

The Promise and Challenges of ASEAN and AEC in a Fast-Changing East Asia: AEC Blueprint as Driver of Transformation of ASEAN Member States

Gary Hawke

Former Head, School of Government and Professor, Victoria University of Wellington

Fellow, Royal Society of New Zealand

Member, Academic Advisory Council of the Economic Research Institute for ASEAN and East Asia

ASEAN

There is a conventional consensus history of the Association of Southeast Asian Nations (ASEAN), at least in the mainstream literature of international relations. It focuses on creating a zone of peace after Indonesia's Confrontation against the formation of Malaysia in the 1960s and preserving that zone against the stresses of the war in Viet Nam and its aftermath. It had a large measure of success in this but did not advance far beyond mutual confidence building towards dispute resolution and preventive diplomacy. As a by-product of the security diplomacy, the members of ASEAN formulated a free trade agreement and followed the usual path from free trade in goods towards deeper integration. Again progress was slow. The general picture is of a talk shop rather than an executive agency.

This conventional account is misleading. It owes too much to North Atlantic thinking. It owes too little to economic analysis and too much to the Atlantic-oriented discipline of International Relations. The progression from confidence building to dispute resolution and preventive diplomacy was enshrined in the foundation of the ASEAN Regional Forum but owed a great deal to ASEAN politeness to its dialogue partners and little to ASEAN management of issues that were important to its members. These were dominated by human security rather than the 'hard security' favoured in academic International Relations and Strategic Studies.

The economic agenda was guided by regional developments. Economic growth was disseminated from Japan to the tigers – the Republic of Korea, Hong Kong, Taiwan, and Singapore – and thence to Southeast Asia generally. International production networks were built, and governments responded so as to benefit from economic integration while preserving social order. Governments were active, but they generally used collective decisions to facilitate adjustment to the changing scene, not to protect existing interests, although a specific sense of ‘social order’ such as the position of *bumiputra* in Malaysia could well prevail against a general preference for change over inertia. There were always exceptions but they were, and are, far from confined to ASEAN.¹

ASEAN governments evolved a pattern of working together. The ‘ASEAN way’ came to be patient evolution of agreement on objectives and frequent peer review of progress. To those familiar with processes elsewhere with an emphasis on defined ‘deliverables’, monitoring, and sanctions, it looked imprecise and like subordination of results to process. But even before the Greek crisis and ‘Brexit’, the ‘ASEAN way’ was delivering more durable integration than agreements apparently enshrined in black-letter law. A former European diplomat has observed, ‘I have always been struck by how, in Asia Pacific, the EU as a political construct fascinated pundits and politicians alike. Certainly “old and tired Europe” is often a subject of some condescension there. Particularly as Asian ways of consensus are supposed to exclude definitive transfer of, historically speaking at least, recently won national prerogatives. And yet, when discussing supranational elements to be included in the future of ASEAN, such as generally applicable human rights obligations, the European example loomed large.’ (Woker, 2016) The European Union (EU) was often² seen as the leading edge of economic integration but usually because European objectives and methods were familiar. (And EU notions of human rights were attractive to activists in that area.) Simple reflection on the absence in international contexts of any analogue to the monopoly on lawful coercion in domestic jurisdictions promotes doubts about the meaning of ‘obligatory’, ‘enforcement’, and ‘legally binding’ outside what is recognised as voluntary adherence to long-term self-interest. ‘The ASEAN way’ then becomes more attractive.

¹ Zoellner (2016) identified as a protective element the requirement in United States law that high-speed trains be manufactured domestically.

² But not always. While Ayson (2016) was expressing a common view, ‘the European Union, which, for all its faults, has been the deepest experiment in voluntary cooperative interstate relations the world has ever seen’, the editors of *East Asia Forum* (27 June 2016) thought ASEAN was more integrated: ‘On some measures, the Asian economy is more integrated than that in Europe, but without the stifling load of supra-national authorities and an unworkable common currency. The dense trans-regional trade and production networks that have fueled the region’s remarkable growth, with China at the heart of it, over the past three decades match those in Europe’. As we lack an agreed metric for integration, an empirical answer is not possible. But see Murray Petrie’s PhD thesis at the Victoria University of Wellington (2009) for how degrees of integration can be assessed.

It used to be common to talk of ASEAN ‘in the driver’s seat’. It provoked thoughts of a chauffeur, driving to instructions rather than by self-determination, but that in turn was countered by recognition of the influence of the driver when the back-seat drivers were a quarrelsome lot unable to agree amongst themselves. ASEAN could be influential, as it is now that it is more usual to talk of ‘ASEAN centrality’.

ASEAN Economic Community

The ASEAN Economic Community (AEC) is located within the ASEAN Community. Use of the term ‘community’ proved to be controversial in Asia–Pacific Economic Cooperation (APEC) largely because of language difficulties. (In some APEC languages, the German concepts of *Gemeinschaft*, a community of people bonded by some common beliefs or attributes, and *Gesellschaft*, a community of people bound by a common set of laws, could not easily be expressed in one word. In Chinese, the available distinction was much closer to ‘big family’ and ‘political entity’.) ASEAN had no such difficulty. The importance of community building is not always understood by outsiders.

It conceived an ASEAN Community with three elements. Beside AEC, there is a Political and Security Community (APSC) and a Social and Cultural Community (ASCC). Like ASEAN itself, all are locally created conceptions. The Political and Security Community is not an instrument for collective defence like the North Atlantic Treaty Organization (NATO); its centrepieces in the Security field, the ASEAN Regional Forum (ARF) and ASEAN Defence Ministers Meeting are focused on cooperative and collective security. The declared characteristics of APSC are a rules-based community of shared values and norms; a cohesive, peaceful, stable, and resilient region with shared responsibility for comprehensive security; and a dynamic and outward-looking region in an increasingly integrated and interdependent world. The Social and Cultural Community seeks to develop shared notions of citizenship. Former ASEAN Secretary–General Surin Pitsuwan used to talk of the middle classes of ASEAN Member States recognising that they have more in common than they share with citizens with different income levels in their own country. More formally ASCC seeks caring societies, managing the social impact of economic integration, enhancing environmental security, and strengthening the foundations of regional social cohesion. While there is much angst about the depth of knowledge of ASEAN in the populations of ASEAN members, there is evidence of a growing sense of ASEAN identity amongst younger citizens: ‘There is a thin sense of belonging to the region despite largely positive attitudes among the region’s young people. A recent survey of 4,623 students among 22 universities in the 10 ASEAN states found that over 80% of young people surveyed view themselves as “citizens of ASEAN” but attitudes towards ASEAN, and towards other ASEAN countries, differed at national levels

with people from newer member states being the most enthusiastic.’ (Thuzar, 2016)³ It is common to emphasise the diversity of ASEAN, although recently we have been more conscious of diversity within Europe, and we should look more to the gradual evolution of common elements in the narrative of ASEAN history. We see this in the China concept of ‘One Belt, One Road’: ‘Reviving the idea of the silk roads, on both land and sea, gives vitality to histories of transnational, even transcontinental, trade and people–people encounters as a shared heritage.’ (Winter, 2016) The history of conflicts will not disappear any more than similar elements in the shared history of Europe and America or of America and Asia but there is a common story of collaboration to be recovered. It already exists in the museums of South-east Asia.

AEC is more developed than the other elements of the ASEAN Community. The shared structure of responses to economic interdependence is complex and sophisticated. The Blueprint was adopted at an ASEAN Summit in Brunei Darussalam in 2009 and its durability is shown by its persistence through political developments which mean that only three of the signatories still hold the same offices now. They are the Sultan of Brunei Darussalam, Prime Minister Hun Sen of Cambodia, and Prime Minister Lee Hsien Loong of Singapore. (The other signatories were President SBY of Indonesia, Prime Minister Boupvanh of the Lao PDR, Prime Minister Badawi of Malaysia, General Thein Sein of Myanmar, President Macapagal-Arroyo of the Philippines, General Chulanont of Thailand, and Prime Minister Dung of Viet Nam.)

The core of AEC was stated in Paragraph 5: ‘end goal of economic integration as espoused in the Vision 2020, which is based on a convergence of interests of ASEAN Member Countries to deepen and broaden economic integration through existing and new initiatives with clear timelines... in accordance to the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.’ The Blueprint then established objectives and detailed milestones for:

- Goods, services, investment, capital, skilled labour
- Competitive region
- Intellectual property
- Infrastructure
- e-commerce
- Equitable development

³ Thuzar (2016). Popular youth culture is an integrating force in Asia beyond ASEAN. Cf. Yasumoto (2016).

- Small and medium enterprises
- Initiative ASEAN Integration
- Integration into the global economy

That is, the contemporary agenda for economic integration was encompassed.

Accordingly, the promise of AEC is that within the ASEAN conception of a community the contemporary agenda of economic integration should be pursued. It is worth noting that it includes ‘skilled labour’, which goes beyond many current agreements that envisage only temporary movement of professionals. The distinction between ‘skilled’ and ‘unskilled’ labour is unstable since technology is invading the spheres of what are regarded as the occupations of skilled labour, and what is important amongst employees is adaptability and the ability to learn to adapt to changing requirements rather than a static set of skills. Nevertheless, AEC is at the forefront of international practice in its treatment of labour movement. Secondly, the provisions of AEC envisage intellectual property as a:

‘powerful stimulus to (a) cultural, intellectual and artistic creativity and their commercialisation; (b) efficient adoption and adaptation of more advanced technologies; and (c) continuous learning to meet the ever-rising threshold of performance expectations’.

The emphasis on innovation rather than on protection of existing property is ahead of most international practice in the field.

AEC is not lacking in ambition. A Regional Comprehensive Economic Partnership (RCEP), conceived and realised as the realisation of the AEC objective of ‘Integration into the Global Economy’ would not be ‘lower level’ than the Trans-Pacific Partnership (TPP) or otherwise lacking in ambition. Peter Drysdale has argued that the ‘RCEP grouping is where the global economic dynamism is awaiting full release’ and that despite former US President Obama’s assertion that the ‘RCEP deal lacks ambition’ and ‘won’t prevent unfair competition among government-subsidized, state-owned enterprises’, it won’t protect a free and open internet or intellectual property, labour standards and the environment. RCEP can generate world growth through ‘commitment to comprehensive freeing of trade in goods, services and investments and an agreed path for its implementation together with a framework for economic cooperation’. (Drysdale, 2016) The only reservation that needs to be registered is that such enthusiasm has prevailed around ERIA for some time – I shared it in discussions with RCEP negotiators – and the outcome so far has been disappointing. What are the grounds for hoping for better in the future?

Challenges to AEC

It is not hard to identify key challenges to AEC – implementation is difficult, there are competing conceptions of integration, and the process of globalisation has experienced some rejection.

The *AEC Blueprint* includes a detailed implementation plan. There is always a problem with blueprints. A choice is needed within two doubts: To what extent is it worthwhile devoting time and energy to detail in advance of uncertain future events? On the other hand, can one be confident that the right path has been chosen if there is not in place a detailed map for progressing along it? The *Blueprint* requires flexibility for making amendments in the light of new information and confidence in political maturity to ensure that amendments are not seen as failures, all within skilled judgement about when to persist and when to amend.

Positive indications can be found in the scorecard exercises, especially the ERIA scorecard with its attempt to distinguish between formal meeting of obligations and implementing provisions in such a way as to promote integration. As previously noted, peer review of progress towards agreed objectives is more likely to promote successful implementation than external monitoring and evaluation. While ASEAN's record in removing barriers to international integration leaves a great deal still to be done, as is revealed by such international studies as construction of trade restrictiveness indices, the dominant record is of slow but sustained improvement.

The structure of the *AEC Blueprint* looks like the now conventional list of chapters of a free trade agreement (FTA). But much of the discussion of integration within ASEAN and between ASEAN and its dialogue partners takes place in a competing paradigm of connectivity or co-operation.

The conventional approach to FTAs and the structure of AEC is shown in the right-hand column of the table. The overriding objective is usually stated as liberalisation or in APEC terminology, 'trade and investment liberalization and facilitation'. It begins with the classic topic of trade in goods, especially tariffs, and then follows an internal logic. As tariffs were reduced, other barriers to trade became more prominent and so disciplines were placed on export subsidies and production subsidies, or preferences to local producers in government procurement decisions. Services were added to goods and as many services required a commercial presence, investment was further emphasised, direct foreign investment having been promoted as a means of evading tariffs or other barriers. Requirements for commercial presence were only one of a myriad of regulations that make trade more or less possible. Trade facilitation became

Table: Conception of Integration

Co-operation	Liberalisation
Physical connectivity	Goods
Institutional connectivity	Services
Regulatory management	Investment
Person-to-person connectivity	Subsidies
	Government procurement
	Competition
	State-owned enterprises
	Intellectual property
	Capacity building
	Trade facilitation
	Small and medium enterprises
	e-commerce
	Labour
	Environment

a topic for World Trade Organization negotiations although only in a narrow sense of more or less official processes at the border while similar processes were much more widespread and treated as part of trade facilitation in other venues. As the business issue moved from being ‘my goods for your goods’ to ‘my factories in return for fair treatment’, intellectual property rights came to the fore and so did disciplines to ensure competitive behaviour. The general effect was a move from tariffs to barriers to international integration. At the same time, this internal logic was supplemented by changes in the external world. The internet made e-commerce prominent, and the desire for inclusive growth directed attention to small and medium-sized enterprises (SMEs). And some traditional questions became part of the general debate such as the conditions under which people worked to produce exports or to compete with imports, and the impact of business on the environment. There is a direct line of continuity from the earliest concerns of the General Agreement on Tariffs and Trade to the current agenda of the World Trade Organization and international economic diplomacy in general. Any a novelty in the current challenge is that management of negotiation is less prominent than it was in 2003 while securing domestic support for regional or global economic integration as a whole is much more so.

The topic was seen by some as ‘trade’, but it was always really the conditions under which business could operate across national boundaries. In the broad sweep of history, suggestions of recent change, extending ‘trade’ beyond its natural boundaries and invading the territory of domestic regulation is distinctly odd. For economists ‘trade’ was always shorthand for ‘barriers’ to international exchange, especially barriers that were subject to discretionary decisions (i.e. excluding transport costs).⁴ The policy issue was always the conditions under which businesses operating across borders could generate consumer welfare in both exporting and importing economies. But to many business lobbyists and lawyers, ‘trade’ was invading areas properly regarded as the preserve of other specialities. While discussion was in terms of ‘liberalization’ (or increasingly ‘liberalization and facilitation’, the underlying logic always led to economic welfare, living standards in the relevant region. Only rhetorical advocacy stopped with cross-border operations of large multinationals.

Economic integration could be approached in a different way. Trade could not occur if it was not possible physically to move goods or services from one economy to another. Physical infrastructure was essential.⁵ Physical infrastructure has to be accompanied by appropriate rules or processes. At the border, customs procedures have to be efficient and so do rules such as those about what size trucks are allowed on the roads of adjoining economies. Not only border management regulations influence trade, especially when services are considered. The compatibility of regulatory systems in general, especially the willingness of regulators to consider regional ambitions rather than to restrict themselves to protecting domestic consumers, becomes a major component of ‘institutional connectivity’ (especially when domestic producers were assumed to be more respectful of local requirements than foreigners). Finally, there is the connectivity created by personal knowledge and connections extending beyond national boundaries. All aspects of connectivity are conceived as promoting a cooperative approach to increasing the possibilities of economic interdependence and utilising its ability to promote consumer welfare across participating economies. The essence of co-operation is win–win business transactions and governmental processes which ensure that policies do not unnecessarily inhibit competitive cross-border business. It is not Official Development Assistance.

⁴ That is additional to the consequences of transport costs. In the late 19th century there was a widespread movement towards increased tariffs; however, it was substantially not an increase in protection but compensation for the way reduced transport costs impacted on the levels of protection accorded domestic producers. There are indications that this was more apparent to contemporary producers than it was to commentators. Cf ‘The United States Tariff and Industrial Protection in the Late Nineteenth Century’, *Econ. Hist. Rev. Sec. Ser. XXVIII* (Feb. 1975), pp. 84–99, reprinted in C. Knick Harley (ed.) (1996).

⁵ The reverse might also be true. Indonesian imports are stimulated by the better physical infrastructure between Java and Singapore than between Java and outlying Indonesian islands.

When the two concepts are described in terms like these, it becomes clear that they are different views of the same process. But that is an abstract judgement while politicians and officials look more closely at particular parts of the overall process. They need precision about what is permitted. The conventional process now includes ‘capacity building’ which is usually interpreted to mean promoting capability to engage in economic liberalisation – that is narrower than cooperation designed to identify win-win propositions whether for business or for devising and managing regulatory processes. Both are different from Official Development Assistance but conventional trade negotiators may think that development specialists should manage cooperation rather than ask trade negotiators to do so. Thinking in terms of connectivity relates more easily to the operations of international production networks than does separating goods and services or keeping e-commerce to a separate chapter even if it is labelled a ‘cross-cutting issue’. The connectivity approach leads directly to thinking in terms of inclusive growth, especially the ability of local SMEs to participate in international production networks while the conventional approach allocates SMEs to a separate chapter (usually dominated by financial provisions). Of course, whichever approach is taken, eventually provisions have to be written in legal language and deal with specific issues. But the general approach determines the tone and sense of purpose.

AEC is structured like a conventional FTA in an area where there is widespread inclination to think in terms of connectivity.

(Labour and Environmental clauses are somewhat different. Although they are often seen as an important component of the ‘higher standards’ specified by the TPP, the bland wording does little more than direct attention to obligations accepted as part of other international agreements. The critical question is whether the provisions will be interpreted in relation to international agreements or whether one party, the United States [US] Congress, will succeed in appointing itself as the arbiter of what the words mean. Will the labour provisions in practice be international norms prohibiting slave labour, ‘free association of labour’ as advocated by the International Labour Organization [ILO] and not as understood in US ‘right to work’ states, or the ambitions of US unions in frustrating the comparative advantage of economies with more abundant labour? Similar questions will be asked of the environmental clauses, but we can be sure that as incomes rise more economies in their own interest will preclude production methods which generate pollution of any kind.)

The biggest challenge to the AEC is the growth of anti-globalisation attitudes in the world in general and in ASEAN in particular. The strongest recent manifestations have been Brexit and the successful Trump campaign for the US presidency. Trump is explicitly anti-trade as it is currently practised. His rhetoric suggests that there is a form

of trade diplomacy that he would accept as fair and reasonable – it would ‘Make America Great’ again. But it is impossible to treat his rhetoric as input to rational discussion and the Trump presidency engenders unknown territory for the future of economic interdependence. The US has a stellar record in self-correction, albeit sometimes only after a lengthy delay, but a Trump presidency certainly challenges it. Hillary Clinton was caught in domestic politics and the constraints so imposed would have been significant, but the world would still have been recognisable had she won the presidency. Now it is governed by uncertainty, and uncertainty is a deterrent to investment. While Trump’s campaign offered some prospect of an infrastructure-driven fiscal stimulus for the US economy, private investment is unlikely to support a surge in public spending. Nor is it obvious that investors in other economies will be keen to finance the budget and current account deficits that Trump’s plans seem to envisage despite his protestations to the contrary. The US is unlikely to drive global growth. China is already generating about 40% of the increase in global production, and world trends are likely to continue to be dominated by Asia.

Brexit was not explicitly anti-trade or anti-integration. The advocates of Brexit envisaged continued British access to the EU single market. The precise terms of trade between a non-member United Kingdom and the EU are unknown but they will not do more than make economic interdependence more complex. The significance of Brexit lies elsewhere.

The reasons for the Brexit outcome are obscure. Polling by Lord Ashcroft Polls suggests that three narratives of sovereignty were important: ‘take back control’, immigration, and resentment of marginalisation. They came together and cannot be disentangled. (The Lord Ashcroft Polls offered the three choices of sovereignty, ‘Take Back Control’, immigration, and apprehension of future EU decisions outside United Kingdom control, and Leave voters ranked them in that order. Remain voters adopted the same ranking of modified statements of the same three issues.)⁶ We might reasonably ask how respondents distinguished such interrelated attitudes; the data are instincts rather than reasoning. However, in the context of elucidating lessons for AEC, we might notice the importance of ‘Take Back Control’ and note that ASEAN has not erected supranational authorities above the member states.

It is also possible to speculate that both the Trump phenomenon and Brexit owe something to the relative growth of Asia, especially China. Some commentators see Brexit as reducing support for the current international system: ‘Brexit is going to be a much bigger and wider problem for New Zealand because of what it means for

⁶ <http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/>

the western commitment to a global order founded on international cooperation.’ (Ayson, 2016) It is probably better to invert that thought and recognise the resentment in former ‘Top dogs’ of how influence over international norms and processes has shifted eastwards: ‘Whatever British voters decide, wealth and power will continue moving eastward throughout the 21st century, Britain’s fate will remain inextricably linked with Europe’s, and people across the West will get even angrier at the elites who fail to prevent these things from happening.’ (Morris, 2016)

The world in which the AEC exists is likely to be less accommodating than it has been in the past, but trends in Europe and America do not predict how ASEAN will develop. ASEAN and AEC do not have ambitions of ‘ever closer union’ and although the United Kingdom’s exemption from that ambition of the EU was not sufficient to relieve English opposition to the EU, we may distinguish the ASEAN and Atlantic experiences. However, anxieties about globalisation certainly exist within ASEAN. One has only to look at concern in some Indonesian business circles about competition from China and pressure to wind back the Indonesia–China FTA rather than build on it towards a more integrationist RCEP.

The challenge to the AEC is the traditional one of managing the adjustments inevitable as individual economies adjust to existence within a set of interdependent economies. The task is to repeat the success of the Asian Miracle of promoting transitions and not resorting to protection of what exists. Francis Fukuyama declares his understanding of a ‘basic college level course’ in economics and recognises the futility of opposing the proposition that ‘free trade is a win–win for trading partners, increasing all countries’ aggregate incomes’ but he identifies the adjustment issue as the major issue: ‘it is not clear what kind of training can transform a 55-year-old assembly-line worker into a computer programmer or a Web designer.’ (Fukuyama, 2016) However, the generalisation of his concern is misplaced. There are numerous records of successful transformation of displaced workers into valued participants in growth industries.⁷ Information and computer technology has its own vocabulary and looks as mysterious as ‘rocket science’ but the issue is familiarity more than difficulty. We exaggerate the novelty of the contemporary challenge. *The Economist* (2016) recently disseminated the warning ‘EXPERTS warn that “the substitution of machinery for human labour” may “render the population redundant”. They worry that “the discovery of this mighty power” has come “before we knew how to employ it rightly”.’ But the words are 200 years old – and the sentiments have surfaced several times, with electricity and cars, with ATMs, etc. It is not hysteria we need but reasoned responses: ‘John Stuart Mill wrote in the 1840s that “there cannot be a more legitimate object of the

⁷ E.g. Jones (2015).

legislator’s care” than looking after those whose livelihoods are disrupted by technology. That was true in the era of the steam engine, and it remains true in the era of artificial intelligence.’

President-elect Trump is making decisions that are inconsistent with campaign statements, but it is hard to see how he could retreat from his clear commitments to abandon the TPP. At least some of the time, he returns to his promise to remove the US from TPP on his first day in office. The TPP requires ratification within 2 years by at least six members who constitute 85% of the combined gross domestic product of all 12 members – which means that the US, Japan, and four others must ratify it within 2 years. That is unlikely, and indeed if Trump finds a way on his first day in office to guarantee that the US can never ratify TPP, it would be dead from that day onward. Otherwise, it expires in February 2018.

The other 11 members of the TPP could decide to revise the text by changing or eliminating the provision about 85% of total gross domestic product. For some countries, a TPP without the US would still generate significant benefits; New Zealand calculates that the benefits to it would be about two-thirds of those of TPP with the US. Comparable calculations for other countries would vary widely but there would still be net benefits. However:

- Some countries find it hard to conceive TPP without the US. Japan has long regarded the Japan–US alliance as the core of the Asia–Pacific region and although it finds it hard to negotiate bilaterally with the US, it would find it ‘very difficult’ – which usually means ‘impossible’ – to negotiate an agreement excluding the US. The Malaysian government ‘sold’ TPP domestically as the substitute for the failed effort at a Malaysia–US FTA and would find it problematic to explain a TPP without the US. For Viet Nam, access to the US market was an important element of TPP, and in its absence Viet Nam would probably prefer to pursue its own domestic agenda – and FTAs where possible as with the EU.
- While the 11 members would start by thinking that only one change was needed in the existing TPP text, it would quickly be realised that had the US not participated in the negotiations, other provisions would have been different. The temptation to propose another minor change would be irresistible, but each member would want to exploit the US absence in a different way, while there would be residual feelings that the agreement should be such as to attract the US when it comes to its senses. So the 11 economies would find themselves in another negotiation, and they would ask whether they constituted the group where the cost and effort of such negotiation was likely to be most fruitful.

The TPP is effectively dead. There is some nostalgia, especially in Japan and the Republic of Korea, but those who hope for revival from life support might observe that it is now common to say that Doha has been dead since 2008. The Trade Facilitation Agreement might yet be rescued but it has effectively been severed from Doha and stands on its own. Some of the provisions of the TPP might have a similar future. In particular, the emphasis on developing the institutions of individual economies for managing the challenges of newer issues in economic integration, rather than seeking to impose specific rules, is a precedent worth developing.

The RCEP offers much better returns from continuing negotiations. It is ASEAN-led, not, as frequently claimed, China-led, but the presence of China, and the presence of India, mean that its coverage is significant and attractive. It is frequently described as 'low-level' in contrast to the TPP's 'high standards' but the *Guiding Principles* of the RCEP and scrutiny of the actual provisions of the TPP suggest that the eventual gap between the two would not be as great as often alleged. The RCEP is likely to be announced in ASEAN's 50th year, 2017, and to begin with less ambition, dealing mostly with goods, services, and investment but it should include a commitment to proceed within a specified time to extend towards newer issues of economic integration. It should in any case immediately have a better approach to rules of origin than TPP and so be better adapted to a world of international production networks (IPNs). RCEP is also likely to have more recognition of different levels of development than the TPP, providing different transition paths towards a common objective. But in the case of a recent agreement on an amendment to the Montreal Protocol in the field of environmental agreements, different timelines were welcomed: 'The amendment set three separate timelines for countries at different stages of development. Rich countries, including the US, will need to reduce HFCs by 85 per cent by 2036. A second group, including China, have to achieve an 80 per cent reduction by 2045 (after peaking by 2024). The final group, including India, must reduce their HFCs by 85 per cent by 2047 (with a 2028 peak). This arrangement represented a concession to India, which was holding out for a better deal than that which China had already signed up to. But even India came to the party, surprising its counterparts by announcing an unconditional phase down of HFC-23 – the most potent of HFC gases – over the next 15 years. This would avoid an equivalent of about 100 million tons of carbon dioxide emissions over that period.' (Slater, 2016) Such a mechanism could work in the economic integration field too, and could even provide for the specific circumstances of India. There is a strong feeling that the RCEP cannot be too different from the TPP in 'ambition' if it is to be credible, but for all the rhetoric about 'high standards', 'gold standard', and 'twenty-first century agreement' the TPP left plenty of room for better catering to the needs of contemporary economic integration while achieving a similar level of overall ambition.

The RCEP offers a way forward for economic integration in Asia. It would be consistent with the global disciplines of the World Trade Organization but it would still be desirable to have clear provisions for trans-Pacific interactions. The APEC Free Trade Area of the Asia-Pacific remains important for this even if the US declines to engage. It will eventually, but anyway there is business to be done with the Pacific Alliance.

Development Strategy

Asian leadership in economic integration provides an opportunity to use contemporary thinking. In particular, it would feature ‘inclusive growth’.

The need to attract popular support has brought ‘inclusive growth’ to the fore. In its Yokohama Declaration of 2010, APEC endorsed the ambition of ‘balanced, inclusive, sustainable, innovative, and secure’ growth. We hear less about ‘balanced’ these days as current account deficits and surpluses are less prominent. Indeed, even in the specific form of advocacy that China’s economic strategy should rely less on exports and more on domestic consumption, the rhetoric has been subdued by concern that trade has grown less rapidly relative to output than used to be the case. What should have been seen as an obvious implication of a rise in consumption relative to exports in an economy as large as China is treated as a new source of concern.

‘Inclusive’ growth remains highly visible. The central idea is that all citizens should have an opportunity to participate in the benefits of economic growth. This sometimes gets reduced in political rhetoric to promotion of micro, small, and medium-sized enterprises on the grounds that SMEs are numerous and provide a significant share of employment – as is the case in most economies, while the definition of SMEs varies with the size of each economy. However, it is unrealistic to think that SMEs will ever dominate exports as distinct from being components in international production networks. Just as we have learned that when exports are presented in terms of value added contributed, services become a much larger component than they are in conventional accounts, so if we had the data we should expect that on a value-added basis SMEs contribute a much larger share of exports than is usually realised. Fragmentation of production generates opportunities for SME participation as well as trade in intermediates and there is likely to be overlap in these processes. Furthermore, it is simplistic to think that SMEs would prosper if only they had access to cheaper finance. Just as infrastructure projects are constrained much more by lack of viable project specifications than by the availability of finance, so SMEs are constrained more by their capabilities than they are by finance. Policy concern about inclusive growth should focus less on SMEs than on flexibility and

adaptability throughout the economy – and hence on adjustment assistance for those most experiencing change – than on SMEs.

Sustainability has certainly not diminished in salience, although a significant part has been subsumed into the topic of climate change. In Asia, however, the older topics of pollution, management of water resources, and management of energy remain prominent. Social sustainability also attracts attention, sometimes in the specific topic of food security, usually but not always distinguished from food self-sufficiency, and sometimes in the broader topic of constructing social welfare safety nets while not destroying individual and family responsibilities. All eventually become part of an underlying project of community building. Environmental sustainability is approached through specific topics that contribute towards identifying long-term optima and giving them real substance in decision-making. Social sustainability is central to the ASEAN Social and Cultural Community. We can expect its development to be influential not only within ASEAN but in the wider processes of Asian economic growth, preferably avoiding the extremism or fanaticism which characterises much environmentalism in Europe.

Innovative growth reflects recognition of the role of ‘catching up to the frontier’ in economic growth. The ‘flying geese’ model of the dissemination of growth (and modernisation) from Japan to the Tigers and then to Southeast Asia and China has given way to international production networks but transmission of knowledge remains dominant. Innovation is much less concerned with property rights or even rewarding innovators than it is drawing firms into efficient production processes and utilising the process innovations that they pioneer.

‘Secure’ trade retains a connection with the security agenda as illustrated in the APEC Safer Trade in Asia-Pacific (STAR), but is now much more concerned with topics like traceability of constituents in the context of consumer safety and assurance of standards.

The important point is that Asian economic integration will be pursued within explicit promotion of a growth agenda such as that adopted at Yokohama. While this may sometimes go outside the comfort zones of negotiators happiest to deal with familiar issues of tariff schedules extended to cope with the supplementary issues of the contemporary agenda of trade and investment liberalisation, it provides an immediate approach to addressing the need to attract popular support for economic integration.

For some time, economic integration has been conceived as having at its centre incorporation into the world economy of resources (in the economic sense, including labour supplies) that are not fully exploited. The ‘flying geese’ extended the modernisation of the Japanese economy by drawing into efficient production the cheap

unskilled labour of Southeast Asia. From 1978, the under-utilised labour of China, initially coastal China and then central and western China, could be brought into the global economy. There was always more going on, not least in South America, and from 1990 the labour supply of central and eastern Europe could be freed from the shackles of central planning and absorbed into the global economy.

This conception of world development continues to be fruitful, not least in relation to Africa, but its limitations are becoming clearer. It implicitly gives primacy to the North Atlantic as the driver of demand towards satisfying which under-used resources are mobilised. It descends from ‘export-led’ growth and ultimately from ‘centre and periphery’ models of world economic development.

While declarations of a ‘new development model’ sometimes seem quaint, there are reasons for thinking them appropriate. The links between economies are less concentrated on different supplies of labour and labour-skills. Economies bring different contributions to production networks, whether comparative advantage in natural resources or comparative advantage in different parts of the production process. Those production networks create attractive opportunities for investment whether in production for export or for home consumption.

Connectivity is the key to this conception of development. It is now conventional to distinguish three elements of connectivity – infrastructural, institutional with special emphasis on regulatory connectivity, and people-to-people connectivity. Economies cannot collaborate within a regional economy if they are not connected. Transport linkages, road and rail, sea, or air are essential. Secondly, where physical links exist, the relevant rules must permit their use. Hence, border processes and rules about logistics are crucial. But so are all the domestic regulations that govern the transactions made possible by infrastructure and border processes. Thirdly, interactions amongst people will be needed to support economic interaction whether through the role of the movement of natural persons in managing business or in engendering knowledge of other cultures so as to bring resources to bear on what is demanded. In this conception of development, cooperation is not an optional extra; nor is it development aid or charity. It is not only increasing capability to implement trade and investment liberalisation as formulated in developed economies. Rather, it is an essential element in recognising and implementing the conditions of regional development.

The connectivity conception of development obviously appeals to China. It is appropriate for a large economy with a wide range of both land and sea connections to its neighbours. It is congenial to an economy that has developed large construction industries, which would now have spare capacity if they could service only their domestic

market. It is equally congenial to a large economy that has excelled at export-led growth and built financial reserves for which large-scale development projects could well be attractive uses. The One Belt One Road initiative can be understood as a response that matches Chinese strengths with contemporary developments in the international economy. But the connectivity analysis does not depend on the role of China any more than 'free trade' in the 19th century depended on the particular circumstances of the United Kingdom; it is fundamentally an implication of international production networks.

The structure of infrastructural connectivity, institutional – especially regulatory – connectivity, and people-to-people connectivity eventually has much in common with a conception of economic integration in terms of trade in goods, trade in services, investment, disciplines on subsidies, sanitary and phytosanitary measures, government procurement, labour standards, environmental standards, digital trade, and economic cooperation. That is, connectivity eventually covers the same ground as a contemporary FTA. That is not surprising. The essential aim is to construct a set of rules which ensures that business pursuing its own interests also generates a social optimum, and we know regional resources will generate most product when subjected to a minimum of additional restraints through national borders, while additional rules may be needed to ensure that additional resources can be created through learning by doing, that regions which would not otherwise share in the additional output are assisted to adapt, and that individuals within economies who would otherwise not share in the additional output are assisted to adapt (Hawke, 1999). But as we observed before, presentation matters. Connectivity puts inclusive growth at the centre; trade and investment liberalisation is too easily portrayed as advocacy for the interests of large corporations.

Conclusion

The AEC has plenty of promise in a fast-changing Asia. Its challenges are to manage implementation, achieving the fundamental purpose of community building and not being seduced into a remote monitoring and evaluation process, let alone being reduced to a tick-box mentality. Implementation and development has to be flexible and able to work with the logic of connectivity despite the pressures of complying with conventional trade negotiation. And it is crucial to retain domestic political support by providing effective transition paths allowing those adversely affected by economic integration to participate in the increased welfare it makes possible. Public understanding of AEC and its international setting is not likely ever to be as widespread as specialists would wish, but a feature shared most clearly by Brexit and Trump is questioning of elite opinions and Asia is not exempt from that trend. Most people learn when their direct interest is engaged, and the environment for integration is best promoted by identifying and

publicising its benefits – how many American and Europeans realise that the affordable travel they enjoy flows from economic growth that in turn depends on international trade? – and by providing credible assurance about adjustment paths for those who experience disruption in their lives because of international competition. Above all, there has to be a direct assault on mistaken perceptions. The rhetoric of the 1%, the alleged failure of ‘trickle down’, and allegations about the consequences of so-called ‘free markets’ and ‘neoliberalism’, even when obviously nonsensical, should not be left unchallenged. Nor should claims about ‘jobs being sucked away’; the relevant image is of a community benefiting from better use of the resources of a wider region while extending adjustment assistance to those who experience change directly. A gap between beliefs and analysis could derail global and regional integration even in Asia.

References

- Ayson, R. (2016), ‘Brexit and New Zealand: It’s Not the Economy, Stupid’, *Incline*, 28 June.
- Drysdale, P. (2016), ‘No Joy from Asian Growth without Supply-side Reform’, *East Asia Forum*, 27 June.
- Fukuyama, F. (2016), ‘American Political Decay or Renewal? The Meaning of the 2016 Election’, *Foreign Affairs* 95(4) (July/August). Available at: <https://www.foreignaffairs.com/articles/united-states/2016-06-13/american-political-decay-or-renewal>
- Hawke, G.R. (ed.) (1999), *Free Trade in the New Millennium*. Wellington: Ministry of Foreign Affairs and Trade for NZ Institute of International Affairs.
- Jones, A. (2015), *The Education Roundabout*. Washington, United Kingdom: The Memoir Club.
- Knick Harley, C. (ed.) (1996), *The Integration of the World Economy, 1850–1914*, Volume II. Cheltenham, United Kingdom: Edward Elgar.
- Morris, I. (2016), ‘The Problems a Brexit Won’t Solve’, *Stratfor*, 15 June.
- Slater, H. (2016), ‘A Climate Agreement that may Survive’, *East Asia Forum*, 25 November.
- The Economist* (2016), ‘March of the Machines: What History Tells us about the Future of Artificial Intelligence – And How Society Should Respond’, 25 June.
- Thuzar, M. (2016), ‘The Human Challenges of an ASEAN Community’, *East Asia Forum*, 18 June.

Winter, T. (2016), 'One Belt, One Road, One Heritage: Cultural Diplomacy and the Silk Road: The Cultural Aspects of the Belt and Road could Forever Reshape Regional Politics and Security', *The Diplomat*, March.

Woker, D. (2016), 'Few Answers to the Existential Questions posed by Brexit', *Lowy Interpreter*, 6 July.

Yasumoto, S. (2016), 'Pop Culture Boosting Harmony in East Asia', *East Asia Forum*, 9 July.

Zoellner, T. (2016), 'China's High-Speed Rail Diplomacy: Beijing Sets its Sights on the U.S. Market', *Foreign Affairs Snapshot*, 14 June.