

COUNCIL *on* FOREIGN RELATIONS

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Workshop Summary Report

Rising Regionalism: Trends in Southeast (and Wider) Asia

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This workshop took place in Jakarta, Indonesia, on June 26, 2013. It was cosponsored by the Council on Foreign Relations' (CFR) International Institutions and Global Governance (IIGG) program and the Centre for Strategic and International Studies (CSIS) in Jakarta and made possible by the generous support of the Robina Foundation.

Regional integration has not come easily to Southeast Asia. When the Association of Southeast Asian Nations (ASEAN) formed in 1967, one of its primary goals was to temper the influence that any outside power could exert. Yet conversely, colonial experiences have restrained member states from ceding too much authority to regional actors. As a result, the nature and pace of integration in Southeast Asia has been an ongoing negotiation between preserving state autonomy, on the one hand, and fostering economic growth and maintaining security, on the other.

Still, regional institutions continue to emerge and expand. Over the last decade, ASEAN has moved toward a three-pillar community: political-security, economic, and socio-cultural. The East Asia Summit (EAS), launched in 2005, has provided a high-level platform for members to discuss trade and security issues, including a potential code of conduct on the South China Sea. And the Chiang Mai Initiative (CMI), originally conceived by ASEAN Plus Three (ASEAN+3) to supply emergency liquidity through bilateral swap arrangements, expanded in 2010 into a multilateral instrument with a pool of foreign exchange reserves roughly three times its original size.

It is against this backdrop of steadily growing regionalism in Southeast Asia that the Council on Foreign Relations and the Centre for Strategic and International Studies cosponsored the workshop "Rising Regionalism: Trends in Southeast (and Wider) Asia." Held in Jakarta, Indonesia, on June 26, the workshop brought together over thirty scholars and policymakers from the United States, Indonesia, and Singapore. Participants debated a range of subjects, including the strengths and weaknesses of ASEAN; prospects for resolving long-term territorial disputes; the role of the United

States in Asian security; new directions in trade liberalization; and response capacities to emerging public health threats.

Several themes emerged from the day's discussions. Foremost, it is likely that ASEAN will endure as the linchpin of regional cooperation. Although the organization's effectiveness suffers at the hands of a weak secretariat and consensus decision-making, ASEAN has done well to cultivate a rich normative environment for promoting integration. Its most significant gains have come in trade and investment, where it has brokered regional free trade agreements (FTAs) with major partners, namely Australia, China, India, Japan, and South Korea. ASEAN has also spurred improved dialogue on security issues, even if concrete outcomes are lacking. The ASEAN Regional Forum (ARF) and ASEAN Defense Ministers' Meeting (ADMM) offer two new venues out of which a more coherent and effectual regional security framework could evolve.

Notwithstanding these positive developments, participants raised concern over whether great power politics will affect regional cooperation. As China deepens ties to the region and the United States reorients its foreign policy toward Asia, Southeast Asia will face strategic pressures in the years ahead. In the economic domain, the emergence of the Trans-Pacific Partnership (TPP) alongside the Regional Comprehensive Economic Partnership (RCEP), two regional FTAs led unofficially by the United States and China, respectively, threaten to tug at the fabric of ASEAN institutions, particularly if the TPP increases its orbit. Likewise, in the security sphere, questions surrounding the durability of U.S. security guarantees may compel some states to align themselves more closely with China. Alternatively, that country's increasingly assertive posture in the South China Sea could push some into the arms of the United States.

The future for Southeast Asia may hinge on its ability to sustain regional cohesion. Doing so would require ASEAN to initiate structural changes that allow for swifter decision-making and a more robust secretariat. In turn, institutional reforms would facilitate stronger leadership in tackling looming security and economic concerns. They would also facilitate regional approaches to other issues ripe for cooperation, such as pandemic disease control, climate change mitigation, natural disaster preparedness, and energy security. To date, progress in these areas has been state-centric in scope, resulting in improvements to national capacities at the expense of collective efforts. Regional cooperation would not only yield crucial efficiencies, but also deepen integration, increasing the likelihood that ASEAN members will perceive the benefits of cooperation to outweigh the costs of abrogating one's regional commitments.

ASEAN—Both Driver and Impediment of Regional Integration

As the preeminent organization in Southeast Asia, ASEAN serves as a useful proxy for integration and the state of regional politics. To date, regional economic integration has far outpaced integration in other sectors. Even if ASEAN fails to meet its 2015 goal of completing a single market and “production base”, it has proven itself a global leader in trade liberalization over the past two decades. Scores of regional and bilateral trade agreements now crisscross Asia, and although trade has been integral to rapid growth in the region, ASEAN members also enjoy attributes—such as abundant natural resources, an expanding middle class, and young demographics—that provide fertile conditions for future prosperity.

Yet while ASEAN is the main driver of integration in Southeast Asia, it is paradoxically its greatest impediment. Both U.S. and Indonesian participants argued that the organization's bureaucratic design does not easily lend itself to deepening cooperation: the secretariat is weak, possessing meager resources with little to no enforcement capability; and because ASEAN makes decisions by consensus, it is unable to achieve agreement on contentious issues. There are historical reasons for ASEAN's lack of power. Southeast Asia's colonial past, as well as the rule of autocratic governments following independence, have left states reluctant to delegate power to regional institutions. Sovereignty and noninterference are staunchly held principles that influence ASEAN's form and function. These norms are unlikely to dissipate anytime soon.

At the same time, ASEAN risks disunity in the absence of greater integration. Indonesian participants made clear that one of ASEAN's virtues is its centrality in Asia-Pacific politics, noting that it serves as a bridge among many initiatives, including the Asia-Pacific Economic Cooperation, ARF, EAS, CMIM, and RCEP. Some invoked a hub and spoke metaphor to describe this relationship, where ASEAN represents the center. But ASEAN's relevance could diminish as the Asian strategic environment changes. The juxtaposition of China's growing stature and the U.S. pivot toward Asia may foreshadow the formation of regional alliances, economic or otherwise. Such alliances could undermine ASEAN's cohesion.

Of particular concern to U.S. participants is whether Indonesia's strong support for ASEAN will wane after President Susilo Bambang Yudhoyono leaves office in October 2014. President Yudhoyono has been an ardent advocate for the organization during his presidency. If Indonesia loses enthusiasm for ASEAN during its next administration, it is unlikely that another member state could take the reins of leadership.

In response, Indonesian participants rejected the notion that Southeast Asia's largest state would ever withdraw from ASEAN. A more probable scenario is that Indonesia throws its weight more fully behind either China or the United States, upsetting the status quo. Until now, Indonesia has done well to embrace the security of a growing U.S. presence while capitalizing on the material benefits of Chinese growth. This balancing act dovetails with Foreign Minister Marty Natalegawa's vision of "dynamic equilibrium," where regional institutions promote stability by preventing any single country from possessing a preponderance of power. If Indonesia were to shift its posture by joining the ranks of the TPP, for example, the structure of politics in ASEAN would ultimately change too.

Accordingly, one expert suggested that ASEAN should work to embed Indonesian foreign policy more deeply in the organization, similar to Germany's role in Europe. Short of completing the single market, prospects for further entrenching Jakarta in ASEAN may best reside in expanding its involvement in policy spheres that remain underdeveloped, including regional security. For instance, if ASEAN served as an arbiter of interstate conflict—akin to the African Union—it would maintain its centrality in Asia-Pacific affairs while also empowering Indonesia to assume a managerial role in the mediation of regional disputes. Doing so would formalize Indonesia's leadership in the security realm without sacrificing ASEAN's institutional integrity. On the other hand, several participants were cautious of allowing ASEAN policies to define Indonesian foreign policy, noting that Indonesia's broader regional and global strategy should extend beyond ASEAN interests.

Managing Security in Southeast Asia and the Wider Region

Enduring territorial disputes, participants noted, reveal the inadequacies of the existing security architecture in Asia. Two major flashpoints are the East and South China Seas, which geological surveys indicate may be rich in oil and gas deposits. China has been particularly assertive in advancing its claims, invoking a combination of historical precedent (i.e., dynasty accords) and geological evidence (i.e., China's continental shelf) to support its case for territorial rights. At issue in the East China Sea are the Senkaku Islands, where China and Japan have been at odds since the First Sino-Japanese War. In the South China Sea, meanwhile, the Philippines, Brunei, China, Malaysia, Taiwan, and Vietnam have all advanced competing claims to portions of 1.3 million square miles of ocean, the rocky islands therein, and undersea mineral deposits.

The future of Asian maritime security will depend on how China engages its neighbors, and vice versa. Participants noted that recent Chinese provocations suggest armed clashes are a real possibility in resolving territorial discord: in September 2010, a Chinese boat collided with Japanese Coast Guard vessels near the Senkakus, resulting in Japan detaining the crew and Beijing issuing an informal embargo against Tokyo; in April 2012, the Philippines and China became locked in a two-month standoff after Chinese fishing boats entered the Philippine exclusive economic zone at the Scarborough Shoal; and in July 2012, China officially established the city of Sansha in the Paracels to more closely monitor its territorial claims. Such behavior violates the United Nations Convention on the Law of the Sea (UNCLOS), and some participants voiced concern that it may forecast greater hostility in the years ahead.

Promoting cooperation in the security sphere will require a multilayered approach. First, ASEAN has important responsibilities in managing regional security. Its utility lies in promoting norms of pacific dispute resolution and preventing the escalation of conflict, which the organization seeks to achieve through dialogue and consultation. Several institutions help build confidence in this regard, including ASEAN+3, ADMM Plus, ARF, and the EAS. In the eyes of some U.S. and Indonesian participants, a logical next step would be to establish a binding code of conduct with China to manage territorial disputes. ASEAN and China agreed to a nonbinding set of guidelines in 2002, but none has implemented its recommendations, and skirmishes at sea are becoming more frequent. Both sides recently renewed negotiations at the EAS in 2013, but a lack of unity among ASEAN members has hampered progress, as has China's preference to negotiate bilaterally.

How ASEAN decides to navigate these diplomatic shoals could hold policy implications for the wider region. As several U.S. scholars observed, the countries of Northeast Asia are watching their Southeast Asian counterparts closely. The Plus Three (that is, Japan, South Korea, and China) all view ASEAN as an institutional model for nurturing trust and finding consensus, especially in the presence of historical tensions. If ASEAN can deepen its existing mechanisms for conflict resolution, or develop a more effective set of information sharing tools to prevent escalation during a crisis, it could shape cooperation in the East China Sea and beyond.

Second, an enduring U.S. naval presence in Asia is an important deterrent to overt Chinese aggression. The United States has formal security alliances with Japan, Thailand, and the Philippines, and it must reassure its allies that it will uphold its treaty obligations. But as several U.S. participants

made clear, Washington should also convey the limits of these arrangements (and its relations with emerging allies too) so that its partners do not overplay their hand, as if wielding a *carte blanche*. The United States could help mitigate the chances of being drawn into a confrontation with China by buffering multilateral coordination. Joint military training exercises and improvements to regional defense communications would heighten awareness among ASEAN states while partially alleviating the U.S. burden of enforcing security in Asia-Pacific waters.

Third, participants endorsed the recourse to international arbitration to resolve interstate disputes. Following the April 2012 standoff between China and the Philippines, Manila filed an arbitration case with UNCLOS, disputing Beijing's claims to sovereignty over the Spratly Islands and Scarborough Shoal. This represents the first instance where a state has pursued arbitration against China under that treaty. Participants viewed such action as a creative way to exert pressure on China—despite that country refusing to participate in the proceedings—and they encouraged Vietnam and other claimants to follow suit.

Lastly, although participants agreed on the need for fresh approaches to manage geopolitical change in Asia, they expressed skepticism about a potential Indo-Pacific Treaty on Friendship and Cooperation. As proposed by Indonesian Foreign Minister Natalegawa in May 2013, such a treaty would tackle three goals: building trust, resolving territorial disputes, and managing a dynamic strategic environment. The vision is a lofty one but perhaps also untenable because emerging powers have very different conceptions of what future integration in the Asia-Pacific looks like. While Indonesia may support a balanced distribution of power—a community of peers, so to speak—China (or even India) is more likely to promote institutions that underscore its predominance. In the absence of a major treaty to unify large swaths of the continent, the next best thing may be adding to the dense patchwork of bilateral and trilateral partnerships that have sprouted in recent years. These deepen cooperation across a wide host of domains, helping to insulate the region against potential conflict.

The Changing Landscape of Regional Economic Integration

For most of its near fifty-year history, ASEAN resisted the path of economic integration. The Asian Free Trade Area (AFTA) only originated in 1992, and the proposal for creating a single market and production base, known as the ASEAN Economic Community (AEC), developed as recently as 2002. More recently, ASEAN has pursued an aggressive trade and investment strategy, particularly in the period following stalled negotiations at the WTO Doha Round in 2008. The gains have been notable: between 2004 and 2011, intra-ASEAN trade in goods swelled by 129 percent, and trade between ASEAN and the rest of the world grew by 121 percent. Similarly striking is the growth of foreign direct investment (FDI). Between 2009 and 2011, intra-ASEAN FDI increased four-fold while FDI flowing into ASEAN more than doubled.

Notwithstanding these achievements, economic integration is at a critical juncture in Southeast Asia. The current regional landscape consists of many overlapping FTAs, both bilateral and multilateral, with RCEP and the TPP dominating the horizon. On the one hand, the intention of RCEP is to consolidate existing FTAs between ASEAN and its partner countries, uniting the region under a single trading framework. The TPP, on the other hand, is a transpacific accord that is more comprehensive in both scope and quality. The two agreements are not necessarily incompatible, as one U.S. scholar

pointed out, but they do adhere to different sets of standards and it is presumed they will compete for members moving forward.

When ASEAN completes the single market, RCEP and the TPP will offer different visions for its future in global trade. The biggest divergence is in the flexibility and preferential treatment for least developed members that RCEP provides. With a membership accounting for approximately 40 percent of world output, RCEP allows states to more easily protect nascent industries, establish state-owned enterprises, and ease into greater levels of liberalization. In contrast, the TPP entails a more demanding set of standards—a comprehensive rulebook that extends to intellectual property rights, competition policy, and labor and environmental regulations. As originally envisaged, it excludes the participation of countries relying heavily on government intervention in the marketplace.

Despite these divergent frameworks, most participants were optimistic that RCEP and the TPP would actually converge over time. Efficiencies of trade and the accommodation of new members could effectively pull the agreements closer together. In order to finalize negotiations with Japan, for instance, the TPP may have to compromise on Tokyo's long-protected markets, such as dairy and sugar. Similarly, as RCEP economies grow and mature, that FTA could ratchet its standards upward, opening up trade and investment opportunities with advanced economies. Indeed, the discussion supported the eventuality of a single overarching agreement, unifying the entire Asia-Pacific.

The conversation also touched on the utility of an Asian monetary fund. Although some participants supported the idea, citing the need for enhanced regional surveillance capabilities and emergency financing, several scholars leveled arguments against it. In the event that Asian economies need a bailout, it is likely that the International Monetary Fund (IMF) would have to intervene regardless. Coordinating the necessary injections of capital between the institutions could promote costly delays. Additionally, the Greek debt crisis in 2010 illustrates the potential shortcomings of regional enforcement, and it is clear the eurozone would be in far worse shape had the IMF not intervened. Lastly, an Asian monetary fund would be more effective if it rested on a major reserve currency, but this remains a distant prospect.

Still, Asia may be on its way to establishing a fund anyway. The CMI, which expanded multilaterally in 2010 after ten years of negotiations into the Chiang Mai Initiative Multilateralization (CMIM) agreement, has created a formal pool of reserves and weighted voting system for disbursement of funds. The next step in achieving autonomy from the IMF is for the CMIM to “delink” emergency lending from IMF intervention. Currently, countries facing default can receive CMIM lending only after they negotiate with the IMF. But removing this link—and thus IMF and U.S. influence in lending decisions—may prove difficult. Both China and Japan would jockey for power and control in an independent CMIM, so the benefits of an external arbiter to oversee and enforce behavior may outweigh the costs of an Asian monetary fund being subject to the pressures of Sino-Japanese rivalry.

Regional Cooperation on Public Health: Progress and Gaps

As the workshop neared its conclusion, discussion turned to how Southeast Asia is responding to the emergence of acute public health threats. These threats include novel coronaviruses; pandemic flu;

infectious diseases such as encephalitis and dengue fever; chronic noncommunicable diseases such as diabetes; and drug-resistant infections, including multi-drug resistant bacterial strains.

Following the global SARS (severe acute respiratory syndrome) epidemic in 2003, capabilities improved markedly at the national and global levels. In 2005, the World Health Organization launched the International Health Regulations (IHR) to enhance public health security through coordinated interstate response to outbreaks, as well as capacity building. A legally binding instrument, the IHR comprises a set of global standards for surveilling, detecting, and responding to various health threats. Similarly, at the national level, there was stronger political commitment among leaders to tackling infectious disease. In 2006, for instance, Vietnam formed the Partnership on Avian and Human Influenza (PAHI) to carry out its IHR obligations. PAHI is a public-private partnership that leverages the competencies of different stakeholders to help Vietnam execute its national plan of action.

In contrast, participants noted that public health cooperation at the regional level leaves much to be desired. In implementing the IHR, the trend among ASEAN members has been to adopt state-centric rather than region-wide solutions. There are a few exceptions here: an assemblage of public and private actors has launched several surveillance institutions to improve detection and response capacities, including the Asia-Pacific Emerging Infections Network and the Southeast Asia Infectious Disease Clinical Research Network. In addition, several states have pursued bilateral linkages, such as Vietnam's plans to share technical information with Cambodia, China, and Laos. But the prevailing thinking in Southeast Asian capitals has been to build national rather than regional capacities.

Participants agreed that national approaches are no substitute for multilateral ones. Since health vulnerabilities in Southeast Asia vary greatly among states, no individual country can protect itself entirely from extra-jurisdictional threats. Indeed, regional health is a public good whose delivery is only as strong as the weakest link. For example, just because Singapore has strengthened its domestic health systems does not mean Myanmar cannot transmit a virulent strain of bird flu; borders are increasingly irrelevant to the transmission of infectious disease.

To this end, colleagues identified a few basic steps that Southeast Asia could take to strengthen regional health security. First, officials should make use of ASEAN's extensive intergovernmental forums to identify vulnerabilities that the region could tackle as a whole. These priorities may include improving the existing disease surveillance system or sharing information on the implementation of the IHR. Second, ASEAN should establish a public health fund at the regional level. China proposed doing so at an ASEAN+3 summit in 2003, but the idea went nowhere. Such a fund could allocate resources to needy states and effective non-state actors operating in the health space, and do so more efficiently than direct bilateral aid. Finally, participants supported the idea of creating a regional hub for disbursing vaccines. A number of states in the region lack the capacity to produce vaccines and distribute them in cases of emergency. Yet the need for innovation is clear. During the H1N1 pandemic in 2009, vaccines frequently arrived long after the virus had already subsided.