

## **Australia, Japan, ASEAN and economic security in Asia**

On 4 October, AJRC co-hosted a symposium with RIETI in Tokyo on the theme of economic security in Asia. The symposium dealt with managing interdependence in an uncertain economic and geopolitical environment and considered strategic responses for Australia, Japan and East Asia's international economic diplomacy.

In the past six or seven years, the global economic framework has begun to fracture. This has been precipitated by long-term structural issues such as the trade and technology war between the United States and China, the deterioration of multilateral governance systems and the effects of climate change, and has been aggravated by the COVID pandemic and now Russia's invasion of Ukraine.

East Asia's multilateral interests are crucial in constraining this fracture and continuing economic cooperation in Asia. Without Indonesia's convening power as a leading developing country at the centre of ASEAN and a neutral power committed to the multilateral trading system, the G20 summit would likely not have gone ahead in 2022.

The multilateral economic order has been a major guarantor of prosperity and political security for all who have participated in it. It has been the lynchpin of an open international economy in which East Asian economies could confidently pursue their ambition for rapid trade and industrial transformation.

Historically, the position of Australia and Japan in the post-war multilateral economic order was also underpinned by their alliances with the United States. But the US is no longer the underwriter of the international order as it once was. Three decades ago, the G7 accounted for 52 per cent of global trade — now, that proportion is only 30 per cent with the US share comprising only 8 per cent. The development of the multilateral system has encouraged economic interdependence, including with China. Some 35 per cent of Japan's manufacturing today is undertaken offshore, much of it in East Asia. 92 per cent of China's exports are delivered by private enterprises, of which 42 per cent are generated by foreign-invested firms. Trade, investment and the deep supply chains connecting them have driven prosperity and security, with no open conflicts in the region for more than forty years.

The United States is now attempting to reassert its economic influence in the region through initiatives such as the Indo-Pacific Economic Framework agreement which aims, in part, to secure supply chain resilience from China. But there will be many complexities to any decoupling, as China remains the largest trading partner of almost all the countries in Asia. Another avenue is the CHIP 4 semiconductor alliance between the US, Japan, South Korea and Taiwan, but that is also complicated by the pre-existing semiconductor deal between South Korea and China. The US pursuit of influence through trade, investment and technology restrictions threatens East Asian economic interdependence and regression to regional blocs.



Australia and Japan have a significant interest in promoting the multilateral rules-based order. The multilateral system is still the best defence against coercive trade policies because it disincentivises their use and blunts their costs. The effects of Chinese anti-dumping tariffs on Australia in 2020 and 2021, for example, were vastly reduced by Australia's ability to switch markets in the multilateral trading system. \$13 billion of trade was lost directly to the Chinese market, but the estimated net cost was less than \$0.5 billion. In the process, China failed to achieve its political objectives, incurred self-inflicted economic costs and did itself significant reputational damage as a global economic partner.

Another reason to support the multilateral order is that large powers often don't think about the consequences of their actions for smaller powers. For example, the Phase One trade deal diverted trade away from Australia and other countries and the US forced Japan to sign a trade deal under the threat of auto tariffs. While China's assertiveness is a problem, it is part of a 'big country' issue and we need to protect our interests from large powers who will use whatever measures suit them. By reinforcing openness, we can tie large powers within the market and enmesh them in rules that constrain the use of trade and economic instruments for political ends. This is particularly important in managing US-China strategic competition, where we will need a multilateral forum to reach settlements to avoid G2 big power agreements that cut across our interests.

The challenges to the global governance system mean that we are now in a world of plurilateral and regional agreements where rules will be made from the bottom up. But we still need multilateral principles to guide these rules. In the case of the digital economy, which has not yet developed a clear and strong framework, Japan's initiative on the Data Free Flow with Trust is an important first step to reinforcing the digital order.

ASEAN and its consensus-driven approach, along with RCEP's economic cooperation agenda, will be a crucial framework in East Asia's defence of multilateralism. Engaging with Indonesia will also be critical in developing an understanding of comprehensive economic and political security.

Countries on the frontlines of this technological chasm, such as Japan and South Korea, face a lethal threat to technological industries on which the vitality of Asian economies increasingly depend. The OECD earlier estimated that US decoupling from China would lead to a 12 per cent drop in ASEAN incomes: think tanks and research institutes need to constantly remind policymakers of the costs of these strategies.

Australia and Japan, whose futures are tightly woven into the multilateral economic order, have a central role to play in defending and reinforcing the rules-based order. That won't be possible without strategic cooperation with ASEAN.

