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SOUTHEAST ASIAN ECONOMIES AND A NEW REGIONALISM

The last years of the 20th century, especially the failure of the Seattle Ministerial Conference in 1999, which was to be the beginning of a new negotiations round of WTO and a halt of multilateral negotiations within the new Doha Round (launched in 2001) after the Cancun Ministerial Conference collapse in 2003, although revived in July 2004 after putting in place a new negotiations framework, have become the major factor of turning towards a new regionalism and especially free trade areas all around the world as well as in Southeast Asia¹.

Pessimistic opinions about the WTO future and the fact that it is unable to assure a diffused reciprocity in trade without delays, have become one of those points which have pushed ASEAN and its members towards a new, open regionalism, providing a strong institutional impetus for the proliferation of bilateral free trade areas (FTAs).

Asia, and especially Southeast Asia, is a region where the shift towards a new regionalism is extremely visible. Apart of the above-mentioned impulses towards a new pattern of integration there are many others as regards the economies of ASEAN. Other causes which have driven the ASEAN economies towards to seek new forms of integration, such as, among others, FTAs are connected with the necessity to take measures against the risks of globalization stemming from the disappointment of the Asian financial crisis time. The disappointment, connected with the unfulfilled expectation that ASEAN itself, or APEC, would undertake some

¹ *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralization*, edited by J. Okamoto, IDE Development Perspective Series no. 2, Tokyo: Institute of Developing Economies (IDE), Japan External Trade Organization (JETRO), 2003.

effective measures, undermined the credibility of both the institutions. Both of them had been seen before the crisis as the key to the economic cooperation and sustainable development in the region.

The financial crisis has also shown that the ASEAN countries cannot count on the West, and more specifically, neither on the US nor on Japan. Fred Bergsten has presented an opinion which expresses Asian feelings about the subject.

„The single greatest catalyst for the new East Asian regionalism, and the reason it is moving most rapidly on the monetary side, is the financial crisis of 1997-1998. Most East Asians feel that they were both let down and put upon by the West. In their view, western banks and other lenders created much of the crisis by pulling out. The leading financial powers then either decided to take part in the rescue operations, as the United States did in Thailand, or built the much-bally-hooped ‘second lines of defense’ so deviously that they could never be used. At the same time, the IMF and the United States dictated much of the Asian response to the crisis”².

Now the Asian economies are looking for new strategies which would allow them to navigate in the deep waters of globalization and cope with the challenges that this process puts in front of the Asian nations. Many Asian governments perceive the new Asian regionalism as their salvation³. They are of the opinion that they should diminish their dependence on the Western countries and multilateral financial institutions, such as the IMF or the World Bank. In 1997 an idea of the Asian Monetary Fund was born during the Vancouver APEC Leaders Meeting. ASEAN’s enthusiastic attitude towards this idea and several other initiatives showed that the member countries were seeking solutions which would be more regionally-based. Regional institutions which are concentrated more on the problems of the region could better serve individual countries’ needs. As one of the Southeast Asian experts states:

“Asian countries claim that a regionally focused facility may be able to design more appropriate conditionality than the IMF because of the former’s superior regional expertise and its closer geographical proximity to member countries”⁴.

One of the initiatives is the Chiang Mai Initiative – a idea presented by the ex-Prime Minister of Malaysia Mahathir Mohamad which postulated the creation of a totally regional grouping: the East Asian Economic Group (EAEG) comprising ASEAN, China, Japan and South Korea. Although so far it has not been implemented, the idea has survived as the ASEAN+3 concept. ASEAN + 3’s intent to establish an “East Asian Community”, to be announced at a summit meeting in Malaysia in December 2005⁵.

Singapore has been the prime country in ASEAN to sign bilateral FTAs, and has provided significant demonstration effects for other members to treat the

² C. F. Bergsten, *East Asian Regionalism*, „The Economist”, July 15, 2000, p. 24.

³ S. D. Sharma, *Beyond ASEAN and APEC: Towards a New Asia-Pacific Economic Regionalism*, „East Asian Review”, Vol. 14, No. 3, Autumn 2002, pp. 37-48.

⁴ *Ibidem*, p. 41.

⁵ *China and the New Economic Geography of Asia*, American Enterprise Institute for Public Policy Research China in Asia Seminar Series, July 21, 2005.

entrance into cross-regional and even inter-continental FTAs as a new road to liberalization. There are several FTAs in the region, mostly bilateral between individual ASEAN members and partners outside the grouping. Parallely, there are plurilateral FTA initiatives with the whole ASEAN and other countries such as China, Australia, Japan, India, New Zealand. Generally speaking, there have been about 40 different FTAs negotiated or under negotiations in the region since 1999. Apart from this, the above-mentioned talks about East Asian Economic Community or even Asian Economic Community embracing also South Asian countries with India among others have been carried out.

An FTA with China – the ASEAN-China FTA (ACFTA) seems to be the most important one. China is among the top trade partners of ASEAN (see table 1). The economic and trade cooperation between ASEAN and China has grown tremendously lately. The growth of the ASEAN exports to and imports from China (without Hong Kong) reached US\$ 47.3 billion and US\$ 30.9 billion in 2003, respectively. Exports to and imports from China experienced an increase of 51.7% and 31.2% in 2003, respectively, as compared to the previous year. The trade value in 2004 was expected to increase further as indicated by the figures for the first seven months of 2004, where the ASEAN exports to and imports from China reached US\$34.5 billion and US\$ 22.2 billion, respectively. This represents an increase of 40.7% and 34.1%, respectively, for the same period of 2003. ASEAN is also a very important partner for China, now it is China's fifth export market and fourth import source. At the ASEAN-China Summit in 2003, a target of US\$100 billion in a two-way annual trade by 2005 was envisaged and this target is expected to be achieved due to the significant growth in trade. In 2005 China will overtake the United States as ASEAN's largest trading partner.

Table 1. ASEAN trade turnovers with the most important partners in 2003 (in billions of USD)

Country/Region	ASEAN Exports	ASEAN Imports
European Union „15”	56,9	42,7
USA	61,3	49,8
Japan	50,3	58,0
South Korea	17,6	15,0
China with Hong Kong	55,9	36,2
IntraASEAN trade	99,7	74,8
Total*	430,3	359,3

*With the exclusion of the Lao PDR and Viet Nam – data unavailable Source: ASEAN Statistical Yearbook 2004, pp. 70-73.

The tariff liberalization will be undertaken under a Normal Track and a Sensitive Track. Products covered in the Normal Track schedule will be subjected to the tariff reduction and elimination in four tranches, as shown in Table 2.

Table 2. Tariff liberalization within ACFTA

x = Current applied MFN Tariff Rate				ACFTA Tariff Rates (%)				
				2005	2007	2009	2010	
		x	>	20%	20	12	5	0
15%	<	x	<	20%	15	8	5	0
10%	<	x	<	15%	10	8	5	0
5%	<	x	<	10%	5	5	0	0
		x	<	5%	Standstill		0	0

Source: *ASEAN-China Free Trade Agreement*, Ministry of International Trade and Industry, 2 July 2005, www.miti.gov.my, 10.10 2005.

Some flexibility in the implementation of the Normal Track will be accorded to a limited number of products. Duties on such products will be eliminated only in 2012. Sensitive products will have tariffs imposed on them even up to 2018.

In spite of these developments, the conflict in the Taiwan Strait is of greater concern to ASEAN, because it bound to lose more if the dynamics in the Strait deteriorate dramatically. Although the ASEAN governments adhere to the “One China” policy, Taiwan is a major investor in the most labor-intensive sectors in Southeast Asia.

Apart from these initiatives, ASEAN itself has been fulfilling its aims of creating an ASEAN Free Trade Area (AFTA). Even the Asian financial crisis did not stop the grouping from deepening its economic integration. In spite of the crisis, the member countries decided to accelerate the process of creating the AFTA and shorten the period of introducing mutual reduced tariffs and trade barriers. The ASEAN members have also decided to establish the ASEAN Economic Community by 2020. This fact evidently shows that the member countries clearly see the profits of a closer integration and the reserve they showed in the first period of ASEAN existence has melted, although the intra-regional trade barriers appear not so easy to be abolished, especially with the less advanced economies in the region.

Anyway, according to the ASEAN Secretariat materials, the AFTA has now been virtually established, but it is far less discriminatory than the theory of integration has always taught us. The ASEAN member countries have made a significant progress in the lowering of the intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme for the AFTA. More than 99 percent of the products in the CEPT Inclusion List (IL) of ASEAN-6, comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand, have been brought down to the 0-5 percent tariff range (see Figure 1). Although the ASEAN members have undertaken several different initiatives, ASEAN’s two most recent crises in the region – the Asian financial crisis of 1997 and the war against terrorism – have been managed along bilateral lines.

Table 3. Implementation of CEPT by ASEAN Members, 2003*

Country	IL		TEL		GEL		SL		Total lines
	Number of lines	Share (%)	Number of lines	Share (%)	Number of lines	Share (%)	Number of lines	Share (%)	
Brunei	6,337	97,61	-	-	155	2,39	-	-	6,492
Indonesia	7,206	98,92	-	-	68	0,93	11	0,15	7,285
Malaysia	10,116	97,32	218	2,10	53	0,51	8	0,08	1-,395
Philippines	5,632	99,54	-	-	16	0,28	10	0,18	5,658
Singapore	10,716	100,00	-	-	-	-	-	-	10,716
Thailand	9,211	100,00	-	-	-	-	-	-	9,211
Cambodia	3,115	45,66	3,523	51,64	134	1,96	50	0,73	6,822
Laos	2,962	83,41	437	12,31	74	2,08	78	2,20	3,551
Myanmar	4,779	87,34	628	11,48	48	0,88	17	0,31	5,472
Vietnam	10,143	97,07	41	-	416	2,14	89	0,79	10,689
ASEAN-10	70,217	92,07	4,847	6,67	964	0,95	263	0,31	76,291

Source: Vietnam's Ministry of Finance (cited from CIEM 2004).

*The CEPT uses four lists – the Inclusion List (IL); the Temporary Exclusion List (TEL); the Sensitive List (SL) and the General Exception List (GEL) – for determining the pace and the scope of the liberalization.

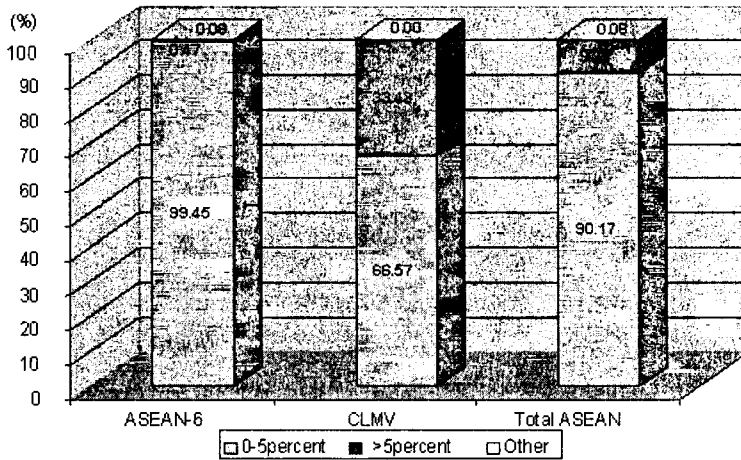
The expansion of ASEAN has introduced a two-tier-, and possibly a three-tier-economic system into ASEAN. Rather than a group of nations moving together towards economic development, the association has become a dichotomy of old and new members – the richer and the poorer – those moving more quickly and the others moving more slowly up the ladder of development. The relatively loose arrangement within ASEAN has enabled it to deal with China and Japan with a greater confidence than it would have on a bilateral basis.

Speaking about the FTAs in the region, we can broadly divide the **motives of entering** such agreements into strategic or political ones on the one hand, and economic ones on the other, although a sharp division of the reasons seems to be rather blurred. Economic motives very often mix to some extent with the political ones.

Thailand has made a significant progress to advance the framework agreements with a number of countries, including such significant powers as China, India, Japan, and the United States. The implications of FTAs appear to be tremendous for Thailand in terms of an economic success, such as trade increase, GDP and welfare improvement, structural changes related to specific FTAs and sectorial impact⁶.

⁶ S. Chirathivat, S. Mallikamas, *Thailand's FTA Strategy*, „ASEAN Economic Bulletin”, April 2004, Vol. 21, Issue 1, p. 37-53.

Figure 1. Percentage of Tariff Lines at 0-5 percent in the Tentative 2004 CEPT Package



Source: *Trade*, www.aseansec.org, 10.10.2005.

The main motive for Thailand to enter such agreements is the fact that it has resorted to bilateralism as it has been frustrated with the progress in trade liberalization at the regional and multilateral levels. It may easily be noticed that while the FTA proposals have been under consideration since the year 2000, the idea of FTAs has been much more aggressively pursued ever since the Thaksin government took office in 2001.

Malaysia's outlook on the FTAs has been different from that of Thailand. This is the consequence of the changes in the country's production structure and trade composition. Firstly, Malaysia has not viewed the FTAs as positive for its economy. Secondly, there are very important linkages between Malaysia's FTA policy and the ASEAN diplomacy. Thirdly, due to these complex linkages, Malaysia would rather support the ASEAN-wide FTA initiatives than the bilateral ones. In any case, Malaysia has started negotiations on a FTA with Japan, India, Pakistan, Australia and New Zealand. The objectives in negotiating the FTAs by Malaysia are to:

- seek a better market access for goods and services;
- further facilitate and promote trade, investment and economic development;

• enhance the competitiveness of Malaysian exporters and build capacity in specifically targeted areas through technical cooperation and collaboration⁷.

Malaysia is also engaged in the trade and investment cooperation under the Trade and Investment Framework Agreement (TIFA) with the United States. TIFA has provisions for a possible FTA between Malaysia and the US.

The participation of individual countries in regional FTAs, such as the ASEAN Free Trade Area (AFTA) and the ASEAN-China Free Trade Agreement (ACFTA), helps the developing countries of the region to succeed in the domestic economic reforms. The trade liberalization through the participation in such FTAs is a very useful lesson and an experience for such countries as for instance Vietnam. This way of liberalization lowers the adjustment costs for the efforts in industrialization and introduction of structural reforms⁸. It also has an extremely positive effect as far as the trade increase, and the GDP and welfare improvement are concerned⁹.

Vietnam signed a **Bilateral Trade Agreement with the US (VN-US BTA)** in 2000. It was expected to have a huge positive influence on Vietnam's economy. Since the moment of this agreement coming into force in December 2001 Vietnam's exports to the US have increased more than fourfold over two years, growing from US\$1,05 billion in 2001 to US\$ 4,55 billion in 2003. The US became the largest market for Vietnamese exports in 2003. Although the estimations for 2004 show that the growth rate of Vietnam's exports to this country was around 10%, the implementation of the Agreement has proved that Vietnamese firms are capable to penetrate the US market. It is obvious that the lack of experience, know-how and information about this huge market are causing problems to Vietnamese firms, but it has transpired that the insufficient production capacity and the difficult access to the working capital are the main constraints there. The VN-US BTA is regarded to be a very important step towards Vietnam's entering WTO.

Above we have shown some examples of positive effects stemming from the new regionalism. There are, however, also some examples which do not confirm the rule. Such an example are the Philippines. In the Philippines the significant trade liberalization did not translate into a high economic growth.

It is stressed that the ASEAN regionalism is not in conflict with globalism. It is to be considered that under the policy of the export oriented industrialization based on FDI, the open regionalism seems to be the only possibility for a future development of those economies.

The superior aim of the new regionalism, which is very often called *open regionalism*, is to reach compatibility between the regional integrative agreements and the global trading system embodied by WTO¹⁰. Finally, this kind of regionalism can be seen as a factor supporting the process of globalization and not as its counterweight.

⁷ *Free Trade Agreements*, Press release, www.miti.gov.my, 10.10.2005.

⁸ T. Mun Heng, G. Vasudevan, *Impact of Regional Trade Liberalization on Emerging Economies*, "ASEAN Economic Bulletin", August 2004, Vol. 21, Issue 2, p. 167-182.

⁹ S. Chirathiyat, S. Mallikamas, *Thailand's FTA Strategy*, "ASEAN Economic Bulletin", April 2004, Vol. 21, Issue 1, p. 37-53.

¹⁰ C. F. Bergsten, *Open Regionalism*, Institute for International Economics, <http://www.iie.com>, 18.10.2005.