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# The Region





# CHALLENGES TO SOUTHEAST ASIAN REGIONALISM IN 2018

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The year 2018 saw various trends and developments that posed challenges to ASEAN and its future. One was the ongoing difficulty the grouping has had in dealing with the Rohingya problem, which reveals the constraints and limitations under which it operates. The Rohingya problem became internationalized as the issue was taken up by international agencies and external governments in the face of ASEAN inaction. Secondly, with regard to the issue of the South China Sea, the United States and China faced off against each other in a way that sidelined ASEAN. ASEAN's relevance to this issue might be ensured in the negotiation of a Code of Conduct (CoC) with China, but 2018 saw little progress on a matter that has been on the table for several decades now. Thirdly, the ASEAN economies were being steadily integrated into a wider region that included its major trading partners and sources of investment. ASEAN's pursuit of broader trade regimes with its external trading partners such as the Regional Comprehensive Economic Partnership (RCEP) and the Trans Pacific Partnership (TPP) pose a major challenge to its centrality. Moreover, the so-called trade war that erupted between the United States under President Donald Trump and China exposed the vulnerabilities of the ASEAN economies, although opportunities were also present. Fourth, the notion of the Indo-Pacific gained currency in 2018, not only amongst ASEAN's external

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partners but in Indonesia as well. The idea of Southeast Asia that was included in the Bangkok Declaration of August 1967 has been a supporting foundation for ASEAN regionalism, but how this can be reconciled with the notion of the Indo-Pacific will be ASEAN's major challenge.

## **ASEAN's Rohingya Problem**

The Rohingya problem has bedevilled ASEAN for the past three decades. Myanmar's relationship with ASEAN has been troubled ever since the Myanmar military pushed some 250,000 of the Muslim minority from Rakhine State to Bangladesh in 1991 and 1992. The problem has been festering ever since and has demonstrated ASEAN's inability to deal with a member who invokes the non-intervention clause of ASEAN's founding charter, Article 2 of the Treaty of Amity and Cooperation and Article 2(a) of the ASEAN Charter of 2007. The Myanmar military has simply and successfully resisted demands within ASEAN to curb its campaigns against the Rohingya. In August 2017, after the Arakan Rohingya Salvation Army attacked military and police outposts, the Myanmar military launched yet another campaign and, according to the UNHCR, over 720,000 Rohingya were pushed into the Cox's Bazar district of Bangladesh. When the prime minister of Bangladesh Sheikh Hasina addressed the United Nations General Assembly on 28 September 2018, she declared that there were now 1.1 million Rohingya refugees in her country.<sup>1</sup>

ASEAN has had its hands tied by its non-interference charter and the conditions by which members joined. At the ASEAN Summit on 28 April 2018, the chair's statement reported that ASEAN leaders had received a briefing from Myanmar on the humanitarian situation in Rakhine State. The statement also expressed "support for the Myanmar Government in its efforts to bring peace, stability, the rule of law, to promote harmony and reconciliation among the various communities as well as to ensure sustainable and equitable development in Rakhine State".<sup>2</sup> The foreign ministers of ASEAN also met informally on the sidelines of the UN General Assembly in late September to urge Myanmar to form an independent commission of inquiry to investigate the reported abuses. Singapore's foreign minister Vivian Balakrishnan said that the purpose of such an inquiry would be "to hold all those responsible fully accountable".<sup>3</sup> As Balakrishnan explained, ASEAN wanted to facilitate the voluntary repatriation of the Rohingya, which Myanmar has resisted.

Within ASEAN the issue has been advanced by Muslim-majority member states Malaysia and Indonesia, while being resisted by Thailand and Myanmar.

Frustration with ASEAN's muted response over this issue has in the past stimulated calls for a change in its internal decision-making process from one of consensus to some form of majority voting, thus helping to prevent a one-country veto over issues that concerned the majority. Surin Pitsuwan, the Thai foreign minister from 1997 to 2001 and a Muslim from southern Thailand, was distressed by the violence against the Rohingya. Surin had once promoted the notion of "flexible engagement" as a modification to ASEAN's principle of non-interference in each other's domestic affairs. However, any attempt to modify the consensus rule in favour of majority voting was too radical for ASEAN, and any change had to be agreed to by consensus anyway.

Despite the anguish caused by the Rohingya issue amongst the Muslim-majority member states, ASEAN was bound by the rules of its formation and constrained from taking the lead over the issue. In December 2017, Balakrishnan called the Rohingya issue a humanitarian disaster but stressed that consensus was the foundation of ASEAN's unity and that "unity and centrality are key to our survival".<sup>4</sup> The director general of ASEAN cooperation in Indonesia's Foreign Ministry, Jose Tavares, said in November 2017 that members saw little need to change ASEAN's decision-making procedures and that there would be no reforms to strengthen the grouping's institutional capacity.<sup>5</sup> Weeks later, the outspoken Indonesian diplomat in a public forum criticized ASEAN's record on human rights and the little progress it has made since the ASEAN Human Rights Declaration was adopted in November 2012.<sup>6</sup>

Within Malaysia, there were also calls for a firmer position against Myanmar over this issue. The chair of the ASEAN Inter-Parliamentary Myanmar Caucus, Datuk Zaid Ibrahim, wrote that Malaysia should take what he called a case of "genocide" to the International Court of Justice.<sup>7</sup> Similarly, the new Pakatan Harapan government headed by Mahathir which was elected on 9 May 2018 was particularly concerned about the treatment of Muslims, in Myanmar as well as in China. When Mahathir was the leader of Malaysia back in the 1990s, he had agitated against the Myanmar military's campaign against the Rohingya in 1991 and 1992. Nevertheless, Mahathir supported Myanmar's membership of ASEAN in 1997. Now elected once again as Malaysia's premier as head of the Pakatan coalition, Mahathir has expressed his disappointment with Myanmar's state councillor Aung San Suu Kyi for her refusal to condemn the military's campaign against the Rohingya. Describing her as a "changed person", Mahathir revealed that he had lost faith in her.<sup>8</sup> Malaysia's prime-minister-in-waiting Anwar Ibrahim was more outspoken when he declared that he was "appalled" by Aung San Suu Kyi, while also condemning China's treatment of the Muslim Uighurs.<sup>9</sup>

In Jakarta, public protests by Islamic organizations were held outside the Myanmar Embassy. Legislators from Indonesia's House of Representatives called for humanitarian intervention under Chapters VI and VII of the UN Charter. They also anticipate that Indonesia's elevation to the UN Security Council as a non-permanent member over 2019–20 would allow it to press the Myanmar government for action, and possibly even referring the issue to the International Criminal Court (ICC).<sup>10</sup> Indonesia's President Jokowi has adopted a diplomatic approach and he expressed his country's concerns over the issue when he met with Myanmar's new president, Win Myint, before the ASEAN summit in April 2018. Jokowi called for the implementation of the UN-recommended measures to alleviate the humanitarian crisis, which includes allowing humanitarian aid workers into the north of Rakhine state and setting up an independent investigation into the Rohingya issue.<sup>11</sup>

President Duterte of the Philippines has similarly called the Rohingya crisis "genocide" and pledged to accept refugees from Myanmar. However, Duterte himself is facing criticism from human right activists for his policy of extra-judicial killings in the Philippines. Having attacked his foreign critics for "meddling with the Philippines' affairs", Duterte has advised Aung San Suu Kyi to similarly ignore her critics as he does.<sup>12</sup>

In Thailand there was a different picture. Under a democratic government in the 1990s, human rights activists held demonstrations in Bangkok against the Thai government's engagement of Myanmar and its unwillingness to condemn the violence against the Rohingya. The current military government in Thailand has however suppressed all protests against Myanmar, including instructing the police to close a public forum in Bangkok on 10 September 2018 at which various activists had been scheduled to speak on the Rohingya issue. The explanation given for the shutdown was that Thailand's national security and "neighbourly relations" were at stake.<sup>13</sup>

The Rohingya issue has, however, become internationalized and elevated well beyond ASEAN's constrained parameters, as various international agencies have weighed in to express alarm over what has become a humanitarian disaster in a way that has bypassed ASEAN. The Annual Report of the UN High Commissioner for Refugees (UNHCR) and the UN Human Rights Council of 3 July 2018 detailed "grave human rights violations and abuses carried out in a systematic, targeted and deliberate manner by the Myanmar security forces".<sup>14</sup> In their report of 27 August 2018, UN investigators concluded that "criminal investigation and prosecution is warranted, focusing on the top Tatmadaw generals, in relation to the three categories of crimes under international law; genocide, crimes against

humanity and war crimes.”<sup>15</sup> UN secretary-general Antonio Guterres described the “horrendous persecution” of the Rohingya as a case of “ethnic cleansing”.<sup>16</sup> The U.S. State Department also conducted its own investigations of the Rohingya situation based on interviews conducted in refugee camps in Bangladesh in April 2018. While U.S. representative to the UN Nikki Haley declared that the State Department’s findings were “consistent” with those of the UN, she avoided using the term “genocide”, since the Genocide Convention of 1948 would obligate the United States to impose punitive measures against Myanmar.<sup>17</sup>

Similarly, a UN Human Rights Council mission reported that it had “established consistent patterns of serious human rights violations and abuses”, and called for the prosecution of Myanmar’s army chief Senior General Min Aung Hlaing and five other top-ranking generals for genocide, war crimes and crimes against humanity.<sup>18</sup> UN investigators, with the support of Sweden’s deputy UN ambassador Carl Skau, called for the situation in Myanmar to be brought to the attention of the ICC, which would require a referral by the Security Council.<sup>19</sup> On 18 September 2018, ICC prosecutor Fatou Bensouda declared that the court could exercise jurisdiction over the Rohingya issue on the basis that Bangladesh had signed the Rome Treaty, even though Myanmar had not. The ICC would begin a preliminary investigation of the situation.<sup>20</sup> However, a referral to the ICC would require a Security Council decision, and this is unlikely in view of China’s support for Myanmar. In the absence of a referral, the ICC prosecutor can only initiate an investigation and gather information that can be presented to the five permanent members of the Security Council.

## **China and the South China Sea**

The South China Sea has become an arena of confrontation between the United States and China, leaving ASEAN on the sidelines but exposed to its destabilizing consequences. China concluded its construction of military facilities and runways on Subi, Mischief and Fiery Cross reefs, triggering accusations that it was militarizing the South China Sea. In May 2018 it was reported that China had installed cruise and anti-ship missiles on these reefs — the last step in its efforts to fortify them.<sup>21</sup> During his Senate confirmation hearings in April 2018, the commander of the U.S. Indo-Pacific Command, Admiral Philip S. Davidson, claimed that “China is now capable of controlling the South China Sea in all scenarios short of war with the United States”.<sup>22</sup> The Trump administration continued with its Freedom of Navigation Operations (FONOPs), with four FONOPs conducted in 2018 — on 23 March, 27 May, 30 September and 26 November. On 30 September there was

a near collision between the USS *Decatur* and a Chinese warship in the South China Sea, which may portend a tougher response from the Chinese. However, the United States was not alone on insisting on “freedom of navigation” in the South China Sea, as the amphibious assault ship HMS *Albion* of Britain’s Royal Navy sailed close to the Paracel Islands on 31 August. The Japanese submarine *Kuroshio*, helicopter carrier *Kaga* and two destroyers — *Inazuma* and *Suzutsuki* — also conducted an anti-submarine warfare exercise in the South China Sea on 13 September.<sup>23</sup>

ASEAN has struggled to maintain its unity over this dispute, as it is pulled in different directions by members with claims in the South China Sea, such as Vietnam, and non-claimants such as Cambodia and Laos who prioritize their relationships with China. When the ASEAN foreign ministers met on 6 February 2018, they carefully avoided taking sides, while stressing the importance of “non-militarization and self-restraint in the conduct of all activities by claimants and all other states”, and the importance of “freedom of navigation in, and overflight above, the South China Sea”.<sup>24</sup> ASEAN’s concern to maintain good relations with China was reflected in the first ASEAN-China Maritime Field Training Exercise, which was conducted from 22 to 27 October in Zhanjiang. Naval units from China and five ASEAN countries — Brunei, the Philippines, Singapore, Thailand and Vietnam — were involved.<sup>25</sup>

Most urgent for ASEAN is to negotiate a CoC with China. The CoC is meant to govern activities in the South China Sea in order to avoid dangerous incidents that could escalate into conflict. However, the CoC has been under negotiation for over two decades as ASEAN members have pressed for a legally binding agreement with a dispute resolution mechanism — which China resists. On 6 August 2017 the foreign ministers of ASEAN and China met in Manila and agreed on a “framework” for a CoC to pave the way for further negotiations. While the Chinese have joined these negotiations, they have not shown any enthusiasm for concluding them, which indicates that Beijing had not formed a consensus on the issue. At the ASEAN summit in November 2017, Chinese premier Li Keqiang declared that the CoC would be a “stabilizer” for the region, but when pressed by Philippine president Rodrigo Duterte to identify a timetable with a specific date for the conclusion of the negotiations, Li avoided the issue.<sup>26</sup> The respective ASEAN and Chinese foreign ministers met again in March 2018, allowing Singapore’s Vivian Balakrishnan to announce the following June that they have agreed on a common “working text” for negotiations that remains as yet confidential.<sup>27</sup> A Chinese foreign ministry official, Yi Xianliang, dampened expectations when he declared that it is impossible



to define a timetable for the conclusion of the CoC, suggesting Beijing's continued resistance to the ASEAN demand that the code should be legally binding.<sup>28</sup>

However, at the 33rd ASEAN summit in November 2018, Chinese premier Li Keqiang declared that the CoC should be concluded within three years, stimulating hopes within ASEAN that these negotiations would finally reach a favourable end. Singapore prime minister Lee Hsien Loong expressed his hope that the first reading of the CoC could take place in 2019, with the final document to be agreed upon within three years.<sup>29</sup> Nevertheless, it is unlikely that China would accede to a legally binding code, and it may be the case that Beijing would press for a general statement of principles similar to the November 2002 Declaration on the Conduct of Parties in the South China Sea. Beijing may calculate that ASEAN would rather accept such a version of a CoC than have the negotiations prolonged indefinitely, but whether ASEAN would do so is unclear.

Furthermore, ASEAN was also able to avoid any distressing internal dispute over China as the Philippines under President Duterte continued his close engagement with China. This rapprochement ensured that there was no repeat of the disagreements that erupted during the tenure of his predecessor Benigno Aquino. As president, Aquino not only adopted a hard-line stance against China and its activities in the South China Sea but also tried to enlist the support of ASEAN — a move that drew opposition from Hun Sen's Cambodia. With Duterte currently at the helm in the Philippines, ASEAN could thus maintain some unity in the broadest sense over the issue, although there might be some political cost for Duterte as domestic criticism mounts against what Senate minority leader Franklin Drilon has described as "appeasement".<sup>30</sup> For instance, when Philippine Congress members were alarmed by China's missile deployments in the area of the Spratly Islands, Duterte seemed unperturbed and even claimed that China would "protect" the Philippines. Duterte has also touted the agreement that would allow Filipino fishermen to continue fishing in their traditional fishing areas as a major achievement of his visit to China in October 2016.<sup>31</sup> However, this agreement is not always honoured, and Duterte's spokesman Harry Roque announced that the Chinese Coast Guard had confiscated the catch of Filipino fishermen around Scarborough Shoal.<sup>32</sup>

During Xi Jinping's visit to Manila on 20 November, he signed a memorandum of understanding (MoU) on joint oil and gas exploration with Duterte. The MoU called for a joint intergovernmental steering committee and an inter-entrepreneurial working group to draft a framework for joint exploration. However, the details — including the area earmarked for joint exploration — were kept confidential.<sup>33</sup>

The resort to secrecy in these negotiations has already provoked criticism that the joint exploration will be located in the sea zones claimed by the Philippines, and that such actions would be tantamount to Philippine recognition of rival Chinese claims.

Duterte's close engagement of China was also criticized for not bringing increased levels of Chinese investment into the Philippines as the president had promised. According to the Philippine Central Bank, China had made a US\$24 billion commitment to the Philippines (US\$15 billion in foreign direct investment and US\$9 billion in aid), but to little effect. Philippine commentators have surmised that the huge discrepancy between the declared commitments and the actual investment was a result of Chinese machinations to turn the Philippines away from its alliance with the United States, but there were other reasons such as the existence of bottlenecks in the country. Moreover, much of the Chinese investment flowed into the Philippines from Hong Kong and thus was not attributed to the mainland.<sup>34</sup> On another note, Duterte has health problems that have not been disclosed, and there are some in Manila who think that he may not last his term of office, which expires in 2022. If that were to be the case, his overly accommodating approach to China may be readjusted.

## **Trade Regimes and ASEAN Centrality**

The ASEAN economies will benefit from the trade regimes being negotiated that promise expanded export markets and increased investment. However, ASEAN will struggle to maintain its centrality as newer and broader regional associations are created. As defined by Article 1(15) of the ASEAN Charter, centrality is the notion that ASEAN should be the "primary driving force in its relations and cooperation with external partners". This has worked well with the ASEAN Regional Forum and the East Asia Summit (EAS), as meetings are orchestrated by ASEAN and follow the annual ASEAN summits. However, broadly based trade regimes pose new challenges for ASEAN centrality, since they will embrace ASEAN's major economic partners and investors who will deal with the member states directly. These major partners would make decisions impacting the region, which could reduce the grouping to a passive recipient.

Furthermore, the trade regimes pursued are extraordinarily complex, as the participants are at different levels of development and have conflicting demands. Once negotiations go beyond tariff reductions into services, intellectual property and demands for institutional change, difficulties are encountered and resistance mounts. Singapore may join Australia and Japan in pressing for free trade and

liberalization of the trade-related institutions, but those countries with extensive domestic industries and agricultural sectors such as Malaysia will be less enthusiastic. The complexity of the negotiations may result in a considerable reduction of expectations as contentious provisions are filtered out to ensure the agreement's acceptability.

One of Singapore's priorities as it took over the ASEAN chair for 2018 was to promote the RCEP, which includes the ten ASEAN member states plus the six external partners that ASEAN has established free trade agreements with: China, India, Australia, New Zealand, South Korea and Japan.<sup>35</sup> The RCEP was proposed by ASEAN members at the EAS in Phnom Penh in November 2012 as a trade regime that would consolidate ASEAN's various FTAs and maintain the grouping's centrality in response to negotiations over the TPP. The RCEP was intended to be comprehensive, embracing not only tariff reductions and the removal of non-tariff barriers but also cover trade in services, intellectual property, investment, and economic and technical cooperation. At the outset, ASEAN members declared that the RCEP would recognize ASEAN Centrality in the development of economic regionalism, but it remains unclear how ASEAN can control the direction and process of negotiations. In terms of progress, Singapore and China have both been pushing for a speedy agreement on the RCEP, which for Beijing is a means to pre-empt the TPP, which excludes China. The RCEP has also become more important as a process since President Trump withdrew the United States from the TPP negotiations in January 2017. However, negotiations drag on. Trade ministers initially anticipated that negotiations would be concluded by the end of 2015, they however agreed to a new deadline of the end of 2018 when they met again in New Delhi in January 2018.

Singapore's Prime Minister Lee Hsien Loong on 29 August was expressing optimism when he declared that "After a great deal of work, the possibility of substantively concluding the RCEP negotiations is finally in sight."<sup>36</sup> However, there remains a major difficulty with the RCEP, and it is an issue that is beyond ASEAN's ability to rectify, which demonstrates the extent to which the grouping may be marginalized. The problem has to do with India's trade deficit with China and its intention to protect its domestic market against Chinese imports. India's commerce minister, Suresh Prabhu, was responding to intense domestic pressure when he declared that his government wants a twenty-year window to reduce import duties on several products in order to shield domestic industries against Chinese imports.<sup>37</sup> India also demanded differential tariffs for different countries; the upshot is that there would only be minimum tariff concessions to Chinese goods, which would be maintained for some time, whilst imports from

other countries are allowed at reduced tariffs. India also demanded that the free movement of professionals and labour be recognized in the negotiations over services, and that goods and services should be linked in the negotiations. For India, it was important to avoid the situation where negotiations on traded goods would leave services behind.<sup>38</sup> As such, by September 2018 Prime Minister Lee admitted that he was unsure whether the RCEP would be concluded in 2018.<sup>39</sup> At the second RCEP summit in Singapore on 14 November, the leaders could not reach an agreement but did promise to “bring RCEP negotiations to a conclusion by next year”.<sup>40</sup> Negotiations on the RCEP will thus continue in 2019.

Despite the Trump administration’s withdrawal from the TPP in 2017, eleven members agreed at the Tokyo meeting in January 2018 to move forward with negotiations with what is now called the Comprehensive and Progressive Agreement for TPP (CPTPP). The CPTPP is a modification of the original TPP-12 agreement signed in February 2016 that included the United States. In the aftermath of the U.S. withdrawal from the TPP, Japan and Australia continued with negotiations for a TPP-11 agreement in the hopes of enticing the United States back into negotiations.<sup>41</sup>

The TPP was initially mooted by two ASEAN members (Brunei and Singapore) together with Chile and New Zealand in 2005. Later it was expanded to include Malaysia and Vietnam, while Indonesia and Thailand were considering whether to join. The idea of the TPP was not merely a free trade agreement, since it proposed extensive measures to promote institutional reform — a contentious affair that adds to the complexity of the negotiations. Its primary attraction to Asian exporters was the fact of access to the American market, as well as functioning as a stepping stone to a Free Trade Area of the Asia Pacific that would include China. Asian economists also value the promised stimulus to economic reform and change, particularly in countries such as Japan that face structural stagnation. Likewise, Vietnam was set to benefit from the TPP with increased access to the U.S. market for its apparel and footwear. Vietnamese economists also regarded the TPP as a means of reforming an economy in which dominating state-owned enterprises (SOEs) have crowded out the private sector and prevented the country from reaching its full economic potential.

During the TPP-11 negotiations, many of the original provisions of the TPP regarded as excessive were put aside. For instance, both Malaysia and Vietnam opposed the provisions regarding SOEs, while others objected to provisions relating to intellectual property and pharmaceuticals. In total, some twenty-two provisions of the original TPP were suspended, including those that covered intellectual property copyright and pharmaceuticals. The final agreement

was signed by the eleven members on 8 March 2018 in Santiago, Chile. Australia was the sixth of eleven members to ratify the CPTPP on 31 October, triggering its entry into force on 30 December. However, the CPTPP divides ASEAN as only four member states are involved and of those four members only Singapore and Vietnam have ratified the agreement, while Malaysia and Brunei have not.

## **U.S.-China Trade War**

Prime Minister Lee Hsien Loong told the ASEAN Summit in April 2018 that the U.S.-China trade war was one of ASEAN's most pressing concerns. At the 33rd ASEAN summit in November, Prime Minister Lee expressed the fear that the trade war might divide ASEAN and compel member states to have to choose between the United States and China. However, the description of a "trade war" is a misnomer as there are deeper resentments motivating President Trump to resort to extensive tariffs in an attempt to readjust the relationship with China. While the immediate concern was the trade deficit with China — which reached US\$375 billion in 2017 — this does not capture the real situation, as the design, technology and value-added components of many manufactured goods imported from China are of American origin, and are included in the supply chain. Other motives include the American fear that China's mercantilist trading practices would challenge the U.S.-sponsored open trading system, and that the "made in China 2025" declaration of October 2015 was a plan to achieve Chinese dominance in high-technology industries, which would push out American companies. If the problem was solely limited to America's trade deficit with China, an agreement to resolve the dispute would be possible. However, because deeper issues are involved, no easy resolution can be anticipated, and the dispute will likely be prolonged. The clash between the United States and China over trade at the APEC summit in Port Moresby in November 2018, which resulted in the unprecedented failure to issue a joint communiqué for the summit, may be less of an aberration than expected in future.

How would the trade war affect Southeast Asia? IMF director Christine Lagarde predicted that it could trigger vulnerabilities in Asian countries whose supply chains are closely linked to Chinese industry and are dependent on exports to the United States. Already, economic growth in Indonesia, Malaysia, the Philippines, Singapore and Thailand slowed over July–September 2018 in comparison with previous quarters. Vietnam was the exception, registering 6.88 per cent growth over 6.73 per cent the previous quarter. The United States is ASEAN's second-largest

export market, absorbing some 11 per cent of its total exports, and ASEAN's third-largest trading partner after the European Union and China. ASEAN trade with the United States reached \$233.1 billion in 2017. If American tariffs are extended to the ASEAN countries, their economies could face the prospect of recession. A Trump appointee, Jeffrey T. Gerrish, a deputy trade representative, has called for equivalent market access and a "rebalancing" of trade relations with the ASEAN countries. As justification for this view, he pointed to the \$38 billion trade deficit with Vietnam, the \$25 billion with Malaysia, the \$20 billion with Thailand and \$13 billion with Indonesia, although with Singapore the United States enjoys a trade surplus.

However, ASEAN countries may benefit from the trade war, as transnational companies may try to avoid the American tariffs by moving production from China to Southeast Asia and elsewhere. ASEAN countries may emerge as an attractive alternative supply chain base for companies looking to diversify production away from China.<sup>42</sup> For instance, Japanese companies have long complained about the rising costs of production in China and increasing numbers of them have decided to shift production either back to Japan or to Vietnam. Japanese companies have generally regarded Vietnam as a small-scale alternative to China, and it is now an even more attractive option after the U.S. imposition of tariffs on Chinese goods. In addition, as China moves to higher-technology industries, it thus seeks to phase out assembly and lower-level manufacturing processes where returns are minimal. The Chinese company GoerTek, which assembles Apple's AirPods, has announced that it will move its production from China to Vietnam, while Taiwanese enterprises in China are also considering the move, though not just because of the trade war but due to the increasingly tense cross-strait relations. American manufacturers in China face a similar problem. However, as much as they regard the ASEAN countries as possible alternative bases for production, they are faced with the problem of being so deeply embedded in the Chinese system that it might prove to be disruptive for them to move.<sup>43</sup>

Likewise, Malaysia's Robert Kuok has claimed that the trade war would lead to trade growth in Malaysia, Vietnam, Myanmar and Laos. He declared that his firm, Kerry Logistics, will particularly benefit as operations will move back to Malaysia.<sup>44</sup> Similarly, Malaysia's deputy minister of international trade and industry Ong Kian Ming thought that the trade war was an opportunity for Malaysia to attract higher-value-added manufacturing, and for ASEAN to showcase the region's attractiveness to foreign investment. Malaysia could provide an "export platform" for Chinese companies in the Malaysia-China Kuantan Industrial Park (MCKIP).<sup>45</sup>

## **Indo-Pacific and ASEAN Centrality**

The idea of the Indo-Pacific region is a challenge to ASEAN centrality, since it could remove the supporting foundation of a Southeast Asian region. Introduced by Japanese prime minister Shinzo Abe in his address to the Indian parliament in 2007, the notion of the Indo-Pacific has since been endorsed by ASEAN's external partners, the United States and Australia, as well as Japan. For Japan, the Indo-Pacific was a conceptual means to connect India with the United States and Australia in quadrilateral security cooperation, but without the regional countries. Moreover, it was narrowly focused on security.

The Indonesian foreign minister Retno Marsudi has promoted a broader vision of the Indo-Pacific that would detach the notion from its security origins and include both China and India. This particular vision would ensure ASEAN centrality by extending existing ASEAN dialogue and cooperation in maritime security, trade and investment to the wider concept of the Indo-Pacific. Retno Marsudi cast Indonesia as the link between ASEAN and the Indian Ocean Rim Association (IORA), an organization that includes East African as well as some Middle Eastern countries — a very broad field.<sup>46</sup> At the ASEAN foreign ministers retreat in February 2018, Retno explained that in order to preserve ASEAN centrality, existing mechanisms should be utilized and there was no need to create new bodies as the EAS could serve as the main platform for the Indo-Pacific idea.<sup>47</sup> Indonesia then circulated a concept paper to all sixteen EAS members to head off the American “Free and Open Indo-Pacific” initiative, which would downgrade ASEAN's role.<sup>48</sup> In effect, Indonesia was proposing to upgrade the EAS into an Indo-Pacific forum within which ASEAN could assume the key role. However, while ASEAN can provide a platform for the forum through the EAS, ASEAN centrality is dependent on ASEAN unity. Over the security issues that have disturbed the group's external partners, such as the South China Sea, ASEAN unity has been absent. Without that unity, ASEAN members will individually reach out to external partners on a bilateral basis, preventing the group from speaking with one voice.

Indonesia has reached out to ASEAN's main Indo-Pacific partner, India. At the 15th ASEAN-India summit in November 2017, President Jokowi called for closer cooperation with India over maritime security through the IORA. When Indian prime minister Narendra Modi visited Jakarta in May 2018, Jokowi declared that “India is a strategic defence partner” as both countries showed concern about Chinese maritime activities in the South China Sea and Indian Ocean. Modi and Jokowi agreed to develop an Indonesian naval port in the Indian Ocean at the entrance to the Malacca Strait. They also agreed to enhance defence and maritime

cooperation, to upgrade regular naval exercises and coordinated patrols in the Indian Ocean, and to develop infrastructure and an economic zone at Sabang, on the tip of Sumatra at the entrance of the Malacca Strait.<sup>49</sup>

Indonesian cooperation with another Indo-Pacific partner, Australia, has also moved forward, surprisingly so in view of past animosities associated with Australia's role in East Timor that rankled Jakarta. Jokowi visited Sydney for the first ASEAN-Australia summit in March 2018 and, when interviewed by the Australian press, said that Australia should play a bigger role in defence and regional security. When asked about the possibility of Australian membership in ASEAN, he replied that "it's a good idea ... because our region will be better, stability, economic stability and political stability. Sure it will be better."<sup>50</sup> This comment created a sensation in Australia, as it was the first time a senior ASEAN leader had suggested it. However, membership is not a serious option for Australia, as the Bangkok Declaration of 1967 restricts ASEAN membership to the countries of Southeast Asia, and there is unlikely to be an ASEAN consensus in favour of Australia's admission. The comment is however an indication of the development and upgrading of Indonesia's relationship with Australia and the realization that external partners in the Indo-Pacific were becoming more important to Jakarta. When Australia's prime minister Scott Morrison visited Jakarta in August 2018, an Indonesia-Australia Comprehensive Economic Partnership (IA-CPA) was concluded, as well as a free trade deal that would benefit Australian agricultural exports. The two countries also concluded a \$6.92 billion currency agreement to provide Indonesia's rupiah with support against wild currency swings.<sup>51</sup>

## Conclusion

The year 2018 saw the development of challenges to Southeast Asian regionalism that will demand an adjustment to ASEAN's role and function. As ASEAN members interact more frequently with external partners and economic groupings, the notion of a regional association limited only to Southeast Asia loses meaning. Already, the Rohingya issue demonstrates ASEAN's inability to deal with a humanitarian problem that concerns its Muslim-majority member states and goes against everything that was attempted in the ASEAN Charter of 2007, which called for "respect for and protection of human rights fundamental freedoms". While ASEAN has been immobilized over this issue, international agencies and governments willing to press the issue against the Myanmar military leaders are increasingly involved. The South China Sea issue has gone well beyond ASEAN's ability to resolve on its own, though it impacts directly upon the group's unity and security. ASEAN



has also been pushing for the RCEP, hoping to engage its major trading partners in one large trading group, but, if realized, ASEAN economies would merge into the wider grouping and ASEAN centrality would be undermined. ASEAN also intends to promote a digital economy and e-commerce within this framework, but should payment systems become fully digitized, Southeast Asian banks would be relegated to providing access to digital systems that are global in nature and not limited to any one region. The challenge of the Indo-Pacific is far-reaching, since it may supplant the notion of Southeast Asia as the regional basis behind ASEAN regionalism. Already, Indonesia is reaching out to Indo-Pacific partners in India and Australia in a way that demonstrates the increasing importance of these relationships. To ensure its relevance, ASEAN can provide the Indo-Pacific idea with a platform in the EAS and ensure that the development of the notion is inclusive and not directed against any particular country. Indeed, ASEAN may have to adjust its expectations and its basic assumptions as it faces the future.

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