

# ASEAN: The Experiment in Open Regionalism that Succeeded<sup>1</sup>

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## Introduction

The strength and success of the Association of Southeast Asian Nations (ASEAN) as it passes its 50-year anniversary will be measured by its ability to continue to promote and encourage deeper regional integration into the global economy. The political and security distraction over troubles in the South China Sea is not the test of economic and political security on which ASEAN integrity and coherence will finally stand or fall.

This contention sits oddly perhaps against ASEAN's early history. ASEAN emerged as an arrangement designed to deal with the legacy of insecurity in Southeast Asia after Sukarno's removal from power and the communist insurgency in Indochina. Many commentators have measured the success of ASEAN's first 50 years exclusively against the metric of how useful it was in managing these and other security affairs. Indeed, in 1967 as the foreign ministers of the ASEAN 5 – Indonesia, Malaysia, Thailand, Singapore, and the Philippines – gathered in Bangkok, it was defence and international relations that were uppermost on their minds.

And certainly, as a forum promoting non-violent conflict resolution, ASEAN has been a considerable political success. But there is another narrative that is often overlooked that provides a more persuasive account of why ASEAN has served regional security so well.

In the 1960s, the famous Swedish economist Gunnar Myrdal (1968) identified Southeast Asia amongst other parts of the developing world as a region stuck in a vicious cycle of poverty, a likely sea of instability and woes for many years to come.

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Looking back today, Myrdal's prognostication for the region seems to have been spectacularly wrong. But as an observer of the region at the time, it might have seemed a plausible, indeed an accurate, story about the state of Southeast Asia's emergent nations.

What changed all this, of course, was how the Southeast Asian economy was turned around, not all at once or at the same pace, but in a common direction at around the same time. Without this redirection of economic policies across the region, the innovation and success of ASEAN would hardly have become the lynchpin of East Asian political arrangements that it is today.

The diversity in stages of development, economic endowments, institutions, culture, religion, and ethnicity may appear to have been an enduring source of regional political fragility. Economically, however, it was a fountain of strength, offering opportunity for specialisation that multiplied gains from trade for growth. It was growing economic security that attenuated the politics of ASEAN diversity and ensured its reach and influence, tenuous though at times it may have appeared. And it will be economic security and success that underpins ASEAN's political sway and effectiveness in the face of political uncertainties going forward.

Somehow, against the odds, ASEAN settled on the right economic formula: one that guaranteed success despite the vicissitudes, notably during the Asian financial crisis, and one that delivered a credible and creditable measure of economic success across the region as a whole.

This paper looks at some of the important milestones along the way. It seeks to identify what legacies from these past successes will be crucial to ASEAN's economic future.

It is a remarkable story, not only in the annals of regional experience and history but also in the story of modern international affairs. It is a story of which the ASEAN countries and their creative leaders at many levels can be truly proud. It is one that is too often underestimated by it being told through the prism of a post-colonial commentary that has its own axe to grind and dignity to maintain.

The major focus here, then, is on the economic character of the ASEAN enterprise and its development, and the driving conceptions and philosophies on which the economic success of ASEAN has been built. It is a story of significance for understanding ASEAN today and moving ASEAN forward – and beyond.

The paper first examines the shift in the policy paradigm that came to guide ASEAN's original member states and then enlisted others. Southeast Asian economic policy strategies went from protectionist and inward looking to being dominantly outward looking. They sought to capitalise on Southeast Asia's external opportunities wherever they were, not only in the region itself. This reorientation was a huge achievement and the source of great economic benefit. It was not, of course, a sweeping victory on every battlefield or in every nation state; the going was sometimes tough and lost direction.

This is exemplified in the case of Indonesia, examined in the second part of the paper, where the political economy of vested protectionist interests and atavistic policy thinking sometimes triumphed over the measurable gains from international integration.

The third part of the paper turns to how the articulation of the strategies of open regionalism and consensus building shaped the success of Asian regionalism and ASEAN. The ASEAN Economic Community (AEC) now embodies that spirit.

Finally, the present challenges for ASEAN and its unique strategies of association are outlined. Some assessment is offered as to whether Southeast Asian economies are up to tackling the issues associated with the middle-income trap and growing uncertainties in the international economic environment.

## Shifting the Policy Paradigm

The birth of ASEAN in 1967 gave strength to an historical shift in Southeast Asia's economies. A shift in thinking across the region and the domestic policy environment in member countries led to a move away from protectionism and import-substitution towards a more outward-looking orientation. ASEAN became a collaborative enterprise for ensuring that localised efforts resulted in productive regional outcomes. It created a space where regional integration supported and promoted domestic growth on one hand, while strengthening the global economic system on the other.

Japan's fast growing economy was a natural force for regional integration in Asia. Its recovery after World War II fuelled a resumption of demand for industrial raw materials from its neighbours. Japan became a major supplier of labour-intensive and, later, capital- and technology-intensive manufactures to regional and international markets.

By 1960, the Japanese economy had recovered to ‘the level predicted by its pre-war trend’ (Ito, 1996: 208). Japanese annual real gross domestic product (GDP) growth of 9.4% in the period 1946 to 1960 and 8.3% in 1960 to 1975 was then unprecedented (Ito, 1996). The ‘miracle’ of Japanese growth was sustained by Japan’s accommodation in an increasingly open international trade regime.

The rapid growth of Japan’s economy in the late 1960s through to the early 1970s created huge demand for Southeast Asian exports. In 1967, for example, Japan absorbed 21.0% of all Southeast Asian exports (Kojima et al., 1971). And over half of Southeast Asia’s export trade was with advanced Pacific countries, including the United States (US) as well as Japan (Kojima et al., 1971).

Foreign direct investment (FDI), especially trade-oriented FDI from Japan, was critical to trade and income growth. It would soon be the key to early industrialisation through laying the foundations for the development of regional production networks.

How to take advantage of the surge in Japanese and international demand was an important focus of a landmark Asian Development Bank (ADB) report, *Southeast Asia’s Economy in the 1970s*, edited by Hla Myint in 1971. The study was written at the behest of the Fourth Ministerial Conference for the Economic Development of Southeast Asia, held in Bangkok in 1969, and was commissioned to (Myint, 1971: 2):

‘Analyse the nature of the major problems which confront the nations in the region in the seventies and explore the possibilities of individual and cooperative action by governments to effect their solution.’

Chapter 4 of the report, to which I contributed with Kiyoshi Kojima and Saburo Okita (1971: 310), noted that ‘the sense of political identity that is an essential precondition to meaningful government involvement in economic integration is yet far from evident in the Southeast Asian region’. There were, however, ‘signs of growing understanding of the importance of developing political commitment [to regional economic integration]’ (Kojima et al., 1971: 310). In many senses, ASEAN grew to fill the void. Its core members’ step-by-step commitment to international economic integration was the critical element that indirectly came to bind the Southeast Asian economies together.

The structure of ASEAN’s engagement in the international economy naturally recommended focusing on extra-regional markets such as Japan and industrialising Northeast Asia, and targets of growth opportunity in the industrial world. Intra-regional ASEAN trade in 1967 was only 9.5% of total ASEAN trade (Kojima et al., 1971).

In the late 1960s, intra-ASEAN trade was dominated, as it is today, by Singapore's entrepôt trade with Indonesia and Malaysia. The ASEAN economies were still dominantly exporters of primary products to global markets. While the ADB report envisaged the growth of Special Economic Zones (SEZs) in manufacturing activity, the growth of Southeast Asia's participation in regional production networks was then a thing of the future. Even in 2015, after the considerable expansion of regional production networks, ASEAN intra-regional trade was still a modest 24% of total trade (ASEAN Secretariat, 2015b). So important still to Southeast Asia's economic prosperity is its integration into the broader regional and global economy.

The ADB report provided the intellectual foundation and justification for a number of important policy decisions in the region and began to shape the economic reform agenda of the then recently formed ASEAN group.

Although Myint (1971) was not intellectually comfortable with the argument,<sup>2</sup> the external economic relations chapter in the ADB report called for export-led development strategies. It encouraged a shift in thinking away from inward-looking domestic economic policy to an appreciation of how the domestic market could adjust to take advantage of external developments. In the early stages of ASEAN and regional economic integration, both projects were restrained by their inability to cross an imagined political-economic divide.

It was not until much later that the complementarity of regional economic integration and trade would become central to the political aspirations of the ASEAN enterprise. Today it is difficult to separate the economic from the political explanations of the success, strength, and unity of ASEAN.

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<sup>2</sup> Myint correctly argued that in principle the right strategy would be to address externality problems in whichever sector they were found to occur: the exportables, the importables, or non-tradeables sectors might equally qualify for policy attention. There is an extensive literature that both tries to validate the export-oriented strategy and criticises it intensively on political economy grounds from the left and on economic grounds from the right.

My Japanese colleagues and I, on the other hand, were persuaded, first, that relieving the export sector of distortions and impediments that made competition in the international market place more costly was the best and most practical route to establishing market efficiency across the whole economy and, second, that the opportunity of the expansion of international demand at that time made the export-oriented strategy especially rewarding.

## Driving Domestic Reform

International integration that lifts national welfare demands effective domestic reform. It works on the premise that countries will produce what they can efficiently and cease producing, or at least cease protecting, inefficient or high-cost products, and that consumers are better off unconstrained in their choice between foreign and domestic goods and services.

In the 1970s and 1980s, the complementarities of exports and imports aligned nicely between Southeast Asia, East Asia, and across the Pacific. There was much to be gained through international specialisation in production and consumption by all.

Another integral part of that story was the advent of significantly increased FDI in the region in the 1980s and 1990s. Multinational corporations, particularly those from Japan, the US, and the newly industrialised economies of Northeast Asia, sought to extend their operations to Southeast Asia. These firms set out to take advantage of Southeast Asia's lower costs of production and to reap the benefits of an expanded and integrated regional production network. Malaysia, Thailand, and Indonesia, which were to varying degrees open to foreign investment, benefitted from the inflow of capital (Thomsen, 1999). The Philippines, however, maintained domestic policies antithetical to FDI until the end of the 1990s and as a result did not enjoy the same inflow of capital from abroad until much later.

An increase in FDI flows and stock in this period provided significant benefit to the Southeast Asian economies, promoting competition, efficiency, and technology transfers in both the manufacturing and non-manufacturing sectors.

Countries gain the most economic benefit through unilateral reform, which can be both supported and supplemented by regional and international economic integration (Productivity Commission, 2010). The main benefits that arise from trade liberalisation result from a country's purchasing its inputs and final goods from the lowest cost sources of supply, and exposing its industries to greater competition by reducing its own trade barriers. This creates a competitive environment that drives productivity and leads to a more efficient utilisation of resources within the economy.

But broad support – and especially domestic support in ASEAN Member States – for international integration and liberalisation, even amongst countries within the Southeast Asian region itself, could not always be relied upon. There was the legacy of colonial 'dependency' that was naturally hostile to open trade and investment ties with the major industrial powers.

The ongoing battle to dismantle trade and investment protectionism, although common to most ASEAN states, was nowhere more pronounced than it was in Indonesia.

Indonesia has always held the primary place in ASEAN. It is the biggest country in the association in terms of both population and economic size and carries the most political weight. Indonesia's population of over 250 million and its approximately US\$900 billion economy accounts for around 41% of ASEAN's total population (UNCTAD, 2014) and 35% of ASEAN's economy measured in terms of aggregate GDP (IMF, 2016). Indonesia's domestic policy is therefore overwhelmingly important in shaping policy perceptions and direction in ASEAN. Dealing with Indonesia's asymmetric presence in various dimensions was, after all, a major rationale for ASEAN's formation.

While to date Indonesia has largely had a positive influence on the development of the association, the nature of its involvement and leadership is not without challenges – especially from Indonesian opponents of economic liberalisation at home and engagement internationally. They are challenges that proponents of economic reform in Indonesia have faced more or less continuously, if with periodic intensity and different degrees of success, for many decades.

In the 1980s, the purpose of deregulation was to increase Indonesia's competitiveness and to drive the efficient allocation of resources in a burgeoning manufacturing sector. The success of deregulation was not only dependent on what was happening in the global economy or the 'nature of existing international regimes', as Soesastro (1989: 854) observed. It was also influenced deeply by domestic political and economic conditions. Those conditions have not always been favourable to good policy.

The aptness of the often-cited aphorism 'bad times make good policies' was evident in Indonesia in the early 1980s with the onset of the oil crisis. The foundations for economic deregulation had been laid and reforms initiated by Indonesia's Minister of Finance Ali Wardhana who held that position from 1968 to 1983 (Indonesian Ministry of Finance, 2016). Wardhana was promoted to Coordinating Minister for Economic Affairs in 1983. He remained a key proponent of the dismantling of inefficient protection in Indonesia's economy against the pressures of domestic vested interests and policy philosophies that favoured various degrees of 'self-sufficiency' and that were hostile to foreign participation in the economy. Liberalisation and reform in the 1980s coincided with the first major drop in oil prices in 1983. The crisis, as Soesastro (1989: 854) put it, 'was sufficient to keep alive the deregulation process'. At the same time as Wardhana's promotion, President Suharto sidelined opponents of reform and deregulation from

economic portfolios: notably, Ginandjar Kartasasmita (to Domestic Product Promotion) and Sudharmono (who became vice president, but ‘lost any significant influence over economic policy’) (Soesastro 1989: 861).

In 1990, the idea of **constrained pluralism** was enunciated as a way to better understand how Indonesia’s economic policies could be grounded (Soesastro and Drysdale, 1990). The main idea was that ‘policy players clearly do not act independently of interests and voices in the wider polity’ (Soesastro and Drysdale, 1990: 33). This highlighted the advantages of a case-by-case, issue-by-issue approach that avoided the attention of ‘high politics’ and the risk of outright rejection within a system. This political strategy also helped shield reforms from being blocked outright through the invocation of some opposing principle or ideology (Soesastro and Drysdale, 1990: 33). It was the ‘gradualist’ approach that Wardhana favoured. He argued that (as cited in Soesastro and Drysdale, 1990: 33):

‘As this progressive reform takes hold, it picks up adherents among those who have already benefited from deregulation, so that future reforms are received more warmly.’

It meant that dismantling protectionism required not only support at the top ministerial level, but better engagement from policy voices, academics, business groups, and Indonesian society. In the 1980s an emerging and educated middle class made this possible (Soesastro and Drysdale, 1990). But a central force in the articulation and delivery of the reform agenda in Indonesia and throughout ASEAN was the intellectual and technocratic core at the centre of which, in those early years, were Wardhana and his colleagues from the so called ‘Berkeley mafia’ (Chalmers and Hadiz, 2005). In subsequent years, a successor generation – some key members of which were educated in Australia as well as the US – were as important in thinking policy strategies through, socialising them, and taking reform up to the political level as opportunity arose, not only in Indonesia but through the ASEAN think-tank network.

With hindsight in 2005, Hadi Soesastro and Chatib Basri (2005) revisited Indonesia’s political economy over the years of reform. By then it was evident that the economic reforms of the 1980s – a time of slower economic growth and weakened oil prices – had changed the orientation of the Indonesian economy, ‘altering its trade regime to become more outward-looking, and accord[ing] high priority to developing non-oil and gas exports’ (Soesastro and Basri, 2005: 3). These developments ‘accentuated the historical shift [in the Indonesian economy] from import-substitution to export-orientation’ (Soesastro and Basri, 2005: 3).



Feridhanusetyawan and Pangestu (2003: 52) noted that between 1985 and 1990:

‘Tariffs were rationalised and reduced across the board, and some nontariff barriers (NTBs) were removed, especially import licensing and import monopolies. As a result, average unweighted tariffs declined from 27 per cent in 1986 to 20 per cent by 1992. NTBs as a percentage of tariff lines declined from 32 per cent in 1986 to 17 per cent in 1990 and to 5 per cent by 1992.’

The liberalisation and opening of Indonesia’s economy in these years led to rapid growth of non-oil exports, to the consequent diversification of Indonesia’s export base and to the expansion of both domestic and foreign export-oriented investment (Feridhanusetyawan and Pangestu, 2003).

In 2014, Indonesia’s new President Joko Widodo (Jokowi) tilted back towards protectionist thinking. This resurgence of protectionist sentiment had crept into the public debate around a new alignment of vested interests and anti-globalisation thinking that emerged in the context of China’s rising global influence.

Still, a change in Jokowi’s economic management team in the August 2015 cabinet reshuffle saw signs of a return to the economic reform agenda. The appointment of Darmin Nasution as Coordinating Minister of Economics and Tom Lembong as Minister for Trade were key examples. Arianto Patunru (2015) argued that these decisions assisted in pushing back against the protectionist trend. Parallels have been drawn between these changes and the reforms of the 1980s (Manning, 2015).

The July 2016 cabinet reshuffle sends rather more mixed messages. On one hand, the appointment of Sri Mulyani Indrawati as Finance Minister is a positive for the country’s economic management team. But the reshuffle also saw Lembong effectively demoted to the Investment Coordinating Board and the more political Enggartiaso Lukita promoted to the Trade portfolio. These changes might suggest that Jokowi is uncertain of the long-term direction of the nation’s economy, especially in light of the revolving door of trade ministers since he came to power.

The wellsprings of domestic resistance to deregulation and trade liberalisation are well entrenched across all ASEAN states except Singapore. Malaysia, the other most advanced ASEAN economy and well ahead of the pack when ASEAN formed, has its own political economy of protection. Malaysian protectionism is associated deeply with the vested interests of its cossetted Bumiputra enterprises, but there are forces of a similar kind in Thailand and the Philippines.

What has prevented these atavisms against reform and change from derailing the ASEAN integration enterprise and snuffing out the vision of an open ASEAN Economic Community?

Undoubtedly, the legacy of the practical reformist strategies of Wardhana and the power of the ideas that inspired them must be counted amongst the main reasons in Indonesia. On the flipside, the continued domestic commitment to ASEAN at a high political level, has paved the way for continued cooperation amongst the other spheres of society. Until now, the benefits have always outweighed the risks, something the informal nature of the decision-making process has no doubt assisted. But if the association is to continue on its current path, it will have to take proactive steps to avoid domestic opposition to ASEAN. It will need to deepen domestic and popular support for the association.

## **ASEAN: Consensus Building and Open Regionalism**

Asia is host to some unique ideas and experiments in economic integration and international diplomacy. They are the product of ideas that emerged from increasing cooperation and integration in the 1960s and developed through a range of regional projects. The consensus building approach to economic cooperation and the idea of open regionalism have been central in shaping the development of ASEAN. Neither consensus building nor open regionalism are without critics, but 50 years on these foundational ideas appear to have held the association and its members in good stead.

These principles have also been successfully applied to other international diplomatic initiatives, such as the formation of the Asia-Pacific Economic Cooperation (APEC) process and the G20. Other models of regionalism with expansive supra-national characteristics, as in Europe, appear increasingly fractured. In context of this varied experience with international economic cooperation around the world, the ASEAN model can be viewed as a significant innovation and achievement in international economic diplomacy.

The formation of ASEAN contrasted sharply with the earlier experience of Europe's integration in the 1958 European Economic Community, an early iteration of the European Union (EU). The two regional groupings developed for different reasons, according to different patterns and in response to their own set of circumstances. The differences between the two are evident in their different 'perceptions of sovereignty, formal institutions and leadership' (Murray, 2010: 598). 'Design choices', Murray (2010: 603) said, 'have been framed as the choice between institutionalisation and flexibility or between closed and open regionalism'.

The diversity of Southeast Asia, and indeed of the Asia–Pacific region – in terms of stages of economic development, political systems, ethnicity, and cultural background – required early innovation in building cooperative mechanisms around the sensitivities of sovereignty, disparities in power, and institutional differences. Back in 1988, I remarked that, ‘despite their heterogeneity’, the countries of Southeast Asia had two key ‘overriding common interests’: ‘strong economic growth and development’ and ‘political and diplomatic interest in neighbourly cooperation’ (Drysdale, 1998: 18). Now, as they did then, ‘these common interests provide the simple but substantial focus for economic policies directed towards closer... economic cooperation’ (Drysdale, 1998: 18).

The design of ASEAN stands in contrast to the EU’s promotion of supra-national institutions in a system of binding decisions. Instead, a key component of the ASEAN framework is still its adherence to the principle of non-interference and recognition of member state sovereignty (see, for example, *ASEAN Charter 2007*, Art. 2 [2][a]). The ASEAN way of informal consensus in forging agreement and in decision-making has shaped the association’s reputation as slow moving but also, in a lot of ways, has contributed to its longevity and success.

ASEAN’s focus has always been external, unlike the internal focus of the EU. This contrast has been explained by Capannelli (2009) as the difference between the EU’s integration being driven by policy and ASEAN’s by markets. In a more severe critique, Kishore Mahbubani (1995: 109) wrote:

‘There are several flawed elements in Europe’s strategically incoherent policies. The first is Europe’s belief that it could secure peace by concentrating on the internal unification of Europe while detaching itself from its periphery. To an observer from East Asia, all the efforts to deepen unification through the Maastricht Treaty or widen unification by incorporating ‘similar’ European countries in the European Union seem like a household working to rearrange the living room furniture while ignoring the flood waters seeping in from the rising tides just outside the door.’

Mahbubani (1995: 109) warned back in 1995 that Europe’s exclusivism may have been a ‘strategic error’. With the exclusion of Turkey, ‘an opportunity was lost to demonstrate that an Islamic society could cross cultural boundaries and be like any other modern European state’ (Mahbubani, 1995: 109). ASEAN was able to integrate diversity, while the EU was not. Indeed, over 20 years later, with a domestic referendum in the United Kingdom driven partially along anti-Islamic lines, the people of Britain voted to leave the EU. While certain voices have come out warning ASEAN against complacency and against not heeding the lessons of the EU’s losing one of its key players, few acknowledge the strength that diversity brings to the ASEAN formula.

ASEAN's outward orientation was economic as well as strategic. Unlike Europe's unification, Asia's economic integration was shaped by an openness and inclusiveness to countries outside of its membership from the beginning. The inclusive approach of Asia's economic integration developed and was later enunciated using the dynamic term 'open regionalism'.

Open regionalism 'seeks to promote economic integration amongst participants without discrimination against other economies' (Drysdale and Vines, 1998: 103). While the fleshing out of open regionalism and the emergence of the term did not eventuate until the 1980s, the evolution of the thinking behind it had longer antecedents. It had emerged when the ASEAN project was challenged by the idea of broader regional cooperation and became a central tenet on the way towards the establishment of APEC between the late 1970s and 1989 (Drysdale and Vines, 1998). It found support and intellectual development in the Pacific Trade and Development (PAFTAD) conferences that had run continuously since 1968 (Elek, 1991). It was first articulated in the Canberra Seminar in 1980, later the Pacific Economic Cooperation Council (PECC), which was a precursor to APEC (Drysdale and Terada, 2007).

Open regionalism was largely based on the idea that, much like regional security cooperation, effective economic cooperation in Asia would have to conform to similar principles of openness, equality, and evolution (Drysdale and Vines, 1998). In this sense, ASEAN as an association for both security and economic cooperation was developed within the framework of similar conceptual parameters.

The ASEAN Free Trade Area, signed in 1992, is unique amongst such arrangements. It embodies the purposeful multilateralisation of preferences initially exchanged between members. In this sense, it is a model for any preferential agreement that claims to have the global liberalisation of trade as its core objective. There are no other such agreements that embed a sunset clause on discriminatory trade treatment in this way.

The principles of cooperation that came at the early stages of developing the concept of 'open regionalism' in Canberra in September 1980 remain relevant for Asian economic regionalism and ASEAN now and well into the future (Drysdale and Vines, 1998: 103). Indeed, ASEAN and Asia-Pacific economic integration has proceeded a long way under the aegis of these principles. They also provide the coda for moving forward with the ASEAN Economic Community (AEC) put in place in December 2015.

Table 1 below sets out the development of the key ideas behind regional efforts that were ordered around the idea of an open regionalism in Asia.

**Table 1: The Development of Principles of Asian Economic Integration**

ASEAN Declaration 1967	Treaty of Amity and Cooperation 1976	The Canberra Seminar 1980	APEC Bogor Goals 1994	ASEAN Charter 2007	AEC 2025 (December, 2015)
<b>Inclusiveness and support for the global economic system</b>					
‘Open for participation to all States in the South-East Asian Region subscribing to [ASEAN’s] aims, principles and purposes’ (Article 4).	Promoting ‘close and beneficial cooperation with other States as well as international and regional organisations outside the region’ (Article 6).	‘The need to ensure that an outward-looking arrangement’ would also be ‘complementary’ to existing arrangements.	‘To support an expanding world economy and an open multilateral trading system’ ( <i>Leaders’ Declaration point 2(2)</i> ) and to enhance regional and global growth.’	To promote ‘the centrality of ASEAN in external political, economic, social and cultural relations while remaining actively engaged, outward-looking, inclusive and non-discriminatory’ (Article 2(m)).	‘Furthering regional and global integration through bilateral and regional comprehensive economic partnerships’ (Article 2E (79)).
<b>Support for multilateralism and non-discrimination</b>					
‘To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves’ (Article 2(7)).	‘Parties shall exert their maximum efforts multilaterally as well as bilaterally on the basis of equality, non-discrimination and mutual benefit’ (Article 5).	‘The need for an “organic approach” building upon private arrangements and exchanges which already existed in the Pacific’ and in opposition to a discriminatory trading arrangement in the Pacific.’	‘[Opposed] to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade’ ( <i>Leaders’ Declaration point 6</i> ).	‘Adherence to multilateral trade rules and ASEAN’s rules-based regimes to move towards elimination of all barriers to regional economic integration, in a market-driven economy’ (Article 2(2)(n)).	‘Continue strongly supporting the multilateral trading system and actively participating in regional fora’ (Article 2E (80)(v)).

Sources: ASEAN Declaration 1967; Treaty of Amity and Cooperation in Southeast Asia 1976; Drysdale and Vines, 1998; APEC, 1994; ASEAN Charter, 2007; ASEAN Secretariat, 2015a.

## The ASEAN Economic Community

In many ways, the ASEAN Economic Community, which came into being at the end of 2015, has become the next driver of open regionalism in Asia. It retains a focus on liberalisation internally, while looking outwards. Developments since the 1960s have seen a rapid and vast rise in ASEAN's exports but the growth and share of intra-ASEAN trade continues to be far less significant. This is something the AEC seeks to address and something that Pangestu, Soesastro, and Ahmad (1992) highlighted as an important space for improving and broadening economic integration and the strength of ASEAN.

The 2025 AEC Blueprint builds on earlier efforts to increase the integration of the ASEAN member economies. The Blueprint focuses on internal liberalisation to reduce barriers in the intra-regional trade of goods and services, to enhance the investment environment, and to better integrate the financial sector, amongst others (ASEAN, 2015a). It acknowledges the win-win situation of regional integration assisting, for example, ASEAN's participation in global value chains. The Blueprint also recognises that such integration will demand competitiveness, offering flow-on benefits in the 'better realisation of economies of scale, collective efficiency and the organic formation of regional innovation systems' (ASEAN, 2015a: 11).

Another critical aspect of the AEC is its emphasis on the global role of ASEAN. The document notes ongoing efforts and a number of strategies to improve the connectivity of the AEC and ASEAN with the global economy. The ASEAN-initiated Regional Comprehensive Economic Partnership (RCEP) is key amongst these initiatives. But perhaps most important is that the AEC, like Asian economic integration projects before it, sees regionalism as an inclusive measure of mutual benefit for the national, regional, and global economy.

The big question is whether AEC can prevail both as the principal guiding light in defining the approach to regional integration amongst the ASEAN 10 as well as their neighbours and serve as an effective counter-force in a period when protectionist currents have been unleashed all over the world. AEC may not achieve its international integrationist ambitions as quickly as might be hoped. But its remarkable background is that AEC is the product of leadership from technocrats significantly, although not exclusively, from Indonesia. These technocrats have crafted a framework of principles and strategies that will serve to guide ASEAN leaders towards entrenching openness and straightjacketed engagement and to constrain tendencies towards inward-looking protectionism that are endemic in the political economy of the region.

## The Future: TPP, RCEP, and the Global System

An alternative model for economic integration epitomised by the Trans-Pacific Partnership (TPP) and, to a lesser extent, the RCEP has more recently engaged ASEAN members. The contest between these two mega-regional arrangements threatens to challenge ASEAN coherence (Dupont, 2013; Ba, 2016; Sally, 2014).

East Asia is looking to complete by early 2017 a major new economic agreement that ASEAN initiated. It offers the chance to lift regional growth closer to potential by locking in domestic reform and liberalisation through regional cooperation. The RCEP agreement was ASEAN's response to the Trans-Pacific Partnership (TPP) and heralds the next phase in Asian economic cooperation (Dupont, 2013). But RCEP is qualitatively different from past cooperation in Asia – more comprehensive in scope and institutionally binding than any of its antecedents – and its delivery will require enormous political will.

Existing and growing economic ties supported and developed through ASEAN will be crucial to underpinning security and political cooperation in the region and globally. With China's economic ascent and the US rebalancing to Asia post 9/11, commentators have highlighted an uncertain future for ASEAN amid the global power play. For now, the US and China have recognised the need to engage with ASEAN, with both pursuing closer economic and political ties with the regional grouping.

A peaceful balancing of power between Washington and Beijing would best serve ASEAN, allowing it to retain its own space to serve the interests of its member states rather than those of a hegemonic power. As Acharya (2015) observed, the power politics of Asia no longer relies on a hegemonic power. There is now far greater focus on interdependence (largely stemming from economic ties), regionalism, and the role of smaller, weaker states. It is in this context that the centrality of ASEAN has to be maintained. And this underlines the importance of the RCEP process in furthering and broadening regional and global economic integration and the position of ASEAN in the global system.

Economic cooperation and the growth of economic interdependence in East Asia occurred without preferential regional agreements, unlike in Europe through the EU or in North America with the North American Free Trade Agreement. Yet economic integration in East Asia by many measures is on par with that of these other regions. The main drivers were trade liberalisation (with successful commitments by the major East Asian players to the General Agreement on Tariffs and Trade/World Trade Organization) and competitive liberalisation of investment regimes. The World Trade Organization's International Technology Agreement, for instance, gave a huge boost to the development of regional value chain production in the electronics sector (WTO, 1999).



The understanding that opening up to trade and investment is necessary for growth, development, and prosperity, as we have seen, has gained momentum in East Asia over the years. The growing weight of the East Asian economies in the international economy, combined with their proximity and the complementarity of their economies, is why intra-East Asian economic relationships have grown so large.

As the East Asian economies have climbed the income ladder – Japan, the Republic of Korea, Hong Kong, and Singapore are already high-income economies – their international economic policy interests have shifted from trade in goods and direct investment to trade in services, investment in production networks, and financial market integration through capital account liberalisation. The economic cooperation agenda in East Asia, including in ASEAN, now encompasses all these issues – not just border trade liberalisation but the economic and institutional reform behind the border that is essential to attaining the region's future economic growth potential.

The diversity of the regional economies and polities, and difficulties stemming from historical and political baggage amongst them, has shaped the nature of economic cooperation in Asia. Building a framework of shared priorities and trust has allowed rapid catch up through the gains from trade and commerce for growth and development.

The next frontier to global economic integration lies in the stretch between East Asia and Eurasia. The China-backed One Belt, One Road initiative now has a role to play in that transformation. And it will be important to improve trade linkages between ASEAN and Europe.

With multilateral trade liberalisation stalled and the Doha Round going nowhere, Asia turned to imitating the negotiation of preferential bilateral agreements. Free trade agreements proliferated but have brought neither the large gains proponents claimed nor the damage critics argued they might (Armstrong, 2015). Excluding sensitive sectors, already low barriers to trade at the border and a lack of reform behind borders have meant that these preferential agreements have not brought significant benefit nor imposed large costs.

Enter the mega-regional arrangements – TPP and RCEP. They have the potential to exclude or include and therefore carry greater significance for the global system.

The TPP includes the eastern Pacific members of APEC – the US, its NAFTA partners Mexico and Canada plus Chile and Peru – as well as RCEP members Australia, Japan, Brunei, Malaysia, Singapore, and Viet Nam. But China, Indonesia, the Republic of Korea, India, and the other ASEAN states, leave a big hole in the TPP donut.



The RCEP group is where the global economic dynamism is. It presents a huge opportunity for the region (DFAT, 2016). Much ink has been spilled about what a large chunk of the world economy TPP represents. The group of countries that comprise RCEP were already larger than the TPP group in real terms by 2007. Given the rise of the Indian economy and China's continued growth, even at 5% a year, the RCEP grouping could be double the size of the TPP group in 10 years.

RCEP includes the less developed countries in Southeast Asia and others like India that are further behind in living standards as well as in trade and economic reform. The gains from opening up these economies to more international competition and buttressing national domestic reform through regional reinforcement would be considerable.

China and India will not be able to join the TPP any time soon and an ambitious and high-quality RCEP would be able to offset trade and investment diversion from TPP and work to integrate the entire Asia-Pacific region (EABER, 2016). Exclusion from the TPP is not just a Chinese and Indian problem. ASEAN members not party to the TPP will also struggle to join in the near future, creating serious fault lines in progress towards East Asian economic integration. Already some manufacturers are moving from China to Viet Nam to take advantage of better access to the US market – a costly exercise that is diverting investment and trade away from non-TPP members.

The TPP is thought by many to be a higher-quality agreement because of the new issues it incorporates such as stronger intellectual property protections, data flow liberalisation, and new dispute settlement provisions. Some of those aspects will help open economies up and provide impetus for reform, but not all (see for example: Barfield, 2016; Katz, 2015; Dee, 2013).

Distinctively, RCEP will include an ongoing economic cooperation agenda providing regional peer support for domestic institutional reform. The economic cooperation agenda sets up RCEP as an important vehicle for building economic and political confidence in effecting the next big structural transformation across Asia, between China, India, Northeast Asia, South Asia, and Southeast Asia.

Comprehending and playing the pivotal role in delivering this next big Asian economic transformation is the challenge for ASEAN now.

The cooperation agenda of RCEP means the agreement is not a one-shot game. This is an opportunity for ASEAN and Asia to bring in harder cooperation with binding targets and commitments, combined with its cooperation agenda to help countries define their own paths to prosperity, in the tradition of 'the ASEAN way'.

The momentum is building amongst the negotiating corps, though there is a quite a way to go. Failure does not mean that Asia will stumble. But it would mean that it would be in for a period of distinctly below potential growth from a group of economies more likely to get stuck in the middle-income trap. This is why the opportunity that RCEP presents to ASEAN and the Asian region is so important. It is also why it is such an important line of defence against fragility in the global political economy. But delivery on the RCEP agreement needs leadership.

Realising ASEAN's growth potential requires ambition and the will within ASEAN polities to undertake the next round of reforms essential to lifting productivity and accelerating the necessary structural change. This is central to ASEAN economies like Malaysia and Thailand breaking through the middle-income trap. A strong, mutually reinforcing Asian growth environment will vastly increase the chance of growth success.

Are ASEAN leaders up to this challenge?

RCEP negotiations provide a ready-made framework for the ASEAN plus 6 East Asian partners to seize the moment.

The RCEP grouping is where the global economic dynamism is awaiting release.

In lifting the frontier of Asian growth through closer regional integration, ASEAN and East Asian governments will need to negotiate a single-undertaking trade deal as good as the TPP, or in some respects better. They plan to go beyond that with an ambitious economic cooperation programme, consistent with the traditions and principles embedded in the AEC. RCEP can aspire to be a model for a global set of non-prescriptive, principles-based rules for managing trade and other forms of international commerce in the 21st century.

US President Barack Obama has said the RCEP deal lacks ambition and 'won't prevent unfair competition among government-subsidized, state-owned enterprises' (*Washington Post*, 2016). It won't protect a free and open internet or intellectual property, labour standards, and the environment, he reckons.

In fact, RCEP must do more than these things to keep Asia's structural reform-driven growth rolling forward. An RCEP agreement can be signed when, and only when, there is commitment to comprehensive freeing of trade in goods, services, and investments over the next decade. At the moment of signing, there must be an agreed path for the agreement's implementation together with a framework for economic cooperation.

Concluding an agreement around the time of the ASEAN anniversary will give RCEP and ASEAN momentum and credibility.

There is no question that China, India, Indonesia, and other emerging countries in Asia will have trouble joining the US-led TPP any time soon, even if it is legislated by 2018 – an optimistic scenario. But an ambitious, high-quality RCEP can offset trade and investment diversion from the TPP and work to integrate the entire Asia–Pacific region.

What is needed is the right environment in the region for these countries to be able to undertake their own bold supply-side reforms at home. RCEP's economic cooperation agenda positions it as a key vehicle for building economic and political confidence in effecting the next big structural transformation in Asia, right across the region between East Asia and South Asia, with China and India drafted to play leading roles and ASEAN central to that endeavour (EABER, 2016).

## Conclusion

The next several decades, especially the decade through to 2025, will be years of momentous change and challenge for ASEAN. The story of ASEAN's success over the past 5 decades offers guidance to managing these challenges on the horizon.

ASEAN brings to the task, as its legacy, a policy philosophy and an experiment that has succeeded. Shaped by its underlying commitment to open regionalism and to an outward-looking and inclusive economic strategy, ASEAN has delivered economic improvement and cooperation that has underpinned political security.

The ASEAN story is one of success in openness to the global economy. This is partly because that is where the economic opportunities and benefits are largest and partly because open dealings with other major economic powers have built ASEAN its own quotient of political security. Open regionalism, it turns out, is both a good economic and a good political strategy. There have been bumps along the way – in liberalising trade, dismantling protection, and maintaining an open and inclusive system that is able to cope with diversity – but the overarching ASEAN strategy has got it right and is key to continuing to secure the prosperity and security of Southeast Asia in the region and in the world.

The big difference for ASEAN, together with its other partners in Asia, is that success in achieving economic potential and political security will now depend on their assuming a role centre stage in the theatre of international economic diplomacy. ASEAN members can no longer simply be support players with the established industrial powers writing the script, as has largely been the case in these decades past. In the wake of the break-up of the EU, amongst other things over Islamophobic anxieties, this would indeed be an irony.

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