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East Asia's Economic Agreement

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ASIAN REVIEW: Dan Slater on Asia's elusive Northeast Passage

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From the Editor's desk

Economic cooperation in East Asia has progressed in its own distinct way. Unlike Europe with its customs union and supranational authority in Brussels and North America with its treaty-led integration, ASEAN and the economic powerhouses of China, Japan, and South Korea to its north have pursued non-binding regional cooperation turning the region into a global manufacturing hub.

The steady success that has come from taking time to forge consensus and helping the laggards along stands in contrast to the retreat to protectionism in the United States and the fracture of the Europe Union with Brexit.

ASEAN has managed to bring its free trade partners together into an East Asia-wide economic agreement. The conclusion of the Regional Comprehensive Economic Partnership (RCEP) in November in 2019 at a time of global turbulence is also a huge achievement of strategic significance in pushing back against the threats to the multilateral system. RCEP is the world's largest regional pact in terms of GDP, trade volume, foreign direct investment and population. New market opening and rules are locked in. Bringing RCEP into force is not the end point, but the start of an elevated process of regional integration for ASEAN and its partners.

This issue of *East Asia Forum Quarterly* looks at RCEP going forward. India walked away from the deal at the last moment but proactively engaging New Delhi, perhaps eventually as a member, is important for trans-Asian economic integration. The low-cost manufacturing that brought prosperity to China cannot be absorbed by Southeast Asia alone and is an opportunity for India and its neighbours too.

The next phase of Asian economic cooperation is deepening integration and RCEP provides a framework for dealing with issues beyond those already negotiated. There's a significant security payoff from the agreement too, by wrapping major economies in more interdependence. In Southeast Asia economic integration is a valued source of security.

RCEP provides another framework for Southeast Asia to manage relations with China. It can do the same for Australia. How RCEP engages the United States will matter, as will the US response, to managing economic and political relations across the Pacific.

Democracy and growth in Asia, Nepal's strategic position in Asian geopolitics, and living with COVID-19 in Southeast Asia are this issue's highlights in the Asian Review section.

Shiro Armstrong and Lili Yan Ing

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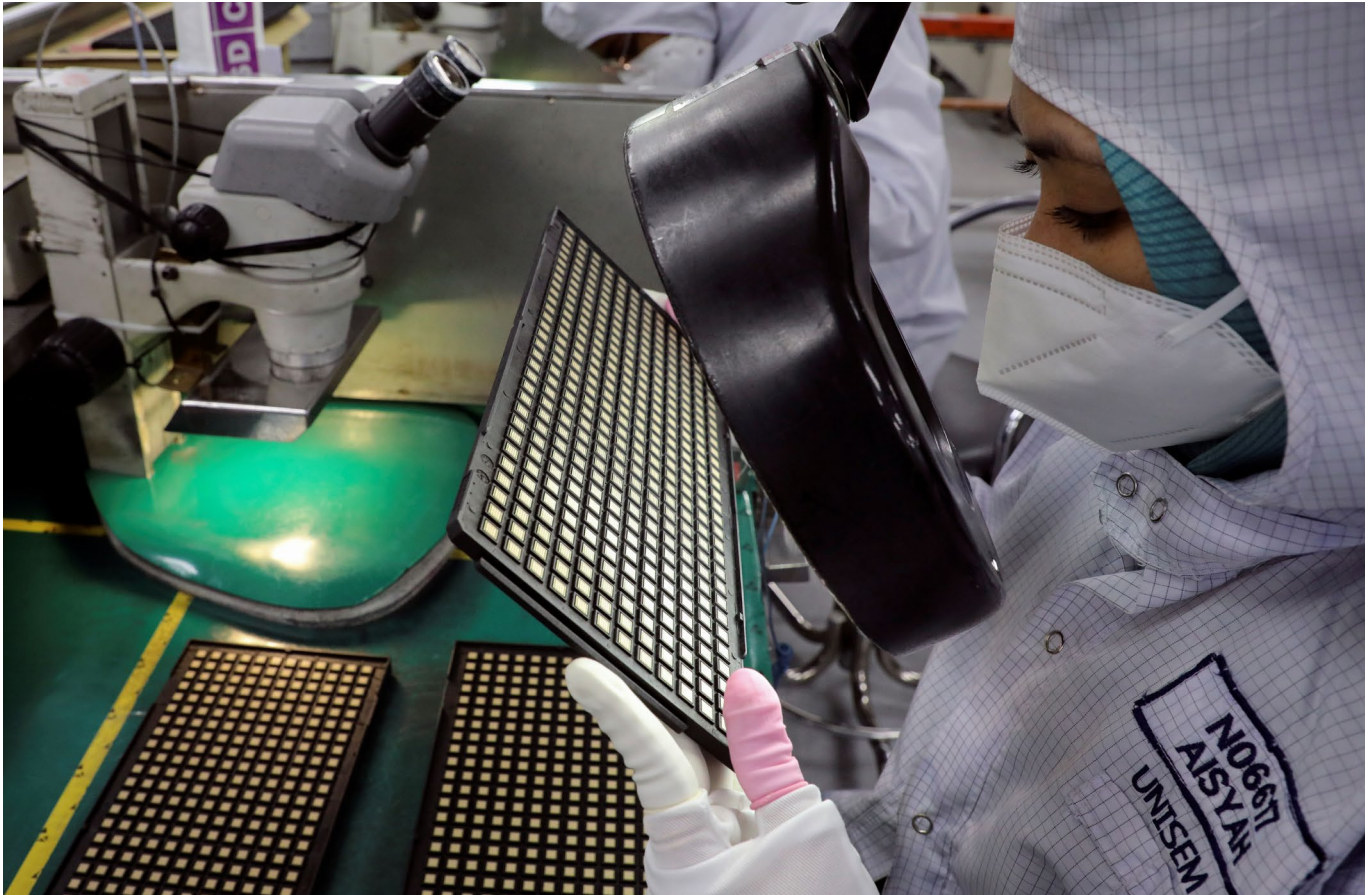
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Is a framework that builds out China realistic?

COVER PHOTO: Locals attend a floating market outside of Can Tho, Vietnam. Picture: Blaine Harrington / Alamy Stock Photo.



A worker inspects chips at the Unisem semiconductor packaging plant in Ipoh, Malaysia (October 2021).

A framework for ongoing commitments to RCEP success

FUKUNARI KIMURA

FOR member states of the Regional Comprehensive Economic Partnership (RCEP) its signing, ratification and being in effect are by no means the final goal. RCEP is designed in the 'ASEAN Way', meaning members must make it a living and evolving agreement if it is going to help successfully defend the rules-based trading regime. In particular, continuous commitment to RCEP by non-ASEAN member states will be key.

Recent policy debates in countries including Japan have been dominated by geopolitics. Discussions of economic statecraft and economic security have taken centre stage and many proclaim the end of the era of globalisation. Pro-trade voices are being drowned out, and the psychological resistance to managed trade has weakened.

Security issues are certainly important, but the focus on geopolitical arguments does not

reflect the economic reality in East Asia—including both Northeast and Southeast Asia. Value chains in East Asia, particularly international production networks for the manufacture of core machinery and equipment, have proved robust against COVID-19 shocks, contrary to the public belief that supply chains are terribly fragile.

International production networks also proved resilient against shocks in the past such as the Asian Currency

Issue Editors

Shiro Armstrong, Director, Australia–Japan Research Centre, and Editor, East Asia Forum, Crawford School of Public Policy, ANU.

Lili Yan Ing, Lead Advisor (Southeast Asia Region) at the Economic Research Institute for ASEAN and East Asia (ERIA).

Series Editors

Peter Drysdale, Editor in Chief, East Asia Forum and Head, East Asian Bureau of Economic Research, Crawford School of Public Policy, ANU.

Shiro Armstrong, ANU.

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Editorial Advisers: Max Suich, Peter Fuller.

Production: Niki van den Heuvel, Hill Editing.

Email: Peter.Drysdale@anu.edu.au, Shiro.Armstrong@anu.edu.au.

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Crisis, the Global Financial Crisis, and the Great East Japan Earthquake. This is because the substantial set-up costs for international production networks motivate firms to operate as long as the shock is regarded as temporary. In addition, during the COVID-19 pandemic, ‘positive’ demand shocks for remote work and stay-at-home-related goods allowed East Asia to achieve a shallow economic trough and quick recovery. Economies in East Asia are still tightly connected by value chains, and trust in globalisation remains strong.

While some relocation of high-tech and rare-earth-related operations away from China has started, the overall effects of decoupling have so far been minimal. Trade between the United States and China is still active, and US semiconductor exports to China are even increasing. Some decoupling is unavoidable but it is likely to be partial, and for East Asia a rules-based trading regime remains the essential infrastructure for its economic dynamism.

RCEP covers the whole region of ‘Factory Asia’ and is expected to maintain the rules-based trading regime despite the rise of geopolitical tension. Whether this can be achieved depends on how effectively ASEAN’s principles can ensure that certain aspects of RCEP work.

The commitments under RCEP are made in the ‘ASEAN Way’, with slow movers allowed a grace period to achieve the same goals. This is sometimes called the ‘10 minus x’ approach in the context of ASEAN economic integration, meaning that the 10 nations that make up ASEAN are not necessarily required to progress at the same pace. This is criticised as being too lenient, but in this way ASEAN has successfully achieved deeper economic integration

where others have failed.

That is why RCEP includes a series of built-in limitations such as the incomplete transition of services liberalisation commitments from a positive list approach to a negative list approach. Less-developed countries are also allowed ‘special and differential’ treatment to provide extra time to catch up. Learning from ASEAN’s experience, it is important for RCEP to monitor closely the implementation of commitments, apply peer pressure where necessary and provide economic cooperation required for capacity building.

The ‘ASEAN Way’ will force RCEP to evolve and upgrade step by step. ASEAN economic integration was not made by a single, one-shot agreement. ASEAN member states deepened their commitments through a sequence of new and upgraded agreements. Commitments included in RCEP largely follow the format of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), with the CPTPP setting the final targets for liberalisation and international rule making. The gradual upgrade of RCEP is explicitly planned in the form of five-yearly general reviews.

The future expansion of member states is another focal point for RCEP. While the CPTPP is busy responding to accession applications, RCEP may also want to consider possible accessions. Hong Kong, East Timor upon accession to ASEAN, India—which walked away at the last stage of negotiations—and other South Asian countries like Bangladesh could be candidates. It is important to assess applicants’ intentions to participate in ‘Factory Asia’. South Asia is still captured by inward-looking development strategies and requires drastic reformulation of its trade and

industrial policies to measure up.

The 'ASEAN Way' also applies to RCEP's institutional setting. RCEP plans to set up annual ministerial meetings, annual joint committees chaired by an ASEAN member state and a non-member state, and four committees on goods, services and investment, sustainable growth, and business environment—as well as a Secretariat. This arrangement resembles the ASEAN model for continuous engagement to deepen its economic integration. It can scrutinise the implementation of commitments by member states, adjust the interpretation of commitments across members, and facilitate discussion on

agreement upgrades.

The institutional setting may also reduce policy risks. For example, Australia has suffered from China's politically motivated trade policies since 2020. In cases like this, RCEP meetings may at least work as a forum for members where avenues in other forums are limited. Although RCEP cannot resolve all problems, it can act as a precious communication channel for retaining the rules-based trading regime.

ASEAN has been successful in leveraging the 'ASEAN Way' to deepen its economic integration. Whether RCEP can make the most of the same philosophy depends on the

positive participation of its members, particularly the non-ASEAN members.

While US–China confrontation and geopolitical tension show no signs of abating, East Asia must maintain its economic dynamism. RCEP members, particularly middle powers located between the United States and China, must harness the power of the rules-based approach. [EAFQ](#)

Fukunari Kimura is Professor at the Faculty of Economics, Keio University, and Chief Economist of the Economic Research Institute for ASEAN and East Asia (ERIA).

CONFLUENCE OF CHALLENGES AND CONSENSUS

G20 and RCEP as a powerhouse for integration, recovery and development

MARI PANGESTU AND LILI YAN ING

THERE are two major initiatives towards international cooperation that can spur economic recovery in the developing world. One is the G20, which represents two-thirds of the global population, 90 per cent of the world's GDP and 80 per cent of trade. The other is the Regional Comprehensive Economic

Partnership (RCEP), which took effect in January 2022. The partnership's 15 members represent about one-third of the world's population, GDP, trade and investment.

Both initiatives have the capacity to address four big trends—global value chains, digitalisation, climate change and pushback against globalisation

and protectionism—which have been reinforced by the COVID-19 pandemic and to which countries must adapt. The Russia–Ukraine conflict will further disrupt global supply chains and raise protectionism.

Trade continues to be an engine of growth and is playing a key role in the recovery spurred by global value



Indonesian President Joko Widodo is shown addressing a meeting of G20 finance ministers and central bank governors, on screen, at the Jakarta Convention Center (February 2022).

chains. In January 2022, the value of total trade in goods was 25 per cent higher than pre-pandemic levels, largely led by growth in electrical and electronic equipment, medical equipment and minerals. Yet trade recovery has been uneven and faces new uncertainties given developments around the world.

Regions that are highly integrated into global value chains—East Asia, Eastern and Central Europe, and the Middle East—have shown the fastest growth. Those that are less integrated—South Asia, Latin America, and Africa—have lagged. Border closures, lockdowns and other COVID-19-related disruptions

exposed the vulnerability of global value chains, leading to calls for greater protectionism and reshoring production of vital goods, especially medical goods and semiconductors. Recent World Bank research has shown that supply chains are far more a source of resilience than a source of vulnerability.

The pandemic has accelerated the role of digitalisation as a driver of trade and economic growth. Digitally delivered computer, financial and business services have surged above pre-pandemic levels, even as travel and tourism remain depressed. Digital commerce has opened new opportunities for developing countries,

which can deliver services such as medical diagnostics, back-office work, IT development and design.

There is stronger consensus on the urgent need to address climate change. The exploitation, extraction and processing of natural resources, the production of industrial goods and their transportation are all sources of greenhouse gases. Customers increasingly demand goods and services that are produced and delivered in environmentally sustainable ways.

Pushback against globalisation and protectionist measures continues to grow amid concerns that gains from trade are not being shared equally.

Uncertainties caused by the war in Ukraine are another blow to open trade. Global poverty has been cut by more than two-thirds since 1990 as developing countries doubled their share of global exports. Yet reforms for open trade and investment must be complemented by policies to ensure that gains are more widely distributed.

These four trends are changing the trade landscape and recommend that trade must not only propel economic recovery and resilience, but facilitate green, resilient, and inclusive development.

Four policy actions across RCEP and G20 are needed.

First, border procedures must be improved to ease impediments to trade flows. Compared to developed countries, the cost of trade is much higher in developing countries, but tariffs account for just one-fourteenth of the disparity. The remaining costs arise from non-tariff measures such as complex border procedures and inefficient logistics and infrastructure. A recent study on the expected impact of RCEP showed that the removal of cumbersome non-tariff restrictions on goods and services and the implementation of common rules of origin would significantly reduce trade costs, boost growth and reduce poverty.

Improving connectivity through regional initiatives for infrastructure and logistics will also be key. But global trade issues can only be addressed and managed with a strong, credible and well-functioning multilateral system. The agenda of WTO reforms in the G20 Trade, Investment and Industry working group can support negotiations on these issues, leading into the postponed WTO Ministerial.

Second, trade in services and mobility of people should be advanced

... RCEP and G20 member countries have an extraordinary opportunity to make trade work again for development and for everyone, while also contributing to a resilient and sustainable future

to provide new opportunities for trade, job creation and digital transformation. A more ambitious opening of the services sector would lead to greater trade in services. Safe digitalised protocols would also support business and tourism travel. To do so, partnerships must be created between the private and public sectors to raise the pool of funds necessary to bridge digital gaps and improve digital skills.

Third, trade should be used to address climate change. With the right policies, trade can help countries adapt to climate change and mitigate its impact. Trade in environmental goods and services and the latest technologies can deliver drought-resistant seeds to farmers and solar panels to renewable energy projects. Developing countries must have a seat at the table when rules regarding the environment and trade are drafted. Designing policies and agreeing on standards for environmentally

sustainable trade practices could do much to support sustainable supply chains and contribute to global climate action.

Last, trade must contribute to equitable development. Policies that ensure the fair distribution of gains from trade include social safety nets, financial assistance and support for displaced workers. At the multilateral, regional and bilateral levels, it is important to strengthen the partnership component of agreements to ensure that economic and technical cooperation help less-developed countries reap the benefits of economic integration.

The confluence of challenges and consensus means that RCEP and G20 member countries have an extraordinary opportunity to make trade work again for development and for everyone, while also contributing to a resilient and sustainable future. Together, they can help shape and catalyse domestic reform agendas and deepen economic integration with policies to achieve green, resilient and inclusive development. **EAFO**

Mari Pangestu is the World Bank Managing Director of Development Policy and Partnerships. She served as Indonesia's Minister of Trade from 2004 to 2011 and as Minister of Tourism and Creative Economy from 2011 to 2014.

Lili Yan Ing is a Lead Advisor (Southeast Asia Region) at the Economic Research Institute for ASEAN and East Asia (ERIA). She was Lead Advisor to the Minister of Trade of Indonesia from 2017 to 2019 and Senior Advisor on Trade and Investment at the President's Office of the Republic of Indonesia from 2015 to 2016.

Can economic cooperation and integration promote regional peace and security?

M CHATIB BASRI

AT a time when the world desperately needs global cooperation due to the COVID-19 pandemic, increased geopolitical tension, economic nationalism, and fear of supply chain disruption are making it more difficult.

The potential for economic recovery is visible, but the recovery will be heavily dependent on global vaccine access. Vaccination delays may also contribute to the pandemic's resurgence. As a result, the process of recovery has become increasingly difficult, particularly for developing countries with limited capacity for economic stimulus. Vaccine nationalism creates a situation akin to the prisoner's dilemma in game theory. The bottom line is that people might choose not to cooperate, even

Absent military cooperation ... economic integration offers an alternative solution for East Asian countries

when cooperation would see better outcomes.

These issues can only be resolved through collaboration and collective action and global cooperation, including economic integration, is now even more relevant and important. International cooperation is critical and the G20 forum is a possible avenue for the cooperation that is needed.

But Russia's invasion of Ukraine has increased geopolitical and economic uncertainty. Economic sanctions imposed on Russia have caused oil and gas prices to skyrocket, jeopardizing global economic recovery. The invasion of Ukraine has heightened tensions between the United States and Russia. China appears to be tacitly supporting Russia, a stance that will almost certainly exacerbate China's tensions with the United States and affect the Asia-Pacific region's geopolitical balance.

The disruption to supply chains has also raised concerns about putting trust in economic interdependence. During the Global Financial Crisis, Asian countries that maintained or even increased their domestic demand as a percentage of GDP were in a better position to weather the global economic downturn. Indonesia's integration into the global economy, for example, is less than that of export-oriented countries in its region such as

Singapore or Taiwan. But that doesn't provide justification for shutting down and turning inward. Turning inwards does not resolve supply chain issues. Due to limited domestic capacity, most Asia-Pacific countries cannot easily be economically independent or self-sufficient. And even for those that do have the capacity, production costs will be higher.

Economic integration plays a critical role in promoting peace and security as the opportunity cost of interdependence reduces the likelihood of war. A study by Cali and Oliver of the World Bank shows when trade leads to higher incomes, states are less likely to forgo them to engage in conflict. Another study by Lee and Ju, based on a large panel data set of 243,225 country-pair observations from 1950 to 2000, confirms that increased bilateral trade interdependence is significant in promoting peace. Increased bilateral interdependence and global trade openness are key elements in promoting peace.

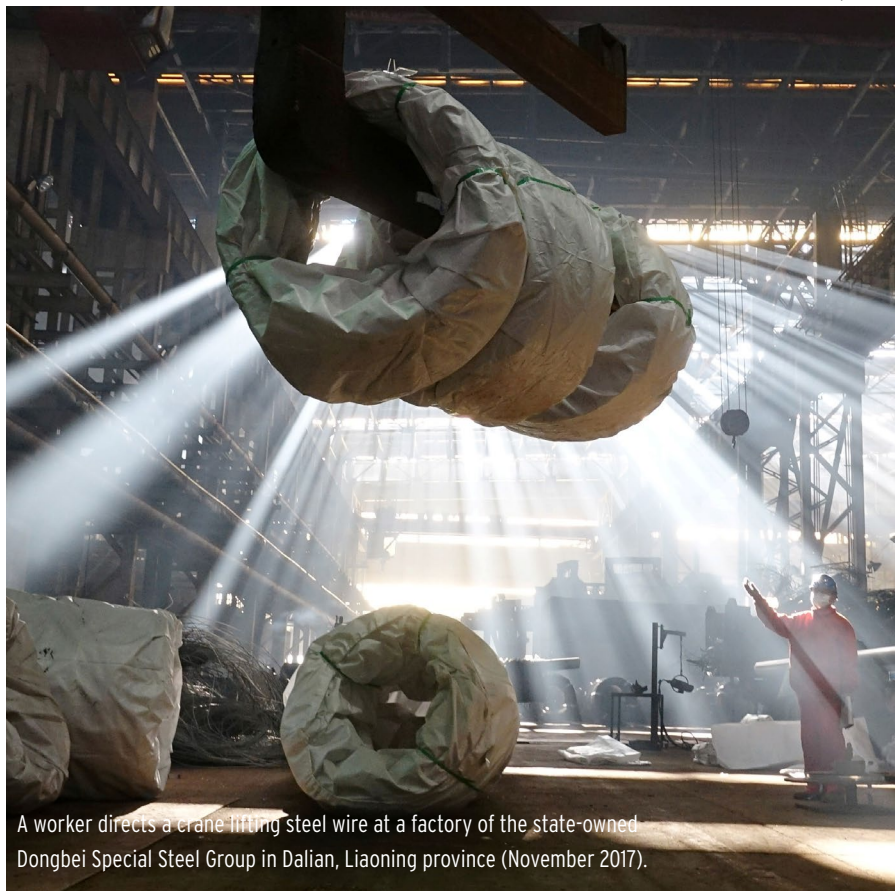
The question is how to deal with tension in Southeast and East Asia without any regional security architecture. Existing security cooperation is primarily bilateral. When it comes to negotiating with superpowers, bilateral cooperation weakens ASEAN countries

individually. Under these conditions, ASEAN centrality and economic integration appear the best alternative in maintaining regional peace and security.

ASEAN, of course, has its own internal fragilities because several member countries have their own divergent political and economic interests: this is the challenge for ASEAN. This is where ASEAN's role as a leader comes into play. Indonesia's role in this context is critical. Because of its size and political position, as well as its hosting of the G20, Indonesia should be expected to play a key leadership role. And Indonesia demonstrated this when it pushed for the formation of The Regional Comprehensive Economic Partnership (RCEP) in 2011. Absent military cooperation in ASEAN and East Asia, economic integration offers an alternative solution for East Asian countries, particularly ASEAN, to promote peace and geopolitical stability.

ASEAN has in fact been able to play an important role in maintaining Southeast Asia's peace since its formation. During the Cold War, for example, ASEAN attempted to mitigate the negative impact of geopolitical tensions between the United States, the Soviet Union, and China. ASEAN was successful in bringing Vietnam, Laos, Cambodia, and Myanmar into the organisation in the 1990s. Now conflict resolution must focus on regional economic cooperation and trust building. ASEAN is currently attempting to follow its old formula in promoting regional peace and security.

Can this formula work, and how long can geopolitical tensions in Southeast Asia and East Asia be contained? RCEP is a test case. RCEP has the potential to alleviate



A worker directs a crane lifting steel wire at a factory of the state-owned Dongbei Special Steel Group in Dalian, Liaoning province (November 2017).

security tensions because of ASEAN's significant role in mediating geopolitical issues and tensions between the United States and China. At the same time, the United States' role in maintaining the region's geopolitical balance is also critical.

Because of its cooperative scope and membership, and their relatively neutral position towards the United States and China, RCEP has a strong chance of promoting peace and security. From a geopolitical standpoint, RCEP is an ASEAN initiative that was proposed when Indonesia assumed the ASEAN chair in 2011. It is not a China initiative, which makes it less politically sensitive. RCEP is relatively neutral in terms of preserving the region's geopolitical balance and 'politically acceptable' to the United States. RCEP

is also the first economic partnership to include China, South Korea and Japan in a single agreement.

Through a coordinated effort to build trust and confidence among its members, RCEP's success has the potential to lead not only to opportunities for regional economic cooperation and integration, but also to create a more peaceful and stable region. The war in Ukraine, with its impact on geopolitical tensions, and the urgency of cooperation in overcoming the COVID-19 pandemic, highlight the importance of RCEP's position in Asian regional security.

EAFO

M Chatib Basri is a Senior Lecturer at the Department of Economics, the University of Indonesia, and formerly Indonesian minister of finance.



Labourers work on scaffolding set among high tension electricity pylons in Mumbai (October 2021).

Going above and beyond RCEP's negotiated agreement

SHIRO ARMSTRONG
AND YOSE RIZAL DAMURI

EAST Asia's Regional Comprehensive Economic Partnership (RCEP) came into force in 2022 as the world's largest free trade agreement. It was ratified in the face of major international trade and political uncertainties and is a significant boost to the global trading system. That's just the start. Its greatest potential lies in its economic cooperation agenda that could transform RCEP beyond a

negotiated agreement into a dynamic regional partnership.

RCEP brings Australia, China, Japan, South Korea and New Zealand into an agreement centred on the 10-member ASEAN and accounts for about 31 per cent of global GDP and population and 27 per cent global merchandise trade. The agreement keeps markets open and updates trade and investment rules

in East Asia, a major centre of global economic activity, at a time of rising protectionism and a threatened WTO.

One of the pillars of RCEP is an economic cooperation agenda which has its antecedents in ASEAN's approach to bringing along its least developed members. The agenda builds on the experience of capacity building in APEC and technical cooperation under the ASEAN

Australia–New Zealand Free Trade Agreement. At a minimum, the economic cooperation agenda will assist members to implement RCEP's commitments.

But there is opportunity to go well beyond capacity building and technical cooperation. RCEP could create a framework that facilitates deeper economic cooperation involving experience sharing and the creation of a framework for extending rules and membership and political cooperation.

RCEP extends ASEAN's modes of cooperation and strengthens its institutional ecosystem with an RCEP secretariat, regular ministers' meetings and an annual leaders' summit around the ASEAN-led East Asia Summit. The political track opens the door for a broad and ambitious conception of economic cooperation and the ASEAN-based secretariat. The scope and structure of the secretariat is yet to be defined but it will provide the locus for coordination among members. It can become a platform from which Asia-wide liberalisation and integration is managed.

In addition to the political track, there will be joint committees of senior officials and subsidiary committees. Business and expert involvement can be institutionalised to achieve specific objectives. These processes are important to help build trust and confidence in a geopolitical landscape where it is evaporating.

RCEP's new disciplines extend to e-commerce and digital trade, trade facilitation, rules of origin, investment and intellectual property. The liberalisation in goods and services and the common 'rules of origin' mean global value chains will continue to deepen. Unlike the Trans-Pacific Partnership agreement and its successor the Comprehensive and Progressive Agreement for Trans-

Pacific Partnership to which it is often compared, RCEP does not include disciplines on state-owned enterprises and environment and labour standards. As new rules are developed in other agreements, they can be considered for adoption in RCEP through the economic cooperation process.

Not everything that affects the flow of international commerce can or should be negotiated and legally bound in agreements. ASEAN's consensus-building voluntary approach to deeper economic integration, requires a flexible agenda of economic cooperation that allows working groups to report to ministers on pressing issues that sit beyond RCEP's negotiated outcomes. These issues include infrastructure investment principles and standards, dispute mediation, energy transition, digital economy, supply chain resilience, sovereign debt management and COVID-19 pandemic recovery and travel protocols. The agenda and mode of cooperation will be distinctly ASEAN in character and differentiated from cooperation in APEC.

The economic cooperation process can help socialise potential members and facilitate membership. A flexible approach combined with the ASEAN philosophy of inclusiveness that has shaped the thinking behind RCEP gives immediate priority to opportunities for embracing non-members where there is interest in RCEP's work. This interest is most prominent with respect to India, to which the door of membership has been left open. Eventual Indian membership would be more likely if India were engaged in cooperation on issues of common interest, such as pandemic recovery.

Bangladesh has also indicated interest in joining RCEP and further

South Asian participation will help expand East Asian global value chains and allow for finer specialisation in comparative advantage for ASEAN countries. With China rapidly vacating its low-cost manufacturing advantage, there are ample alternatives that need to be developed and integrated into value chains.

Region-wide arrangements in East Asia have been voluntary and have not come at the expense of non-members. That kind of non-binding cooperation in ASEAN and APEC has been a model for the G20. RCEP changes that but its economic cooperation agenda is still a natural champion of open regionalism that could promote global objectives. Open and flexible structures can engage external interests and new initiatives and, given RCEP's economic weight, strengthen global systems.

Just as ASEAN has done over time, RCEP can multilateralise its market access and other provisions. If the framework is used creatively, the economic cooperation agenda will provide the platform to achieve consensus and support concerted unilateral action towards that goal.

These opportunities could be left begging. Getting the framework right will not be automatic or happen overnight, but its scope and ambition can be defined and agreed to before ministers and leaders meet in late 2022. RCEP coming into force is a significant beginning—the next step is action to set its strategic direction.



Shiro Armstrong is Director of the East Asian Bureau of Economic Research at The Australian National University.

Yose Rizal Damuri is Executive Director at the Centre for Strategic and International Studies, Jakarta.

The strategic significance of RCEP

PICTURE: REUTERS / KEVIN LAMARQUE



US President Joe Biden and Indonesian President Joko Widodo talk at a bilateral meeting at the 2021 Glasgow UN Climate Change Conference (COP26).

PETER DRYSDALE

THE weight and importance that Asia now has in the global economic system demands that leadership to defend and strengthen it must come from within the region. No one country can lead in Asia, where large powers there have divergent interests. But Asian collective leadership is critical to multilateral economic policy outcomes and ASEAN is core to securing it.

East Asia's economic agreement, the Regional Comprehensive Economic Partnership (RCEP), embeds structures for dialogue and cooperation at the highest level that have the potential to make collective Asian leadership in

reinvigorating the global economic system a practical proposition. RCEP's institutionalisation can help in managing the dangers that now loom for the multilateral system. The nature of its structure and rules means that RCEP is positioned to encourage the development of Asia-wide positions and strategies that help defend the multilateral trading system and impact positively on the direction of global trade and commercial policy.

ASEAN centrality has been an organising framework for Asian economic policy cooperation over the past half century. Economic integration underpins ASEAN

centrality in East Asia and its institutional precedence in the management of economic and political security interests with its neighbours. Originally conceived for security purposes, ASEAN has evolved to help its member states manage relations with its big power neighbours, the United States, Japan and China. Better connecting existing regional economic and political cooperation arrangements will help ASEAN and its partners navigate and manage the present and future challenges to regional prosperity and stability.

The retreat of the United States under former president Donald

Trump from its leadership of the global economic order; the rise of China with its assertive stance on the South China Sea and its strategically challenging Belt and Road Initiative; a Quad configuration of Indo-Pacific powers around the United States, India, Japan and Australia; and the continuing North Korea crisis and now Russia's invasion of Ukraine all present significant difficulties for ASEAN's central role in the region.

But RCEP helps reinforce the key role of economic integration to securing regional prosperity and political stability.

The big strategic economic problem that RCEP addresses in the years ahead is the trade and industrial transformation required by China's and Northeast Asia's growing labour scarcity as Southeast and South Asia's labour force continues to grow. That's one reason why its continued openness to India's participation is important. RCEP, in concert with the WTO, provides the policy framework within which the potential of these regional complementaries can be realised and drive Asia's growth.

The three features that distinguish RCEP reflect its ASEAN origins and diplomatic philosophic strategy: its inclusiveness and openness to new membership; its whole-of-region approach to integration; and its ongoing economic cooperation agenda that marks it as a 'living agreement' able to address issues of shared interest and priority as they evolve.

RCEP's anchor in ASEAN institutional arrangements is also important as insulation for the agreement from today's geopolitical competition across the region, especially given that China is a participant in the agreement together with Japan and South Korea. The pressure on US allies and

partners to decouple their trade and especially technology from China has grown. China's use of economic coercion, particularly in its regional neighbourhood—earlier against Japan and South Korea and recently more blatantly against Australia—have aggravated uncertainties about the nature of its rise. There is a growing attenuation of trust between China and the United States. The multilateralism that helps to restrain and shape great power settlements and is essential to East Asia's prosperity and security, is harder to sustain.

The RCEP economic settlement is an important opportunity to bridge these fractures and to undergird political confidence and trust. Political confidence is a much-underestimated element in realising international trade and economic potential. The institutional arrangements in ASEAN that will power RCEP economic cooperation can reinforce political trust and confidence in deeper economic ties.

This will not happen automatically without significant regional political will.

Buttressing the multilateral economic order to create space for China, the United States and other large rising economies in South and Southeast Asia is the priority and a critical element of regional security.

RCEP provides a powerful region-wide organisational framework for continuing the unfinished business of achieving security for the peoples of Asia through economic integration and development.

That still leaves questions about building a security architecture around the alliance frameworks that embed mutual assurances about the use of political power across the region.

Economic cooperation and security ASEAN-style that RCEP embodies is

one of the three pillars necessary for comprehensive security across the region and beyond. The other two are a framework that attend to questions that affect the sustainability of development for a third of the world's people and a framework of mutual assurances of political amity and non-aggression. RCEP can embrace issues of developmental sustainability. But what of regional mutual political assurances?

The idea of a comprehensive security framework that incorporates the third pillar of security has long inspired constructive and active East Asian diplomacy, not only in Southeast Asia through the security understandings on which ASEAN was constructed.

No one country, however big, ought to dominate East Asia, the Asia Pacific or Indo-Pacific regions and multilateral principles set terms of engagement that help to constrain the exercise of raw political power.

RCEP's affirmation of commitment to multilateral economic rules is of vital strategic significance. If it opened the way to cross-regional sign-on to ASEAN Treaty of Amity and Cooperation principles that would help further secure a free, open, inclusive, prosperous and politically stable region and frame a vision in which the region could shape a future that references the political as well as economic principles of crucial importance to its prosperity and security.

The arrival of RCEP now makes that more possible. **EAFO**

Peter Drysdale is Emeritus Professor, Head of the East Asian Bureau of Economic Research and Editor-in-Chief of East Asia Forum in the Crawford School of Public Policy at The Australian National University,

Asia's elusive Northeast Passage

DAN SLATER

IN the mid-1990s, Przeworski memorably remarked that governments in Eastern Europe and Latin America were seeking the 'Northwest Passage': a route to joining the developed capitalist economies and consolidated democracies of Western Europe and North America. Nearly three decades later, this Northwest Passage has proven devilishly elusive. Even once-vibrant democracies like Brazil and Poland have wobbled; even once-promising economies like Mexico and Hungary remain stubbornly middle-income. Wealthy democracy has emerged nowhere new in the so-called Western world.

Democracy and authoritarianism do not exist on a simple spectrum. Late economic development is a different beast from early economic development

Spin your globe to the East and the story is similar. Japan, South Korea and Taiwan were Asia's only wealthy democracies at Cold War's end. They remain so today. Hong Kong and Singapore are rich but not generally considered democratic. If anything, they are becoming less democratic. Thriving middle-income democracies of the 1990s like Thailand and the Philippines thrive no longer. Indonesia and Malaysia both experienced democratic breakthroughs after decades of rapid economic growth. Yet Malaysia's democratisation quickly stalled, while Indonesia's remains tenuous at best. Their neighbouring economies still struggle to have breakthroughs of their own to the ranks of technologically advanced nations.

Why has Asia's 'Northeast Passage' to wealthy democracy proven as hard to locate as Przeworski's 'Northwest Passage'?

An easy answer is that the Northeast Passage leads towards China, not Japan. China has proven that decades of rapid development need not lead to meaningful steps or even pressures towards liberal democratisation. Vietnam and Cambodia are on a quest to duplicate China's path, not that of Japan and its fellow travellers. Hong Kong would likely have followed the Northeast

Passage if it had transitioned from British rule to independence in the 1990s and not to Chinese rule.

So perhaps the story is simply that, unlike the Northwest Passage that turned away from authoritarian Russia, the Northeast Passage runs smack into authoritarian China.

But that story only goes so far. Besides the exceptional case of Hong Kong and formerly socialist Vietnam, Cambodia and Laos, no Asian country is seeing its destiny defined by China—at least not yet. Most Southeast Asian countries began economically reforming and rapidly developing well before China. China has followed a passage towards joining capitalist Southeast Asia as much as the reverse.

Maybe passages are just *passé*. Democracy and authoritarianism do not exist on a simple spectrum. Late economic development is a different beast from early economic development. Given Asia's radical diversity, why would we expect developmental or democratic convergence? Besides, Asia is certainly not stagnating. It has been undergoing wrenching economic changes and dramatic political shifts, albeit ones not easily captured by old Cold War dichotomies.

Yet Asia's failure to spawn rich new democracies remains a genuine puzzle. Economic and



A voter inspects candidate posters for the Tokyo Governor election in front of a voting station amid the COVID-19 outbreak (July 2020).

technological catchup is an obsession across Asia's diverse governments; democratisation is an enduring aspiration across Asia's diverse civil societies. Surely no region has pursued Przeworski's predicted path to wealthy democracy—modernisation via internationalisation—more strenuously than Asia.

Still, only Taiwan and South Korea have matched Japan's democratic and developmental combination. Is Asia incapable of developing wealthy democracy outside its three paradigmatic developmental states?

This points to a third possibility: the Cold War era may simply have been more conducive to wealthy democratic development than the decades since. Japan, South Korea and Taiwan boomed and democratically blossomed under a protective

American umbrella. Military security was guaranteed, export markets were wide open. Communist rivals only threatened from without, not within. Ethnic conflict was absent or at least manageable. Nothing was stopping them from becoming both successful developmental states and vibrant democracies.

What's stopping the rest? The main problem is not that China presents a more alluring model than Asia's democratic developmental states. Nor is it that development and democratisation have ceased to serve as meaningful targets of aspiration or that Asia's only historical window for wealthy democracy has slammed shut. The main problem is that obstacles to late Asian development are combining with obstacles to late Asian democratisation. Those obstacles

keep states weak. And in a mutually reinforcing fashion, those weak states lack the capacity to overcome either type of obstacle.

This has spawned a syndrome of semi-democracy along Asia's economic semi-periphery.

STRONG economies and strong democracies require strong states. As Przeworski himself wrote in 1995, 'without an effective state, there can be no democracy and no markets.' The connection between state strength and economic performance has become practically axiomatic. Even those who think robust markets do more for economic development than prudent state interventions know by now that markets cannot become robust where states are weak. The linkage between state strength and

democratic consolidation is by now highly familiar as well.

What is less clear is why states remain weak in the first place, and how developmental weakness and democratic weakness reinforce each other.

States remain weak because state-building is politically hard and risky. Unless political leaders must strengthen the state for urgent purposes of national defence, or to hold together broad coalitions through rapid growth and downward distribution, they are unlikely to do so. Absent this 'systemic vulnerability', states tend to remain fragmented, clientelist and captured by oligarchic capitalists who demand only narrow property rights for their own investments in low-technology and natural-resource dependent sectors.

Such captured states are incapable of fostering the structural economic changes and technological upgrading necessary to become a wealthy economy.

Nor do they provide much democratic health. Stable democracy rests on lasting economic bargains. Only once the state has gained economic centrality and authority will the question of who holds political office carry major economic stakes for voters.

These bargains can be liberal or conservative. Optimum democratic health rests on ongoing competition between those who want the state to be bigger and more generous and those who want to see it smaller and less intrusive. Stable democracy does not require a highly redistributive welfare state. But it is more likely to

emerge when it matters economically who holds power. That is when voters become attached to political parties who credibly promise to deliver the economic policies and programs to which they become accustomed.

This is what happened in the countries that successfully traversed the Northeast Passage—or the Northwest Passage for that matter. Wallerstein was right that wealthy economies in the industrialised 'core' of the world economy tend to have strong states. Those in the dependent 'periphery' and 'semi-periphery' generally do not.

This has implications for democracy, not just for development. States without the capacity to foster transformative economic development also lack the capacity to craft transformative distributive bargains



Office workers walk to an MRT station during evening rush hour in Singapore's financial district.

PICTURE: REUTERS / EDGAR SU

with society. Absent those stable bargains, democracy is not really about the economy at all. Elections are mostly about personalities, charisma and narrow clientelist promises. Oligarchs dominate the state and prevent it from becoming an effective and authoritative manager of national economic life.

Economies fail to upgrade; democracies fail to consolidate.

This syndrome is global, not simply Asian. Political economists have warned for decades that developing economies are failing to escape the 'middle-income trap'. Comparative political scientists now rightly note that most young democracies are hitting a 'democratic ceiling.'

YET four Asian countries have upgraded their way out of the middle-income trap while building states that command national economic life, above and beyond the whims and pressures of a narrow business oligarchy. Three of course are the democratic developmental states that traversed the Northeast Passage: Japan, Taiwan and South Korea.

The fourth is Singapore. Although the People's Action Party (PAP) is no progressive welfare distributor, it is an effective and authoritative welfare distributor. Citizens know what to expect when they vote for it and the PAP works mightily to deliver the economic growth and social programs they promise. Singapore's voters also know that the PAP's opponents promise to rule in a manner more generous and distributive and less growth obsessed. Elections are about the economy, and the economy is run by the PAP with the next elections in mind.

Lasting economic bargains have stabilised authoritarianism in Singapore, while entrenching

democracy in Northeast Asia. Like Singapore's PAP, Japan's dominant Liberal Democratic Party (LDP) is far from social-democratic. But it similarly has the strength and authority to bind society together through a predictable safety net, resting on the foundation of prior economic improvement. Again like Singapore's PAP, Japan's LDP rarely loses elections. Yet the pressures of competitive elections help keep the LDP in constant economic management mode.

In Taiwan and South Korea, rotation in office is common between a progressive party and a more conservative rival. Rather than loosening the state–society bonds of capitalist management and economic distribution, this gives voters a big stake in choosing the party that promises the policies they prefer. Here too, elections have real economic stakes for ordinary citizens. This makes democracy more materially meaningful and robust.

The same cannot be said for those Southeast Asian countries that once seemed most primed to find the Northeast Passage: Indonesia, Malaysia, the Philippines and Thailand.

Malaysia has come closest to forging state-led economic bargains in the fashion of Singapore and Northeast Asia's wealthy democracies. In the wake of deadly ethnic riots in 1969, Malaysia's ruling Barisan Nasional (BN) coalition built a stronger and more distributive state to prevent their repetition.

Upholding this broadened coalition required faster growth. By the 1980s, prime minister Mahathir Mohamad was urging the country to 'Look East' in the spirit of Japan. Yet while Mahathir's Malaysia enjoyed moderate success in travelling the economic part of the Northeast Passage, his

authoritarian inclinations stymied democratic headway in the 1990s and 2000s.

Still, in Malaysia as in Singapore, enough economic advances had been made by the turn of the century that a stable, democratic, developmental bargain was within reach. Voters knew that the BN was committed to muscular redistribution across ethnic groups, but also to the rapid economic growth necessary to make extraction acceptable to its targets. They also knew that the BN's opponents, like the PAP's opponents in Singapore, were promising more universalistic welfare benefits and less emphasis on rapid growth.

Yet unlike Asia's four 'core' economies, Malaysia remains in Wallerstein's 'semi-periphery'. Its main export is electrical machinery, but three of its top five exports remain natural resource-based: petroleum, palm oil and rubber. Even its abundant manufactured exports rely heavily on foreign technologies from the 'core'. Malaysia's dependent development has incubated a class of highly connected and inefficient business oligarchs with

The end of the Cold War promised the global spread of wealthy democracies. After three decades, it is fair to deem this promise disappointingly unfulfilled

PICTURE: REUTERS / WILLY KURNIAWAN



An Indonesian woman shows her ink-stained finger after casting her vote during regional elections in Tangerang, west of Jakarta (June 2018).

and the candidate popularity that arises from creatively combining the two. Indonesia's voters do not enjoy the option of choosing among political parties offering differently transformative developmental and distributive bargains.

If any Asian country captures the syndrome of state weakness, developmental sluggishness and economically insubstantial elections, it is surely the Philippines. Among its top five exports, fruits, nuts and metal ores exemplify the Philippines' enduring semi-peripheral position. Little state capacity is needed to keep the Philippines open to inward investment from technologically advanced firms in the 'core'. Elections rarely have major economic implications. This year's incestuous battle royale among family dynasties to succeed strongman Rodrigo Duterte is a consummate but not entirely unprecedented example.

The end of the Cold War promised the global spread of wealthy democracies. After three decades, it is fair to deem this promise disappointingly unfulfilled. While so much of the world's attention focuses on the rising authoritarian developmental state of China and the eroding liberal democracy of the United States, we must not lose sight of the many hybrid regimes and middle-income economies like those in Southeast Asia. Despite pursuing the 'modernisation by internationalisation' pathway once expected to lead to wealthy democracy, they remain stuck instead in both a developmental and a democratic rut. [EAFQ](#)

Dan Slater is Professor of Political Science and Director of the Weiser Center for Emerging Democracies at the University of Michigan.

little interest in state-strengthening or in stable distributive bargains. Neither of Malaysia's two major party coalitions possesses the political will and capacity to build a stronger state to help improve this state of affairs.

Like Malaysia, Thailand saw its best chance of crossing the Northeast Passage interrupted by authoritarian and oligarchic forces by the early 2000s. During Thaksin Shinawatra's brief reign, democratic elections had real economic stakes. Elected politicians became the most authoritative figures guiding economic policy. But Thailand's old conservative alliance of militarists and monarchists prevented further transformations, both democratic and developmental. Three of Thailand's top five exports are

manufacturers, with gems and rubber rounding out the top five. Growth persists, but economic upgrading remains elusive without a state apparatus capable of fostering it.

Indonesia is perhaps the best example of even rapid and sustained growth not being accompanied by structural economic change and technological upgrading. While machinery exports now outpace fuel and oil exports in Malaysia, the same cannot be said of Indonesia. Coal, gas, palm oil and precious metals remain leading exports as well. Electoral democracy has had a surprisingly good run for almost 25 years, buoyed by consistent commodity export-led growth. Yet elections are mostly about religious identity, clientelist credibility

Searching for leadership in the Philippines' pandemic response

GIDEON LASCO
AND VINCEN GREGORY YU

IN the wake of the Omicron variant, many countries in Southeast Asia are warming to the idea of living with COVID-19, as a manageable, endemic illness, and that guiding populations to live under this 'new normal' is the most realistic way forward. Manila's

notorious traffic jams are back after Philippine authorities reopened public establishments at full capacity. Cinemas in Hanoi resumed operations after a nine-month closure. And in Singapore, more countries were added to the 'Vaccinated Travel Lane'

scheme, which permits the entry of fully vaccinated travellers without quarantine.

But as the region begins to move past the pandemic, there are lessons to be learned from how countries responded to the pandemic. In many

PICTURE: REUTERS/LISA MARIE DAVID



Young students sit behind protective plastic barriers after resuming classes for the first time since the COVID-19 outbreak in Pasay City, Metro Manila (December 2021).

countries, the burden of transmission mitigation has been placed squarely on the shoulders of ordinary people. This has shifted focus—and primary accountability—away from governments.

The Philippines—which has suffered the worst Omicron surge in the region—is illustrative of this ‘individual responsabilisation’. For instance, a major element in the country’s pandemic response has been its emphasis on the use of personal protective equipment for the general public, at their own expense. This extended to mandates on the use of face shields—even outdoors—despite limited scientific evidence on their efficacy or practicality.

The haste with which this policy was adopted contrasts with the government’s reluctance to conduct mass testing and implement contact tracing. Its slow recognition of the airborne nature of COVID-19 also impeded larger-scale, systemic changes to improve ventilation in schools, workplaces and other public spaces.

Policies intended to limit transportation and mobility, especially at the start of the pandemic, likewise demanded compliance from individuals without accounting for varying needs that the government should have provided. For example, public transportation was suspended immediately in March 2020 without clear backup measures in place, stranding essential workers at their workplaces and forcing them to walk long distances to or from home.

Curfews were imposed with little warning, resulting in clashes between law enforcers and commuters held at checkpoints. Policies meant to uphold social distancing guidelines led to the indiscriminate arrests of motorcycle riders and—for a time—absurd, if not

The ideal pandemic response is a public health approach that accounts for the structural and social determinants of health

dangerous, plastic barriers between motorcycle drivers and passengers.

Social distancing measures have been largely performative. On one occasion, the Philippine Health Secretary was spotted at a market gauging the physical distance between individuals with a metre stick. Though quick to implement stay-at-home and physical distancing recommendations, the government failed to adequately create the conditions where this would be reasonable. It was slow to provide material and financial assistance, especially for low-income families who rely on daily wages for everyday subsistence. Some policies were counterproductive, such as unnecessary checkpoints and restrictions to business operating hours that caused overcrowding.

None of this is new to the milieu that has long shaped the largely privatised health landscape of the Philippines, which makes individuals, not the state, responsible for their health. By encouraging the ethos of individual responsibility, the government set the stage for a securitised, disciplinary approach to the pandemic. People who fail to adhere to health protocols are labelled ‘*pasaway*’, heedless and disobedient.

The concept of ‘discipline’—a

decades-old populist trope that harks back to the Marcos dictatorship—has become an overarching theme in the Philippine COVID-19 narrative. At the same time, high-ranking officials, from senators to police chiefs, brazenly flout the rules they are supposed to implement without consequence. Two years into a pandemic that has spiralled out of control several times, the government’s law-and-order approach to the health crisis has only exposed its double standards when it comes to law enforcement.

Marginalised sectors of Philippine society have endured worsening state-sanctioned violence throughout the pandemic. Extrajudicial killings related to Philippine President Rodrigo Duterte’s war on drugs increased exponentially during the tightest lockdowns of 2020. The persecution of activists and human rights defenders continued, while indigenous populations are experiencing discrimination and harassment over their ongoing defence of ancestral territory.

THIS disproportionate effect of the pandemic on the marginalised is not unique to the Philippines. Similar outcomes are also documented in other countries in the region, even those that have had greater success at containing the pandemic or which have shown greater leadership.

People who use or inject illicit drugs have been at a particular disadvantage. Lockdowns throughout Vietnam and Indonesia severely hampered access to harm reduction services. In Thailand, police exploited local COVID-19 checkpoints to search and test people suspected of drug use. Prisoners have also been inordinately exposed to COVID-19, as overcrowded prisons in countries like Thailand and Myanmar struggled to keep the virus at bay even



Curfew violators gathered at a covered court are made to exercise as punishment during a surge of COVID-19 cases in Metro Manila (March 2021).

with decongestion efforts like early-release orders.

A Vietnamese rubber company took advantage of stay-at-home orders and destroyed several sacred sites that belonged to indigenous communities in Cambodia. Migrant workers in Singapore and Malaysia were met with harsh discrimination, on top of contending with more precarious work and living conditions.

The result has been that oppressive and discriminatory government actions against the most vulnerable have undermined state-instituted pandemic responses. In the Philippines, the costs of largely privatised testing and the militaristic approach to quarantine have made ordinary people, especially the poor, reluctant to seek medical care.

While vaccine hesitancy has posed a significant challenge to quelling the pandemic in the region, such

hesitancy has stemmed partly from the governments' failure to address people's concerns about and beyond vaccination. These include fears of arrest among undocumented migrants and refugees living in Malaysia if they avail themselves of vaccines, rampant misinformation on social media in the Philippines and the religious and conflict-driven contexts behind hesitancy in Indonesia.

The ideal pandemic response is a public health approach that accounts for the structural and social determinants of health. Global and national governing bodies need to work hand in hand with all segments of the community to promote country-wide responses like immunisation campaigns and coordinated health information drives. Individuals can then play their part through measures such as masking and social distancing.

To truly 'heal as one'—as has

been the mantra of the Philippine government—and better address future outbreaks, the government must be willing to take primary responsibility for pandemic responses and account for the broader sociocultural and structural factors that render populations safer (or more vulnerable) to health crises. [EARQ](#)

Gideon Lasco is Senior Lecturer at the University of the Philippines Diliman's Department of Anthropology, Research Fellow at the Ateneo de Manila University's Development Studies Program, and Honorary Fellow at Hong Kong University's Centre for Criminology.

Vincen Gregory Yu is a physician and research associate at the Ateneo de Manila University's Development Studies Program.



Devotees circle the Balkumari Temple during the Sindoor Jatra vermillion powder festival to welcome spring and Nepali new year Bhaktapur (April 2021).

Nepal's geopolitical stakes are as high as the Himalayas

GAURAB SHUMSHER THAPA

NEPAL occupies a crucial geostrategic location in South Asia. It is sandwiched between powerful and competing neighbours, India and China, which outstrip the Himalayan nation in size, population, economy and military might. Yet it is one of the few countries that has remained independent throughout history. Maintaining that independence is now just that much

more challenging.

Geopolitical realities necessitate maintaining a fine balance in Nepal's relations with its immediate neighbours. Relations with India are deeply embedded in historical, cultural, socio-economic, religious and familial ties. The open border arrangement between the two countries eases the flow of people and goods. But politically, India and Nepal

have seen ups and downs. Although Nepal and China also share historic relations, the bilateral relations are more focused on political and economic issues rather than people-to-people exchanges. Still, China has greatly increased its influence in Nepal over the past decade. The United States is also now one of Nepal's most important development partners.

In the 18th century, King Prithvi

Narayan Shah labelled Nepal a ‘yam between two boulders.’ With a third ‘boulder’, the United States, now showing keen interest in the country, Nepal needs to avoid entanglement in big power rivalry and ensure that its foreign policy remains oriented to its own national interests.

Relations with the first ‘boulder’, India, appeared to rapidly accelerate—after a long and sometimes tumultuous history—in the 2010s. After coming to power in 2014, Indian Prime Minister Narendra Modi proclaimed his ‘neighbourhood-first’ policy. His visit to Nepal only three months after taking office was the first by an Indian prime minister in 17 years, raising hopes of better ties between the two countries. The optimism was reinforced by India’s immediate humanitarian relief within hours of a massive 7.8 magnitude earthquake that struck Nepal in April 2015.

But Modi’s reputation in the Himalayas quickly crumbled as Delhi pressured Nepali leaders to delay the promulgation of a new constitution in September 2015. When Kathmandu did not capitulate, India imposed an ‘undeclared’ economic blockade on Nepal. Then in 2020, Nepal’s then-prime minister KP Sharma Oli published a map encompassing the disputed territories of Kalapani, Lipulek, and Limpiyadhura—which are claimed by Nepal but controlled by India—in response to India’s construction of a road in the area.

The second ‘boulder’ has also sought to increase engagements with Nepal in recent years. China’s top priority in Nepal is concern about anti-China activities, more particularly that the United States, in conjunction with India, might use Nepal’s geostrategic location to contain it.

China directed US\$188 million in foreign direct investment to Nepal in

fiscal year 2020–21, more than any other country. Nepal and China also signed a transit transport agreement for third-country trade during Oli’s visit to Beijing in 2016. This was a historic move that ended Nepal’s exclusive reliance on India for transit trade. It was also a response to the Indian blockade of 2015. Nepal then became a signatory to China’s Belt and Road Initiative (BRI) in May 2017, although no tangible progress has been made on earmarked projects, including a railway link that would connect Kathmandu with Kerung in Tibet.

In the first visit by a Chinese president in 23 years, Xi Jinping visited Kathmandu in October 2019. His declaration that China would help turn Nepal into a land-linked state instead of a landlocked one had geopolitical resonance. COVID-19 also presented an opportunity for China to leverage vaccine diplomacy in Nepal. But while China–Nepal ties have publicly gained traction, Beijing’s desire to maintain unity among the communist parties of Nepal has not gone unnoticed.

The most recent ‘boulder’ to arrive on the scene—the United States—extended economic aid to Nepal first in 1951 and is now one of its most important development partners. Nepal signed a US\$500 million grant agreement with the United States under the Millennium Challenge Corporation (MCC) in September 2017 to develop the country’s electrical transmission lines and road network. This deal has both domestic and geopolitical complexities attached to it, and there was heated debate over the compact until it was finally approved by parliament in late February 2022.

Detractors of the MCC deal claim that certain provisions of the agreement infringed Nepal’s

Nepal can use its geostrategic location to its advantage in maintaining good relations with its partners as none are willing to lose Nepal to the others

constitution. Critics saw it as a part of the US Indo-Pacific Strategy that aims to contain China and argued that it would make Nepal a pawn on the region’s geopolitical chessboard.

The ruling coalition—the Nepali Congress, Communist Party of Nepal (Maoist Centre), and Communist Party of Nepal (Unified Socialist) among others—did not have a common position on the issue. While the Nepali Congress, led by Prime Minister Sher Bahadur Deuba, strongly advocated MCC’s parliamentary approval, his coalition partners were less enthusiastic and only approved a conditional agreement. Several fringe leftist and rightist parties launched public demonstrations against the deal.

In the run-up to the February 2022 tabling of the MCC agreement in parliament, the United States and China engaged in a war of words accusing each other of using undiplomatic means to influence Nepal in the matter. The geopolitical wrangling saw Nepal’s Ministry of Foreign Affairs issue a statement that asserted the sovereign right of

Nepal to decide on what development aid it needed in the best interests of the country. After a lot of political wrangling, the government came up with an 'interpretative declaration' for the MCC compact clarifying their position on the matter and it was finally ratified by the parliament on 27 February 2022.

As the adage goes, 'geography does not argue, it simply is'. Nepal's location defines its situation. China does not want an increased US presence in Nepal. The United States thinks Chinese influence on Nepal's democracy and development is malign. India does not want either to threaten or undermine its own leverage over Nepal's affairs.

As a landlocked country with a weak economy that is caught between

these three powers, how can Nepal set a viable independent foreign policy?

Despite geographical and cultural proximity, Nepal-India relations have been marked by a trust deficit in recent years. To reverse the trend, Nepal needs better economic engagement with India. Regarding China, Nepal has always supported the 'One China' policy. Nepal needs to carefully prioritise projects under the BRI that are in its national interests and avoid being led into excessive debt. Nepal's engagement with the United States should focus on economic development, and carefully avoid being part of any strategy that threatens the security of its immediate neighbours.

Nepal can use its geostrategic location to its advantage in

maintaining good relations with its partners as none are willing to lose Nepal to the others. The geopolitical stakes are bound to increase in Nepal's periphery in the coming years.

It will always be difficult for Nepal to balance its foreign policy options. But the policy of non-alignment and adherence to *Panchsheel* (five principles of peaceful coexistence) are enshrined in Nepal's constitution, and they are suited to safeguarding Nepal's sovereignty while promoting its development. Staying out of others' arguments will keep the 'yam' safe from the 'boulders'. [EAFQ](#)

Gaurab Shumsher Thapa is President and Managing Director of the Nepal Forum of International Relations Studies (Nepal FIRST).



PICTURE: REUTERS / NAVESH CHITRAKAR

Situated among the vast Himalayan mountain ranges that separate the Indian subcontinent from the Tibetan Plateau, Nepal occupies a crucial geostrategic location between powerful and competing neighbours in India and China (Kathmandu, May 2020).



China's massive growth has driven it to be the centre of gravity in Asia's economic integration, and even amid talk of relocating supply chains most trade patterns remain anchored in China (Beijing, 2018).

Managing China's regional economic integration

SIMON TAY

ANYONE seeking to manage China's regional economic integration must proceed with caution, but not without hope. Influencing Asia's largest economy and political player is not going to be easy, especially given the growth and nature of China–US tensions.

Past thinking assumed Asian economic integration could be neatly

ordered, as described by the metaphor of 'flying geese', with Japan leading newly industrialised economies of Hong Kong, Singapore, South Korea and Taiwan, and then others. But the Asian Financial Crisis shifted new waves of foreign direct investment into China, and some countries in Asia lost a generational opportunity to join global value chains. Present shifts in

the global economy and supply chains are much more turbulent.

A second caution is how much influence any one can have on China. Investors, like the newly industrialised countries on China's periphery, might once have held some influence, but this has been diluted by China's massive growth to be the centre of gravity in Asia's economic

The challenge of engaging China in regional integration remains that of achieving a balance between strategic and security concerns and the economic benefits of integration

integration. Even today, amid talk of relocating supply chains, most trade patterns remain anchored in China. Beijing will primarily manage its economic integration and do so in accordance with its own priorities. This is evidenced by the Belt and Road Initiative and dual circulation theory.

As China–US competition continues with sanctions and the search for non-Chinese production chains, it remains to be seen how China will respond. As sanctions increase on Russia following its invasion of Ukraine, China—having declared a friendship with Moscow without limits—must decide how to deal with ripple effects on its own dealings and will likely explore ways to sanction-proof its own interests. Such decisions will ring across the region, but other Asian countries have little say in shaping China’s policies.

Yet this does not mean that ASEAN and others have no agency. The inclusive character of ASEAN-led initiatives is an important contrast to other regional integration enterprises. In particular, the United States

is constructing new multilateral arrangements that pointedly exclude China, such as the strategic and defence initiatives of the Quad and AUKUS, and any new US economic initiative will be similarly coloured. For all its size, China still needs support.

Initiatives that can influence China’s engagement are already in place: the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Both represent considerable markers in economic integration yet represent sharply different approaches in relation to China—Beijing was never invited into the CPTPP but is the largest economy in RCEP and should reap the largest economic benefits.

Moreover, the context for both has changed considerably since they were first mooted and negotiated. For the CPTPP moving forward, China’s request to join poses a big question. While ostensibly open, the Trans-Pacific Partnership was a flagship of the US ‘pivot’ to Asia and wistful hopes remain that the United States might return. For some, the calculation is that if China joins there is zero prospect for the United States to join. This strategic reaction is understandable but undercuts the CPTPP’s explicit undertaking that accession would be open to any economy able to meet the quality of the undertakings, subject to agreement by current members.

Taiwan has also applied to join. In the past, both Taiwan and China joined the WTO and APEC but today some believe cross-Straits tensions are too high, and support from Japan and the United States has clearly swung. Yet an immediate and outright exclusion of China will close an opportunity to influence its reform and integration, and prioritise the

politics of the CPTPP.

As an agreement that sought to harmonise various ASEAN+1 agreements, RCEP is a very different arrangement. The emphasis on inclusion means the depth and quality of the undertakings (while not without benefits) will be modest—realistic common targets acceptable among very diverse economies—and frame the largest and most dynamic market in the world.

The risks of China’s dominance in RCEP were to be managed and balanced by two factors: the participation of India and ASEAN’s chairmanship. New Delhi’s decision to remain outside RCEP alters this strategic design. While RCEP came into effect at the start of 2022, whether there is real effort to progress it further is therefore an open question.

CHINA has every reason to work with partners and build on RCEP commitments where it can be a key player. In that process, as with the ASEAN–China FTA, efforts can be made to remind all parties about multilateral commitments and win–win goals. There can also be efforts to engage India in some form, even short of full membership. After all, the door remains open for its entry.

The challenges of engaging China in regional integration remain that of achieving a balance between strategic and security concerns and the economic benefits of integration.

The first step towards reaping the benefits of economic integration is to be open to all. ASEAN strives towards open regionalism to bring its members together while allowing access to non-ASEAN investors and traders. China, which is crucial for member states, offers benefits that no other country can. There are elements within China who believe their country can

benefit from entering such agreements and accepting international rules and norms, in tandem with its own economic reform.

Second, bilateral and minilateral cooperation can also be useful, especially in emerging areas. For instance, Singapore has reached out to Chile, Australia and New Zealand to conclude digital economy agreements. China recently expressed interest in these agreements, indicating that engagement can follow from cooperation between smaller states. There are also elements within China who argue that China should contribute to new rules and initiatives in these emerging areas.

There are difficulties. Consider China's actions in its trade with Australia. These are not able to be resolved through RCEP or any other trade body. But the multilateral trading system has meant Australian exporters have found other markets and blunted the effectiveness of Chinese actions. Conversely, consider efforts to exclude China and split global value chains in

technology and telecommunications. These too are treated as questions of security and political rivalry. Current rules are insufficient to assure economic integration when the international rules-based order is at real risk of being strained and broken by political turmoil.

Efforts to manage China's regional economic integration will need to be via multiple new avenues. It is a complex and powerful country, on which opinions differ considerably between and within other countries. The United States seems to have chosen a path of intense competition and perhaps conflict. But many in Asia have a less settled and fixed perspective and, with much less power, exclusion and conflict are not real options. Instead, initiatives to engage and generate rules and relationships must remain the priority.

Efforts within Asia to engage China must continue and even be stepped up, despite current controversies and challenges. The purpose and admission of new members into the CPTPP are

questions which need to be resolved but this should be done rationally, rather than rushed. Engagement through RCEP and other existing multilateral efforts like the ASEAN–China FTA also needs reinvigoration. Additional dimensions of integration like sustainability and the digital economy must be added in new ways. Paths forward may be explored bilaterally or even through initiatives that initially are among the smaller economies.

There remain the dangers of being dominated by China or dealt with on terms that are one-sided. The difficulties of dealing with bifurcated supply chains is further complicated by sanctions, security and other political concerns. Yet the rewards of integration across the region, including China, are also real and are very much worth the risk. **EAFO**

Simon Tay is Chairman of the Singapore Institute of International Affairs.



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RCEP and ASEAN: old and new

JAYANT MENON

TO understand the interrelationship between ASEAN and the Regional Comprehensive Economic Partnership (RCEP), it is useful to separate the newer, less developed members—Cambodia, Laos, Myanmar and Vietnam (CLMV)—from the older, more developed ones—Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN 6). RCEP has a diverse agenda and the opportunities and challenges differ across the two groups.

If there is an old and new ASEAN, then RCEP too covers old (tariff-related) and new (non-tariff-related) issues. The old issues encompass trade in goods, rules of origin (RoO), customs procedures and trade remedies. New issues are about WTO+ or WTO-x and include trade in services, e-commerce, intellectual property rights and competition.

Although it is still a challenge, ASEAN 6 are better placed to pursue the new issues in RCEP. CLMV are further behind and still struggle with the old issues. Analysis of the impacts of RCEP has typically focused on how the new issues will affect more developed members, including ASEAN 6. Addressing this imbalance allows consideration of the opportunities that RCEP presents to CLMV.

ASEAN centrality was key to RCEP's formation and will be to its

continuation by striking geopolitical balance. If RCEP contributes to a further widening of the development gaps within ASEAN, ASEAN's cohesion and ability to play an effective balancing role will be diminished. Ensuring that both old and new members benefit is important for the future of ASEAN and RCEP.

The interests of both old and new members will be best served by an open and outward-looking RCEP. It should be open to future members joining with relative ease and minimise discrimination against non-members. With most new (non-tariff) issues, it is either impractical or costly to exclude non-members from participating in accords once they are implemented. Problems arise when adherence requires enforcement—as only members have recourse to enforcement mechanisms—and when non-compliance reduces overall benefits. The difficulty of preventing free-riding with most of the new issues ensures that discrimination is minimised.

This is not true for tariffs, where explicit, voluntary efforts are required to minimise discrimination. RCEP provides an opportunity for CLMV to catch up with ASEAN 6 and clean up their tariff code.

While ASEAN 6 have multilateralised most of their ASEAN Trade in Goods Agreement (ATIGA) preferential tariffs by offering them to

non-members on a most-favoured-nation (MFN) basis, CLMV have not. Multilateralisation underpins open regionalism and involves reducing and eventually removing the margins of preference (MOP)—the difference between ATIGA and MFN tariff rates. In 2018, the import-weighted MOP for CLMV was around 10 per cent, more than double that of ASEAN 6. The rationale for using RCEP to multilateralise regionalism is the same as that for participating in RCEP. ASEAN countries already have multiple free trade agreements (FTAs) among each other and with other RCEP members. The value added from RCEP comes from increasing utilisation of preferential accords by unifying RoO and expanding rules of cumulation. When preferences are fully multilateralised, RoO are no longer required and members can source inputs from the cheapest supplier globally. This will support growth of supply chains and enable RCEP to deliver its greatest benefits.

The reluctance of CLMV to go beyond what is mandated and voluntarily offer tariff reductions to non-members relates to concerns over revenue loss. The contribution of trade taxes to CLMV government revenues has been declining over time but remains significant.

In 2019 in Cambodia, trade taxes constituted more than 10 per cent of government revenues, compared to 3

per cent and 1 per cent in Thailand and Malaysia. With most of Cambodia's imports already covered by FTAs the high revenue share of trade taxes confirms the distortionary nature of the tariff regime. This is reflected in the large gap between mandatory, low preferential tariffs and discretionarily high MFN rates.

Countries that retain a different tariff regime for each FTA often do so to offset expected revenue losses. The revenue impacts of such a multiple-rate system, compared with a multilateralised or single-rate system, will depend on two factors—administration costs and tariff collection. In both cases, multilateralisation holds out brighter prospects.

The costs associated with administering the multiple-rate system are higher than the single-rate system. To operationalise the former, customs authorities must implement RoO to determine which rate to apply. Local capacity constraints and extensive global supply chains complicate these administrative tasks. Businesses will also face higher compliance costs in a multiple-rate system.

Additional tariff revenue will only be collected if non-FTA imports are charged higher tariff rates. If there is a significant difference between the rates, there will be trade deflection. Goods from outside RCEP may enter RCEP's domain through a low MFN tariff country such as Singapore and then be re-exported to CLMV, precluding the CLMV countries from the intended tariff revenue.

Creating a system where multiple rates apply to each tariff line also increases the potential for corruption and smuggling. It is an open secret that some trade taxes are collected privately rather than publicly, and that the porous borders of the Mekong

region facilitate illicit trade. A multilateralised single-rate system that eliminates the MOP addresses these issues while maximising the potential for trade creation and minimising trade diversion.

If CLMV resisted multilateralising ATIGA, why would it be different with RCEP? One reason is preference erosion: the competitive advantage that exporters enjoy in foreign markets declines as FTAs proliferate. CLMV countries, having concluded numerous FTAs, will begin to see the benefits of additional FTAs start to diminish. Since most of CLMV's trade is conducted within RCEP, their resistance to multilateralisation is reduced.

Old and new members of ASEAN continue to pursue FTAs aggressively. Proliferation of FTAs can encumber trade and work against open regionalism, but multilateralising FTA accords mitigates these adverse effects. It is therefore important that RCEP's technical and economic cooperation agenda includes multilateralisation. While ASEAN 6 used ATIGA to multilateralise their tariff preferences, RCEP now provides CLMV with the opportunity to make good on open regionalism. **EAFAQ**

Jayant Menon is Senior Fellow at the ISEAS–Yusof Ishak Institute, Singapore.

PICTURE: REUTERS



As a provider of geopolitical balance ASEAN centrality is key to RCEP's formation and continuation (Kuala Lumpur, 2020).



Shoppers throng at a market ahead of the Hindu festival of Diwali (Delhi, 2021).

India's RCEP exit and its regional future

ASHA SUNDARAM

INDIA'S exit in November 2019 from negotiations on the world's largest trade deal—the Regional Comprehensive Economic Partnership (RCEP)—was a significant disappointment for proponents of regional economic integration.

Those advocating India's exit cited New Delhi's increased trade deficits with countries it has free trade agreements (FTAs) with, as evidence of what RCEP-led

economic integration would bring. Others had reservations about the lack of safeguards allowing India to respond to import surges, particularly from China, the threat of import competition in agriculture, and inadequate market access for services exports, including greater mobility of people to deliver them. Rising border tensions with China were argued to justify a guarded approach to foreign investment in sensitive sectors such as

defence, communication and energy.

Prominent economists argued strongly that India's exit was not in its best interests.

By sacrificing the opportunity to shape the trade architecture of one of the world's most economically dynamic regions, India was forgoing market access in sectors—such as information technology services and pharmaceuticals—where it enjoys a comparative advantage. Experts also

highlighted the risk of trade diversion away from Indian products and services as RCEP members gained preferential access to each other's markets.

In a world where production is organised around supply chains, India's exit would disadvantage not only its consumers, but also its firms. Consumers would lose access to more affordable imports, while firms would lose competitiveness due to their inability to source cheaper and more diverse inputs at preferential tariff rates.

India would no longer be an attractive destination for foreign investment since foreign firms producing in India would not have the same access to the RCEP market as firms in signatory states.

And many argued that concerns about RCEP worsening India's trade deficit were unsupported by data. As pointed out by Krishna and Panagariya in *The Economic Times* in November 2019, although India's bilateral trade deficit from previous FTAs had increased in nominal terms, the share of the trade deficit attributable to India's FTAs had actually decreased.

India's exit was not just a loss for New Delhi, but also for other RCEP countries. India was one of Asia's fastest-growing economies at the time the agreement was signed. In the five-year period between 2015 and 2019, India's annual GDP growth rate averaged 6.72 per cent against China's 6.7 per cent, Vietnam's 6.8 per cent and the Philippines's 6.6 per cent. India was the second-largest economy in the Asia Pacific, and its pre-pandemic GDP was US\$2.87 trillion in 2019.

India's government was also pursuing a reform agenda targeted at improving market access through investment in transport infrastructure. Some 28,000 kilometres of national

highway was added between 2014 and 2018, and in 2016, the Udan Yojana scheme was launched with a focus on building regional airports.

Other goals included enabling a digital payments interface (the Unified Payments Interface) to spur e-commerce, increasing the ease of doing business, streamlining rigid labour laws and taxation policy and enhancing the purchasing power of the growing middle class. Tackling poverty would be achieved through the provision of fuel, banking services and direct cash transfers to low-income households. Combined, these initiatives were poised to make India a thriving market for exports.

Yet the COVID-19 pandemic, lockdowns and the devastating Delta wave in April 2021 took their toll on the Indian economy, almost setting GDP back to 2017–18 levels. Per capita consumption expenditure, in spite of the fiscal response, regressed three years, and unemployment more than doubled to 21 per cent in April–June 2020.

AS India emerges from the pandemic and seeks to rebuild in 2022, the question is how it conceives its role in the post-pandemic Asia Pacific, and what its future is in relation to RCEP. Factors at play are socioeconomic and political pressures within India, as well as the tenor of the country's geopolitical tensions with China.

India's current domestic reform agenda revolves around the idea of *Atmanirbhar Bharat*—a self-reliant India. The stated aim of this agenda is to enhance Indian manufacturing in sectors such as solar cells and electronics. If these reforms are successful and a high-growth trajectory fuelled by manufacturing is attained, India might be more

confident in its ability to compete in the global market. A confident India might return to the RCEP negotiation table—even if sceptics view the push for a self-reliant India as just another guise for protectionism.

India has already signed bilateral FTAs with ASEAN, Japan, Malaysia, Singapore and South Korea and is negotiating an FTA with Australia among others, reflecting the recognition that FTAs are crucial to integrating India into global supply chains. It cannot be lost on New Delhi that while this spaghetti bowl of FTAs might be easier to negotiate, individual agreements cannot boost trade in the same way as a multilateral deal with the scope of RCEP.

The dragon in the room is China. Though several China experts in India are wary of its regional geopolitical intentions, China is India's second-largest trading partner and trade continues to hit new records, emphasising the dichotomy between India's economic and political realities. India is not alone. Both Australia and Japan are members of the Quad security arrangement with India and the United States. They are navigating tensions with China on the geopolitical front as members of RCEP, in recognition of its economic benefits.

The alternative scenario is that India's economic growth remains sluggish. This is likely if the government pursues an import-substitution strategy under *Atmanirbhar Bharat*—a strategy that failed to generate growth before 1991 and which is unlikely to succeed now. Production-linked incentives are likely to be poorly administered, advantaging privileged firms and thus crimping economic outcomes.

Greater policy uncertainty may discourage foreign investors, agriculture reforms may stall, and micro-enterprises in the informal

sector—where employment was worst hit by the pandemic—may fail to recover. A weakened economy could increase pressure on an election-conscious government to turn inward, forcing it to pursue a strident nationalist agenda and place all bets on bilateral FTAs.

If border tensions with China escalate, India could pivot westward. India is pursuing FTAs with the EU, the United Kingdom, Canada, Israel and the Southern African Customs Union. But these economies are small or geographically distant from India. The gravity model of international trade predicts that prospects with these nations are unlikely to match the benefits of RCEP. Besides, an FTA with the EU—or even the United States—will be tougher on labour and environmental and investor protection standards, so returning to RCEP negotiations might be a more fruitful avenue for India.

It is fortunate that RCEP includes a pathway for India to participate in cooperation activities pending accession and a fast-track accession option should it wish to join in the future. Advocates of globalisation can always hope that India will exercise these options. **EAFQ**

Asha Sundaram is Senior Lecturer at the Department of Economics, University of Auckland.

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Obstacles and opportunities in China's pursuit of economic openness

XU MINGQI

China is undoubtedly facing dramatic changes in the global arena. The United States is increasingly mobilising resources and alliances in the Indo-Pacific region and strengthening strategic competition to combat what it sees as a 'rising China threat'. The Biden administration has deviated from or abandoned almost all of its predecessor's policies, except for its China policy. Trump-era tariffs and export controls on Chinese imports continue and the legacy of Trump's Indo-Pacific strategy endures through elevation of the Quad and the formation of the AUKUS security arrangement to combat China's influence. Chinese policymakers recognise these measures as challenges in China's external environment, stability in which is of utmost importance to the development of the Chinese economy.

However, China remains optimistic and believes in the prevailing strength of common interests with its trade and investment partners. China maintains that US-led decoupling will not only damage the interests of the United States and its allies, but also violates basic economic rules that govern international trade and investment. While political and security considerations certainly affect patterns

of global production and trade, they will not change the forces driving economic globalisation—the pursuit of comparative advantage. Based on these beliefs China is continuing to uphold free trade principles.

The Chinese economy is deeply integrated into the world economy through participation in global production chains. Although its trade-to-GDP ratio has declined from a peak of 64.2 per cent in 2006 to 31.4 per cent in 2020, it remains one of the highest among major economies in the world. China clings to the view that maintaining stable economic growth and development with reforms and opening measures will benefit both itself and its trade and investment partners. That is why China has actively promoted the Regional Comprehensive Economic Partnership arrangement and is keen on entering more free trade negotiations.

Many developed countries have criticised China for its unfair trade practices and for its relatively closed domestic market. This criticism is not all groundless. The Chinese market economy is still immature in terms of legal and regulatory infrastructure and economic development also remains low compared to advanced Western market economies, which have evolved



Customers shop at a Uniqlo store on its opening day in the Sanlitun shopping district, Beijing (November 2021).

for more than a century.

But as the Chinese economy enters a more developed phase after a period of very high growth, it is now more confident about upgrading its domestic law and regulations to better suit the requirements of trade and investment in the 21st century. By further opening the Chinese market, China may also offset US pressure and help to maintain a stable external environment for economic development in the coming decade.

The Chinese government is certainly making efforts to do so. The annual China International Import Expo, launched in 2018, showcases policy intentions of further opening the domestic market and a repudiation of mercantilist trade policies. The 2019 Foreign Investment Law also grants foreign investors comprehensive national treatment. Since 2013, China has established new free trade zones—notably in Shanghai, Shenzhen and Hainan—to test a more open economic system. In many of these zones, trade-related domestic regulations have been simplified or abolished and average tariff levels have been lowered to facilitate trade

liberalisation.

China's application to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership is an important move in this direction. Many external observers understand this decision as one component of China's policy to offset US geopolitical pressures. But from an economic standpoint, it is actually a logical decision to upgrade the Chinese market system, with a rationale akin to China's entry into the WTO in the late 1990s.

Despite geopolitical competition, China still aspires to use its economic advancements by seeking opportunities to expand and enhance trade and investment relations. Take for example, the US Indo-Pacific Economic Framework, which aims to formulate a set of standards for key industries, including supply chain resilience, digital economies, export control and environmental protection. While most countries in the region welcome US leadership in economic development, what they seek most is greater market access and the facilitation of trade. With this important element lacking, it will not

be easy to decouple China from the global supply chain.

With Western media coverage dominated by the hot topic of geopolitical competition, China's measures in recent years to further open its service sector and financial market have generally gone unnoticed. Where economic reform was once not feasible—for fear of speculative shocks triggering a financial crisis and social instability—China now has a maturing economy that is increasingly suited to opening historically closed industries and will be made stronger by market-oriented regulations.

Contrary to some speculation, the next decade will not see China's trade policy revert back to closed-market principles, as increasing openness is imperative for both the Chinese and global economy. [EAFQ](#)

Xu Mingqi is Vice President of the Shanghai Centre for International Economic Exchange and Senior Research Fellow at the Shanghai Institute of International Finance and Economics.

Is a framework that builds out China realistic?

MARY E LOVELY

When he withdrew the United States from the Trans-Pacific Partnership, former president Donald Trump tore up the playbook for American economic engagement with Asia. In February 2022, his successor, Joe Biden, offered his own strategy for the region—one that blends broadly defined security and commercial interests while sharing Trump’s refusal to engage in new comprehensive trade agreements.

American partners in Asia welcome many aspects of President Biden’s Indo-Pacific Strategy. Reassuringly, the Biden framework recognises the region’s security and prosperity as vital to American security and prosperity. It acknowledges that its economies will drive the lion’s share of global growth and that cooperation within the region is essential in the fight against climate disruption and COVID-19. It suggests new initiatives in military cooperation and shared technology development and governance. It recognises infrastructure needs within the region and ties them to the Build Back Better World initiative of the G7.

By mixing economics, security, development, climate and public health challenges, the Biden strategy places the United States at the heart of efforts to meet the full panoply of challenges that face the region. Its ‘strategic ends’—a free and open Indo-Pacific—and its ‘strategic ways’—strengthening the US role and building collective capacity—reflect an

optimism that effective mechanisms can be built to coordinate across the region while successfully managing differences.

The strategy encompasses US intentions for closer security and economic ties to India, part of the Quad security dialogue that also includes Australia and Japan. It also invites closer cooperation with the EU, which seeks to increase its own presence in Asia. Pulling in so many partners, the strategy may be seen as a building block for America’s ‘friendshoring,’ or the creation of supply chains based only in countries with whom it has a security alliance.

The framework’s optimistic tone obscures a precarious assumption underlying the strategy: that partners in this endeavour share the American desire to build China out of regional economic and technology networks. Indeed, the Biden plan explicitly identifies Beijing as a source of the region’s mounting challenges.

While many Indo-Pacific nations want to bolster defences against Chinese coercion and aggression, it is doubtful that they share the US view that China can or should be excluded from regional economic arrangements and decision-making forums. Many of Washington’s intended partner economies are already integrated with China. The United States ‘endorses ASEAN centrality’ but ignores the presence of ASEAN at the heart of the Regional Comprehensive Economic

Partnership (RCEP), of which China is a founding member.

RCEP is the world’s largest trading bloc and its favourable regional rules of origin are designed to further integrate member economies. RCEP signatories already send almost 50 per cent of their exports to other RCEP members. For ASEAN and for Japan, the RCEP share is even higher. Even the Indian economy sends almost a quarter of its exports to RCEP members.

Eight East Asian economies already are bound together by the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), which provides substantial and binding market access, covering goods and services market openings and commitments on regulation of foreign investment. With significantly overlapping rosters, trade relationships between CPTPP members and RCEP members will continue to grow, even if China’s application to join the CPTPP is left to pend indefinitely. Although the United States seeks to deepen its five regional treaties, these agreements will not move it inside CPTPP structures that enhance bloc production sharing and complementary foreign investment flows.

US plans for building secure technology value chains must include Japan, a close ally and a powerhouse supplier of machinery and electronics. What price is Japan willing to pay and



US Secretary of State Antony Blinken delivers remarks on the Biden administration's Indo-Pacific strategy at the Universitas Indonesia in Jakarta (14 December 2021).

in which industries to build China out of its products? Already, Japan exports almost as much to China as it does to the United States and imports almost twice as much. Much of this bilateral trade feeds Japan's onshore production. In 2016—the most recent year for which we have data—64 per cent of Chinese exports to Japan originated in foreign-invested enterprises, many of them Japanese foreign affiliates, while more than half of China's sales to Japan result from duty-free processing arrangements. These are clear indications of the extent to which Japan's industrial engine is tied to China.

The situation is similar for South Korea, another US ally and key supplier of integrated circuits and other electronics. Its two-way trade with China is almost double that of its trade with the United States. As with Japan, much of this flow is linked to

South Korean industrial production. More than half of Chinese exports to South Korea originate in foreign-invested firms, many of them South Korean foreign affiliates, and 57 per cent reflects duty-free processing arrangements.

Early in March 2022, the US Department of Commerce and the Office of the United States Trade Representative requested public input on negotiating objectives for a proposed Indo-Pacific Economic Framework, the mechanism by which it will develop the commercial elements of the Indo-Pacific Strategy.

Despite an ambitious list of negotiating issues, the Biden administration has made clear that it will not seek a comprehensive, binding agreement. Rather, the aim is to create a flexible latticework of mutually reinforcing but independent 'modules'.

The Biden plan acknowledges that

its vision necessitates 'unprecedented cooperation' so that the strategic environment of the Indo-Pacific is fundamentally changed. However, it also sees this cooperation as offering 'autonomy and options.' This autonomy extends not only to potential partners but to America itself.

Whatever is ultimately negotiated, the Indo-Pacific Economic Framework will not be built into binding treaties. It will not require the US Congress to overcome partisan politics to agree on an expanded role for America in the region. Asian allies, still reeling from the unpredictable and destabilising policies of the Trump administration, may be reluctant to invest much in new structures that can be as easily blown away as houses of straw. **EAFQ**

Mary E Lovely is a Senior Fellow at the Peterson Institute for International Economics.



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