THRIVING IN A FRAGMENTED WORLD

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Southeast Asia must adapt to geopolitical shocks by strengthening ASEAN, balancing openness, and building new partnerships

Southeast Asia's economies thrived during the two decades of peace, stability, and global integration that followed the end of the Cold War and the Asian financial crisis. The region's GDP has grown nearly ninefold since 1998, to $4.5 trillion, faster than that of most other emerging and developed markets. At the same time, the 11 countries of Southeast Asia, home to nearly 700 million people and together the world's fourth-largest economy, built their regional organization, the Association of Southeast Asian Nations, into the most cohesive and effective in the world next to the European Union.

ASEAN has intensified regional integration, given a shared identity to a diverse group of countries, and boosted the bloc's status as the anchor for much of Asia's diplomatic, security, and economic architecture. This success was underlined by the accession of Timor-Leste last year, 23 years after its independence following a protracted, deadly conflict with Indonesia.

But times are getting tougher. The war in the Persian Gulf, a key source of energy and fertilizer imports, exposed Southeast Asia's vulnerability to external shocks. Rather than a one-off, the conflict is a harbinger of the shift to a more contested, fragmented world, where protectionism is on the rise, the multilateral system is strained, and established rules and norms are breaking down.

Political leaders are mistaken if they believe they can wait out the current instability until there is a snapback to the old world. We are now moving onto a new path. But regional blocs such as Southeast Asia can, and should, take on the strain. After all, smaller groups of countries that share geography, economic linkages, and culture will find it easier to coordinate and cooperate.

ASEAN's opportunity

The mounting threats present an opportunity for ASEAN. In their formal response to the Middle East crisis in May, regional leaders committed to seizing the moment and becoming more "resilient, responsive, and forward looking." But, for an organization often dubbed a "talking shop," with more meetings than days of the year, what will turn these

Illustration by Jun Cen

ambitions into action? To capitalize on the opportunities of the current global transition, Southeast Asian nations must do at least four things.

First, they must balance protectionism and openness. Despite the region's stated ambition to pursue economic integration—and external pressures for liberalization—economic nationalism has been an enduring force in Southeast Asia, especially in resource-rich nations with large domestic markets, such as Indonesia and the Philippines. Formal trade integration measures have been undermined by nontariff barriers, weak governance, and limited complementarity. Intra-ASEAN trade has been only about 20 percent of the bloc's total trading value over the past two decades, and intra-regional direct investment has also failed to accelerate in line with ASEAN ambitions.

Economists and development partners often view this as a technocratic failure to adopt efficient free-market policies. But the drivers of protectionism are more often structural—from a sense of historical grievance about resource exploitation by imperial powers to the dominance of the region's tycoons and family businesses.

In a world in which the US and Europe are pivoting to their own industrial policies and protectionist measures, and China has pioneered a successful state-led economic model, it is not realistic to expect Southeast Asian nations to abandon their economic nationalism.

However, as global capital seeks stability amid the global storm, Southeast Asia must find a more lasting balance between its protectionist instincts and the need for openness. Southeast Asian governments, particularly in Indonesia and the Philippines, must craft clearer industrial policies that embrace their national ambitions. These policies must also offer investors the long-term certainty they expect if they are to finance the greenfield projects needed for growth, job creation, and technological upgrading. Countries will then have to work through ASEAN and their own relationships to harmonize and synergize their industrial policies.

This won't be easy—consider the EU's struggles over its "Made in Europe" push. But moving in the direction of a shared ASEAN industrial approach will be more effective than preaching integration and openness while simultaneously putting up barriers.

Powerful technologies

Second, they must cooperate more closely on the adoption and regulation of new technologies such as AI. Southeast Asia knows the power of leapfrogging ahead with new technology. Rapid smartphone adoption facilitated the dramatic growth of the digital economy across the region—it grew more than 11 times over in the previous decade to reach revenues of $135 billion in 2025, according to a report by Google, Temasek, and Bain & Company. The e-commerce, logistics, and financial services sectors are forecast to continue expanding at a steady clip, on the strength of digitalization. But even as it banks these gains, Southeast Asia must move quickly to experiment with and adopt frontier technology, such as artificial intelligence. There are already more than 700 AI start-ups in the region, according to the same report, and venture capitalists from the region and elsewhere are looking for new investment opportunities.

But, with China and the US surging ahead of everyone else when it comes to AI, this race will unfold at breakneck speed, demanding levels of financing and energy that most cannot match. The challenge for Southeast Asia will be to scale up AI development through regional cooperation and to take advantage of technology built by others.

AI is moving fast and its potential is much hyped, but no one knows exactly how it will alter the shape of the global economy and how many jobs it will eat. And so, like other middle and smaller powers, Southeast Asian nations must become smart, fast, and flexible in deploying new technology and must regulate it with their significant market power. They should learn from India's broadly successful deployment of digital public infrastructure.

Collective action problem

Third, Southeast Asia must build a nimbler ASEAN. Every multilateral institution faces a collective action problem: The self-interest of individual members stands in the way of shared progress. ASEAN has chosen to tackle this problem through consensus building and cooperation rather than overt confrontation within the bloc.

This approach was necessary to bind together such a disparate group of countries—from tiny Brunei Darussalam to giant Indonesia, wealthy Singapore to struggling Lao P.D.R. and Myanmar—incorporating many different ethnic groups, religions, and political systems. And this approach was sufficient in an era of growing globalization and predictable geopolitics. But it won't work in the fracturing world ahead.

If ASEAN continues to move at the pace of its slowest-moving members, the whole region risks being held back and left unable to rise to the challenges of these times. In the words of Thitinan Pongsudhirak, a Thai political scientist, "reform may be uncomfortable, but irrelevance is worse."

Member states do not want to pool sovereignty, as in the EU. But they do need to increase funding for the ASEAN Secretariat in Jakarta and give it the power

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to coordinate the organization, rather than relying on leadership by the chairing nation, which changes every year. They should also deepen informal channels of communication between members to ensure that differences can be aired and triaged in confidence—not ignored and left to fester. A multispeed ASEAN is needed, one that maintains unity while accounting for the vast gap in development and size across Southeast Asia. ASEAN is already considering a differentiated rollout of its Digital Economy Framework Agreement, which could augur a more flexible and realistic approach to integration.

Geopolitical front line

And fourth, the countries of Southeast Asia must expand economic, diplomatic, and security partnerships with other middle powers in Asia and Europe. By dint of geography and history, the region finds itself on the front line of the geopolitical contest between China and the US. The current US administration may prefer a more stable relationship with Beijing, but this rivalry is likely to shape the options for the world in general, and Southeast Asia in particular, in coming decades.

Southeast Asian nations often object to being forced to choose between Washington and Beijing. But neither the US nor China is asking them to join a bloc against the other. What the superpowers are doing is leaning on Southeast Asian nations to align on specific issues, from the infrastructure they build to the technology platforms they use and their partners in defense procurement and exercises. So Southeast Asian governments face many choices, with incentives and retaliation on the table.

Other middle powers in Asia and Europe are in a similar position, fearing a "G2" world, even though they are all in different spots along the spectrum of their relationship with China and the US.

Middle-power coalitions

Backed by the scale of their shared regional endeavor, Southeast Asian nations should capitalize on this desire to build new middle-power coalitions. Australia, Japan, and South Korea are already expanding their cooperation with Southeast Asia. European governments and the EU have also tried to step up their regional engagement, albeit from a lower base. With resources strained across all these nations, cooperation is moving from nice-to-have to must-have.

From supporting the global trading system and boosting supply-chain resilience to energy security and tackling climate change, there are many shared interests between ASEAN members and middle powers in Europe and Asia. An entrepreneurial and experimental mindset can test out which partnerships are worth investing in and which risk becoming distractions. The intensifying but still nascent talks between the EU and the members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a trade agreement including four ASEAN members and with three more hoping to join, are an example of this new spirit of middle-power collective action.

Ambitious agenda

This is an ambitious and tough-to-achieve agenda for Southeast Asia, and the risks of inaction are substantial. But the opportunity is huge, if Southeast Asia can focus and reenergize its regional organization, pursue more careful long-term industrial policy, thoughtfully embrace new technologies, and accelerate its partnerships with other middle powers in Asia and Europe. ASEAN can also set an example for other groups, such as the African Union, the Pacific Islands Forum, and the South Asian Association for Regional Cooperation.

As the global order shakes, regions like Southeast Asia must step up to shape their own destiny. F&D

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