

ASEAN Attempts at the Initiatives to Broaden FTAs in East Asia

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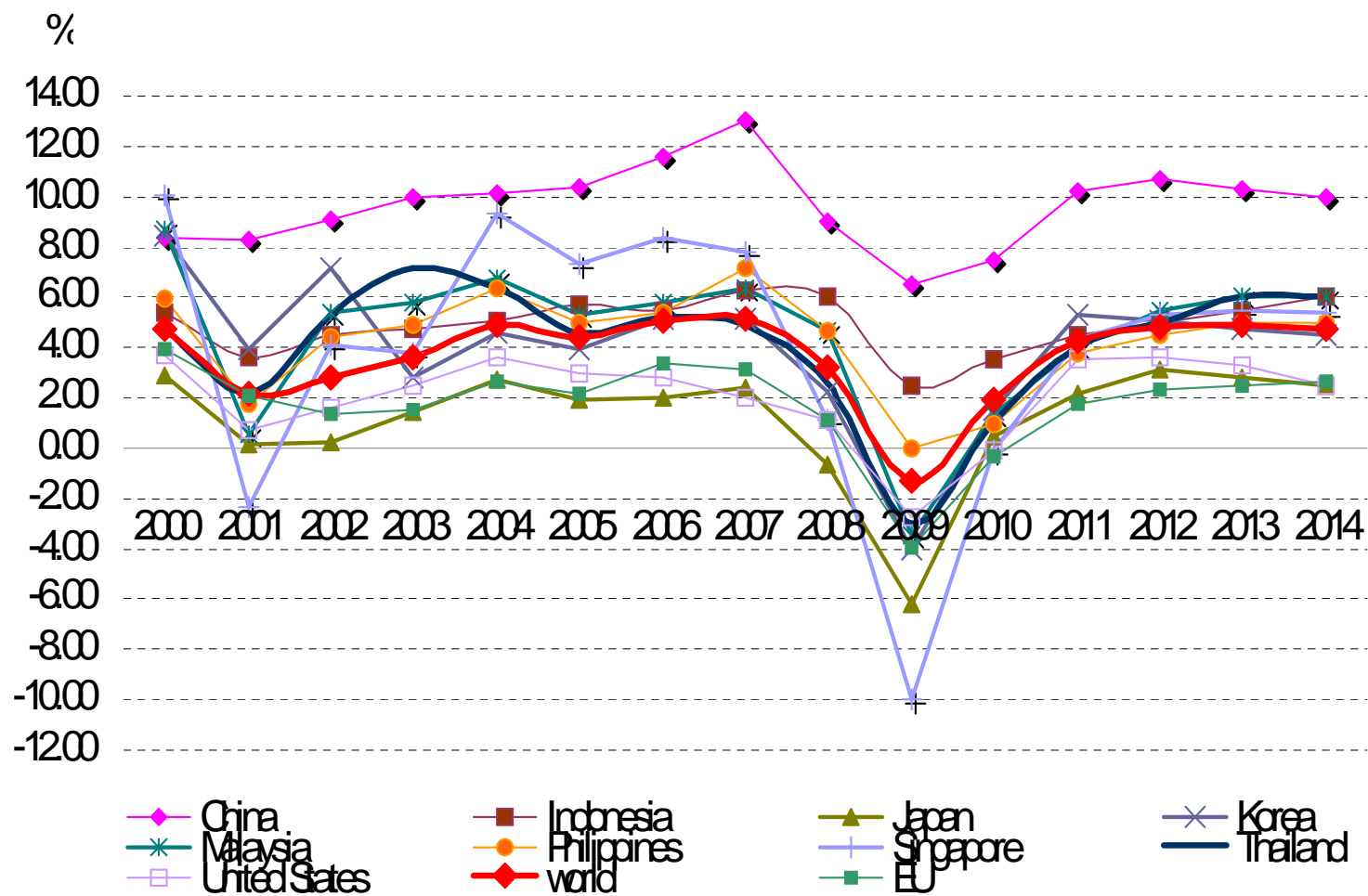
Global Crisis Context

- Uncertainty keeps global market on a dangerous zone
- Eurozone leaders fail to deliver any credible solutions to the sovereign debt crisis
- US still hit gridlock on cutting budget deficit
- Likelihood of a broad market crash and a worldwide recession

Global Crisis and Asia

- Asia was hit in 2008 and 2009, not decoupled from the global crisis
- Softening demand across the globe reaching again the Asian region this fall
- Asia facing fragility and risks of the post-crisis global economy
- Turbulence from another round of global crisis requires attention from policymakers

Co-movement of GDP Growth in the Asia, US, and EU Current and Forecast by IMF



Source: CEIC

Global Crisis Reshaping Asia

- Move toward a multi-polar economy less reliant on the US
- Crisis has helped accelerated shift from west to east
- Emerging Asia; China, India, Korea and ASEAN, are playing an increasing role
- Asia to rebalance to exploit better markets closer to home

G20 ECONOMIES

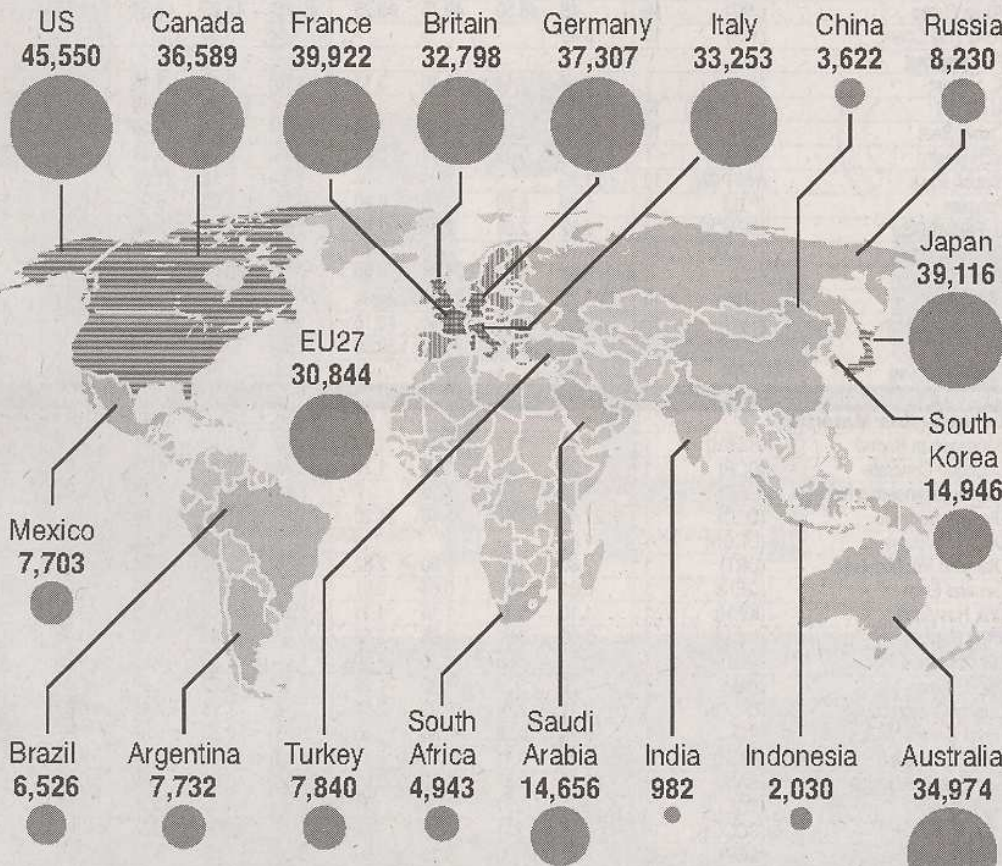
The G20 was established in 1999 as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance

The G20 is made up of the finance ministers and central bank governors of 19 countries and the European Union

GROSS DOMESTIC PRODUCT

GDP per capita at current prices in US\$

■ G20 states ▨ G7 nations ▤ EU27



HOW THE G20 COMPARES

GDP at current prices in billions of US\$



World GDP
54,863.55

G20 states
48,276.31



Rest of world
6587.24

Source: IMF

Note: EU27 and world GDP are Reuters calculations using IMF data

REUTERS

Global Crisis Debate on New Regional Strategy in Asia

- Asia not “decoupled”
- Revisiting the East Asia development model
- Focus on regional final demand rather than solely on regional production networks
- Support for potential rise in per capita

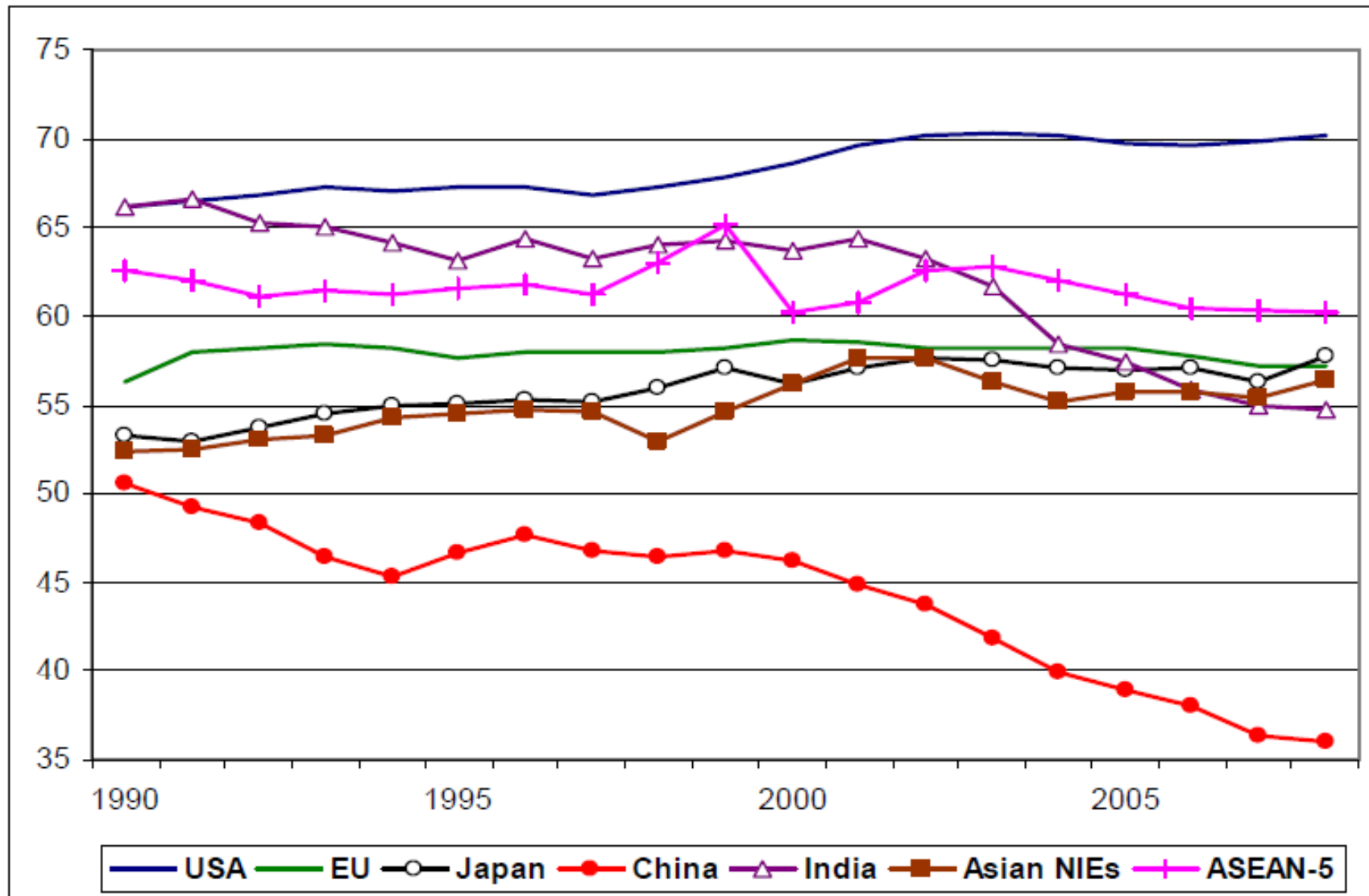
Final demand for Asian exports still comes from the advanced economies

Final demand composition of Asia's export in 2006

Total Asia's exports = 100.0%					
Inside Asia = 51.8%			Outside Asia = 48.2%		
<i>of which to</i>			<i>of which to</i>		
final demand 16.5%	production 35.3%		final demand 23.2%	production 25.0%	
+	<i>of which to</i>		+	<i>of which to</i>	
	final demand inside Asia 15.1%	final demand outside Asia 20.2%		final demand inside Asia 0.9%	final demand outside Asia 24.1%
16.0%	← →		44.3%	← →	
=			=		
Total final demand inside Asia 32.5%			Total final demand outside Asia 67.5%		

8

Asia's consumption/GDP ratios are low

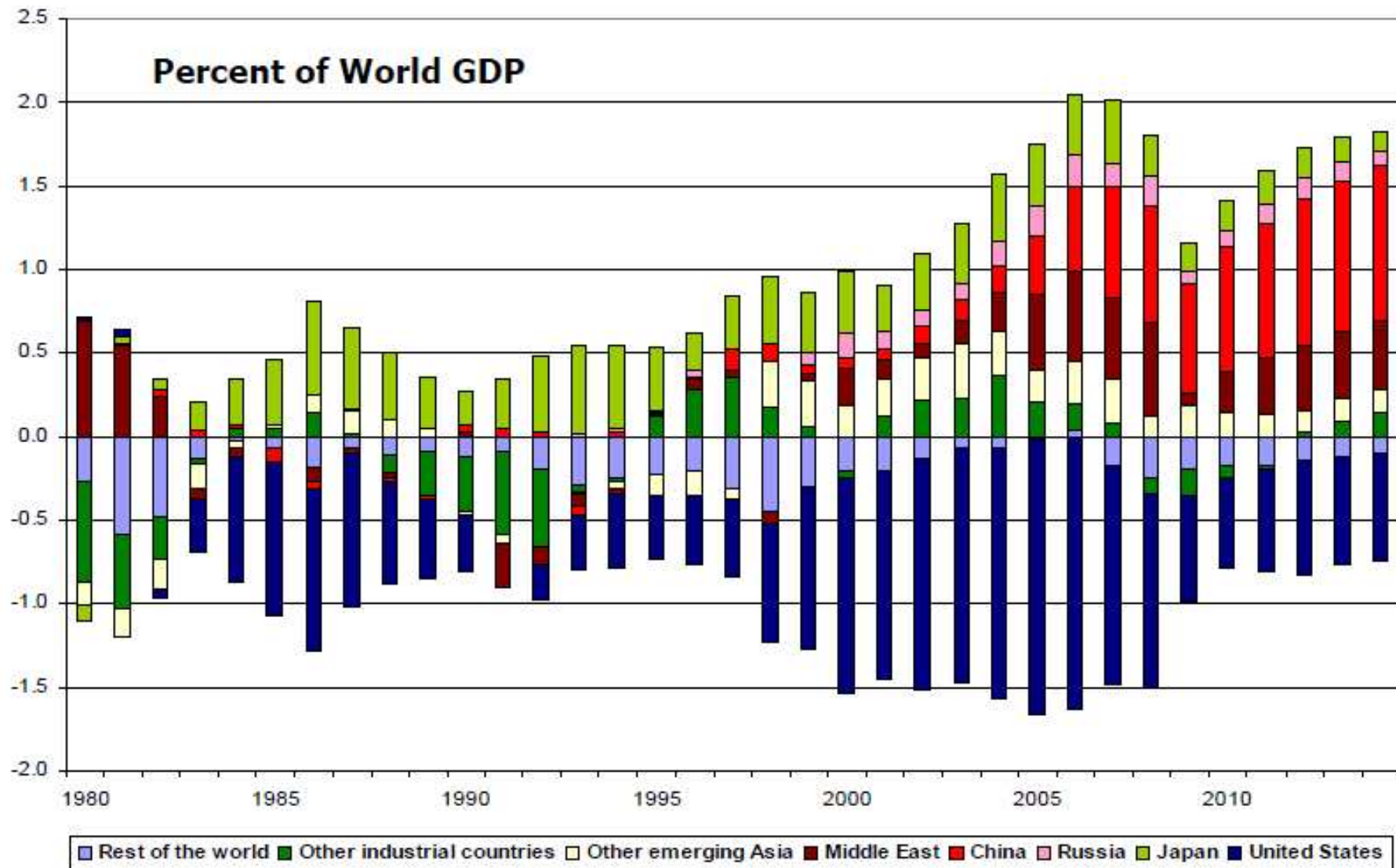


Source: IMF, *International Financial Statistics*, online; ADB, *Key Indicators*, online

Global Crisis and Evolving Regional Integration

- Crisis proved Asia better protected this time
- Prudential fiscal policies, credible regimes and high level of foreign reserves enabled the region to absorb the external shock
- Vital role of trade, investment and finance
- Needs to increase its cooperation and integration in a number of important areas

(1) Global current account imbalance

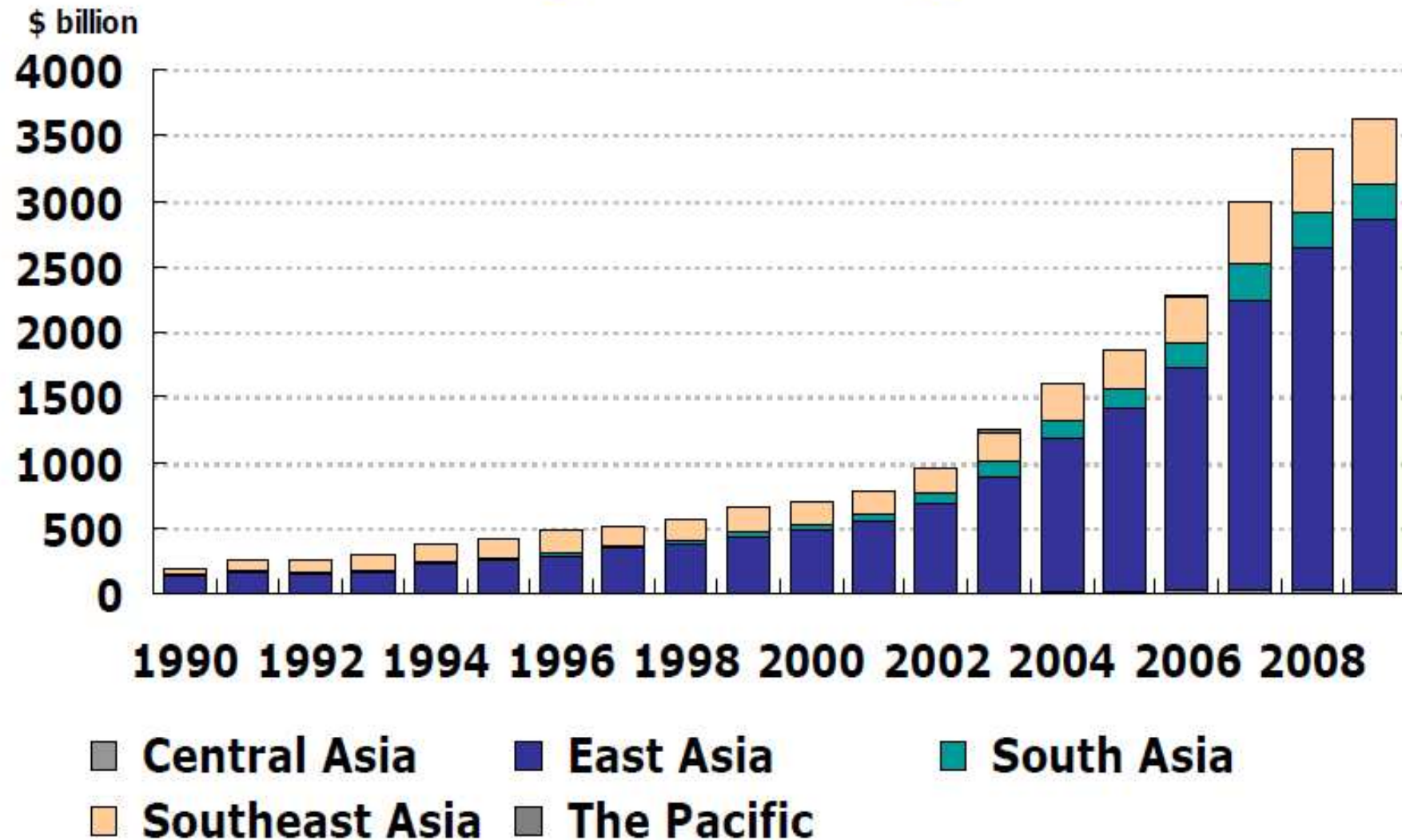


Note: (1) Data for 2009 and beyond are IMF projections

(2) Unlike the original IMF data, other emerging Asia includes Asian NIEs

Source: IMF, WEO October 2009

Developing/emerging Asia has built sizable foreign exchange reserves



ASEAN's Roles in the Evolving Asian Regionalism: Context

- Changing Asia in regional and global dynamics
- Increasing role of East Asia and consolidation of various initiatives
- Immediate concern, finance and overlapping FTAs
- Institutionalizing possibilities, tremendous, but also has to be realistic

ASEAN's Roles in the Evolving Asian Regionalism: Context

- ASEAN's notable presence in regional arena
- Increasing cooperation and integration since the Asian financial crisis of 1997-98
- Multiple bilateral, regional and sub-regional initiatives for the pursuit of trading arrangements
- Interests in broader trading arrangements

ASEAN's Roles in the Evolving Asian Regionalism: Context

- Need for a region-wide FTA
- Proposals based on ASEAN+3 and ASEAN+6
- ASEAN is regarded as the driving force in forging broader trading arrangements in East Asia
- Whether reinforce ASEAN's centrality?

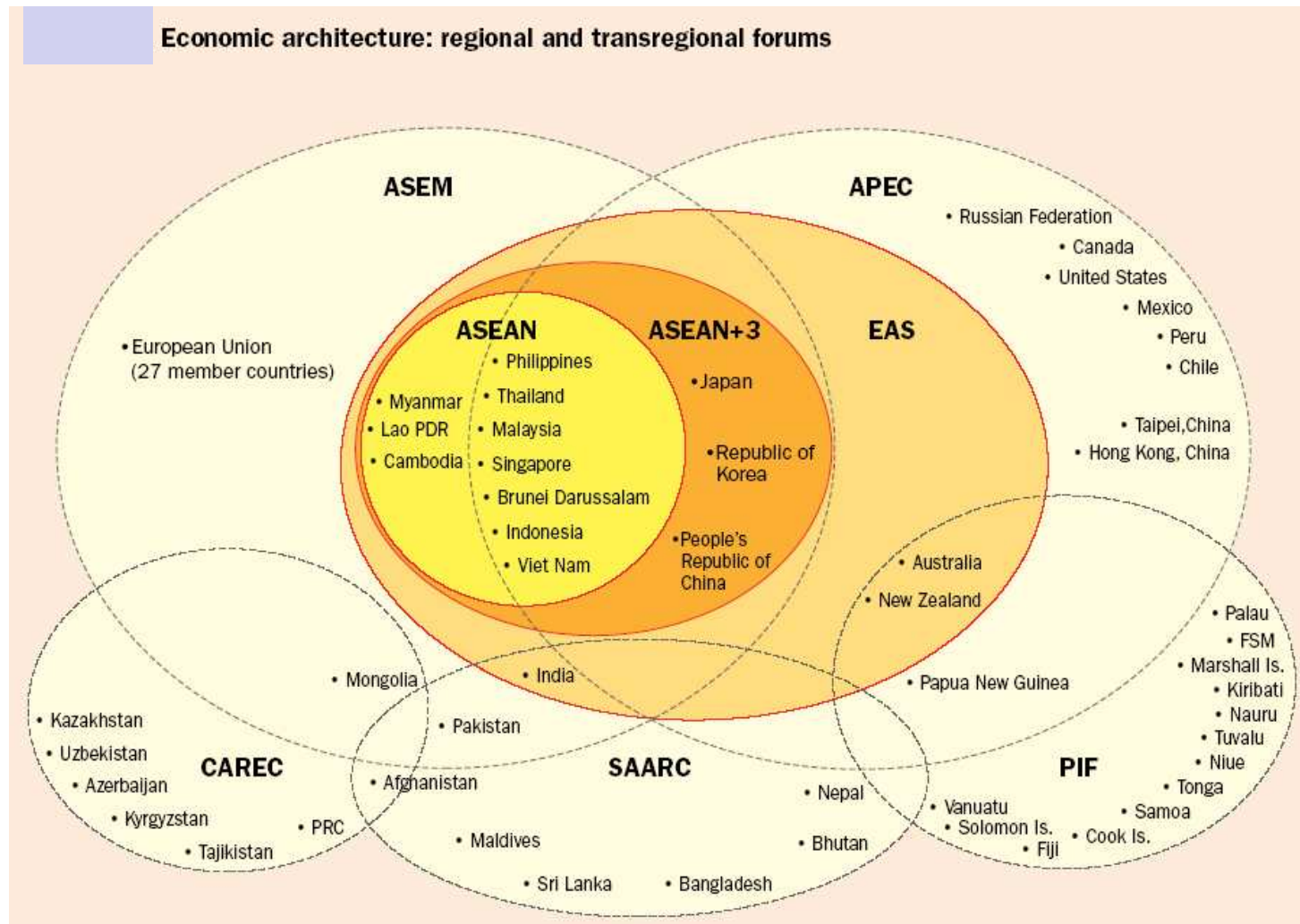
Economic Regionalism and Region Building: Beginning up to CMIM

- Region building in Asia started with the foundation of ASEAN in 1967
- ASEAN launched AFTA in 1992
- AFC given birth to the process of ASEAN+3
- Known as Chiang Mai Initiative (CMI) for regional funds, more prudential regulation and supervision, recently upgraded to be CMI Multilateralization (CMIM) agreement

Economic Regionalism and Region Building: Process up to +3 and +6

- Process expanded to cover other areas of economic cooperation, most notable example of an EAFTA
- ASEAN took further steps in 2005 when the first EAS was convened
- Japan took advantage to propose another CEPEA
- As a result, ASEAN has become to host both EAFTA and CEPEA

ASEAN: driving force for Asian economic integration



Economic Regionalism and Region Building: Institutions vs Network

- Institutional regionalism vs networked regionalism
- Closer to institutional regionalism paradigm since the adoption of the ASEAN Charter in 2007, and the three pillars of the ASEAN Community in 2009
- For networked regionalism, the ASEAN way of informality, consensus and consultation

Economic Regionalism and Region Building: Institutions vs Network

- Questions with regard to ASEAN's transition from networked to a nascent form of institutionalized regionalism would imply for Asian regionalism
- Institutionalized idea has not yet translated into the way ASEAN worked as networked regionalism in East Asia
- Flexibility, informality and consensual way of reaching the consensus in its decision making

ASEAN Centrality in Region-wide Trade Talks

- Seriously challenges by another round of region-wide trading talks in East Asia
- Proposals to enhance regional cooperation that requires ASEAN to take the leading role
- Beyond the AEC, next preferred region-wide FTAs
- Current EAFTA (2009) and CEPEA (2009) proposals

ASEAN Centrality in Region-wide Trade Talks

- Chairman's Statement of the 16th ASEAN Summit to discussing regional architecture of FTAs with ASEAN at its core
- Competing proposals of economic regionalism, reflection off concerns of ASEAN's lack of overarching coherence and doubts about its ability to drive the region building agenda
- "Driver seat" of region-wide economic regionalism?

ASEAN's Role in EAFTA and CEPEA: Beginning

- Crisis-hit Asian economies in 1997-98 had led to the creation of an East Asian-only process, the ASEAN+3
- It has also led to the development of ASEAN+1 and country's bilateral trade and economic agreements
- Only then, the feasibility of an EAFTA has been explored

ASEAN's Role in EAFTA and CEPEA: Beginning

- Move toward broadening the East Asian process, the EAS in 2005, making it, ASEAN+6
- Two processes in East Asia have created real questions about the way the people look at the region, also, have complicated the regional institutional landscape
- ASEAN's role, being the “least objectionable” (Soesastro (2007))

ASEAN's Role in EAFTA and CEPEA: Proposals

- Ideally, the larger the grouping, the greater will be the gains to its members, at the expense of non-members (see Table 1)
- Combined GDP to increase by 2.05% for EAFTA and 2.11% for CEPEA
- Both proposals submitted to ASEAN in 2009 at the high time of the global crisis

Table 1: Effects of EAFTA and CEPEA on GDP (In Percentage)

	EAFTA (ASEAN+3)		(ASEAN+1)×5	CEPEA (ASEAN+6)	
	Sim.1	Sim. 2	Sim. 1	Sim. 1	Sim. 2
Japan	0.44	0.44	0.10	0.54	0.54
China	1.66	4.72	0.20	1.77	4.84
South Korea	3.56	3.55	0.20	3.72	3.71
Indonesia	1.74	3.94	1.00	1.94	4.14
Malaysia	5.83	8.62	3.30	6.21	9.00
Philippines	3.94	6.28	2.20	4.18	6.52
Singapore	4.22	4.24	2.30	4.40	4.42
Thailand	4.49	7.02	2.80	4.78	7.32
Vietnam	7.08	9.67	5.00	7.33	9.92
Other SEAs	0.88	2.91	0.50	0.92	2.95
Australia	-0.09	-0.09	0.20	1.35	1.35
New Zealand	-0.06	-0.06	0.10	1.87	1.87
India	-0.10	-0.10	0.50	1.30	3.45
Hong Kong	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.08	-0.08	0.00	-0.10	-0.10
NAFTA	-0.01	-0.01	0.00	-0.01	-0.01
EU15	-0.01	-0.01	0.00	-0.01	-0.01
Rest of the World	-0.06	-0.06	0.00	-0.08	-0.08
ASEAN	3.60	5.67	2.14	3.83	5.89
ASEAN+3	1.18	1.93	0.30	1.30	2.05
ASEAN+6	1.02	1.68	0.31	1.30	2.11
World	0.22	0.38	0.06	0.28	0.47

Note: Simulations 1-2 are as follows
 Sim. 1: Trade liberalization and facilitation
 Sim. 2: Trade liberalization, facilitation and economic cooperation
 Shaded areas indicate FTA members

Source: CEPEA Report, cited from Urata (2008)

ASEAN's Role in EAFTA and CEPEA: Recommendations Phase I

- Both are not exactly far apart
- Emphasize a high quality of FTA to further deepen economic integration and narrow development gaps
- Making FTA based on 3 pillars; liberalization, facilitation, development and cooperation
- Consolidation of related existing FTAs
- Advocate open regionalism

ASEAN's Role in EAFTA and CEPEA: Recommendations Phase II

- Pursuing broader regional economic integration in East Asia
- Consolidate existing ASEAN+1 FTAs based on a more practical approach to alleviate concerns on the “noodle-bowl” effect of the “overlapping” FTAs
- Elevate Track Two process to a Track One process (working in parallel on both recommendations)

ASEAN's Role in EAFTA and CEPEA: ASEAN++FTA

- Based on a more realistic and achievable approach before moving forward a high quality of trade and investment liberalization, comprehensive facilitation and cooperation measures
- Consolidation of the existing ASEAN+1 FTAs and the progress of CJK FTA become important step toward broader regional trading arrangements in East Asia (Figure 1)

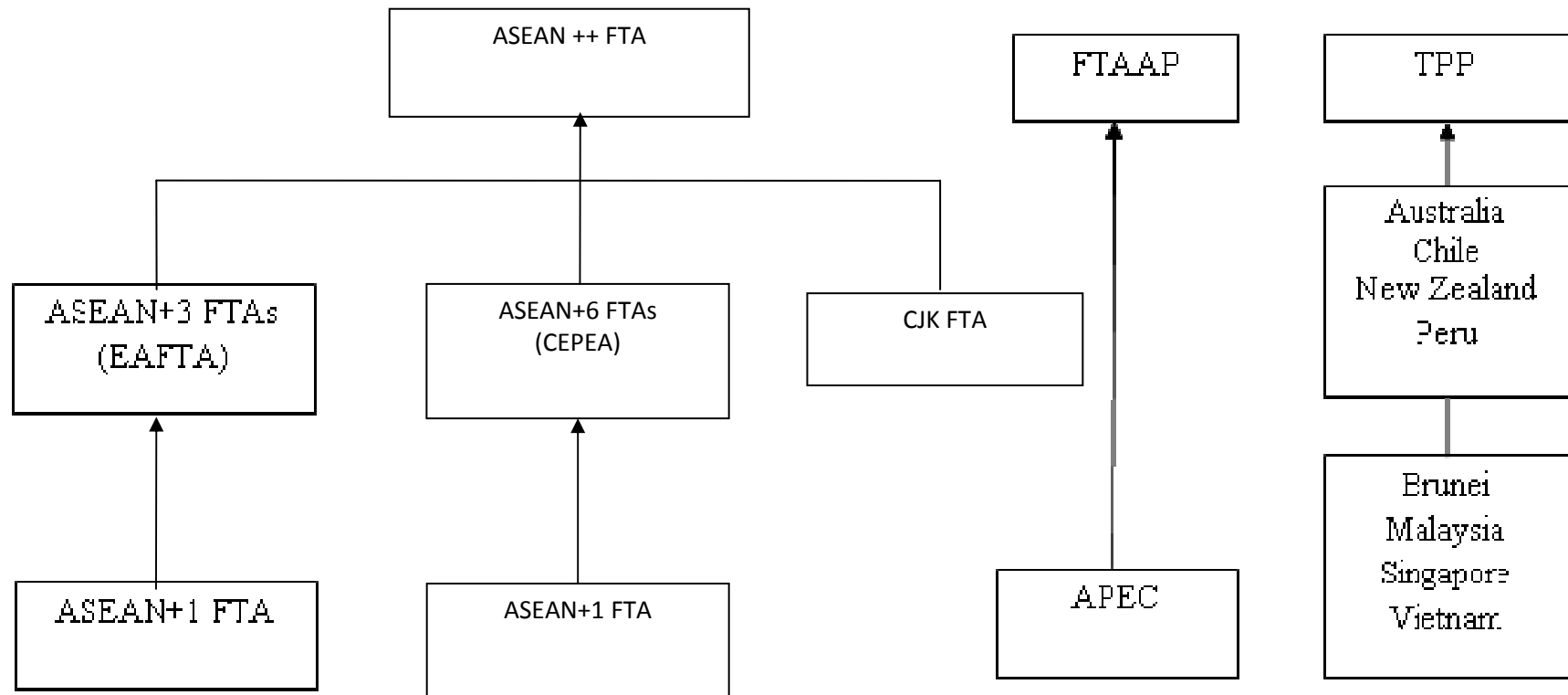
ASEAN's Role in EAFTA and CEPEA: ASEAN++FTA

- ASEAN advanced the concept of ASEAN++FTA by AEM in August 2011
- Fundamental questions the grouping should consider include; the kind of structure it should take, the main function of ASEAN++FTA, the kind of rules of origin, the leadership in ASEAN++FTA
- Track One works on rules of origin, tariff nomenclature, custom procedures and economic cooperation
- Both China and Japan accepted the “evolving ASEAN-centre regional architecture”.

Implications from an Expansion of EAS and TPP

- So far, political will of leaders and geopolitical considerations in moving the region forward
- Inclusion of USA and Russia in to the EAS, making ASEAN+8, the latest ASEAN's Summit
- Also, latest development of TPP poses a major concern for ASEAN

Figure 1: Conceptual Formation of ASEAN++FTA in Relation to EAFTA and CEPEA



Implications from an Expansion of EAS and TPP

- What impact would that be for ASEAN's centrality and its role as driving force in regional economic integration?
- ASEAN and East Asian economies formed as core members of APEC apart from USA, Canada, and Australia
- APEC process of trade liberalization was derailed, TPP was advanced as an alternative

Implications from an Expansion of EAS and TPP

- Recent participation of USA and many other countries, including, a number of ASEAN countries makes TPP moving from a low-key effort to a high profile one
- Building momentum of TPP is also seen as a way to counterweight China's economic influence as President Obama taken new interests in region building and its role in East Asia

Implications from an Expansion of EAS and TPP

- Concerns are also the impact of an expanded EAS, now ASEAN+8, could impact the existing arrangements of EAFTA and CEPEA
- EAS is not meant to be a functional-based forum, but rather representing a high level-strategic forum on global issues, on-going cooperation especially economic and financial, and political security
- Any possibility for new participants to talk the next preferred region-wide FTAs?

Final Remarks

- Idea of the emergence for a broader regional economic integration in East Asia
- ASEAN concept of region building and economic regionalism in East Asia
- ASEAN's centrality to bring about further region-wide trading arrangements
- Just as global economic power is shifting, the economic and political landscape of Asia is changing as well, viewing from latest development of EAS and TPP



US President Barack Obama (8th R) participates in the East Asia Summit family photo, part of the Association of Southeast Asian Nations (ASEAN) summit in Nusa Dua on Indonesia's resort island of Bali on November 19, 2011. Standing in the first row (L to R) are Russian Foreign Minister Sergey Lavrov, Japanese Prime Minister Yoshihiko Noda, Indian Prime Minister Manmohan Singh, South Korean President Lee Myung-Bak, Indonesian President Susilo Bambang Yudhoyono, Obama, Chinese Premier Wen Jiabao, Australian Prime Minister Julia Gillard and New Zealand Foreign Minister Murray McCully and (back row-L to R) Thai Prime Minister Yingluck Shinawatra, Singaporean President Lee Hsien Loong, Cambodian Prime Minister Hun Sen, Philippines President Benigno Aquino, Brunei Sultan Hassanal Bolkiah, Myanmar President Thein Sein, Vietnamese Prime Minister Nguyen Tan Dung, Malaysian Prime Minister Najib Razak and Laos President Choummaly Saignason.

Intra-regional trade in East Asia more resilient than US,EU

Trade Country	Export from ASEAN			Import from ASEAN			Total		
	2002	2005	2008	2002	2005	2008	2002	2005	2008
ASEAN	22.6	25.3	24.5	22.0	24.5	29.2	22.4	24.9	26.8
China	10.9	10.4	11.6	9.4	12.3	14.0	10.0	12.9	12.8
Japan	11.6	11.2	12.2	16.3	14.1	12.6	13.7	12.6	12.4
Korea	4.1	3.8	4.6	4.5	4.1	4.2	4.3	3.9	4.4
USA	16.0	14.3	11.5	13.4	10.6	9.6	14.7	12.6	10.6
EU	14.2	12.1	10.2	12.3	10.1	13.6	13.2	11.0	11.8

Source : ASEAN Secretariat

FDI outflows from East Asian nations continue despite crisis(billion dollars)

Country	FDI Inflows				FDI outflows			
	2006	2007	2008	2009	2006	2007	2008	2009
China	72.7	83.5	108.3	95.0	21.2	22.5	52.2	48.0
Japan	-6.5	22.5	24.4	11.9	50.3	73.5	128.0	74.7
Indonesia	4.9	6.9	.39	4.9	2.7	4.7	5.9	2.9
Malaysia	6.1	8.5	7.3	1.4	6.1	11.3	14.9	8.0
Singapore	27.7	35.8	10.9	16.8	13.3	27.6	-8.5	5.9
Thailand	9.4	11.4	8.5	5.9	0.97	2.8	2.6	3.8
Vietnam	2.4	6.7	8.1	4.5	0.09	0.2	0.1	0.1