

Asia Pacific Forum 2024

Navigating the Changing Geoeconomic Landscape in the Indo-Pacific Region:
The Role of ASEAN

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Introduction

This conference, titled 'Navigating the Changing Geoeconomic Landscape in the Indo-Pacific Region: The Role of ASEAN', was hosted by the Japan Economic Foundation (JEF) in collaboration with the Philippine Institute for Development Studies (PIDS). Experts and policymakers from across the region convened to discuss critical issues shaping the Asia-Pacific region, particularly the potential implications of the recent United States (US) Presidential elections on global trade and development, the rise of emerging technologies and high-tech competition between the US and China, and the momentum of the green transition. The forum highlighted the role of the Association of Southeast Asian Nations (ASEAN) amid this changing geoeconomic landscape.

This new world order, full of unprecedented complexity and unpredictability, challenges security and prosperity while threatening initiatives and achievements in climate action, green investment, and immigration. This forum saw experts from across the region analyze the potential implications of recent geoeconomic developments and propose possible approaches, offering a way forward for the ASEAN region.

Keynote Address

ASEAN's Centrality in the Indo-Pacific Region

Ambassador Daniel Espiritu, Assistant Secretary for ASEAN Affairs of the Philippines Department of Foreign Affairs, delivered the keynote address, setting the stage for the day's discussions. He highlighted ASEAN's economic significance as the third-largest economic bloc in Asia and the fifth in the world. ASEAN contributes significantly to global growth, with an impressive annual projected growth trajectory over the next decade. The ASEAN Digital Economic Framework Agreement, currently under negotiation, is projected to catapult the region's stature, potentially making it the world's 4th largest economic bloc by 2030 through the mainstreaming of digital economy, fintech,

and e-commerce. Equally important is ASEAN's critical position in the global supply chain, with more than half of the world's maritime trade passing through its waters. Further, the region is home to some of the highest biodiversity on the planet.

However, economics does not exist in isolation. The interplay of geoeconomics and geopolitics is undeniable, as highlighted by past conflicts. The region faces numerous boundary and territorial disputes, further complicated by ethno-religious and surviving ideological divides. At the center of these tensions is the South China Sea, where violations of sovereign rights are a persistent concern. The longstanding presence of complex security issues endangers security, economics and peace. Southeast Asia would like to achieve an area of peace, stability, and prosperity.

Tensions signify an ominous trend challenging the international rule of law and the current international system. It is, therefore, imperative that ASEAN and its external partners address these longstanding security issues while maintaining their commitment to adhere to peaceful settlement under international law, including judicial bodies under the United Nations.

ASEAN-led mechanisms are vital for promoting peace, stability, and prosperity in the region. The ASEAN Regional Forum has launched confidence-building measures to resolve various disputes, although exploring ways to transition to preventive diplomacy and conflict resolution is a huge challenge.

The Indo-Pacific and Southeast Asia are experiencing a gradual economic recovery because of its strategic geographic position as an ideal hub for regional and global supply chains, propelling foreign investments in sectors such as electronics, manufacturing, energy, automotive, and e-vehicles. However, the region must adjust to the ongoing supply chain disruptions, especially of food, raw and intermediate materials and energy caused by wars in Ukraine and the Middle East, the slowing Chinese economy, and the ramifications and the uncertainties of the policies of the incoming Trump administration. ASEAN stands to benefit but also to suffer significantly from these geopolitical and geoeconomic developments and disruptions.

To mitigate risks, ASEAN must optimize the Indo-Pacific region's economic potential by enhancing the utilization of existing free trade agreements (FTAs). At present, the opportunities presented by FTAs remain unutilized. ASEAN must diversify not only its basket of export goods but also trade and investment partners.

Declarations were signed during the recent ASEAN Leaders Summit that are crucial in enhancing the economic strength, resilience, and growth of the region. The ASEAN Outlook in the Pacific (AOIP) as a response to the evolving regional architecture and emerging challenges, proposed a framework for engagement with external partners that encourages collaboration rather than fostering rivalry. Its impact and effectiveness, however, remain to be seen given the fluid and evolving dynamics in the region.

Maintaining ASEAN centrality and ASEAN-led mechanisms is indispensable in addressing challenges. ASEAN's interests and decisions must remain central. A rules-based international order grounded on international law is fundamental to ensuring predictability, mutual strength, and equality in global interactions. Only through our collective commitment to these principles can we strengthen our partnerships and significantly contribute to the overarching goals of peace, stability, and economic prosperity in the region.

SESSION 1: Adjusting to the US Economic Policy after the US Presidential Election

Crafting foreign policy has become increasingly challenging due to tensions between societal values and interests, usually defined in terms of security and prosperity. ASEAN has put a premium on the values of non-alignment and neutrality. Respect for sovereignty, democratic norms and human rights, and the convergence of interests among countries must be upheld at all times.

Despite the slow convergence in values among countries, there has been significant convergence in terms of interest, which can be partly attributed to the role of US leadership. The result of the recent US Presidential election underscores the key question of whether this will signal a seismic shift in the quality of leadership in the United States. New economic policies could disrupt regional production networks and destabilize the convergence of interests.

US Trade Policies and Regional Opportunities

Trump's economic policy is expected to accelerate three main pillars that include a far stronger protectionist trade policy with higher tariffs than his first term and the major corporate tax cut, deportation of unauthorized immigrants, and consequential strong dollar.

Under this protectionist doctrine and amid high-tech rivalry pressure between the US and China, Asia-Pacific economies face unprecedented challenges of an unstable trade environment further aggravating geoeconomic fragmentation. Higher tariffs may put upward pressure on prices and subsequently increase interest rates resulting in the strengthening of the dollar. Therefore, US exports may suffer, requiring Asia-Pacific economies to adjust to recalibrate their currency policies causing inflationary pressure throughout the region.

To mitigate the harmful impact of Trump's assertive and protectionist agenda on Asia-Pacific economies, lessons can be learned from the first Trump administration. It should be noted that the first Trump presidential policy produced the opposite outcome from what Trump wanted.

Trade patterns were also clear in the past. China used to be the trade hub, and it has enjoyed a trade surplus against the US, the EU, and the rest of the world. However, a changing trade pattern happened in recent years. The role of ASEAN has become more prominent. It seems that some factories and production facilities relocated from China to ASEAN. China exports to ASEAN while ASEAN exports to the United States.

In the case of Thailand, an increase in Chinese investments was seen in the sectors of automotive, semiconductor, and other sectors, resulting in an increased surplus. Thailand imports a lot of raw materials and parts and then manufactures, assembles, and exports them to the US. This kind of pattern is also evident in Vietnam, India, Taiwan, and Malaysia which have an increasing share in the US manufacturing import.

On the other hand, Taiwan, which has been contributing to serving the United States tech giants and global supply chains in the chip industry may have to reshuffle its supply chains. Taiwan looks at repositioning its high-tech supply chains, maneuvering for increasing defense budget, and adjusting to the challenges in cross-trade relationships. It plans to install a trade balance for increasing purchase of US agro-products, energy products, and weapons.

ASEAN does not directly engage in high-tech trades unlike Taiwan and Korea, thus, its adjustment and coping strategy will be different although everyone will certainly be affected. An analysis by a group of EU economists downgraded the GDP growth forecast of ASEAN and East Asian countries. Vietnam will be affected most, followed by Taiwan, Singapore, China, Indonesia, Thailand, Japan, and the Philippines, as well as South Korea. Everyone will be affected. Nonetheless, the GDP growth of the world will be

slower, and the trade room will be smaller. Overall, ASEAN would be negatively affected as a result of the tariff.

US-China rivalry

Security trade nexus issues boil down to the high-tech competition between the United States and China, which are vying for leadership in high technology products such as semiconductors and artificial intelligence (AI). However, smaller economies do not want to be forced to choose between the US and China. All Asia-Pacific economies want to see is for the United States and China to settle the differences by searching through a compromised middle ground on high-tech competition. Also, the region cannot decouple with China, but it may reduce the risk.

A survey by the ISEAS-Yusof Ishak Institute in Singapore on ASEAN's optimal response to the US and China rivalry showed an interesting view by opinion leaders that ASEAN countries do not want to choose sides. To cope with the trade war and the US-China rivalry, ASEAN, Japan, and the rest of East Asia need to cooperate more deeply—not only in terms of free trade but also in broader areas of economic development, starting from sustainability and reduction of greenhouse gas emission to food security and tourism. Japan and the rest of East Asia have no choice but to support the World Trade Organization (WTO) and its robust framework.

The WTO is a powerful trade framework although important specific issues around the WTO exist that are not easily and completely resolved. For instance, the inability of the WTO dispute resolution system to work simply because we cannot achieve the appointment of members of the various panels due to the United States veto.

Asian economies must invoke East Asian identity by making collective and coordinated efforts aligned with the free trade principles. For this purpose, regional FTAs like Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are important. The quality of the RCEP needs to be upgraded to the level of CPTPP to make it a significant free trade club, which the US cannot shun away down the road.

Further, Asia-Pacific economies should align each other in many of the multifaceted and multi-layered minilateral architectures to make a rules-based trade system and inclusive regional order, adhering to the “most favored nations” and non-discrimination principles. The green growth model and digital trade should be encouraged among East Asian economies to create a constructive printing block to address global challenges.

Countries need a much more open system of agreements on e-commerce, trade and services, and environmental goods and services. A concerted effort that members agreed to operate and expected to move.

Currently, a lot of trade is closely tied to foreign direct investment (FDI). The Asia-Pacific and East Asia economies should facilitate FDI by offering attractive incentive schemes and most importantly, by providing a more conducive business environment adherent to the most favored nation, non-discrimination principle. This is essential to boost cross-border FDI and ensure supply chain resilience.

The Asia-Pacific region is heavily reliant on China for various needs, including tourism, raw materials, and other important goods. Member countries should try to diversify and seek alternative partners. For instance, South Korea and Taiwan, which exports high-end semiconductors to China, can explore markets in India or Europe. The fact that Chinese businesses are now being displaced in the United States presents a vacuum that Southeast Asia can take advantage of. The region can also learn from Japan's experience in directing investments towards job creation.

Preserving ASEAN's core mission is very important. ASEAN cooperation among its members is highly valuable and should not be sacrificed or significantly altered in response to problems arising externally. Collective, grassroots action is the appropriate response, and that is how the region can adapt to the shifting international environment brought about by changes in the United States.

SESSION 2: Regional FTA Promotion in Asia-Pacific Region

Globalization and open trade have greatly benefitted the Asia-Pacific. However, the intensifying strategic competition between the US and China and the proliferation of FTAs require reassessment to ensure sustainable economic growth. This session's discussion focused on the importance of regional FTAs as a vital component of economic growth, the various issues concerning FTAs, and ways to overcome these challenges to achieve sustainable development in the Asia-Pacific region.

Importance and challenges to regional FTAs

Following the end of World War II, the United States together with other major economies, led the establishment of rules-based multi-lateral organizations and other global and regional arrangements promoting open and fair trade. The General Agreement on Tariffs and Trade (GATT), the WTO, and other inter-lateral trading arrangements have ensured open, fair, and regulated regional and global markets. The WTO undeniably played a pivotal role in facilitating global economic growth and prosperity.

After many years of regulated fair trade, the global economic and trading system is now facing profound challenges due to the intensified mercantilist approach by the Trump administration, negatively impacting world trade and the Asia-Pacific region. The imposition of punitive tariffs and protectionist measures appears likely to persist as a result of the intense strategic competition between the US and China. This rivalry is set to shape the future of global economic prosperity.

In the Asia-Pacific region, the RCEP and CPTPP serve as critical economic and trade frameworks alongside the APEC regional forum. These mechanisms are essential for stimulating and governing ongoing open trade and investment in the region and beyond, opening new markets, facilitating and rationalizing new forms of trade and investment, and eliminating or reducing non-tariff barriers.

WTO used to be the primacy of the international trade domain. Now, FTAs, such as RCEP and CPTPP, are questioning the survival of the WTO and are rewriting trade rules and opening up markets. This shift has made these agreements highly influential. There are 373 FTAs currently enforced under the WTO, excluding those still under negotiation. The proliferation of FTAs in recent years poses potential risks, such as trade and investment distortions or diversions. However, FTAs themselves are not the sole determinant of these phenomena.

The Asia-Pacific region must undertake a comprehensive review of existing FTAs and renegotiate provisions, if needed, to have a more binding economic and technical cooperation measures. This will bridge the divide among members and help members at the lower end of the development scale grow individually and as a result, collectively as a region, and achieve a balance between security and efficiency.

It must be noted that RCEP is a very important instrument in achieving both resiliency and efficiency in resource allocation. As the world's largest FTA in terms of population,

trade, and comprehensive cooperation arrangement, RCEP serves as a benchmark for ASEAN Plus One FTAs, thus, reinforcing ASEAN's commitment to liberalization and cooperation. It has also contributed to post-COVID-19 recovery efforts and created a more favorable environment for attracting FDI.

Nevertheless, issues associated with FTAs and RCEP implementation must be addressed to maximize their regional benefits. A study conducted by Japan on WTO and FTAs revealed high utilization rates of FTAs for imports, which maximize the benefits of these agreements. In some low usage countries, these rates can be attributed to minimum tariff differential with other trade agreements that existed before, difficulties in claiming regional accumulations of originating materials, and multiple schedules of tariff commitments. Case studies further showed the attractiveness of FTAs and the benefits of original FTAs from trade in goods, services, and FDI.

Many less developed countries, including developing countries, still have problems identifying their needs. To improve trade and investments, these countries must first determine the type of assistance they require. Members lack the knowledge and confidence to improve their commitments and have low awareness of FTAs. This highlights urgent need for capacity building initiatives. Additionally, there is no sufficient regional supply chain, except in certain countries, such as Japan or Korea.

Rather than focusing solely on tariff reduction, RCEP must adopt strategies to address emerging challenges, such as the environment and climate issues, or become more serious in tackling digital and handling digital issues. Further, stakeholder engagement should play a central role in FTA implementation and trade facilitation. The government can incentivize enterprises in using FTAs, particularly small and medium companies. APEC is recommended to set clear and realistic timelines for institutional building and promoting economic cooperation.

Role of ASEAN

ASEAN plays a significant role in promoting regional cooperation. It uniquely positioned to take a leading role supported by partners, such as Australia, Japan, South Korea, and New Zealand in demonstrating the utility and benefits of free trade for the ongoing prosperity of the region despite power competition and mercantilism. ASEAN and its partner economies must act together in solidarity and not allow themselves to be tempted by divide and rule individual seduction of major powers. They must uphold open regionalism and remain active in defending multilateral trade institutions, notably the

WTO. ASEAN must continue its role in promoting cooperation and liberalization and be more proactive in promoting RCEP and emphasize ASEAN centrality. The region must unite and cooperate on how to secure supply chains and production networks.

Instead of creating more FTAs, the region should focus on strengthening and enhancing the two mega FTAs —CPTPP and RCEP—in terms of scope, speed of liberalization, and expanding membership. The Asia-Pacific region can consider expanding its membership to strengthen economic and technical cooperation and boost trade. While certain countries have signified interest, current members must effectively demonstrate the benefits of participation to convince potential new entrants.

Improving the institutional setup through the creation of a Secretariat for both RCEP and CPTPP is necessary to ensure effective monitoring and enforcement. RCEP, in particular, is distinct from other trade agreements due to its existing institutional structure. Efforts must focus on accelerating institutional development by setting clear and realistic timelines for the completion of required elements.

Asia-Pacific economies must be united in reaffirming their commitment to upholding and implementing the FTAs already in place. This commitment remains the best assurance for preserving the prosperity brought about by globalization enjoyed over the past years and ensuring it continues into the future.

SESSION 3: Climate Change and its Implication on the Asia-Pacific Energy Transition

Asia Pacific faces unique challenges as it grapples with both the severe impacts of climate change and the complex demands of energy transition. The region is home to around 60 percent of the world's population and contributes a similar percentage of global current greenhouse emissions linked to heavy coal usage. Temperatures in the region are increasing at twice the global average rate, which will result in a rising frequency and severity of weather-related natural disasters. The financial resources needed for climate change adaptation and mitigation are immense. At the same time, the region's current energy mix, with heavy reliance on fossil fuels, highlights the scale of the transition challenge we must urgently address.

This session delved into both the obstacles and the opportunities from the political and economic trade-offs, between growth and environmental protection to innovative

regional financing solutions and collaborative approaches that would accelerate our progress toward a sustainable future.

Climate finance

The 2024 UN Climate Change Conference or COP29, recently held in Azerbaijan, yielded limited results. It ended with some controversies after days of intense international climate negotiations because the new collective quantified goal on climate finance settled on only USD 250 billion—far short of the estimated USD 1 trillion that is required. This significant gap between the agreed amount and the necessary funding remains a key challenge. However, some experts argue that there's enough financing available; the issue lies in effectively mobilizing the resources and channeling them effectively. Further, Trump is almost certain to pull out of whatever efforts there are at a global level in terms of climate change initiatives.

Climate finance will address the macro-financial impacts of climate change, which are divided into two categories: physical risks and transition risks. Physical risks are the actual tangible impacts of climate change, such as damage caused by extreme weather events like hurricanes and floods. Transition risks, on the other hand, are linked to how economic agents manage and adapt to the process of reducing greenhouse gas emissions. Addressing these risks requires careful monitoring of macroeconomic impacts and contingent liabilities. It is important to distinguish between physical risks and transition risks to develop effective solutions.

The ASEAN+3 Macroeconomic Research Office (AMRO) can play a significant role in monitoring macro-financial risks. Meanwhile, global financial managers can develop lending instruments for climate emergency financing, such as the International Monetary Fund (IMF) Resilience and Stability Trust. A 2024 IMF report identified that the Asia-Pacific region needs around USD 1.1 trillion annually to meet climate mitigation and establishment needs, with an investment gap of USD 800 billion in Southeast Asia.

Regional financial cooperation initiatives to support climate finance have already been developed. The Ecosystem for Sustainable Finance in ASEAN Plus 3 is a regional technical assistance program under the Asian Development Bank (ADB) launched in March 2023 to strengthen the role of capital markets in mobilizing public and private finance. This should complement the USD 250 billion that was already agreed upon at COP29. Additionally, the Credit Guarantee and Investment Facility supports local

currency bonds by enhancing credit. An example is the Green, Social, Sustainable, and Other Labeled Bonds (GSS+) which accelerate the development of sustainable capital markets. This effort targets at least USD 1 billion worth of GSS+ bonds by 2025.

Meanwhile, the UN Framework Convention on Climate Change (UNFCCC) uses flexible financing solutions and climate investment enterprises. The Green Climate Fund also offers mechanisms to create new financing opportunities for less developed countries, supporting their efforts to achieve shared climate goals.

Energy transition

The energy situation in Asia-Pacific countries varies. Some countries are rich in energy resources, such as oil and gas, coal, or hydroelectric resources, while others face significant energy constraints. Despite this diversity, the majority of countries in the region remain heavily reliant on fossil fuels and grapple with energy shortages or limited supply. For instance, Japan continues to face challenges due to the shutdown of several nuclear plants following the 2011 earthquake and tsunami. The region's growing energy demand has predominantly been met through fossil fuel resources.

Asia-Pacific economies, including the more developed ones, maintain ambitious targets for economic development. As these economies continue to expand, energy demand is expected to grow proportionally. Economic growth and development are inherently tied to energy consumption. Further, the emergence of new technologies, such as AI and the spread of data centers, was found to create a huge demand for electricity.

The Russian invasion of Ukraine reminded us of the importance of energy security. However, trade-offs are involved between economic growth, energy transition, and climate change adaptation and mitigation. Transitioning to renewable energy is particularly costly for developing nations, which face a “triple penalty” when transitioning to clean energy according to the World Bank. To achieve the UNFCCC goals, the Asia Pacific region must prioritize energy transition, enhance energy efficiency, promote carbon capture and storage, and introduce carbon tax and carbon markets. The COP29 in Azerbaijan highlighted the need for Asia Pacific countries to address climate change, too.

Diversification of the import sources of energy, development of domestic energy resources, and oil stockpiling are necessary. Emerging economies in Asia are encouraged to move away from perverse policies, such as fuel subsidies, and embark more on renewable energy sources, such as geothermal, hydro, solar, wind, etc. Resource-rich

nations like Myanmar and Lao People's Democratic Republic (PDR) show great potential for solar energy and wind farms. While nuclear energy presents an opportunity to reduce on fossil fuel, conventional nuclear power plants remain politically sensitive due to safety concerns, which were heightened by the Fukushima disaster. Small modular reactor technology is available, but it may take some time before it is fully accepted and becomes commercially viable.

Cross-border trade of electricity is a promising solution for the region. In Japan, a similar movement exists but only involving two islands. A particular island with excess electricity generated from solar panels supplies another island. Power is stored in batteries and transported across the other island via a boat. Singapore, for instance, is completely carbon-starved, and solar or wind is not possible due to limited space. It relies on cross-border imports of energy. The northern part of Vietnam for example, can import electricity from Lao PDR and China while its southern part can export electricity to Cambodia. Enhancing transmission technology will be vital to support these cross-border energy flows.

The Asia Zero Emission Community (AZEC), established by eleven Asia Pacific countries in Tokyo last March 2023, is a platform of regional cooperation towards carbon neutrality or net zero emission. AZEC promotes the concept of "One Goal, Various Pathways," recognizing that each country's unique circumstances necessitate practical and diverse approaches to achieving carbon neutrality. AZEC also emphasizes three key breakthroughs: addressing climate change, fostering inclusive growth, and ensuring energy security.

Public-private partnership

The whole world is faced with a debt problem due to the COVID-19 pandemic and the Asia-Pacific region is not spared from this situation. A recent report by Columbia University identified several ways to finance energy transition and accelerate climate change adaptation efforts regionally. One promising approach involves the use of public-private partnership (PPPs).

Many developments in the region, particularly in infrastructure, were successfully built through PPPs. This model can be emulated in the energy transition to bring together and align policies, strengths, and opportunities to tackle issues head-on. Moreover, incentivizing private companies can surely facilitate the process. In Japan, private firms would take actions for decarbonization jointly with government agencies or private firms

in a partner country to contribute to the reduction of greenhouse gas emission goal of a partner country acquiring credit along the process. Utilizing government expenditure for innovation is showing the private sector that the project is profitable, and perhaps, the latter will venture into it.

The ASEAN Circular Economy Framework Development can somehow reduce the trade-off between economic growth and adaptation to climate change. ASEAN members can consider viewing the electricity market from a regional perspective, rather than focusing on individual country interests. Regional cooperation is crucial to optimizing efficiency and achieving shared goals. Political courage is also vital to prioritize the long-term energy transition over short-term political gains.

CONCLUSION

The topics discussed across the three sessions highlighted the challenges faced by the Asia-Pacific region brought by the recent United States Presidential election and the implications of its foreign policies, the importance of regional FTAs in promoting regional economic development, and climate change and energy transition. Collective action and cooperation, including open communication and exchange of information, among countries in Asia-Pacific are highly important to address common challenges. Such collective action, guided by a rules-based framework, will allow the region to minimize trade-offs between security and prosperity. APEC plays a key role in promoting further regional integration. Asia-Pacific region should continue to build on its notable accomplishments, such as RCEP and CPTPP, and maximize the benefits of these FTAs. While nuclear energy seems to be attractive to address energy demand and combat climate change, the use of renewable energy is currently the best option for the region.