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THE CASPIAN BASIN: STATUS RELATED DISPUTES, ENERGY TRANSIT CORRIDORS, AND THEIR IMPLICATIONS FOR EU ENERGY SECURITY

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Abstract

Regions, rich in energy resources, continue to be of crucial interest to our carbon-powered world. Numerous factors summon concern, those such as international legal status, ownership rights, energy routes, transit corridors, state and corporate interests, environmental hazards, and the overall puzzle of energy diplomacy. Additionally, The Caspian is troubled with its specific complexities, some of which we list in our work. These include undefined legal status, territorial disputes, ethnic instabilities and vicinity to other hot spots, such as the turmoil Middle East and the more recently sparked conflict in Ukraine. Influenced by its geography, The Caspian is also of central interest for European energy security, although the supply chain from the region has been traditionally under Russian control. However, for the past decade or so, the EU has become increasingly ambitious in planning Caspian pipelines that exclude Russian territories; the Nabucco Pipeline project has been at the centre of these strategic efforts for a considerable amount of time. The Caspian is therefore also at the crossroads between grand and conflicting energy interests of Russia and Western Europe.

Keywords

Caspian Basin, energy security, pipelines, geopolitics, international maritime law

Introduction

Just as the rapid melting of the Polar caps has unexpectedly turned distant and dim economic possibilities into viable geo-economic and geopolitical probabilities, so has the situation emerged with the unexpected and fast meltdown of Russia's historic empire, the Soviet Union, and its economic ties to The Caspian Basin. Once considered as the Russian inner lake, The Caspian has presented itself as an open sea of opportunity, literally overnight. This opportunity exists not only for the new, increased number of riparian states, but also for the belt of neighboring states, both old and new, as well as for other interested states, internationally.

The interests of external players range from the rhetorical to the geopolitical, and from the antagonizing of political conditionality and constraint to more pragmatic trade-offs between political influence and gains in energy supply. We thus identify the three most important categories of interest in The Caspian; The first are the energy-related economic and political interests. These refer to the exploitation of gas and oil resources hidden in The Caspian. The second are the non-energy related economic interests, such as extensive fishing options and the costly caviar of The Caspian Sea. The third is The Caspian's strategic position. Its location not only constitutes one of numerous European-Asian-Middle Eastern crossroads, but also offers various avenues for setting future pipeline routes that contribute to larger geostrategic and geo-economic considerations (Zeinolabedin and Shirzad, 2009).

In such an interest-driven set of conflicts, we cannot neglect the power and influence of large trans-national corporations which influence the region's stability, equilibrium of interests, and policy-making processes. We thus hereby refer to non-state players such as organized radical Islamic groups, organized crime groups, and international and nongovernmental organizations concerned with human rights, democracy building, and ecological issues. Additionally, let us not disregard big consumers such as China, India, or the European Union (EU) that are driven by their own energy imperatives to improve their energy security as well as diversify their supplies, modes, and forms over the long term. Striving for energy security is, relative to demand, of utmost importance in relation to the geopolitics of energy in The Caspian.

On the promise of these allegedly vast and mostly untapped oil and natural gas resources, The Caspian is witnessing *The New Grand Game*—a struggle for dominance and influence over the region and its resources, as well as transportation routes. Notably, The Caspian basin is a large landlocked water plateau without any connection to outer water systems. Moreover, the former Soviet republic states of Azerbaijan, Kazakhstan, and Turkmenistan have no direct access to any international waters. Thus, pipelines remain the principle mode of transportation and delivery of carbonic fuels, creating yet another segment for competition and

sources of regional tension as the three riparian states depend on their neighbors for export routes. Due to both the unresolved legal status of the basin, as well as to the implications of its resources for the EU energy security, numerous new pipeline constructions and expansion projects have been proposed but remain unrealized. For the EU, the most important of these was the Nabucco pipeline, which, although not fully guaranteed, served as hope for energy reduced dependence on Russia. The goal is becoming additionally more relevant due to ongoing crises in The Ukraine and to the accompanying process of alienation from Russia, suggesting questionable future results.

In what follows, then, the paper, will consider the geopolitical, legal, and economic features of The Caspian Theater, complex interplays, and its possible future outlook. We will reflect in detail on the interests of the regional and global players involved, and on the very complex issue of the undeclared legal status of The Caspian, and the consequences this status quo holds for the concerned parties. In addition, the paper will emphasize the importance of the most notable current and planned pipeline projects, and their effects for EU energy security. Finally, the paper will describe future options for pipeline diplomacy in the region, and the implications of this diplomacy not just for the EU but also for the Caspian wider region.

A Profile of the Caspian Basin

The Caspian Water Plateau

The Caspian is the world's largest enclosed body of salt water, approximately the size of Germany and the Netherlands combined. Geographical literature refers to this water plateau as a sea, or the world's largest lake that covers an area of 386,400 km² (a total length of 1,200 km from north to south and a width ranging from a minimum of 196 km to a maximum of 435 km), with a mean depth of approximately 170 meters (maximum southern depth is at 1025 m). At present, the Caspian water line is some 28 meters below sea level (median measure of the first decade of the 21st century). The total Caspian coastline measures at nearly 7,000 km, shared by five riparian (or littoral) states.

The legal status of this unique body of water remains unresolved in whether the Caspian is a sea or lake. As international law distinguishes lakes from seas, the Caspian should be referred to as a water plateau or the Caspian basin. However, The Caspian is both a sea and a lake. Northern portions of the Caspian display characteristics of a freshwater lake, due to influx from The Volga, The Ural River, and other smaller river systems from northern Russia. In the southern portions, where waters are considerably deeper but without major river inflows, salinity is evident and The Caspian appears as a sea.

The Inner Circle

The so-called *Inner Circle* of The Caspian Basin consists of five littoral states—namely Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan—sharing the common coastline. These have an asymmetric constellation and can be roughly divided between the two traditional states of Russia and Iran, and the three newcomers Azerbaijan, Kazakhstan, and Turkmenistan. This division corresponds with that only Iran and Russia have open sea access, while the other three countries are landlocked, as The Caspian itself is a landlocked body of water.

In addition to five littoral states, and correspondingly five different perspectives on The Caspian, the region is home to numerous territorial disputes, while maintaining absolute geopolitical importance to its respective littoral states and beyond. The additional layer of complexity represents the unsolved legal status, while its resolution drifts between an external quest for the creation of special international regimes and the existing United Nations Convention on the Law of the Sea (UNCLOS). The dynamics of the respective littoral states display the following three traits; dismissive, assertive, and reconciliatory interests. A dismissive interest refers to eroding the efforts of the international community and external interested parties for the creation of the Antarctica-like treaty by keeping the UNCLOS referential. An assertive interest refers to maximizing the shares of the spoils of partition by extending the exclusive economic zone (EEZ) and continental shelf as to divide most, if not the entire body of water, among only the five. A reconciliatory interest refers to preventing any direct confrontation among the riparian states, over the spoils, by resolving claims without arbitration from third parties (Bajrektarevic, 2011).

Russia

Only a negligible part of Russia's extensive reserves appear to be located at The Caspian Basin, . Therefore, Russia has adopted a strategy of involvement in the energy businesses of the other, better-endowed riparian states, employing strategies such as joint resource development and the granting of access to the Russian oil and gas pipeline system. The main players in this field are the state-owned companies Gazprom, Rosneft, and Transneft, as well as numerous large private energy enterprises such as Lukoil, Sibneft, or Yukos (Crandall, 2006).

In light of the loss of economic influence in The Caspian after the dissolution of the Soviet Union – influenced by an overwhelming preoccupation with preserving the strategic influence in the region – Russia's views dramatically shifted in the 2000s, from politico-security aspirations to largely economic goals. To this end, Russia turned to bi- and multilateral agreements with Caspian littoral countries so to secure its economic interests in the basin. With its unique policy, labelled *common waters, divided bottom*, it moved closer to the Kazakhstani/Azerbaijani stance, following

the principle of dividing the seabed into proportional national sectors, aligning with the UNCLOS principle. Concurrently, Russia maintained a common management of the surface waters, preserving free navigation and common ecological standards for all littoral states, and thus partly following the lake principle by excluding the international community. With this division, Russia would receive eighteen and a half percent of The Caspian seabed, while Kazakhstan would receive twenty-nine percent, Azerbaijan and Turkmenistan approximately nineteen percent, and Iran would be left with fourteen percent. Due to these efforts, Russia agreed upon the division of the northern part of The Caspian with Azerbaijan and Kazakhstan, while still strongly affirming that the five-party consensus continues as the only path to a final decision on the legal status of The Caspian (Von Geldern and Zimnitskaya, 2010). Although this agreement presents a positive sign for the future, its major downside suggests a strong dependency on dependent on good relations between the littoral states, subsequently effecting a need to acknowledge the geopolitical realities of The Caspian. We must also consider the Iranian defiance of this solution since it diminishes its political and economic role in the basin, leaving the country with the smallest share and deepest waters. The division is illustrated in Figure 1.

Regarding intra-regional relations, Russian concerns about the influence of Turkey, China, The EU, and The US in the Caspian Basin have increased recently due to the eagerness to regain its role as a major power. Above all, the emergence of Azerbaijan as a major ally of the West has effected dismay in Moscow. As for Iran, the historically adverse relationship has improved in some areas as the two powers still share a number of mutual interests in the Caspian Basin. Examples of this include the opposition to growing Western interference in regional affairs, and the proposed construction of a trans-Caspian pipeline (Dekmeijan and Simonian, 2003).

Iran

Despite ranking among the world's leading oil producers and second largest producer of natural gas, Iran's share of the local oil and gas reserves is negligible, similar to Russia. Moreover, foreign direct investment (FDI) in the energy sector has been hampered due to continuous conflicts with the West over nuclear issues (Crandall, 2006). However, because of its status as a regional power, as well as its unique geographic position between The Caspian basin and The Persian Gulf, Iran remains an attractive transit country. This geographical advantage also grants it power and a wide range of possibilities for gaining influence as a Caspian littoral state.

Foreign policy priorities have been affected by Iran's past dominance, as well as the religious ties it has with the Republics of Azerbaijan, Kazakhstan, and Turkmenistan. However, these newly independent states (NIS) see Iran's potential in cheap transit routes for oil and gas rather than the Iranian advantage. Of

greatest concern are Iran's relations with Azerbaijan, hampered due to Azerbaijan's westward cooperation on energy matters (Dekmeijan and Simonian, 2003). Additionally, significant also becomes the great divide between the two countries when defining the legal status of The Caspian. Initially following the collapse of the Soviet Union, Iran strongly asserted that Azerbaijan was, along with other former republics of Soviet Union, a successor to all the treaties signed between Iran and the Soviet Union. Although never fully deviating from this position, Iran, along with Russia, was also a strong supporter of the condominium solution. However, when Iran lost Russia as an ally on this matter due to Russia's efforts to form a closer bond with neighboring Azerbaijan, it opted for the lake solution of The Caspian, which remains as Iran's official position today. Azerbaijan, alternatively, has greatly defied all these positions and is lobbying for the Caspian to become subject to the UNCLOS treaty. This would allow a diminished role for Iran in The Caspian, along with the realistic threat of bringing foreign military vessels into The Caspian and onto Iranian borders.

Azerbaijan

Heavily dependent on the oil sector, the State Oil Company of The Azerbaijan Republic (SOCAR) was created to provide benefit from abundant hydrocarbon resources in the Caspian Sea. Subsequently, foreign SOCAR partnerships have attracted considerable FDI to the region (INOGATE Oil and Gas Directory, 2003-2004). By 2010, and after signing the so called *Contract of the Century* with thirteen world leading oil companies in 1994, an amount of eight billion dollars had been invested into exploration and development operations in the sectors of The Caspian that belong to Azerbaijan, according to UNCLOS provisions. An additional one-hundred billion is expected to be invested in the next twenty-five to thirty years (Von Geldern and Zimnitskaya, 2010).

Azerbaijan has been very vocal on defining The Caspian as a sea and therefore subject to international law, a ruling from which Azerbaijan would benefit greatly. The continuous lobbying for this solution becomes evident given that economic stability has assisted Azerbaijan to deter its powerful neighbors Russia and Iran, and to sustain sovereignty as well as to keep alliances (Von Geldern and Zimnitskaya, 2010).

Azerbaijan's goal has also been to maintain a balance between Russia and the West. However, of concern are the unresolved conflicts with Armenia over the status of The Nagorno-Karabakh province and fragile relations, mostly due to pipeline disputes with Turkmenistan (Dakmeijan and Simonian, 2003).

Kazakhstan

Holding the greatest share of Caspian oil in its national sector, Kazakhstan's foreign policy is heavily influenced by its dependence on Russia as a primary energy

transit route. The growing inflow of FDI from China signals the rising importance of cooperation with The East (The Economist, 2007). Due to the vast energy resources in its possession, Kazakhstan's decision regarding energy export routes is crucial for the stability of the current power game in The Caspian. The country has three options for exporting its energy reserves. The first is the expanding of the existing route through Russia to the Black Sea coast (EIA, 2003). The second is the transporting of additional oil into the western Baku-Tbilisi-Ceyhan (BTC) through the Aktau-Baku subsea pipeline (Marketos, 2009). The third option is the raising of the importance of the energy flow to The East through the Kazakhstan-China pipeline (EIA, 2003).

Turkmenistan

Recent developments have marked a new era with respect to Turkmenistan's position in the energy game. With newly inaugurated Chinese and Iranian pipelines and pledges to supply the Nabucco pipeline, the country has not only diversified its supply routes but also offered central Asian countries the opportunity to lessen their dependence on Russia as a major energy supplier (BBC, 2010). Turkmenistan was also the first country in The Caucasus region to secure an energy contract which completely bypassed Russia. This was done through the Korpezhe-Kurt Kui pipeline, supplying Turkmeni gas to Iranian markets. In the aftermath of the Korpezhe-Kurt Kui project, Turkmenistan became extremely ambitious in terms of constructing new energy routes such as the proposed East-West pipeline, the Trans-Caspian pipeline, and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline (EIA, 2012).

The Outer Circle and Other External Actors

Other players from the international community have been able to enter the Caspian game following the collapse of the Soviet Union. The three former members of the Soviet Republic were in desperate need of technology and capital so to exploit the hidden Caspian resources; the outside involvement was therefore seen as crucial for developing drilling and exporting capabilities, and also for distancing Azerbaijan, Turkmenistan, and Kazakhstan from Russia. The Caspian basin is landlocked, therefore it is dependent upon pipelines and shipping through neighboring states so to reach consumer markets. Upgrading old Soviet pipelines and constructing others became pivotal for the economic stability of the region and it also allowed major strategic planning of these new pipeline routes. The three post-Soviet Caspian littoral states were not very powerful in regional, and more so global, terms. Newly independent, with weak militaries, barely functioning economies, and great prospects for domestic and external conflict, these states offered targets for other interested parties looking to exploit these circumstances (Kubicek, 2013).

With regards to the transshipment of hydrocarbons to the international market, the importance of the interests and the state of political environment in countries such as

Georgia, Armenia, Turkey, Uzbekistan, Afghanistan, India, and Pakistan, commonly referred to as the Outer Circle, requires mentioning. At the beginning of the energy hype around The Caspian, Turkey indicated its interest in exploiting its culture. This becomes more sensible considering that the Azeris, Turkmen, Kazakhs, and Uzbeks are all of Turkic heritage, and Turkey's status as a modern, successful state could be utilized to gain major influence in the region. However, this perception has been far too optimistic; although Turkish construction firms seem to do well securing business in the region, Caspian states seem to prefer Russian, American, or European investors when it comes to investment and major energy projects. An important aspect for Turks is the BTC pipeline, which connects Turkey to the Caspian region. Nevertheless, most of the country's energy needs are still met through pipelines from Russia, most notably The Blue Stream (Kubicek, 2013). With the suspension of the Nabucco (Nabucco- West) and recently, the South Stream Project, it has become evident that Turkey could play a much more crucial role in the future of pipeline diplomacy. For now, both The EU and Russia are suggesting a gas route through Turkey: EU sans Russia, with a starting point in Azerbaijan and Russia and with a stream of gas flowing from Russian fields, through Greece and Turkey. We have yet to witness which Southern Corridor strategy will be implemented. What is clear, though, is that Turkey gained greatly in its starting position because of the zero-sum gaming process between Russia and the EU, therefore, its expectations of being an important (pivotal) transit country may become a reality in the near future. Also significant to the competition in The Caspian are India and Pakistan's growing energy needs. They have both backed the proposed TAPI pipeline, although the prospects for this pipeline seem dim in the foreseeable future. Furthermore, India has a vivacious cooperation with Iran in the field of gas supply; it gained rights to develop two Iranian gas fields and is in the midst of discussing a pipeline route from Iran that would traverse Pakistan (Kubicek, 2013). Iran undoubtedly represents a critical area of interests for India regarding its energy security, for it provides the country with shorter supply routes without major choke-points in between. The invigorated India-Iran strategic partnership from 2003, since it diminished due to US interference, would also be beneficial not just for India's energy and Iran's economic security, but also for the strategic balance and security enhancement of the whole region. Both India and Iran are similarly concerned in relation to issues such as Afghanistan, Pakistan, and recently, ISIS (Kapila, 2014).

Additionally, with regards to global actors such as The United States, The European Union, China, and Japan, the interest in The Caspian region can not only be limited to promoting general political stability and seeking access to Caspian oil and gas resources, but extending the view that Caspian states are a new potential market for western products and The FDI.

The United States has managed to gradually insert itself into the region. Initial involvement predominantly included investments made by major American corporations that gained substantial percentages in large-scale projects, mainly in Azerbaijan and Kazakhstan. Empowered by this, The US slowly became more ambitious. In accordance with its struggle to keep the vision of the unipolar world alive and relevant, it introduced a new important strategic goal for The Caspian; drawing pipeline routes that would completely bypass Russia and therefore diminish its influence in the region, but the “events have not transpired as those in Washington hoped or those in Moscow feared.” (Kubicek, 2013) Russia’s strategic influence did not dissipate, and besides Azerbaijan, The US has no other major ally among The Caspian littoral states. However, regarding strategic alliances in the countries surrounding The Caspian riparian states, the contrary is true.

China has moved from a somewhat silent presence during the time immediately following the collapse of the Soviet Union, to a more active involvement in recent years. Much like in Africa or The Middle East, this involvement is predominantly powered by the vast energy needs of the country. Also similar to Africa and The Middle East, China has high prospects for success because it seems like a less threatening partner than Russia or The US, not to mention the absence of historically denoted relations. It first managed to enter the region through the Shanghai Cooperation Organization (SCO), which has stretched from having predominantly security-oriented goals to being an energy-concerned forum, thus effectively introducing China into the energy politics of the region. Central Asia and the Caspian Basin are also part of China’s policy of the *New Silk Road*, stretching from China to Rotterdam, Netherlands. The concept of a *New Silk Road* is, much like the ancient one, envisioned to be an economic belt, an area of economic cooperation, a vision of China for the interdependent economic and political community spanning from the shores of The Pacific to the Western European sea (Tiezzi, 2014). At the moment though, China is mostly present in the Kazakhstani oil sector and the Turkmenistan gas sector. Also, we must consider the collision of Chinese energy security needs and the Iranian search for new energy partners after the harshening of Western sanctions due to the Iranian nuclear program. Both China and Iran have gained greatly with this enhanced cooperation; China with securing more energy supply deals and Iran with preserving its state of economic development and stability.

Status related disputes

Innumerable negotiation rounds have been held in order to determine the legal framework applicable to the Caspian Sea. Affecting both the development and ownership rights for gas deposits, the implications reach to topics such as environmental protection, navigation of the waters, and fishing rights.

Historical Developments Prior to 1991

The year 1991 not only represents a key date in world history, but also left a deep imprint on the Caspian Basin. After all, the number of riparian states increased from two to five virtually overnight, following the disappearance of The Soviet Union. The first sources addressing the legal status of the Caspian Sea date back to the 18th and 19th centuries, when the first treaties between Russia and Persia were concluded, *de facto* establishing the beginning of Russian geopolitical supremacy in The Caspian region (Raczka, 2000). With the creation of The Soviet Union, a new legal framework, the Treaty of Friendship, was negotiated in 1921, declaring all previous agreements void (Mehdiyoun, 2000). Following the 1935 Treaties of Establishment, Commerce, and Navigation; the 1940 Treaty of Commerce and Navigation; the 1957 Treaty on border regimes and subsequent Aerial Agreement; the initial obligations of the 1921 treaty were further reiterated, establishing consensus over matters previously not covered.

However, with the collapse of The Soviet Union, the legal validity of the existing legal framework prior to 1991 was seriously challenged, and to a great extent obsolete, no longer reflecting the realities within the region. The Caspian Basin has become a unique multinational mixture of economic, political, energy, and environmental concerns; where the division in any way has, for now, proven to not balance properly between the areal and utility claims of the parties in conflict (Oleson, 2013). But as the exploitation of the resources hidden in The Caspian became a reality in the 2000s, the states chose to distance themselves from the international regime and to seek other solutions under which they can divide their respective energy reserves. But the lack of utilization of international law inevitably means more maneuvering space for self-interested power play (Von Geldern and Zimnitskaya, 2010).

Present Alternative Legal Options and their Implications

Following the increase in the number of Caspian littoral states, calls for alternative legal options were made, most importantly either determining the legal status of the Caspian Sea or insisting on the condominium approach. Classifying The Caspian Sea as a sea would bring forth the application of the 1982 UNCLOS. Following this action, The Caspian Sea would be divided into respective corridors, determining the applicable rights and obligations both for littoral states and the third parties (Janis, 2003). That would essentially divide The Caspian into three parts. First, there are the territorial waters stretching twelve nautical miles from the shore. Second, there are the 200 to 350 nautical miles of continental shelf depending on the configuration of the continental margin. Third, there are exclusive economic zones (EEZs) that extend from the edge of the territorial sea waters up to no more than 200 nautical miles into the open sea. Within this area, the coastal state has exclusive exploitation rights over all natural resources. While territorial waters grant full state sovereignty,

the EEZs grant sovereign rights with which to exploit resources to a certain state, but not sovereignty over the waters of the EEZ.

This division, considering the fact that the Caspian width does not extend 435 miles, would mean different state economic zones and continental shelves would overlap, giving way to interstate bargaining. According to UNCLOS, the “delimitation of the continental shelf...shall be effected by an agreement on the basis of international law...in order to achieve an equitable solution” (Aras and Croissant, 1999). In this process, the most powerful states in the area would have the advantage in the bargaining. Considering that UNCLOS has been accepted and ratified, only Russia faces the complexity of defining the status of the Don-Volga system and the incompleteness The UNCLOS solution offers for the Caspian.

Conversely, classification of The Caspian Sea as a *lake* is complicated both by the absence of international convention on the issue and the lack of international practice, even if covered by customary law. The most common practice on the matter is the division of the water plateau into equal portions, inside which states exercise full sovereignty. In the sovereignty sense, drawing a border on an inner water surface is similar to drawing land borders. In comparison to the solution under the provisions of UNCLOS, the division of national sectors under this principle would grant the states a greater degree of control (Dekmejian and Simonian, 2003) and leave no room for political bargaining. This also closes the door to the international community, foreign trade, a military presence, and large petroleum companies.

The final option, condominium status, defined as conjoint ownership over a territory, is usually seen as temporary in nature and used only as a last resort. This solution for the Caspian was initially urged by Russia and Iran, which was not sufficient to approve as the final solution for the division of the Basin (Raczka, 2000). The newcomers to the Caspian membership: Azerbaijan, Turkmenistan and Kazakhstan, have been advocating strongly against this idea given their relatively long Caspian coastal lines and heavy dependence on Caspian produced energy. Currently, the condominium option seems the least plausible of all the proposed solutions. After Russia's change of heart regarding the condominium issue. due to attempts to improve the relationship with Azerbaijan and Kazakhstan, Iran was left without an ally. Keeping this in mind, Iran strongly supporting the lake solution because it still rewards Iran with a considerable portion of the Caspian (Oleson, 2013).

Present and Future Outlook

As of the new millennium, the already mentioned important shift took place in the legal division of The Caspian Basin. The northern part of the seabed was *de facto* divided between Russia, Azerbaijan, and Kazakhstan in 2003; however it is unclear whether Iran and Turkmenistan will compromise on the issue. Considering

the frequent border disputes between Azerbaijan and Iran in the recent past and the absence of *de jure* division of the Basin, the situation needs unanimous settlement in order to avoid future conflicts and to attract foreign investment.

The most publicized trans-Caspian initiatives – the twenty-third meeting of the Special Working Group on The Caspian Sea in 2008 and The Caspian Five Summit in 2010, both held in Baku – have, contrary to expectations, failed to deliver a feasible solution. An agreement regarding the security issues was signed in November 2010. However, the issue of the legal status of The Caspian was once again postponed. The 2010 Baku summit reflected the status quo, and focused on pipeline developments in Nabucco, trans-Caspian initiatives, and future revenue possibilities. As a result, the five states left the territory and resource issues unsolved (Pannier, 2010). Despite these failures, an agreement was reached among all five littoral states by the end of September 2014. Iran and Russia successfully lobbied to reach a unanimous agreement about the inadmissibility of a foreign military presence in The Caspian, thereby ruling out any possible future deployment of North Atlantic Treaty Organization (NATO) forces (Dettoni, 2014). This signals the aspiration of all parties involved in finding common ground on the delimitation matter. Although an agreement on this has not yet been reached, evidently no NATO flag will be flying above Caspian waters, which is an important geostrategic victory for Russia and Iran. The decision comes at a fragile time for both countries in question; the civil war in Ukraine has severely damaged Russia's relations with the West, and Iran is still in the midst of very harsh sanctions due to its nuclear program.

EU-Caspian Relations and Energy Security

Energy Reserves and Transportation

The Caspian energy reserves, concentrated primarily in Azerbaijan, Kazakhstan, and Turkmenistan, can have a disruptive effect on the global energy market. As Tables 1 and 2 show, in 2012 The Caspian share constituted 3.4 percent of global oil production, and 20 percent of total world gas production. However, with the increase of Azeri and Kazakh oil production, and Azeri gas production, Kazakhstan and Turkmenistan will increase their importance in export markets (BP Statistical Review of World Energy, 2013).

Due to the landlocked nature of The Caspian Basin, the NIS depend on at least one adjacent country in order to export oil and gas. Traditionally, the infrastructure has been dominated by Russian state-owned pipeline monopolists. However, this contradicts the needs of the NIS, which seeks energy independence for implementing energy deals (Goldwin and Kalicki, 2005). There are important pipelines that are

not controlled by Russia, most notably the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the parallel gas counterpart South Caucasus Pipeline (SCP), also known as Baku-Tbilisi-Erzurum (BTE). Upon its opening, the BTC pipeline was regarded as the largest exporting pipeline in the world, spanning over 1,040 miles of terrain. The construction of the pipeline is regarded as unique for connecting The Caspian to The Mediterranean Sea. Europe gained access to the heart of Central Eurasia upon the completion of the BTC. This strategic economic cooperation also explains why a partnership with NATO and The EU is one of the highest priorities for the newly independent Soviet Republics (von Geldern and Zimmitskaya, 2010). The westward extension of the SCP to Central Europe, and construction of a trans-Caspian oil or gas pipeline are of great interest to the West, especially The EU, to transport Kazakh and Turkmen reserves via the BTC and SCP. Lastly, due to heavy reliance on the oil and gas sectors in the economies of five Caspian states, prudent administration is of utmost importance. For example, stabilization oil funds were set up in Kazakhstan and Azerbaijan to retain profits. However, due to corruption, these funds have failed to achieve their goals (Crandall, 2006).

These large construction projects often lack proper regulations and oversight. There are two ways for managing such regulations: inter-governmental agreements (IGA) between the countries directly involved or a series of host government agreements (HGA) between the states in question and the corporation-led consortium. These agreements were originally designed to reduce the risks of investing in unstable regions, and to avoid inefficiencies associated with local government corruption. Both solutions have been liable to criticism; IGAs due to the above mentioned lack of prudent administration and corrupt governments and HGAs due to their tendency to take precedence over domestic legislation. HGAs are part of international investment agreements under international law, usually of extremely volatile nature; it is standard procedure to include a clause, stating that the agreed-upon-standards are not static but will evolve over time (Amnesty International, 2003). This essentially allows oil interests to surpass standard legislative regimes on oil and gas exploitation and on environmental protection issues. Additionally, the host governments are not allowed to challenge the decisions made in the name of “evolving conditions” due to the possible damaging “effects on the economic equilibrium” of the project, therefore representing a clear danger to national sovereignty (von Geldern and Zimmitskaya, 2010).

With the intention of meeting energy policy priorities, The EU has identified cooperation with The Caspian region as one of top goals. The general legal framework governing the political, legal, and trade relationships with Caspian states is The Partnership and Cooperation Agreements (PCA); with the exception of Iran. With the aim of building a stronger presence in the region, The EU has initiated several collaboration platforms: Transport Corridor Europe-Caucasus

Asia (TRACECA) in 1993, Interstate Oil and Gas Transport to Europe (INOGATE) in 1995, The Energy Charter Treaty in 1997, and The Baku Initiative in 2004 (European Commission, 2006).

In regards to energy security, the risks of an over dependence on Russia as a primary source of both oil and natural gas supply became especially apparent after a series of disruptions of gas deliveries to Ukraine, Belarus, and the Baltic States (US Library of Congress, 2006). Moreover, as significant stakes in several European energy companies have been acquired by Gazprom, an EU goal to diversify among suppliers is anticipated (Baran, 2007). Functioning markets, diversification of sources, geographical origin of sources, and transit routes were outlined in the EU action plan titled, *Energy Policy for Europe* (European Commission, 2006).

In addition to The EU, the presence of other global players such as Japan, China, the US, and Turkey must also be considered. Japan's position in the region can be seen more as a provider of development aid, but the presence of US and China signal the growing need for energy to satisfy their increasing demand.

Case Study: Nabucco Pipeline

Nabucco was the natural gas pipeline project designed to connect Caspian resources with European markets, and has enjoyed full support from The EU as a means to diversify energy supply. Stretching from Turkey to Hungary while crossing Romania and Bulgaria, the initial plan envisioned transporting natural gas from Azerbaijan, Turkmenistan, Iran, Iraq, and Egypt. Given the thirty-one billion cubic meter (bcm) maximum capacity of Nabucco, the project could potentially contribute 4.4 percent of the total required gas supply.

In the first phase of the project, Azerbaijan has agreed to feed the pipeline with eight bcm of gas. The second phase plans to introduce gas from other Central Asian countries, while the third phase would provide a steady gas flows from Iran, Iraq, and possibly Egypt (Baker and Rowley, 2009). This pipeline posed a strategic rivalry to Russia's proposed South Stream Pipeline because the two pipelines target the same markets and follow extremely similar routes. Three out of five countries envisioned to be along the Nabucco pipeline are also part of The South Stream proposed pipeline, all of which is clearly recognizable in Figure 2.

The financing of the two projects also merits examination. The Nabucco pipeline is designed to be privately financed, and therefore has to demonstrate its commercial value. The Russian firm, Gazprom, will never have a problem with financing in accordance with Moscow's strategic goals (Marketos, 2009). Additionally, both projects have been facing criticism for several reasons. Russia has accused the

Nabucco deal of being politically motivated and has even accused the company of artificially inflating the commercial value of the project. Furthering Russia's claims, Nabucco was given an official exemption from EU competition rules in 2008 (Downstream Today, 2011).

Aware of the EU deal, Russia has begun development of the South Stream and North Stream projects, both designed to deliver gas to European markets. The South Stream's initial output was projected to reach the markets in 2015 (The South Stream Project, 2014). But pipeline diplomacy proved unpredictable, and political bargaining halted the project, pronouncing it dead in late 2014. The pragmatic reasons for this decision were the continuous obstructions, posed by the Bulgarian government (which many believe were orchestrated and supported by Brussels). Henceforth Russia declared her withdrawal from the South Stream pipeline, and immediately started focusing on Chinese markets, as well as securing new deals with Turkey (Micalache, 2015).

While initially planned for construction in 2009, Nabucco has also faced challenges both on the investment and supply sides. Even though the 7.9-billion-dollar project secured promises of five billion dollars in loans from the World Bank in 2010, The European Investment Bank, The European Bank for Reconstruction and Development, RWE of Germany, and OMV of Austria have all announced their decision to postpone their investment in 2009. Furthermore, the Azeri contribution was supposed to account for approximately one-third of the pipeline's capacity, but the financing ultimately proved elusive. In order for the pipeline to be fully viable, Nabucco is in need of additional suppliers among the NIS (The Economist, 2010).

But the Nabucco pipeline received a damaging blow in 2012 when the proposed pipeline route was reduced more than half, from the original 3900 miles to 1300 miles, due to the substantial and previously uncalculated for financial costs and shifting governmental support in host countries (Natural Gas Europe, 2012). This meant that the Eastern section of the pipeline was terminated, making way for the Turkey-Azerbaijani-financed Trans-Anatolian pipeline (TANAP). The remaining part was afterwards known as the Nabucco-West. But even this reduction could not save the project from receiving a lethal blow in June 2013, when the Azeri Shah Deniz Consortium chose the competing Trans-Adriatic pipeline (TAP) instead (Del Sole, 2013). After the decision was made public, the chief executive of the Austrian energy company, OMV, told the media that the Nabucco pipeline was over for them, effectively ending the dream of many high-level politicians in the EU energy sector. A decade of planning was abruptly finished, with very slim chance of ever starting up again.

This course of events and the final decision indicate a unique set of processes taking place in the Caspian energy field. It is very difficult to argue that the decision to

choose TAP was not strategic and geo-political. The behind-the-scenes events occurring were largely connected to the beneficiaries of the project as well as to the strategic rapprochement of Russia and Azerbaijan. We suggest that the decision to terminate Nabucco was taken in Baku, and for which motivating factors are numerous. Firstly, the Nabucco pipeline was a joint EU venture, while Azerbaijan and Turkey have supported the TAP and the important midway junction TANAP. Secondly, the route is 500 kilometers shorter than the Nabucco-West and therefore more economically viable. Thirdly, the TAP infrastructure will primarily travel through Greece, eliminating the risk of interruptions in the supply chain. As a result of EU austerity measures in Greece, the country was forced to privatize the state-owned energy company DEPA and the state gas provider DESFA. Azerbaijani-owned SOCAR was the buyer of the Greek DESFA. The strategic implications of the decision for the TAP project are now clearer than ever. Fourthly, Azerbaijan did not want to sour its relationship with Russia. Fifthly, Azerbaijan and Turkey aimed to enhance their role as pivotal energy suppliers for the European markets (Weiss, 2013).

Conclusion

The Caspian Basin re-emerged as a source of global attention when a new race started for the access of its resources (Kleveman, 2003). It is referred to as the *New Great Game* by many academics, indicating the historical analogies between contemporary rivalries and the ones between imperial Russia and Britain in the 19th Century (Mandelbaum, 1998). Along with increased competition, the position of the newly independent Caspian littoral states—Kazakhstan, Azerbaijan, and Turkmenistan—has dramatically shifted. Possessing influential power over their respective reserves, the three states must also compromise for access to energy transit routes, know-how, and capital with various external parties.

With regards to regional disputes, numerous implications exist. Firstly, the numerous ethnic and territorial disputes have an adverse impact on both the energy supply potential and the business environment in general. Recently rated as a dangerous conflict area, the situation in The Northern Caucasus region might unfold with devastating regional consequences (International Crisi Group, 2014). Moreover, the disputes over the legal status of The Basin endanger the stability of the area. Therefore the *sui generis* legal status offers the only viable approach available and needs to be capitalized on.

Finally, as identified earlier, The Caspian Basin has emerged as a key area of European interest with clear focus on the energy supply potential. However, The EU approach could be viewed as too fragmented. Often unable to speak with a common voice on energy related issues, The EU lags behind Russia in terms of

increased cooperation initiatives. Even in the effort to try to diversify its energy supply by avoiding Russia and gaining access to the heart of the Caspian, The EU failed due to its over-inflated view of its influence in the region. Compounding this problem further is the fact that Caspian littoral states simultaneously strive for their own economic power and independence. They may not want to stumble from one strategic umbrella to another, but instead, to solidly stabilize a position for their own voice in the future of Caspian energy matters. When fighting for energy security, The EU will have to anticipate other emerging players in the *New Great Game*, and must remember that tapping into other energy reserves now, in contrast to the past, comes at a price.

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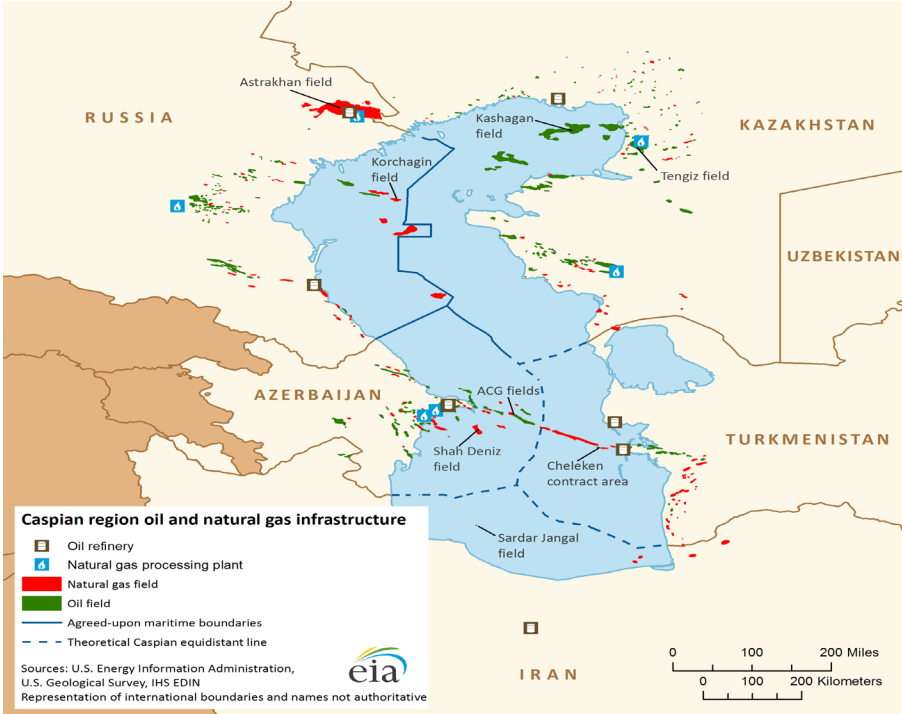
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Figure 1: The proposed and already effective division of the Caspian basin



Source: EIA, 2013

Figure 2: The planned South Stream and Nabucco gas pipelines



Source: BBC, 2008

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Table 1 : Proven Caspian Oil Reserves (In billion barrels)

Littoral State	At the end 1999	At the end 2012
Azerbaijan	1.2	8.5
Turkmenistan	0.5	1.9
Kazakhstan	25.0	31.2
Total	26.7	41.6
Total World	1085.6	1650.1
% of the world reserves	2.45%	2.52%

Source: EIA, 2013

Table 2 : Proven Caspian Natural Gas Reserves (In Trillion Cubic Meters)

Source: OPEC, 2012

Littoral State	At the end 1999	At the end 2012
Azerbaijan	1.23	1.31
Turkmenistan	2.59	10
Kazakhstan	1.78	1.95
Total	5.6	13.26
Total World	148.55	201.079
% of the world reserves	3.77%	6.59%

ASEM AND THE BRIDGING OF THE HUMAN SECURITY GAP

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Abstract

The European Union, recognizing the need to contribute to global security in the post-Cold War era, but lacking the capacity to act in international crisis situations, developed the European Security Strategy in 2003. The European Security Strategy, while not directly referring to the term human security, identifies key threats, such as terrorism, organized crime, and state failure, and unequivocally states: “Europe should be ready to share in the responsibility for global security and in building a better world.” Additionally, it states that cooperation between the EU and regional organizations such as ASEAN, MERCOSUR, and the African Union “make an important contribution to a more orderly world.” Given The EU’s extended commitment to human security, to the promotion of its values around the world, and to collaboration with other regional organizations, it is only natural that The EU, in its relations with ASEAN and a wider range of Asian states in ASEM (Asia Europe Meeting), promotes human security. ASEAN member states have also been engaged in discussions on human security. However, the focus has been exclusively on freedom from want (development) issues. The concept of freedom from fear, and the responsibility to protect (R2P), poses a critical challenge to ASEAN’s fundamental principles of independence, sovereignty, non-interference, and territorial integrity. This paper addresses the following two key concerns: (a) What is the rationale for human security promotion by the EU and ASEAN in the ASEM interregional cooperation framework? (b) While both The EU and ASEAN recognize the importance of the human security approach, their understanding of the concept of human security is distinctly different. Therefore, this paper investigates under what conditions The EU and ASEAN can come to a common understanding of human security.

Keywords

ASEAN, EU, ASEM, Human Security

Introduction

“The European Union is entrusted with the task of developing a common foreign and security policy to enable it to protect its interests and values as well as playing a constructive role in world politics.”

- European Commission, 1994

“Only by refocusing state security, and regional security, on genuine human security will we ever be protected from calamities beyond our control. And in the end human security is nothing more than the fulfillment of state responsibility, because the state is organized in order to protect and promote the welfare of its own citizens.”

- Dr. Surin Pitsuwan, Former Minister of Foreign Affairs of Thailand and Secretary-General of ASEAN 2008-2012, 2006

The quote above from the European Commission’s 1994 Asia strategy highlights both the European Union’s focus on Asia in the post-Cold War era and its early ambitions as international player in world politics. This ambition will have developed in the decade thereafter into a more coherent foreign policy guided by the principles of human security. The quote above from Dr. Surin Pitsuwan shows a genuine understanding of the human security approach, and how it complements, and not undermines, more traditional state security. Human security has, however, not become the norm in international politics, or even in relations between Southeast Asia and Europe. Human security and the role of Europe as human security advocate has, instead, become important in furthering European Union ASEAN relations as equal partners beyond development aid and trade.

Human security or non-traditional security is based on the principle that it is impossible to protect human freedom and welfare exclusively through military security. Human security is often presented as comprised of freedom from fear, freedom from want, and freedom to live in dignity (United Nations Office for the Coordination of Humanitarian Affairs 2014). Freedom from want includes poverty reduction, sustainable development, environmental protection, and health care. Freedom from fear consists of the protection of civil liberties, human rights, and cultural and social rights. Freedom to live in dignity refers to the bottom up approach of human security, which aims to empower communities. Human security is considered people-centred security as it places human beings—rather than state or regime security—at the focal point of security considerations. The European Union (EU) and the Association of Southeast Asian Nations (ASEAN) have both recognized the need for addressing human security concerns as part of their overall security strategy, and have discussed interregional cooperation that enhances human security as part of the Asia-Europe Meetings (ASEM).

The purpose of this article is to address the following two key concerns: (a) What is the rationale for human security promotion by The EU and ASEAN in the ASEM interregional cooperation framework? (b) While both The EU and ASEAN recognize the importance of the human security approach, their understanding of the concept of human security is distinctly different. Therefore, this paper investigates under what conditions The EU and ASEAN can come to a common understanding of human security. Seeking to shed light on the different interpretations of human security in ASEAN and the EU, this paper explores whether continued dialogue and cooperation between these two parties in the ASEM framework bridges the gap. In the next section I will discuss a brief history of the human security approach.

The Human Security Approach

The human security approach was first formulated in the United Nations Human Development Programme's (UNDP) 1994 Human Development Report. The report identified seven areas that contribute to global insecurity, including economic security, food security, health security, environmental security, personal security, community security, and political security (United Nations Development Program, 1994). The Human Security Unit at the United Nations has formulated five principles that encompass the human security approach. Human security is people centered, that is, the survival, livelihood and dignity of people is at the heart of the approach, and trumps national security concerns. Human security is comprehensive, as threats to security, i.e. economic and environmental security, are often interdependent. Human security is context-specific, as solutions need to be tailored to local needs and realities. Human security is prevention orientated as it aims to mitigate the effects of insecurities and to prevent future threats. The final principle of human security is protection and empowerment. Top down processes such as early warning mechanism and good governance, are combined with bottom up processes such as the improvement of local capacities and networks (United Nations Office for the Coordination of Humanitarian Affairs, 2014).

The United Nations Development Programme has developed the Human Development Index (HDI) as a measure to assess the quality of human development. The index consists of life expectancy, education, and per capita gross national income measures. States that score high on the HDI, called "very high human development", have an average life expectancy at birth of 80 years, 16 years of expected schooling, and 40,000 in per capita gross national income. In contrast, states with "low human development" have an average life expectancy at birth of 59 years, 9 years of expected schooling, and 3,000 in per capita gross national income (United Nations Development Program, 2014). ASEAN has greater diversity in its human development scores with Singapore and Brunei Darussalam scoring in the

“very high human development” category while Myanmar is placed in the “low human development” category. Singapore and Brunei Darussalam score higher on the HDI than many EU member states, and significantly higher than Romania and Bulgaria, the only two EU member states that do not fall in the “very high human development” category (United Nations Development Program, 2014). The HDI is not an exact measure of human security, but states with “very high human development” are certainly more capable to address human insecurities than states that score lower on the index. Given that most ASEAN member states score on the lower end of the HDI scale there is a real benefit for those states to bolster their human security capacity by working together with The EU.

The human security approach is based on the idea that state security and the security of individual citizens do not always align. In many states, especially in the developing world, the regime is stable and there are no threats in terms of military security, but people face many threats in their daily lives due to the lack of adequate housing, health care, or due to serious environmental pollution. In these cases, the long-term stability of the state is at risk, especially when the fragile peace is tested through natural or man-made disasters. As a comprehensive approach to security, the human security approach in essence addressed the insecurities that people face in everyday life. It is believed that the collective security of individuals also enhances state security. The United Nations Trust Fund for Human Security has been critical in the promotion of the human security approach within The United Nations and internationally. Projects that have been supported by The Trust Fund range from conflict prevention and peace building missions to addressing the threats of climate change, human trafficking, urban violence, and poverty (United Nations Development Program, 2014). In addition to The United Nations, some individual states were also early promoters of the human security approach, including Canada, Japan, and Norway. The European Union did not develop an independent foreign and security policy until a decade after the publication of the 1994 UNDP Human Development Report that launched the human security approach. While the strategic vision of the European Union was clearly influenced by the human security approach, initially, Europeans preferred the term comprehensive security to human security.

In the case of ASEAN, there was little interest in the human security approach until natural disasters, including the 2004 Indian Ocean Tsunami, made it evident that the stability of the state is dependent on its ability to respond to crisis situations. The lack of state capacity to adequately address the consequences of the tsunami forced Southeast Asian leaders to broaden the scope of national security beyond military or regime security, so to include the health and well-being of the population. The crisis of the tsunami exposed the inability of the regime to provide basic security to its citizens at a critical time. Regimes affected by the tsunami realized that the

capacity to respond to crises, such as natural disasters, is as critical to their survival as their ability to respond to military threats. In the next section I will discuss the understanding and development of the human security approach in The EU and ASEAN.

Understanding Human Security in the EU and in ASEAN

The European Union, recognizing the need to contribute to global security in the post-Cold War era, but lacking the capacity to act in international crisis situations, developed The European Security Strategy in 2003. The European Security Strategy, while not directly referring to the term human security, identifies key threats, such as terrorism, organized crime, and state failure, and unequivocally states: “Europe should be ready to share in the responsibility for global security and in building a better world” (European Commission, 2003). Additionally, it states that cooperation between The EU and regional organizations, such as The Association for Southeast Asian Nations (ASEAN), Mercado Común del Sur (MERCOSUR, Southern Common Market), and The African Union (AU), “make an important contribution to a more orderly world” (European Commission, 2003). The European Security Strategy concludes that EU foreign policy and crisis management needs to become “more active, more capable, and more coherent” (European Commission, 2003). The EU’s commitment to a holistic approach to global security is also evident in The Lisbon Treaty. Article 3(5) inscribes the EU’s commitment to promoting its values, including peace, security, sustainable development, solidarity, and human rights, to the wider world. In article 21 the treaty confirms the EU’s commitment to build partnerships with regional, interregional and global organizations that share the principles of the rule of law, human rights, and human dignity (Lisbon Treaty, 2009).

The ASEAN is committed to the promotion of non-traditional security in managing international crises. The declaration of ASEAN Concord II specifically states that ASEAN “subscribes to the principle of comprehensive security as having broad political, economic, social and cultural aspects”(ASEAN, 2003). ASEAN has collaborated with UNESCO in organizing workshops around the theme of human security, addressing such threats as illicit drug trafficking, human trafficking, arms smuggling, and various forms of economic crimes. In a 2009 joint declaration, ASEAN defence ministers confirmed the increased serious nature of non-traditional and transnational security threats to regional and international peace (ASEAN, 2009). Scholars, however, have been critical of ASEAN’s commitment to human security, especially as the majority of ASEAN member states consider human security a challenge to ASEAN’s fundamental principles of independence, sovereignty, non-interference, and territorial integrity. According to critics, ASEAN’s interpretation

of human security places the sole emphasis on “freedom from want,” i.e. human development, while “freedom from fear” and “freedom to live in dignity” are being neglected due to the importance given to regime security over individual security (Acharya, 2001; Caballero-Anthony, 2004; Gerstl, 2010).

Given the EU’s extended commitment to human security, to the promotion of its values around the world, and to collaboration with other regional organizations, it is only natural that The EU in its relations with ASEAN and a wider range of Asian states in the Asia-Europe Meeting (ASEM) promotes human security. The foreign ministers discussed human security cooperation in ASEM in June 2011 at their biennial summit in Hungary. The foreign ministers’ conference entitled “Working together on non-traditional security challenges” and the eight biannual ASEM meeting in Brussels in October 2010 entitled “Greater well-being and more dignity for all citizens” both emphasized a commitment to interregional cooperation in non-traditional security (ASEM, 2011). During the 2013 foreign ministers meeting in Delhi, India non-traditional security challenges were again an integral part of the discussion. Transnational crimes, such as drugs and illegal arms trafficking and human trafficking were important topics of discussion. Climate change and the commitment to The United Nations Framework Convention on Climate Change (UNFCCC) also deserved separate mention on the chair’s statement (ASEM, 2013). At the 2014 ASEM summit in Milan, Italy, leaders also acknowledged the importance of continued cooperation in the area of non-traditional security. Although scholars remain skeptical of the willingness of ASEAN member states to commit to the human security approach, there is ample evidence that non-traditional security continues to be important in the discussions at ASEM (ASEM 2014). One of the main reasons why scholars doubt the sincerity with which ASEAN member states commit themselves to the human security approach is the long tradition in Asia of the principles of sovereignty and non-interference. Whereas European nations have pooled their sovereignty in the European Union for the sake of common security, ASEAN member states have remained reluctant to introduce measures that limit self-rule. In 2012 The United Nations General Assembly adopted a resolution formulating a common understanding of human security (United Nations General Assembly 2012). This common understanding is important not only for internal UN usage, but also because it sets human security apart from The Responsibility to Protect (R2P). The 2005, The UN World Summit Outcome Document commits states to protect their populations from genocide, war crimes, crimes against humanity, and ethnic cleansing. Under The R2P, the international community must use all adequate measures, including the use of force, when a state fails to protect its population from these aforementioned crimes (United Nations General Assembly, 2005).

Human security does not mandate states to intervene to prevent or halt serious human rights abuses in other states. Human security, unlike The R2P, does not challenge state sovereignty, it encourages states to increase its capacity to serve and protect its citizens. The fact that the human security approach cannot be used as a tool for international interventions or regime change has mitigated the anxiety about the motives for its promotion. ASEAN member states can use the language of human security without fear of undermining their regime. European states can promote human security without fear of being seen as neo-colonial imperialists. In the next section, I will discuss the changing nature of EU-ASEAN cooperation.

EU-ASEAN Cooperation

The European Community (EC)'s first acts of political cooperation with ASEAN date back to the early 1980s when representatives of both institutions discussed critical Cold War security issues, such as the Soviet invasion of Afghanistan and Vietnam's invasion of Cambodia. Disagreement over human rights issues, however, halted further cooperation in the late 80s and early 90s. In 1994, the European Commission published its New Asia Strategy, recognizing the growing importance of Asia as a trading partner of the European Community (Yeo, 2009). The Commission realized that The European Community had to catch up with the United States in enhancing its economic presence in Asia (Yeo, 2008). The United States had been instrumental in establishing the Asia Pacific Economic Cooperation (APEC) to promote free trade across the Asia-Pacific region. The Asia Europe Meeting (ASEM) was initiated by the government of Singapore with the purpose of bringing The EU into the region as counterbalance to The United States and APEC (Yeo, 2008). The first ASEM Summit in Bangkok in 1996 began as an informal meeting of heads of government so to strengthen economic ties between ASEAN and The EU. Strong trade relations already existed between The United States and Southeast Asia, and between The European Union and The United States, but relations between The EU and ASEAN were the missing link (Yeo 2008, 108; Gaens 2009).

ASEAN countries were interested in focusing the first ASEM meeting on encouraging European businesses to invest in Southeast Asia in human resource development and technological transfers. ASEAN members also wanted increased market access in Europe. Europeans were keen on securing ASEAN member states' support at the first World Trade Organization (WTO)'s ministerial meeting on issues such as intellectual property rights and investment code. It was not in ASEAN member states' interest to be tied to the EU preferences at The WTO, and a compromise agenda had to be agreed upon. The compromise was that the meetings would be informal in character and comprehensive in scope, focusing

on common interests in economic and political affairs (Yeo, 2008). While the focus of ASEM was mostly economic in nature, the Asian financial crisis in 1997 spurred on political cooperation in addition to economic assistance. The financial crisis deflated the economic benefits of EU-ASEAN cooperation, and increased cooperation with the Northeast Asian states of China, Japan and South Korea, in the form of ASEAN plus three (Yeo, 2009). The financial crisis also highlighted the importance of institutional development and political cooperation among ASEAN members.

Political cooperation between ASEAN and EU members took root in the aftermath of the financial crisis. Political cooperation became even more significant after the crises of the Bali terrorist bombing (2002), the SARS outbreak (2003), the outbreak of avian influenza (2003), and the Indian Ocean tsunami (2004). These crises impressed on the Southeast Asian governments the recognition that, in addition to socioeconomic development, citizens are in need of a type of security that includes environmental protection, food security, adequate health care, and adequate shelter, that is to say, human security (Curley and Thomas, 2004; Gerstl, 2010). The crises do not lead to the widespread adoption of human security norms in ASEAN, as policy makers continue to view security issues through the lens of traditional realist notions of national security. However, these crises did refocus Southeast Asian leaders on a perspective of state capacity that transcends mere economic growth and the protection of national interests narrowly defined. Southeast Asian countries began to look into various aspects of human security. This is especially true since these crises were all transnational, and all, with the exception of the tsunami, were linked to globalization (ASEAN UNESCO Human Security Workshop, 2006). During the Asian financial crisis, ASEAN governments were able to set aside the strict policy of non-interference, and through “flexible engagement” enabled the organization to prevent domestic issues from becoming a threat to regional stability (ASEAN UNESCO Human Security Workshop, 2006). During the SARS outbreak, health ministers of ASEAN plus three coordinated activities and shared information with each other and with the World Health Organization (WHO), which resulted in Southeast Asia being SARS free in just two months (ASEAN UNESCO Human Security Workshop, 2006; Curley and Thomas, 2004). During the Indian Ocean tsunami, ASEAN was involved in coordinating the relief effort, including the disaster relief assistance from the United States, The European Union, and Japan. ASEAN’s member states proposed a 2005 UN Resolution on emergency relief, rehabilitation, reconstruction and prevention, that was adopted by consensus. This established the use of military and civilian personnel in disaster relief operations, The ASEAN Humanitarian Assistance Centre, and The ASEAN Disaster Information Sharing and Communication Network. Finally, ASEAN members created The ASEAN Committee of Disaster Management that became responsible for setting up a tsunami early warning system in The Indian Ocean

(ASEAN UNESCO Human Security Workshop 2006).

Political cooperation continues to gain in importance as ASEM broadens the issues on its agenda, from trade and investment, to human rights, counter-terrorism, transnational crime, the digital divide, and disaster management. Dialogue on non-traditional security threats has become a principal part of Asia-Europe Meetings. The perspective of The European Union in Southeast Asia has changed from one that focused almost exclusively on foreign aid and trade to one that includes political and security cooperation. The development of The EU as a security actor will be discussed in the following section.

The EU as Security Actor in Asia

Although the EU has many connections in Asia at the bilateral and multilateral level, it is not seen as a major security actor in the region (Gaens, 2009). The EU is a member of The ASEAN Regional Forum (ARF) that was founded in 1993 mainly to discuss regional security issues. The ARF also plays an active role in confidence building and preventative diplomacy in Asia Pacific (ARF, 2011). The ARF is geared towards more traditional forms of security, as many of the meetings focus on maritime security, counter-terrorism, cyber terrorism, and peacekeeping. ARF defense official meetings are scheduled the most frequently, approximately every three months since 2002. In the aftermath of terrorist attacks in The United States and Indonesia, The ARF, APEC, and ASEAN, have shifted their attention from inter-state tensions to fighting terrorism, and, to some extent, to non-traditional security (ASEAN UNESCO HS Workshop, 2006). There were over twenty meetings dealing with non-traditional security at The ARF between 1998 and 2014. The discussed topics included disease prevention, narcotics control, transnational crime, climate change, and the threat of biological weapons (ARF, 2014).

There is significant overlap in the memberships of The ASEAN Regional Forum and Asia Europe Meeting, but The ARF also includes states not in ASEM, such as The United States, Canada, North Korea, Bangladesh, Papua New Guinea, Sri Lanka, and East Timor. ASEM also differs from The ARF in that all EU member states and The European Commission take part in its meetings while in The ARF only The EU, through its high representative for foreign affairs and security policy, is represented. The terrorist attacks in The United States, Indonesia, Spain, and The United Kingdom also led to stronger security cooperation between The EU and ASEAN. Solely economic interests no longer drive ASEM, where human rights, good governance, and regional stability, appear on the agenda (Yeo, 2009).

ASEAN has welcomed EU assistance with non-traditional security threats such as terrorism, development assistance, humanitarian assistance, and peacekeeping

(Yeo, 2009). The first direct involvement in non-traditional security in Asia by The EU was The Aceh Monitoring Mission (AMM). The EU, Norway, and Switzerland, together with five contributing states from ASEAN - Thailand, Malaysia, Brunei, Philippines, and Singapore - monitored the implementation of the 2005 peace agreement between Indonesia and The Free Aceh Movement. The AMM was not a military mission and the monitors did not carry weapons while on patrol or during inspections of both parties' fulfillment of the details of the peace agreement. The role of The AMM was to provide assistance with the implementation of the peace agreement and not to engage in negotiations between the parties. The mission came to an end in December 2006 when its assigned goals had been completed (AMM, 2011). The AMM was the first human security mission in Asia in which the focus was "freedom from fear," as opposed to "freedom from want." In order to gain support from the government of Indonesia and from ASEAN member states, The AMM was strictly impartial. The territorial integrity of Indonesia, and the fact that Aceh would remain part of Indonesia, was agreed upon in advance. This allowed The EU to engage as human security actor in Asia while ASEAN member states, especially Indonesia, did not have to surrender their principled stand on sovereignty and non-interference. Through the positive experience of The AMM, The EU came to be considered as a (human) security actor in Asia. In the next section I will discuss the delicate balance between human security promotion and ASEAN's principles of state sovereignty and non-intervention. I will show that the apparent contradiction between these values, as often cited by scholars, does not denigrate the future of non-traditional security promotion.

Human Security in ASEM: The Case of Myanmar

Although human security has been introduced in the relationship between The EU and ASEAN, and has been discussed under the name of non-traditional or comprehensive security, it has not replaced traditional military security as the main security paradigm in ASEAN. ASEM has been mainly an exercise in confidence building, and institutional development has had limited success in capacity building. Leaders from ASEAN member states and The EU meet more frequently than ever, and the scope of their discussions has never been so inclusive. Yet it is difficult to point to concrete examples where human suffering has been alleviated, or where crises have been averted because of increased state capacity. Furthermore, public awareness of ASEM in both ASEAN and EU member states is extremely low (Yeo, 2008). Political cooperation has mainly taken place at the EU-ASEAN level and at the bilateral level. ASEM is unable to compete with bilateral links between, for example, The EU and China. ASEM has been successful in increasing trade and investment, which was, after all, the main expectation of the Asian participants. ASEM has led to some cooperation in multilateral forums, such as the WTO, which

was important for the Europeans.

The European Commission, in its 2001 paper, "Europe and Asia: A Strategic Framework for Enhanced Partnership," placed greater emphasis on political and security dialogue with ASEAN plus three members. The focus of the Commission's paper is on human rights, democracy, good governance, rule of law, and trade and investment. The engagement strategy of The EU is constructive rather than confrontational in nature, meaning that The EU will engage in debate with Asian states about ways to enhance good governance and human rights without the immediate threat of sanctions. An excellent illustration of this constructive and pragmatic approach by The Commission is the way in which The EU dealt with Myanmar in ASEM (Gaens, 2009). When Myanmar joined ASEAN in 1997 it also became eligible to participate in ASEM meetings. The EU, however, opposed participation by Myanmar because of continued human rights violations by its military regime. Despite a travel ban on government officials and the freezing of assets of the government, The EU External Relations Council agreed in 2004 to allow lower-level Myanmar government officials to participate in ASEM (Gaens, 2009). Supported by ASEAN members and China, Myanmar participated in ASEM in the summit in Vietnam in 2004. In 2005, however, the Dutch government, citing the EU visa ban against senior Myanmar officials, denied visa to officials who wanted to attend the economy ministers' ASEM meeting in Amsterdam. The Dutch decision highlighted the fact that not all EU governments were completely on board with the constructive engagement approach. ASEAN members and China put more pressure on the government of Finland to allow Myanmar to participate in the 2006 Helsinki Summit. The Dutch government was not the only dissenting voice on the Myanmar's participation in ASEM. The European Parliament passed a resolution in 2004 strongly condemning The EU foreign ministers to allow Myanmar to participate in the 2004 Vietnam Summit. The Parliament's resolution states the conditions for full ASEM membership were the release of Aung San Suu Kyi and The National League for Democracy (NLD) leadership, allowing NLD and other political parties to operate freely, and the start genuine dialogue with pro-democracy and ethnic groups in Myanmar (European Parliament Resolution on Burma/ASEM, 2005). Since none of these conditions had been met at the time the Parliament insisted that Myanmar should not attend the Vietnam Summit. Notwithstanding the strong language in the Parliament's resolution, Myanmar has been allowed to participate in all ASEM meetings, with the single exception of the economics ministers' meeting in Amsterdam in 2005. Under the 2006 EU common position, senior officials from Myanmar are permitted to visit EU member states when engaging in a dialogue to promote democracy, human rights and the rule of law (HRW, 2007). At the 2007 Foreign Ministers Meeting in Hamburg, Germany's foreign minister Frank-Walter Steinmeier said: "This [ASEM] is a level of influence that we can and should use to an even greater degree in international politics" (HRW, 2007).

In April, 2010 Prime Minister Lt. Gen. Thein Sein and 27 cabinet ministers resigned their military commissions and formed the Union Solidarity and Development Party (USDP). Thirty-seven parties contested the November 2010 elections in which widespread irregularities were reported. The USDP won 80 percent of the seats in the bicameral parliament (HRW, 2011). Just six days after the November 2010 election, Aung San Suu Kyi was released from house arrest. The EU suspended travel and financial restrictions on four Myanmarese ministers and 18 vice-ministers in the new government on April 2011 (Johnston, 2011). The move was seen as recognition by The EU that reform in Myanmar has been significant and is ongoing. In June 2011, the new government created a National Human Rights Commission that promptly published a letter appealing for the freedom of prisoners of conscience (Mydans, 2011). In September 2011, the government of Myanmar announced that it is suspending a \$3.6bn hydroelectric dam project led by a state-owned Chinese company. It is significant that the government was willing to cancel a deal with its longtime ally China (Pilling, 2011). Additionally, the government has proposed a law that would permit the formation of trade unions, and in an interview with Radio Free Asia Tint Swe, director of the Press Scrutiny and Registration Department, announced that press censorship should be abolished in the near future (Banyan, 2011).

During The ASEM Foreign Ministers' Meeting (FMM) in Gödöllő, Hungary, in 2011, the ministers discussed recent developments in Myanmar, including the 2010 elections. The NLD did not participate in the election because the government-run Union Electoral Commission (UEC) released a new electoral law barring any person serving a prison sentence from party membership. This effectively excluded Aung San Suu Kyi, still under house arrest, and most of the leadership of the NLD party from running in the election. The foreign ministers stressed the need for Myanmar to engage and cooperate with The UN and to enter into dialogue with all parties in an "inclusive national reconciliation process." The foreign ministers' further state their "readiness to remain constructively engaged in achieving the aims of national reconciliation and of improving the economic and social conditions of the people of Myanmar" (FMM10 Chair's Statement, 2011). The ministers reiterated their commitment to the sovereign and territorial integrity of Myanmar and their view that the future of Myanmar lies in the hands of its people. The language in the FMM Chair's statement was exactly the same as the Chair's statement of the 2010 ASEM Summit in Brussels. The language, and even the term constructive engagement, is a compromise that tries to weave into the human security narrative of The EU and ASEAN's continued commitment to the principles of sovereignty and non-interference.

Reform has continued in Myanmar, albeit at a slow pace. In 2013 the European Union lifted its restrictive measures imposed on Myanmar with the exception of

its arms embargo. The EU is also providing assistance for the reform of the police force, the establishment of the Myanmar Peace Center, and The Myanmar Crisis Response Center (European External Action Service 2013). In 2014, Myanmar hosted The 25th ASEAN Summit and The ASEAN Foreign Ministers Meeting as rotating chair. At The 2014 ASEM Summit, the successful outcome of these milestones for Myanmar were officially commended in the chair's statement. The EU's constructive and pragmatic engagement with Myanmar, which stands in sharp contrast to the conditionality approach it employs in the European Neighbourhood Policy, has resulted in tangible reform in Myanmar. These developments cannot be directly credited to ASEM, as almost all assistance from The EU to Myanmar comes through its bilateral relations, however, without the frequency and depth of relations that have developed with ASEAN member states through ASEM, The EU might not have been successful in engaging Myanmar at all.

Concluding Remarks

ASEM is not the place where specific human rights abuses in participating member states are debated. ASEM is also not the place where strong and binding resolutions on the prevention of human rights abuses are drafted. ASEM is, however, a place for continued dialogue, even with notorious human rights violators. Continued dialogue, or constructive engagement, had led to an explosion in summitry. ASEM leaders at various levels are meeting frequently enough to be able to understand each other's positions and limitations. The FMM Chair's statement announced the hosting of new meetings organized by a wide variety of members on a variety of specialized topics. More than 20 different meetings are scheduled in 2015, including the hosting of the foreign minister's meeting in Luxembourg, the transportation ministers meeting and the education ministers meeting in Latvia, as well as senior officials meetings and ASEM seminars ranging from renewable energy to food security and water management (ASEM Infoboard, 2014). The progress made at the ASEM meeting has not led to immediate and substantial human security improvements in Asia. The EU was traditionally seen in Asia as a major player in the areas of development and aid, but insignificant in terms of security relations. Constructive engagement has somewhat changed this perception as security is no longer viewed as only state security or military security. The rationale for the EU's human security promotion is that it promotes a norm that The EU has internalized. The norm of human security provides The EU with more significance as an international actor. The more countries or regional organizations that adopt the norm, the more significant The EU as international security actor becomes. The European Security Strategy can be seen as a European alternative vision to the unilateral foreign policies coming out of The United States. In terms of military capabilities, The EU is certainly not a major international actor, but human security has become a "symbolic signpost" of

EU foreign policy in which The Union can promote its values and still be seen as a capable actor in international crises situations (Kaldor, Martin, and Selchow, 2008).

The conditions under which The EU is most successful in spreading the notion of human security are not easily assessable. Political cooperation with ASEAN states increased after a series of crises led government officials to understand that transnational problems deserve a transnational solution. Political cooperation has not ironed out the differences in interpretation of non-traditional security. Many Asian states continue to stress sovereignty and non-interference principles over universal human rights concerns. Constructive engagement on different stages has contributed to the success of getting EU partners to meet and discuss non-traditional security threats. ASEM has provided The EU with the recognition in Southeast Asia as an honest broker and a partner in development and capacity building in terms of non-traditional security. As the case of Myanmar shows, ASEM remains a forum for communication and the sharing of ideas and best practices. The actual assistance to Myanmar comes in the form bilateral agreements and the work of The EU-Myanmar Task Force. ASEM provides the European Union with an independent voice in its international relations with Southeast Asia. Even if ASEM will not change Southeast Asia nations' realist perspective on international relations, it is changing the way they perceive European Union foreign policy.

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ASEAN AND THE EUROPEAN UNION: FROM STRONG REGIONAL INTEGRATION TO CLOSER EXTERNAL LINKS

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Abstract

The objective of this paper is two-fold: it provides a critical evaluation of integration processes in ASEAN and in The European Union, and it looks at the potential of future cooperation between these two bodies.

The paper offers an analysis of the recent integration efforts in ASEAN and in The European Union. It concludes by suggesting that as a consequence to their respective crises, both regions have recently undergone substantive integration. The economic governance within ASEAN and at ASEAN+3 as well as the legal developments and plan to establish the single market by 2015 will have significant effects. The EU has traversed an integration path by strengthening its economic policy coordination and increasing its economic reform efforts. The Banking Union has also encouraged the integration history of The EU. Despite the difference in integration methods, both regions continue to evolve into more economically homogenous entities and to promote harmonisation of regulatory and economic governance practices.

Internal development creates new opportunities for both regions to cooperate. Their priorities would include political issues such as peace, anti-terrorism and security issues, a new prosperity agenda (trade, investments, connectivity issues) as well as socio-cultural dialogue. The EU/ASEAN cooperation will likely increase the attractiveness of its regional integration for other parts of the world.

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Keywords

ASEAN, European Union, integration, banking union, bilateral cooperation, multilateralism, economic governance

Introduction

ASEAN and The European Union constitute two active regions. They both exhibit a track record of economic policy coordination and security-related collective action.

This article considers the development in those regions and attempts to offer perspectives on future possibilities. The past decade has triggered, in both regions, new types of policy coordination. The financial crisis in South East Asia in the late 90's resulted in more ambitious institutional cooperation among ASEAN Members. Additionally, ASEAN managed to engage partners beyond South East Asia to coordinate their policies in issues such as financial stability, macroeconomic surveillance, security and conflict resolution, and development policy.

The debt crisis of 2008 has also effected change in The EU. The Union evolved towards a genuine economic and monetary body where sovereignty amongst its members, especially within the Euro zone, is mutually shared at a qualitatively new level, compared to the pre-crisis situation. Policy instruments such as The European Stability Mechanism and the creation of The Banking Union has increased the economic-crisis resistance of The European Union more, developments which this paper .

The paper analyses these developments., while presenting that strong regional integration, that occurred in both regions recently, creates a unique momentum between the two partners: both regions are institutionally and politically more deeply integrated than ever before, while concurrently the world faces new global challenges, thus contributing to a compatability between the two regions.

Theoretical framework

A large body of literature on regionalism in Asia and in Europe exists. Acharya (2009) studies normative foundations for regional cooperation and points out the evolutionary processes involved in the creation of regional norms. Several authors deal with the issues of scope and architecture of regionalism in Asia (Ayson and Taylor, (2009), Tow and Taylor, 2010), who suggest that these issues are not clearly defined. Murray (2010) notes that “Asian policy makers and many scholars tend not to examine formal institutions, while EU specialists regard them as an essential and necessary foundation of the integration processes”.

In the case of EU regionalism, scholars (Gabor, 2014; Bilbao-Ubillos, 2014; Alcidi and Gross, 2014; Hout 2012; Fabbrini, 2013) note the strong normative foundation and clearly defined institutional architecture underpinning the EU integration process, an inter-governmental process, meaning creation of rules, and obligations outside EU treaties, which have been used in the aftermath of the EU sovereign debt crisis.

The ASEAN integration, referred to as an “Asian way” (Acharya 2009) is based on the respect of the sovereignty principle of non-interference and a culture of consensus. Academics assess the regionalisation of ASEAN in two ways. For Dent (2008) ASEAN would evolve into a more rule-based region, while Tay (2009) and others expect to keep the current light institutional framework. For other authors (Morada 2008; and Jetschke 2009) ASEAN will play an even stronger role in regional security and peace.

Academic discussions about the European future institutional architecture are mainly due to the 2008-09 financial crisis and the complicated economic governance that was introduced afterwards. There are however other reasons for such a discussion, those such as the increase of power of the Europe sceptic representatives in the 2014 European Parliament elections, and the possible upcoming UK Referendum about the UK remaining in the EU. Piris (2011) considers a variable geometry as a possible way forward for the EU in this respect.

The analysis below assesses in detail the developments in both regions, and specifically looks at the economic governance.

Internal dynamics in ASEAN

ASEAN’s track record of policy coordination goes back to 1967. This was based on a voluntary cooperation between its members. This regional grouping began with the initial 5 founding Members (Indonesia, Malaysia, The Philippines, Singapore and Thailand). Consequently, its membership has doubled (Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia). The working method of ASEAN is a political dialogue, and consultation with consensus being the voting rule, if applicable. The region managed well in controlling its security, and registered a spectacular economic growth for many of its members (Yeo 2009 and Yeo 2011).

An important event in ASEAN’s history was the financial crisis of 1997-98, triggered by a quasi-monetary union where several ASEAN members opted for pegging their currency to the US Dollar. This policy measure was combined with a policy of free movement of capital. The financial speculations of “hot money”

against financial institutions and sovereign countries like Thailand and Indonesia destabilised several other countries in the region including The Philippines, and Malaysia, as well as countries outside of ASEAN (South Korea and Hong Kong).

The ASEAN financial crisis differed from its European counterpart in economic growth and sound management of member fiscal policies. The reaction of international organisations such as The International Monetary Fund provoked a negative perception in the region, due to inflexibility and “know-how” of the organizations. In these junctures, ASEAN opted to rely more on its own structural strengths, and developed a strategy of ambitious cooperation, creating the ASEAN community and adopting the ASEAN Charter (Hammilton-Hart, 2011).

The ASEAN Charter represents a grounding document equivalent to the Treaties in the European context. The charter entered into force in 2008, presenting ASEAN with a new legal status and institutional architecture. It, while becoming a legally binding instrument for ASEAN Members. The ASEAN community was created in 2007 through the Cebu Declaration and with a deadline of 2015 for achieving its objectives. The ASEAN Community is based on three pillars: political-security, economic, and socio-cultural. The Charter formulated a goal of creating a stable, prosperous and competitive environment, and of establishing a single market within ASEAN by 2015. This would include free movement of goods, harmonised customs, and technical standards. The Charter also stipulates trade liberalisation and close cooperation in the field of energy policy. Institutionally, ASEAN has assumed strong institutional bodies such as the ASEAN summit which provides policy directives and guidelines. Additionally, through the ASEAN Coordinating Council formed by the Foreign Ministers of ASEAN countries as well as The ASEAN Secretariat, ASEAN has become institutionally more robust.

On economic governance, ASEAN adopted frameworks to strengthen its financial stability. It managed to involve key economies from beyond ASEAN to become an integral part. At the first stage, a series of bilateral currency swaps were put in place as of 2002. As of 2010, this ad hoc mechanism evolved into the Chang Mai Initiative of Multilateralism (CMIM). This process-enhanced currency swap mechanism contains 26 central banks and Finance Ministries from ASEAN, and the “+3” countries. Its balance-of-payment recovery ability rises to 120 billion USD every 90 days to 2 years. This mechanism de facto represents a South East Asia IMF type instrument independent from the IMF.

The ASEAN Bond Market Initiative is another framework of the economic governance of ASEAN, aiming at an enhanced bond market of the ASEAN and ASEAN”+3” currencies. It has been operational since 2003 with a renewed

mandate from 2008, and is based on voluntary cooperation. It was complemented with the ASEAN+3 Bond Market Forum with an objective to streamline regulatory requirements on the bond market.

Lending operations have been enhanced via creation of credit guarantee and investment facility. Created in 2010, its aim is to reinforce the use of bonds denominated in the currencies of the signatory states, also supporting the market for the private company bonds in the ASEAN+3 countries. Institutionally, it is linked to the Asian Development Bank which has a trust fund with a starting capital of 0.7 billion USD.

The above described instruments of financial solidarity in the ASEAN+3 regions have been complemented by the macro-economic surveillance framework. Two bodies have been established to this end. The ASEAN+3 Macroeconomic Research Office (AMRO) and the ASEAN+3 Macroeconomic Research Group (AMRG). The AMRO monitors macroeconomic imbalances, trends and risks, and delivers non-binding recommendations to its ASEAN+3 Members with an objective to maintain financial stability within the region. The Secretariat of AMRO is based in Singapore. The AMRG is a research type group established by the finance ministers, so to follow trade settlements and financial risks in the macro-region.

The economic governance of ASEAN demonstrated the ability of ASEAN to incorporate into its work larger economies in the region such as China, Japan and South Korea. The ASEAN soft method proved to be attractive for other players. In comparison to the European Union and Euro Group, the ASEAN method was extroverted while the EU one was rather introverted. The EU opted for deepening its structures for its single currency. Several of these measures are implemented by not all EU Members, but only those sharing Euro as currency.

Beyond its economic governance, ASEAN also managed to create a broader regional coordination format having ASEAN at its centre. This is a particularly successful strategy accounting for how diversified the region is politically, economically and culturally. ASEAN convenes annual meetings of The East Asia Summit. This includes the Heads of State of The USA, China, Russia, and Australia, and focusses on security and economic stability in the region.

The ASEAN Regional Forum (ARF) is another concentric regional grouping which includes the European Union. The ARF focusses on foreign policy and security issues of the South China Sea, progress in which area, the China-ASEAN Code of Conduct of the South China Sea demonstrates.

Finally, ASEAN Members meet with European partners and other delegations within the framework of The Asia-Europe Meeting (ASEM). This forum became one of the strategic platforms for discussing macro-regional concerns as well as issues related to globalisation and multilateralism (ASEM, 2013). Its 51 partners include 10 ASEAN Members + 10 non-ASEAN countries of Asia (including Russia, China, India, Japan) as well as The ASEAN Secretariat. On the European side, it includes The EU, its 28 Members, as well as Switzerland and Norway. Other countries such as Kazakhstan and Turkey are now considering whether to request ASEAN Membership.

ASEAN evolved into a successful regional grouping which managed by a soft method to contribute to prosperity and peace in the region. Recently, the ASEAN method has been exported to the broader region, thus promoting ASEAN values beyond the ASEAN region. Internally, after the ASEAN financial crisis, it deepened its economic, political and social cooperation, as well as its institutional structures. These developments, combined, create a reliable and strong partner for another regional grouping, The European Union.

Post-crisis integration in The EU and Eurozone

The Euro crisis has prompted the economic integration of The EU and the Euro zone. The solutions provided by the Union and its Member States have shown a principle of the European Union: it is much more difficult to disintegrate than to integrate. Integration has occurred in two major fields: in economic and monetary union (EMU) and in banking union (Clerc, and Grard, 2012; Craig, 2012; de Gregorio Merino, 2012).

On the EMU side, an important degree of integration occurred in order to manage the Treaty divergences between a single currency and the continuation of nation-state-based economic policies. Two measures have been addressed: the establishment of mechanisms of assistance, and reinforcing the economic governance.

The different mechanisms of financial assistance respond to a “law of evolution”, and to an incremental approach rather to a preconceived plan. Each new instrument has been designed in an ever more sophisticated way than the previous one. The first one was agreed to in 2010 granting Greece a pool of bilateral loans of up to 80 billion euro. The second instrument of assistance, The European Financial Stability Facility (EFSF) was established as a private company whose shareholders are in the Euro area Member States. Its lending capacity is 440 billion euros and had a limited timeframe. The third assistance instrument, The European Stability Mechanism (ESM), a type of European Monetary Fund, was adopted in 2012. It is a

Treaty based intergovernmental and permanent mechanism with a lending capacity is of 700 billion euro.

The second pillar of the new economic and monetary union – the reinforcement of economic governance – has emerged through instruments based on the Treaties, and through intergovernmental instruments.

With respect to economic governance, The EU has adopted several EU law instruments, such as the “six pack” and “two pack” instruments. This strengthens the EU surveillance of draft national budgets before they are adopted. It introduces new pecuniary sanctions for wrongdoer Euro member states, and more so, on a quasi-automatic basis, without political bargaining. New procedures on excessive imbalances (such as real estate or credit bubbles) also emerged.

Governance has been reinforced through instruments agreed outside the framework of The EU Treaties, namely The TSCG. It introduces the balanced budget rule (or the golden rule), governs excessive public deficit and debt, and commits member states to introduce in their national legal orders debt breaks in rules of a constitutional or quasi-constitutional value. Furthermore, it introduces a culture of budgetary rigour into the national constitutional order.

The banking union was another major reform project introduced by The EU after its crisis in 2012-2014. It aims to break the vicious circle between the sovereigns and the troubled banks. It consists of the Single Supervisory Mechanism and the Single Resolution Mechanism. As a result, all of the Euro area (and beyond if agreed by the given Member State) is supervised by The EU and can be subject to a direct recapitalization by The ESM (modalities yet to be agreed). The resolution mechanisms make banks liable in the face of the crisis event (The Bail-in Principle). It also creates a fund for finance by the banking sector itself.

In summary, the EU has evolved significantly after its sovereign debt crisis. It is more integrated, especially through the banking union. Externally, it has become a more reliable partner with economic stability, both to itself and globally. With this development, The EU can now concentrate internally on its growth agenda, and externally to fulfil its active role in international relations.

Comparison of two processes

Building on the individual ASEAN and EU cases, the comparison between the two processes can be done in terms of (a) principles and values (b) institutions and working methods and (c) economic governance. On principles and values, Table 1 provides a summary.

Table 1: ASEAN and EU principles and values compared

Parameter	Level of Similarity	Comments
Peace, Security, Stability	High	Mentioned in both primary laws
Security cooperation	Medium	ASEAN free of nuclear arms/ weapons of mass destruction commitment. EU has light security policy
Single market	High	ASEAN has lower ambition and lighter method than EU EU single market law-based but still unfinished
Economic and social cohesion	High	Objective similar, ASEAN lacking common fund unlike EU.
Values	High	Democracy, good governance, rule of law, human rights common for both

Table 1 suggests that in both cases, the principles upon which the regional cooperation is established is very similar and mutually compatible. This creates a good basis for the strategic partnership of the two regions in international relations.

On institutions and working methods, the situation differ, both in their institutional set-ups and working methods (Table 2).

Table 2: ASEAN and EU institutional set-ups and working methods

Parameter	Level of similarity	Comments
Existence of founding treaty	Full	Both regions are enjoying their founding treaties
Legal personality	Full	Exists in both cases, both regions are subject to international law
Enlargement	Full	Foreseen in legal set-up and practiced in reality
Bodies	Medium to low	Similarity on Summit, Council and Coreper level. Difference at Secretariat capacity, Parliamentary bodies, role of the Court, Central Bank and others.
Voting	Very low	Consultation and consensus for ASEAN. Qualified majority voting and codecision between the Council and the European Parliament used in majority of policies.
Non-respect of rules	Low	In ASEAN it is a political process whilst in the EU there are infringements and law rulings
Budget	Low	ASEAN-9 million USD (Secretariat) and 300 million USD trust fund (2014). EU-around 1% of the GNI.
Harmonisation by law	None	Not used in ASEAN, key instruments in the EU

Unlike the comparison of principles and values, the comparative picture of the institutions and working methods used by both regions is quite different. The main differences are in institutions where ASEAN is disposing of a light Secretariat only whilst The EU has a complex system of institutions. Additionally, there are other consultative and advisory bodies. The EU discards a strong administrative apparatus, enabling it to draw analyses, draft laws, monitor the implementation of laws, and take restrictive measures if necessary.

An institutional set-up provides a balance between the national interests of The EU Member States EU-wide interests.

Decision processes in both regions vary. An ASEAN Member State cannot in principle be outvoted, and, the summit can adopt an ad hoc decision. The EU Member States share sovereignty, according to policy. They cannot be outvoted in policies, while in the majority of EU policies, the Council decides by qualified majority.. Once adopted, the EU members/bodies are required to implement EU law. In cases of lowered-respect, The European Commission is required to instigate an infringement procedure, and the European Court of Justice to issue a binding

ruling. In the case of ASEAN, dispute settlement mechanisms are brought into effect.

The size of the budgets between regions also differ, and which in the case of ASEAN, covers only basic secretariat functions, while in The EU, becomes an instrument for several major policies (Regional, Agricultural, Research and Innovation, Energy, Justice and Home affairs, External).

The comparison above demonstrates that the ASEAN way is driven more by political commitments built up and implemented through the process of national scrutiny.

On economic governance, the situation in both regions has evolved considerably, due to crises experienced in each of the regions. Economic governance involves macro-economic cooperation, financial-services regulation, budgetary surveillance, monetary cooperation, taxation, and rescue facilities. Table 3 provides an overview of the situation.

Table 3: Economic Governance in the ASEAN and the EU

Parameter	Level of similarity	Comments
Macro-economic cooperation including budgetary surveillance	Low	Monitoring/recommendation only in ASEAN (AMRO). Legally binding/sanction based in The EU (TFEU, TSCG), secondary legislation (Two-pack, Six-pack).
Financial Services Regulation	Low to medium	Financial Service Liberalisation, Capital Account Liberalisation, Capital Market Development in ASEAN with objective of rule harmonisation and allowing ASEAN-wide banking operations. In The EU, harmonisation of rules on financial services and creation of ambitious banking union with EU-wide banking supervision and resolution.
Monetary cooperation	None	Non-existent in ASEAN. Shared monetary policy for Euro EU Members.
Taxation	None	Non-existent in ASEAN. Tax harmonisation in EU governed by unanimity voting in Council and strengthened by political commitment for Eurozone EU Members (Euro Plus Pact).

Parameter	Level of similarity	Comments
Rescue facilities	Medium	In ASEAN, ad hoc mechanism of CMIM. In EU, balance of payment mechanism, EFSF and ESM mechanisms based on inter-governmental set-up of Eurozone Members.
Variable geography	None	ASEAN implemented beyond border ASEAN+3. Certain elements of EU economic governance implemented to not all EU Members (EU 28 minus formula).

Starting with distinct objectives and using methods which were not comparable, both regions adopted measures in a similar direction after the crisis. Both regions agreed on an “assistance-surveillance approach, meaning that they have created their own regional assistance facilities (in The EU, it was the balance of payment, EFSF, and ESM, while in ASEAN it was The CMIM) which were accompanied by stronger surveillance of the Members’ macro-economic and budgetary policies. The difference between ASEAN and EU approaches lies in the use or not of a normative instrument in economic governance.

Second parallel development represents the integration of the financial services and banking union. Here as well, the starting point has been rather different. ASEAN had originally no regulatory convergence in this sector, and was exposed to the large heterogeneity of their banks operating in both developed and developing economies of its Members. With the adoption of the Economic Blueprint, ASEAN agreed to create a single market, which included financial services and banking sectors. It used a pragmatic opt out approach for banks associated with less developed regions. A motivation of ASEAN was the creation of a more resilient financial sector, and to generate economic growth. In The EU, the internal market had been already achieved in financial services before the 2008 sovereign debt crisis in The Eurozone. The EU’s banking union project has been motivated by financial stability concerns. The Eurozone members agreed on the possibility of using the assistant facilities for troubled banks so to cut off the vicious circle between sovereign agents and banks. A precondition for this was a single supervisory mechanism and single resolution mechanism. The speedy adoption of the banking union by 2014 is seen as a qualitative step in the European integration process where a transfer of sovereignty is substantial. This development was only possible due to the existential threat to The Eurozone; an issue for intensive political and public controversies.

The third comparison looks at the geographical scope of economic governance in both regions. ASEAN’s economic instruments have enjoyed broader support

beyond ASEAN limits. ASEAN managed to engage “plus 3” countries to be part of its assistance mechanisms. The ASEAN working method of consensus and preserving national sovereignty proved its attractiveness in this respect, especially if accounting for that “plus 3” countries are economically much more relevant than ASEAN itself. The assistance architecture of ASEAN is also due to the political motivation of the Asian countries to be able to shape their own policies and to be less dependent on the global economic governance coming from IMF. On the EU side, several economic governance instruments, contrary to the ASEAN situation, have been used in a “minus formula,” that is, not binding for all EU members. The examples of such a more narrow approach include the EFSF, ESM, the Euro Plus Pact, the TSCG, and The Banking Union.

The conclusions that can be drawn from the ASEAN and EU comparison would suggest that both regions are built on a compatible set of principles and values, are using different working methods and institutions, and have converging approaches to solve their regional economic crises although using different means.

Mutual external relations: from inward perspective to external relations

ASEAN and The EU have a long history of partnership. Despite the geographical distance between the two regions, both groupings share same values (peace, stability, and prosperity) and are based on regional integration models. Economic cooperation, especially trade, have been the core. The EU is the third most important trading partner for ASEAN, with a total trade of goods and services of 215 billion Euro in 2011. ASEAN is the fifth largest market for EU trade (EU-ASEAN, 2013). EU companies are also the biggest foreign direct investors in ASEAN countries (EU-ASEAN, 2013).

The track record of the institutional cooperation between The EU and ASEAN goes back to 1972, first at an informal level. The ASEAN Ministerial Meeting of Foreign Ministers arrived at an agreement in 1977 with a formal cooperation with The EU. The first ASEAN Ministerial Meeting took place in Brussels in 1978. This was followed two years later by The European Community - ASEAN Cooperation Agreement, which created the joint Cooperation Committee. In the 90's, a strategic reflection occurred between the two blocks, on how to best cooperate in the post-Cold War situation. The Eminent Persons Group created in 1994 was the forum for this reflection.

As the ASEAN model spread to South East Asia beyond the ASEAN border, the first EU and ASEAN+3 Summit took place in 1996 in Bangkok, and gave birth to the Asia-Europe Meeting (ASEM).

On the EU side, the strategic character of the link between the two regions was captured in a European Commission document, “A New Partnership with South East Asia”. It was followed by the Nuremberg Declaration on an Enhanced EU-ASEAN Partnership in 2007, accompanied by a *Plan of Action* for its implementation. Five years later, the Bandar Seri Begawan Plan of Action to Strengthen the ASEAN-EU Enhanced Partnership (2013-2017) was signed (ASEAN-EU, 2012 - EU-ASEAN, 2012 - ASEAN-EU, 2012 - ASEAN-EU, 2012): Table 4 provides an overview of its structure and focus. On the diplomatic side, The EU and its Member states sent their ambassadors to ASEAN. On February 27, 2014, the first meeting of The ASEAN Committee of Permanent Representatives met with their EU counterparts, COREPER (Committee of the Permanent Representatives).

Table 4: Overview of the ASEAN-EU Enhanced Partnership (2013-17)

Policy Type	Number of measures
Enhancing political dialogue	1
Promoting regional cooperation for peace, security, and stability	19
Cooperation on human rights	1
Cooperation in Regional and International Fora	1
General Economic Cooperation	14
Trade and Investment	8
Small and Medium Enterprises	1
Transport	2
Food, agriculture and forestry	1
Energy security	5
Tourism	1
Enhancing cooperation in education, health, & promoting people-to-people contacts	10
Promoting gender equality, well-being of women, children, the elderly and persons with disabilities & migrant workers	2
Building together disaster-resilient communities	6
Promoting cooperation in Science and Technology	4
Enhancing food security and safety	1
Working together to face regional and global environmental challenges	6
Institutional support to ASEAN	3
Follow-up Mechanism	3

The rich history of the EU-ASEAN cooperation mirrors the fact that, broadly speaking, both groupings were successful in their missions. There was no military conflict in either of the regions, and economic prosperity was apparent. The individual success of both integrations and their mutual contacts have inspired other regions around the globe to follow similar paths, such as the African Union,

Mercosur and the Commonwealth of Independent States/Eurasian Economic Union (EAEU).

Looking forward, EU and ASEAN relations will probably have two types of issues on their agenda (EU-ASEAN, 2013 - Le Luong Minh, 2013). The first would be their mutual interest to block relations, and the second would be their joint efforts in shaping a multilateral agenda globally.

Firstly, with reference to block to block relations, the medium-term plan has been established in the Bandar Seri Begawan Plan of Action to Strengthen the ASEAN-EU Enhanced Partnership (2013-2017). This includes cooperation on maintaining peace, security, and stability. Both The EU and ASEAN are soft powers who employ the method of preventative diplomacy rule of law, institutional cooperation, and attractiveness of their models as an instrument to deliver their objectives. The EU has envisaged its current financial perspective (2014-20) for the ASEAN integration and ASEAN Secretariat as 170 million Euro. This is more than double of an effort under the previous Development Cooperation Instrument which benchmarked 70 million Euro for the period 2007-2013. The new support will focus on strengthening connectivity, building disaster management measures, climate change programs, and facilitating cross-border dialogue.

To deliver on these objectives, The ASEAN Regional Forum would be key. The Preventive Diplomacy Work Plan is an instrument with which to deliver concrete activities and actions. ASEAN has a potential to be promoter of conflict prevention, reconciliation, and peace building, and The EU will support this. Similarly, the EU will join ASEAN efforts in combatting sea piracy and promoting maritime safety. Institutional cooperation between The EU and ASEAN will continue to combat trans-national crime. ASEAN and The EU will jointly fight against terrorism (ASEAN-EU Joint Declaration on Cooperation to Combat Terrorism) and to enforce international goals. Border management, anti-corruption fighting and disarmament, and non-proliferation of weapons of mass destruction, will also be high on the joint agenda.

On the economic side, each block is now institutionally much more deeply integrated. This integration path followed the recent crisis in each of the regions. As a result, the long-term cooperation could be based on more stable foundations. The European financial sector should be more resilient to future crises via the implementation of the Banking Union. The growth oriented agenda of Europe 2020 on the EU side creates more opportunities for ASEAN partners. The Euro zone can be seen as more stable due to the stronger rules and controls over the public budgets of its members, and due to the creation of various new safeguard mechanisms. Similarly,

on the ASEAN side, the creation of the single market, presents an opportunity for European business. Involvement of the ASEAN economic governance in the ASEAN+3 region represents yet another opportunity for European companies.

Trade will remain a priority on the agenda between the two regions. The recent Free Trade Agreement between The EU and Singapore and ongoing negotiations with Malaysia, Thailand and Vietnam can be seen as first steps towards trade liberalisation. From a more strategic perspective, and considering the integration dynamics within ASEAN, a natural development should lead both regions towards concluding a block-to-block free trade agreement in the future.

Economic and territorial cohesion is another joint issue, the creation of the internal market in The EU has been followed by a massive effort to create physical infrastructure for connectivity, especially in the cross-border territories. The European Development and Investments Funds serves as an instrument. Here, the EU can assist ASEAN to achieve its Master Plan on ASEAN Connectivity adopted at the ASEAN Summit in 2010.

Secondly, with reference to multilateral relations globally, The EU and ASEAN are synergy partners, such as in that both regions are promoters of a multilateral approach in international relations. In the recent past, , both regions have had a place at the G20 table. In the period 2008-2013, ASEAN was invited as an observer six times (see Table 5) while The EU was present at each summit. The fact that the regional groupings are represented at the G20 format, makes regional integration more attractive and relevant globally.

Table 5: Stakeholders of the G20 summits

	Washington	London	Pittsburgh	Toronto	Seoul	Cannes	Los Cabos	Saint Petersburg	Total
Benin							AU		1
Cambodia							ASEAN		1
Chile							CELAC		1
Colombia							*		1
Equatorial Guinea						AU			1
Ethiopia		NEPAD	NEPAD	NEPAD	NEPAD	NEPAD		AU	6
Malawi				AU	AU				2
Netherlands	*	*	*	*					4
Singapore					3G	3G		3G	3

	Washington	London	Pittsburgh	Toronto	Seoul	Cannes	Los Cabos	Saint Petersburg	Total
Spain	*	*	*	EU	*	*	*	*	8
Thailand		ASEAN	ASEAN						2
UAE						GCC			1
Vietnam				ASEAN	ASEAN				2
Senegal								NEPAD	1
Kazakhstan								EES, CIS	1
Brunei-Darussalam								ASEAN	1

AU: African Union. CELAC: Latin America and the Caribbean Community. 3G: Global Governance Group. GCC: Cooperation Council for the Arab States of the Gulf. NEPAD: New Partnership for Africa's Development. ASEAN: Association of the Southeast Asian Nations, EES: Euro-Asian Economic Community, CIS: Commonwealth of Independent States.

ASEAN and The EU therefore have interest to coordinate mutually in the areas which are dealt with at The G20. This covers growth related policy coordination, creating a sound framework for the financial sector, and trade liberalisation. In addition to these core issues, ASEAN and The EU can mutually support themselves in development efforts, food security, employment, energy, combatting tax evasion, and anti-corruption. In all these areas, the ultimate goals of both regions are mutually compatible. Similarly, The EU and ASEAN can join their efforts in other international for a, such as the United Nations, global climate dialogue, The World Trade Organisation, and others, so to tackle jointly the issues of sustainability, prosperity, and peace. The upcoming ASEM Summit in October 2014 in Milan with 51 partners would present an opportunity in this sense.

Conclusions

The article looked at the recent developments in The European Union, and in ASEAN, as well as at the cooperation between two regions.

The paper argued that both regions share values and use similar methods so to achieve these methods within their respective territories. Both regions have also recently been suffering from financial and economic crises. Eventually, both regions have taken lessons from the crises, resulting in much deeper internal cooperation and strengthening integration efforts.

ASEAN reacted to its financial crisis mainly by strengthening its economic governance. It created mechanisms of financial stability and solidarity, accompanied

by closer surveillance of macro-economic policies, even though the economic governance in ASEAN remains light, the trend towards more coordination is visible. ASEAN also decided to create a three pillar community's architecture covering political, economical and social cultural policies. It decided to create a single market by 2015, based on the legally binding commitment of the ASEAN Charter. ASEAN also achieved certain "ASEAN centrality" in South East Asian regions by creating an ASEAN+3 format for political dialogue and economic governance.

The EU suffered from a sovereign debt crisis which tested the viability of its single currency. The EU decided to strengthen the internal mechanisms and to move towards a genuine economic and monetary union. It has strengthened the collective control mechanism over its members in terms of supervising their fiscal policy and growth related reforms. This tougher coordination was complemented with the mechanism of solidarity, so to mutually assist the stressed members of the Euro zone. Additionally, the European Union agreed on a Banking Union. This is a major development, comparable with the creation of the Internal Market. The European Union has recently become more integrated than before the crisis. This, combined with a forced entry into the Lisbon Treaty, which strengthens the external dimension and representation of the European Union, creates new momentum for The EU to enter into relations with ASEAN.

EU/ASEAN relations, which have had a history of more than 40 years, became formalised through institutional contacts and enhanced partnership. The current Bandar Seri Begawani Plan for 2013-17 draws a concrete list of cooperation in political, economic, and socio-cultural areas.

Looking at the future, the paper concluded that EU/ASEAN relations may have two dimensions; The first one being in block-to-block cooperation. This will cover trade, security, non-traditional security, human rights, and physical connectivity. The second type of coordination may lead to joint efforts through a multilateral framework. Both regions can jointly cooperate at the international for a, such as at G20, The WTO, ASEM, or climate oriented fora. In doing so, they can achieve two results: progress in the policy area concerned and regional cooperation, presenting an attractive model for other global regions.

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LACK OF IMPLICATION AMONG NGO REGULATIONS IN PAKISTAN: A COMPLICATED LEGISLATION SYSTEM AND ITS IMPACT ON ASIA AND EUROPE

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Abstract

Pakistan is a fragile state with regard to lack of institutionalization, which can be seen ubiquitously. Pakistani national and provincial parliaments are engaged in formulating legislations. However, the violation and breaching of law is a common trend. NGOs mostly work for welfare, development, and advocacy. Evidence about regulation systems for citizen welfare show that several laws and legislations have been passed in parliament in relation to this welfare. However, implication is seriously lacking. Moreover, corruption and poor management in regulatory departments is a major challenge. Studies show that corruption exists both in NGOs and government departments. Currently, the work and importance of NGOs is increasing in Asia. Various regional, international and European organizations are supporting Pakistani NGOs. If effective measures are not taken by the Pakistani Government regarding effective NGO legislation and implementation, these supporting organizations may impose restrictions on their relief services to Pakistan. In his study, for the methodology, a literature review and In-Depth Interviews (IDIs) were employed.. NGO professionals, legal experts and regulatory body officials (Key Informants) were selected. The study found that NGO regulations are quite complicated in Pakistan. NGOs at times suffer from confused and complicated departmental conditions. Proper guiding protocols are not found in important departments. NGOs can be registered with six regulatory bodies in Pakistan. Furthermore, the government has also established a PCP to facilitate and monitor NGO activities. This paper analyzes the regulatory system, and discusses the pros and cons of the control mechanisms.

Keywords

Legislation, NGOs, Pakistan, Act, Regulation and PCP

Introduction

Organizational life is based on construction of personnel and groups; it is a seamless web of relationships among human actors, technological artifacts, and material (Grint, 2005). Non-Governmental Organizations (NGOs) are groups of citizens who are engaged in collective actions on a self-help basis or working on advocacy to any particular issue inside and outside the aegis of state (David and Wayne, 2003). Hilhorst (2003) defines NGOs as civil society organizations, and as “an intermediate associational realm between state and family populated by organizations which are separate from the state, enjoy autonomy in relation to the state and are formed voluntarily by members of society to protect or extend their interests or values”. (p. 36)

A regulation system for civil society organizations is the most important aspect to facilitate, control, and monitor NGOs in any country. The traditional regulation model desires to control and dictate NGO rules (Burger, 2012). Various regulatory bodies exist in Pakistan, the country appears as solely a state of regulations. These regulations lack clarity and become confusing, creating complications. Various NGOs in Pakistan provide charitable services to communities. Most of these, however, are unregistered. Despite the existence of many laws, studies show that only 38% of NGOs are registered with different laws in the country (ADB, 1999).

This paper discusses the state of social problems of Pakistan, the role of NGOs, and regulation systems of NGOs. It is significant to well conceptualize mechanisms regarding NGO regulations prior to executing certain operations in the country. There is dire need to see the implication of these regulations and its effectiveness. Furthermore this paper contributes to knowledge for initiating and executing development projects in Pakistan. The paper also provides valuable information on NGO legislation. Finally, the paper suggests recommendations for improvements to existing mechanisms.

State of Social Problems in Pakistan

Pakistan is located in south Asia, and falls in the category of developing countries with a total population of 180,121,027 (Pakistan, 2012). Currently, rapid population growth is the major challenge, an issue not handled appropriately (Jafarey, Kamal et al. 2008). Consequently, a number of interrelated social problems have emerged

(Jafarey, Kamal et al. 2008). Pakistan is ranked as the sixth most populous country in the world (UNDP, 2012). Demographers have commented that rapid population growth is the key problem, which NGOs and governments should approach (Livingston and O'Hanlon, 2011). Lack of basic needs, low literacy, poor infrastructure, disasters, conflicts, violation of human rights, corruption, and lack of leadership everywhere render Pakistan most vulnerable. Hence, the role of NGOs becomes more significant when the government alone cannot manage such problems. Furthermore, current circumstances have indicated that the government itself is unable to manage the problems of the country; the government and NGOs should play a mandatory part to cope with issues of the country (David and Wayne, 2003).

NGOs as champions of community development

Strier (2009) outlines NGOs or civil society organizations as two types: one based on service delivery and the other as advocacy focused. Several projects are implemented by NGOs for community development, mostly with core services, while the NGOs also lead advocacy-related initiatives so to influence public decision-making in the country (Hilhorst, 2003; Grint, 2005). Few NGOs pursue both types of activities concurrently, as doing so becomes difficult (Samaun 2006; Roseland, 2000).

Most of the NGOs work in the fields of humanitarian relief, and engage in cooperation, peace building, development, human rights, and environment issues (Arno, 2010). The debate of that either NGOs are agenda setters or followers for the donor organizations continues (Keith 2002).

Role of NGOs in Pakistan

NGOs have gained attention and have developed worth in Pakistan, due to their contribution in community development programs. NGOs are also known as NPOs (Not for profit organizations) in the country. An accurate definition of NGOs is not given in government regulations. Moreover, NGOs are referred to as voluntary associations, societies, village level organizations, religious bodies, youth associations, think tanks, rights-based organizations, and professional organizations, and those working for the betterment of societies (Regulation, 2012). Voluntary and Welfare organizations work at small levels as community groups or community based organizations, so to resolve community issues at local levels (P. Van Domelen Dongier J. Ostrom, Wakeman et al. 2003). NGOs are registered under The Society Act, and established to run projects on health, poverty, education, relief, rehabilitation, food distribution, provide ambulance services, and related

community development initiatives, with the support of donor organizations, philanthropists and government (PCP, 2012). In addition, between the 1980s and 1990s, rights based organizations became more prominent (PCP, 2012).

Contributions of NGOs in community development sectors and to improving the lives of people had remained vigorous in Pakistan (ADB, 1999). Many community-based organizations, as well as formal and informal networks of NGOs, have conducted extensive relief work in the country (Regulation, 2012). More recently, the number of registered Non-governmental organizations has entered the thousands; contributing and fulfilling community development needs particularly in rural areas (Tariq and van de Giesen, 2011). NGOs have played vital roles during disasters; the earthquake in 2002, and the super floods in Sindh, Baluchistan and Punjab in 2010. Furthermore, close coordination mechanisms among the government, local, national, and international relief organizations was found during these emergencies (Ahmed, 2013).

Table 1: NGOs registered in Pakistan

S/#	Province Name	# of NGOs
01	Punjab	33,168
02	Sindh	16,891
03	Khayber Pakhtoon Khwah	3,033
04	Baluchistan	3,127
	Total	56,219

Source: Ministry of Economics government of Pakistan Report 2010 p. 79

Table 2: Sector-wise registered NGOs in Pakistan

S/#	Sector	Percentage
01.	Education	46.0%
02.	Advocacy	17.5%
03.	Health	6.1%
04.	Others	30.4%

Source: Report on NGOs of Pakistan by PCP 2012 p. 27

Legislations in the NGO sector

The regulation mechanism is brought into practice for legalizing, supervising, monitoring, and supporting activities of NGOs. Through the regulation system, NGOs are registered, supervised, facilitated, monitored, trained and audited accordingly (Regulation, 2012). Hence, the regulatory system provides a road map to ensure transparency in NGOs. Limitations play an import part to streamline the work of national and international organizations in any state.

Proper assessment and transparency of foreign funding for NGOs can be maintained through the regulatory system (Nahan, 2003). While highlighting the registration process of NGOs, when any NGO files documentation for regularization, it is mandatory for every applicant that a charter to be submitted, including brief introduction of organization, outline aims, objectives, scope of activities, mission statement, organization account number and working sectors in any regulatory authority/law (Regulation, 2012). Each registered organization is legally bound to follow content stipulated by the organization in the charter, and the government is responsible to ensure the check and balance of registered organizations (Verma, 2002). The regulation system also provides a framework to both the government and NGOs.

NGO Legislation in Pakistan

With respect to NGO regulations, the federal and provincial level authority systems exists in Pakistan. The state provides the process, framework, and policy mechanisms for the NGO sector. The legal framework for regulating the NGO sector remains complex, and several laws exist in which NGOs or NPOs can be registered. Despite that the right for free association is guaranteed by the constitution of Pakistan, in actuality it is viewed as limited (Shahid, 2009).

The key achievement of the government in order to regulate the NGO sector was development and application of NGO code of conduct in 2007 by The Pakistan Center of Philanthropy (PCP) for civil society organizations in Pakistan. In addition, The PCP introduced an organizational management audit, and delivered comprehensive training programs to NGOs for adopting these management standards (Regulation, 2012). Several international programs are also engaged in building the capacity of NGOs in Pakistan with respect to CSO regulatory systems.

NGOs can be registered in six regulation laws/acts. However, the founders of NGOs can choose any primary activity through which to register their organizations. Voluntary social welfare associations may be registered through and controlled by the ‘Voluntary Social Welfare Agencies Registration and Control Ordinance 1961’ (Regulation, 2012). Mid-level and urban-based NGOs or NPOs are regulated under ‘The Societies Registration Act, 1860’ (Regulation, 2012). When community members voluntarily join together to work for fulfillment of community needs in specific or limited areas for residents, they form a local group and can be registered under ‘The Cooperative Society Act, 1925’ (Regulation, 2012).

Those NGOs who work at a national level to promote useful objects are regulated and monitored by ‘The Companies Ordinance, 1984’ (Section 42), and Charitable

trusts are registered under ‘The Trust Act, 1882’ (Regulation, 2012). Furthermore, an amendment was made in local government ordinance for provision of right to access the ‘association of peoples’, where the inhabitants can form associations at grass-root or village level with the name of Citizen Community Boards (CCBs), which works with local-governments under the regulation of The ‘Local Government Act 2000 Citizen Community Board (CCB)’ (NRB 2012).

The Report (2012) on registered NGOs in Pakistan shows that a majority of NGOs (65.4%) are registered under the Society Registration Act, and the rest are registered under other regulatory acts. Accordance with Income Tax Ordinance 2004, only PCP certified NGOs receive tax exemptions but they need to meet the eligibility criteria defined by the concern department (PCP, 2012).

International NGOs are required to submit necessary documentation, and a plan of action, to the Economic Affairs Division and Central Board of Revenue respectively, after which the concern department proceeds with invitation comments from The Ministry of Law, The Ministry of Finance, and any other relevant ministries (such as The Ministry of Education or Health) so to allow them formally to intervene within the country (PCP, 2012). International NGOs are required to register, and must have an agreement or MoU (Memorandum of Understanding) with the Economic Affairs Division before initiating their programs in the country (Regulation, 2012).

NGOs are required to maintain the documentation and follow the rules and regulations defined by concern departments. Each NGO registered under any regulatory law has to prepare and submit an annual report, containing the progress of the previous year and must plan for the next year with an annual audit report conducted by any certified auditor to the respective department (PCP, 2012).

The Role of The Pakistan Center of Philanthropy (PCP) for NGOs

The Pakistan Center of Philanthropy (PCP) is the supervisory and certified body with the key purpose of providing management standards. It assesses NGO work in Pakistan. Other key roles include to certify NGOs, maintain data base systems of affiliated NGOs, and to facilitate these organizations in their work (PCP, 2012). Various organizations have been assisted through PCP support funds. Few conferences are also organized with the support of corporate sectors so to discuss NGO matters with professionals, academics, and experts in the development sector.

The PCP is making efforts to streamline NGO work in Pakistan, having been formed to bridge all three sectors of society, that is business, civil society and government.

The PCP also aims to work in a strengthened partnership for social development in Pakistan. The mission of the center is to increase the volume and effectiveness of philanthropy for social development in the country (PCP, 2012). Moreover, The PCP also guides NGOs. Hence, the respective government departments directly monitor NGO activities in Pakistan. In addition, funding/donor agencies provide guidelines regarding operations and scope of activities for NGOs in their supported projects, and also perform quality control audits (Salim, Sadruddin et al. 2011).

Method

For the study, a simple questionnaire was developed for participants, including key informants. A list of NGO professionals, legal experts and regulatory authority officials was prepared. A purposive data collection technique was used in the study. Experts were selected on the basis of specified criteria (Table. 3). Hence, we targeted selected respondents that were likely to be experienced and information rich. It was important that the respondents knew about the regulation and role of NGOs, the problems and gaps in legislation of respective NGOs.

Legislation, regulation, and community development are vast fields of study. . Key informants were contacted through Email/phone and briefed on the purpose of the study. A total of 20 experts of the field were contacted. Six refused to participate, two confirmed but afterward did not participate, and four experts expressed interest but ultimately had no time for the interview. Therefore, eight key informants were interviewed.

Sample size

The sample of the study included three professionals, three Legal experts, and two higher officers from the regulatory authorities.

Interview Protocol

Initially, interviewees were briefed about the study. Then, a consent form was filled and signed by each participant. Interviewees were presented with asked open ended questions.

Findings

Table 4 illustrates the advantages and disadvantages in the regulation system of NGOs. These points emerged through the interviews with the Key Informants.

Table 4: Pros and Cons of NGO Regulations

Advantages	Disadvantages
Several options available for NGO founders to register their NGOs with any suitable law/act.	One organization can be registered with more than one law/act, suggesting an unjustified and inappropriate trend.
NGOs have different forums from which to achieve facilitation.	Fulfillment of documentation and dealing with concerns is difficult for one NGO.
NGOs can be monitored through more than one department, and checks can be made.	Due to lack of professional and unqualified staff, it is very difficult for NGOs to respond and satisfy more than one department at the same time.
Small scale NGOs can be registered through a voluntary welfare act or citizen community board (CCB) so to work legally. Further, they can be registered in society or a company act. NGOs can fulfill donor requirements pertaining to their registration criteria with any certain department.	There exists a lack of legal limitation and prescribed protocol to guide NGOs about their capacity status and to suggest a suitable law for their legal matters.
The number of NGOs has increased due to availability of regulatory choices.	If any organization becomes blacklisted in one law it is already registered with another law, resulting in that the maintenance of accountability and transparency would be problematic
The data base of one NGO is managed by more than one department.	The quality of work of NGOs can be compromised.
Almost the same conditions for all regulatory departments in NGOs	The duplication of work is predictable and central management of NGO information system is difficult.
	When the departments are different then conditions should also be varied.

Participants discussed their concerns concerning laws pertaining to registration and regulations of NGOs, from small groups of volunteers to national level professional organizations. Respondents mentioned that the majority of NGOs in Pakistan are registered but a proper monitoring system is lacking in departments. One of the NGO professionals commented that there is no punishment or defined action if any unregistered NGO is found to work for any cause. According to a study that was conducted on ‘NGOs in Pakistan in 2000’, the registered NGOs comprised 38% in Pakistan (Regulation 2012).

One of the NGO professional states about the regulation;

We face several problems while registration of our NGO including; high fee, delay tactics, complicated procedures and heavy amount to pay the officials of concern departments as a kickback money, so it is very difficult for workers like us to deal with these issues. However, at the moment of time we preferred to serve people without registration of our NGO (Muhammad Yaseen Bandija ‘President Al-Mehran Awareness Development Organization (unregistered NGO) 30th November 2012

Shahid (2009, p.13) explains reasons to unregistered NGOs vary, but may include high registration fees and the discretionary and inconsistent implementation of the registration laws by the governing authority. According a study conducted in 2005, organization registration status emerged as 65.4% registration through a society act, 15% of NGOs are registered through a Voluntary Social Welfare Act, 6% of NGOs are working as a trust, and 13.6% of NGOs are registered with other laws, including the companies act, the cooperative act, and citizens' community boards (PCP, 2012). Referring to these figures, the NGO mostly prefers to register as a society, a trend most common in urban areas. Officers of the regulatory authority commented that the village level organizations or community based organizations (CBOs) prefer to register with the voluntary social welfare act or citizens' community boards (CCBs). However, several examples offer valuable lessons for CBOs; Village Shadabad Dadu, Johi Organization for Rural Development and Natural Disasters, Goth Sudhar Sangat Aghamani Mehar Sindh, Fishermen Association for Community Empowerment (FACE) Bin Qasim Town Karachi, Wadhela Baloch Social Welfare Organization and Khaskheli Social Welfare Association Karachi. Initially, these organizations were unregistered, but subsequently registered through the Voluntary social welfare act, and then upgraded their progress/performance status, thus becoming considered as Community Based Non-governmental Organizations (CBNGOs). Legal experts discussed that such phenomena are growing in the NGO sector. However, this trend can be used adversely, as such CBNGOs may receive funding allocated for both categories, and also enjoy more than one rank. A clear legal definition of the size and domain of an NGO should be fixed.

NGO professionals and regulatory officers expressed that various organizations are registered with more than one act, including the following; HANDS (the Social Welfare Act and The Society Act), The Foundation for Strengthening Local Partnership (The Society Act and The Companies Act), The Al-Mehran Rural Development Organization (The Social Wwelfare Act and The Society Act), as well as many others. This trend can be harmful for both the government and NGOs. However, with reference to the government, there is a difficulty to manage the data base of NGOs and to monitor these effectively. From the NGO perspective, fulfillment of this with more than one department becomes challenging i.e. and more precisely simultaneously the execution of submission of reports, interaction with department officials, dealing with financial matters, and audits.

Legal experts and NGO professionals revealed that few NGO professionals are involved in establishing and running their NGOs as a personal business. Corrupt and fraudulent activity in respective NGOs has become highly lucrative. According to one NGO activist;

[The c]urrent situation of NGO regulatory authorities is pathetic. The corruption and bribery are common in the government departments. If any organization is found while making corruption the severe final action by any regulatory

authority is to cancel its registration or declare it as a blacklisted organization by the donor agency. In this kind of situation mostly such NGO heads change the name of their organizations or get register another organization easily. There is no any proper monitoring system that exists and under practice by the regulatory authorities. When the NGO regulation system is managed poorly and bribery is found everywhere then why we don't enjoy the power and make money. Weak implication of the regulatory system is a great opportunity for people like us 13th December 2012 Karachi Pakistan.

Research limitations

The sample of the study was small. Only eight respondents were selected. The subjects reacted to the interview protocol based on their own working experience, personal expertise, and educational background. However, these views by respondents have added value to this study.

Regional implications involving Asia and Europe

The importance of NGOs is increasing in Asia. However, the role of NGOs varies from country to country, and region to region. Mayhew (2005) describes the current debate on the 'New Policy Agenda' of good governance, and the increasing prominence of Non-Government Organizations (NGOs) in public service delivery. Mayhew includes that this is an issue of current discussion at the international level. and other important issues, such as how to assess the role of NGOs to determine their accountability and their relationships with donors, within the state, and with their beneficiaries.

The President of Pakistan commented in 2005 that 'Pakistan has become a money-making country' where negative practices operate extraneously (Hussain, 2006). NGOs in Pakistan receive much funding from regional and international donor organizations. Various regional and international organizations are supporting Pakistani NGOs monetarily (Smillie, 1997). These include Amnesty International, The United Nations Development Program, The World Health Organization, The Asian Development Bank, The World Bank, UNICEF, The Packard Foundation, The Bill & Melinda Gates Foundation, DFID, and USAID. There are also several European organizations working with Pakistani NGOs, including the following; The European Commission, Medico International, World Vision, The Norwegian Refugee Council, The Hanns Seidel Foundation, Diakonie Katastrophenhilfe, and Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ). If effective measures will not be taken by the Pakistani Government regarding effective NGO legislation, these regional organizations may impose restrictions in their relief services to Pakistan.

For more than a decade it is realized that the field of anti-corruption should stand out not only for measurement of corruption, but also must take necessary measures to achieve progress towards greater integrity, transparency and accountability in governance (Galtung, 2006 p. 6). Pellegrini (2007) cites corruption in Pakistan as impairing the sustainable development and effective management of resources in the country. He states that 'the 'crime and punishment' approach cannot be feasibly implemented if the overall institutional environment is weak.

If the NGO legislation system is weak, if respective NGOs are corrupt, and if the service delivery mechanism does not operate effectively, aid will be stopped by the donors (Pellegrini 2007). Effective NGO legislation is a key to controlling weak and inefficient Non-governmental organizations. Legislation should be reviewed and strengthened. Otherwise, the social development of the country will be adversely affected, as will the lives of the poor.

Discussion

Several corruption cases in the NGO sector emerged during disasters in Pakistan (Reporter, 2011). Daily Dawn, a prestigious and credible English Newspaper in Pakistan, reported several cases in this regard. During the flood of 2011 in Sindh, one of the corruption cases was unveiled in the district Thatta. The National Accountability Bureau (NAB) has taken action against the concerns due to misuse of funds and misappropriation of food items distributed among flood affected communities (Reporter, 2011).

Different laws mean dissimilarities in regulations, but in Pakistan, several likenesses can be seen in legislation. For example, no registration law clearly defines the period of application to reject or accept application for registration. Each law requires the objects, aims, a list of founder members, the area of operation, a charter, a list of furniture and fixtures, etc. (Shahid, 2009). Furthermore, each registration act also requires that accounts be maintained in specific form and manner. However, only The Voluntary Social Welfare Act (VSWA) and the company ordinances require audits be performed on accounts. Furthermore, except under the VSWA Ordinance, registered NGOs cannot engage in any political activity. Each law also has particular advantages and disadvantages, regulatory schemes and its own discretionary power (Shahid, 2009). There is a prerequisite to review the outdated formats and reporting mechanisms. However, there exists a need to computerize the management information systems, and NGOs must submit their reports in soft form according the prescribed outlines. The data should be published online so the concerns can get proper information.

Conclusion

Various studies have been conducted on role of NGOs in Pakistan. However, the paper discusses the role of NGOs with regard to the legislation system. Perceptions and the findings by the respondents of the study exposed deficiencies in the regulation system. Generally, the regulation system provides the framework of ways in which to regulate NGOs so to serve more effectively serve communities. In Pakistan, the regulation system does not explain NGO category or type by legal definition, but several types of organizations are known and also vary, for example, charitable organizations, community based organizations, NGOs, and Not for profit Organizations (NPOs). If an adequate description emerges then NGOs can become registered with certain suitable departments, rather than through illegitimate pathways and agencies.

The paper discusses six NGO regulation acts in the country, including; 1) The Society Act, 2) The Voluntary Social Welfare Act, 3) The Cooperative Act, 4) The Trust Act, 5) The Companies Act and 6) The Citizen Community Board act. Findings suggest that most organizations are registered with The Society Act. The motives for this would include a high number registrations through society offer a facile process of registration; weak monitoring, fewer requirements, and NGOs receiving much funding from national and international organizations. Several legislations on NGO regulation do not ensure transparency and effective management mechanisms. Lack of effective facilitation for NGOs has become a major problem in the regulation systems. The government should streamline the regulatory bodies, and enhance the coordination mechanism among concern departments. A computerized management information will greatly assist this.

The study recommends that one organization should be registered in one law. A legal definition of the NGOs must be prescribed. Government departments are suggested to take strict action against corrupt organizations. However, the blacklisting and cancelation of registration of any NGO seems to offer an improper solution. Thus, regulatory bodies should search beyond that. Cases should be registered against NGO officials and board members involved in exploitation. “Many mid-level NGOs in Pakistan are characterized by the retaliation of boards of directors composed of the same people, often family members, year after year. Such NGOs require education on the merits of an open system of transparency and accountability that allows new blood in management so that the NGO does not become moribund” (ADB, 1999). The department should act against members of boards of directors of several organizations, and should also suggest that one member can only become part of one organization. This can ensure that , NGOs’ boards can offer greater representation of more people.

The government has established The Pakistan Center for Philanthropy (PCP), but which solely maintains a check and balance of those NGOs recognized by the center. Apart from this, thousands of organizations are unrecognized by The PCP. There is no system that ensures the transparency and accountability of those unrecognized NGOs, and that facilitates their work.

The dire need of capacity building of officials is felt by those working in the regulatory authority, so that they can support NGOs and can monitor in the field. A corruption free environment in regulatory bodies should be ensured. Those officials who work for regulatory bodies should also be monitored effectively, and strict action must be taken against corruption.

The paper suggests that the gap among the concerned departments should be bridged. A check and balance in financial matters should occur without any concession. Each regulatory body should have a full-fledged audit department that audits NGOs. Regulatory departments should also work honestly, efficiently, dedicatedly, and actively. The departments should realize that their role is significant, so to ensure effective utilization of funds, and to deliver services in the best interest of humanity. An online data base of NGOs should emerge so that individuals and organizations can know about the NGOs status.

The findings of the paper are useful for policy makers, scholars, and particularly regulatory authorities. Policy makers can utilize these findings while drafting policies on respective matters. Scholars can use these results to extend knowledge on the subject. There is always room for improvement, but drastic changes and improvements are required to regulate and monitor NGOs effectively. This paper will assist those international bodies or organizations that aspire to work in Pakistan and that do not have sufficient knowledge of the NGO regulatory system of the country.

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JAPANESE CAPITALISM AND INCOME INEQUALITY: A COMPARISON WITH GREAT BRITAIN¹

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Abstract

In his seminal book, Thomas Piketty points an alarming concentration and a serious income inequality in the 21st century (Piketty, 2014). He warned that capital has played an increasingly dominant role in the economic development, and that national wealth is shared by a limited number in the upper class. This paper chooses Japan as a case study to examine the wealth distribution in the country. There are two main research objectives in this paper. The first main objective of this paper is to examine the main characteristics of Japanese capitalism. The second objective is to compare Japanese capitalism with typical free-market capitalism in Europe; British capitalism. This paper points out that there is a serious income inequality in Great Britain, following its conservative revolution in the middle of the 1980s. By contrast, this paper also argues that national wealth in Japan is more equally distributed than Great Britain. Thus, this paper concludes that Japan does not seem to follow the development path of Great Britain so to become a new patrimonial capitalism.

Keywords:

Japan, Great Britain, income inequality, capitalism

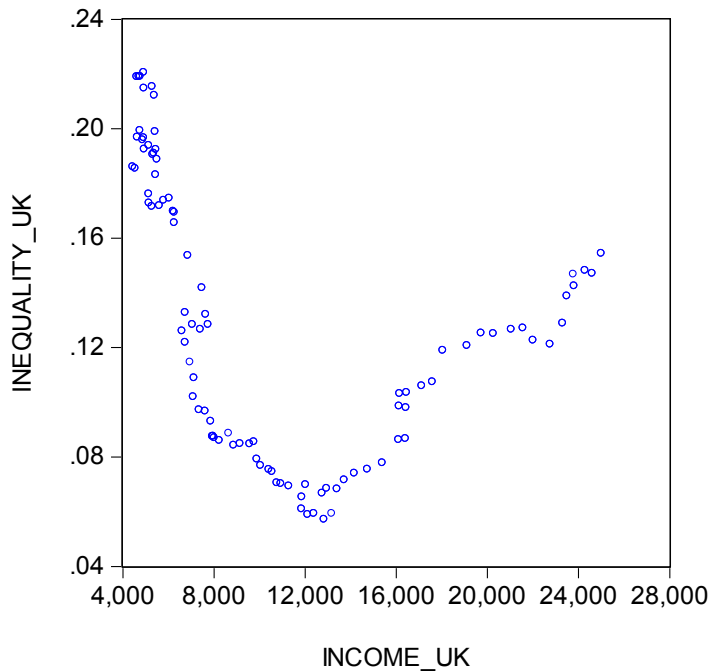
Introduction

In his seminal book, Piketty (2014) pointed an alarming concentration of wealth, and a serious income inequality in the 21st century. He warned that capital has played an increasingly dominant role in economic development, and national incomes were shared by a limited number of the upper class in many free-market capitalisms in Europe and North America. A typical example in Europe is the United

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Kingdom. Figure 1 depicts the relationship between economic development and income inequality in the country from 1910 to 2010. The income level is measured by the per capita Gross Domestic Product (GDP) and the income inequality is measured by the share of top percentile (i.e. top 1 percent) income in the total income.² Figure 1 clearly indicates that there is a U-shaped relationship between economic development and income inequality in the United Kingdom. When per capita income was relatively lower in the beginning of the 20th century, there was a higher income inequality in the country. The national wealth was relatively evenly distributed until 1980. However, as Piketty predicted, the income inequality in The United Kingdom has worsened in towards the end of the 20th century.

Figure 1: Economic development and income inequality in UK from 1910 to 2010



Notes: The data source for income is the Maddison Project (2015) and the data source for income inequality is Piketty (2015).

More precisely, in 1910, per capita income in The UK was US\$4,610, and the top percentile income share was 0.21. The concentration of wealth in the country was less affected by the Great Depression of 1929. The top percentile income

² The per capita income was measured by the international dollar which has same purchasing power parity with US dollar. In other words, one US dollar (US\$) approximately equals to one international dollar (I\$). Thus, this paper used the term US dollar for the sake of simplifying discussion.

share decreased slightly from 0.19 in 1928 to 0.18 in 1929, and further to 0.17 in 1931. During World War II, the top percentile income share further decreased from 0.16 in 1939 to 0.14 in 1941, and further to 0.12 in 1943. It should be noted that income inequality steadily decreased in the country in the middle of the 20th century. Income inequality reached its lowest level in 1978 when one percent of the wealthiest population received only 5 percent of national income. However, since Margaret Thatcher's conservative revolution beginning in 1979, income inequality increased at the end of the 20th century. On the eve of the global economic crisis, income inequality was as high as it was in the 1940s. In 2007, the top percentile income share was 0.15 and gradually decreased to 0.14 in 2010.

The historical pattern of income inequality in The UK clearly indicated that the income inequality at the beginning of the 21st century were as high as income inequality at the beginning of the 20th century. Piketty (2014) defined this economic phenomenon as an emergency of the “new patrimonial capitalism” which is based on a society with high income inequality. He argued that capital has played an increasingly dominant role, and that capital share would expand in this new type of capitalism. In other words, British economy is a typical example of a new patrimonial capitalism.

Against such a backdrop, this paper chooses Japan as a case study, so to examine the wealth distribution in the country. There are two main research objectives in this paper. The first main objective of this paper is to examine the main characteristics of Japanese capitalism. The second objective is to compare Japanese capitalism with typical free-market capitalism in Europe, that is, British capitalism. The research question is whether Japan would follow a development path of Great Britain in Europe and would become a new patrimonial capitalism in Asia.

This paper consists of four sections. Following this introductory section, the second section reviews briefly some prominent theories and ideas on the relationships within role of capital or money in an economic system. The third section examines critically main characteristics of Japanese capitalism. This section also uses data from Japan's national accountings, and analyses capital share in Japan. The fourth section is the conclusion.

Theoretical perspective

Since the Ancient Greek era, there were numerous scholars, philosophers, and saints who showed their concern about private property, and the increasing role of money in economic systems. For example, Plato stressed the central role of the city-state (*polis*), rather than individuals. Thus, he thought that the lower class,

such as craftsmen and farmers, could own property. However, the upper class who worked for the city-state should not have own property. His disciple, Aristotle, argued that private property should not be prohibited. For him, the management of household (the *oikos*), including owning a property, is essential and natural for a good and decent life. However, Aristotle is also disdainful to wealth accumulation through retail trade. He also pointed out that money should be used for the purpose of profit-making. In the middle Ages, Francis of Assisi denounced private property and patrimony. However, Thomas Aquinas followed Aristotle's view point on, and approved, private property. It should be noted that he introduced an important economic concept, "natural price", to analyse the economic system. For him, natural price should be equal to the total cost of a product. Thomas Aquinas argued that sellers should not charge a higher price which the trader himself is not willing to pay (Rima, 2009; Bourne, 2013).

Since the 18th century, there have been several prominent economists who have offered more systematic theories to explain the role of capital in the process of economic development, such as Smith (1776), Malthus (1798), Ricardo (1815), Marx (1867), Harrod (1939), Domar (1947), Solow (1956), Swan (1956), Kaldor (1961) and Piketty (2014).

a) Smith and Malthus

Adam Smith (1776) argued that rent is a surplus value under a monopolistic situation. For Smith, desirable land for agricultural production is limited. Due to this scarcity of land, landlords can extract a "surplus value" from consumers. In other words, the price of agricultural product is set above its "natural price" or production cost, which consists of wages and profits (Smith, 1776; Lackman, 1976). This suggests that there would be no rent ($r = 0$), if the price of product is set under perfect competition:

$$p = p_0 = w + \pi \quad (1)$$

where p is the market price of an agricultural product, p_0 is the "natural" price of an agricultural product, π is profit, and w is wage. Under this perfect competition, the market price (p) would equal the "natural" price (p_0). However, under a monopolistic situation, the price of an agricultural product is set above production cost. For Smith, this is a significant problem in an economic system. It suggests that rent is the difference between product price (p) and production cost ($\pi + w$) or "natural price":

$$r = p - (w + \pi) = p - p_0 \quad (2)$$

where r is rent. In this equation, Smith stressed that the amount of rent is jointly determined by product price and product cost (Lackman, 1976). Alternatively, Thomas Malthus (1798) is another pioneer economist who examines the role of capital in economic development. For Malthus, the basic paradox in the economic system is a constraint imposed by rapid expansion of population. This constraint can be expressed as:

$$g_H > g_Y \quad (3)$$

where g_H is the growth rate of population, and g_Y is the growth rate of income.³ Malthus believed that population would expand geometrically, while income would expand arithmetically. He argued that a marginal product of labour (MP_L) would be diminishing due to this rapid expansion of population. Furthermore, Malthus defined rent as a “gift” which constitutes additional income generated from land (Winch, 1996). This can be expressed as:

$$p = p_0 + r \quad (4)$$

where p is the market price of an agricultural product, p_0 is the “natural” price of an agricultural product, and r is the rent to the landlord. This equation implies that rent is not a component of the natural price (Winch, 1996). In other words, for Malthus, natural price consists of wage (w) and profit (π).

b) Ricardo and Marx

Secondly, David Ricardo (1815) and Karl Marx (1867) did not accept the proposition of “natural price,” and also did not consider the rent as a gift. In other words, they did not differentiate between the market price of product and the “natural price” of product. Instead, they defined the rent as a share in the actual level of price. For Ricardo, the income will be shared among three classes, namely landlords, capitalists and workers (Ricardo, 1915; Kaldor, 1955; Bourne, 2013). It means that price of product is divided by the rents (r), profits (π) and wages (w). The relationship can be expressed as:

$$p = w + \pi + r \quad (5)$$

where p is the market price of product, w is wage for workers, π is profit as payment to capitalists, and r is rent to landlords. Ricardo labelled the landlord as an

³ According to Hollander (1984), Malthus also postulated a balance growth path in which the growth rate of capital (G_K) is equal to growth rate of labour (G_L)

unproductive class which gained from revenue at the expense of two other classes (Winch, 1996). Furthermore, he claimed that the main problem of the economic system is a diminishing marginal product of labour (Ricardo, 1815; Hollander, 1984) due to a limited amount of fertile lands. This problem can be expressed as:

$$MP_L = \frac{\partial Y}{\partial L} < 0 \quad (6)$$

where MP_L is the marginal product of labour, Y is income, and L is labour. Alternatively, Marx did not differentiate between rent and profit (Marx, 1967; Kaldor, 1955). He argued that income would be shared by two classes, namely the *bourgeoisie* (i.e. capitalist class) and *proletariat* (working class). This suggests that total revenue is divided by profits and wages.⁴ This relationship can be expressed as:

$$p = w + \pi \quad (7)$$

where p is the market price of a product, w is the wages for the working class, and π is the profit as payment to the capitalist class. For Marx, the main paradox in capitalism is the constraint imposed by the rapid expansion of capital. This constraint can be expressed as:

$$g_K > g_Y \quad (8)$$

where g_K is the growth rate of capital, and g_Y is the growth rate of income. Marx believed that there would be increasing income inequality in the process of economic development, due the rapid expansion of capital.

c) The Harrod-Domar model and The Solow-Swan model

Thirdly, Roy Harrod (1939) and Evsey Domar (1947) suggested The Harrod-Domar Model, to explain the dynamics of economic growth, while Robert Solow (1956) and Trevor Swan (1956) suggested The Solow-Swan Model, so to stress the importance of technological progress in the process of economic development. These economic models have become theoretical foundations of modern macroeconomics.

According to Harrod (1939) and Domar (1947), economic development is basically driven by capital intensity and saving rate. Under The Harrod-Domar (HD) Model, the capital accumulation process is expressed as:

⁴ According to Kaldor (1955), there is a similarity between Ricardo's theory and Marx's theory. Difference is that Marx did not differential rents with profits.

$$\Delta K = I - \delta \times K \quad (9)$$

where ΔK is change in capital, I is investment, δ is depreciation rate, and K is capital. Under the condition that marginal product of capital (MP_K) is equal to the average product of capital (AP_K), economic growth in the HD model can be expressed as:

$$g_y = s \times c - \delta \quad (10)$$

where g_y is the growth rate of income, s is the saving rate, c is the capital/income ratio, and δ is the depreciation rate. The HD model predicated that economic growth is determined by saving propensity (s), capital intensity (c), and depreciation rate (δ). Alternatively, Solow (1956) and Swan (1956) modified the HD model and developed The Solow-Swan (SS) Model, which examined the relationship between per capita capital and per capita income. Under The SS Model, the capital accumulation process can be expressed as (Barro and Sala-i-Martin, 1995):

$$\dot{k} = s \times f(k) - (\delta + g_H) \times k \quad (11)$$

where \dot{k} is the change in per capita capital (k), s is saving rate, $f(k)$ is the per capita production function, δ is the depreciation rate, g_H is the population growth rate, k is per capita capital.

Under the steady-state condition,⁵ economic growth can be expressed as:

$$y^* = \frac{\delta + g_H}{s} \times k^* \quad (12)$$

Where y^* is income at the steady-state, and k^* is per capita capital at the steady-state. This suggests that per capital income growth at the steady-state (y^*) would be determined by the depreciation rate (δ), population growth (g_H), the saving rate (s), and per capita capital at the steady-state (k^*).

c) Kaldor and Piketty

Fifthly, Nicholas Kaldor (1961) and Thomas Piketty (2014) systematically examined the roles of capital in economic development. However, their conclusions diametrically differ. Kaldor exposed the steady labour-capital split, while Piketty exposed the increasingly dominant role of capital. More precisely, Kaldor (1961)

⁵ In the SS model, the steady-state is defined as the various economic quantities would growth at constant rate. Thus, the change in the per capita capital over time (\dot{k}) is equal to zero (Barro and Sala-i-Martin, 1995). It means that there would no increases in the per capita capital accumulation in the steady-state.

argued that both labour share and capital share would grow at the same level. This relationship may be expressed as:

$$g_L = g_K \quad (13)$$

where g_L is the growth rate of labour share in the total income (Y_L), and G_{YK} is the growth rate of capital share in the total income (Y_K). Steady labour-capital share is known as Kaldor's facts. However, Piketty (2014) denied the steady labour-capital split, and warned of the capital's dominant position in the economic development. This relationship can be expressed as:

$$g_L < g_K \quad (14)$$

For Piketty, capital has increased its role in the economic development since the 1980s. As a consequence, there has been wider income inequality in the developed countries, including Japan. In other words, Piketty openly denied the well-accepted conventional wisdom of macroeconomic theory, and criticised Kaldor's optimistic perspective on the stable relationship between labour income and capital income in economic development.

Despite its importance, there is still little empirical study to examine Piketty's assertion of the dominant role of capital in developed countries. Against such a backdrop, the current paper chooses Japan as a case study, and systematically examines the role of capital in Japan's economic development, while analysing whether there exists a steady labour-capital split in the country.

Main characteristics of Japanese capitalism

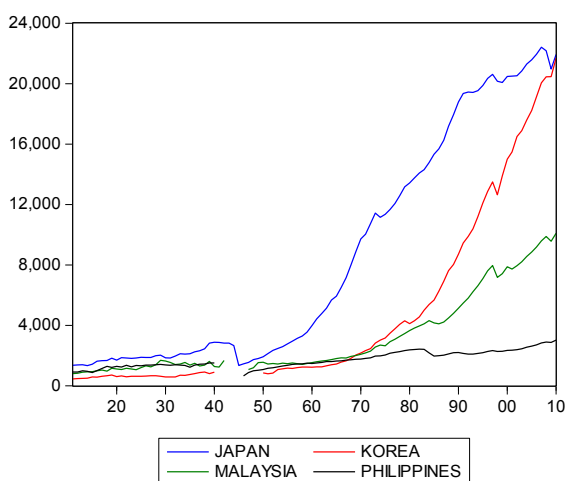
This section examines some main characteristics of Japanese capitalism. Firstly, the levels of per capita income in Malaysia, The Philippines, South Korea, and Japan, for the period of 1911-2010, are depicted in Figure 2. At the start of the 20th century, per capita incomes in all four Asian countries were relatively lower than the present.. Malaysia and Japan had the same level of per capita income at the end of the 1920s. However, Malaysia suffered from the negative impact of the global economic crisis in the 1930s. In 1937, per capita income in Malaysia decreased to US\$1,308, which was lower than the per capita income of the Philippines. Japan's per capita in the same year was US\$2,315.

All four Asian countries suffered from the destructive effects of World War II. Japan's per capita income decreased from US\$2,874 in 1940 to US\$1,346 in 1946. Similarly, per capita income in the Philippines decreased from US\$1,506 in 1940 to

US\$646 in 1946. South Korea's per capita income decreased from US\$893 in 1940 to US\$787 in 1950. It is interesting to note that Malaysia's economy was relatively less destroyed by the war. Malaysia's per capita income decreased slightly from US\$1,278 in 1940 to US\$1,069 in 1947. The economic boom following the war had a positive impact on economic development in Malaysia. The country's per capita income increased from US\$1,440 in 1950 to US\$1,530 in 1960. In the same year, the Philippines' per capita income was US\$1,470, which was lower than the per capita income in Malaysia. In 1960, Japan's per capita income was US\$3,986.

In the 1960s, South Korea had successfully developed its economy. The country's per capita income increased from US\$1,226 in 1960 to US\$1,436 in 1965, and to US\$1,812 in 1968. As a consequence of this rapid growth, the country had a second highest per capita income which was US\$2,167 in 1970. In the same year, Malaysia's per capita income was US\$2,079 which was higher than per capita income in the Philippines. In 1970, Japan's per capita income was US\$9,713. In the 1980s, all countries except for the Philippines, enjoyed a relatively higher economic development. Japan's per capita income increased from US\$11,427 in 1980 to US\$18,799 in 1990. Similarly, South Korea's per capita income increased from US\$4,114 in 1980 to US\$8,704 in 1990, and Malaysia's per capita income also increased from US\$3,656 in 1980 to US\$5,130 in 1990. However, the Philippines' per capita income decreased from US\$2,375 in 1980 to US\$2,197 in 1990.

Figure 2: Economic development in Malaysia, Philippines, Japan and South Korea from 1911 to 2010



Notes: Data source: Maddison Project (2015)

At the end of the 1990s, all four Asian countries suffered from negative effects of the Asian economic crisis. South Korea's per capita income decreased from US\$13,500

in 1997 to US\$12,634 in 1998, and Malaysia's per capita income also decreased from US\$7,955 in 1997 to US\$7,178 in 1998. Japan and the Philippines suffered from the economic crisis relatively less. Per capita income in the Philippines decreased from US\$2,330 in 1997 to US\$2,267 in the following year. Similarly, Japan's per capita income decreased from US\$20,617 in 1997 to US\$20,154 in the following year. At the end of the 2000s, all countries other than South Korea suffered from negative consequence of the global economic crisis. Japan's per capita income decreased from US\$22,175 in 2008 to US\$20,963 in 2009. Similarly, per capita income in the Philippines decreased from US\$2,888 in 2008 to US\$2,864 in the following year, and Malaysia's per capita income also decreased from US\$9,880 in 2008 to US\$9,571 in the following year. South Korea managed to increase its per capita income from US\$20,453 in 2008 to US\$20,464 in the following year.

Per capita income in Japan and Malaysia moderately expanded more than ten times over the twentieth century. Japan's per capita income increased from US\$1,353 in 1911 to US\$21,934 in 2010. Similarly, Malaysia's per capita income increased from US\$800 in 1911 to US\$10,014 in 2010. The expansion of per capita income in The Philippines was less impressive, increasing from US\$912 in 1911 to US\$3,023 in 2010.

The capital/income ratio (i.e. ratio between total value of capital and income) in Japan for the period of 1970-2013 is depicted in Figure 3. In this figure, capital includes all types of nonhuman resources in the country.⁶ In 1970, Japan's Gross Domestic Product amounted to US\$203 billion in 1970, while Japan's total value of capital amounted to US\$823 billion. This suggests that capital/income ratio in 1970 was 4.02.⁷ Japan's GDP increased from US\$561 billion in 1976 to US\$971 billion in 1978, further to US\$1,059 billion in 1980. Similarly, the total value of capital in the country increased from US\$2,747 billion in 1976 to US\$4,701 billion in 1978, further to US\$5,908 billion in 1980. Capital decreased slightly from 4.89 in 1976 to 4.83 in 1978, and increased rapidly to 5.57 in 1980.

There was a rapid expansion of total capital value before the bust of the "bubble economy" in 1990. The total value of capital increased rapidly from US\$7,218 billion in 1984 to US\$12,547 billion in 1986, and further to US\$21,850 billion in 1988. The total value of capital amounted to US\$24,327 billion in 1990. As a consequence, capital/income ratio also increased rapidly from 5.70 in 1984 to 6.30

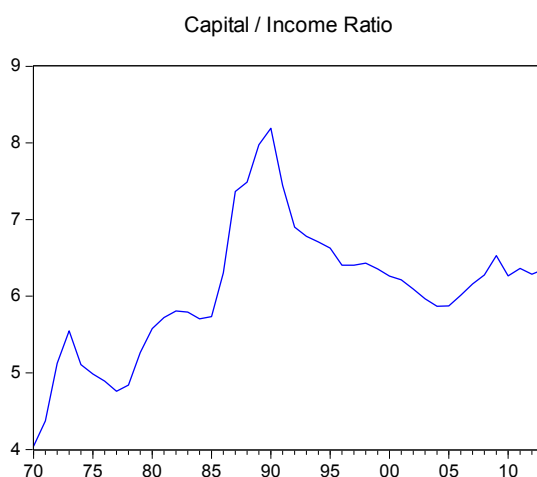
⁶ This paper uses a wider concept of capital. More precisely, capital represents all kinds of nonhuman assets in the country, including 1) inventories, 2) dwellings, 3) buildings and structures, 4) transport equipment, 5) machinery and equipment, 6) computer software, 7) land, 8) natural resources, 9) fisheries, 10) financial assets.

⁷ The main data source of the current study is the Cabinet Office of Japan (COJ). The COJ used the Japanese Yen as the unit of currency. For ease of discussion, this paper also uses US dollar to describe income and capital in Japan. The data source for exchange rate is the World Bank (2015).

in 1986, further to 7.48 in 1988. The capital/income ratio reached its highest level in 1990, when Japan's GDP amounted to US\$2,970 billion, and its total capital value amounted to US\$24,327 billion, at which time the capital/income was 8.19.

After the bust of the “bubble economy”, capital/income ratio decreased from 6.90 in 1992 to 6.70 in 1994, and further to 6.40 in 1996. In 2000, Japan's GDP amounted to US\$4,731 billion, and its total value of capital amounted to US\$26,198 billion. Capital/income ratio decreased from 6.29 in 2000 to 6.09 in 2002, and further to 5.86 in 2004. Before the global economic crisis at the end of the 2000s, capital/income ratio increased from 5.87, in 2005, to 6.01, in 2006, and further to 6.27, in 2008. In the 2010s, capital/income ratio gradually increased from 6.26 in 2010 to 6.28 in 2012, and further to 6.39 in 2013.

Figure 3: Capital/income ratio in Japan from 1970 to 2013



Notes: The data source is the Cabinet Office of Japan (2015)

Overall, capital/income ratios in developed countries may well follow the U-shaped path, and there have been rapid increases in the capital/income ratios in these wealthy economies in the 21st century (Piketty, 2014). However, Japan does not seem to follow this general trend. Instead, capital/income ratio seems to follow an inverted U-shaped path. That is, Japan's capital/income ratio rapidly increased before the bust of its bubble economy in 1990. However, Japan's capital/income ratio decreased between the 1990s and the first half of the 2000s.

To understand Japanese capitalism, it is important to examine the fluctuation of real estate values. The house/income ratio (the ratio between total value of housing assets and income) and the land /income ratio (the ratio between total value of land and national income) in Japan is depicted in Figure 4. Changes in the total value of housing assets and lands would have significant impact on the capital/income

ratio, because share of real estate assets in the total value of capital in Japan are approximately 50-60 percent. In 1970, the total value of housing assets amounted to US\$57 billion, and the house/income ratio (ratio between total value of housing assets and income) was 0.28. The total value of land in the same year amounted to US\$452 billion, and the land/income ratio (ratio between total value of land and income) was 2.22. The total value of housing assets increased from US\$278 billion in 1976 to US\$483 billion in 1978, and further to US\$589 in 1980. Similarly, the total value of land also increased from US\$1,352 in 1976 to US\$2,331 in 1978, and further to US\$3,087 in 1980.

Value of land increased more drastically than the value of housing assets in the second half of the 1980s. The house/income ratio was 0.51 in 1984, decreased to 0.47 in 1986, and increased slightly to 0.48 in 1988. The total value of housing assets amounted to US\$1,504 billion in 1990. By contrast, the land/income ratio was 3.08 in 1984, increased to 3.74 in 1986, and further to 4.92 in 1988. The total value of land amounted to US\$16,336 billion in 1990. After the bust of bubble economy, house/income ratio remained at approximately 0.50. The house/income ratio increased from 0.49 in 1992 to 0.52 in 1994. Land/income ratio decreased drastically from 4.12 in 1992, to 3.80 in 1994, and further to 3.41 in 1996.

Figure 4: House/income ratio and land /income ratio in Japan from 1970 to 2013



Notes: The data source is the Cabinet Office of Japan (2015)

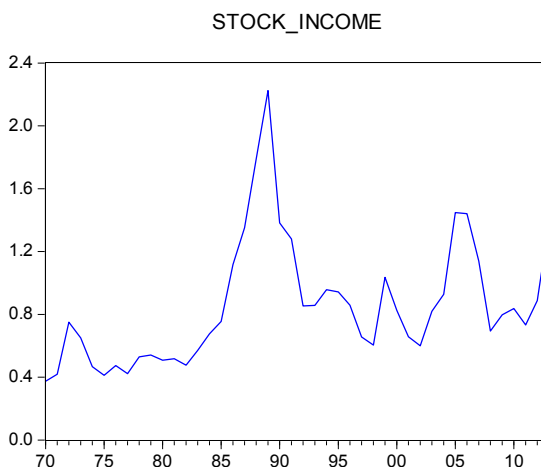
In the 2000s, house/income ratio increased slightly from 0.67 in 2002, to 0.68 in 2004, and further to 0.70 in 2006. By contrast, land/income ratio decreased from 2.79 in 2002, to 2.51 in 2004, and further to 2.50 in 2006. In 2013, the total value of housing assets in Japan amounted to US\$3,584 billion, and the house/income ratio was 0.72. In same year, the total value of land amounted to US\$11,483 billion, and the land/income ratio was 2.33.

Overall, land/income ratio seems to follow a similar path of capital/income ratio, but house/income ratio does not follow such a path. That is, there was very rapid expansion of land value, and house value became relatively stable in the 1980s. Land/income jumped from 2.91 in 1980, to 5.50 in 1990. By contrast, house/income ratio was 0.51 in 1980, and decreased slightly to 0.50 in 1990. These facts clearly indicate that the burst bubble economy was not driven by decrease in the value of housing assets, but rather, by drastic decreases in the value of land.

Another influence to the bust of the economy bubble was poor performance of the stock market in Japan. The shares/income ratio (i.e. the ratio between total value of corporate shares and national income) in Japan is depicted in Figure 5. The total value of corporate shares amounted to US\$76 billion in 1970. The share/income ratio (the ratio between total value of corporate shares and income) was 0.37 in the same year. The value of corporate shares increased from US\$266 billion in 1976, to US\$513 in 1978. The total value of corporate shares amounted to US\$537 billion, and share/income ratio was 0.50 in 1980.

There was a drastic increase in the value of corporate shares in the second half of 1980s. The corporate share values increased from US\$855 billion in 1984, to US\$2,223 billion in 1986, and jumped up to US\$5,220 in 1988. In 1989, share/income ratio was 2.22, which was the highest value since the 1970s. In the following year, share/income ratio also decreased to 1.38. In the 1990s, share/income ratio increased from 0.95 in 1994, to 0.85 in 1996, and further to 0.60 in 1998.

Figure 5: Share/income ratio in Japan from 1970 to 2013



Notes: The data source is the Cabinet Office of Japan (2015)

There was a rapid increase in value of corporate share before the global economic crisis at the end of the 2000s. In 2002, the total value of corporate share amounted to US\$2,388, and share/income ratio was 0.59. The share/income ratio increased

from 0.59 in 2002, to 0.92 in 2004, and further to 1.44 in 2006. However, share/income ratio decreased to 1.13 in 2007, and further to 0.69 in the following year. In the 2010s, the total value of corporate shares increased from US\$4,600 billion in 2010, to US\$5,285 in 2011, and further to US\$6,827 billion in 2013.

Overall, there were two stock market bubbles in Japan after the 1970s. The “first round” of stock market bubble burst occurred at the beginning of the 1990s. The total value of corporate shares decreased sharply from US\$6,450 billion in 1989, to US\$4,104 billion in the following year. The “second round” of stock market bubble burst occurred at the end of the 2000s. The value of corporate share decreased from US\$6,278 billion in 2006, to US\$4,961 billion in 2007, and further to US\$3,364 billion in the following year.

It is important to examine who actually owns the huge value of Japanese capital. The income distribution among households, corporation, and government, is depicted in Figure 6.⁸ In 1970, the total value of household asset amounted to US\$508 billion, and household-asset/income ratio (ratio between total value of household asset and income) was 2.49. By contrast, the total value of government assets amounted to US\$102 billion, government-asset/income ratio (ratio between the total value of government assets and income) was 0.50, the total value of corporation assets amounted to US\$212 billion, and corporation-asset/income ratio (ratio between total value of corporation asset and income) was 1.04. At the end of the 1970s, there were increases in these asset/income ratios, with the exception of government-asset/income ratio. Household-asset/income ratio increased from 3.03 in 1976, to 3.56 in 1980. Similarly, corporation-asset/income ratio increased from 1.26 in 1976, to 1.42 in 1980. By contrast, government-asset/income ratio decreased marginally from 0.59 in 1976, to 0.57 in 1980.

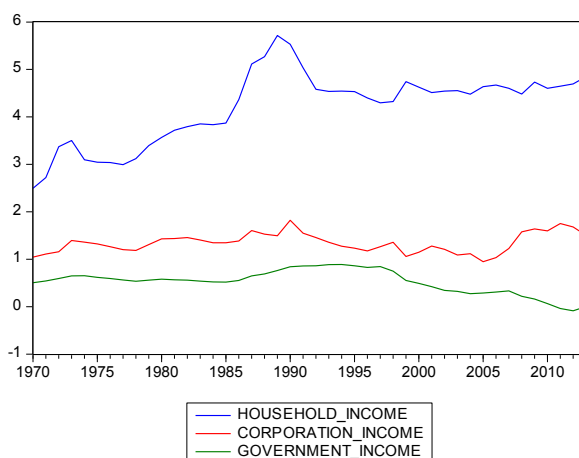
Before the burst of economy bubble, that is, prior to the second half of the 1980s, all these asset/income ratios rapidly increased. The household-asset/income ratio increased from 4.36 in 1986, to 5.26 in 1988, and further to 5.53 in 1990. Similarly, the government-asset/income ratio also increased from 0.55 in 1986 to 0.68 in 1988, and further to 0.84 in 1990. The corporation-asset/income ratio increased from 1.38 in 1986, to 1.52 in 1988, and further to 1.81 in 1990. The burst of bubble did not affect government-assets. Government-asset/income ratio increased from 0.85 in 1991, to 0.86 in 1992, and further to 0.88 in 1994. By contrast, the burst affected household-asset and corporation asset. Household-asset/income ratio decreased from 5.03 in 1991, to 4.58 in 1992, and further to 4.39 in 1994. Similarly, government-asset/income ratio decreased from 1.59 in 1991, to 1.45 in 1992, and further to 1.27 in 1994.

⁸ Corporations include 1) non-financial incorporated enterprises, 2) financial institutions and 3) non-profit institutions.

From the end of the 1990s, government-assets rapidly decreased. In 1996, the total value of government-assets amounted to US\$3,809 billion, and government-asset/income ratio was 0.88. Government-asset ratio decreased from 0.74 in 1999, to 0.34 in 2002, and further to 0.30 in 2004. In 2011, government-liability exceeded government-assets. Government-asset/income ratio was -0.03 in 2011. Government-liability further expanded in the following year. Government-asset/income ratio was -0.08 in 2012. Household-asset/income ratio increased from 4.6 in 2010, to 4.69 in 2012, and further to 4.84 in 2013. Corporation-assets increased from 1.59 in 2010, to 1.68 in 2012, and decreased to 1.49 in the following year.

Overall, households have a dominant position in Japan's capital accumulation, and own approximately three-fourths of Japan's capital. The corporation is the second major holder of Japan's capital, and owns one-fourth of Japanese capital. The government has a very minor position in Japan's capital accumulation. It had one-tenth of Japan's capital in the 1970s. However, it had less than one percent of Japan's whole capital in 2013. An interesting characteristic of Japanese capitalism is that households have worked diligently to accumulate Japan's wealth. Household-asset/income ratio seems to follow a path similar to that of capital/income ratio, and corporation-asset/income ratio and government-asset/income ratio do not follow this path. This suggests that the burst of the Japanese economy bubble has mainly affected household-assets, rather than corporate-assets or government-assets.

Figure 6: Household-asset/income ratio, Corporation-asset/income ratio, and Government-asset/income in Japan from 1970 to 2013



Notes: Data source: Cabinet Office of Japan (2015)

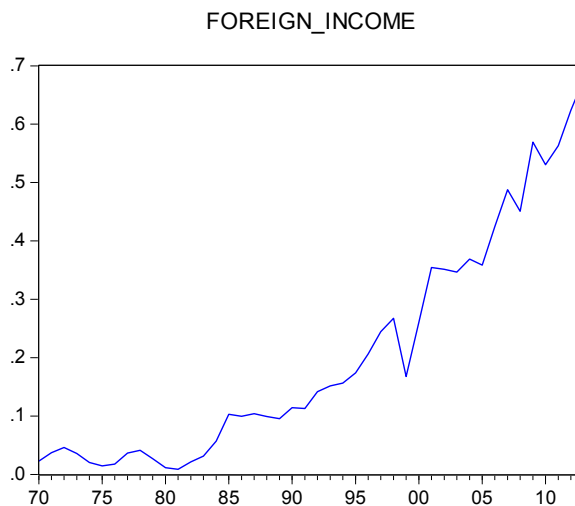
It is important to examine how well Japan has held its assets in foreign countries. Figure 7 depicts foreign asset/income ratio (ratio between total value of Japanese foreign asset and income) for the period of 1970-2013. In 1970, the total value of Japanese foreign assets amounted to only US\$4 billion, and foreign asset/

income ratio was 0.02. Foreign asset/income ratio increased from 0.01 in 1980, to 0.02 in 1982, and further to 0.05 in 1984. It should be noted that the burst did not negatively affect the expansion of Japanese foreign assets. Foreign asset/income ratio increased from 0.09 in 1988, to 0.11 in 1990, and further to 0.14 in 1992.

The Asian economic crisis at the end of the 1990s had a significantly negative impact on Japanese foreign assets. The value of Japanese foreign assets decreased from US\$1,018 in 1998, to US\$743 in the following year. Foreign asset/income ratio also decreased from 0.26 in 1998, to 0.16 in the following year. However, the value of Japanese foreign assets rebounded in the 2000s. The total value of Japanese foreign assets increased from US\$1,234 billion in 2000, to US\$1,398 billion in 2002, and further to US\$1,717 billion in 2004. In 2008, the total value of Japanese foreign assets amounted to US\$2,185 billion, and foreign asset/income ratio was 0.45. Furthermore, foreign-asset/income ratio increased from 0.53 in 2010, to 0.62 in 2012, and further to 0.67 in 2013.

Overall, Japan managed to accumulate a huge amount of foreign assets since 1980s. Japan's efforts to accumulate foreign assets was interrupted during the Asian economic crisis at the end of the 1990s. However, the total value of Japanese foreign assets rebounded in the 2000s. In 2013, the total value of Japanese foreign assets amounted to US\$3,230 billion. Japan's foreign asset/income ratio in 2013 approached Britain's foreign asset/income ratio of the 1920s. Under the British Empire, foreign asset/income ratio in Britain was 0.84 in 1920. In the absence of significant interruption, Japan would be able to increase its foreign asset/income ratio before 2020.

Figure 7: Foreign asset/income ratio in Japan from 1970 to 2013



Notes: The data source is the Cabinet Office of Japan (2015)

Analysis of characteristics of Japanese capital accumulation reveals that capital does not seem to play an increasing dominant role in Japanese capitalism. Figure 8 depicts the relationship between income inequality and economic development for the period of 1910-2010. As mentioned in the introductory section, income inequality is measured by the share of top percentile income in the total income, and economic development is measured by per capita income.

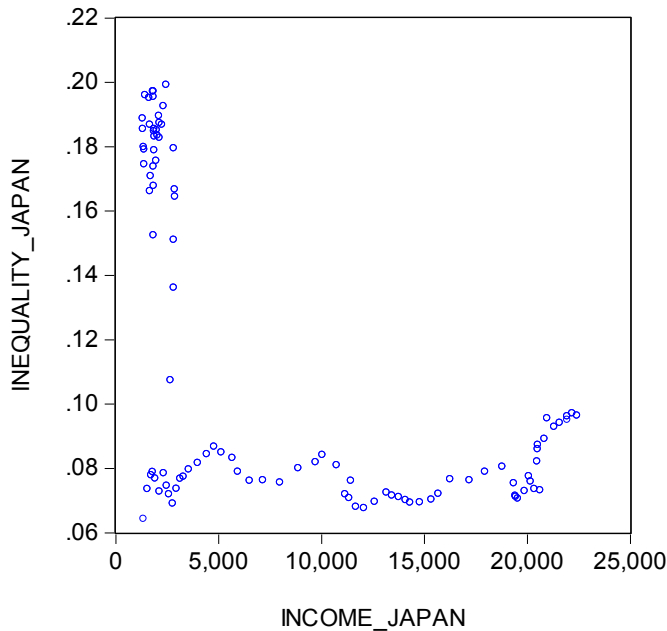
Japan had a relatively high income inequality until the end of the World War II. In 1910, Japan's per capita income was US\$1,303, and the top percentile income share was 0.18. This suggests that the top 1 percent income earners received 18 percent of the total income in Japan. The top percentile income share decreased slightly from 0.17 in 1920, to 0.16 in 1930. Before the war, Japan's per capita income amounted to US\$2,874, and the top percentile income share was 0.16 in 1940. Due to capital destruction by the war, and the dissolution of industrial groups (*zaibatsu*) from 1945,⁹ the top percentile income share decreased from 0.16 in 1941, to 0.13 in 1943, and further to 0.07 in 1947. In 1950, Japan's per capita income amounted to US\$1,920, and the top percentile income share was 0.07. This suggests that the top 1 percent income earners received only 7 percent of total income in Japan.

Japan experienced rapid economic development in the 1960s and 1970s. Japanese per capita income jumped from US\$3,986 in 1960, to US\$9,713 in 1970, and further to US\$13,427 in 1980. However, income inequality remained the same during this remarkable socio-economic transformation process. The top percentile income shares were 0.08 in 1960 and 1970, and decreased slightly to 0.07 in 1980. Furthermore, the burst of economy bubble also had no significant impact on income inequality in Japan. The top percentile income shares were 0.07 in 1988 with the peak of the economy bubble. After the burst in 1993 and 1995, the top percentile shares were still 0.07. After the mid 1990s, there were marginal increases in the top income shares. Top percentile income share increased slightly from 0.07 in 1995, to 0.08 in 2000, and further to 0.09 in 2010.

Overall, Japan did not seem to follow Anglo-Saxon country pattern of income inequality. As Figure 1 and Figure 2 showed, there are U-shaped relationships between economic development and income inequality in the United States and the United Kingdom. Instead, there is an L-shaped relationship between economic development and income inequality in Japan. Before the war, Japan's per capita income was low and income inequality was very high, similar to The United States and The United Kingdom. After the war, Japan's per capita income rose. However, the top income share remained low.

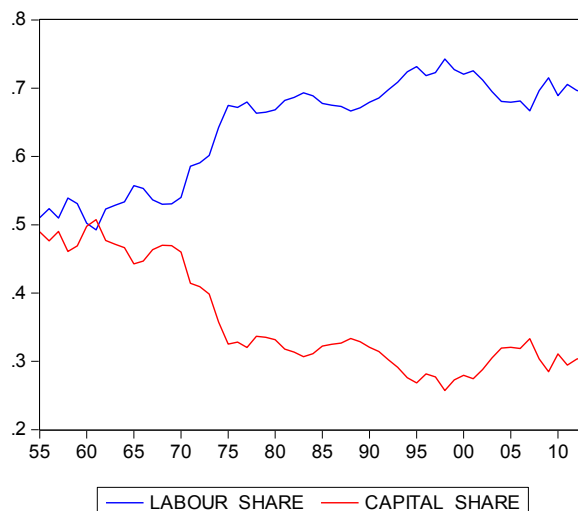
⁹ According to Thomas (1993), Japanese industrial group (*zaibatsu*) controlled the one-fourth of Japan's capital before the war.

Figure 8: Economic development and income inequality in Japan from 1910 to 2010



Notes: The data source for the income is the Maddison Project (2015) and the data source for the income inequality is Piketty (2015).

Kaldor (1961) predicted that there was steady labour-capital split in the process of economic development. This proposition had offered conventional wisdom in mainstream macroeconomics until recently. However, Piketty (2014) criticised this social regularity and asserted that there has been increasing capital share in developed economies. Figure 9 depicts labour share (share of income generated by labour in total income) and capital share (share of income generated by capital in total income) in Japan for the period of 1955-2013. Due to significant destruction of capital by the war, and massive unemployment during the chaotic periods after the war, there was relative scarcity of capital and abundance of labour in Japan until the 1960s. Thus, labour share was 0.51 and capital share was 0.49 in 1955. Capital share exceeded labour share in 1961. However, labour share increased from 0.52 in 1963, to 0.55 in 1965. There were rapid increases in labour share in the 1970s. Labour share increased from 0.53 in 1970, to 0.59 in 1972, and further to 0.64 in 1974. By contrast, capital share decreased from 0.46 in 1970, to 0.40 in 1972, and further to 0.35 in 1974. In 1980, labour share was 0.66, and capital share was 0.33. This suggests that labour generated two-thirds of total income, and capital generated one-third of total income.

Figure 9: Labour share and capital share in Japan from 1955 to 2013

Notes: Data source: Cabinet Office of Japan (2015)

In the 1980s and the 1990s, labour share steadily increased. Labour share increased from 0.67 in 1985, to 0.68 in 1990, and further to 0.73 in 1995. Capital share decreased from 0.33 in 1985, to 0.32 in 1990, and further to 0.27 in 1997. In 1998, labour share was 0.74, and capital share was 0.26. This suggests that labour generated three-fourths of total income, and capital generated only one-fourth of total income. In the 2000s, there were marginal decreases in labour share. Labour share decreased from 0.72 in 2000, to 0.68 in 2005, and further to 0.67 in 2007. By contrast, capital increased from 0.28 in 2000, to 0.32 in 2005, and further to 0.33 in 2007. In 2013, labour share was 0.69, and capital share was 0.30, suggesting that labour approximately produced two-thirds of total income, and capital approximately produced one-third of total income.

Overall, capital does not seem to play a dominant role in Japanese economy. Instead, it seems that there has been a steady labour-capital split in Japan. As Kaldor asserted, workers tend to receive a majority of total income, and owners of capital tend to receive a minor share of national income.

Conclusion

Piketty (2014) suggested the existence of an alarming concentration of wealth and serious income inequality in the 21st century. As he predicted, income inequality has worsened in some free-market capitalism sectors in Europe, such as in The United Kingdom. For the purpose of comparison, this paper chose an industrial economy in Asia, Japan as a case study, and examined the main characteristics of the

economic system in the country. The findings could be summarised into six insights on the main characteristics of Japanese capitalism. Firstly, contrary to Piketty's assertion, there was no U-shaped relationship between economic development and capital accumulation in Japan. Instead, there was an inverted U-shaped relationship between these variables. Secondly, the real estimate, especially land rather than housing, is a very important component of Japanese capital accumulation. Thirdly, Japan experienced two stock market bubbles after the 1970s. The burst of the first stock market bubble was at the beginning of the 1990s, and the burst of the second stock market bubble at the end of the 2000s. Fourthly, households are dominant holders of Japanese capital. Fifthly, there has been a remarkable increase in Japanese foreign capital. Finally, as Kaldor predicted, it seems that there has been steady labour-capital split in Japan since the 1970s.

More importantly, there is no European type of U-shaped relationship between economic development and income inequality in Japan. Instead, it seems that there is an L-shaped relationship economic development and income inequality in the country. That is, this paper indicates that, as Piketty predicted, there has been a significant income inequality in Great Britain after its conservative revolution in the mid 1980s. However, contrary to Piketty's predication, Japan's income inequality would not worsen during its economic development after the war. This suggests that national wealth in Japan is more equally distributed than in Great Britain. Thus, this paper concluded that Japan does not seem to follow the development path of Great Britain to become a new patrimonial capitalism.

This paper aims to serve as a preliminary study on this important topic. The analysis of the current paper is based mainly on the statistical data compiled by The Cabinet Office of Japan (2015). Future studies may employ more detailed data, and would examine, more systematically, some characteristics of Japanese capitalism. Similar studies could be conducted to examine characteristics of Japan's Asian neighbouring countries, as well as European countries. The findings from these studies and some comparative analyses would offer much-needed insights to highlight similarities and differences of capitalism, and income inequality in Asia and Europe.

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SHOULD ASEAN REGIONAL FORUM (ARF) RE-VISIT ITS CORE AREAS?

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Abstract

The ARF (ASEAN Regional Forum) projected three stages of its evolution, such as confidence-building, preventive diplomacy (PD), and “an approach to conflict”. The aim of this paper is to evaluate how far the ARF has gone beyond its first stage, as it is presumably hobbled by power-politics of big actors, lack of consensus in handling traditional security issues, and the presence of similar other security-related organizations in the region. That said, ARF’s outcome is impressive in sustaining confidence-building measures (CBM), and in fielding actionable projects in handling non-traditional security (NTS) issues, such as disaster management. Should not then The ARF devote more time and resource to NTS issues that will likely impact on traditional security in the long-run?

This paper suggests certain action-oriented projects; basically that The ARF may not further deepen or widen geopolitically. Hence, the ARF continues to work as a traditional confidence-builder.

Keywords: ASEAN, Asia-Pacific, geopolitics, NTS, confidence-building.

Introduction

ASEAN is a South-east Asian regional initiative meant to improve the socio-economic condition of its people through better integration, and, more importantly, through economic cooperation. As it stands today, community-building is its desired end-state. The ASEAN Charter, articulated in the year 2007, is thus committed to establishing an ASEAN Community, comprising The ASEAN Politico-Security Community, The ASEAN Economic Community, and The ASEAN Socio-cultural Community. The Charter aims to build a more integrated community in such dimensions.

The Charter also tends to establish the legal personality of ASEAN. The Charter makes the organization a subject of international law, thus conferring on it the rights, privileges, and immunities as recognized by the international law. The Charter allows establishment of appropriate dispute settlement mechanisms, including arbitration, for disputes which concern the interpretation or application of the Charter and other ASEAN instruments (Villacorta, 2011).

To such direction, ASEAN has come a long way, since its inception in 1967, as its membership has increased, and its domain of activities has expanded. Nonetheless, intra-ASEAN relations are, at times, punctuated by tensions and rivalries. Tensions spiral surrounding issues such as human rights, democratization, drug and human-trafficking, fishing, and illegal migration, and also on inter-state relations rooted in history, such as between Thailand and Myanmar, and between Malaysia and Indonesia (Battala, 2010). Economic activities such as bilateral and multilateral free trade agreements, bilateral currency swap agreements, and socialization--apparently substantive areas of this organization--have made impressive progress. That said, ASEAN also subscribes to the principle of comprehensive security that obviously covers The NTS.

As a kind of security forum of ASEAN, The ARF, now consisting of 27 participants, was established for deliberating political and security issues in The Asia-Pacific.

The ARF creation was presumably triggered by two important changes in the region, such as withdrawal of US bases in the Philippines, and uncertainty of regional security amidst the rise of China. There was also a realization in the 1990s that ASEAN itself would not be able to handle the politico-security issues across entire Asia-Pacific. The region's two dominant powers—China and Japan-- are located in Northeast Asia; even critical flashpoints such as Taiwan, North Korea and The East China Sea are beyond ASEAN's spatial realm. The forward-deployed forces of The United States, the lone superpower or for so long the sole *hegemon* of the region, are concentrated in Northeast Asia. In such a setting, ASEAN was likely to become marginalized (Simon, 1998). The central aim of establishing The ARF was to sustain peace and prosperity in the region, by way of political and security dialogue. Thus, the creation of The ARF was a pragmatic alternative to handle security-related issues in the wider area.

While handling security-related issues, The ARF has to take into consideration the views of all its participants, and to satisfy the special needs and interests of ASEAN as an entity. It was clearly articulated by ARF Chairman statement in August 1995, that "A successful ARF requires the active, full and equal participation and cooperation of all participants. However, ASEAN undertakes the obligation to be

the primary driving force..... The ARF process shall move at a pace comfortable to all participants”. That said, such juxtaposing itself tends to be a constraint to ARF functionality. The latter part of the paper makes this argument in greater detail.

The ARF concept paper, prepared in 1995, aims to reach its goals in three stages: confidence-building, preventive diplomacy, and conflict resolution, through a gradual evolutionary process. However upon insistence by China, the last stage was later rephrased as “elaboration of approaches to conflict”. The last two stages may involve interfering in the internal affairs of a state or an infringement on state sovereignty. As such their application may be problematic. The ARF is far from developing such a clout and mandate in the near future to confront last two stages because of competing interests and orientations basically emanating from both the big powers and other security-related organizations in the region.

The United States, China, and Japan have much wider and deeper strategic goals—their expansionary interests are colliding-- in the region possibly more than The ARF can anticipate. As a case in point, The ARF would be rather helpless to make any substantive contribution to the North Korean issue, where even the Six-Party Talks find it difficult to tame the North Koreans. Similar is the *fait accompli* for Taiwan, and East and South China seas. All these are vexed geopolitical issues, directly related to hi-politics, where the stakes and interests of the *hegemons* and major powers are inextricably linked. So an obvious question may be raised: Can The ARF tackle dozens of issues or simmering and potential conflicts that involve sovereignty, territorial disputes, and even nuclear issues?

Arguably, apart from the flashpoints, a host of NTS challenges, such as human trafficking, natural and man-made disasters, cross-border and internal migration, climate change, drug-and-human trafficking, food security, gun running, cyber security, cross-border terrorism including in the maritime, insurgency, haze pollution, etc. may provide triggers for regional cooperation. When the challenges are common to all parties, then the imperatives are better appreciated. These challenges are, at times, more demanding and complex than generally understood traditional threats, and these may again greatly impact the traditional security in the long term. “By following the trends of the times and leveraging its own advantages, ARF should continue to focus on joining efforts in preventing and responding to non-traditional security (NTS) challenges” (ASEAN Regional Forum Annual Security Outlook, 2013- China). Seventy percent of all natural disasters battered The Asia-Pacific, costing the region US \$ 80 billion annually over the past ten years (Diplomacy –in –Action, 2014).

ASEAN unity and cooperation were missing during the search and rescue operations for Malaysian aircraft MH 370 in 2014. The search was conducted more on a one-on-one basis than a combined ASEAN effort. The ARF, on behalf of ASEAN, could have, at the least, set up a coordination cell in such multilateral search drive. Although individual ASEAN countries came forward in the search missions, there was no effort in tapping the ASEAN-Emergency Rapid Assessment Team (ASEAN-ERAT) (Hui, 2014).

Even ASEAN was slow in responding to the disaster-relief assistance to Myanmar when cyclone *Nargis* struck in 2008. The ASEAN foreign minister meeting took place almost two weeks – once media had sensationalized the issue– after the cyclone *Nargis* had hit. ASEAN is seemingly not that effective to tame Indonesia to contain the haze that annually pollutes the neighboring countries. Indonesia is yet to ratify the ASEAN Agreement on Trans-boundary Haze pollution. The ARF needs to revitalize its efforts for an effective, coordinated, and comprehensive disaster-relief, pacification, and rehabilitation programs that may be imperative to mitigate the damages wrought as a consequence to any natural disaster or other organized crimes, such as ethnic cleansing, drug, and human trafficking.

A proposition may, therefore, be formulated as such: While it may not be prudent for The ARF to go deeper to tackle geopolitically sensitive issues in the region, it may better handle NTS issues more enthusiastically. This does not necessarily imply that it will not continue to work as an effective confidence-builder. As a case in point, The ARF is a pioneer for addressing regional maritime security issues multilaterally. In the maritime domain, The ARF has established a number of dialogue mechanisms for maritime and naval CBMs (Sakhuja, 2015).

Questions may then be raised: Can The ARF competently manage varied, at times geopolitically sensitive, issues in this wider area? Should The ARF take up the NTS issues, which may also impinge on the regional stability and state security in the long run, more vigorously? Is the host of similar organizations in the region and in other parts of the world—having almost similar objectives— going to dwarf its existence or relevance?

The paper, finally, attempts to provide certain action-oriented suggestions that may add value to what already exists.

Content analysis is followed in preparing this paper. However, a comparative study is done, as a kind of case study, with few other similar security-related organizations, both in the region and in other parts of the world. The author's vast experience in handling NTS issues contributes to developing the argument of the paper.

The uniqueness of the paper is its attempt to suggest a re-orientation of the thrust-areas of The ARF. Such a re-orientation with a stronger institutional-framework may make this organization more mission-oriented, realistic, and people-cantered.

Theoretical Argument and Framework

Dent (2008, p. 24) makes an emphatic statement, A “[r]egional security arrangement (such as [The] ARF) can bring greater stability and trust within a regional community, without which economic regionalism may be very difficult to achieve.” In the conceptualization of The ARF, ASEAN thought it prudent to bring together under one roof two giants –The United States and China. These two giants are, otherwise, apprehensive of regional multilateral security arrangements. Two *hegemons* i.e. The United States and China, have a kind of ‘love and hate’ relation, where hi-politics prevails, especially surrounding the flashpoints, and also in the race for leadership. It is natural for a pre-dominant power to challenge a rising power, especially in a state of transition. The ARF has been a tool that facilitated engaging and integrating— both The United States and China—in the regional order, and reduce the likelihood of The US playing the strategy of containment (Chanto, 2003, p.42). Emmers (2001) rightly argued, “It will be claimed that the ARF was conceived as an instrument for ensuring a continued U.S. involvement in East Asia, and for including the People’s Republic of China (PRC) in a rule-based arrangement to encourage it in the practice of good international behavior”. Their arguments may not hold good anymore. Michael Leifer’s contention is that the region lacks a stable balance-of-power that may not allow The ARF to work with some predictability. The ARF would remain ineffective if The ARF itself had to establish one such stable architecture (Acharya, 2009, p.207).

As history suggests, multilateral institutions act as tools to serve better the interests of powerful hegemonic countries. They are even utilized to spread changes in the nation’s strategic policies. Since the powerful states pursue their interests first and then attempt to check their rival countries interests, so the possibility of real cooperation for a multilateral institution is limited. Even when such intended cooperation is better institutionalized, the possibility of relative interests makes it difficult for the major powers to continue to cooperate. The ARF has not been consistent with the South China Sea disputes. Both neo-liberal and constructivist approaches to multilateral institutions do not provide adequate rationale. Two hegemonic states in the region participated passively when The ARF agenda was deemed to be outdated. They simply maintain a minimal role. The ARF, therefore, played different roles at different times, depending on the interaction and competition between The United States and China (Jhao and Chae, 2014, pp. 240-241 and 254). Vietnam views The ARF as a defensive enmeshment concept to reduce the likelihood of

Chinese aggression (Goh, 2005, pp.7-8). The overriding reality is: stronger nations go all-out for realizing their interests, especially vital ones.

ASEAN is not interested in confronting hi-politics, as a routine, let alone be considered as an alliance or a collective security arrangement. It can, however, be considered in the context of cooperative security. To cite an example, ASEAN is not capable of handling the Southern Thailand insurgency problem. ASEAN was rather helpless in restoring democracy in Myanmar, except for the issuing of statements or communiqué urging it to restore democracy. ASEAN has seemingly failed to restrain the Myanmar authorities in stopping to kill the unarmed civilian Rohingyas by other ethnic groups. Such an ethnic cleansing has given rise to inter-state migration sponsored by the infamous human-traffickers that have a vast network in both ASEAN and other neighboring countries.

In realist perspective, China's neighbors can at best ventilate their security concerns in such forums. For Japan, it is a good forum to raise security-related issues, independent of The United States. The United States wants to utilize The ARF so to raise and discuss security-related issues to which China may not be much interested. Again in a realist paradigm, The ARF failed to address any major flashpoint, such as North Korea or The South China Sea, while from a constructivist assumption, The ARF has a fairly credible past and room to grow (Whelan, 2012, pp. 21-22).

To reinforce another perspective, liberalists contend that The ARF or any such organization may be able to go beyond realism so to bring about cooperation. As a case in point, cooperative security can be activated through joint cooperative military actions, such as multi-national maritime patrols, search-and-rescue operations, cyber-security, and anti-piracy activities. Notwithstanding the fact that those may not be fully activated, due to overarching geopolitical compulsions, The ARF may be able to create mutual confidence through transparency and commitment (Simon, 1998). The ARF provides the functionalist hypothesis that states tend to cooperate when they are confronted with common issues, as highlighted in the introduction. This thesis also formulates that a state of anarchy is replaced by a state of cooperation.

Therefore, it follows that The ARF is more of an understanding or a trust of living in a peaceful surrounding than a binding security treaty or a geopolitical construct such as NATO, The SCO, or The AU. Thus said, in order to remain relevant and animated, such cooperation in the form of global and regional multilateral organizations has to deliver tangible outcomes. What The ARF can do is to contribute to creating a meeting ground of the two parties. The ARF has to appreciate, that by getting embroiled in the geopolitics of the region, it may lose its relevance as seemingly it

may not be able to contribute much to create such a meeting ground.

Friedberg's (2005) evaluation of the participation of the great powers in the security or integration process seems relevant here, that "[t]he growth of international institutions in Asia and the expansion of both U. S. and Chinese participation in them are drawing the United States and China into a thickening web of ties that liberal optimists believe will promote contact, communication and, over time, greater mutual understanding and even trust, or at the very least, a reduced likelihood of gross misperception."

There is much substance in Friedberg's statement, but Rozman (2012) argues little differently, in ways such as that China is "not succeeding in establishing social networks conducive to regionalism," and its strategic divergence is exacerbating differences, rather than contributing to cooperation. China may leave The ARF – this may be true to any other actor-if its vital national interests are not well-served. He further argues there is going to be a stand-off between Sino-centric and trans-Pacific ideals, with ASEAN-led cautious steps navigating between them.

There is a contradiction between China and the United States in identifying the core areas of The ARF. China stresses more The NTS while The United States stresses traditional security issues (Shixin, 2013, and Diplomacy in Action, 2013). The paper identifies this contradiction, and based on this, the paper makes a formulation. The paper also identifies the overlapping areas in the realms of geopolitics and NTS issues. This leads to the thesis that a more legalistic approach to The ARF *modus operandi* may be counter-productive as the core national interests may deflect the decision-making of the actors. Cooperation is contingent upon how much elbow room is allowed for national interests (Heller, 2005).

Having said so, cooperation can also be generated by appreciating geopolitics from another perspective. We can say that two streams of geopolitics are operating here: One stream pushes the nation-states to cooperate, and the other pushes to compete (Mahbubani, 2013, p.146). The ARF is definitely poised to push the nation-states to cooperate, and may not be to the desired level of expectations. Functionalist approaches posit that Asia's regional security cooperation—as part of multilateral diplomacy—has moved beyond dialogue to practical collaboration on NTS issues (Tan, 2013).

NTS issues are substantive, and these issues, at times, may even go to the extent of making a small state dysfunctional. NTS issues have serious trans-boundary implications as well. ARF members can forge cooperation on NTS and peace-keeping operations (ASEAN Regional Forum Annual Security Outlook, 2013—

Indonesia). This paper suggests that The ARF re-orient itself more to that direction, so to remain relevant and dynamic in the region.

Relevance and Activities of The ARF in the Regional Setting

From CBMs, ARF was expected to reach to the stage of PD. It seems that The ARF is faltering because there are ambiguities or disagreements in defining what PD is all about. Some authors define PD as a threatening form of cooperative security; it may, therefore, impinge on national sovereignty. Morada (2010, p.34) sees the factors that inhibit PD from kicking off in The ARF: rift between states “who see the importance of implementing a number of security cooperation agreements.... and those that remain reluctant, uncomfortable, and fearful of ‘losing’ a part of their sovereignty.” ASEAN members are reluctant to share their leadership role with non-ASEAN members in the Forum. It would, therefore, rather be difficult to reach to a level of conflict-resolution

Be that as it may, ASEAN took the initiative, as already indicated, to establish The ARF, The EAS, and ASEAN+3, which can play a critical role in preserving peace and security in Southeast Asia, and in East Asia. They can do so in areas such as maritime security in the Malacca Straits, a nuclear-free Zone in Southeast Asia, and a confidence-building initiative in East Asia. Both The ARF and The EAS can help to develop dependability of action between ASEAN and its external partners (Pakpahan, 2012). Such organizations in this wide area may complement each other’s efforts on NTS issues. Some kind of coordination mechanism may, however, be necessary.

NTS issues such as counter-terrorism, humanitarian assistance, disaster relief, maritime security, military medicine, and peacekeeping, are the areas where ADMM-Plus members can also cooperate (Tan, 2013). On the side-lines of ADMM-Plus in October 2010, both China and Japan agreed to set up a liaison system for maritime conflicts, seemingly to obviate collision of Japanese and Chinese ships (Teo, 2012). Over and above this, The EAS also covers both traditional and NTS issues, particularly in areas such as maritime security, transnational crimes, terrorism, piracy, and also non-proliferation and disarmament (Sebastian, 2011).

More importantly,

The United states sees logic to regional security discussions now taking place in ARF and ADMM+ eventually setting the agenda for the region’s leaders when they meet at the EAS Summit. The United States wants to ensure that the EAS is a substantive meeting where leaders can engage directly, discuss vital issues of the day, and build relationships and mutual confidence (Bower and Santosa, 2011).

The ARF may be seen as a preparatory meeting to feed the ideas to The EAS (Bower and Arbis, 2013). The EAS, a kind of smart American geopolitical move, is now branded as a game changer, basically to obviate the influence of China. There is an apprehension that ASEAN's role may get knobbly if and when The EAS transforms into The Asia-Pacific Community (Sebastian, 2011). In a similar vein, The Trans-Pacific Partnership (TPP), apart from economic objectives, has a "broader strategy to re-engage with the region and to contain China's influence" (Capling and Ravenhill, 2011). Both can dwarf China's activism in regional security organizations.

The ARF's benefits are presumably limited for The United States. So it thinks that The ARF is a "low-stakes institution" (Goh, 2004). What can be prescribed is: ASEAN may take the lead in substance, putting forward collective ideas for addressing the issues confronting these groups, while again, ASEAN should steer the forum towards The NTS such as disaster management, contagious diseases, environmental pollution, drug and human trafficking, and other transnational crimes. In the Myanmar cyclone case, *Nargis* reinforced the relevance of ASEAN when Myanmar accepted un-coordinated assistance from ASEAN member-states, with no repsonsibility (Thuzar, 2011). ASEAN worked as a broker and a bridge between Myanmar and the community.

The ARF has made considerable progress in The NTS, especially in disaster management preparedness. The ARF conducted its first ever live field exercise on disaster relief operation in the Philippines in May 2009. Indonesia co-hosted the second ARF field exercise with Japan (ASEAN Regional Forum Disaster Relief Exercise) on disaster relief along with Japan in March 2011. The exercise aimed to enhance "coordination and cooperation among humanitarian actors/ disaster relief stakeholders, including civil and military agencies, in multilateral disaster relief operations in the Asia-Pacific region" (ASEAN Regional Forum- Annual Security Outlook, 2011- Indonesia). Malaysia and China co-hosted an exercise in Malaysia in May 2015 with the aim to test civil-military coordination. The ARF adoption of the Statement on Disaster Management and Emergency Response (DMER) is a milestone declaration. This was followed by the adoption of The ARF General Guidelines on Disaster Relief Cooperation. Draft ARF Humanitarian Assistance and Disaster Relief Operating Procedures (HADR SOP) and standby arrangements are also being developed.

Over and above The NTS, diplomatic negotiations at the behest of The ARF have brought China, as part of a soft balancing strategy, to the negotiating table so to attempt to settle scores in the South China Sea. In the sixteenth meeting of The ARF held in Thailand in July 2009, all participating members hailed the successful signing of the Declaration on the Conduct of Parties in the South China Sea of 2002

(DOC) as a milestone document between ASEAN and China. But the irony is that it is not legally binding.

The Declaration is believed to be effective in building mutual trust and confidence among the claimants in South China Sea. All parties look forward to the conclusion of a Code of Conduct (COC) in the South China Sea. This may be problematic and time-consuming as China is now insisting on one-on-one handling of the issue. China is likely to dilly-dally the signing of legally-binding CoC as it sees no reason to restrict its freedom of action in the South China Sea (Storey, 2014). The moot point is: China has been reluctant to discuss the individual claims in the South China Sea in the ARF forum. So ARF's relevance is somewhat getting marginalized here.

Alternatively, The United States prefers ASEAN centrality. The ARF may not be able to make much of a dent since The United States has also become involved in claiming uninterrupted navigation and unimpeded commerce in The South China Sea, thus giving rise to hi-politics (Karim, 2014). It can, nonetheless, keep on raising the issue and facilitate deliberation to reach, at least, any short-term measures. It went to China's favor as ASEAN failed to issue the customary Joint-communiqué after the 2012 ASEAN Ministerial Meeting (AMM) in Cambodia. This reflected a wedge in the ASEAN group.

I argue for that ARF relevance in the regional context is limited primarily to The NTS and, in some mode, in CBM. Now, The ARF may be contextualized at the international setting where geopolitical contexts, however, may be different. But there are definite lessons to learn.

International Context

It would be pertinent here to look at the activities of similar such organizations operating beyond the region. A comparative analysis puts The ARF in the right perspective to correctly align or orient its objectives, and to appreciate its limitations. On matters of security, human rights, democracy, and The NTS, a comparison may be worthwhile. An analysis may bring home the point that The ARF may not, understandably, be able to handle wider and more complex objectives as being pursued by The African Union (AU), The SCO, and The OSCE. This is, in fact, the central argument of the paper.

Political upheavals and democratic reforms in Asia and Africa have proceeded at a dramatic pace over the course of the past year. Thus regional organizations such as AU and ASEAN are expected to be the primary

actors managing responses when violence or conflict erupts (Ng, Lotze and Stensland, 2012).

As a case in point, The African Union (AU) has coverage in its action plans, such as to achieve peace and security in Africa, and to promote democratic institutions, good governance, and human rights. Unlike The ARF, The AU is mandated to intervene in a Member State with respect to grave circumstances, namely war crimes, genocide, and crimes against humanity. “The AU is the world’s only regional or international organization that explicitly recognizes the right to intervene in a member state on humanitarian and human rights grounds” (Hanson, 2009). That said, The AU faces formidable challenges in meeting its mandate, as the African security environment is mostly volatile and restive. It is rather handicapped to tackle many complex inter-ethnic and inter-religious issues that are seemingly destroying the very fabric of many nation-states of Africa.

While facing such challenges, The UN Security Council generally comes to its support. The AU deployed its first peace-keeping force in May 2003 in Burundi. It also deployed peacekeepers in Darfur, Sudan, in 2003. The AU deployed 7,000 peacekeepers in Darfur, and ultimately merged with The U.N. mission in October 2007. On bidding from The AU, The UN Security Council imposed an arms embargo and other sanctions on Eritrea in December 2009.

Presently, The AU troops, along with others, are fighting terrorists in Somalia, and so far, they have achieved considerable success. That said, The AU needs a post mortem as far as its responses to Arab Spring and Cote d’Ivoire are concerned. AU ability and its response to crisis areas need introspection for the future functioning of this organization. The African Commission of Human and People’s Rights (ACHRR) condemned human rights violations in Libya. However, The AU blithely ignored those.

Despite that the AU has a Peace and Security Council (PSC)—The ARF is far from such institutionalization, and it may not need such an institutionalization and mandate—whose responsibilities include prevention, management and resolution of conflicts, post-conflict peace building, and developing common defence policies. It has power to authorize peace support missions, to impose sanctions in case of unconstitutional change of government, and can take initiatives and actions it deems appropriate when there is a potential or actual conflict scenario. The AU can make decisions by consensus or by two-third majority, which is not the case with The ARF.

The AU is also hobbled by the principle of non-interference in the internal affairs of a member-country, which may not be to the extent of that of The ARF. ASEAN

or The ARF have seemingly failed to do anything substantive to contain the recent human rights issue in Myanmar. .

Considering another such organization, The Shanghai Cooperation Organization (SCO) was basically established as a confidence-building body to resolve border problems. Its stature started increasing especially in 2005 when it called upon Washington to set a timeline so to withdraw its military bases in Central Asia. Its activities further expanded to include increased military cooperation, better intelligence sharing, and updated counterterrorism drills. Experts believe that Russia and China, by utilizing SCO mechanisms, would like to curb U.S. access to the region's vast energy supplies. Compared to other regional institutions, The SCO has made great progress in institutionalizing security cooperation.

Quite contrary to The ARF, The SCO has practically turned out to be a geopolitical entity *per se*. It has also made full-scale involvement of its armed forces, apparently to tackle terrorism—The ARF seemingly may not be effective to the extent of involving the armed forces—infighting terrorism in the wider Asia-Pacific region. The SCO serves as China's Central Asian diplomatic channel to help contain East Turkistan activity (Huasheng, 2013). The SCO is more comprehensive than The ARF. In 1994, The SCO set up a Regional Anti-terrorist Structure (RATs), so to share intelligence on cross-border Islamic terrorist activities. This handles Islamic terrorism, Afghanistan, drug trafficking, trade liberalization, etc. (Cabestan, 2013). Taking a cue from The SCO, The ARF may at least be better suited to coordinate intelligence-sharing, especially on terrorism and trans-national crimes.

To cite another organization in context, The Organization for Security and Cooperation in Europe (OSCE) has mandate in areas such as arms control, human rights, freedom of press, and election monitoring. It also deals with military transparency and cooperation. That said, The ARF has presumably made laudable progress in military transparency, as its member-states publish yearly white papers on defence.

The OSCE is an ad hoc institution under The UN that handles issues such as early warning, conflict prevention, crisis management, and post-conflict rehabilitation. The OSCE has an Office for Democratic Institutions and Human Rights (ODIHR), established in 1991, so to take care of election monitoring, human rights, democracy promotion, rule of law, and more. The ODIHR has observed over 150 elections and referendums since 1995. The OSCE is credited to help restore democracy in Russia and Eastern Europe. The OSCE has independent institutional resources, as well as necessary staff, so to monitor and organize different events and missions. The OSCE is now monitoring the troubled areas in East Ukraine, bordering Russia. The

ARF, however, for the first time, facilitated an election observation for the Timor-Lesta general election in July 2012.

The ARF has to follow certain norms and rules which may not be applicable with respect to The AU or others. While handling security-related issues, The ARF has to take into consideration the views of all its participants and to satisfy the special needs and interests of ASEAN as an entity. In the process, non-ASEAN members tend to get marginalized. The ARF has ostensibly seemingly become handicapped from taking an ‘out of box’, bold, and imaginative decision. Thus said, The ASEAN Charter does not rule out voting among the leaders if they choose to do so. However, on the whole, ASEAN prefers consensus to voting.

Suggested Action-oriented Ways Forward

The following paragraphs list the direction and orientation that The ARF may contemplate undertaking substantial contributions to the region’s overall security architecture. It is perhaps time to revisit the limiting norms of the ASEAN Charter, especially its consensus-based decision-making (Hernandez, 2015). Suggestions here are basically intended to add value to that which already exists.

The ARF may concentrate more on its independent institution building, expanding its resources, and capacity building. It may not totally disassociate itself from ASEAN. Nonetheless, it should make efforts to upgrade its own stature. It may thus consider having its own secretariat.

The ARF may continue to re-invigorate its CBMs by encouraging dialogue, cooperation, communication, linkages between track I and track II diplomacies, norm-building, streamlining procedures, etc. That said, for confidence-building, member-nations of The ARF may be aware of various sensitive historical-socio-cultural factors of the region. The ARF needs to concentrate more on capacity-building of its officials who can better contribute to CBMs (Ern, 2011).

It may take all its members on board to create effective mechanism so to tackle areas such as disaster management, maritime security, anti-piracy, anti-narcotics, counter-terrorism, climate change, etc. The United States proposal to formulate a legal framework, such as The Rapid Disaster Response Agreement (RDR) for rapid deployment of foreign assistance during the post-disaster period, may be given due consideration. A nucleus of inter-governmental command, control, and monitoring cell—comprising military personnel, civil bureaucrats and technocrats, media, NGOs, volunteers, etc., may be established under the aegis of The ARF. The ARF needs to better coordinate all the phases of disaster management: pre-

disaster, during disaster, and post-disaster rehabilitation programs. Monitoring and coordinating all the phases, in a web, is critical for the successful completion of the rehabilitation program. Again, The U.S. proposal to establish an ARF Transnational Threat Information Sharing Center (ATTIC) deserves consideration for the shared goal of creating a drug-free ASEAN (Diplomacy in Action, 2013). It may be noted that Japan, along with ARF partners, are “implementing anti-drug measures based on the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and other drug related treaties” (ARF Annual Security Outlook, 2013- Japan).

With the expected rise in air traffic, especially as the Open Skies Agreement is becoming operational within the ASEAN region by the end of 2015, there will be an imperative for better coordination in Search-and-Rescue (SAR) Operation. The MH 370 incident renders creating a coordinating center for SAR operations (Henrick and Ho, 2014) expedient. The ARF needs to play its due pioneering role.

For cyber-security, The ARF or ASEAN may consider the feasibility of carving out a “No- Use- Zone” by agreeing not to use advanced cyber capabilities in the region. It can, to start with, occur between ASEAN members, and subsequently between ASEAN members and other countries. The ARF may consider establishing joint working groups with The EU and The EAS. Cyber-security presupposes confidence-building that may facilitate transparency, cooperation, and improved capacity, necessary to reduce the risk of future conflict (cyber-attack) (Diplomacy in action, 2014). The ARF initiative to include cyber security, a serious looming threat, and nuclear non-proliferation in its agenda, are steps in a positive direction.

The ARF may further activate training on complex peace support, and counter-terrorism operations involving civilian, police, and military personnel. Interoperability of such complex operations involving varieties of countries, equipment, and personnel, is a great challenge. The ARF adopted, in its 12th Ministerial meeting in July 2005, a number of counter measures against terrorism that may encompass financing of terrorism, increasing border controls against cross-border movements of terrorists, and the sharing of intelligence. For capacity building on counter-terrorism in Southeast Asia, Japan has provided support in various fields, such as immigration control, aviation security, maritime and port security, and law enforcement (ASEAN Regional Forum Annual Security Outlook, 2013 -Japan). Relevant courses and training, such as cyber terrorism, terrorism financing, youth and terrorism, and prevention and rehabilitation etc., are also imparted in the Southeast Asian Regional Center for Counter-terrorism (SEARCCT), in collaboration with partners such as The United States, The United Kingdom, The European Union, and Russia. The United States is committed to

build awareness, and to share intelligence with ARF countries on Radiological Terrorism (Diplomacy in Action, 2013). The ARF may also undertake development and production of common training literature, covering regional realities, to deal with terrorism in all its dimensions and manifestations.

The ARF may continue to encourage the participants to be more transparent in matters related to national defence. Voluntary contribution by The ARF participants to the *ASEAN Regional Forum Annual Security Outlook* is a positive, transparent initiative, to which even the smaller and less developed countries actively contribute. Transparency in other areas of defence, such as arms procurement and development, and conducting joint exercises, especially maritime and anti-piracy, and counter-terrorism in line with the drills conducted by The SCO, may also be ensured. Notification of any impending military exercises – which The ARF may coordinate—may be communicated to all stakeholders. Hotlines may be established between the political and military leaders of the region. To accomplish this effectively, The ARF may consider creating a small military-diplomat staff cell. Military diplomacy may further contribute to confidence-building between the militaries of various orientations and backgrounds.

Transnational environmental issues, such as Southeast Asian haze and Northeast Asian yellow dust, health issues such as bird flu, anthrax, malaria, or other common diseases, could be underscored as part of The ARF's actionable projects. Singapore and other affected neighbors, alongside Indonesia, which is presumably culpable for trans-boundary pollution, may consider innovative and pragmatic approaches to fight the haze issue (Ewing, 2013). The ARF may look into the need for provision of resources, so to address the root causes of haze in high-risk areas such as Riau and Sumatra in Indonesia. The ARF may also coordinate sharing information on zero-burning techniques, fire-fighting improvements, peat-land management, and more effective air quality monitoring. Reducing Emissions for Deforestation and Forest Degradation (REDD+), a mechanism that offers capital incentives for maintaining forest and the services thereof, may contribute to haze-reduction strategies. The ARF may organize such support, as may be available from Singapore, Malaysia, and Brunei, to the affected countries such as Indonesia. The ARF Inter-sessional Meeting (ISM) on *Counter-terrorism and Transnational Crime* identified wildlife crime as transnational crime in its 2013 meeting. The ARF can seek support from The United States to tackle this issue (Diplomacy in Action, 2013).

The ARF, for intelligence-sharing and capacity-building, may further strengthen its ties with other regional and international organizations. It is heartening to note that The ARF has already developed links with The OSCE and The SCO. Such cooperation can be useful, at least, in areas of counter terrorism. A linkage may be

created between APEC and ARF, to be utilized as part of a cooperative strategy, so to engage both The United States and China. Australia may help in creating such linkage.

Importantly, The ARF may further expand its involvement with The UN and other international organizations that can greatly complement its efforts towards NTS issues. It is already engaged with many UN bodies, such as The UNHCR, The WHO, The UNDP, The IMO, and The International Civil Aviation Organization (ICAO). The ICAO conducted a workshop with The ARF on the consequences of a major terrorist attack. Such interaction and cooperation may be deepened and widened further.

Apart from high technology and military hardware, The ARF is considering soft approaches, so to strike at the root causes of terrorism. It is suggested that civil society groups, media, and educational institutions, may be activated and brought together for a common goal. Involvement of community and religious leaders for Inter-faith- dialogue (IFD) and Inter-community- dialogue (ICD) is also being considered. Indonesian The *ASEAN Regional Forum Annual Security Outlook 2013* has suggested applying a people-centric approach to counter terrorism, promotion of inter-civilizational dialogue, and intelligence sharing. Soft power is more effective in countering radicalization through the application of strategies such as rehabilitation, reintegration, and counter-radicalization. A special ARF task force, aimed at assessing soft-strategies and exchange of intelligence on trans-national terrorism, may be created. The ARF may consider forming a joint intelligence commission primarily to exchange intelligence on terrorism and trans-national crime. Establishment of rehabilitation centers for surrendered terrorists may also be undertaken by The ARF. The UN, The US, and other countries, can provide technical support for such ventures.

Concluding Remarks

ARF achievements, in certain distinct fields, are praiseworthy and commendable, notwithstanding those not in core geopolitical areas. The ARF must consolidate the gains it has so far made, and may, if pertinent, re-direct its core areas. Its objectives may be kept limited, but if those are realized in letter and spirit, it will contribute immensely in creating an environment of peace and tranquillity, and above all, assist to create an impulse so to resolve the outstanding issues amicably. It may continue with soft regionalism so to tame high politics. The ARF is relevant in the regional contexts, although geo- politics tends to haunt this region. However, its relevance and comparison become problematic in the international context. Such

problematic contexts render it all the more convincing to the proposition that The ARF may tilt more towards The NTS, along with confidence-building.

Tackling disasters and transnational crimes, especially terrorism, may also be viewed as a great service to this region of the world. Even its apparently limited and nuanced activities, otherwise having wider ramifications, would suffice as a *raison d'être* for its existence and relevance.

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Book review

**LETTA, CORRADO G.M. (2008). *MALAYSIA-EUROPE: STRATEGIC PARTNERSHIP FOR THE PACIFIC CENTURY*.
PUTRAJAYA: MINISTRY OF FOREIGN AFFAIRS.**

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Abstract

Revisiting Corrado Letta's book on Europe and Malaysia (2008) is meant to re-introduce a unique 'classic' to a young audience in the area of education. Malaysia's international role has grown in profile, since the book was first published and the international role and responsibility of the European Union have been exposed to big challenges. The recent integration of European Studies within language and communication programs at The Faculty of Languages and Linguistics, at The University of Malaya, and The Faculty of Modern Languages and Communication, at The Universiti Putra Malaysia, illustrates a heightened institutional interest in this field.

Key words

Europe-Malaysia relations, EU, ASEAN

Book review

Letta, Corrado G.M. (2008). *Malaysia-Europe: Strategic Partnership for the Pacific Century*. Putrajaya: Ministry of Foreign Affairs.

Anniversaries abound in ante- and post-publications of books whose numbers often make it hard for reviewers to catch up and appreciate individual titles appropriately. Corrado G.M. Letta's two-volume book on *Malaysia-Europe*, which was launched

in 2008, is such a case in point as stated by *books.google.com*, when they write that they “haven’t found any reviews in the usual places” on Letta’s book.

While the 18 diplomatic missions of European countries in Malaysia, and the EU Mission with their first Ambassador Dr. Rommel (2003-2008), celebrated the historic event in their own particular style and contribution, it was the initiative of the Asia-Europe-Institute (AEI) to focus on Malaysia’s cooperation with these European countries and The EU. Instigator and author was the AEI Senior Fellow (2005-2007) Dr. Corrado Letta. He had convinced the Hon. Dato’ Seri Utama Dr Rais Yatim, the then Minister of Foreign Affairs, that such a “book was in Malaysia’s interest” (Letta, p.VII).

Revisiting his book is therefore an attempt at introducing it to a wider audience in the area of education. Malaysia’s international role has grown in profile. However, the international role and responsibility of the European Union has been intensely queried during the years between 2008 and 2015. The ongoing integration of European Studies within the study programmes at the Faculty of Languages and Linguistics, at The University of Malaya, and the Faculty of Modern Languages and Communication, at The University Putra Malaysia, signifies institutional interest in this field.

Letta’s book comprises 722 pages parceled into “two volumes ... four parts ... (and) thirty one chapters” (p.2). Such weighty content (2.5kg) needs more than quantitative support. The author explains in the “Introduction” that his objective

is threefold, firstly, it aims to study the ... relations linking Malaysia to the 18 European countries which have embassies in Kuala Lumpur, and secondly... to investigate the notion can/should these ties be enhanced/ upgraded to ... an all-round strategic partnership? Thirdly, it is essential, for the sake of these relations, to close the ... gap between what European stakeholders know about Malaysia and ... what Malaysia does know about these European countries (p.2).

Foreign Minister Dr Rais Yatim combines synoptic remarks in his “Foreword” (p.V) with personal appreciation of the book, when he writes that this is “a work that could well be in years to come a major reference on Malaysia-Europe relations” whose “first part... develops a presentation of the main stakeholders – Malaysia and the European Union” and “proceeds to analyse the regional relationship between the EU and ASEAN” and that the “in-depth analysis of 18 European countries... is most rewarding”. He focuses on Letta’s key questions about the role Malaysia should play in the geopolitical theatre of nations and how European countries

should improve their “relations ... in order to dynamically activate their partnership with Malaysia” (pp.5-6).

The terminology and concept of “Strategic Partnership for the Pacific Century” in the subtitle of the book is left to be explained in the last “Chapter XXXI” under “Future Dynamics” (p. 650) as an “implicit assumption underlying the usage of the term that the 21st century will be dominated...by the Pacific rim states...in particular China, Japan, India and the United States. This idea can be compared with the historical Eurocentric viewpoint” (p. 698). There is no bibliographical or index reference for terminological or conceptual assistance.

Justification for such lack of common research practice is given by the author himself at the end of his “Introduction”, which will be quoted here at length because it exposes a conceptual strategy which preempts discussions of this book on a scientific level:

Experience suggests that since reading a text with many footnotes ... undoubtedly adds to the scholarly credibility of the research, it does, however, detract from getting and keeping the general reader’s vital attention which alone justifies, in the end, the research effort made. Therefore, it was decided ... not to include footnotes and bibliography, and to write a text using language as simple ... as possible. This objective had to be achieved while maintaining the vigour and rigour of a scholarly enquiry... Thus, the objective here was to use direct language because the great ambition was to target people across the board ... and not to remain within the confines of the learned practitioner’s or academic’s world. Hence the language and presentations of the arguments had to be void ... of professional jargon. (p.3)

Once scientific expectations have been reduced to topical talks on the basis of personal, official and public sources, the objective of this publication remains still the same: it is a compilation of facts and figures on Malaysia, its bilateral relation with 18 European countries, and with The EU and ASEAN, and it can still show Malaysia’s role in these regional networks. All written texts and oral discourse transcripts were appropriately structured on the basis of discerning reflection, they were analyzed, interpreted, evaluated and commented upon with ethical effort so to improve relations between all the countries involved.

Under these auspices, this book appears to be a preparatory textbook that facilitates the provision of elementary information on Malaysia and Europe. The potential student readers will easily follow a popularly written script on the development

of intercultural and political proceedings between The EU and ASEAN. They will be involved in a process of critical thinking as the narrative evolves. The author's personal opinions, expectations and assumptions may even find corresponding reactions in the reader's immediate and subjective agreement, rejection, criticism or counter-arguments, which can give the book a truly Socratic touch of ambulatory pedagogics.

The copious assortment and descriptive analysis of bilateral relations between Malaysia and 18 European countries follows the same structural pattern that was used for the overviews on Malaysia, ASEAN and The EU. The topical arrangement reminds the reader of books on 'Culture and Civilisation,' with the usual hard facts on geography, climate, or currency, followed by the social data on politics, the economy, or the media, finishing off with particular issues that are typical for the individual case in question.

The orthodox and unoriginal way of spreading and grouping the data in these core chapters (I, II, IX-XXV) may be disappointing for the user. This should, however, not divert from the fact that such particular assembly of information has unusual origins. The material is enriched with the latest official statistics, diplomatic protocols, chamber of commerce publications, personal in-house interviews with CEOs, or selected media coverage. Moreover, it includes interviews, personal observation and comment, subjective assessment, and evaluation. All of this is difficult to find and access by means of common research. Admittedly, caution may be indicated for official quotations of textual excerpts unless the official sources are noticeably mentioned, but they are often underpinned by a separated backbone of hard "Building Blocks" with foreign office releases, agreements, or legal documents (Part II, 91-96; Chapter VII, 139; Part III, 154). Overall, the collection of data is a unique and useful toolbox for students, academics, business people, and the general public alike. Letta has certainly reached his goal of informing his "stakeholders" (p. 2) of each other's country and profile (p.3).

Letta finishes most of his chapters with evaluation and outlook, and concludes his book with a quintessential "Lessons Europe Can Learn from Malaysia" (pp.702-703) and with a "Lessons Malaysia Can Learn from Europe" (p.704). They can be summarized in such a way that Europe can learn from Malaysia's massive economic success, from its innovation (p.703), and also from its clever handling of financial matters. Alternatively, Malaysia, as one of the founders of ASEAN, is advised to use its leadership skills to help ASEAN learn from European integration (p.705), and to support Asian military dynamism to become an international supporter of "threat response" (p.706). In addition, it is suggested that Malaysia help found an Asian monetary fund, and take care of its own branding in the international market.

In conclusion: Letta has built up a private bank of data with his two-volume book on Malaysia and Europe that can be recommended for use “in years to come (as) a major reference on Malaysia-Europe relations” (p. V). As much as the book may be lacking in academic discipline and may reveal formal shortcomings (*e.g. the incongruence between the table of contents and some chapter headings), it convincingly thrives on Letta’s personal mission to eradicate prejudice through knowledge and information. It is worthy of being categorized as the first preparatory text-book reader on Europe for Malaysian students and teachers.

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Additional data on the complete contents of the book:

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Scope of Journal: Articles of bi-regional interest covering Asia and Europe which may involve topics related to: ASEAN, ASEM, East Asia, EU, geo-politics, geo-strategies, global governance, international co-operation, international organisations, political economy, regional values, regionalism, social issues in biodiversity, and sustainable development.

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Malaysia has suffered from colonial rule (Ahmad, 2014). Ahmad (2014) suggested that Malaysia has suffered from colonial rule.

b) Book

Author, A. (publication year). *Title of book*. Location: Name of publisher.

For example:

Ahmad, A (2014). *History of Malaysia*. Kuala Lumpur: UM Press.

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Author, A. & Author, B. (publication year). Title of article. In Editor, A & B. Editor (eds.), *Title of book* (pp-pp). Location: Name of publisher.

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Author, A. & Author, B. (publication year). Title of article. *Title of journal*, number of volume, pp-pp.

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Ahmad, A & Andi, B. (2014). A brief introduction to history of Malaysia. *UM Journal of History*, 10:20-31.

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For example:

Ahmad, A & Andi, B. (2014). A brief introduction to history of Selangor. In Abdul, A & C. Abu (eds.), *Proceeding of the UM history conference* (pp.11-21). Kuala Lumpur: UM Press.

f) Conference presentation

Author, A. & Author, B. (publication year). *Title of conference presentation*. Paper presented at the name of conference, location.

For example:

Ahmad, A & Andi, B. (2014). *A brief introduction to history of Perak*. Paper presented at the UM history conference, Kuala Lumpur.

g) Thesis

Author, A. (publication year). *Title of thesis* (Doctorial/ Master's thesis). Name of Department, Name of University

For example:

Ahmad, A. (2014). *Economic development and investments in Penang* (Doctorial Thesis). Department of East Asian Studies, University of Malaya.

h) Internet material

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For example:

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