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Linkage between Formal and Informal Financial Sectors in Cambodia¹

By
Ngoun Sethykun²

Abstract

This study analyzes the linkage structure between the formal and informal financial sectors to find the possible financial-market integration in Cambodia so that small and medium enterprises can get access to more finance. To meet this objective, the author interviews banks, MFIs, and NGOs to triangulate the information to ascertain the current problem and the possible linkages. The results of the interview show that, firstly, the central bank is trying to protect the banking system against new risks and seeking to allow the banks and MFIs to make their own decisions. Secondly, the financial linkage is not easy to implement when the financial institutions' missions and visions are in conflict. Also, the linkage might be against the internal policy of each institution. Thirdly, the financial linkage is weakened by the competition of the international lenders, which can provide very cheap and unsecured funds. Finally, the lack of linkage is caused by the lack of coordination among donors themselves.

Although the financial linkage is limited in Cambodia, there is a possibility to expand if the central bank includes the financial linkage in its policy and if the banks and MFIs shift their strategies to accumulating savings from the saving groups. Moreover, the banks and MFIs have to expand their operation department.

1. Introduction

Most small and medium enterprises in Cambodia are at a rapidly growing stage, which is proven by their high credit demand for business expansion. However, the demand is rationed by a lack of funds, which is verified by the high deposit rate of micro finance institutions (MFIs). The sources of funds would be more available if the banks' unused assets would flow to MFIs and other informal financial institutions.

This study analyzes the linkage structure between the formal and informal financial sectors to find the possible financial-market integration in Cambodia so that small and medium enterprises can get access to more finance.

The rest of the paper is organized as follows: In Section 2, I discuss the definition of formal and informal financial sector based on various authors. Section 3 focuses on the problems of the financial sector in Cambodia, followed by the literature reviews of operational aspects of the formal and informal financial sector in Section 4, financial linkage in Section 5, and the discussion of vertical or horizontal financial linkage in Section 6. Section 7 is the research method and Section 8 is the framework of the study. Section 9 is the finding of the study. A brief conclusion is in the last section.

2. Definition of Formal and Informal Financial Sector

Many authors generally defined the formal and informal financial sectors in different ways. Germidis, Kessler, and Meghir (1991) categorized the financial sector into three levels: the formal, semi-formal, and informal financial sectors. The formal financial sector included the central bank, banking and non-banking financial intermediaries (commercial banks, merchant banks, development banks, savings banks, building societies, postal savings networks, specialized financial institutions,

social security schemes, provident funds, and insurance companies), and capital markets.

The semi-formal entities included savings and credit co-operatives and credit unions. "Semi-formal" was defined as having no registration or regular supervision, although the rules of functioning may have been laid down by law. The cooperative movement was significant because it provided an alternative form of financial intermediation for small-scale savers and borrowers. It was based on the concept of self-help through mutual solidarity.

The three basic types of the informal financial sector were individual moneylenders, groups of mutually organized individuals, and partnership firms. The individual moneylenders included friends, neighbors, relatives, landlords, professional moneylenders, input dealers, output processors, produce and itinerant traders, market vendors, storeowners, and others. Groups of individuals consisted of savings arrangements like fixed-fund associations, savings clubs, and combined savings and credit arrangements. Partnership firms included indigenous bankers and pawnbrokers in India and other non-bank financial intermediaries such as finance, investment, leasing and hire-purchase, and chit fund companies.

Pagura and Kirsten (2006) divided formal and informal financial institutions by dividing them into four groups. The most formal group consisted of commercial banks, state development banks, postal banks, insurance companies, leasing companies, and money transfer firms. The least formal included self-help groups, farmers' organizations, women's associations, indigenous savings clubs, and deposit collectors

In addition, Erhardt (2002), who studied the financial markets for small enterprises in urban and rural northern Thailand, proposed the formal-informal continuum specifically for Thailand. In order of degree of supervision and regulation from formal to informal level, the continuum started from commercial banks, bank for agriculture and agricultural cooperatives (BAAC), non-financial government institutions, cooperatives, pawnshops, traders, money-lenders, lent shares to friends and relatives.

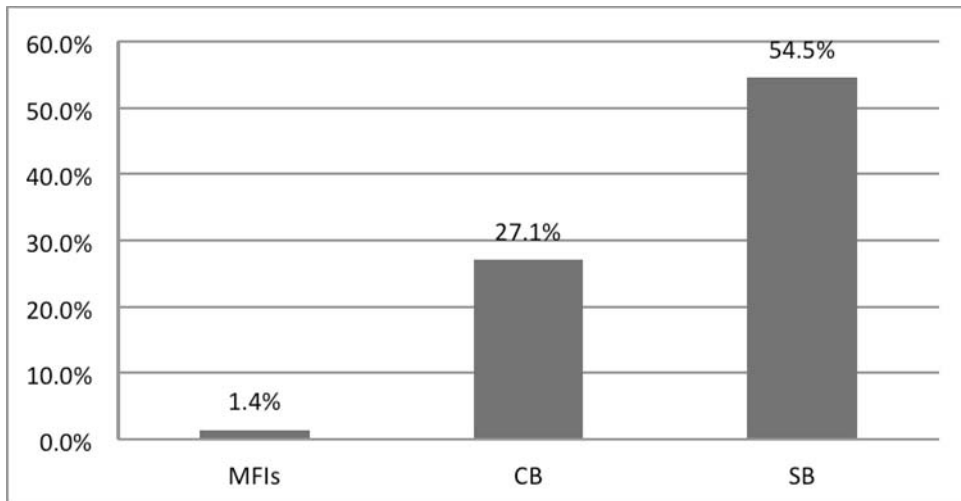
Steel (2006) segregated the financial institutions into four groups and made the division more distinct by providing more information related to their definitions, institutions, and principal clients. For example, formal banks, such as commercial and development banks and other kinds of banks, obtained licenses from the central banks. The informal ones were not legally registered at a national level although they may belong to the registered association.

Based on Steel's segregations, the author divided the financial system in Cambodia into formal, semi-informal, and informal segments. As of December 31, 2009, the formal financial sector consisted of twenty-seven commercial banks, six specialized banks (one rural development bank), and twenty licensed MFIs. The semi-formal sector included standard chartered, the Vietnam Bank for agriculture and development, and twenty-six registered NGOs. The informal financial sector contained around sixty unregistered NGOs, moneylenders, family, and friends. It was difficult to decide whether some registered NGOs should be included in the informal financial sector because they registered their whole bodies but not their financial programs with the central banks. Therefore, the list of the central bank was used to differentiate which registered NGOs were included in the informal financial sector.

3. The Problems of Financial Sector in Cambodia

The structure of commercial banks, specialized banks, and MFIs indicates the problems of the financial sector in Cambodia. As of December 31, 2009, there were one hundred offices of commercial banks (around 54%), 19 offices of MFIs (1.4%), and 6 offices of specialized banks (27%) in Phnom Penh. This indicates the concentration of the commercial and specialized banks in the city and the concentration of MFIs in the rural areas. This also shows the target clients, which the banks and MFIs have served (Figure 1).

Figure 1: Distribution Percentage of Offices in Phnom Penh

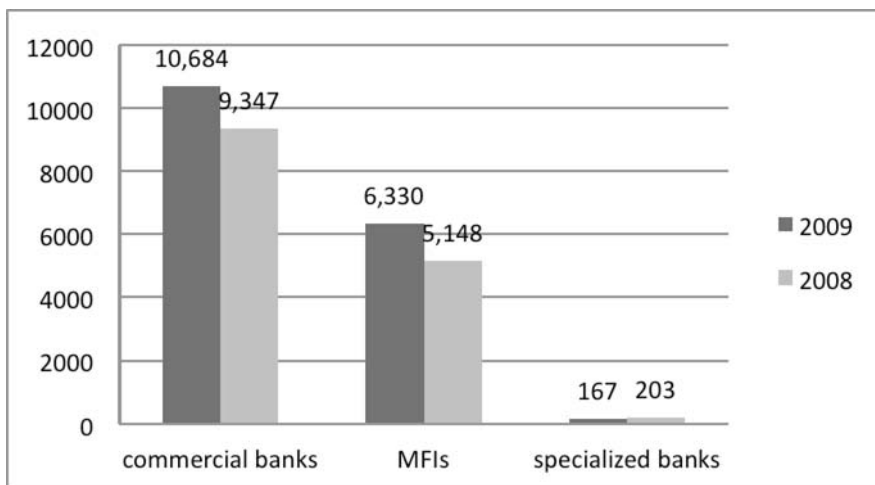


Note: CB and SB stand for commercial bank and specialized bank.

Source: Compiled by the author by using the secondary data from NBC.

The financial sector has employed a noticeable number of employees. Commercial banks employed 9,347 people in 2008 and the number of employees increased 14% to 10,684 in 2009. MFIs also employed 5,148 people in 2008 and 6,330 in 2009. Specialized banks employed 203 in 2008 but the number of employees decreased by 17% to 167 people in 2009 (Figure 2).

Figure 2: Number of Staff



Source: Compiled by the author by using the secondary data from NBC.

The characteristics of the commercial banks and MFIs' paid-up capital are inspiring as shown below. The share of Cambodian paid-up capital of banks and MFIs are 28.7% and 21.5% respectively. There is more foreign paid-up capital than domestic capital in the financial market in Cambodia. Seven banks including Canadia Bank Plc., Cambodia Mekong Bank Public Ltd., Vattanac Bank Ltd., Foreign Trade Bank of Cambodia, Rural Development Bank, PHSME Specialized Bank, Anco Specialized Bank are pure Cambodian banks. Cambodian MFIs consist of Cambodian Business Intergrate in Rural Development, Entean Akpevath Pracheachun, First Finance, Intean Poalroath Rongroeng, Tong Fang Microfinance, and YCP.

The following is the analysis of the banks' and MFIs' assets distribution as of December 31, 2009. For commercial banks, around 48% of the assets are distributed to loans and advances to private sector, and 29% to the central bank. The deposits with loans and advances to banks are only 6.7%. A similar trend is for specialized banks: 64% to loans and advances to private sector, 14% to the central bank, and 6% to the deposits with loans and advances to banks (Table 1). MFIs' assets are contributed as loans and advances to customers for 81%, and as cash and balance with National Bank of Cambodia (NBC) and other banks for 16% (Table 2).

The analysis demonstrates that the main distribution of MFIs' assets to the customers is higher than that of the commercial banks. Commercial banks have to put more deposits (around 30%) to the central bank, which might cause credit rationing in the banking system.

Table 1: Percentage Distribution of Assets of Banks as at December 31, 2009

	Cash	Deposits With NBC	Due From Banks	Deposits with, Loans and advances to Banks	Loans and advances to private sector	Accrued interest receivable	Prepaid Expenses	Fixed Assets	Other assets
Commercial banks	6.2	28.9	5.1	6.7	48.4	0.3	0.4	3.5	0.4
Specialized banks	9.7	14.1	1.1	6.1	64.1	0.7	0.5	3.5	0.2

Source: The data is from National Bank of Cambodia (NBC).

Table 2: Percentage Distribution of Assets of MFIs as at December 31, 2009

	Cash and Balance with NBC and other Banks	Loans and Advances to Customers	Prepayment and short term Receivable	Long Term Investment	Property and Equipment	Other Assets
MFIs	16.16	81.1	0.84	0.01	1.79	0.1

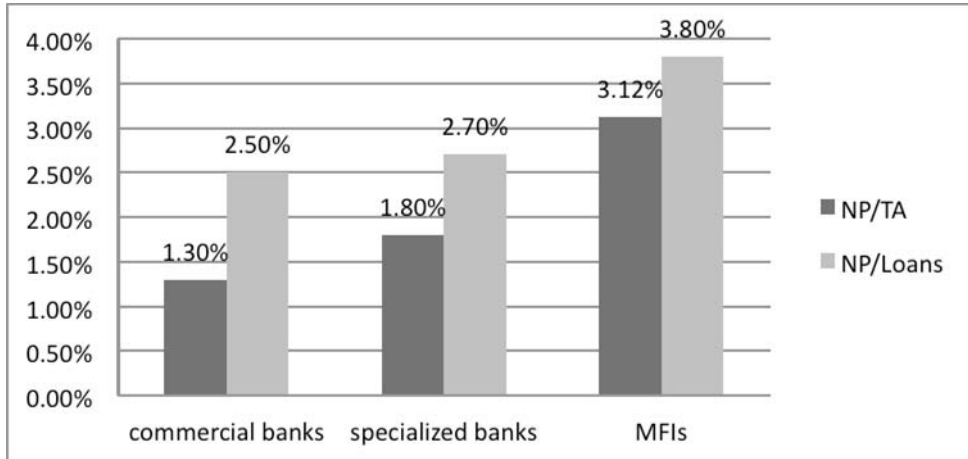
Source: The data is from National Bank of Cambodia (NBC).

The distribution of liabilities and equities of the banks and MFIs demonstrates their operation management. In regard to commercial banks, the main distribution is to demand deposits (13.6%), saving deposits (22%), and fixed deposits (31%). The distribution to the paid-up capital is also significant at 14.5%, and they owe to other banks only at 8.4%. For specialized banks, the distribution is mainly for the paid-up

capital (60%) and borrowed funds (26%). Interestingly, MFIs have to spend a lot on loan payables (75%) and paid-up capital (11%).

It is noticeable that the ratio of net profit to total assets and net profit to loans of MFIs are higher than those of the banks (Figure 3), showing that MFIs perform better than commercial banks.

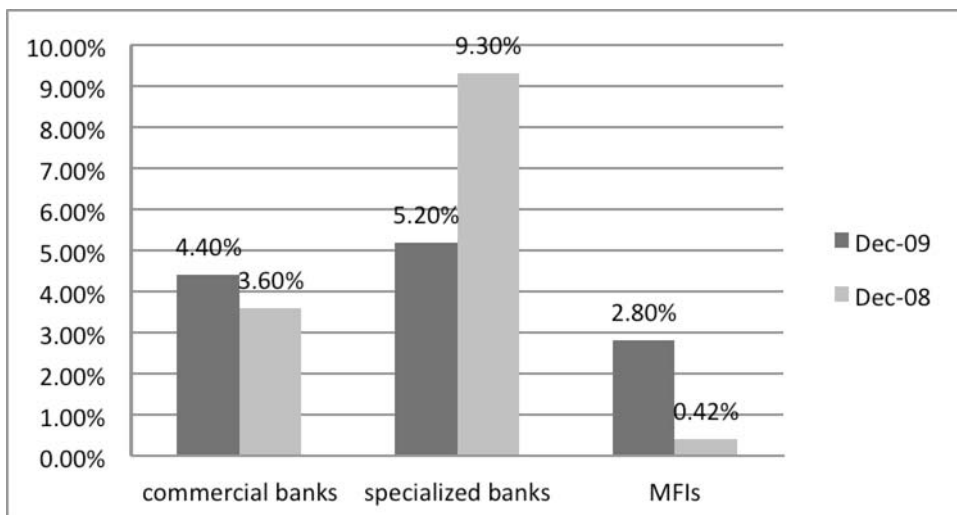
Figure 3: Net Profits to Total Assets and Loans



Source: Compiled by the author by using the secondary data from National Bank of Cambodia.

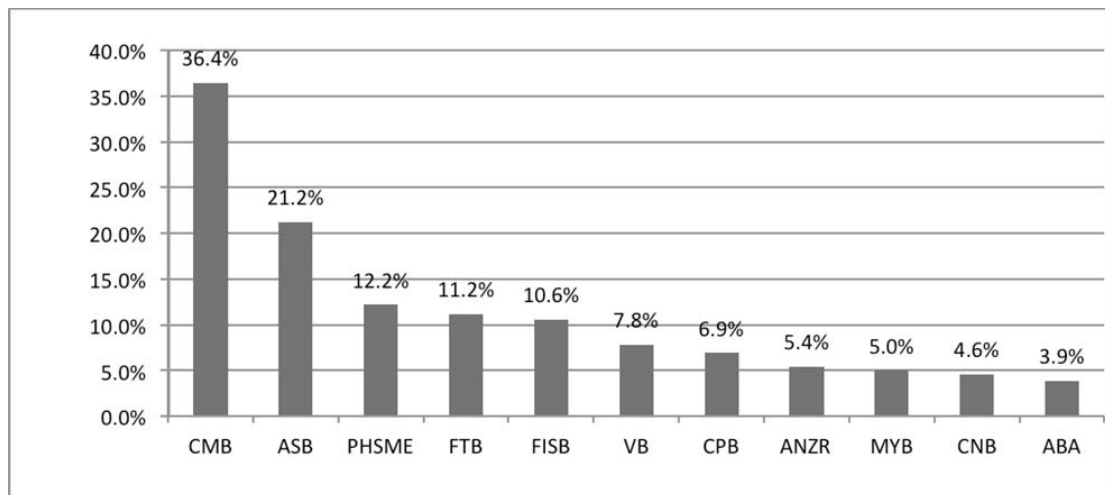
The delinquency ratio of the commercial banks and MFIs grow from 3.60% and 0.42% in 2008 to 4.40% and 2.80% in 2009 (Figure 4). In contrast, the delinquency ratio of specialized banks decreases from 9.30% in 2008 to 5.20% in 2009 (Figure 4). The highest delinquency rate of the bank (Cambodia Mekong Bank Public Ltd.) is up to 36.40% in 2009 (Figure 5), and the highest rate of MFI (Intean Poalroath Rongroeng) is only 5.25% (Figure 6).

Figure 4: Delinquency Ratio Summary of Banks and MFIs



Source: This figure is compiled by the author by using the secondary data from National Bank of Cambodia.

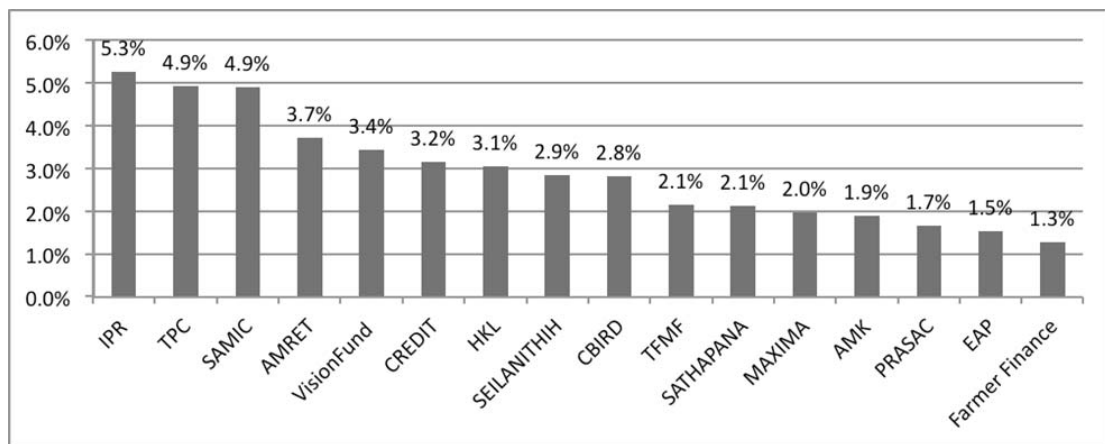
Figure 5: Delinquency Ratio of Banks as of Dec-09



Note: CMB (Cambodia Mekong Bank Public), ASB (Anco Specialized Bank), PHSME (PHSME Specialized Bank), FTB (Foreign Trade Bank of Cambodia), FISB (First Investment Specialized Bank), VB (Vattanak Bank), CPB (Cambodian Public Bank), ANZR (ANZ Royal Bank), MYB (May Bank), CNB (Canadia Bank), ABA (Advanced Bank of Asia)

Source: Compiled by the author by using the secondary data from National Bank of Cambodia.

Figure 6: Delinquency Ratio of MFIs as of Dec-09



Note: IPR (Intean Poalroath Rongroeung), TPC (Thaneakea Phum Cambodia), HKL (Hattakaksekar), CBIRD (Cambodian Business Integrate in Rural Development), TFMF (Tong Fang Microfinance), EAP (Entean Akpevath Pracheachun)

Source: Compiled by the author by using the secondary data from National Bank of Cambodia.

In summary, MFIs perform better than the banks because they use the assets wisely by providing more loans to the customers. MFIs make high profits with low delinquency rate compared to the banks. The credit supply from the commercial bank is still limited because the bank has to put high deposits to the central bank of Cambodia and because the idle assets of the banking system are not effectively used.

This study's purpose is to analyze the linkage structure between the formal and informal financial sectors in Cambodia. To achieve this objective, the following questions need to be answered:

- To what extent have the informal /less formal financial sectors received loans from the formal sector?
- Are there any financial linkages in the banking system in Cambodia?
- What are the reasons of the lack of financial linkages?

4. Operational Aspects of the Formal and Informal Financial Sectors

Germidis et al (1991) presented the characteristics of the formal finance sector as having rigid and bureaucratic procedures, cumbersome paperwork, high transaction costs (loan appraisal, documentation, and legal fees), and stringent collateral requirements for large sums of loans. The transaction costs when dealing with small clients were high, while interest rates were usually fixed at low levels by the monetary authorities.

However, the informal finance was characterized by the flexibility of operations and loan terms (short-, medium-, and long-term), easily understood rules and regulations, rapid processing of requests and delivery of credit, the willingness to handle the small amount of loans upon the requirements and the capacity of clients, minimal red tape in transactions, low transaction costs in the informal sector, and higher interest rates but higher repayment rates. The transactions were face-to-face relationships between the creditor and debtor. No collaterals were involved but sometimes tangible guarantees (such as jewelries and household appliances) were. Security on loans was dependent on the borrower's past savings, credit record, and social pressure to abide by certain rules of behavior. Furthermore, in the informal financial sector, the default risk was minimized because the information on the credit worthiness of the potential borrowers could be obtained easily and cheaply. Lenders usually lived and worked in the area nearby to their financial operations, which allowed for effective follow-up on outstanding loans. Also, lenders employed an additional means of minimizing the default risk through interlinked credit contracts and through the overlapping roles of moneylenders, landlords, employers, or produce dealers.

Germidis et al (1991) also presented two main arguments for the interest rate differential between the two financial sectors. The first argument was that informal credit markets were non-competitive and lenders had monopolistic control extracting substantial rents by taking advantage of the relative inelasticity of demand for credit by informal sector clients. The second argument was that the informal sector was competitive and that interest rates reflected the real cost of loanable funds. The two arguments were difficult to be judged because it was difficult to estimate the share of various determinants of interest rates: a premium to cover transaction costs, opportunity cost of funds, a premium for risk, and monopoly profits in the global rate charges.

Although its characteristics were better than those of the formal finance, the informal finance was still limited, meaning that SMEs in Cambodia could not get access to long-term nor large amounts of loans. Regarding this, many researchers and international organizations introduced the strategy of the financial linkage of the informal and formal financial sectors to ensure that more credit could be accessed by SMEs.

5. Financial Linkage

“Financial linkage” was defined as a mutually beneficial arrangement between formal (commercial, state, and apex banks) and semi and informal financial institutions (microfinance institutions, NGOs, credit cooperatives, village banks, and self-help groups). The foundation of the linkage, which was triggered by the natural complementarities of the formal and informal financial sectors, reduced the costs and risks in supplying services in rural areas. The complementarities principle was derived from modern economic theory that attempted to explain information, incentive and contract enforcement problems of credit markets and how they resulted in a mismatch of resources and abilities between formal and informal lenders (Pagura, 2008).

Many authors emphasized the importance of both formal and informal finance and suggested various kinds of linkage between the two sectors. They raised the importance of linkage and described successful cases of it. For example, Gallardo, Goldberg, and Randhawa (2006) showed that alliances and partnerships enabled the rural finance institutions to access significant new capital resources, manage transaction costs, acquire technical and management skills, link up to banking technology and infrastructure, and provide an expanded range of financial products and services. Moreover, Varghese (2005) added that if banks can link with moneylenders, borrowers can have access to further bank loans. Linkages could potentially improve upon a monopoly bank and bank competition. The result of the study indicated that borrowers could still prefer linkages to competition in the banking sector. Finally, Seibel and Parhusip (1990) asserted that linking informal and formal financial institutions, with financial self-help groups acting as intermediaries between micro-entrepreneurs and the banks, reduced transaction costs substantially, for the benefit of both.

Seibel (1997) & (2006) presented successful cases (pilot projects in Indonesia, the Philippines, Thailand, and Nepal) of the linkage adopted by Asia-Pacific Rural and Agricultural Credit Association (APRACA). Starting in 1988, GTZ supported bilateral projects in Indonesia, the Philippines and Thailand. At the end of a two and a half-year pilot period, 1600 self-help groups (SHGs), 16 bank branches and 15 NGOs had entered into commercial linkages in Indonesia. Later the methodology was conducted in India and the African Rural and Agricultural Credit Association ([AFRACA](#)) was established in 1996. As a result, rotating savings and credit associations (ROSCAs) in Gambia successfully linked to NGO banks. Finally, the real success of linkage was in India, where National Bank for Agriculture and Rural Development ([NABARD](#)) built what is now the largest and fastest-growing rural microfinance program.

As pointed out by FAO’s publication “Expanding the Frontier in Rural Finance” in 2008, there were three main kinds of linkages: informal-sector driven linkage, formal-sector driven linkage, and capacity-building driven linkages. The informal-sector driven linkage means that the informal institutions established linkages with a range of financial and non-financial partners to expand their service offerings and to establish more stable sources of funds. For example, Gonzalez-Vega and Quirós (2008) presented about FADES, a non-regulated NGO and the third largest MFI in Bolivia which decided to enter into strategic alliances with several public and private institutions, with the sole purpose of expanding its rural outreach, despite the existence of restrictive legislation and infrastructure constraints. León (2008) presented the case of Confianza, a regulated MFI in Peru which was formerly an NGO, of which partnerships with other MFIs and financial institutions on

sustainable terms helped the MFI to supply longer-term financial services while minimizing the volatility risk of resources.

Regarding the formal-sector driven linkages, the following authors explained the commercial banks and insurers, which could reach rural markets through connecting with selected NGOs/MFIs. Harper and Kirsten (2008) exemplified a partnership between ICICI Bank and selected NGOs/MFIs, which the latter took the responsibility of monitoring and recovering loans from individuals and self-help groups. However, the credit (and most of the risk) was directly between ICICI Bank and the SHG or individual clients. Pathak (2008) introduced the case an insurer named AVIVA India, a leading global insurance company, which took the initiative and developed linkages with some leading microfinance institutions (MFIs) to reach out to the rural market in a profitable manner.

The capacity-building driven linkages presented the range of strategies that different formal actors undertook when they entered into partnerships with local organizations to cope with their low level of institutional capacity. It included the case of FINCA/Costa Rica which specialized in the creation and linking of incorporated village banks with financial and non-financial actors in Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (Gonzalez-Vega & Quirós, 2008), the diversity of intra-and extra-group linkages with a range of financial and non-financial sectors of the Jose Maria Covelo Foundation in Honduras (Falck, Quirós, and Gozalez-Vega, 2008), and the linkages between the regional development bank (BPD) and village credit institutions (LPDs) in the province of Bali (Budastra, 2008).

Besides the linkages suggested above, Seibel (1997) proposed four linking methods such as downgrading, upgrading, linking formal and non-formal financial institutions, and infrastructural innovation (establishing new microfinance institutions). Aliber (2002) proposed that the elements of informal financial institutions could be strategically borrowed and adapted to suit the needs of the MFI or bank. Furthermore, MFIs and banks could form strategic links with informal financial institutions. Finally, Germidis et al (1991) suggested that there should be financial integration (horizontal integration) and inter-linkage (vertical integration).

6. Vertical linkage or horizontal linkage

Many researchers have emphasized the importance of formal finance to economic growth in comparison with informal finance. To provide the credit to SMEs, some of them suggested various linkage techniques including the vertical linkage between formal and informal finance. The effectiveness of such a mechanism was questionable because there could be a case of collusion, strategic cooperation, or monopolistic competition among the credit suppliers. Furthermore, some authors also pointed out the constraints of the development of such a linkage.

Floro and Ray (1997) looked at the evidence from the Philippines and proposed that the effects of stronger vertical links depended on a form of the lenders' competition. If the relationship among lenders is one of strategic cooperation (collusion), an expansion of formal credit may reduce the expansion of the supply of credit.

In addition, Hoff and Stiglitz (1997) did not support the policy of vertical linkage by claiming that subsidies may have perverse effects under monopolistic competition. The negative externalities among suppliers may have raised the informal interest rate by raising the costs of loan enforcement, which results from an increase in the number of lenders in the informal credit market. Their findings were in

accordance with the puzzling evidence that injecting of government-subsidized formal credit has not improved the terms offered by moneylenders.

However, Chaudhuri and Dwivedi (2002) found that the policy of forming vertical linkage between the formal and informal credit institutions was clearly superior to a policy of horizontal linkage (substituting the informal sector by the formal one). They pointed out that the policy of vertical linkage ensured lower informal interest rates and higher agricultural productivity if compared with the horizontal linkage case. They also studied the case of collusion between the informal lenders and found that the interest rate was still lower in the vertical linkage case, which was in contradiction to the findings of Floro and Ray (1997) and Hoff and Stiglitz (1997).

Even though the possible linkages of informal and formal sectors were suggested, many problems of the development of such a linkage were perceived. For example, trying to provide opportunities for improving and extending financial markets and safety nets for the poor, Conning and Kevane (2002) suggested four explanations for the sluggishness of adoption of the linkage: problems of information asymmetry, lack of intermediary capital, and crowding-out; lock-in and few incentives to deal with an intermediary from the more anonymous national market; social norms against cooperation with intermediaries; and political economy model of resistance to new institutions because of possible shifts in relative bargaining power.

In addition, Pagura and Kirsten (2006), who studied about formal-informal financial linkages by conducting twelve case studies in eleven countries in Africa, Asia and Latin America, showed that formal financial institutions increasingly used financial linkages to target rural clients by taking less formal or rural financial institutions as linkage partners. They confirmed that even though financial linkages seemed promising they were difficult to set up and manage, required less strong formal as well as formal institutions, and rarely yielded a significant expansion of financial services beyond credit.

Aryeetey (2008) remarked that many formal financial institutions in Sub-Saharan Africa did not link up with informal finance sector because of considerable distrust, inadequate knowledge about the informal sector and in some cases prejudice. Therefore, there is an obvious need for national policy frameworks that have appropriate levels of incentive and regulatory policies as a context for achieving these desired linkages. It is also necessary for this framework to draw on broader economic relationships by ensuring that the approach is truly driven by demand from the real sector.

7. Research Method

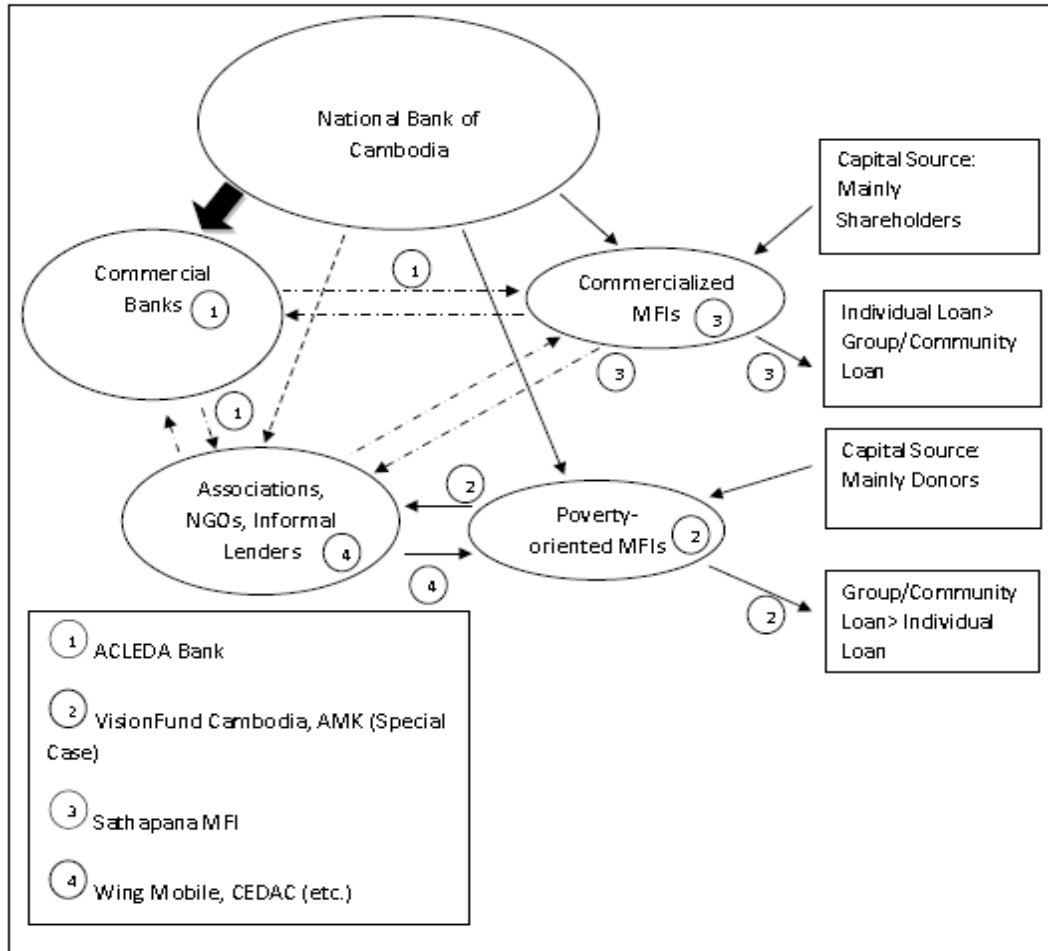
The author took internship at ACLEDA Bank, Sathapana, VisionFund Cambodia, AMK, NBC to do the interview to identify the lending policies and the situation of the financial linkage of formal and informal financial sector in Cambodia. To triangulate the information, the author interviewed a representative from CEDAC and Wing Mobile as well.

8. Framework of the Study

There are two groups of microfinance institutions in Cambodia. The first one is profit-oriented MFIs, of which most of their funds are owned by shareholders and the least of the funds are owned by donors. The first group tends to get access to commercial banks' loans for the back-up of the illiquidity. The second group, in

contrast, mainly receives funds from donors, which aim to reduce poverty. They tend to link with other associations and NGOs to get access to more funds to serve specific group of clients (Figure 7).

Figure 7: The Financial Linkage Framework



Source: By the author using the information from the internship at AMK, VisionFund, Sathapana, ACLEDA Bank, NBC and from the interview with the representatives from Wing Mobile, CEDAC

9. Findings

The following section is the result of the analysis of the information collected from the commercial banks, MFIs and NGOs. The analysis mainly focuses on how commercial banks and MFIs link with other institutions and what problems hinder the financial linkage.

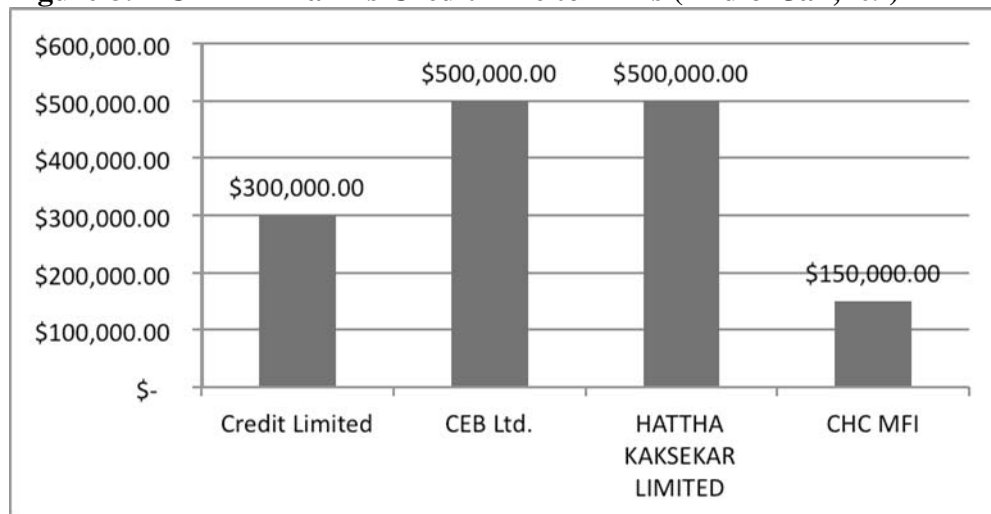
9.1 Commercial Bank and the Financial Linkage

ACLEDA Bank is one of the most well-known banks in Cambodia. According to its loan characteristics and criteria, ACLEDA Bank provides loans to various kinds of clients, for example credit lines to MFIs. The following graph shows the credit line amount as of the end of January, 2009 of about 0.26% (Figure 8) and as of the end of January 2010 of about 0.12% of the bank's total loan on December 31, 2009 (Figure 9). The credit lines are mostly used for the reserve funds. Only six out of eighteen

MFIs can get access to the credit lines of ACLEDA Bank, partly due to the urgent demand of the institutions.

The analysis of the data above is supported by the results of the interview with a credit supervisor at Steung Meanchey Branch. In the interview, he claims that ACLEDA Bank ① is willing to provide loans to any NGO, association, and informal lender with a special interest rate. However, the bank rejects all the linkage requests from any institutions because he claims that the linkage will not work in the case of Cambodia (Figure 7). The bank is willing to produce the financial services by itself. For example, the bank currently announced the new mobile financial services in Cambodia while Wing Mobile ④ is affiliated with other financial institutions such as VisionFund Cambodia and AMK MFIs ② (Figure 7).

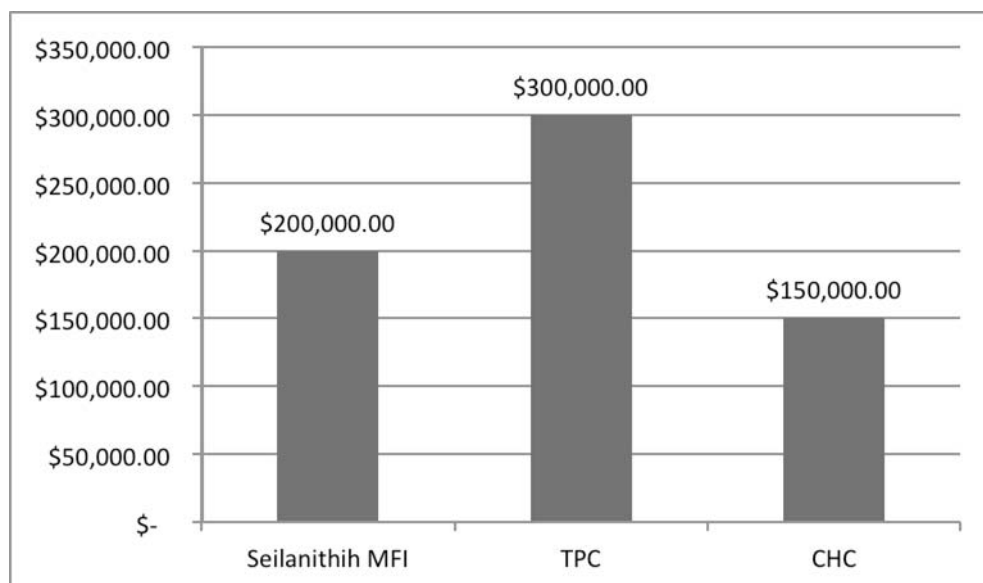
Figure 8: ACLEDA Bank's Credit Line to MFIs (End of Jan, '09)



Note: CEB (Cambodian Entrepreneur Building now Sathapana MFI), CHC (Cambodian Health Committee now SAMIC MFI),

Source: Compiled by the author using data from ACLEDA Bank.

Figure 9: ACLEDA Bank's Credit Line to MFIs (End of Jan, '10)



Note: TPC (Thaneakea Phum Cambodia), CHC (Cambodian Health Committee now SAMIC MFI)

Source: Compiled by the author using data from ACEDA BANK

9.2 MFIs and the Financial Linkage

The interview revealed that there are two kinds of microfinance institutions in Cambodia. The first group is more social-oriented while the second group is more profit-oriented. Both of them have different and similar characteristics based on their vision and mission. The pro-poor group mostly obtains fund from the international organizations or associations and tends to link with other local and international financial institutions. They mainly focus on the group/community loans, which are mainly provided to the poor.

The example of the first group of financial institution is VisionFund Cambodia (VFC) whose mission is to provide financial services to help the poor liberate themselves from poverty. It is a huge mission for the company since there are lots of poor people in Cambodia. According to the result of the fieldwork study, the company has joined partnership with many institutions such as World Vision, KHANA, Plan Cambodia, ILO in Cambodia, Hagar, Wing Mobile Money, and Cambodian Center for Study and Development in Agriculture (CEDAC) (Figure 7). As pointed by the prevailing missions of the mentioned organizations, VFC has provided financial services to the clients of the organizations' members. The services include food and water security, health and nutrition, HIV/AIDS prevention and care, peace and justice, and education, agricultural activities, assistance for child labor, women employment, mobile financial services, and enhanced agriculture productivities. The linkage points out the strongest point of VFC although it is hard for the institution to control the linkage. According to VFC's senior operation manager, the financial partnership or linkage with other NGOs is a complicated system and hard to control. It might be part of the reason why the growth of the company was sluggish during the economic crisis, in addition to the willingness to stick to the mission to help the poor out of the poverty.

VFC receives loans from various financial institutions such as Deutsche Bank, Oikocredit, Blueorchard, ANZ Royal Bank, Planet Finance, and Developing World Market (DWM). Among the institutions, only ANZ Royal Bank is located in Cambodia so the linkage can barely be perceived from the bank to MFI. The question is why VFC cannot receive funds from other domestic banks.

Even though the linkage exists between VFC and the partners, the clients have to present their collaterals before getting a specific amount of loan. VFC is willing to give loans to the informal moneylenders, other NGOs, or associations directly as long as they have collaterals to pledge. Collateral is needed for the NGOs or associations, which are not well linked with the company.

Angkor Mikroheranhvatho Kampuchea (AMK) is another example of the first group of MFIs. AMK is a special case and its mission is "to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services." It has a partnership with many international organizations such as IFC, KIVA, UNITUS, Imp-Act, and the Clean Business Initiative (Figure 7).

AMK has just started to mobilize savings to be used as a source of funds. Mostly, they get unsecured loans and external funds with low-interest rates compared to local banks. It gets funds mainly from various shareholders (Concern Worldwide, Dublin & UK), lenders abroad (Moringaway, ICO, Symbiotics SA Information, Oikocredit, Hivos-Triodos Fonds, BlueOrchard, Rural Impulse Fund, KIVA

Microfunds, The Minerva Treehouse, Micro Finance Alliance Fund), and Foreign Trade Bank of Cambodia (FTB). AMK gets loans from FTB to hedge against the exchange risk. AMK, however, has not yet received loans from the banks (except FTB) in Cambodia since the banks are not open to MFIs and interest rates are still expensive compared to AMK's partners. AMK puts deposits (the leftover fund) with ANZ Bank because the bank is famous and with ACLEDA Bank because it has branches in twenty-four provinces, which means that it is easy to clear money and payroll payment.

Related to the linkage, AMK is not willing to give loans to the clients (NGOs, Associations, money lenders) which borrow credit to relend because there is a conflict of interest, which is typically different from VisionFund Cambodia. AMK is afraid of the influence of the association leader on the members (charging higher interest rate), and besides the small-scale association is fragile. However, it has had a partnership with Wing Mobile for three years from 2010.

Based on the interview with AMK's product development manager, the difficulty of linkage depends on the mission and vision of each institution. The linkage would be easy if their missions were the same. Moreover, the operations department has to expand their transactions. He commented, "Our partners do not understand our business clearly so it is time-consuming to discuss with each other." He explained that the advantage of the linkage is a kind of synergy business and it can boost better services.

In contrast, the second group tends to receive funds from the shareholders who are likely in the risk-averse countries and from donors. They sometimes get loans from the commercial banks and institutions to meet their short-term illiquidity. They tend to deviate from the financial linkage or reject the request from any external financial organizations or associations. They see the linkage as the hindrance for their profit earning because they perceive the linkage as a complicated system which is costly and hard to manage. This group tends to focus on the individual loans that are large because it is more secure with collaterals.

The example of the second group is Sathapana MFI ③ whose mission is "to empower entrepreneurial poor people, especially women in urban and rural areas to develop their income-generating activities and micro-enterprises through access to microfinance services, including credit and saving, at reasonable rates." It follows the model of ACLEDA Bank with the hope to get more profits and savings to attract more shareholders. However, it rejected the requests from Forte Insurance Company and Wing Mobile (Figure 7).

The linkage between MFIs and the commercial banks can make the banking system in Cambodia more systematic in the sense that the financial liberalization can be hastened, but there needs to be more prudential regulations and safeguard framework to avoid the system risk occurring during the crisis.

9.3 Other Stakeholders

Some companies, NGOs, and the central bank of Cambodia were interviewed to understand more about the linkage. Wing Mobile is a subsidiary of ANZ Royal (55% of shares) and Royal Group. It is licensed by NBC so it can run in Khmer Riel and US dollar. The purpose is to serve people who do not have bank accounts and people who are ignored by the banks. Wing has many cash outlets with around 650 merchants: cell phone shops, money exchange places, pharmacies. Wing also uses Wing pilot sale force plus commercials, radio, financial literacy, and billboards.

Wing Mobile ④ provides products such as cashing, deposit, payment, wing-to-wing and wing-to-no-wing transfer, phone top-up and bill payment. It has linked with almost all phone operators and two MFIs (VFC, AMK) to share the benefits (Figure 7).

Based on the interview with the strategic partner manager of Wing Mobile, the difficulties of linkage are regulations, technical and process of linkage. He said Wing Mobile plans to link with other MFIs and international organization such as UNICEF.

CEDAC ④ was set up in August 1997 as a local Cambodian NGO to develop sustainable agriculture and rural development in Cambodia in response to the country's desperate need for national construction. CEDAC has set up many kinds of groups including savings for self-reliance or saving group. There are 5,085 groups, 88,631 members (Female: 56,686) in 20 provinces, and the total amount of savings is around 4 million US dollars (Figure 7).

So far CEDAC has faced some challenges of the financial linkages with other institutions. First, it holds a partnership with VFC so that VFC can give loans to its famers' association (25 groups in 8 provinces), but thus far VFC can provide loans to one group only based on its collateral (land and rice storage). CEDAC is willing to guarantee (100%) the famers' association but VFC has not accepted it yet. Second, CEDAC does not accept the linkage request from Wing Mobile. Finally, it waits for the promulgation of a new regulation of the mutual savings' license from the central bank.

The interview with the National Bank of Cambodia (NBC) revealed that the inter-bank market is not yet ready, and there is only loan agreement among banks which have a good relationship. NBC gives loans to the commercial bank when they face the liquidity shortage, but collateral is needed.

The Central Bank cannot interfere with the commercial banks' transactions although it requires the commercial banks to have a sound lending policy and loan committee. Therefore, the commercial bank can give loans to any kind of borrower, but the amount cannot exceed 20% of the net worth. Regarding the financial linkage, the deputy division chief at the MFIs' supervision division said, "the central bank will not interfere with the financial linkage, but the linkage sounds promising."

Conclusion

Rarely do any commercial banks in Cambodia give loans to MFIs, NGOs, and associations, partly because they cannot compete with the low-cost funds from abroad and because they are not willing to provide loans to the financial institutions, which undermine the linkage between the commercial banks and MFIs/NGOs.

Since two kinds of MFIs, those which are more social-oriented and those which are more profit-oriented, prevail in Cambodia, the linkage between MFIs and other NGOs and associations is characterized into two ways. More social-oriented MFIs (VFC and AMK) tend to link with various NGOs and associations although they realize that their operation departments have to take more responsibilities. Meanwhile, more profit-oriented microfinance institutions such as Sathapana MFI is likely to focus mainly on their savings and loan services in order to turn into a commercial bank.

To sum up, the financial linkage among the formal and informal financial sectors is still limited in Cambodia, but there is a possibility to expand if the central bank plays a role as a facilitator and if the banks and MFIs shift their strategies by accommodating deposits/savings from saving groups. The central bank should

quickly promulgate the new regulations regarding the organization and conduct of the mutual savings and other semi-formal financial institutions so that it can supervise them and facilitate the linkage more effectively. In addition, the banks and MFIs have to show their willingness to generate the financial linkage and have to expand their operation section.

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Keynote Speech

***"ASEAN Balancing Act in Response to
China's Rise and the New Regional Order"***

**By Pou Sothirak, Visiting Senior Research Fellow
The Institute of Southeast Asian Studies in Singapore**

Training Workshop on

ASEAN's Open Regionalism in Balancing Regional Power Relations

Sunway Hotel, Phnom Penh, Cambodia

10-12 August, 2011

- HRH Samdech Norodom Sirivudh, Member of the Constitutional Council and Founder and Chairman of CICP
- H.E. Dr. Cheam Yeap, Chairman of the Commission of Economy, Finance, Banking and Audit, National Assembly of the Kingdom of Cambodia
- Honorable Members of Parliaments of the Kingdom of Cambodia
- Dr. Stefanie Elies, Director of Friedrich-Ebert-Stiftung, Office for Regional Cooperation Asia
- Excellencies, Ladies and Gentlemen, and Distinguished Participants

At the outset, please allow me to extend my warm personal greeting to all esteem Members of Parliament of the Kingdom of Cambodia who are with us today and some of whom were my dear friends when I was an MP myself from 1993-1998.

I must first extend my sincere appreciation to HRH Samdech Norodom Sirivudh, Member of the Constitutional Council and Founder and Chairman of CICP, and Dr. Stefanie Elies, Director of Friedrich-Ebert-Stiftung, Office for Regional Cooperation Asia for their kind invitation. I appreciate the opportunity to deliver a keynote speech on the theme of "*ASEAN Balancing Act in Response to China's Rise and the New Regional Order*" at this important workshop.

Your Royal Highness, Excellencies, Ladies and Gentlemen

For the past 50 years, the world has experienced relative peace and economic growth as a result of foundations that were laid by globalization. However, all would agree that major shocks have occurred within the last decade, whose ramifications are still being addressed. From the horror of 9/11 and the continuing fight against terrorism to the death of Osama bin Laden notwithstanding: the global financial crisis of 2008; the risk of some euro zone countries' defaults and the cutting of the long term US credit rating; the political heat wave running across Tunisia, Egypt and the ongoing conflict in Libya and Syria; and the 22 July bombing and ruthless killing of 77 innocent lives in Norway by a lone anti-Muslim extremist has traumatized the continent, once again, in a big wave.

At the beginning of this century, the world witnesses a tectonic shifting of the weight of economic activity eastward from the Atlantic to the Pacific. The erosion of the American's aura as the world economic haven and as the world's only superpower is

now challenge by the fast and aggressive rise of China. This phenomenon can precipitate destructive change if all stakeholders fail to put together appropriate arrangements to accommodate such shifting influence.

My paper focuses mainly on two parts. First, it addresses the neo-liberalist argument that it is the inherent nature of the international system, not state themselves, that dictate and influence state behavior and give rise to changing order in this region. It also highlights a formation of a bipolar order as a result of the balance of power competition between new and old powers. Second, I discuss ASEAN's regionalism as a local manifestation of global economic, political and security development in balancing major power in the changing landscape of regional order. I then review ASEAN's strategic position in its ability to sway in-between the tension created by two most powerful states – US and China – which has dictated and influences state behavior in the region. In conclusion, I offer some suggestions as to how ASEAN regionalism can address effectively the security challenges facing the region?

I. Part 1: Bipolar order is in the making

History reveals that Southeast Asia has long been regarded as strategic zone of tussle where intense power politics plays out by external powers. In fact, this trend is repeating itself at present day and it will persist well into the future. They have competed with each other fiercely for ultimate domination of the region. Although the driving factors in Asia power competition stem from historical legacy and on-going sovereignty disputes, but the potential confrontation lies instead with the structural conflict of interest between two most powerful states, the United States and China, driven by their mutual mistrust and ideological, strategic and political differences that cannot be channeled through a monolithic security process.

This power competition shares, in many ways, a prediction in 2009 made by Stephen Walt,¹ Professor of International Relations at Harvard University, that while we are not seeing a multi-polar world anytime soon, we might see a bipolar world between the US and China in 20 to 30 years time.² This new order is happening due to the redistribution of economic power with the rise of new economies and the structural conflict of interests between America and China, and in turn forces other countries to choose sides in the Sino-US rivalry.

In the security realm, where the US and its allies such as the EU, Japan, and South Korea make up the biggest network of power but is now balancing by China, Russia and their allies, a bipolar order has begun to take shape in Southeast Asia. This bipolarity rooted in emerging security conflicts between US and China as indicated by problems China experienced with its neighbors in 2010 which in effect is an attribution to the trouble Sino-US relations after US arms sale to Taiwan in 2009, the allegation by the US for the sinking of the Cheonan South Korean submarine by

¹ Stephen Martin Walt, Wikipedia, the free encyclopedia, <http://en.wikipedia.org/wiki/Stephen_Walt> (accessed 5 August 2011)

² Stephen M. Walt, "What I told the Navy",

< http://walt.foreignpolicy.com/posts/2009/06/18/what_i_told_the_navy> (accessed 4 August 2011)

North Korea in March 26, 2010, and the recent squabble of bilateral territorial disputes in the South China Sea.

The recent sharpened hostility in May over territorial claims in the South China Sea has set in motion a confrontational mood between China and Vietnam and the Philippines and to some extent with the US.

Besides sanctioning foreign oil companies that worked with the Philippines and Vietnam, there had been reports that Chinese maritime surveillance vessels, a fleet that is set to expand significantly in the future, have been cutting cables of Philippine and Vietnamese survey ships. The Philippines' President Benigno Aquino told visiting Chinese Defense Minister Gen. Liang Guanglie in May, if provoked, the Philippines will take steps to protect its territorial water.³

By accusing China of hindering the operation of a Vietnamese oil and gas exploration boat, on June 13, Vietnamese navy conducted a 9 hours live-ammunition exercise in the dispute area about 250 kilometers away from Xisha (Paracel) Island. On June 15, China sent one of its largest maritime surveillance ships, the Haixun 31, to Singapore through the South China Sea with the task to monitor shipping, carry out surveying duties, inspect oil wells and protect maritime security.

Although Beijing shows no room for compromise, as the conflicts often involve its "core national interests", its recent action pushes the two Southeast Asian countries closer to Washington, favoring the US leadership in Asia by way of constraining China through regional states, which is key part of Washington hedging strategy. The tension in the South China Sea has caused increasing concern in Washington, as it now sees the need to seek coordinated and collective pressure on Beijing. The US is ready to provide hardware to modernize the military of its close ally.⁴ US Secretary of State Hillary Clinton said that the US would honor its 1951 Mutual Defense Treaty which commits the US to defend the Philippines from external aggression, including any attack on Philippine public vessels (naval or air) in the Pacific. As for Vietnam, the military cooperation with the US has been increased, despite the fact that there is no military alliance.

This present hostility prescribes the long and arduous dispute not only between China and its neighboring states, but also a conflict of interest between China and US. Neither Vietnam nor the Philippines possess military strength to match China, though both countries count on the US to bolster their capacity to counter China, if the People Liberation Army navy invades their water. Without the American cover, the smaller neighbors of China have no option but to succumb to China's comprehensive might.

Therefore, an eminent danger facing the regional order today is a lack of ability to manage, and in particular not to mismanage the global challenges we face today,

³ Bhaskar Roy, Spratly Island: A New Geo-Strategic Game?

<<http://www.c3sindia.org/eastasia?2431>> (accessed 30 June 2011)

⁴ AFP, Manila get US intelligence pledge, the Straits Times, June 26, 2011

including that of terrorism, violence, global injustice, and an emerging *realpolitik* in the international behavior of leading power competitors.

However, if this century is truly reserve for Asia to be at center stage, where the most dramatic shift in world economic and military power is taking place, then Asian regionalism must hold the potential to pave a way for a more peaceful regional order.

This will take me to my next line.

II. Part 2: ASEAN Style “Regionalism”

One regional grouping, called the Association of Southeast Asian Nations, or in short ASEAN, offers a type of regionalism that is home-grown and distinctive from the European style.

ASEAN has a vested interest in the stability of this region. Because of the neutrality of ASEAN within this crucial region, it can bring together the major players in an open and inclusive forum of dialogue and cooperation based on mutual respect and confidence-building exercises, resolving differences peacefully in accordance with international law.

If ASEAN’s regionalism succeeds then trust and cooperation can prevail and in turn lead to peace and prosperity for the whole region.

But there were failures in earlier regional attempts occurring in the 1950s. These examples of false promises are not welcome sign in today changing global order. Should the ASEAN’s efforts collapse, then globalism, the final stage of historical development, will also fall apart. This is simply because Asia-Pacific region now is experiencing increased tension between new and old powers. ASEAN must enforce its strategic position in such a way to accommodate rising power when it interacts with the existing regional order or global order under the dominant of the current hegemony.

Under such circumstance, it is extremely important that ASEAN adopt a clear-sighted policy so as to ride constructively with the rising wind of China while at the same time engage meaningfully with the US so as to ensure that China’s rise is not a zero-sum arrangement.

1. ASEAN and the factors concerning China’s rise

China achieved a remarkable milestone in 2010 by surpassing Japan and emerged as the second largest economy in the world. In recent years, China has been the largest recipient of hundreds of billions of dollars of foreign direct investment. China has replaced the US and become the largest export market of both Japan and Korea. The Chinese government has embarked on various reforms and its average growth of above 9% in the past two decade have also stunned the world with its labor force, creativity and purchasing power, its commitment to development and its degree of national cohesion. If all of China’s potential is mobilized, its economic power with undoubtedly be the base for an unprecedented world’s engine of growth.

More recently, China has become extra confident and increasingly assertive in world affairs. With its economic success, China is now spending more on defense. From an average increase of about one to two per cent per annum between 1979 and 1989, the defense budget of China has been scaled up to an average of 10 percent plus after 1989. The Chinese defense budget stood at 532.11 billion Yuan (US Dollars 78.25 billion) in 2010.⁵ However, foreign analysts always maintained that China's defense spending is much more than what has been officially declared. As an example to this claim, more recently, Japan's defense white paper gave China defense budget a staggering increase of nearly 70 percent over the past five years.⁶ With this substantial increase in defense budget, China has begun to modernize the People's Liberation Army (PLA). With 2.3 million soldiers, the PLA is the world's largest standing military and its modernization has been accompanied by gradual steps toward greater engagement with the outside world. China's military now possesses most of the sophisticated weapon systems found in the arsenals of developed Western nations, including aircraft carriers, submarines, stealth fighter planes, long range missiles and nuclear weapons. The Chinese military's goal is to achieve complete mechanization and computerization by 2020 and produce a fully modern force before mid- 21st century.⁷

China is set to transform the balance of power in Southeast Asia. The concern here is how China will use its growing influence to reshape the rules and institutions of the regional system to better serve its interests and other states in the system. Some Southeast Asian states have interpreted China's rise as a security threat, seeing that a new regional order dictated by China would bring about tension, distrust, and conflict.

In such a scenario, how will ASEAN cope with China? This question can be best answer by whether ASEAN see China as a threat or as an opportunity.

China's rise seen as a threat

During the Cold War, the non-communist states in Southeast Asia were suspicious of China because it supported communist insurgency in the region. Today, some Southeast Asian countries still regarded China as a threat.

Four of ASEAN states, namely Brunei, Malaysia, Philippines and Vietnam, plus Taiwan have disputes over the chain of islands in the South China Sea. Although territory is no doubt at the core, the six claimants compete to secure the reported huge oil and gas deposits in the sea bed to the Paracel and Spratly Islands. As imported energy is vital to China's economic engine, safeguarding its energy sources near and far is at the Chinese's "core interest" which must be protected and secured by any

⁵ Chinese Defence Budget: Suspicions of Fudging Persist, Chennai Centre for China Studies, <<http://www.c3sindia.org/military/1257>> (accessed 30 June 2011)

⁶ Japan wary of China's rise naval strength, an article by Reuter, My Paper, Wednesday 3 August, 2011

⁷ Mail on line, China 'has weapon arsenal comparable with West', <<http://www.dailymail.co.uk/news/article-1215057/China-weapon-arsenal-comparable-West-says-defence-minister.html>> (accessed 27 June 2010)

means, including military. China claims the entire Spratly group and the South China Sea as its sovereign territory. Vietnam and Taiwan claim the Paracel Island. Brunei, Malaysia, Philippines, Vietnam and Taiwan claim the Spratly Island.

There are real concerns that things might get out of hand which will plunge this region into military conflicts, if individual state pursues its own path toward using brinkmanship style or relying on bilateral defense treaty to counter China. In such a scenario, backlash will inevitably prevail.

China's rise seen as an opportunity

ASEAN is in an excellent position to steer China toward a peaceful rise, bringing about a region of peace and prosperity. Capitalizing on China's economic rise, ASEAN can reinforce and expedite the region's community building, a process that will engage China to act responsively with peaceful co-existence and keenness to become part of ASEAN's regionalization process.

Southeast Asia has always been an important neighboring region to China. Southeast Asian countries have served as lucrative markets for Chinese products, a source of raw materials, investment destinations and tourist attractions. Southeast Asia also serves as a passageway and lifeline for China in accessing its sources of energy in the Middle East. Even though China currently has territorial disputes with some Southeast Asian states, they have all accepted the necessity to resolve the conflict through a Code of Conduct, signed at the end of China-ASEAN Summit in 2002 with a goal of maintaining peace and stability in the region. The recent outcome of discussion on the South China Sea issue at the 18th ARF meeting in Bali on 23 July and the preceding official's meeting had indicated that China and ASEAN agreed on guideline to implement the 2002 Declaration of Conduct of Parties in the South China Sea.

We will see a region of peace and prosperity, if ASEAN and China are successful in consolidating their partnership in all aspects of their relations.

2. ASEAN-US Engagement as a factor of China Rise

The international environment has change tremendously. The United States, once emerged from the Cold War as the winner with its democratic ideology as the best form of human government, is now declining its presence at world stage. Although no one could deny that the US has remained the only superpower in the world, it no longer solely dominates the international order. There have been new players fostering new sources of hegemony; all have had their credit in making of a multi-polar regional order. But one has risen to become as the most important up-and-coming contender to challenge the US hegemonic influence in this region. That player is China.

Most analysts classify China as primary driver for the change in the regional hierarchy of the states due to its fast growing economic trajectory and the rapidly increasing military power. However, they also agree that America still shows apparent assertiveness in Asia politic, reasserting the fact that the US can prevail over China in their tussle for order shaping in the region.

This dynamic compels Southeast Asian states to use its organization to actively engage with regional and external powers by trying to reap benefit from China's rise, while engaging with the US to ensure that the continuing balance of regional power is in check. Thus, ASEAN must posture itself as an appeasing force to manage this power competition so as to keep this region at peace, free from military conflict and with prosperity.

Factors of US re-engagement in the region

After a long absence from the region, Secretary of State Hillary Clinton brought the US back to the region. During the signing of the Treaty of Amity and Cooperation (TAC) on 21 July 2009 in Phuket, Thailand, she said "the United States is back in Southeast Asia".⁸

For the US, the return to the region from 2009 was part of its strategic review, seeing that the Asia-Pacific region is contending with new and evolving challenges- from rising power and failing states, to the proliferation of nuclear and ballistic missiles, extremist violence, and new technologies that have the ability to disrupt the foundation of trade and commerce on which Asia's economic stability depends. Mid-2010 was a watershed in this strategic review, particularly in the face of China's force projection, starting from China's clash with Japan on the disputed Diaoyu (Japanese Sankaku) island in Japan's possession, protection of North Korea in Pyongyang's military attacks against South Korea in 2010, China's accelerating military buildup largely focused on Taiwan, and more recently China's moves to legitimize South China Sea as its sovereign territory.

Before starting the first diplomatic trip to Asia in January 2010, Secretary of State Hillary Clinton said "People want to see the United States fully engaged in Asia, so that as China rises, there's the presence of the United States as a force for peace and stability, as a guarantor of security."⁹

For Asia as a whole, the US has always reiterated its enduring and consistent nature of America's commitments to: free and open commerce; a just international order that emphasizes the rights and responsibilities of nations and fidelity to the rule of law; open access by all to the global common of sea, air, space, and now, cyberspace; and the principle of resolving conflict without the use of force.¹⁰

From the perspective of the United States, ASEAN's stability and prosperity have served its interests well. Not only that ASEAN is relevant to the US for strategic reasons, but ASEAN remains useful through its ability to steer regional processes like

⁸ Ians, US is back in southeast Asia: Clinton, 23 July, 2009,

<http://www.thaindian.com/newsportal/world-news/us-is-back-in-southeast-asia-clinton_100221676.html> (accessed 4 July 2011)

⁹ [Mark Landler](#), Clinton, Starting Trip, Acknowledges Possible Tensions With China, the New York Times, January 11, 2010 <<http://www.nytimes.com/2010/01/12/world/asia/12diplo.html>> (accessed 4 July 2011)

¹⁰ Remarks by Secretary of Defense Robert M. Gates at the Shangri-La Dialogue organized by the International Institute for Security Studies, Singapore 5 June 2010

the ASEAN Regional Forum (ARF), the ASEAN Defense Ministers Meeting Plus (ADMM Plus) and the Post Ministerial Conferences (PMC). By regularly attending these consultative meetings, the US continues to demonstrate its commitment toward the strengthening a comprehensive relations with ASEAN and constructively engage other major players in the region through these regional security frameworks.

Another important milestone in US-ASEAN relations was the establishment of a permanent mission to ASEAN, by appointing Ambassador David L. Carden as the United States' first resident Ambassador to ASEAN, who was sworn in as in late March 2011.¹¹

Equally important, ASEAN's commitment to free trade has helped reinforce US interests in preserving an open multilateral trading system. Through AFTA (ASEAN Free Trade Area) and other initiatives, ASEAN has also spurred regional economic liberalization.

Thus, by maintaining a meaningful relationship with the US, ASEAN would be able to benefit not only from economic engagement through the US-ASEAN Trade and Investment Framework Arrangement (TIFA) which was signed on 25 August 2006 in Kuala Lumpur¹² to promote development cooperation focused on capacity building efforts in technology, education, disaster management, human rights, and trade facilitation, but also from political and security engagement which focus on the role of the US in maintaining peace and stability in the region, nuclear non-proliferation, the Korean Peninsula and other regional security issues which might arrive from China's rise.

III. Conclusion

The end of the Cold War and the collapse of communism have, in no way, made for a more peaceful world.

This is with no exception to the region of Southeast Asia where traditionally it is known to be a playground of great powers rivalry which, until recently, set the trend for a bipolar order in the region, staging a contest of power between the US and China.

It is therefore fundamental for Southeast Asia states to adopt resilient policy to accommodate the emergence of new powers competing for dominance with old powers in this region, as economic influence and strategic weight of the world is now shifting toward Asia.

There are needs for existing regional process such as ASEAN to address effectively both economic and strategic challenges facing this region. Special attention should be

¹¹ U.S. Participation and Engagement with ASEAN,

< <http://asean.usmission.gov/mission/participation.html> > (accessed 5 July 2011)

¹² M. Jegathesan, US Signs Trade Pact with Southeast Asia, < <http://www.aseansec.org/afp/182.htm> > (accessed 13 July)

given to the security challenges as China, with its increase economic and military posture, may see the US seeking to get involved in Southeast Asia as the constraining effects on China's rise. In deed if this is a case, the US involvements in regional conflicts and China's effort to protect its "core national interests" underline an unavoidable rivalry.

But there is nothing to indicate that this clash of interests is not manageable, however due to power shift, and the management will be more difficult and more complex for regional group such as ASEAN to try to define the term of management acceptable to all.

With three distinct characteristics – non hegemonic leadership, non reliance on formal, legalistic or politically unifying platforms, and open and inclusive economic and political-strategic dimension – the ASEAN regionalism has three key roles to play to appease the appearance of the bipolar order in this region, should it arrives on a world scale in a distant future, to avoid the unwanted security challenge.

First, ASEAN must maintain its unity in the process of regionalism and use its institutions to reinforce the Sino-ASEAN relations by persuading China to adopt a policy based on cooperation rather than balance of power--a strategy that involves keeping the engagement and expanding the relations with each other, and managing effectively their economic interdependence and political-security interest by using both existing bilateral and multilateral mechanisms.

Second, while some ASEAN countries appreciate the need to have America balance China, they are, as a whole, reluctant to be drawn into a cross fire between the two giants. The ASEAN process of engagement with the US should avoid directly testing the Chinese policy and academic discourse (the two are often inseparable) of a "peaceful rise", thereby embracing the view that China's rise would trigger a power transition dynamic that would lead to war with the United States. Instead, ASEAN should endeavor to facilitate the transformation of China on the issue of multilateralism from a skeptic to observers to a true believer to participate actively in the ASEAN Regional Forum or other regional arrangements. ASEAN could also play strategically a more neutral role vis-à-vis its involvement with the US, by avoiding a policy of hedging or containing rising China.

Third, to ensure peaceful environment and prevent conflict from happening, ASEAN, in its unique ability to sway, should avoid making a clear cut in choosing side in the US-China antagonism, but instead use its style of regionalism to prescribe Chinese behavior, while opening up the region for the US to come in constructively to ensure that China's rise has been a process in check. ASEAN member countries should stay away from the reliance on external military force to change the status quo, but can resort to it only as an effective deterrence. Hence a brinkmanship style of confrontation in the South China Sea will only escalate the tension and to diffuse it, all parties must refrain from using force to settle their dispute and agree swiftly to implement the DoC.

In this way, bi-polarization in the region of Southeast Asia as a whole can prevent both the United States and China from using their power in unhelpful ways and can help to weaken and curb hegemonic dominance and power politics, which in turn

serve to bring about a just and new international order and contribute to world peace and development

**Remarks by HRH Samdech Norodom Sirivudh
Founder and Chairman, Board of Directors
Cambodian Institute for Cooperation and Peace
20th Anniversary of ASEAN-China Relations
Beijing, July 27-28, 2011**

Distinguished Colleagues and Friends,

At the outset allow me to express my sincerest gratitude to China's Institute of International Studies for inviting me here and the warm hospitality provided to our delegates from Cambodia.

The presence of distinguished scholars and analysts at this 20th anniversary of ASEAN-China relations meeting reflect the significance of our relations. Frankly speaking, this is one of the most thought provoking meetings I have ever had. I have learnt a lot from the intensive discussion and debates yesterday. The quality of discussion is high and I hope that this session can maintain that momentum.

We have discussed a wide range of issues from strategic to economic and cultural relations between ASEAN and China in the last twenty years and some challenges facing our two regions and people.

I would like to take this opportunity to provide you a simple SWOT analysis of the relations. I will try to synergize the comments I have gained from the discussion yesterday and share my personal perspectives on the prospect of the bilateral relations.

Strengths

- Historical and cultural heritage and linkages- looking back to our ancestors and family line, most of us from Southeast Asia somehow have their ancestors from China. Our physical appearance and belief system truly create our common understanding and approaches to international relationship and even international relations.
- When we talk about international relations in East Asia, we need to emphasize the personal characteristics and attitude of the leadership. Our leaders share a lot of commonality in terms of ways of thinking and approaching issues. Such personal relationships among the leadership at all levels contribute significantly to building trust and confidence.
- Geographical proximity determines our attitudes to each others. We can't change our neighbors; that is our destiny. So we need to live and grow together. We need to accommodate each other. Geo-politic and geo-economic factors bind our interests together. We need to maximize our cooperation and reduce confrontation. The infrastructure, institutional, and people connectivity

between China and ASEAN will definitely contribute to regional peace and stability and prosperity.

- We need to look at regionalism in Southeast and East Asia from family structure and values system embedded in our society. We have an extended family with a high sense of community. We are comfortable to expand and open our membership to outsiders and even live together under the same roof. We are competent at accommodating each other's differences and interests. That is our capacity and strength.

Weakness

- A different political system is the main stumbling block of understanding each others in terms of decision making process and national interest calculation.
- Domestic politics still play vital in driving foreign policy. We must understand each others' domestic politics before we can have more acceptable foreign policy towards each others as well as when we want to design together regional architecture.
- Perception gap. The ASEAN and Chinese people still have a big gap in understanding each others. This is due to probably the mode of communication, which is not really straight forward. We tend to pretend to like and agree while in reality it is the other way round. So we need to modify our communication skills by being more straightforward and have clearer expression. Language barriers need to be overcome as well.
- Ideological differences. Most of our researchers and policy makers are trained in the West. The way we approach, understand and implement Western ideas is different. This creates wider differences among regional countries.

Opportunities

- Trend of globalization and regionalization is irreversible. We need to adapt to the challenges caused by this phenomenon and try to grasp the opportunities.
- Economic development and poverty reduction are the most important objective of foreign policy in our region.
- ASEAN-China Free Trade Area is the cornerstone of economic integration between ASEAN and China. Opportunities are there; it rests on how we grasp those opportunities. Completion is inevitable in the free market economy and competition encourages us to work harder to reform and innovate new ideas and technology in order to be more competitive.

Threats

- Strategic competition between and among superpowers in the region to create their own strategic space can divide us. The worst scenario for our region is ASEAN divided. So we need to strengthen and unify ASEAN institution.
- Increasing competition for scarce and strategic resources such as oil and gas and even water.

- Ultra-nationalism is threatening our regional peace and stability. The Cambodia-Thailand border conflict, for instance, is mainly caused by nationalism.
- Territorial disputes between and among the regional countries can disturb and disrupt regional peace and stability unless appropriate and effective mechanism and approaches are in place.
- The South China Sea is the main security concern in our relationship. We need to have an effective mechanism and code of conduct in order to guarantee peace and stability in the region.

Ways Forward

- We need to further promote and strengthen heart to heart relationships between the two leaders and people. We need to invest more in people to people contact and academic exchanges.
- We need to create a pool of human resources especially the young leaders of the two regions to maintain and nurture our friendship and relationship.
- We need to further institutionalize our cooperation with actual implementation.
- We need to strengthen a regional mechanism to prevent, manage, and solve conflicts. Preventive diplomacy and conflict resolution mechanism need to be adopted and implemented as soon as possible.
- A code of conduct on South China Sea is necessary to prevent misunderstanding and miscalculation that may lead to armed conflict.
- Based on our unique culture and history, we should create our own approaches to international relations.
- Strengthen ASEAN institution in order to maintain its central role in driving regional cooperation and architecture. China can help ASEAN in this regard.
- An ASEAN-China partnership should move beyond the region to a global stage. China and ASEAN should coordinate foreign policy and have one voice when it comes to deal with global issues such as climate change.

Opening Remarks
Norodom Sirivudh
Founder and Chairman, Board of Directors
Cambodian Institute for Cooperation and Peace (CICP)
Third Training Workshop for the National Assembly of Cambodia
Phnom Penh, August 11-12, 2011

Excellency Dr. Cheam Yeap, Chairman of the Commission on Economy, Finance, Banking and Audit

Excellency Mr. Leng Peng Long, Secretary General of the National Assembly of Cambodia

Dr. Stefanie Elies, Director, Regional Cooperation Office, Friedrich-Ebert-Stiftung Excellencies, Ladies and Gentlemen

It is my great honor to be given this opportunity to welcome you to the third and final training of the capacity building project of the National Assembly in ASEAN's affairs especially in preparing to host the 32nd ASEAN Inter-Parliamentary Assembly this September.

I would like to take this occasion to express, on behalf of the Cambodian people, our sincerest gratitude to the people and government of Germany through the Friedrich-Ebert-Stiftung (FES) represented here by Dr. Elies Stefanies for always supporting Cambodia in integrating itself into the region through capacity building and research projects.

As ASEAN is trying to realize its community in 2015 within the spirit of people oriented regional organization and institution, such capacity building for the members of parliament and particularly the senior staffs of the National Assembly is essential since they are the key actors in bridging ASEAN institution and policies with ASEAN people.

The topic of this training focuses on one the most critical issues in ASEAN, which is the open regionalism of ASEAN. ASEAN, created in 1967, has been evolving to be the center of regional architecture development. The centrality of ASEAN is driven by open and inclusive regionalism adopted and implemented by ASEAN leaders.

The engagement of all major powers and regional key actors in ASEAN driven regional architecture has demonstrated the relevance of ASEAN in driving regional cooperation and integration. End of this year, we will have a first East Asia Summit with the presence of both presidents from the United States and Russia. The East Asia Summit is developing to be the main strategic dialogue among regional powers on emerging regional security issues.

So far ASEAN has proven its success in managing differences between and among major power countries. It has provided a sustainable web of engagement and dialogue among the countries in the region. In addition, ASEAN has been endorsed by major power countries and the United Nations to be the key regional actor in solving regional conflict, for instance the border conflict between Cambodia and Thailand.

It is the first time in ASEAN history that the United Nations Security Council and the International Court of Justice formally mandated ASEAN to solve the Cambodia-Thailand border conflict. It is a positive development and set a good precedent for ASEAN. Preventive diplomacy and conflict resolution mechanism are required to be created and implemented in the region as soon as possible. For the preventive diplomacy, the ASEAN Regional Forum has come to conclusion in terms of guidelines of implementation.

As Cambodia is assuming the ASEAN chairmanship next year, many challenges are on the road. The border conflict between Cambodia and Thailand remains a fragile factor for ASEAN community building, South China Sea issues and Mekong River are the potential threat of regional cooperation. Other challenges including natural disasters, widening development gap between rich and poor, increasing nationalism and uncertain domestic politics, and strategic competition between and among the superpowers need to be dealt with appropriately and timely.

Cambodia, as the youngest member of ASEAN, has tried its best to contribute to ASEAN family through ideas and actions. Throughout the years, Cambodia has adapted to liberal and functional institutionalism with the belief that only through such process can Cambodia catch up with the changing times and develop itself to a higher level. Cambodia's foreign policy is exerted with purpose to develop the country. Cambodia strongly believes that in order to maintain peace, stability, and development, we need ASEAN as our backbone.

Cambodia can share some experiences and expertise with ASEAN in terms of de-mining, flood management, Responsibility to Protect, win-win policy, poverty reduction and rural development. These experiences will contribute to the construction of the three pillars of the ASEAN community.

I am confident that by chairing AIPA this year and ASEAN next year, Cambodia can prove active role in the region and the world at large. The image and reputation of Cambodia will be gradually upgraded and respected. Cambodia needs to further reform its domestic politics and development policy in order to reflect the changing environment of the region and the world. Through such adaption and reforming process, Cambodia will continue to grow and play an increasing active role in the region and the world.

I have a dream. That dream is that I want to see Cambodia to become one of the most advanced developed countries in the region by 2030. ASEAN is one of the foundations for its member states to realize their development vision and goals. Our commitment and actions today contribute to the realization process of that dream.

At last, I would like to wish you all great success in such a common endeavor. I wish the workshop to be a fruitful and substantive discussion and learning. It is time for Cambodia to contribute more ideas and concepts to regional cooperation and integration process.

Opening Remarks

Norodom Sirivudh
Founder and Chairman, Board of Directors
Cambodian Institute for Cooperation and Peace (CICP)
Workshop on Cambodia's Agriculture Development
Phnom Penh, February 14, 2011

Distinguished Participants, Ladies and Gentlemen

On behalf of the co-organizers, I would like to express my sincerest appreciation for your participation in this important workshop this afternoon.

Agriculture is the lifeline of Cambodia. Cambodia has great potential to develop agriculture but the reality is different. Cambodia still imports a lot of agricultural products especially vegetables and fruits from neighboring countries- Vietnam and Thailand. Such a phenomenon reflects the serious limitation of agriculture development in Cambodia.

The agriculture sector is a multifaceted issue linking with other sectors such as water resources management, climate change, industrialization and mechanization, education and human resources development, research and development, and business environment in general.

The government needs to invest more in irrigation and other hard infrastructure including storage facilities. It needs to seriously link agriculture with poverty reduction efforts. Productivity is the key while market access is the door. We need the key to open the door to regional and global market.

Talking about investment in agriculture, we need to identify key factors such as financing, technology, human resources, infrastructure, and crops diversification. Key actors are involved and play complementary roles: public, private, international donor community, and NGOs. We have the presence here today participants from different sectors and I hope they can elaborate and share their perspectives on this.

For my personal point of view, investing in agriculture is an area for business opportunities for the private sector to come in. But they strongly need the support from the government and donor community especially in basic infrastructure development. The private sector needs ideas and technological support from the government. More research centers on agriculture are needed in order to assist farmers and the private sector in producing their products.

Agriculture is a complex industry since it engages different sectors and players. I hope today's workshop will identify key gaps and provide more concrete recommendations for the realistic implementation.

I wish you great success!

Policy Discussion Paper by members of ASEAN-ISIS and other Think-tanks on

“Strengthening the ASEAN Political-Security Community through Preventive Diplomacy and Conflict Resolution Mechanisms”

*Co-organized by ASEAN-ISIS, CICP, and Friedrich Ebert Stiftung (FES)
May 5-6, 2011, Phnom Penh, Cambodia*

Since its adoption at the 8th ASEAN Regional Forum in 2001, the principle of 'Preventive Diplomacy' (PD) has been officially accepted to be one of the cornerstones of regional relations and security cooperation. PD aims at providing good offices and mediating mechanism to prevent conflicts either from happening or escalating. However, ASEAN has remained reluctant to move towards operationalising the principle of PD. Challenges abound in trying to operationalise and bring PD into practice to address some of the security challenges. At the most basic level, the lack of political will among individual governments in the region, the strict adherence to the principles of non-intervention and sovereignty, as well as the simmering mutual distrust and lack of a common identity, have all hindered the progress of operationalising the principle of PD.

Yet, given the emerging nexus of traditional and non-traditional security challenges, as well as the ongoing tension in various parts of the region, we believe that the concept of PD remains salient today. We believe that the recent conflict in the Thai-Cambodian border reflects the urgent need to put PD into practice. A more effective, comprehensive, and coherent mechanism is needed to prevent and / or mediate conflicts to ensure regional stability, peace and common prosperity.

Thus, throughout the conference numerous ideas and policy areas to move forward the implementation of PD were discussed and deliberated. What follows are some of the key points and ideas that we felt would not only strengthen the ASEAN Political-Security Community building heading to 2015, but would be of great assistance to Cambodia when the country takes over as Chairman of ASEAN in 2012. But perhaps more importantly, we believe that some of the policy recommendations could over the long-run increase a sense of ownership from the stakeholders within the government, general public, and the private sectors.

It is agreed that several steps need to be taken at different but yet integrated and holistic manner as follows:

1) Adherence to the principles of ASEAN Charter and ASEAN Political Security Blueprint

ASEAN Charter

- a. Member States, which are parties to a dispute, may agree at any time to resort to good offices, conciliation or mediation in order to resolve the dispute within an agreed time limit;

- b. Parties to the dispute may request the Chairman of ASEAN of the Secretary-General, acting in an ex-officio capacity, to provide good offices, conciliation or mediation;

APSC Blueprint

- c. Confidence Building Measures and Preventive Diplomacy are important instruments in conflict prevention. They mitigate tensions and prevent disputes from arising between or among ASEAN Member States, as well as between ASEAN Member States and non-ASEAN member countries. They will also help prevent the escalation of existing disputes;
- d. Actions to be taken include: Work towards developing and publishing an annual ASEAN Security Outlook; Hold voluntary briefings on political and security developments in the region; Develop an ASEAN early warning system based on existing mechanisms to prevent occurrence/escalation of conflicts and hold consultations and cooperation on regional defense and security matters between ASEAN and external parties and Dialogue Partners including through the ADMM Plus;
- e. Regarding the peaceful settlement of disputes, it requires comprehensive study and analysis of existing dispute settlement modes and/or additional mechanisms with a view to enhancing regional mechanisms for the peaceful settlement of disputes;
- f. Develop ASEAN modalities for good offices, conciliation and mediation and establish appropriate dispute settlement mechanisms, including arbitration as provided for by the ASEAN Charter.

2) Strategic Level

- a. Confidence Building Measures (CBMs) are still the basis of PD and should be implemented along with PD measures;
- b. Apart from publishing ASEAN Security Outlooks (ASO), ASO analysis and assessment mechanisms should be established;
- c. Enhance the roles of Eminent Expert Persons and Track II networks such as ASEAN-ISIS and CSCAP and promote cooperation and coordination between ASEAN and other regional institutions.

3) Institutional Level

- a. Strengthening the role of the ARF Unit in the ASEAN Secretariat to assist in the implementation of PD
Establishing a Regional Risk Reduction Center (RRRC) to monitor regional trends.
Enhancing the role of the ASEAN Secretary General in implementing PD, as provided for by the ASEAN Charter.
- b. Strictly observe the basic principles of ASEAN such as non-use of force and peaceful settlement of disputes as written in the TAC in the implementation of PD;
- c. Build consensus on how to best implement PD into the ASEAN region;
- d. Enhance Openness and Transparency;

e. Capacity building

- Build norms where principles of PD are mainstreamed to regulate the behavior of states in an attempt to establish stability, security and peace;
- Strengthen multilateral efforts, joint development and other initiatives to effectively implement PD and conflict resolution mechanism in the region;
- Stockpile good practices in the region and other parts of the world in PD and Conflict Resolution.

f. Strengthening Partnerships

- Cambodian Government and ASEAN Governments in general should push forward partnerships with an extra-regional institution, especially the United Nations to further deepen the implementation of PD;
- ASEAN-ISIS could assist in formulating policy recommendations together with regional governments to strengthen the institutional capacity and capability of relevant public stakeholders in promoting and deepening PD as a guiding principle of regional relations.

g. Leadership

- Establish an ASEAN PD “Champion” for the cause who will take ownership and leadership of the PD concept;
- Create a context where political will is encouraged to implement PD within ASEAN;
- Circumvent conflict avoidance and move towards frank discussions on PD implementation;
- Strengthening ASEAN Chair as well as ASEAN consciousness and identity;
- Emphasis on a regional security framework and architecture with a focus on region security and stability;
- Annual review of progress.

h. Media and Information

- Increase publicity and media exposure on ASEAN and PD and Conflict Resolution;
- Translate documents into simplified English and native languages (booklets and textbooks).

i. Education

- Include and integrate ASEAN into education and curriculums to increase exposure and knowledge regarding ASEAN and the principles of PD. Simultaneously also allocate more funding for this purpose to facilitate this need.

4) Societal level

- a. Reach out to students, media, members of parliament through books, school lesson, writing of commentaries, making popular documentaries, and organizing regular and annual seminars on preventive diplomacy, conflict management and resolution, and peace building;
- b. Cultivate a culture of peace.

5) Proposed Timeframe (from 2012 to 2015)



Council for Security Cooperation in the Asia-Pacific

1st Meeting of the CSCAP Study Group on Water Resources Security Hanoi, March 22-23, 2011

The 1st meeting of the CSCAP Study Group on Water Resources Security convened March 22-23, 2011, in Hanoi, Vietnam. The meeting was co-chaired by CSCAP Cambodia, CSCAP Japan, CSCAP Thailand and CSCAP Vietnam and joined by 56 participants from 10 CSCAP member committees and other institutions.

The meeting was opened by *Nguyen Hung Son* on behalf of CSCAP Vietnam, who was of the view that water security is increasingly becoming a global concern, not an issue of any particular region. Water scarcity as a result of climate change, or mis-use, or mis-management of water resources is predicted to be a potential source of conflict and instability in many regions. Already, many countries in this region are witnessing more frequent and more prolonged episodes of drought, with severe consequences to many millions of people. CSCAP Vietnam believed that only through open and enhanced dialogue, with mutual respect to each other's legitimate rights, concerns and interests, will countries in the region find satisfactory solutions, thus consolidating mutual confidence and trust, boosting bilateral and regional cooperation, and facilitate the performance of regional mechanisms and regimes designed to promote cooperation for the sustainable development of water resources in the region.

Vannarith Chheang (*Co-chair, CSCAP Cambodia*) emphasized the seriousness of fresh-water scarcity. He quoted UN Secretary General Ban Ki Moon's statement that every 20 seconds, a child died from diseases caused by fresh water scarcity. According to UN water forecast, by 2015, 1.8 billion people will be living in countries or regions with absolute water scarcity. This is the issue facing every region with no exception. Together with three other CSCAP Study Group meetings on water security, of which the second one will be held in Cambodia in July this year, this first meeting is expected to produce good and relevant policy recommendations to the regional leaders, especially for the Asean Regional Forum. Both *Mikiyasu Nakayama* (*Co-chair, CSCAP Japan*) and *Suchit Bunbongkarn* (*Co-chair CSCAP Thailand*) revealed that their countries have recently recognized the importance of water security. They noted that water scarcity had become obvious and causing tension and

distrust among some countries. Therefore, they recommended that ASEAN should strongly promote its roles in pushing up cooperation among countries in the region in using and managing water resources.

The first two sessions of the meeting focused on **assessing the current state of water resources usage and management in Southeast Asia**. Speakers analyzed both natural and unnatural factors affecting the quality and volume of water resources in the region, including climate change, industrialization, hydro power construction, migration, transportation etc.

The first presenter, *Koos Neefjes (UNDP Hanoi)*, pointed out that climate change caused by greenhouse gas emission adversely affected all Mekong countries. He said the consequences of climate change including drought, flood, typhoon, sea level rise etc. would threaten the quality and quantity of water, food, and energy, and also economic growth and poverty reduction. He recommended that the impacts of climate change should be minimized in order to improve the safety of the region from natural disasters.

Neefjes also added that the worsening current state of water in the Mekong originated from unsustainable usage and management. Firstly, the coordination among the Mekong countries to address integrated water management remains insufficient and is not mainstreamed in relevant policies, including fiscal policies such as water pricing, nor in the integrated spatial plans covering wider geographic areas and all water users. Secondly, storage and water safety has received inadequate attention by the relevant countries. Thirdly, the construction of dams for different economic interests of countries in the region contributed to water resources degradation.

Sharing with Neefjes's idea on the poor management of water resources in the Mekong region, *Maria Larsson (CSCAP Cambodia)* confirmed that while water scarcity is not an urgent issue facing the region in the short term, the current unsustainable management could quickly change the situation, especially in the lower area. The alarming issues rest on the differences over annual freshwater withdrawal and allocation among the countries for the needs of domestic demand, industrialization, and agriculture. While Vietnam and China mostly use water of the Mekong River for domestic demand and industry, Myanmar, Laos and Cambodia use it for forest areas and agriculture. According to Maria, wood industry in Cambodia is causing the most pollution to the water.

Dao Trong Tu (CSCAP Vietnam) emphasized the importance of food security and ecological environment in correlation with the sustainable management of water resources. He argued that the Mekong River was the living place of over 2 billion people, a rice granary of the whole region. Therefore, it is certain that declining water quality and quantity would challenge the efforts by regional countries to reduce and alleviate poverty. From the aspect of ecological environment, he added that biodiversity and ecological system are not only natural resources but also the heritage and cultural environment of each country in the region. The maintenance of biodiversity and ecological balance should be in main strategies of sustainable management of water resources.

Zhou Shichun (CSCAP China) and *Janya Trairat (CSCAP Thailand)* introduced current situations of water resources management in China and Thailand, and shared their experiences on this issue. According to Shichun, China is one of the countries with many rivers in the world, having large volume of water resources. Its average

total volume of water resources reaches $2.8124 \times 10^{12} \text{m}^3/\text{yr}$, ranking after Brazil, Russia, Canada, USA and Indonesia. However, China faces uneven water distribution with the lay-out of regional production. Precipitation and runoff vary annually, seasonally and regionally. The situation in the North is more serious than that in the South.

Zhou Shichun reported that the Chinese Government has issued the Law on Water in 2002, accompanied by a series of other management regulations on water resources. Those regulations aimed at meeting basic needs, securing food supply, protecting ecosystems, sharing water resources, managing risks, valuing water and governing water wisely. Most notably is the regulation on water pricing. According to the regulation, those who use more water are required to pay more and vice versa. Recently, China made a decision to accelerate reform and development of water resources, known as No.1 Document in 2011. The Document sets 5-year plan (2011-2015) targets of improving China's relatively backward water conservancy situation over the next five to ten years, requiring farms to use more advanced and high efficiency techniques of irrigation to reduce 30% of water usage. China would cooperate and join international efforts to deal with water resources security, especially with downstream countries.

According to Trairat, locating in the downstream of the Mekong River, Thailand is suffering from most of the negative impacts caused by poor water resources management in Thailand itself as well as in other countries. At present, Thailand still lacks a holistic policy, appropriate coordination and active participation in using and managing water resources sustainably and effectively. However, Janya believed that her country's current situation could be improved by national strategies. Thailand upgrades the water drainage and supply system to control flooding and drought; strictly monitors and supervises water usage; enhances capacity-building in water management; issues law on water resources; gives first priority of water location for domestic use, then industrial and agricultural sectors. She disclosed Thailand's strategies towards closely coordinating with other countries in the region to better manage the Mekong River basin.

In the discussion following the presentations, most participants agreed with the seriousness of the current management and usage of water resources in the Mekong River basin, and shared the view that while water shortage will soon affect the region, the more immediate threat comes from water pollution and changing pattern of water flow. They also expressed their concerns about the balance between water usage for different imperative purposes and its consequences. So far, there is insufficient investment in researching on the controlling factors like population growth, climate change, food and energy demands. In addition, governments have not reached a consensus on the definition, cooperation and coordination of water resources management at the regional level.

The third session addressed **“Water resources usage and management: Human and economic security aspects”**, examining the economic and human security aspects of water resources usage and management, answering the question “What are the threats to the people's lives and their economic activities?” This session also assessed the consequences of poor usage and management of water resources to the people, the environment and regional economies (changing conditions and patterns of economic activities, changing agricultural conditions, food and energy security issues...).

Mark Brindal (Aus-CSCAP) delivered the first presentation, emphasizing the importance of water resources and the aspects of water resources that affect prosperity and human security. According to him, water resources are becoming more and more important natural resources for human beings, and are “important enough to fight over”. Brindal pointed out three aspects of the nature of water that affect economic prosperity and human security: quantity, quality and timing. By compromising the quantity, quality and timing of water, an individual nation can exert a form of sovereign claim over the ownership of the resource, generally at some consequences to its neighbors. Brindal recalled several historical and current examples of how upper stream countries can exert geopolitical influence on lower stream ones to illustrate his point. Brindal also suggested that countries in the Mekong basin and Australia should gather to solve their same problems.

Presenting after Brindal was *Tarek Ketelsen (International Center for Environmental Management)*, who introduced the MRC Strategic Environment Assessment (SEA) for hydropower in the mainstream. Ketelsen pointed out that mainstream hydropower has been one of the strategic decisions for the Mekong Basin since the 1960s, and remains so because of (i) the large wealth of natural resources, (ii) the health and connectivity of natural systems, (iii) the high dependency on natural resources for livelihoods and (iv) the increasing demand for economic and energy growth. Some of the major conclusions of the SEA are (i) one dam across the Lower Mekong mainstream commits the river to irrevocable change; (ii) the proposed developments when under construction and operating have the potential to create tensions with the Lower Mekong Basin; (iii) many of the risks associated with the proposed mainstream developments cannot be mitigated at this time – they would represent a permanent and irreversible loss of environmental, social and economic assets; (iv) there are so many remaining uncertainties and serious risks associated with the developments that more studies are needed to better inform responsible decisions making.

During the discussion, many participants agreed that regional countries should consider harmonizing and balancing national, regional, as well as international interests via cooperation. Also, in terms of cost and benefits analysis, regional countries should count some factors into this analysis: the livelihood, the human displacement or national trade – off. It was argued that the impacts hydropower dams depend on many elements such as the river’s system or the institutional capacity. Suitable mechanisms are necessary in this region in order to strengthen water usage and management and set the guidelines for the projects’ operation. There were some extra concerns about poverty which was considered as one of the greatest challenges in this region.

Session four addressed the topic “**Water resources usage and management: Regional security aspect**”, assessing the regional impacts of poor usage and management of water resources, and identified regional security risks stemming from water issues namely water resources disputes, cross-border migration, widening social and political unrest, spiraling disputes, impeded regional integration and cooperation, foreign interference, etc.

Seungho Lee (CSCAP Korea) paid attention to the definition and determinants of water security, the role of upstream powers and the cooperation among countries in the Mekong River basin. According to Lee, there were three determinants of water security, namely hydrological environment, socio – economic environment and

climate change. He gave an overview of the Mekong River basin and the geopolitics of countries along the river. Then he stressed the challenges in this region, including: (i) the fragile coalition in the MRC, (ii) the negative impacts of hydropower development on the environment, and (iii) climate change. From his viewpoint, the fragile coalition in MRC was due to the incomprehensive cooperation among its members and the absence of China and Myanmar. Therefore, looking for more suitable and practical principles is necessary to enhance the role of the MRC.

Nguyen Nam Duong (CSCAP Vietnam) emphasized the regional security aspects of water resources usage and management and argued that the poor usage and mismanagement of water resources can lead to wider regional security implications and affect the stability of the whole region. Nguyen pointed out that the fast-rising demand for energy and the desire for rapid economic growth in the developing countries are the sources of water-related regional disputes. He argued that the construction of hydropower dams would seriously affect the river flow and its sediments. Furthermore, the distrust and suspicion among countries in this region frustrated regional cooperation and worsen the past and existing conflicts. He suggested that the discussion of water security issues should be put under the framework of sustainable development and sustainable peace in Southeast Asia.

During the discussion, one Laotian participant clarified about their dams, with an emphasis on the Xayaburi and its role in Laos' economic development. After that, one Thai participant gave some suggestions to deal with water security issues in this region, namely establishing a dispute mechanism, and promoting studies to preserve the health of the Mekong River as well as the quality and quantity of water, paying attention to the principles of negotiation and establishing institutions. The participants agreed that navigation has a role in connecting regional communities through increasing their trade relationship, especially in the fishery sector. The sharing of navigation information is essential for potential economic connectivity. Some participants were of the view that ASEAN and its people oriented Charter must play a role in preserving the water security, such as in the Mekong region, and that water security should be high on ASEAN's agenda.

Session five addressed **international legal foundations of water resources management**. Specifically, it was aimed to assess regional and international agreements on water resources management in order to explore which international norms and practices in water resources management can be applied to Southeast Asia. The role of NGOs, civil society and other stakeholders in addressing these issues were also investigated.

As the first presenter in this session, *George Radosevich (International Association for Water Law)* argued that water security is a fuzzy concept which finally refers to the reality of water scarcity and water availability. The real concern is riparian states' views on water uses and needs. Then, he proceeded with the origin of international water law and its four general principles, namely sovereignty equality, freedom of navigation, equitable apportionment or sharing, and freedom from harm. Recently, more principles are added, such as prior notification, exchange of information, and compensation for damages are coming of age. The application of these principles underpins four doctrines: absolute territorial sovereignty, absolute territorial integrity, limited territorial sovereignty, and community of interests.

Accordingly, the 1995 Agreement on the cooperation for sustainable development of the Mekong River basin fits into doctrine number four (i.e. community of interests).

Radosevich argued that for a transnational body like the Mekong, if one country puts a structure across the concurrent post of the river, it has to take into account the rights, interests and responsibilities of the neighbors on the left bank and the right bank, the upstream and the downstream. He provided a brief history of cooperation in Mekong River basin and the negotiations of the 1995 Mekong Agreement. After putting the agreement in detailed analysis, he concluded that water is a fugitive natural resource and water security is a state of mind. Rules for shared usage of water will improve the chance of gaining mutual benefits, given the fact that international customary and treaty water law is not universally respected by all co-riparians all the time.

Uttam Kumar Sinha (CSCAP India) argued that we need to look at water issues with a new perspective and in a critical way. He stressed the need to admit that the stability of many regions greatly relies upon the stable flows of water. He analyzed the five principles of water management in the light of interstate politics. It is true that the transnational nature of river necessitates greater information sharing, and greater cooperative actions from riparian states. He then argued that in our connected and globalized world, the doctrine of absolute sovereignty no longer holds these days. Therefore, reasonably speaking, territorial sovereignty is limited. Although the principle of equitable and reasonable utilization is contestable and debatable, it is important to deal with the issue of sharing water resources. In terms of the principle of freedom from significant harm, it has been interpreted differently. The gray areas may be to which extent it is considered significant and what could constitute harm. The last principle of prior notification, exchange of information would be a key to shape relations among riparian states. There are lots of activities around the rivers these days. Therefore, sharing information, data and consultation helped reduce misperception, mistrust and renegotiate old agreements. Given lots of legal developments on the water front, he pointed out that state politics still dictates, as water is very precious commodity that can lead to attempts to control water. That geopolitical dynamics still dominate South Asia and Southeast Asia. One way forward is the principle of “global commons” which could be applied in interstate and inner-state relations.

Ellen Levin (US CSCAP) shared some US’s experiences on managing and sharing water resources on the Tuolumne River in San Francisco. According to Levin, San Francisco’s water system is operated, maintained and developed in a manner that meets water demands in a sustainable manner. She pointed out that while San Francisco is not a sovereign by definition, in California and the United States in general water districts most often act and function as sovereigns. According to Ellen, there is constant defense of rights to water in the US. That gives rise to the compromise among multiple interests in a watershed instead of bringing the case to the court. By presenting a specific case of watershed where San Francisco and two downstream irrigation districts operate their systems in a collaborative, collective manner, Levin argued that the legal foundations are not necessary first choice but solutions may exist at the operating level.

Nguyen Truong Giang (CSCAP Vietnam) reiterated that there are four norms or principles of international resources that can be applied to the region, namely: (i) the principle of equitable and reasonable utilization of international water resources; (ii) the duty not to cause harm to the international water resources; (iii) the obligation to protect and conserve the international water resources and (iv) finally the obligation to cooperate. These principles became the most important customary principles of international water law and therefore they are applicable to all states that share the

international water resources. Those principles and norms are absolutely applicable to the region.

The discussion focused on the application of general principles and the prescription on specific conditions of each basin, the necessity of participation and consultation among riparian countries on the usage and management of transnational water, the recognition of different interests, and confidence building which are considered critical for water usage and management. A further look into the concept of “global commons” was also mentioned. Other participants looked for scientific methods of defining the water needs of different countries to proportionately distributing the water resources, alternative water supplies, and best international practices which could be applicable to the region.

The sixth session, “**international institutional foundations of water resources management**”, reviewed the operation of existing regional and international mechanisms related to sustainable usage and management of water resources. *Le Huu Ti (UNESCAP)* began by introducing an overview of water use in Southeast Asia and pointing out that water pollution constitutes an emerging water quality challenge. Drawing on recent developments in water resources security, he introduced ESCAP’s new water security concept which moves from resources-services based to outcomes-based approach, from sector or service-level measurements set against a certain standard to index linked to expectations of water users. He moved on to introduce water hotspots framework which identifies ten challenges, namely (i) threat of water stress; (ii) high water utilization, (iii) deteriorating water quality, (iv) poor water quality combined with low water endowment; (v) high flood risk hotspot; (vi) high cyclone risk hotspot, (vii) high drought risk hotspot; (viii) elevated ecosystems / climate change risk; (ix) poor access to drinking water; (x) poor access to sanitation. The third part of his presentation touched upon policy trend in water security. He pointed out two challenges of water resources usage and management in Southeast Asia, namely (i) inequality in access to improved water and inequality in access to improved basic sanitation between urban and rural areas, between the rich and the poor.

Le Huu Ti put forward two recommendations for the whole Asia-Pacific region: (i) Redefinition of household water security toward demand responsiveness, public participation and recognition of benefits and savings for economy, and (ii) waste water revolution toward recognition of savings and gains, and eco-efficient water infrastructure. For Southeast Asia, he suggested the region should strive to be Water Security Champion by: (i) early achievements of MDG-7, (ii) investments in eco-efficient water infrastructure, (iii) research in water security improvement measures to reduce sub-national disparities; (iv) establishment of National Water Security Policy Research Institutes and ASEAN Water Security Institute; and (v) being a champion at the Second Asia-Pacific Water Summit in Bangkok 2012.

Mikiyasu Nakayama (CSCAP Japan) proposed two ways to enhance water resources security in the region: (i) taking an integrated approach and securing information transparency. With regard to the former, he argued that looking at the water sector alone may not lead to a solution to a problem among riparian states. Therefore, an integrated approach, including trade-offs between “sectors” and more regional integration, may reduce conflict among riparian states. It is of note that the MRC is no longer the only regional framework for collaboration. Instead, it is a minor actor among many frameworks such as GMS, AMBDC, IAI and so on. Therefore, it is

necessary to include non-water sectors such as energy, transportation, telecommunications, trade, investment, agriculture, fishery and environment to the “balance sheet”. In this way, upstream countries may find compromise with downstream countries in terms of provision of water while downstream countries may provide upstream countries with cheap electricity, free access to sea ports, etc. Mistrusts and conflicts may be caused by shortage of information and miscommunication. The recent disputes between Pakistan and India over Indus River and among China and some ASEAN countries over the Mekong River are cases in point. By citing the successful cooperation model of the Espoo Convention on Environmental Impact Assessment in Trans-boundary Context in Europe, Caspian Sea, Black Sea, Tumen River Basin, he suggested that TbEIA Guidelines for the Mekong should include two components: (i) notification about the project (being considered) and (ii) results of transboundary Environment Impact Assessment. The impasse exists as upstream countries are still somehow reluctant to the latter. Then, the ICJ’s judgment of 20 April 2010 on Pulp Mills on River Uruguay can be a point of reference, which stated the requirement under general international law to undertake an environmental impact assessment where there is a risk that proposed industrial activity may have significant adverse impacts in a transboundary context on a shared resource. Comparing the Mekong River and the Ganges River, he argued that the bigger access to information, data, reports and researches about development and management of the basin, meteorology, and hydrology in the Mekong River has led to higher level of public awareness, scientific understanding, and assistance from donor countries and organizations.

The last presentation in this session was made by *John Brandon (Asia Foundation)*. He made comments about water security from the viewpoint of international politics and United States policy. Firstly, he argued that transparency, accountability and public participation are among the most important factors for good water resources management in the region. Besides, the issues could not be resolved without connection to local livelihoods such as fishery industry and the economic development of the whole region. He argued that women and children have been neglected in the debates and therefore gender component should be added to the agenda. And it is of note that the resolution of transboundary resources problems should involve multiple relevant stakeholders.

Secondly, Brandon sketched out United States policy to Southeast Asia. A good example of a comprehensive US approach is manifested in the Lower Mekong Initiative (LMI), which includes transnational water management, infectious diseases (fever, pandemic influenza, HIV/AIDS), and vulnerabilities to climate change. It seeks to promote common regional understanding on these issues and effective coordinated response. Confusion may result from the Initiative’s focus on the Mekong countries, not on the river. The LMI looks at the Mekong as unifying features and a source of livelihoods for 70 million people. Some projects of the LMI are involved in the development of “Forecast Mekong”, a predictive modeling tool to illustrate of the impacts of climate change and other challenges to sustainable development of the river basin, helping manage the flow of the water and predict the impacts of hydropower dams. The second area is the sister river agreement between Mekong Commission and Mississippi Commission to pursue a partnership to improve the management of transboundary water resources. The third area the US has been active is the promotion of sustainable use of forest and water resources to preserve the great bio diversity of the Mekong region and increase access to safe drinking water. The

State Department provided grants on a network of regional universities to study the level of pollution as an attempt to enhance research cooperation. Essentially, the US is trying to help institutions to build capacities to promote sustainable development by sharing advanced science and technological capabilities. Brandon ended his presentation with a comment that the connotation of water security implicates protection. From his viewpoint, it is also critical that water as a natural resource should be conserved in a cooperative manner.

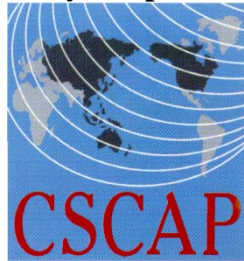
The discussion centered on further explaining water security index, the feasibility of the idea of cross-sector trade-offs and sector integration, the enforcement of mechanisms and involvement of third party arbitration related to information transparency. Other issues raised were measures to assure the quality of sewage water treatment, and public-private partnership on profitable sewage water treatment, and the comparative costs and benefits of drinking water and waste water treatments. One participant brought in the question about the roles of other regional mechanisms such as GMS, EWC, AMBDC, ACMECS, and Mekong-Ganga Cooperation, etc. in addressing water security and the elements which make these mechanisms relevant and effective. In that discussion, participants emphasized the importance of mutual respect, mutual trust, common goals and norms which guarantee the effective performance of any mechanism.

In the wrap-up session, the Co-chairs agreed that continued discussions within the CSCAP Study Group on Water Resources Security is essential for confidence building in the region. They concluded that specific recommendations toward sustainable water management for various stakeholders are desirable. The recommendations should also be directed toward empowering regional and international mechanisms such as the MRC, ASEAN, the ARF etc. in dealing with water issues. They noted that ideas such as enabling CSCAP to become the regional early-warning mechanism on water security issues can be further discussed in subsequent meetings. They stressed that apart from promoting the cooperation among governments, there is also a need to engage the private sectors as well as the civil society in the discussion on water security.

The Co-chairs further emphasized the importance of conducting joint studies on water-related issues such as environmental impacts, climate change, sustainable development... Other possibilities such as site visits in the Mekong area should also be explored in order to see the challenges that regional people are facing.

They looked forward to the 2nd meeting of the CSCAP Study Group in Cambodia in July or August 2011, and expressed the view that the second meeting will focus on making very concrete recommendations for regional cooperation.

The Council for Security Cooperation in the Asia-Pacific



**2nd CSCAP Study Group on Water Resources Security
Siem Reap, Cambodia, July 15-16, 2011
Chairmen's Report**

The 2nd meeting of the CSCAP Study Group on Water Resources Security convened on the 15-16th of July 2011, in Siem Reap, Cambodia. The meeting was co-chaired by CSCAP Cambodia, CSCAP Japan, CSCAP Thailand and CSCAP Vietnam. Ten CSCAP member countries from the Asia Pacific region attended the meeting plus representative from Laos (Refer to the list of participants and program in annex 1).

H.R.H. Norodom Sirivudh, chairman of CSCAP Cambodia, opened the meeting with welcoming remarks which emphasized the importance of the first meeting organized by CSCAP Vietnam earlier this year, which held high quality throughout its discussion. H.R.H moved on to stressing how Cambodia, being a country where most people's livelihoods are based on water resources and agriculture, is realizing the urgency of sustainable water resources management. Water resources are being threatened by an increase in population growth, urbanization, industrial development, tourism, industry and dam construction on the Mekong River. H.R.H also emphasized how water security is a multidimensional and complex issue, and as such, how it requires cooperation among multi-stakeholders including states and non-state actors. H.R.H. Norodom Sirivudh ended his welcoming remarks by expressing his expectations for the meeting to produce high quality discussions on sustainable water resources management.

Prof. Mikiyasu Nakayama, with CSCAP Japan, expressed his gratitude towards CSCAP Cambodia for hosting the second CSCAP meeting on water security and mentioned how he hoped that this CSCAP meeting would produce relevant policy recommendations for regional leaders to take action upon, to prevent and manage water insecurity. Prof. Mkiyasu Nakayam also requested that the participants would exchange views in a frank manner on issues of common and also stated how CSCAP Japan was interested in organizing the third meeting of the study group.

Dr Suchit Bunbongkarn, representing CSCAP Thailand, again thanked CSCAP Cambodia for hosting the meeting and furthermore emphasized how the livelihood of the people of Thailand are highly interlinked with water resources management, as water is vital for their daily survival. He also mentioned how it is a breakthrough for CSCAP to conduct this manner of security study. Mr. Nguyen Hung Son, with CSCAP Vietnam, offered his gratitude to CSCAP Cambodia for hosting the second meeting in Siem Reap, the city of wonder full of historical, cultural and natural heritage. He also mentioned how it was suitable that the meeting was hosted in Siem Reap as it is close to the Tonle Sap Lake, one of the biggest lakes in the region. He moved on to stressing how stakeholders should play a constructive role in sustainable water resources management. He concluded by stating how he expected fruitful outcomes from this meeting and expressed his gratitude towards CSCAP Japan for being willing to host the next CSCAP meeting.

Session 1 focused on the collaboration between key stakeholders in relation to water security and the session aimed at identifying key stakeholders in ensuring regional water security and what specific frameworks of cooperation and partnership need to be in place for this to take place. Mr. Shichun Zhou from CSCAP China gave a presentation on “Strength Cooperation among Riparian Countries and Promote Water Security in the MRB”. In his presentation, Mr. Zhou introduced the eight hydropower projects (built, under construction, planned and postponed) for the middle-and lower-Lancang River developed by the Chinese government in addition to the environment management measures that have been strictly applied with, including measures for water, soil, wildlife and atmosphere conservation.

He summarized the contributions of upstream hydropower projects: since high water pressure is found in the Mekong Delta and the River Basins during the dry season, the storage projects will actually provide active storage of water for downstream and improve water security in MRB. He concluded that China has been sharing and will continue to share knowledge and information on water resource management in an effort to strengthen cooperation between upstream and downstream countries. MRC is faced with challenges, thus dialogue and cooperate on water security issues, between riparian countries is desperately needed.

Ms. Ellen Levin from CSCAP US delivered her opinion on several issues in her speech. Firstly, she highlighted how stakeholders need to be identified to address regional water security issue. She also mentioned how stakeholders need to reach an agreement on identifying the critical issue of the region to ensure timely and appropriate policy implementation. Water users play critical roles in water resource management, which can be illustrated by the tourism sector which puts high pressure on water resources management.

As a result, stakeholders should be aware of how to make good use of and how to preserve water resources in an efficient manner. Cooperation and negotiation among these different stakeholders is key for the sustainable use of water resources and leadership is desperately needed. Another issue Ms Levin addressed is how a framework of cooperation strategy is needed for water management. Several frameworks are available and the Mekong region needs to find a suitable one that encourages participation of all actors and helps achieve agreements and encourage long term commitment.

Regardless, the frameworks should be cooperative agreements that bind participants in a flexible manner so that it does not become too demanding where stakeholders might opt-out. Examples mentioned were memorandum of understanding or governmental agreements. The last issue Ms Levin addressed was how to build better partnership for the region. From this perspective, the region should be guiding international institutions rather than being guided by the international organizations. The region itself should play the leading role.

These two speeches were followed by comments and questions from other participants. Mr Nguyen Hung Son with CSCAP Vietnam commented on how the Chinese government has recognized the negative impacts of damming and their concern on the environmental impacts. Mr. Zhou responded that the central government of China is in charge of the projects and monitoring systems to ensure the safety of dam projects. Ms. Levin from CSCAP US complemented by stating how the region has been faced with water insecurity for a long time and that it accordingly will take a long time to address the water security issue. Since water is a multidimensional and complex issue, there are issues that take longer time to fix and there are issues that need immediate actions. The construction of dams is an issue that needs immediate actions. Regional water security needs to be addressed on a basis of priority where the issues with a higher sense of urgency are addressed first.

Ms. Maria Larsson and Mr. Chheang Vannarith with CSCAP Cambodia and Mr. Mark Brindal with CSCAP Australia emphasized the significance of transparency and information exchange regarding the damming activities. They also raised concern over the impacts of the dam construction along the mainstream, particularly the Xayaburi Dam project. Mr. Zhou responded to these comments by stating how China has experiences and expertise worth sharing with the downstream countries.

Dr Suchit Bunbongkarn emphasized how we need to recognize that there are different stakeholders in the region such as riparian states, international organizations, private sectors etc. Cooperation between these stakeholders is crucial. Ms. Levin responded to the argument raised by Dr Bunbongkarn by agreeing and emphasizing how with different stakeholders there will inevitably be different understandings and concerns on water security issues. As a result, the stakeholders are likely to have different interests in the matter and it is therefore crucial to increase cooperation between the different stakeholders.

Mr. John Brandon from The Asia Foundation followed up on this line of thought by comparing how hydropower dams are important for Laos, while damming is a harmful activity for fishing and agriculture in Cambodia and Vietnam. A balance between national development and interests in relation to regionals needs and sustainability needs to be balanced. This was reinforced by the argument made by Dr. Somkiati Ariyaprichya, from CSCAP Thailand, who stated that stakeholders have to realize that they will get something and lose something as well, through regional cooperation.

Session 2 focused on regional institutions and water security and the session aimed at examining the existing regional institutions such as Mekong River Commission and ASEAN in dealing with water resources management and the sufficiency and efficiency of water usage and supply. The first speech was delivered by Mr. George Radosevich from the International Association of Water Law and Resources

Administration and Development Inc. He addressed that water insecurity is a reality in the region and differs from the issue of water security. Water security planning addresses the known unknowns through various types of data and information and a range of analytical models designed for projections, forecasts, decisions on water allocations, infrastructure needs and safety preparedness. Water insecurity, in turn, refers to the unknown unknowns – unexpected events, uncertainty, and randomness, for example visible in how most water institutions and governments have little experience and planning capabilities for these types of contingencies. Hence, when they occur, decisions are quickly made to respond as best possible to the nature and magnitude of the events to mitigate the problems.

Mr Radosevich furthermore emphasized the need to strengthen existing regional instruments and institutions to support regional cooperation on water resources management. He proposed that more concrete actions and a sense of stronger commitment is needed to achieve the goals of strengthening regional water security, as well as existing regional mechanisms and partnerships. He suggested two important points that need to be considered. Firstly, it does not make much difference which type of instrument or form of organizational arrangement is used; what is needed is a workable, committable, and monitorable framework that is adaptable to conditions-needs. Secondly, the ASEAN's feature of the special minister's council to address and resolve urgent issues could be utilized. His perspective is that cooperation improves the change of gaining mutual benefits and avoidance of the tragedy of the commons. Organizations such as CSCAP, MRC and ASEAN can greatly facilitate conflict avoidance and data sharing and collection and aid in ensuring regional water security. Mr Radosevich concluded by asking the question we currently have the opportunity to have dialogue and the exchange of perspectives, which he argued remains limited.

The next speaker was Mr. Nguyen Nam Duong from CSCAP Vietnam. His topic was "Attaining Water Security in Regional Institution: Options for Southeast Asia". First of all, he talked about the current regional institutions including Mekong River Commission. In terms of its shortcomings, MRC is absent of upstream riparian states; the communication among governments and the public is very poor; and it has little impacts on decision making of national members and lack of compliance and enforcement principles. Moreover, the National Mekong Committees are faced with bureaucratic issues and compliance problems. Other regional options mentioned were the ASEAN Regional Forum and ASEM.

Dr Seungho Lee from CSCAP Korea delivered a speech on "Securitization of Water Issues for Economic Growth in the Mekong River". Dr. Lee investigated how to approach water security issues in the Mekong River Basin through regional institutions such as ASEAN and ADB GMS and explored ways for sustainable resources use by applying economic security to hydropower development. He reviewed the conventional approach and new approach to water security. The conventional approach put emphasis on reliable access to water supply from human security point of view while the new approach guarantees the quantity and quality of water and an acceptable level of water related risks. For trans-boundary waters in particular, the new approach to water security is sharing benefits of cooperative management and development. He mentioned that there are two major concerns: to develop hydropower whilst sustaining eco-systems and how it is crucial to strike a

balance between economic growth and environmental protection.

Dr Seungho Lee noted that there is a racing trend for hydropower development in the region and that this trend is difficult to counter. Mutually beneficial development has to be considered and nations have the obligations to minimize externalities inflicted on other riparian states. He stated how serious environmental challenges in the riparian region could undermine the economic growth of the whole region in the long run, and as a result, ecological protection programs need to be integrated into regional development. The recommendations are that 1) advert disasters from damming, more engagement by international agencies to build environmentally friendly hydropower dams; 2) short-term and long term plans by the riparian states; 3) revival of MRC, leadership for mediating conflicts and special procedure for sustainable hydropower development; 4) China's cooperative engagement and 5) integration of economic development among the international players.

In the discussions following the presentations, Mr. Zhou clarified that China's pursuit of hydropower development is not a racing trend, but a strategic need. China does cooperation and exchange information with other countries. Whether China is a member of the MRC will not affect China's willingness of information exchange and sharing. Dr. Uttam Sinha from CSCAP India, agreed that economic development needs to consider the ecological concerns raised. He stressed the importance of local participation and local knowledge to water resources management. Mr. Radosevich, commented how an MRC agreement is constituted by what the countries voluntarily agree upon. If there is no agreement, there will be no consensus or action.

Furthermore, Mr Radosevich stressed how whether China is a member of the MRC or not, does not matter significantly. The key concern is instead whether or not mechanisms to facilitate our understandings of each other exist. He also raised the question of neutrality, especially when viewing international organizations. Institutions often reflect the donor's interests, not the interest of the local people and it is likely that donors have their own agendas. Mr. Brindal commented by stating how institutions have functions in lessening the conflicts over the use of natural resources. Rivers or water resources are not the point of problem, but nations with sovereignty. The resources do not belong to any single country, but are common and public goods, which should be displayed in policy documents.

Session 3 focused on water security and the role of the private sector. The session aimed at discussing the potential role of the private sector in relation to attaining regional water security. Mr. Mark Brindal from CSCAP Australia delivered a speech on "what potential role can the private sector play in working towards regional water security?" Mr. Brindal further discussed the concept of "tragedy of the commons" as discussed by Mr Radosevich in session 2; when a common pool resource is available, there is a fear of the commitment of others to common goals, for example, that they might exploit the resource fully, even with the realization of the dangers this might present. As a result, the certainty of ownership rights is critical.

The concept of "tragedy of the anti common" on the other side refers to how the ownership of any resource is clear but becomes more and more fragmented, it becomes increasingly inefficient and eventually fails. The Mekong region is facing this issue since the states are sovereign and are trying to exercises sovereign rights over the water resources. Public and private partnership is critical. Private sectors can

provide expertise and capital, which helps to build efficiency. As the private sector might be primarily interested in economic gains, involvement of the private sector must be a well thought through decision where the needs of the region are clearly stipulated. Mr Brindal's opinion is that private sectors can be constructive but that they need to be used in the right way.

Following the presentation, Ms. Levin stated that the US has established water markets in the West and when there is a willing buyer and willing seller, the markets can function well. The markets, in turn, help people who are in need, for example the farmers during the dry seasons. Mr Radosevich expressed his opinion on the water trading, as being a trading right, and stated how it is not sure how functional it would be. The social element needs to be considered, in relation to water trading where the interests of the environment and the poor is taken into consideration. To make the trading market function well, it is necessary to clearly define the role of private sectors and investment. Mr. Brindal also stated how the right to water resources remains the right of all and, correspondingly, how everyone also has a responsibility to protect the water resources.

Mr. Lee from CSCAP South Korea, who has many years of experience in studying partnership among stakeholders, said that when there are profits, there are private sectors and mechanism and institutions needs to be established to monitor the private sector. Mr. Brindal concluded with his recommendations for the governments to engage private sectors with the water resources management by: 1) build common frameworks and rules before engaging the private sectors; 2) create joint sharing arrangements for the region and 3) build mechanisms and frameworks for knowledge and technology sharing to have more informed private sectors.

Session 4 discussed water security and the roles of civil society organizations. It examined the role of CSO's in addressing water security issues and their efficiency and influence in terms of policy design and implementation processes as a way to develop and further expand its role and its engagement with other sectors (both private and public). Mr. Try Thoun from International Centre for Environmental Management gave a presentation on "water security and the role of civil society organization". He introduced the MRC SEA and its consultation process.

Following the presentation, Mr. Vannarith with CSCAP Cambodia and Dr. Bunbongkarn from CSCAP Thailand asked Mr Thoun to elaborate further on the specific role of civil society organization and to what extent they can aid in ensuring water security and manage water insecurity issues. Mr. Bunbongkarn shared an experience from Thailand where civil societies have been involved and played critical roles in protesting against dam construction. There is a need for civil society organizations to increase their participation, for example by getting involved in monitoring and assessing the impacts caused by unstable development projects, particularly hydropower dams.

Mr. Brindal agreed with this line of argument and stressed how civil society refers to the use of knowledge and the empowerment of the local people. In this sense, the local people are a critical source of knowledge and policy-making, however, they need to be educated for this to be possible. Dr Bunbongkarn agreed that local people needs to be educated. As an example, the local people generally do not know who owns water resources, accordingly, public awareness needs to be strengthened.

Ms. Levin and Dr. Yiyuan Su raised the question how knowledge can be spread to local people, regarding water security. Dr. Su further pointed out that poverty is still common in the region which might complicate the issue further. Public participation might accordingly become an issue, and Mr. Thoun mentioned how in the SEA case, documents are translated to the local language so that the local people are able to take part in the information. Again, Mr. Brindal emphasized how rights to water also comes with a responsibility, and as such, how a framework can be developed to encourage people to take responsibilities for water resource management whilst information is shared and spread.

Session 5 focused on water related disputes and the role of conflict prevention and management. Dr. Uttam Sinha from CSCAP India touched upon several issues in his speech such as the role of international treaties. Dr Sinha gave some recommendations by pointing towards Asian history and the relationship between civilization and water. Dr Sinha stressed how threats such as fast population growth, increased demand of water and agricultural production, urbanization, climate change have impacts on water resources management but also how it is affected by international relations and politics.

As an example, dam construction has generated many studies and discussions and debates and the impacts of dams on water resources need a comprehensive research and assessment, taking into account ecological and human costs. Accordingly, water security is related to many other issues and concerns which might change over time. As such, there is a need to rethink, reexamine and reevaluate water security from time to time. Dr. Sinha concluded by making recommendations. He suggested that we examine water security issues in terms of disputes rather than conflicts. The region also needs to work on a comprehensive approach where cooperation is increased. He stressed that politicians have to be included since water is a fundamental issue and basic need related to human security.

Mr. Christopher Baker from the Centre for International Security Studies followed up by delivering a speech on “water security and international security”. Even though conflicts for water resources might be unlikely in the region, he stressed how a risk for water conflicts, still exists. Mr Baker stated how water security must be viewed from a hydrological, economic and geographical dimension whilst taking availability, supply, quality, quantity, and access to water, into consideration. He explained that the pressure on water resources is increasing with population growth and an increasing demand for agriculture and fisheries. Additionally, there are an increased number and severity of droughts and floods due to climate change.

Moreover, forced migration in the region due to dam construction is frequent whilst people in the region are reliant on the natural food cycle of the river for daily substances. When water resources are increasingly unavailable due to dam construction, the livelihood of people is threatened and migration becomes a coping mechanism. Mr Baker gave suggestions on solutions: 1) no unilateral action on dams 2) continuation of dialogue 3) Chinese engagement, especially in terms of data sharing 4) a renewed MRC (possibly subsumed within ASEAN) 5) to examine if development without dams is possible and 6) regional and international cooperation as stability is needed.

In the discussion on the session, Ms. Radosevich said that this meeting has covered a

lot of topics which includes many suggestions for ways forward. He also maintained how, regardless of what perspective one might have, each country face similar issues. MRC is represented by its member states, and so far, the countries are not ready to respond to the many issues facing this region. Regarding Mr Uttam's presentation, Mr Lee raised a question on what the difference is between framing water into dispute and framing water into conflict. Mr Uttam answered that focusing on water disputes rather than water conflicts is more beneficial for setting the issue within the framework and better for the settlement of the issue. Water conflict is more related to other security issues and by focusing on water disputes, key problem can be managed more sufficiently.

Ms Maria Larsson with CSCAP Cambodia asked Mr Christopher Baker specifically, who emphasized a renewed MRC, how conflict prevention could be explicitly incorporated into policy decision-making and implementation procedures, and if there could be a potential role for China to play in this regard, as a regional leader, connecting with Ms Levin's speech during session 1. Mr Baker was asked to answer the question whilst dis-regarding if a Chinese membership into the MRC would take place or not. Mr Baker responded by stating how China indeed does have the potential to play an important role as a regional leader, this can be illustrated by the case of the South China Sea dispute. He recommended how the Mekong Agreement could be used as a way to move the debate forward, and how regional dialogue, for example through the Shangri-La dialogue, remains key for policy implementation but also the importance of China raising these issues by themselves and actively participating in regional dialogue.

In relation to Mr. Baker's statement of a renewed MRC, he was asked to clarify the possible future role of the MRC. He replied how the MRC can function as an informative institution, and as such, how possible issues can be elevated to a ministerial level straight away. Additionally, he re-affirmed the high dependency of water resources within this region, on the livelihoods of the people. When dam construction takes place, people's livelihoods are seriously affected as their food and ways for survivals are threatened. Accordingly, water security should be viewed as mainly a non-traditional security issue.

Ms. Xing from CSCAP China stated how China is still a developing country, faced with climate change, like all the other countries. Hydropower is a clean source of energy, and as such, hydropower development is beneficial to people's lives under the monitoring system of the government and cooperation between China and upstream and downstream countries. Mr Zhou also confirmed that dam construction is not 'evil'. There are dams that were built many years ago and have contributed to people's livelihoods and benefited people. He also stated how, with China's continued sharing and cooperation with other riparian countries, dam construction projects can be environmentally friendly. He also stressed how data sharing and cooperation must be of a two-way character; it is not only the responsibility of China to work towards a higher degree of transparency.

Session 6 focused on possible ways forward, both in terms of water security but also in terms of the study group itself, and was a roundtable discussion. The session in particular discussed the policy recommendations made by all participants, which aim to sufficiently address water security in the Asia-Pacific. Similarly to the first meeting, most participants agreed on the importance of information sharing and transparency,

enhanced function of regional institutions and civil society and collaboration between stakeholders. Moreover, all participants expected a renewed and enhanced role of CSCAP from this aspect.

The session summarized the key issues which had been discussed in the last five sessions. Even though there are some uncertainties related to the impacts of dams or role of China as a regional leader, this meeting has achieved consensus on some of the key issues discussed and produced constructive recommendations so that the debate and study group can move forward to make specific policy recommendations. For upcoming meetings, it was also suggested that the role of media and education was further explored. As water security issues remain a complex issue, which relates to many other issues such as economic, human, environmental and energy security, it requires an integrated and comprehensive approach. Cooperation between different key stakeholders and involvement of regional organizations and civil society is crucial to be able to move forward to sustainable water management and sustainable development. In relation to this, it is crucial to more specifically define both the private sector and the civil society. It was also mentioned how the discussion needs to be expanded to include more examples and cases than the ones found in the Mekong region.

In the wrap-up session, the co-chairs summarized how the meeting has discussed the importance of cooperation and sharing of knowledge and information in the region. The concept of water security, sovereignty, stakeholders and common interest has been discussed extensively. It was recognized that although dam construction and hydropower development remains an immediate crucial concern, it is important to also move the debate beyond this scope.

The meeting came up with suggestions such as the possibility of establishing mechanism and frameworks for cooperation and data sharing, strengthened regional and international institutions, the empowerment of civil society and the potential contribution of private sectors and preventive mechanism for water related disputes. As an example, it was mentioned that although the meetings so far has focused extensively on the Mekong region, this could be useful. If a framework for ensuring water security in the Mekong region could be constructed and implemented, this framework could be exported into other regions, for example into China which in the near future will face severe water security challenges.

The meeting was concluded by the co-chairs offering remarks with high compliments for the success of this meeting. All participants of the meeting were thanked for their active discussion and contributions during the meeting. The co-chairs concluded by stating how they all look forward to the next meeting of the CSCAP Study Group in Japan, in 2012.

**CSCAP Study Group on the Responsibility to Protect (RtoP)
Final Report
Executive Summary**

The twentieth century was marked by immense human progress but was also punctuated by episodes of grave inhumanity. At the conclusion of its third and final meeting, held in Phnom Penh, the CSCAP Study Group on the Responsibility to Protect (RtoP) visited the Tuol Sleng genocide museum, site of one of the century's worst crimes. During the Khmer Rouge's reign of terror in Cambodia, up to 17,000 people were tortured and killed at Tuol Sleng. Despite past promises, the international community has often failed to prevent the commission of crimes like this or take timely and decisive action to protect the victims. Recognising this legacy, the largest ever meeting of heads of state and government endorsed the Responsibility to Protect (RtoP) concept in 2005.

The Responsibility to Protect (RtoP) is animated by a profound belief that humanity can do a better job of living up to its most deeply held common moral beliefs and aspirations and that it can do so whilst preserving and strengthening core institutions such as state sovereignty. RtoP is borne out of a shared ethical belief that innocent civilians should be protected from genocide, war crimes, ethnic cleansing and crimes against humanity in a manner consistent with the principles and purpose of the UN Charter.

As agreed by UN Member States, RtoP rests on three equally important and non-sequential pillars:

I: The responsibility of the state to protect its population from genocide, war crimes, ethnic cleansing and crimes against humanity, and from their incitement (para. 138).

II: The international community's responsibility to assist the state to fulfil its responsibility to protect (para. 139).

III: In situations where a state has manifestly failed to protect its population from the four crimes, the international community's responsibility to take timely and decisive action through peaceful diplomatic and humanitarian means and, if that fails, other more forceful means in a manner consistent with Chapters VI (peaceful measures), VII (enforcement measures) and VIII (regional arrangements) of the UN Charter (para. 139).

The CSCAP Study Group on RtoP was mandated by the CSCAP Steering Committee in Kuala Lumpur in June 2009 to examine the concept and 'explore the implications of this new norm for regional actors and organizations. The Group was also tasked with 'providing policy recommendations regarding possible regional contributions to the global debate surrounding the implementation of RtoP'. In fulfillment of this mandate, the present report examines the scope and meaning of RtoP, presents twelve

recommendations for its implementation in the Asia Pacific region, and identifies some of the next steps towards translating the concept from ‘words to deeds’.

The Group concluded that regional arrangements in the Asia Pacific region should play an important role in implementing RtoP. Regional activism in implementing RtoP would enhance regional peace and security as well as strengthening the protection of people. It would also foster regional ownership and ensure that RtoP is implemented in a manner consistent with local norms and interests, strengthen partnership between the region and global institutions, and enhance key national and regional capacities. The Group also concluded that RtoP is consistent with regional norms. In particular, RtoP does not create new legal obligations, but is rooted in existing international law. It represents a commitment to implement existing law in relation to genocide, war crimes, ethnic cleansing and crimes against humanity, to assist states to fulfil their commitments and to work together in a manner consistent with existing law to respond in a timely and decisive manner when the four enumerated crimes are committed. Further, the Group found that RtoP applies only to the four specified crimes (genocide, war crimes, ethnic cleansing and crimes against humanity) and not to a wider range of human security issues and that it is consistent with the principle of non-interference and the UN Charter.

The Group identified twelve recommendations through which national governments, regional arrangements and the region’s global partners might begin to implement the RtoP and build a future free of the crimes witnessed at Tuol Sleng. In particular, the Group recommends:

- ***Enhanced partnership between the United Nations and the Asia Pacific region***, including strengthened high-level dialogue, officials-level cooperation, and joint training.
- ***The establishment of a regional risk reduction centre*** to provide early warning and assessment of situations likely to result in the commission of genocide, war crimes, ethnic cleansing and crimes against humanity.
- ***The strengthening of regional capacity to employ diplomacy, mediation and other consensual measures*** to prevent the escalation of crises into situations that might give rise to the four RtoP crimes.
- ***Working towards the establishment of a regional standing capacity for preventing and responding to genocide, war crimes, ethnic cleansing and crimes against humanity.***
- ***The provision of voluntary background briefings by states and the establishment of regional mechanisms to support national capacity building*** aimed at strengthening the capacity of states to fulfill their responsibility to protect.

The protection of future generations from genocide, war crimes, ethnic cleansing and crimes against humanity depends on the extent to which progress is made to deliver on the commitment to RtoP. As such, the final part of the report identifies practical pathways for beginning to translate RtoP from words to deeds. In particular, it calls for the convening of an ARF Experts Meeting to consider the recommendations made

in this report and prepare proposals for implementing RtoP in the Asia Pacific region that would help guide the region's ministerial-level discussions. It also calls for action by the UN, individual governments and Track Two groupings.

The CSCAP Study Group on RtoP has identified a meaningful regional consensus on RtoP, practical steps for strengthening the region's capacity to prevent and respond to genocide, war crimes, ethnic cleansing and crimes against humanity, and pathways for implementation. The challenge now is to deliver on the commitment and ensure that the region never again hosts the inhumanity witnessed at Tuol Sleng.

Box 1: List of Recommendations

For national governments:

1. National governments should consider appointing an official to serve as a focal point for RtoP.
2. Resources should be devoted to raising awareness about RtoP among states and societies.
3. Governments should use education to inculcate the skills and values needed to resolve disputes peacefully.

For regional arrangements in the Asia Pacific:

4. The ARF should consider establishing a Risk Reduction Centre to conduct early warning and assessment of the risk of genocide, war crimes, ethnic cleansing and crimes against humanity and cooperate with the UN.
5. The ARF could consider strengthening its capacity to employ diplomacy to mediate and resolve crises before they escalate.
6. The ARF should consider establishing a standing regional capacity to prevent genocide, war crimes, ethnic cleansing and crimes against humanity and respond to them in a timely and decisive manner.
7. ARF participants should consider providing voluntary background briefings.
8. The ARF should consider establishing an Inter-Sessional Meeting on Small Arms and Light Weapons.
9. The ARF should establish a consultative mechanism to monitor and advise the UN Peacebuilding Commission and support national capacity building to prevent the four RtoP crimes.
10. The ARF could consider strengthening the Eminent and Experts Persons Group so that it may play a role in implementing RtoP.

For global institutions and partnership with the Asia Pacific:

11. Anticipatory relationships should be established between the region and the UN to facilitate cooperation in the prevention of the four RtoP crimes and effective responses.
12. Region-to-region and intra-regional dialogue should be strengthened to facilitate the identification of best practices and lessons learned relating to the implementation of RtoP.

**13th Meeting of the Council on Security Cooperation in the Asia Pacific (CSCAP)
Study Group on Countering the Proliferation of Weapons of Mass Destruction in
the Asia Pacific
Las Vegas, Nevada, Feb. 21-22, 2011
Chairman's Report**

The 13th meeting of the CSCAP Study Group on Countering the Proliferation of Weapons of Mass Destruction in the Asia Pacific was held in Las Vegas, Nevada, Feb. 21-22, 2011. Over 60 experts, government officials, and Pacific Forum CSIS Young Leaders from over 20 countries and international organizations attended (all in their private capacities). To provide input to and create synergy with the ARF Inter-Sessional Meeting on Nonproliferation and Disarmament that immediately followed, we focused on disarmament issues.

During his introductory remarks, Study Group co-chair Ralph Cossa noted that as part of the Pacific Forum's Young Leaders program, a subset of Nonproliferation and Disarmament Fellows was being established to promote expertise among the next generation of scholars, security specialists, and officials. Details about the Young Leaders program are on the Forum's web site [www.pacforum.org] and participants were encouraged to help identify next generation specialists who would benefit from involvement in this program.

Our first session addressed *recent developments in the global nonproliferation regime* (GNR). Manpreet Sethi (*CSCAP India*) offered views on the status of the commitments made at the Nuclear Nonproliferation Treaty (NPT) Review Conference (RevCon) and implementation of the 2010 Nuclear Security Summit (NSS) action plan. She argued that the RevCon commitments were credible and offer hope for future progress. While the 64 recommendations are not as ambitious as they could have been, they were nearly evenly balanced between nonproliferation and disarmament. This reinforces the idea that these two pillars are intrinsically linked and progress in one will not be possible without progress in the other – an important step in reconciling the underlying disagreement between nuclear weapon states (NWS) and non-nuclear weapons states (NNWS).

Sethi also viewed progress on implementation of the NSS action plan as a step in the right direction, highlighting India's actions as indicative of the general recognition of the importance of nuclear security among countries. Actions cited include support for a larger role of the International Atomic Energy Agency (IAEA) in nuclear security; support for improving international legal instruments to ensure nuclear security, such as the Convention on the Physical Protection of Nuclear Materials, UN Security Council Resolution (UNSCR)1540, and the Global Initiative to Combat Nuclear Terrorism; and national efforts to control nuclear materials through improved strategic trade management and compliance with export control regimes such as the Nuclear Suppliers Group, the Australia Group, and the Missile Control and Technology Regime (MTCR). Sethi concluded by emphasizing that success with

nuclear security requires 100 percent support from all countries because we are all vulnerable to the weakest link in the chain.

Kim Young-ho (*CSCAP Korea*) then offered a preview of what we can anticipate at the 2012 NSS, which will be held in Seoul. He began by pointing out that while the first NSS raised awareness of the threat of nuclear terrorism and the need for better controls of fissile materials, the lack of legally binding agreements remains a weakness. He noted that much of the agenda for the 2012 NSS would be based on the November 2010 Sherpas Meeting held in Argentina where delegates recommended putting the following issues on the agenda to promote nuclear security:

- establish counter-smuggling teams;
- cooperate in investigations and the use of nuclear forensics to combat illegal transfer of nuclear materials;
- establish guidelines to minimize the use of highly enriched uranium (HEU);
- reduce personal access to nuclear processing facilities – a “hands off” approach;
- develop programs to promote a nuclear security culture among personnel operating civilian nuclear facilities;
- strengthen physical protection of nuclear material and facilities;
- confirm and continue to urge the elimination of surplus fissile materials; and
- tighten control over transport of nuclear materials.

Seoul sees the summit as a chance to demonstrate that it is a state with advanced technology for commercial use of nuclear energy with the ability to export nuclear plants and that it has an exemplary record observing international norms and rules in its use of nuclear energy. In addition, Seoul intends to emphasize implementation of the pledges made at the first NSS and the submission of national reports. To add a South Korean flavor to the second summit, Seoul hopes to use indigenous information technologies to establish databases on nuclear materials and their transactions. Several issues and concerns have yet to be addressed. For example, should the scope be widened to include radioactive materials and nuclear technologies rather than just fissile materials? There is also a question whether the process should be institutionalized by calling for a third NSS, or be expanded by inviting other states such as North Korea, or by having side events for commercial interests and the academic community.

In his presentation, Victor Mizin (*CSCAP Russia*) argued that the NPT was strengthened following ratification of the New Strategic Arms Reduction Treaty (New START). While acknowledging that the commitments made at the NPT RevCon are a step forward, the NPT is no panacea. People remain locked in the mindset of mutually assured destruction (MAD), there is a great deal of skepticism about the US commitment to reducing reliance on nuclear weapons, and there is ongoing concern that other NWS are reluctant to join the arms control process. Since the NPT was formulated during the Cold War and separates states into NWS and NNWS, many countries view the treaty as a tool of the NWS to deny them access to nuclear technology. Thus for some states, the pursuit of nuclear weapons is a sign of development while others see any attempt by a NNWS to develop nuclear technology

as a threat to the integrity of the treaty. India serves as an obvious example, even if it never signed the NPT.

In the current circumstances – where the most immediate threat is the effective control of nuclear materials and technology – other supporting regimes such as the UN Security Council Resolution (UNSCR) 1540, supplementary controls and regimes, and integrated safeguards are important tools to augment the NPT. Since many states have established effective legal frameworks for preventing proliferation based on the provisions of the NPT, it is better to augment than to attempt to re-negotiate the treaty itself.

During the discussion, there was general agreement that the 2010 NPT RevCon made clear that disarmament and nonproliferation are intrinsically related and that progress on one is difficult or impossible without progress on the other. However, some participants expressed skepticism about the prospects for reducing the risk of nonproliferation given the lack of action on the 64 recommendations outlined at the RevCon. The inability to agree on a specific timeline for disarmament and the failure to include specific actions for reducing the role of nuclear weapons in military doctrine at the RevCon is not encouraging. Coupled with the lack of progress in the Conference on Disarmament, one participant concluded that the NNWS would become increasingly disenchanted with the NWS promise of movement toward general disarmament. For some, the disenchantment extends to the NPT itself, while others argued that a world with the NPT, while not ideal, was still better than one without it.

Others reaffirmed the importance of the NSS and emphasized the need to address the immediate concern of controlling nuclear materials. They agreed with Mizin that it was important to find supplementary mechanisms to augment the NPT: this is a present danger that cannot await resolution of the tension between disarmament and nonproliferation advocates. One participant acknowledged that porous borders left his country vulnerable and made it a weak link in the nonproliferation chain. Others pointed out that little action has been taken to institutionalize the NSS. While the action plan was a good first step, little has been done to implement it and there aren't any enduring guiding principles or clear objectives. In their absence, it will be difficult to sustain momentum in the drive for nuclear security. This is a real challenge for the 2012 summit.

Responding to charges that the US was not serious about disarmament, a US participant argued that the trend lines were positive, highlighting a reiteration of the commitment to eliminate its chemical agent arsenal, continued engagement in bilateral disarmament talks, narrowed parameters for use of nuclear weapons, and less reliance on nuclear weapons in its planning documents. He concluded, however, that it would be politically impossible for the US to pursue more aggressive disarmament steps in the face of continued proliferation.

Russia gets psychological reassurance by maintaining its nuclear arsenal, given a relatively slow pace in developing conventional alternatives. NATO remains a concern and is viewed by many Russians as being sufficient to justify maintenance of tactical nuclear capabilities. The possibility of the weaponization of space and the US

pursuit of prompt conventional global strike capability makes it difficult for some in Russia to envision taking the next step in reducing reliance on nuclear weapons.

Session 2 addressed *alternative approaches to promote Korean denuclearization*. Yang Yi (*CSCAP China*) argued that the Six-Party Talks remain the best forum for addressing this problem. While all parties involved accept the importance of maintaining a dialogue, each party has different demands and has different expectations for the talks; not surprisingly, progress has been difficult. With the significant increase in tensions between North and South Korea following the *Cheonan* incident and the shelling at Yeongpyong Island, China proposed emergency consultations among the heads of delegation to the Six-Party Talks “to ease the tensions on the Korean Peninsula and provide a platform of engagement and dialogue.” Since this proposal was rejected by other parties, China has been working with North Korea, South Korea, and the US to prevent further escalation, reach consensus on the importance of maintaining peace and stability on the peninsula, and promote economic development while maintaining hope that the talks will resume.

Scott Snyder (*USCSCAP*) offered alternative approaches that might foster progress given the current stalemate in the talks. For him, alternative approaches may be necessary because the latest revelations by North Korea about its advanced uranium enrichment program significantly changed the negotiations dynamic. It is difficult to imagine a viable process by which North Korea would move toward denuclearization – this is a significant obstacle to the resumption of the Six-Party Talks. For the US, the revelation of the uranium enrichment program has undermined a fundamental premise that undergirded its willingness to negotiate with the North: its ability to independently verify the North’s compliance with any agreement. In the absence of this basic tenet, it is very difficult to return to the Six-Party Talks. But the US can’t abandon prospects for an eventual return to the talks because they do represent an important commitment by North Korea to abandon its nuclear program. By abandoning the Six- Party Talks, the US would implicitly acknowledge North Korea as a nuclear weapon state. The US cannot pursue or accept normalization of relations with a nuclear North Korea.

Nevertheless, maintaining regional stability and reducing tension remain important priorities. The other parties should be talking about crisis management mechanisms, reducing tensions, building confidence, and promoting regional cooperation in alternative venues and in various combinations of parties in the Six-Party Talks. In fact, given the fragility of the leadership succession process in North Korea and the threat this could pose to regional stability, there should be more consultations among countries in the region.

Snyder made specific recommendations for improving regional coordination on crisis management, strengthening mechanisms for managing conventional provocations, addressing the growing missile threat from North Korea, promoting integration of North Korea into the region, and catalyzing transformation within North Korea. Some hope that working on these issues could lead North Korea to return to the path of denuclearization, help stabilize the inter-Korean relationship, and promote development of a direct US-North Korea dialogue mechanism. These conditions are needed before the Six-Party Talks can resume.

The discussion began with one participant suggesting that denuclearization of the Korean Peninsula was no longer possible without regime change in the North. A US participant noted his disappointment that neither presentation included a reference to the failure of the UN resolutions to have any influence on North Korea's behavior. He blamed China for not using the resolutions to convince North Korea to abandon its nuclear program; instead Beijing accepted and enabled North Korea in its defiance of UN resolutions. This has damaged the credibility of the UN Security Council and called into question China's ability to be an "honest broker" in the Six-Party Talks. Therefore, it is necessary to find a way to restore UN credibility and perhaps convene talks among the other five parties (excluding North Korea) to evaluate next steps. Some participants questioned the value of the Six-Party Talks as a mechanism for resolving the denuclearization problem even though several participants pointed out that the September 2005 agreement is an important commitment by North Korea to eliminate its nuclear programs. There was also concern that a lack of progress would lead to the "creeping legitimacy" of the North's nuclear weapons program.

Alternatives to the Six-Party Talks were also suggested. One alternate forum would be the ASEAN Treaty on Amity and Cooperation (TAC) High Council, which was established for just such purposes. (It should be noted that the TAC High Council has never convened.) Several participants argued that the best approach for resolving the nuclear issue was bilateral talks between the US and North Korea. A US participant responded by arguing that while the US was open to bilateral engagement, it could not proceed without an acknowledgement by North Korea of its recent military provocations, its commitment to refrain from future provocations, and a commitment to return to the path of denuclearization. Another participant suggested that, given the potential for instability in North Korea, the most important task was to engage Pyongyang and seek to prevent further escalation of tensions.

A common conclusion was that as long as there was such a high level of mistrust among the six parties, progress on any of the underlying issues on the peninsula seems unlikely. However, as Snyder noted in his concluding comments, that scenario fits North Korea's vision of becoming a "nuclear state" with relations with the US. Therefore, it is necessary for individual states to disabuse Pyongyang of this notion in order to help move the process forward. For some, that means working to create trust and seeking ways to improve relations among the parties. For others, that means working together to convince North Korea that maintaining nuclear weapons and military provocations are incompatible with the goal of creating a strong and prosperous nation.

In session 3, the group took up the issue of "*next steps*" in arms control following the ratification of the New START by the US and Russia. In his presentation, David Santoro (*International Institute for Strategic Studies/Pacific Forum CSIS Young Leader*) noted that New START provides a verification and transparency framework for US-Russia arms reductions, a foundation for subsequent negotiations on further reductions, and a basis for broader US-Russia relations and further security cooperation. Despite these positive aspects, there has not been the hoped-for progress on the promise of Obama's Prague speech. There has been little movement on ratification of the Comprehensive Test Ban Treaty (CTBT) and the development of a Fissile Material Cutoff Treaty (FMCT) continues to flounder in the Conference on Disarmament (CD). While expressing skepticism about any real progress on

addressing tactical nuclear weapons in Europe, Santoro felt the best opportunity for cooperation was through the UNSCR 1540 Committee and through the NSS. The underlying issue is that is necessary to dispel the belief that disarmament is not important. Nonproliferation and disarmament are connected and NWS and NNWS have a stake in moving both processes forward.

Lyndon Burford (*CSCAP New Zealand*) argued that in the interest of promoting disarmament, all states, including NNWS have a role in promoting arms control. Historically, NNWS have sought to create the political climate necessary to realize disarmament. But, creating that climate requires practical steps such as promoting effective verification regimes to create trust and promoting arguments for reducing reliance on nuclear weapons in security strategies and military doctrines. Here, disarmament advocates can promote their goals through arms control.

Rajesh Basrur (*CSCAP Singapore*) argued that one of the weaknesses of the arms control approach to disarmament is a general lack of doctrine beyond MAD, which assumes significant numbers of weapons. As a result, as states approach zero nuclear weapons, there is a reluctance to continue reducing arsenals. He argued that the minimal deterrence strategy promoted in South Asia and China offers lessons. Since all states have a stated no-first-use policy, arsenals are not assembled, and are not on alert, they do not pose an immediate threat, and the balance of force is not critical to the deterrence value of the weapon. While acknowledging that there are elements of the MAD doctrine that influence individual states in the region, Basrur's central argument was that, in principle, shifting from MAD to minimal deterrence could serve as a roadmap as the large NWS reduce the size of their arsenals.

The moderator began the discussion by pointing out that it is important to distinguish between arms control and disarmament. While arms control focuses on creating so-called strategic stability, disarmament could be a source of instability. That is the basis for the argument that other NWS must join the US and Russia in the arms control process at an early stage and do more than posture. Our discussion also highlighted the need to take regional relations into consideration, or the discussion becomes sterile. Allies of the US worry about reductions that could jeopardize the ability of the US to offer its extended deterrence. There is a linkage between arms control initiatives and the development of conventional capabilities, outer space weapons, and infrastructure. Another participant argued that it might be necessary to leapfrog from arms control, which was designed to create stability in a gradual manner, to more dramatic steps to attain the goal of complete disarmament. Other key ideas included the critical role of transparency in promoting trust to move the arms control process forward and the importance of opening a dialogue among all states to promote a shift from reliance on nuclear weapons and MAD as the basis for the international security architecture. While there are encouraging signs such as the New START, dialogue among the five NWS on nuclear transparency, increased emphasis on cooperation in the US Nuclear Posture Review, and hints of progress on ratification of the CTBT, there remains a great deal of skepticism.

Session 4 focused on *alternatives to arms control as a means to achieving complete nuclear disarmament*. Jeffrey Lewis (*James Martin Center for Nonproliferation Studies*) began by arguing that the world is realigning nuclear forces and doctrines to a new reality in which there is a reduced significance for nuclear arsenals: credit the

end of the Cold War and the realization that the very existence of nuclear weapons represents a distinct danger for this development. Therefore, while in the 1950s nuclear weapons were seen as “just another weapon,” today the acquisition of nuclear weapons is viewed as undesirable by most countries. For the US, this has meant balancing the need to maintain its commitments for extended deterrence, while developing new strategies and doctrines to substitute conventional capabilities. This has made it difficult for the US to embrace minimal deterrence and a declaratory no-first-use policy. Practical steps needed include more consultation on the role of nuclear weapons in the current security architecture and better coordination on missile defense. Given the shifting reality, disarmament is not just a bargain to ensure nonproliferation goals are achieved; it is something we must all do.

Li Hong (*CSCAP China*) offered an explanation of China’s minimal deterrence doctrine. He argued that the doctrine is premised on no-first-use and the key is to maintain a dynamic retaliatory capability that is sufficient to deter the enemy based on current threat perceptions. To ensure the survivability (effectiveness) of the nuclear strategic force, it is necessary to ensure that retaliation is unacceptable to a potential opponent, that there are procedures for safe and stable operations, that the system is capable of surviving a first strike, and that you are able to identify an aggressor and have an effective command and control system to launch a counter-attack. Because the strategy is predicated on no-first-use, moral concerns surrounding target selection and the decision itself to respond are much diminished. Li concluded by asserting that given this doctrinal approach, China would never engage in a nuclear arms race and has consistently sought complete prohibition of nuclear weapons. The academic community in China is actively producing proposals for the development of a multilateral nuclear disarmament framework.

Manpreet Sethi (*CSCAP India*) argued that the best means of discarding nuclear weapons is to devalue them. The current situation is one where no one actually talks about zero and it seems no one wants to get rid of nuclear weapons. The risk of nuclear terrorism is high and proliferation seems inevitable. Piecemeal solutions such as arms control, treaties to prevent further development, and removing weapons from alert without complete dismantlement only rationalize such arsenals. This engenders distrust of the real motives of the NWS and makes the nonproliferation regime unsustainable. Therefore, it is necessary to change the mindset: this begins with the notion that nuclear deterrence has kept the peace since the end of World War II, requires rethinking nuclear doctrines, investing confidence in multilateral initiatives, and relearning the relationship between peace and security. It is also necessary to reduce the salience of nuclear weapons by developing comprehensive security assurances, establishing a universal no-first-use policy, and banning the use and threat of use of nuclear weapons. Perhaps the biggest challenge is to create political will. This will likely have to come from a variety of sources including a nuclear disaster, pressure from public opinion, a shift in military thinking regarding the utility of nuclear weapons, faith in verification technologies, and statesmanship. Clearly, this process cannot be open-ended. The pillars of nonproliferation and peaceful nuclear energy depend on the success of nuclear disarmament.

During the discussion there was again general recognition that disarmament remains an aspirational goal and that practical steps are required to move toward that goal. One participant recommended that the problem be broken into discrete elements that

all had to be addressed to realize progress. The list included issues such as the bilateral US-Russia relationship, regional arms control (e.g., in South Asia), doctrinal adjustments, denuclearization of North Korea, NATO's *raison d'être*, improving transparency, establishing stockpile baselines, stockpile reductions, verification of warhead elimination, extended deterrence, missile defense, and strengthening the nonproliferation regime. Discussion also focused on how responsibility should be shared. While several participants felt that the US should take the lead for a variety of reasons, others argued that there had to be balance and consistency by all countries if we are going to move the disarmament process forward.

In Session 5, the group turned to *the Biological Warfare Convention (BWC) and its role in addressing biosecurity threats*. Masamichi Minehata (*Pacific Forum CSIS Sasakawa Peace Foundation Fellow*) offered views on the significance of the 7th BWC Review Conference, which will be held in late 2011. While the BWC RevCon will consider important administrative issues such as continuation of the Implementation Support Unit and annual meetings, important sensitive issues include verification, the lack of participation by life scientists in implementing the convention, the threat of bioterrorism, engagement of regional organizations, and development of an action plan on national implementation.

The major challenge, however, will be figuring out how to ensure compliance with the BWC without verification, which has proven to be a major stumbling block and the specific subject of Angela Woodward's (*New Zealand CSCAP*) presentation. She argued that verification is important, but it must rely on confidence building measures because the nature of biological research is too complex to create an effective verification system. The emergent alternative has been development of national legislation coupled with the creation of a compliance assurance framework that allows for a great deal of creativity to build confidence that a particular laboratory is in compliance with the BWC. The conceptual challenges that have emerged are: defining compliance, determining which articles of the convention apply, identifying what measures are required, examining to what extent compliance is governed by national implementation, and figuring out how to establish benchmarks given the wide variance in stages of laboratory development. The framework aims to demonstrate compliance while detecting and deterring noncompliance. Woodward felt that successful implementation will require improved confidence building measures, a UNSC investigative mechanism to evaluate noncompliance, utilization of the inter-sessional process to evaluate national implementation, and development of a legally binding protocol. Three important roles for regional organizations and civil society in this process include support for national implementation and compliance measures, development of ideas for compliance assurance and assessment, and capacity development for improving verification.

Piers Millet (*BWC ISU*) offered his views on how the BWC promotes global health security. While noting that several countries in the Asia-Pacific region have not yet signed the BWC, in many cases this seems to be due either to a lack of interest or limited bureaucratic capacity to meet the requirements of the convention. There is a threat of biological weapons, but given the diffuse nature of biological research and the frequent inability to distinguish dual-use materials, a tailored response is needed to implement the convention. States have linked an array of tools to deal with a linked array of problems. These include natural disease, unintended consequences, accidents,

negligence, vandalism, and sabotage along with deliberate use of biological weapons. Since the traditional approach of identifying a threat, establishing a treaty, and organizing to operationalize the treaty doesn't work, the BWC brings actors together and works outside the confines of the convention to address issues. The tools used include: dedicated response, international response, global coverage, leverage power of states, etc. There is mutual reinforcement in the process as cooperation reduces risks and reducing risks encourages cooperation. Some of the practical actions taken include working with animal disease, seeking to eradicate disease, engaging UN agencies in their operations and engaging the biosafety community. Millet concluded by noting that the Asia-Pacific biosafety network has made significant contributions to this process.

Our discussion highlighted the lack of awareness of the biosecurity threat and the need to do a better job of engaging in a dialogue between the policy community and the biological research community. One participant suggested that the real issue is "intentionality" since the threat extended beyond the purposeful development of weapons to a whole range of missteps and unintended consequences. That assessment confirms the need for a tailored approach and measures to prevent third party access to materials. Another participant pointed to the need to distinguish between risk and threat. In conclusion it was noted that the explosion of biotech investment in the Asia-Pacific in recent years created the need for oversight of the scientific community. Engaging in best practices discussions is critical. As a starting point, a list of experts would be helpful. While verification is desirable, it is not practical. There is the danger that all organizations want to be engaged in monitoring activity and coordinating without implementing.

Session 6 focused on ***the role regional organizations in the Asia-Pacific can play in promoting WMD nonproliferation and disarmament***. Noor Fatriah Bakri (CSCAP Malaysia) described recent Malaysian efforts in promoting regional nonproliferation by passage of the Malaysian Strategic Trade Act (STA), which entered into operation in January 2011. Full implementation and enforcement of provisions will occur in July 2011. The legislation was passed to ensure that Malaysia has a legal mechanism to address crimes related to WMD proliferation, is in compliance with treaty obligations and the provisions of UNSCR 1540, and to prevent Malaysia from becoming a transshipment hub for illicit materials. In this sense, the STA is viewed as trade-enhancing. In an effort to harmonize its national responses and safeguard measures, Malaysia has worked closely with its neighbors, Singapore and the Philippines.

Togzhan Kassenova (*University of Georgia*) next offered views on how multilateral organizations in the Asia Pacific are addressing WMD-related issues. She began by arguing that the WMD proliferation risk in the region had become more complicated since the end of the Cold War, when the major concern was military conflict. Now, the region has a rising number of nuclear energy programs, the establishment of dual use industries, and a rapid increase in trade of strategic materials. In this more complex environment, which is heavily focused on trade and commerce, a military response would be inappropriate. But efforts to address proliferation through mechanisms to regulate and control trade activities can also be used to tackle other priority challenges such as terrorism/piracy, smuggling of arms/drugs, and public health, while also addressing WMD-related issues.

At the regional level, Kassenova noted that several organizations focused on security, trade, and development have roles to play in promoting nonproliferation. Along with the obvious organizations such as ASEAN, the East Asia Summit, ARF, and APEC, there are others such as the Southeast Asia Nuclear Weapon Free Zone (SEANWFZ), the Nuclear Energy Regulators Network (and its Nuclear Safety Subsector Network), and the ASEAN Maritime Forum. Some initiatives undertaken recently include exercises on responses to pandemics, development of a master plan on ASEAN connectivity, the development of counterterrorism action plans, and the Secure Trade in the APEC Region (STAR) initiatives undertaken by APEC members.

Kassenova concluded by offering recommendations for Asia Pacific organizations drawn from other regions. These include the development of region-wide requests for 1540 assistance, the development of model legislation for addressing proliferation-related issues, establishment of a clearinghouse for in-region expertise sharing and assistance, creation of a forum for coordinating regulating agencies in controlling WMD sensitive goods, promoting interoperability of enforcement agencies, and engaging in industry outreach to promote best practices within the region.

Li Genxin (*Provisional Comprehensive Test Ban Treaty Office*), provided a useful summary of the activities of the CTBTO in anticipation of ratification of the CTBT. He argued that its extensive monitoring system could serve as a valuable confidence building measure that would promote transparency.

Termsak Chalermphanupap (*ASEAN Secretariat*) offered a brief summary of his views on ASEAN involvement in WMD-related initiatives. He argued that lack of capacity continues to be a problem in many countries, especially when it comes to labor-intensive requirements as in submitting UNSCR 1540 reports. He also recognized new challenges in the region, including renewed interest in nuclear power and the implications that has for nuclear safety even as several countries in the region remain outside the IAEA and several have yet to ratify the CTBT. SEANWFZ is important, even though it is limited to nuclear issues. However, several issues remain unresolved or unimplemented including the provision for fact-finding mission, transit of foreign ships, accession of the five NWS, and the zone of coverage.

Discussion began on the alleged nuclear program in Myanmar. While some saw this as an opportunity to utilize the provision in the SEANWFZ Treaty that allows member states to request a fact-finding mission, others from Southeast Asia were reluctant to pursue this strategy. One felt that there was not sufficient evidence while another felt that there was no mechanism for actually submitting the request. Permutations of these views marked the remainder of the discussion. While several participants argued that regional organizations had an important role in promoting nonproliferation, others suggested that nonproliferation just wasn't that high on the agenda of many countries and regional organizations and thus didn't receive the attention it deserves. Other commentators picked up on the procedural issue, musing about the appropriate role of various organizations or asserting that one or another regional organization was best suited to take the lead.

During Session 7, Carl Baker (*USCSCAP*) provided *an update on the CSCAP Memorandums* that the study group has been working on. Comments provided during

the recently completed member committee review were incorporated into the memorandum on peaceful use of nuclear energy. The memorandum will be circulated one last time to member committees and will be presented for final approval to the CSCAP Steering Committee in June. The CSCAP Memorandum on Disarmament is still in early draft. Several participants provided comments at the meeting and Baker asked that all comments be submitted not later than February 15. The draft will then be re-circulated to study group members and will be reviewed at the next study group meeting.

Session 8 was a *wrap up session* to provide participants the opportunity to suggest key findings of the meeting and offer suggestions for future topics to be addressed by the group. Several participants encouraged further pursuit of a next-generation initiative to promote better understanding of WMD-related issues in the region. Other suggestions included further investigation into the role of extended deterrence, missile defense, substitution of conventional capability, and delivery systems in promoting or discouraging disarmament. Another group of suggestions focused on more general issues related to disarmament: alternative pathways to disarmament, the prospects for a Nuclear Weapon Convention, the post-nuclear world security order, and revitalizing the Conference on Disarmament. Specific suggestions at the regional level included an examination of the role of SEANWFZ, the roles of regional organizations such as the East Asia Summit, APEC, ADMM Plus, and the Shanghai Cooperation Organization. Other ideas suggested were to examine national implementation of UNSCR 1540 and the role of nonstate actors in nonproliferation and disarmament.

The meeting concluded with the co-chairs reminding the group that they would be developing a set of key findings to be presented at the ARF Inter-Sessional Meeting on Nonproliferation and Disarmament the following day. Those key findings are included here as Appendix 1. The date of the next meeting has not been decided but it is anticipated that it will be held in late 2011, perhaps in conjunction with the next ARF ISM.