

outlook

2012 SERIES | NEW ZEALAND IN SOUTHEAST ASIA

CLOSE TO ZERO: NEW ZEALAND'S ECONOMIC INTEGRATION WITH ASEAN

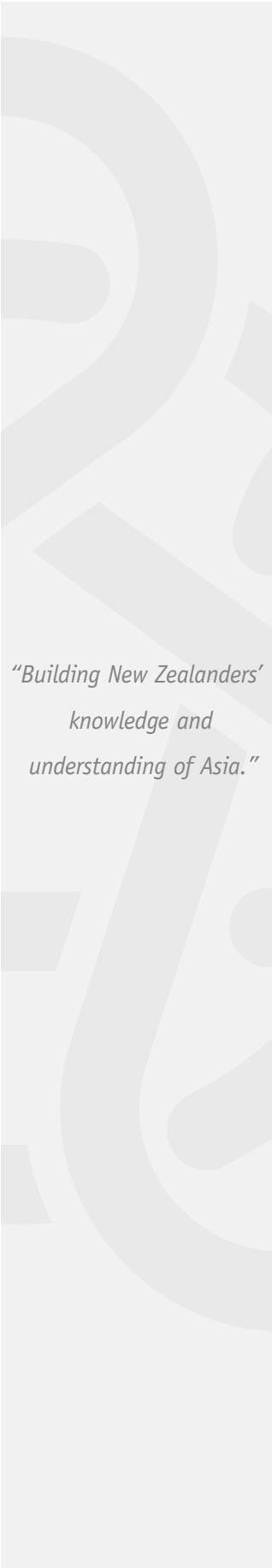
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ISSN 1177-7893 (Online-PDF)

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*“Building New Zealanders’
knowledge and
understanding of Asia.”*

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ACKNOWLEDGEMENTS

All the judgments made in this paper are entirely personal, but they draw on many years of engagement in New Zealand relations in Southeast Asia. I especially acknowledge authors who wrote relevant studies for the Institute of Policy Studies, diplomats who collaborated with those efforts, colleagues at NZPECC and CSCAP:NZ, and colleagues and friends throughout the region.

These overlapping groupings include Peter Cozens, Gerald Hensley, the late Sir Frank Holmes, the late Tan Teng Meck, Merv Norrish, Richard Nottage, Terence O'Brien, the late Noordin Sopiee, Raj Vasil, Jim Veitch, and Jusuf Wanandi. Most recently, I have benefited most from colleagues at ERIA, especially the superb partnership established by Executive Director Hidetoshi Nishimura and ASEAN Secretary-General Surin Pitsuwan, and members of the staff and network, Peter Drysdale, Fukunari Kimura, Hank Lim, the late Hadi Soesastro and Joseph Yap.

ABSTRACT

New Zealand has long been ambivalent about the Association of Southeast Asian Nations (ASEAN – a group of 10 countries in Southeast Asia which play an important role in East Asia and in Asia Pacific affairs). New Zealand has not been sure whether to treat it as an organisation or to give priority to bilateral relations with its members. Perceptions of Asia Pacific as a burgeoning economy and market tend to compete with those of a recipient of New Zealand aid.

ASEAN is a highly successful grouping of countries in Southeast Asia that are actively engaged in state-building. It is in the process of developing an "ASEAN Community", with components of a Social and Cultural Community, a Political and Security Community and an Economic Community. ASEAN will be a major player in regional affairs, although the precise meaning of ASEAN-centrality has yet to be determined.

New Zealand is seeking a more meaningful role in Asia Pacific regional affairs, and its participation in ASEAN is usually welcome. However, New Zealand needs ASEAN much more than ASEAN needs New Zealand. To integrate more closely, New Zealand needs to help ASEAN to achieve its vision, contribute more to the "learning together" nature of capability-building in ASEAN societies, and learn (just as ASEAN members need to) how to adapt rules and processes to a world increasingly characterised by trade in tasks rather than trade in goods and services.

INTRODUCTION

In the past half-century or so, New Zealand has reoriented its instinctive understanding of its place in the world. While its cultural links to Europe remain strong, the focus of its economic affairs and many other aspects of public life has shifted from Britain to the OECD (Organisation for Economic Co-operation and Development) and the Asia Pacific.

Understanding of "Asia Pacific" has also changed with time. It is best thought of as the Pacific Rim, but many New Zealanders do not see the United States as part of "Asia Pacific", any more than do many public figures on the US's east coast.

Many New Zealanders also associate 'Asia Pacific' with "Asia and the Pacific" or Asia and Polynesia. The Pacific Islands are not of great economic significance, but they were and are an area where New Zealand can contribute to "Western" security. Preventing any Soviet success in the region has been succeeded by contributing to the global struggle against terrorism. New Zealand can indeed assist Pacific economies to exclude trans-national crime and to participate in safer trade. Even more important, immigration to New Zealand from the Pacific and the growth of Pasifika communities within New Zealand reinforced the Pacific nature of New Zealand. However, the Pacific Islands do not loom large on the agenda of Asia Pacific institutions.

Official New Zealand policy has long supported the notion of "Asia Pacific", while seeking to avoid any need to choose between the US, on the one hand, and the most economically dynamic part of the world, Asia, on the other. But most New Zealanders are aware only of the rising influence of Asia as a market for New Zealand goods and services, and as a source of settlers. Its links to Britain meant that New Zealand inherited a sense of India as the centre of Asia, but India has only become prominent in economic discussions since its "Look East" policy (which marked a strategic shift in its perspective of the world) matured in the 1990s.

New Zealand's first focus on Southeast Asia came through its inherited defence links with Singapore, which evolved in 1954 into SEATO (the Southeast Asia Treaty Organization),¹ in 1964 the Vietnam War and in 1971 into the Five Power Defence Arrangements.² The Commonwealth connection also generated an aid relationship, especially (but not only) with educational scholarships for students from Malaysia and Singapore.

In the past 15 years or so, China has emerged as a global power and the US's centrality in Asian economic development has diminished. The US is still an important part of security arrangements in East Asia, but is widely seen as preoccupied with terrorism and the Middle East. As for Asia, its exports to the US remain important, but other export markets, especially the European Union, have also grown. However, that Asian growth is necessarily going to depend on the growth of Asian consumer demand.

1 SEATO was an international organisation established to block further communist gains in Southeast Asia. It was dissolved in 1977.

2 The Five Power Defence Arrangements are a series of defence relationships established through bilateral agreements between Malaysia, Singapore, New Zealand, Australia and the United Kingdom, through which the five states will consult each other in the event of external aggression or threat of attack against Peninsular Malaysia or Singapore.

"The recognition of ASEAN's significance percolated slowly, from a small group of specialists to officials and the opinion-leading community."

International diplomacy is never conducted in segregated "economic" and "security" packages. Nevertheless, in the past 20 years the US's role in Asian economic diplomacy has diverged from its role in Asian security arrangements. "Asian economic integration" has become more prominent than "Asia Pacific economic cooperation". New Zealand diplomats may continue to argue that Asian economic integration pursued through institutions like the East Asia Summit (EAS)³ is compatible with Asia Pacific processes centred on APEC and gives the US a central role, but the durability of this compatibility of this economic integration and these institutions and processes cannot be taken for granted. It is for this reason that the possibility of a shift from the *Asia Pacific* to *Asia* has to be contemplated.

THE PLACE OF ASEAN

Against this background, the Association of Southeast Asian Nations (ASEAN),⁴ established in 1967, does not figure strongly; it became prominent at the next level of detail.

New Zealand officials were originally aware only of the "possible" significance of ASEAN. It had no connections with New Zealand's defence relationships, and our educational links were mainly directed to Commonwealth countries, Malaysia and Singapore, although they were extended to other ASEAN members such as Indonesia and the Philippines. Economic relationships gradually grew, but for a long time New Zealand officials preferred to direct promotional activities to individual nations rather than ASEAN.⁵

The recognition of ASEAN's significance percolated slowly, from a small group of specialists to officials and the opinion-leading community. Public understanding was slower still, and it remains divided between a recognition of the dynamic nature of the ASEAN region and a continued belief by some that the region is merely a dumping ground for New Zealand official aid.

The Asia New Zealand Foundation's 2011 survey of New Zealanders' perceptions of Asia and Asian peoples revealed a very low level of basic knowledge of ASEAN countries. Most came from contact with immigrants, through tourism and through idiosyncratic media coverage. The only positive aspect was that warmth of feelings was positively correlated with the extent of (superficial) knowledge.⁶ Note that the research was about the countries of Southeast Asia rather than about ASEAN as an institution; it is a safe bet that there is much less public awareness of ASEAN.

It is, of course, normal for specialists to be horrified by the low level of public knowledge on topics that interest them. Most learning depends on interest, and few New Zealanders have a direct interest in international relations, whether economic or otherwise. However, many New Zealanders have an indirect interest, and efforts to attract their attention to the significance of ASEAN deserve support.

3 The East Asia Summit (EAS) is a forum held annually by the leaders of, initially, 16 countries in the East Asian region. The United States and Russia joined the EAS in 2011. EAS meetings are held after annual ASEAN leaders' meetings.

4 ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos and Vietnam. Its aims include accelerating economic growth, social progress and cultural development among its members, protecting regional peace and stability, and providing opportunities for member countries to discuss differences peacefully.

5 G.R. Hawke "The Economic Relationship", in Anthony L. Smith (ed) *Southeast Asia and New Zealand: A History of Regional and Bilateral Relations* (Singapore: Institute of Southeast Asian Studies, 2005), pp. 57-92.

6 Colmar Brunton *New Zealanders' Perceptions of Asia and Asian Peoples in 2011*, Website: www.asianz.org.nz/sites/asianz.org.nz/files/Asia_NZ_perceptions_of_asia_report_2011_final.pdf (Wellington: Asia New Zealand Foundation, April 2012), pp. 47-50; the same point about New Zealanders' ignorance is made forcefully about Indonesia in Frank Wilson *Indonesia and its Significance for New Zealand*, Website: www.asianz.org.nz/sites/asianz.org.nz/files/21_Indonesia_and_its_significance_for_nz.pdf (Wellington: Asia New Zealand Foundation, Outlook Series, 2012).

HISTORY

“While the media and international relations literature focuses on security issues, especially in the South China Seas, and while security issues such as competing boundary claims and worries about the projection of naval power are important, the ASEAN public and private sectors have focused more on adapting to China’s economic growth.”

ASEAN has evolved in its 45 years of existence. However, while New Zealand has been aware of these changes, it has not necessarily seen them as significant. For example, in recent years ASEAN has embarked on an ambitious integration process that both centres on its 10 members and acknowledges its regional and global settings. New Zealand’s participation in this initiative has been close to zero.

ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand, largely owing to their common fear of Communist expansion from Vietnam. Brunei joined in the early 1980s, and Cambodia, Laos, Myanmar and Vietnam in the 1990s. Today, Vietnam is increasingly seen as having the same capabilities as the older members, with Cambodia, Laos and Myanmar still needing time to take on the obligations that the older members share.

As the name “Association of Southeast Asian Nations” indicates, the vision was of a cohesive geographic region south of China and east of South Asia. The relationship with China was complex, as ASEAN was established in the shadow of a fear of Communist expansion fostered by the People’s Republic of China. Many considered that China had had a role in an attempted coup in Indonesia in the mid-1960s, and the “Malayan emergency”⁷ of the 1950s was widely perceived as a China-sponsored attempt to establish Communism there. It left a legacy of suspicion between the Malay and Chinese communities that underlay the separation of Singapore from Malaysia in 1965.

That said, Southeast Asia has a long history of adaptation to Chinese influences, with the most important connections being cultural rather than military or political. Even more than Asia as a whole, Southeast Asia “displays a common set of social values and similarities in cultures” that draw on Buddhism, a long history of trade and economic interactions, and intellectual exchanges.⁸

Of these, trade and intellectual exchanges were especially strong between China and Southeast Asia and were supplemented by migrations that created Chinese communities, most obviously in Singapore, Malaysia and Indonesia. Today, Vietnam has perhaps the most Sinicised culture in Southeast Asia, but even there “the most important and substantial element still rests with indigenous norms, customs and practices” and Chinese culture has been “filtered and adapted to fit local needs”, being much more acceptable when the process has been voluntary and not imposed.⁹

For the past 20 years the main Chinese influence on ASEAN has been economic. While the media and international relations literature focuses on security issues, especially in the South China Seas, and while security issues such as competing boundary claims and worries about the projection of naval power are important, the ASEAN public and private sectors have focused more on adapting to China’s economic growth. China provides both competition for some existing economic activities and opportunities for existing and new economic activities.

7 The Malayan Emergency was a guerrilla war fought between Commonwealth armed forces and the Malayan National Liberation Army, the military arm of the Malayan Communist Party, from 1948 to 1960.

8 Ram Upendra Das, C.M. Vasudev and Madhukar Gupta “Regional Integration and Cooperation in Asia – An Indian Perspective” *Global Journal of Emerging Market Economies* 3(3) (2011), p. 376.

9 Le Hong Hiep “Vietnam confronts the Chinese charm offensive” *East Asia Forum* (1 February 2012).

"The political cultures of ASEAN members vary greatly, but they share the characteristic of expecting more from political leaders and less from officials and bureaucrats than does New Zealand."

LOOKING TO INDIA

As well as looking to China, ASEAN looks westward to South Asia, and especially India. This reflects the longstanding cultural links between South and Southeast Asia, as seen in the Hindu and Buddhist influences, the Indian minority in Malaysia, and the way that Thai culture adapts Indian as much as Chinese cultures.

Initially, the dominant ASEAN attitude to India was somewhat resistant. It was said semi-facetiously that the true definition of ASEAN was "where the durian grew". Indian diplomats in Southeast Asia had a reputation for talking too much and acting in a superior manner, and the Indian Government was seen as preoccupied with Kashmir and Pakistan to the exclusion of Southeast Asian developments. Even more importantly, while ASEAN had an economic focus, India was pursuing a development plan promoted by Nehru in the 1950s that emphasised indigenous development and precluded participation in a wider Southeast Asian grouping. This changed with India's adoption of its "Look East" policy in 1991. However, while India's links to ASEAN have become much more prominent,¹⁰ India's outlooks and processes are still very different from those of ASEAN.

The boundaries of ASEAN are therefore reasonably clear. Timor-Leste is currently the only significant country applying for admission, and this has been deferred. This is not because of doubts about its eligibility or any lingering Indonesian resentment about its separation, nor do its overtures towards the Pacific Forum pose a major challenge; like the people of Papua, Timor-Leste has affiliations to Pasifika as well as to the Malay world.

The problem is simply that ASEAN members have a distinctive interaction style that depends on numerous meetings involving a wide range of politicians, officials and opinion-leaders (the well publicised ASEAN summits and ministerial meetings are merely the tip of the iceberg). There is genuine uncertainty about whether Timor-Leste has the capacity to really engage in the ASEAN process; without it, it would have great difficulty complying with ASEAN's ambitions.

One element of the constant interaction among ASEAN members is the facilitation of Track II diplomacy.¹¹ The political cultures of ASEAN members vary greatly, but they share the characteristic of expecting more from political leaders and less from officials and bureaucrats than does New Zealand.

A major reason for ASEAN's increased effectiveness in recent times has been the appointment of Surin Pitsawan (a former Foreign Minister of Thailand) as its Secretary-General. While his predecessors were admirable technocrats, Pitsawan is a leader.

The difference between ASEAN's and New Zealand's approach, in which ministers make decisions based on feasible options with defined advantages and disadvantages, all carefully delineated by officials, is one of degree, but nevertheless real.¹² ASEAN countries and opinion-leaders have recognised the opportunity and desirability to provide leaders with policy-relevant but independent knowledge and advice.

10 C. Raja Mohan "Great powers and Asia's destiny: A view from Delhi" (Wellington: CSS, The Kippenberger Lecture 2011, Discussion Paper 10/11, 2011).

11 Track II diplomacy is informal diplomacy in which non-officials engage in dialogue, with the aim of conflict resolution or confidence-building.

12 The difference extends beyond ASEAN. Shinji Takagi "The G-20 and IMF Governance Reform" *East Asia Forum* (7 August 2009) traces problems with IMF management to the role of executive directors who are middle-level bureaucrats with insufficient political access. He thinks opposition comes from a lack of enthusiasm for giving the IMF any authority; it is much more likely to come from those who think that direct responsibility by politicians lies elsewhere and IMF management depends above all on technocratic expertise. The range of national inclinations is much wider than Asian versus non-Asian; there are large differences between the US and countries with parliamentary governments, and differences between Anglo-Saxon and continental Europe.

For example, the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS is not an Institute but a set of institutes not all of which are actually labelled Strategic and International Studies), which is an association of non-government organisations with a network of think-tanks located in each ASEAN member country, played a significant part in developing the ASEAN identity.

The ASEAN-ISIS network welcomes participation from New Zealand, Australia and other countries outside Southeast Asia at its annual Asia Pacific Roundtables. New Zealand and Australia were given a closer relationship than other dialogue partners although this did not extend to official processes. Even so, despite occasional murmurings in Track II and academic settings, there was never any prospect of Australia and New Zealand being seen as potential ASEAN members.

THE ASEAN COMMUNITY

Having begun as a defence relationship, ASEAN has for some time been focused on creating an "ASEAN Community", with an implementation target of 2015. An analysis by the Economic Research Institute for ASEAN and East Asia (ERIA) suggests that this objective will be substantially achieved, despite the reservations of some commentators.¹³

It is an ambitious goal. Some commentators, within ASEAN and from further afield, hear "community" in terms of the "European Community" and immediately assume that the project's success will be measured by a commitment to single rules and an acceptance of supranational processes for monitoring and enforcing their implementation.

However, the European model is just one of the number of competing ideas of "community". For example, in the early 1990s there were proposals to convert "Asia Pacific Economic Cooperation" (APEC) to the "Asia Pacific Economic Community". It soon became clear that in some Asian languages and cultures, "community" could mean something like "big family" or a grouping defined by specific legal rules, but it was not readily translated as a community of peoples. More recently, proposals for an Asia Pacific Community or an East Asian Community have meant little more than building an institution with a membership and an agenda congenial to the proposer.

The ASEAN vision is that decisions made in the capital of any member should take account of the interests of all ASEAN members. This reflects a belief (strongly supported by history generally) that, as development proceeds, the middle classes throughout ASEAN will have more in common in many respects than the middle class of any member will have in common with the disadvantaged in their own country. At the same time, ASEAN members will continue their processes of state-building.¹⁴

All ASEAN members except Thailand emerged in the 20th century from a period of colonialism in which the authorities, whether intentionally or implicitly, fostered social and political divisions. Today, all ASEAN members value cohesion and order and have a lot in common on which the ASEAN vision can be built. This is despite the fact that their histories and cultures vary; for example, the Buddhist monarchy of Thailand is very different from the Islamic world of Indonesia, and the Philippines cannot be assimilated with either the Malay world or that of the more Sinicised members of ASEAN.

CONCERNS ABOUT "DEVELOPMENT GAPS"

All ASEAN members share a fundamental concern with "development gaps".

To the sceptics, the notion of "development" can be seen as facilitating a shift of responsibility for existing ills to events of the past, with the implication that somebody else should pay for fixing them. Through the concessions of the World Trade Organization (WTO), a country with "developing" status gains privileges with economic value, and can use that status as the basis for claiming charity as a right. It is therefore more appropriate to think of "development" in this context as "capacity-building" rather than aid.

Concerns within ASEAN about differences in income levels and standards of living – both among and within countries – are genuine. On all the usual international measures of living standards, those of ASEAN members vary widely, from the poverty of Myanmar to the wealth of Brunei. Some comparisons suggest that the disparity among the provinces of China, despite all the rhetoric about divergence between coastal regions and the interior, are less than those among ASEAN members.

"More recently, proposals for an Asia Pacific Community or an East Asian Community have meant little more than building an institution with a membership and an agenda congenial to the proposer."

13 Diana Villiers Negroponete "Will ASEAN be Swallowed Up by the Trans-Pacific Partnership?" Brookings (2 February 2012). http://www.brookings.edu/opinions/2012/0131_asean_tpp_negroponete.aspx

14 Muthiah Alagappa "A changing Asia-Pacific: Prospects for war, peace, cooperation and order" (Wellington: CSS. The Kippenberger Lecture 2009, Discussion Paper 09/11, 2009).

"ASEAN countries take a cautious approach to change."

There are also wide differences within countries. However, this is true everywhere, and ranges of income and living standards at any point of time are less important than the degree of mobility over time. It pays to remember that even in European society, the idea of speedy changes in social standing and income per capita is a recent one; for many years during the processes of industrialisation and development, social mobility occurred over generations rather than within lifetimes. That said, all ASEAN societies are concerned about economic and social disparities, for reasons ranging from altruism to genuine worries about fairness and defensive concerns about security among the better-off.

New Zealand has its own egalitarian myth. The early European settlers were keen to discard the concepts of an established church and social order and confer social status that depended more on achievement and less on birth than was true in contemporary Britain. When income distribution statistics became generally available after World War II, this concern with social equality was combined with a belief that New Zealand incomes were unusually equal. But income inequality was much as it was in other OECD countries, and New Zealand has also shared a trend which has been seen in recent decades in which technological advances and changing distributions of educational attainments have generated a wider range of incomes at each point of time while social mobility over time has constrained change in the distribution of lifetime incomes.

In ASEAN countries, concerns with social and political cohesion generate concerns with equality, both poverty alleviation and the potential for social and economic mobility.

ASEAN countries take a cautious approach to change. Opportunities for economic development are welcome, but they are closely scrutinised in terms of whether the society has the capabilities it needs to take advantage of them, and their implications for those who will experience adverse impacts as well as those who will benefit. This can of course be a disguised protection of existing privilege, but a determination to identify any need for capacity-building and to develop an overall package that can encourage positive adaptation rather than protect existing activity is always to be welcomed. It is unwise to identify caution with obstruction. Note that individual countries' focus on ensuring their *national* capabilities can compete with the promotion of an *ASEAN* identity.

A THREE-PILLARED APPROACH

The ASEAN Community has three components, or "pillars": a Social and Cultural Community, a Political and Security Community, and an Economic Community. All are important.

The ASEAN Social and Cultural Community

Commentary on the Social and Cultural Community often focuses on the ASEAN Intergovernmental Commission on Human Rights, which was created as part of its establishment.

The Commission is a significant institution and shows that ASEAN procedures can evolve. However, the principle of non-interference in internal affairs is occasionally challenged by events in individual ASEAN countries. As in other contexts, such as the United Nations, especially as the "responsibility to protect" doctrine evolves, the boundary around internal affairs is far from self-evident.

"It is important not to see ASEAN security only in terms of US-China rivalry."

There are social and cultural issues throughout ASEAN. For example, in Malaysia, the original Malay-Chinese compact (on the pace of change in their respective political pre-eminence and economic priority, and on the official intervention to implement it) is slowly being revised; Indonesia's centralism is being reconsidered in a process of devolution; the fundamental Thai constitution is being tested by the prospect of a royal succession; and Cambodia continues to seek a balance between reconciliation and justice for past events. All are part of a process of state-building while adapting to global developments, and within an endeavour to recognise the implications for other ASEAN members. The process will be one of adaptation, not surrender.

At the 2011 ASEAN Summit in Bali, the leaders issued the "Bali Declaration on ASEAN Community in a Global Community of Nations" (Bali Concord III). The main components of the section, "Socio-Cultural Cooperation" were: disaster management; sustainable development, environment and climate change; and health; science and technology; education; human resources; culture; and the high quality of life. The themes of collaborating and coordinating efforts within ASEAN on "key global issues of common interest and concern" and of enhancing the capabilities of ASEAN populations to participate in collective endeavours were explicit. So too was the determination to generate priority agendas from within ASEAN rather than respond only to external pressures.

The ASEAN Political and Security Community

The Political and Security Community is a continuation and rejuvenation of ASEAN's original focus.

Much discussion on ASEAN's security affairs focuses on its position relative to the rise of China and actual and potential conflicts in the South China Sea. However, it is important not to see ASEAN security only in terms of US-China rivalry, and the obvious formula of co-development rather than competition is always tested by pressing development opportunities. The success of this concept in Antarctica is only now being tested as the recovery of various resources becomes practicable.¹⁵

The South China Sea will continue to present specific issues, and they will be seen as more important by some leaders and opinion-leaders than by others. We should also consider the success of efforts to reduce piracy in the Malacca Straits, including how it was achieved while respecting the rights of coastal states and not ceding responsibility and control to well meaning but essentially distant powers.

ASEAN has long participated with its dialogue partners in mechanisms designed to reduce political and security concerns. The ASEAN Regional Forum (ARF), founded in the early 1990s, is typical of ASEAN in that it is supported by a Track II "Council for Security Cooperation in the Asia Pacific" (CSCAP).

Both ARF and CSCAP are often derided as mere talking shops – a reference to the founding documents' vision of a progression from confidence building to conflict resolution and preventive diplomacy, and the little movement yet made beyond confidence building. It is less commonly observed that this vision reflected the priorities of Western participants more than those of ASEAN, where "hard security" issues, nuclear proliferation and the "War on Terror" have always been less prominent than human security issues – transnational crime, cross-border health issues, emergency preparedness, etc.

¹⁵ My choice of "development opportunities" in preference to "resources" is deliberate. Economic growth has made human capabilities far more valuable than natural resources than was the case in earlier centuries. It is very easy to exaggerate the value of resources relative to the processes by which they are transformed by human skills and expertise into goods and services that are valued by consumers.

Although it has always included some participation by defence ministers and officials, ARF is seen as dominated by foreign ministers. ASEAN has recently added an expanded Defence Ministerial Meeting (ADMM+) to the array of regional institutions¹⁶ – a development welcomed by defence officials and senior military officers, but one that does not resolve the relative priority of human security issues. It will, however, strengthen ASEAN's voice in issues to which it gives high priority.¹⁷

Bali Concord III deals with political-security cooperation in two main sections.

First, "Peace, security, and stability" deals with the security agenda. It gives priority to the "principles of the independence, sovereignty, equality, territorial integrity, non-interference, and national identity of all nations" and "peaceful settlement of disputes in accordance with international law", and proceeds through transnational crimes, maritime cooperation against piracy and armed robbery, non-proliferation and disarmament of weapons of mass destruction, to narrowing development gaps and cooperation against terrorism. The rank and inclusion of "narrowing development gaps" and "to contribute to the promotion of sustained peace and stability in the region and the world at large", are significant.

Second, "Political development" deals with adherence to "the rules of law, good governance, the principles of democracy, and constitutional government" and the need to protect "human rights and fundamental freedoms as well as promote social justice".

The ASEAN Economic Community

The ASEAN Economic Community (AEC) is the most developed of the three ASEAN Community pillars. While the pace of implementation is sometimes frustrating to enthusiasts within ASEAN and to outside parties keen to share ASEAN's economic success, it is being built with solid foundations and secure components.

AEC is scheduled for completion in 2015, but more goals will be added as this is a continual process rather than a discrete project. ERIA has stated that about 75 percent of the 10 members' commitments will be completed on time – an appraisal that reflects ASEAN's new process for monitoring progress and identifying where shortfalls will occur. This has enabled ERIA to go beyond apparent or asserted assessments of implementation, and develop measures that have economic significance.

ASEAN's ability to monitor its own progress has been recognised in recent ASEAN meetings. There is no trans-national authority; ASEAN has rejuvenated the concerted unilateralism that characterised the early years of APEC and that relies on agreed objectives, peer review and mutual support.

The AEC project is happening alongside an Asia Pacific effort to boost trans-Pacific economic integration by extending the existing "P4" free trade agreement between Brunei, Chile, New Zealand and Singapore to a "Trans Pacific Partnership" (TPP) including Australia, Malaysia, Peru, the US and Vietnam, and Canada, Japan and Mexico. P4 already includes ASEAN members, TPP would include more.

Ultimately, TPP is intended to be a pathway towards a free trade area in the Asia Pacific that would comprise all APEC members, including most ASEAN members and China and Korea. (Note that "free trade" would be better expressed as economic integration or economic partnership, as free trade is now always assumed to involve much more than tariffs.)

16 The annual Shangri-La meeting in Singapore is sponsored by the London-based International Institute for Strategic Studies, and is not regarded as part of the core ASEAN process.

17 Such as cross-border health issues. For example, there is currently debate on whether information should be revealed about a scientific discovery about the transmission of H1N5, which creates the prospect of a vaccine against bird flu but could also generate the spread of the disease by humans, whether intentionally or not. It has so far been treated as a matter for American scientists (and publication has been delayed for 60 days to permit debate) but it is obviously relevant to the human security agenda of ARF and ADMM+, and the Philippines, Indonesia and Singapore are key players in the Asia-Pacific Biosafety Association. That the recommendation of the US National Advisory Board for Biosecurity against full publication is probably ineffective in the age of the internet is a separate issue. See Masamichi Minehata and Brad Glosserman "A Moment for Action for the Life Sciences" *PacNet #8* (2 February 2012).

"P4 already includes ASEAN members, TPP would include more."

TPP and AEC are not incompatible, but many ASEAN officials and participants are understandably anxious not to be deflected from the tasks of its internal community-building. However, AEC has to be built with an eye on regional and global interdependence.

The core mechanism for AEC is known as ASEAN++ or Regional Comprehensive Economic Partnership, RCEP. It is designed to complement and develop ASEAN's economic integration agreements with each of its dialogue partners, including ASEAN + China and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

We still hear a good deal about ASEAN Plus Three (China, Japan and South Korea) versus a wider grouping of ASEAN+6 (China, Japan, South Korea, India, Australia, and New Zealand) or the EAS. This owes a lot to non-economic thinking and especially to debate about the relative roles of China and Japan in Asian leadership. The crude idea behind ASEAN+6 was that, by including India, Australia and New Zealand, Japan reduced the overwhelming weight of China in the regional grouping.

Economically, the debate ended some time ago. "Plus three" versus "Plus six or eight" is an outdated concept talked about more in the think-tank community than by officials, and more in international relations than in economic diplomacy. The economic debate generated a proposed East Asia Free Trade Agreement (EAFTA) and a suggested Closer Economic Partnership for East Asia (CEPEA). The outcome was agreement at an EAS summit that the ideas of both EAFTA and CEPEA should be referred to ASEAN, with a request that it form working groups inviting participation as it thought appropriate from ASEAN dialogue partners – from the ASEAN Plus Three or more widely from ASEAN+6. Four working groups were formed and all extended invitations to all members of ASEAN+6. ASEAN++ will surely follow this precedent and extend to the wider East Asian region.

However, there is an important qualification to this conclusion. Asian economic integration integrates real and financial interactions much more so than APEC, where the Finance Ministers' Process has been crippled by APEC's origins as a gathering of trade and foreign ministers; finance ministers will defer to leaders but never to trade and foreign ministers.

TPP is a trade negotiation, and trade negotiations (like the WTO) are distinct from international financial institutions. However, it is now more than 25 years since the world was mostly characterised by the official determination of exchange rates. In a regime of floating exchange rates and with little effective restriction on investment flows, trade and finance can no longer be kept separate. It is foolish to assess the impacts of exchange rate changes on trade flows without also considering the impacts on investment flows and on to exports and imports. This equally applies to explicit and implicit exchange rate changes and so to all barriers to the flow of exports and imports.

TPP is often presented as a 21st century agreement, but the Asian integration processes have got furthest in the financial sphere. Even they have been kept distinct, but that is at least partly because the ASEAN Plus Three grouping has led the way. After the 1997-98 financial crisis, the Chiang Mai Initiative¹⁸ began a gradual growth of cooperation among the ASEAN Plus Three parties. It started with a set of limited bilateral swap agreements, and has gradually become a multilateral agreement. A recent addition is the ASEAN Macroeconomic Research Office based in Singapore, which will become a monitoring and consultation mechanism.

That the Chiang Mai Initiative still has no independent mechanism for monitoring lending and makes significant borrowing dependent on the International Monetary Fund's (IMF's) participation is often seen as a weakness, but it might be interpreted as a clever use of an international mechanism to solve a

¹⁸ The Chiang Mai Initiative is a currency swap arrangement among ASEAN's 10 members, the People's Republic of China (including Hong Kong), Japan and South Korea. It draws from a foreign exchange reserves pool worth US\$120 billion and was launched on 24 March 2010. That pool has been expanded to \$240 billion in 2012.

“There is still work to be done to bring the financial and real aspects of Asian integration into line with contemporary economic thinking, but it has moved further than have Asia-Pacific integration processes.”

reluctance to “lose face” by subjecting an economy to plurilateral supervision. It is also interesting to reflect on the possibility of the IMF becoming a contracted monitoring agent (monitoring agreements made elsewhere), rather than being the international leader in defining and implementing packages. The Asian source of much of the total international reserves makes such a scenario plausible.

Another significant mechanism for Asian financial integration is the development of Asian bond funds. This process is taking place within a subset of ASEAN Plus Three, based in the Executives Meeting of Central Banks of Asia and the Pacific (EMEAP), but without the participation of EMEAP members Japan, Australia and New Zealand.¹⁹ There is still work to be done to bring the financial and real aspects of Asian integration into line with contemporary economic thinking, but it has moved further than have Asia-Pacific integration processes.²⁰ Even so, price and transaction data suggest that Asian financial integration is far from complete; there is a significant opportunity for further welfare gains from deeper financial integration.

Asian and Asia Pacific integration processes share many common features, especially a concern with economic liberalisation and recognition that it necessarily goes beyond tariffs and border restrictions. Key differences – in addition to the integration of real and financial processes – include the explicit treatment of infrastructure and the approach to development gaps.

In terms of infrastructure, ERIA has had a significant role in energising Asian processes through developing a concept of connectivity that includes not only information and communications technology but also traditional transport operations – road, rail and maritime (with particular attention to efficient port operations). Furthermore, this has been done not in a traditional mode of national projects but through supply chains linking producers in different locations and regions crossing national boundaries. In particular, important corridors link ASEAN with India and China. Through ERIA’s “Comprehensive Asian Development Plan”, priority projects are making progress more quickly than non-priority projects, and links between financial integration and trade flow facilitation, including the removal of regulatory barriers, are being addressed in an integrated way.

Another important distinction is that Asian processes take “narrowing development gaps” much more seriously than APEC’s, whose capacity-building initiatives are dominated by training that facilitates the implementation of what suits the richer members, and indeed sometimes has the character of “do it our way”. Asian capacity-building is more about “learning together”.

The bigger distinction, however, is in the concept of development. It is seen not as a matter of official development assistance, but of facilitating participation in the contemporary regional and global economies. In economies like those of Cambodia, Laos and Myanmar, development means promoting access to participation in supply chains. In middle-income economies, it involves promoting the spread of supply chains from industries where they are already well established (such as electronics, vehicles and textiles) to sectors that are important to individual economies (such as food processing). In higher-income economies, it is about promoting the innovation capacity of supply chains in general.

19 www.emeap.org and *Institutions for Regional Integration: Towards an Asian Economic Community* (ADB, 2010), pp. 68, 143, 219.

20 Cf Shinji Takagi “Asian financial integration: an unfinished agenda” *East Asia Forum* (18 November 2011). See also Yung Chul Park and Chi-Young Song “Prospects for Monetary Cooperation in East Asia” *ADB Working Paper 314* (October 2011), although the Korean authors might well underestimate the significance of Chiang Mai and think too readily that only conventional approaches to financial regulation can work.

“Perhaps the most pressing issue is dealing with how standards should be managed so that they promote interoperability in supply chains.”

There are many hurdles to be overcome. It is worth noticing that ERIA research, while still tentative, suggests that firms participating in supply chains are more likely to be innovative, and that concerns about being reduced to minor mechanistic cogs in bigger machines are not supported.²¹ Narrowing the development gaps requires capacity-building in the sense of learning together, by both firms and regulators.

A recent season of summit meetings for Asia-Pacific and Asian processes supported these observations:

- The “Jakarta Framework on Moving the ASEAN Community Forward into 2015 and Beyond” provided a general framework for continued progress.
- ASEAN approved some ERIA suggestions for small to medium enterprises’ development, including facilitating their role in regional production networks.
- The “Declaration of the sixth East Asia Summit on ASEAN Connectivity” “included connectivity as one of the key area of cooperation of the EAS besides the existing five priorities, namely finance, energy, education, communicable diseases and disaster management”.
- There was also progress on infrastructural developments, underlining the importance of integrating financial and real processes.

There is much more to be done. Perhaps the most pressing issue is dealing with how standards should be managed so that they promote interoperability in supply chains, while innovation is fostered rather than retarded. This involves more than simply adopting US intellectual property rules, which is the approach the US is seeking in TPP. It requires an international outlook on the part of regulatory authorities that may have only a loose connection with governments,²² which shows the extent of the learning effort required.

Bali Concord III deals with “Economic Cooperation” in three sections: economic integration, economic stability, and economic development. These are very different from the APEC language of “trade and investment liberalisation” and “economic and technical cooperation”, although the common core is also apparent, especially to those who give weight to the more recent APEC language of “structural reform”.

A barrier to public understanding is that, in ordinary language, “trade” refers to goods moving across international boundaries, and “trade policy” means the determination on tariffs, while in the language of economics “trade” is simply shorthand for economic interdependence (where producers in different economies cooperate) and the most important issues of “trade policy” relate to how national regulatory requirements “behind the border” impinge of business decisions about where production should be located. This notion of being divided by a common language applies to understanding economic diplomacy as much as to incomprehension among different nationalities that use the same language.

Bali Concord III’s “economic integration” section gives priority to ASEAN’s effective participation in regional and global initiatives, then lists trade and investment issues, ASEAN participation in global supply chains, and the adoption of international best practices and standards before returning to “collaboration to adopt common positions on issues of mutual interest in regional and international fora”.

The principal elements of the “economic stability” section are cooperation on and coordination of macroeconomic economic and financial policy, participation in the G20, and reform of the international financial architecture.

²¹ The international discussion is extensive. See Tim Sturgeon MIT “Innovation and Technological Learning under Compressed Development: Global Value Chains and the Prospects for Local Industry and Enterprise”, paper presented at Victoria University of Wellington (December 2011).

²² Such as those responsible for hal’al certification in Indonesia.

“Building the ASEAN Community is a long-term endeavour, and it is going to be an important part of New Zealand’s international future.”

The “economic development” section includes items from the traditional development agenda, such as international goals and finance agreements, and newer issues such as food and energy security (with a welcome emphasis on “productivity and investment in the agricultural sector.”) In comparison with the other sections it looks distinctly dated; future iterations might include more cross-referencing to development gaps and innovation.

Building the ASEAN Community is a long-term endeavour, and it is going to be an important part of New Zealand’s international future. While it has parallels in many other integration processes, it is a unique initiative – especially in not being just the transfer of regionalism into Southeast Asia, as pioneered in Europe. The current problems of the Eurozone create uncertainties about export markets in ASEAN as everywhere else, but they have no implications for the future prospects of ASEAN community-building.

IMPLICATIONS FOR NEW ZEALAND

New Zealand diplomats put a lot of effort into Southeast Asia. Embassies and high commissions work hard to maintain friendly and productive relationships, and to facilitate New Zealand's trade and investments.

The embassy in Jakarta is accredited to ASEAN and has primary responsibility for New Zealand's relationship with the ASEAN Secretariat. (In 2011, the ASEAN chair was held by Indonesia; diplomatic management will be more complex while the ASEAN chair is held by Cambodia in 2012 and Myanmar in 2014, where New Zealand does not have direct diplomatic representation.) New Zealand participates in the EAS and is a dialogue partner with ASEAN. Southeast Asia and ASEAN both loom much larger in the agenda of the Ministry of Foreign Affairs and Trade than they did 20 years ago, let alone 40 years ago.

Yet it is hard to avoid the observation that even New Zealand diplomacy is somewhat remote from where significant changes in ASEAN are occurring. The public face of New Zealand security diplomacy looks more attuned to the security agendas of Australia and the US, and references to disaster responses and management appear to be concessions to the need to be utilitarian rather than recognition of ASEAN priorities.

In the economic field, an enormous effort went into negotiating AANZFTA. Despite its name, it deals with economic integration rather than the narrow meaning of "free trade", and although tariffs loomed large and the removal of "behind the border" barriers to international collaboration were not addressed, that owed more to the pace of change acceptable to ASEAN than to New Zealand hesitations. Nevertheless, the common observation that diplomats have opened doors but business has been slow to take advantage of the opportunities created shows that AANZFTA is not yet closely aligned with the barriers most important to New Zealand businesses.

Furthermore, much diplomatic effort is now necessarily directed towards ensuring that New Zealand and its ASEAN partners have a common understanding of the AANZFTA provisions as it is implemented. Currently, this involves responding to the complicated relations between the Indonesian government and Islamic authorities over the hal'al status of New Zealand meat exports, and there will be many more such issues over standards and product quality. These are necessarily pursued mostly in individual nations, and it is easy to forget the ASEAN dimension, although reduced barriers to intra-ASEAN trade will soon bring it to prominence again.

Most reporting on New Zealand's economic relations with ASEAN members is done in an old-fashioned or even antiquated way. The most readily available material relates to trade in goods with individual economies, with discussions of how New Zealand's temperate agricultural products are more complementary to than competitive with domestic tropical agricultural production, while ASEAN members can export different natural resource products – oils of various kinds – and the output of cheap labour to New Zealand. The information that is readily available in national statistics is not necessarily what is significant now, let alone about the important developments that are underway.

Dairy exports from New Zealand are a major component of New Zealand's economic integration with ASEAN. As the ASEAN middle-income market expands – that is, as there are more consumers in the ASEAN market with income levels comparable with New Zealand's, and as such consumers become more similar in the member countries of ASEAN – we can certainly look to New Zealand diplomats and the dairy industry to take advantage of it. But the important development is the growing cooperation between New Zealand's dairying expertise (at all stages of production and marketing) and ASEAN firms using dairy inputs from New Zealand and elsewhere to combine with other inputs to create fashion products sought by consumers, whether or not domestic. That is the meaning of international supply chains.

"Diplomatic effort is now necessarily directed towards ensuring that New Zealand and its ASEAN partners have a common understanding of the AANZFTA provisions as it is implemented."

“New Zealand’s understanding of economic integration with ASEAN remains much closer to putting butter in boxes and shifting it to consumers who live overseas than it does to how international interdependence has developed.”

The importance of complementary or competitive consumer products has been declining for the past 50 years. By the middle of the 20th century, intra-industry trade rivalled inter-industry trade; trade was based on consumer discrimination among products of the same industrial classification (domestic and imported cars, fashion goods and basic cotton textiles) rather than the classic exchange of food and raw materials for manufactured goods. More recently, trade in intermediate goods has grown relative to trade in consumer goods. Imports are further processed and combined with products from elsewhere before being sent to domestic consumers or exported. At the same time, the international exchange of services has grown relative to the international exchange of goods. The basic pattern of trade has become an exchange of tasks rather than an exchange of goods.

New Zealand’s understanding of economic integration with ASEAN remains much closer to putting butter in boxes and shifting it to consumers who live overseas than it does to how international interdependence has developed. That is the basis for the observation that New Zealand’s integration with ASEAN remains close to zero. No amount of massaging the growth of traditional exports can challenge that conclusion.

CONCLUSION

At a New Zealand Institute of International Affairs-ASEAN forum in December 2011, Minister of Foreign Affairs Murray McCully said that while ASEAN had been a "priority" in the first term of the current government, it would be a "major priority" in the second. Given the nature of the occasion, perhaps not too much should be read into this, but the forthcoming "NZ Inc Strategy" charting New Zealand's approach to ASEAN is awaited with great interest.

Minister McCully specified his four major areas of interest as agricultural diplomacy and geothermal expertise, disaster management, young business leaders, and educational scholarships – areas in which New Zealand has interests and capabilities, and which would be of interest to ASEAN. But while they progress beyond the sale of dairy produce to ASEAN, they are somewhat prosaic.

APEC suffered a major loss of stature in Southeast Asia in 1997, because it showed little understanding of the impacts of the Asian financial crisis. In Western terms, APEC was focused on liberalising and facilitating trade and investment, and was largely irrelevant to the prominent issues in the crisis. In Southeast Asia, the crisis was a challenge to the economic, social and cultural progress of the previous decade that had encouraged ASEAN to participate in APEC. The ASEAN Community was defined by those who contributed to designing and implementing an appropriate response.

New Zealand (and even more so, Australia) gained from the economic crisis because, more or less coincidentally, it provided assistance without strings to Southeast Asia, but more could have been done. It would be a great mistake to repeat the experience with ASEAN. ASEAN is concerned with building its community and, while not being part of its core, New Zealand would be well served by helping it to achieve that vision and become internationally oriented in a way that suits New Zealand's interests as well as ASEAN's.

Minister McCully has talked about making AANZFTA effective and able to contribute to regional connectivity. He has also attached significance to an Australian-Indonesian disaster risk management initiative at the EAS. All these elements need to be set within an approach of supporting the ASEAN vision.

In particular, New Zealand can contribute more to the "learning together" nature of capability-building in ASEAN societies, especially among economic regulators. How New Zealand and Australia manage issues within the Closer Economic Relations agreement, including how a small partner avoids domination by a larger one, is relevant to ASEAN, and we need to learn (just as ASEAN members do) how to adapt rules and processes to a world characterised by trade in tasks rather than trade in goods and services.

New Zealand can also contribute to ASEAN connectivity, not so much with infrastructure investment but with management processes – such as making customs and quarantine procedures compatible with facilitated trade. The current programme of bringing successful ASEAN entrepreneurs to New Zealand to connect with relevant New Zealand business expertise is a good start, but much more needs to be done.

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Gary Hawke is Professor Emeritus at Victoria University of Wellington where he was Professor of Economic History 1974-2008, Director of the Institute of Policy Studies 1987-1997, and foundation Head of the School of Government 2003-2008.

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ISSN 1177-7893 (Online-PDF)

PUBLISHED BY THE ASIA NEW ZEALAND FOUNDATION

AUGUST 2012