

Political and Economic Developments in Southeast Asia and Impact on the International Order

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LAOS

VIETNAM

MYANMAR

PHILIPPINES

THAILAND

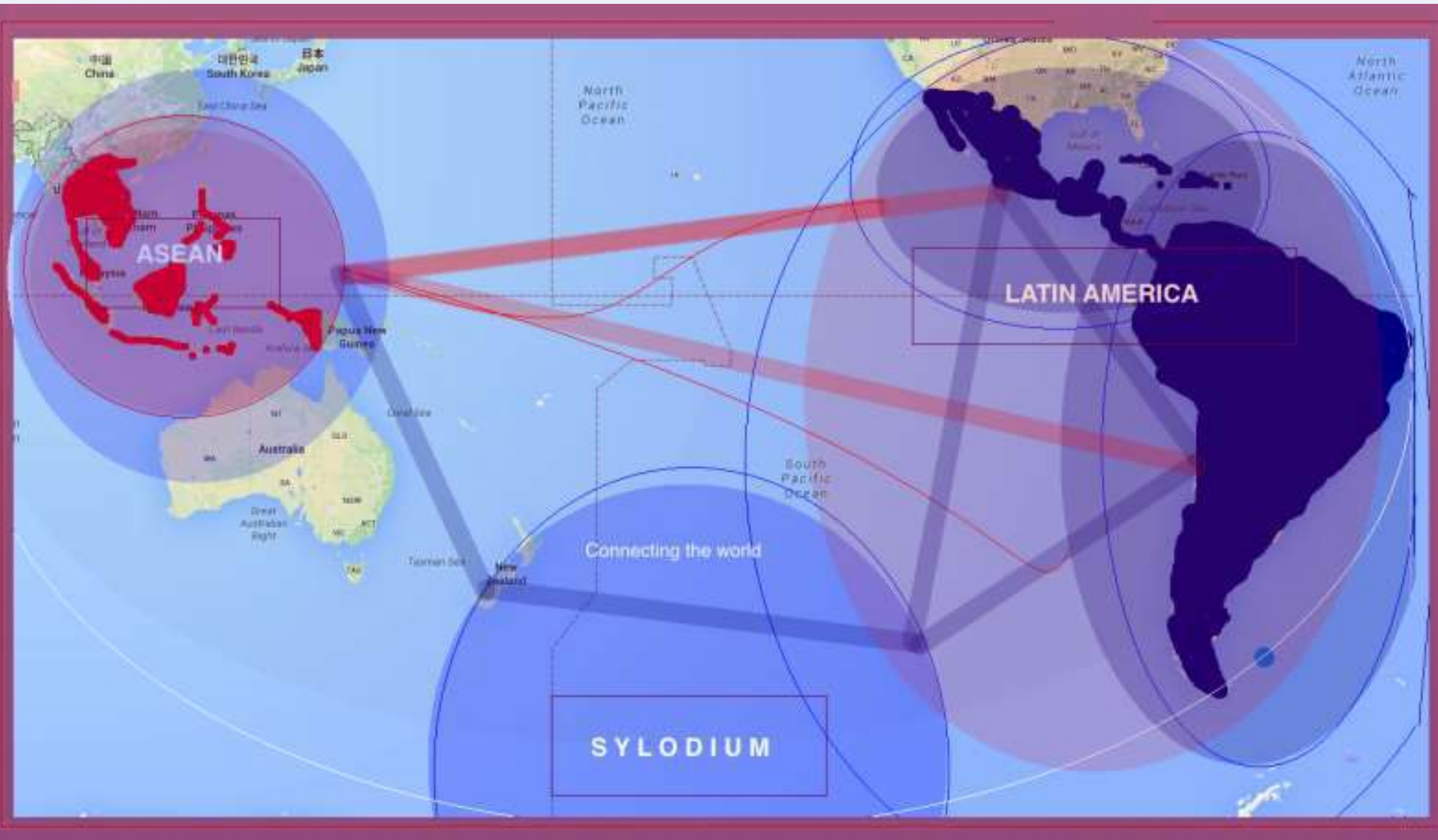
CAMBODIA

MALAYSIA

BRUNEI

SINGAPORE

INDONESIA



What is ASEAN?

- Association of Southeast Asian Nations which contains 10 of the region's 11 countries (East Timor not a member)
- Formed in 1967 by 'ASEAN 5' (Indonesia, Malaysia, Philippines, Singapore and Thailand)
- Brunei joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999
- Population of 651 million

ASEAN's Aims

- Formal objectives of regional peace, economic and strategic cooperation, and cultural development
- ASEAN initially formed primarily to resist communism in the region and was pro-Western
 - Height of the Vietnam war and also communist movements in all of ASEAN 5 nations
- Aims changed as Cold War subsided; focus shifted more heavily to economic advancement as well as greater political and strategic independence

ASEAN's Characteristics

- Emphasis on 'ASEAN Way': consultation, compromise and consensus as well as non-intervention in affairs of member nations
- Very cautious, slow decision-making processes
- Consensus requirement leads to lowest-common-denominator effect
 - Individual member nations can exercise almost veto powers
- Displays of open disagreement are rare

ASEAN's Growing International Engagement

- Expansion of ASEAN activities and international engagement
- ASEAN+3 (China, Japan and South Korea)
- East Asia Summit (EAS)
- ASEAN+6 (ASEAN+3 plus Australia, India and New Zealand)
 - Basis for Regional Comprehensive Economic Partnership (RCEP) currently under negotiation
- ASEAN+8 (ASEAN+6 plus Russia and US)

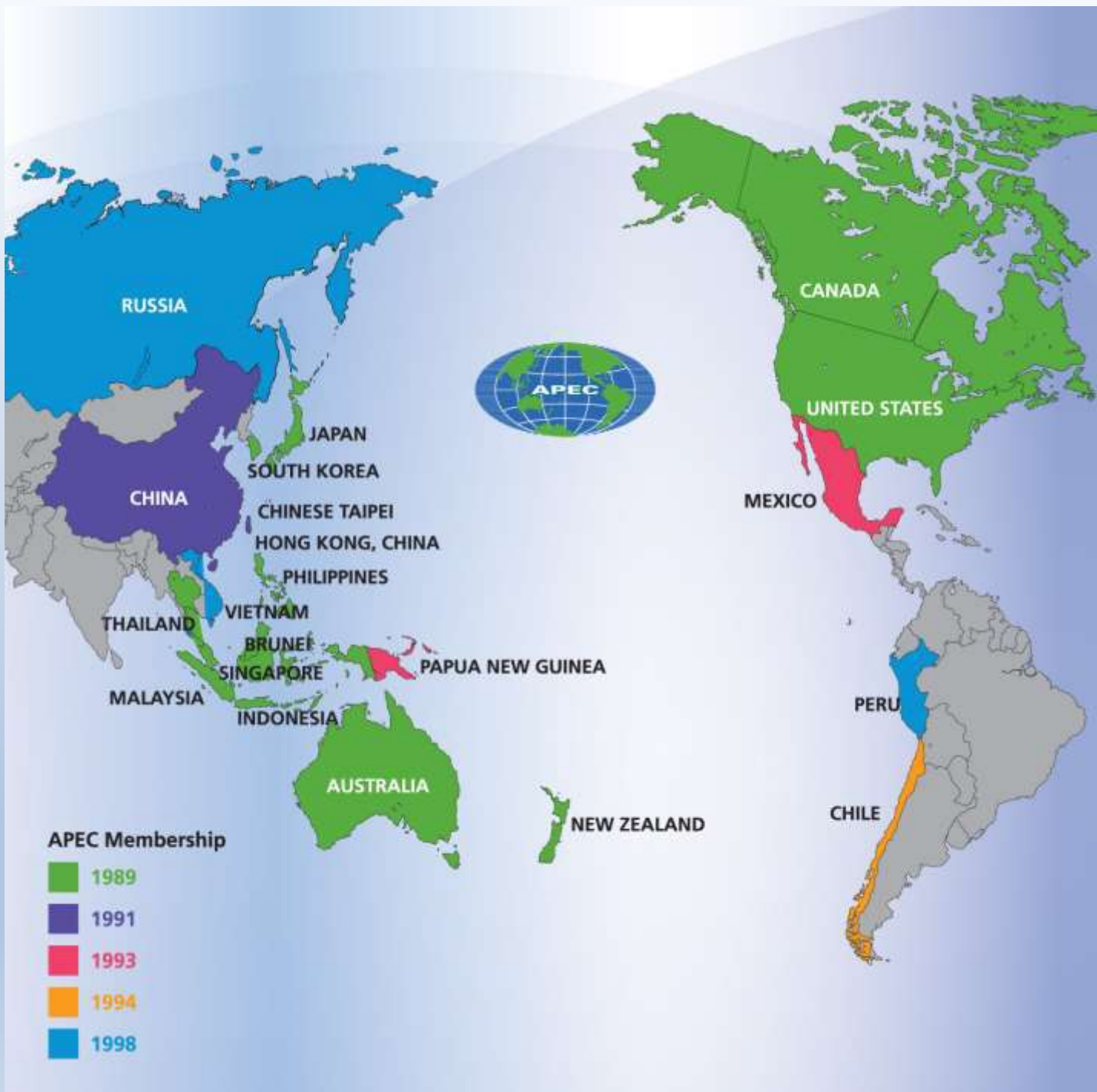




13TH EAST ASIA SUMMIT

15 NOVEMBER 2018, SINGAPORE





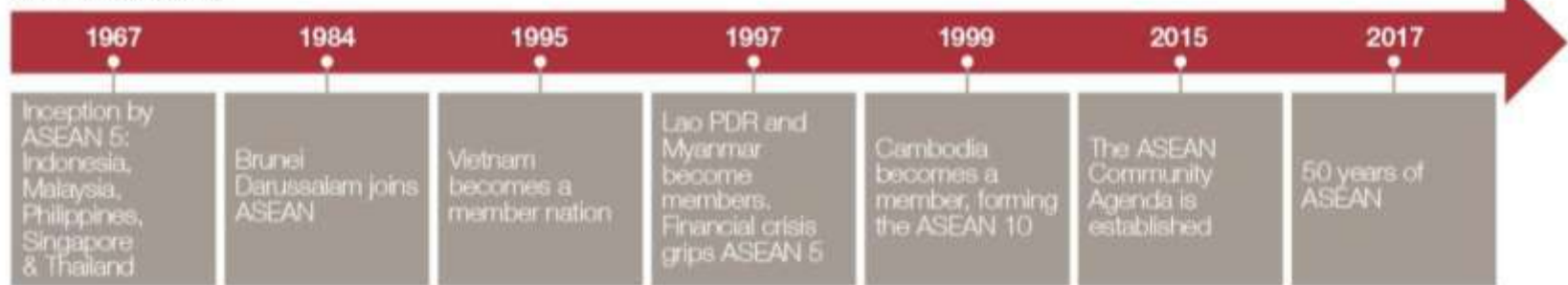
ECONOMIC ISSUES

Basic ASEAN Economic Facts

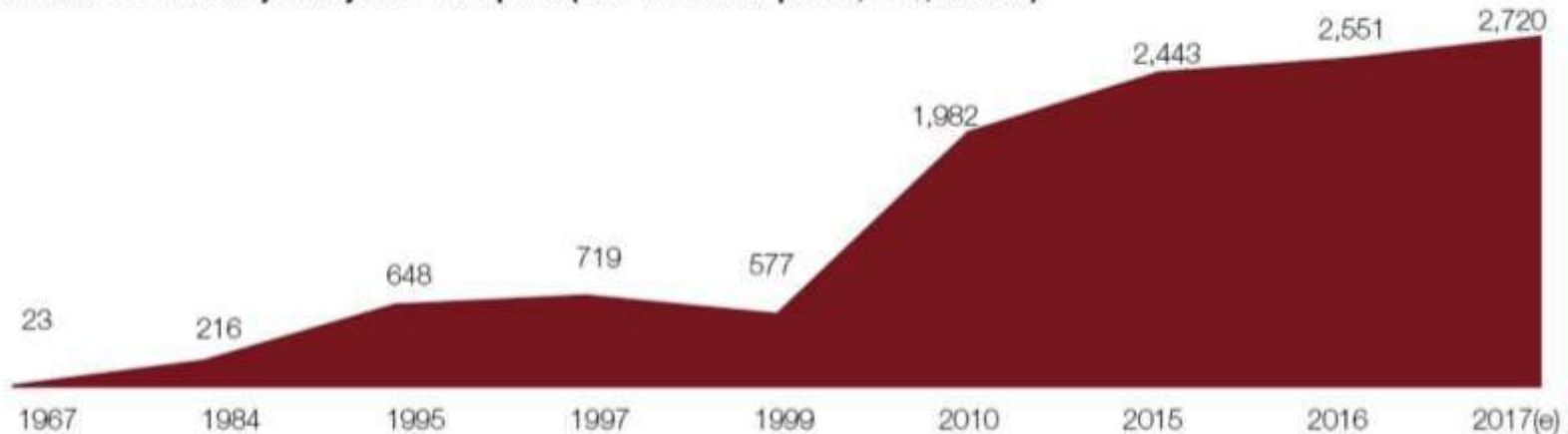
- ASEAN's current GDP is US\$3.2trillion, sixth-largest in the world
 - Projected to become fifth-largest by 2022 with US\$4trillion economy
- ASEAN's per capita GDP is US\$4600
- Has world's 3rd-largest workforce
- World's 4th most popular FDI destination
- ASEAN's share of global exports is 7% in 2016 (up from 2% in 1967)
- Indonesia, Thailand and Philippines dominate the region's economy (64% of GDP)

ASEAN Economic Growth

ASEAN's timeline



ASEAN's economic journey since inception (GDP at current prices, US\$, billions)



Source: ASEAN Secretariat, 2017; WEO Database, IMF, October 2017

GDP projections, ASEAN

GDP in current prices, US\$ billions

Phase 1:
~40 years

Phase 2:
~10 years

Phase 3:
~5 years

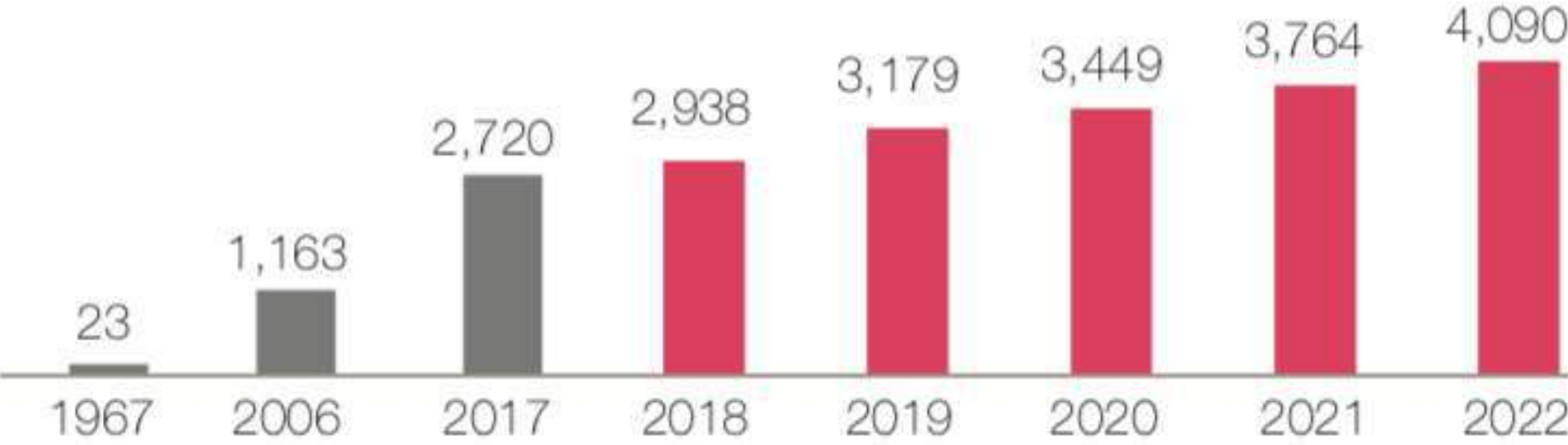
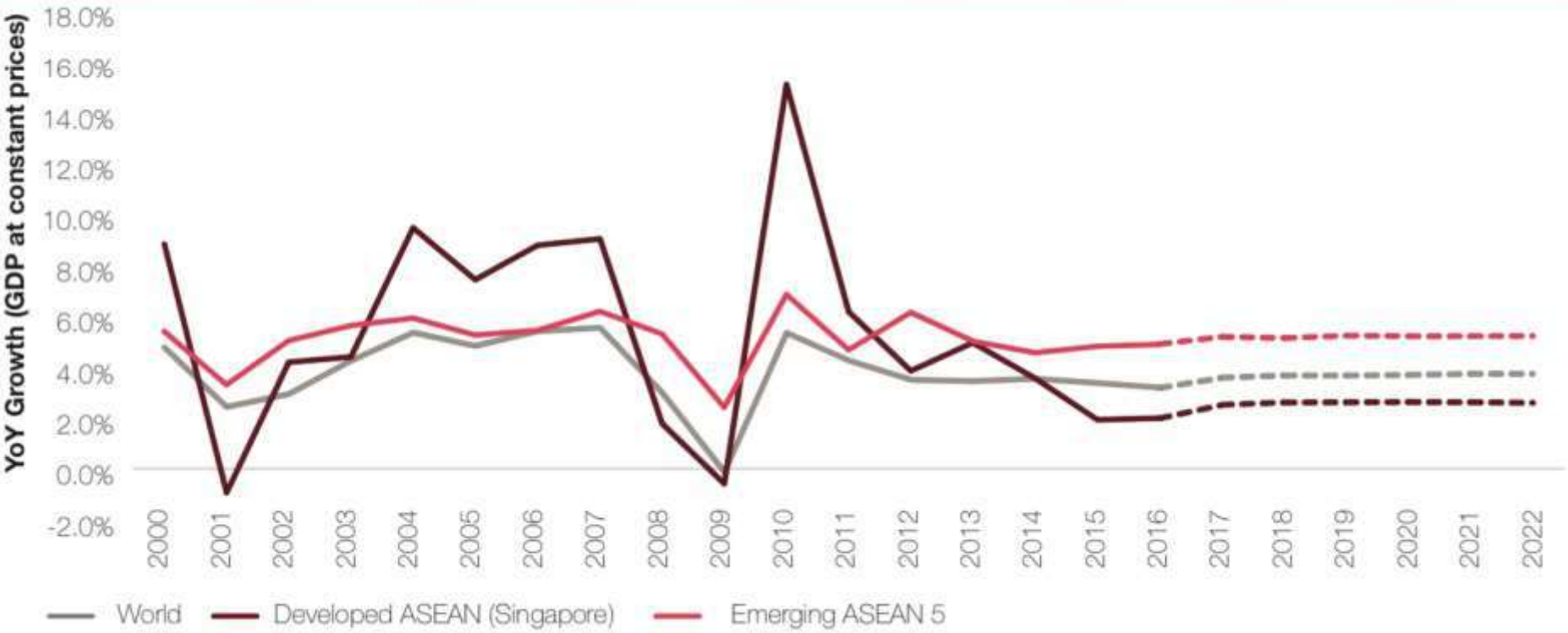


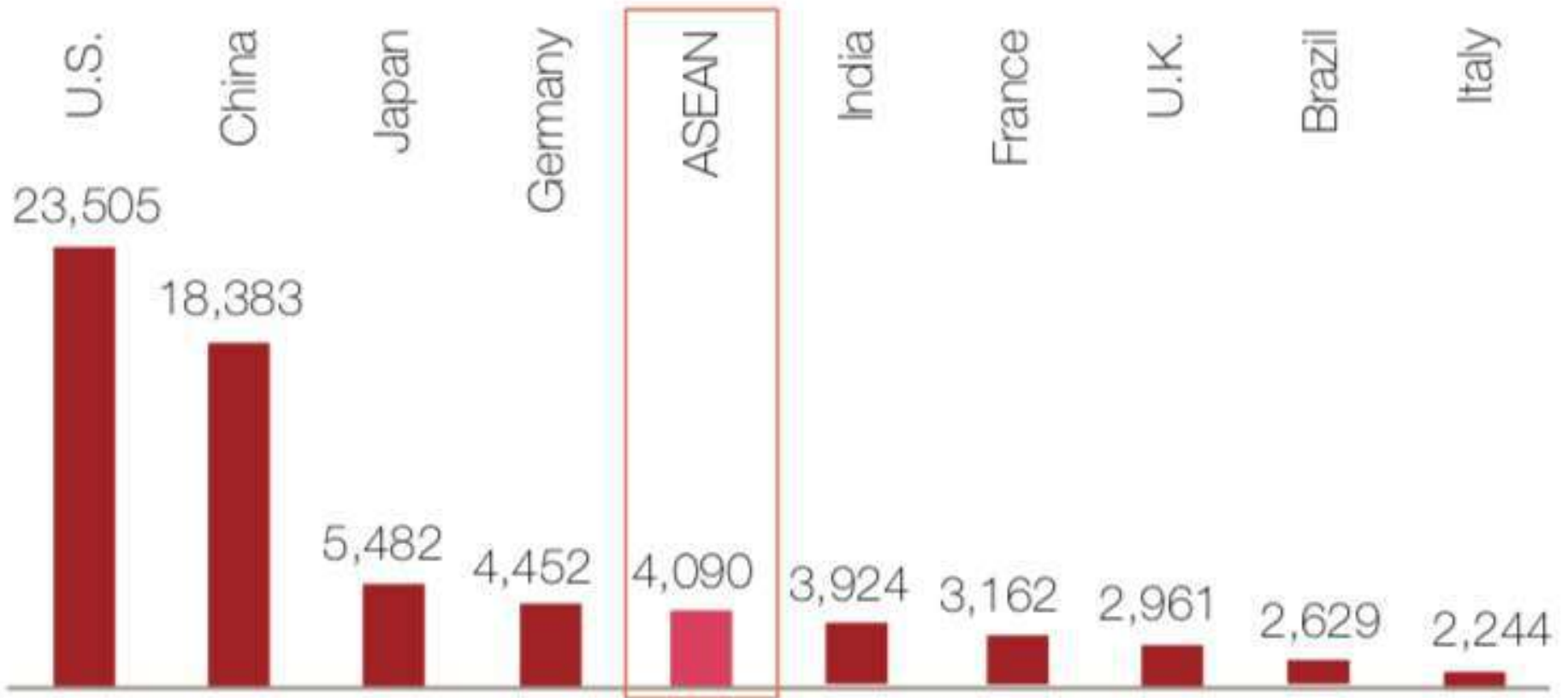
Figure 9: Real GDP Growth Trends, ASEAN and the World



Source: WEO Database, IMF, October 2017

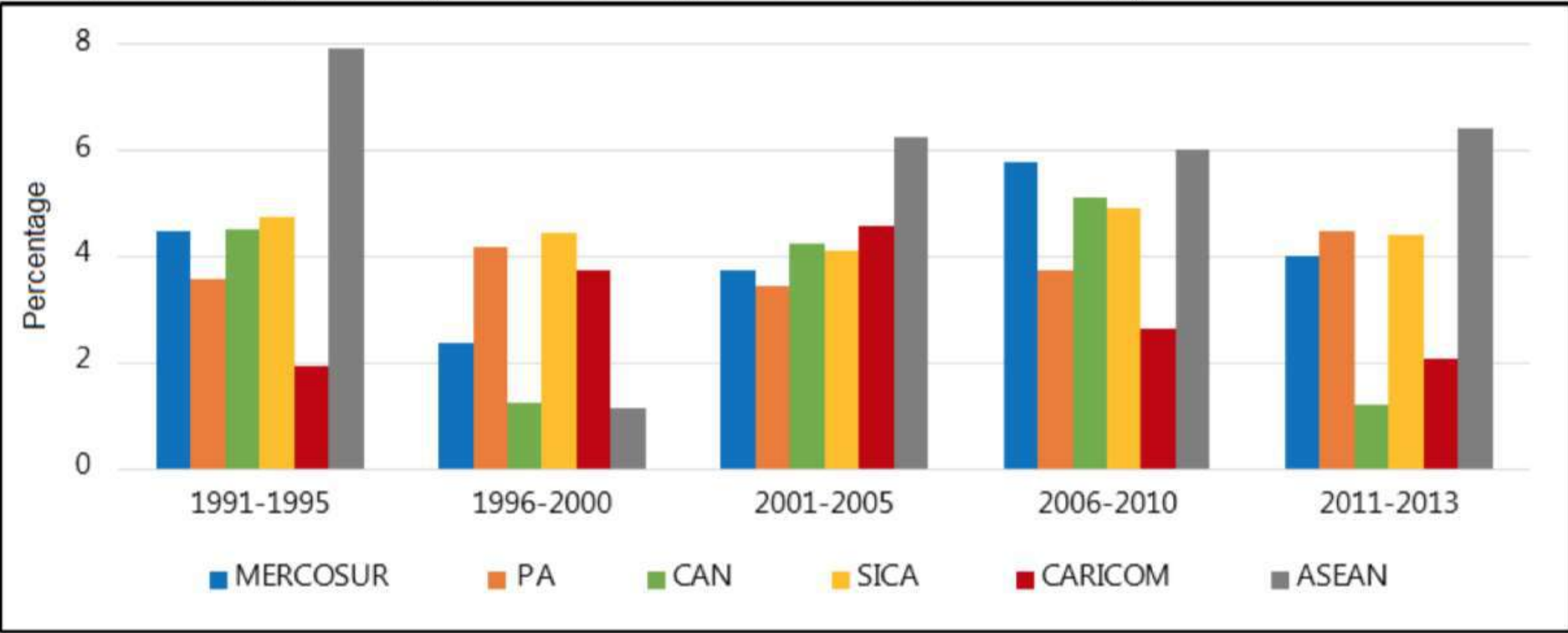
Top 10 markets worldwide by GDP size in 2022

GDP in current prices, US\$ billions

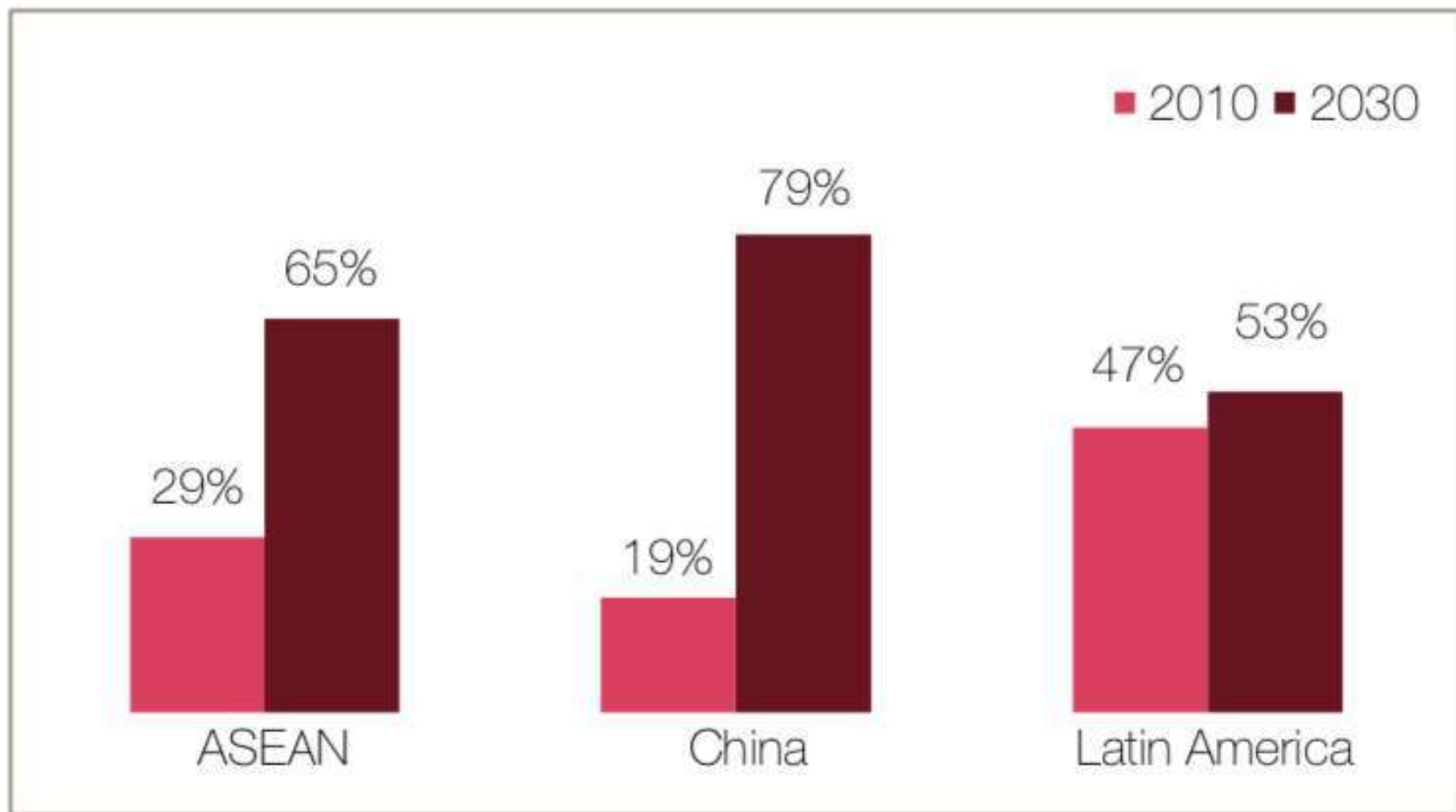


Per capita GDP growth rate by mechanism, 1990-2013

(Five-year average, GDP adjusted according to Purchasing Power Parity, PPP)



Share of middle-income class in overall population



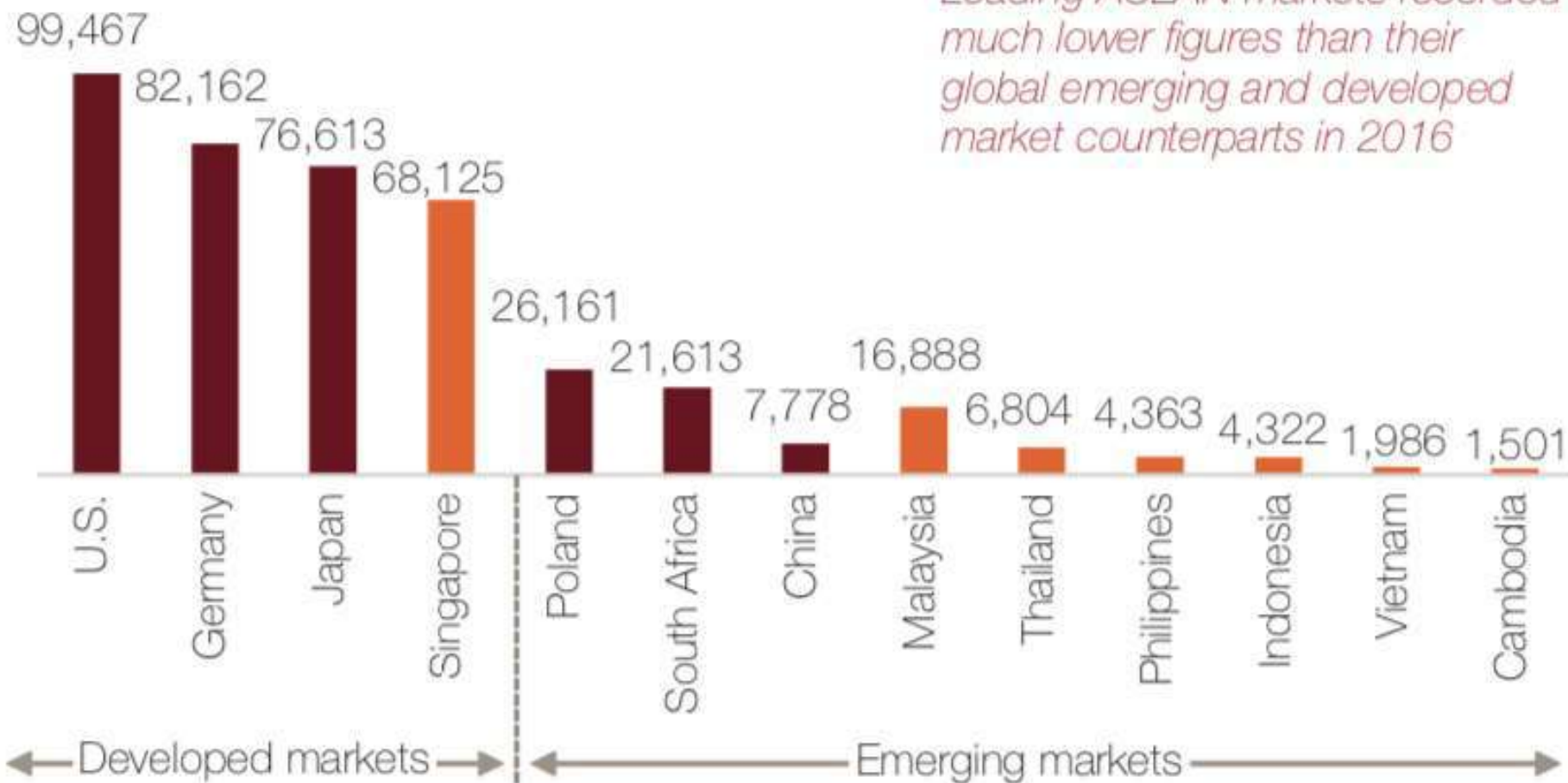
ASEAN Diversity

- Markedly different economic and demographic stories across ASEAN
- Singapore is wealthy, advanced but ageing nation
- Indonesia, Philippines and Thailand are medium income, emerging economies with favourable demographics
- Cambodia, Laos, Myanmar and Vietnam are low income, under-developed economies with high growth prospects

ASEAN Economic Challenges

- Comparatively low labour productivity combined with rapidly rising labour costs
- Closing demographic window
- Inadequate infrastructure and high logistics costs
- Institutional problems of high corruption, restrictive regulations and lack of legal certainty
- Heavy dependence on external trade (75% of total ASEAN trade), especially China and US
 - China accounts for 15% of ASEAN trade in goods

Labour productivity, select markets, 2016



ASEAN and South America

- Relatively low trade levels between ASEAN and Latin America: about 3%
- Greatest trade is with MERCOSUR, followed by Pacific Alliance (PA) and Andean Community (CAN)
- Chile and Peru's trade is 0.2% of ASEAN total
- Main South American imports are electronic goods, vehicles, and agriculture products; main ASEAN imports are agricultural products and minerals
- Singapore is main investor in South America (69%) followed by Thailand (17%)
 - Main recipient has been Brazil (44%)

STRATEGIC AND POLITICAL ISSUES

ASEAN Strategic Issues

- Increasing impact of China and US rivalry in Southeast Asia with ASEAN caught in the middle
- China's growing economic and military might in the region
- US determination to retain ascendancy
- Rise of the Indo-Pacific concept and ASEAN positioning vis a vis China and the US
- Risks of both harmful economic fallout and also military conflict

Why Should Chile be Concerned?

- Two main reasons for Chile to take interest in Southeast Asia
 - (1) If there is military conflict between the US and China, could be heavy disruption to Chile's economic ties to not just China but rest of North Asia and Southeast Asia
 - (2) Rising risk of US-China military confrontation is argument for economic diversification through greater investment in ASEAN, a region growing almost as quickly as China and India.

Indo-Pacific region
Asia-Pacific region



Asia Pacific & Indo-Pacific Regions

What is Indo-Pacific Strategy?

- First unveiled by President Trump at Vietnam APEC Summit in December 2017
 - Free and Open Indo-Pacific (FOIP) intended to reinforce post-WWII international order
- Specific elements include concept of freedom of navigation, the rule of law, freedom from coercion, respect for sovereignty, private enterprise, open markets and the freedom and independence of all nations
 - Freedom of navigation and respect for sovereignty are especially controversial in the region
- FOIP attempts to unify and integrate these principles into an overarching rhetorical regime

China's response to FOIP

- China views both initiatives as aimed at containing and constraining its regional expansion
 - Japanese Foreign Minister indeed confirmed this was a Quad objective in media remarks in 2018!
 - Chinese foreign minister said FOIP will 'dissipate like foam'
- Concerted Chinese use of diplomatic and economic resources to resist Indo-Pacific
- Stepped up Belt and Road Initiatives in the region

FOIP and ASEAN

- ASEAN seen as critical to Indo-Pacific Strategy
 - Mike Pompeo stated: ‘ASEAN is literally at the centre of the Indo-Pacific, and it plays a central role in the Indo-Pacific vision that America is presenting’
- Perception that Southeast Asia is the key battleground in the Indo-Pacific for ‘freeness’ and ‘openness’
- Aim for full ASEAN integration into the Indo-Pacific strategy, particularly emphasising the maritime domain
 - See ASEAN as order-building component of FOIP

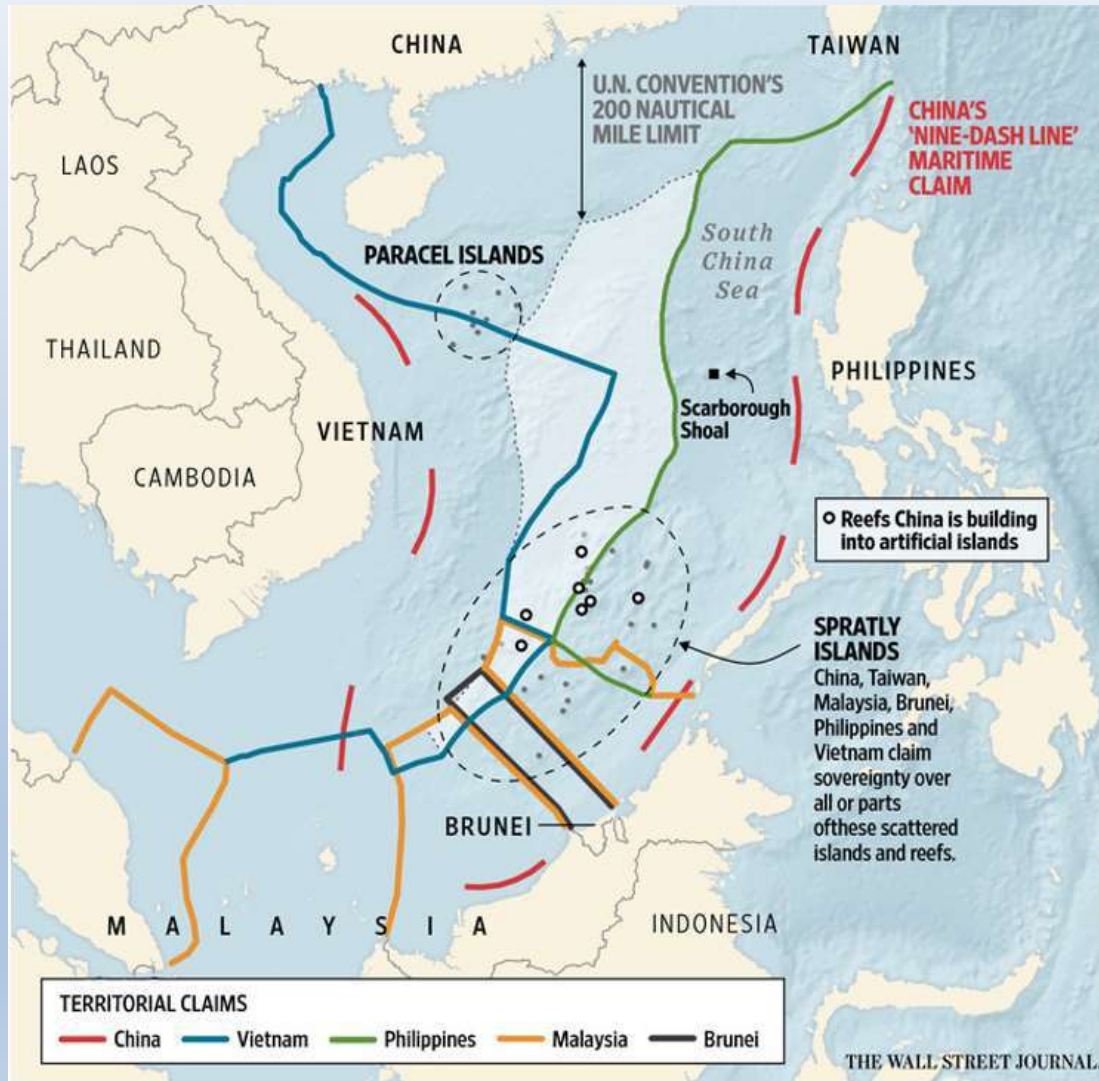
ASEAN Responses to Indo-Pacific

- Indo-Pacific now a matter of intense ASEAN deliberation but divisions evident
- Key ASEAN members such as Indonesia, Malaysia, Thailand, Vietnam and Singapore are supportive but each seeking different emphases
 - Other ASEAN members more wary
- ASEAN diplomats have told the US that they won't accept several key US elements, especially regarding China

ASEAN Responses to Indo-Pacific

- They want emphasis on inclusion and not showing preference to or rejection of any particular power
- Seeking to use EAS at which all East Asian powers (including China) are present to manage negotiation of the details and lessening risk of individual countries making unilateral declarations on the matter
- Achieving ASEAN consensus on this will be difficult, especially in the short-term

South China Sea Claims



ASEAN Views on Indo-Pacific

- Many ASEAN members feel the US has neglected the region and that ASEAN being courted only the context of US rivalry with China
 - Indo-Pacific rhetoric sits oddly with perceived US withdrawal from Southeast Asian affairs
 - FOIP seen as narrow security-centric effort to counter China and that broader Indo-Pacific agenda, including economic initiatives, may not eventuate
- ASEAN has welcomed Japanese and Indian initiatives
- Desire to insulate region from proxy wars already being conducted by China and US

ASEAN Views on Indo-Pacific

- Doubts about the sustainability of FOIP are linked Trump Administration's erratic foreign policy decisions
 - Would US provide necessary funding to give substance to FOIP's security, economic and people-to-people initiatives?
 - 'America First' rhetoric erodes confidence in US concern for Southeast Asia

ASEAN Views on Indo-Pacific

- Questions about whether FOIP is applicable to Southeast Asian conditions
 - FOIP's language of freedom and openness is at odds with a region that is arguably increasingly unfree and closed
 - Democracy and human rights are in decline: no 'free' nation in ASEAN according to Freedom House
- Some ASEAN leaders quietly attracted to Chinese model because it offers large investment without West's rights conditions

ASEAN Independence

- Ultimately, all ASEAN members agree on maintaining ASEAN's independence and ensuring the region is not captive to a single dominant nation
- Preference to have US and China counter-balance without conflict or debilitating tensions in region
- Desire for ASEAN to play mediating role and avoid proxy wars in Southeast Asia