

Chapter 1

Global Megatrends and the ASEAN Economic Community: Regional Integration in Context

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1.1. Introduction

When ASEAN integration is discussed, focus is often directed towards economic and trade policies and on its institutions which encourage rule-based behaviour and adjudication. Relations amongst the ten members of the group and its key partners also feature more generally vis-à-vis the formation of the ASEAN Economic Community (AEC). This chapter will differ in its approach, however.

Effort will be made here to set the ongoing project of ASEAN's broader regional integration within the context of global megatrends – with all the challenges and also the opportunities that these present. We see ASEAN in this regard functioning within three levels – positioned between national and global levels, at the regional level (See Figure 1.1).

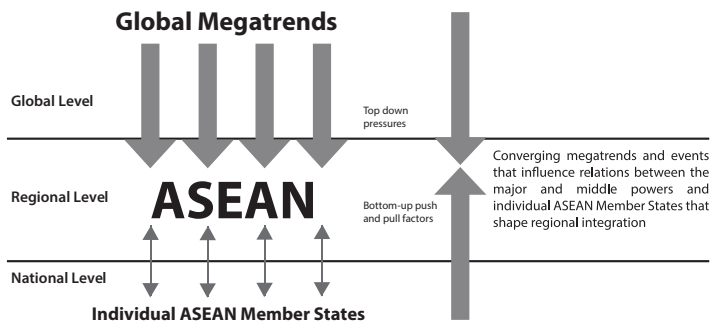
ASEAN is an important unit of analysis and action, but not the only one. There are global megatrends that are beyond the control or even influence of ASEAN as a group of medium-sized and small countries. These megatrends can arise in politics or in economic relations, or indeed in other fields like technology, environmental and social trends. In this globalised, inter-connected and inter-related world, ASEAN is but one active participant in multiple, global networks.

From the past, we can see that geoeconomic trends have influenced the AEC. ASEAN began with the ASEAN Free Trade Agreement (AFTA) in 1992 at the end of the Cold War, when negotiations were active and optimistic in the World Trade Organization on how to move forward with an international liberal economic order. The 1997 Asian Financial Crisis and the rise of China are other examples of how global megatrends provided a strong impetus for the formation of the AEC, starting with the 2003 Bali Concord and then the adoption of the AEC Blueprint in 2007 and its subsequent implementation. The slowdown of the American and European economies during that period shifted demand to Asian economies, which were still growing, and re-emphasised the logic of further integrating the region.

Megatrends impact not only ASEAN as a group, but can affect one or more of its member states directly and differently. Such differentiated impacts can lessen (or increase)

the unity of the group. This can happen for example, when one member experiences a political change from autocracy to democracy, as did Indonesia after the events in 1997 to 1998, triggered by the wider Asian Financial Crisis. Two decades on, Indonesia has been transformed into a vibrant democracy with strong and popular calls to end years of corruption, collusion and nepotism (labelled “KKN” by Indonesian reformers). Indonesia has taken considerable steps forward to attract investors who can develop and manufacture quality, global products and provide better jobs for Indonesians. Such trends, led by the region’s largest economy, can provide a large, positive boost for ASEAN economic integration. Conversely, there can be negative effects on integration efforts if Indonesia veers towards protectionist policies.

Figure 1.1 ASEAN and Regional Intergration



Source: SIIA.

ASEAN is an intermediate unit that exists between the global/wider Asia Pacific and national levels. The region is however by no means autonomous, and remains susceptible to both direct and indirect effects of world events. ASEAN regional integration can, as such, be analysed as an interaction between the global, regional and national levels, as suggested in Figure 1.1. While ASEAN integration has progressed, its ten members still remain diverse and exist as sovereign states. Thus, the group remains dependent on the interests and priorities set by each of its members at a national level. Concerns at the national level mirror and amplify regional and global trends such as anti-globalisation and anger over rising income inequality. As such, bottom-up, and top-down factors converge to influence the dynamics and speed of ASEAN integration even as a more integrated ASEAN seeks to coordinate these factors and maintain progress to the agreed aims of the group.

At present, ASEAN has limited ability to collectively shield its member states from the impact of global megatrends. Its potential to strongly promote the interests of its member states globally has yet to be fully tapped. While not without some significance, ASEAN does not yet have that weight in the world. It is also unable to fully restrain a

member state if and when national politics in that member states shifts. The group continues to heed the principle of non-intervention in the domestic affairs of a member and while principles and practices of cooperation are deepening, member states are also not likely to pool sovereignty.

Despite institutional limitations, there is much to be optimistic about ASEAN as a region, and with good reason. Today's ASEAN represents a combined market of over 630 million people, behind only China and India in terms of population, with a combined gross domestic product (GDP) of more than US\$2.5 trillion, making it the sixth largest economy in the world and third largest in Asia. Growth figures are also robust. ASEAN economies grew at 4.7% in 2016, almost double of global growth rates of 2.3%.¹ The region is one of the top destinations of global foreign direct investment (FDI), receiving around 16% of the world's FDI among developing economies.² Looking forward, businesses and investors are increasingly looking to ASEAN as a key destination, market, and production base.

The trends for regional integration are largely positive. Politically, the push to form an ASEAN community continues to gain ground. Institutionally, the ASEAN Charter adopted in 2008 and other changes under the AEC, political-security, and the socio-cultural pillars, are moving the group towards a more rules-based community of shared values and norms.³ Economically, the turbulence of the last decade and the relatively high rates of growth within ASEAN has encouraged the group to look more to one another and other Asian partners, instead of only to the west.

The implementation of the ASEAN Community in 2015 signalled a new era where ASEAN would grow increasingly interdependent not only economically, but also in terms of security and social issues. The adoption of the ASEAN Community Vision 2025 aptly-themed "Forging Ahead Together" in Kuala Lumpur in November 2015, reaffirmed the region's commitment towards integration, recognising that ASEAN needed to respond collectively as a group to the rapidly changing geostrategic landscape.⁴

Many challenges remain and while progress will be made, this will take time. ASEAN's

¹ Focus Economics, Economic Snapshot for ASEAN, 25 January 2017, Available: <http://www.focus-economics.com/regions/asean>, Retrieved: 3 February 2017.

² ASEAN and the United Nations Conference on Trade and Development (2016) ASEAN Investment Report: Foreign Direct Investment and MSME Linkages, Available: <http://asean.org/storage/2016/09/ASEAN-Investment-Report-2016.pdf>, Retrieved: 3 February 2017.

³ ASEAN Secretariat (2016) ASEAN Political-Security Community, Available: <http://asean.org/asean-political-security-community/> Retrieved: 28 March 2017.

⁴ ASEAN (2015) Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together, Available: <http://www.asean.org/storage/2015/12/ASEAN-2025-Forging-Ahead-Together-final.pdf> Retrieved: 13 April 2017.

publication of the AEC 2025 Consolidated Strategic Action Plan,⁵ details key actionables to strengthen the regional economic grouping and marks a significant effort by ASEAN to close gaps. More important however, is that ASEAN members recognise and understand that they progress more effectively together, rather than not. During the ASEAN Foreign Ministers' Retreat in February in Boracay in 2016, the ministers discussed the importance of building ASEAN's resiliency and to make the region a "model of regionalism" and a "global player" as one of ASEAN's top six priorities for 2017.⁶

This understanding that the regional group is significant and can matter even more, is not merely an affirmation made diplomatically at the start of ASEAN's 50th anniversary. In fact, ASEAN comes into focus at a strategic time when the world faces serious and complex challenges that are quite unprecedented and each ASEAN Member must respond and find ways to work collectively with other members.

Against this background, this chapter considers three broad global megatrends that specifically concern the broad direction and overall progress for ASEAN economic integration. These are in geopolitics and security; geoeconomics and the international liberal order; and national politics and the resurgence of populism. Within these broad global megatrends, we focus on political megatrends that are likely to impact the AEC. For considerations of length, the equally important changes regarding the disruptive and creative trends of technology, will not be covered.

In the first section of this chapter, we broadly outline the global changes and challenges that ASEAN should expect. In the second part, we will consider how best ASEAN should prepare and respond to these trends, and outline specific policy recommendations to consider. Finally, we conclude with how ASEAN needs to prepare for its future role in the world.

1.2. Political Megatrends and ASEAN

In this section, we consider three broad global political megatrends in the realms of (1) geopolitics and security; (2) geoeconomics and the international liberal order; and (3) the national politics and the resurgence of populism. These are large and transformative trends that can disrupt ASEAN's current regional integration trajectory with impacts on

⁵ ASEAN Secretariat (2017) ASEAN Economic Community 2025 Consolidated Strategic Action Plan, Available: <http://asean.org/storage/2017/02/Consolidated-Strategic-Action-Plan.pdf> Retrieved: 28 March 2017.

⁶ ASEAN (2017) Press release by the chairman of the ASEAN Foreign Ministers' Retreat (AMM Retreat), Association of Southeast Asian Nations, 21 February 2017, Available: <http://asean.org/press-release-by-the-chairman-of-the-asean-foreign-ministers-retreat-amm-retreat/> Retrieved: 4 March 2017.

not only regional politics and economic policy, but also societies and individuals. Four preliminary points should be noted.

First, megatrends can impact ASEAN in ways that can be negative, or, if policies are adjusted and action taken, positively reinforce the commitment and momentum towards regional integration. Such impacts are part of the globalisation effect and are to be expected. Adjustments and actions to be made by ASEAN Member States must not only take place collectively as a region, but also within each member state. The three-level analysis we suggest in Figure 1.1 can be a relevant and useful way to consider the impact and reactions required at the different levels.

Second, each of these megatrends is complex in itself and interacts with one another. While we treat the megatrends within the three clusters of issues set out, we recognise that complexities go beyond the bounds of any one cluster. Indeed, they cut across the boundaries of politics/economics, national/international, and the government/private sector. One example, as mentioned, is that key trends in technology will be important influences, but are beyond the scope of this chapter.

Third, these megatrends point to the emerging fact that the global order will no longer be solely determined by governments. Informal networks of individuals and private organisations -- ranging from corporations and non-governmental organisations to terrorists and social movements -- are increasingly empowered, and jostle with traditional governments for power.⁷ Governments will continue to play a central role and have considerable power and resources, but will increasingly find it hard to govern in the traditional sense.

Finally, this section offers preliminary observations about ASEAN. Analyses and recommendations for policy responses are set out in the next section.

(1) Geopolitics and World (Dis)Order

The world is experiencing severe security concerns, including a return of geopolitical power-plays among major world powers. Security concerns range from global terrorism emerging from Islamist extremist groups in the Middle East, to cyber terrorism. In geopolitics, there is a strong sense of competition and a growing sense of tension between the US and China. A resurgent Japan and the presence of Russia and India as

⁷ Nye, Jr, Joseph S. (2017) Will the liberal order survive? The History of an Idea, Foreign Affairs, January/February 2017, Vol. 96, Number 1, pp10-16.

other major or further emerging powers, complicates the region's politics. The result is that we face increasingly complex, security issues at a time when traditional order and leadership is uncertain and contested.

A number of scholarly theories and arguments discuss the decline (or relative decline) of a US leadership and the emergence of a new world order. Predictions of a shift in power forecast the decline of the west and the rise of Asia as an economic powerhouse.⁸ Others note the decay of the current international order and an emergence of a new world order that is still evolving. Some of these changes are structural, as geoeconomic weight shifts.⁹

The rise of new powers and old ones reasserting themselves have led to observations that a multipolar world is imminent, or else there will be a collapse into world disorder. There are signs that the current international liberal order that was set and created by the USA, post WWII and post-Cold War periods, is facing uncertainty.¹⁰ This is especially so given the broad concern among the American electorate about the negative impacts of globalisation and statements coming from the White House such as 'putting America(ns) first'. However, we recognise it is early on in the first term of the current US administration, and that it remains to be seen what specific policies will come to be.

There are also trends emerging in the longer term which show us that the future form of the world's new order is still yet to be determined. These trends point to a shift from an American-dominated unipolar order to a more multipolar world. Rival world orders, through the development of unique sets of norms, shared values and institutions, would also arise as each major power seeks to carve out its own sphere of influence, distinct from others.¹¹ Alternatively, rather than spheres of influence brought about by great powers, some point to a "multiplex world" where a de-centred architecture of order prevents any single power or power cluster from dominating, allowing instead greater space for governance by different regions, and with more space and autonomy for medium-sized and small states.¹²

⁸ Emmott, Bill (2017) 'Globalisation', the decline of the west and a new liberal lexicon, The Financial Times, 14 March 2017, Available: <https://www.ft.com/content/f9c2f130-08ad-11e7-ac5a-903b21361b43> Retrieved: 3 April 2017.

⁹ Wolf, Martin (2017) Martin Wolf: The long and painful journey to world disorder, The Financial Times, 5 January 2017, Available: <https://www.ft.com/content/ef13e61a-ccec-11e6-b8ce-b9c03770f8b1> Retrieved: 3 April 2017.

¹⁰ US Department of Defense (2015) The national military strategy of the United States of America 2015: The United States military's contribution to national security, June 2015, Available: http://www.jcs.mil/Portals/36/Documents/Publications/2015_National_Military_Strategy.pdf Retrieved: 3 April 2017.

¹¹ Flockhart, Trine (2016) The coming multi-order world, Contemporary Security Policy, Vol. 37, No. 1, pp. 3-30.

¹² Archarya, Amitav (2014) The End of American World Order, Cambridge: Polity Press.

These different possible futures hold out many implications for Asia and ASEAN. In the past, the major guarantor for stability has been the US, both globally and in the Asia-

Pacific. However, policy decisions made by the new American administration may be the newest and perhaps biggest catalytic change in global and regional dynamics, including for example the USA's decision to pull out of the Trans-Pacific Partnership (TPP).

The rise of China is the other key factor shaping regional order. For many decades, Beijing promised a peaceful rise, and still continues to do so in public statements by senior Leaders.¹³ Nevertheless, concerns about an ASEAN divided by US-China rivalries have been emerging for some time and if there are rising US-China tensions, this can increase anxieties that ASEAN Member States will be made to choose sides.

The nature of relations between the major powers in the region is also an important factor in the crafting of the new world order. Besides key Sino-American ties, there are concerns about the role of others in the region. Japan has resurged under Prime Minister Shinzo Abe, who has plans to increase his country's security engagement in the region. India, under Prime Minister Narendra Modi has said it will not only "look east" as did its past administrations, but begin to "act east". Russia, under President Vladimir Putin, has also declared a wish to engage more with the Asia Pacific region.

Signs of a power play are already visible between China and Japan, even beyond the economic realm. Already, Sino-Japanese economic participation and influence can be felt across most ASEAN economies, special economic zones, and even at the subregional levels such as in the Greater Mekong Subregion. Major railways, ports and roads are being built in countries, and many see these projects as being part of a larger, strategic intent.

Where is ASEAN's place in this new world (dis)order? Power plays within a multipolar world have the potential to create uncertainty, anxiety and rising tension in the region. At present, ASEAN plays a considerable role in the global and Asia Pacific order. It hosts the East Asia Summit (EAS) an annual event in which Leaders of key countries across the Asia Pacific gather informally to discuss strategic issues.

The ASEAN Regional Forum (ARF), an ASEAN-led meeting also attended by the region's major powers, was formed to help stabilise the region and manage security issues.¹⁴

¹³ China Daily (2014) Xi: There is no gene for invasion in our blood, 16 May 2014, Available: http://usa.chinadaily.com.china/2014-05/16/content_17511170_2.htm Retrieved: 10 August 2017

¹⁴ ASEAN Regional Forum, Association of Southeast Asian Nations, <http://asean.org/asean-political-security-community/asean-regional-forum-arf/>

Members must be able to leverage on their roles in these fora to cogently and effectively respond to geopolitical changes to preserve member's autonomy, maintain centrality and preserve unity.

(2) Geoeconomic shifts

A rebalancing in the global economy has been unfolding in recent decades, with the rise of China and Asia and other emerging markets closing the gap with the US and Europe. The change was felt most particularly after the 2008 Global Financial Crisis, which slowed western economies. While a global recession was averted, stagnation in the west was the immediate consequence. Asia however, continued to grow, and both Asia and ASEAN started to look more to one another for trade and investment growth than they had in the past.¹⁵

During this time, China emerged as a central economic player, not only in quantitative terms but in a qualitative shift. Previously, Chinese imports from ASEAN and other Asian countries were mainly in raw materials and intermediate goods that were processed, manufactured and/ or assembled in the region before final export to western consumer markets. This supply chain continues but other dimensions of economic ties have markedly grown. Today, China is both a consumer and final market for finished products from Asia, as well as an exporter of made-in-China products to other Asian markets. It is also an investor, with an expanding footprint across the region and into many economic sectors beyond the resources sector. For example, China's outward FDI in the energy sector has reportedly decreased by approximately 40% since 2010, with Chinese investors opting to diversify their portfolios by investing in technology and consumption-oriented sectors instead.¹⁶

Intra-Asian and intra-ASEAN trade and investment has grown with China at the centre of the action. In 2016, China's two-way trade in ASEAN grew to US\$355 billion, retaining its place as ASEAN's largest trading partner, from just US\$171 billion in 2007 when the AEC Blueprint was first adopted. FDI flow from China to ASEAN stood at US\$9 billion in 2016 making China ASEAN's fourth largest external investment source, after the European Union, Japan and the United States.

¹⁵ There are also more trade and economic ties between ASEAN and Asia with other emerging economies. The authors do however assess that the intra-Asian and intra-ASEAN focus has grown more strongly than ties with emerging economies that are further away.

¹⁶ Ernst & Young (2015) Riding the Silk Road: China sees outbound investment boom Outlook for China's outward foreign direct investment, March 2015, Available: [http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/\\$FILE/ey-china-outbound-investment-report-en.pdf](http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/$FILE/ey-china-outbound-investment-report-en.pdf) Retrieved: 28 March 2017

These changes in regional economic patterns are significant even as Chinese growth slows and the US economy finally starts to recover. A return to growth in the USA would normally lead ASEAN and other Asian exporters to look westwards again, which would help balance economic ties with China. This, however, would depend on the trade policies of the new US administration, including in terms of openness to partner with Asia. The US withdrawal from the TPP appears to contrast China's qualitative shift in economic relations, with implications to further opening and creating interlinkages with others in the region.

There are other areas of increased interaction between ASEAN and China but, given constraints of length in this chapter, two recent initiatives from China – the One Belt One Road (OBOR) vision of its Leader, President Xi Jinping, and the recently launched Asian Infrastructure Investment Bank (AIIB) which illustrate the growing role and influence of Beijing, warrant further consideration in this context. The two are new and potential key instruments for China to deepen its regional engagement given the enormous infrastructure needs in Asia and ASEAN, both within and between countries. Besides plugging basic and obvious infrastructure gaps, there is potential for China to play a major role in ASEAN's ambitions to develop and market the region as a highly competitive and integrated market as well.

Yet even as China's initiatives of OBOR and AIIB reach out to ASEAN, it is by no means predetermined that China will dominate ASEAN through investment and assistance in infrastructure alone. The World Bank and the Asian Development Bank (ADB), led by the US and Japan respectively, continue their work. ADB plans to scale up its operations by 50% from US\$14 billion in 2014 to more than US\$20 billion in 2020, with 70% allocated towards infrastructure investment.¹⁷ Japan, a keen supporter of ASEAN's development and integration, promises to pump US\$110 million worth of funds towards boosting Asia's infrastructure.¹⁸ At the bilateral level, infrastructure funds are also readily available.

The World Bank also announced that it would pump in an additional US\$200 million in financing to support infrastructure investment in Indonesia.¹⁹ For a number of ASEAN members, it will be possible to raise a combination of funds from such sources and also by developing new, market-based funding sources, such as infrastructure investment bonds. As such, while China offers new sources, there will still be others to both compete in, and complement each other, in the large scale development of the region. This indicates that while China may take the initiative and make offers of assistance to ASEAN

^{17,18,19,20} Haas, Richard (2017) *A world in disarray: American foreign policy and the crisis of the old order*, New York: Penguin Press.

members, ASEAN Member States will seek the best possible terms of the offers – not only economically but also with regard to retaining a measure of political autonomy.

ASEAN-China relations, while multi-fold and strong, will be challenged in this new phase where a second and deeper phase of integration with China is emerging. Such relations are important to ASEAN not only because China is an immediate and close neighbour, but also due to its own needs to become a more integrated economy with the necessary infrastructure and connectivity. However, there are many reasons, both political and economic, that ASEAN cannot and should not allow any of its external partners to dominate. Even as ties with China will grow, ASEAN should seek other ways and means to meet its infrastructure and other needs, both internally, and by reaching out to other partners beyond China.

On the broader issue of global economic shifts, how should ASEAN best respond? One clear trend is to shift away from growth strategies that excessively rely on exports to the west. With slow growth, the EU appetite remains weak and while the US is growing, there may be a shift in political winds there. Doubts on the benefits of megaregionals and multilateralisms have been sown and need some rethought. Britain's vote to exit the EU illustrated how "pacts of sovereign obligation"²⁰ can become a drag on domestic policies. Multilateral trade agreements such as the World Trade Organisation, a rules-based global institution for free trade, is also under threat as economic power shifts and the new US administration indicates its preferred bilateral approach to trade.

In dealing with these different geoeconomic shifts, self-confidence among ASEAN members will be critical and the AEC must be a central policy. For decades, ASEAN has seen itself as a grouping of smaller and medium sized economies. While its stature has risen, there remain concerns about the group's ability to respond effectively to wider regional and global trends and events. ASEAN economies' recommitment to become an even more highly integrated and cohesive economic region under the AEC Blueprint 2025 is another step forward. Leveraging off one another's strengths through intra-ASEAN trade and investment, the group can become globally competitive and resilient in the face of global economic shocks and volatilities.²¹ For this to be a reality, reform at the national level among ASEAN Member States must be given priority.

(3) National politics and the resurgence of populism

The shock of Brexit and the outcomes of the US election was not only seen in the results. A deeper sense of shock stemmed from the fact that these victories represented a

²¹ ASEAN Economic Community Blueprint 2025, Available: <http://astnet.asean.org/docs/AEC-Blueprint-2025-FINAL.pdf> Retrieved: 17 March 2017.

growing sense among large segments of the population in the west - of protest against globalisation, being part of an integrated region, and a more open, liberal economic order. With leadership elections due in a number of key European countries, most importantly Germany and France, these populist and protectionist sentiments may grow further.

ASEAN stands to be impacted and not only through trade and investment ties with the west. ASEAN itself is not immune to similar sentiments of populism and protectionism. Similar sentiments are rooted in the political roots of most if not all, ASEAN states, which have grown through a period of nation-building as post-colonial and often multi-ethnic states. Identity politics – not only between different races and religions, but also between regions, and even between capital elites and provincials – are key features across many ASEAN countries. These are now interacting with global political trends. Furthermore, pressures from a rising middle class with rapidly increasing demands for equity, higher incomes and quality of life, have raised overall expectations of how governments perform. Many traditional elites who have dominated governments and state power are struggling to deal with such demands. Failure to close gaps in public expectations have also fostered anti-elite sentiments.

In Indonesia, public distrust and dissatisfaction with rampant corruption and concentration of wealth among the Jakarta elite propelled the rise of President Joko Widodo, a political outsider and former furniture salesman from Solo.²² In the Philippines, similar public frustration over corruption and rampant drug problems helped push President Rodrigo Duterte from outside the established elite into the country's highest political office.²³

Bottom-up factors fueling a rise in populism are catalysing change at the national level, influencing policy processes and political dynamics. These factors have the power to impact what ASEAN collectively can and will do, in the AEC. Concern over the growing wealth disparity in ASEAN has been one factor leading to the increase of populist pressures across a number of countries, which may threaten closer integration within the regional and global economies.

²² South China Morning Post (2014) Joko Widodo completes rise from slum to Indonesia's presidential palace, South China Morning Post, 21 October 2014, Available: www.scmp.com/news/asia/article/1620817/joko-widodo-completes-rise-slum-indonesias-presidential-palace Retrieved: 30 March 2017.

²³ Paddock, Richard (2017) Becoming Duterte: The making of a Philippine Strongman, The New York Times, 21 March 2017, Available: https://www.nytimes.com/2017/03/21/world/asia/rodrigo-duterte-philippines-president-strongman.html?_r=0 Retrieved: 30 March 2017

Yet, Leaders in ASEAN can leverage on populist forces to bring about positive change. By appealing to a wider, popular base outside the established political and economic elites, policymakers could push for reform and good regulatory practices, market-opening and greater competition, especially where privileges and protectionist measures have benefited established elites and prevented deeper regional integration. Such reforms, undertaken by respective ASEAN Member States to varying degrees, could indirectly see the region start to harmonise, which benefits and reinforces the AEC. This is especially so in terms of trade, economy and corporate governance, as countries choose to adopt international standards in order to remain competitive.

Therefore, the combination of increased competition from other countries and a demanding electorate incentivises governments to relook traditional methods of governance and the domestic economy. The need to ensure growth and that national policies are effective and benefit the masses, whether in the form of job creation or otherwise, puts pressure on governments to adopt a reform agenda that is not only focused on domestic policies, but also benefits the region. In the creation of an inclusive, people-oriented and people-centred ASEAN, economic integration must help not just overall growth but also be seen to deliver more and better jobs and benefits broadly across society. At the business level, micro, small and medium enterprises (MSMEs) must be provided assistance and avenues to prosper alongside large multinationals and elite-owned companies.

1.3. Responding to the Global Megatrends

Having outlined megatrends in three key areas that concern the AEC, we will now outline how ASEAN can, and should respond, both collectively and as individual member states. In so doing, overarching questions on the degree to which ASEAN will be able to respond and perhaps moderate global megatrends within its region and for its members, or whether it can actually influence the trends at the global level, need to be addressed.

In the three-level analysis we introduced in Figure 1.1, the links between the regional and national levels can be seen as two-way arrows. This indicates how events and trends at one level can impact the other. These contrast with the links between the regional and global levels, which run only in one direction - downwards from the global level to, and through, ASEAN.

This is our view of ASEAN, and where it stands at present. While not without some presence at the global level, ASEAN is currently yet to be a significant participant and influencer of global megatrends. This can and should change in the future. Indeed, if

as predicted, ASEAN grows economically to become the third or fourth largest global economy, its role as a rising global influence, will increase. We will touch on such possibilities in the concluding section and suggest ways in which ASEAN can prepare for such a role. In this section, however, we look more into the near and middle term, and focus on strategies that ASEAN and its member states might wish to consider in response to global megatrends.

(1) Geopolitics: ASEAN and Global (Dis)Order

Changes in the global order, as stated earlier, will be primarily determined by the US, China and other major powers. ASEAN however, is not merely, nor permanently, a bystander. ASEAN has the potential to be a significant influence in the emerging new world order, indeed, some could argue it already plays such a role.

For example, ASEAN annually hosts the EAS and the ARF, where Leaders of key countries including the major powers gather to discuss strategic and security issues respectively. On issues that relate to defence, maritime security, and humanitarian assistance in the region, ASEAN takes the lead in the ASEAN Defence Ministers' Meeting (ADMM-Plus), which counts China, the US and Japan, among its dialogue partners.²⁴

Where does ASEAN go from here? Further efforts must be made to ensure that competing interests do not spiral into a power play where alliances and exclusive forums are allowed to form. To develop ASEAN relationships with the US, China and other major powers, ASEAN must take the initiative to move beyond diplomatic trust-building and create synergies to ensure that ASEAN-led meetings such as the EAS remain effective and relevant.²⁵ It must also develop an ASEAN common voice on strategic global issues.

ASEAN can and should convene meetings not only to discuss issues amongst members inter se but to set an agenda for ASEAN members to discuss trends in the wider Asia Pacific and global arenas that impact them. This, to an extent, has already been done. ASEAN as a unit of response, can play a helpful and key role in offering ways in which ASEAN Member States can respond to these global trends.

Many things can and should be done, and a range of suggestions have been given by think tanks, including our own, and independent experts. Some of the more elaborate

²⁴ ASEAN Defence Ministers' Meeting, Association of Southeast Asian Nations, Available: <https://admm.asean.org/index.php/about-admm/about-admm-plus.html> Retrieved: 3 April 2017.

²⁵ SIIA (2015) Rethinking the East Asia Summit: Purpose, processes and agenda, Singapore Institute of International Affairs Policy Brief, September 2014, pp.1-12.

proposals are deemed as being politically unrealistic, while others seem to be mere tinkering. We outline some of the steps that are important and where we hope there may exist, the political will to advance.

1. Develop active leadership to provide timely response to global issues and challenges.

In response to emerging issues, relevant ASEAN ministerial bodies should be empowered to convene necessary meetings and act swiftly and decisively. The relevant ASEAN ministerial body should be able to hold emergency meetings and not have to wait until the next scheduled meeting to come up with a collective response.²⁶

2. Position the EAS to serve as the region's premier strategic dialogue.

In order to develop the EAS as a premier strategic dialogue, there is a need to focus and sharpen the agenda of the EAS Leaders' discussions during the plenary session. Distilling key ideas and insights from other regional processes, such as other ASEAN-led meetings or initiatives such as the ARF and ADMM can help ensure that discussions are targeted and effective, drawing from key elements of the agendas of other forums in the Asia Pacific such as APEC. EAS Leaders can steer the EAS dialogue towards a more constructive and actionable outcome. Discussions should be kept candid and informal to ensure the open sharing of ideas and solutions, and to encourage confidence building efforts.²⁷

3. Focus the Support and Resource the EAS.

To assist in developing an agenda for on the key strategic issues, a "Sherpa" system, comprising highly qualified individuals who enjoy the trust of the different Leaders and report to them, whether directly or otherwise, should be considered.²⁸ Such a system is used in the long established G7/G8 and the newer G20, which allows the G20 to function efficiently with annually rotating organisers, despite the absences of a permanent secretariat. Under a similar system, EAS Sherpas, which could be facilitated by the ASEAN Secretariat, will be responsible for preparing substantive discussion notes including for the inter-sessional EAS meetings to ensure that only key elements of these discussions will be discussed at the EAS. The presence of 'EAS Sherpas' can help to develop the EAS into a year-long engagement that is proximate to Leaders, rather than just an annual Summit, and serve to ensure that the Summit is focused on key strategic issues. Consideration will

²⁶ A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

²⁷ A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

²⁸ SIIA (2015) *Rethinking the East Asia Summit: Purpose, processes and agenda*, Singapore Institute of International Affairs Policy Brief, September 2014, pp.1-12.

need to be given, however, on the need to ensure ASEAN centrality in such “Sherpa” system, and the appropriate form of such system given that ideas and inputs may need to be sought by Leaders on a wide range of issues.

The shifts in geopolitics show that many things are beyond the control of ASEAN. This is especially in managing the growing power rivalry and competition among major and middle powers. Inculcating intra-ASEAN practices and a regional perspective vis-à-vis ASEAN’s relationship to the major powers will grow increasingly important. Member states must realise the potential gains from ASEAN unity and use this for leverage when managing the major powers. ASEAN must strengthen its internal leadership to ensure that the current open and inclusive regional architecture remains, and where disputes are settled through peaceful and principled means via rules-based institutions instead of power-based mechanisms.

(2) Geoeconomics and Intra-Asian Integration

There are key geoeconomic trends emerging from the west that ASEAN must prepare and respond to so that growth in and of, the AEC can continue and gain momentum. First, with improvements to growth, interest rates in the west are likely to rise, attracting investments and funds to return to the west. A second factor comes from the strident voices from within the US and the west in general, that question and criticise globalisation and the existing international liberal order, as discussed above.

The danger of sharp financial outflows from Asia back to the west cannot be ruled out. Back in May 2013, as the US Federal Reserve made preparations to raise rates, emerging markets in Asia, especially those with larger external financing needs and macroeconomic imbalances, acutely felt the effects of what was called “the Taper Tantrum”.²⁹ However, the risks of this repeating today seem to have lessened.

Financial assurance in case of crisis is entrenched by the Chiang Mai Initiative Multilateralisation (CMIM) and its surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO). The safeguard agreement among ASEAN members and China, Japan and South Korea has been built up progressively since the 1997-98 crisis and stands ready to respond in case of sharp falls in currency values and if capital flows sharply shift.³⁰ Still, the longer term financial stability of ASEAN members depends more

²⁹ Sahay, Ratna, Arora, Vivek et. al. (2014) Emerging market volatility: Lessons from the taper tantrum, IMF Staff Discussion Note, September 2014, Available: <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1409.pdf> Retrieved: 31 March 2017.

³⁰ Pitakdumrongkit, Kaewkamol (2015) Where to now for the Chiang Mai Initiative Multilateralisation, East Asia Forum, 28 August 2015, Available: <http://www.eastasiaforum.org/2015/08/28/where-to-now-for-the-chiang-mai-initiative-multilateralisation/> Retrieved: 3 April 2017.

on efforts to further strengthen economic fundamentals that must be undertaken at the national level. Central banks and governments need to ensure that financial systems are prudently managed and both internal and external financial flows are balanced. Dialogue and coordination regarding policies among central banks in ASEAN – many of which are autonomous also need to be further strengthened.

This is an area that ASEAN can and should develop in coming years. As economic integration deepens, financial aspects will become increasingly important to address. The prospect of increased intra-ASEAN and intra-Asian investment – for infrastructure and other needs – will also be an opportunity and provide fresh impetus to move ahead with financial cooperation in the region.

The second geoeconomic megatrend concerns the rise in protectionist sentiments in the west. In response, ASEAN can move forward with regional economic agreements with its major partners as well as on the AEC. Indeed, such momentums have already started.

There have been long running negotiations involving ASEAN to build on the existing ASEAN+1 free trade agreements (FTAs) with all its key partners in Asia towards a collective Regional Comprehensive Economic Partnership (RCEP).³¹ There is broad consensus that moving ahead with RCEP would bring about greater economic benefits to the region, and promote freer trade and closer economic cooperation. Many hope that the RCEP negotiations can be brought to a successful conclusion at the end of this year, particularly in light of developments in the TPP which left RCEP to be “the only game in town” today.

However, the level of ambition in the RCEP remains contentious. This is largely due to the wide disparities within the group, not only in terms of levels of development but also current trading arrangements among the participating countries, in which not all ASEAN FTA partners have agreements with one other. ASEAN chairs the process for RCEP and will need the wisdom to push for the best possible agreement to be achieved at an opportune time. It will also need to keep up the momentum for future rounds of improvement under the eventual trade agreement.³²

³¹ The 5 ASEAN+1 FTAs are with China, Japan, South Korea, Australia, New Zealand, and India

³² Some ASEAN FTA partners seem to wish to move further in a number of areas, akin to the TPP negotiations.

It is imperative that ASEAN should take the lead in RCEP negotiations and aim to arrive at a substantive conclusion by the end of 2017 to give credibility to meet the Leaders' mandate for a swift conclusion to the negotiations.³³ This is not easy given the diverse nature of the economies involved and the dynamics of negotiations, which as of early 2017 were in their 17th round. To push ahead, ASEAN must consider what – by its usual operating procedures – may be extraordinary.³⁴

ASEAN can and must also move ahead further with its own AEC. Stiffer competition as a result of globalisation and the changing winds of geopolitics have accentuated the importance for ASEAN to band together, leveraging off one another's strengths to become self-reliant. The launch of the AEC Blueprint 2025 and the AEC 2025 Consolidated Strategic Action Plan, which sets many if not all of the right goals, underscores ASEAN's commitment to deepen its integration efforts further from its initial 2008-2015 AEC Blueprint. Most significant is also the articulation of its goal to build a global ASEAN instead of merely "fully integrated into the global economy".³⁵ But in order to attain that common goal, all ten of ASEAN Member States will have to accept the need to embark on the necessary reforms.

The pace of progress must be watched and for this, an impartial and regional perspective with commitment and capacity to monitor is needed immediately. To this end, we – and many others – believe that the ASEAN Secretariat will need to be strengthened. This is not an end in itself, but to meet the functional needs and better support the ASEAN members move forward.

A key area where the ASEAN Secretariat's role can be enhanced is in terms of its ability to identify and monitor both tariffs in practice, and non-tariff measures (NTMs). While tariff rates are agreed in policy, ASEAN will need to effectively address NTMs, and see through the harmonisation of standards and meaningful services integration if it wants to achieve its goal of a high-quality and competitive economic entity that promotes the seamless movement of goods within the region. The ASEAN Secretariat can more effectively and sustainably serve as a supporting body that will help to establish a review process and encourage discussion of these issues among members. It can also be in

³³ Some have suggested one such idea to apply if any negotiating partner proves to be a stumbling block to negotiations. In such a case, these commentators suggest ASEAN should be open to the option of moving ahead with RCEP on the basis of a "Minus X" format.

³⁴ A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017 ASEAN Economic Community Blueprint, Available: <http://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf> Retrieved: 17 March 2017.

³⁵ ASEAN Economic Community Blueprint, Available: <http://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf> Retrieved: 17 March 2017.

charge of a feedback channel that encourages the private sector and other stakeholders to identify and provide feedback on tariffs in practice and on NTMs that impact their businesses.

More generally, the ASEAN Secretariat should be tasked to research and publish reports on the progress of ASEAN initiatives and the extent to which each ASEAN Member State has complied with their commitments. The recent establishment of the analysis and monitoring divisions/directorates across the three pillars of the ASEAN Community as part of the exercise of strengthening the ASEAN secretariat is a good step towards that objective.

To meet these and many other needs, the current budget is insufficient for the ASEAN Secretariat to operate effectively. An effective Secretariat is crucial in strengthening ASEAN's internal centrality³⁶ and clearly needed in order to meet increasing demands by members. According to the ASEAN Secretariat, manpower costs are likely to increase by 54% by 2025 and member states should commit to increasing capacity and resources over time. The current budget process allows for a year-by-year consideration of the budget proposal, with no a priori agreed budget increase. While this allows for flexibility, it also poses some uncertainties. Alternative such as multi-year commitment to a minimum sum increase of the budget may be considered.³⁷

These ASEAN-centred responses can be supplemental to what an individual ASEAN member state will do on its own – given the sovereignty of the state and the nature of ASEAN, individual state policy remains legitimate and often primary. But there will be other instances – and perhaps increasingly so – that members will realise that the collective ASEAN response can be even more important than what any one member state can do.

ASEAN, with the formation of the AEC and working together with its partners in RCEP, can make a difference not only for itself but seek to mitigate the effects of protectionist behaviour in the west on Asia. Power, in the new world order, need not be defined as the ability to have a hold over another but more of the ability to solve problems by working with others. The ability to connect with others, therefore, becomes a major source of power.³⁸

³⁶ A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

³⁷ *ibid.*

³⁸ Nye, Jr, Joseph S. (2017) *Will the liberal order survive? The History of an Idea*, *Foreign Affairs*, January/February 2017, Vol. 96, Number 1, pp10-16.

(3) National Politics and Reform

Much of what ASEAN can do for its own AEC and the wider RCEP depends not only on the global megatrends but on the national agenda. As observed earlier, recent years have seen a swell in nationalism and protectionism. ASEAN members are not immune to this phenomenon. Yet in the face of this trend, we also observe that ASEAN members continue to remain open to investment and trade, with a number embarking on reforms and further economic opening as part of their long-term national agenda.

Some of these reforms deal with sensitive areas, such as opening previously restricted sectors of the economy, and reforming state-owned enterprises (SOEs) to become more competitive. While national-level efforts in ASEAN differ, the broader outlook may be more positive than some fear.

In Indonesia, the Jokowi administration embarked on a roadmap to diversify its commodities-driven economy towards manufacturing and services. In 2015, President Jokowi rolled out a series of economic reform packages aimed at stimulating economic growth and attracting fresh investment into Indonesia. This was followed by an announcement of a “Big Bang” plan in 2016 to reduce restrictions on foreign investment in 49 sectors – ranging from fishery, healthcare, transport and retail, representing the country’s largest opening to international investment in 10 years.³⁹

In Vietnam, new impetus drives domestic reforms. Despite the US withdrawing from the TPP and uncertainty surrounding the trade deal, Vietnam announced that it would continue to push ahead and comply with more than 30 pieces of legislation initially proposed by the trade deal to further open up its economy.⁴⁰ This includes reforms on its standards on labour, foreign investment, trade and the SME sector.⁴¹

Similarly, Thailand wants to move its economy up the value chain. It wants to develop expertise in its research and development sector and embark on innovation-led growth. Under Prime Minister Prayut Chan-o-cha, Thailand introduced Thailand 4.0, a new

³⁹ The Straits Times (2016) Indonesia Plans ‘Big Bang’ to Woo Foreign Investments, The Straits Times, 11 February 2016, Available: <http://www.straitstimes.com/asia/seasia/indonesia-plans-big-bang-to-woo-foreigninvestments>, Retrieved: 15 August 2016.

⁴⁰ South China Morning Post (2016) Vietnam vows full speed ahead with economic reforms, with or without the TPP, Available: <http://www.scmp.com/news/asia/southeast-asia/article/2050035/vietnam-vows-full-speed-ahead-economic-reforms-or-without> Retrieved: 31 January 2017.

⁴¹ South China Morning Post (2016) Vietnam vows full speed ahead with economic reforms, with or without the TPP, Available: <http://www.scmp.com/news/asia/southeast-asia/article/2050035/vietnam-vows-full-speed-ahead-economic-reforms-or-without> Retrieved: 31 January 2017.

economic model for that prioritises greater research and development, and innovation-led growth with the primary aim of moving the country out from the middle-income trap. A key focus of Thailand 4.0 also aims to reform the country's vast agricultural sector by embarking on "smart farming" and empowering farmers to be "entrepreneurs".⁴²

These are painful reforms in the short term and will likely meet considerable resistance, but in the long run, will move Thailand's agricultural sector up the global value chain.

The need for inclusive growth also features highly on government economic agendas across the region. Besides promoting e-commerce, youth and women entrepreneurship, the Philippines is taking the lead to help MSMEs innovate and develop. MSMEs, which make up 99% of all registered businesses in the Philippines, are expected to see improvements to trade promotion, agri-industry development, and production innovation programmes by 2018.⁴³

ASEAN's commitments towards closer economic integration are not without caution over public sentiments and potential populist backlash. Its vision to build a "People-Oriented" and "People-Centred" ASEAN is targeted at ensuring that the region adopts inclusive policies that prioritises the people's interests. The concept is to achieve a level of community where what ASEAN does is relevant to people, and where the peoples of the region understand how ASEAN impacts and can benefit them. Raising people's knowledge and demonstrating the relevance of ASEAN to their betterment will help build internal ASEAN centrality and build popular support for reform, both nationally and regionally.⁴⁴ This helps to ensure that populism in the region does not push back against integration efforts.

It is hard to control the rise of populist sentiments. Adopting conscious efforts to help mitigate conditions that serve as breeding grounds for discontent will be key. Governments must also adopt an effective public campaign that communicates the importance of the need for economies to stay open, inclusive, and well-connected to both regional and global trade and investment networks. Otherwise, they risk being faced with a misinformed electorate that is less receptive to the idea of a more integrated ASEAN.

⁴² SIIA and Actagon (2016) Emerging Trends And Investment In ASEAN, 4 September 2016, Available: www.siaonline.org/wp-content/uploads/2017/03/siia-actagon-trends-investment-asean.pdf Retrieved: 28 March 2017

⁴³ Mercurio, Richmond (2016) DTI lauds Duterte's push for MSME development in ASEAN, The Philippine Star, 9 September 2016, Available: <http://www.philstar.com/business/2016/09/09/1621740/dti-lauds-dutertes-push-msme-development-asean> Retrieved: 15 April 2017.

⁴⁴ SIIA (2015) ASEAN centrality in the regional architecture, January 2015, Singapore Institute of International Affairs, Available: <http://www.siaonline.org/wp-content/uploads/2016/10/2015-05-Policy-Brief-ASEAN-Centrality-in-the-Regional-Architecture.pdf> Retrieved: 3 April 2017.

In the developed countries of the west, populism has pushed back against globalisation and the liberal economic order. This is largely because workers feel that their jobs have been “exported” and their wages cut in order to compete with workers abroad. This sentiment is felt in ASEAN and it is not inevitable that they gain sway. The case can and should be made that ASEAN, collectively and for members nationally, stand to gain from being more open. This is in terms of greater investment, long-term competitiveness that will generate jobs and broadly distributed benefits. In this, ASEAN can not only continue with trade and investment liberalisation against the current of the west but serve as an example of how economic integration can be linked with social and other concerns. This is so that the AEC has more of a “human face”, with “People-Oriented and People-Centred” policies. Governments can then harness the momentum derived from global megatrends such as populism and accountability demands, to move ASEAN economic integration forward.

1.4. Conclusion: Who and What Else

This chapter has considered ASEAN in the context of global megatrends that impact the group, whether as a whole or at the national level of different ASEAN members. We focused on three megatrends that, while political, have an impact on economic integration.⁴⁵ The chapter has also opted to look primarily at megatrends that filter down from the global level and influence ASEAN and its members at the national level. We have also considered that, while ASEAN is a useful unit of analysis, these trends often set the context to which ASEAN can and must respond. In this sense, we see ASEAN not only as a unit of analysis but, perhaps even more importantly, a unit of response.

We have also surveyed the economic and financial turbulence and opportunities in the world. Even if directions are negative, we argue that ASEAN economies will do better to move ahead with their economic integration inter se than if they were to either turn more protectionist or seek to adhere to another non-ASEAN power on its own. Similarly, in the emerging competition among major powers of the Asia-Pacific, there is a logic that ASEAN can do more collectively than any one of its member states can do independently. Despite its limitations, if the region had no ASEAN, it would still need something much like ASEAN, which has an accepted and non-threatening centrality.

Specific policy recommendations have followed from this, including that ASEAN must now prepare to take up global issues and a role in the global fora. ASEAN must also seek to strengthen the ASEAN common voice, which should aim to include the creation and

⁴⁵ For reasons of length, other megatrends such as those in technology are not covered in this chapter.

reiteration of norms so that the grouping develops the clout to reinforce its normative power in the region. Calls for ASEAN to step up its leadership role to better respond to national, regional and global needs, have also grown louder and more urgent.

Through its first 50 years, ASEAN has already felt and sought to respond to wider and global trends, such as the Cold War and the rise of China. In many of these situations, ASEAN has been able to play mostly a reactionary role, rather than seeing the possibilities of influencing trends more proactively. Looking forward, if ASEAN can remain united, the group as a whole can offer a form of leadership in the Asia Pacific that is based not on power but on certain norms, institutions and regional and international practices. ASEAN marks its 50th anniversary at a time of change in the world, and this is not only a time to look at its history but to prepare with both realism and hope for the future.

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