moment, augurs well for its role within the EAC. The

relevance of Malaysia's development experience, one could argue, is consonant with the objectives of the creation of an EAC for three reasons. First, Malaysia's development increasingly points to the need for more cooperation and integration within the region. Malaysia has always been outward-looking, but recent events signal the need for mechanisms and institutions that can support Malaysia as it engages itself more deeply within the fold of globalization. The Asian economic crisis of 1997 is a particularly striking case in point.³ Second, globalization connects far-flung economies more tightly and this requires closer cooperation among nations to reduce the impact of negative externalities which have cross-border implications. Immediate examples of such events include the SARS epidemic and cross-border environmental problems which originate in neighbouring countries. These events indicate that there is a need for more cooperation among countries within the region; and Malaysia's development experience shows that these events can cause economic disruptions which can be smoothened out through dialogue and cooperation. Third, FTAs are a useful instrument for forging links which can remove the impediments to trade and investment. Malaysia is at a point in its economic history where it recognizes—as do other ASEAN countries—that FTAs can drive trade and growth. The proliferation of FTAs in the region demonstrates that there is a felt need for FTAs; but the large number of such arrangements will, necessarily, involve overlap and complications.⁴ In the interests of reducing transactions costs, it will be useful to have a broader FTA that encompasses the entire region; and moving towards a consolidated EAC is a good first step in that direction.

As we shall discuss in the next section, the issues that have been raised at the East Asian summit meetings have a resonance with some of the key issues that characterize Malaysia's development experience. The relevance lies, partly, in terms of the experience that Malaysia has accumulated through its achievements. The issues raised at these meetings also relate to the future trajectory that Malaysia wishes to pursue; in this regard they have an affinity with the challenges that

³ Nishiguchi (2002) notes the relevance of regional economic cooperation as a strategy in buffering the effects of crises.

⁴ Bhagwati (1994), for instance, warns of the complications that come with a network of FTAs.

Malaysia perceives to be present at this juncture. In other words, the questions which have been raised are seen to have the possibility of offering strategies which can overcome the constraints that it wants to overcome.

THE EAST ASIAN SUMMIT MEETINGS: ISSUES RAISED AND THEIR RELEVANCE TO MALAYSIA

It is significant for Malaysia that the first EAS was held in Kuala Lumpur on 14 December 2005. This clearly indicates Malaysia's commitment to the initiative and the hope that Malaysia places on the EAC.⁵ Many of the objectives declared at the first Summit are in line with the intentions that were previously discussed when the proposal for the EAEC was floated.

Malaysia firmly believes in the need for a regional grouping between ASEAN and the other members of EAS which will serve as a platform for dialogue on issues of common interest in strategic, political and economic matters. Malaysia has always recognized that a region based on political and economic stability forms the pre-condition for growth and prosperity in East Asia. This is a point that was stressed at the Kuala Lumpur declaration in 2005; and it is an issue that Malaysia wholeheartedly supports.

A second issue that was stressed at the 2005 EAS meeting in Kuala Lumpur was the need to promote community building in the region. An important proviso that was added to this point was the emphasis laid on community building which would promote the building of the ASEAN community. This, too, is an issue that has its roots in the initial proposal for EAEC, since Malaysia, even at that juncture, saw the need to have a regional grouping which would be based on the needs of ASEAN, and not function to serve the needs of developed nations in the West.

Thirdly, EAS declaration of 2005 underlined the central role that ASEAN would play in establishing the criteria for participation in the EAS. Obviously, it

⁵ The Malaysian government's interest is reflected in its Foreign Minister's enthusiasm for EAC. Syed Hamid Albar, Malaysia's then Foreign Minister noted that ASEAN+3 meetings between ASEAN and Japan, China and South Korea was indication of the welcoming attitude of countries in East Asia to the establishment of EAEC (see Oorjitham, 2000).

is crucial to ASEAN that it should determine the agenda of EAC in so far as ASEAN, in its interaction with the +3 countries, would work towards a mutually beneficial arrangement, assigning a position of equal status to ASEAN member countries.

The 2005 Kuala Lumpur meeting listed several areas which were selected for dialogue and cooperation. This listing is significant both because of the range it encompasses as well as the nature of the problems that it proposes to handle. The list of issues is as follows:

- Economic integration and development through greater financial links, and trade and investment expansion
- Financial stability
- Energy security
- Economic integration
- Poverty eradication and narrowing the development gap in East Asia
- Technology transfer
- Infrastructure development
- Capacity building, good governance and humanitarian assistance
- Environmental protection, preventing the spread of disease and natural disaster mitigation

The Second EAS, held in January 2007, had a great deal of continuity with the earlier EAS meeting in terms of the issues highlighted. In fact, the issues that were selected for discussion did not differ from those brought out in Kuala Lumpur; instead they were deliberated upon in more depth. The issues that were mentioned in Gloria Arroyo's statement at the conclusion of the Cebu meeting included the following:

- Energy
- Poverty eradication
- Education
- Finance
- Avian influenza
- Natural disaster mitigation
- Doha development agenda
- Economic development and regional integration

The questions that were raised for consideration at Cebu are a closer examination of those that received attention in Kuala Lumpur. These are matters of concern to Malaysia and Malaysia has had exposure to them in various ways. Thus, Malaysia is well-placed to either make contributions or to extend its cooperation in these areas for the benefit of the region.

The declarations made in Kuala Lumpur and Cebu are completely aligned with Malaysia's perspective on economic development and regional integration, broadly conceived. Malaysia would welcome deeper regional integration, particularly with East Asia, and also with India and Australia, since it has long espoused liberalization and attempts to develop trade ties. Malaysia views the development of the EAC as a long-term strategy for itself and ASEAN members to gain more, economically, from closer integration as well as regional cooperation.

Attempts towards this end are more important now with the increasing significance of East Asia and India, and as Malaysia seeks to identify its place in the new global landscape. As Malaysia wrestles with the question of how it should position itself with the rising dominance of China and India, and with its loss of the niche market in which it used to enjoy due to the competitiveness that hinged on the quality of its labour supply, the development of an economic community in this region offers possible solutions.

The areas suggested at the Kuala Lumpur and Cebu meetings as being areas of strategic importance have direct significance for Malaysia. There are three ways in which this has relevance to Malaysia. First, some of the areas are the ones that have adversely affected Malaysia. The spread of disease and financial crisis are two remarkable instances of issues which have negatively impacted the Malaysian economy and which could be solved within the context of a regional community. Second, there are areas, such as poverty eradication, where Malaysia has achieved remarkable success, and Malaysia is in a position to share its experience with the other less developed countries in ASEAN. The presence of the other +6 countries in the community provides additional opportunities which can be tapped by these less developed ASEAN countries (particularly, the CLMV members) with the support of the more developed members in East Asia. Third, there are issues

which have not adversely affected Malaysia but which Malaysia could benefit from through cooperation and dialogue. One such issue is cooperation for energy security. It is of importance to members of EAC (e.g. China and India) and which Malaysia, while not having completely solved, can also contribute to and learn from. While Malaysia may be a net exporter of petroleum, it has not fully addressed its long-term domestic energy supply. One could also add issues which need a longer time-frame for discussion and cooperation in this category. The development of a comprehensive economic partnership programme involving members of East Asia is an instance of a long-term programme which needs further dialogue.

Clearly, Malaysia has had a host of experiences which prompt it to take advantage of closer regional integration with the East Asian Community. These experiences are captured within the list of outstanding issues which were mentioned at the Kuala Lumpur and Cebu meetings. The strategic areas for cooperation can be classified as follows:

- a. areas in which Malaysia can extend her experiences and share it with other member countries who can benefit from them,
- b. areas which Malaysia can directly benefit from, through the strengthening of trade ties, liberalization and establishing the pre-conditions for more robust trade among members of the community, and
- c. areas which call for closer community building and cooperation to improve the overall levels of education, technological capacity and capacity building within the region.

MALAYSIA AND THE ROAD MAP FOR THE EAST ASIAN COMMUNITY

There is a series of nested processes of integration and cooperation which is available within the region and the EAC gives an opportunity for an overarching institutional arrangement through which Malaysia can both contribute and benefit from. It goes without saying that Malaysia would be interested in its own growth and sustainability; but beyond that, Malaysia would like to take advantage of its position within ASEAN, if only because by doing so Malaysia manages to take advantage of the huge market potential which ASEAN as a unitary market can deliver. Indeed, EAC gives Malaysia, through ASEAN, an excellent

opportunity to leverage on the developments in China, Korea and Japan, as well as Australia, New Zealand and India. The notion of taking advantage of the nested groupings is appealing to Malaysia, it must be reiterated, because Malaysia can leverage upon different components within EAC. Principally, this means that the East Asian countries, CLMV, and the +3 countries (Australia, New Zealand and India) have different complementarities with Malaysia; and Malaysia can contribute to the different countries in varied ways. Malaysia's development experience gives it ample scope to do this.

As has been suggested in the foregoing account, developing a coherent and cohesive East Asian Community is close to Malaysia's heart. Malaysia has long campaigned for such a community that is based on deeper cooperation and economic integration. Obviously, such a community will lead to great economic development for both Malaysia and the member states of EAC. The previous section outlines a typology of the types of activities that Malaysia can engage in within the community, both for its own benefit and for the benefit of the members of EAC. The next section will discuss a little more closely the role that Malaysia can play within such a community.

Essentially, there are three aspects which need to be considered in assessing Malaysia's role within EAC. The first, and perhaps most important aspect, is that of deepening integration within East Asia. This is a matter which Malaysia has long engaged itself with, and is most markedly delivered in its 'Look East' policy. The increased welfare that Malaysia can derive from its geographical location in the region must necessarily be followed by deeper economic integration within the community.

Malaysia is an open, export-oriented economy and it stands to reason that these characteristics can be developed more intensely if Malaysia integrates itself more deeply within East Asia. There are various ways in which Malaysia can integrate itself within East Asia, and broadly economic integration can take place in terms of:

- a. trade and
- b. finance

In practical terms, Malaysia's interest in economic integration is to ensure that trade can take place with as little friction as possible, something which can be achieved through the strengthening of trade ties. However, in order for trade ties to be strengthened, the necessary pre-conditions have to be satisfied; and this is possible within the format of the EAC.

Malaysia actively pursues trade liberalization. Towards this end, it is engaged in pursuing bilateral FTAs as well as FTAs which have been formed with ASEAN. The JMEPA is case in point. Malaysia has initiated negotiations towards the Malaysia-India Comprehensive Economic Cooperation Agreement (CECA), and it is in the process of working towards an FTA with Australia. The Republic of Korea has expressed its interest in an FTA with ASEAN, which Malaysia fully supports.

Ideally, Malaysia would support one overarching FTA for the members of the East Asian community rather than a multiplicity of FTAs among members within the region. A multiplicity of FTAs among members in East Asia which involves Malaysia would increase the transactions costs for stakeholders in Malaysia. A single East Asian FTA would reduce the conflicting rules which have to be abided by in terms of the regulations regarding rules of origin, customs procedures, the harmonization of standards and the like. This would ease the burden on the business sector as well as reduce the administrative burden on the different government agencies. In this sense, a single FTA for the region would truly facilitate trade by reducing transactions costs.

A second area in which East Asian integration can help is through closer integration and community building to avert financial crises. Many of the ASEAN countries were adversely affected during the Asian financial and economic crisis. Malaysia itself was negatively impacted and the effects were far-ranging, even precipitating a political crisis. Obviously, the stability and economic security of the region is at stake if crises are to break out, particularly if these crises have a diffusion effect. In view of the potential dangers of such a threat, it would be advisable for the EAC to plan strategies with a view of managing such economic and financial crises and containing them swiftly.

Some of Malaysia's neighbours had to seek assistance from international agencies due to the crisis, although Malaysia itself did not have to. At any rate, the experience of the 1997 crisis suggests that EAC could come up with various strategies to assist member countries at times of crisis. There would be several advantages to an approach that is based on regional cooperation, and these would include:

- a. deriving an approach that is based on consensus
- b. creating institutions that are cognizant of the developmental levels of the respective member countries
- c. not having to rely unduly on international organisations which are not familiar with the political and social realities of the region and of member countries
- d. not having conditionalities imposed on members of the region which are not in consonance with their levels of development or national priorities

In view of the experience in 1997, the EAC can provide the framework and institutional apparatus to manage financial and economic fluctuations which could precipitate into crises.⁶ There is adequate evidence that the financial markets in this region (as in all regions) are closely linked and financial contagion could occur, resulting in the collapse of economic and financial markets. In view of this inter-linkage, it is prudent for the members of the region to develop an appropriate financial architecture and instruments to:

- a. prepare warning and alerting mechanisms (WAMS) against financial shocks
- b. advise and discuss supervisory, regulatory and governance systems which could avoid disruptions in financial markets, and
- c. develop institutions for rescue operations (including rehabilitation plans, financial restructuring, extending loans) in the event of financial collapse.

Aside from trade and financial market stability, East Asian integration can help in closing the development gap between the different member countries in

⁶ The importance of financial integration in this context has been noted by Ong Keng Seng, former Secretary-General of ASEAN (see Ong, 2004). On the economics of financial and monetary cooperation, see de Brouwer (1999), Bayoumi and Mauro (1999) and Dee (2005).

ASEAN who are at lower levels of development. In particular, the CLMV countries are at stages of development which lag behind some of the more developed countries in ASEAN such as Singapore and Malaysia. The EAC is an ideal community for these countries to discuss how the more developed countries in ASEAN as well as those in East Asia (such as Japan, Korea, Australia and New Zealand) can help close the development gap.

It is necessary to take a broad and comprehensive approach towards closing the development gap within ASEAN, given that the less developed ASEAN countries are located in East Asia. Such a broad approach cannot be based largely on the transfer of funds from the developed countries to the less developed countries because this is not a sustainable process. Instead, approaches which emphasize the complementarities among the different countries should be leveraged upon. This would involve an integrated approach that lays stress upon the larger issues that confront the less developed countries, and that constrain their development:

- a. poverty eradication policies
- b. development of capabilities, especially health and education
- c. infrastructure development
- d. human resource development and mobility of persons
- e. management of the diffusion of disease
- f. disaster management, and
- g. cross-border environmental management

Some of the issues which have been included in the above-mentioned do have relevance particularly to the less developed countries in the East Asian region while others affect all members irrespective of development level. The diffusion of disease could affect the poor in a less developed country—because of their vulnerability—more deeply than it would affect a rich country. Hence, it is of special importance to a less developed country than to one that is not. On the other hand, poverty eradication is of little importance to a more developed country. The mix of countries within EAC is such that there is ample scope for cooperation at various levels. Clearly, the East Asian Community gives a platform for the exchange of ideas and collaboration on a wide range of developmental problems.

As the typology which I have created suggests, there are three categories of issues within which Malaysia has relevance, and towards which the community could contribute:

- i. areas in which Malaysia has had experience and can contribute
- ii. areas which Malaysia can benefit from cooperation and integration
- iii. areas in which the region, as a whole, could benefit

In terms of the issues that have been discussed hitherto, the road map that EAC could take would centre around these three categories of issues, some of which would be of direct benefit to Malaysia, others would be areas in which Malaysia could actively extend its experience, and yet others would encompass areas which positively benefit the region as a whole though not necessarily Malaysia. Thus, from the Malaysian perspective, a road map for the East Asian community would include three sets of activities that would be directed at:

- i. addressing the question of development and closing the development gap
- ii. improving trade ties, creating macroeconomic linkages, forging monetary cooperation, facilitating trade and strengthening the financial system, and
- iii. building the capacities of member countries in the region, community-building for disaster, disease and environmental management

Finally, it must be added that the real challenge in creating a road map will lie in taking into consideration the needs of the different countries within East Asia. Broadly, this will include taking into account the different levels of development, the divergent trade and investment patterns, and the varying resource endowments. Given the range of dissimilarities, the integration process must be able to offer a common platform through which members will be able to receive whatever it is their aim is to obtain, but through an approach that emphasizes taking advantage of complementarities.

The foregoing discussion points very clearly to the vision which must be promulgated in defining a road map for EAC. Obviously, such a road map requires a closer consideration of the political and institutional factors which must converge in order to congeal an effective road map. Without going into the details of the political and institutional requirements, it would be useful to summarize the key issues which need to be taken into account in designing a possible road

map. The following are some of the outstanding issues that demand consideration:

- The ultimate objective of the EAC would be to create a single market. However, this is to be accomplished on a consensual basis and without a binding timetable. In creating a road map, this underlying consideration must be the guiding factor.
- Efforts to bridge the development gap among member countries should be the focus of attention. Particular attention is to be paid to the CLMV countries, with the aim of bringing them up to acceptable levels of development so that they can participate as equal partners on the road to an integrated EAC.
- Monetary and financial cooperation will be the backbone of attempts to strengthen the economic and financial system underlying EAC as an entity. This is important in order to forge intra-regional cooperation and integration; it is also essential so as to strengthen the macroeconomic resilience of the region, especially in the face of external shocks which could disrupt the financial and monetary stability of member countries.
- As a step towards facilitating monetary and financial stability, a surveillance process should be instituted, with capital flows, in particular, being regularly monitored. Other initiatives would include developing closer ties among financial markets within the community, promoting cross-border bond issuances, and the development of a regional capital market.
- Improving cooperation within the region for the development of infrastructure within the region. This is to cover the financial and technical aspects of large infrastructure projects which have importance for improving the well-being of the populace, as well as those projects which have long-term implications, such as dams, transportation projects that run across a country or across borders, and energy projects. In the interests of furthering the infrastructural development of the region, an East Asia Regional Development Fund should be established; aside from providing financial assistance, technical assistance should also be extended to member countries.
- Enhancing trade and investment within the community. It must be borne in mind that an assortment of bilateral trade agreements increases transaction costs. Trade and investment will be better served if the region

adopts a common trade agreement that encompasses the needs of the member countries and works towards binding EAC members, rather than working on individual BFTAs. Important concerns which need to be addressed in working towards an overarching FTA are pressing issues such as rules of origin and a dispute settlement process.

- Other issues that require cooperation include establishing institutions for addressing cross-border environmental issues, epidemics and disaster management. It is also necessary that a comprehensive road map consider cooperation on education, technology transfer, and scientific advancement.
- It is imperative that the research capabilities of the region be considered. While national research institutions are available, a region-wide research institution will have to be considered in developing the requisite research expertise for issues which have a wider regional focus.

CONCLUSION

Malaysia has long realised the need for deeper economic integration with East Asian economies. Under current circumstances, it is to our advantage to have the participation of India, Australia and New Zealand. ASEAN's goals, we feel, can be achieved more substantially within the context of an East Asian community. The EAC can take broad strides towards accomplishing greater integration for the enhancement of trade and the strengthening of financial markets and inter-linkages. Initiatives in this direction will bring more financial stability to the region, develop robust financial institutions, and help achieve more sustainable growth.

Malaysia sees much benefit from East Asian integration, both to itself and the region. Aside from growth through more trade, integration will also expedite community building, something that will bring more development to ASEAN members and reduce the development gap. Economic development can be achieved by addressing various issues which include education, infrastructure, and human resource development, to mention a few areas. These are areas which require cooperation, and in which Malaysia can expect to extend its expertise and experience. Further, issues like the diffusion of diseases (to human and non-human lives), disaster and environmental management are cross-border issues which require dialogue and cooperation. There is much that East Asian integration can achieve, and Malaysia clearly has a role to play in this agenda.

The road map to East Asian integration will have to address the different objectives which member countries have as they chart their path ahead. Thus, the road map will have to address diverse issues ranging from how the development gap can be closed through cooperation among member of the EAC to integration for enhancing trade and investment opportunities. Whatever the issue is, *prima facie*, it appears that EAC can provide a solution or at least an avenue for dialogue. As we have seen, Malaysia stands in a position which allows it to contribute constructively in a wide range of issues.

REFERENCES

- Baldwin, R. (2006), “*Managing the Noodle Bowl: The Fragility of East Asian Regionalism*,” Graduate Institute of International Studies Geneva, Mimeo.
- Bayoumi, T. and P. Mauro (1999), “The Suitability of ASEAN for a Regional Currency Arrangement”, *IMF Working Paper WP/99/162*.
- Bhagwati, J. (1994), “Regionalism and Multilateralism: An Overview”, in J. de Melo and A. Panagariya (eds), *New Dimensions in Regional Integration*, Cambridge: Cambridge University Press.
- de Brouwer, G.J. (1999), *Financial Integration in East Asia*, Cambridge: Cambridge University Press.
- Dee, P. (2005), “East Asian Economic Integration and its Impact on Future Growth,” *Pacific Economic Papers*, No.350, Australia-Japan Research Centre, Asia Pacific School of Economics and Government, Australian National University.
- Ganesan, N. (1999) “Bilateral Tensions in Post-Cold War ASEAN” *Pacific Strategic Papers*, Singapore: ISEAS.
- Kumar, N. (2005) “Towards a Broader Asian Community: Agenda for the East Asia Summit”, *RIS Discussion Paper No.100*, Research and Information System for Developing Countries.
- Malik, M. (2005), “The East Asia Summit: More Discord than Accord,” *YaleGlobal* (20 December) (available at <http://yaleglobal.yale.edu/display.article?id=6645>)
- Nishiguchi, K. (2002), “Regional Economic Cooperation in East Asia after the Crisis”, paper presented at the UBC Year of Japan: 2002-2003, 27-28 March, Centre for Japanese Research, University of British Columbia.
- Ong, Keng Yong (2004), “Towards ASEAN Financial Integration”, Remarks

presented by the Secretary-General of ASEAN at the Economix 2004 Conference, 18 February, University of Indonesia, Jakarta.

Oorjitham, S. (2000), "ASEAN+3 = EAEC: Building Ties Across the Region," *Asiaweek*, March 15 (available at <http://www.pathfinder.com/asiaweek/foc/2000/03/15/>)

Pandiyan, M.V. (2006), "Make APEC Relevant to All" *The Star* (19 November) (available at <http://thestar.com.my/news/story.asp?file=/2006/11/19/nation/16071554&sec=nation>)

Ramkishen, S.R. and R. Sen, (2005), "The New Wave of FTAs in Asia: Implications for ASEAN, China and India", (co-author with Ramkishen Rajan), ADB Volume on Asian Economic Cooperation and Integration, Manila: ADB, 2005, pp.123-160.

Sen, R. (2006), "Bilateral Free Trade and Economic Cooperation Agreements in ASEAN," Paper presented at conference on "Asia in the World, the World in Asia 16-18 September 2006", organized by the Institute of Policy Studies, Singapore (available at <http://www.ips.org.sg/events/pos/>).

Malaysia: Fifty Years of Diplomacy 1957-2007

By Chandran Jeshurun

Review by Murni Abdul Hamid

***Malaysia: Fifty Years of Diplomacy, 1957-2007.* By Chandran Jeshurun.
Kuala Lumpur: The Other Press, 2007. Hardcover: 378pp.**

The publication of this book by Dr. Chandran Jeshurun in 2007 was timely as it coincided with Malaysia's 50th Anniversary as an independent country, hence the title *Malaysia: Fifty Years of Diplomacy*. The book was launched by Prime Minister Abdullah Ahmad Badawi himself on 10 December 2007 in Kuala Lumpur. The book was greatly anticipated, given the dearth of reading materials on Malaysia's foreign policy and diplomacy, especially by local writers with ingrained understanding and appreciation of local cultures, personalities, events and policies.

Unfortunately, the book falls short of expectations. An ambitious project of studying Malaysia's foreign policy and diplomacy since 1957, the role and evolution of Wisma Putra and the key personalities involved in shaping Malaysia's foreign policy for the past five decades requires extensive research. The author took only 18 months to write the book.¹ And it shows. It is a pity that the book seems like a rushed job to meet the deadline of the 50th anniversary of Malaysia's independence. This was at the expense of its content, which appears to lack in-depth research and analysis. There is also a smattering of typos throughout the book, in the actual content and also in the end notes.

Reading the Preface, one gets the impression that the author realises the shortcomings of his book and tries to pre-empt critics. The author is apologetic in his explanation that the book is "neither an academic treatise nor a journalistic

¹ As noted in the speech by The Honourable Prime Minister during the Book Launching Ceremony for *Malaysia: Fifty Years of Diplomacy, 1957-2007*, Kuala Lumpur, 10 December 2007.

exercise". He also admits that "empirical evidence is not the basis for the bulk of the work" and that he was facing a "severe time constraint" that prevented him from undertaking in-depth research to rely on primary sources.

To be fair, it is difficult to engage in scholarly work on the formulation and implementation of Malaysia's foreign policy as the country does not have a policy of opening up its archives to the public. Hence, the writer does not have access to confidential records and documents. In his book, there is an over reliance by the author on personal interviews and published documents such as *Press Statements* and *Parliamentary Answers*, some of which may paint glossy pictures on foreign policy decisions and various international issues or events, as well as on the role of Wisma Putra and its diplomats.

Malaysia: Fifty Years of Diplomacy is based on available written records, published official documents and reports, first-hand interviews and Parliamentary debates. The author's extensive network of connections is evident from his interviews with key personalities such as Prime Minister Abdullah Ahmad Badawi, former Prime Minister Dr. Mahathir Mohamad, former Deputy Prime Minister Musa Hitam, former Foreign Ministers Ghazali Shafie and Syed Hamid Albar, as well as numerous 'veterans' of and key figures in Wisma Putra.

It was indeed interesting to read the background of Wisma Putra—how the Ministry started with severe constraints in terms of resources and manpower; how it evolved from its modest start; and its roles in setting the course of Malaysia's foreign policy. The author took a chronological approach in organising the book and divided it into six chapters, each one dedicated to a different period under various leaders. The first chapter covers 'The Merdeka Years' from 1957 to 1962; the second chapter is on 'The Formation of Malaysia and its Aftermath' from 1963 to 1971; while the third chapter covers the period 'From Razak to Hussein Onn' between 1971 to 1981. In these first three chapters, the author describes the tumultuous period faced by Malaysia, both internally and internationally. Internally, the country had just gained independence and was facing communist insurgencies and racial unrests in its early years of nation-building. Internationally, the country was under pressure to defend its very existence in the face of the Indonesian Confrontation and the Philippines' claim over Sabah. The

author describes the early years of Wisma Putra as a 'baptism of fire' as it faced a huge task, with limited resources, to garner support from the major powers and the Afro-Asian bloc to advance the country's interests. Chapter Four is on 'The Early Mahathir Years' from 1981 to 1989, while Chapter Five focuses on 'The Post-Cold War Challenges' from 1990 to 1999 and the last chapter covers 'The Leadership Transition' from 1999 to 2007.

Compared to the earlier three chapters, the organisation of facts from Chapter Four onwards becomes easier to digest. As the Mahathir era up to the present leadership is more recent and familiar, it was perhaps easier for the author to write on the topic due to the availability of published records and first-hand interviews with the relevant personalities. That being said, the author still mixes facts in a rather arbitrary manner. For example, the author mentions the East Asian Summit, the visit of Russian President Vladimir Putin to Kuala Lumpur and the cancellation of the 'crooked bridge' to replace the Johore Causeway, all in a single paragraph, leaving the reader grappling to determine the link between these events.

In the chapters on Mahathir's era, the author discusses various international endeavours undertaken by the former in his early years as Prime Minister, such as the 'Look East' Policy, Malaysia's denunciation of South Africa's *apartheid* policy and the exploitation of resources in Antarctica. Central to his thesis is Mahathir's attempt to enhance Malaysia's role among Third World countries of the Pacific and Africa, leading the way against economic injustice and political exploitation by the West. Mahathir's position on the North-South divide was consistent throughout his 22-year tenure as Prime Minister, resulting in an enhanced role for Malaysia in G77, G15 and the Non-Aligned Movement (NAM). It was during Mahathir's era that we saw Wisma Putra expand rapidly to open missions in Third World countries, especially in the Pacific and Africa. There are also detailed discussions on key issues such as the East Asian Economic Caucus (EAEC) proposal by Dr. Mahathir, Malaysia's involvement in ASEAN, Malaysia's problematic relations with Singapore, the Asian Financial Crisis and Malaysia's role in the OIC and the Islamic world.

Throughout the book, the author does a commendable task in attempting to instil a patriotic spirit in his writing by defending foreign policy decisions by

Malaysian leaders, as well as by highlighting the roles of Wisma Putra and Malaysian diplomats in advancing the country's national interests. Examples cited are Malaysia's establishment of diplomatic relations with the People's Republic of China in 1974, Malaysia's involvement in the United Nations peacekeeping mission in Congo in 1960, the strengthening of bilateral relations with Japan as an alternative source of trade and investment opportunities despite Malaysia's experience under the Japanese Occupation, and the failed negotiations between Malaysia and Singapore on various outstanding issues.

Generally, however, the book focuses almost solely on the 'What' question, rather than the 'How' and 'Why'. As a result, it is difficult to engage the reader as the book provides a dry description of events and policies, without presenting in-depth analysis or meaningful discussions. The author also makes certain crucial statements such as "The personalities of the leaders of our nation have invariably shaped and directed the path of Malaysian foreign policy since 1957"; and that "Within the region, it is Thailand that stands out as the exemplary partner in a historical friendship". However, the author only touches these subjects on the surface, without thorough discussions or strong arguments to support such statements in a convincing manner. On the influence of personalities of Malaysian leaders on foreign policy, the author's findings seem over-simplistic. The author also attributes foreign policy decisions almost solely on the leaders, leaving a vacuum on the role of the Foreign Minister and the Ministry.

In his discussions, the author manages to convey important lessons to be learnt in advancing the country's national interests. The author alludes to the need to be more proactive than reactive in managing foreign policy and diplomacy, in view of international challenges faced by Malaysia in the early years of the country's formation, especially the Indonesian Confrontation, the Philippines' claim to Sabah, and Singapore's separation from Malaysia. On Malaysia-Singapore negotiations on the water and bridge issues, the author points out that there were too many parties involved in trying to influence the Government's decision on the matter, leading ultimately to a failed negotiation. The author also touches on the ongoing debate on the need to reform the Ministry and improve the diplomatic service, which is currently a part of the centralised civil service.

The author states that the book is “a source of further pursuits of curiosity as to how Malaysia has fared in international affairs”. One could not agree more. This book, despite its limitations, certainly opens up new questions to be explored in the future relating to Malaysia’s foreign policy. It is hoped that this book will be among the pioneers for further research done by local scholars on Malaysia’s very own and unique foreign policy and diplomacy.

Murni Abdul Hamid is the Second Secretary at the Embassy of Malaysia in The Hague, the Netherlands. She obtained her BSc. in International Relations from the London School of Economics and Political Science, United Kingdom and MA. in International Relations from International University of Japan, Niigata, Japan.

The New Asian Hemisphere

By Kishore Mahbubani

Review by Syed Edwan Bin Syed Ariff

***The New Asian Hemisphere.* By Kishore Mahbubani. New York: PublicAffairs, 2008. Hardcover: 279pp.**

In his latest book *The New Asian Hemisphere*, former Singaporean diplomat Kishore Mahbubani calls for the West to urgently engage in a paradigm shift and come to grips with the reality of an ascendant Asia. He describes the rise of Asia as a result of rapid economic growth in the region, initially led by the Asian Tigers, followed by countries in Southeast Asia, China and India. He urges Western countries to view Asia's "march to modernity" as an opportunity rather than a threat and emphasises the need for the West to revise its view of the present international situation as "dangerous" and take a more pragmatic, less ideological-driven approach in engaging with the rest of the world.

While not explicitly stated in this introduction, Mahbubani's latest book takes place in the context of a rapidly globalizing world. The increased movement of goods and services, people, information and ideas have not only shifted the balance of economic power in Asia's favour, but also forms the backdrop in which the two civilisations need to formulate a partnership of equals. Unfortunately, *The New Asian Hemisphere* treats Western and Asian civilisations as rather static and homogenous, and does not take into account the cross-cultural exchanges and synergies between the two civilisations which have taken place over the last decade. Partly through migration as well as information technology, but also due to the increasingly cosmopolitan nature of many western capitals, Asian culture has successfully blended and become an integral part of the fabric of so-called 'Western' culture, particularly among the elites. On a more optimistic note, these cultural exchanges and people-to-people contacts may in and of itself prevent the clash between the West and Asia, which serves as the central theme of Mahbubani's work.

The book observes that many of the ills related to the international system today has resulted from a sense of Western triumphalism in general and US exceptionalism in particular. The book comprehensively addresses these issues, citing examples such as the US' promotion of militarization of space, failure to engage effectively with Iran on the nuclear issue, the current political preference in a number of Western capitals towards greater trade protectionism, global warming and other environmental issues. He states that the industrialised Western countries have failed to take the lead in cutting greenhouse gas emissions, while lauding the role the Chinese Government has played on this issue.

Among the four countries Mahbubani identifies in his book as potential global leaders in the 21st century—the US, EU, China and India—he notes that the US has grown increasingly insular in its global outlook, while the EU has become blinkered by the problems and issues within its immediate borders. According to Mahbubani, China provides an alternative leadership to both the US and EU, and its active and pragmatic engagement with the rest of the world through strategic partnerships bodes well for its future as a major global power. However, due to China's own structural limitations and its reluctance to adopt a higher profile in the international community, Mahbubani concludes that India may provide the necessary global leadership in the long term. He builds on this argument by highlighting the dramatic transformation of India and China to become major economic powerhouses and how these two countries have become the driving force in the creation of a new "Asian Hemisphere."

Mahbubani outlines in detail that in the absence of strategic depth by Western powers in engaging the world, China has quietly cultivated relations with countries to position itself as a major global power in the 21st century. Mahbubani provides two interesting examples of China's deeper engagement with ASEAN as well as its efforts to develop greater linkages with Africa in bringing home his point. He warns that the West, particularly the United States, could lose out in the game of international diplomacy if it continues to travel down its present route and fails to engage the world in the same way China has. He uses the positive role China played in the 1997-1998 financial crisis by extending financial assistance to Asian countries and contrasts this approach with the less

than helpful posture adopted by the US and EU, which proved to be merely a “fair-weather friend” for many countries in Asia.

Surprisingly, Mahbubani, despite his previous career as a senior Singaporean diplomat, remains silent on the role ASEAN has played in this new “Asian Hemisphere.” As Chair of ASEAN from 2007 to 2008, Singapore played an instrumental role in shaping the future direction of the regional organisation through the evolution of the ASEAN Security, Economic and Cultural Communities. ASEAN, which Mahbubani suggests has been an effective regional player in contrast to the EU’s relationship with the countries of the Mediterranean, is otherwise given scant attention in Mahbubani’s book. This is puzzling, as Mahbubani is undoubtedly aware that despite the political, economic and cultural diversity represented in the grouping, ASEAN has played a pivotal role in promoting regional stability and economic development. Therefore, his omission in positing ASEAN as a third centre of leadership in the Asian region is glaring in this context.

As the title of his book suggests, while Mahbubani’s main focus is the “Asian Hemisphere”, at one point in his book, he urges the development of a Pacific community which would bridge the gap between the East and West. This is somewhat dissonant as he appears to suddenly shift the reader’s attention from what he has consistently coined as the “Asia Hemisphere” to promote the idea of a “Pacific community.” In many ways, the idea of a so-called “Pacific community” is premature in view of the diverse array of interests such an artificial grouping would represent and goes against the grain and fundamental theme of his latest work. There is a need for Asian countries to nurture and cultivate greater regional unity and integrity before Asia can be deemed to be an equal partner to the West. As shown in the context of APEC, when the West comes with its own agenda, there is very little that can be done in the context of a divided Asia. Again, ASEAN should have been cited as a positive example, in which its engagement with Northeast Asia (namely China, Japan and the Republic of Korea through the ASEAN+3 mechanism), as well as India, could serve as the political framework in developing this greater Asian consciousness.

As stated earlier, Mahbubani takes umbrage at the arrogant manner in which the West has conducted itself with the rest of the world. Mahbubani provides examples of how US behaviour has been inconsistent with its ostensibly democratic principles and commitment to international law, no less blatantly so than by its invasion of Iraq as well as attempts to de-legitimise the role of the UN and the International Criminal Court (ICC). He states that in order for the United Nations Security Council to remain relevant in our time, it must reflect the increasingly multi-polar nature of power relations in the international community today. Mahbubani calls for a return to the fundamental principles of the UN Charter, the need to empower the UN General Assembly and promote transparency and accountability in the decision-making process and outcomes in international organisations.

Mahbubani also soundly weighs the long-term negative ramifications of the invasion and occupation of Iraq as well as the failure of the US Administration to seize opportunities in bringing about peace in the Israeli-Palestinian conflict. He goes to the extent of suggesting that the role of the Quartet has not only failed to move the Middle East process forward, but suggests that the Quartet's existence has served only to roll back progress in the peace process. By all accounts, Mahbubani is correct to assess that the US and the UK have both suffered in terms of their standing in the international community as a result of their decision to proceed with the war in Iraq despite the absence of support from the UN Security Council.

Mahbubani states that the invasion was carried out poorly and provides an analysis of how the occupying powers could have avoided the quagmire which followed the initially successful invasion. In hindsight, the problems related to the occupation of Iraq are easier to identify today than they were in 2003. His attempt to provide an example of a "successful" occupation by citing the Japanese occupation of Singapore is surprising as in both instances, the question is not how "effective" an occupation is, but rather that any unsanctioned invasion and occupation is at its core illegal and in contravention to international laws and norms. After all, the Japanese invasion and occupation of Southeast Asia during World War II will be remembered more for the cruelty of the occupying forces rather than how successful they were in administering their occupation.

Overall, *The New Asian Hemisphere* is an admirable effort as it provides a frank account of the current state of play in international affairs through an Asian lens. Mr. Mahbubani should be applauded for producing a book which is prepared to tackle head-on the real issues facing the international community, identify the root causes of these problems, and propose long-term solutions to the challenges ahead. Capitals in both the Western and Asian hemispheres would do well to heed the warnings and weigh the advice found in Mr. Mahbubani's latest work.

Syed Edwan bin Syed Ariff is Assistant Secretary at the Southeast Asia Division of the Ministry of Foreign Affairs of Malaysia. He has also served as Assistant Secretary in the Americas Division as well as Assistant Director at the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT). He received his Bachelor of Science in Foreign Service from the Edmund A. Walsh School of Foreign Service, Georgetown University.