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My thanks to PECC and to the China National Committee for Pacific Economic Cooperation for this invitation.

The subject of this panel is integration and fragmentation in Asia-Pacific regionalism. I suspect that I have a slightly unusual background in this room for discussing this subject. I am a political analyst rather than an economic or trade analyst. But I really do think it is important to begin our discussions by noting the historical and strategic context of our work.

What is regionalism?

At its core, the purpose of regionalism is to moderate the behaviour of states in some way – to make trade and investment between neighbours easier; to facilitate communication; to build additional layers of identity beyond the state; to restrain conflict.

So regionalism always has strategic as well as economic objectives and consequences. The rise of regionalism in Europe after the Second World War with the aim of rebuilding the continent's economy and restraining future German aggression is the classic example of this. And it has been true of Asian regionalism from the beginning.

For all of us, regionalism exists as just one dimension of our countries' external policies. It takes its place as part of a comprehensive framework of international relationships that are shaped and constrained by broader global, and narrower bilateral, interests.

None of the economies represented in PECC has just one single regionalism. All of us have multiple regionalisms. In the case of Australia, for example, our oldest efforts towards regionalism lie not in Asia but in the Southwest Pacific.

But equally, for all of us, Asia Pacific regionalism, which is the business of PECC, is the one that matters most.

You can think about contemporary Asian regionalism as having four distinct phases.

Period 1. Post-colonial regionalism.

The first expression of contemporary Asian regionalism emerged out of the difficult period of post-colonial adjustments in Southeast Asia in the 1960s.

Although there had been other efforts before it, ASEAN was established in 1967 with an economic mission but an underlying strategic purpose - to provide a framework to moderate the regional friction – reaching to the level of armed conflict - that had marked the emergence of Malaysia and Singapore.

Then, out of the slow growth of habits of cooperation between its members, we began to see from the mid-1970s onwards ASEAN regionalism expanded to incorporate formal dialogue relations other partners including Australia and Japan.

The need for such dialogue emerged in large part from growing trade and the increasing amounts of FDI flowing into the region during those years.

So this first phase was essentially a sub-regionalism that expanded outwards, but it has had an important structural consequence by establishing the ASEAN-plus institutions that have come to form the contemporary core of much Asian regionalism.

Period 2. Comprehensive regionalism

It wasn't until the structures of the Cold War world began to dissolve in the late 1980s that a more comprehensive Asian regionalism became possible. The bipolar system, dividing Asia as well as Europe, had limited the opportunities for cooperation.

It is important to remember how much of the ground for this had been prepared by the sorts of thought leadership that had been provided by PECC and PBEC.

Most significantly ASEAN was able to realise its formal ambition to include all the countries of Southeast Asia, including the former states of Indo-China.

And, for the first time, the political environment made it possible to construct a truly comprehensive Asia-Pacific organisation for economic development with APEC, and to expand it to Leaders' level in 1993.

The first broad regional security institution followed, with the creation of the ASEAN Regional Forum in 1994.

One reason for this explosive period of growth in *regionalism* was the parallel expansion of *regionalization* as the technologies of the information revolution made it possible for businesses to develop regional supply chains and production networks.

And that, in turn, increasingly depended on and drove the expansion of China's economy as the reform period took off and led to a shift in China's own attitude to regionalism. Its economic growth became more enmeshed with the rest of Asia and the importance of removing frictions in the trade and economic relationship increased.

Period 3. Post-globalisation regionalism

The third phase of Asian regionalism was ushered in by the Asian financial crisis in 1997/98. Many regional states drew from that experience, and from the failure of the IMF and World Bank to respond effectively to the crisis, the lesson that regionalism needed a more Asian face, and that Asian countries had to do more to support themselves. The trade agenda which had dominated the second period of Asian regionalism was overtaken by a new emphasis on financial cooperation.

The main result here was a shift from an Asia-Pacific regionalism to one more focussed on East Asia itself.

The principal manifestation of this was in the greater role and formalisation of the ASEAN plus 3 framework. We saw the Chiang Mai initiative in 2000 and

the Asian Bond Market initiative of 2003, and China becoming a more active participant as its position in the regional economy became more central.

Period 4. Post-GFC.

Then with the Global Financial Crisis of 2008, a decade later, we entered what seems to me to be a fourth phase of Asian regionalism.

The GFC comprehensively ended any lingering belief that the global economy could be controlled by the G7 states. We saw the creation of the G20 at leaders' level and the pursuit of overdue reforms to the Bretton Woods institutions, even if there's still a way to go.

The GFC showed that the future of global reform can't be separated from the future of Asian regionalism. That increased the stakes of what is being done in this region.

But at the same time, China's growing power added a geopolitical weight to Asian regionalism that had been absent in the past. This is playing out in some ways through competitive regionalism – TPP versus RCEP, ASEAN plus 3 versus EAS.

These developments are making Asian regionalism harder to manage, but at the same time more globally consequential.

There's a real danger that the TPP and RCEP mega-agreements will fragment rather than integrate the region. Among many others, my colleagues from the ANU, Peter Drysdale and Shiro Armstrong, have made productive suggestions about how this might be avoided and how the agreements might become steps towards a broader Asia Pacific FTA.

But the stakes are high.

Next steps for regionalism

I want to end by offering a few reflections on what this fourth period of Asian regionalism means.

Let me say quite directly that no regionalism that excludes China will work.

China's rise has been unambiguously good for Australia, for Asia and, of course, for China itself. However, that's only likely to continue to be the case if the region into which China rises continues to be one in which all voices, large and small, can be heard. So, in my view, *workable and inclusive regional organisations have to be a central element in China's peaceful rise.*

If we are to encourage integration and avoid fragmentation, we need a regionalism that is:

- Comprehensive
- Sustainable, paying attention to the environmental needs of the future
- Multi-dimensional – going beyond border barriers to include finance, infrastructure, connectivity and domestic reform.
- Contributes to broader global efforts to liberalise, an objective made much more important by the fragility of current multilateral institutions like the WTO
- Underpins secure and reliable markets for energy, resources and food
- And finally, and most importantly, continues to assist the millions of people in the region who still live below the poverty line.

Trust-building, which has been so central to PECC's work, will be at the heart of this.