

Part II

1. Collective Leadership for East Asia and ASEAN's Trans-Asian Role

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Collective Leadership for East Asia and ASEAN's Trans-Asian Role

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Summary

Adjustments to the major shift in economic power in Asia have been made harder with the rise in protectionism in the United States (US) and the fracture in Europe. The multilateral economic regime is under threat and with it, Asia's economic and political security. The weight and importance that Asia now has in the multilateral system suggests that leadership must come from the region to preserve and strengthen that global system. No one country can lead in Asia, which has several large powers and divergent interests. Asian collective leadership is now critical to global economic policy outcomes at the core of the interests of the Association of Southeast Asian Nations (ASEAN).

ASEAN remains central to broader regional cooperation and institution building. The process of its economic integration underpins its centrality in Asian affairs. The Regional Comprehensive Economic Partnership (RCEP)¹ is important to entrenching and expanding that process for ASEAN. The RCEP is crucial for ASEAN's capacity to manage its economic and political security interests with its large neighbours in the region. The existing regional institutions and processes will be made more effective if there is more cohesion in their agendas and memberships. Better connecting the existing regional economic and political cooperation will help to navigate and manage current and future challenges to regional prosperity.

Three principles of collective leadership should guide East Asian community building:

1. Shared commitment to multilateral principles and processes
2. Consensus decision-making based on equality and shared partnership
3. Building on international rules and norms

These principles have their antecedents in the evolution of those of ASEAN cooperation and will be needed for broader Asian and trans-Asian cooperation to manage the vastly different circumstances of the regional and global system.

The Rise of Asia and the Rise of Protectionism

Asia is now and will remain the primary driver of global growth in the coming decades, but only if it can craft a cooperation agenda that embraces all the region and has global objectives and reach.

¹ The Regional Comprehensive Economic Partnership (RCEP) is ASEAN-led regional economic agreement being negotiated involving 10 ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) as well as ASEAN's six FTA partners (Australia, China, India, Japan, New Zealand and the Republic of Korea). RCEP was launched in 2012 and aims to achieve a comprehensive, high quality and mutually beneficial economic partnership agreement amongst all the members.

The question ASEAN now confronts is how the world – which has benefited so much from the certainties of economic openness that the World Trade Organization and other global institutions have provided – can protect its strategic economic and political interests in the face of the change in policy direction of what is still the world’s largest economy, and how it can engage all Asian economies in the same endeavour.

Successive waves of trade and industrial transformation have created a new centre of Asian economic activity that rivals North America and Europe in terms of its contribution to world output and world trade. Deeper integration in Asia is already centred on China and is likely to incorporate India more fully over the next decades.

The Asian economy accounts for about 30% of global economic output in purchasing power parity terms. With continuing economic reform, it could account for 47% by 2040 and 52% by 2050, with per capita incomes equivalent to Europe’s today (Asian Development Bank, 2011). That is a rapid rise from the 18% of the global economy it accounted for in 1980. A large increment of that growth has been the consequence of China’s sustained growth, which has made it the world’s second largest economy, its largest trader, and the largest trading partner of almost all Asian countries.

Demographics and catch-up growth suggest that the trajectory of Asian economic growth is likely to continue to remain above global average rates through to 2040 and beyond. North America and Europe will have a smaller share of global economic output. The US will be a smaller part of the global economy despite remaining the largest military power and likely the second largest economy. Managing that power shift will be a major challenge for the region.

The post-World War II global order and the international public goods that have supported growth under it have benefited Asia more than most other regions. Bretton Woods institutions and US leadership created the environment and framework for Asian countries to commit to open markets and develop out of poverty. Countries in Asia experienced rapid

growth once they committed to the rules and norms of the multilateral system. The success of China and Asia has put a lot of pressure on that system.

Rising protectionism in the US and Europe, including the retreat from European economic integration in the United Kingdom, creates headwinds for the global economy. US protectionism presents a proximate and immediate threat to Asian economic and political security. In the longer term, the extent of US commitment to engagement in the Asia-Pacific region remains uncertain and a challenge.

Although consumption in East Asia is rising, the region still relies on open markets elsewhere and an open global system for its prosperity, and will continue to do so. Parts of Southeast and South Asia will be opening up their economies to regional and global competition and reforming in a more hostile external environment than others in Asia experienced.

The huge growth of the Chinese economy has caused other countries to make substantial adjustments. Many countries in East Asia have fared better than others outside the world. Southeast Asia made the most of the opportunities that a growing China presented, and has benefited from the expansion of global value chains that ASEAN's economic cooperation agenda helped realise. Australia benefited, as did other resource-rich countries, from the commodities boom that China's industrialisation brought – with the exchange rate adjustment absorbing much of the shock and macroeconomic policies maintaining full employment. The Northeast Asian economies integrated with the Chinese economy and drove the supply chains.

Not all countries have managed the adjustment from the China shock as well as East Asia. The forces that have led the US to a retreat from global economic leadership are unlikely to be reversed soon, as domestic considerations in the US will continue to trump foreign economic leadership. Asia cannot wait for the US to return to a more familiar global leadership role. An open Asia can bring positive spillovers to North America and Europe.

India's growth to 2040 may not be as rapid as was China's, or as sustained, but the scale of the country and its demographic profile suggest that it will bring further substantial adjustment in Asia and the global economy. Viet Nam's rapid economic rise and success in East Asia are being followed by countries in South Asia, like Bangladesh. New technology will also mean that countries have to continue to reform and manage the different integration pressures within the region and with the rest of the world.

Leadership from East Asia will be needed to manage the continuing change in the structure of regional and global economic power, much of it because of Asia's growth. It will also be needed in pushing back against the rising protectionism and keeping the global economy open. Asia's interests in a stable, predictable, and open global order, as well as its economic weight and interests, mean that Asia will have to represent and protect its own interests. The only way to do that is through mobilising collective leadership.

The rise of China and the accommodation of that by neighbouring countries and within the global system, as well as the impact of India's rise, will require elevated regional and global cooperation. ASEAN has emerged as the centre of Asian institution building and cooperation and, with strategies and steps as outlined below, this central role can and should remain with ASEAN.

Collective Leadership

No one country can lead in a region or global system with several large powers or divergent interests unless it possesses dominant or hegemonic power. Asian collective economic cooperation has been an important complement in the past to US leadership in providing political stability in Asia and the Pacific. Asian collective leadership is now critical to global economic policy outcomes, as the US retreats from support for the global multilateral economic system. It will need to be inclusive and engage partners outside the region.

With two of the three largest economies and two of the largest populations in the world, Asia is, if it acts collectively, a major global force. In addition, all the countries in Asia – industrialised, emerging, or developing – rely on an open external environment for development and prosperity.

There are various forums for managing interstate relations in Asia and globally. ASEAN, Asia-Pacific Economic Cooperation (APEC), and the G20² all involve cooperation, degrees of coordination, and dialogue without binding commitments. The diversity of membership has demanded this, and although progress has been slow, economic cooperation and progress have been sustained.

East Asian countries have succeeded in shaping regional and global outcomes by forging a consensus on economic cooperation. Given the scale of countries in the Asia Pacific and across Asia – and the diversity of interests, stages of development, and structure of endowments – it is increasingly difficult for any one country to lead in trade, the economy, security, or any other domain. There is no hegemonic leadership in Asia and that is likely to remain the case for the foreseeable future.

US security leadership and the hub and spokes framework for political stability in Asia and the Pacific cannot be taken for granted with the rise of China and domestic priorities in the US overwhelming traditional foreign policy objectives. China is the largest trader and second largest economy, but is still not a high-income country and is not ready for a primary leadership role in trade and economic policy in Asia – nor is the rest of Asia ready for Chinese leadership.

Japan has demonstrated leadership in trade and is gradually playing a larger security role, albeit from a low base and under the US security umbrella. Japan, Australia, New Zealand, and Singapore led the effort

² G20 or Group of 20 consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.

to complete the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)³, the economic agreement which the US exited in 2017. Other small and medium powers have experienced success in shaping external outcomes when building and working with coalitions around interests.

Since the Asian financial crisis, Asian regionalism has strengthened and succeeded most when consensus is forged through consultative dialogue over time. After the global financial crisis, regional cooperation has not been able to rely as heavily on external leadership that had been up to that point the norm. Regional cooperation will need to be strengthened and contribute more to global stability, public goods, and leadership.

In this age of policy uncertainty, how can ASEAN's agenda be directed to that purpose? This will not be an easy task as the US turns away from support for multilateral efforts, as it has even from the narrowly regional enterprise of the Trans-Pacific Partnership (TPP). It will require immense diplomatic effort and leadership from ASEAN in the years ahead.

Hegemonic leadership from within East Asia is unlikely to succeed. There are too many large countries that will not accept being price takers and having the region shaped without their input. The ASEAN principle of non-interference in other countries' domestic affairs applies de facto for the broader region.

The leadership from large countries in East Asia that the region will accept is in the provision of regional and international public goods and the leadership required to execute reforms and liberalisation at home that produces positive spillovers to other countries.

³ The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a trade agreement involving 11 countries in the Asia-Pacific region (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam). CPTPP also known as TPP-11.

Regional organisations and forums provide the platform to announce reform and liberalisation commitments. APEC has provided that platform for the region with the Bogor Goals⁴ as well as for individual countries, such as in 1995 when China announced major unilateral liberalisation on its path towards World Trade Organization membership.

Asian collective leadership can help define, represent, and defend Asia's interests at the global level. If protectionism continues to rise outside Asia, there will be pressure for Asia to follow that path and close markets. This will cause a retrogressive trend in policy thinking that is likely to damage the ASEAN enterprise and its interests greatly.

No one country will be able to withstand that pressure, but collectively Asia can commit to keeping markets open and minimise the costs of protectionism. Collective leadership can go further than helping to hold the line on protectionism. It can mobilise for liberalisation and reform in the face of rising protectionism. Asia's economy is large enough to make a difference globally even if Europe and North America retreat to beggar-thy-neighbour policies.

The structural adjustments that will be needed in all countries as China continues to grow, and as India joins the process, will require forums for cooperation to ease pressures and reduce information asymmetries. The creation of APEC assisted in facilitating a smoother and more stable integration of Japan into the regional and global economy as its growth impacted markets everywhere. The impact of China's growth has already had a larger effect and will continue to do so. Bringing the frameworks for regional cooperation, such as APEC and the East Asian arrangements, into closer alignment to achieve these objectives is an important priority.

⁴ The Bogor Goals are a set of targets adopted by APEC Leaders during the meeting in Bogor, Indonesia in 1994 that aim to achieve free and open trade and investment in the Asia-Pacific no later than 2020.

Three principles of collective leadership need to guide East Asian community building:

1. There should be a **shared commitment to multilateral principles and processes**. This principle of cooperation has allowed the region to develop and prosper while managing interstate relationships. It has also resulted in open regionalism.
2. There needs to be **consensus decision-making based on equality and shared partnership**. Forging consensus takes time and requires compromise, cooperation, and building trust. This decision-making mode is based on the principle of shared and equal partnership.
3. Regional cooperation should be deployed to **build on international rules and norms**.

A commitment to these principles as the foundations for engagement in regional affairs will ensure against hegemonic leadership, produce regional and global public goods, and deepen mutually beneficial exchange and economic integration. These principles have their antecedents in the evolution of ASEAN cooperation principles. They explain why ASEAN cooperation has resulted in open regionalism and collective leadership in regional affairs.

Regional Comprehensive Economic Partnership

The RCEP was designed by ASEAN policy strategists to buttress regional trade reform and lift Asia's growth potential in the global economy. It is now the only active, credible multilateral endeavour anywhere in the world positioned to deliver significant push-back on the retreat from globalisation.

The RCEP is not simply another free trade and investment arrangement. It incorporates an important cooperation agenda, an essential element in building capacity for economic reform and mutually reinforcing regional development over time. Its cooperation agenda has an important political and security pay-off that will assist in ameliorating regional tensions and managing relations with the bigger powers, like China, Japan, and India (on geo-economic issues such the Belt and Road Initiative (BRI) for investment in connectivity and geo-strategic territorial issues), and

those outside it, like the US and Europe (in staking out Asia's interest and claims to ownership in and support of the global public good of an open economy).

This is why the opportunity that the RCEP presents to ASEAN is so important today. It is a critical line of defence against fragility in the global political economy. It is an essential vehicle for ASEAN's dealings with its powerful neighbours. It is an instrument for realising ASEAN's full growth potential.

With ASEAN at its core, the 16-member RCEP grouping is the first inclusive regional effort at a binding economic agreement. Often mistakenly described as China-led because of the dominant size of the Chinese economy, it is in fact centred on the ASEAN+1 free trade agreements with the six members of Australia, New Zealand, China, Japan, India, and the Republic of Korea.

The ASEAN economic integration process has led to deep integration with the global economy, especially with the large neighbours, China and Japan. Intra-regional trade shares are low in ASEAN since the opening up, and reforms have been outward-oriented and have not provided preferential treatment to other ASEAN members. The open regionalism that ASEAN has managed to achieve is built around realising comparative advantage in global value chains and relies on open external markets.

The RCEP will only go as far as ASEAN will. It will be difficult for any of the plus 6 members to push ASEAN or the other members too far in making commitments. The ASEAN cooperative framework with capacity building may not appear to be meeting all the targets and commitments, but in other cases is often exceeding them on the ground. In addition, the mode of cooperation has led to a sustainable integration process. There may be frustration about the slow pace of reform and integration within ASEAN, but the region has made substantial progress. Having a committed and ambitious ASEAN will be necessary for the RCEP. Building a framework that provides the venue and forum for making further commitments and achieving ongoing cooperation goals will be even more important.

Achieving a prosperous ASEAN Economic Community relies on getting relationships with the major economies outside of ASEAN right, not just integration between ASEAN states. ASEAN's economic security is dependent on how it manages its links with its major Asian neighbours in the global economy. The RCEP is important in this setting for entrenching and extending ASEAN principles of economic cooperation and realising regional economic cooperation.

Hence, ASEAN plus six and the RCEP platform have become crucial to the ASEAN Economic Community process, ASEAN's centrality, and ASEAN's capacity to manage its economic and political security interests with its large neighbours in the region.

The RCEP provides a framework for managing large power relations, between China and India, and China and Japan, for example. It remains open to the US and other partners. Progress in bilateral issues and the further economic integration of these large bilateral relationships will be made easier within a framework that is broader than bilateral.

The RCEP negotiations commenced in 2012 and a framework agreement will need to be reached as Thailand takes on the ASEAN chair, for the RCEP agreement to maintain momentum. The initial liberalisation down payments and commitments will need to be substantial for the agreement to be credible and make a difference.

Failure to secure an RCEP deal will threaten the future of ASEAN coherence and centrality. Individual members of ASEAN will likely join the TPP-11, or CPTPP, while not all ASEAN members and China and India will likely remain outside of the agreement, potentially distorting East Asian value chains and efficient economic integration.

Importantly, the RCEP will need to be an ongoing process with economic cooperation at its core. That grouping, with a positive and proactive agenda for deepening economic integration, will give Asia a platform for collective leadership and provide a strong framework of economic and

political security. An economic cooperation process will have significant political benefit in the management of regional affairs.

Connecting Processes for Better Leadership

The RCEP grouping includes six G20 members from Asia and has significant, though incomplete, overlap with APEC, the East Asia Summit (EAS), and other regional groupings. For Asian collective leadership to be effective, the different forums and groupings need to relate better to one another, with agendas and meeting times more closely coordinated.

The variable geometry of regional cooperation and institution building is even more important as interactions become more complex and uncertainty increases around the large shifts in relative power in and across Asia.

The region is crowded with existing institutions and, while new institutions should not be avoided, putting resources into reforming existing institutions and connecting them better is more productive. The RCEP formalises the ASEAN plus 6 grouping that already exists. Many institutions, forums, and groupings can be made more effective by expanding outreach and being more inclusive, without compromising the core agenda or membership. APEC and other forums have succeeded in informally inviting guest or observer countries. ASEAN plus 3 (with China, Japan, and the Republic of Korea) financial cooperation can be strengthened by extending cooperation with those outside the grouping.

APEC has a long history of economic cooperation amongst its members. It has its own challenges to remain effective, including in its agenda to sustain open economies and an open region, in the face of the challenge to these objectives from Washington. It also has incomplete membership of Asian countries. The EAS lacks the economic cooperation of APEC but has political-security cooperation and a broader membership. Connecting these two processes together without compromising the agenda or membership of either, could make both more efficient and effective, and make better use of valuable leadership time.

Bringing more coherence to the various regional groupings can better connect economic and political-security issues. Asia's growth in economic weight is of a scale that has large political and security implications, and security issues are not independent of economic trends and changes. A more integrated approach to economic and political-security issues facing the region could lead to a broader set of choices and a plurality of joint interests across countries. Better connecting regional arrangements will economise on resources, including leaders' valuable time.

ASEAN remains the centre of regional cooperation. The RCEP and EAS have ASEAN at their core, and although ASEAN membership is incomplete in APEC, ASEAN's mode of cooperation and its agenda are entrenched. Cooperation between large powers in Asia – specifically China, India, and Japan – and between them and the US and Europe, are helped by ASEAN-centred cooperation.

ASEAN provides the platform and the buffer to manage great power relations. Management of large power relations is made easier in a broader framework than if pursued bilaterally. Even if major powers in the region improved their relations, having ASEAN with middle powers like Australia and the Republic of Korea helping forge consensus would help larger powers manage their relations. ASEAN and these middle powers (as well as New Zealand) face similar challenges in respect of the rise of major powers and can further develop working relations in the context of the larger frameworks of regional cooperation. ASEAN centrality has evolved to play an important role in broader East Asian cooperation and is central to broader cooperation moving forward. The RCEP framework provides a stronger and organic framework for that.

The new Indo-Pacific conception of the region presents a challenge to ASEAN's role and ASEAN centrality. How a maritime security conception of the region avoids cutting across existing regional forums is a challenge for ASEAN to resolve within the broader East Asian region.

Having open and inclusive arrangements in East Asia will provide a framework for large powers to engage. Engagement based on the three

principles of collective leadership will ensure that leadership by major powers will be accepted by other countries. Much of South Asia is outside East Asian cooperative frameworks, except for India's participation in the EAS and the RCEP. Bangladesh, Sri Lanka, and Pakistan are at various stages of joining East Asian supply chains and will be an important source of growth for East Asia as Chinese wages rise and foreign investment searches out locations for labour-intensive manufacturing beyond the capacity of Southeast Asia.

The integration of South Asia's economy into East Asia's supply chains is complementary, just as the large increment of China's rise brought more complementarity than competition. Where there was competition with Southeast Asia, the finer specialisations and adjustment of production along the supply chain meant the benefit was on balance large and positive.

The impact of the growth of India and the emergence of South Asian economies will be facilitated by integration into supply chains and expansion of those East Asian supply chains westward. Building cooperative frameworks to manage that would increase the likelihood of success and avoid tensions. It increases the chance of regional and international public goods that will facilitate and manage that process. ASEAN and India have been developing their relationship and this is poised to grow further with India's economic growth and 'Act East' policy. ASEAN-India cooperation can be a key pillar in the Indian Ocean and beyond.

Regional and International Public Goods

Asia's economic and political weight will mean its interests in the provision of international public goods must expand. The US provided the public goods of a stable order and underwrote the institutions that maintained that. However large the US role in Asia Pacific in the future, the scale of China, and eventually India, will mean that more public goods will come from Asia. They are needed to help manage Asian interactions and economic integration but also to manage integration with the rest of the world. ASEAN as a group is already present at G-20 meetings and

its largest member, Indonesia, is a G20 member in its own right. As the economies of the region grow and further integrate, ASEAN can increase its voice and contribution on global issues and, over time, the provision of regional and global public goods.

Initiatives like the Belt and Road Initiative (BRI) from China into different countries in the region will play an important role in financing infrastructure and could improve connectivity. Immense benefits can arise from infrastructure that can link and assist development across the region, as well as considerable risks – financial, social, political, and environmental. It is not in the interest of China or the region to have failed projects or for the BRI to fail. There is more chance of success if ASEAN brings coherence to the approach that its different members bring to BRI projects, which are currently framed mostly as bilateral agreements with China. Bringing elements of collective leadership and coordination amongst ASEAN, as well as other partners and other major sources of infrastructure financing, will also help.

Collective leadership and regional cooperation will be important for the provision of public goods from Asia. The provision of international public goods from individual countries in Asia is more likely to succeed and be sustainable if it is born of regional consensus. Competing initiatives or those with opposition from key interests or countries are less likely to succeed.

Reference

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