

### ARTICLES

Understanding Sustainability-oriented Innovation (SOI)  
Using Network Perspective in Asia Pacific and ASEAN  
Systematic Review

Beyond Brinkmanship: The Implication of South China Sea  
Conflicts on China's Soft Power in Southeast Asia

A Value Chain Approach to Support Southeast Asian  
Economic Regionalism

Repositioning Indonesia – Thoughts on the Indo-Pacific

Business and Human Rights in ASEAN: Lessons from the  
Palm Oil Sector in Malaysia

### PRACTICE NOTE

What Does ASEAN Economic Community Bring to Older  
Workers? Examining Inequality in Old Age in Thailand's  
Fast-Ageing Society

Budi Harsanto  
Chrisna T. Permana

Randy W. Nandyatama

Craig A. M. Jones

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*Tirta N. Mursitama*

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## Aim and Scope

*The Journal of ASEAN Studies (JAS)* is an International peer-reviewed bi-annual journal that enriches understanding of the past, current, and future issues relevant to ASEAN and its circle of issues. The article shall address any research on theoretical and empirical questions about ASEAN. The Topics addressed within the journal include: diplomacy, political economy, trade, national development, security, geopolitics, social change, transnational movement, environment, law, business and industry, and other various related sub-fields.

*Journal of ASEAN Studies* expects the articles encourage debate, controversy, new understanding, solid theory, and reflection on ASEAN. The articles sent should have a sharp analysis and rigorous methodologies quantitative or qualitative as well as written in an engaging and analytical style. The JAS does publish original research, reviewing research, book review, opinion pieces of current affairs. However JAS does not publish journalistic or investigative style of article. The JAS would not be responsible for any implied or written statements of articles published. Each author would be responsible for their own writing.

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We also commit to build, connect and share research and others kinds of knowledge generating activities for the betterment of life of the people and earth. Our immediate constituency is International Relations Department, BINUS University and the larger constituency is the broader academic community of the BINUS University and other universities and institutions both national and international as well as policy community.

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## Editorial

### Contextual Development in Southeast Asia

Greetings from Journal of ASEAN Studies. We are pleased to present the latest volume on contextual development in Southeast Asia. In this volume 7 no. 1, 2019, several issues related to contextual regional development i.e. security, economic and social cultural aspects are discussed by various perspectives as the authors came from different countries with distinguish approaches, looking at recent development of Southeast Asia. This volume is comprised of five articles and one practice note.

First article is written by Budi Harsanto and Chrisna T. Permana entitled, "Understanding Sustainability-Oriented Innovation (SOI) Using Network Perspective in the Asia Pacific and ASEAN: Systematic Review". Both Budi and Chrisna explain how SOI is mobilized and practiced throughout different social, institutional, and political contexts. With the most dynamic part of the global economy, Asia Pacific has become the prominent parts of the ASEAN. The authors also explained that SOI has been rapidly developing into practices in countries in the Asia Pacific, both in profit and nonprofit sectors.

Next article is on security in Southeast Asia as an implication from South China Sea conflict discussed by Randy W. Nandyatama. His study shows the nature of China's soft power, and the correlation amongst the increasing Chinese assertive measures in the South China Sea and the foundation of China's soft power in the region. On the other issue, Craig Jones discusses in the next article on ASEAN economic integration. His research aims at determining how Southeast Asian regionalism can circumvent vulnerabilities in North America and the European Union on economic crisis.

Furthermore, Anthony Milner discusses in his paper about the changing regional and global environment which Indonesia today confronts – stressing the faltering of globalization and the return of history. What are the strengths and weaknesses of this exercise of transformative leadership? There is a risk that Indo-Pacific aspirations could impact the centrality of ASEAN and result in a higher leadership contest between the major states. ASEAN-led institutions – which have emerged organically – reflect the current complexity of the region.

In addition, the last article written by Andika Ab. Wahab, provides lessons for ASEAN member states to contemplate when developing their National Action Plan on Business and Human Rights (NAPBHR), in particular under Pillar 2 of the UNGP-BHR. In this article, he argues that while some large palm oil companies have shown modest progress that emerge in many forms including the lack of leadership, collaboration and ambition to steer and scale up industry transformation on human rights across the supply chain. As such, the development of NAPBHR among the ASEAN member states should reflect on this reality and challenges.

Finally, the practice note written by Wenqian Xu and Sikander Islam investigates the emergent inequality within and across age cohorts shaped by the AEC structural forces, including academic publications, policy analysis, and scientific reports. Wenqian and Sikander are particularly concerned about the heterogeneity and poverty in old age. In conclusion, the authors suggest policy recommendations for mitigating inequality in old age and advocate a critical lens.

Finally, as the editor-in-chief, I would like to express my gratitude to all authors who submitted their manuscripts to the Journal of ASEAN Studies (JAS). I would also like to express my highest appreciation to all reviewers who have contributed to the quality of the manuscripts published in JAS. All parties that supported the Journal from the Indonesian Association for International Relations (AIHII) and the Center for Business and Diplomatic Studies (CBDS) of the Department of International Relations, Bina Nusantara University are also very much appreciated.

Jakarta, 31 July 2019

**Prof. Dr. Tirta N. Mursitama, Ph.D.**

Editor-in-chief

# Understanding Sustainability-oriented Innovation (SOI) Using Network Perspective in Asia Pacific and ASEAN: A Systematic Review

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## Abstract

*Sustainability-oriented innovation (SOI) is particular type of innovation that is not only economically oriented, but also environmental- and social benefits-oriented. SOI is now being widely discussed due to the increasing environmental and social problems that accompany various innovations around the world. In this paper we conducted a systematic review of empirical literature regarding SOI in the Asia Pacific region, which were discussed through network perspectives. For network perspectives, researchers focused on process view to explain how SOI is mobilized and practiced throughout different social, institutional, and political contexts. We chose the Asia Pacific as the context because the region is the most dynamic part of the global economy, with ASEAN being the prominent parts of it. In conducting the review, we used the Tranfield, Denyer, & Smart's protocol (2003) to ensure its rigorousness. The search focused on the academic database of Scopus with specific inclusion and exclusion criteria. The results show that SOI has been rapidly developing into practices in countries in the Asia Pacific, not only in profit sectors, but also in non-profit sectors such as government and community. Our review emphasized that actor-network theory (ANT) emerged as the currently most adopted framework to explain the dynamics process of SOI mobilizations and practices in the Asia Pacific region. ANT frameworks contribute to defining the structure of SOI networks as well as identifying social, institutional, and political challenges of SOI implementation. Regionally, the focus of the study so far is in North America (US and Canada), while studies in ASEAN are still very limited.*

**Key Words:** *sustainability-oriented innovation, actor network perspective, actor-network theory, Asia Pacific, ASEAN*

## Introduction

Innovation with orientation not only toward financial returns, but also paying attention to environmental and social benefits has recently been widely discussed by researchers, industry players, as well as policy makers. This

particular type of innovation is known as sustainability-oriented innovation (SOI). Academically, in the last decade, the study of SOI has rapidly increased, marked with a graph of significant peer-reviewed publications in the field (Adams, Jeanrenaud, Bessant, Denyer, & Overy,



2016; De Medeiros, Ribeiro, & Cortimiglia, 2014). For the industry, this challenge facing managers is to be successful in the modern world that requires companies to be sustainable. This, for example, can be seen in market research, which reports that consumers now prefer to buy from innovative and sustainable brands, and managers consider environmental and social aspects when developing new products (McKinsey & Vanthournout, 2008; Unilever, 2017). For policy makers, various indices that measure innovation and sustainability, such as Global Innovation Index (Cornell University, INSEAD, & WIPO, 2018) and Country Sustainability Ranking (RobecoSAM, 2018) become benchmarks to be able to improve the conditions of innovation and sustainability within the scope of their socio-economic and ecological ecosystem.

SOI is a process that is temporal and relational, and involves various stakeholders interacting each other (Kadia Georges Aka, 2019). Consequently, the process view through network perspective is essential to elaborate these complex phenomena comprehensively (Whiteman & Kennedy, 2016). Network perspective that analyses the network to develop SOI effort, including actor-network theory (ANT), is considered to be the suitable approach to explore the temporal and relational nature of SOI development (Garud, Gehman, Kumaraswamy, & Tuertscher, 2017). Although important, studies with this approach are still limited and have only recently emerged (Xavier, Naveiro, Aoussat, & Reyes, 2017). This paper aims to understand development of

SOI using network perspective through systematic review of the literature in the academic database. The Asia Pacific region become the focus considering that this region is economically playing a role as the most dynamic region in the world, with ASEAN being the prominent parts of it. (IMF, 2018; Yates & Beeson, 2019).

### **Sustainability-oriented innovation (SOI) and Network Perspective**

SOI is a combination of two main areas that have already been established, namely eco-innovation and social innovation (Hansen & Große-Dunker, 2013). A more comprehensive discussion lately, among others have called it as SOI, sustainability innovation or sustainability-driven innovation or sustainability-related innovation. In the business context, SOI gets attention regarding the increasing concern of consumers, regulators, and other stakeholders that require companies to act more responsibly in their innovations. This issue is now a strategic issue that can lead companies not only to compliance with the regulation, but also to use them strategically as opportunities to improve company reputation, reduce costs, and obtain better overall financial returns (Ghisetti & Rennings, 2014). This type of SOI as conventional innovation can be divided into product, process, and organizational innovation.

In its development, SOI is not only relevant to business organizations, but also non-profit organizations such as community, village, educational institutions, government, city, or region. This can happen by adopting the SOI

framework which is in the form of innovation by targeting three economic, environmental, and social aspects simultaneously. In the context of rural or village development, for example, SOI is implemented in the form of social innovation with the formation of intermediaries to facilitate the optimization of relations between stakeholders in the community (Martiskainen, 2017). For university, this initiative for example is realized by connecting multi-players including producers, R & D, societal groups, user groups, and public authorities to be able to effectively link the problem environment and social (Morioka, Saito, & Yabar, 2006).

Academic interests towards various discussions of complexities of the emergent and dynamic nature of intervention-based projects, in which the SOI projects are a part of it, have increasingly popular in the current periods (Sage, Dainty, & Brookes, 2011). Such complexities are generally emphasized as 'network complexities' or processes involving compositions and changes of the networks structuring the projects (Boonstra & Boelens, 2011; Byrne, 2003; De Roo & Silva, 2010). The most common discussed topic around 'network complexities' of projects appeared in the understanding of various projects as a product of interactions between different actors with their values, strategies, and many other characteristics in the process (P. C. Chen & Hung, 2016). Second other most discussed topic is the identification of how such projects are mobilized,

changed, progressed, and challenged through the dynamic assembling and disassembling of the involved actors within a project network (Albrecht, 2013). Other academics have been even going further recently by comparing 'network complexities' of a number of projects to justify their feasibility, strengths, and weakness (Goulden, Erell, Garb, & Pearlmutter, 2017; Stephens & Jiusto, 2010).

Various theoretical foundations and analytical methods were developed by academics to guide and assist research on network complexities. Such theories and methods are clustered into an umbrella term of 'network studies' (Vicsek, Király, & Kónya, 2016). These contain quantitative and qualitative approaches emphasizing different set of indicators and mechanisms (Boelens, 2010; Caniglia, Frank, Kerner, & Mix, 2016; Farías, 2011; Yvone Rydin & Tate, 2016). For instances, Urban Regime theory containing theories explaining power and political behaviors in a network (Lowndes, 2009), Actor-Network Theory (ANT) containing the ontological and semiotic meanings of the actors in networks (Farías, 2011), Social Network Analysis (SNA) concerning the level of capacity and role of actors in networks (Caniglia et al., 2016), Actor Relational Approach (ARA) focusing on interactive and communicative repertoires of actor networks in specific episodes (Boelens, 2010), and the Agent-based Modelling representing various computational perspectives simulating autonomous

actors in a set of self-organized systems (Batty, 2005).

In wider academic perspectives, ANT-studies have been emerged as one of the most popular 'network studies' applied to draw the understanding of various projects. It is particularly in the Western, mainly in European (Yvone Rydin & Tate, 2016). Pioneered by the likes of Law and Hassard's *Actor Network Theory and After* (1999) and Latour's *Reassembling the Social* (2005), ANT-studies, arguably, penetrated to many subjects beyond sociology as its origin, which include to planning (Yvone Rydin & Tate, 2016), governance and public policy (Albrecht, 2013), management (Sage et al., 2011), environment (Goulden et al., 2017), and architecture (Farías, 2011).

ANT concerns on networks, specifically dynamic networks surrounding social, science and technology related-studies and their intersections (Farías, 2011; Yvonne Rydin, 2012). Having a term 'theory' on its name, does not mean ANT is an actual theory. Instead, it is more suitable to be considered as a flexible and adaptive framework or method (Latour, 2005). The 'actor' in ANT means a flux element constructed by several other elements (Yvonne Rydin, 2012). It refers to both human such as individual in general or in specific roles and non-human such as materials, technologies, machines, policies, and regulations (Sage et al., 2011). The network, on the other hands, is fluid and dynamic relations built by actors, and

has characteristics such as unstable, uncertain, and continuously reshaping (Latour, 2005; Yvonne Rydin, 2012).

The way ANT work is tracing the actor or continuously extracting how an actor is defined by its relations within a network: the thoughts, feelings, actions, and identities (Boelens, 2010; Latour, 2005; Sage et al., 2011). The contribution of ANT to understand phenomena is based on its ability to draw socio-material relations in the arrangement of orders and hierarchies and to define how the temporarily stable relationships of 'actor network' can deliver certain meanings, actions, and solutions (Farías, 2011; Yvonne Rydin, 2012). ANT analytical process comprises of four stages, which are problematization, interessement, enrolment, and mobilization (Kadia Georges Aka, 2019; Yvonne Rydin, 2012). Problematization is a stage of framing problems (Yvone Rydin & Tate, 2016). Interessement is a stage of identifying actors and establishing the networks where the obligatory passage point emerged as its center (H. W. Chen & Lin, 2018). Enrolment is a stage of strengthening the networks by expanding more actors into network and define their roles (Yvone Rydin & Tate, 2016). Mobilization is a stage of stabilizing and destabilizing of the networks (Yvone Rydin & Tate, 2016).

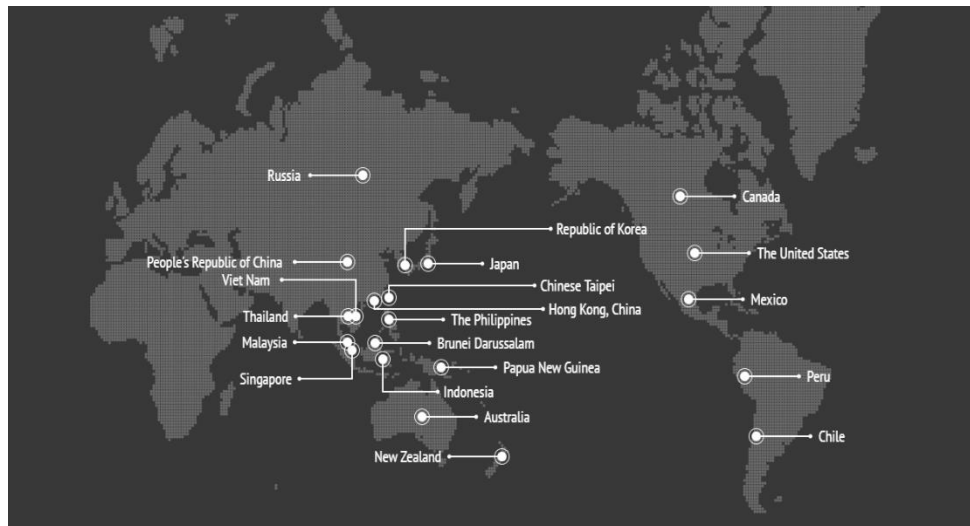
### **Asia Pacific and ASEAN**

Asia Pacific refers to the area that covers the Pacific Rim region. For clarity of definition, in this study the Asia Pacific was narrowed down to the countries

incorporated in Asia-Pacific Economic Cooperation (APEC) which included 21 countries members (figure 1) from North America, South America, ASEAN, East Asia, Russia, and Oceania (APEC, 2019).

This area is the most dynamic area in the global economy, with considerable margins, covering almost two-third of the world economic growth (IMF, 2018).

**Figure 1. Asia Pacific Economic Cooperation member economies**



Source: [www.apec.org](http://www.apec.org)

The ASEAN Association is a prominent part of APEC (Yates & Beeson, 2019). ASEAN consists of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam (ASEAN, 2019). ASEAN is an area that includes more than 500 million people with GDP of more than US \$ 700 billion (ASEAN, 2012). This area has a strategic location in the world geopolitics, abundant natural resources as well high potential of quality and quantity of human resources (Prakash & Isono, 2012).

### Methodology

In conducting a systematic review we followed the Tranfield et al.'s (2003) protocol which described three stages in a

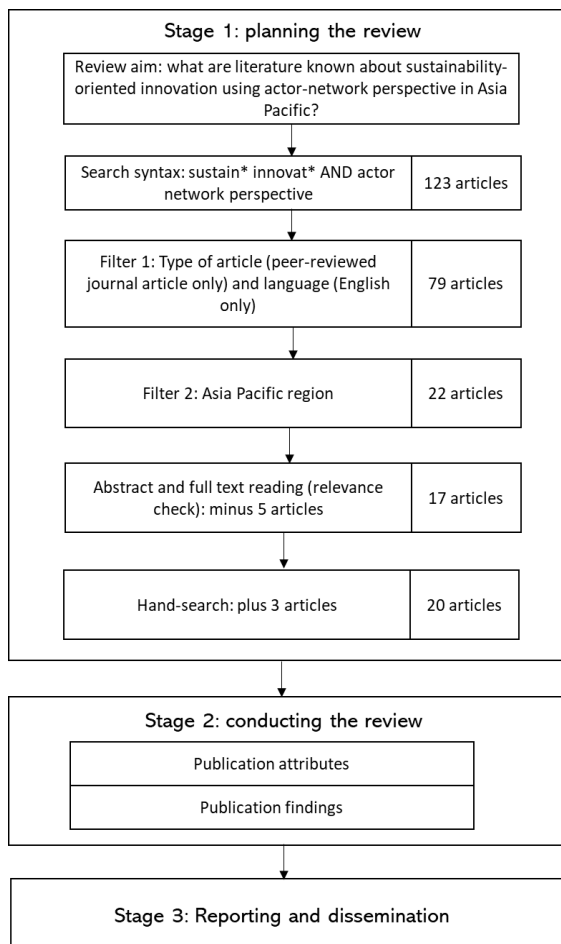
systematic review including: (1) planning the review, (2) conducting the review, and (3) reporting and dissemination (figure 2).

In the first stage, planning is carried out through dialogue among the author team to determine the research scope through articulation of review questions, and criteria for exclusion and inclusion. By considering various aspects that have been explained in the introduction section, the specific review question raised in this review are: what literature known about sustainability-oriented innovation using actor network perspective in Asia Pacific?

Our strategy is to search for peer-reviewed literature in the academic database of Scopus which is the largest

peer-reviewed database today. The search syntax that we use is: "sustain\* innovate\*" which reflects the concept of SOI and combines it with "actor network perspective" or "actor network theory" that reflects the concept of actor network perspective. This comprehensive search generates 123 articles form the database.

**Figure 2. Systematic review process**



The criteria of inclusion/ exclusion for the specified filtering process is the publication type, language, and region. For the year of publication, we did not set specifically so that the timespan in this review is open from any year up to May 2019. The type of publication chosen is empirical peer-reviewed articles because what we are looking for is research that

has been successfully published after passing the peer-reviewed process. Conference proceedings, reviews, chapters and other types of publications are excluded because of these criteria. Furthermore, for language, we only included English-language articles considering this is the main language in publications for international audiences. Filtering by type of publication and language resulted in 79 articles.

For region filtering, we use screening feature in the database by limiting searches to the members of APEC as listed earlier in the Asia Pacific and ASEAN section. At this stage the search results in 22 articles. After that we filter the relevance by reading the title, abstract and full text to ensure the relevance of the article for the purpose of our review. From this screening process 5 articles were excluded for several reasons. First is the type of publication that is theoretical not empirical. Although we have filtered the database from the beginning by restricting searches to empirical peer-reviewed articles, we found this filtering was not 100% perfect and still allowed other types of publications to be included in the search results. The second reason is relevance to SOI and actor network perspective, and the third is the focus region not in the Asia Pacific region. So that at these stage 17 articles were obtained. After that, as a supplement, we did hand-search yang which produces 3 articles. This strategy is as the previous researcher did to supplement the systematic review (e.g. Adams et al., 2016). At these stage 20 articles were

obtained, which became the final results to be analyzed in more depth.

The analysis was carried out on two aspects of the article namely attributes and findings. By attribute, we analyze it using descriptive statistics to find out the publication outlets, years of publication, and country focus in publications. We also identified the types of organizations that were the focus of those studies. Visual display of figure and tables are provided to help understand the attributes of a publication included in this review.

20 articles from the previous stage were then reviewed based upon their methodological approaches to identify 'network complexities' within the SOI projects. On each article, we focused on understanding how various frameworks and methods were used systematically to explain meanings, structures, characteristics, aims, and strategies of actors within SOI projects. In addition, we also analyzed how the frameworks and methods were performed to assess strength and weakness as well as success and fail of SOI projects in both individual and comparative ways.

Having done the above reviews, we identified the most method used and identified how the method is contributed into SOI project's analyses. In doing this process, we firstly classified the 20 articles into a table linking information such as author, title, methods, and findings. Based on tabulation results, we justified the most used method and began to summarize the

works and findings of such methods in their article.

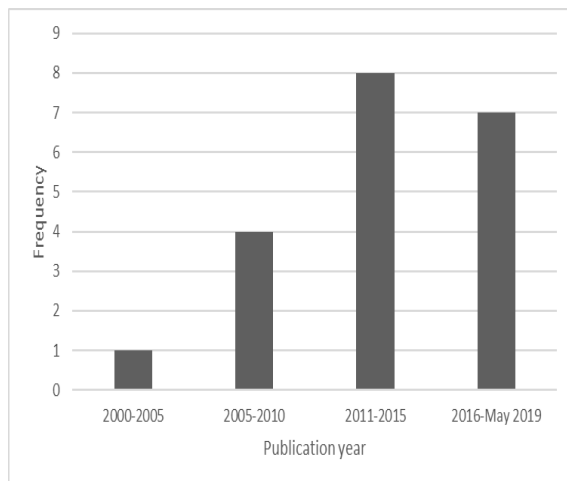
Based on the summary of works and findings, we concluded several roles of the network method in more detail way. In this regard, we explained the roles using general terms instead of actual terms presented in the reviewed articles. For instance, in explaining the role of a method in defining SOI in an article with tourism and transport context, we used the term 'policymakers' instead of Tourism Agency (in tourism context) or Ministry of Transport (in transport context). Finally, to support our explanation, we borrowed a simple SNA (Social Network Analysis) illustration figures comprising of symbols such as circle referring the actors and line referring the network or interaction (Caniglia et al., 2016; Yvonne Rydin, 2012). However, our illustration figures do not represent any quantitative result analysis, and instead, they are simple unweighted figures to show distribution, composition, and linkage of actors. The size of symbol does not refer to any quantitative measurement.

## **Results & Discussion**

Most articles included in this review, three-quarters, are published in the last decade signify the increasing study of SOI using actor network perspective (figure 3). These articles are published in journals in different fields indicate the multidisciplinary nature of SOI using actor perspective. These journals include: Journal of Cleaner Production (2 articles), Sustainability

(Switzerland) (2), Ecology and Society (1), Regional Environmental Change (1), Frontiers in Public Health (1), Environmental Education Research (1), Administrative Science Quarterly (1), Maritime Policy and Management (1), Journal of Sustainable Tourism (1), Journal of Marketing (1), Language Learning and Technology (1), Research Policy (1), Energy Policy (1), Accounting (1), Auditing and Accountability Journal (1), Technovation (1), Progress in Planning (1), and Rural Sociology (1).

**Figure 3. Publication year**

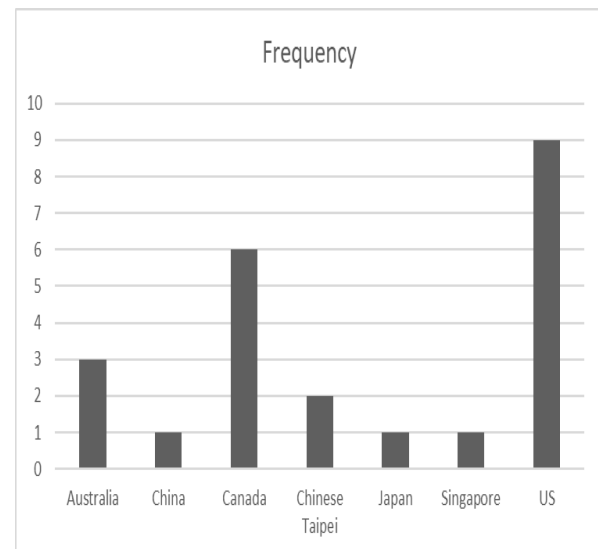


***Regionally, the focus of the study so far is in North America while studies in ASEAN are still very limited***

For country focus (figure 4), the study of SOI using actor network perspectives so far in conducted in seven economies context includes Australia (3 articles), China (1), Canada (6), Chinese Taipei (2), Japan (1), Singapore (1), and US (9). Most of the studies (18 out of 20) were conducted in single-country focus and the remainder was done with multi-country focus. From this profile it is known that

almost all of these studies are in advanced economies setting (except China). The focus of the study, regionally, mostly (around three-quarters) are in North America (US dan Canada). Studies in ASEAN context are still very limited, so far only done in Singapore context.

**Figure 4. Country focus**



***From sustainable rural agriculture to 'environmentally-friendly' cycling: The dynamic implementation of SOI using actor network perspective***

The type of organization studied in the articles reviewed is diverse ranging from business organizations, community, city, governmental, school, university, particular industry, region, and rural agriculture. To analyze findings from these articles, we classify them into two implementations focus, namely profit and nonprofit (table 1). If a study is multi-implementation, for example a combination of business-community, we categories it based on the emphasis. If its emphasis on profit organization, we include it in profit and vice versa.

**Table 1. Implementation focus**

Implementation focus	Author and Year
Profit (business or industry) or mixed with emphasize on profit organization.	(Aka, 2019), (Tatarynowicz, Sytch, & Gulati, 2016), (Acciaro et al., 2014), (Albrecht, 2013), (Giesler, 2012), (Garud & Gehman, 2012), (Stephens & Jiusto, 2010), (Caron & Turcotte, 2009), (Johnson, 2008), (Tseng, Chiu, Tan, & Siriban-Manalang, 2013), (Tseng, Wang, Chiu, Geng, & Lin, 2013), (Lin, Tan, & Geng, 2013)
Nonprofit (community, city, region) or mixed with emphasize on nonprofit organization.	(Parlee & Wiber, 2018), (H. W. Chen & Lin, 2018), (Mallett & Cherniak, 2018), (McCalman, Bainbridge, Brown, Tsey, & Clarke, 2018), (Lynch, Eilam, Fluker, & Augar, 2017), (Hinkelman & Gruba, 2012), (Holden, 2008), (Milton, 2003), (Tang, Chen, & Chiu, 2018)

***Building the understanding of the dynamic of SOI implementation through network perspective: The emerging role of Actor-network Theory (ANT)***

From the following table 2, our review has found 14 articles (nearly 70% from the total article reviewed) applied Actor-Network Theory (ANT) as both analytical method, discussion framework, and logic of description. Linking to the characteristic of ANT as a flexible and adaptive method, our review found that ANT was applied into various analytical

process in such articles. Most articles applied a general analytical process of ANT such as defining the networks and highlighting the process through four ANT's stages. Nevertheless, some others borrowed ANT's philosophy and logic to be diffused into other analytical platforms such as Social Network Analysis (SNA) (Albrecht, 2013), (2) Obligatory-Passage Point (H. W. Chen & Lin, 2018), and (3) Analytical Network Process (ANP) (Tseng, Wang, et al., 2013).

**Table 2. Network method applied**

Method	Author and Year
Actor Network Theory (ANT)	(Kadia Georges Aka, 2019), (Lynch et al., 2017), (Giesler, 2012), (Hinkelman & Gruba, 2012), (Stephens & Jiusto, 2010), (Caron & Turcotte, 2009), (Milton, 2003), (Tang et al., 2018)
'ANT-diffused' method	(H. W. Chen & Lin, 2018), (Albrecht, 2013), (Garud & Gehman, 2012), (Johnson, 2008), (Holden, 2008), (Tseng, Wang, et al., 2013)
Other Methods	(Parlee & Wiber, 2018), (Mallett & Cherniak, 2018), (McCalman et al., 2018), (Tatarynowicz et al., 2016), (Acciaro et al., 2014)

From articles that applied ANT for their research, we have found that, at least, ANT contributed in three roles in SOI research. First, ANT contributed in explaining the structure and composition of actors in SOI projects. Second, ANT contributed in analyzing SOI mobilization, progress, and change based on network changes. Third, ANT contributed in

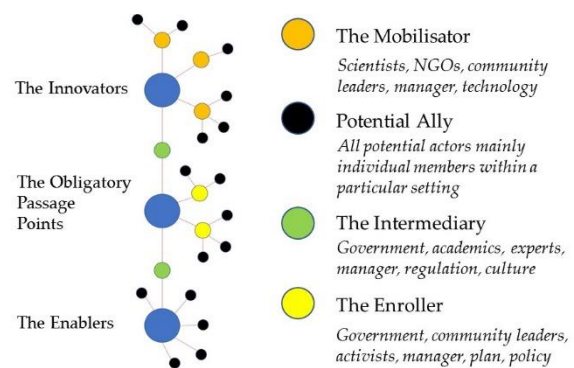


assessing the strengths, weaknesses, potentials, and challenges of several alternative SOI projects. The explanations of these are presented as follows:

***ANT for analyzing structure and composition of actors in SOI network***

In this role, ANT described the interaction processes of certain networks of SOI projects and then derived all possible actors in the networks and discussed their roles, responsibilities, and relationship each other. For instance, Aka K. G. (2019) explained the development of SOI from conventional bikes to electric mechatronic and then hybrid bike. ANT was used to extract the actors and identify their role, which came into findings that from more than 20 actors ranging from policymakers to employees that establishing a complex system of developing SOI for hybrid bike, the manager of hybrid bike company and researcher played the most important role to developing and maintaining SOI project. In other case, Lynch et al (2017) studied that SOI in learning process was implemented through the logic of multiple realities as an opportunity to learn about the environment. The used of ANT emphasized several possibilities of SOI project going into different meanings and impacts for different actors due to their 'background'. This confirmed the nature of SOI as a complex project built upon 'multi-perspective' of the involved actors. The following figure 5 illustrates the process of ANT describing the structure of actors and their roles within SOI projects compiled from all article cases.

**Figure 5. Understanding the networks**



***ANT for analyzing mobilization, progress, and change of SOI project***

In this role, ANT analyzed the process of SOI following the dynamic changes and interactions between actors. This includes how the project being mobilized from the beginning to an end, how the project going into a particular direction, and how the project is slowly transformed and improved.

For instance, Albrecht (2013) discussed the process of implementing SOI in tourism development in a particular area was determined by the changing of values, roles, interests, and power of actors involved in all stages of the process. His ANT research highlighted that certain actors in the network continuously shared roles and values in problematization, interserment, and enrolment, such as public sector that switched roles with private company to provide financial and regulatory support or public sector and tourism group that change position as a mediator for all other stakeholders in the network including community, service providers, and many others. This situation, where power is openly distributed to several actors, has

been described as a key important factor that maintaining the continuation of innovation.

Meanwhile, Giesler (2012), against the backdrop of rapid changes of nature and technology innovations, assessed the overall process of promoting SOI in cosmetic industries. In his study, ANT was used to learn how the innovation process was comprehensively organized from branding to selling activities with attempts to revitalize the brand image in the upstream as well as the change of consumer behaviors in the downstream. The ANT analysis has identified that the most important step determining a whole success of the implementation of innovation lied in the enrolment process involving experts and their research outputs and engagements. Again, using an illustrative figure, this research summarizes the general process of mobilizing SOI through the lens of ANT based on several reviewed articles with relevant discussions (figure 6).

**Figure 6. Understanding the process**

Stage	Action
<i>Problematization</i>	<i>Framing the issue and key strategy: Create new innovative strategies or programmes that are able to accommodate various stakeholders' values and interests</i>
<i>Interessement</i>	<i>Disseminating the strategy and engaging stakeholders: Establishing the innovative idea and gaining wider recognitions and supports through various social arenas and medias</i>
<i>Enrolment</i>	<i>Disseminating the strategy and engaging stakeholders: Create a network, identify key intermediaries, and enrol the attracted actors into practices that fit and benefit to their values and resources</i>
<i>Mobilisation</i>	<i>Implementing and sustaining the practice: Implement the strategies and ensure all actors work on their roles to contribute in the practice</i>

**Comparing SOI projects using ANT**

ANT contributed in assessing the strengths, weaknesses, potentials, and challenges of several alternative SOI projects. This role is important for SOI's enablers or initiators especially when they want to maintain, develop, and select a particular SOI project with regard to other alternative projects due to various constraints such as financial, technological, knowledge, and human resource. This research found that Stephens and Jiusto (2010) provided a useful insight of the uses of ANT in analyzing several SOI project alternatives for further intervention purpose. Their study concerned on the examination of the effectiveness of two SOI projects, the carbon capture and storage (CCS) and enhanced geothermal system (EGS), to reduce greenhouse gas emissions from electrical power generation in the United States. By focusing on several indicators such as technical, environmental, financial risk, and benefit of each system which were discussed through the ANT logics, their study found that social and political dimensions such as involvement, engagement, and association of involved stakeholders became the most important aspects determining the success of two SOI projects. The success, in this regard, was defined by the likelihood of a particular project to enhance wider technical, environmental, and financial support so they can be maintained in the long-run. ANT analysis was able to suggest that the CCS project, with its stronger and wider network engagement in comparison to the CGS, had

successfully established a more sustainable innovation program with large technological, regulatory, and financial arrangement supports.

### Conclusion

Having through all the review process, our paper summarizes several important findings from the study of understanding SOI in Asia Pacific and ASEAN through Network perspective. This is presented in four conclusion points as follows:

- 1) SOI has been rapidly developing into practices in countries in Asia Pacific, which not only in profit sectors, but also in non-profit sectors such as government and community.
- 2) Actor-network Theory (ANT) emerged as the current-most adopted framework to explain the dynamics process of SOI mobilizations and practices in the Asia Pacific region.
- 3) ANT frameworks contribute in defining the structure of SOI networks as well as identifying social, institutional, and political challenges of SOI implementation.
- 4) Regionally, the focus of the study so far is in North America (US and Canada) while studies in ASEAN are still very limited (only Singapore so far).

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# Beyond Brinkmanship: The Implication of South China Sea Conflicts on China's Soft Power in Southeast Asia

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## Abstract

*While contemporary scholarly literatures on South China Sea conflicts have been dominated by hard power calculations, some other aspects remain under-researched. Rather underplayed in the existing literature is the question on the political implication of the conflicts on China's soft power in the region. In responding to this issue, this article tries to carefully investigate the nature of the China's soft power and the linkage between the increasing Chinese assertive measures in the South China Sea and the foundation of China's soft power in the region. Through some cases of China's skirmishes with Southeast Asian countries on the South China Sea between 2009 and 2012, this article argues that Beijing's increasing hard power measures have induced growing threat perceptions in the region. This very context not only signals a distinct dissonance of Beijing's image in Southeast Asia but also creates surging discontents and rejections to China's role and political position in the region. Ultimately, China's perceived inappropriate hard power measures affect its soft power, particularly in eroding the reputation of being a benign political entity as its source of soft power in Southeast Asia.*

Key words: *China-Southeast Asia, soft power, threat perception*

## Introduction

The twenty first century has generally deemed to be an important era for China. Along with its remarkable transformation and modernization since 1978, China's political power in the international arena began to expand rapidly. The poor and weak China has become a center of attention in global politics (Brahm, 2001; Senkar, 2004). The modernization of its military posture and the fast growing of its economy have changed how other countries engage with Beijing. Its neighboring countries have

started to build friendly interactions with the rising China, including Southeast Asian countries. Nevertheless, concomitant with its growing international profile, Beijing also started to have strong military measures, particularly in the South China Sea (Wong, 2010; Thayer, 2010, pp. 2-6; Jayakumar, 2011). Along with existing conflicts over territorial claims between China and some Southeast Asian countries, the growing China's assertive measures eventually created a greater political concern in the region.

Indeed, there is a general tendency in privileging the preponderance of hard power calculations in the International Relations literatures (Baldwin, 1999, pp. 173-183). This specifically exists in the scholarly literature on South China Sea conflicts (Green & Daniel, 2011; Karim & Tangguh, 2016). However, as the rise of China increasingly influences contemporary global politics, it becomes important to not only investigate China's actual capability in terms of its traditional 'hard' power in influencing Southeast Asia, but also assess its soft power and the implication of its 'hard power' measures on its soft power in the region. This is not without a clear logic. In an event which involves hard power measures, for instance, it is easy to prioritize hard power's examination and overlook its soft power aspect, such as how the United States (US) calculate its hard power capability in 'securing' Iraq and Afghanistan. However, it is important to note that US hard power measures as part of global 'war on terror' campaign, in fact, weaken its 'soft power' in the Middle East (Nye, 2004, pp. 42-44). Reminiscing this context, a similar concern for China may arise, especially in light of the rising tension in the South China Sea conflicts. As such, it is important inquire *what is the nature of China's soft power in Southeast Asia? And how South China Sea conflicts affect its soft power in the region?*

Echoing Todd Hall's (2010) effort in investigating soft power as a category of analysis, this article underlines the logic of how soft power, especially in the form of reputation, serves as an important

reference for political interactions in the international arena. Within this context, the capability to project and sustain particular reputations 'provide states with issue-specific forms of influence' (Hall, 2010, pp. 209). This logic is well apparent in China's foreign policy, especially as a logical pathway for Beijing's soft power in Southeast Asia. Nevertheless, since this article emphasizes good reputation as the source of soft power, its existence and foundation can be easily weakened by negative perceptions, such as excessive or inappropriate use of hard power. Hence, we can see that Beijing's growing assertiveness, particularly the utilization of hard power measures in managing the South China Sea conflicts, has induced the burgeoning of 'threat perceptions' among Southeast Asian countries and eroded China's reputation as its source of soft power.

Specifically, in investigating the dynamic quality of Beijing's soft power in Southeast Asia and the linkage between the growing 'threat perception' from China's hard power measures and its soft power in Southeast Asia, this article gathers qualitative data from the series of surveys on China's popularity as well as elites' opinions and statements on China (including Beijing's increasing hard power measures in South China Sea). Indeed, given the complex relationship between China and Southeast Asia, including the different characteristics of mainland Southeast Asia and maritime Southeast Asia in dealing with China, it is impossible to claim that there is a solid and definitive Southeast Asian perception

of China (Percival, 2007; Storey, 2013). However, this does not mean that we cannot see a growing trend of how some Southeast Asian countries respond to Beijing's growing assertive measures in the South China Sea. As a result, this article reviews the existence and quality of China's soft power in two countries that represent different geo-political groupings in Southeast Asia, namely Vietnam and the Philippines. Despite this decision may also have a certain bias, this decision is based on the data availability. Existing survey data on popularity of China in Southeast Asia only covers particular countries like Vietnam and The Philippines. The gathered data also only covers the time span of 2000 to 2012. This is aimed to provide a better analysis on the impact of South China Sea conflict on China's soft power. In 2013, Beijing formulated a new policy—i.e. One Belt and Road—which alters the political map of China-Southeast Asia relations.

Ultimately, this article evaluates China's approach in exercising its soft power projection in Southeast Asia and underlines how inappropriate hard power measures eventually entangle with soft power. Specifically, article is structured into four main parts in which each element is taken into account. Following this introduction, the next part covers on the conceptualization of soft power as the foundation of this research. The second part will focus the nature of China's soft power in the Southeast Asia. The third part of this article broadly elaborate the case of the South China Sea conflicts, especially in assessing Southeast Asian

responses. In the end, it will discuss the linkages of the South China Sea conflicts to the contemporary China's soft power.

### Conceptualizing Soft Power

The term '*soft power*' is a unique notion. It becomes a distinct phrase as it refers to a large spectrum of non-military hard power in the international arena. It is also generally adopted in implying the various non-tangible modalities which support a particular state to persuade or influence the preferences of other states (Hall, 2010, pp. 190). This concept is rooted from E. H. Carr's (1949) notion of 'power over opinion' which acknowledges that public and elite opinion is one of the essential elements in the international arena and it forms a distinct political force from military or economic power. Steven Lukes (2005, pp. 25-29) advances further this idea into the so-called 'the third dimension of power'—i.e. the ability to affect and shape the formation of perceptions and preferences in ensuring the acceptance of a particular role in the existing order, and *vice versa*.

However, only after Joseph Nye writes about 'power' along with the growing interdependent and transnational issues and actors in international politics, 'soft power' becomes a well-known concept in IR literatures. Nye (2005, p. x) specifically defines soft power as '*a country's ability to get what it wants through appeal and attraction.*' This concept underlines the logic of how various viable resources can be applied to make other countries acquire more positive beliefs and perceptions which eventually resulted

in the targeted states' greater tendency to respect and give amicable response. Thus, Nye's exposition of soft power becomes a ground-breaking analytical tool, especially for identification of the new trend in culture and positive image projection from a rising state in the world, such as China.

At this juncture, it is important to note that Nye offers a relational approach as a new model in making sense the existence of soft power in international politics. Nye notes that soft power is not always fungible. In other words, the effectiveness of soft power depends on how each country utilizes its '*ability to influence other's behavior*'. As such, a particular country does not have an inherent soft power; yet, it has to be generated from the process of attribution among the international actors. Any country will get the result it prefers because the other states realize the legitimacy of the respective state and follow its narrative (Huang & Sheng, 2006, pp. 23-34). Therefore, the study of soft power in this article is not focused on the quantity of soft power, but in the context of how the source of soft power turns into an active element in shaping other countries' behavior.

Nevertheless, sinologists have realized some difficulties in assessing China's soft power (Yan, 2006, pp. 6). Despite major works on China's soft power, such as Kurlantzick (2007) and Lampton (2008), researches often focus on identifying and predicting the impact of Beijing's soft power and pay less attention

to how does it actually operate. In this regard, looking at Hall's (2010) logic of the various sources of soft power may offer an important analytical tool. For him, a set of issue-specific reputations will support a particular country on the respective issue, signifying the so-called '*reputational power*' (Hall, 2010, pp. 209). Along with the conditions which are predominated by the inadequacy of Beijing's contemporary leadership in the global arena and the characteristics of suspicion and mistrust between countries in Asia, the primary source of China's soft power basically lies on its reputation. In the manner where every actor interprets each other, the image (*mianzi*) of Beijing reputation in the international arena is important for the decision-making process of other actors (Hall, 2010, pp. 207-211).

Certainly, the examination of soft power needs to also acknowledge the intertwining mechanism between soft power and hard power. As Nye (2004, pp. 25-30; Li, 2009, pp. 4-5) notes before, soft power needs to be welded in a tactical manner in the realm of intersubjectivity among international actors. As such, the research on soft power demands a further exposition in its structure of action and the surrounding influencing factors, including whether hard power measures exist. At this point, one cannot simplify the structure of hard power as the utilization of military force in destroying and paralyzing the enemy, but on a much broader aspect, especially in terms of its ability in imposing clear directive through its consequences for other countries and

generating a distinct perception among other entities.

In the case of the complex relations between China and Southeast Asia, the analysis of soft power, thus, relies on other countries' perception of Chinese reputation. It implies that hard power measures and the basis of soft power are interlinked, as both powers may share the same juncture, namely 'threat perception'. By adopting the notion of threat perception, this research tries to elucidate the crucial conceptual bridge in understanding how China's hard power measure affects its soft power and political images, particularly along with the repercussion of actual misconduct or 'be perceived as misconduct' measures (Li, 2009, pp. 5). Moreover, it also indicates the subjective nature of international actors, especially the elite, as they perceive the growing external hard power measures (Tilman, 1984, pp. 2-3; Novotny, 2010, pp. 67-68).

### **The Nature of China's Soft Power in Southeast Asia**

Along with the onset of the post-Cold War era, Beijing's foreign policy was gradually transformed with renewed vigor. There was a strong willingness to sustain its rapid economic development through being an active actor in the international arena. However, at the same time, China's meteoric economic rise started becoming a global spotlight. Often being compared with and likened to the rise of Germany and Japan during the pre-World War II, Western scholars regarded the rise of China as a new global concern,

forming the so-called 'China threat' theory (Mearsheimer, 2001, pp. 396-402; Krauthammer, 1995, pp. 72; Roy, 1996, pp. 758-771). By mid 1990s, this narrative started to influence some major powers' political behaviors against China. As a result, a growing 'containment' policy towards Beijing seemingly manifested in the international arena, such as the US-Japan alliance in 1996 as a gesture in restraining Chinese ambitions (Nye, 2002, pp. 22), and US effort in persuading the European Union to retain its arms-embargo on China (Archick, Grimmett, & Kan, 2005).

Against the abovementioned backdrop, Beijing became fully aware that the growing anxiety over 'China threat' theory could negatively impact its prospect for development. Besides that, considering that the modern China was initially emerged as mere one of developing countries in the world, Beijing had a limited claim and legitimacy, especially in terms of its source of soft power (Wang, 2011, pp. 37-53). In this regard, China realized the need for overcoming the suspicion and mistrust from its regional environment and encountering the growing China threat theory with a careful projection of its soft power via promoting a better 'reputation' in the international arena (Deng, 2006, pp. 186-206). In seemingly echoing Hall's categorization of reputational power, Beijing underlines how building a certain new image and reputation as a 'benign' rising country will help inducing other states to respect and support China's

agenda and position at the international arena.

As a response, Chinese government and scholars have rapidly began to endorse a new consideration in improving national image, especially through the domestic debate on how China should encounter 'China threat' theory and pursue its national goal. Zheng Bijiang, for instance, notably points out the conception of 'the development path of China's peaceful rise' (*zhongguo de heping jueqi fazhan daolu*). Zheng (2005, pp. 18) stresses that China requires tactical measures to sustain a peaceful international environment, including the cultural support for the country and coordination of interests in its various sectors to create a better 'climate' for its development. Beijing soon adopted this concept through Prime Minister Wen Jiabao's speech during a visit to the US in 2003, where for the first time China officially stated the determination of its rising power as a 'peaceful' country. Subsequently, after some minor alteration, Beijing finally used the term of '*peaceful development*' as its official policy (The State Council Information Office, 2006).

Indeed, in supporting the sustainability of its rapid growth, tapping into soft power has become one of China's foreign policy agenda. The concern in creating a better international environment for China eventually manifested through the projection of soft power, especially in the form of campaigning China's commitment for creating '*peaceful development*' and

'*harmonious society*' (Guo & Jean-Marc, 2008). In all, there is a strong element of the efforts in building 'benign' reputation and transforming other countries' perception to benefit China's interests as its core policy framework. This is also reaffirmed by Hu Jintao's (2007) statement which emphasizes the necessity to develop Chinese cultural soft power in dealing with domestic needs and the increasing global challenges.

In the context of China-Southeast Asia relations, Beijing's commitment for building its soft power in the region is essential. Many countries in the region, particularly maritime Southeast Asian countries, have often been having a suspicion against China and maintaining close relations with the US and its allies (Cho and Park 2013; Kristof, 1998). Therefore, Southeast Asian reaction to China can be deemed to be as a litmus test for its soft power projection (Rozman, 2010, pp. 201). Within this context, Beijing finally developed a set of slogans, such as 'friendly and good-neighbourly' (*mu lin you hao*) and 'benevolence towards and partnerships with neighbors' (*yi lin wei shan, yu lin wei ban*), in elucidating China's new approach to the region (Tang, Mingjiang, & Acharya, 2009, pp. 17). In responding to Asian Financial Crisis, for instance, Beijing took the risk not to devalue its *renminbi* and agreed to give additional financial support for some countries in Southeast Asia (Jones & Michael, 2007, pp. 169-172). In contrast to the US which supported the IMF's unpopular austerity packages, Beijing's foreign policy signaled a real

transformation in its engagement with Southeast Asia (Percival, 2007, pp. 8). Moreover, Beijing also manifested its soft power campaign with being the first non-member of the Association of Southeast Asian Nations (ASEAN) to sign the Treaty of Amity and Cooperation (TAC) with ASEAN in 2003 and the support for the East Asia Summit (EAS) in 2005 (Pan, 2008, pp. 39-62; Storey, 2011a, pp. 64-87). This signals the logic of China's soft power projection—i.e. its determination in promoting a 'benign' image and assuring the neighboring countries with amicable foreign policy implementation.

Reacting to China's soft power projection, Southeast Asia demonstrated a positive gesture towards China. Beijing's soft power projection have proven significantly in boosting Southeast Asia's good perception of China. The initial East Asia Summit (EAS) formation, for instance, is aligned with Beijing's preference to limit regionalism in East Asia (Nanto, 2008; Sutter, 2008, pp. 261-282). In fact, this condition is also verified by how Southeast Asian eyes view China has transformed from 'the state most often feared into, for most but not all, a perceived partner' (Percival, 2007, pp. 3). Besides that, a public opinion survey in six Southeast Asian countries by the Japanese Foreign Ministry has indicated the rapid increase of China's influence in the region, even compared to that of Japan (Er, Narayanan, & Colin, 2010, pp. 44-66).

At this juncture, China has demonstrated its ability to put project a distinct reputation as a benign rising

power in Southeast Asia. Denoting with the Nye's conceptualization of soft power which emphasizes the ability to influence other countries' perception and behavior, this condition affirmed the existence of China's source of soft power in shaping Southeast Asia's preference in accordance with its intention. Nevertheless, Beijing's soft power projection in this region is not progressing on a linear pattern. In fact, China's soft power is, somehow, complex and non-static, especially after the growing tension in the South China Sea conflicts since 2009.

#### **Beijing's Increasing Hard Power Measures in the South China Sea**

Although there was an improvement in Southeast Asian's perceptions and attitudes towards China after the end of Cold War era, some existing problems in China-Southeast Asia relations still exist. There are at least two important issues in here. First, looking back to the long history political interactions in the region, including the memory of China's hegemony over its periphery, there is a widely shared attitude among elites which stresses the notion of sovereignty and power politics to as the means to survive (Kang, 2003; Katzenstein & Rudra, 2004). Second, there are some uncertainties about the rise of China, especially the enigmatic decision-making process in Beijing and the question of what role China will want to play in the international arena. Both of these issues eventually lead to the formation of the general pattern of many Southeast Asia countries' suspicion

towards China rise (Kristof, 1998, pp. 37-49; Cho & Park, 2013).

Being perceived as both opportunity and latent threat, many countries in Southeast Asia generally pursue a tactical approach in gradually engaging with China and maintaining the balancing options in case of engagement measure fails (Acharya, 2003a, pp. 2). This generates the variety of each state's reactions towards China, ranging from the bandwagoning trend to the inclination of acting to balance against China (Kang, 2003, pp. 58; Acharya, 2003b, pp. 150-153). Accordingly, the issues of power politics, geopolitics, the economic gap and dependence as well as the potential of the apparent territorial conflicts in the South China Sea added up to the strategic calculations of each country. Thailand, for instance, seem to have a better perception of China than Vietnam or the Philippines, which perceive themselves as the 'frontline' of China's possible aggression.

The conflict is rooted in the multiple overlapping territorial claims. Southeast Asian countries such as Malaysia, Vietnam, the Philippines, Brunei, had laid official claim to several territorial features in the South China Sea in the mid-1960s and 1970s (Emmers, 2010, pp. 66-77; Ott, 2011, pp. 1). However, many of these claims overlapped with China's claim, which declared the area limited by nine dashed lines covering the South China Sea as its territory in 1947. Indeed, it is important to note that China has been only demonstrated a limited physical claim in the initial era, comparing

to the other claimants which have a closer distance to the disputed area. Beijing has only started its active claim along its growing military power, such as the 1974 China-Vietnam battle of the Paracel Islands and 1988 China-Vietnam skirmish over Spratly Islands (Shirk, 2007, pp. 114). China believes that the other claimants have been taking advantage for a long time, especially in exerting its claim over and extracting resources from the South China Sea. This logic pushes Beijing to pursue a more active measures (Li, 2008).

Despite some efforts in managing the conflicts, such as the agreement of the Declaration on the Conduct of Parties in the South China Sea (DoC) in 2002, there have been growing hard power measures on the South China Sea (Banlaoi, 2010). Indeed, since 1999 China had been annually declared unilateral fishing ban in the South China Sea from June to July. However, since 2009, Beijing extended the fishing ban from May to August (Macikenaite, 2014). Moreover, in reacting to Malaysia-Vietnam joint submission of the clarification of their claim on the 'southern part of the South China Sea' to the Commission on the Limits of the Continental Shelf (CLCS) under the United Nations Convention on the Law of the Sea (UNCLOS) on May 2009, China declared its rebuttal to the claim (Rajagopal, 2016). Subsequently, Beijing made unprecedented move in enforcing its jurisdictional claims in the South China Sea, especially by actively dispatching its patrol vessels to the South China Sea to protect Chinese fishing vessels outside the period of its unilateral fishing ban (Thuy,



2011). This certainly marked a significant change in Beijing's approach to the South

China Sea conflicts.

**Map 1. Conflicting claims over South China Sea**



Source: U.S. Department of Defense's Annual Report on China to Congress (2012)

During 2011, there were, at least, three events which illustrate the growing use of China's hard power measures in the South China Sea conflicts. First, China often unilaterally patrol the South China Sea and expel other countries' traditional fishing boats. In fact, Chinese People Liberation Army-Navy is reported firing some warning shots at the Filipino trawler near the Jackson atoll on 25 February 2011 and Vietnamese fishing boats on 1 June 2011 (Jamandre, 2011). Second, China has

deliberately used the vessel of the paramilitary maritime law enforcement agency, namely China Marine Surveillance (CMS), to actively block foreign vessels from conducting research and exploration in the disputed area regardless their Executive Economic Zone (EEZ) claim. Two CMS vessels dispelled Filipino-owned vessel MV Veritas Voyager near Reed Bank on 3 March 2011. On 26 May 2011, CMS vessels intentionally cut the seismic survey cables

of Petro Vietnam vessel Binh Minh 02 within the area of Vietnam's EEZ (Storey, 2011b, pp. 2-3). Likewise, when Hanoi complained about China's actions in flaring tensions in Vietnamese waters, the Chinese response was an explicit warning for Vietnam to stop any activities 'where China has its claims' (Gomez, 2011). Third, despite the visit of Chinese Defense Minister, General Liang, to Manila and the joint agreement between China and The Philippines to refrain any unilateral action on 23 May 2011, Beijing allegedly kept installing markers at Reed Bank, Amy Douglas Reef, and Boxall Reef which are well within the Philippines' EEZ (Mogato, 2011; Pazzibugan, 2011).

Beijing's growing hard power measures also occurred in 2012. The Philippine navy sent its warship to the area of Scarborough Shoal, 220 kilometers west of Zambales and also within the Philippine's EEZ, after spotted eight Chinese fishing boats anchored inside the lagoon. Soon after that 'two Chinese surveillance ships arrived and taken up a position at the mouth of the lagoon', creating standoff and preventing the arrest of the Chinese fishermen' (CNN, 2012; Dupont & Baker, 2014). Moreover, China also began enforcing the fishing band in larger area of South China Sea in May 2012, including the disputed Scarborough Shoal (The Jakarta Post, 2012). By July 2012, Beijing dispatched its fisheries law enforcement command on and erected a barrier to the entrance of the disputed shoal (Pazzibugan, 2011). The Chinese government even promulgated local law in December 2012 which

authorized the law enforcer to board and seize control of foreign ships which enter the Chinese-claimed waters and order them to change course or stop sailing (Banchard & Mogato, 2012).

The abovementioned Beijing's measures in the South China Sea have eventually triggered negative reprisals in the region, especially with how some Southeast Asian countries rapidly upgraded their naval capability. These actions are basically a harbinger of regional instability, and more importantly, to the degree of Southeast Asian confidence of China's menacing intention (Banlaoi, 2010). Likewise, Beijing's diplomacy in Southeast Asia has suffered a series of setbacks since 2009. While the issue of China's aggressiveness was hardly securitized in the previous forum of ASEAN dialogue, the ASEAN Regional Forum (ARF) in 2010 finally raised the issue in regional public debate. In fact, some Southeast Asian countries, especially Vietnam and the Philippines, pushed for the involvement of other great power, particularly the US, in the debate (ASEAN, 2010).

Indeed, although the growing Southeast Asian concern over China's hard power measures in the South China Sea is apparent, it does not mean that all countries in the region have the exact same degree of grievance. There are still diverse forms of reactions from Southeast Asian countries, especially with regards to each country's economic dependency and security concern towards China (Khong, 2004, pp. 192-197). While some Southeast

Asian countries, such as Cambodia, Laos and Myanmar, generally have a closer relations and cooperation with China, other countries, such as Singapore, Malaysia, Thailand, and Indonesia, tend to show a more cautious and circumspect manner, largely due to the concern in maintaining regional stability. However, the Philippines and Vietnam have become more assertive in resisting China's domination in the region. As such, both countries have been supporting for the internationalization of South China Sea issues beyond China-ASEAN framework, including advocating for US's involvement as a counter balance measures (Chongkittavorn, 2011).

Nevertheless, one shall clearly see the emerge of a new distinct pattern in the Southeast Asian reactions towards China's growing hard power measures in the South China Sea conflicts. The disconnected message between Beijing's good image projection and its actual actions in the South China Sea conflicts inevitably generated grievances, induced counter-measures, and ultimately, exacerbated China's soft power. With the fact that the characteristics of suspicious and mistrust still prevail in the region, Southeast Asian countries have the opportunity to internalize the concern over Beijing's hard power measures in the South China Sea among its regional. As a result, there is now a growing trend in openly discussing the South China Sea issues in the ASEAN-related forums, such as the ARF's joint statement in 2010 and EAS's joint statement in 2011.

### **Revisiting China's Soft Power**

The development of Beijing's hard power measures in the South China Sea has eventually incited the growing 'threat perceptions' in the region. But how it actually affects China's soft power? Acknowledging reputation can turn into an essential source for inducing other states to respect and follow a particular state's articulation, certain aspects that affects a particular country's reputation can also acts as an important reference for other states in acting and responding to its environment (Hall, 2010, pp. 207-211). In the case of China-Southeast Asia relations, the growing 'threat perceptions' that Southeast Asian countries have against China are deemed as the crucial element in eroding a state's reputation as the source of its soft power.

There are two sources for identifying the weakening of its soft power. Firstly, one can see the effects of China's measures in South China Sea on its soft power via investigating the Southeast Asian elites' perception. As Southeast Asian elites maintain a strong role in foreign policy's decision-making and policy implementation process (Tilman, 1984, pp. 2-3), their perspectives reflect the attitude toward other states and the efficacy of their respective soft power performance. Secondly, the identification of how China's soft power is affected by its growing assertive measures in the South China Sea can also be identified by the second source, namely the degree of favorability in public opinion. As the government is expected to respond to its

people's aspirations, the public mood may act as an essential stimulant for the state's attitude and action towards other states; and in the same time, display the result of other states' soft power projection.

Indeed, it is difficult to claim that there is a coherent and persistent perception of China among Southeast Asian elites. However, political elites in both Vietnam and the Philippines started demonstrating a striking perception of China, especially in their public statements. In his response statement to the Beijing's action in the Binh Minh incident in May 2011, PM Nguyen publicly noted that 'we continue to affirm strongly and to manifest the strongest determination of all the [Vietnam's Communist] Party, of all the people and of all the army in protecting Vietnamese sovereignty in maritime zones and islands of the country', signaling a deep distrust of China (Agence France-Presse, 2012). Moreover, in the Shangri-La Dialogue Forum in 2011, Vietnamese General Phung Quang Thanh specifically cited that 'China has violated the DoC, raising concern in Vietnam and in the rest of the region' (IISS, 2011). Likewise, Filipino Secretary of Defense Voltaire Gazmin also expressed his concern about Beijing's growing threat in his reference to another incident in May 2011 involving China in the Filipino-claimed area. Gazmin specifically underlined the importance of the Philippines' 'robust alliance with the US' for tackling the growing China's threat in the South China Sea and ensuring the freedom of navigation in the region (IISS, 2011).

Moreover, Southeast Asian countries have also eventually signaled a reaction to Beijing's hard power measures in the South China Sea, indicating a growing shared perception of China in the region. While prior to 2010 ASEAN generally demonstrated its affinity to China, some Southeast Asian countries signaled a new political message within ASEAN-led regional mechanisms. All countries represented at the EAS in 2011, for instance, agreed to discuss the regional concern over the South China Sea conflicts and embrace the US as a new member of EAS. Given the symbolic gesture, namely the involvement of other great power outside China in the region and the suggestion that the current tension should be carefully managed on the basis of 'multilateral resolution of the conflicting territorial claims' (Calmes, 2011), the EAS statement signaled how most ASEAN countries accepted the growing Beijing's activities in the region as a real concern. Besides EAS, this particular concern was also affected ASEAN internal mechanisms. Despite not reaching a consensus, ASEAN Foreign Ministers' Meeting in 2012 discussed the Philippines and Vietnam's concern about how Beijing was imposing 'its claim over the entire South China Sea and raising the risk of a conflict' (Thul & Grudgings, 2012). This meeting created a new precedent where 'ASEAN way of consensus failed' and some countries held a strong and extreme perception of China (Emmerson, 2012).

The above responses, indeed, signify the problem of Beijing's soft power projection. Denoting the Nye's primary

definition of soft power as the ability of a state's allure in shaping the behavior of other countries, the shifting of ASEAN's perspective and attitude to the opposite of China's strategic interests, have shown a major change in the strength of Beijing's soft power in Southeast Asia. Some Southeast Asian countries' elite perceptions, especially from Vietnam and the Philippines, have indicated that Beijing's aggressive measures in the South China Sea were perceived as excessive or inappropriate actions. Aligning with Li (2009) argumentation, the inappropriate utilization of hard power, which is formed the 'threat perception', can result in the demise of its soft power. Instead of Beijing's good image and reputation projections that primarily affect Southeast Asian countries' policy, the other forms of action—i.e. its growing hard power measures in the South China Sea, —has increasingly led elites in other countries to doubt Beijing's reputation and act in contrary to the interests of China itself.

Beyond the Southeast Asian elites' statements, one can also indicate the weakening of Beijing's soft power through the declining popular favorability towards China, especially after the growing of its hard power measures in the South China Sea. This condition is reflected in the public opinion in showing how China is perceived. Pew Research Database (2017), for example, reveals a distinct trend of China's favorability. Although the research data base is limited to some countries in Southeast Asia, this data shows the dynamics of Southeast Asian response towards China. From Table 1,

one can see that while showing a good respond to China in 2002, Vietnam and the Philippines signaled a dramatic change in the growing of unfavorable perception of China. Both countries showed a relative higher number of unfavorable views of China in 2014, especially with 78 percent of the surveyed people in the Philippines and 58 percent of the surveyed people in the Philippines regarding China negatively.

**Table 1. Percentage of Southeast Asian countries' unfavorable responds to China**

Country	2002	2013	2014	2015
Vietnam	18	-	78	74
The Philippines	30	48	58	43

*Source:* adapted from Database Pew Global Attitudes Project - Pew Research Centre 2017

Likewise, the BBC World Service Poll (2011) provides a similar data on the rising doubt over China's amicable intention in the region. The BBC World Service Poll data reveals that some countries in Southeast Asia, especially the Philippines, have shown a gradual declining positive perception towards China. Whereas 54 percent of the surveyed people in the Philippines showing positive view in 2006, the favorability towards China dropped rapidly in 2009, resulting in only 39 percent of the surveyed people maintaining such positive view. This is certainly not a standalone phenomenon. Linking this trend with the record of how Beijing builds its soft power, we can see

this trend as the weakening of China's capability in projecting benign image in Southeast Asia since its heyday in the first half of 2000s. Despite it had been actively wielding soft power projection as a 'peaceful' country since its official campaign in 2003, Beijing's foreign policy

was not perceived as a genuine characterization of its 'peaceful' rise campaign. In Southeast Asia, this condition was well apparent with a growing external context outside Beijing's active in efforts building its soft power.

**Table 2. Change in the views on China's influence in Southeast Asian countries**

	2006		2009	
	mainly positive	mainly negative	mainly positive	mainly negative
The Philippines	54	30	39	52

*Source:* adapted from BBC World Service Poll 2011

During the latter half of 2000s, there is a growing discrepancy between China's perceived intention and capability in terms of its economic and military, especially in the form of bigger anxiety over China's military threat compare to the confidence of China's economic collaboration tendency (BBC World Service Poll, 2011). Table 3, for instance, indicates the dissonance of Beijing's image in Southeast Asia and, therefore, the paradox of its soft power strategy in the region. While China's soft power projection was in line with the development of the positive belief on its economic rise, the increasing Beijing's assertive measures in the South China Sea also added to a growing perception that China is a threat to regional security. BBC World Service Poll (2011) even shows that there is a sharp contrast in the Philippine's public view on China's military capability. Whereas 46 percent of the surveyed people showing unfavorable view of

China's military capability in 2005, the number of negative perceptions rose rapidly to 63 percent of the surveyed people in the Philippines in 2011 (GlobeScan, 2011).

This dissonance between the perception on Beijing's economic and military rise eventually affected China's reputational power as the source of its soft power. With the growing discrepancy between its good reputation projection and actual action in the South China Sea, the ability of China's soft power in influencing other countries was weakened. Table 2 and Table 3 demonstrate the decline of China's positive image in the Philippines' public opinion and the link to Beijing's growing hard power measures in the region. This becomes even clearer if we link the decreasing public favorability of China and the increasingly tougher Southeast Asian elites' statements on Beijing's policy

in the region. The existence of Beijing's hard power measures in the

**Table 3. The discrepancy in the opinion on China's economic and military concern in 2011**

	China Becoming More Powerful Economically		China Becoming More Powerful Militarily	
	Positive	Negative	Positive	Negative
The Philippines	61	32	29	63

*Source:* adapted from BBC World Service Poll 2011

South China Sea has influenced the narrative of China's reputation and its soft power in Southeast Asia. Indeed, the overall data presented cannot be deemed to rule out that there are diverse Southeast Asian countries' reactions and perceptions towards China (Goh, 2007, pp. 823-824). However, at the same time, one shall also note that the shifting of Southeast Asian elites and public opinions towards China reflects an essential and unprecedented gesture in the China-Southeast Asia relations.

Ultimately, the findings in this case vividly exemplify the importance of perception of China's behavior. As one of the most influential major countries in Asia, China still has real impediments in winning 'hearts and minds' of its neighboring region. Notwithstanding its complexity, this also underlines the importance of reconsidering the notion of 'soft power' and how it cannot be separated from other aspects in the international arena. Learning from the context of Southeast Asia, it is important for China to consider a nimbler approach in Southeast Asia, such as reconsider its

hard power measures in the South China Sea and developing the use of military approach for the soft power purpose. Hence, with a better coordinated strategy, China can project a clear message in easing the threat perception in Southeast Asia and building a more coherent reputation as a benign country in the world.

### Conclusion

Realizing the complex relationship between its image projection and actual actions in Southeast Asia, China's experience has marked an important illustration of the logic and nature of soft power. China has made a significant transformation to wield its soft power in an appealing way. More importantly, China has demonstrated its ability in reducing suspicion and building a benign 'responsible global stakeholder' image in the post-Cold War era. However, along with Beijing's increasingly active hard power measures in the South China Sea since 2009, there has been a growing concern over China's intention in the region. This uniquely added a new

complexity in how Southeast Asian countries perceive and react to China.

The existence of many, albeit not all, Southeast Asian countries' actions against China, especially in ASEAN-related forums and its bilateral relations, have become a major turning point in China-Southeast Asia relations. At this juncture, one can see the growing threat perception from the increasingly Beijing's hard power measures in the South China Sea affect its soft power, particularly in the form of inciting 'threat perceptions' among Southeast Asian elites and public opinions. This, in turn, casted doubt on Beijing's virtue and real intention in the region, eroding China's 'reputational power' as the source of its soft power. The South China Sea conflicts, in fact, have vividly demonstrated the fragility of China's soft power in the region.

In summary, beyond the focus on the possibility for open conflict in the South China Sea, it is important to see other political implications in the region, especially on Beijing's soft power efforts in Southeast Asia. As China's soft power it is still muddling through the current problem of the South China Sea conflicts, the only certain thing is that the remaining threat perception from the repercussion of its hard power measures will affect further the source of its soft power. The prospect of China's soft power in Southeast Asia will rely on how Beijing can ponder the broader aspects of wielding its soft power effectively, such as the consideration of minimalizing the perceived-excessive measures in South

China Sea and the ability to project its reputational power through a better understanding of Southeast Asian regional contexts.

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# A Value Chain Approach to Support Southeast Asian Economic Regionalism

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## Abstract

*This article includes an exploration of the economic data sets of the Association of Southeast Asian Nations (ASEAN) Statistics, the World Bank, and the International Monetary Fund, as well as primary regional economic initiatives and agreements to assess the strategic indicators of economic regionalism using thematic analysis. The aim of this research is to determine how Southeast Asian regionalism can circumvent vulnerabilities to another economic crisis in North America and the European Union. To correct such financial vulnerabilities, ASEAN has significantly remolded the region into a single market consisting of a 10-nation integrated production base. The ASEAN Economic Community's main pillars are the establishment of a regional economic foundation based on comprehensive investment initiatives; the liberalization of capital markets, tariffs, and professional labor; infrastructure connectivity; regional policy integration; and free trade agreements to create a regional value chain as part of a single market and production base. The more attainable this comprehensive value-capture-and-integration process becomes, the more attractive it will appear to the global economic investment community and for business opportunities to establish a robust regional foundation. Although the process appears straightforward, capturing value is not a single phenomenon or method, but rather a multifaceted phenomenon, as explored in this study. The regional integration model seeks profitability within effective cross-border production networks and regional liberalization.*

*Key words: regional economic integration, multilateral trade agreements, ASEAN single market, capital liberalization*

## Introduction

In a determined effort to counter the disastrous economic damage wrought by the 1997 Asian financial crisis and the 2008 global financial crisis, Asian countries collaboratively constructed comprehensive financial and economic bulwarks to protect themselves from similar future catastrophes (Das, 2012; Erkens, Hung, & Matos, 2012; Jones, 2016;

Reinhart & Rogoff, 2013). The ASEAN socioeconomic alliance, which consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam, has been a central player in a protection construction project.

All Asian nations that critically suffered from the 1997 and 2008 crises studied them and reflected on their

imprudent and costly interactions with the powerful International Monetary Fund. ASEAN nations have drawn new financial wisdom from past misguided securitization activities with asset-backed securities concerning unbiased credit ratings and undervalued assets. Proactively, ASEAN stakeholders developed the Chiang Mai Initiative (CMI) and the Asian Bond Market Initiative (ABMI) to amass more foreign exchange reserves to act as ASEAN's own savings account to handle its future financial problems internally. ASEAN stakeholders also sought better vetted, fair foreign direct investment (FDI) at the same time. These cumulative initiatives reinforce and strengthen current efforts to develop the ASEAN Economic Community to combat regional inequality between ASEAN member states such as Cambodia, Laos, Myanmar, and Vietnam (CLMV) versus Indonesia, Malaysia, Singapore, and Thailand by focusing on financial development and economic regionalism within the boundaries of ASEAN.

The 10-nation ASEAN approach to economic regionalism constitutes a targeted multilateral methodology that involves employing a rapidly growing electronic/digital collaborative trade facilitation infrastructure to integrate itself into a single trading bloc to prevent past mistakes of high-interest borrowing, extended credit, insufficient financial liquidity, and overvalued asset-backed securities (Jones, 2016). The biggest building block for this protective shield is the CMI, created in 2000, which consists of USD 120 billion that is available for

regional liquidity relief as an emergency safety tool to use in a currency or liquidity crisis within any ASEAN member state (Capannelli, 2011a, 2011b; Chin, 2012, 2014). The goal is to reduce the vulnerability of ASEAN member states to foreign financial opportunistic entities that would conspire to exploit an ASEAN member state in a weak financial position. The CMI is highly structured to fund itself and help its regional members. Table 1 shows how participating countries of the CMI contribute capital to the regional trust fund, the borrowing arrangements, and the voting power directly correlated to financial contributions (Capannelli, 2011a, 2011b).

### **Objective and Methodology**

The objective of this research is to explore ASEAN's value chain approach to establishing an integrated regional economic framework that inoculates it against the effects of unexpected internal and external financial crises. Analyzing the regional single market model entailed deductive scrutiny of economic data sets from ASEAN Statistics, the World Bank, and the International Monetary Fund and data regarding regional economic initiatives and agreements. The research looked for real economic growth markers, primarily using the thematic analysis methodology and subsequently predictive analytics (data modeling) by exploring two important variables. The first variable is the impact of the ongoing ASEAN regional economic integration activities based on trending data from the data sets mentioned above, corresponding



**Table 1. The multilateral Chiang Mai Initiative**

Members	Financial contributions		Borrowing arrangements		Voting power			
	\$ billion	% share	Multiplier	Quota (\$ billion)	No. of basic votes	No. of votes based on contributions	Total no. votes	% share
China	38.40	32.00					40.00	28.51
- People's Republic of China	34.40	28.50	0.50	17.10	1.60	34.20	35.80	25.43
- Hong Kong	4.20	3.50	2.50	10.50	0.00	4.20	4.20	2.98
Japan	38.40	32.00	0.50	19.20	1.60	38.40	40.00	28.41
Republic of Korea	19.20	16.00	1.00	19.20	1.60	19.20	20.80	14.77
+3 Countries	96.00	80.00			4.80	96.00	100.80	71.59
Brunei Darussalam	0.03	0.03	5.00	0.20	1.60	0.03	1.63	1.16
Cambodia	0.12	0.10	5.00	0.60	1.60	0.12	1.72	1.22
Indonesia	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Laos	0.03	0.03	5.00	0.20	1.60	0.03	1.63	1.16
Malaysia	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Myanmar	0.06	0.05	5.00	0.30	1.60	0.06	1.66	1.18
Philippines	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Singapore	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Thailand	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Vietnam	1.00	0.83	5.00	5.00	1.60	1.00	2.60	1.85
ASEAN	24.00	20.00			16.00	24.00	40.00	28.41
ASEAN+3	120.00	100.00			20.80	120.00	140.80	100.00

Source: Capannelli (2011a, 2011b).

initiatives, and agreements. The second variable is the potential for the successful integration of intra-regional trade activity to adopt a multilateral approach to regional economic growth based on key economic indicators, is assessed. Both variables were carefully analyzed and assessed. Similar studies by Capannelli (2011a, 2011b), Chin (2012, 2014) and Kabir and Salim (2014) have been

conducted based on innovative economic integration techniques and the complex barriers confronted by ASEAN seeking regional economic cooperation. Importantly, this study distinguishes itself from other studies by utilizing the most recent trending data to provide updated findings. Such a comprehensive review of these two macro-economic variables that emphasize themes across data sets and

other applicable data is the basis of this thematic analysis.

The coding to unlock the findings of this analysis was generated using NVivo qualitative data analysis software. This coding process developed an audit trail (codebook) in support of current comprehensive findings. Themes and patterns were identified using thematic analysis (a 6-phase data review process) where phase 1 consists of gaining familiarization with the data. Phase 2 consists of generating initial descriptive codes based on the deconstruction of the target data. Phase 3 consists of developing a thematic framework capturing core categories based on phase 2 codes and sub-codes in order to establish themes and context related to the aims of this study. Phase 4 consists of reviewing themes and synthesizing data to execute phase 5 which is the defining of themes and eventually phase 6 which produces the findings found in this study.

Thematic analysis methodology was employed for this study because it was the most relevant and appropriate method. Willig (2014) and Jones (2016) described thematic analysis as primarily a qualitative process of identifying themes and patterns in data that capture meaning relevant to the overarching incipient question under exploration. This particular research involved using recognized data themes to determine relevant meaning, findings, and conclusions. Table 2 portrays some of the core categories established through thematic analysis.

**Table 2. Thematic framework core categories**

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1. Economic Performance Indicators
  2. Comprehensive Investment Initiatives
  3. Economic Data Sets
  4. Regional Trade Initiatives ~  
Liberalization of Capital Markets
  5. Regional Policy Integration
- 

To further enhance the thematic findings of this study a relational data model was developed using Microsoft Excel to create a range of relationships that correspond to the themes and patterns identified via NVivo as demonstrated in the indicative graphs and charts illustrated throughout this study. Such relationships between data were transcribed as a pivot table that functions similar to a database providing an insightful correlation of findings identified using NVivo and thematic analysis. It is this process that lends strong confidence in the findings of this study as the data from the newly produced pivot table using countries as the common relationship captures Foreign Direct Investment (FDI), Chiang Mai Initiative (CMI), Asian Bond Market Initiative (ABMI), Foreign Exchange Reserves (FER), Gross Domestic Product (GDP), ASEAN-SITS (Statistics on International Trade in Services), and other related regional data via this data model.

### **The ABMI: Increasing Regional Financial Solidarity**

Adding to the collective economic tool kit of strategies, the ABMI offers stable regional investment vehicles that

foster an increased regionalist approach to economic stability (Capannelli, 2011a, 2011b). As a tool developed by the region's central bankers, the ABMI uses only local currencies, thereby recycling local investments back into the Southeast Asian regional market. In the past, the unwitting employment of the U.S. dollar, euro, or yen produced everything from uncertainty to disaster. The purpose of establishing the ABMI is to diversify financial sourcing to counter the overdependence of Asian economies on commercial banking for domestic financing (Bhattacharyay, 2012).

This bond initiative was developed because the underdeveloped bond market exposed a lack of needed financial intermediaries such as insurance companies, retirement pension funds, and reliable and credible credit rating platforms for Asian companies (Calvo-Pardo, Freund, & Ornelas, 2011). Similar to the CMI, developing the ABMI was critical to facilitate regional financial and economic integration to withstand any global crisis. Establishing effective policy coupled with massive Asian financial resources provided the foundation for developing region-backed bonds.

In 2009, USD 46 million of FDI flowed into the ASEAN region (ASEAN Secretariat, 2012, 2013b; Masron & Nor, 2012). This welcome influx of foreign investment was a result of the solid foundation and doorway created by the ABMI. In 2010, the infusion of FDI into the ASEAN region rose to USD 108 million (ASEAN Secretariat, 2013b; Masron &

Nor, 2012). By 2012, ASEAN's total FDI reached USD 117 million and approximately 75% (USD 87,840,000) originated outside the Southeast Asian region (ASEAN Secretariat, 2012, 2013b). Although it was initially welcome, this exorbitant amount of FDI was also worrisome, as the non-Asian FDI outweighs intra-Asian investments by too much. Economists warned that this situation underscores Southeast Asia's financial dependency on external funds and its exposure to the vulnerability of North American and European Union markets.

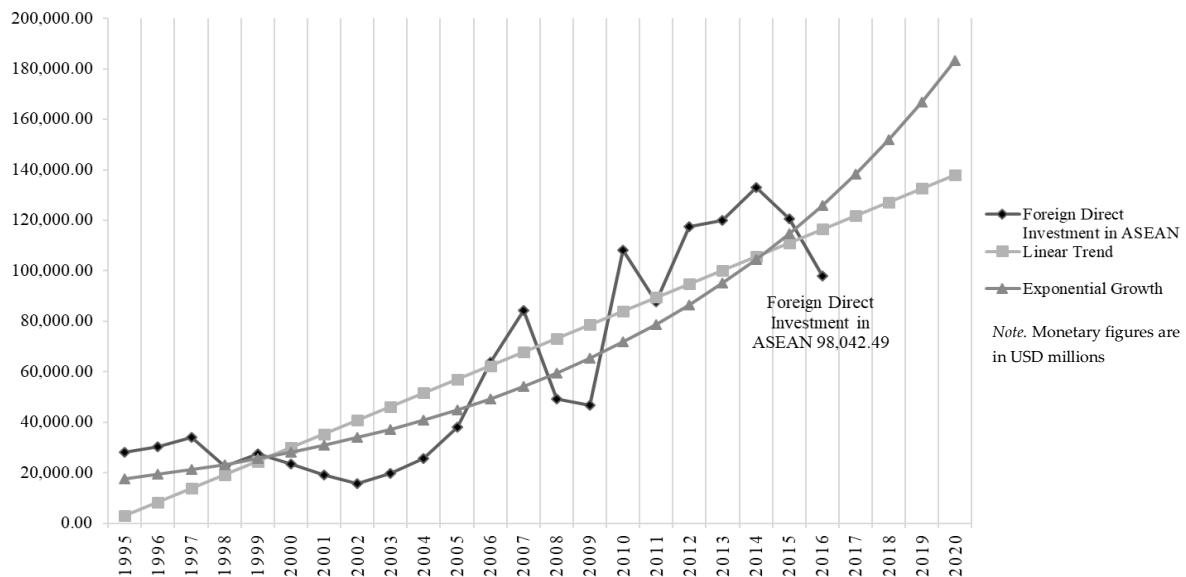
Historically, these non-Asian markets would have been highly rated and prized, but after the U.S.-precipitated global recession in 2008–2009, the markets were noted to be indisputably fragile (Das, 2012; Erkens et al., 2012; Reinhart & Rogoff, 2013). The CMI and the ABMI were established because of this fragility (Capannelli, 2011a, 2011b; Chin, 2012, 2014). Since this period, more regional integration efforts have been underway to attract external FDI in the form of public-private partnerships (PPPs) that can support diversified growth of the financial infrastructure while transferring risk to external investors.

Figure 1 depicts ASEAN's FDI from 1995 to 2016. In addition to the actual ASEAN FDI graph, the linear trend estimation portrays a regression analysis by calculating a straight line based on the actual FDI values from 1995 to 2016 and then forecasting them through 2020. The fidelity of this calculation is represented as

$R^2 = .7477$ , which portrays an accuracy measurement of the trend line that is the quality of the trend prediction. Exponential growth is portrayed as a

consistent rate of growth over a period of time, which in this case is until 2020. As shown in Figure 1, the inward FDI outlook for ASEAN appears positive over time.

**Figure 1. Inward FDI in ASEAN from 1995 to 2016; the estimated linear trend through 2020 and exponential growth through 2020**



Sources: ASEAN Secretariat (2007, 2013, 2017); ASEANstats (2017); United Nations Conference on Trade and Development (2017)

The ASEAN member states have shown resilience, elasticity, and forward-looking ingenuity following two decades of financial turmoil. FDI declined in 2016, but overall the region attracted 3.4 times more investment than the 1995 peak (ASEAN Secretariat, 2017). The cohesive resilience among multiple nations justifies regional economic integration to tailor investments focusing on cross-border financial transactions amid efforts to reinforce intra-ASEAN trade, thereby fostering a regional development environment. The argument against this intraregional approach is that increasing capital mobility might cause cross-border financial contamination from neighboring

countries. Therefore, diversity must be the focus of integration.

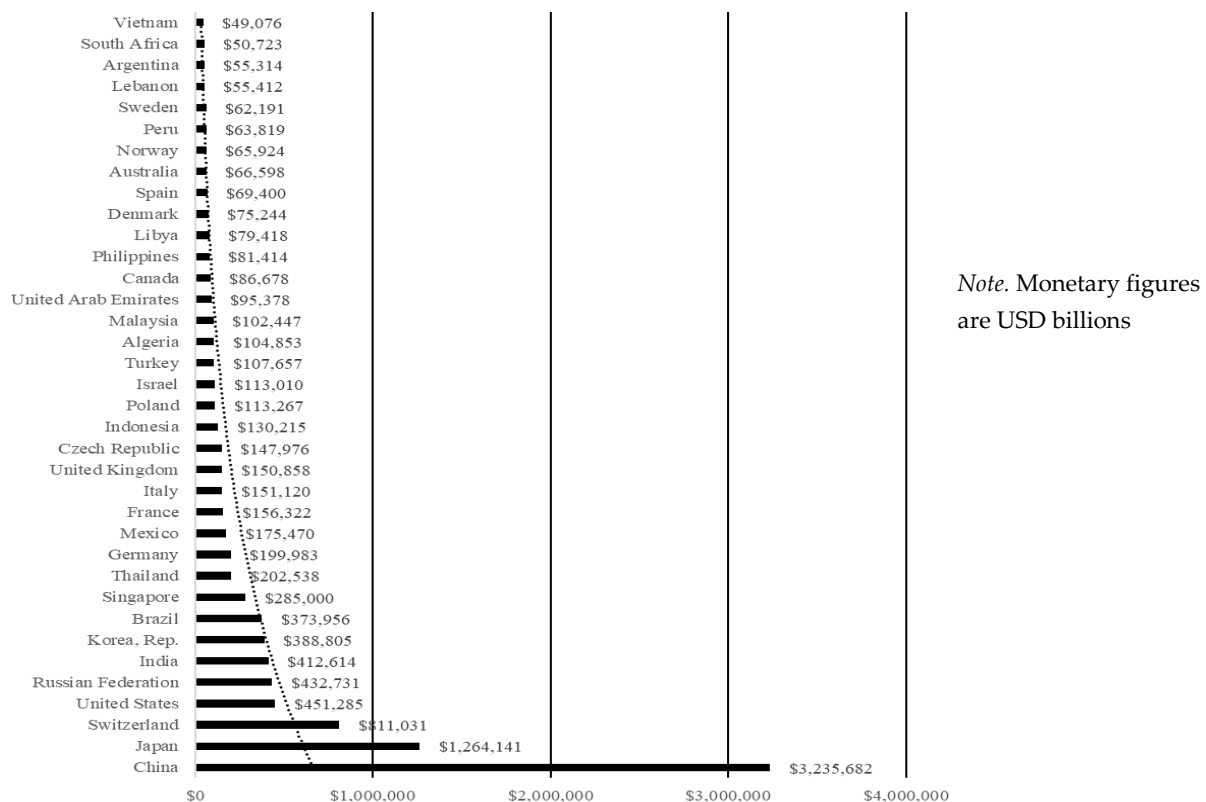
If a diversity model is properly implemented, economic integration in Asia has an excellent opportunity to fuel the ASEAN Economic Community, especially considering this region holds the majority of the world’s foreign exchange reserves. Figure 2 displays the countries with the highest currency composition of official foreign exchange reserves in the world; notably, China has reserves over USD 3 trillion and Japan has reserves over USD 1 trillion (World Bank, 2018). As they are far exceeding debt requirements, countries in Asia are looking to reinvest these reserves through

intraregional transactions that yield high returns and foster regionalist protections.

Other financial indicators that show ASEAN as a good candidate for implementing regional economic protection measures besides maintaining extremely large foreign exchange reserves in Asia are templating regional economic successes found throughout the region.

Mirroring the lessons learned in highly industrialized countries such as Singapore and Malaysia provide even more intra-ASEAN successes. Developing countries such as CLMV serve as ideal candidates to prosper from income distribution, liberalization of regional labor, liberalization of trade, and infrastructure development.

**Figure 2. Global ranking of foreign exchange reserves 2017**  
Total reserves includes gold, current USD



Source: World Bank (2018).

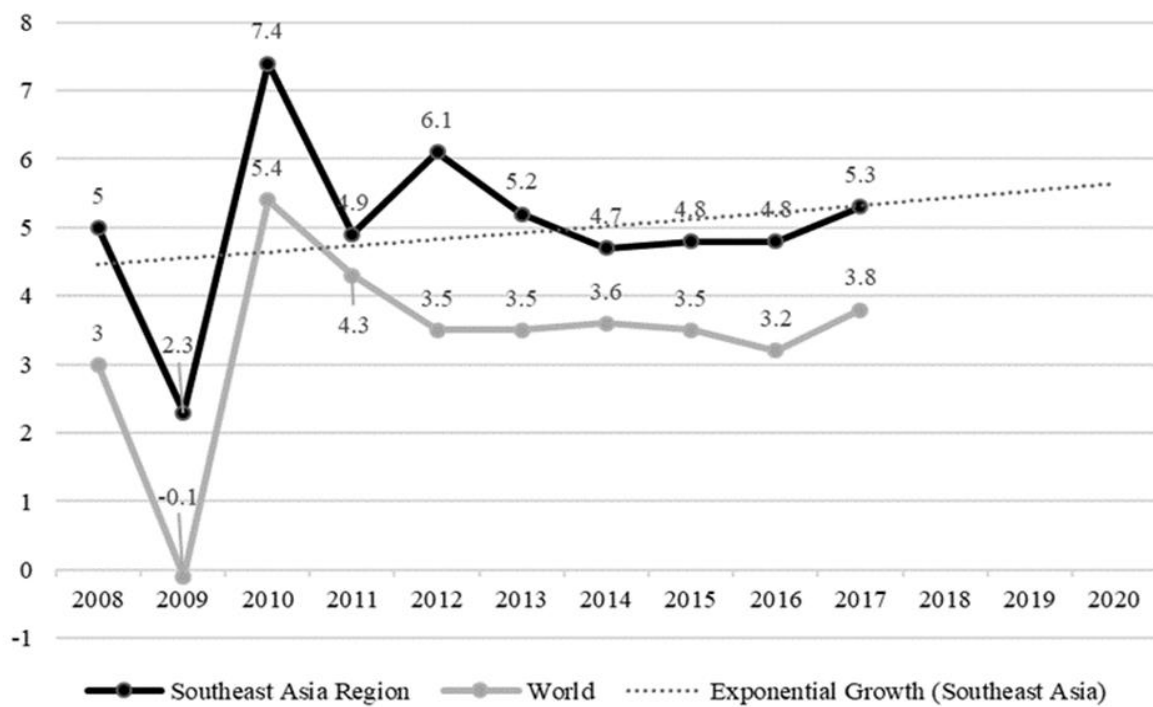
If fully implemented to counter future crises, ASEAN+3 (China, Japan, and South Korea) could create the world's largest free-trade area, thereby potentially changing the future global economy (Calvo-Pardo et al., 2011; Petri, Plummer, & Zhai, 2012).

The potential scope of this project can be visualized by studying the combined Southeast Asian regional gross domestic product (GDP) of USD 2.9 trillion projected for 2018, with real economic growth of about 5.1% (ASEAN Secretariat, 2017; Asian Development

Bank, 2017). It is widely forecasted that the rate of economic growth in ASEAN is poised to increase to 5.4% by 2023 based on strong economic spending in the region (International Monetary Fund, 2018). This trend shows that ASEAN is one of the world's fastest growing regional economies, with Cambodia, Laos, and Myanmar leading the Southeast Asia region for the foreseeable future while the

Philippines and Vietnam are expected to lead economic growth among the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam; Organisation for Economic Co-operation and Development [OECD], 2018). Figure 3 depicts the real GDP growth by annual percentage change for Southeast Asia and projected trends through 2020 for Southeast Asia.

**Figure 3. ASEAN's regional real gross domestic product growth by annual percentage change from 2008 to 2017 and exponential growth through 2020**



Source: International Monetary Fund (2018)

Including the neighboring economies of China, Japan, and South Korea with ASEAN nations' regional GDP values profoundly alters the character of any future global financial crises. Historically, the devastating financial/economic crises were precipitated by burdensome financial ties with Europe and the United States, but a

more financially protected ASEAN may have the best opportunity to implement a successful economic community. Key factors for this prediction include elevated foreign exchange reserves, regional trust funds, expanding regional bond markets, a solid market-driven economy, and the capability to integrate goods and trade via more streamlined trade policies,

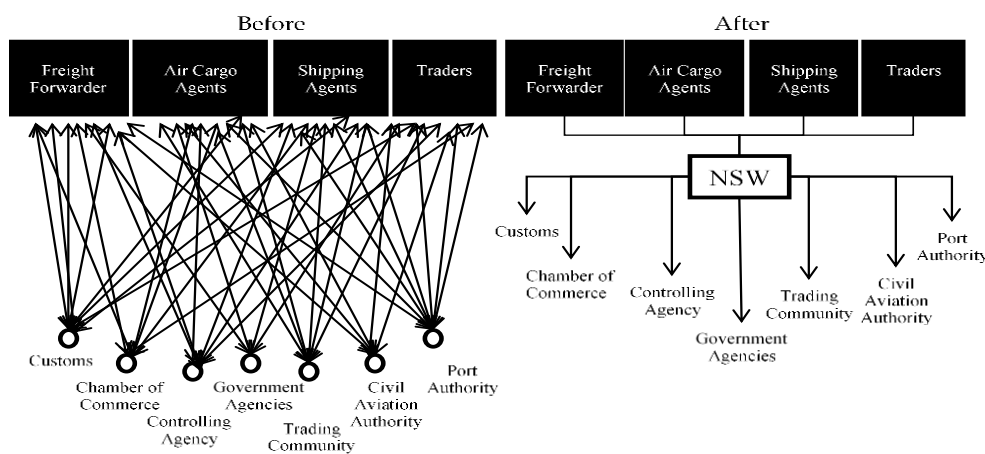
cooperation, and digital collaboration. All these factors reduce tariffs and comply with the ASEAN Trade in Goods Agreement in support of the ASEAN Single Window (ASW).

**ASEAN Single Window: A Trade Facilitation Catalyst**

In a specific effort to facilitate economic growth and competitiveness within the boundaries of ASEAN, this article also explores the ASW initiative that seeks to exponentially expedite trade facilitation, both regionally and internationally. The ASW is primarily based on Singapore’s successful National Single Window (NSW), TradeNet,

implemented in 1989. Figure 4 demonstrates the efficiency behind the NSW based on a digitized network for the electronic submission of customs documents, electronic payments, and government and business collaboration to become a competitive regional and global supply chain player to increase efficient trade flows. 1989. Figure 4 demonstrates the efficiency behind the NSW based on a digitized network for the electronic submission of customs documents, electronic payments, and government and business collaboration to become a competitive regional and global supply chain player to increase efficient trade flows.

**Figure 4. Sample efficiency of the National Single Window process**



Source: adapted from CrimsonLogic (2010); Jones (2016)

The ASW is an environment in which 10 NSWs of individual ASEAN member countries collaborate with the private sector to design, operate, maintain, manage, finance, and integrate infrastructure projects in support of the world’s first digitally integrated regional trade facilitation platform (Chia, 2013; Japan Association for Simplification of

International Trade Procedures, 2012; Jones, 2016; Kabir & Salim, 2014; Neufeld, 2014). The ASW is a critical success factor for the regional integration of trade and services supported by multilateral tariff elimination, the harmonization of best business practices, and a common information and communication technologies infrastructure aimed at

augmenting digital connectivity, business capacity, and the free flow of goods in the global supply chain. Key economic elements funding the ASW are FDI, composition of official foreign exchange reserves, and GDP. One key factor is the implementation of nontariff barriers

designed to overcome trade barriers such as licensing and excessive cargo fees to better facilitate regional economic stability. Table 3 identifies the initial trade facilitation goals for ASEAN that will create and capture economic value through regional collaboration.

**Table 3. Initial ASEAN Single Window Goals**

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<ol style="list-style-type: none"> <li>1. Reduce the number of documents required to import and export among the ASEAN Member States</li> <li>2. Reasonably reduce the physical inspection rate of goods</li> <li>3. Complete the full roll out of the NSW project by 2018 (excluding Cambodia, Laos, and Myanmar)</li> <li>4. Sign protocol supporting the ASEAN Customs Transit System, eliminate double taxation, and eliminate nontariff barriers against import and export goods (liberalization of regional transportation)</li> <li>5. Fully implement the National Trade Repositories and the ASEAN Trade Repository</li> <li>6. Substantially restructure business processes for enhanced streamlining and simplification</li> <li>7. Accelerate standardization of data requirements and data exchanges to facilitate trade across regional borders; establish technical integration standards</li> <li>8. Establish ASW technical working groups to facilitate regional information processing and sharing</li> <li>9. Harmonize capital flow for import and export of cross border goods (standardized electronic payments)</li> <li>10. Develop regional cooperation in infrastructure development to promote electronic commerce and transactions that provide the foundation for enhanced free trade agreements with other countries outside ASEAN</li> <li>11. Increase global supply competitiveness, narrow the regional development gap, and foster financial stability against another financial crisis</li> </ol>
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*Source:* Intal, Dionisius, & Fukunaga (2012)

Figure 5 portrays a simplified view of redundant connectivity via each ASEAN Member State's NSW infrastructure. The implied requirement to facilitate this digitized economic approach to regionalization is a robust and collaborative infrastructure along with harmonized formatting of shared data to mitigate cross-border challenges and increase intra-ASEAN trade growth

(Jones, 2016). The live exchange of harmonized data such as a certificate of origin when digitized is for use in completing the electronic ASEAN Trade in Goods Agreement Form D that aligns with collaborative regional policy requirements to identify preferential tariff treatment.

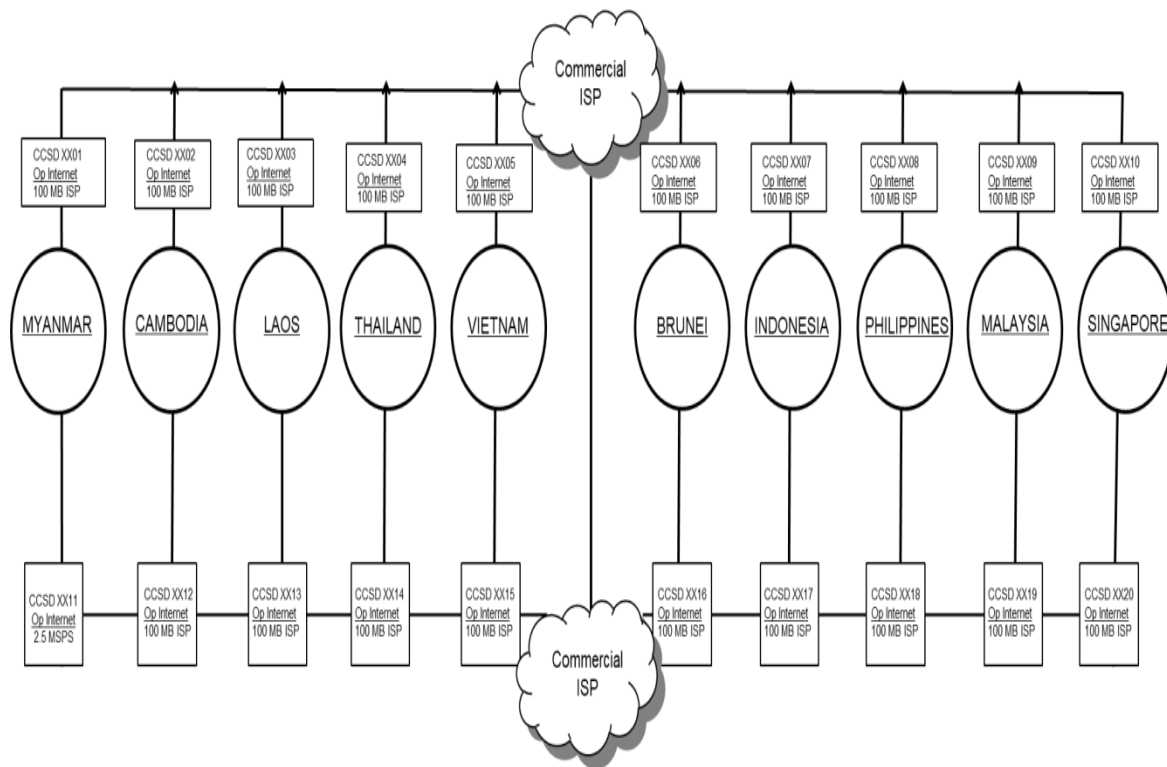
This digital integration across regional customs authorities is destined to



significantly minimize hard-copy transactions and enhance business process and transaction management, along with

other optimization opportunities based on supportive regional policies.

**Figure 5. ASEAN single window system engineering conceptual design for the electronic transmission of harmonized data**



Source: Jones (2016)

These regional infrastructure integration policies will enhance communication, financial transactions, and supply chain risk management specifically in Laos, Myanmar, Indonesia, and Cambodia who currently have the lowest levels of Internet use in the region (OECD, 2018). Such techniques are key to reducing the digital divide among ASEAN member states, facilitating e-commerce growth, and increasing individual information and communication technologies skills.

The overarching goal of the ASW environment is to support a regional single market and production base with five core elements: (a) free flow of goods, (b) free flow of services, (c) free flow of investment, (d) free flow of capital, and (e) free flow of skilled labor (Chia, 2013; Japan Association for Simplification of International Trade Procedures, 2012; Jones, 2016; Kabir & Salim, 2014). Another critical aspect of regionalism is collaboration and cooperation through tariff liberalization. As of January 2010, Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand

(ASEAN-6) eliminated intra-ASEAN import duties on 99.86% of tariff lines. CLMV senior leaders reduced their import duties between 0% and 5% on 98.86% of their tariff lines (ASEAN Secretariat, 2012; Hwang & Lee, 2015; Petri et al., 2012). Progress across the region remains disparate due to differing national capabilities, despite striving for the same end state.

### **Conceptual Framework: Collaborative Infrastructure and Policy Growth**

Constructing an ASW was, and still is, a sophisticated and complex project involving intricate computer engineering and high-level financial instruments. Having implemented the world's first digital collaborative trade facilitation system for Singapore in 1989 (CrimsonLogic, 2010) based on the principle of a PPP facilitates a risk transfer of financial debt in exchange for long-term corporate profits. Such a risk gap concept is preferred where economic conditions are fragile, although conceptualized integration must be achieved to create economic stability and stimulate future growth. Therefore, many ASEAN member states have turned to such best practices as establishing NSWs (trade facilitation systems) to develop similar techniques and procedures relative to each ASEAN nation.

The key assumption is that government-to-business and business-to-government are perhaps the most relevant instruments for overcoming known financial, technological, economic, trade, and regulatory barriers related to

implementing national trade facilitation systems, which is a government-to-business practice that Singapore was able to establish using a design, build, operate, and maintain model (Jones, 2016). Therefore, PPPs are considered a critical principle for attaining the ASW objective, especially for the CLMV nations.

As consumer purchasing power increases in line with regional economic growth, the result is an increase in jobs, living wages, standard of living, and quality health care options. But key to the success of various branches of regional integration is constructing solid policy agreements that hold intact the central focus areas and thematic engagements to overcome regional challenges, and strengthen capacity (OECD, 2018). Such steadfast willingness to standardize complex regional policies is a prime indicator of potential success.

In its simplest form, regional policy integration is a systems approach to planning. The interdependencies of the integrating focus areas, which include financial, economic, infrastructure connectivity, trade, and regional policy integration, infer that a change in one of the risk factors may have a serious effect on at least one of the other risk factors (Hartono, Sulistyono, Praftiwi, & Hasmoru, 2014; Jones, 2016; McCann, 2013; Project Management Institute, 2013; Sebestyén & Tóth, 2014; Zhang & Fan, 2014). Therefore, even minimal changes can lead to economic disruptions (OECD, 2018). It is therefore imperative that a comprehensively regulated digital

economy tying collaborative national infrastructures together demands a strategic and dynamic outlook, as demonstrated in Figure 6. With the regional focus areas of economic integration including a digital single market, financial integration, policy integration, and infrastructure connectivity listed in Figure 6, integrating to achieve equitable economic growth based on multitrack efforts includes participating in other multilateral free trade agreements in the Asia Pacific region that are also emerging. One of these is the Regional Comprehensive Economic Partnership (RCEP), which encompasses Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The United States, under the Trump presidency, has disengaged from the Trans Pacific Partnership (TPP), which provides greater opportunity to create the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), a modified version of the original TPP.

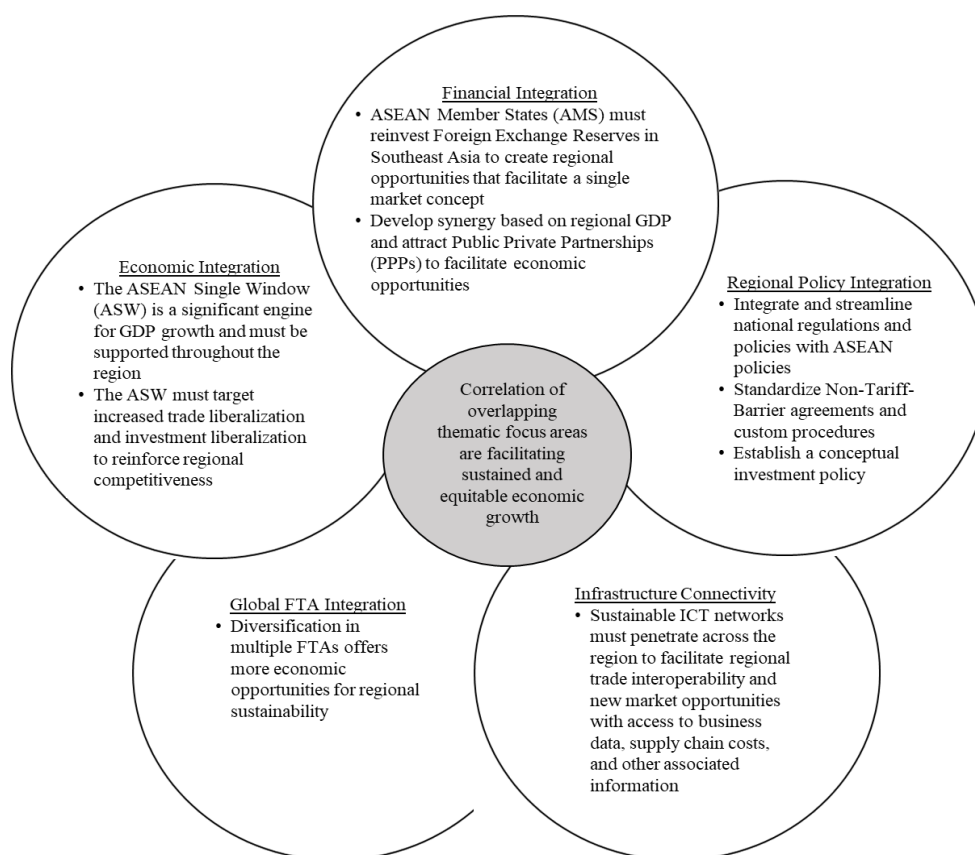
Despite some changes in partnership, the digitized ASW, ASEAN Free Trade Area, RCEP, and CPTPP continue to progress. If ratified and implemented, the CPTPP economic model will represent approximately 13.5% of global GDP or USD 147 billion in global income gains (Goodman, 2018; Ji, Rana, Chia, & Li, 2018) and expands liberalizing trade with other participating countries in the Pacific region such as Australia, Canada, and Japan. This expansion will

significantly improve market access for emerging market countries such as CLMV. Thus, emerging market countries should reap the new benefits and stabilize economic equity in the region with more fair market access based on projected macroeconomic effects (Ji et al., 2018). Through an increase in regional opportunities, the RCEP represented approximately 31.4% of global GDP in 2016, or USD 23.8 trillion, and converging these aforementioned agreements into a Free Trade Area of the Asia Pacific with other regional partners represented 59.7% of global GDP in 2016 or USD 45.1 trillion (Ji et al., 2018). Although the United States has disengaged from participating in multilateral free trade agreements such as the TPP thereby lowering initial economic cooperation predictions, the Asia Pacific block of nations continue to support multilateralism and regional cross-border trade. The ability to participate in the ASW and other free trade agreements widens the trading bloc and fundamentally supports the theory of regionalism as participating in multiple multilateral trade agreements and offering more economic opportunities while minimizing economic risk (OECD, 2018).

Data from 2010 shows a pattern of imbalance exists in intra-ASEAN import and export trade in services (see Tables 4 and 5). Despite hopes for quicker pan-regional trade equity, ASEAN import and export trade data from 2016 showed only marginal overall growth, with the long-standing gaps between the different nations remaining constant. This is also

true for intra-ASEAN import and export trade in goods.

**Figure 6. Venn diagram of integrated thematic focus areas**



Therefore, similar to the CMI and ABMI economic tools established to support investments internally in the ASEAN region, regional free trade agreements with common access benefits such as nontariff barriers are anticipated to even the disparity via updated integration policies and infrastructures. Good trade agreements are necessary and work. Before the TPP was modified to the CPTPP, it was projected to be the largest regional trade agreement (Petri & Plummer, 2016). Regardless of the modifications to the CPTPP, gains are projected to be significant upon ratification.

**Table 4. 2010 and 2016 ASEAN import trade in services by reporting countries in USD million**

Country	Sum of 2010 imports	Sum of 2016 imports
Brunei	\$1,267.30	\$1,644.60
Darussalam		
Cambodia	\$980.24	\$1,951.65
Indonesia	\$26,460.99	\$30,521.33
Laos	\$263.12	\$619.17
Malaysia	\$31,833.54	\$39,872.59
Myanmar	\$729.20	\$2,899.50
Philippines	\$12,017.00	\$24,232.73
Singapore	\$101,212.69	\$155,585.88
Thailand	\$41,333.32	\$42,778.43
Vietnam	\$9,857.00	\$16,477.00
Grand total	\$225,954.40	\$316,582.89

Source: ASEANstats (2017)

**Table 5. 2010 and 2016 ASEAN export trade in services by reporting countries in USD million**

Country	Sum of 2010 exports	Sum of 2016 exports
Brunei	\$460.50	\$530.50
Darussalam		
Cambodia	\$2,028.46	\$4,458.29
Indonesia	\$16,670.51	\$23,478.20
Laos	\$511.00	\$830.97
Malaysia	\$33,822.79	\$35,270.61
Myanmar	\$350.70	\$3,779.40
Philippines	\$17,782.00	\$31,357.24
Singapore	\$100,832.20	\$149,647.12
Thailand	\$34,339.83	\$65,244.58
Vietnam	\$7,417.00	\$12,228.00
Grand total	\$214,214.98	\$326,824.92

*Source:* ASEANstats (2017)

Although economic disparity decidedly exists across the 10 ASEAN member states, continued multination collaboration and integration will gradually reduce the most severe disparities over time. Understandably, achieving pan-ASEAN economic parity remains a complex and challenging endeavor. However, an overall unified ASEAN Economic Community will, according to reliable data signs, increase in strength and serve the region with effective strategies for collective economic prosperity otherwise referred to as economic regionalism.

### Conclusion

From analyzing the most pertinent data sets tracking the machinations of ASEAN's single market model, regionalism, it appears it is proving to be a feasible, viable, visionary three-pronged

plan successfully establishing: a) a protective financial bulwark against both unexpected and/or targeted financial interruptions from non-Asian states, b) financial instruments to protect itself from internal financial difficulties and, c) a much more robust and integrated regional economy. Naturally, the more integrated the trading platforms become, the increasingly greater and more successful regionalism becomes. These platforms include multilateral intra- and extra-ASEAN collaborative trade relationships, the ASW's sophisticated digital trade platform, expedited payment platforms for business-government/government-business transactions and integrated governmental infrastructures. These are the gears, nuts and bolts that engineer the single market regional model and have to date manifested tangible, recordable increased regional profitability and heightened financial security and resiliency. The growing success of the regionalism model makes it more trusted and valuable as a trading partner and attractive to non-Asian global traders and investors. However, the model has not yet had to be tested by a crisis such as the 1997 Asian Financial Crisis or the North American 2007/2008 Financial Crisis. Until it survives a storm of those magnitudes, the model is not a proven risk-free entity. But, for now, the trajectory for this model is on a positive course delivering greater fiscal safety and resiliency as well as increased profitability for the ASEAN single market region. This portfolio of regional economic integration activities and growth initiatives was demonstrated in figure 1 (FDI) linear inward trends,

figure 2 (FER) Asian reserves, figure 3 (GDP) regional annual growth, table 4 & 5 (trade) annual growth in services and goods signifying ASEAN's value chain approach to economic regionalism.

### About the Author

Craig A. M. Jones is an Adjunct Professor at the Graduate School of Business and Management, Argosy University, Honolulu, Hawaii. He received a doctorate of business administration in international business, summa cum laude and wrote a dissertation in which he addressed business strategies concerning import and export trade facilitation in Southeast Asia as a partnership between ASEAN and the private business sector to bring about strategic economic change. He received his master of business administration in international business, magna cum laude, and a bachelor of arts in French language and literature.

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# Repositioning Indonesia – Thoughts on the Indo-Pacific

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## Abstract

*Indonesia's growth has stimulated new strategic ambitions. One example is the conceptualization of a new 'Indo-Pacific' regional structure reaching beyond ASEAN. This essay seeks to describe the changing regional and global environment which Indonesia today confronts - stressing the faltering of globalization and the 'return of history' - and then goes on to examine in some detail current Indonesian thinking on the 'Indo-Pacific'. What are the strengths and weaknesses of this exercise of transformative leadership? While acknowledging that ASEAN has begun to employ the term officially in June 2019, there are reasons for caution in further developing an 'Indo-Pacific' vision. It is already entangled with attempts to counter China, and also with risky proposals for a new regional architecture. Commentators on ASEAN have tended to underestimate the creativity with which ASEAN has already incorporated the large Northeast Asian states - together with India, the United States and Russia - in its institutions. There is danger that 'Indo-Pacific' aspirations might damage ASEAN centrality and, as a result, provoke a greater contest for leadership between the major states. ASEAN-led institutions - which have emerged organically - reflect the current complexity of the region. They have also served Indonesia well - and require strong Indonesian backing.*

Key words: *Indo-Pacific, the return of history, regional architecture, ASEAN Centrality, and globalization.*

## Introduction

Before considering how best to reposition Indonesia in the world – and I will be looking, in particular, at Indonesia's current Indo-Pacific initiative - we need to ask how the world itself has been repositioned. One issue must concern the progress of globalization.

Until the mid-20<sup>th</sup>-century the entire Asian region was either under

European colonial rule or strong Western imperial influence. That is how the region was structured – with the great centers of power in London, Paris, The Hague and Washington. After the extraordinary conquests by Japan, which effectively ended the Western imperial project, Asia was quickly drawn into the Cold War. Countries lined up as Communist or Anti-Communist, and some tried to sustain a degree of neutrality or equidistance.

At the end of the Cold War, in the last decade or so of the 20<sup>th</sup>-century, as is often commented, there was a unipolar moment – an America-dominated world with a sense of globalization not merely being economic, but also a globalization of ideas. One commentator wrote of the ‘end of history’ – the US had won, he suggested, with its liberal democratic ideology. Communism had been annihilated, and Western liberalism had the ‘wind in its hair’. This said, there were still objections. Dr Mahathir in Malaysia and a number of bright Foreign Ministry intellectuals in Singapore spoke of ‘Asian values’. They said you had to understand these values to explain the great economic transformation taking place in Asian countries – and there was also a need to acknowledge Asian values in the political arena, and not just insist that all societies must develop in the same way. The democracy, human rights, and other supposed responsibilities of government which Westerners have tended to advocate, so it was argued, are not necessarily universal norms.

Mahathir even pushed the idea of an East Asian Economic Group in 1990, saying that if Europeans could have their European regionalism, surely Asians could have theirs. He was advocating the concept of ‘Asia’ or ‘Asian unity’, which had been developed by Indian and Japanese thinkers from the late 19<sup>th</sup> century. In 1990, however, the Western influence was too strong for the Mahathir proposal: advocates of APEC (Asia Pacific Economic Cooperation), which had begun in 1989, and was an ‘Asia Pacific’ not

‘Asian’ organization – and one dominated by the United States – pushed the Mahathir proposal aside. What is more, in 1997-1998 parts of Asia, including Indonesia, entered a terrible financial crisis – and, as a result, faced an element of ridicule from some Western commentators. Where are your Asian values now? - was the tone of these comments.

Japan and Australia assisted during this crisis – but so did China, especially by maintaining the value of its currency against the US dollar. APEC, for all its promise, was not seen to be helpful, and by the end of the 1990s ASEAN countries were joining China, Japan and South Korea in a new East Asian grouping similar to the Mahathir concept of a decade earlier - and termed ‘ASEAN Plus Three’. Asian countries, in the wake of the crisis, had decided to help one another in an ‘Asian’ not US-dominated ‘Asia Pacific’ organization. In a sense, the ASEAN Plus Three initiative was a triumph for the century-old ‘Asia’ movement. It could be viewed as well as a setback for the process of US-led globalization, and an instance of a renewed potency of historical forces.

### **The Return of History**

In the decades after the Asian Financial Crisis, China has been rising in wealth and confidence, with the United States in relative decline – and the competition between these powers has been the preoccupation of international relations commentary. The change underway, however, has concerned far more than a shift in power. In one area

after another we have been witnessing a 'return of history' which counters the flow of globalization. The prospects of a more or less homogenous world appear to be increasingly weak, and the likelihood of developing turmoil is growing.

President Trump, in rejecting "globalism", has seen the alternative as the "doctrine of patriotism" (Sachs, 2018) – but there are many other possibilities. One consequence of the return of history, it might be argued, is that it brings into question established ways of thinking about international relations issues. The framework that is so often employed, of course, was designed for a Western world. It assumes a society of numerous states, locked in struggle with one another, and driven by more or less the same motives – particularly the quest for power. Seldom do Western analysts of foreign relations factor in history – or religious and philosophic drivers. In a recent book, Bilahari Kausikan - the former head of the Singapore Foreign Ministry – explained that he had studied International Relations but after being a diplomat for thirty years decided that this training was not useful. Its theory, he said, was too mechanical – and he found "history, literature and philosophy" were "better preparations for understanding international affairs" (Kausikan, 2016).

In Asia today, the analyst certainly needs to be able to deal with philosophic and sociological developments. To speak of history in today's Asian region is not to insist that the times are static, or backward-looking – rather, historical

processes seem to be working their way forward, drawing from the past but tackling current issues and challenging dominant ideas. In Indonesia, for instance, religious processes in the 18<sup>th</sup> and 19<sup>th</sup> centuries – Salafi processes described by Azyumardi Azra (Azra, 2014) and Merle Ricklefs (Ricklefs, 2006) - promoted a strengthening of religious observance and the specific role of Islamic Law. These developments were hindered or moderated in the Dutch colonial period – as Islamization was also resisted by the British on the Malay Peninsula – and one aspect of the return of history has been the revival of the Salafi movement in recent years, as Western influence has waned in Southeast Asia. The growing demand today for reforming Indonesian society on religious grounds has in particular entailed trenchant criticism of liberal values.

The Salafi movement is intensely modern, not only in the matters it addresses, but also in the way it harnesses the internet and social media. Research by Indonesia's State Islamic University has indicated that Jakarta tweets more than any other city in the world, and the rise of Islamic religiosity benefits from this technological development (Lindsey, 2018, pp. 87).

In what ways, one must begin to ask, will changing demands from the Islamic community begin to influence more sharply how Indonesia – or Malaysia – will behave in the international sphere? Is it possible that Islamic concepts will eventually damage the primacy of the

nation state – the man-made, Dutch-colonial-influenced state - or at least the character of that state? Students of ‘international’ relations might find they need to look beyond the state-to-state structure when examining future developments in the Southeast Asian region. In particular, they will need to know how religious beliefs may foster forms of community and identity that do not sit comfortably in national categories.

To take another example of history’s possible role in reconfiguring the Asian region, foreign affairs analysts are also being challenged by developments in the South China sea – and, more broadly, in Southeast Asia-China relations. Faced with a rising China, some commentators have assumed that Southeast Asian countries will seek ways to balance against that power – that is, they will seek allies, such as the United States, Japan and Australia, to help them. They are assumed to wish to form an anti-China alliance. If they do not act in this way – so the analysis proceeds - then their other option is to appease or bandwagon with China, conceding what China wants. Balance or bandwagon – these are the stark options in this International Relations, Western realist, view of the world. But other types of approach to inter-state relations are also possible – some rooted in historical experience.

There are indications, for instance, that present-day Southeast Asia-China interaction may be being shadowed by an older form of inter-state relations in Asia – one offering an alternative to the post-

Westphalian equal-sovereignty structure that arose in Europe and was imposed across Asia. Although at one level the countries of the region today behave as sovereign states in an international community, at another level both China and Southeast Asian countries are influenced by pre-modern ideas, particularly relating to hierarchy. Given the experience of a hierarchical Asian world in which many Malay Archipelago states looked up to China and other major powers, it may be that modern ASEAN countries are unusually comfortable today in the face of a rising China. The way Prime Minister Mahathir – in his August 2018 visit to China – not only negotiated hard with China over economic matters, but also talked of Malaysia being only a “small” country and expressed respect for China’s regional role (Mahathir, 2018), is representative of this relaxed approach. In Southeast Asia, on the one hand, there does not seem to be an automatic reaction to balance against China; and, on the other, there is no obvious, passive acceptance of Chinese demands - no subservient band wagoning.

These countries, it would seem, do not want intervention in their domestic affairs on the part of China or any other major power. They do not want to be attacked militarily by China on their islets or rocks in the South China Sea. But they are open to negotiation. They look at the whole range of dimensions in their China relationship – and seek not to push China back, but to embrace China, attempting also to soften its demands. In a sense, these countries aim to bring China closer

to Southeast Asia, engaging it in ways that will bring benefit to Southeast Asia. As they have done for centuries, the Southeast Asian leaders seem to be seeking a 'smart accommodation' with China. Embrace not push-back, working with hierarchy not insisting on sovereign equality – these are old Indonesian/Malay foreign-relations preferences, and they do not fit comfortably into the usual International Relations way of viewing things (Milner, 2017b; Milner, 2017c).

Let me mention one more case of the potency of historical forces in this time of structural as well as power transition. This is the particular manner in which ASEAN has been developing. I stress this theme partly because I intend to come back to ASEAN when I arrive at the question of exactly how Indonesia might best position itself in the world. ASEAN has much in common with other regional organizations – and one feature of recent decades is the growing role of regions, and not just states, as players in the global community. Certain features of ASEAN, however, have a local or indigenous character.

At one level the creation of ASEAN was just a sensible, practical initiative – an initiative that helped bring stability to Southeast Asia, and also to foster prosperity. At another level, ASEAN is the product of specific, Asian historic processes – including the late 19<sup>th</sup>-century attempts to promote a sense of pan-Asian community. Even in the 1940s, some Southeast Asian leaders saw the promotion of unity in their immediate

region as a step toward creating a larger Asian community. Another local factor was highlighted by the Malaysian foreign policy leader, Ghazali Shafie. He argued that the concept of *berkampung* or 'togetherness' was deeply rooted in Malay/Indonesian societies. He suggested too that the bamboo plant had long reinforced this value – a single reed, he reminded his readers, can be broken by a "single gust" of wind, but growing in a cluster bamboo can stand firm (Shafie, 2000, pp. 205-206, 220, 355). ASEAN has sought to be such a cluster – and was, in part, a result of this seeming instinct for uniting together, for gaining strength through community-building.

Another indigenous, historical dimension of ASEAN behavior has been the assumption – again, almost an instinct – that it is appropriate to build friendships in any and every direction, and regardless of differences in culture and ideology (Nazrin, 2018). There is plenty of evidence in the early history of the Malay Archipelago of rulers doing this – seeking to be open, balanced and friendly to all sides (Milner, 2015) - and in the case of ASEAN it helps to explain why the original non-Communist ASEAN countries were so willing to incorporate the Communist countries, Vietnam, Cambodia and Laos, into the grouping. In Europe, there were different foreign relations traditions, so that today the EU remains strongly at odds with Russia.

A third local feature of ASEAN concerns the handling of major powers in general, and not just China. Seemingly

comfortable in acknowledging their weakness with respect to such countries, the ASEAN states find ways to maintain their autonomy, their room for maneuver (and their independence in domestic affairs). It is here we see the quest for smart accommodation in the region's hierarchy diplomacy. In the old writings of the region, the image conveyed by this diplomatic ingenuity is that of the wily mousedeer (*pelandok jenaka*), who employs all types of tactic to survive among the big animals of the forest (Milner, 2016, pp. 33-36). This 'small state' imperative in Southeast Asia has been noted by Bilahari Kausikan, explaining that the "preferred strategy for the countries of Southeast Asia [has been] to maximize autonomy by keeping options open and maintaining the best possible relationship with all the major powers" (Kausikan, 2017). In this mousedeer ambition, Southeast Asian countries seek an "omnidirectional state of equilibrium between all major powers that allows the countries of the region maximal room to maneuver and autonomy" (Kausikan, 2017).

Summing up, I am suggesting that the Asian region is not only in flux because of shifts in power, especially the relative decline of the United States and the great growth of China. Despite all that was once thought about the likely influence of globalization and the coming dominance of Western liberal (including post-Westphalian) thought, the region is now also being destabilized by a return of history - influencing in complex ways the behavior of different regional states. It is not that the region is moving backward;

rather, historical forces are impacting on state behavior, moving that behavior beyond the familiar nation-state and interstate structure - underpinned as it has been by liberal values, and established by Western powers primarily in the 19<sup>th</sup> century. The emerging reconfiguration of Asia is unlikely to replicate closely pre-Western structures; still, it will probably entail the working out of historical forces that go far more deeply than Dutch, British and United States influence.

The change underway in Asia today, therefore, can be expected to be about the 'rules of the game' - the way the region is structured, the manner in which the different players are constituted, and the changing preferences and anxieties of the players. We might ask what exactly 'ASEAN' might mean in 30 years, or how a China-centered region might operate - or even how 'Indonesia', 'Malaysia' or even 'China' itself might be understood as units in the regional and global configuration. One thing is clear, this is a time to think very carefully about policy innovation, considering carefully all possible implications or consequences.

### **The Positioning of Indonesia**

Having set this scene, let us return to the positioning of Indonesia. In the midst of all this change, Indonesian leaders - as one might expect - have been doing some hard thinking. Noting that Indonesia has been growing steadily - with predictions that the country will become a major world economy in the next couple of decades - some in the country's leadership have been tempted to

see Indonesia's future lying beyond ASEAN. There has been talk of ASEAN not as 'the' cornerstone of Indonesian foreign policy (as it continues to be in Malaysia's case), but as 'a' cornerstone (Natalegawa, 2018, pp. 108, 149). Also, the Government has come up with the idea of Indonesia as a "global maritime fulcrum".

Exactly what is meant by a 'global maritime fulcrum' remains somewhat unclear. It does highlight the large maritime dimension of the Indonesian state – of Indonesia's national territory – but it also suggests an ambition for Indonesia to exercise strategic weight beyond Southeast Asia. Such weight, of course, would require the development – the substantial development – of Indonesian naval power (White, 2018, pp. 18).

Another way in which Indonesia has been reaching beyond ASEAN is in the focus being given in recent years to the 'Indo-Pacific' idea – a term relatively new to the region and one which, after much hesitation, has begun to be employed in ASEAN meetings. This 'Indo-Pacific' focus is of added interest right now because of the importance the concept is being given in United States, Japanese, Indian and Australian strategic deliberations. In Indonesia, the current President and Foreign Minister have been thinking aloud about what 'Indo-Pacific' might mean, and former Foreign Minister Marty Natalegawa, in a recent and thoughtful book (Natalegawa, 2018) has reminded the international affairs commentariat that Indonesia has been

developing an 'Indo-Pacific' agenda from a relatively early date – at least since 2004. There are problems, however, with the Indo-Pacific project - including in terms of Indonesian interests – and these suggest it may be unwise to re-position Indonesia in this direction.

According to Marty, the Indo-Pacific idea was an aspiration when Indonesia lobbied to involve India – and also Australia and New Zealand – in the East Asia Summit (EAS), which first met in 2005 (Natalegawa, 2018, pp. 89). By contrast, Malaysia and some other states wished to keep the Summit to East Asian countries (China, Japan and South Korea), in addition to ASEAN countries. Marty has also written about his efforts to create an 'Indo-Pacific Treaty' – an agreement, a set of rules for the Indo-Pacific region. True, he says it would be influenced by ASEAN's long-established Treaty of Amity and Cooperation (TAC) - the treaty which every country participating in the EAS has to sign - and also by the 2011 EAS Bali Principles, with their stress on peaceful settlement of disputes (Natalegawa, 2018, pp. 154). Nevertheless, having a specific Indo-Pacific Treaty, in Marty's analysis, would move relations among the region's states beyond the current ASEAN 'hub and spokes' structure – the ASEAN Plus X, Y and Z structure. An Indo-Pacific Treaty would be more than an agreement between ASEAN and each of these external countries. It would be an independent code for the whole Indo-Pacific region. (Amitav, 2014, pp. 12-13). This does not mean explicitly that Indonesia would be

pioneering a new regional organization, a new community – standing separately from ASEAN, and larger than ASEAN or even than ASEAN Plus Three. Nevertheless, having such a treaty, a code, it seems to me, could be seen as the basis for a new ambitious grouping – and a grouping, it must be said, in which ASEAN centrality might be seriously threatened.

Statements from the current Indonesian Administration do strengthen the view that a new regional architecture is being seriously considered. The President referred to an “Indo-Pacific regional architecture” when in India in February 2018 (Laksamana, 2018). His Government has also highlighted the aspiration of an “Indo-Pacific Cooperation umbrella” (Foreign Minister Retno Masurdi in Laksamana, 2018). A *Djakarta Post* article referred to the “new regional grouping concept” (13 April 2018).

### **The Indo-Pacific Concept**

There are several reasons for caution regarding the Indo-Pacific project – and they suggest that it may not be the right concept for this era. First, the Indo-Pacific initiative has been hijacked by the United States and others, and this will be hard to reverse. The ‘Indo-Pacific’ can easily be decoded as an anti-China move – partly because of the way it is deployed in the 2017 US National Security Strategy, and also the fact that the American naval command in the region is now the ‘Indo-Pacific’ not ‘Pacific’ Command. The Indo-Pacific has also been linked to the so-called Quadrilateral, the moves toward

security cooperation between India, Japan, Australia and the United States - a cooperation said to be based on a common commitment to democratic values (Wanandi, 2018; Bowie, 2018). Some commentators have been quite frank about the Indo-Pacific’s potential China diluting power (Heydarian, 2018).

One difficulty with this strategic, China-encircling concept of Indo-Pacific is that it is currently uncertain just how strongly committed the lead Quadrilateral countries happen to be. The United States leadership, as has often been observed, has made clear that it cannot be trusted to commit to any medium- or long-term international engagement. India has certainly displayed interest in the Quad, but is known to look in many directions, exploring one possibility after another. At present, it is not just contemplating the China-led Shanghai Cooperation Organization but has actually joined as a full member. Also, the structure of India’s armed forces does not suggest the country has a strong maritime Indo-Pacific capacity. As for Japan, there has clearly been progress in working relations with China, and optimism as well about prospects for the three-cornered – China, Japan, South Korea – meetings. So, it is not clear how seriously Japan would now commit to an anti-China alliance.

Another difficulty with the strategic construction of the US Indo-Pacific project is that it is so antagonistic toward China that some Southeast Asians countries and others have become anxious about undermining relations with their



leading trading partner. It does not help that the trading importance of the United States tends to have been much diminished over the last two decades. As noted already, Southeast Asian countries have a very long history of engaging effectively – of seeking smart accommodation – with China, and it would seem that they can live with the idea of China being at the top of a regional hierarchy, so long as Chinese demands do not become oppressive. In this sense, the return of history which I have discussed above with respect to hierarchical (and mousedeer) diplomacy does not mesh comfortably with the idea of supporting a balance-of-power alliance against China. Furthermore, it is quite against ASEAN tradition – as also noted above – to form alliances on an ideological basis.

Having made these points, it must be acknowledged that Indonesian proponents of the Indo-Pacific see some of this danger. The President has insisted that ‘Indo-Pacific Cooperation’ would include not exclude China (Shekhar, 2018). Also, Marty – certainly among the leading ideas-formulators in modern Southeast Asia – has made clear that he seeks only a “dynamic equilibrium” and “common security in the indivisibility of peace”, not Cold War-type efforts to contain China (Natalegawa, 2017). Despite these reassurances, however, it may be difficult in the developing international discourse to rescue the Indo-Pacific idea – to gain priority for the Indonesian inclusive conceptualization and succeed in disentangling the idea from United States strategic ambitions.

A second reason for caution regarding the Indo-Pacific idea is that creating a new architecture or grouping would open up the question of regional leadership – an issue that the ASEAN hub-and-spokes framework was brilliantly successful in setting aside, and in many ways to the advantage of the major as well as minor states. A debate over leadership could make the Indo-Pacific an arena for contest rather than trust-building; the ASEAN-led institutions, frustrating as they can sometimes be for those who prefer decisive action, have actually provided a forum for peaceful and often collaborative deliberation. The insistence that it is ASEAN that provides leadership has helped overcome the danger of regional architecture exacerbating rather than softening inter-state tension.

### **The threat to ASEAN**

A third reason to be wary of the Indo-Pacific concerns the interests of ASEAN itself. An obvious problem with the Indo-Pacific initiative – even in its specific Indonesian formulation – is the damage it might do to ASEAN. Marty has sought to allay such fears. He insists that the Indo-Pacific had its origin in ASEAN processes, and emphasizes that an Indo-Pacific Treaty would be based on ASEAN principles (Cook, 2018) He and others also argue that the Indo-Pacific should be ASEAN-led, (Wanandi, 2018; Cook, 2018), and Marty insists the Indo-Pacific is in fact an opportunity for ASEAN to display much-needed “transformative” leadership (Natalegawa, 2018, pp. 233-234). The

ambition, evidently, is to have ASEAN continue to be the force that sets the rules in the Asian – or rather, Indo-Pacific – region. But in moving beyond the ASEAN hub-spoke – ASEAN Plus – structure, would ASEAN leadership perhaps become less not more secure? The Indo-Pacific meetings would be likely in the long run to replace the East Asia Summit, and as a result this equal-footed, treaty-based Indo-Pacific Cooperation could sound the death-knell of ASEAN-centered regionalism?

In an Indo-Pacific grouping with its own “framework” – even if that framework is based on ASEAN principles, an ASEAN rule-code – ASEAN as a regional player is highly likely to lose its pre-eminence in competition with one or more major powers. An Indo-Pacific Treaty which in effect gives “countries of the wider region”, the Indo-Pacific region (Natalegawa, 2018, pp. 234), independence from ASEAN, and forms the foundation of an ‘Indo-Pacific architecture’ or ‘Indo-Pacific Cooperation’, could lead to the peripheralizing of relatively weak states – such as the member states of ASEAN, including Indonesia. Marty states his long-held view that “power dynamics between the member countries” of “an enlarged non-ASEAN EAS” would “gravitate towards ‘equilibrium’, with ASEAN as its core – constantly working to maintain the equilibrium” (Natalegawa, 2018, pp. 90). In fact, it can be claimed that the current regional architecture – ASEAN, ASEAN Plus Three, the ASEAN-led East Asia Summit and so forth – has been

remarkable in giving ASEAN a degree of leadership in a wide region of megapowers, some of which are vastly stronger than any ASEAN country.

Marty writes powerfully about the need for ASEAN to demonstrate leadership, and with a “transformative outlook” (Natalegawa, 2018, pp. 232) – and he is right to note that such an outlook has been evident in the past. ASEAN’s record, however, needs much highlighting. International Relations analysis often gives too little attention to the complexity of the task of region-building. Even in the case of the concept of ‘Europe’ it is necessary to explore in depth the different forms of influence, experimentation and dialogue – over many centuries – that helped forge the ‘European Union’ as it is today (Pagden, 2002). For the weaker states of Southeast Asia, to have led in the formation of a regional architecture – and a regional code of inter-state behavior – that now not only covers the whole of East Asia but also engages India, the United States, Russia and others, is an immense achievement; and Marty himself has been a very significant player in the ASEAN leadership. The ASEAN architecture has almost been a sleight of hand. In the best tradition of ASEAN small-power, musedeer diplomacy it has helped to give the relatively weaker Southeast Asian countries a significant degree of strategic ‘space’ (as Marty has put it), or ‘autonomy’ (to use the term Bilahari Kausikan has been employing).

ASEAN has moved gradually, step by step, sensitive to historical and cultural forces, drawing in some ways on the spirit of 'Asia' promoted over the last century. It has paid attention not only to the functional dimension of regionalism – the establishing of practical cooperation in security and economic areas – but also to the identity aspect of regionalism. Its leaders have been working to create a 'People-Centered ASEAN' and have spoken of ASEAN "coursing through our veins" (Milner, 2016, pp. 16). They want ASEAN to have meaning for the people it encompasses. This is an organic understanding of regional community – and one which invokes indigenous thinking about inter-polity relations (including Ghazali Shafie's identifying of the bamboo cluster as a powerful metaphor). Such an organic understanding is influential in the Asian region. Even the local vocabulary of regionalism – the precise Asian-language terms used for regional 'association' or 'community' – tend to convey this emotive quality. Here we encounter a fourth reason for hesitation regarding the Indo-Pacific project – that is the problem that the Indo-Pacific seems to project no emotive value.

It has proved hard enough to foster an 'Asia' or 'ASEAN' sentiment, and still harder to win emotive support for the 'Asia Pacific' (Lee & Milner, 2014, pp. 209-228; Milner, 2017a, pp. 39-48). The idea of 'Indo-Pacific' happens to be one further remove from the experienced reality of most people living in the Asian region. It is not just its geographical and

historical reach – seeking to incorporate a range of societies that have very little in common. 'Indo-Pacific' also possesses no historical authenticity whatsoever. As Jusuf Wanandi has pointed out, the term actually excludes the word 'Asia' – which covers "the most important part of the region" (Wanandi, 2018). The idea of 'Asia', as we have seen, is itself a construct – though one that has been developed carefully over a century and more – and 'Indo-Pacific', highlighting only two oceans, merely drowns out this historical process. This is an affront to the many Asian thought leaders – not merely in China but across the region – who have taken seriously the concept of 'Asia' and 'Asian' priorities.

'Indo-Pacific', it could be argued, is a project more suited to an earlier era – a time when globalization seemed to be able to sweep aside local, indigenous and history-based sentiment, and when political leaders felt few limitations when formulating new visions. It tended to be accepted at that time that we all live in 'imagined communities' (to use Benedict Anderson's phrase) and that the potential for imagination is almost endless. Today, as I suggested in the opening section of this chapter, we are witnessing the development of Chinese, Islamic and Southeast Asian experiments that do not deny – but rather respond to or build upon a range of historical (including religious) perspectives.

With an eye to those current ideational developments in the Asian region – the growing attack on liberalism,

the questioning of the secular state, the apparent willingness to accept some form of Beijing-centered hierarchy, the apparent transcending of balance-of-power imperatives, and so forth – a final caution regarding the Indo-Pacific concerns whether a specifically ‘Indo-Pacific’ forum is likely to be the best venue for deliberating such matters. Will the urgent issues to be faced in the Asian region – grounded as they are in local as well as global dynamics – be handled effectively in a regional structure that could well be preoccupied with United States reactions to Chinese or Russian challenges? Furthermore, as argued above, some current thinking about foreign relations in the Asian region is not only shaped by local imperatives but actually challenges the conceptual categories employed so often by Western analysts.

Such clashes of understanding as well as aspiration might best be handled in the patient processes of ASEAN-led bodies, cultivated over many decades. In an Indo-Pacific architecture – which might potentially operate more or less independently of ASEAN, and probably be dominated by rivalry between global powers - discussion of current issues, shaped by the return of history, might be characterized by frustration, confusion and irritation.

Marty argues that to “remain relevant and central” ASEAN should support the Indo-Pacific initiative (Wanandi, 2018; Cook, 2018). In fact, there is a possibility that doing so could undermine the delicate region-building

which ASEAN has been undertaking since 1967 – a type of regionalism that may, in fact, be more appropriate in the current era.

Putting aside the ultimate merits or otherwise of the Indo-Pacific vision, the task of implementing it may itself have the potential to divide ASEAN – something which the organization has taken such pains to avoid. Discomfort with the Indo-Pacific idea was certainly expressed in a number of ASEAN quarters over the last year – for instance, at the ASEAN Summits with India and Australia (Chongkittavorn, 2018; Bowie, 2018). In June 2019, ASEAN – after much prevarication, pressure and hesitation – decided to “acknowledge the ‘Indo-Pacific’”, while insisting that it merely “reinforces the ASEAN-centered regional architecture” (Thu, 2019). To go beyond acknowledgement and develop the concept in detail is likely to inspire further debate within ASEAN, along lines suggested above – and Marty himself has highlighted the need to maintain ASEAN “unity and cohesion” (Natalegawa, 2018, pp. 229) The bamboo clump, it needs to be recalled, must be truly a ‘clump’.

### Conclusion

Getting back to the title of this essay, ‘Repositioning Indonesia’, my conclusion is that in this time of regional transition – a transition not just of power but of ways of thinking about the regional order, and a transition to some extent running against globalization – the best option for Indonesia might not be to ‘reposition’. What could be more

appropriate in this era is to reaffirm Indonesian commitment to ASEAN unity, and to ASEAN-centered regional projects. Marty is subtle in portraying the Indo-Pacific as consistent with the search for 'dynamic equilibrium' – which is not the same as "containment of a particular power" but the Indo-Pacific project has been hijacked to a large extent by Western policy-makers, driven by balance-of-power calculations, and is in any case a concept of region far removed from current, everyday experience in the Asian region. Indo-Pacific architecture, in fact, might turn out to be better suited to the late 20<sup>th</sup> century, not the 21<sup>st</sup> century. The leaders of ASEAN have been working hard to develop a meaningful regionalism – and have also harnessed that regionalism to the task of giving Southeast Asians at least some centrality in the wider Asia. Focusing sharply on the ASEAN project might still be the best option for Indonesia.

Finally, the idea that Indonesia could be better off acting independently of ASEAN – is difficult to take seriously. True, Indonesia is growing fast, but in economic and military terms it is still far behind the United States, China, Japan and India. Operating alone, Indonesia would be less likely than it is now – working as the lead member of ASEAN – to maintain some pre-eminence in an Indo-Pacific forum. Helping to give transformative leadership to ASEAN – helping to maintain the momentum of ASEAN's relationship-building endeavors from India right across to Russia and the United States, might be Indonesia's best

option in this region, and this particular age.

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# Business and Human Rights in ASEAN: Lessons From the Palm Oil Sector in Malaysia

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## Abstract

*The release of the United Nations Guiding Principles on Business and Human Rights (UNGP-BHR) in 2011 aims to address gaps in human rights governance by setting a standard and corporate culture of respecting human rights. As part of the state responsibility to implement these guiding principles, some member states of the Association of Southeast Asian Nations (ASEAN) have already embarked preliminary steps towards establishing their respective National Action Plan on Business and Human rights (NAPBHR), while others are still lag behind. Drawing from the palm oil sector's experience in Malaysia, this study aims to provide lessons for ASEAN member states to contemplate when developing their NAPBHR, in particular under Pillar 2 of the UNGP-BHR. In this article, I argue that while some large palm oil companies have shown modest progress in realizing their human rights obligation, challenges emerge in many forms including the lack of leadership, collaboration and ambition to steer and scale up industry transformation on human rights across the supply chain. Equally important, challenges around certification scheme depict that it is not the only solution in persuading respect to human rights. Meaningful values transfer often overlooked in certification practice resulting in typical "ticking the audit box" exercise without understanding principles behind it. As such, the development of NAPBHR among the ASEAN member states should reflect on this reality and challenges.*

*Key words: business and human rights, palm oil, due diligence, compliance, certification*

## Introduction

Globalization has brought with it increasing economic interdependence through a rapid expansion of cross-border movement of goods, services, technologies and human capital across the globe. Arguably, such expansion has strengthened trade-related standards as the economic actors compete to provide the best products and services in their respective businesses. While it has

benefited the international community on various aspects of life, the globalization and expansion of transnational economic activities have its dark side.

Corporate-related human rights violation has been argued to be one of the critical negative consequences brought by globalization in the context of today's international business. Ruggie in his final report submitted to the United Nations' Human Rights Council (UNHRC)



highlighted that the root cause of the business and human rights predicament today lies in the governance gaps created by globalization – between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. The gaps in governance provide a permissive environment for wrongful acts by unscrupulous companies without adequate reparation (Ruggie, 2008, pp. 3).

In 2011, the United Nations' Human Rights Council (UNHRC) endorsed the United Nations Guiding Principles on Business and Human Rights (UNGP-BHR) – a global framework that aspires to serve as an authoritative focal point to enhance standards and practices with regard to business and human rights so as to achieve socially sustainable globalization. The UNGP-BHR is grounded in recognition of its core general principles, namely (i) States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms (Pillar 1); (ii) the role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights (Pillar 2); and (iii) the need for rights and obligations to be matched to appropriate and effective remedies when breached (Pillar 3) (UNHRC, 2011, pp. 1).

In order to implement these guiding principles, the states are expected to develop and enact a National Action Plan on Business and Human Rights (NAPBHR). The NAPBHR is expected to

assist the states to identify national priorities, develop concrete policy and regulatory options related to business and human rights.

The Office of the High Commissioner for Human Rights (OHCHR, 2019) reports that there are 21 countries who have already produced their respective NAPBHR. None of the member states of the Association of Southeast Asian Nations (ASEAN) has produced a NAPBHR, but countries such as Thailand, Indonesia and Malaysia have expressed their commitment to developing theirs. The OHCHR (2019) also reports that countries such as the Philippines and Myanmar had earlier indicated their readiness to develop NAPBHR in coming years.

In short, the years 2019 and 2020 are a very crucial period for some ASEAN member states in developing their NAPBHR. While the development process of the NAPBHR would certainly involve businesses as one of the stakeholders, limitations persist due to time, geographical and methodological constraints. As such, the stakeholders' engagement might not be able to fully reflect the real challenges facing businesses dealing with the complex supply chain.

Pillar 2 of the UNGP-BHR stresses the important role of the industry players as specialized organs of society – to comply with all applicable laws and corporate regulations, as well as to initiate their respective commitment and strategy

to respect human rights beyond legal compliance.

Drawing specifically from the palm oil sector's experience in Malaysia, this study aims to provide lessons for ASEAN member states (including Malaysia) to contemplate when developing their NAPBHR, in particular under Pillar 2 of the UNGP-BHR.

In this article, I rely heavily on publicly available sources comprising companies' annual and sustainability reports, sustainability progress updates, sustainability dashboards and other related sustainability information available in their respective official websites.

### **Business and Human Rights Development in ASEAN**

Human rights are becoming a more prominent subject in ASEAN. Article 1(7) of the ASEAN Charter provides a clear commitment among the ASEAN member states to promote and protect human rights and fundamental freedoms in the region. The establishment of the ASEAN Intergovernmental Commission on Human Rights in 2009 and the proclamation of the ASEAN Human Rights Declaration (AHRD) in 2012 further show that human rights are an important regional agenda.

Amongst the earliest initiative with respect to human rights and business in ASEAN was the conduct of a thematic study on corporate social responsibility (CSR) and human rights initiated by the

ASEAN Intergovernmental Commission on Human Rights (AICHR).

The thematic study reports that though many member states are already in possession of rules and regulations to address potential corporate human rights impacts, general awareness on the nexus between CSR and human rights remains low. The report suggests the AICHR and other ASEAN bodies to work together to develop an ASEAN-wide CSR-human rights guidelines to assist member states to enhance their understanding and corporate practices that are aligned with internationally-recognized standards on human rights.

As the follow up to the publication of AICHR thematic study on CSR and human rights, the AICHR organized a four-day training in Bangkok in November 2017 to exchange views on issues and challenges facing the ASEAN member states and businesses in their respective country in the implementation of UNGP-BHR. At the end of this training, participants reiterated the need for the AICHR to develop a regional framework on business and human rights in the region.

In June 2018, the AICHR collaborated with the UNDP Asia-Pacific and several other international organizations in organizing an inter-regional dialogue to share good practices among different regional mechanisms and countries from other regions in Bangkok, Thailand. The Thai government representative who officiated the inter-regional dialogue expressed its

government strong commitment to expedite the development process of its NAPBHR and subsequently urged other ASEAN member states to do the same.

At the state level, as discussed previously, some ASEAN member states have already committed to develop and publish their respective NAPBHR. In fact, some of them are already in the final stage of its development process. Thailand, for example, has recently circulated its final draft NAPBHR to the public for comment in February 2019 and is projected to publish it by the end of 2019. Similarly, Indonesia has started the process to develop NAPBHR in early 2019 and is also expected to publish it in December 2019. In Malaysia, though the Human Rights Commission of Malaysia (SUHAKAM) had published its strategic framework for Malaysia's NAPBHR in 2015, the government does not have a robust plan for its actual development process.

The OHCHR (2019) reports that Myanmar and the Philippines have taken their preliminary steps towards developing their respective NAPBHR. However, no further details as to how the development process progresses. Other countries such as Brunei Darussalam, Cambodia, Lao PDR, Singapore and Viet Nam do not clearly indicate their intention to develop NAPBHR.

### **Why Palm Oil in Malaysia, and Why Now?**

Malaysia is uniquely positioned as a Southeast Asia's business hub, attracting

more than 5,000 foreign corporations from 40 countries operating their businesses in many key economic sectors including agriculture (Yusof, 2017). In this article, I focus specifically on the palm oil business in Malaysia. The reasons for choosing palm oil business sector in this article are manifold.

First, the palm oil industry is an important source of economic growth and development (Szulczyk, 2013), contributing to Malaysia's annual export revenue between RM60 billion (approximately US\$15 billion) and RM70 billion (US\$ 17.5 billion) (Azman, 2013). Moreover, Malaysia is the second largest producer of palm oil and a global major exporter.

Secondly, after more than a hundred years of its existence, palm oil is still a labour-intensive sector, hiring a half million of workers – the majority of which are foreign labourers (Azman, 2013). Undeniably, the growing demand and expansion of business operations have benefited many pockets including the small farmers, local community and workers. However, as the palm oil business proliferates, so has the alleged human rights harms in the palm oil sector. On this note, it is worth mentioning that for the past few years, an increasing number of watchdogs' reports have documented serious labour exploitation against foreign workers in the palm oil sector in Malaysia. These include a report published by Finnwatch (2014) which monitors the realization of labour rights in the activities of Finnish companies and

their supply chains, including some Malaysian palm oil companies. This justifies another reason why palm oil business is the focus of this article.

In Malaysia, business conducts are governed by the existing national laws and regulations, which include the prohibition of forced and child labour, respecting customary land and indigenous people rights, compliance to safety and health, implementation of a minimum wage, restriction of excessive working hours, and the enjoyment of the right to association. However, human rights in the business sector in Malaysia focuses much on complying with the right to safety and health, and barely pays attention to other labour and human rights as mentioned above.

Businesses in Malaysia are very much accustomed to the concept of CSR (SUHAKAM, 2015) – a set of voluntary actions companies undertake that goes beyond compliance with the existing laws and regulation. In fact, Malaysia is deemed to be one of the emerging economies that are involved in CSR activity (Thompson & Zakaria, 2004). As part of their CSR activity, many businesses especially Malaysian public listed companies are engaged in corporate disclosure and publicly reporting their social responsibility activities (Mohd Nasir et al., 2013).

In 2007, the Securities Commission (SC) and Bursa Malaysia began to impose a mandatory requirement for all public listed companies to report their CSR activities (Human Rights Resource Centre,

2013). In addition, the Securities Commission promulgated the Malaysian Code for Corporate Governance and the Bursa Corporate Governance Guide – which encourage corporate directors to consider producing sustainability reports that address a company's community involvement activities, provision of equal opportunity and diversity, prohibition of child labour, access to grievance and freedom of association (Human Rights Resource Centre, 2013).

Furthermore in 2014, the government of Malaysia through its regulatory body, Bursa Malaysia, initiated the *FTSE4Good* Bursa Malaysia Index, which requires companies who wish to be included in the index to achieve the set requirements such as monitoring and reporting companies' commitment on human and labour rights, supply chain labour standards, climate change and countering briber (Nordin et al., 2016).

Despite the presence of sustainability certification standards such as the Roundtable Sustainable Palm Oil (RSPO), the industry's enforcement of human rights standards is weak and insufficient to address human rights harms in the palm oil sector (Varkkey, 2015). Human rights campaigning NGOs such as International and Rainforest Action Network (RAN) have criticized the RSPO for having a little concern for the welfare of palm oil workers, and strongly citing that it is a not reliable certification scheme that could ensure sustainable and responsible palm oil production (Chow & Ananthalakshmi, 2016).

In view of the mounting pressure on corporate-related human rights harms and relatively slower progress from the government of Malaysia in relation to having a strong governance structure on business and human rights – SUHAKAM published its Strategic Framework on National Action Plan (NAP) on Business and Human Rights in 2015. The strategic framework aims to support the government to develop a dedicated NAP to guide businesses to respect human rights. However, as of end 2018, the government has yet to adopt such NAP, leaving corporations in Malaysia unregulated of their human rights obligations.

### **Challenges in the Palm Oil Sector in Malaysia**

Collectively, the palm oil business in Malaysia is expanding rapidly – in response to the rising global market demand. In doing that, they need more lands to be converted to oil palm estates, and for that – they need more workers to plant seeds, grow it and harvest them once matured.

It has been argued that while some large palm oil companies have expressed their policy commitment and modest progress in embracing human rights into their business operations, such development has yet to reach their suppliers – comprising small and medium-sized oil palm players. This section discusses what challenges facing oil palm companies, in particular, the small and medium-sized industry players to replicate the progress on corporate

respect to human rights that have been performed by large companies.

### ***Gaps in Legal and Regulatory Infrastructure***

Current legal and regulatory infrastructure in Malaysia does not progress on par with the palm oil business expansion, and their responsibility to respect human rights. Companies are not specifically duty bound to declare their human rights commitment, or to undertake human rights due diligence, and report their progress on a regular basis.

However, public listed palm oil companies are required by the laws and regulations to at least report their corporate social responsibility activities. Some companies listed in the Bursa Malaysia are encouraged to produce sustainability report addressing their community engagement activities and other activities related to the promotion of human rights such as the prohibition of child labour, assurance for freedom of association and equal opportunity.

Nevertheless, such requirements are only imposed to a very small number of businesses as compared to the entire industry players in the palm oil sector. The rest of the companies, in particular, the small and medium-sized enterprises including mills, estates and smallholders are left unregulated specific on their human rights commitment.

### *Leadership*

When campaigning NGOs, consumer-based associations and regional organizations like the European Commission (EU) lobbying and advocating for the banning of the palm oil products linked to human rights violations – the target often goes to large and established companies and brands. The small and medium-sized industry players are barely affected though they are part of the supply chain.

Let us go back to the spirit of the UNGP-BHR that says every company, regardless of their size of operation has equal responsibility in upholding and respecting human rights. The next question would be how best such responsibility is to be equally distributed when the small and medium-sized companies have many limitations including lack of resources, capacity and ambition to transform their practices?

This brings me to discuss what should be the role of large and public listed palm oil companies in order to bring their supply chain to collectively align their commitment to respect human rights? And, what has been done by these companies, and what else they may consider undertaking?

In this article, I argue that leadership is necessary for large companies to inspire their suppliers to be part of this human rights transformation journey. Many large companies' human rights commitment such as Sime Darby's Human Rights Charter, or Wilmar's No

Deforestation, No Peat and No Exploitation (NDPE) Policy are ambitious in nature, and sometimes beyond the capability of their suppliers to execute. Many of these large companies are also aware of the barriers hindering their suppliers to comply with their human rights commitment. The companies are also aware that the current legal and policy infrastructures do not guarantee their suppliers could achieve their ambitious human rights commitment.

As such, ambitious and visionary policy commitment as shown by these large companies require strong leadership. Leadership in this sense refers to a far-reaching commitment by large companies to lead and drive industry transformation across its supply chain, and possibly across the palm oil sector.

Initially, each level of suppliers (e.g. mill, estate, fresh fruit bunches dealer, small grower and smallholder) has their equal responsibility when it comes to respecting human right. However, each of them has a different level of resources available, capability and exposure to human rights. As such, the suppliers are not well-equipped and ready to commit to human rights requirements. An easy example such as undertaking human rights due diligence is a resource-intensive and heavy exercise, requiring sufficient understanding of the application of human rights principles into the business' activities.

Hence, the responsibility to lead transformation goes back to the large company's *prima facie* responsibility to

raise awareness, train, build capacity and support the implementation of human rights initiatives for their suppliers. With that, it is hoped that the trained suppliers will replicate such responsibility with their respective business partners and contractors.

Large and public-listed companies such as Felda Global Ventures (FGV), Sime Darby Plantation and Wilmar International have been organizing capacity building initiatives for their suppliers including mills and estates supplying oil palm fruits and oils to its owned-mills and other operating facilities. If so, why are there still gaps with respect to human rights responsibility among their suppliers on the ground? And, why many other small and medium-sized palm oil companies still lack human rights policy in place? Why some workers are still getting salary below minimum wage?

#### *Industry Collaboration and Innovation*

There is no easy answer to respond as to why there is still a gap with respect to human rights responsibility among industry players. Potential answers may range from the lack of appetite among small and medium-sized companies to change their practices to the lack of legal obligation to govern companies to do so. This brings me to discuss how, and/or whether industry collaboration and innovation could bring industry players, in all its forms, to play their part to respect human rights in the business sector.

Wilmar International was quoted that "*individually, we are one drop,*

*collectively, we are an ocean*" (Wilmar International, 2017). Collaboration is not just important for companies to act collectively in addressing emerging issues such as corporate-related human rights violations, but also to transform their business practices aligned with the expected standards through sustained collaboration.

Importantly, collaboration among the palm oil players is needed to address common issues facing the industry. Often industry players face common or industry-wide issues. For example, labour shortage and the hiring of undocumented migrant workers are two common issues and practice facing the palm oil companies. These issues are complex to be resolved by industry players alone as it involves the government's migrant worker policy and regulations. As such, the collaboration between companies is needed to raise such issues for the government's immediate intervention.

Collaboration in the palm oil sector often linked to the multi-stakeholder's group, the RSPO. Other than guiding its member companies to comply to the internationally-recognized standards, the RSPO has an important role to play in spearheading collaboration among its members, their suppliers as well as other third party including civil society and regulators. The RSPO is also expected to serve as an advocacy platform in raising and addressing industry-wide human rights issues such as child labour, forced labour, issues relating to non-payment of wages and bonded labour, discrimination

and gender inequality at the workplace, restriction of freedom of movement and retention of workers' passports.

Varkkey claims that RSPO has been transforming its role from an organization championing sustainability issues into a supra-national policy organization (Varkkey, 2015, pp. 157). Does it mean that RSPO is now being an active platform for policy advocacy that could shape and influence global oil palm commodity market? To be fair, this is a question needing a thorough observation and analysis, and responses from its member companies. With respect to human rights, the RSPO deserves appreciation for being able to continuously strengthen its human rights principles. The recently revised RSPO's Principles and Criteria (P&C) (2018), as endorsed by its Board of Governors on 15 November 2018, have included a commitment to provide a decent living wage (see Criteria 6.2) and respect to the rights of human rights defender (see Criteria 4.1).

While the RSPO has been able to strengthen its human rights commitment under its RSPO P&C, the lack of incentives and added costs to its members triggered more uncomfortable feeling among its members. In fact, the strengthening of human rights principles and criteria in its certification standards is argued to be risking its members to public scrutiny – in relation to human rights non-compliance. Consequently, as claimed by Varkkey there is on-going speculation that there will be RSPO's members in Malaysia

will quit from the group and focus more on nationally-based sustainability standard under the Malaysia Sustainable Palm Oil (MSPO) certification (Varkkey, 2015, pp. 157).

The idea of collaboration is often linked to innovation. Technological advancement has been leveraged well by industry players especially in high-value industries such as communication and electronic industries. The palm oil sector, especially the downstream level such as the processors, traders and consumer brands have been innovating ways through technology to map out and share their traceability data, monitor and report the progress of their human rights activities. Similarly, the oil palm growers and large oil palm companies such as FGV, Sime Darby Plantation and Wilmar International – have begun to collaborate with various non-profit organizations and social partners such as the Verite, Solidaridad, Oxfam Novib and Forest Peoples Programme to innovate the ways they assess human rights impacts, and gather, compile and report their human rights activities.

### *Going Beyond Certification*

The next question is whether the suppliers comprising the medium-sized mills, estates, and growers further down the supply chains – are truly benefiting from this collaboration and innovation, and replicating it at scale. In my final point, I argue that while sustainability certification standards in particular national standards such the MSPO are getting more support from industry



players – certification alone is not adequate to guarantee the respect to human rights a reality. While the certification standards have positive impacts, we can no longer afford to gloss over its failures (Poynton, 2015).

The objectives of certifications standards, amongst others, to address the wicked environmental and social issues including human rights violations committed by businesses regardless of their place and size of operation. Certification promises the solution to environmental calamity and social issues facing the global community as a whole. To achieve this vision, millions of dollars have been invested to come up with certification model, auditing methodology and compliance mechanism - let alone money that has been invested in the form of consultation and auditing fees. The result of this – a handful of business operations being certified and are eligible to supply their oil palm products to selected global brands who buy only so-called highly traceable and certified oil.

In reality, nevertheless, truly sustainable and responsible practices even among certified companies are not guaranteed. What more among the small and medium-sized oil palm mills and estates who do not even have a standard on human rights to comply with. For the past few years, a number of large and sustainably-certified companies continue to have been associated with numerous human rights violations. For example, Wilmar International was alleged to have committed to child labour in its own

plantations and suppliers in Indonesia in 2017 (Amnesty International, 2016). Two years earlier (in 2015), FGV was alleged of committing forced and bonded labour (Al-Mahmood, 2015). Another Malaysian-based palm oil conglomerate, Kuala Lumpur-Kepong (KLK) was alleged of mistreating its workers in its palm oil estates in Sumatra and Kalimantan, Indonesia in 2013 (Varkkey, 2015).

Wilmar International, FGV and KLK were among RSPO-certified companies who had been strictly audited and certified against internationally-recognized sustainability standards including human rights. Having been strictly audited by competent auditors, these companies still cannot excuse themselves from critical issues such as human and labour rights violations.

While certification standards emphasize on documentation, assessment and implementation of the action plan – "values" in the certification process are often forgotten. Essentially, human rights are about upholding universal values such as "children should not working in the oil palm estate simply because it may compromise their physical safety, child development and access to education". This is not difficult to understand. However, even until today, no one would be able to guarantee that no children are working and/or assisting their parents without proper guidance and adult's supervision in oil palm estate – especially in East Malaysia.

For values to be effectively shared to all industry players and translated into

business actions - there must be a constant and meaningful engagement and interface between industry players and human rights experts and institutions. Not to say that such engagement has never occurred before - but the questions of "what motivates such engagement to take place" and "what messages were transmitted to industry players during auditing process" are essential. In short, human rights values need to be meaningfully transferred to industry players, and it is more than just a simple exercise of "ticking the audit boxes".

### **Conclusion**

Based on the palm oil sector's experience in Malaysia, the gaps in governance are contributed by, and exist in many forms, including the lack of national regulatory and policy frameworks from the side of the States, and lack of expertise, ambition and leadership among industry players to steer industry transformation on human rights.

Consequently, too few of the industry players that have progressed and reached a scale commensurate with the challenges at hand. The greatest challenge is how we could ensure the supply chain, which forms the majority of the industry players are progressing, and at the same time making sure that they are not being excluded from the supply chain just because they do not comply with the sought standards. Excluding a problematic or non-compliance supplier from a pool of supply chain does not guarantee that human rights violations

will end. In fact, such practices may prevail, and escalate as they continue their business as usual.

As some ASEAN member states are expecting to produce their respective NAPBHR by the end of 2019, while others are expected to follow suit in the coming years - it is important for the states to reflect the real encounters facing companies dealing with complex supply chains such as in the palm oil sector.

Discussion in this preliminary article provides opportunities for future research and may serve as a source of hypotheses for further critical and quantitative studies on human rights governance, within and outside the palm oil sector. For example, future research may further investigate the aspect of human rights disclosure among public listed companies to better understand strategy or system the companies have in place to manage their human rights impacts. Quantitative research may also be undertaken to measure and analyse human rights impacts the companies have in their own business operations, and their suppliers. Further critical research can be initiated to understand the readiness and real challenges facing suppliers in the palm oil sector to commit and fully comply with the expected standards of human rights.

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# Practice Note

## What Does ASEAN Economic Community Bring to Older Workers? Examining Inequality in Old Age in Thailand's Fast-Ageing Society

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### Abstract

*The ASEAN Economic Community is envisaged to promote economic integration initiatives to create a single market across Southeast Asian member countries. It is acknowledged that the intergovernmental initiatives need to be accommodative to national and regional contexts. Thailand, as a pivotal and active partnership, endeavors to facilitate economic transformation and regional integration within the ASEAN and cope with population ageing in Thai society. Since Thailand has been the third most rapidly ageing country in the world, demographic changes pose new challenges for how to achieve persistent economic growth, productive employment and decent work. This article is based on a qualitative approach to investigate the emergent inequality within and across age cohorts shaped by the AEC structural forces, as well as utilizes reliable secondary data to formulate argumentation, including academic publications, policy analysis, scientific reports. We are particularly concerned about the heterogeneity and poverty in old age from the perspective of cumulative advantages/disadvantages. In conclusion, this article suggests policy recommendations of mitigating inequality in old age and advocates a critical lens to examine how political economic structure shapes older individuals in the labor market.*

Key words: *inequality, labor market, old age, regional integration*

### Introduction

The ASEAN Economic Community (AEC) has been formally established in 2015 to provide an institutional framework for further promoting regional economic integration and corporation among ten member nations. As a bloc, the AEC is predicted to become the 4th largest economy by 2030

after the United States, China and the European Union. Likewise, the AEC has been featured by its populous facts, economic growth, trade and investment prospects. As shown in the AEC blueprint 2015, it has been envisaged to create a single market and production base, allowing for the free movement of goods, services, investment and skilled labor within ASEAN. It has previously been

observed that the ASEAN regional integration gave rise to a reduction in unemployment in most member states (Bano & Tabbada, 2017). Existing research has acknowledged the critical role played by regional economic integration in the ASEAN and investigated the trade-off between the free market and labor market using an equilibrium approach (Petri, Plummer & Zhai, 2012; Lai, 2016). Nevertheless, there has been little critical analysis of how the structural forces of AEC impact certain population in an integrative labor market.

It is acknowledged that ASEAN member countries have been experiencing a profound and influential demographic change with an increasingly growing number of older adults aged over 60, especially in Thailand and Singapore. Thailand is reported as the fastest ageing country in Asia (UNDP, 2013), and it is projected to become an aged society in 2021, with 19.8 percent of older adults aged over 60 to the overall population (NESDB, 2016). Extensive research has shown that population ageing can influence economic growth, employment rates, wages of certain age cohorts in the labor market to a different extent. In this regard, Dixon (2003) argues that it is crucial to maintaining the employability of older workers who would like to continue working in later life, the relevance of older workers' skills, as well as the potential for adjusting mobility levels. Practically, the AEC is expected to mitigate insufficiency of the agile workforce in ageing societies by fostering labor free flows.

A body of works focuses on the employability of college students within ASEAN and their preparations for the changes during the implementation of AEC measures (Vicheth, 2012; Barbin & Nicholls, 2013; Dudzik & Nguyen, 2015). Up to now, far too little attention has been paid to the implications of regional integration on the employment status of older adults concerning the fast-ageing context. Walker (1981) accentuates that poverty in old age is a function of low socioeconomic status prior to retirement due to the access restrictions of resources and opportunities. Hence, the current study critically examines the inequality of older workers rather than pensioners in Thailand in terms of AEC initiatives. The inquiry makes use of the secondary data produced by intergovernmental organizations to substantiate the arguments in this article. As such, it sheds light on the role of this political-economic institutional framework in challenging or reinforcing the poverty and inequality in old age. The inquiry is designed to answer the question as to what inequalities that ASEAN Economic Community brings to older workers in Thailand.

In the following sections, this article instantiates several features about old age in relation to the employability and then suggests a set of opportunities that population ageing have in the workforce. Then it introduces cumulative advantages/disadvantages (CA/D) perspective to address economic inequality across and within age groups/cohorts. In this study, we examine Thai older workers' employment situation

within the AEC structural context; further, we argue that the AEC might potentially increase the probability of inequality in old age by allocating resources differently to citizens at different ages. It concludes with some remarks on how to mitigate inequality in old age at the institutional level in the last section.

### **Older workers in Thailand's fast-ageing society**

Elderly people are often viewed as a burden to the society and the taxpayers. They are neglected in many countries around the world, even though that should not be the case. Older adults in Thailand are ageing, and they are ageing fast. People in later life experience all sorts of problems without any doubt. This can include body declines, health and fitness, lifestyles, education, work, as well as retirement. The body ages as one grows older, so it is possible for individuals to develop health problems. An individual's lifestyle plays an important role as well. A healthy lifestyle and diet can keep a person active and healthy throughout their later life. An unhealthy lifestyle on the other hand can cause enormous problems in later life. This can lead to financial problems since older people are likely to work less, therefore earn less money, and have to rely on other means of wealth they have accumulated to support themselves (HelpAge, n.d.). Healthcare is expensive because of how much science and technology is invested in it these days. Doctors and medical practitioners have to spend many years in advance education to get the appropriate

education to treat patients dealing with health-related issues. They spend a lot of money on their education so that one day their patients can benefit from the knowledge and practice they have gained. It is human nature to want to live a longer and healthier life. Longevity is influenced by inequality of living conditions. This is significant to study on inequality in old age. Poverty in later life is a function of low socioeconomic status prior to retirement (Walker, 1981). Usually people would have saved money from their pension, but certain circumstances to how one is brought up in certain countries does not leave them with that privilege.

Population ageing makes a difference the labor market. Studies have found that cohort difference and life trajectories matter. In the future there is a possibility for the situation for older people to look different. It is expected to be cohorts of exchange. For example, new lifestyles can make changes into the life of the elderly. Upcoming workers can have a better life if they have the means and freedom of mobility. Mobility and flexibility of working and living is of utmost importance in the 21st Century. Upcoming workers in Thailand can have access and availability to a better- and high-quality education. Workers in Thailand do have differences among the sector and branches. Older people have more work experience and therefore it sets a standard for employment and personal fulfilment. The capabilities of elderly people are also important. Age is also subjective. In the future, there are expected to be more old people. Hence,

the demands and resources will influence the economy. Thailand is a fast ageing society where rights of older workers should be taken into consideration. Ageing population in Thailand is a significantly high issue. There needs to be a vast increase in valuable resources to society. Older people in Thailand share their values and culture with young people. They volunteer in communities and are a thriving resource to the Thai society themselves (HelpAge, n.d.).

Thailand's demographics as a Southeast Asian country are bound to change. Studies have found that older Thai people are able to take care of themselves. Health problems are higher in older Thai men in comparison to women. This creates a gender perspective. Thailand was not taking much action during the past few decades on older people and how to cater their needs in Thai society. Recommendations by the United Nations have recently started to influence Thailand's government to start taking a stronger initiative in the working and quality of life of Thailand's elderly people. If elderly people are catered with their needs, their finances can increase and they can actively participate in the Thai society because they will have a high level of livelihood (Knodel & Chayovan, 2008).

#### **Cumulative advantages/disadvantages perspective**

Social gerontologists have investigated the inequality-generating process from the perspective of cumulative advantages/disadvantages

across the life course and across ages. Dannefer (2003) argues that CA/D perspective has been logically entangled with several paradigmatic theories in sociology, psychology and economics fields; hence it provides a fresh lens to examine poverty and inequality in old age and directs to in-depth analyses at multiple levels and disciplines. Furthermore, Dannefer delineates cumulative advantage/disadvantage in a formal manner as "the systemic tendency for inter-individual divergence in a given characteristic (e.g., money, health, or status) with the passage of time". It is still acknowledged that the common concern of using this perspective lies in analysis on the historical interplay among individual life, structural contexts and social change (O'Rand, 1996). Against this backdrop, this study is particularly concerned about how the AEC, as a political-economic structure, influences the resource allocation of ageing individuals in Thailand's labor market.

A body of works supports that the CA/D process could be considered as a mechanism of inequality. The model of cumulative exposure and status-resource interaction was adopted to further explain between-group inequality over time (DiPrete & Eirich, 2006). In the particular case of the workforce, the allocation of opportunities and resources in labor markets create intricate patterns of cumulative advantages/disadvantages, such as job mobility and rewards (O'Rand, 1996). Prior studies have empirically investigated how early-life advantages or disadvantages lead to



later outcomes in varying degrees, as well as underlined the increasing heterogeneity and inequality with age. For instance, Willson, Shuey & Elder (2007) suggest that socioeconomic status and economic history result in health disparities as people age in the United States. Moreover, Ponomarenko (2016) argues that the employment history of older Europeans is associated with subjective well-being in old age; particularly the labor market inactivity negatively impacts life satisfaction.

Inequality has been identified within and across age groups/cohorts concerning divergent trajectories of accumulation throughout the lifespan. Older adults have been accentuated as a heterogeneous population by gerontologists especially in the dimension of poverty and economic inequality. Crystal and Shea (1990) suggest that economic inequality is greatest among elderly people; further, a recent study found that inequality increased sharply within each cohort of older adults in the changing economic environment (Crystal, Shea & Reyes, 2017). On the other, CA/D perspective underscores unequal resource distribution and subsequent economic stratification across ages. Likewise, the unfairness of allocating opportunities across generations was addressed as Generation X and later generations are projected to receive gradual increases of median wages and retirement incomes (Hudson, 2016). Hence, this article explicates inequality in old age within and across age groups, when it comes to

implementing the AEC initiatives in Thailand's labor market.

### **Inequality within age cohorts**

It is argued that certain social forces at different levels of social process contribute to increasing intra-cohort heterogeneity with the passage of time (Dannefer, 1987). Education is often seen as a vital predictor of employability and employment career and it presumably influences individuals due to the expansion of higher education during the second half of the twentieth century. Mincer (1991) suggests that well-educated workers at least enjoy three basic strengths in the labor market, including superior wages, higher employment stability, greater advancements in occupation and income. Individual trajectories of education and training lead to the differentials in job opportunities, employment careers and economic inequalities.

Given that the AEC takes incentives to promote labor mobility and integration in the ASEAN region, it has established a legal status for the mobility of skilled professionals, including Mutual Recognition Arrangements (MRAs). However, the existing MRAs only enable the mobility of adept workers in limited profession areas which takes up 1.5% of the total ASEAN workforce; still, several occupations are not covered and arranged by institutional agreements (Vineles, 2017).

Language proficiency and professional expertise are conceived as

significant qualifications of talent labors that needed to be addressed since the AEC has been facilitating the free flow of skilled labor within the ASEAN member states and across the Asia-Pacific area. Given that the ASEAN brings an English-mediate environment to Thailand, English proficiency has become a determinant of employability of the workforce and labor interactions within ASEAN nations. Kuosuwat (2016) found that tourist professionals in Bangkok are not well-prepared for entering the ASEAN Community due to their inferior English communication skills. Thai students have become concerned about their career future and eager to improve their English skills to acquire better jobs in the Thai labor market and even in the high-income ASEAN member states.

In the view of cumulative advantages/disadvantages perspective, inequality in education within cohorts have resulted from the unequal allocation of educational resources and structuring of opportunities in Thai society. Not all workforce in Thailand has chances of receiving high education, with regard to the financial status of families, living areas and public or private schools. Individuals with low socioeconomic status are distanced from high-quality education resources (Mayer, 1997). For example, graduates from superior universities or families tend to greatly benefit from the AEC initiatives and acquire employment due to their cumulative advantages of everyday networks in work and family contexts. As such, early disadvantages may increase the likelihood of persistent

disadvantages, such as poor educational attainment, unfavorable occupational position and lower wages.

Apart from the education domain, social factors in the working life course may invoke intracohort differentiation significantly, such as working conditions and corresponding rewards (Kohn & Schooler, 1984). Labor participation of old cohorts and occupational segregation might operate to produce economic inequality in old age. A survey conducted in 2000 suggests that 80.8 percent of Thai older adults aged 50 to 59 years participated in the workforce while the rest was detached from the workforce (Fujioka & Thangphet, 2008). Certain older adults in public sector and favorable positions may continue to work in later life while other employees in the private sector are subject to have an earlier retirement age. Besides, the ASEAN selected eleven prominent sectors to accelerate economic integration, that took up above 50% of intra-ASEAN trade in 2003 (ASEAN Secretariat, 2004). However, 66.1 percent Thai older adults worked in agriculture, forestry, hunting and fishing industries (Fujioka & Thangphet, 2008). In this regard, older adults working in the prioritized sectors have encountered potential income increase and career prospects, which differentiates these workers from other cohort members. Therefore, we argue that the AEC's sectorial approach potentially shapes and reinforces income inequality in old age.

### **Inequality across age cohorts**

In the domain of education, inequality is addressed as the result of the lack of education and lack of second-chance alternatives over the life course (Bar-Haim & Blank, 2019). Individuals are committed to education investments in early life stages with regard to compulsory education. Evidence suggests that inequality in educational attainment increase over the life course; besides, educational re-entry in midlife is correlated with individual resources, work pathway and early achievements in education (Elman & O'Rand, 1998). Consequently, older cohorts tend to be disadvantaged in receiving vocational education and training. Older people in Korea have been found as less communication competent and less adaptive to technologies (Lee, Park & Hwang, 2015). As compared to young employees, older adults in the labor market are inclined to be excluded from certain positions and industries, such as hi-tech sectors.

In the context of transformative economies in the ASEAN region, the AEC has endeavored to embrace innovative technologies and improve digital inclusion. Young generation is particularly spotlighted in ensuring digital dividends by Thailand's Minister of Digital Economy and Society (PATA, 2017); while old generation is often overlooked in accelerating speedy economic growth. Concerning the impacts of digital technologies in ASEAN's labor market, the low-skill jobs have been probably

replaced, especially in the labor-intensive manufacturing and services industries (ILO, 2016). In fact, 89 percent old Thais aged over 60 years work in such labor-intensive sectors, such as agriculture, commerce and manufacturing (ILO, 2008), hence they would be greatly affected and vulnerable by potential large-scale job replacements. It would give rise to high risks of job losses, long-term unemployment, income deduction of Thai older adults which impacts the living conditions considerably.

According to the MRAs, the AEC has been particularly facilitating labor mobility within the ASEAN region. Yet, older adults are impoverished in labor mobility since vital life events often happen at earlier stages from a life course perspective. Hence, their potential for mobility dividends could not be fully achieved within the AEC framework. A slightly growing number of studies investigates the determinants of labor mobility in Thai industries. For example, Suanmali & Saengsathien (2014) suggest that stable national political-economic situation and better work rewards motivate Thai engineers to work abroad; further, Nobnorb & Fongsuwan (2015) argue that greater skills and feasible labor policy promote labor mobility in Thai rubber industry. In terms of the determinants in old age, although little is known from the present literature, a few characteristic factors should be taken into consideration, such as health conditions and social insurance system.

Thailand is a net immigration country, and the relationship between migrant and native workers has been concerned in the labor market. Surprisingly, evidence reveals that migrant workers increase the paid employment rate and income per capital of native workers; besides, it does not intensify the competition between migrant and native workers (OECD/ILO, 2017). In addition, Thailand has been a popular recreation country for foreign pensioners to stay owing to low living and health costs. Yet, the increasing purchase and investments from foreigners lead to the rise of the local price level, which leads to unaffordable prices and supply deficits, particularly in housing and healthcare areas.

### **Conclusion**

The ASEAN Economic Community is a political and economic framework for fostering regional economic integration and adopting a set of strategies to implement the 2025 Blueprint. This structure has been argued as a function of differentiating resources and opportunities on the basis of age. Individuals turn out to be structured by the AEC framework and influenced by social change. Older adults are vulnerable to deal with social change and fail to harness career opportunities in the Thai labor market. Cumulative advantage/disadvantage perspective spotlights individual life trajectories and emphasizes heterogeneity within and across age cohorts; further, it operates to produce emergent inequality in old age in

the context of Thailand's population ageing. This article elaborated emergent inequality in old age within the AEC framework; it suggests following policy recommendations to mitigate the abovementioned inequality in the Thai labor market.

First, older cohorts in the working life course need to be taken into consideration in the rapid ageing society as Thai old workers are subject to labor-intensive occupations. From the cumulative advantages/disadvantages perspective, this article suggests that citizens at different life stages ought to be provided with lifelong learning chances to move further up in knowledge-intensive sectors and managerial positions. Advanced experience and knowledge in entire lives can be used as a sign of value to situate them into a favorable category. Second, less-skilled workforce and labor-intensive positions are associated with Thai older workers. The mobility of older workers is isolated from skilled labor and sectoral priorities in terms of the AEC's institutional framework of economic integration. Hence, this paper argues that it is vital to extend the coverage of MRAs and promote the free flow of workers in manufacturing, tourism and other sectors. Third, the socioeconomic status of new old people should be received much attention in the Thai fast-ageing society, given that individual background contributes to accumulating advantages/disadvantages and producing inequality in old age. Hence, it is suggested to take a critical lens to examine

the inclusiveness of resources allocation by Thai governments.

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