



# Asia-Pacific Geopolitics and Regional Institutions



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# Implications for Australian businesses



Economic and political governance in the Asia-Pacific is a complex web of acronyms representing a range of institutions which have been created to respond to particular issues, manage complex relationships, and ultimately, preserve stability, security, and peace in a diverse region.<sup>1</sup> While these institutions have been very successful in their overarching goal, they are not immune to shifting geopolitics, particularly given that the biggest story of our time – the US-China relationship – is being played out in the region.

Rather than a US-led global order, complexity, diversity, and multipolarity will become the standard operating environment. To maintain competitiveness, Australian businesses need to ensure they are informed and prepared for the unpredictable.

## Geopolitical trends

This section highlights some of the major geopolitical trends shaping the region.

There is perhaps no other relationship more important to the Asia-Pacific than that between China and the US. As is well-known, this relationship is under increasing stress. The US' 2017 National Security Strategy describes China for the first time as a 'strategic competitor', and President Xi Jinping's Belt and Road Initiative (BRI) as exclusionary and predatory. These expressions reflect a broader hardening in attitudes towards China across the policy elite community in the US. For its part, Chinese official rhetoric around the US tends to describe it as hegemonic, expansionist, and driven by a desire to prevent China's rise. With these attitudes, and the current leadership, relations between the two are not likely to improve in the near future. Even if an impasse to trade tensions is reached, the fundamental mistrust on both sides will not be resolved. Countries in the Asia-Pacific find themselves negotiating an increasingly complex and sensitive dynamic.

## Regional power shifts

China's rapid development over the past few decades has transformed its role in the Asia-Pacific region. Economic relations between China and ASEAN have flourished since the 1990s – from outward-oriented reforms through to signing the ASEAN-China free trade agreement in 2010.<sup>2</sup> At the ASEAN+3 Summit in November 2019, the Regional Comprehensive Economic Partnership (RCEP) deal was agreed to by 15 of the 16 participants. India chose to opt out of the deal citing concerns around the impact on its citizens.<sup>3</sup> RCEP would consolidate and harmonize a range of FTAs. China's Asia Infrastructure Investment Bank and BRI both add to China's economic importance in the region – although they are not without controversy. Overall, China's extraordinary growth over the past few decades has meant expanding trade and investment relationships with its Asian neighbours that have contributed to a view among many in the Asia-Pacific that China's continued growth and prosperity is essential to their own economic success.<sup>4</sup> Despite some skepticism, particularly around BRI such as in Malaysia,<sup>5</sup> China remains number one among ASEAN trading partners, due to China's centrality in 'Factory Asia'.<sup>6</sup> At the same time, there is a perception that US influence in the Pacific is gradually eroding.<sup>7</sup>

- 1 A table outlining institutions, roles, and membership is at Appendix 1 on p. 6. An illustrating of their overlapping responsibilities is at Appendix 2 on p.9
- 2 Richard Pomfret (2017), 'Economic relations between China and ASEAN', Asia Dialogue, online magazine of University of Nottingham's Asia Research Institute. <http://theasiadialogue.com/2017/09/13/economic-relations-between-china-and-asean/>
- 3 Newsroom RCEP article: <https://newsroom.kpmg.com.au/regional-comprehensive-economic-partnership-happened-whats-next/>
- 4 Jeffrey Bader (2005), 'China's role in East Asia: now and in the future', Brookings Institution, <https://www.brookings.edu/on-the-record/chinas-role-in-east-asia-now-and-the-future/>
- 5 See for example this article in The Diplomat: <https://thediplomat.com/2018/08/malysias-canceled-belt-and-road-initiative-projects-and-the-implications-for-china/>. More broad skepticism in the region is explained in this article: <http://www.atimes.com/article/seasia-wary-of-chinas-bri-skeptical-of-us-survey-shows/>
- 6 Pomfret (2017) op. cit.
- 7 J. Stapleton Roy (2016), 'The Changing Geopolitics of East Asia'. Working paper for the Yale Law School Paul Tsai China Center, p. 9

Former President Obama's 'rebalance' was unconvincing, and current President Trump's administration is sending mixed signals at best – for example, the withdrawal from TPP and the imposition of tariffs on regional allies on one hand, versus the increased role of the US navy to operate freedom of navigation operations in the South China Sea. Militarily, for the first time in modern history, China has capabilities to defend its interests within what is known as the first island chain from Japan to the Philippines. This is the first time that traditional US dominance of air and sea in the region has been challenged since the end of World War II.

Overall, while specific challenges in the region are being addressed, such as North Korea's nuclear program and China's island building, the region is still waiting for US signals regarding how deeply it intends to be involved, militarily or economically.

None of this necessarily means that China is 'winning' in the region. Thinking of geopolitics in binary, 'zero-sum' terms in which one actor's rise necessarily means another actor's demise is misleading and can be dangerous. Both the US and China are and will remain substantial powers, interdependent, and part of a broader system of autonomous regional actors who are carefully negotiating their best interests.<sup>8</sup>

Then there is Japan, for which geopolitical shifts have resulted in a rethink of its approach to the region. Under Prime Minister Abe, Japan has strengthened defence cooperation with the US and its security relations with other allies and 'like-minded' countries such as Australia and India. It has also formed new partnerships with claimant countries in the South China Sea dispute such as Vietnam and the Philippines. Since the US withdrew from TPP, Japan has been a consistent and credible voice promoting economic openness and integration. The Abe administration has developed an infrastructure export strategy based on quality not quantity, with export targets of JPY30tn by 2020, three times larger than in 2010.

Tokyo cannot match China dollar for dollar, and its current government does not have the political will for regional predominance. Japan will not supplant China or the US, but can provide Asia-Pacific countries with an alternative.

India, too, is becoming more active in international affairs. With its complex domestic challenges, India has to date been a fairly low-key actor on the global stage. Its growing economic and military weight and strategic importance has not yet been translated into real power and influence. However, growing US-Chinese rivalry is impacting India's desire for a peaceful, multipolar region. India is concerned about China's rise, and what China intends to do with its growing global role. This is behind India's efforts to increase interconnectivity in Asia. India's support for the 'Indo-Pacific' concept and its involvement in the Quadrilateral Security Dialogue ('Quad') security association with Japan, the US, and Australia reflects this.

8 Bilahari Kausikan (2018), 'How not to think about geopolitics in East Asia', The Straits Times, 02 June 2018

## Institutions are being challenged

While Asia-Pacific governance institutions may not be perfect, they have come to exist through long and difficult conversations and compromises among the various actors. There is no doubt that the web of interrelationships has played an important role in maintaining peace, stability and security in the region. However, geopolitical flux is creating a new fluidity to the shape of the regional architecture, without much clarity around the ultimate direction.

Regional architecture in the Asia-Pacific has had a strong emphasis on economic institutions, which is set to continue. Political and security institutions however remain relatively underdeveloped, although this too will slowly change.<sup>9</sup> Governments and economies are slowly adapting to the 'new normal' of uncertainty as the only certainty. In the Asia-Pacific, it tends to be economic dialogues that form the foundation of broader and more substantial cooperation, as APEC shows.<sup>10</sup>

No existing institution addresses all the challenges the region now faces, including providing a forum for leaders to address economic issues; dealing with the consequences of economic integration, in particular investment and trade but also financial and macro-economic aspects; and addressing political and security challenges arising from structural change in the region. This is not likely to change in the near to mid-term with the creation of a new super-institution, as was seen with the sceptical response to the Asia Pacific Community proposal; or the reform and expansion of an existing institution.<sup>11</sup> The future of governance in the Asia-Pacific is likely to continue to consist of multiple, overlapping frameworks. Rather than a US-led regional order, complexity, diversity, and multipolarity will become the standard operating environment.

One regional institution which has been particularly affected by the geopolitical dynamics is ASEAN. There are strong differences among member states in attitudes towards China's increasing role which have, for example, led to no consensus being reached around the South China Sea, instead agreeing it should be resolved bilaterally between China and claimant states, rather than through the China-ASEAN framework. Addressing this disunity is a critical challenge for ASEAN. Right now, ASEAN needs to be as strong and unified as it can to deal with the continuing dynamism and unpredictability in the region.

## Slow progress on trade deals

Trade deals such as RCEP and TPP are the other institutions most likely to be impacted by these domestic and international geopolitical dynamics.

If India joins, RCEP would become the world's largest trading bloc, worth around one third of global GDP. Negotiations were expected to be completed by late 2018, however, they have been substantially delayed by Indian concerns around potential dumping of Chinese goods, and the need for greater movement of Indian labour across RCEP countries.<sup>12</sup>

TPP-11 (or CPTPP) negotiations continue. The UK has shown interest in membership, motivated by the need to find new trade alliances after exiting the EU, which Japan supports as a means of strengthening global free trade against protectionism. China remains 'open' to joining, but entry standards particularly around sharing information around state-owned enterprises are likely to continue to be difficult to overcome for domestic political and economic reasons. If trade tensions with the US continue, however, China may find itself more inclined to compromise. Even without US participation, the TPP-11 will be valuable in setting the direction for economic cooperation in the Asia-Pacific.

Frameworks of major Asia-Pacific trade deals



Illustration by Nikkei Asian Review

9 Dick K. Nanto (2008), 'East Asian Regional Architecture: new economic and security arrangements and US policy', Congressional Research Service Report for Congress, p. 1

10 Peter Drysdale (2011), 'Positioning Asian regional architecture internationally', East Asia Forum, 3rd November 2011

11 Drysdale 2011 op. cit.

12 Nikola Popovic (2018), 'Australia's Role in the RCEP Negotiations', International Policy Digest, <https://intpolicydigest.org/2018/09/19/australia-s-role-in-the-rcep-negotiations/>

## Competing visions

There are (at least) three visions of how the Asia-Pacific should work which push and pull at their shape and direction.<sup>13</sup> The US wants to maintain its ‘hub and spokes’ approach based on sovereign equality but US centrality – what it describes as a ‘free and open Indo-Pacific’.<sup>14</sup> China wants recognition of its growing status, and holds the notion of ‘a community of common destiny’ as its regional vision.<sup>15</sup> ASEAN is committed to ‘ASEAN centrality’ in which ASEAN preserves autonomy, voice and agency and is not subsumed by great power competition. None of these visions will entirely prevail, but each perspective influences the evolution and development of institutions in the region.

Overall, while the domestic and international geopolitical trends in the Asia-Pacific are in themselves dramatic, due to the nature of regional institutions they are unlikely to have a major, direct impact on regional governance, except slowing progress as leaders and elites focus on domestic politics rather than regional issues.

But while it may not be dramatic, slow progress in an uncertain and unpredictable environment certainly has implications, especially for trade negotiations like RCEP and TPP. What does that mean for Australian business?

<sup>13</sup> Kausikan op. cit.

<sup>14</sup> In November 2017, at the APEC CEO Summit in Da Nang, Vietnam, US President Donald Trump shared the Administration’s vision for a “Free and Open Indo-Pacific”.

<sup>15</sup> Peter Loftus (year unknown), ‘How China’s community of common destiny will change Asia’, Duke East Asia Nexus. <http://www.dukenex.us/peter-loftus-how-chinas-quos-community-of-common-destiny-will-change-asia.html>

## What does that mean for Australian business?

Regional uncertainty will not be resolved in the near future. Despite uncertainties, Asia-Pacific will continue to be a dynamic region for growth. The expanding middle class will require new infrastructure, manufacturing, service provision, manufacturing, logistics, and approaches to trade and investment. However, with the slow evolution of governance institutions, these new approaches and arrangements will take time to solidify. In the absence of overarching agreements, the rules governing trade and investment are likely to become increasingly complex.

To maintain competitiveness and profitability over the longer-term, business should:

1. **Keep a finger on the pulse.** Regulation by the people matters more in this environment: while nationalism and populism will not directly impact regional governance institutions, they may mean governments develop policies that respond to domestic pressures even at the cost of longer-term growth or economic efficiency. Australian companies need to carefully chart these domestic sensibilities, and should challenge themselves to truly understand all perspectives of at-times sensationalized issues. Trying to manage relationships from a distance could increase risk local presence, including in industry associations, is critical. Similarly, regular touchpoints with the likes of ethnographers and social leaders to political, behavioural and climate change scientists can assist in understanding linkages with seemingly outside risks and the speed at which they could crystallise for business.
2. **Think local.** Despite lowering trade barriers in the region, cross-border operations are becoming more complex – and in the face of continued turbulence on the social, political and trade front, increasingly localised. Businesses operating across the region should consider their intangible and intangible footprint from every angle. Ask when to be local and when to be global: does remote servicing a market still make sense in light of current social / political / economic directions? Automation and 3D printing may help localise production, but will it become challenging in light of tightening controls on the flows of IP and data across borders?
3. **Know when to choose sides** in two key areas: technology and capital. This does not just apply to companies straddling the Pacific – a number of markets in the region (like Australia) will likely align to US controls and screening mechanisms. Business needs to think through direct, indirect and third order impacts – where does liability lie if IT systems are interoperable with 5G networks due to their ‘nationality’? For those in more sensitive sectors (and expect the definition to continue to expand), transparency and flexibility in supply chains and consumer base will also be critical.
4. **Plan for possible futures.** Political tensions between regional actors will increase: If ASEAN is not able to unify, we will likely see China continuing to assert its interests in the South China Sea and into the Pacific. An accidental incident, such as a maritime collision, that escalates quickly is a real possibility. Geopolitics should be included in core risk management processes, with plans developed for different, interconnected scenarios – like:
  - 2x increase in operating expenditure of transacting across borders;
  - 72-hr outage of information backbone;
  - Zero cross-border travel for 1 week; and
  - Double transport time (and/or cost) of transporting goods.

# Appendix 1: Table of key institutions, membership, and roles:



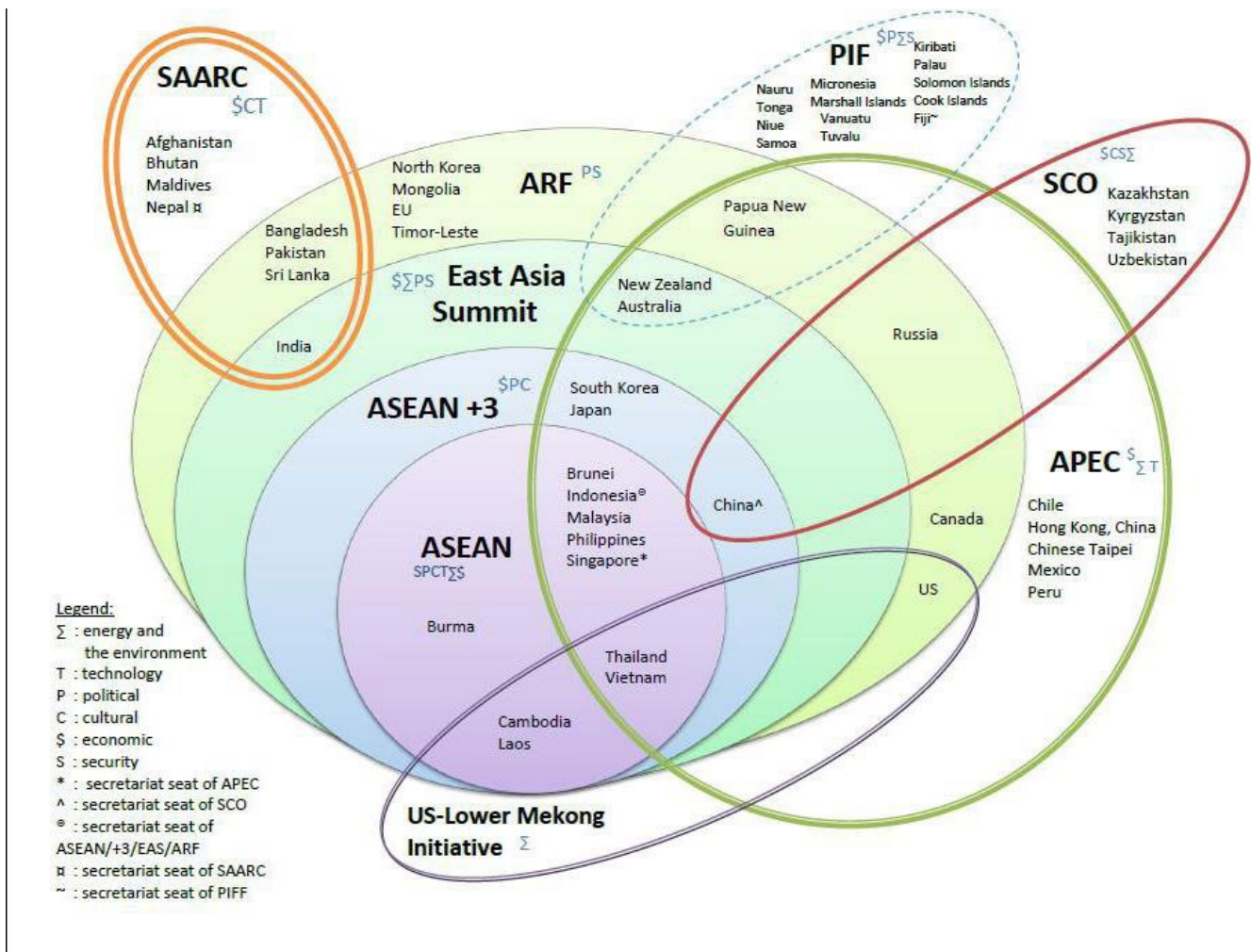
Name	Established	Purpose	Membership
<b>Asia-Pacific Economic Cooperation (APEC)</b>	1989. Australia was a founding member.	To encourage a growing and prosperous regional economy.  Promotes free trade throughout the Asia-Pacific region. Inspired from the success of Association of Southeast Asian Nations' series of post-ministerial conferences launched in the mid-1980s.	Australia, Brunei Darussalam; Canada; Chile; Taiwan; Hong Kong (S.A.R), China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; PR China; Peru; South Korea; Philippines; Russia; Singapore; Thailand; USA; Vietnam.
<b>ASEAN</b>	Created 8 August 1967 (preceded by an organization formed in 1 July 1961 called Association of Southeast Asia (ASA) )  Created when the foreign ministers of five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand signed the ASEAN Declaration.	Accelerate economic growth, social process and cultural development in the region, to promote regional peace, collaboration and mutual assistance on matters of common interest, to provide assistance to each other in the form of training and research facilities, to collaborate for better utilisation of agriculture and industry to raise the living standards of the people, to promote Southeast Asian studies and to maintain close, beneficial co-operation with existing international organisations with similar aims and purposes.	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.  2 Observer States Papua New Guinea, East Timor.
<b>ASEAN + 3</b>	Began in December 1967, institutionalized in 1999.	Agreed to strengthening and deepening East Asia cooperation at various levels and in various areas, including energy, transport and information and communications technology.  To address mutual issues and concerns in energy security, natural gas development, oil market studies, oil stockpiling and renewable energy.	ASEAN plus China, Japan, South Korea.

Name	Established	Purpose	Membership
<b>ASEAN Regional Forum (ARF)</b>	Established in 1994.	ARF is a key forum for security dialogue in Asia, complementing the various bilateral alliances and dialogues. Provides a setting in which members can discuss current regional security issues and develop cooperative measures to enhance peace and security in the region.	27 members: ASEAN member states; the 10 ASEAN dialogue partners (Australia, Canada, China, the European Union, India, Japan, New Zealand, the Republic of Korea, Russia and the United States), one ASEAN observer (Papua New Guinea), as well as the Democratic People's Republic of Korea, Mongolia, Pakistan, Timor-Leste, Bangladesh and Sri Lanka.
<b>Asia-Pacific Community (APC)</b>		On 4 June 2008 Australian PM Kevin Rudd proposed an initiative to create an "Asia-Pacific community" by 2020, bringing together countries as disparate as the United States, China, Japan, India Indonesia and Australia. It aimed to cover a broad spectrum of issues, including economic, political and security. The proposal was not successful, partly due to lack of regional support for the creation of a new institution.	N/A
<b>Chiang Mai Initiative</b>	6 May 2000	<p>Multilateral currency swap arrangements.</p> <p>The initiative began as a series of bilateral swap arrangements after the ASEAN Plus Three countries met on 6 May 2000 in Chiang Mai, Thailand, at an annual meeting of the Asian Development Bank. After 1997 Asian Financial Crisis, member countries started this initiative to manage regional short-term liquidity problems and to facilitate the work of other international financial arrangements and organisations like the International Monetary Fund.</p>	ASEAN members plus Peoples Republic of China (including Hong Kong S.A.R), Japan, South Korea.
<b>East Asia Community</b>	N/A	<p>Japanese initiative</p> <p>Note: The shape of the East Asia Community remains something to be defined in the future. Some have linked the EAS with a future broader Asian Economic Community like the European Community.</p> <p>The EAC aims to address the region's future challenges and advance mutual understanding and trust.</p>	ASEAN plus China, Japan, South Korea.



Name	Established	Purpose	Membership
<b>East Asia Summit</b>	14 December 2005	The region's premier forum for strategic dialogue and cooperation on the key political, security, and economic challenges facing the Indo-Pacific region.	Australia, Brunei, Cambodia, PR China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Russia, Singapore, South Korea, Thailand, United States, Vietnam.
<b>The Quad</b>		Some view the QUAD as an essential mechanism to promote regional rules and the freedom of navigation; while others remain concerned that it is aimed at curtailing China's role in the region.  Quad could serve as an enabler to strengthen security cooperation among its four members, as well in other bilateral, trilateral and multilateral arrangements in the complex regional security architecture.	US, Japan, India and Australia.
<b>Regional Comprehensive Economic Partnership (RCEP)</b>	Fifteen of the 16 Participating Countries announced conclusion of all 20 RCEP chapters in November 2019. India opted out of RCEP citing the adverse impact the deal would have on its citizens.	'Megadeal'. To rationalise and standardise web of bilateral FTAs. Progress slow.	ASEAN, China, Japan, South Korea, Australia, New Zealand and India.
<b>Shanghai Cooperation Organisation</b>	15 June 2001	Eurasian political, economic and security alliance.	China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, India, Pakistan.
<b>TPP 11 (or Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP)</b>	Came into force 30 December 2018.	The agreement initially benefits trade in goods and services between Australia, Japan, Canada, Mexico, New Zealand and Singapore.	Australia, Brunei, Chile, Malaysia, Peru, Vietnam, Japan, Canada, Mexico, New Zealand, Singapore.

# Appendix 2: Chart showing institutional focus area, and overlaps<sup>16</sup>



16 Chart courtesy of Cogitasia, available at: <https://www.cogitasia.com/a-new-paradigm-for-apec/>



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