ASEAN and Economic Integration in the Wider Asia-Pacific Region

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Does ASEAN Matter in Terms of Regional Economic Integration?

- I argue the answer is a resounding “yes”!
- ASEAN is a mildly dysfunctional “family” whose attention is sought by regional powerhouses (US, Japan, China)
- Not aspiring to regional hegemony itself, ASEAN is a non-threatening entity that is becoming an unlikely hub of regional activity —including in the economic realm
- All the same, there are many challenges that ASEAN must address to consolidate its place in Asia-Pacific economic affairs

Presentation Roadmap

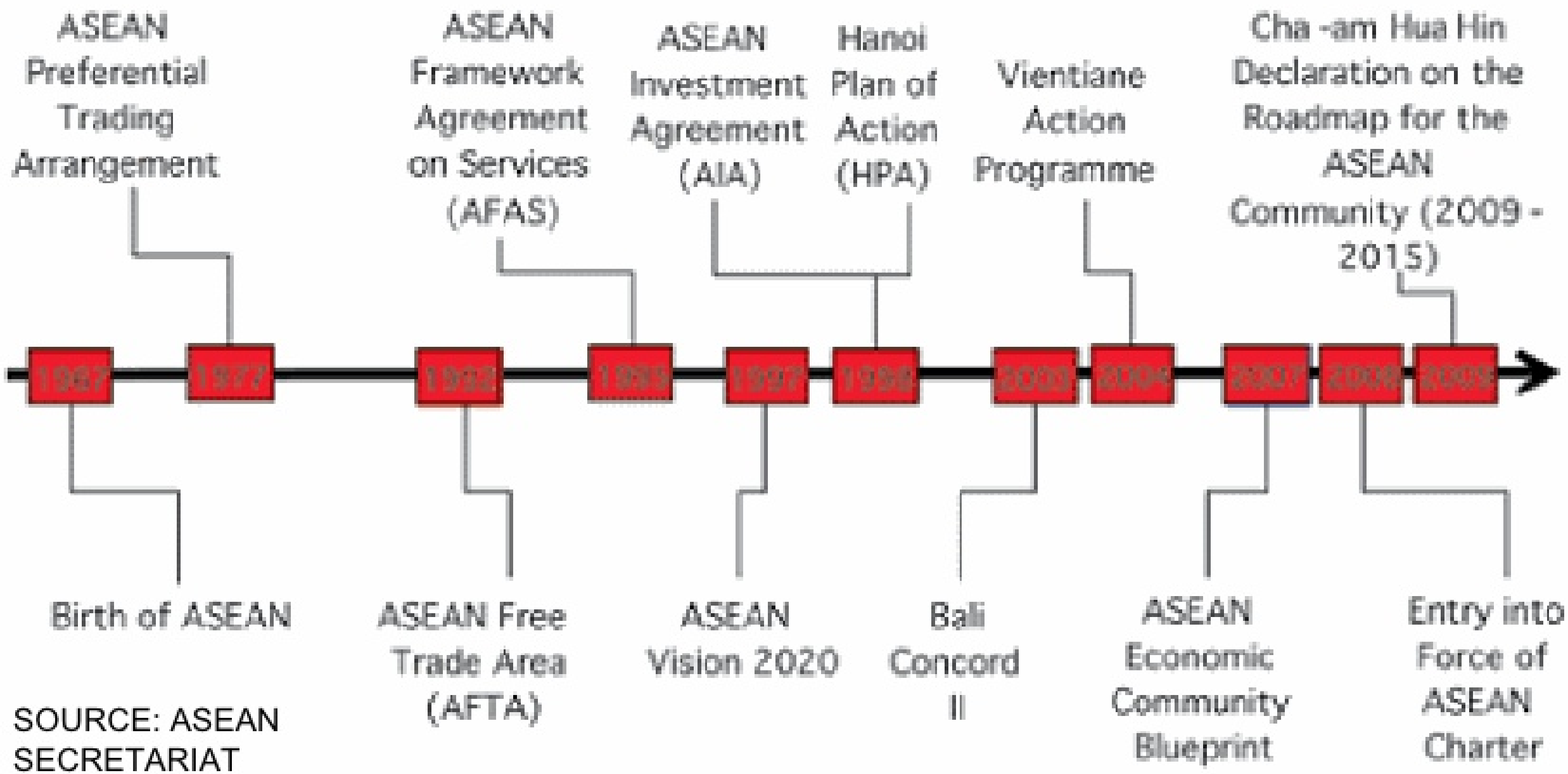
- An overview of regional integration in Southeast Asia as well as in the broader Asia-Pacific
  - The ASEAN Economic Community (AEC)
  - ASEAN's Free Trade Agreements
  - 2010: An Important Year for FTAs
- Related ASEAN+3 initiatives

AEC Blueprint: The Four Stated Objectives

- A single market and production base with a free flow of goods, services, investment, capital, and skilled labour
  - Note emphasis on “skilled” labour
- A highly competitive economic region
- A region of equitable economic development
- A region fully integrated into the global economy

- As we shall see, ASEAN has a long way to go in fulfilling many of these objectives

Chart 1: The Path towards ASEAN Economic Community (AEC)



- NOTE: 13 January 2007 Cebu Declaration accelerated timetable to 2015
- We consider AFTA, AFAS, and AIA in turn

ASEAN Free Trade Area for Free Flow of Goods

- Common Effective Preferential Tariff (CEPT-AFTA) for tariff-free intraregional market access
- ASEAN-6 of Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand implemented CEPT on 1 January 2010
  - 7,881 more tariff lines came down for a total of 54,457 tariff lines at zero
  - 99.11% of tariff lines now at zero; the rest are on sensitive list, HSL, or General Exclusion List—mostly agricultural products
- Later accession states Cambodia, Laos, Myanmar, and Vietnam (CLMV) scheduled to reduce normal tariffs to zero in 2015

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ASEAN Framework Agreement on Services (AFAS) for Free Flow of Services

- AFAS aims to be consistent with WTO GATS; the four forms of services trade are
  - Mode 1 Cross border trade (or outsourcing)
  - Mode 2 Consumption abroad (ex: travel, overseas education, medical tourism)
  - Mode 3 Commercial presence (ex: bank branch, foreign subsidiary)
  - Mode 4 Movement of natural persons (ex: an engineer or medical worker works abroad)
- Seven priority sectors are air transport, business services, construction, financial services, maritime services, telecommunication, and tourism
- 7 Mutual Recognition Agreements (MRAs) have been concluded designed to facilitate labour mobility for accountants, architects, dentists, doctors, engineers, nurses, surveyors

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ASEAN Investment Agreement (AIA) for Free Flow of Investment

- Designed to facilitate foreign direct investment from other ASEAN member countries
  - NOTE: Does not cover portfolio investment
- All industries will be open for investment except for those on the Temporary Exclusion List or Sensitive List
- Alike for services, “national treatment” or non-discrimination against foreign investors means subjecting them to the same conditions which apply to nationals

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Sounds Good…But Does ASEAN Reality Match with Rhetoric?

- Answer: “Not quite yet”
- Shortcomings of ASEAN are in 4 areas:
  - Speed of integration (2015 is approaching)
  - Quality of integration (ex: ASEAN members seldom invoke CEPT-AFTA since completing the required paperwork often exceeds potential tariff reductions)
  - Political will (how serious are ASEAN countries about devoting attention to the nitty-gritty details to facilitate regional integration?)
  - Institutional capacity (ex: EU has 21,000 Eurocrats in Brussels while the ASEAN Secretariat in Jakarta has 200 personnel)

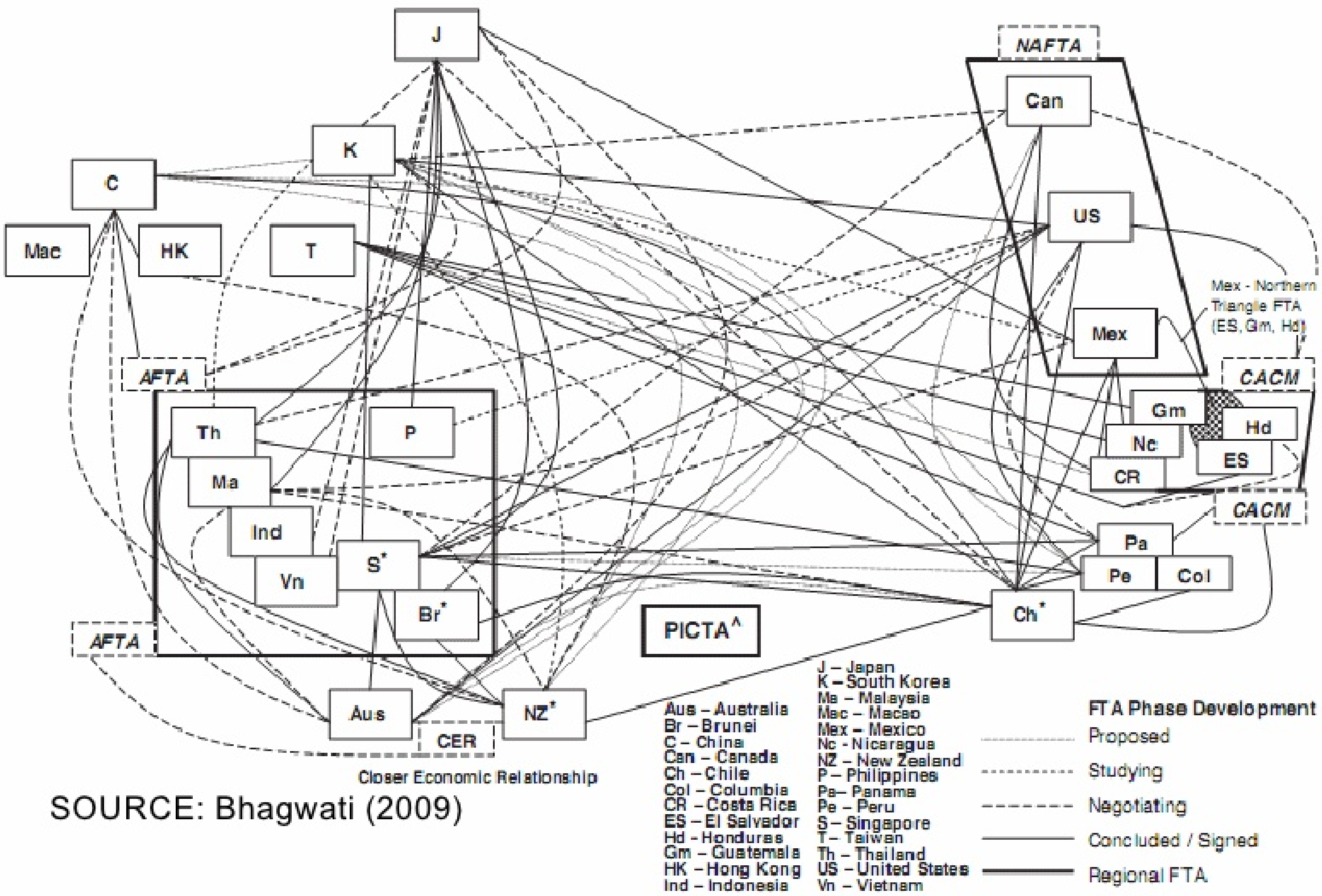
A Case in Point: The Seven Labour Mutual Recognition Agreements

- MRAs meant to facilitate skilled labour movement by extending mutual recognition of educational and professional qualifications require consideration of:
  - comparability of licensing and qualification requirements
  - understanding a common language
  - domestic legislation granting qualified professionals of other member states reciprocal rights to practice
  - changes to immigration laws that accommodate mobile professionals' entry, stay, and exit patterns
  - dispute handling for individuals, firms, and countries
- To date, these issues remain largely unresolved
- Malaysia's "fire foreigners first" policies, Singapore indicating a move to limit migration at a time when integration is supposed to speed up

From ASEAN to the Asia Pacific: The "Lord Mandelson" Effect

- Despite its never-ending internal conflicts, ASEAN has managed to make itself the most significant and lasting regional cooperation body
- ASEAN's comparatively limited economic and military clout *facilitate* rather than *detract* from improving its political clout
  - Not aspiring to hegemony, almost all regional economic cooperation initiatives pass through it
  - It makes an attractive, "low-maintenance" partner via the principle of non-interference
  - Emerging as hub of a hub-and-spoke trading system
  - Suitors follow a general pattern: ASEAN Regional Forum -> Treaty of Amity and Cooperation -> FTA

Noodle Bowl of Trade Deals: Trade Diversion or Trade Creation?



SOURCE: Bhagwati (2009)

- Are these FTAs a stepping stone or stumbling block to multilateral deals alike WTO-Doha?

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Why Do Economists Dislike "Trade Diversion"?

- Preferential trade agreements like CEPT-AFTA can divert trade from the most efficient producer or that which provides the lowest price
- Determining rules of origin (ROO) can become an administrative nightmare for customs officials

	MAKE IN SINGAPORE	BUY FROM PHILIPPINES	BUY FROM SRI LANKA
BEFORE PTA			
Product Cost	300	230	210
Shipping		20	25
Tariff		30	30
	300	280	**265**
	MAKE IN SINGAPORE	BUY FROM PHILIPPINES	BUY FROM SRI LANKA
AFTER PTA			
Product Cost	300	230	210
Shipping		20	25
Tariff			30
	300	**250**	265

Example: A Singaporean firm determining where to buy a widget from before and after a PTA in Southeast Asia

A Lot of FTAs, But Few Increases in Regional Trade

- Many FTAs, yet little intra-regional trade created
- With ASEAN alone, there is an alphabet soup of deals with regionally important trade partners: CAFTA, AANZFTA, IAFTA, AKFTA; perhaps JAFTA and USAFTA
- These are gradually being phased in depending on particular ASEAN member

China-ASEAN Free Trade Agreement (CAFTA)

- Also came into effect on 1 January 2010
- Largest trading bloc in terms of population at 1.9B persons; third largest in trading volume
- ASEAN+6 now, CLMV in 2015
- ASEAN is China's 3rd largest partner at $231B for 2008
- Some Indonesian textile manufacturers have pushed for a "time out" on CAFTA, citing adjustment difficulties from Chinese competition
  - However, CAFTA was concluded in 2004, leaving plenty of time for preparation
- Note how Taiwan is largely frozen out

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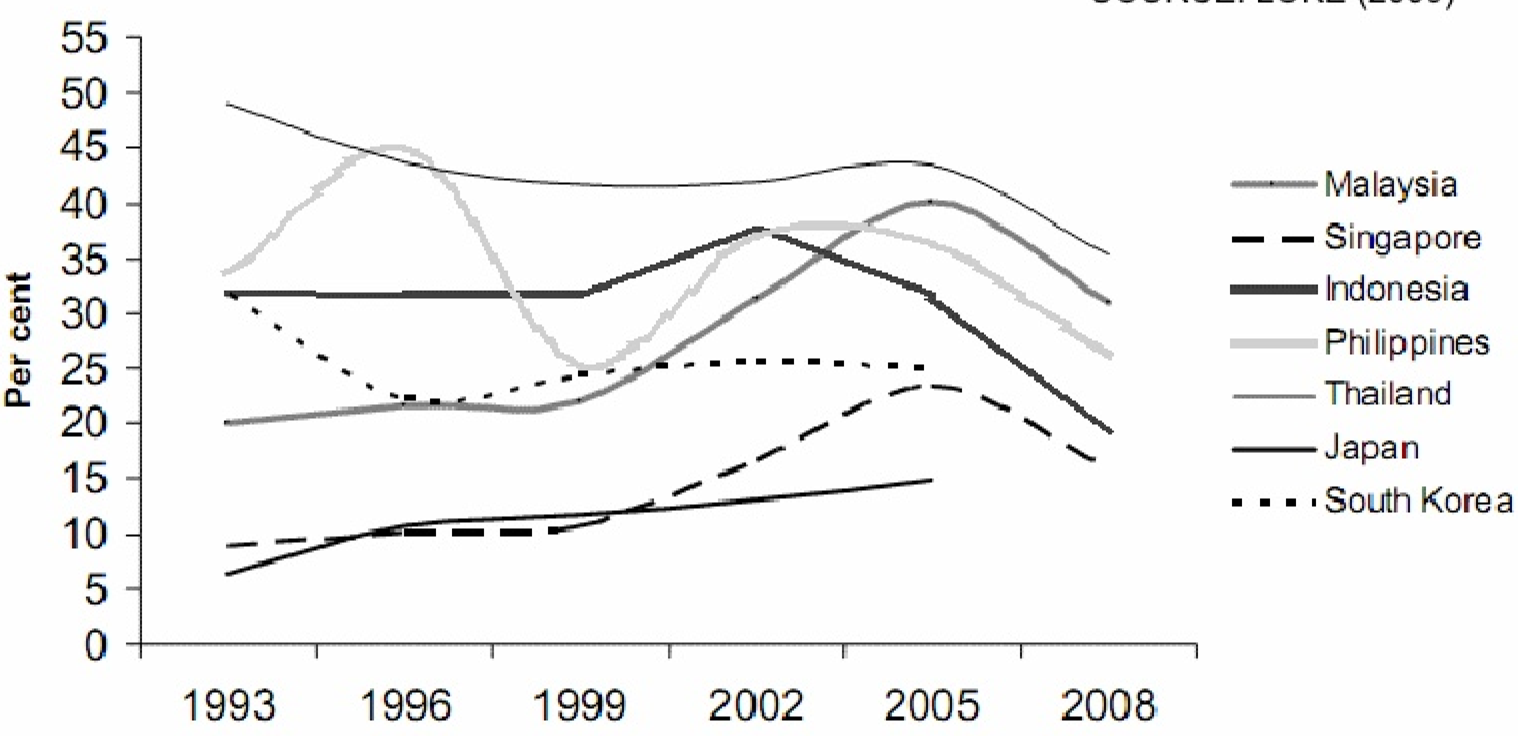
Will CAFTA Harm ASEAN Economies?

- Contrary to conventional wisdom, China and ASEAN do not have high export similarities, and these are falling over time

Figure 9 China with Southeast Asian and other Northeast Asian economies - Net Export Similarity

SOURCE: LOKE (2009)



- This measure ranges from 0 (entirely dissimilar) to 100% (entirely similar) exports
- These are net ESI figures considering supply chains

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ASEAN, Australia, New Zealand FTA (AANZFTA)

- Concluded on 27 February 2009, came into effect 1 January 2010
- Single undertaking in goods, services, and investment
- 600 million persons, $2.7 trillion total GDP
- Together, ASEAN is Australia’s largest trading partner at 16% of volume
- However, Southeast Asia only attracts 5% of Australian foreign direct investment
- First time Australia and New Zealand have jointly negotiated an FTA with a third party

India ASEAN FTA (IAFTA)

- Signed 13 August 2009, came into effect on 1 January 2010 as well
- Goal is to raise India-ASEAN trade from $40 to $100 billion in five years
- India's "Look East" policy seeks diversification from Western consumer markets
- In particular, India looks forward to services provisions coming into effect: information technology, business process outsourcing (BPO), and space sciences

ASEAN Korea FTA

- Services agreement came into effect 1 May 2009; goods agreement 1 January 2010
- Goal of raising trade volume from $90 billion at present to $150B by 2015

The United States Re-Engages

- US started Asia-Pacific Economic Cooperation in 1993 to preempt Mahathir's 1991 East Asia Economic Community proposal, counter its exclusion, and limit Chinese influence (Baldwin 2007)
- Bush-era wariness of Myanmar limited engagement with ASEAN, which insisted on the former's presence
  - Investment prohibited in 1997, imports prohibited in 2003
- Current administration signed TAC on 23 July 2009
- Richard Lugar (R-Indiana), Ranking Member of Foreign Relations Committee and longtime Asia-Pacific hand, urges completion of an FTA to keep up with China and others who have signed deals with ASEAN

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