



**MacArthur
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Security
Initiative**

The Australian National University

**The Australian National University
and the MacArthur Foundation
Asia Security Initiative Project**

**Focus Group 3
Inaugural Progress Report**

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**“Policy Alternatives for Integrating Bilateral and
Multilateral Regional Security Approaches in the
Asia-Pacific”**

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Intersecting Economics and Security

Focus Group 3 Inaugural Meeting

The inaugural meeting of The Australian National University MacArthur Asia Security Initiative (ANU–MASI) Focus Group 3—“Intersecting Economics and Security”—was held in Manila, Philippines, on 11 March 2010. The group leader, Prof. John Ravenhill, formally welcomed the members of the Focus Group and opened the meeting with a brief overview of the MacArthur Project and the meeting’s objectives.

Prof. Ravenhill emphasized that the Focus Group meetings were being held around the region to build research networks alongside the project’s other research activities. He updated the Focus Group members on the project’s achievements during its first year.

FUTURE DIRECTIONS

“Way Ahead and Project Strategy”

The group agreed that papers would be writ-

ten to a standard length of approximately 8,000 words. The aim would be to develop a set of papers that would be ready for presentation and would thus be nearly ready for publishing by November 2010. Members of the group agreed that the preferred option would be to publish the papers as a special section or issue of a journal.

Members were also encouraged to assist in expanding the project database, initiated by Dr. David Envall, and also to seek to publish op-ed pieces.

Major themes that emerged:

- How the relationship between economic interests and military conflict is changing
- The effect of strategic competition between the main regional powers on the development of regional cooperation in trade and finance
- How and whether great powers can make use of financial tools for strategic competition given increasing financial and economic interdependence in the region
- The growing significance of resource scarcity for strategic competition in the region

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WORKING PAPER SUMMARIES & DISCUSSIONS

Paper 1

International Trade as a Factor in the Initiation and Escalation of Military Conflict in the Asia Pacific

Dr. Benjamin Goldsmith
(University of Sydney)

Dr. Goldsmith's paper examined the dynamics of trade and conflict in Asia using quantitative methods of analysis. He explained that trade seemed to be the most important factor among the Kantian (liberal) variables linked to Asia's development that reliably and significantly reduce the likelihood of the occurrence of conflicts in the region. He noted that his most recent interest was in the evolution of the Asian international system in terms of conflict over time, particularly the concept of the so-called "East Asian peace" that developed after 1979. His data showed that there was no difference in the occurrence of low level conflict in East Asia in the periods before and after this date, that is, conflicts did not escalate. Dr. Goldsmith pointed out that the factor that best predicted the prevention of escalation during this period was trade. His study compared dyads in the world before and after 1979 and revealed that the Asia-Pacific saw a decrease in the initiation of Militarized Inter-state Disputes (MID) and a decrease in serious escalation. By comparison, the rest of the world had on average a steady rate of international conflict and escalation.

Dr. Goldsmith also distinguished between trade interdependence and trade volume using the Heckman and Sartori selection models to explain conflict initiation and escalation. He emphasized that trade interdependence reduces the likelihood of conflict. On the other hand, trade might be a source of conflict between states as the amount of interaction between states leads to more opportunities for conflict. He explained that the more dependent the state is on trade, the less likely it will be to risk trade disruptions. His study also revealed that outside Asia the volume of trade actually increases the likelihood of dispute initia-

tions whereas trade interdependence does the opposite.

- Discussion of Paper 1

The Focus Group discussed what accounts for the difference between Asia and the rest of the world and whether the statistics suggest that there has been a precipitous increase in commercial interdependence. What the group found interesting was that there is an increase in interdependence as well as a significant increase in the volume of trade. It was noted again that there should be a distinction between trade interdependence and volume.

It was observed that the relationship between very powerful firms and the state is sufficiently intimate that disputes can be prevented. One question to be raised was how these disputes materialize in the first instance, but it was also noted that it is difficult to anticipate when disputes will arise.

The Focus Group also discussed whether the results of the study had any implications for official bilateral trade agreements. In addition, it was asked whether this work might be used to tease out the contradictions about trade relations and conflict by breaking down trade variables to types of trade (e.g. whether the development of intra-industry trade had different implications for the relationship between trade and conflict).

The following point concerned attempts by economists to adjust trade interdependence in relation to economic growth. That is, if a trade partner is growing more rapidly than the rest of the world, then the expectation would be that it would become a more significant trading partner.

Another query was whether the study could identify if the selection models show a correlation between the increase in trade and alliance relations. Finally, it was noted that contiguity and distance might also be important.

Paper 2

Economics and Security: The Costs of Coercion

Associate Professor Natasha Hamilton-Hart
(National University of Singapore)

Assoc. Prof. Hamilton-Hart's paper focused on different approaches or causal pathways as states develop shared economic interests. She argued that as economic interests become more salient in inter-state relations, conflict should decrease. Competition over economic opportunities and gains can, however, become factors pushing towards conflict. At the international level, these are referred to as resource-based conflicts or mercantilist ideas. At the domestic level, resources such as land become an economic commodity to be exploited and this often leads to violent conflict. An example is the 1965 violence in Indonesia. Assoc. Prof. Hamilton-Hart also asserted that, while the costs of conflict matter, of more interest is whether conflict pays. Of particular interest are conflicts within Southeast Asia (e.g. Vietnam, Burma or Cambodia). If coercion pays in Southeast Asia, the research would examine the following factors: 1) the role of natural resources including land (e.g. property rights); 2) the relationship between state and capital—whether the state has commercial interests or is just influenced by firms; and 3) the strength of political challenges of the "left" in the sense that, if commercial force or coercion is used to clear land, one of the contributing factors is the mix of incentives to take such actions.

Assoc. Prof. Hamilton-Hart also planned to work on conflicts at the domestic level, which may consist of a series of case studies. Such a survey would focus on Southeast Asia, particularly Malaysia and Indonesia.

- Discussion of Paper 2

The first question concerned the focus of the case studies. It was suggested that the research should look at anthropological data, historical data and some quantitative studies on domestic conflict or war, as well as resource-based conflicts.

It was also suggested that Burma might be an interesting case study considering that its trade with China is informal and that its government is in conflict with ethnic groups. Another possible approach would be to compare Indonesia and Malaysia or to compare more specific conflicts at the sub-state level

in Vietnam, Cambodia and Malaysia.

It was also noted that gathering the economic motivation behind coercion may be difficult.

Paper 3

The Chiang Mai Initiative (CMI)/Chiang Mai Initiative Multilateralisation (CMIM) Agreement and Regional Security Order
Dr. Helen Nesadurai
(Monash University)

Dr. Nesadurai began her presentation with a brief background on the Chiang Mai Initiative (CMI) as the context of her paper. She explained that the CMI is a liquidity facility that started out as a series of bilateral swaps and was multilateralized into a single contractual agreement governing the disbursement of funds. It has a funding pool of US\$120 billion and the key governance issues that have been settled include funding contributions, voting shares and procedures, as well as borrowing allocations. Matters still to be settled include surveillance mechanisms, the finalization of which may prove difficult. Dr. Nesadurai reiterated that the CMI is a significant exercise in regional multilateral cooperation but its effectiveness is still disputed because of the lack of a track record. The CMI has not yet disbursed any funding even though there may have been occasions when this might have been possible.

One of the more crucial dynamics within the CMI is the rivalry between China and Japan. Dr. Nesadurai highlighted some of the arguments which suggest that this rivalry has ruptured cooperation as the two countries engage in a game of one-upmanship. Others suggest that the rivalry will undermine the CMI and that it has been responsible for the slow pace of its development to date. Dr. Nesadurai noted, however, that there have been other technical reasons contributing to the CMI's slow development. Some commentators, she suggested, predict that China and Japan will now be forced to work together or that they will learn to cooperate despite the existing bilateral tensions in other areas.

Dr. Nesadurai also explained the political and strategic dynamics related to CMI

Multilateralism (CMIM). She referred to the work of William Grimes on East Asian financial regionalism, which goes beyond CMI and studies regional market development, regional financial surveillance and regional currency management as four components of an emerging regional financial order. According to Dr. Nesadurai, Grimes asserts that financial regionalism is more than just an exercise of functional cooperation and managing regional economic and financial interdependencies. Indeed, he suggests that in order to understand the evolution of regional financial cooperation, it is necessary to examine such cooperation within the prism of great power rivalry between the US, China and Japan. The CMI's institutional design has been shaped by the strategic interactions among these great powers, and such strategic dynamics will continue to shape how the CMIM evolves.

All three powers may be satisfied by the design of the CMI thus far. Both China and Japan share power and prestige, have equal contributions of 32 percent of the total funding pool, and both hold identical voting shares of 28.4 percent. The US may also be satisfied because the CMIM retains its IMF link and is nested within the overall global financial order. However, one key concern for the US is whether this multilateral regional financial order will contribute to a weakening of the US role in the region, particularly as China pushes ahead on its multilateral diplomacy by contributing vast financial resources to the East Asia fund. Japan, too, is likely to be concerned by this. Dr. Nesadurai observed that Grimes suggests that China and Japan will be intent on maintaining and likely advancing their respective leadership and influence in the region. Such competition also makes the preferences of the other

members of the ASEAN+3 (South Korea and the ASEAN states) important. China and Japan will compete to win the allegiance of their regional partners by engaging countries bilaterally rather than multilaterally.

To conclude, Dr. Nesadurai explained how the study will focus on three areas: 1) to explore whether the US, China or Japan are advancing competing or complementary financial-assistance (or partnership) programs in the other ASEAN+3 states; 2) if this is so, to examine the driving forces behind these new or enhanced bilateral relationships; and 3) to analyze how these bilateral financial arrangements will affect the regional leadership positions of the US, Japan and China.

- Discussion of Paper 3

On the issue of finance, it was noted that there is a clear link between the currency issue and politico-strategic issues. By focusing on the formal architecture of bilateral and multilateral swaps, such an analysis may overlook some of the dynamics that are creating patterns of interdependence largely between the US and Asia, such as structural deficits and rising foreign exchange reserves.

The Focus Group also discussed the concrete strategic dividends that are already in play over these types of financial and economic statecraft. For instance, the question was raised as to what the US expected to gain from assisting South Korea in 2008 as it sought to protect its bilateral arrangements over the CMI. Conversely, it is also possible to ask what the South Koreans expected from this exchange.

Finally, there was a discussion on the extent to which the study would examine strategies of cooperation and competition,

Prof. Ravenhill (second from left) leads discussions on economics and security



Photo: Sheila Flores

as well as states' capacity and willingness to pursue such strategies. For instance, the question was raised as to how Singapore or Indonesia would interact with the US in the context of China's rise.

Paper 4

Golden Straitjacket or Chinese Finger Cuffs? The US-PRC Financial "Balance of Terror" and Its Implications for Regional Security

Dr. Andrew Phillips

(Australian National University)

In his paper, Dr. Phillips discussed three possible areas for developing his research: 1) the unprecedented economic interdependence and growing strategic competition between China and the United States; 2) the impact of the financial relationship and structural imbalances emerging in the Sino-US relationship on the continued maintenance of the San Francisco system of alliances; and 3) the implications of these challenges for the future of East Asian developmentalism.

Dr. Phillips observed that, since the world's superpower is beholden to creditors, a suitable avenue for research would be the strategic consequences of America's indebtedness to China, specifically the extent to which this emerging dynamic provides China with a pointed instrument of statecraft for

Dr. Andrew Phillips: Sino-US financial relations and regional security

Photo: David Envall



displacing or mitigating US influence in the region. In terms of the third area—the challenges for developmentalism in East Asia—Dr. Phillips noted that, in view of the kind of systemic instability likely to flow from such imbalances, there are also significant implications for state-society relations within the countries of the region.

Since China is the largest US creditor, alarmists invoke the possibility of a so-called “Suez moment,” whereby China stops buying US Treasury bonds as a result of some form of crisis and so causes enormous systemic disruption and damage to the US economy. Aside from the alarmist claims, however, the consensus is that the “financial balance of terror” between the two nations is sufficiently robust to prevent the Chinese from executing such an option. In fact, the alarmist literature points instead to a general anxiety in the US over the rise of China and America's declining influence. Dr. Phillips also expressed some skepticism about the credibility of such a “financial weapon of mass destruction.”

The dynamics of deterrence provide another possible area for research. That is, while there is a preponderance of evidence suggesting that China could not use the financial relationship as a sword—as a means of strategic compellence—it is still possible that the financial relationship might be used as a diffused deterrent to American actions in the Asia-Pacific region deemed detrimental to Chinese security interests. Dr. Phillips also noted the significant implications of Sino-US financial discord for the wider strategic balance in the region and, especially, in terms of those regional powers that reside within the San Francisco system of alliances. Given the impediments to resolving these financial asymmetries, what would financial discord mean for certain American allies and, ultimately, for regional order?

- Discussion of Paper 4

The Focus Group confirmed that a promising avenue for future research on this topic would be the question of how Sino-US financial asymmetry would affect regional security and the role of the US.

It was suggested, in particular, that such research might examine power transition theory in order to provide a strategic rational choice argument for a rising power. Such a paper might also explore the relationship between sovereign debt and power, its effect on bilateral alliances, and the issue of whether this could affect the maintenance of US forward deployed forces in the region.

Other questions raised included what is the capacity of the US to use its economic clout against its rivals? And how would the US use its financial muscle without risking WTO retaliation?

Finally, the discussion turned to the issue of whether the research should predominantly focus on the Sino-US relationship or touch instead on how other countries within the region view other creditors of the United States and perceive the balance of financial forces.

Paper 5

Competition for Resources and Comprehensive Security in East Asia

Professor John Ravenhill
(Australian National University)

Prof. Ravenhill outlined the approach of his research. In particular, his paper would examine the correlation between security and raw materials supply by specifically looking at competition for access to raw materials in Asia. The aim would be to identify three possible sources of conflicts: 1) that between governments of countries that are suppliers of materials and those that are consumers; 2) that between corporations which are the dominant players in markets and governments of consumer and producer countries; and 3) between governments of consuming countries. He would look at various means through which competing interests might be reconciled.

In terms of the first source of conflict, Prof. Ravenhill would examine the dynamics involving raw materials producing countries, in particular any measures they take to limit exports. He would also look at cartel behavior among governments and measures taken to limit resource access. A recent example of

Prof. Ravenhill: Resource competition and comprehensive security

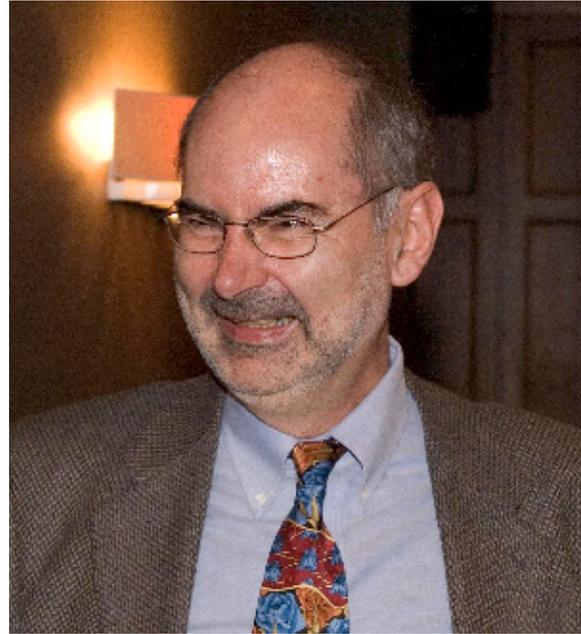


Photo: Darren Boyd / ANU CAP

the second source of conflict, Prof. Ravenhill suggested, is the alleged state espionage by Rio Tinto executives. In considering the ways in which competing interests might be reconciled—three potential areas might be examined: 1) bilateral investment treaties and the question of how government attempts to put restrictions on foreign investments might be limited; 2) trade agreements and the extent to which assurance for producer countries might be provided; and 3) the sectoral dialogues that have taken place around the region and the extent to which they have been effective.

- Discussion of Paper 5

In terms of commodity use, it was suggested that the paper might also need to consider looking at potential ways of managing resources (i.e. Japan's ambition to be energy efficient and whether this would have an effect on reducing dependence).

Two other suggestions were also made: 1) to look at whether states and companies behave differently; and 2) to look at the dynamics between smaller consumer countries and the big consumer countries and compare the degree to which they are connected to multilateral agreements. ■