



Southeast Asia
Public Policy Institute

Southeast Asia Global Relations Outlook 2024



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About the Southeast Asia Public Policy Institute

The [Southeast Asia Public Policy Institute](#) is a research institute based in Bangkok and Singapore, working across the region. Our mission is to support the development of solutions to the most pressing public policy challenges facing Southeast Asia in the 21st century.

The Institute works on a range of issues across sustainability, technology, public health, trade, and governance.

We convene dialogues with stakeholders and decisionmakers to drive discussion on the challenges and opportunities facing markets in the region. The Institute draws on a network of in-market researchers, advisors, and partners to provide insights and recommendations for governments, policymakers, and businesses.

We work with partners on projects to explore and drive discussion on policy challenges through:

- **Research and policy development** – in-depth research providing insights and actionable policy solutions aimed at policymakers looking to move the needle on key issues.
- **Policy dialogues and roundtables** – to present policy ideas and start a dialogue with the most relevant stakeholders holding the pen on policy development in markets across the region.

The Institute is founded on the premise that direct connection and candid, informed dialogue is crucial for both policymakers and business leaders operating in the region's changing economic and public policy landscape.

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Executive Summary

As we enter the mid-2020s, Southeast Asian countries find themselves facing a set of complex economic and security dynamics involving a range of global powers and blocs.

The ongoing strategic rivalry between the United States and China continues to cast a shadow over the region as it navigates a delicate balance between economic opportunities and security ties. This includes sifting the diminishing opportunities of China's Belt and Road Initiative while also prospecting for opportunities as the process of derisking global supply chains away from China continues. Tensions between China and a number of countries in the South China Sea also continue to test the relationship. Yet China remains an important partner, and a China-ASEAN FTA stays on the table for 2024.

While the US has made a diplomatic push to re-engage economically with the region, to match comprehensive security ties with several countries, relations with the region will take a backseat to domestic concerns during an election year, when international trade inevitably becomes a more sensitive and politicised topic. Looking ahead, a new administration in the US could drastically alter the level of engagement with the region.

Following a historical trend to maintain a wide diversity of relationships, and with potentially unstable relations with the US and China, partnerships continue to develop with the EU and India. Both entities wield significant influence on the global stage and play crucial roles in shaping Southeast Asia's economic landscape and geopolitical dynamics. Furthermore, Southeast Asia observes with interest the deepening engagement between the EU and India where discussions on trade cooperation, sustainable development goals, and climate change mitigation efforts present opportunities for enhanced global collaboration.

Over the years, the EU has emerged as one of the region's largest trading partners and a key source of foreign direct investment and development assistance. Through initiatives such as the ASEAN-EU Dialogue and a growing number of bilateral trade agreements, the EU has fostered closer ties with Southeast Asian nations, promoting economic integration and sustainable development across the region.

Meanwhile, relations between Southeast Asia and India have gained momentum in recent years, driven by shared interests and mutual aspirations for growth, prosperity and independence from the influence of other major global powers. India's "Act East" policy, aimed at bolstering engagement with Southeast Asia, has led to increased diplomatic exchanges, trade, and investment between the two regions. These efforts are generally met positively as India is viewed as a valuable partner in their quest for economic diversification and regional stability.

Closer to home, Southeast Asia maintains strong ties with East Asian neighbors – Japan, Korea, and Taiwan – each hosting a unique blend of cultural heritage, technological prowess, and economic power, they play crucial roles in shaping Southeast Asia's regional dynamics and global engagements.

The relationship between Southeast Asia and Japan is characterized by a longstanding history of cooperation and collaboration. Japan has emerged as a key investor and development partner for Southeast Asian countries, contributing to the region's economic growth and infrastructure development. The two partners celebrated a Commemorative Summit for the 50th Year of ASEAN-Japan Friendship and Cooperation in 2023, promoting people-to-people exchanges and sustainable development across the region.

Meanwhile, South Korea's "New Southern Policy" aims to further strengthen ties with

Southeast Asia, leveraging the region's strategic importance and economic potential. Through initiatives such as the ASEAN-Korea Free Trade Agreement and the Korea-ASEAN Future-Oriented Cooperation, South Korea has bolstered its engagement with Southeast Asian countries.

Despite political sensitivities, Southeast Asia's relationship with Taiwan has witnessed steady growth and diversification. Taiwan's economic expertise and technological leadership have positioned it as a valuable partner for Southeast Asian countries, particularly in technology. While diplomatic relations between Taiwan and some Southeast Asian nations remain complex, economic and cultural exchanges continue to flourish.

Southeast Asia also continues to strengthen economic partnerships further afield, including the Gulf nations, leveraging complementarities in energy resources, trade, and investment. Relationships with the Gulf Cooperation Council (GCC) present avenues for enhanced cooperation in areas such as infrastructure

development, tourism, and technology exchange.

Economies in the region are also party to a number of multilateral agreements and initiatives, including the International Partnership for Expanding Market Access (IPEF), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and Regional Comprehensive Economic Partnership (RCEP). In the context of failing global-level multilateralism at the WTO, these agreements create new opportunities for trade, markets access, and regulatory alignment, driving regional integration and fostering a conducive environment for investment and economic growth.

Against the backdrop of a slowing Chinese economy, and the potential for drastic change in US policy towards the region, this broad range of relationships is essential to supporting stability and economic opportunities for countries in the region through the rest of the 2020s.

Southeast Asia Global Relations Outlook

2024

Introduction

In this outlook report, we look at Southeast Asia's relationships with the United States, China, the European Union India, Japan, South Korea, Taiwan, the Gulf nations, and the implications of its engagement in international agreements. This is not an exhaustive list, but a selection of the most important or interesting developments as we enter the mid-2020s.

1. United States

Increasing engagement

The Biden administration had a fairly productive last two years in terms of (re)building ties with Southeast Asia. The region saw several high-level visits by members of the Biden administration in the second half of 2021, including Secretary of Defense Lloyd Austin, Vice President Kamala Harris, and Secretary of State Antony Blinken.

President Biden attended (virtually) the annual US-ASEAN Summit held in Phnom Penh in 2022, during which the United States and ASEAN would upgrade their relationship to a Comprehensive Strategic Partnership (CSP). US Vice President Kamala Harris subsequently attended the 2023 US-ASEAN Summit held in Jakarta.

In order to build upon the potential of their elevated relationship, both parties announced their intent to establish a US-ASEAN Center in Washington, DC. Further opportunities for engagement were provided through the Biden administration's hosting of the US-ASEAN Special Summit in Washington D.C. in 2022, as well as the APEC Summit in San Francisco in 2023.^{1 2}

Leveraging the newly elevated relationship

The Biden administration has sought to counter Chinese regional influence through a dual strategy of fostering both deeper economic and security ties. In terms of economic statecraft, in May 2022 the Biden administration launched the Indo-Pacific Economic Framework (IPEF) with 14 countries, including seven ASEAN members — Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. It is widely seen as Washington's attempt to re-engage economically in the region after the Trump administration withdrew from the Trans-Pacific Partnership (TPP) in 2017.³

While IPEF has been criticized for lacking market access and major infrastructure investments, it is nevertheless seen as a useful platform for ASEAN Member States to participate in rulemaking for regional trade, particularly when it comes to emerging issues such as a clean and fair economy and supply chain resilience. It also provides a platform for individual Member States to resolve bilateral trade issues with the US. At the time of writing, an agreement has been reached for Pillar 2 (Supply Chains), while 'substantial conclusions' have been reached for Pillar 3 (Sustainable Economy) and Pillar 4 (Fair Economy). Negotiations for Pillar 1 (Trade), however, remain ongoing. Given the domestic sensitivities concerning trade in the US, there are low expectations for a substantive IPEF trade agreement, especially in an election year in the US.⁴

The Biden administration has also made gains in deploying economic statecraft bilaterally, including through the Just Energy Transition Partnerships with Indonesia and Vietnam; a semiconductor pact with Malaysia; a tech partnership with Singapore, and a nuclear agreement with the Philippines.⁵ Entering 2024, within the reduced bandwidth of an election year, the Biden administration will seek to build

upon existing relationships, such as the new Comprehensive Strategic Partnerships with Vietnam and Indonesia.

The upgrading of ties between the US and Vietnam in September 2023 is expected to drive growth in critical industries from semiconductors to defense.⁶ Meanwhile, both the US and Indonesia are currently in negotiations to sign a limited FTA with regards to critical minerals, under which electric vehicles made using Indonesian nickel would be subject to subsidies created under the Inflation Reduction Act (IRA).

However, a group of US senators have opposed such a move with Indonesia, citing the country's standards for labor rights, environmental protection, safety and human rights.⁷ With regards to the Philippines, US Secretary of Commerce Gina Raimondo is expected to lead a Presidential Trade and Investment Mission to the Philippines in the Spring of 2024, during which the U.S. and Philippines will co-host the 6th Annual Indo-Pacific Business Forum in Manila.⁸

Security ties

In terms of security ties, the US has benefited from individual ASEAN Member States seeking to build their own bilateral partnerships and coalitions outside of the institutional sclerosis of ASEAN.

The Philippines, for example, has strengthened its treaty alliance with Washington by expanding access by the U.S. military to several bases across the country, including air and naval facilities in Cagayan, which lies just opposite of Taiwan on the northeastern tip of Luzon Island. As previously mentioned, US-Vietnam relations were elevated from “comprehensive” to “comprehensive strategic” in part following incidents between the Chinese coast guard vessels and Vietnamese fishing boats as well as natural resource exploration activities in Vietnam’s internationally recognized exclusive economic zone.

Indonesia too has also sought to build closer security ties with Washington. In June 2023, for

example, the US Air Force was given first-ever clearance to land two B-52 strategic bombers on Indonesian soil. Subsequently in August, Jakarta opened the second iteration of the multinational Super Garuda Shield military exercise with fellow ASEAN member Singapore, as well as Australia, Britain, France, Japan, and the United States.⁹

With the US entering an election year, we can expect to see the pace of US-ASEAN initiatives to slow down. The ongoing wars in Ukraine and Gaza are also expected to draw the bulk of US foreign policy attention for the foreseeable future. Given that the upcoming election is expected to be fraught, politically sensitive issues such as trade and de-risking from China may play a role in American political discourse, possibly complicating US-ASEAN initiatives in the near future.

2. China

Economic Partnership and Trade Relations

China remains one of ASEAN’s most important economic partners. It is the top trading partner for several ASEAN countries, as well as one of the region’s largest sources of foreign direct investment. ASEAN has come to rely heavily on China to maintain growth and promote development, notwithstanding the geopolitical challenges that China poses to many of them. Both parties are currently in the process of concluding the ASEAN-China Free Trade Agreement (ACFTA) 3.0 upgrade negotiations by 2024. The upgraded ACFTA is expected to include new growth areas such as digital economy, the green economy, competition, and MSMEs. This is to ensure the agreement remains relevant to a changing world economy.¹⁰

Belt and Road Initiative (BRI) Investments and Infrastructure Projects

ASEAN collectively has been one of the largest recipients of capital in relation to China’s Belt and Road Initiative (BRI), a global program launched in 2013 to link China with new markets worldwide through a vast network of

infrastructure projects. Some of these projects have since become controversial and sparked varying degrees of domestic backlash based on their transparency, economic rationale, and environmental impact.

In countries like Malaysia, changes of government have seen projects cancelled and/or renegotiated such as the East Coast Rail Link, while other projects such as the Bandung-Jakarta High Speed Rail in Indonesia have faced cost overruns and delays. While BRI-related investments into the region have slowed in recent years, Southeast Asia is expected to remain a priority investment area for the BRI due to the region's geopolitical importance for the foreseeable future. Future investments into the region are expected to shift away from big-ticket infrastructure projects towards newer sectors such as the digital economy and green tech (in particular electric vehicles).¹¹

Impact of China's Economic Slowdown on ASEAN Economies

Given the strong economic linkages between China and the region, it is likely that China's ongoing economic slowdown will ripple across the region, dragging down growth for many ASEAN economies. The most important industries for earning foreign currencies in many ASEAN economies depend on the Chinese economy, such as the electronics sector in the Philippines and Malaysia, and tourism in Thailand. With domestic consumption and outbound tourism slowing down in China, this is expected to apply downward pressure on regional currencies.¹²

Indeed, in the past weeks the Malaysian ringgit, Philippines peso, the Thai baht, and the Indonesian rupiah are among several regional currencies that have traded at their weakest levels against the US Dollar in months. Capital control policies implemented in China will also reduce outward FDI by China's private sector.¹³

While ASEAN leaders will continue to place importance on their economic relationship with China, any economic slowdown brought about by China's own stalling post-pandemic recovery

may encourage leaders to seek alternative economic partners.

Geopolitical Tensions and South China Sea Disputes

Despite the trade and investment ties, tensions over overlapping claims in the South China Sea involving several maritime ASEAN Member States will also prove a hindrance to the overall relationship. This came to a head in December 2023, when ASEAN foreign ministers issued an unprecedented stand-alone joint statement on the South China Sea dispute, calling upon all rival claimant states to exercise restraint and pursue a peaceful resolution of the dispute.¹⁴

There has already been several risky encounters between naval forces of the Philippines and China in the last few months over the disputed Second Thomas Shoal. ASEAN's apparent disunity on the issue has pushed Manila to further its security ties with non-ASEAN partners, in this case its sole treaty ally the US, and other members of the Quad. Manila also announced plans to upgrade its fortifications across its claimed land features in the South China Sea. Maritime disputes in the South China Sea have become flashpoints over the last few months and are expected to significantly challenge overall China-ASEAN ties in 2024.¹⁵

3. European Union

Economic relationship remains key

Trade and investment remain the primary pillar of the EU-ASEAN relationship. In 2022, ASEAN was the EU's third largest trading partner outside of Europe (after China and the US), with more than US\$294 billion in trade in goods. Both parties have come to view each other as important economic partners, with the EU viewing Southeast Asia as an alternative trade partner that can help boost the bloc's supply-chain resilience. Likewise, ASEAN views the EU as an important market for its goods as well as a source of investment.¹⁶

In 2007 both parties would begin negotiations for a region-to-region FTA, but talks would be suspended two years later due to disagreements over the agreement's scope, the differing development levels of the participating members, and human rights concerns in relation to Myanmar. In 2017, both parties would reignite formal talks and agreed to set up a joint working group. Beyond this, progress has been limited. EU officials have stressed that an EU-ASEAN FTA remains a long-term objective for the bloc.¹⁷

In lieu of a regional FTA, the EU has refocused on signing bilateral trade agreements with individual ASEAN Member States. As of now, the EU has signed FTAs with Singapore (in force in 2019) and Vietnam (2020), with negotiations ongoing with several others. Following a rapprochement with Thailand in 2019, both parties would agree to relaunch negotiations on a bilateral trade agreement in March 2023. Initial trade talks had been stalled for nearly a decade after Thailand became isolated from the West following its 2014 military coup. Bangkok is aiming for negotiations to conclude by early 2025.¹⁸

The EU would also begin negotiations with Indonesia in 2016 for a comprehensive economic partnership, with talks having been dragged out due to disputes over state-owned enterprises, local content requirements and Brussels' environmental policies.¹⁹ In July 2023 both the EU and the Philippines would announce their intentions to restart negotiations over a EU-Philippines FTA, with talks having been halted in 2017 due to diplomatic tensions against the backdrop of the Philippines' war on drugs.²⁰ Negotiations between the EU and Malaysia, on the other hand, have remained stalled since 2012, with no further development since.²¹

EU green policies, palm oil at the root of tensions

Over the last few years, tension has risen between the EU and ASEAN Member States over the former's environmental policies, which critics have argued essentially serve as a form of protectionism. These policies have particularly

impacted producers of forest-related commodities (a major sector in Southeast Asia), raising diplomatic tensions and stalling trade negotiations.

Entering into force in 2018, the EU's Renewable Energy Directive (RED) II, included the phasing out of biofuels that are sourced from recently deforested areas or peatlands. Among the biofuels included in this new directive is palm oil, which has been associated with high levels of deforestation in the past. Both Indonesia and Malaysia, which account for around 85% of global palm oil supply, have argued that the EU's decision is discriminatory and protectionist in nature, designed to support European producers of other types of vegetable oils such as rapeseed and sunflower. In response, both countries have taken the EU to the WTO.²²

More recently, the EU would introduce a deforestation initiative which would ban the import of forest-related commodities and their products from entering EU markets if they are found to be linked to deforestation. Dubbed the European Union Deforestation-Free Regulation (EUDR), the initiative requires producers and companies trading timber, palm oil, soy, rubber, cattle, cocoa and coffee into the EU to provide detailed evidence proving their goods were not grown on land deforested since 2020. The new rule came into June 2023, and gives producers and companies until December 2024 to fully comply. ASEAN countries argued that such regulations will negatively impact the millions of smallholder producers who depend on the EU market, and who lack the technical capacity and financial capital required to meet the strict due diligence requirements of the new rules. Smallholders produce some 95% of Vietnam's coffee, 42% of Indonesia's palm oil, and 95% of Thailand's rubber. In countries like Malaysia and Indonesia, such smallholders represent a significant voting bloc.²³

Another recently introduced EU green policy which has caused consternation in ASEAN is the European Union Carbon Border Adjustment Mechanism (CBAM), which applies duties on certain products — including iron and steel imported from countries without carbon pricing mechanisms or with carbon prices below the

Emissions Trading System. This new policy will apply to Indonesia and Malaysia's iron and steel exports to the EU. By one count, the CBAM could cause annual trade losses of US\$500 million for ASEAN in 2030, while simultaneously driving gains for developed markets.²⁴

Cooperation in security realm

While the EU-ASEAN relationship is primarily economic in nature, Brussels has also sought to expand its security profile in the region. While the EU's positioning as security provider in Southeast Asia is still at an early stage, the hedging strategy of ASEAN Member States in response to the Sino-US contest has provided the strategic space for the EU to step in and provide an alternative security partner. For Brussels, expanding security cooperation with Southeast Asia would help strengthen the bloc's larger strategic engagement with the Indo-Pacific. For ASEAN members, the EU provides an alternative, and possibly more inclusive, strategic option. As a result, both EU and EU Member States' security-related activities in Southeast Asia are on the rise, especially in the maritime domain.²⁵

4. India

A welcome 'third party'

With Southeast Asia looking for credible alternatives to help navigate the Sino-US contest, India has emerged as a welcome partner. For New Delhi's part, it has sought to compete with China for leadership of the so-called 'Global South', with ASEAN identified as a crucial area of interest. Relations between India and ASEAN have been on a steady rise over the last three decades, beginning in 1991 when India implemented its "Look East" policy and became a sectoral dialogue partner. These relations were elevated to dialogue partnership and strategic partnership in 1996 and 2012, respectively. In 2014, New Delhi revamped the Look East policy and rebranded it "Act East" in acknowledgment of the need for a more proactive role in the Asia-Pacific. In November

2022, in recognition of the 30th anniversary of ASEAN-India relations, ASEAN granted India the status of a Comprehensive Strategic Partner at the ASEAN-India Commemorative Summit in Phnom Penh, Cambodia.²⁶

Southeast Asian attitudes towards India seem to have warmed over the last year. This was suggested in the ISEAS-Yusof Ishak Institute's 2023 survey of elite Southeast Asian public opinion, with India emerging as a surprise third choice for a "third party" partner for ASEAN, with the support of 11.3 percent of respondents behind the European Union (42.9 percent) and Japan (26.6 percent). The survey also showed an increase in levels of trust in India in almost all of the ASEAN countries, with overall trust jumping from 16.6 percent in 2022 to 25.7 percent in 2023, with levels of distrust also dropping in tandem.²⁷

Economic ties remain weak

While both parties have evidently placed importance on the relationship, India's aversion to economic openness has provided a hindrance to closer economic ties. India's share of ASEAN's total trade has stagnated between 2 to 3 per cent in the last decade. In contrast, China's (excluding Hong Kong) share of ASEAN's total exports and imports between 2012 and 2021 increased from 11.4 per cent to 16.4 per cent and from 14.4 per cent to 23.9 per cent respectively. Amongst ASEAN-plus FTAs, the ASEAN-India Trade in Goods Agreement (AITGA) has the lowest level of trade liberalisation and the most restrictive rules of origin requirements.²⁸

With multinational firms looking to diversify their production bases away from China, Indian officials have claimed that this provides opportunities for India-ASEAN value chains linkages to grow. However, such claims lack credibility in light of India's inherent protectionism. Recently, India's political class have chosen to place India's trade deficits with ASEAN under scrutiny, attributing them to unfair trade practices. In August 2023, both parties agreed to review the AITGA by 2025 to address issues of concern, including India's current trade deficit. However, it is more likely

that India's high trade deficits with ASEAN economies have more to do with India's underdeveloped manufacturing sector and low integration with East Asian value chains. The fact that ASEAN economies are heavily interlinked with China has also presented obstacles to closer economic interconnectedness with India. New Delhi could ultimately come to view ASEAN economies more as rivals than partners as it seeks to capitalise on economic opportunities arising from global value chain restructuring.²⁹

Despite these limitations in the economic realm, genuine gains have been made. Declining shares of exports and imports of minerals, mineral fuels, and oils in the post India-ASEAN FTA years indicate that trade between ASEAN and India has diversified into non-oil non-mineral sectors, suggesting the trade has moved into higher-value goods, which is one of the primary objectives of AITIGA.³⁰

Movement in strategic realm

While economic ties between India and ASEAN have significant room to grow, there has been more movement in the strategic realm. In 2023 alone, both parties held the first ASEAN-India Maritime Exercise off the coast of Singapore. India also had defense engagements bilaterally with Malaysia, Indonesia, the Philippines, and Vietnam. India's growing strategic profile in ASEAN has been facilitated by the fact that ASEAN Member States and India both share territorial disputes with China.³¹

More recently, Prime Minister Narendra Modi participated in the 20th Annual ASEAN-India summit and the 18th East Asia summit held in Jakarta in September 2023. During the visit, he presented a comprehensive 12-point proposal aimed at deepening cooperation between India and ASEAN nations, including through enhanced connectivity, digital transformation, affordable medicines, counter-terrorism, and disaster management. Moreover, the ASEAN-India Summit also witnessed the adoption of two joint statements, one focusing on Maritime Cooperation and the other addressing Food Security.³²

The Modi administration will no doubt be distracted with India's upcoming general election, expected to be held in April. As such, further developments in the ASEAN-India relationship may only continue in the second-half of 2024.

5. Japan

Fifty years of solid ties

2023 marked the 50th anniversary of bilateral ties between ASEAN and Japan. To commemorate this, Japan hosted the Commemorative Summit for the 50th Year of ASEAN-Japan Friendship and Cooperation in Tokyo in mid-December. The summit sought to both review the last fifty years of the relationship as well as forge a vision for a stronger future partnership. In a joint vision statement issued after the gathering, leaders agreed to strengthen ties through various areas including maritime security, supply chains, sustainable energy practices, and people-to-people exchanges.³³

Leveling relations

Japan's relations with Southeast Asia remain historically underpinned by the so-called Fukuda Doctrine, the 1977 re-set of post-war international relations by Prime Minister Takeo Fukuda, that sought to increase engagement and cooperation with the region.³⁴

Initially, with Japan as the pre-eminent economic and technological power in Asia, the dynamics of the relationship were uneven – Japanese assistance to ASEAN countries has totalled US\$128.5 billion since 1977. Japanese companies invested heavily in ASEAN supply chains, particularly in the areas of automobiles and electronics, building up manufacturing, export and technological infrastructure across the region.³⁵

Following half a century of formal ties, the coming decades of the Japan-ASEAN relationship are expected to be more balanced. While the eighties and nineties saw a 'flying geese model of development' with Japan as the

lead, the regional economic model in the 21st century has shifted towards a more dispersed production network with components sources from many different countries and with China playing a much larger role in both production and consumption.³⁶

The leveling of the relationship has also been driven by domestic economic factors, including Japan's overall growth trajectory and on-going demographic challenges. Meanwhile, ASEAN's combined GDP reached US\$3.6 trillion in 2022, around 85 percent of Japan's. The IMF's latest projections have the nominal gross domestic product of ASEAN's ten members overtaking Japan's US\$4.7 trillion in 2026.³⁷

The relationship has transitioned towards a more equal partnership with both sides able to leverage each other's strengths. Japan can serve as an indirect representative for ASEAN interests in global forums such as the G7 and G20, where it can give voice to broader regional concerns and mobilize the resources needed to address shared priorities.³⁸

ASEAN also serves as a crucial partner for Japan in managing big power interests in its own neighbourhood. With the geopolitics of the Indo-Pacific increasingly characterized by the Sino-US contest, Tokyo may increasingly lean on the convening power of ASEAN to stabilize big power relations through its array of multilateral institutions, such as the ASEAN Regional Forum, the ASEAN Plus Three summit, and the East Asia Summit.³⁹

Security new pillar of relationship

Alongside the leveling of the economic relationship there has been a new focus on security as a pillar of cooperation. Southeast Asia has been identified as a key focus of Tokyo's reinvigorated national security doctrine, which has developed largely in reaction to China's assertiveness. Japan relies heavily upon the South China Sea for its maritime supply chains, including energy supplies from the Middle East. To protect these critical shipping lanes, Japan has sought to deepen security cooperation with several ASEAN Member States. Hence,

maritime security emerged as a major area of focus at the 2023 Commemorative Summit.⁴⁰

To help bolster the defense capabilities of Southeast Asian partners, in April 2023 Tokyo introduced the Official Security Assistance (OSA) to complement its existing Official Development Assistance (ODA). Under the OSA, Japan will be able to provide defense equipment and security-related financial assistance to like-minded countries.⁴¹

Since the inception of the OSA, such security assistance has been forthcoming. On the sidelines of the 2023 Commemorative Summit, Japanese Prime Minister Kishida held a series of bilateral talks with ASEAN Member States to step up bilateral security ties. Japan and Malaysia would sign a 400 million yen (US\$2.8 million) deal to bolster Malaysia's maritime security capability through the provision of rescue boats and warning and surveillance equipment. Japan would also sign an agreement with Indonesia offering a grant of up to 9.05 billion yen (US\$63.7 million) to fund Indonesia's maritime security capability advancement plan, including a Japanese-built patrol boat. In the month before the Summit, Japan and Vietnam agreed to upgrade ties to a "comprehensive strategic partnership", under which they will discuss expanding defense exchanges and transfers of defense equipment.⁴²

The Philippines has also become an enthusiastic recipient of Japanese security assistance. In November, Kishida announced during a visit to Manila that Japan would provide coastal surveillance radar and defense equipment to the Philippines, in addition to several patrol ships it has already provided. Kishida would also agree with Philippines President Marcos Jr. to begin negotiations over a possible Reciprocal Access Agreement, which would allow each country's troops to enter the other's territory for joint military drills.

Entering 2024, Japan is expected to step up provisions of defense technology and hardware to not only the Philippines but also Indonesia, Vietnam, and Malaysia through the provision of assets such as coast guard vessels and radars.⁴³

6. South Korea

The New Southern Policy

President Moon Jae-in's introduction of the New Southern Policy (NSP) in 2017 has been the driving force for Korea-ASEAN relations. Under the NSP, ASEAN was recognized as an equal partner to South Korea's traditional partners, which include the United States, China, Russia, and Japan. President Moon sought to demonstrate his commitment to the NSP by becoming the first South Korean leader to visit all ten ASEAN nations. South Korea's motivations for introducing the NSP were primarily economic, following China's economic and social sanctions on South Korea in response to the 2017 Terminal High-Altitude Air Defense (THAAD) missile defense system's installation in Korea, after which the Moon administration began more broadly diversifying trading partners.⁴⁴

The NSP laid out three pillars, namely people (socio-cultural cooperation), peace (political-security engagement), and prosperity (economic cooperation). While there have been developments across all three pillars, economic cooperation and people-to-people exchange have seen the greatest flourishing.⁴⁵

Since the introduction of the NSP, total trade volumes between South Korea and ASEAN have expanded from US\$116 billion in 2016 to US\$176 billion in 2021, with ASEAN becoming South Korea's third-largest trading partner. Korean investments into the region also saw a large increase from US\$5.2 billion in 2017 to almost US\$9.5 billion in 2019. As of 2021, there were over 17,300 Korean enterprises operating in ASEAN compared to 13,400 Korean enterprises operating there in 2017.⁴⁶

While South Korea has significantly expanded its economic presence within the region, by far the most active relationship is with Vietnam. Vietnam's share in Korea's total exports to ASEAN would reach 52% in 2021. By one count, Vietnam would account for 85% of the total increase in Korea's exports to ASEAN since 2010. Similar dynamics could be seen in Korean total investments into ASEAN. On annual

average, Vietnam accounted for approximately a third of Korea's total FDI into ASEAN since 2010.⁴⁷

Significant gains were also made in the people-to-people pillar. In 2019, almost 2.6 million ASEAN nationals visited South Korea, a huge increase from the 1.6 million in 2015. Conversely, there has been an uptick in Korean tourists visiting Southeast Asia, with almost 10 million visiting ASEAN in 2019 compared to 5.8 million in 2015. In the field of education, the total number of registered students in South Korea from ASEAN rose to over 64,000 students in 2019, representing one-third of the total number of foreign students in South Korea.⁴⁸

November 2020 would see the announcement of the New Southern Policy Plus at the 21st ASEAN-ROK Summit. The New Southern Policy Plus sought to build upon the existing New Southern Policy while also addressing the changing needs of both parties in light of the then-ongoing COVID-19 pandemic. It strengthened cooperation between the two parties in seven key areas: public health, education and/or human capital development, cultural exchanges, rural and urban infrastructure development, future industries, trade and investment, and non-traditional security issues. The overarching theme of the New Southern Policy Plus would be people-centric, obviously in response to the socio-economic impact of the COVID-19 pandemic.⁴⁹

Renewed focus on security

In November 2022, the new government of President Yoon Suk Yeol announced its new regional strategy, referred to as the Korea-ASEAN Solidarity Initiative (KASI). KASI is embedded within Yoon's larger 'Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region' which exhibits strong parallels to the United States' own Indo-Pacific strategy. The policy envisions a broader regional role for South Korea in security and alliance building. In some sense, this represents a possible downgrade in Korea-ASEAN relations from the days of the NSP - ASEAN is now viewed as a subset of Seoul's larger Indo-Pacific strategy.⁵⁰

In comparison to the NSP, KASI places more emphasis on deepening strategic ties with the region, including in the areas of national security and defense. This was in response to criticism that the NSP focused too heavily on economic and development cooperation. In terms of national security cooperation, Yoon has proposed expanding collaboration in the defense industry, regularizing the ASEAN-Korea Defence Ministers Meetings, and proactively taking part in joint military exercises with ASEAN.⁵¹

In recent years, South Korea's defense industry has gained a reputation for producing technologically advanced and relatively affordable military equipment. In the last years of the Moon administration, the sector would enjoy conspicuous investments and growth. Certain ASEAN Member States like the Philippines who are seeking to build up their military capabilities have begun to show interest in the Korean arms industry. In response, Seoul has been actively working on establishing government-to-government military supply ties with Southeast Asia, helping lay the groundwork for broader security ties.⁵²

ASEAN and the Korean Peninsular

South Korea has been an active participant in ASEAN-led multilateral mechanisms. One of the most important for Seoul has been the ASEAN Regional Forum (ARF), due to the participation of North Korea. Thus, the ARF provides one of the few platforms for addressing inter-Korea relations and allows Seoul to regionalise the issue of peace on the Korean Peninsula.⁵³

ASEAN may provide a welcome third party in helping address the issue of peace and nuclear proliferation on the Korean Peninsula, given North Korea's membership of the ARF and individual ASEAN Member State's generally good relations with the country. Indeed, the fact that two of the summits between then-US President Donald Trump and Kim Jong-Un were hosted by ASEAN states (Singapore in June 2018 and Vietnam in February 2019) is

indicative of Pyongyang's trust in ASEAN as a neutral and credible third party and facilitator.⁵⁴ While North Korea's recent nuclear and missile operations have stalled negotiations for the moment, ASEAN may still prove useful in helping coax North Korea to reengaging with the regional security architecture and regional norms should Pyongyang demonstrate intentions of doing so again. In this sense, ASEAN will prove a crucial partner for South Korea.⁵⁵

7. Taiwan

Despite the lack of official diplomatic recognition, economic ties between ASEAN and Taiwan have grown significantly given converging interests. While Taiwan seeks to diversify its trade and investments away from China, ASEAN seeks to attract quality FDI to promote local development and to shift local manufacturing into higher value operations. The economic relationship between Taiwan and ASEAN would see a substantial boost after the introduction of President Tsai Ing-wen's New Southbound Policy (NSP) in 2016. Introduced in order to reduce Taiwan's trade dependence on China, the NSP sought to promote economic ties with 18 countries across Southeast Asia, South Asia, and Australasia.⁵⁶

After the introduction of the policy, Taiwan successfully diverted almost 10 per cent of its investment funds from China to ASEAN. In 2019, 47 per cent of Taiwan's total overseas investment and production went to ASEAN alone. In 2022, Taiwanese companies invested US\$5.2 billion in Southeast and South Asia, compared to the US\$5 billion invested into China. This was the first time that investments into Southeast Asia and South Asia outpaced investments into China. This trend is expected to continue given ongoing trade tensions between the US and China, as well as efforts by both sides to derisk the supply chains of strategic materials and components.⁵⁷

Taiwan's status as a major producer of semiconductor chips provides one area of possible future cooperation with ASEAN. With

many ASEAN economies seeking to leverage upon the green tech revolution and digital economy, Taiwanese-produced chips will play a crucial role in the manufacture of electric vehicles, smartphones, and other tech across Southeast Asia. With Taiwan's Vice-President and President-Elect William Lai having indicated his support for the NSP, we can expect to see more substantive economic cooperation between both parties in the years ahead.⁵⁸

8. Gulf countries

Inaugural ASEAN-GCC Summit

The ASEAN-GCC Summit was the highest level of engagement between both blocs since the establishment of relations in 1990. The GCC was founded in 1981 and currently comprises six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The summit underscored efforts by both sides to connect with new partners beyond their traditional interlocutors.

Many individual ASEAN Member States also have their own interests in the Gulf states. The Philippines, Indonesia and others have large migrant diasporas in many Gulf economies; the remittances they send back play a significant economic role at home. Meanwhile, the Muslim-majority countries of Malaysia, Indonesia, and Brunei Darussalam also maintain strong religious and cultural linkages with the region. Singapore, for its part, is the only ASEAN country with an individual FTA with the GCC.⁵⁹

The summit provided the space for new partnerships among each of the blocs' members, especially those with a limited history of engagement as well as supporting each bloc's regional centrality.

As part of the Summit, a five-year Framework of Cooperation 2024-2028 was adopted. The framework calls for elevated relations through a wide spectrum of practical cooperation in the areas of countering terrorism and violent extremism, food security, renewable energy, climate change adaptation, and innovation.⁶⁰

ASEAN-GCC FTA mooted

One notable outcome of the Summit was the proposal by Malaysian Prime Minister Anwar Ibrahim for an FTA to be negotiated between both blocs. This comes amidst a modest increase in trade and investment between both regions, with Gulf-ASEAN trade having grown by 44 per cent year-on-year to US\$138 billion in 2022.

Research has observed that Gulf-ASEAN economic relations are shifting away from a foundation of trading in crude oil (from the GCC) and electronics and machinery (from ASEAN) into other strategic and high-growth sectors such as food, financial services, and e-commerce. Countries like Indonesia and Malaysia are looking to export more halal-related products to the Middle East, while Singapore as a financial hub is looking for more engagements with the Middle Eastern financial centers of Dubai, Abu Dhabi, Manama, and Riyadh in the areas of fintech innovation and blockchain.⁶¹

As expected, energy cooperation was a big topic of discussion during the Summit, given that many ASEAN economies remain net oil importers. The clean energy transition is also another area of high potential, with possible cooperation in emerging low-carbon technologies, carbon markets, and climate financing.⁶²

Gaza War to see convergence of interests

The Israel-Hamas War having broken out two weeks prior, the outcomes of the Summit included a Joint Statement on developments in Gaza, which demonstrated some common views on the importance of humanitarian law and action, civil protection, and a two-state solution. The ongoing war, and the strong emotions it has elicited in the Muslim world, may serve to push both regions closer (particularly the Muslim-majority countries of ASEAN). Indeed, Malaysia, which has been internationally vocal on the war in favor of the Palestinians, will be hosting the next ASEAN-GCC Summit in 2025, when it will also hold the ASEAN Chairmanship. The relatively new Malaysian government of Anwar Ibrahim has identified the Middle East as

a major region of interest in his administration's foreign policy, and as such Malaysia may serve as a particularly strong proponent of closer GCC-ASEAN ties in the near future.⁶³

9. International Agreements

IPEF

In May 2022 the Biden administration launched the Indo-Pacific Economic Framework for Prosperity (IPEF) with 14 countries, including seven ASEAN members — Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. It is largely seen as a geostrategic move by the US to re-engage in the region with an economic programme, to balance more comprehensive security ties, especially after the Trump administration withdrew from the TPP in 2017.

On 16 November 2023, the Biden administration hosted an IPEF leader's meeting in conjunction with the APEC Summit held in San Francisco. The meeting was held to recognise the success of IPEF ministers in signing the Pillar 2 Agreement covering supply chains on 14 November 2023. As of now, substantial conclusions have been reached for Pillar 3 on sustainable economy and Pillar 4 on a 'fair economy', while negotiations for Pillar 1 on trade are still ongoing.⁶⁴ The trade pillar has been the subject of concern and criticism as it had been evident for some time that significant progress would not be achieved by the APEC deadline. Its focus on issues from labour to digital economy reflect the modern trade policy landscape, but a lack of market access provisions has disappointed many members.

Given US election year sensitivities over trade, there remain low expectations for a substantive agreement to be reached on the trade pillar at least in 2024. At present, US demands for rules setting high labor and environmental standards have faced pushback from Southeast Asian countries. Ultimately, how the protracted negotiations over the trade pillar conclude will strongly affect ASEAN's overall perceptions of IPEF.⁶⁵

Beyond market access

However, IPEF is still expected to bring advantages and remains a new and innovative way of pursuing economic cooperation on emerging 'next generation' issues, such as supply chain resilience, digital economy, and climate change. It also provides a platform for international economic diplomacy, where ASEAN Member States will be able to engage in rulemaking for regional trade as well as to resolve bilateral trade issues with other member economies.⁶⁶

For instance, it has been argued that participation in IPEF has helped restore market access for Malaysian companies which had previously faced restrictions by US authorities due to allegations of forced labour and transshipment. Since issues such as labour standards are already addressed through IPEF, Malaysia's participation in the framework could serve as insurance against future punitive trade policy actions by Washington, as well as providing a platform to resolve existing trade frictions.

For other ASEAN countries that have faced trade restrictions from the US for issues such as transshipment (such as Vietnam, Thailand, and Cambodia), IPEF may provide an important resolution mechanism. The high standards and rules that IPEF seeks to establish may eventually help other ASEAN countries that are non-members of IPEF to benchmark their economic governance against evolving global norms.⁶⁷

IPEF can help facilitate the ongoing supply chain diversification away from China and towards Southeast Asia. With around a third of US goods imports from Southeast Asia consisting of electronics and machinery, better supply chain cooperation between the US and Southeast Asia will help reinforce the trade of value-added products, thereby helping ASEAN economies break out of the so-called middle-income trap.⁶⁸

IPEF will also allow ASEAN participants to benefit from knowledge-sharing and to gain best practices from IPEF partners on a range of

issues including supply chain resilience, digital infrastructure (including digitalizing government transactions), and implementing anti-corruption and tax measures.⁶⁹

Remaining concerns

That being said, without the threat of taking away market access, IPEF ultimately lacks a mechanism to enforce the high environmental and labour standards it lays out. When negotiating contentious issues, such as agreeing on common digital trade principles, the non-binding approach of IPEF may make it less effective than other regional agreements such as RCEP or the CPTPP.

In digital governance, the regulatory gaps and diversity across states will pose a serious negotiation challenge. The recent proliferation of preferential trade agreements, each with its own e-commerce provisions has deepened regional fragmentation in digital trade. In any case, without commitments on market access, participating countries will have little incentive to engage seriously.⁷⁰

The exclusion of Cambodia, Laos, and Myanmar, generally seen as being ASEAN members closest to China, from IPEF has also raised suspicions that it is a coalition exclusive to US allies acting as a bulwark for US strategic interests. This may be an unfair criticism given the significance of the economies for global trade, their lack of membership of other clubs such as APEC, and in the case of Myanmar, being under heavy US sanctions. Concerns have also been raised that it undermines ASEAN centrality. In response, ASEAN members such as Indonesia have been pushing to include the three remaining members left out of IPEF. Given that Laos is 2024 chairman of ASEAN, this push to expand IPEF's membership may become particularly pertinent. However, the ongoing conflict in Myanmar will present huge hurdles to any potential membership.⁷¹

CPTPP

The CPTPP is a free trade agreement that currently comprises 12 countries in the Asia-Pacific region. This includes four ASEAN member states: Brunei Darussalam, Malaysia,

Singapore, Vietnam, as well as Australia, Canada, Chile, Japan, Malaysia, Mexico, New Zealand and Peru.

The US is not party to the agreement, President Donald Trump having pulled out of the CPTPP's predecessor, the Trans-Pacific Partnership (TPP), in January 2017. The remaining 11 countries in the original TPP continued negotiations and devised the CPTPP, which was signed in Chile in March 2018 and entered into force in late December 2018.

The CPTPP retains the original 30 chapters of the TPP text, including its dispute settlement mechanism. However, it indefinitely suspends 22 specific commitments from the TPP that were priorities for the US, with the option for CPTPP parties to reintroduce them by consensus, pointing to an open door for the US to rejoin at some point in the future.

A new global model?

In July 2023, the UK would formally join the CPTPP, become the first non-founding country to apply and successfully join. According to a recent briefing paper by the UK government, the agreement is expected to come into force for the UK economy in the second half of 2024 once the UK and the other CPTPP members have completed the necessary legislative processes. With the UK's formal entry, the collective GDP of the members of the CPTPP is expected to expand to 15% of the world's total from the current 12%.⁷²

Already spanning the Pacific, with members on four continents, the UK's accession may further the transformation of the CPTPP from a regional agreement to a global solution. Depending on the direction of travel, such as closer harmonisation with EU rules, the CPTPP could be the basis of a huge transregional regulatory sphere, facilitating trade and economic exchange between Europe and the Asia-Pacific. As two of the largest and most influential economies in the bloc, Japan and the UK may have an outsized influence on the agreement's future.⁷³

Further expansion

The successful entry of the UK has opened the door for other applicants - at the time of writing China, Taiwan, Ecuador, Costa Rica, Uruguay, and Ukraine have also applied to join the trade pact. Other countries such as South Korea, Thailand, and Indonesia have also expressed interest in joining.

The near-term entry of China and Taiwan into the CPTPP is unlikely for geopolitical and economic reasons. Despite the US not being a member, the CPTPP is broadly viewed as a US-aligned bloc, especially with Japan, Canada, and the UK as members. Taiwan submitted its application one week after China. China will most likely insist on joining first, and should it successfully accede it will most likely exclude Taiwan. There are also significant obstacles to China's accession due to the discrepancies between Chinese policy and CPTPP standards in the areas of labor, the environment, state-owned enterprises, and digital commerce. For China to meet these standards, significant changes to Chinese policies would likely have to be made, which would require long transition periods or exemptions.⁷⁴

More likely to join is South Korea, whose trade policies are the most aligned with those of the other member economies, while its improving relations with Japan should minimize opposition to its entry. The South Korean government announced its intention to apply in April 2022, but has yet to file a formal application.⁷⁵

RCEP

The Regional Comprehensive Economic Partnership (RCEP) is the world's largest regional trading bloc, comprising 30% of the world's population and GDP as well as 28% of global trade. It is composed of the ten members of ASEAN as well as New Zealand, Australia, China, South Korea, and Japan. The deal recently came into full effect in all the 15 member countries after it officially took effect in the Philippines on 2 June, 2023.⁷⁶

An ASEAN-led initiative, RCEP is expected to formalize and streamline the multitude of

'ASEAN Plus' FTAs by unifying Rules of Origin and expanding rules of cumulation, thereby helping promote regionalism and the regional engagement in global value chains. Along with the CPTPP, RCEP will help further bolster the Asia-Pacific's centrality to the global trade ecosystem. RCEP is expected to create deeper trade links between the three Northeast Asian economies of China, South Korea, and Japan. In comparison, Southeast Asia is expected to benefit less since it already has FTAs with the other RCEP partners. As such, RCEP is expected to reorient trade and economic ties away from global linkages and towards a more regionally-focused, China-centric economy. This deepening of trade dependence on China may challenge attempts by the US to economically isolate China through other initiatives such as IPEF.⁷⁷

More recently, the ASEAN Secretariat stated that they were developing procedures to allow more countries to join RCEP. The accession rules are expected to be finalized in 2024. As of now, only Sri Lanka and Hong Kong have expressed their interest in joining the agreement. While the agreement allows India to rejoin at any time, it is unlikely for New Delhi to do so any time soon given its concerns about an influx of Chinese imports.⁷⁸

Conclusion

The strategic rivalry between the United States and China continues to exert profound influence on the region, underscoring the imperative for Southeast Asia to balance economic interests with security considerations while preserving its autonomy and sovereignty.

However, ASEAN and individual member states have successfully diversified their global relationships with other major global economic, political, and technological powers such as the EU, India, Japan, South Korea, and Taiwan which present new avenues for enhanced cooperation and partnership building.

ASEAN members have also actively participated in regionally-focused multilateral agreements

that provide alternatives at a time when global-level negotiations at the WTO are stalling.

These agreements lay the groundwork for enhanced trade and regulatory alignment.

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