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THE GEOPOLITICS OF EPAs IN THE ASIA-PACIFIC

The Geopolitics of Regional EPAs

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Economic partnership agreements (EPAs) are the most important foreign policy instrument in the Asia Pacific region. This may seem like a bold claim to make given the many traditional and non-traditional sources of tensions and potential flashpoints throughout the region. While there are some attempts to address these concerns, nothing yet approaches the sheer expansiveness and depth of EPAs. They are still the most visible and tangible manifestations at managing inter-state relations.

The reasons are not difficult to understand. Divergences in worldviews, national interests and state power make addressing regional political-security issues difficult and sensitive. EPAs are seen as a convenient way for states to engage constructively while problems are worked out, worked around or else left unworked. Rightly or wrongly, EPAs are viewed as positive-sum and therefore less problematic than directly trying to resolve security issues and concerns.

But there is little doubt that EPAs are also not driven by the goal of creating economic interdependence alone. As mentioned earlier, state interests are diverse and pluralistic at the best of times and nowhere more so than in the Asia Pacific where the presence of large powers greatly complicates matters. EPAs themselves therefore can be seen as the result of moves to reflect the desire of states for outcomes consistent with their national interests and security perceptions and not the other way around.

We can see this from reactions to the decision of the United States to participate in the TPP in 2009 – indeed, to make it one of the main pillars of its ‘pivot’ to Asia – and the assertions (despite repeated denials) that it was an attempt to ‘contain’ China. I have argued elsewhere that the US decision was a game changer in the region, setting into motion events that quickly led to ASEAN deciding on the Regional Comprehensive Economic Partnership (RCEP) and for China to subsequently propose the Free Trade Area for the Asia Pacific (FTAAP). It is notable that RCEP has not attracted the same degree of disapproval for its non-inclusion of the US.

EPAs clearly carry potent symbolic value that is as, if not more, important than their actual substance. Regional economic integration efforts are widely seen as creating zones of influence and thus they need to be responded to if they are not to be exclusive. This applies not only to those inside but also outside the Asia Pacific. It is perhaps no coincidence that after years of discussion, the European Union (EU) and the US finally initiated the Transatlantic Trade and Investment Partnership (TTIP) in 2011 and the EU is stepping up efforts to engage ASEAN and the ASEAN Economic Community (AEC).

When one drops below the clouds and gets down to specifics, however, it quickly becomes obvious that EPAs are not all the ‘soft touch’ that leaders and officials often make them out to be. Zero-sum elements become more obvious and the task of negotiating and finalising EPAs cannot be taken as a foregone conclusion. At the macro level, good geopolitics places a premium on attributes such as sovereignty, mutual respect, consensus and harmony. In ASEAN, this enables members states,

both large and small, to deal with each other with a high measure of trust and confidence. This then extends to its dialogue partners.

Economic imperatives though are different. Here the prized attributes are size, speed and uniformity. These, and the changes that they involve, are constantly pushing against national boundaries, governance structures and domestic politics. EPAs like the TPP and TTIP are much more comprehensive and demanding than the ones negotiated at the multilateral level and that ASEAN is used to negotiating. Market access is no longer the main issue but is joined by disciplines, many of them tough and reaching far behind country borders.

It is perhaps no wonder that the TPP has met with such a groundswell of criticism, and not only from outside but also inside governments. The fact that negotiations are done behind closed-doors and that negotiating texts are kept secret does not help allay the public's fears. The complaints are many, including fears of unrestricted market access on jobs, incomes, environmental and labour standards and stricter patent protection on the prices of life-saving drugs. Countries like Malaysia fear that its policies to promote economic development and social cohesion will be curbed. The issue of investor-state dispute settlement (ISDS) and demands for free capital movement at all times are particularly thorny ones.

On top of this, there are widespread views that the US dominates the negotiation process and can, through the certification procedure required by the US Congress, impose its will on participating countries even after the TPP is signed. What is perhaps not sufficiently appreciated is that participating countries are actively negotiating flexibilities in the form of exclusions (carve outs), exemptions non-conforming measures and transitional measures. The fact that deadline after deadline has been missed points to the difficulties of parties in coming to an agreement.

A key – perhaps even the key – consideration for participating countries is not just the benefits of inclusion in these economic pacts but the strategic costs of exclusion. Given risk aversion, the latter are often of greater weight than the welfare gains that would be realised. The costs of exclusion are not merely the trade and investment diversion that would occur if participants were to opt out of the TPP. They can be seen as being much wider, extending to the political and security spheres. In the event that TPP provisions become the regional standards, countries opting out could still be roped in at a later stage either directly or indirectly.

Large influential countries do have the ability to craft their own agreements. China, for example, is pursuing a deeper bilateral with ASEAN (what it calls the China-ASEAN FTA Upgrade), while negotiating the RCEP and pursuing the FTAAP to seal its trans-Pacific interests. At the same time, it is pursuing a second track in the form of the One Belt-One Road (OBOR) and the Asian Infrastructure Investment Bank (AIIB) initiatives.

For middle sized and smaller states in the Asia Pacific, exclusion from EPAs can have consequences both for the present and future. It is therefore understandable that they would want to be included in arrangements, save for the most dire and unacceptable (usually domestic political) reasons. Both the TPP and TTIP are negotiated on a single undertaking basis or “nothing is agreed until everything is agreed”. This means that governments cannot pick and choose but are pressured to accept the bad with the good in one fell swoop.

Geopolitics therefore both influences EPAs and is influenced by them. It is often assumed that economic power is uniformly distributed and outcomes will be balanced. Furthermore, countries will, in the pursuit of their national interests, exercise self-restraint so as not to disrupt economic relationships that will hurt themselves.

Under conditions of competitive strategic rivalry and in the presence of large countries, however, it should come as no surprise that they, and the economic inter-dependence created, are not sufficient to create conditions for peace and security (the 'Asian Paradox'). The totality of national interests of large countries cannot be confined to the economic realm and any constraining force is likely to wilt in the face of challenges to their sovereignty and security.

So where does this leave the Asia Pacific region? It seems certain that pluralistic arrangements and complexity will remain on the cards for some time to come. Some analysts have predicted that, over time, a convergence of EPAs into one unified one can be expected but this may discount too much the longstanding nature of the interests of parties, especially rising powers.

The solution to avoiding the preponderance of one entity is to seek for what may be termed hedged economic interdependence. There is (and has always been) a fine line between economic interdependence and dependence. Middle and smaller states must seek inclusiveness, although it is in their interests to diversify rather than restrict their institutional relationships to within the Asia Pacific. For ASEAN, this would imply that more emphasis should be given to pursuing an arrangement with parties such as the EU. The idea that any one EPA can provide the necessary framework for Asia Pacific peace and security is likely to prove elusive.

* Presented at the ASEAN-ISIS *Asia Pacific Roundtable 2015* in Kuala Lumpur. A much earlier version of this paper was published as 'Hedged Economic Interdependence in Asia' in Francois Godement (ed.), *How Do Asians See Their Future?* (European Council for Foreign Relations Asia and China Programme: 2015).