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Indonesia and Southeast Asia

Presentation

Southeast Asia and Peru: Economic and Strategic Issues

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Southeast Asia and Peru: Economic and Strategic Issues

Most Australian universities study Asia and the Pacific very closely due to the country's proximity. In particular, the Australian National University has a mandate from the national government to study Asia and the Pacific. They have around 100 people who work on Indonesia alone and several hundreds more who work on different parts of Asia, making this one of the major focuses of the university. This paper has three sections: introduction to Southeast Asia, economic figures, and strategic and political issues.

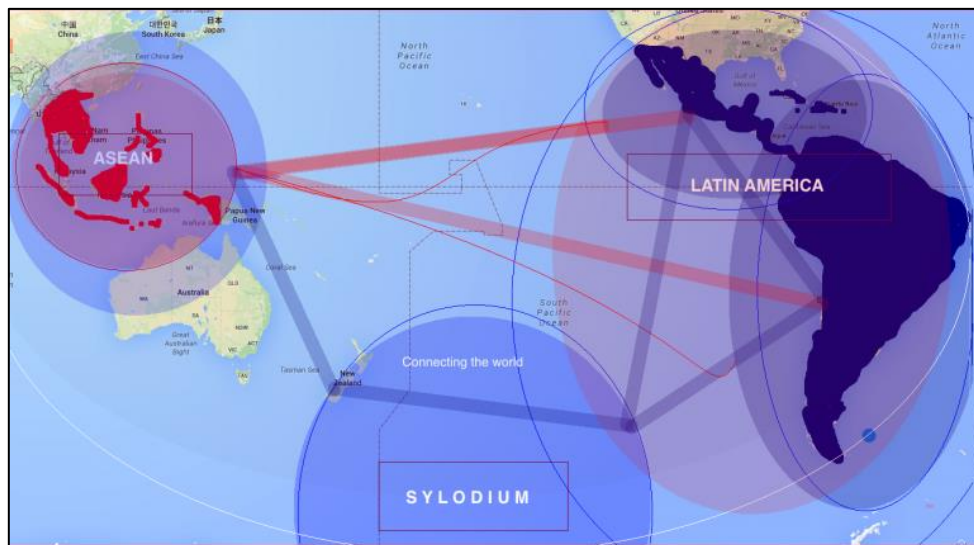
1. Introduction to Southeast Asia

Figure 1 presents a map of the ten members of the Association of Southeast Asian Nations (ASEAN). There is one more country in Southeast Asia, Timor, that is not part of ASEAN, but wants to join. Nonetheless, when people speak of Southeast Asia, they mainly consider the first ten. Figure 2 shows the considerable interactions between Southeast Asia and Latin America.

Figure 1: Map of Southeast Asia



Figure 2: Southeast Asia and Latin America



ASEAN is the easiest way to deal collectively with Southeast Asia. The association was formed in 1967 by five countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand. The other five members joined from the mid-1980s until 1999. ASEAN currently encompasses a population of 651 million people.

ASEAN's formal founding objective was to promote peace, development, and cooperation in Southeast Asia, but the real reason was to fight communism, given that in 1967 the Cold War and, in particular, the Vietnam war were still in motion. Besides, most of the governments of these original ASEAN countries were strongly anti-communist and faced communist insurgencies at home—some, such as the Philippines, still do. Anti-communism was the key reason why ASEAN was formed. When the Vietnam War finished and the Cold War receded, the association's focus shifted to economic development, strategic cooperation, and independence, so the anti-communist element, the ideological element, faded.

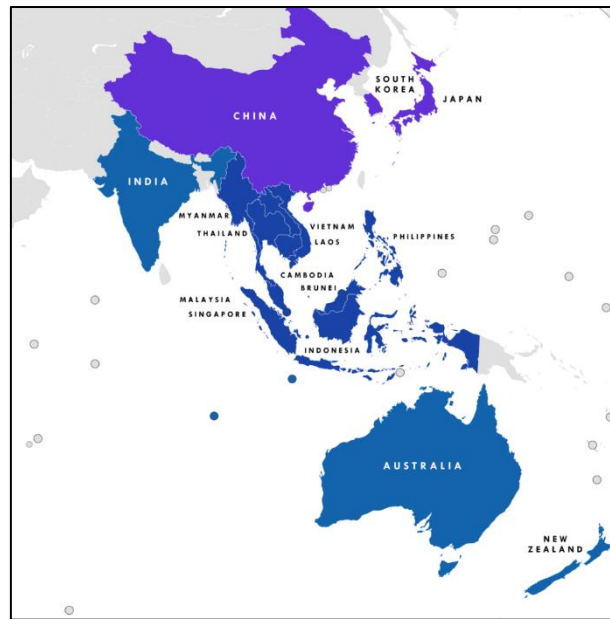
The notion of the ASEAN way means consultation, compromise, and consensus, as well as non-intervention in the affairs of the other members. There is an emphasis on not causing tension, accepting differences, and not imposing one's will on other states. As a result, ASEAN has a very cautious and gradual decision-making process, but this does not prevent it from recording considerable achievements. One of the criticisms of ASEAN concerns the emphasis on consensus, which means that the lowest common denominator effect prevails, so if one country objects to something, it can stop the other nine from doing it. This is not an easy way to deliver quick or bold actions. Displays of disagreement or tensions are extremely unusual; the few that do occur are related to China and the role of the US in the region.

ASEAN's international engagement has grown over the last 20 years. It is part of various organizations such as ASEAN+3, ASEAN+6, and the East Asian Summit (EAS). EAS is a very important meeting of most of the powers in the Asia Pacific region and a very important decision-making body, but it also possesses symbolical value (Figure 3). Figure 4 showcases the participant members of the EAS located in the so-called Indo-Pacific area—a very popular term in Australia and the US that is also becoming more popular in Southeast Asia.

Figure 3: East Asian Summit in 2018

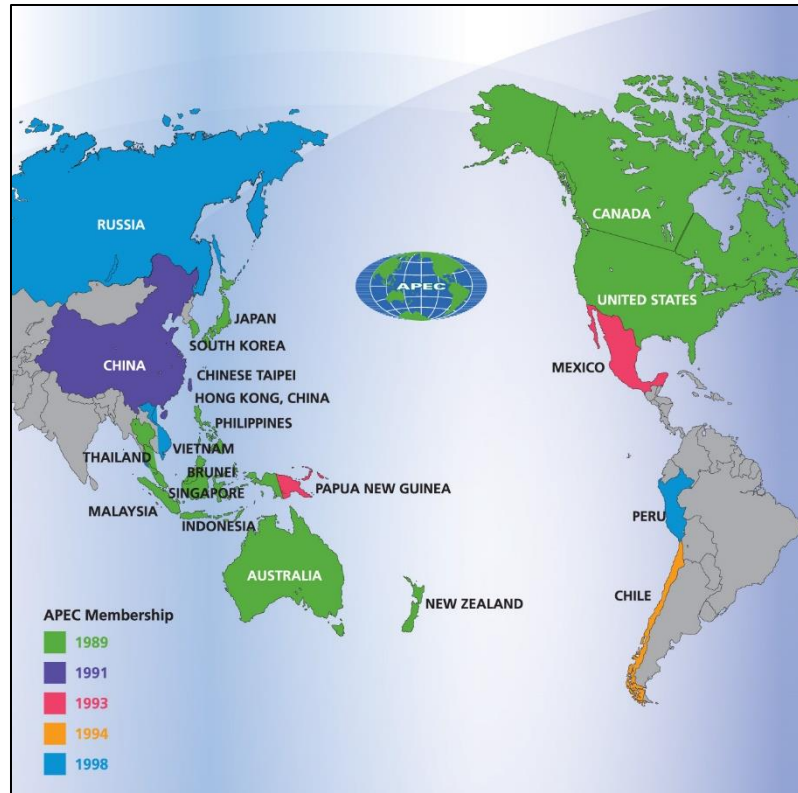


Figure 4: Members of the East Asian Summit in the Indo-Pacific Area



ASEAN's membership of various organizations is an indication of the large number of interactions and meetings in which ASEAN is involved, even though one can debate how productive they are (Figure 5).

Figure 5: ASEAN's interactions



2. ASEAN Economic Facts

ASEAN's current GDP is US\$3.2 trillion, making it the sixth largest economic community in the world, and it is expected to become the fifth largest in three years with a GDP exceeding US\$4 trillion. Indonesia alone has a US\$1 trillion economy. ASEAN's GDP per capita is around US\$4,600 (compared to Peru's US\$6,500). In addition, this region is the fourth most popular destination for FDI, and its share of global exports is 7%. The biggest countries, in economic terms, are Indonesia, Thailand, and the Philippines, which together represent two-thirds of the region's economy.

Figures 6 and 7 show how quickly the ASEAN economy is growing, a trend that is expected to continue over the next three years. In this framework, Figure 8 shows that the economy of the developing part of ASEAN, which includes Thailand and Indonesia, will grow more rapidly compared to the rest of the world. This is strongly related to population growth. As a result, ASEAN will become the fifth most important market in 2022 (Figure 9).

Figure 6: ASEAN's economic growth

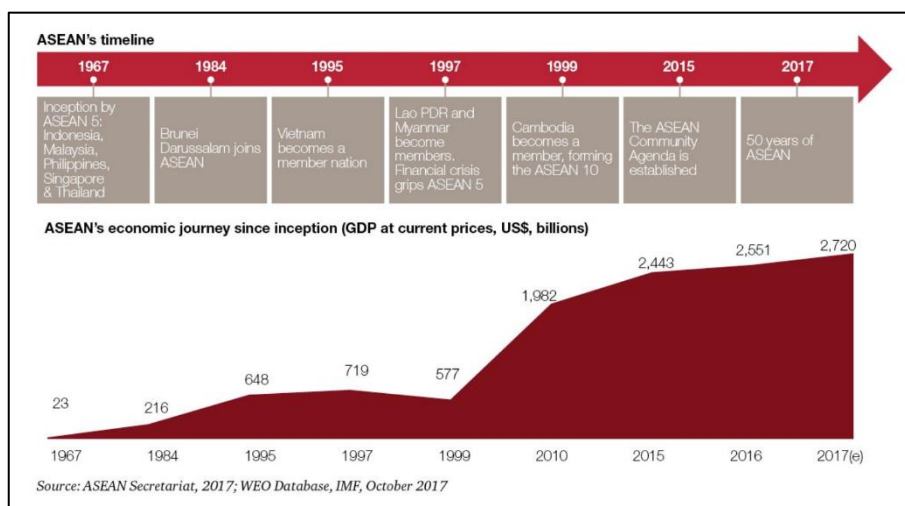


Figure 7: ASEAN's GDP projections

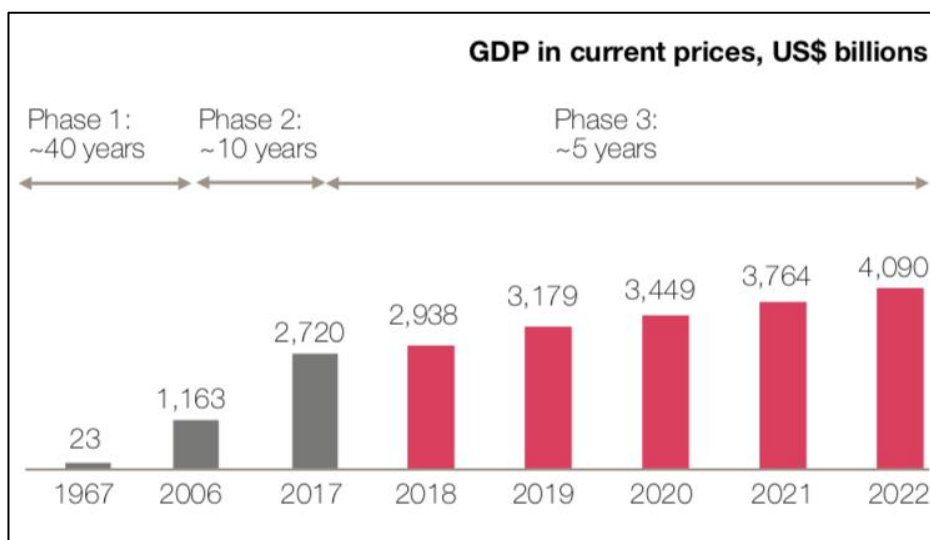


Figure 8: Real GDP growth trends, ASEAN and the world

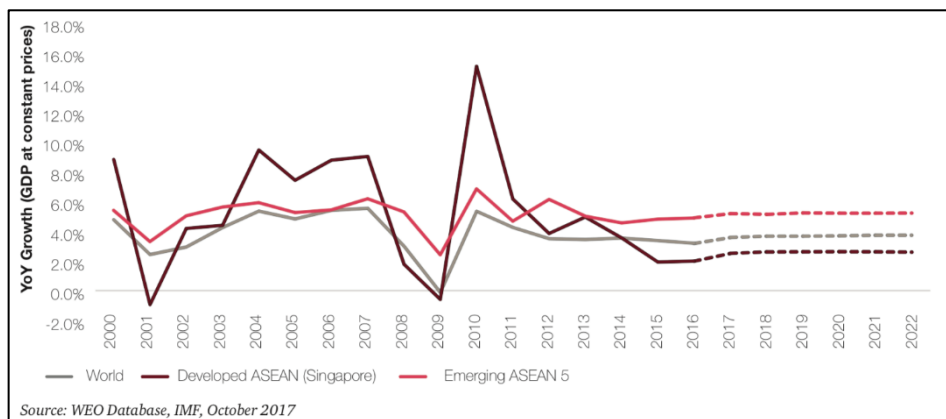
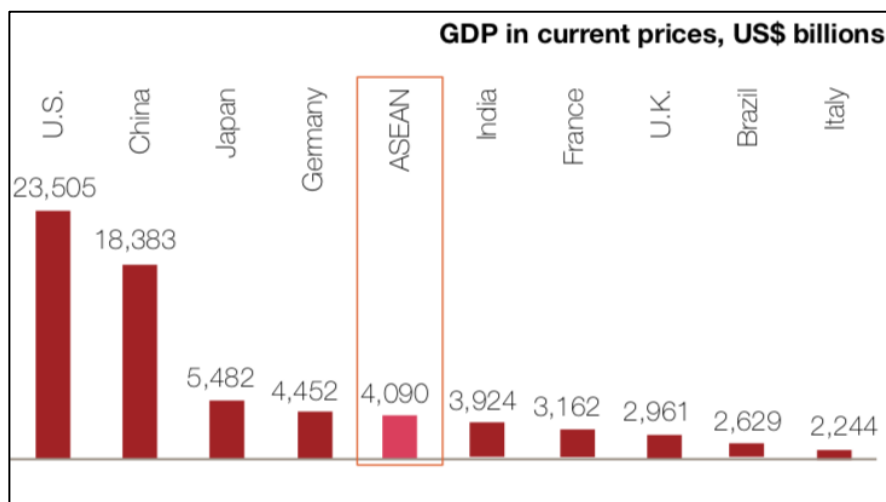


Figure 9: Projected top 10 markets worldwide by GDP size, 2022



By comparing the Latin American and ASEAN economies, it can be seen that, apart from the period of the Asian financial crisis, ASEAN has exceeded all Latin American groupings in terms of economic growth, and that is likely to continue (Figure 10). Moreover, ASEAN has the fastest-growing middle-class of the two regions (Figure 11). Thus, producing countries like Australia have made efforts to try to meet demand in these huge and rapidly growing middle-class markets.

Figure 10: Per capita GDP growth rate by mechanism, 1990-2013
(Five-year average, GDP adjusted according to purchasing power parity, PPP)

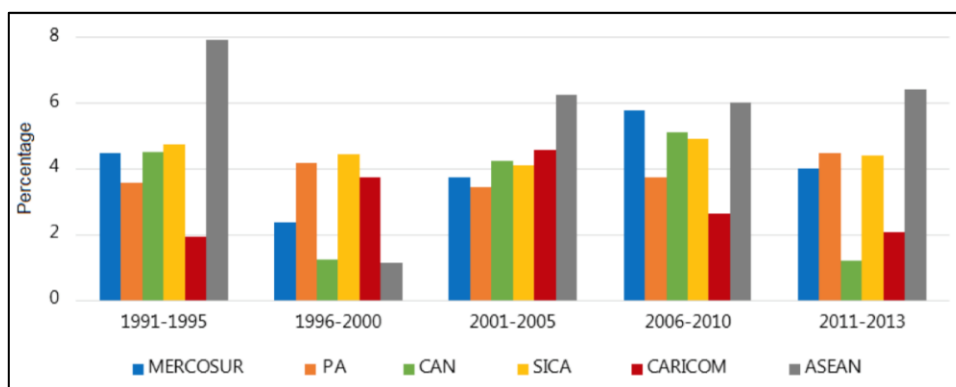
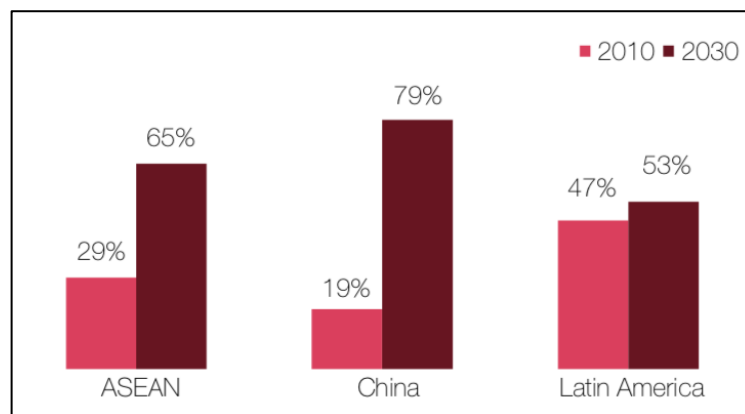


Figure 11: Share of middle-income class in overall population

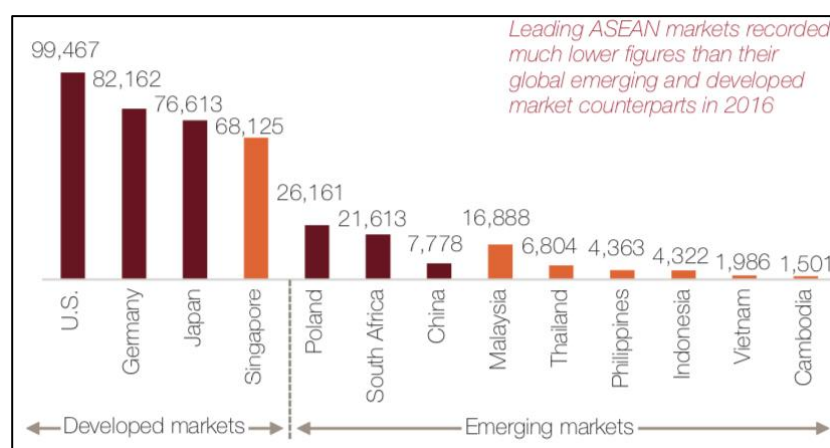


ASEAN is very diverse; it brings together very different economic and demographic stories. On the one hand, it contains the likes of Singapore, a small, but economically powerful country with a GDP per capita of more than US\$26,000 (compared to Laos or Cambodia, with the association's lowest GDPs of US\$1,000). Singapore is a very sophisticated hub for financial and trading activities and it is by far the main investor in South America, accounting for about 60% of ASEAN's investment in the continent. Singapore's economy is growing slowly, at less than 2% a year, and it has an aging society, which limits its ability to grow more quickly.

On the other hand, it has poor countries like Cambodia, Laos, and Myanmar, which have much younger societies and, despite their low income, prospects of growth well in excess of 7% over the next 10–20 years. Consequently, one cannot generalize when talking about ASEAN; the grouping has wealthy, successful, and developed economies as well as poor but rapidly developing ones.

When it comes to challenges, ASEAN has relatively low labour productivity, with the exception of Singapore. Labour is cheap but not highly skilled, so large numbers of workers produce a small number of goods. It seems that productivity is much higher in Latin America. In addition, it has the fastest growing labour costs in the region. The association also has a closing demographic window in that many of the countries within it are aging, which means that the internal market will not increase and that the ratio of old people to young people will rise dramatically, adversely affecting economic prospects.

Figure 12: Labour productivity of select markets in 2016



The lack of infrastructure and high logistic costs also present a problem. In addition, institutional problems, such as high corruption and lack of legal certainty, hinder activities in many of the countries and are one of the main reasons why foreign investment is not as high as it could be. Usually, if a foreign company faces a problem and has to go to court, it cannot be certain that it will get justice, even if it has a very strong legal case. For instance, foreign companies in Indonesia lose all the time in the courts. Furthermore, ASEAN is highly dependent on external trade (75%), which presents a problem when something happens to its major markets like China, the US, and the EU. Thus, they are trying to diversify.

The level of trade between ASEAN and Latin America is 3%. According to ASEAN, trade with Chile and Peru makes up 0.2% of the total. Most of the ASEAN exports to South America are electronic goods, computers, vehicles and agriculture products, while ASEAN imports from South America include agricultural products and minerals.

3. Strategic and Political Issues

Southeast Asia is caught in the middle of the rivalry between China and the United States, which owes to two factors: China's growing economic and military power in Asia, and the United States' determination to maintain its position as the dominant power in the region. Thus, ASEAN, an organization that stresses solidarity and consensus, is debating what is called the Indo-Pacific region and its position within it.

There are two main reasons why Peru should be interested in this problem. First, if military conflict between China and the US arises, Peru's economic ties to Asia, particularly the northern part, will be immensely disrupted because a great deal of the world's trade goes through Southeast Asia. The economic impact will be enormous in all the countries. Second, the China-US military confrontation supports the argument for economic diversification. If conflicts erupt, the market may be disrupted or even closed. This is an argument in favor of diversifying trading destinations: increased trade with Southeast Asia could help offset any disruption of trade with China, for instance. Considering that Southeast Asia is growing quickly, this does not present itself as a sacrifice but an opportunity, involving wise and prudent economic planning.

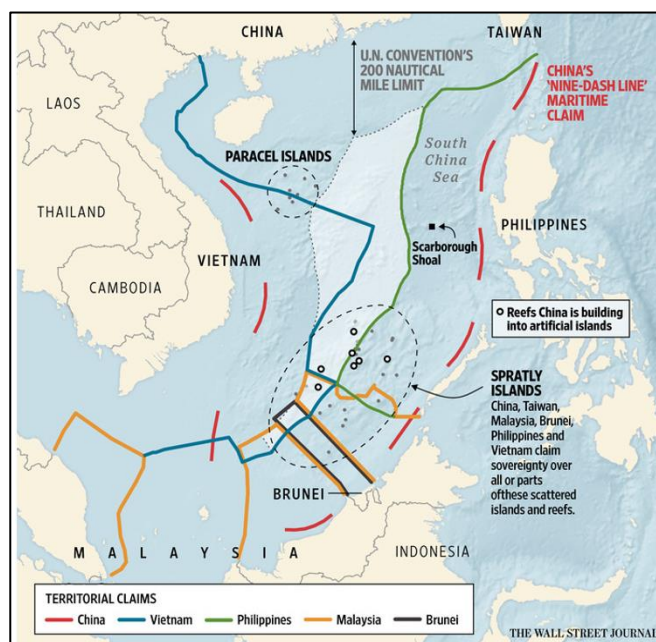
Governments such as Australia's want to promote the term "Indo-Pacific", and prioritize it over "Asia-Pacific". As a concept Indo-Pacific is very vague, having been promoted mainly by the United States since 2017 when Donald Trump made the first speech mentioning it. But essentially, particularly when referred to as the Free and Open Indo-Pacific (FOIP), it is an attempt to reinforce a post-World War II international order that emphasizes notions of freedom of navigation, rule of law, freedom from coercion, respect for sovereignty, private enterprise, and freedom and independence for all (Figure 13).

Figure 13: Asia-Pacific and Indo-Pacific region



Many skeptics consider that the real motive for stressing the “Indo-Pacific” notion is to have a way of dealing with China; that is, it is a tactic by several countries to respond to the increase in China’s power within the region and the threat they think it poses to them. One issue is related to the South China Sea. Figure 14 shows that many countries in Southeast Asia have claims that fall within China’s alleged territory (the nine-dash line). There have been many military tensions between China and ASEAN countries, such as the Philippines, Vietnam, Malaysia, Indonesia, and Brunei.

Figure 14: South China Sea Claims



China believes that the Indo-Pacific concept will quickly dissipate, and that it is nothing more than an attempt to constrain it. The Chinese are using various diplomatic and economic resources to resist this effort. For instance, the Belt and Road Initiative (BRI) offers an alternative format to what the Indo-Pacific proposes, and many countries of Southeast Asia are heavily invested in China’s BRI.

The US considers ASEAN critical to the Indo-Pacific. For instance, Mike Pompeo has stated that ASEAN has a central role in building this vision. As a result, ASEAN is being asked to make a choice. Despite this, ASEAN diplomats have told US officials that they are not going to agree to some of the things that the US is pushing for and, in particular,

that they do not want a response that excludes China; they want China involved in any Indo-Pacific concept and they see the EAS as one way of managing the risks of confrontation and conflict.

There are quite diverse views on how to respond to the Indo-Pacific concept within ASEAN. Indonesia is relatively well disposed while some of the countries closer to China, such as Laos, Cambodia, and Myanmar, are much more skeptical. Indeed, ASEAN seems to be divided given that there have been several ASEAN foreign minister's meetings or summits in which they have not been able to come to agreement on the matter. This exposes the division within ASEAN on the broader China–US issue.

Some skeptics of the Indo-Pacific concept point out that the US is not really interested in the region and that it is only interested in Southeast Asia because of China. So, in reality, the concept remains strategic and security-driven at its core, even if the US talks about freedom of trade and other values. Furthermore, some believe that Donald Trump neglected the region and felt that they could not trust him as before.

Therefore, ASEAN members who are not keen on the concept wish to insulate their region from this proxy war between China and the US. ASEAN countries consider that they can benefit from China's BRI even if they might not get as much from it as they desired, but it is still more secure than what the US and others could offer. ASEAN is constantly evaluating how they can benefit from the contestation.

Another issue is that the Indo-Pacific concept comes with a notion of freedom and openness, whereas these values have been less evident in Southeast Asia compared to 10–20 years ago. According to Freedom House, there is no one full democracy in Southeast Asia. Indonesia used to have that status but lost it five years ago, and it is going down in the ranking together with Thailand, the Philippines and Malaysia. This poses a huge contradiction when talking about openness and freedom in a region that is less free and less open.

4. Biography of the author



Professor Fealy is Associate Professor and Senior Fellow in Indonesian Politics of the Department of Political and Social Change, Bell School of Asia-Pacific Affairs, Coral Bell School of Asia Pacific Affairs at Australian National University. He holds a PhD and a BA from Monash University and has a wide interest in Indonesian Policy and Islam. His PhD thesis was centered on a study of the Nahdlatul Ulama Traditionalist Muslim Party. Lately he has analysed terrorism issues, Islamic movements and the merchantilization of religion in Indonesia as well as other relevant topics in Islamic policy in Southeast Asia.