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# Multilateral Matters

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## Brunei Takes On the Challenge of Chairing ASEAN in 2013

By Murray Hiebert and Jeremy O. Magpile

Brunei Darussalam, the smallest country in Southeast Asia with a population of only 400,000, faces some daunting challenges this year as it chairs the 10-country Association of Southeast Asian Nations (ASEAN) grouping.

For starters, Brunei must help manage tensions in the South China Sea following last year's acrimony after then-chair Cambodia twice sought to limit discussion of China's assertive actions in the disputed area.

Second, with the group's goal of achieving an ASEAN Economic Community (AEC) by the end of 2015, Brunei will need to press its neighbours to get cracking on implementing the agreed-upon economic road map.

A third task will involve keeping China and the United States engaged in the East Asia Summit (EAS). Many Southeast Asians wonder what impact the leadership transitions starting off President Obama's second term will have on the U.S. rebalance to Asia and U.S. relations with ASEAN.

Without a doubt, Brunei's biggest challenge will be to lower the rising nationalist sentiments in the South China Sea disputes. Although Brunei is a claimant in the South China Sea, many observers give the oil-rich nation at least a shot at lowering the temperature in the disputed region because of its normally low-key international diplomatic stance. China is a major trading partner of Brunei, buying mainly oil and gas products, but it is not Brunei's only partner, making the country less vulnerable to economic pressure than Cambodia was.

How well Brunei performs will depend at least in part on the diplomatic skills of its Foreign Ministry. Foreign Minister Prince Mohamed Bolkiah advocates what he calls "defence diplomacy", a doctrine that promotes regular and frequent dialogue and personal relations among the parties. It is these skills that the foreign minister will try to use to tamp down the dispute.

Economic integration is a potentially huge opportunity for ASEAN because it will reduce barriers to trade and the

movement of capital and labour. But most ASEAN countries are still far behind schedule in implementing their commitments, which has already forced the group to delay the launch of the AEC from the beginning of 2015 until the end of the year. Brunei's objective this year will be to prod its fellow ASEAN members to step on the gas to implement the reforms to which they have already committed.

Asians will watch carefully in the early months of the year to see if the U.S. rebalance towards Asia changes in the second Obama administration. Some ASEAN countries have expressed concern that the U.S. rebalance to Asia so far has focused too much on security and not enough on economics. President Obama unveiled two new programmes in Cambodia last November that should help boost U.S. economic cooperation with Southeast Asian countries. The first is an energy initiative that will provide funds to help U.S. companies sell American energy products in the region. The second, the Expanded Economic Engagement or E3, will seek to promote trade facilitation, encourage investment and boost e-commerce. U.S. officials hope that capacity building in the region under the E3 will make it possible eventually for the United States and ASEAN to negotiate a free trade agreement.

Brunei is under some pressure to make progress on both the South China Sea and economic integration this year. In 2014, Myanmar will serve as ASEAN chair. Despite its recent political and economic reforms, the country suffers from a shortage of the experienced officials necessary to resolve the complicated maritime disputes and press its neighbours to complete their AEC commitments. Myanmar's success will hinge on how far Brunei manages to steer and push ASEAN into taking action in these two critical areas.

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# What the Expanding TPP and Other Regional Accords Mean to the Global Trading System

By Peter A. Petri and Michael G. Plummer

These are exciting times for trade policy. The eleven negotiating partners of the Trans-Pacific Partnership (TPP) recently completed their 16<sup>th</sup> round in Singapore and are making significant progress towards its goal of completing a “high quality, 21<sup>st</sup> Century” agreement by October. The Regional Comprehensive Economic Partnership (RCEP) negotiations between ASEAN and its existing six free-trade area (FTA) partners are set to take off in May 2013, with the view to creating a comprehensive but “flexible” FTA by 2015. The European Union (EU) and the United States will begin talks on a “Transatlantic Trade and Investment Partnership” accord this year, and Japan and the EU will be doing the same. The contrast between progress towards these mega regional and bilateral agreements on the one hand, and stalled multinational negotiations under the Doha Development Agenda (DDA) on the other, is striking.

With three years of tough negotiations under its belt, progress in the TPP has been greatest but in many ways it is the most challenging. The TPP includes essentially all aspects of trade-related policy that have been included in even the most advanced FTAs to date, no mean feat given the diversity of TPP economies from lower middle-income developing economies to the most advanced on the planet. Moreover, Japan’s recent decision to join the negotiations will certainly complicate the talks, particularly given its size, highly-sensitive agricultural sector and threats to certain sectors (especially automobiles) in existing member states. With Japan in, it will not be possible for the agreement to achieve 100 per cent commodity coverage, but this was unlikely anyway. No doubt major battles loom ahead in keeping exclusion lists to a minimum. Still, the addition of the world’s third largest economy will enhance the clout of the TPP, render it less “U.S. dominated” and increase its attractiveness to other potential candidate countries. It will also broaden the overlap between the RCEP and TPP memberships, ensuring that these accords will be complementary rather than divisive. While the addition of Japan makes an accord by October 2013 highly unlikely—and if the accord is delayed to 2014 it will meet political challenges given U.S. mid-term elections—the TPP is wise to admit Japan.

Our estimates of the economic benefits attendant in the TPP and RCEP are high in terms of increased economic welfare, exports, foreign direct investment and efficient structural change. Moreover, the adjustment required should be highly manageable, given that the gains far outweigh any costs associated with structural adjustment. Nevertheless, there is a legitimate fear that this “new regionalism” could be detrimental to the future of the DDA and to the *raison d’être*



(L-R) Professors Peter A. Petri and Michael G. Plummer

of the World Trade Organization (WTO) itself. We feel that these fears are exaggerated. First, the WTO remains the backbone of international trade governance, and none of these accords contradict this; their focus is always WTO-compatible. Its success should not be judged by the lack of progress in the DDA; in fact, multilateral governance under the WTO has been working quite well. Second, these accords tend to be market-driven, and globalisation and new approaches to industrial organisation, e.g., regional production networks, require the type of “deep”, behind-the-border integration that has proven to be extremely challenging to a diverse WTO membership of 159 economies. This reality has been far more responsible for the impasse at DDA than the regionalism movement. Third, the emerging mega accords are much larger and more ambitious than the “spaghetti bowl” of bilateral FTAs of the past two decades, underscoring that policymakers understand the need to move back towards more global rules. In turn, common rules, standards and best practices that emerge from these agreements may well be picked up by the WTO.

Of course, this assumes that these regional accords will be outward- rather than inward-oriented. A close examination of the driving forces behind these deals, as well as the information we have received on their intent and progress, is reassuring. The DDA may be stalled but when multilateral negotiations are revived, it may find that these mega regional accords could well benefit rather than detract from the next push towards its end goal of global free trade.

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More details on their study can be found at the website [www.asiapacifictrade.org](http://www.asiapacifictrade.org).

## NBS Senior Teaching Fellow Leads RSIS Roundtable Discussion on Eurozone Crisis

Dr. Siriwan Chutikamoltham, Senior Teaching Fellow at the Division of Banking and Finance of the Nanyang Business School, visited RSIS on 17 January 2013 to speak to its students and staff in a roundtable discussion on “The Eurozone Crisis and Its Impact on Asia”.

The reasons for declining growth in the eurozone are manifold and vary across countries. Aside from the subprime crisis of 2008, Chutikamoltham attributed the eurozone crisis to low competitiveness, overconsumption by both public and private sectors, overleveraging and large foreign debt. While she believed that the threat of implosion is now over, the eurozone crisis itself continues and its effects have far-reaching effects outside the continent.

With members of the European Union (EU) among Asia’s most important trading partners, the immediate impact of the eurozone crisis in the region was seen in the declining share of trade with the EU, moderate gross domestic product growth and increased volatility due to hot money inflows to the region. Chutikamoltham was more optimistic in terms of the long-term effects as the economic downturn in the eurozone will push Asian economies to reorient their growth strategies to focus more on domestic demand and intra-regional trade. This will in turn reduce global imbalances, ease inflationary pressures and foster regional economic cooperation.



Dr. Siriwan Chutikamoltham

The eurozone crisis also holds important lessons for Asia as it deliberates the pace and depth of regional economic integration, particularly with regard to the risks of setting up a common currency, the adequacy of existing liquidity support mechanisms (the European Stability Mechanism versus the Chiang Mai Initiative Multilateralisation) and the institutional design of regional institutions. Chutikamoltham pointed out that the experience in Europe should teach Asia to proceed with caution with its cooperation and integration efforts and that political and social readiness are important factors for consideration in the next steps towards deeper regional integration.

## APU-RSIS Roundtable: Candid Sharing of Perspectives on U.S. Rebalancing towards Asia

On 18 January 2013, the RSIS Centre for Multilateralism Studies and Japan’s Ritsumeikan Asia Pacific University (APU) co-hosted a roundtable on the U.S. strategic rebalance towards Asia. Held at RSIS, the roundtable saw a frank exchange of views among academics from the APU and RSIS on the role of the United States in Asia as well as on the maritime disputes in the East and South China Seas. Participants shared their insights on the U.S. rebalancing strategy, drawing on perspectives from China, Indonesia, Japan, Singapore, Taiwan and the United States. Views on the maritime disputes in the East and South China Seas were also presented.



Participants at the APU-RSIS Roundtable

The sustainability of the U.S. rebalance towards Asia was a central theme in the presentations and discussion. Participants noted that Washington currently faced many distractions, both domestically and in the Middle East, and

questioned whether the United States could sustain the rebalance in the long-term. It was also observed that there was a sense of frustration and uncertainty about U.S. regional presence among its allies, some of whom appeared to be sceptical about the commitment of the United States to the region.

Participants further expressed concern about the Sino-U.S. relationship and its impact on the region. While both powers were highly interdependent, the rhetoric and symbolism associated with the U.S. rebalance, combined with China’s increasing assertiveness in the maritime sphere, might needlessly increase the security dilemma between the United States and China. The perceived divisive alignments of the region’s states with either Washington or Beijing might also inflame tensions, especially in the context of the maritime disputes in the East and South China Seas. It was agreed, however, that war over the disputed islands was an unlikely scenario although tensions would continue to exist.

Japan’s recent engagement of its neighbours was also highlighted as Tokyo’s way of showing support for the U.S. role in the region and an attempt to counter China’s influence. Shortly after the new Japanese administration assumed office in December 2012, Prime Minister Shinzo Abe made his first official trip to Vietnam, Thailand and Indonesia. This was perceived as a strategy to remind Southeast Asia that amid China’s rise, Japan remains a long-time friend and partner of the region.



## Professor John Ravenhill Presents Findings from Study on East Asia's Automobile Industry in RSIS Seminar

Even as many commend the rise of East Asia's emerging economies, others warn of the dangers of falling into a "middle income trap" as these countries risk exhausting the easy pickings of rapid industrialisation while failing to develop local manufacturing capabilities. Drawing on an updated study on East Asia's automobile industry conducted with Ric Doner (Emory University) and Greg Noble (University of Tokyo), Australian National University Professor John Ravenhill shed light on what successful industrial development entails in the RSIS seminar "What Makes for Successful Industrial Upgrading? Some Conclusions from the Automobile Industry in East Asia", held on 29 January 2013.

Ravenhill looked at the cases of seven East Asian countries—China, Indonesia, South Korea, Malaysia, the

Philippines, Taiwan and Thailand—and focused on the importance of institutions. Although a number of these countries faced similar initial conditions, they pursued significantly different strategies, ranging from Indonesia's and Thailand's extensive assembly approach to the more intensive integrated production approach pursued by China and South Korea. While the former strategy is more dependent on investment from foreign companies, the latter created a more vertically-integrated industry, developing domestic capabilities and creating strong links with local companies as a result. Although other factors such as innovation and research capacity come into play, successful intensive industrial development depends on building appropriate institutional capabilities and having the political will to commit to such structural changes.

## Regional Architecture in East Asia: Permanent Secretary Bilahari Kausikan Reflects on Sino-U.S. Dynamics and Implications for ASEAN

As part of the RSIS Seminar Series on the Practice of Diplomacy and International Affairs, Permanent Secretary of the Ministry of Foreign Affairs Bilahari Kausikan addressed RSIS students and staff on 4 March 2013 on the topic "Regional Architecture in East Asia—Emerging Challenges and Implications for ASEAN". Kausikan engaged the audience in an open discussion on the relationship between China and the United States and how the dynamics of this relationship will shape regional architecture in East Asia.

Unlike the Soviet Union-U.S. relations during the Cold War, containment is not part of Beijing's and Washington's approach as the interdependence between the two countries is broad-based and much deeper—Kausikan noted that China and the United States need each other to achieve national goals. This relationship does not necessarily guarantee peace but it does impose restraint, mixed with a degree of wariness and mistrust.

As the Sino-U.S. interplay unfolds, East Asia has been working on managing its effects and trying to use regional initiatives under the purview of ASEAN+3 and the East Asian Summit to engage the two major powers in more meaningful and productive ways. Kausikan believed that such efforts reflect the basic consensus in the region that there is room for optimism despite tensions. Such initiatives together with bilateral mechanisms create a regional architecture with overlapping structures, one that is driven by variable geometry.

While some observers view ASEAN as a central player in this process, Kausikan argued that its importance was limited to its ability to provide a neutral platform for the major powers. The middle powers of Southeast Asia are strategic adjuncts to China and U.S. relations and it is unlikely that they will play a substantial role in the context of hard geopolitics.

### SELECTED PUBLICATIONS

[The Making of the Asia-Pacific: Knowledge Brokers and the Politics of Representation](#)

See Seng Tan, Amsterdam University Press, 2013

[Resource Management and Contested Territories in East Asia](#)

Ralf Emmers, Palgrave Macmillan, 2013

[From a Centralized to a Decentralized Global Economic Architecture: An Overview](#)

Pradumna B Rana, ADBI Working Paper no. 401, January 2013

### UPCOMING EVENTS

ADBIS-RSIS Regional Conference on "Integrating Domestic Industries with Global Production Networks and Supply Chains", 8–10 May 2013 (by invitation only)

RSIS Roundtable on "Strategic Engagement in the Asia-Pacific: The Future of the ADMM-Plus", 24 July 2013

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