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## East Asia's transformation and regional architecture

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### Introduction

Regional architecture has been defined as ‘a reasonably coherent network of regional organizations, institutions, bilateral and multilateral arrangements, dialogue forums, and other relevant mechanisms that work collectively for regional prosperity, peace and stability’ (Hu, 2009, p. 4). One remarkable development in East Asia<sup>1</sup> during the past three decades has been the emergence of regional architecture that has revolved around small and middleweight countries, especially the Association of Southeast Asian Nations (ASEAN) member states, Australia and New Zealand; been supported by the big powers; and been characterised by open regionalism and a cooperative multilateral security perspective. This regional architecture has contributed to, and been facilitated by, the economic transformation of East Asia, which has largely been anchored in outward-oriented economic policies and open regionalism.

Region building is a dynamic process and East Asia's economic and security architecture, based on open and cooperative regionalism, has been supported and shaped by a network of institutions in the region. Among

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<sup>1</sup> East Asia is construed broadly here to include Australia, New Zealand and India; effectively, East Asia defined as the ASEAN+6 grouping.

the official institutions and organisations, the most prominent have been the Asia–Pacific Economic Cooperation forum (APEC) and ASEAN and ASEAN-related arrangements, including the ASEAN Regional Forum (ARF) and East Asia Summit (EAS). Non-official or semi-official institutions and organisations, such as the Pacific Economic Cooperation Council (PECC), Pacific Trade and Development (PAFTAD) conference, and ASEAN – Institutes of Strategic and International Studies (ASEAN–ISIS) have been central to the framing of regionalism in East Asia (and, more broadly, the Asia–Pacific). Note that PECC, PAFTAD, ASEAN–ISIS and even the more recent Economic Research Institute of ASEAN Research Institute Network (ERIA RIN) are themselves networks of individuals or institutions. Indeed, it is likely that the prominence of networks—and networks of networks—at the official and non-official levels in the process of region building in East Asia has arisen from the fact that region building has been substantially shaped and facilitated by the small and middleweight countries. This has invited a more collaborative approach, which allows for greater flexibility and responsiveness to the fast-changing developments in the region.

Alongside the development of its regional architecture, East Asia has undergone a dramatic economic transformation in the past three decades. As an indicator of this economic transformation, developing East Asia's share in the total ASEAN+6's gross domestic product (GDP) rose from 20 per cent in 1985 to about 53 per cent by 2014 (where developing East Asia is defined as ASEAN, excluding Singapore and Brunei Darussalam, but including China and India, and ASEAN+6 is comprised of the 10 ASEAN members plus Australia, China, India, Japan, New Zealand and South Korea). At the same time, the share of the ASEAN+6's GDP as a proportion of total global GDP increased from about 18 per cent to about 27 per cent. Perhaps the most telling indicator is the huge rise in China's share of global exports, which increased from about 3 per cent in the mid-1990s to about 15 per cent in the mid-2010s. China, Japan, ASEAN as a group and India are now among the largest economies in the world, and the East Asia region (ASEAN+6) now has the largest share of global output.

This chapter argues that open and cooperative regionalism has flourished in the region because small and middleweight countries have provided a platform for region building. In turn, this regionalism has created a greater sense of community in East Asia, which is exemplified by the strong foundations for intra-regional economic linkages with the rest of the world, the accelerated economic transformation of the region's economies and the deepening regional cooperation on a wide range of areas and issues. In addition, an East Asian regionalism centred on small and middleweight countries has provided a flexible platform that can accommodate and adapt well to the changing economic and political fortunes of East Asian countries, as illustrated throughout the period that witnessed the rise of China.

Moving forward, developing East Asia is in a phase of growth and transformation, which provides both opportunities and challenges to the region and the world. It is worth noting that this transformation is occurring, and will continue to occur, in a world where much of the growth in global demand is from developing East Asia itself. The greater reliance on East Asia as a growth driver has become even more important in the context of the apparent inward-oriented policy bias in the US and the uncertainty in the EU following the Brexit vote. This is in stark contrast to the situation in the 1990s, when the US and the EU were important drivers of the growth and economic transformations of China and ASEAN. The export-driven strategies of China and ASEAN were, at that time, ultimately linked to the EU and US markets. Given the new environment, East Asia's regional architecture has arguably become even more important for the region and the world moving forward.

The rest of the chapter proceeds as follows. The first section discusses the economic transformation of East Asia. The second section describes the evolution of regional architecture during the past three decades. The chapter then considers major developments from 2015 until recently, and the challenges and opportunities they present for the region and its current architecture. The chapter concludes by highlighting the importance of further investment in a more robust regional, economic and security architecture that facilitates significant domestic supply-side reforms, particularly in developing Asia, so that the region can become a driver of the world economy and polity into the future.

## The remarkable economic transformation of East Asia

The three decades since the mid-1980s witnessed a dramatic economic transformation of East Asia. The shift towards more export-oriented economic policies, together with a surge in foreign direct investment (FDI), led to rapid growth of manufacturing exports and higher economic growth in a number of ASEAN countries and in China. India's exchange rate and trade reforms in the 1990s have moved the country towards greater openness and export orientation, albeit at a more measured pace than in ASEAN and China. Nonetheless, India's reforms have yielded higher economic growth, particularly in its service export sector.

Arguably, the decade from the mid-1980s to the mid-1990s, prior to the Asian financial crisis, could be described as ASEAN's first golden era of high growth, with surging investment and manufacturing exports, and significantly declining unemployment and poverty. An important catalyst for this golden era was the appreciation of the yen. This, together with outward-oriented policy reforms in Indonesia, Malaysia and Thailand, and the opening up of China, led to a surge in export-oriented FDI by Japan, Taiwan and Hong Kong (the latter two primarily directed foreign investment flows to China). This phenomenon is sometimes described as the 'flying geese' pattern of development. Japan was the first to pursue this pattern, and it was followed by other newly industrialised economies. By the early 1990s, these geese were joined by several emerging ASEAN countries and China. Overall, this pattern provides a spatial description of the dynamic shifts of comparative advantage in the region. Japanese firms were major players in this process. This was largely in response to the yen's appreciation, the sharp rise in Japan's labour costs and the Japanese government's encouragement for firms to shift their low-wage and low-skilled labour-intensive manufactures to ASEAN countries and China. In addition, the establishment of the special economic zones in coastal China—the country's major initial experimentation in opening its economy—led to a massive relocation of Hong Kong's manufacturing sector to China's Pearl River Delta. At the same time, Taiwanese firms expanded into Chinese coastal areas like Fujian. Thus, the late 1980s to early 1990s saw the emergence of export-oriented manufacturing sectors in these countries and the foundation for the regional production networks that now define East Asia's industrial production linkages, especially in the electronics and machinery industries.

The founding ASEAN countries experienced an economic crisis in 1997–99. In large part, this arose from the so-called ‘impossible trinity’ that these countries pursued during the latter 1980s and the early 1990s, or the long-term incompatibility of a fixed exchange rate, an open capital account and an independent monetary policy. There was an initial setback in terms of national output as a result of the crisis, but relatively robust growth during the 2000s, owing to large currency depreciations in the affected ASEAN countries and much more prudent macro-economic policies. Combined with surging import demand and a commodity boom arising from the fast-growing Chinese and Indian economies, these factors provided the foundations for the export and economic recovery. The 2000s also saw a deepening of the region’s production networks, which were increasingly centred on China, to the degree that China became the primary export market of many ASEAN and other countries, including Japan, Korea and Australia. This was a significant redirection of trade away from the US and, for a number of ASEAN countries, Japan.

The late 1990s to the 2000s and beyond saw the emergence of Cambodia, Laos and Vietnam (CLV); this group experienced much higher economic growth rates compared to the rest of ASEAN during this period. These higher growth rates, with an attendant surge in (primarily export-oriented) FDI and exports, arose from CLV’s aggressive shift towards outward- and export-oriented economic policies. It was facilitated by favourable market access conditions in ASEAN, the EU and the US. Myanmar commenced a similar process in the 2010s, with the reforms of a new civilian-oriented government. Vietnam has been the stellar success story for ASEAN in the past two decades in terms of reforms, international economic relations and socio-economic performance, arguably second only to China worldwide.

In short, during the past three decades, developing East Asia was a rapidly growing, transforming and dynamic region. The results of this process can be gleaned from the substantial rise in developing East Asia’s share of global investment, exports, trade in goods and services, and output (see Figures 9.1 and 9.2).

ASIAN ECONOMIC INTEGRATION IN AN ERA OF GLOBAL UNCERTAINTY

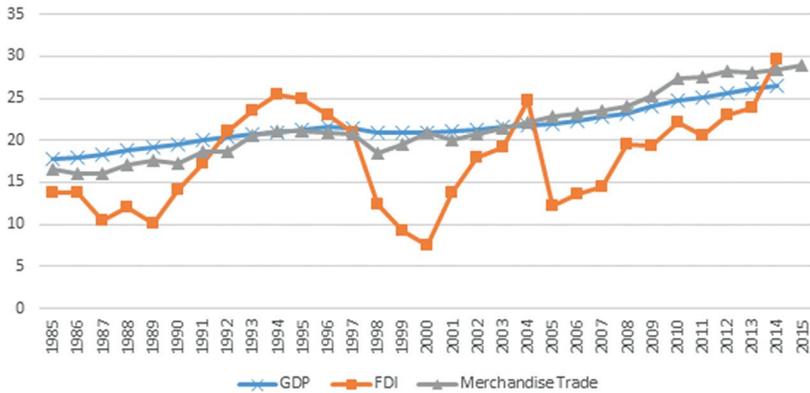


Figure 9.1: ASEAN+6's share of global GDP, foreign direct investment and total merchandise trade (per cent), 1985–2014

Source: UNCTAD ([unctadstat.unctad.org/EN/](http://unctadstat.unctad.org/EN/)).

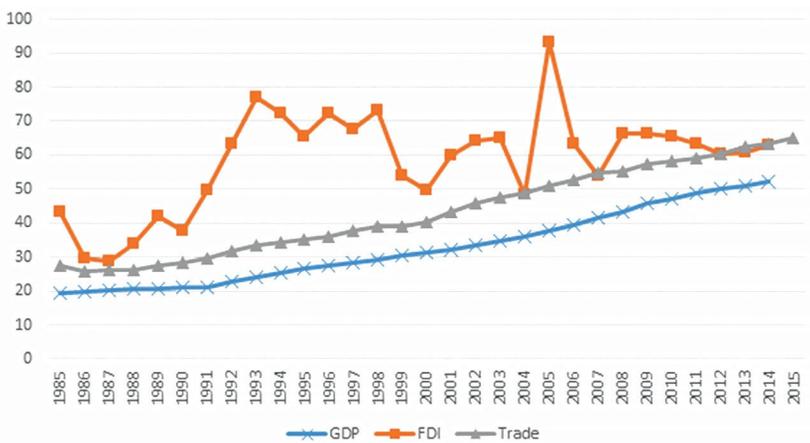


Figure 9.2: Developing Asia's share of ASEAN+6's GDP, foreign direct investment and total merchandise trade (per cent), 1985–2014

Source: UNCTAD ([unctadstat.unctad.org/EN/](http://unctadstat.unctad.org/EN/)).

Similarly, developed East Asian countries experienced significant change during the period. The flurry of reforms in Australia and New Zealand in the 1980s and 1990s effectively transformed these countries' relatively protectionist and rigid regulatory regimes into comparatively open economies, with regulatory regimes and systems that are now among the best in the world. Among the Organisation for Economic Co-operation and Development (OECD) countries, South Korea has been one of the most aggressive and consistent in improving its regulatory management

system since the late 1990s. South Korea, Australia, New Zealand and Singapore have ranked among the best in the world in terms of regulatory quality, competitiveness and ease of doing business. Equally important, the four have been more resilient to global shocks compared with many other OECD countries. Perhaps not surprisingly, these four countries have been strongly engaged in regional integration efforts and developing East Asia's regional architecture.

The upshot of the region's widespread transformation was that, by 2014, the ASEAN+6 region had already taken over the EU's status as the region with the largest share of global output. The ASEAN+6 share in 2014 was 26.47 per cent, compared with the EU's 26.40 per cent and the US's 25.54 per cent. The shares for the EU and US reflect secular declines experienced by both, but especially the EU, which had a global output share of 36 per cent in 1985. East Asia has also eclipsed the EU and the US as the world's leading investment destination and is edging closer to the EU as the world's largest trading group. Intra-regional trade in East Asia has grown substantially. For example, ASEAN's trade with itself and with the '+6' group (the non-ASEAN countries that make up the ASEAN+6 region) increased from about 51 per cent in 1990 to about 64 per cent in 2015. The intra-ASEAN+3 (ASEAN plus China, Japan and South Korea) trade share rose from about 37 per cent in 1990 to about 47 per cent in 2015.<sup>2</sup>

An important factor in the significant rise of East Asia in global trade and investment has been the expansion of regional production networks in the region, much of it in parts and components, and primarily involving Japan, Korea, Taiwan, China and ASEAN members. It should be noted that the rise in the intra-regional trade share within the ASEAN+3 occurred in parallel with the intra-regional trade intensity, declining from 2.06 in 1990 to 1.66 in 2015. This reflects the fact that, as it deepened its intra-regional trade, East Asia also greatly expanded its trade with the rest of the world. Indeed, the past three decades has seen the development of the so-called 'Factory Asia', which refers to the production networks in the region that are geared to producing goods not only for the region, but also, importantly, for export to the rest of the world, especially the US and Europe.

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2 Data taken from the Asian Development Bank (ADB) Asia Regional Integration Center.

These developments—the deepening economic linkages, the growth of production networks in East Asia and the rise of East Asia as the factory of the world—flourished in a fortunate context of convergent export-oriented trade policies and the growing economic openness of virtually all East Asian economies during much of the last three decades. This convergence was not solely the result of unilateral liberalisation obligations under the World Trade Organization (WTO). It was also the result of a surge in regionalism and the growth of regional architecture, as these facilitated deeper economic linkages intra-regionally without raising barriers against the rest of the world. Indeed, in many cases, the regional commitments were effectively multilateralised. Finally, the regional cooperative arrangement has brought peace and stability to East Asia during much of the period. This is the essence of the open and cooperative regionalism that has been the hallmark of East Asia's regionalism and regional architecture. A discussion on East Asia's regional architecture and regionalism follows below.

## Evolution of East Asia's regional economic and political security architecture

Alongside the economic transformation of East Asia during the past three decades has been the remarkable development of the region's economic, political and security architecture. Of interest are the regional institutions and arrangements for regional economic integration and cooperation, as well as for regional peace, stability and security. After being largely undeveloped throughout the 1980s, East Asia's regional architecture underwent a flurry of region building from the 1990s and, especially, from the 2000s.

There were few regional arrangements, such as free trade agreements, for regional economic integration and cooperation before the end of the 1980s. Those that did exist were largely at initial tentative stages of implementation, or just proposals. Notable stillborn proposals include the Japanese-led Pacific Free Trade Area, consisting of Australia, Canada, Japan, New Zealand and the US, and the Organisation for Pacific Trade and Development, which was a proposal similar to the OECD (Asian Development Bank [ADB], 2010, pp. 57–58).

However, two classes of institutions established during that era, at the official and non-government levels, proved to be central to the development of regional economic architecture in the 1990s and beyond. At the official level was ASEAN (established in 1967) and, at the non-governmental level, were the PAFTAD conference series (established in 1968) and PECC, established in 1980. Essentially, this shows that there was a nascent regional architecture in East Asia until the late 1980s, with the networking primarily occurring among non-government institutions. The most significant intergovernmental effort at deeper regional economic linkages was the Closer Economic Relations (CER) free trade agreement between Australia and New Zealand, which was established in 1983.

From the 1990s, ASEAN became the centre of East Asia regional architecture. During its first three decades of existence (1967–97), the major benefit of ASEAN for the region was not economic but, rather, the engendering of peace, neighbourliness and cooperation among the founding ASEAN countries. This was important because, in the 1960s, South-East Asia was deemed unstable and characterised as the ‘Balkans of the East’. ASEAN built confidence and dispelled mutual suspicion between ASEAN members through frequent meetings and other cooperative activities. It pushed for peace throughout the ASEAN region through the Zone of Peace, Freedom and Neutrality, and through efforts to end the Cambodian conflict, which culminated in the 1991 Paris Agreement. ASEAN’s significant economic initiatives during the period—the Preferential Trade Arrangement, ASEAN Industrial Projects and the ASEAN Industrial Complementation Scheme—had, at best, modest results.

PAFTAD and PECC have been the most important groups shaping one of the key characteristics that defines East Asian regionalism: open regionalism. Together with the APEC Business Advisory Council (BAC), successor of the Pacific Business Economic Council, PECC has become a critical support institution for APEC since the latter’s establishment in 1989. Perhaps the best characterisation of the important role of the non-governmental institutions, especially PECC, to East Asia’s region building at that time was put forward by former Australian Prime Minister Robert Hawke, in a momentous speech in South Korea, on 31 January 1989, when he stated that: ‘PECC’s work has illuminated large areas of common interests within the region’ (Hawke, 1989, p. 4). Indeed, as Hawke (1989) stated, to some extent, the conception of APEC as a ‘more formal

intergovernmental vehicle of regional cooperation ... in the model, in a different context, by the OECD' was a follow up of PECC, which 'by its informality ... has also made it difficult for it to address policy issues which are properly the responsibility of Governments' (pp. 4–5).

The decade from the late 1980s to the early 1990s was a momentous period in terms of global security and economic relations. In the political and security arena, it witnessed the fall of the Berlin Wall, the reunification of Germany and the eventual collapse of the Soviet Union. In the economic relations arena, the period was characterised by the establishment of the EU (and the accompanying fears of a 'Fortress Europe') and of the North American Free Trade Agreement (NAFTA). In addition, the Uruguay Round of trade negotiations started in 1988, which, despite their ups and downs, ended successfully in 1994.

All of these major international developments significantly accelerated East Asia's regionalism and the development of its regional economic architecture. Thus, the establishment of APEC was largely the result of the region's appreciation for its relatively open and non-discriminatory multilateral trading system. Other concerns in the region, such as the rising bilateral tensions caused by trade imbalances with the US, poor progress of the Uruguay Round and the formation of bilateral and regional trading arrangements that could undermine a truly multilateral trading system, were also contributing factors to APEC's establishment (Hawke, 1989). Hawke first presented the idea that eventually led to the formation of APEC in South Korea, a middleweight country. APEC's preferential bias for the multilateral trading system makes the concept of 'open regionalism' espoused by PECC a perfect fit for APEC. APEC's aims are trade and investment liberalisation and facilitation, deeper regional economic and technical cooperation and structural reform that is consistent with, and supportive of, the multilateral trading system. APEC has become a key fixture of East Asia's regional architecture since the 1990s. Given its voluntary nature, and the strong support from APEC, BAC and PECC, APEC has provided a platform for Asia-Pacific discussion and agreement on a wide range of border, behind-the-border and structural and regulatory reform issues. Despite the failure of initiatives such as voluntary early sectoral liberalisation, APEC has become an important complement to other regional integration and cooperative institutions and initiatives, including ASEAN, the next topic of discussion.

## ASEAN and regional economic architecture

ASEAN has become more active in economic region building since the 1990s. Arguably, this is the area in which ASEAN centrality has been more pronounced and, at the same time, increasingly tested. In 1991, ASEAN established the ASEAN Free Trade Area (AFTA), in large part in response to the concerns generated by the establishment of the EU and NAFTA, which, it was feared, could curtail exports and even investments to an increasingly export-oriented ASEAN. AFTA was a significant leap forward from ASEAN's previous Preferential Trade Arrangement of the late 1970s–80s. The successful formation of AFTA was particularly impressive, given the domestic policy contestations between protectionism and greater economic openness that occurred in the region at that time. This occurred in Indonesia (see Drysdale, 2016b) and, later in the 1980s, in the Philippines. Thus, to a large extent, AFTA was not just a reaction to negative expectations in regard to ASEAN's external trading environment, but also a reflection of the growing confidence in ASEAN member states that export orientation and economic openness delivered better economic results than protectionism, as reflected in sharply rising exports of manufactures and FDI inflows.<sup>3</sup> AFTA was the second free trade agreement in East Asia after CER, but the first in which most of the members were developing economies—that said, they were also among the fastest growing economies in the world, until the Asian financial crisis.

It is worth noting that ASEAN's response to the Asian financial crisis was not to return to protectionism but to deepen and widen its open regionalism. A few months after the start of the financial crisis, ASEAN leaders signed the ASEAN Vision 2020, which became the foundation for the blueprint of the ASEAN Economic Community (AEC). ASEAN maintained its outward-oriented, open regionalism course despite the financial crisis because of a confluence of factors. These included the discussions and agreements within APEC (particularly, the Bogor goals and China's decision not to devalue the renminbi in view of the crisis), implementation of the Uruguay Round, the signing of the Information

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3 The Philippines was the exception as it lagged in FDI and exports compared to other ASEAN member states. AFTA was an affirmation of the significant shift in its economic policy stance away from protectionism, which, at that time, was viewed by many as a major reason for the crisis that befell the Philippines in the early to mid-1980s.

Technology Agreement in 1996, the implementation of AFTA, the results of track two discussions (in PECC and ASEAN–ISIS) and the remarkable success of ASEAN in trade and FDI before the crisis.

East Asia responded to the crisis by deepening the regional financial cooperation that arose during the course of the crisis. This included establishing the Chiang Mai Initiative, the first regional currency swap arrangement launched by the ASEAN+3 countries in 2000; the Asian Bond Market Initiative; and enhanced regional macro-economic surveillance mechanisms. All of these financial cooperation initiatives were strongly supported by the ‘+3’ countries and initially nurtured by the ADB. At the same time, the sharp drop of FDI in ASEAN in the aftermath of the crisis and the surge in Chinese investment and growth meant that the implementation of the AEC was brought forward from 2020 to 2015. This was done to revive ASEAN as an attractive investment destination and to assist it to regain its pre-crisis position as a premier direct investment destination in the developing world.

The 2000s saw an explosion of FTAs involving East Asian countries. The surge in bilateral FTAs in the region was the result of the difficulties experienced in the WTO Doha Round negotiations. Lack of progress within the WTO encouraged support for bilateral and regional FTAs and ‘competitive liberalisation’ as stepping stones to global reform. Another factor in this explosion was the use of such FTAs for trade expansion and investment attraction, in the face of the challenging international economic environment at the turn of the 2000s. Most FTAs were pursued by small and medium powers, such as Singapore, Malaysia and Thailand, as well as Mexico across the Pacific (see Aggarwal & Koo, 2006).

As highlighted by the East Asia Vision Group (EAVG, 2001), the 1997–98 Asian financial crisis provided ‘a strong impetus to strengthen regional cooperation ... [giving] rise to the recognition that East Asia needs to institutionalize its cooperation to solve similar problems and prevent new ones’ (p. 7). China’s proposal for an ASEAN–China FTA led to a similar proposal for an ASEAN–Japan Economic Partnership Agreement and, indeed, snowballed into the signing of ASEAN+1 FTAs with Australia–New Zealand, China, India, Japan and South Korea over the decade. The EAVG’s proposal for an East Asia Free Trade Area, which involved the ASEAN+3 countries and was pushed by China, led to a counterproposal for a Comprehensive Economic Partnership for East Asia, involving the ASEAN+6 countries, which was primarily promoted

by Japan. ASEAN's diplomatic response to these contesting proposals was to unveil the Regional Comprehensive Economic Partnership (RCEP) in 2012, with a variable membership, but initially comprising the ASEAN+6 countries. An important goal of RCEP was facilitating trade by eliminating the 'noodle bowl' effect from the varying rules of origin of the ASEAN+1 FTAs, and aiming for a high-quality and inclusive FTA. Meanwhile, the Trans-Pacific Partnership (TPP), initiated by small, open economies, including Singapore, Brunei Darussalam and Chile, gained prominence when the US joined in and substantially shaped negotiations. The TPP negotiations were completed in 2015, but US President Donald Trump withdrew the US from the grouping, leaving the remaining members to negotiate a way forward, and the RCEP negotiations are ongoing (2017).

It is remarkable that there was such an explosion of bilateral and regional FTAs in such a short period of time in East Asia. In part, this was consonant with deepening business linkages—especially production networks—in a world of increasing global competition. Deepening and geographically widening business networks require a reduction in service link costs to allow for more efficient slicing and dicing of production processes and stages across borders, which reduces overall costs and improves efficiencies. Another reason for the explosion of FTAs was that the region was the fastest growing market, with large potential for investment and trading in a variegated and growing range of businesses and networks. In short, the FTAs were effectively problem-solving and opportunity-enhancing initiatives, meant to further the dynamism and synergies of East Asian economies.

The operationalisation of the first two regional FTAs in East Asia—CER and AFTA, which is part of the broader AEC—effectively embody open regionalism. This is because ASEAN member states, as well as Australia and New Zealand, trade much more with the rest of the world than between themselves. At the same time, China is the centre of Factory Asia and, as such, its production networks must engage the rest of the world, both in terms of exports and imports. This is consistent with open regionalism. Similarly, Japan and South Korea's top export markets have included the US for quite some time. In short, an export-oriented region must necessarily follow open regionalism to remain the factory of the world, even as, increasingly, it becomes the market of the world.

## ASEAN and regional political security architecture

Since the 1990s, ASEAN has become the centre of East Asia's regional architecture in the political and security arena. ASEAN received enhanced diplomatic recognition following both its success in ending the Cambodian conflict through the 1991 Paris Agreement and its confidence-building measure that provided the foundation for the ARF, established in 1994, as an offshoot of the ASEAN Post Ministerial Conference. The ARF is noteworthy for a number of reasons (Ba, 2016):

- It was the first official-level security dialogue involving regular multilateral regional discussions on regional security and cooperation in the Asia–Pacific after the Cold War.
- It signified ASEAN's break from its earlier emphasis on regional (ASEAN) autonomy, which implied resistance to collective institutionalised security cooperation with the big powers.
- It brought in a rising China (hitherto outside the Cold War–era US security alliances in East Asia) and Russia.
- It affirmed the importance and relevance of ASEAN's Treaty of Amity and Cooperation for the region.
- Most importantly—and in sharp contrast to the then prevailing realist, balance of power perspective—it employed a cooperative approach to security, considering that 'security is best gained not by working against others, but rather [by] working *with* them' (Ba, 2016, p. 5).

The cooperative security approach is an institutional innovation to regional security architecture. It is informed by ASEAN's emphasis on dialogue, diplomacy and consensus, and is, arguably, the most realistic means by which small and middleweight countries can assume diplomatic centrality in multilateral security arrangements that involve major regional powers. ARF emphasised non-traditional security issues (Ba, 2016; Leifer, 2009).

Two other ASEAN-related institutional innovations in East Asia's regional security architecture are worth noting. The first, an offshoot of ARF, is the ASEAN Defence Ministers Meeting (ADMM), established in 2006, and the ADMM Plus, established in 2010, which focuses on practical, functional security cooperation initiatives. Membership of both ADMM and ADMM Plus is limited to the membership of the EAS, a smaller grouping than the 27 or so members of ARF. The EAS, which includes ASEAN+6, as well as the US and Russia, is the other institutional innovation that is becoming an important leaders-level

dialogue mechanism on regional security matters in East Asia; the ARF is only at the ministerial level (foreign ministers). Although there are other institutions and arrangements that have a bearing on East Asia's regional security architecture, such as the Shangri-La Dialogue, Six Party Talks and the Shanghai Cooperation Organisation, the EAS provides a platform at the leader's level for managing the challenges of East Asia's regional security environment—especially in the face of apparently growing China–US rivalry in the region.

## East Asia's transformation and regional architecture moving forward

The years 2015–17 may prove to be a watershed period for the East Asian region. ASEAN (and East Asia) has furthered its commitment to regional economic integration and connectivity and, at the same time, the East and South China Sea issues have markedly raised regional security uncertainty in the region. More recently, the ascendancy of a more nationalist, less open and more populist 'America First' US administration has also drastically increased uncertainty on the economic and trading environment between the US and East Asia. These issues pose major challenges to further region building in East Asia and put tremendous pressures on the efficacy and credibility of current institutions and organisations in the region. The contentious US–China relationship has increased the importance of East Asia's regional economic and security architecture. The remarkable opportunities offered by a robustly growing, developing East Asia to the region and the world demand, as well as facilitate, the stronger regional economic and security architecture that currently exists in East Asia.

### Opportunities in developing East Asia

Significant opportunities are offered by the robustly growing economies of China, India and ASEAN. Atsmon, Child, Dobbs and Narasimhan (2012, pp. 43–44) projected that the number of Chinese households with an annual income of US\$16,000–US\$34,000 would increase from about 14 million in 2010 to about 167 million in 2020, representing about 400 million individuals. The number of affluent households earning more than US\$34,000 per year is predicted to increase from 4.3 million to around 21 million—about 60 million people—during the same period (Atsmon et al., 2012). This is clearly a huge market. By around 2030, as China

moves towards becoming a high-income country—as per the World Bank definition—many more Chinese households and individuals will enter the consumer market; this has tremendous potential for expanded trade within the region (OECD Development Centre, 2016, p. 32). Similarly, McKinsey Global Institute (2007, p. 13) projected that India's middle class—households with annual incomes of US\$4,380–US\$21,890—will increase from 13 million households (50 million individuals) in 2005 to 128 million households (or 583 million individuals) by 2025. This would make India the world's fifth largest consumer market by 2025. Likewise, ASEAN (as a group) is already one of the largest economic zones in the world, and its 'consumer class'—households with incomes capable of making significant discretionary purchases—will increase from about 67 million at present to about 125 million households by 2025 (Vinayak, Thompson & Tonby, 2014, pp. 3–6). The sheer magnitude of the projected middle/consumer class in China, India and ASEAN makes developing East Asia the largest source of market growth in the future.

Engendering robust growth in developing East Asia will require, first, significant supply-side reforms to allow a successful rebalancing of China's economy towards greater consumption and a domestic economic focus, although it will remain deeply engaged with the international economy. Second, successful industrialisation and employment creation in India needs to occur. Third, ASEAN must be upgraded technologically to achieve greater competitiveness. Although much of this reform must be domestically driven, a concerted deepening of regional economic linkages will greatly contribute to the success of such domestic reform. Indeed, there is a significant internal dynamic and multiplier effect from cooperative reform and deeper integration within East Asia, as exemplified by the AEC and RCEP.

For East Asia as a whole, successful RCEP negotiations could facilitate the grasping of a 'historic opportunity', as Drysdale (2016a) put it. Cooperative reform and deeper integration calls for the complementarity of RCEP, AEC, APEC, the Asian Infrastructure Investment Bank (AIIB), the ADB and the Belt and Road Initiative (BRI), among others. Non-governmental institutions, such as PAFTAD, PECC and ERIA RIN, also have an important role to play in the successful transformation of the region, given their shared experiences, as well as their understanding of practices and analysis. In short, the regional economic architecture should be tasked with ensuring that open and cooperative regionalism in East Asia delivers for the region and its peoples.

## ASEAN, the AEC and RCEP

Both AEC and RCEP are important forums through which ASEAN member states can maximise the benefits and opportunities from the growing East Asia region. AEC goes much further than enhancing regional integration, as it is about concerted and cooperative domestic reforms and regional connectivity. These are both critical elements for ASEAN to remain a major FDI destination and a significant production hub for the region and the world. RCEP, if successfully concluded, would expand market access, cooperative arrangements and reform impetus to the whole dynamic East Asia region.

For ASEAN, the end of 2015 saw the formalisation of the AEC. In the next decade, ASEAN countries will be required to address behind-the-border and at-the-border barriers to deeper integration, as well as the challenges of greater national and regional connectivity. The results of monitoring studies by ERIA on the implementation of the 2015 AEC blueprint showed that, despite significant progress, much remains to be done for ASEAN to become a relatively integrated production base and market, especially in the areas of services, mutual recognition arrangements, non-tariff measures, investment and trade and transport facilitation. AEC's unfinished business from 2015 tends to relate to areas for which implementation efforts are more sensitive and difficult, require more time and resources or involve in-country institutional and regulatory changes.

The new AEC 2025 Blueprint includes finishing the unfinished business of the 2015 Blueprint, as well as new initiatives, including the Good Regulatory Practice (GRP) initiative. A number of these issues are highlighted in the new Master Plan on ASEAN Connectivity (MPAC) for 2025. Behind-the-border regulatory, institutional and coordination changes are becoming increasingly important issues as ASEAN integration deepens. Equally important is cross-border regulatory, institutional and process coordination among ASEAN countries. To some extent, the implementation of the GRP under the 2025 AEC Blueprint could help address the domestic and cross-border issues raised above. For example, ASEAN's business sector has already raised issues regarding the different requirements and regulations among ASEAN countries without appropriate mutual recognition agreements, and the burdensome processes and inadequate transparency in several ASEAN countries. There remain huge differences among ASEAN members in terms of ease of doing business and trading across borders.

In addition, many ASEAN member states will need to invest more in improving their human capital as they lag behind China and India in this area. As human talent is a key basis for competitiveness, many ASEAN countries may need to further open their economies to foreign talent to leverage their local talents and develop competitive niches. Similarly, ASEAN countries will need to encourage greater technological diffusion and enhance their innovation and adaptation capabilities to raise productivity growth and move up the technology ladder. All of the above will assist ASEAN member states to avoid a middle-income trap.

Clearly, the implementation of the AEC 2025 Blueprint will be extremely challenging. However, a successful AEC is essential for ASEAN to maintain its role as a key facilitator in East Asia's regional architecture into the future, especially in light of a rising India and a superpower China. To this end, ASEAN could draw on learnings, synergies and complementarities between implementing the AEC and MPAC measures and those of the broader regional cooperation and integration initiatives in East Asia and the Pacific, such as RCEP, APEC, AIIB and China's BRI. Indeed, harnessing the complementarities of these institutions and initiatives, together with other regional institutions, such as the ADB, can further regional liberalisation, connectivity, facilitation and economic and technical cooperation.

Equally importantly, these synergies contribute to greater inclusiveness within countries as well as between developed and developing countries in the region. Indeed, the economic success of Cambodia, Laos, Malaysia and Vietnam in the past decade has stemmed, in large part, from the synergies of liberalised economic regimes, improved facilitation of trade and investment, greater connectivity through infrastructure and strengthened institutional capability. Thus, enhancing the synergies of liberalisation, facilitation, economic and technical cooperation, and connectivity will propel East Asia towards deeper regional integration and global competitiveness. In turn, this could underpin more robust and inclusive growth.

In this regard, RCEP and China's BRI are opportune for the region. RCEP combines liberalisation, facilitation reforms and economic and technical cooperation. In addition, the complementarity with the AIIB and BRI can be harnessed to facilitate connectivity and support institutional capacities to implement reforms in developing East Asia. The AIIB, which started operations in 2015, and the BRI are the flagship initiatives of

China's new 'neighbourhood diplomacy' (Chen, 2015). RCEP has come at a particularly opportune time because of the confluence of similarity in domestic reform imperatives in developing East Asia and the availability of enabling regional institutions and initiatives. As Drysdale emphasised, RCEP is a 'historic opportunity for East Asia to secure its future as the dynamic centre of higher than average global growth through deepening its integration and cooperative commitment to the reforms' (Drysdale, 2016a, p. 2). This is because much of developing East Asia is in need of supply-side reforms to rebalance economies (China), remain attractive to investors and move up the technology ladder (developing ASEAN states), join global value chains (India) and unlock further productivity potential.

As of 2017, RCEP negotiations were ongoing. There appeared to be a growing resolve among RCEP members to achieve substantial outcomes from the negotiations in 2017 (even if RCEP may be concluded in 2018), given that 2017 marks the 50th anniversary of ASEAN. To some extent, RCEP negotiations are daunting because RCEP is an indirect way of establishing FTAs among ASEAN RCEP partners. In addition, it appears that ASEAN member states have yet to reach common positions on a number of RCEP issues, such as services.

In principle, ASEAN countries should embrace RCEP because it can potentially deliver greater benefits than AEC (Itakura, 2012). RCEP aims to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN+6 countries. At the same time, RCEP emphasises inclusiveness and economic and technical cooperation. Indeed, in light of the non-negligible tariffs and varied levels of development and institutional capacities that exist, a successful conclusion of RCEP would likely have positive effects in terms of the liberalisation and facilitation of global trade.

The economic and technical cooperation exemplified by a robust RCEP could present an excellent example to the rest of the world. Given that trade barriers are higher among RCEP countries and that the RCEP region holds great potential for trade growth, if RCEP can instigate deeper integration initiatives among ASEAN's RCEP partners, it will advance global trade reform.

East Asia has effectively been promoted into a *de facto* global leadership role. This has occurred as a consequence of the US rejecting the TPP as part of its more inward-looking 'America First' stance, the internal

challenges in the EU following Brexit and the apparent de-emphasis on North Atlantic Treaty Organization by the new US administration. This global leadership role for East Asia involves engendering and maintaining outward economies and open markets. A successful RCEP conclusion, the BRI and Japan's expanded quality infrastructure program are all important foundations for the global leadership of East Asia. However, a successful RCEP conclusion requires engaged and active leadership by ASEAN, with the support of Australia, China and Japan.

## East Asia's regional political security architecture moving forward

Pan (2015) described the process of European regionalisation as progressing 'from the center to the periphery', whereas the logic of East Asian region building is 'from the periphery to the center' (p. 20), with the periphery being the middleweight economies. The gravitational pull of power in regional architecture appears to be towards the centre, especially in the light of a rising China. Nonetheless, peace, stability and prosperity in East Asia calls for the region's current and future big powers to remain wedded to, and supportive of, a coordinated and strengthened network of institutions, organisations and agreements mainly centred around the region's small and middleweight countries. A lack of unity among the four big powers—China, India, Japan and the US—in the political and security arena would lead to the fulcrum of East Asia's regional architecture resting on the shoulders of the region's small and middleweight countries.

Although the trajectory of the region's economy and architecture appears to be promising and its challenges manageable, significant uncertainty persists in relation to the region's political and security environment and architecture. During 2015–16, China flexed its muscles in the South China Sea in relation to its island-building agenda. Its behaviour raised uncertainty in a region characterised by a rising China and its prickly political and security relationship with the once-dominant US. Moreover, the new US administration has been antagonistic towards China regarding trade, Taiwan and the South China Sea. Japan's more assertive political and security diplomacy in recent years has also increased this uncertainty, especially in light of its territorial disputes and historical baggage with China.

However, there are other factors that temper the uncertainty of the security environment in the region. Despite being vigorously contested by China, the Hague Tribunal decision provided clarity on the nature of the South China Sea. Moreover, the Philippines decided to set aside the tribunal's decision, despite it being in the Philippines favour, to improve its bilateral relations with China. It is also worth noting that the strong economic linkages between the region's big powers—the US–China and the Japan–China trade relationships are among the largest in the world—provide a solid rationale for these countries to ensure a relatively stable security environment in the region.

The remarkable economic transformation of East Asia has been underpinned by a relatively stable regional security environment. ASEAN aims to create a binding code of conduct in the South China Sea as a means of defusing the region's lingering tension over the area. More broadly, managing the region's security challenges would involve investing much more into aspects of its regional security architecture that have propagated 'security multilateralism' and security cooperation (Bisley, 2013). The multilateral security mechanisms, embodied by ARF, ADMM Plus and EAS, 'provide the opportunity to improve information flows, reduce the prospects and consequence of miscommunication and generate regular lines of contact so as to build a basic sense of trust among the region's states' (Bisley, 2013, p. 36). From the Australian perspective, the region's regional security architecture complements the unilateral security investments and bilateral security arrangements that a country can employ to enhance its own national security. Investing in regional security architecture that espouses security multilateralism is particularly important for small and middleweight countries, such as the ASEAN countries and Australia, for which long-term security lies in a stable balance of power among the region's big powers.

Regional leadership contestations between China, Japan and the US mean that the current regional architecture, which espouses security multilateralism and the 'ASEAN way' of dialogue, consultations, consensus and non-interference, remains the most robust means of managing the changing security landscape in the region. Strengthening the current regional architecture primarily involves strengthening EAS, as it is the most important leaders-only forum in East Asia that covers all the region's big powers. As such, it can have significant effects on the region's security environment. Its remit is to act as a platform for the East Asia leaders' dialogue on broad strategic, political and economic issues

of common interest and concern. Its relatively informal structure aims to encourage the candid exchange of views among the leaders as well as to 'establish and strengthen personal relationships between the leaders' (Singapore Institute of International Affairs [SIIA], 2014, p. 3).

SIIA (2014) proposed several ways to strengthen EAS, including making it the 'apex summit' in which contentious and strategic issues arising from other regional forums could be tackled, creating a 'Sherpa' system to shape the EAS agenda, and tabling hard issues to encourage informal discussions on sensitive topics. Track II institutions that foster non-government, informal and unofficial engagement, such as ASEAN–ISIS, can also contribute to the discourse on critical issues in the region. Indeed, as EAS deals with non-traditional security issues, it may need to bring the non-government sector into the discussion. Further, this group—along with the newly created EAS unit at the ASEAN Secretariat—can act as an important support structure to EAS, as made clear by the contribution of the EAS Permanent Representatives to ASEAN in crafting the EAS response to North Korea's nuclear and ballistic missile tests. Moving forward, a more unified voice can help ASEAN reinforce its normative power in the region and maintain its centrality in the EAS and regional architecture.

## Conclusion

The above discussion suggests that, more than ever, East Asia will continue to be the locus of opportunity and, to some extent, of uncertainty for the region and the world. The question arises as to whether the current regional architecture is up to the task of managing the risks and capturing the opportunities. Addressing the challenges and opportunities in East Asia calls for further investment in making the regional architecture's network of institutions, organisations and agreements even more responsive. Such a flexible network approach allows for accommodation and enrichment among the institutions and agreements that remain centred on the small to middleweight countries, but also takes into account the varying concerns and interests of (as well as opportunities arising from) the big powers. It is evident that the current and future network of institutions, both non-government and official, that define East Asia's regional economic architecture need to work together to better manage the challenges—and opportunities—of an ever more integrated, open and fast-changing East Asia.

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