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by Hugh Stephens
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POLICY UPDATE

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On April 24-25, 2013 the Association of Southeast Asian Nations (ASEAN) will hold its 22nd Leaders' Summit in Brunei Darussalam. ASEAN, comprised of ten nations in the heart of Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) has been around since 1967 but it is only in recent years that it has taken on its role as the linchpin of economic growth and trade in the region. With a market of 600 million people, ASEAN covers the spectrum of development from advanced service economies like Singapore (per capita GDP about US\$50,000, roughly the same as Canada) to economies just emerging from decades of mismanagement like Laos and Myanmar (per capita GDPs of \$1303 and \$1144 respectively—all figures from UN) to mixed but growing economies like Indonesia, Thailand, Vietnam and Malaysia. Tiny Brunei, with a population of just 400,000, is one of the world's wealthier states owing to its enormous oil resources (per capita GDP \$38,000). What this grab-bag of economies has in common is a desire to hang together (lest they hang separately) in dealing with their politically, demographically and economically powerful neighbours – China, Japan, Korea and India – while at the same time strengthening engagement with the US, their southern neighbours (Australia and New Zealand), Russia, and, yes, even Canada.

Canada has recently focused its efforts at revitalizing its links to ASEAN. Although a “Dialogue Partner” since 1977, Canada had let its links languish from the 1990s onward, but that is changing. We appointed our first ambassador to the Organization in 2009, signed the Treaty of Amity and Cooperation (one of the last to do so) in 2010 and in September of 2012 International Trade Minister Ed Fast inaugurated a new Canada-ASEAN Business Council, based in Singapore.

Brunei has assumed the rotating chair of ASEAN in 2013 and will face a number of challenges. It will have to steer ASEAN through two particularly difficult issues; security concerns related to China's aggressive claims to most of the South China Sea and economic and trade issues, including two regional trade pacts currently under negotiation. How Brunei handles these sensitive topics could have important implications for Canada's rediscovered interest in the region.

In the South China Sea, China is flexing its muscles to assert its claim to 90 percent of the 3.6 million square kilometres of ocean north of Malaysia, east of Vietnam, west of the Philippines and south of China. If China is successful, its maritime boundaries will extend to the territorial limits of its south-east Asian neighbours, including Brunei. China is bolstering its threadbare legal claim by populating and establishing administrative regulations over minuscule islets, and leaning on countries with competing claims to settle bilaterally. China's economic leverage is part of the calculus, and allowed China to pressure Cambodia, the previous ASEAN chair, to block an ASEAN consensus on the issue. ASEAN, for its part, wants to deal with China as a bloc and seek multilateral solutions. China's success in splitting ASEAN over the issue is of great concern to the organization. Brunei, although tiny, is in a far better position to withstand Chinese pressure. It is not dependent on Chinese largesse, or water, as was Cambodia, and while it sells lots of oil to China, it has diversified customers and the supply of oil is arguably just as



important to China as the Chinese market is to Brunei. Watch for Brunei to try to promote the conclusion of a code of conduct between China and ASEAN as a way of lowering the temperature before Myanmar, another member subject to strong Chinese pressure, takes over the chair. While Canada has no direct security interests in the South China Sea, it is a flashpoint, with the US refusing to recognize Chinese sovereignty over what it considers to be international waters. This is similar to the US position on the north-west passage although Canada has far stronger claims under international law to the internal passages in the Arctic than does China over vast swathes of the South China Sea.

Of more direct interest to Canada are the trade and economic issues centered around ASEAN. The organization has made itself the hub of a number of trade liberalization agreements with its neighbours, known as the ASEAN Plus agreements. These agreements, with China, Japan, Korea, Australia, New Zealand and India, are now being rolled together in one big package known as the RCEP (Regional Cooperative Economic Partnership) Agreement. Building on ASEAN's agreements with each of its bilateral partners, those partners will have to negotiate reciprocal agreements between and among themselves. The ASEAN Plus template will provide a starting point for negotiations but bilateral negotiations between ASEAN's partners such as China and Japan, Japan and Korea, India and China etc. will likely prove difficult. That said, the breadth of the RCEP makes it a likely candidate to be a foundation stone for the ultimate goal of a Free Trade Area of the Asia Pacific (FTAAP), although the relatively low quality of the agreements on which it is based will limit its impact.

While the RCEP includes all ten ASEAN countries, it does not include any economies on this side of the Pacific. That niche is filled by the Trans-Pacific Partnership (TPP), the regional trade bloc now under negotiation from which Canada found itself excluded until late last year. Both Canada and Mexico have now entered the TPP negotiations joining the US, Peru, Chile, New Zealand, Australia, Malaysia, Vietnam—and Brunei. And there are strong indications that Japan will join the TPP negotiations in the next few months, further enhancing the TPP's reach.

The TPP is not only an alternate track to an Asia Pacific trade agreement, but one with a higher degree of ambition and discipline in terms of opening markets and facilitating trade. Four ASEAN countries are members of the TPP negotiations and this is a concern to some ASEAN leaders, fearful of a split between those ASEAN members with preferential access to the NAFTA bloc and those without. At the same time, the presence of four ASEAN economies within the TPP, and their presumed willingness to take on higher TPP obligations (assuming the agreement is completed), can serve as a bridge between the two agreements, TPP and RCEP. There has been much discussion about whether these two tracks are complementary or competing. For the time being, they are presumed to lead eventually to the same objective of an FTAAP, albeit by different routes and memberships.

While both the TPP and RCEP will contribute significantly to global economic growth, according to the Pacific Economic Cooperation Council (PECC) the real benefit would be the conclusion of an inclusive region-wide agreement like the FTAAP. PECC estimates that a high-quality agreement among the current 11 countries of the TPP, who collectively account for 30% of world



GDP, would contribute an additional US\$74.5 billion to the global economy in 2025, on a par with estimates of potential gains from a successful Doha Round, with a very small negative effect on non-partners. The gains will be significantly larger if, as expected, Japan joins the TPP. The RCEP countries have about the same degree of economic clout, contributing 28% of world GDP. According to PECC studies, the RCEP would contribute an additional US\$644.4 billion to the global economy in 2025. However a full FTAAP would contribute growth of US\$1.9 trillion! The good news is that Canada is firmly embedded in the TPP process, and thus will have a seat at the table if and when the wider agreement ever takes shape. At the forthcoming ASEAN summit, Brunei as a member of both RCEP and TPP tracks will need to manage the trade tensions within ASEAN while also keeping Leaders focused on the internal goal of implementing the ASEAN Economic Community by 2015. Much still remains to be done to remove ASEAN's internal barriers in parallel with efforts expand trade with partners.

Although seemingly far away, the 22nd ASEAN Summit should be on Canada's radar. The directions it sets will have an important impact on security and economic outcomes in Asia-Pacific. Given Canada's renewed attention to ASEAN and its neighbours, those outcomes are likely to have a profound effect on Canada's interests in the region.

► **About the Author**

Hugh Stephens is a Fellow of the Canadian Defence & Foreign Affairs Institute, and has more than 35 years of government and business experience in the Asia region. He is currently senior advisor for Asia Pacific to Time Warner, based in Victoria, BC, Canada. Before returning to Canada in December 2009, he was based at the company's regional headquarters in Hong Kong for almost a decade where he managed the company's public policy program in the Asia Pacific region as Senior Vice President. Mr. Stephens has extensive experience in dealing with media and IT industry issues in China, India, SE Asia, Korea/Japan and elsewhere in Asia.



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CDFAI was created to address the ongoing discrepancy between what Canadians need to know about Canadian international activities and what they do know. Historically, Canadians tend to think of foreign policy – if they think of it at all – as a matter of trade and markets. They are unaware of the importance of Canada engaging diplomatically, militarily, and with international aid in the ongoing struggle to maintain a world that is friendly to the free flow of goods, services, people and ideas across borders and the spread of human rights. They are largely unaware of the connection between a prosperous and free Canada and a world of globalization and liberal internationalism.

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