

Research Paper

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ASEAN's Regional Role and Relations with Japan

The Challenges of Deeper Integration



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Preface

This paper brings together essays by several participants from the conference 'ASEAN's Regional Role and Relations with Japan', held at Chatham House on 22 February 2016. The conference explored the role of the Association of Southeast Asian Nations (ASEAN) as a critical actor in Southeast Asia, and the nature of its contemporary relations with Japan. In particular, it focused on ASEAN's unique institutional identity, its potential future trajectories and ways to engage with Japan.

About the Authors

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Bill Hayton is an associate fellow of the Asia Programme at Chatham House. He is the author of *The South China Sea: The Struggle for Power in Asia*, published by Yale University Press and named as one of *The Economist's* books of the year in 2014. His previous book, *Vietnam: Rising Dragon*, was published in 2010, also by Yale. His writing has also been published in *The Economist*, the *South China Morning Post*, *The Diplomat* and *The National Interest*, among others. Bill has worked for the BBC since 1998 and currently works for BBC World News television in London.

Summary

- The Association of Southeast Asian Nations (ASEAN) is entering a new phase in its development, following the adoption in late 2015 of blueprints for an integrated regional community that will involve deeper coordination between ASEAN's 10 members in politics and security, economics, and society and culture over the next decade. The challenge will be for ASEAN to move towards more formal and effective cooperation – without, however, sacrificing the relative harmony that its tradition of consensual diplomacy and informal management of relations between states has allowed.
- ASEAN's potential evolution is significant for Japan, which has long-standing connections with the region as an investor, trade partner, supplier of overseas development assistance and mediator in political disputes. As the new ASEAN Community takes shape, a better understanding of Japan's role in the region will be crucial for anticipating future developments.
- In the past few years the foundations for an ASEAN Economic Community have been developed around four pillars: developing a single market and production base, raising competitiveness, supporting equitable development and integrating ASEAN into the global economy. Progress has been achieved in some areas, such as reducing tariffs and streamlining customs procedures, but reforms are needed to liberalize services trade, foreign direct investment, capital markets and labour markets. Trade policy to date has emphasized the negotiation of multilateral and bilateral free-trade agreements, with some success.
- Leadership transitions in several member states have led to new or different interpretations of regional institutions and processes. ASEAN's track record of minimizing or managing political instability has been characterized by working through the 'ASEAN Way'. This consensus-driven approach is being challenged by the collision of domestic and regional interests. To maintain its regional influence in the next decade, ASEAN must manage the tension between these forces.
- Despite plans for an ASEAN Political-Security Community, the rhetoric of this commitment appears more significant than the reality. Member governments lack enthusiasm for creating a common foreign and security policy, reflecting their continued resistance to the partial surrender of sovereignty such a policy implies. Bilateralism will therefore remain important in foreign relations and security.

Introduction

To some observers, the success of the Association of Southeast Asian Nations (ASEAN) since its formation in 1967 has been based on a firmly rooted sense of collective identity as well as on common norms of non-interference, state sovereignty, non-alignment and collective, consensual decision-making. These have allowed it to survive and flourish in a region that has often been marked by disruptive and polarizing geopolitical tension, economic rivalry and inter-ethnic conflict.¹ To others, ASEAN's success has been minimal, marked by a sharp gap between its rhetorical aspirations and its ability to deliver meaningful policy outcomes of benefit to its members and the region.² At a time when key countries in Southeast Asia (most notably Indonesia) are experiencing rapid economic development alongside demographic, political and institutional change, and when extra-regional actors, including China and the United States, are taking renewed interest in the region, it is especially important to consider ASEAN's regional role and effectiveness.

Southeast Asia and ASEAN have occupied a critical place in Japan's post-1945 foreign and economic policy. From the mid-1950s and the Bandung Conference, through the 1960s and the *Konfrontasi* period of tensions in Malaysian–Indonesian relations, up to the 1990s and beyond, including the attempt to settle the civil war in Cambodia and tensions in East Timor,³ Japan has often played a key political mediating role in the region. Japan has also been an invaluable developmental partner, using official development assistance (ODA) to foster regional economic growth, and relying on its own 'plan-rational developmental model' as a guide for economic modernization in states in the region. Along with Australia, Japan played a key initiating role in the formation of the Asia-Pacific Economic Cooperation (APEC) forum in 1989, and it remains closely involved in bilateral and regional trade liberalization initiatives that directly involve or have an impact on ASEAN member states.

Southeast Asia and ASEAN have occupied a critical place in Japan's post-1945 foreign and economic policy.

Japan's economic presence in the region is also considerable, accounting for \$22 billion in foreign direct investment (FDI) into ASEAN member states in 2013.⁴ Two-way trade between ASEAN members and Japan stood at \$229 billion in 2014 (around 9 per cent of ASEAN's total two-way trade), according to the ASEAN Secretariat.⁵ More recently, in the face of traditional security challenges (most notably over contested territories in the South China Sea) and non-traditional security threats (including piracy, terrorism and separatist pressures), the government of Prime Minister Shinzo Abe has emerged as a more proactive partner in offsetting critical strategic risks.

¹ See, for example, Ba, A. D. (2009), *Re-negotiating East and Southeast Asia: Region, Regionalism and the Association of Southeast Asian Nations*, Stanford, CA: Stanford University Press.

² Weatherbee, D. E. (2009), *International Relations in Southeast Asia: The Struggle for Autonomy*, Lanham, MD: Rowman and Littlefield.

³ Before Timor-Leste was officially recognized as an independent nation in 2002, it was referred to as East Timor.

⁴ ASEAN Secretariat, 'Flows of inward direct investment to ASEAN by ASEAN's dialogue partners, 2000-2014 (in US\$ million)', ASEANStats, http://aseanstats.asean.org/MarkingTips.aspx?rxid=4180e647-4986-4f20-ae94-69e727acda3c&px_db=4-Foreign+Direct+Investments&px_type=PX&px_language=en&px_tableid=4-Foreign+Direct+Investments\FDIS003-FDI+flows+by+country+source+2000-2014.px (accessed 26 Jan. 2016).

⁵ ASEAN Secretariat, 'ASEANStats' database, <http://aseanstats.asean.org/>.

For all of these reasons, a better understanding of ASEAN's relationship with Japan is vitally important in anticipating current and future developments in Southeast Asia. This paper looks at this relationship through three lenses – economic, political and strategic. The first section by Masahiro Kawai considers the challenges ahead for the newly established ASEAN Economic Community and for economic relations with Japan. The second section, by Moe Thuzar, looks at how ASEAN's regional processes can prove their continued utility and relevance to minimize political instability in the region. The third section, by Bill Hayton, considers ASEAN's future security role.

Challenges for the ASEAN Economic Community and ASEAN–Japan Relations⁶

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The Association of Southeast Asian Nations (ASEAN) entered a new phase in its development in late 2015, when its members announced the creation of the ASEAN Community. Embodying a vision for deeper regional integration over the next decade, this extension of ASEAN consists of a Political-Security Community, an Economic Community and a Socio-Cultural Community. This essay focuses on the outlook for the third of these structures, the ASEAN Economic Community (AEC).

ASEAN as a bloc is the third-largest economy in Asia. It has a population of 620 million, behind only China and India. Its GDP totals more than \$2.5 trillion, behind only China and Japan. Although many ASEAN member states were devastated by the 1997–98 Asian financial crisis, they have restored healthy economic growth and seen a rapid rise in the number of middle- and high-income households.

ASEAN's 10 member states are diverse in terms of race, religion, culture, economic development and political systems. The rationale for the new community is that, in the light of the rapid rise of China and India, the only way for ASEAN to maintain peace and prosperity is to strengthen cohesion among its members – it needs, in other words, to become united. The AEC represents a milestone in this respect, offering the prospect of deeper economic integration and greater international competitiveness while allowing ASEAN to maintain its centrality in the regional cooperation architecture. The share of intra-ASEAN trade relative to ASEAN's total trade has risen steadily, from 19 per cent in 1990 to 24 per cent in 2014.

Progress on AEC measures

The AEC Blueprint (2008–15), adopted in 2007, laid the foundation for achieving the goal of ASEAN as an integrated economic region between 2008 and 2015. It envisaged an ASEAN consisting of four pillars: 'a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy'.⁷ Each of the four pillars included various measures and initiatives that were expected to be implemented to achieve the goals of the AEC (see Table 1).

⁶ Part of this essay draws on an article published in 2013 by the Asian Development Bank Institute (ADBI) on its Asia Pathways blog, adapted and partially reproduced here by kind permission of the ADBI. Kawai, M. (2013), 'New challenges for ASEAN–Japan relations: Celebrating the 40th year of ASEAN–Japan friendship and cooperation', 13 December 2013, <http://www.asiapathways-adbi.org/2013/12/new-challenges-for-asean-japan-relations-celebrating-the-40th-year-of-asean-japan-friendship-and-cooperation/>.

⁷ ASEAN Secretariat (2008), *ASEAN Economic Community Blueprint*, <http://www.asean.org/wp-content/uploads/archive/5187-10.pdf>.

Table 1: Four pillars of the ASEAN Economic Community

Pillars	Core elements
I. Single market and production base	1. Free flow of goods
	2. Free flow of services
	3. Free flow of investment
	4. Freer flow of capital
	5. Free flow of skilled labour
	6. Priority integration sectors (agro-based products, air travel, automotive, e-ASEAN, electronics, fisheries, healthcare, logistics, rubber-based products, textiles and apparel, tourism, wood-based products)
	7. Food, agriculture and forestry
II. Competitive economic region	1. Competition policy
	2. Consumer protection
	3. Intellectual property protection
	4. Infrastructure development (transport, ICT, energy, mining, infrastructure financing)
	5. Taxation
	6. E-commerce
III. Equitable economic development	1. Development of small and medium-sized enterprises
	2. Initiative for ASEAN Integration
IV. Integration into the global economy	1. Coherent approach towards external economic relations (including free-trade areas and comprehensive economic partnerships)
	2. Enhancing participation in global supply networks

Source: ASEAN Secretariat (2008), *ASEAN Economic Community Blueprint*.

How much progress has been made, as of the end of 2015, in terms of implementing the blueprint? Much has been achieved in respect of the first pillar – that is, developing a single market and manufacturing base. Tariffs have fallen substantially, particularly among the more developed ASEAN economies known as the ‘ASEAN-6’ (consisting of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand). These countries have eliminated more than 99 per cent of their intra-regional tariffs and have cut their average tariff rate to virtually zero. The four less advanced ASEAN economies – Cambodia, Laos, Myanmar and Vietnam, collectively known as the ‘CLMV’ – have eliminated about 90 per cent of tariffs, with the remainder to be eliminated by 2018. Their average tariff rate has been reduced to 0.5 per cent. These positive changes stand to boost cross-border trade in manufactured goods and agricultural products between ASEAN countries.

The ambition that the blueprint set out in terms of trade facilitation – through an ‘ASEAN Single Window’ to streamline and standardize customs procedures and data submission – is also on the way to being realized. Most member governments have now introduced National Single Window (NSW) programmes, and have either connected their NSWs to the ASEAN Single Window or are on the way to doing so. These efforts can contribute significantly to reducing trade costs over time.

Progress in other areas, however, has been much less impressive and slower. This includes eliminating non-tariff barriers to trade as well as liberalizing services trade, foreign direct investment (FDI), capital flows and skilled-labour movement. First, the presence of non-tariff barriers – particularly behind-the-border measures – is the most significant impediment to intra-ASEAN trade and thus to the creation of a single market and production base. Second, adequate services trade liberalization

has not been achieved despite the ASEAN Framework Agreement on Services, the General Agreement on Trade in Services or bilateral agreements. Third, even advanced members still impose barriers to FDI inflows and have more serious problems in FDI facilitation despite the introduction of the ASEAN Comprehensive Investment Agreement.

Modest achievements have been made in the second and third pillars of the AEC, such as competition policy, intellectual property protection, strengthening the region's transport connectivity and energy security, and supporting small and medium-sized enterprises (SMEs). First, an increasing number of members have introduced national competition policies and laws, and have strengthened the protection of intellectual property rights by adopting international best practices. Second, several major initiatives have been introduced on infrastructure development such as the ASEAN Highway Network, the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline, some of which are being implemented. Further progress is still needed to address missing links in transport networks, improve the quality of infrastructure and strengthen the framework on public-private partnerships for infrastructure development. Third, SMEs have been supported through initiatives such as the ASEAN Business Incubator Network, the *ASEAN SME Guidebook Towards the AEC 2015*, and the ASEAN Framework for Equitable Economic Development. But there remains a need to strengthen regional cooperation for SME development, particularly the operationalization of the ASEAN Framework for Equitable Economic Development.

The fourth pillar – integration into the global economy – has been a relative success, though much remains to be done. One of the most significant developments has been the formation of five free-trade areas (FTAs) involving ASEAN and six 'dialogue partners' – namely China, India, Japan, South Korea, and Australia and New Zealand. Negotiations have also been under way since 2012 on a Regional Comprehensive Economic Partnership (RCEP) which, if successful, would create one of the world's largest FTAs. Integration with global free-trade initiatives has also continued on other fronts, with four ASEAN states (Brunei Darussalam, Malaysia, Singapore and Vietnam) reaching a broad agreement with other members of the Asia-Pacific Economic Cooperation (APEC) forum to develop the Trans-Pacific Partnership (TPP).

Challenges for the AEC

Although there has been progress towards realizing the goals of the AEC, particularly on tariff reduction and trade facilitation, many other planned measures have yet to be implemented. This suggests that ASEAN countries need to continue to work on AEC agendas over the next few years, including the elimination of non-tariff barriers and the liberalization of services, FDI, capital and skilled-labour flows.

With this goal in mind, ASEAN leaders adopted the Blueprint 2025 in November 2015 to provide broad directions for the AEC over the next 10 years. The Blueprint 2025 consists of five interrelated and mutually reinforcing characteristics expected to support the vision for the AEC:

- a highly integrated and cohesive economy;
- a competitive, innovative and dynamic ASEAN;
- enhanced connectivity and sectoral cooperation;
- a resilient, inclusive, people-oriented and people-centred ASEAN; and
- a global ASEAN.⁸

⁸ ASEAN Secretariat (2015), *ASEAN Economic Community Blueprint 2025*, <http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf>.

What is notable is that the Blueprint 2025 does not propose new initiatives to further strengthen ASEAN integration from institutional perspectives or new modalities to implement reforms at the national level. As summarized in Table 2, the AEC is a much shallower community than the European Union or even its predecessor, the European Community. For example, the AEC does not aim to become a customs union or a monetary union; moreover, the implementation of liberalization measures remains voluntary, without the possibility of introducing sanctions for non-implementing governments.

Table 2: Basic properties of the AEC compared with those of the TPP and EU

	AEC	TPP	EU
Elimination of tariffs	●	●	●
Elimination of non-tariff barriers	◆	●	●
Trade facilitation	●	●	●
Liberalization of services trade	◆	●	●
Liberalization of investment	◆	●	●
Liberalization of skilled-labour movement	◆	■	●
Opening up of government procurement	■	●	●
Customs union	■	■	●
Common currency	■	■	●

AEC = ASEAN Economic Community, TPP = Trans-Pacific Partnership, EU = European Union.

Note: ● = fully or largely implemented ◆ = partially implemented ■ = not included in arrangement.

Source: Author's compilation.

ASEAN faces the issue of whether its entire membership should also join the TPP in addition to forging the RCEP. Simulation studies show that the RCEP would provide large gains for most ASEAN member states and that the TPP would generate large gains for its ASEAN members (particularly Vietnam and Malaysia), while ASEAN countries outside it would lose out.⁹ Thus, there is a case for all members to join the TPP to protect their economic interests. In addition, once the RCEP and the TPP are concluded and eventually combined to create a Free Trade Area for the Asia-Pacific (FTAAP), gains to all ASEAN members and other economies in the Asia-Pacific region would be significant.¹⁰

ASEAN may also strengthen its economic ties with European economies by invigorating its FTA negotiations with the EU. Through this, it can also lead the wider East Asia region in forging integration with the EU, complementing the South Korea–EU FTA in effect since 2011 and the Japan–EU Economic Partnership Agreement expected to be concluded in the near future.

⁹ See Petri, P. and Plummer, M. (2014), 'ASEAN Centrality and the ASEAN-US Relationship', *Policy Studies*, No. 69, Hawaii: East-West Center.

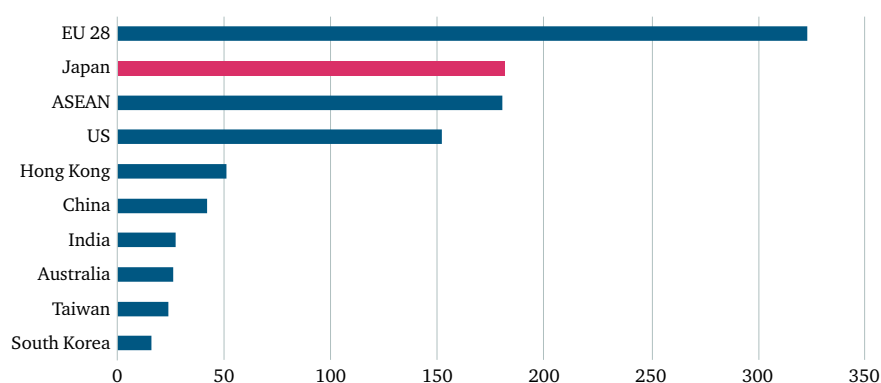
¹⁰ It is sometimes claimed that the RCEP (which includes China but not the United States) and the TPP (which includes the United States but not China) are adversarial and competitive. In fact, the two can be complementary. Developing economies ready for a limited degree of trade and FDI liberalization may join the RCEP first. Once these RCEP members go through significant structural reforms and become ready to further liberalize, they can join the TPP later. A likely path towards a future FTAAP would be that the advanced members of the RCEP would also join the TPP, while other less advanced Asian developing economies would join the RCEP so that it continued to play a positive role. See Kawai, M. and Wignaraja, G. (2013), 'Patterns of Free Trade Areas in Asia', *Policy Studies*, No. 65, Hawaii: East-West Center.

As ASEAN forges the RCEP with its dialogue partners, strengthens ties with Europe and joins the TPP and an FTAAP, it will be compelled to maintain its own centrality for the region – not only by implementing measures for the AEC but also by deepening the community and moving to the next stage of internal integration. In doing so, it will likely have to consider seriously the formation of a customs and economic union. ASEAN may want to act increasingly as one when it pursues external integration.¹¹ Otherwise it could head towards disintegration, which would not be in the interests of any of its partner countries (and particularly not in the interests of Japan).

Japan–ASEAN relations

Japan is one of ASEAN's oldest and most important dialogue partners and supporters. It is the organization's second-largest trade partner country, with total bilateral trade amounting to about \$220 billion in 2014 according to Japanese finance ministry data (see Table 3).¹² It is also ASEAN's largest source country for foreign firms' direct investment, with an FDI stock of \$180 billion in 2014 (see Figure 1).¹³ ASEAN is Japan's second-largest trading partner after China. For Japanese multinational corporations (MNCs), ASEAN countries collectively constitute the most important FDI destination in Asia, ahead of China (see Figure 2). ASEAN is a key production base for Japanese MNCs that have developed extensive production networks and supply chains throughout Asia, and it offers an attractive market for Japanese firms providing goods and services.

Figure 1: Inward FDI stock for ASEAN, 2014 (billion \$)



Note: Data for ASEAN include Indonesia, Malaysia, the Philippines, Singapore and Thailand.

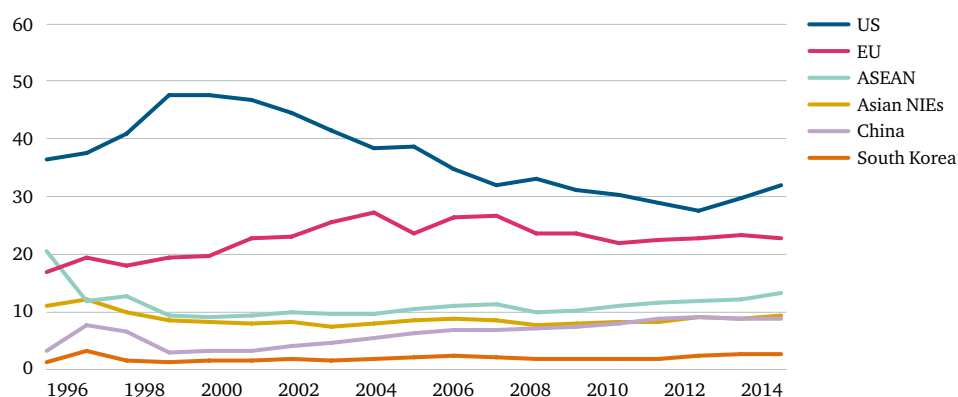
Source: Constructed by the author, using the five ASEAN member states' inward FDI stocks obtained from IMF, Coordinated Direct Investment Survey.

¹¹ See Kawai, M. and Naknoi, K. (2015), 'ASEAN Economic Integration through Trade and Foreign Direct Investment: Long-Term Challenges', ADBI Working Paper 345 (October), Tokyo: Asian Development Bank Institute.

¹² If the ASEAN economies and the Asian newly industrialized economies (Hong Kong, South Korea, Singapore and Taiwan) are grouped together, Japan is the fourth-largest trading partner for ASEAN, behind ASEAN, the Asian NIEs and China.

¹³ If the EU and the ASEAN economies are grouped together respectively, IMF data for ASEAN's inward FDI stock show that Japan is the second-largest source of FDI for ASEAN, following the EU but ahead of the US, measured by the inward FDI stock for five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) in 2014. However, IMF data for the US and Japan's outward FDI stock in ASEAN countries for 2014 show that the FDI stock of the US (\$226 billion) was greater than Japan's (\$155 billion).

Figure 2: Share of investment destinations in Japan's outward FDI stock (% of total)



Note: Asian newly industrialized economies (NIEs) are Hong Kong, South Korea, Singapore and Taiwan.
Source: Constructed by the author from Japan External Trade Organization data.

For example, Japanese automakers have established production bases for parts and components and final assembly in several ASEAN countries, including Indonesia, Malaysia and Thailand. In doing so, they have taken into account the specific conditions of individual countries, such as the availability of trained workers, technological capabilities, the agglomeration of suppliers, infrastructure availability, market characteristics, and policy and tax incentives. By investing in ASEAN and creating supply chains that connect Japan and several member countries, these and other Japanese MNCs, including several small and medium-sized enterprises, have greatly contributed to the region's economic development, technology transfer and the de facto integration of ASEAN economies. The formation of an AEC is expected to further improve the efficiency of regional production networks and supply chains.

While ASEAN is an important source of mineral fuels for Japan, it is also an important market for machinery, iron, non-ferrous and metal products, and chemicals.

Table 3 shows Japan's trade structure *vis-à-vis* the world, ASEAN and China in 2014. While ASEAN is an important source of mineral fuels for Japan, it is also an important market for machinery, iron, non-ferrous and metal products, and chemicals. Although Japan's intra-industry trade in machinery with ASEAN is not as extensive as that with China, its MNCs have created production bases in ASEAN and used them as a platform for exporting to the rest of the world.

Table 4 summarizes Japan's outward FDI stock and its investment income from FDI globally, in ASEAN and in China in 2014. Japanese MNCs have invested proportionally more in ASEAN's manufacturing than they have in manufacturing worldwide. They have also invested relatively more in ASEAN's non-manufacturing sectors than in China's. Among non-manufacturing industries, Japan has invested heavily in ASEAN's finance and insurance sector, to the tune of 23 per cent of its total FDI in ASEAN.

What stands out is the fact that the imputed rate of return on FDI in ASEAN (11 per cent) is higher than that in China (8 per cent) and in the world (6 per cent).¹⁴ This clearly shows that ASEAN is an important and attractive investment destination for Japanese MNCs.

Although ASEAN's trade relationship with China has expanded rapidly in recent years, China's presence as a source of FDI in ASEAN is still limited. Japan and member countries have nurtured friendly relationships and have no major historical issues or territorial disputes. ASEAN's prosperity and stability are essential to the Japanese economy, and Japan can play a significant role in member states' economic development and regional integration. In particular, it can strengthen the AEC by narrowing the development gap and enhancing ASEAN connectivity.

Table 3: Japan's trade structures with the world, ASEAN and China, 2014 (\$ billion, %)

	World			ASEAN			China		
	Exports (share of total, %)	Imports (share of total, %)	Balance	Exports (share of total, %)	Imports (share of total, %)	Balance	Exports (share of total, %)	Imports (share of total, %)	Balance
Total	694.3 (100.0)	817.1 (100.0)	-122.8	105.2 (100.0)	116.5 (100.0)	-11.3	127.1 (100.0)	182.1 (100.0)	-55.0
Machinery	439.8 (63.4)	221.4 (27.1)	218.4	58.2 (55.3)	31.1 (26.7)	27.1	75.0 (59.0)	92.5 (50.8)	-17.5
General machinery	132.6 (19.1)	65.1 (8.0)	67.4	21.8 (20.7)	8.2 (7.1)	13.5	24.3 (19.1)	31.9 (17.5)	-7.6
Electric machinery	104.1 (15.0)	99.0 (12.1)	5.1	19.0 (18.0)	16.9 (14.5)	2.0	25.7 (20.2)	50.5 (27.7)	-24.8
Transportation equipment	161.7 (23.3)	29.2 (3.6)	132.5	13.1 (12.4)	3.0 (2.5)	10.1	13.1 (10.3)	4.5 (2.5)	8.7
Precision machinery	41.5 (6.0)	28.1 (3.4)	13.4	4.4 (4.2)	3.0 (2.6)	1.4	11.9 (9.3)	5.6 (3.1)	6.2
Chemicals	91.7 (13.2)	76.1 (9.3)	15.7	12.0 (11.4)	10.9 (9.4)	1.0	22.2 (17.5)	14.4 (7.9)	7.9
Food	4.7 (0.7)	64.5 (7.9)	-59.9	0.8 (0.8)	9.0 (7.7)	-8.2	0.4 (0.3)	9.0 (5.0)	-8.6
Iron, non-ferrous & metals	64.1 (9.2)	35.6 (4.4)	28.5	16.6 (15.8)	5.1 (4.4)	11.5	13.7 (10.8)	9.9 (5.4)	3.8
Textiles	8.4 (1.2)	38.6 (4.7)	-30.2	2.0 (1.9)	6.9 (6.0)	-5.0	2.8 (2.2)	26.1 (14.3)	-23.3
Mineral fuels	14.1 (2.0)	262.4 (32.1)	-248.4	3.7 (3.5)	35.2 (30.2)	-31.6	1.3 (1.0)	1.1 (0.6)	0.2

Source: Ministry of Finance, Government of Japan, Trade Statistics.

¹⁴ The imputed rate of return on FDI for 2014 is calculated as income from FDI in 2014 relative to the average stock of FDI in 2014 (which is the average of FDI stock values in 2013 and 2014, as FDI stock values are for the end of the year).

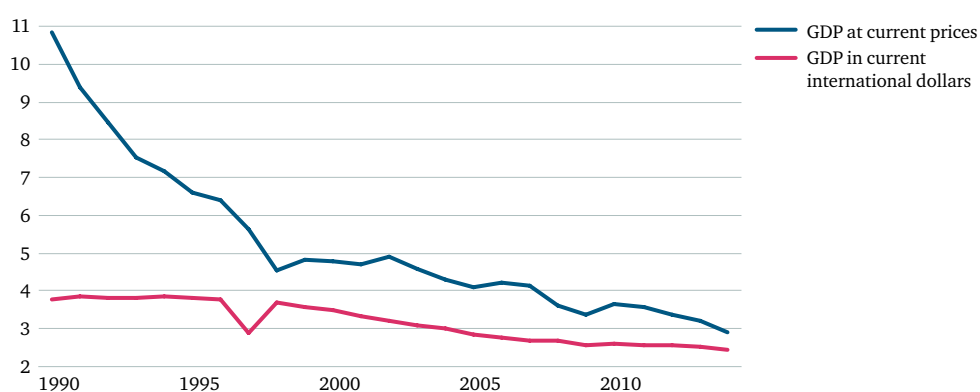
Table 4: Japan's outward FDI stock and investment income from FDI in the world, ASEAN and China, 2014 (¥ billion, %)

	World				ASEAN				China			
	Stock (share of total, %)	Income (share of total, %)	Rate of return, %	FDI stock (share of total, %)	Income (share of total, %)	Rate of return, %	FDI stock (share of total, %)	Income (share of total, %)	Rate of return, %	FDI stock (share of total, %)	Income (share of total, %)	Rate of return, %
Total	141,037 (100.0)	8,302 (100.0)	6.4 (52.7)	18,844 (100.0)	1,761 (100.0)	10.6 (64.6)	12,458 (100.0)	904 (100.0)	7.9 (77.3)	7.9	8.7	
Manufacturing (total)	65,212 (46.2)	4,372 (52.7)	7.3	10,460 (55.5)	1,137 (64.6)	12.0	8,457 (67.9)	699 (77.3)	8.7	8.7		
Food	8,401 (6.0)	259 (3.1)	3.6	1,031 (5.5)	98 (5.6)	11.0	447 (3.6)	19 (2.1)	4.6	4.6		
Textiles	720 (0.5)	17 (0.2)	2.8	132 (0.7)	3 (0.2)	2.8	170 (1.4)	6 (0.7)	4.0	4.0		
Lumber & pulp	1,252 (0.9)	32 (0.4)	2.8	215 (1.1)	14 (0.8)	7.1	288 (2.3)	2 (0.2)	0.8	0.8		
Chemicals & pharmaceuticals	11,971 (8.5)	606 (7.3)	5.4	1,441 (7.6)	57 (3.2)	4.4	866 (7.0)	11 (1.2)	1.3	1.3		
Rubber & leather	1,965 (1.4)	184 (2.2)	10.6	540 (2.9)	40 (2.2)	8.1	249 (2.0)	11 (1.2)	4.6	4.6		
Glass & ceramics	2,288 (1.6)	29 (0.3)	1.4	287 (1.5)	13 (0.8)	4.9	244 (2.0)	3 (0.4)	1.5	1.5		
Iron, non-ferrous & metals	5,074 (3.6)	288 (3.5)	6.4	1,104 (5.9)	36 (2.0)	3.6	811 (6.5)	36 (3.9)	4.7	4.7		
General machinery	5,680 (4.0)	351 (4.2)	6.9	657 (3.5)	69 (3.9)	11.2	1,432 (11.5)	115 (12.7)	8.8	8.8		
Electric machinery	10,793 (7.7)	672 (8.1)	6.5	1,679 (8.9)	165 (9.4)	10.8	1,670 (13.4)	142 (15.7)	8.9	8.9		
Transportation equipment	13,279 (9.4)	1,684 (20.3)	13.5	2,551 (13.5)	569 (32.3)	24.7	1,803 (14.5)	315 (34.9)	16.6	16.6		
Precision machinery	1,697 (1.2)	95 (1.1)	6.0	297 (1.6)	17 (1.0)	6.0	148 (1.2)	9 (1.0)	7.1	7.1		
Non-manufacturing (total)	75,825 (53.8)	3,930 (47.3)	5.7	8,384 (44.5)	624 (35.4)	8.7	4,000 (32.1)	205 (22.7)	6.1	6.1		
Mining	11,401 (8.1)	669 (8.1)	6.4	174 (0.9)	102 (5.8)	60.1	0 (0.0)	0 (0.0)	0.0	0.0		
Construction	699 (0.5)	60 (0.7)	9.4	171 (0.9)	19 (1.1)	12.5	18 (0.1)	2 (0.3)	15.5	15.5		
Transportation	1,661 (1.2)	146 (1.8)	9.3	410 (2.2)	11 (0.6)	2.7	82 (0.7)	5 (0.6)	7.2	7.2		
Communications	5,926 (4.2)	106 (1.3)	2.0	454 (2.4)	12 (0.7)	3.0	39 (0.3)	6 (0.7)	15.4	15.4		
Wholesale & retail	19,342 (13.7)	1,150 (13.9)	6.7	1,778 (9.4)	181 (10.3)	11.8	1,982 (15.9)	139 (15.3)	9.2	9.2		
Finance & insurance	27,106 (19.2)	1,244 (15.0)	4.9	4,362 (23.1)	200 (11.3)	5.6	1,072 (8.6)	39 (4.3)	4.0	4.0		
Real estate	2,080 (1.5)	66 (0.8)	3.5	300 (1.6)	11 (0.6)	3.9	515 (4.1)	4 (0.5)	0.9	0.9		
Services	3,608 (2.6)	225 (2.7)	6.8	194 (1.0)	29 (1.6)	19.5	209 (1.7)	7 (0.8)	3.8	3.8		

 Source: Computed by the author from Bank of Japan (2015), *Balance of Payments Statistics*, <http://www.boj.or.jp/statistics/br/index.htm/> (accessed 27 Jan. 2016).

The development gap between the ASEAN-6 and the CLMV is huge. For example, in 2014 the per capita GDP of Singapore, the richest member of ASEAN, was 52 times that of Cambodia, the poorest. Although the gap between the average per capita GDP of the ASEAN-6 and that of the CLMV has declined (see Figure 3), more can be done and Japan can help in this. Japan's support for human resource development, agricultural-sector development, social-sector support, infrastructure building and the expansion of supply chains to the CLMV would be vital in this.

Figure 3: Ratio of per capita GDP of ASEAN-6 relative to CLMV



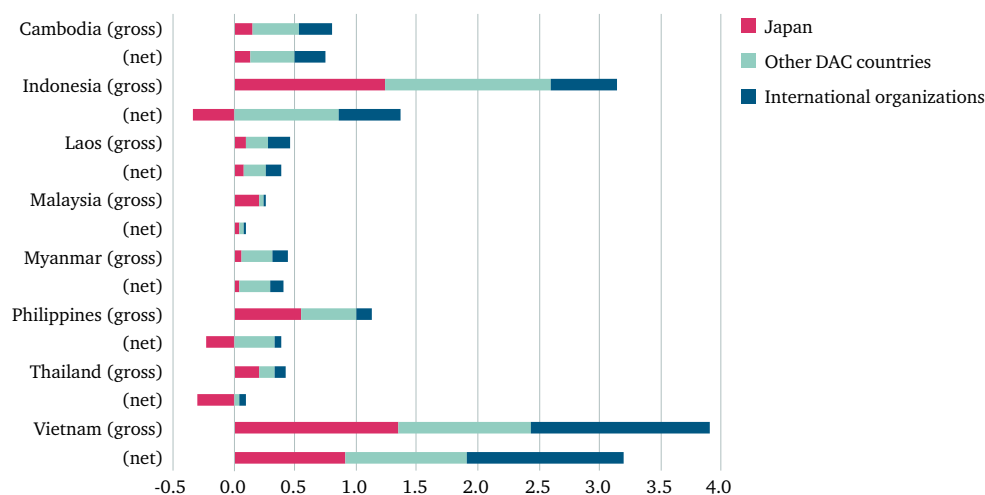
Source: Constructed by the author from IMF (2015), *World Economic Outlook* database, October 2015.

Japan has been the largest contributor to the Initiative for ASEAN Integration – a programme dedicated to narrowing income gaps in the CLMV. A narrower development gap would be essential for deepening the AEC and for the successful conclusion of RCEP negotiations for wider free-trade and investment liberalization.

Figure 4 depicts the annual average amount of official development assistance (ODA) provided to ASEAN's developing member states by Japan, other OECD Development Assistance Committee (DAC) member countries and international organizations. Although Japan still provides sizeable amounts of ODA to Indonesia and the Philippines in terms of gross disbursements, its net disbursements have become negative as these countries have increased their repayments of ODA loans. Now Japan is shifting its ODA focus to the CLMV, particularly Vietnam, in terms of gross and net disbursements. One can expect a significant increase in Japan's ODA to Myanmar over the coming years as the latter builds infrastructure and strengthens industrial as well as social development programmes.

Japan can also support the Master Plan on ASEAN Connectivity, including cross-border infrastructure development and trade facilitation such as smoothing customs procedures. One way would be to connect the Greater Mekong sub-region with South Asia through cross-border infrastructure such as highways, railways, maritime links and power transmission facilities. This would require substantial infrastructure investment in the transport system (including roads, ports and railways) and power sector in Myanmar, as well as in cross-border infrastructure investment projects connecting Myanmar with Thailand, the rest of the CLMV and India.

Figure 4: ODA gross and net disbursements, annual average (\$ billion)



Note: Data for gross disbursements are annual averages for 2008–12 and those for net disbursements are annual averages for 2008–11. ODA by international organizations includes funding provided by the International Development Association, the Asian Development Fund and the EU institutions.

Source: Ministry of Foreign Affairs, Japan, http://www.mofa.go.jp/policy/oda/page_000007.html.

Improving regional infrastructure would boost the competitiveness of CLMV countries, which would help them to be more connected with each other as well as with other ASEAN members and South Asian countries, particularly India. Infrastructure projects linking remote islands in Indonesia and the Philippines with economic centres would also greatly help economic development in archipelagic ASEAN.

The response of ASEAN countries to the global financial crisis has shown the region's resilience, which has been built up during the past 15 years to strengthen macroeconomic and financial conditions. None the less, external financial volatility could affect ASEAN countries. Thus, another area in which Japan could provide support would be through the expansion or introduction of bilateral currency swap arrangements so that short-term US-dollar liquidity can be made readily available in the event of financial and currency turmoil, including for Indonesia, Malaysia, the Philippines and Thailand. Such bilateral currency swap arrangements would complement the existing multilateralized Chiang Mai Initiative. This is particularly important at a time when the normalization of US monetary policy, the slowdown in China's economic growth and turbulence in global financial markets could pose financial risks to some ASEAN countries.

Japan can also continue to play a crucial role in the development of regional bond markets through the Asian Bond Markets Initiative, Credit Guarantee and Investment Facility, and the Japan–ASEAN Technical Assistance Fund for bond market development. These initiatives and programmes can support the rapid, sustainable and inclusive growth of ASEAN economies.

The Role of ASEAN and Japan in Minimizing Political Instability

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This section explores the opportunities for minimizing political instability in the Association of Southeast Asian Nations (ASEAN) in respect of three main realities that the association's members face. It examines the interests of and institutions available to ASEAN states and their external partners for doing so.

First, ASEAN is in transition. Leadership transitions in several member states have led to new or different interpretations of regional institutions and processes. The political diversity of members also indicates that the main challenge for ASEAN in terms of maintaining its regional role in the next decade will be the clash between national and regional interests.

Second, ASEAN's track record of minimizing or managing political instability has been characterized by adhering to or working through the 'ASEAN Way'. But because of the leadership transitions mentioned above, there are now also new or nuanced interpretations of the 'ASEAN Way' as domestic and regional interests collide.

Third, ASEAN's dialogue partners subscribe to the principles for interstate relations that it upholds in its key political documents.¹⁵ By extension, this also indicates an acceptance of ASEAN's central role as the convener of regional forums in which key external partners participate. Putting this into practice has its own challenges.

The greatest potential for instability across the ASEAN members exists in Myanmar, which passed a significant milestone in its trajectory of political change and transition with its November 2015 elections. In the next decade of regional integration efforts, ASEAN's role, and that of Japan, may find greater traction in engaging Myanmar through regional and bilateral channels. The ASEAN countries can employ cooperation programmes under the ASEAN framework, as well as through bilateral relations with Myanmar, to assist the country's continued opening up. Similarly, Japan can use both the ASEAN–Japan dialogue relations platform and its bilateral cooperation programmes for Myanmar to support the transition process.

ASEAN's political diversity: collective and individual interests

ASEAN's regional integration project has entered a new phase. The association's 27th summit in November 2015 announced the establishment of the ASEAN Community and adopted a development roadmap for 2025. The roadmap signals ASEAN's intent to continue the 'work-in-progress' of integration. But closer coordination of policies and processes among member states is challenged by complex, divergent interests at national and regional levels. Strident

¹⁵ This will include the 1976 Treaty of Amity and Cooperation in Southeast Asia, to which all the 10 dialogue partners have acceded, as well as the ASEAN Charter that entered into force in 2008.

national positions regarding transboundary issues, such as the haze and refugee crises in 2015, show that ASEAN countries are resorting more to bilateral or sub-regional means to deal with transboundary issues.

As it nears the half-century mark in 2017, ASEAN presents an interesting picture of transition. The first-generation 'founding fathers' who created a breathing space amidst competing power rivalries during the Cold War have gradually ceded the reins of leadership to successors who face different regional realities. In recent years, leadership transitions in several ASEAN member states have also reflected a growing voice among domestic constituents in each country testing the relevant government's capacity for (and interest in) reform and change. The new crop of leaders brings different interpretations of the 'ASEAN Way' to the regional table, as well as different views on engaging bilaterally with external partners.

In Indonesia, under President Joko Widodo, an inward-looking trend that prioritizes national development and diversified international partnerships seems to have replaced prior ASEAN-centred commitments. The 2014 military takeover in Thailand has affected the country's economic reach and democratic credentials, and its relations with key ASEAN dialogue partners such as the United States and Japan. And even as Myanmar's landmark elections saw the country's main opposition National League for Democracy unseat the military-dominated incumbent Union Solidarity Development Party, there are uncertainties over the country's transition in the face of daunting internal challenges.

Starting in 2012, ASEAN members have been openly confronted with the challenge of maintaining the delicate balance between, on the one hand, the organization's 'unity of purpose' for regional stability and security; and, on the other, the pressure of external influences that underpin the bilateral relations of members with other countries in the wider region and beyond.

The 'ASEAN Way' – managing political instability

ASEAN processes have built in some flexibility to accommodate these diverse national situations. The 'ASEAN Way' of decision-making and consensus-building has afforded ASEAN with multiple means to assert or exercise its regional role and space. But the nature of this flexibility also limits the extent to which regional institutions and partnerships can be effective in managing domestic and external pressures, which are all contingent on how ASEAN members balance their domestic and regional priorities. Also, when members that have significant bilateral relations with China – which maintains that individual claims in the South China Sea are not a regional concern – occupy the rotating ASEAN chair, this creates unease inside the organization. In such cases the main concern is that external influences could affect ASEAN's neutral and balancing role with respect to regional stability.

A former ASEAN secretary-general, Rodolfo Severino, has outlined the organization's characteristics and the 'ASEAN Way' as preferring:

- informal, loose arrangements over treaties and formal agreements;
- personal relations and peer influence over institutions; and
- consensus and common interests over binding commitments.¹⁶

The 'ASEAN Way' emphasizes the principle of non-interference in the domestic affairs of a fellow member state, and is often manifest in 'quiet diplomacy' and informal consultations.

¹⁶ Severino, R. (2006), *Southeast Asia in Search of an ASEAN Community*, Singapore: Institute of Southeast Asian Studies, p. 11.

This practice has dominated not only in the many meetings that ASEAN convenes at various official levels, but also in regional institutions such as the ASEAN Regional Forum (ARF) instituted in 1994, the ASEAN Plus Three process that emerged in the aftermath of the 1997–98 Asian financial crisis, and the more recent construct of the East Asia Summit (EAS) launched in 2005 and expanded to its current composition in 2011.¹⁷ At all these forums, and possibly more so in the EAS, ASEAN strives to maintain its central role as a convener of meetings where regional interests meet those of major external partners with traditional links to, and a significant presence in, the region. These partners include the United States, Japan and, increasingly, China.¹⁸

But with the entry into force of the ASEAN Charter in 2008, attempts to codify regional processes and to identify the institutions and entities needed to ensure compliance with regional agreements indicate a more rules-based approach to integration. The effectiveness of this approach is limited by the continued assertion of sovereignty by members. Past attempts to minimize instability in various ASEAN countries highlight this reality.

In 1986, days before the fall of the Marcos regime in the Philippines, ASEAN foreign ministers issued a joint statement expressing concern about the situation in the country, but without the participation of the Philippine foreign minister.

In 1997, ASEAN foreign ministers decided to defer Cambodia's planned admission that year in view of the clashes between the forces of then Second Prime Minister Hun Sen and First Prime Minister Prince Norodom Ranariddh. An ASEAN Troika comprising foreign ministers of current, past and incoming chair countries was convened to seek a solution to the issue, leading to Cambodia's eventual admission in 1999. The ASEAN Troika has not been reconvened since.

In 1999, ASEAN's reluctance to comment on the situation in East Timor, which had declared its intention to seek independence from Indonesia,¹⁹ was followed by a decision by individual ASEAN members to participate in UN-led peacekeeping operations.

Institutions and influences in regional dynamics

Decisions on an ASEAN position or to intervene constructively are discussed and given effect under the formal institutional framework of the organization's meetings. ASEAN institutions are thus reactive; they are created to support or implement decisions of ASEAN heads of state and governments in response to situations of regional relevance. Despite some limits, the regional institutions are useful as a discussion platform for a wide spectrum of issues, including those that present potential sources of tension.²⁰ The centrality of ASEAN as convener, however, also presents its own potential for tensions. The organization maintains that it should not be made to choose sides, in line with its policy of being enemy to none. However, the need to balance large power interests in the region dictates how members engage with external partners individually. Two instances in which the country chairing ASEAN had different motivations highlight this. The failure in 2012 to issue a joint communiqué of

¹⁷ The ARF is where diverse interests converge around discussions on regional security and stability; the ASEAN Plus Three mainly serves the need to build relationships around economic and functional priorities in East Asia; and the EAS adds a broader geopolitical dimension to discussions on strategic issues that are relevant to ASEAN's role and relations with external partners.

¹⁸ This is now referred to in ASEAN-related literature as 'ASEAN centrality', but it has its roots in an earlier coinage of ASEAN being in the 'driver's seat'. Essentially, ASEAN's central role highlights the members acting as the driving force in formulating initiatives and positions on regional issues.

¹⁹ ASEAN had responded with silence to Indonesia's formal annexation of East Timor in 1976, preferring to view this as an internal affair.

²⁰ If an issue is not seen as affecting the whole region, members can refuse to participate. The 'ASEAN Way' requires members' agreement before convening special meetings of leaders or ministers.

the foreign ministers' meeting in Phnom Penh due to disagreement over language stating ASEAN's position on South China Sea tensions was a public indication of domestic (and external) influences trumping regional interest. At the 2015 Defence Ministers Meeting–Plus in Kuala Lumpur, the decision not to issue a joint statement with whitewashed language on South China Sea tensions was explained as a sign of maturity in publicly acknowledging that there is a challenge for regional institutions to balance external influences and maintain regional stability.

Thus, external influences do affect ASEAN's regional role and relations with its partners. This can be seen in the United States' rebalancing strategy towards Asia and its upholding of freedom of navigation; in Japan's emphasis on the rule of law in maritime security; and in the ongoing efforts by ASEAN to manage the tensions arising from different territorial claims in the South China Sea. ASEAN as a whole does not support any of the individual territorial claims of Brunei, Malaysia, the Philippines and Vietnam. It tries to maintain its referee role by engaging China (also a claimant) as a regional grouping under the framework of the Declaration of Conduct in the South China Sea towards a Code of Conduct (COC). China, however, prefers to address the different territorial claims on a bilateral basis. China's concern that the South China Sea issue may be used against its interests may lead it to exploit ASEAN's consensus principle in the ASEAN–China negotiations on the COC. The organization's efforts in respect of the COC discussions thus need to be complemented by bilateral initiatives to inform and facilitate regional discussions. At the same time, ongoing tensions between China and ASEAN countries such as the Philippines and Vietnam will continue to colour regional discussions on this topic.

The concern that ASEAN members most commonly share today is how to counter the threat of extremism and terrorism in Southeast Asia.

The South China Sea issue, however, may not be the best lens through which to assess ASEAN's response to external challenges or influences. There have been instances of ASEAN successfully responding to external situations that all members perceived as a common threat to regional stability. The 2000 Chiang Mai Initiative (multilateralized in 2010) launched by ASEAN finance ministers and their counterparts from China, Japan and South Korea indicates a commitment to prepare against future shocks to the region's economies, learning from the 1997–98 Asian financial crisis that set back ASEAN's economic integration goals. Similarly, the organization's response to the spread of the Severe Acute Respiratory Syndrome (SARS) and avian flu viruses in 2003–04 involved agreements to share information across sectors and borders. Thus, ASEAN's institutions and collective decision-making work best where common interests are at stake and no members' national interests are adversely affected. And, as other regional experiences have shown, disparities among member states do matter.

The concern that ASEAN members most commonly share today is how to counter the threat of extremism and terrorism in Southeast Asia – a concern fuelled in part by the rise of Islamic State of Iraq and Syria (ISIS) in the Middle East and North Africa. The co-existence of multiple ethnic and religious communities in Southeast Asia requires a delicate calibration of regional and national responses that do not conflate extremism and religion. ASEAN members are developing an array of regional responses to address different dimensions of the issue, and to involve dialogue partners and international agencies via the EAS platform.²¹ The different national circumstances in Southeast

²¹ See the 'East Asia Summit Statement on Countering Violent Extremism', 10th East Asia Summit, 21 November 2015, <http://www.asean.org/storage/images/2015/November/10th-EAS-Outcome/EAS%20Statement%20on%20CVE%20-%20FINAL%2021%20November%202015.pdf>.

Asia highlight a need to counter radicalization. In January 2016, EAS members participated in a conference hosted by Malaysia to look at deradicalization as part of a regional response in combating terrorism and the rising ISIS threat. In 2015, Singapore convened an EAS symposium on religious rehabilitation and social reintegration. Japan, as an EAS member and dialogue partner, participates in these ASEAN-led responses.

Japan, ASEAN and regional partnerships²²

The end of the Vietnam War in 1975 and the first ASEAN Summit in 1976 signalled a new beginning for Japan's role in Southeast Asia. The 'heart to heart' diplomacy of the Fukuda Doctrine in 1977, and the signing of the Plaza Accord to depreciate the US dollar relative to the Japanese yen and the German Deutsche Mark in 1985, anchored Japan's role in helping develop Southeast Asian economies.²³ Japan also used its official development assistance (ODA) to engage with the then non-ASEAN states in Southeast Asia. When Vietnam invaded Cambodia in 1978, Japan supported ASEAN's approach to finding a peaceful resolution.²⁴ This later evolved into the organization's *modus operandi* for discussions on regional peace and stability.

Japan's interactions with ASEAN and other Southeast Asian countries have mainly used economic diplomacy as a means of strengthening relations. In addition to industrial investments in several member states, Japan actively supported ASEAN cooperation by establishing funds for regional projects and exchanges. In 1981, the ASEAN Promotion Center on Trade, Investment and Tourism was established in Tokyo, the first of its kind in East Asia.²⁵ In 1987 Japan was the first dialogue partner to be invited as a guest to the ASEAN Summit. And, when the ASEAN Charter came into effect in 2008, Japan was also the first dialogue partner to appoint an ambassador to the organization, resident in Jakarta.²⁶

Under successive governments, Japan has consistently emphasized its support for the region's economic resilience and for political coordination with ASEAN, as well as for people-to-people exchanges. During the 1997–98 Asian financial crisis, Japan assisted recovery in the affected countries, including in ASEAN member states such as Thailand and Indonesia. Japan also contributes to and participates in regional integration processes such as the Initiative for ASEAN Integration.²⁷ An emphasis on developing the economies of the CLMV countries became more pronounced after 2010, through the Japan–Mekong cooperation mechanism.

Conversely, on occasions ASEAN has been able to reciprocate by assisting Japan. At the special ASEAN–Japan ministerial meeting in 2011 following the triple disaster in Fukushima, the organization's foreign ministers offered support for Japan's efforts to help its citizens in the affected areas.

²² This section is based on, and includes information and analysis earlier presented in, Kawai, M. (2014), 'ASEAN-Japan Strategic Partnership and Regional Integration', in Shiraishi, T. and Kojima, T. (eds), *ASEAN-Japan Relations*, Singapore: Institute of Southeast Asian Studies.

²³ The signing of the Plaza Accord is seen as a landmark in Japan's relations with ASEAN. The strong Japanese yen afforded Japanese multinationals with the opportunity to take advantage of low labour costs in the Southeast Asian countries, and to establish or relocate labour-intensive manufacturing bases in Southeast Asia.

²⁴ Yeo, L. H. (2006) (citing the work of Suetō Sudo and Peng Er Lam), 'Japan, ASEAN and the Construction of an East Asian Community', *Contemporary Southeast Asia*, Vol. 28, No. 2.

²⁵ The other Northeast Asian countries followed suit decades later in 2009, when China and South Korea signed separate Memoranda of Understanding with ASEAN to establish the ASEAN–China Centre in Beijing, and the ASEAN–Korea Centre in Seoul.

²⁶ The United States, however, was the first country to appoint an ambassador to ASEAN.

²⁷ The Initiative for ASEAN Integration (IAI) was launched in Singapore in 2000 as an 'ASEAN help ASEAN' mechanism. IAI Work Plan priorities were opened up for support from development and dialogue partners in 2001. This practice has continued in the second IAI Work Plan.

The case for Myanmar

Myanmar's membership of ASEAN since 1997 has had an impact on regional developments, as its participation and role in the organization and related forums were affected by its internal situation. ASEAN's humanitarian assistance coordination role after the devastating Cyclone Nargis in 2008, and continued support for Myanmar's political opening up, paved the way for opportunities to assist the country's transition from 2012 onwards.

ASEAN has been most vocal about a country's situation – and probably most successful in provoking a response – with regard to Myanmar. Statements on Myanmar have been drafted and issued with the participation of the Burmese government. Throughout the years of military rule, and since Myanmar was admitted as a member, the annual meetings of ASEAN foreign ministers have included an agenda item on the situation in the country. Similarly, ASEAN labour ministers have monitored the situation regarding forced labour in Myanmar. Specific statements have been issued over political developments or setbacks, most notably the 2003 Depayin incident in which Aung San Suu Kyi's freedom of movement was forcibly restrained, and the 2007 crackdown on the Saffron Revolution, which occasioned the strongest-worded statement on Myanmar by ASEAN. Statements with a more constructive intent include the acknowledgment of Myanmar's deferment of its turn as ASEAN chair in 2006, as well as ASEAN's insistence on equal treatment of ASEAN members *vis-à-vis* Myanmar's status at meetings with dialogue partners.²⁸ ASEAN's efforts in persuading the military regime to allow international humanitarian assistance into the country helped to stave off a humanitarian disaster in the wake of Cyclone Nargis. The ASEAN-led response to the cyclone stands as a case study in the creative use of the 'ASEAN Way'. The organization also supported Myanmar's political and economic opening up, including resumption of its deferred chairmanship in 2014.

Building on the ASEAN approach, Japan's role in Myanmar, as a fellow Asian partner with unique historical ties and long-standing investments in the country, can be one of facilitating constructive change. Japan's programme of assistance to Myanmar under the current government of Prime Minister Shinzo Abe illustrates this well. The Thein Sein government sought Japan's assistance to modernize port facilities in Yangon and to develop a stock exchange (launched in November 2015). Japan is also providing a sustained programme of humanitarian support in conflict areas in northern Myanmar, through The Nippon Foundation.²⁹ This initiative presents a rather stark contrast with China's attempts to influence the ceasefire negotiations and its connection to the instigators of the April 2015 Kokang conflict.

The case of Myanmar shows how partners in ASEAN and East Asia can help a country act for the region's true interests. ASEAN can justify constructive intervention if a country's internal matters have spillover effects for regional security. Myanmar's situation requires some nuancing of this approach, as there are legacy issues inherited from previous authoritarian regimes. Examples can be found in how successive authoritarian regimes dealt with conflicts (which led to internal displacement as well as

²⁸ The political situation in Myanmar, which was under military rule, had already caused concern in the international community that ASEAN's admission of Myanmar would prolong authoritarian rule and the suppression of the democracy movement. Thus, when Myanmar became a member of ASEAN in 1997, ASEAN had to contend with the refusal to recognize Myanmar's representation at dialogue meetings. This was resolved by doing away with country nameplates at the ASEAN Plus One dialogue meetings. Additionally, the lack of progress towards any meaningful change led some ASEAN dialogue partners (from the West) to indicate to ASEAN that, should Myanmar take up the 2006 rotating chair, there would be low-level representation of their governments at the key ASEAN meetings chaired by Myanmar that year. ASEAN was in a dilemma, as it could not take away a member state's turn to chair, yet wanted high-level attendance by its dialogue partners at key political meetings of foreign ministers and at the ASEAN Regional Forum. Thus, the ASEAN Foreign Ministers' statement in 2005 was 'dripping with appreciation' (Severino, 2006) over Myanmar's offer to defer its turn.

²⁹ Additionally, The Nippon Foundation supports a capacity-building programme for future administrators of border and remote areas in Myanmar.

residents in conflict areas fleeing across borders); and in the strong emphasis on state security (which led to a conflation of state and regime security, and to a retreat into isolationism). The emphasis on the armed forces as 'guardians of the state' also led to the military's role and reach permeating all sectors of administration and society.

In Myanmar, the rise of extreme conservative or nationalist views couched in the language of Buddhism condoned the persecution of the Rohingya Muslim minority group. In May 2015 boats of migrants – comprising mostly Rohingya from Myanmar's Rakhine state – were afloat for days amidst emerging stories of trafficking that implicated countries such as Thailand and Malaysia. Despite initial reluctance, there are now camps in Indonesia and Malaysia that house the displaced Rohingya, but there is still uncertainty over their eventual repatriation or resettlement.

The migration/refugee issue and the potential for political instability (if there are fallouts from ceasefire negotiations) present daunting challenges for Myanmar.

Focus on conflict resolution in Myanmar, though, seems to be more on implementing the 2015 nationwide ceasefire agreement, with current efforts geared towards getting the remaining eight of the 16 armed groups to sign the agreement. While the effects of the agreement on the Rakhine Rohingya conflict are not currently evident, it does provide a reference framework for conflict resolution in the country.

The migration/refugee issue and the potential for political instability (if there are fallouts from ceasefire negotiations) present daunting challenges for Myanmar. Additionally, the country now has to deal with higher expectations from neighbours that had previously been supportive through ASEAN's constructive engagement policy. ASEAN and external partners can build on the response to Cyclone Nargis, which catalysed a new way of assisting Myanmar, and find similar ways of tackling multidimensional challenges that span political, economic and social sectors. The 'ASEAN Way' may work in consultations with bilateral and regional partners over assistance on socio-economic development in conflict-prone parts of the country. The tripartite consultation model (between ASEAN, the government of Myanmar and UN agencies) during the Nargis response could be revisited. In fact, this *modus operandi* inspired Japan to formulate a similar approach in 2008 as a Laos Pilot Program to assist Laos in strengthening its national capacities to comply with ASEAN agreements.³⁰

Concluding thoughts

The evolving structures of the global economy, political changes in ASEAN states and the shifting dynamics of the regional power balance have implications for regional processes, including how ASEAN and Japan plan their partnership for the next decade. A joint study led by the Japan Center for International Exchange and the Centre for Strategic and International Studies, Indonesia, brought together several perspectives and recommendations for an 'ASEAN-Japan Strategic Partnership for Democracy, Peace, and Prosperity in Southeast Asia' beyond 2015.³¹ The recommendations highlight a 'responsibility to implement' principle that involves capacity-building, institutions and strategies.

³⁰ For more information on the Laos Pilot Program, see <http://www.laospilotprogram.com/background.html>.

³¹ See Japan Center for International Exchange (2013), *BEYOND 2015: ASEAN-Japan Strategic Partnership for Democracy, Peace, and Prosperity in Southeast Asia*, <http://www.jcie.org/japan/j/pdf/pub/publst/1451/full%20report.pdf>. The abstract and summaries are available at <http://www.jcie.or.jp/books/abstracts/A/asean-japan-partnership.html>.

Drawing on these, Japan's role in advancing key regional processes with ASEAN will have most impact in the following three spheres:

- **Stabilizing the region through continued economic and social infrastructure-building in ASEAN countries.** Japan's existing economic presence in Southeast Asia works positively in this regard and will help to provide an alternative 'balance' to over-reliance on single dominant partnerships. This approach is certainly true for Myanmar's diversification of external economic partnerships, with increasing trust being placed in the credibility of Japanese investments.
- **Coordinating with other important partners of ASEAN under the EAS framework on cross-cutting strategic issues to be tackled nationally, regionally and internationally.** There are some nascent steps in this direction on topics related to climate change, migration, people-trafficking and extremism.
- **Facilitating the capacity of newer members (such as Myanmar and Laos) to participate fully in ASEAN integration activities.** This may prove a useful approach in engaging the new government in Myanmar and, in the context of unresolved internal conflict in several parts of the country, could also present a new way of constructively engaging with it.

As ASEAN moves into its next decade of regional cooperation, 'people-centred' topics will most likely dominate domestic and regional discussions. These are likely to range from voice and accountability issues (at the domestic level) to more assurances of security against external threats and radicalization, and higher expectations for ASEAN in terms of responding to or assisting with national emergencies. Minimizing political instability is therefore contingent on how member states continue to balance their regional and bilateral agendas, while at the same time balancing domestic political and economic interests for performance legitimacy.

ASEAN's Future Security Role: Cornerstone, Touchstone or Millstone?

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In December 2014 Rizal Sukma, the main foreign policy adviser to President Joko Widodo of Indonesia, told an audience in Washington that his country had changed the grammar of its relationship with the Association of Southeast Asian Nations (ASEAN). Instead of describing ASEAN as *the* cornerstone of Indonesia's foreign policy, he said it was now merely *a* cornerstone. According to one account of that meeting, he said the new policy would 'focus more on developing bilateral ties – including with countries beyond the Asia-Pacific – and it would be directed first and foremost at benefiting the Indonesian people'.³² That Indonesia would so demonstratively de-centre its relationship with the organization it co-founded nearly half a century earlier shocked many observers of Southeast Asian politics.

It was a theme that Sukma – at the time, executive director of the Centre for Strategic and International Studies in Jakarta and now the newly appointed ambassador to the United Kingdom – had first expounded some time before, notably in a 2009 article titled 'Indonesia needs a post-ASEAN foreign policy'.³³ This had exposed a deep level of Indonesian frustration with ASEAN. He declared, 'There is nothing more irritating than being ignored,' and argued, 'We should stand tall and proclaim that enough is enough.' Indonesia's president at the time, Susilo Bambang Yudhoyono, did not heed Sukma's call. His successor has been more sympathetic. Jokowi – as the current Indonesian president is popularly called – was elected on a platform of delivering tangible benefits to the people. In office, Jokowi has preferred to focus on matters with more immediate returns than on lengthy international meetings. He chose not to attend the 2015 APEC Summit and only participated in the plenary session of the ASEAN Summit in April 2015, skipping the informal 'retreat' section.

In form and tone, the current Indonesian government is taking a quite different approach to ASEAN from that of its predecessors. The reason is simple: without the elite background of his predecessors or the support of a nationwide political machine, Jokowi needs to deliver results to voters. Foreign Minister Retno Marsudi has called this 'pro-people diplomacy' or 'people-oriented, results-driven foreign policy'.³⁴ It represents a change in approach from that of Yudhoyono, who, in the words of one Australian analyst, 'prioritized the promotion of the country's profile overseas rather than progress on the most challenging diplomatic issues'.³⁵ But, in Sukma's words, 'You can't eat an international image'.³⁶

³² Parameswaran, P. (2014), 'Is Indonesia Turning Away From ASEAN Under Jokowi?', *The Diplomat*, 18 December 2014, <http://thediplomat.com/2014/12/is-indonesia-turning-away-from-asean-under-jokowi/>.

³³ Sukma, R. (2009), 'Indonesia needs a post-ASEAN foreign policy', *The Jakarta Post*, 30 June 2009, <http://www.thejakartapost.com/news/2009/06/30/indonesia-needs-a-postasean-foreign-policy.html>.

³⁴ *Jakarta Globe* (2014), 'Thousand Friends' Policy No More Under Retno', 30 October 2014, <http://jakartaglobe.beritasatu.com/news/thousand-friends-policy-retno/>; Parameswaran, P. (2015), 'Indonesia Defends its Foreign Policy Record under Jokowi', *The Diplomat*, 22 September 2015, <http://thediplomat.com/2015/09/indonesia-defends-its-foreign-policy-record-under-jokowi/>.

³⁵ Connelly, A. (2015), 'Sovereignty and the sea: President Joko Widodo's foreign policy challenges', *Contemporary Southeast Asia*, Vol. 37, No. 1, 2015.

³⁶ Cochrane, J. (2014), 'Indonesian Leader in Global Spotlight', *New York Times*, 21 October 2014, <http://www.nytimes.com/2014/10/21/business/international/many-hope-joko-widodo-indonesias-new-leader-will-raise-countrys-regional-stature.html>.

Indonesia's public reorientation has catalysed a debate about ASEAN across the region. If the largest country in Southeast Asia is turning away from ASEAN, what future can the organization have? This section, based upon the author's personal interviews with a number of diplomats from ASEAN countries and the United States in late 2015, argues that the debate is misconstrued. Much of the discussion about the future of ASEAN has contrasted a past in which membership of the grouping meant everything to Southeast Asian states against a present in which these states' commitment to it is steadily decreasing.³⁷ This narrative has developed in parallel with a rising view among some commentators, particularly in the United States, that ASEAN's 'natural' role is to be that of a security community uniting all Southeast Asian countries as a bloc against a rising China. They then test the organization against this yardstick and find it lacking. But is it actually the case that member states have become less focused on ASEAN in their foreign policy? And how valid is it to regard it as a natural security community? In the words of Singapore's ambassador-at-large, Bilahari Kausikan, 'Too often criticisms of ASEAN by people who ought to know better amount to accusing a cow of being an imperfect horse.'³⁸

ASEAN nostalgia

These views of ASEAN's history and 'natural role' seem to be rather recent narratives constructed within the context of Southeast Asia's changing geopolitics. To put it somewhat crudely, the United States' two-decade-long unipolar moment in the region has been replaced by a new era of power competition. This has prompted the emergence of a kind of nostalgia towards an imagined past in which ASEAN used to perform all the functions that some contemporary commentators now wish that it did. Suffice it to say that that past never existed.

Indonesia has publicly advocated a 'free and active' foreign policy ever since a vice-president, Mohammad Hatta, coined the term in a speech to the revolutionary parliament in 1948.³⁹ Hatta's focus was on how Indonesia should 'navigate between the two rocks' of the Cold War by avoiding entanglements with either superpower. The eventual construction of ASEAN by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967 was ostensibly a regional embodiment of this non-aligned strategy – at a time when Indochina was being crushed by superpower proxy war. However, the governments of all five states were clearly aligned. They shared a hatred of communism and fundamental security relationships with Western powers. The Philippines and Thailand were treaty allies of the United States; Malaysia and Singapore enjoyed security guarantees under the Five Power Defence Arrangements with the United Kingdom, Australia and New Zealand; and, although Indonesia avoided formal treaty ties, its security establishment has had intimate ties with the United States since General Suharto overthrew President Sukarno in 1965–67.

One of ASEAN's foundational purposes was to 'promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region'.⁴⁰ It was never intended to replace member states' bilateral relations with others. In the words of Indonesia's former ambassador to the European Union (and candidate for foreign minister in 2014), Arif Havas Oegroseno: 'In addressing many other foreign policy issues regionally and globally as

³⁷ See, for example, Shekhar, V. (2015), 'Realist Indonesia's Drift away from ASEAN', *Asia Pacific Bulletin*, 30 September 2015.

³⁸ Kausikan, B. (2015), 'A Cow is not a Horse', speech to Youth Model ASEAN Conference, Singapore Polytechnic, 5 October 2015, <http://themiddleground.sg/2015/10/06/asean-cow-not-horse-bilahari-kausikan/>.

³⁹ Fortuna Anwar, D. (2012), 'The Cold War and its impact on Indonesia: domestic politics and foreign policy', in Lau, A. (ed.), *Southeast Asia and the Cold War*, London: Routledge, p. 135.

⁴⁰ 'ASEAN Declaration', 8 August 1967, <http://www.asean.org/the-asean-declaration-bangkok-declaration-bangkok-8-august-1967>.

well as dealing with non-Asean states, Indonesia does not employ Asean as the basis of approach.⁴¹ Or, to quote a Malaysian diplomat: 'Foreign policy and security are *always* bilateral.'⁴² And in the words of a senior US diplomat in the region: 'There's always a lot going on bilaterally.'⁴³ These diplomats, and others interviewed, are clear. ASEAN is not the primary vehicle for their governments' interactions with non-ASEAN states.

Rhetoric and reality

What, then, is ASEAN's role? In the opinions of the diplomats interviewed, it is almost entirely limited to intra-regional matters – particularly trade and issues such as the movement of people. And even on trade there is a split. While the organization has collectively agreed five free-trade agreements (FTAs) with non-ASEAN states (China in 2004, South Korea in 2007, Japan in 2008, Australia and New Zealand in 2009, and India in 2009), its 10 member states have also agreed more than 160 bilateral FTAs.⁴⁴ The Regional Comprehensive Economic Partnership (RCEP) is an attempt to rationalize part of this 'noodle bowl' of agreements, but it has yet to be finalized. Meanwhile four member states (Brunei, Malaysia, Singapore and Vietnam) have negotiated membership of the Trans-Pacific Partnership (TPP) bilaterally.

Some outside observers may be surprised, or even shocked, at the lack of support for a collective foreign policy and security role for ASEAN. After all, under the terms of the 2008 ASEAN Charter, member states have agreed to form a Political-Security Community by 2020. However, like many other elements of ASEAN practice, the rhetoric of this commitment appears more significant than the reality. Governments' lack of enthusiasm for creating a common foreign and security policy is made clear by their ongoing hobbling of the ASEAN Secretariat, the organization's central institution, which employs 300 relatively low-paid people. By comparison the European Council (which coordinates governments in the European Union) employs almost 10 times as many, and the European Commission (which has a much wider set of roles) employs almost 10 times as many again.

The ASEAN Secretariat is so thinly staffed because members have refused to give it the necessary funding to expand into its new roles. They have stuck to the principle that each state makes the same contribution and kept that figure low. Although the budget is not made public, it is thought that member states each contribute around \$1.1 million a year. Even in the case of Laos, which has the smallest economy in ASEAN, that is just 0.009 per cent of GDP.⁴⁵ The only reason that ASEAN still functions is because much of its work is carried out by designated secretariats within the foreign ministries of each member state, particularly by whichever state is chairing the organization at the time. That, of course, means that the work is under direct control of member states.

Even the political scientist Amitav Acharya, who has long argued for ASEAN to develop stronger institutions, has noted ruefully that:

... the member states pose many questions over ASEAN Secretariat (ASEC)'s legitimacy on a wide-range of actions. They seem to be more concerned with promoting a national agenda than a supranational one. Only the long-time professional staff members of the secretariat seem not to be pushing for a national agenda.⁴⁶

⁴¹ Arif Havas Oegroseno, correspondence with the author, 5 December 2015.

⁴² Interview with Malaysian diplomat, 4 December 2015.

⁴³ Interview with US diplomat based in Southeast Asia, 7 December 2015.

⁴⁴ Zhang, Y. and Shen, M. (2011), *The Status of East Asian Free Trade Agreements*, Asian Development Bank Institute, ADBI Working Paper Series No. 282, May 2011, <http://www.adb.org/sites/default/files/publication/156137/adbi-wp282.pdf>.

⁴⁵ Poole, A. (2015), 'Ambitions versus capacity: The Role of Institutions in ASEAN', in Björkdahl, A., Chaban, N., Leslie, J. and Masselot, A. (eds), *Importing EU Norms: Conceptual Framework and Empirical Findings*, Springer.

⁴⁶ Acharya, A. (2011), 'ASEAN Institutional Reform and Strengthening', paper prepared for the Asian Development Bank Institute, <http://www.amitavacharya.com/?q=content/asean-institutional-reform-and-strengthening>.

He has also observed that the member states' Committee of Permanent Representatives to ASEAN 'can and does summon the ASEAN secretariat staff (by-passing the Secretary General) to report to them on a wide range of issues'.⁴⁷ These practices are simply a continuation of ASEAN member states' half-century-old resistance to forming foreign policy collectively. In the opinion of the ASEAN diplomats interviewed, this is not going to change.

ASEAN was founded with two implicit intra-regional security roles: to contain and resist communist-inspired subversion through the promotion of economic prosperity, and to manage tensions – particularly over post-colonial boundaries – through dialogue and confidence-building.

ASEAN was founded with two implicit intra-regional security roles: to contain and resist communist-inspired subversion through the promotion of economic prosperity, and to manage tensions – particularly over post-colonial boundaries – through dialogue and confidence-building.⁴⁸ The latter role led to the emergence of norms of acceptable conduct, later defined in the 1976 Treaty of Amity and Cooperation as mutual respect for sovereignty and territorial integrity; non-interference in the internal affairs of one another; the settlement of differences or disputes by peaceful means; the renunciation of the threat or use of force; and effective cooperation.⁴⁹ Since then, the rhetorical commitment to the 'ASEAN Way' has shaped members' relations with one another. This is despite ample evidence, as Lee Jones has shown, that states have breached these norms when they have found it necessary in order to uphold the existing arrangements of order. (Indonesia, for example, loaned military aircraft to the Philippines in 1983 to help bolster President Ferdinand Marcos and deployed a warship to Manila Bay in 1987 in support of President Corazon Aquino.)⁵⁰

It is striking how little ASEAN has been used to manage directly the many boundary disputes that still linger between members.⁵¹ The UN Security Council asked ASEAN to help resolve the Preah Vihear temple dispute between Cambodia and Thailand in 2011 – but Thailand refused to accept ASEAN mediation.⁵² In other cases the organization has acted, informally, as a sort of 'fire blanket': smothering flames and preventing them from spreading but never fully extinguishing the embers underneath. ASEAN's decision to take a stance on the South China Sea in 1992 is usually portrayed as a tactic of resistance against China – but it also had a limiting effect on the rival Southeast Asian claimants. The simple fact of membership has kept intra-ASEAN disputes within limits, but the organization has played no role in resolving them. The ASEAN High Council, which was given the task of resolving conflicts by the 1976 Treaty of Amity and Cooperation, has never been assembled.⁵³ Those disputes that have been settled have been resolved bilaterally.

⁴⁷ Acharya (2011), 'ASEAN Institutional Reform and Strengthening'.

⁴⁸ Collins, A. (2003), *Security and Southeast Asia: Domestic, Regional, and Global Issues*, Singapore: Institute of Southeast Asian Studies; Narine, S. (2002), *Explaining ASEAN: Regionalism in Southeast Asia*, Boulder, CO: Lynne Rienner.

⁴⁹ 'Treaty of Amity and Cooperation in Southeast Asia', signed in Bali, Indonesia, 24 February 1976, <http://agreement.asean.org/media/download/20131230235433.pdf>.

⁵⁰ Jones, L. (2011), *ASEAN, Sovereignty and Intervention in Southeast Asia*, Basingstoke: Palgrave Macmillan, pp. 100–101.

⁵¹ See, for example, Amer, R. (2001), 'The Association Of South-East Asian Nations and the management of territorial disputes', *IBRU Boundary and Security Bulletin*, Winter 2001–02; and Amer, R. and Nguyen, H. T. (2009), 'Regional Conflict Management: challenges of the border disputes of Cambodia, Laos and Vietnam', *ASEAS: Austrian Journal of South-East Asian Studies*, No. 1, 2009.

⁵² International Crisis Group (2011), 'Waging Peace: ASEAN and the Thai-Cambodian Border Conflict', December 2011, <http://www.crisisgroup.org/~media/Files/asia/south-east-asia/thailand/215%20Waging%20Peace%20-%20ASEAN%20and%20the%20Thai-Cambodian%20Border%20Conflict.pdf>.

⁵³ Jones, L. (2010), 'Still in the "Drivers' Seat", But for How Long? ASEAN's Capacity for Leadership in East-Asian International Relations', *Journal of Current Southeast Asian Affairs*, Vol. 29, No. 3, 2010.

ASEAN's other implicit security role is external: to provide a diplomatic front behind which members can organize independently of outside powers. However, there are only three examples of the organization acting overtly and collectively in this way: isolating East Timor in the 1970s, resisting the Vietnamese occupation of Cambodia in the 1980s and attempting to freeze the disputes in the South China Sea since the 1990s. In the first two cases ASEAN faced no contradictions in its relations with outside powers. In 1976 the United States supported Indonesia's actions in East Timor, and China's opinions of them could be discounted since it was regarded as part of the communist threat as much as Vietnam was.⁵⁴ In the case of Cambodia in the 1980s, the United States and China supported the policy of isolating Vietnam, albeit for different reasons. It was ASEAN's position on Cambodia – and the support it was given by the United States and China – that provided the platform for the 'centrality' that it now enjoys in contemporary regional diplomacy.

The question, then, is not 'Why doesn't ASEAN take a more active role in foreign policy?' but 'Why is the South China Sea the exception to ASEAN's rule?'. ASEAN first took a position on the South China Sea in 1992 with its Manila Declaration in response to China's Law on the Territorial Sea, promulgated that year. At the time five of its then six member states all had direct interests in the sea, and Thailand had other concerns about China. The organization's concerns multiplied in 1995 following China's occupation of Mischief Reef in the Spratly Islands. ASEAN's response was to invite Vietnam to join the organization before it had even formally applied for membership.

However, after ASEAN expanded in the late 1990s to include three new 'mainland' states (Cambodia, Laos and Myanmar) with different interests and relations with China, and particularly as China became the region's most significant trading partner in the late 2000s, forming consensus became significantly more difficult. ASEAN continues to repeat its boilerplate statements on the South China Sea at summits, but has not been able to agree concerted action to try to force a change in China's behaviour.

'ASEAN centrality'

The more general tactic by which member states resist the pressure of larger powers is to insist upon 'ASEAN centrality'. In a day-to-day context this allows them to hide behind the alleged objections of others to avoid commitments to, or engagements with, non-member states. 'ASEAN centrality' is a means of passive resistance through the avoidance of choices. Topics can be left off the agendas of meetings and difficult discussions postponed without any particular government having to confront an outside power. Countries can hide behind the claim that 'it's not us, it's the others'. Since ASEAN formally controls the agenda of the main multilateral mechanisms through which outside powers engage with its member states – i.e. the ASEAN Regional Forum, the East Asia Summit and the ASEAN Defence Ministers Plus meetings – 'ASEAN centrality' is in effect a lock on those discussions. ASEAN can rule certain subjects on or off the table. ASEAN centrality gives member states some leverage with which to shape the security agenda in the region.

'ASEAN centrality' is also a strategy to oppose other forms of regional integration that might pose a challenge to the position of the elites governing Southeast Asian states. In the past Australia and Japan have proposed alternative models for an Asian community with more interventionist agendas. However, in the absence of support from ASEAN states they have failed to gain traction. In the current

⁵⁴ Jones (2011), *ASEAN, Sovereignty and Intervention in Southeast Asia*, Chapter 3.

context this is a position that the United States is quite happy to live with. As a senior American diplomat in the region put it: 'Better ASEAN centrality than anyone else's centrality.'⁵⁵

Diverging interests

A key problem is that international relations practitioners, particularly outsiders, tend to view ASEAN in a Westphalian-type context: as a series of coherent governments acting in the rational interests of their respective nation states. However, in most ASEAN states there are unresolved questions of nation-building and governing elites that remain insecure. For the communist and post-communist parties in charge of Vietnam, Laos and Cambodia; for the *mestizo*-landlord elites in the Philippines; for the Malay elites at the heart of the ruling Barisan Nasional in Malaysia; and for the military-backed elites of Thailand and Myanmar – the priority is their own perpetuation rather than the interests of the state.

In almost every Southeast Asian country, the right of the incumbent elite to rule is under challenge from excluded political, regional or ethnic groups. With the internal security of the nation state at risk, elites will resist efforts to grant others the right to interfere in their internal affairs. The chances of ASEAN states taking greater steps to pool sovereignty on a European model appear minimal so long as their elites continue to feel challenged internally.

Analysing Malaysia's policy-making towards China and the United States, Cheng-Chwee Kuik stresses that the risks that concern its elite are not simply territorial. In broad terms they fear 'big power conflict and entrapment, the shadow of abandonment, the fear of alienation', but they also have 'domestic concerns of authority erosion'.⁵⁶ In Vietnam the ruling Communist Party (CPV) may regard China's actions as a threat to the territorial claims of the state in the South China Sea, but it also regards the United States' promotion of a liberal rights agenda as a fundamental threat to its own ability to rule. Therefore:

Ultimately the CPV leadership wants Beijing to see it as a bulwark against US interference in the region and the United States to see it as a potential partner in its strategic competition with China. Vietnamese foreign policy is, in essence, the simultaneous pursuit of contradictory goals.⁵⁷

Similar calculations inform the foreign policy of all the elites in Southeast Asia. The liberal internationalist agenda sponsored by the United States for the past quarter-century poses a political threat to almost all of them. Analytically (rather than pejoratively) one might liken the relationship between a typical governing elite in the region and the state it controls to that between a parasite and a host. The parasite must keep the host as healthy as possible to ensure its own survival but will be prepared to allow the host's interests to suffer in order to maintain its own position.

For most of the post-Second World War period the United States (together with its allies) was the dominant security and economic actor in Southeast Asia. Its trading position was challenged by the growth of Japan and the European Union but not its military hegemony. China's challenge is different because the country has already become the major trading partner of most ASEAN states, while challenging the security interests of some of them. As a result, it has exposed the differing interests

⁵⁵ Interview with US diplomat based in Southeast Asia, 7 December 2015.

⁵⁶ Kuik, C. C. (2016), 'Malaysia Between the United States and China: What do Weaker States Hedge Against?', *Asian Politics & Policy*, Vol. 8, No. 1, 2016.

⁵⁷ Hayton, B. (2015), *Vietnam and the United States: An emerging security partnership*, United States Studies Centre, University of Sydney, November 2015, <http://ussc.edu.au/research/emerging-us-security-partnerships-in-southeast-asia>.

of the state and the elite within a number of ASEAN members. Those countries in Southeast Asia where China is a significantly greater trading partner than the United States could well be torn by this divergence: between the interests of elites focused on preserving their own ruling position; and of those who prioritize the sovereignty claims or the strategic autonomy of the state.

After decades as the region's number-one trading partner, the United States has slipped to fourth place behind China, the European Union and Japan. It remains a very significant economic player, of course, and also the region's largest inward investor. None the less, Southeast Asian elites expect the economic tilt towards China to continue. A 2014 survey of 'strategic elites' in Indonesia, Singapore and Thailand found that 57 per cent, 75 per cent and 71 per cent respectively of respondents said that China would be their country's most important economic partner in 10 years' time. Some 70 per cent, 90 per cent and 93 per cent regarded China's impact on regional economic development as positive. However, they were much less enthusiastic about China's impact on regional security, with, respectively, only 26 per cent, 22 per cent and 18 per cent regarding it as positive.⁵⁸

Table 5: Future security expectations of Southeast Asian elites, % of respondents

		Indonesia	Singapore	Thailand
Which country will exert the greatest power in East Asia in 10 years?	China	70	54	89
	United States	22	43	7
Is China's impact on regional economic development positive?	Yes	70	90	93
Is China's impact on regional security positive?	Yes	26	22	18
Which country do you expect will be your country's most important economic partner 10 years from now?	China	57	75	71
	United States	22	14	4
Which of these regional situations would be in the best interest of your country?	US leadership	9	43	7
	Chinese primacy	4	0	11
	Multilateral community	77	43	50

Source: Data extracted from Green, M. J. and Szechenyi, N. (2014), *Power and Order in Asia: A Survey of Regional Expectations*, Center for Strategic and International Studies, Washington, DC, July 2014.

The numbers interviewed were small – 23, 28 and 28 people in each country respectively – but they suggest that ASEAN-based decision-makers believe their region's 'strategic stability' is likely to be further strained over the coming decade. China's economic pull is irresistible, but its political shadow is alarming. The United States' presence is partly reassuring, in that it allows ASEAN states to make choices, but its liberalizing agenda bothers elites fearful of challenges from below.

China ostensibly offers two benefits to ASEAN states – economic growth and a pledge of non-interference in their internal affairs. If the United States' primary offering is seen as purely a defence of the 'Westphalian' nature of the state – defending territorial claims in the South China Sea, for example – doubts about how long it can sustain the security costs without the lion's share of the economic benefits will grow. Its position will be further weakened if its sponsorship of political liberalization is regarded as a threat by regional elites. In the coming decade it is highly likely that tensions over whether to prioritize economic benefit over political autonomy will further fracture consensus within and between ASEAN elites.

⁵⁸ Green and Szechenyi (2014), *Power and Order in Asia: A Survey of Regional Expectations*.

Each country will be different, of course, depending on its interests and attitudes. The 2014 Pew Global Attitudes survey found that among their general populations, 74 per cent of respondents in Thailand, 72 per cent in Malaysia and 66 per cent in Indonesia had favourable views of China, whereas 58 per cent of respondents in the Philippines and 78 per cent in Vietnam had unfavourable ones.⁵⁹

After decades as the region's number-one trading partner, the United States has slipped to fourth place behind China, the European Union and Japan.

However, some in Southeast Asia are looking forward to what the senior Singaporean diplomat Bilahari Kausikan has called an era of ambiguity. 'US–China competition will not always be comfortable for us,' he told an Australian audience last year. He added: 'But I suspect that if the US and China were ever to come to agreement, we may all well find it even less comfortable. When great powers strike deals, they generally try to make other countries pay the price. It will then matter very little whether you are an American ally or not.'⁶⁰

Practicalities

How are these choices playing out? In Indonesia, Jokowi's preference for deals that deliver benefits to voters as quickly as possible is giving those with closer contacts and fewer levels of accountability the advantage. Chinese companies recently won a \$5.5 billion high-speed rail project in Indonesia because, according to National Development Planning Minister Sofyan Djalil, 'Japan's business model and regulations have made it impossible [for Indonesia] to give a concession credit to Japanese companies.'⁶¹

Other states are keen to attract inward investment from China. Malaysia, in particular, is looking to cash in on the promise of China's 21st Century Maritime Silk Road initiative. Assuming that Chinese investment in modern transport infrastructure delivers, the economic and quality-of-life benefits enjoyed by the region's urban populations will help solidify the position of the ruling elites.

However, China is not finding regional domination so easy to achieve. The Maritime Silk Road was launched by President Xi Jinping in 2013, and so far there is precious little to show for it. Indonesian commentators are already complaining that 'the implementation rate for China's investment pledges stands at only 7–10 per cent, far below Japanese and South Korean rates, both of which exceed 70 per cent', for example.⁶²

There is resistance, too, over the local impact of China's export growth. The implementation of the China–ASEAN FTA in 2010 has exacerbated trade deficits in Vietnam, Indonesia and Myanmar. Thailand and Malaysia were the only countries that ran a goods trade surplus with China in 2013.⁶³ There are objections to the Chinese practice of bringing in huge numbers of Chinese workers to implement certain projects in other countries. This has been a particular issue in Vietnam. In May 2014, four Chinese employees were killed in rioting at the Ha Tinh Steel Plant in central Vietnam

⁵⁹ Pew Research Center (2014), 'Chapter 2: China's image', *Spring 2014 Global Attitudes Survey*, <http://www.pewglobal.org/2014/07/14/chapter-2-chinas-image/>.

⁶⁰ Kausikan, B. (2015), 'Asia's Strategic Challenge: Manoeuvring between the US and China', Inaugural Shedden Lecture, Department of Defence, Australia, 5 May 2015.

⁶¹ *Jakarta Post* (2015), 'Indonesia officially excludes Japan from bullet train project', 30 September 2015, <http://www.thejakartapost.com/news/2015/09/30/indonesia-officially-excludes-japan-bullet-train-project.html>.

⁶² Sukma, R. (2015), 'Insight: Is Indonesia tilting toward China?', *Jakarta Post*, 11 December 2015.

⁶³ Salidjanova, N. and Koch-Weser, I. (2015), *China's Economic Ties with ASEAN: A Country-by-Country Analysis*, US-China Economic and Security Review Commission, 17 March 2015.

during anti-China protests.⁶⁴ In Vietnam and elsewhere, concerns have been publicly expressed about the quality and sustainability of some of the existing Chinese-led infrastructure projects.

China's pledges of non-interference are also viewed with some scepticism in the light of its interventions in ASEAN summit meetings (notably in Cambodia in July 2012), pressure over Uighur dissidents seeking asylum in ASEAN states, and government comments made ostensibly in defence of the ethnic-Chinese minority in Malaysia.⁶⁵ Meanwhile, ASEAN elites continue to send their children to study in the United States and Australia, and continue to aspire to Western consumerist dreams.

It also appears that the United States' enthusiasm for promoting political pluralism and social reforms in Southeast Asia may be waning. While it has championed change in Myanmar, it has been more circumspect about challenging abuses in Malaysia, Thailand and Vietnam. It is notable that in the 2014 'strategic elites' survey, American respondents had the least positive views about the importance of 'promoting free and open elections' and of 'promoting women's empowerment'. This cohort also expressed little interest in 'promoting good governance'. Sadly, this might give unaccountable elites in Southeast Asia some reassurance.

Conclusion

Despite their professed ambition to create a Political-Security Community, ASEAN states do not wish to surrender sufficient sovereignty for this to have any real meaning. They seem content to allow ASEAN to remain a primarily economic bloc – more along the lines of the European Economic Community of old than the European Union of today. While it is true that some of the rhetorical commitment to ASEAN has slipped, this is better characterized as a continuation of historic trends rather than as a symptom of its decline. ASEAN never was *the* 'cornerstone' of any of its members' foreign policies; it was simply a useful device to provide some kind of autonomy. ASEAN's 'millstone' is the level of outside observers' expectations – against which the organization will always fall short. Its most consistent role is as a touchstone – a talisman with which to ward off malevolent monsters. But that might be closer to superstition than science.

⁶⁴ Reuters (2014), 'China's MCC says four staff killed in Vietnam unrest, most employees evacuated', 20 May 2014.

⁶⁵ Ponnudurai, P. (2015), 'China Flaunts Political Clout in Malaysia with Envoy's Defiance', Radio Free Asia, 29 September 2015, <http://www.rfa.org/english/news/china/diplomacy-09292015182941.html>.

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