



The
Stanley
Foundation

209 Iowa Avenue
Muscatine, IA 52761 USA
563-264-1500
563-264-0864 fax
stanley@stanleyfoundation.org
www.stanleyfoundation.org
C. Maxwell Stanley, Founder, 1904-1984
Richard H. Stanley, President

Policy Memo

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RE: Economic Dimensions of New Power Dynamics in Southeast Asia

In recent years, the nations of Southeast Asia have made considerable progress in poverty alleviation, literacy, transparent and accountable governance, and in forging a genuine regional community. Their commitment to a comprehensive approach to the region's key challenges is crucial when considering efforts to narrow development disparities in the region. Even as these countries place greater emphasis on regional integration and coordination, the United States appears to lack an overall strategy that coordinates trade, assistance, and investment with its broader goals in Southeast Asia.

Discussions during a recent weeklong dialogue in Cambodia sponsored by the Stanley Foundation, in collaboration with the Cambodian Institute for Cooperation and Peace and the Asia Foundation, considered effective means of leveraging US engagement in the region. The discussions were framed by:

- The evolution in development thinking and policy in Southeast Asia, and how this has informed the way development is assessed and measured.
- The current state of human development in Southeast Asia, the most visible disparities in the region, and the issues that emerge in identifying and addressing development disparities.
- How the region's existing mechanisms address the myriad of development issues and the efficacy of bilateral and multilateral assistance programs in the region.
- Changing power dynamics in the region, including both ongoing political and economic transformation with the states of Southeast Asia, how these changes play out within and across the Asia-Pacific region, in addition to the new and evolving roles of outside powers in regional affairs.

The discussions in Cambodia underscored that social, economic, and political stability form the foundation of a durable peace. This stability, on the one hand, requires economic growth and development, poverty alleviation, literacy, and transparent and accountable governance. Sources of economic instability, on the other hand, range from structural changes affecting the entire Pacific economy to the struggle of individual countries to contend with rural poverty, the rural/urban divide, environmental

degradation, and lack of education. The dialogue in Cambodia produced several useful recommendations for policymakers on both sides of the Pacific in the key areas of aid, trade, and infrastructure.

Key recommendations included:

- Aid
 - The United States and the nations of Southeast Asia should strive for greater coordination among and between aid donors in order to better leverage their efforts. This should include enhanced transparency in donor policymaking, particularly with respect to new donors such as China and India.
 - The United States and other donors should recognize and appreciate that Southeast Asia's multilayered, sequential development process means aid programs should be tailored to meet the needs of individual countries. In addition, donors should consider imbalances within countries and encourage economic growth that is more equitable at provincial and local levels.
 - The United States, along with Japan, should use its considerable influence to ensure that Asian Development Bank programming is more demand-driven, less bureaucratic, and more sensitive to the needs of the region's least developed economies.
 - On a bilateral basis, the United States must also meet its longstanding goal of providing targeted, traditional assistance with a view toward closing development gaps in the region. The United States must improve interagency coordination of assistance programs to ensure more effective engagement in the region.
 - The United States and other donors should place greater emphasis on long-term regional reform through a variety of capacity-building measures, including encouraging greater stakeholder engagement from the outset by inviting target institutions to participate in program design and implementation. Southeast Asian governments should cultivate a philanthropic environment that is more conducive to corporate and social responsibility.
- Trade
 - US policy should support regional economic integration, which may include improvement and strengthening of domestic investment environments, regulations, standards, and infrastructure development.
 - The region's governments should work harder to ensure that the lesser-developed markets become more competitive. This could include conducting

strategic analyses that identify comparative advantages and focus development strategies on these areas.

- The United States should strengthen its systematic engagement with the Association of Southeast Asia Nations (ASEAN). The president should nominate and Congress should confirm a US ambassador to ASEAN. The United States should also take steps to institutionalize ASEAN + 1, including having the president take part in regular ASEAN-US summits. Moreover, the secretary of state and other senior officials should regularly attend and robustly participate in the ASEAN Regional Forum.
- The United States should consider trade preferences for the region's least-developed countries similar to those of the African Growth and Opportunity Act and the Caribbean Basin Initiative.
- Infrastructure
 - ASEAN and its trade partners should establish a uniform code of standards to encourage regional infrastructure development. US and other donor assistance should support this process, particularly in the construction and power sectors.
 - The United States and other donors should recognize the importance of and provide support for smaller scale infrastructure projects, especially those that stimulate environmentally sustainable economic development in individual countries.
 - US policy should acknowledge the long-term importance of development of the Mekong River Delta, the important mission of the Mekong River Commission, and China's and Japan's growing role in financing infrastructure development in the region. This policy should also include specific cooperation with China to encourage development projects' compliance with internationally recognized environment and labor standards. These infrastructure projects must take into account and mitigate their social costs to the fullest extent possible.

Cambodia

The dialogue highlighted the considerable progress made by Cambodia in encouraging more accountable governance, greater transparency, rule of law, labor reform, and financial market development. Cambodia has also encouraged greater NGO involvement in the country's reform process. By making ambitious and comprehensive commitments toward market liberalization in its World Trade Organization accession, Cambodia also has the potential to set a world-class standard for the region.

Despite this progress, Cambodia continues to face a number of challenges. Among these challenges are the need for educational reform, improvement of the health care system, and development of strong judicial and legal institutions to provide a foundation for

further economic growth. Moreover, high power and transportation costs due to Cambodia's underdeveloped infrastructure are eroding the country's international competitiveness.

The dialogue therefore considered how its policy recommendations might apply to Cambodia. These included:

- In Cambodia, for example, it might be appropriate to create a counterpart to the Vietnam Education Fund.
- The Support for Trade Adjustment and Reform Program implemented in Vietnam to help that country meet the obligations of, and benefit from, its bilateral trade agreement with the United States should be extended to Cambodia.

On July 6, 2007, the Stanley Foundation along with two collaborating institutions concluded a weeklong series of dialogues in Cambodia on "Aid, Trade, and Infrastructure: Economic Dimensions of New Power Dynamics in Southeast Asia." Participants included representatives from leading universities, think tanks, nongovernmental organizations (NGOs), as well as the Cambodian and foreign governments. The first phase of this process was a three-day conference held in Siem Reap in collaboration with the Cambodian Institute for Cooperation and Peace, titled "Aid, Trade, and Infrastructure: Economic Dimensions of New Power Dynamics in Southeast Asia." The second phase, a morning seminar held in Phnom Penh and cosponsored with The Asia Foundation, considered the implications of the trends identified in Siem Reap for Cambodia and its foreign relations.

The dialogue series examined complex and important economic issues facing the Asia-Pacific region and is part of a multiyear Stanley Foundation project, *New Power Dynamics in Southeast Asia: Issues for US Policy*. The project examines the impact of changing power relations in the Asia-Pacific region on Southeast Asian politics, security, and economics and the implications of these trends for US policy. The Stanley Foundation project will culminate with recommendations for the new US administration following the November 2008 elections. The organizers wish to thank Ashle Baxter for his contributions to this document.

New Power Dynamics Project Chair:
Catharin Dalpino, Georgetown University

Cambodia Conference Cochair:
Lionel Johnson, Citigroup

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The analysis and recommendations included in this memo do not necessarily reflect the views of the Stanley Foundation, The Asia Foundation, the Cambodian Institute for Cooperation and Peace, or any of the conference participants, but rather draw upon the major strands of discussion put forward in the dialogues.

For further information, please contact Michael Schiffer, Keith Porter, or Kristin McHugh at the Stanley Foundation, 563-264-1500

About The Stanley Foundation

The Stanley Foundation seeks a secure peace with freedom and justice, built on world citizenship and effective global governance. It brings fresh voices, original ideas, and lasting solutions to debates on global and regional problems. The foundation is a nonpartisan, private operating foundation, located in Muscatine, Iowa, that focuses on peace and security issues and advocates principled multilateralism. The foundation frequently collaborates with other organizations. It does not make grants. Online at www.stanleyfoundation.org.

About The Asia Foundation in Cambodia

The Asia Foundation first opened its office in Cambodia in 1955. Through grants of technical assistance; facilitating programs in areas such as local governance, economic growth and reform, and counter-trafficking; as well as its efforts to build the capacity of Cambodian NGOs, the foundation has supported programs in every province in Cambodia. Online at www.asiafoundation.org.

About The Cambodian Institute for Cooperation and Peace

The Cambodian Institute for Cooperation and Peace (CICP) is an independent, neutral, and nonpartisan research institute based in Phnom Penh, Cambodia. CICP promotes both domestic and regional dialogue between government officials, national and international organizations, scholars, and the private sector on issues of peace, democracy, civil society, security, foreign policy, conflict resolution, economics and national development. Online at www.cicp.org.kh.