

HOW DO ASIANS SEE THEIR FUTURE?

edited by
François Godement



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Steven C. Wong

Hedged economic interdependence in Asia

Economic liberalisation and integration initiatives are the most important foreign policy strategies in East Asia. Given the territorial disputes and tensions in the South and East China Seas, the instability in the Korean peninsula, and the region's unsettled borders and non-traditional security issues such as natural disasters and pandemics, this may seem like a grand claim to make. But although there have been some accords, and more are being worked on, nothing as yet has been developed that can rival the Economic Partnership Agreements (EPAs) that constitute the most visible and tangible manifestation of regional (and bilateral) interstate relations.

How are we to interpret the many EPAs, some overlapping and others exclusive, which have been and are still being proposed and created? Are they simply proof that East Asian countries, some of which have traditionally been seen in the West as “closed” or “mercantilist”, have now seen the light and are embracing economic liberalism for its own sake? Or have other factors, forces, and facets encouraged their proliferation? Many, if not most, of the region's policy analysts have little doubt that East Asian EPAs are towed along by strong political and strategic undercurrents. The real question, though, is: to what end?

This essay argues that what is taking place is a search for a hedged economic interdependence that reflects the diversity of the interests of countries in the region. Interdependence is not necessarily a hard-to-reach and lofty end goal, but rather, it can emerge as the consequential result of moves and counter-moves by states that reflect their desire for outcomes consistent with their national interests and security perceptions. With the possible exception of the Association of Southeast Asian Nations (ASEAN), which is striving for an ASEAN Community, the region at large is not driven by

communitarian philosophies and principles. For that reason, the use of the term “community” in relation to the region is, at best, an expression of a vision to be realised and, at worst, a misnomer.

Divergences in worldviews, national interests, and levels of power make it difficult and sensitive for the different states of the region to address political-security issues. EPAs have become a well-established way to avoid direct confrontation, work around problems, and engage in constructive interstate activities. They are significantly less problematic and provocative than regional security pacts and present a means to bide time while building and boosting confidence and trust.

It has only been recognised relatively recently that EPAs are not completely the “soft touch” that officials have made them out to be. For one thing, the nature of EPAs has evolved: they now tend to be more comprehensive and involve more obligations than they did before. Their finalisation, therefore, is never a foregone conclusion. Countries also face strategic consequences regarding their inclusion or exclusion from the various proposals that have been made. Whether the US is included or excluded has been an important dynamic in East Asian economic regionalism.

TPP as game changer

The US decision to enter the Trans-Pacific Partnership (TPP) agreement in 2008 was a game changer for the region. Before that, ASEAN had two projects before it: the East Asia Free Trade Area (EAFTA) and the Comprehensive Economic Partnership for East Asia (CEPEA). Neither included the US, which had chosen to move its economic initiatives forward through the Asia-Pacific Economic Cooperation (APEC) forum. China strongly backed EAFTA, which involved the ASEAN-10 plus China, Japan, and South Korea. CEPEA was supported equally strongly by Japan and included Australia, India, and New Zealand.

Faced with the dilemma of choosing between the two, and with six ASEAN members not participating in TPP, ASEAN came up with its own proposal: the Regional Comprehensive Economic Partnership (RCEP). Despite the reservations of less developed participants such as India and Indonesia, ASEAN spoke of RCEP as a “comprehensive” and “high-quality” agreement and opened negotiations that were more ambitious than it had ever

attempted before. Prior to this, ASEAN's EPAs with its dialogue partners were essentially agreements about trade in goods, with services, investment, and labour separately and laboriously negotiated.

In RCEP, services, investment, intellectual property protection, competition, and economic and technical cooperation are being negotiated for the first time in one agreement. Other matters being discussed are small- and medium-sized enterprises, e-commerce, and government procurement. While the similarity might be a coincidence, it seems likely that TPP, with its wider and deeper "gold standard" provisions, influenced the agenda for RCEP.

China was slow to respond to TPP, but it acted in the end. Many Chinese initially saw TPP as part of a US strategy of "containment", despite the fact that the US reached out at an early stage to encourage China to participate. China at first seemed on board, but its interest waned. China had opened bilateral negotiations with the US on investment and information technology (the first is currently stalled and the second has recently been concluded). It seemed that a more expansive, plurilateral EPA was not appealing.

China enthusiastically threw its weight behind RCEP, although it originally argued for the exclusion of Australia, India, and New Zealand. In RCEP, China had a more-or-less East Asia-only solution and did not have to put up with heavy-handed US pressure. Nevertheless, RCEP did not completely address the dilemma of how to engage the US, by far China's most important economic partner, given that TPP negotiations were well under way. At the November 2014 APEC summit in Beijing, China took steps to deal with the problem by pushing for, in effect, a restart of the Free Trade Area of the Asia Pacific (FTAAP), which includes all 21 APEC member economies.

China's new interest in this concept was ironic; when the US promoted FTAAP at the 2006 APEC summit in Hanoi, essentially as a means to counter the slow progress at the World Trade Organization's Doha Development Round and prevent the formation of an East Asia-only trade bloc, China was chief among the countries that expressed reservations. In 2014, however, the positions were reversed: the US's enthusiasm was qualified, as was that of its ally, Australia. Finally, the parties agreed to a "strategic" study, a watered-down compromise in comparison to the full-blown feasibility study that China had sought. The two-year timeframe of the study was considered to be long enough to allow for the completion of TPP before any further action could be taken on FTAAP.

Economic dependence and interdependence

It is often assumed that economic interdependence in Asia is creating the conditions for peace and prosperity and helping to weld the region into a more cohesive whole. But – if it were not already obvious – the dynamics described above show that competitive political and strategic interests have been vastly more important in determining the direction of East Asian EPAs than is usually thought. Right now, economic interdependence is still incomplete, since both TPP and RCEP have yet to be concluded. And if substantive and political difficulties are not resolved, their completion could prove elusive. Trying to instate obligation-heavy commitments (as opposed to the obligation-light ones that ASEAN has in the past undertaken) was always going to be a risky venture, a fact that many government leaders and officials did not – and do not – seem to appreciate.

As one would expect, there are holdouts – and, in the case of RCEP, large and uncompromising ones. China is adding more complexity to the situation, seeking a stronger bilateral EPA with ASEAN (what it calls the China–ASEAN FTA Upgrade), while simultaneously pursuing FTAAP to try to lock down its trans-Pacific interests. It is also strongly backing RCEP, although there are fears that it may be prepared to limit its commitment in favour of concluding the Upgrade. (China is, at the same time, pursuing a much broader, largely bilateral Asian agenda, characterised by initiatives such as the Maritime Silk Road and the Asian Infrastructure Investment Bank.)

The destination of institutionalised East Asian economic interdependence, therefore, is still unclear. Whatever the final outcome, it seems certain that East Asia will retain multiple arrangements and a complicated context.

What are the implications for peace and prosperity in the region? It is often assumed that economic power is uniformly distributed and that outcomes will be balanced. Countries will, in pursuit of their national interests, exercise self-restraint so as not to disrupt economic relationships that will hurt them.

There is (and has always been) a fine line between economic interdependence and dependence. While this may be an adequate enough representation of ASEAN, the totality of the national interests of large and dominant powers cannot be confined to the economic realm. On issues of sovereignty and security, economic interdependence alone is unlikely to be sufficient to provide a constraining force, as the state of the bilateral relationship

between China and Japan exemplifies. Given the extremes of size, capacities, and power of East Asian states, it would seem that unbalanced economic interdependence (or dependence) may be a more typical outcome, at least where small- and mid-sized states are concerned.

Unlike the members of the EU, East Asian states can and do have the ability to diversify their relationships and thus also their institutional EPA arrangements. The solution to avoiding one entity's domination is to seek what may be termed a hedged economic interdependence. The pursuit of this hedged economic interdependence is the driving force leading to the competing and rival proposals on the table in the region. East Asian states are too global and their national and security interests too dissimilar to adopt a "one size fits all" solution. This is what led to the developments that we are currently witnessing.