

## ASEAN Economic Centrality Amid Controversy over TPP and RCEP

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The Association of Southeast Asian Nations (ASEAN) set the ASEAN Community Vision 2025 as “forging ahead together” at the birth of the ASEAN Community. The implementation of the ASEAN Economic Community (AEC), as one of the pillars of the ASEAN Community, has long been prioritized by the member states. Unlike former economic cooperation initiatives associated with low levels of commitment, a blueprint and scorecard system were introduced ahead of the two other pillars of the Community. Efforts toward regional development of the Community were possible mainly through regional resilience and ASEAN neutrality. Maintaining “ASEAN centrality” in its external economic relations appears to be an important element in the full implementation of the AEC.

On ASEAN economic centrality, ASEAN stipulated the intention to review Free Trade Agreements (FTAs) vis-à-vis its internal integration commitments. The AEC Blueprint explicitly stated a need for establishing a system for enhanced coordination and a possible common position in its external economic relations and in regional and multilateral fora.<sup>1</sup> Vision 2025 reiterates its enhanced role of foremost facilitator and driving force for regional economic integration in East Asia and the need for global economic fora in addressing international economic issues.<sup>2</sup>

The economic growth in and of ASEAN is bound up with the progress of the AEC. The successful implementation of the full-pledged AEC remains to be seen. The recent developments evolving around the

AEC and its member states indicate challenges at various levels including domestic, regional and multilateral, although there has been a great tendency towards economic liberalization. These include the race to the bottom among the ASEAN Member States (AMS) for receiving foreign direct investment (FDI) and the emergence of a mega FTA rivalry between the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), which will undermine ASEAN centrality and eventually the implementation of the AEC. A fuller exploration of the positive ramifications of the AEC will be possible after a discussion of these challenges and their possible impacts on a broad range of ASEAN economic policies.

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## The AEC and Internal Centrality

At the eve of the official launch of the ASEAN Community, the AEC recorded 92 percent of the implementation of the AEC Plan of Action. The high implementation rate, however, did not mark the great success of the AEC. The measurement standards were also often critiqued for their lack of transparency and specificity. Many categories require subjective judgment based on a qualitative approach. Trade liberalization has been the most advanced pillar of the AEC. 96 percent of intra-ASEAN tariff lines were eliminated by 2015. Due to the flexible implementation schedule of tariff elimination, the level of tariffs differs within ASEAN. To date, 99.2 percent of tariff lines among the ASEAN-6 (Brunei, Indonesia, Thailand, Malaysia, the Philippines, and Singapore) have been liberalized and 90.8 percent for CLMV (Cambodia, Laos, Myanmar, and Vietnam). Despite the remarkable reduction of tariffs within ASEAN, intra-ASEAN trade has not changed much and represented 24 percent of the total in 2014, which comprised the largest share of ASEAN total trade by partner.

Meanwhile, ASEAN+3 and ASEAN+6 recorded a 37 percent and 42 percent intra-trade rate, respectively. Despite the long trajectory of ASEAN towards economic integration since 1992 when the ASEAN Free Trade Area was established, the trading block has not shown a meaningful increase in intra-regional trade. ASEAN has rather higher economic interdependence with non-ASEAN members. This trade flow is attributed to the non-tariff barriers that exist in the member states and the East Asia-wide network of production. Thus, increasing intraregional trade is probably not the priority of the AEC though it should be seen as an evolutionary process. Instead the AEC is seen by the member states as a means of mobilizing inward foreign investment.

Due to the lack of local capital and technology, FDI has long been a critical element for the economic development of ASEAN member states. With the

emergence of China and India as major recipients of FDI, there have been increasing attempts toward investment liberalization to become a competitive and attractive region to attract FDI. To realize investment liberalization, the ASEAN Comprehensive Investment Agreement (ACIA) was introduced, which is a comprehensive framework incorporating previous agreements such as the Investment Guarantee Agreement (IGA) and the ASEAN Investment Area (AIA) agreement. The trajectory of investment liberalization shows that the AMS has maintained relatively high levels of regulatory restrictiveness with the exceptional case of Singapore. Cambodia and Vietnam also have a lower level of restrictive investment policies than Malaysia and Thailand. There have been in general negative correlations between high levels of FDI inflow and high levels of investment restrictiveness in the AMS.

Indonesia recently allowed foreign ownership of houses up to 80 years, which was 50 years previously. Comprehensive measures were introduced to liberalize foreign investment in 35 industries including a three-hour licensing process for new investment in selected fields. The Philippines is also allowing full foreign ownership and eased the restrictive measures on business. Myanmar's new investment law and measures are expected to improve the process of the investment approvals and promote investment in mines and trading, farming, and medical products. There was also a new comprehensive legal system on arbitration. Vietnam opened several sectors for foreign investors such as airport management with eased investment registration procedures.<sup>3</sup> These recent cases of easing restrictive measures on investment in the selected ASEAN member states indicate the increasing competition for FDI rather than commitment to the AEC. The commitments to the ACIA are yet constrained by restrictive investment policy in addition to the lack of standardization of investment policy and sensitive sectors.

While investment policy largely remains the realm of domestic policy rather than a regional com-



mitment, one visible beneficial outcome from the creation of the AEC would be more negotiation power in dealing with non-ASEAN members by enhancing ASEAN centrality. The mushrooming of mega regional trade arrangements including TPP and RCEP presents both opportunities and challenges to the AEC, which we shall turn to next.

### Megaregional FTAs and ASEAN Centrality

The development of the TPP has been controversial. The concluded TPP is a comprehensive FTA which covers a variety of fields including trade in goods and services, investment, intellectual property rights (IPRs), and environmental and labor issues. Even in the U.S., which has championed the negotiations, there is increasing resistance from various stakeholders including major presidential candidates of both the ruling and opposition parties. Understandings of the implications of the concluded negotiations of the TPP on the ASEAN member states may differ from one another. While Singapore and Brunei, which were among the four founding members, expected few significant changes in their economies mainly due to their high level of liberalization prior to the TPP, the implications for Vietnam and Malaysia would be more complicated.

Vietnam, which has already signed 16 FTAs, is expected to benefit the most as a member of the TPP as it projected a 13 percent increase in income in 2025 with 37 percent more exports in 2025 compared to baseline without TPP.<sup>4</sup> While the industrial sectors that would benefit the most are footwear and apparel, Vietnam's economy would fall under strong pressure for structural adjustment. Along with the FTA with the EU, the TPP is highly likely to enforce the implementation of a more transparent rule of law and enhanced environment and labor standards. The most visible advantage of joining the TPP is that Vietnam

would be position to become a more attractive investment destination.

Vietnam's admission to the TPP was anticipated along with the enhanced bilateral relations with the U.S. There has been continuous improvement of bilateral relations between the two in particular in security cooperation. Vietnam and the U.S. issued a Joint Statement in 2013 followed by a Joint Vision Statement during the Party General Secretary's official visit to the U.S. in 2015. There are ongoing negotiations for possible use of Cam Ranh Bay by the U.S. The U.S. Deputy Secretary of State Antony Blinken hailed Vietnam's determination to negotiate and accelerate the approval of the TPP agreement during his visit to Vietnam in April 2016. The positive bilateral ties were reiterated by President Obama during his recent visit to Vietnam in May.

Malaysia's admission to the TPP negotiations has increasingly drawn domestic political concern because the high-level FTA was seen as an impetus to undermine Malaysia's long practiced Bumiputera policy, ethnic-oriented affirmative measures, which are considered to be barriers to further liberalization of its economy, in particular in government procurement. Meanwhile, some feel that the TPP would bring momentum to reform of state-owned enterprises (SOEs) to enhance economic efficiency.

A review of the TPP agreement, however, shows that it would not produce a net-loss to Malaysia at least in the short term. The grace period of maintaining the Bumiputera agenda for up to five years was agreed on by the other parties. Khazanah Nasional, a Malaysian government investment arm, was also given a two-year exemption from investor-state dispute settlement (ISDS) provisions. However, there is some disagreement over whether the implementation of the TPP would bring many immediate economic benefits to Malaysia. There would be a more direct increase in its imports rather than exports at least for the near future given its industrial structure, which limits in-



dustrial sector exports of high tech or high value-added products.

There is likely to be political discussions about joining the TPP by Malaysian political leaders. The recent political upheaval in Malaysia severely undermined the legitimacy of the current leadership, which led the government to draw moderate political support from the TPP participating countries, in particular, the U.S. However, unlike Vietnam, Malaysia's commitment to the TPP does simply imply a swing towards the U.S. against China. Malaysia, one of the claimants in the South China Sea disputes, has adopted a relatively moderate stance on the disputes while preserving neutrality and regional resilience to maintain an equal balance between the powers.

In the sense of individual states' strategic calculation, the remaining economic motive for the accession of Malaysia and Vietnam to the TPP was to avoid the diversification of trade and investment to the participating ASEAN members. Thus Indonesia, Thailand, and the Philippines, non-TPP ASEAN member countries, already have shown their willingness to join mainly due to their anxiety over the regional trade diversification.

Unlike the TPP, the RCEP is seen as a response by ASEAN to the increasing hegemonic struggle between the U.S. and China in the process of East Asian regionalism while ASEAN has been playing a leading role in the process of designing the RCEP to maintain its initiative. The RCEP will accommodate appropriate forms of flexibility, which may allow special and differential treatment, which will likely to make the negotiation of the RCEP a 'low level FTA' unlike the TPP. The East Asian market centered on China is understood to be formed through the existing FTA networks to ease the "spaghetti bowl" effect by standardizing the rules of origins of FTAs in the region.

There are those who argue that the goals of the RCEP and the TPP are not very different as the two aim to liberalize the regional economy in the areas of investment, services, competition, intellectual prop-

erty rights and so on so that the two regional trade arrangements will be eventually complementary. Meanwhile, the two mega regional FTAs have often been considered by many to be an extension of the strategic rivalry among the great powers. Though the TPP is an economic initiative to achieve economic integration in the wide Asia-Pacific region, it can hardly be seen separate from the U.S. regional strategy, the so-called pivot to Asia or rebalancing strategy. The negative implications of increasing tensions over the South China Sea on ASEAN centrality have become clearer. The unprecedented failure of ASEAN in issuing a joint statement in 2012 and ASEAN Defense Ministers' Meeting-Plus (ADMM-Plus) in 2015 were attributed to disagreement on the dispute among the related parties. The increasing asymmetric strategic interests among the AMS have undermined ASEAN centrality.

The possible economic gains from the trade deals of ASEAN are also controversial. The possible extension of the TPP to include the rest of AMS would enhance competition. According to a recent study, the TPP will provide greater benefits for four ASEAN member states participating in the TPP namely Singapore, Brunei, Malaysia and Vietnam. If all ASEAN member states except for the least developed countries join the TPP, ASEAN is expected have a \$218 billion USD or 6 percent growth in GDP from the TPP 16 configuration, while the gain from the RCEP would come in at about \$78 billion USD or a 2 percent growth in GDP.<sup>5</sup> Meanwhile, higher trade interdependency has been recorded among RCEP members excluding China than those of the TPP. Many other studies show that the RCEP would generate more economic gains measured in GDP growth than TPP.<sup>6</sup>

Somewhat critical challenges from the implementation of mega regional FTAs including the TPP and the RCEP might come from its regional implications with particular regard to ASEAN centrality. The TPP arrangement revealed the risk of diverting ASEAN centrality as the AMS are eagerly pursuing member-



ship for the sake of national interests while the AEC has a long way to go. There is risk that ongoing negotiations on the RCEP would result in increasing competition among the AMS. Despite its repeated emphasis on ASEAN centrality, the successful implementation of the RCEP will transform the six ASEAN+1 FTAs into a FTA among 16 countries.

The absence of common policy of ASEAN and parallel negotiations on a number of FTAs will increase the possible diversity among the ASEAN member states. The weakening ASEAN centrality means delaying the full implementation of the AEC. It should be noted that ASEAN would attain its goal of serving as an FTA hub as long as it remains a single entity rather than segmented members of mega regional groupings.

### ASEAN Economic Centrality beyond 2015 and its Policy Implications

Thus, ASEAN's immediate task for accelerating economic integration will be in line with recapturing its centrality within ASEAN and in its external relations. In this sense, ASEAN would prefer to have regional economic cooperation covering a wider regional scope where it can keep its centrality. The RCEP will also have an open accession policy for further expansion of membership. Some non-members of the TPP would accept it as they see ASEAN membership in the TPP would be a strategic means to enhance ASEAN centrality. In the process, there might be room to develop a strategic partnership between the TPP and RCEP participating states who are concerned with the dominant influence of a particular power. A strategic partnership could help them by providing more options in dealing with power games in the region. Then, securing ASEAN centrality would see more compatible relations between the mega trade FTAs. ASEAN centrality, which is based on the concept of community, would help preserve a vision of the East Asian com-

munity, which would encourage the completion of a missing FTA link namely, a Korea-China-Japan FTA, as a stepping stone towards an integrated East Asian market. The APT process would be a case of mitigating political competition among the concerned parties as it has developed a vision of community which is generally absent in the RCEP and the TPP. Knowing that economic and political cooperation are inseparable, there is room to develop strategic partnerships between South Korea and ASEAN. ■

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### Notes

<sup>1</sup> ASEAN Secretariat, 2008, ASEAN Economic Blueprint.

<sup>2</sup> ASEAN Secretariat, 2015, ASEAN Community Vision 2020. <<http://www.asean.org/storage/images/2015/November/aec-page/ASEAN-Community-Vision-2025.pdf>>.

<sup>3</sup><<http://www.bworldonline.com/content.php?section=Economy&title=asean-action-on-fdi-highlights-urgency-of-reform-for-philippines&id=124775>>.

<sup>4</sup> Ed Gerwin, 2015, TPP and the Benefits of Freer Trade for Vietnam: Some Lessons From U.S. Free Trade Agreements, Policy Brief, Progressive Policy Institute, <[http://www.progressivepolicy.org/wp-content/uploads/2015/09/2015.09-Gerwin\\_TPP-and-the-Benefits-of-Freer-Trade-for-Vietnam2.pdf](http://www.progressivepolicy.org/wp-content/uploads/2015/09/2015.09-Gerwin_TPP-and-the-Benefits-of-Freer-Trade-for-Vietnam2.pdf)>.

<sup>5</sup> Peter A. Petri and Michael G. Plummer, 2014, *ASEAN Centrality and the ASEAN-US Economic Relationship*, (Hawaii: East-West Center), p.38.

<sup>6</sup> Kawasaki Kenichi, Determining priority among EPAs: Which trading partner has the greatest economic impact? <[http://www.rieti.go.jp/en/columns/a01\\_0318.html](http://www.rieti.go.jp/en/columns/a01_0318.html)>.

