

Asia-Pacific Forum 2015

“ASEAN Community Building and Regional Economic Integration in East Asia: Looking Beyond 2015”

A Conference by:

**Japan Economic Foundation; Economic Research Institute for ASEAN and East Asia; and
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Welcoming Remarks by representatives of ERIA, JEF and CSIS

Mr. Izuru Kobayashi, Chief Operating Officer, Director General of Administration and Personnel Department, ERIA

The creation of AEC should be praised by all stakeholders. This is a time for celebration but the ASEAN integration face a crucial challenge in the economy in the coming future. Introduction of new partnership agreement, Trans-Pacific Partnership (TPP) raised questions for ASEAN centrality and their involvement in AEC. TPP might present challenges for ASEAN countries to deepen the integration with the region. At the moment, there are several ASEAN countries who expressed its interest in joining the partnership agreement such as Malaysia and Vietnam. There is a growing concern that non-TPP ASEAN members would be more interested in joining TPP rather than deepening the AEC. This is a challenge for ASEAN, in order to ensure stability within the region.

However, this is not the first time for ASEAN to face such challenge. When the Cold War ended, ASEAN lost the fundamental reason of its existence. Moreover, when APEC, which had larger and seemingly stronger economic cooperation framework, was formed in early 90s, ASEAN seemed to have less value of its existence. However, ASEAN countries came up with a more progressive measures than APEC had aimed for. ASEAN leaders agreed to form AFTA in 1992. This was the start of ASEAN centrality of the East Asia integration. AFTA eventually turned into AEC convincing global investors that ASEAN is a single market and production base.

Now ASEAN need a new initiative that would overcome the challenge posed by TPP.

The Asia-Pacific forum would be a good platform to spark discussion regarding regional integration. ERIA is a huge believer of ASEAN integration. In order to support integration and centrality, ERIA is willing to work intensively to initiate discussions on ASEAN integration.

Mr. Kazumasa Kusaka, Chairman and CEO, Japan Economic Foundation

He congratulated on the beginning of the ASEAN Economic Community in 2016 and hoped that ASEAN continues to play the central role in realizing regional economic integration of East Asia.

This Asia-Pacific Forum first convened in 2003 in Singapore, with the aim of promoting FTAs to realize sustainable economic growth. Since then, the discussions of this annual event have deepened to include domestic policies and measures called the “behind the border measures.”

As is seen in the ASEAN integration, the deepening of the integration impacts the economies, societies, and politics of each individual country and of the region as well, and how to overcome these issues will be a big challenge. The true aim of the Forum is to identify factors that constrain the realization of growth potential and remove those barriers by pushing for structural reform using trade and investment liberalization as leverage.

It will also be increasingly important to avoid expanding or fixing the income gap and asset gap. Expanding solid middle class or preventing its erosion will certainly contribute to the political and social stability, as well as to raising the growth potential.

The core of the growth strategy of Abenomics is placed on accelerating of structural reform through TPP and RCEP negotiations. These mega FTAs assure the sustainable development of the East Asian region through further enhancing direct investment, the key driving force of growth.

As is captured in the expression of “political economy”, we should understand and learn from the dynamism between economics and politics in order for the growth strategies in this region to succeed.

Dr. Yose Rizal Damuri, Head, Department of Economics, CSIS, Jakarta

The 2015 Asia-Pacific Forum is dedicated to support regional integration in East Asia. By the end of 2015, ASEAN countries will officially launch the AEC. Apart from the AEC, we also see other partnership initiatives such as the TPP, which attracts more countries to join the partnership, as well as Indonesia. There is also RCEP which encourages partnership along the Asia-Pacific region and the introduction of new development bank such as the AIIB. Partnership initiatives will be one of the key driver for economic development within the region.

Thus, it is important for ASEAN members to ask their commitment to ASEAN cooperation and establish a roadmap for integration for the future. What member countries should do to enhance the coherency of member states?

The forum will be an important platform for building integration amongst Asia-Pacific countries. CSIS is willing to give their full support to the establishment of this discussion and we believe that there will be a fruitful discussion from international experts.

Keynote Address: The Future of East Asia Integration: East Asia Summit and ASEAN Community Beyond 2015 by the H.E. Mr. Rizal Affandi Lukman, Deputy Minister of International Economic Cooperation at the Coordinating Ministry of Economic Affairs, Republic of Indonesia

The importance of regional integration for ASEAN and East Asia beyond 2015 is highly significant. The current ASEAN arrangement is rarely enough to address global challenges. The declaration of AEC in Kuala Lumpur, as well as East Asia Summit would serve as a good time to evaluate the performance of ASEAN cooperation for the last 10 years.

ASEAN has been the central example for integration in Asia. There are challenges ahead. It is a good time to evaluate the role of ASEAN integration on development and also other strategic topics such as regional security and human development.

AEC is not an overnight process but a process that took five decades. So far, ASEAN has engaged in free flow of goods, labors and capitals. 99.2% of the goods traded in ASEAN circulate without any tariff barriers. Furthermore, the Prime Minister of Malaysia said that ASEAN has been able to recover from the 2008 financial crisis, compared to countries from other regions. FDI flows have been increased

significantly since the 2007 until the beginning of 2015. We saw tremendous potential gains for ASEAN countries as well as other countries around the region.

Most of the policies that were taken by ASEAN countries are fully implemented. Indonesia remains committed in fulfilling the remaining measures, in order to promote integration. We could not argue that Indonesia still need to make some effort to revise the exhaustive of amount of regulations and fulfill some requirements of the partnership agreement.

Despite the commitments of the government, we need to ensure that the private sector have to be fully aware and ready to capitalize the partnership agreement. We must continue our communication with our stakeholders in order to maximize the potential of our cooperation. When leaders gather and launch the initiative, the signal is not transmitted perfectly to the private sectors. The challenge is how to implement the points within the agreement to the private sector?

The other challenge is to construct an initiative beyond 2015 that includes an integrated economy with creative and dynamic characteristic. In realizing this vision, ASEAN have to ensure good governance, transparency and good policy regimes which include all stakeholders.

RCEP brings pressure towards more competitive and efficient economy. Indonesian is aggressively building infrastructures in big cities as well as rural areas and enhancing the business climate. This measure will be important for the preparation of the economic integration in ASEAN.

The conclusion of TPP addresses issues beyond trade after seven years of negotiation. This cooperation account for 85% of the global economic activity. It hasn't been officially ratified by the government of each member countries but TPP attracts interest from countries such as Indonesia, due to the economic potential of the cooperation.

On the other hand, RCEP with half of the world population offers the potential to increase the standard of living of the population. The cooperation offers more than just security cooperation but also economic potential. FTAAP will defined the next level of cooperation which ensures high quality trade, trade liberalization and trade integrations.

There are also several initiatives such as the global infrastructure hub which is put forward by G-20 leaders, UN development agenda post 2015 and the conference of UN Climate Change. All of these initiative promote inclusive growth for the development of the region.

The main theme of the three major events, the G-20, APEC and also ASEAN, emphasizes inclusiveness as the priority of the forum. It is important to bring the benefits of the development for all people within the society.

Asia-Pacific regions plays an important role in tackling global challenge. Every member countries need to put this issue within their strategy for the future. The introduction of TPP, FTAAP and RCEP should be ensured that the benefits of the initiatives will be spread equally among all regions.

The Indonesian government is willing to receive fruitful inputs regarding inclusiveness and sustainable development from various knowledgeable speakers with international background. I expect the combination of speakers within the Asia-pacific forum will bring positive changes for economic integration and development.

Panel Session 1: A Decade of East Asia Summit and Economic Regionalism: How can we pursue our growth strategy and achieve structural reform?

Moderated by Mr. Naoyuki Haraoka, Executive Managing Director, Japan Economic Foundation

As Asia looks forward to becoming the driver of the world's economy, with its progress in the East Asian regionalism and economic integration (as evidenced by the progress of the East Asian Summit, EAS, and the ASEAN Economic Community, AEC), challenges still lie ahead for economic integration. Individual member countries guard their national interests and economic growth is facing headwinds. Whether East Asia can achieve economic growth is dependent upon how each member country can achieve its economic structural reform in order to take full advantage of regional economic integration. Security concerns also remain heightened in the region. How can the EAS maintain a delicate balancing act between national and regional interests and become a driver of regional integration in the years ahead?

Amb. Murray McLean AO, Chair, Australia-Japan Foundation, Australia

Amb. McLean first acknowledges the notion that 2015 is a significant milestone in the ongoing progress being made towards regional economic integration and increasing the prosperity of the region (tenth anniversary of EAS, establishment of AEC, conclusion of TPP, and progress in the RCEP negotiation). He argues that the regional security environment is inextricably linked to these achievements since the best environment for the region is one that promotes strategic stability, open societies and economies, and economic integration.

He recognized that EAS is the regional institution that has the most potential to play a positive role not only in helping underpin ongoing economic growth and prosperity, but also in helping ensure regional security. He also acknowledged that the establishment of the AEC offers new economic pathways for business from other EAS member countries to engage with ASEAN. He also accepted that the progress on TPP and RCEP also is full of potential benefit for economies involved in these partnerships (noting that these two agreements should not be seen as in competition with each other, but rather as complementary and viable pathways for the ultimate realization of a free trade area in the Indo-Pacific).

However, there are many multi-faceted and evolving security challenges that must not be allowed to adversely affect the environment that is necessary to continuing strong economic growth, deeper economic integration and prosperity of the region (such as traditional security disputes relating to trust, maritime and territorial disputes and changing power dynamics, and non-traditional security threats posed by terrorism, extremism, natural disasters, human pandemics, transnational crime, and cybersecurity).

In order to minimize these risks and optimize growth, constructive and forward-looking bilateral relationships, particularly among the major powers, are fundamental to addressing these challenges, adding that ASEAN-centered regional institutions will play a crucial complementary role in promoting a stable and resilient regional order.

He concluded by stating that Australia, through the ASEAN-ANZ FTA and through its development cooperation programs, is committed to supporting ASEAN's efforts to advance regional integration, acknowledging that regional integration is a project that needs even greater effort in each SE Asian country as well as by ASEAN as an institution.

Dr. Zhenyu Wang, Director of China National Committee for Pacific Economic Cooperation, China

Dr. Wang started by listing out the great achievements of EAS and East Asian (EA) regionalism, including the AEC and RCEP, connectivity initiatives, functional cooperation initiatives in priority areas, US and Russia's accession to EAS, and the fact that EA fared well in the Global Financial Crisis (GFC) and remains the global economic engine that contributes to multilateral trade processes and

global development agenda. He also outlines the main reasons for these achievements: ASEAN centrality, open regionalism, confluence of various processes of economic cooperation, top-down commitments to meet the bottom-up needs of market integration, capacity building initiatives etc.

Dr. Wang also outlines the opportunities and challenges ahead for the ASEAN Community beyond 2015, stating that more efforts should be diverted to RCEP. He also points out that EAS is one of the channels to promote dialogue and cooperation, since ASEAN retains centrality. He added that the EAS should be a venue to promote the New Model of Major-Country Relations, featuring "no conflict or confrontation", "mutual respect" and "win-win cooperation".

Dr. Wang also identifies structural reform as an essential part of regional economic integration, connectivity (institutional connectivity), and as a necessary precondition to successful implementation of physical connectivity initiatives. He emphasizes the importance of structural reform in promoting growth, encouraging the enhancement of the EA production network, supply chains, and value chains, unilateral actions complemented with collective actions, synergy with APEC efforts, capacity building, and long-range goals with gradualism.

Dr. Choong-Yong Ahn, Chairman, Korea Commission for Corporate Partnership, Korea

Dr. Ahn started by explaining the East Asian Miracle and the Asian Paradox. In the past three decades under the GATT led by the U.S. and WTO, East Asia, especially the four dragon economies, achieved the **East Asian Economic Miracle** by adopting an export-oriented development strategy. They enjoyed "unlimited" access to the U.S. market first after WWII and later took advantage of their own geographical proximity to become more functionally interdependent. Since the Asian financial crisis in 1998, East Asian economies have also developed a sense of an "East Asian Identity."

As China's PPP-based GDP overtook that of the U.S. in 2015, according to the IMF, the regional hegemonic leadership competition between China's "Chinese Dream" and the U.S.' "Pivot to Asia" policy appears to increasingly be on a collision course, causing a new wave of nationalism and heightened hegemonic rivalry, including maritime territorial disputes. This phenomenon caused the **Asian Paradox**, asserting the discrepancy between growing intra-regional economic interdependence on the one hand and backward political and security cooperation on the other.

Dr. Ahn acknowledged that recently, two great institutional mechanisms have been established to alter the economic and diplomatic landscape of the Asia-Pacific rim: the TPP and AIIB. Another mega-economic bloc has also been in negotiations by China and the ASEAN leadership: RCEP. Although less liberalized than the TPP, RCEP nearly equals the GDP and trade volume of the TPP. Both mega deals are viewed as check and balance acts between the U.S. and China. Dr. Ahn argues that down the road, the TPP and RCEP should be converged.

Dr. Ahn also stresses Asian values and supported a bottom-up approach to building mutual trust across the region. He stated that mutual trust cultivated in the Confucian culture in East Asia is a valuable cornerstone for cooperation and public infrastructure and indispensable for peace. The trust-building process requires a consistent approach and the objective recognition of accurate history so that the next generation can move forward. Major regional powers need to be non-aggressive, non-assertive and non-coercive to deepen mutual trust.

Dr. Sachin Chaturvedi, Director General, Research and Information System for Developing Countries, India

Dr. Chaturvedi claims that it is evidently clear that without the RCEP members, TPP would not have its desired outcome. It global foothold critically depends on RCEP members. This provides lessons for the other RCEP members for working towards finalizing the Agreement by 2016.

With the TPP and RCEP, there is a global attraction towards economic growth. Due to this, the implementation of comprehensive and harmonized NTMs/standards would be the key issue before RCEP. There has to be adequate recognition of the fact that members are at different stages of economic development and without regulatory structures pertaining to NTMs/standards, the members would be affected differently.

Dr. Chaturvedi listed his three steps towards the process of instilling confidence among RCEP members: 1) liberalizing at the domestic level; 2) more space for laggard countries, so that they may catch up in due course of time; and 3) sectoral cooperation for promoting Regional Value Chains, which is equally important for converging sector specific standards and protect designs. Dr. Chaturvedi also stresses the importance of the role of financial institutions in the Asian region in bringing the countries closer together and to bring centrality to SDG.

RCEP has the potential to lead the global economy as it has the economic potential. It has emerged as a soft global power and this lead role of the regional caucus should be maintained to ensure Asia's pivotal role in the world economy.

Prof. Simon SC Tay, Chairman, Singapore Institute of International Affairs, Singapore

Global growth and stability today cannot be taken for granted. There are three areas in which there are challenges ahead. Firstly, although we have TPP, AEC, and RCEP, we still have to look at economic transformation. There needs to be political will to enforce reform that prioritizes both economic and social issues. Prof Tay commented that although the AEC is a great effort at transformation, it will only take place over time. The TPP, on the other hand, is much more rushed in terms of change.

Secondly, when it comes to what we should focus on in the upcoming year: RCEP. The key problems in its progress will mostly be for India and Indonesia. The leaders of these two countries will need help in tackling the obstacles they will face in the ongoing RCEP negotiations. He explained that both India and Indonesia emphasize on foreign direct investment (FDI). As such, in order to move forward, they need to understand how FDI and free trade reform links to each other. Otherwise, a China-ASEAN FTA would be more meaningful.

Thirdly, Professor Tay pointed out growing Sino-Japanese competition within ASEAN and in India. He stated that competition can be a good thing. However, bad competition also exists, as shown over the last few months by Indonesia, Thailand, Malaysia, etc, where lack of transparency and misallocation of resources exists. As such, we need to re-strategize our centrality.

Japanese Economy and the Second Stage of Abenomics by Mr. Daiki Kasugahara, President Director, Jakarta Office, Japan External Trade Organization (JETRO), Japan

Abenomics has put the Japanese economy on the path to escape deflation and make a steady recovery. Corporate profitability has increased significantly. Corporate recovery is also driving the improvement of employment conditions. That said, Mr. Kasugahara noted a shift in the policy focus of Abenomics, from demand to supply. The issues behind this shift are that corporate capital investment has yet to see clean improvement, FDI to Japan remains low compared to other major economics, a structural

economic growth constraint due to mid/long-term population decrease, and dramatic improvement of effectiveness and market expansion with innovative services and products required.

The Abe Administration has realized the economic recovery on demand side, through “Bold monetary policy” such as monetary easing, and “Flexible fiscal policy” such as stimulus package. For the next stage, it is required to undertake structural reforms in light of investment promotion, and long-term agendas such as dramatic improvement of effectiveness and securing the work force. This is why the Government has approved the policy principle for the Second Stage of Abenomics in June 2015, in order to promote the supply oriented reforms.

Mr. Kasugahara ended with observing the role of TPP in Abenomics. He claimed that the TPP, which provides high-standard business platform in Asia-Pacific region, is one of the important driving forces of Abenomics. Two achievements are expected through taking part in the TPP. Firstly, construction of new global value chain, through market development for corporations, promotion of foreign investments and foreign visitors, etc. Secondly, promoting innovations, invigorating industries, and improving productivity through conducting reforms within TPP. In summary, it is expected for the Second Stage of Abenomics to overcome its priority subjects, expanding investment and promoting innovations, through TPP participation.

Questions and Answers for Panel Session 1:

Jaime Yung pointed out that there is a strong sense of the beginning of regional integration, and growing economic measurements within ASEAN countries. Competition is also growing among ASEAN counter-partners. As such, how can China and US cooperate more in ASEAN region? How can we balance competition and cooperation among this region?

Dr. Ahn points out that in his presentation, he had mentioned that due to the TPP and RCEP, US and China policies appears to increasingly be on a collision course. Some experts and analysts have described TPP as a security alliance on part of an economic collaborative scheme, but deem this as dangerous way of thinking as it would exacerbate the conflict between China and the US. Therefore, in this regard, TPP should be viewed as a preferential regional trading arrangement. We need to extend market access to freer flow of goods and investment.

Dr. Wang added that one of the successes of the EAS is its enlargement, i.e. including the US and Russia in the group. As an institution to deal with both economic cooperation and political and security issues, EAS is in the best position, after including the US, to promote the compatibility between the security architecture and economic integration architecture in East Asia as well as in the Asia Pacific. However, this role is not yet well played. There seems currently more competition than cooperation, esp. in the geopolitical/security side. The EAS shall play the role of promoting cooperation for the sake of regional security and prosperity. A good sign can be tracked in both Premier Li Keqiang's speech in this year's EAS Summit and the statement between the US and ASEAN, where we can find a lot of commonalities, for instance, respect of the international order, and peaceful management of disputes, etc. This shows that it is hopeful to promote the above-mentioned compatibility on the platform of EAS.

Dr. Rizal Affandi Lukman asks the question: How do TPP countries cope with sensitive issues for specific countries? (e.g. Japan and agriculture products, Malaysia on SOEs etc.) How do these sensitive issues cope with the acquisition of the TPP?

Mr. Kasugahara mentioned that all TPP-member countries have sensitive issues. While there is nothing that can be done to eradicate the existence of these issues, it is important to keep a continuous and open discussion, which should continue in the ratification of the TPP.

Dr. Shujiro Urata posed a question to Professor Tay related to cooperation between China and US. Prof. Tay talked about avoiding bad/unhealthy competition and pursuing healthy competition. Can cooperation between systems providers (China, US, India) be considered healthy? Does ASEAN, as a recipient of these systems, have a role to play to make this competition healthy?

Professor Tay replied that it is not for the two giants to stop competing. It's for the ASEAN member states (AMS). For them to be more central, they need to decide which country/donor they should rely on. As we hope the national infrastructure will link to ASEAN connectivity. Although the problem is quite real, no one has thought it through yet, and so no solution has been brought about. Professor Tay also stresses the importance of bringing RCEP to life.

Mr. Kasugahara stressed the importance of independent institutions such as ERIA in facilitating countries make unbiased policy decision, and the importance of these organizations to provide very neutral analytic data to show what kind of priorities should be set.

Amb. McLean added that it's a mistake to look at what's going on in the region as a competition between China and US. There are a lot of other countries that are very important in the region, such as India, Japan, and Indonesia. Australia and Korea are also able to play key roles and make positive contributions. In other words, this is a combined effort by all countries to work cooperatively. It is very important that we can give as much emphasis to the unity that ASEAN provides in the region and build around that.

A representative from **ERIA** asked about RCEP and the TPP. Who could be the game-changer to move RCEP further? With regards to economic integration, what kind of structural reforms should we think about in moving forward with regional integration?

Dr. Chaturvedi noted an overlapping membership between RCEP and TPP, so how do you promote catching up? Who are the losers? What will be the bottom line? These, he states, will be the actual game-changer. He also mentioned that emphasis on Sustainable Development Goals (SDGs) is extremely important as 3 out of the 17 goals, and 18 out of the 169 indicators are on trade. Members within RCEP and TPP will reflect on these issues that each of them will be undertaking. From that point of view, the bottom line would be refined by the end of the month, and we would have signs of moving forward.

In his answer, **Dr. Wang** stated, "Depends on what game you are talking about." If it is the game of high standards and next generation issues, then TPP is the game-changer. But if it is the game of development or integration and development, then RCEP is the game-changer, due to its membership, diversity, and pursuit of high standard next generation reforms. In his opinion, RCEP represents the future of global trade economic development. **Dr. Wang** also disagrees with **Dr. Ahn** in that he does not think China is the driving force of RCEP, rather RCEP is a mutual force with ASEAN playing a central role. While the US is the leader of TPP, China is definitely not the leader of RCEP.

Prof. Tay disagrees with both Dr. Wang and Dr. Ahn. He mentioned that the ASEAN-China FTA is below RCEP, and therefore should drive it. China is not able to play the role in RCEP that the US does in the TPP, but ASEAN cannot force countries like India, Japan, or Korea to come together on RCEP since it's too weak. As such, to get RCEP moving, we could use the

ASEAN-China FTA as a friendly nudge on competition by saying that if you don't move on RCEP, we will move forward with ASEAN-China.

Mr. Kobayashi from ERIA noted that Dr. Ahn mentioned that the AIIB should meet global best practices with high standards. His question then: Are existing global standards working well? If so, then it probably means that there is less necessity for the AIIB to exist. As such, perhaps existing global standards are not working well enough to meet the huge demand for infrastructure in this region. Consequently, AIIB member countries, especially China, needs to come up with new philosophies or standards based on which region is able to increase their infrastructure investment. In this case, what kind of philosophies would that include?

Dr. Ahn admitted that the AIIB initiative still brings about a few unknown questions. Will it benefit all countries equally? Does it serve Chinese national interest, Asia-Pacific interest, or Central Asia's interest? As such, he concluded that we still need to find a balancing act along China's OBOR policy and the regional Central Asia's policy. He ended by expressing his hope that AIIB will be able to accommodate as much as possible.

Panel Session 2: ASEAN Economic Community as Driver of Regional Integration in East Asia: Challenges and Opportunities

Moderated by Dr. Ponciano S. Intal, Senior Economist, ERIA

The topic of the previous discussion circled around the challenge posed by TPP but, on other hand, TPP could present an opportunity for ASEAN countries to deepen the integration within the region. One of the main question of this discussion will be the role of Indonesia in ensuring the credibility of the AEC concept in the future. AEC could be considered as a facilitator for deeper regional integration but the implementation depends on the stance of its member countries.

The Risks for ASEAN Centrality by Dr. Vo Tri Thanh, Vice President, Central Institute for Economic Management, Vietnam

As mentioned before, the concept of AEC is a common knowledge among general audience which includes principals such as community, connectivity, and cooperation but the biggest challenge for ASEAN is the concept of centrality, concerning Asia-Pacific integration.

Previously, countries have been promoting the concept of "Centric Circle Strategy" which includes series of regional integration agreement, such as AEC, ASEAN +1 and RCEP. RCEP was designed as an improvement over the existing AEC and ASEAN +1 but economists expressed their concern over the lack of progress of RCEP. Member countries have staged multiple rounds of discussion but the view remains sceptic over the resolution. Could ASEAN play a significant role in pushing the negotiation of RCEP?

Apart from the initiatives such as RCEP and AEC, TPP presents a potential partnership agreement with high quality benefits but also compromises. TPP promotes investment and trade diversion to its member countries, including ASEAN countries such as Vietnam and Malaysia. However, there are several ASEAN countries that are not included in TPP such as Myanmar, Cambodia and Laos. These countries will not enjoy the benefits of TPP, hence, imbalance may rise within the region. What could ASEAN do to minimize disadvantages of its non-TPP member countries?

Beside regional agreements, connectivity will play a major role in building effective integration. There are major connectivity programs around the regions of ASEAN such as MPAC, APEC Connectivity and an initiative, in cooperation with China, called the Silk Road strategy. These programs are essential,

yet ambitious, for deepening integration but it requires huge external resources and active engagement from the private sector.

ASEAN, as a community, hold a strong position in many relevant international institutions such as the World Bank, Asian Development Bank, and also AIIB. On the other hand, management of ongoing cooperation remains poor, hence lead to the dispersion of efforts and resources. Coordination amongst stakeholders and ASEAN countries shows ineffective mechanism which rise from conflicts of interest.

ASEAN countries should explore the concept of ASEAN centrality further, in order to realize the importance of regional unity. In the absence of a strong coherence between members, ASEAN voice will not be regarded in the middle of major partnership agreement, such as TPP. Thus, the only way for ASEAN countries, to be recognized, is through the establishment of a good mechanism which represents a regional consensus. ASEAN Centrality will be an essential foundation for the future of East Asia and Asia Pacific Integration.

East Asia and Asia Pacific integration will not succeed under persistent development gap in ASEAN. Challenges in trade and sustainable development should be considered under the pressure of market force and new requirements for Asia Pacific economic integration. Conflict of interests may rise among stakeholders due to geo-political problems, thus, policy response should be designed thoroughly. ASEAN countries have to show their commitment to ASEAN centrality and support less developed member countries within the region.

AEC as a Driver for Regional Integration: Challenges and Opportunities Dr. Somkiat Tangkitvanich, President, Thailand Development Research Institute, Thailand

The introduction of ASEAN +3 and RCEP prompt a vast economic potential which involves a hug number of global population. Both initiatives were a significant improvement over the current ASEAN arrangements.

AEC was designed as a platform for integration which will change the ASEAN significantly by 2016. However, in reality, the AEC might not fulfill its potential for deepening integration in ASEAN. Under the AFTA, the original ASEAN members have reduced their tariff rate since the 1993. The planned tariff reduction is almost finished as planned. On the other hand, little progress in eliminating non-trade barriers could be found within the region, especially the liberalization of trade in services and investment. Under the current arrangement, there are only 8 professional services that are subject to MRA, though the implementation remains extremely slow. The only major changes that occurred within the region is the elimination of tariff in CLMV countries for other ASEAN members. The problems of AEC don't necessarily depends on speed but also the lack of commitments among ASEAN countries.

Regional integration will not be achieved by members without any significant reform. In order to strengthen AEC integration, members could implement several alternatives. First and foremost, the AEC have to encourage elimination of non-tariff barriers. Second, liberalization of the service sectors, especially business services. Third, provide missing transportation links around the ASEAN region through physical infrastructure. Lastly, AEC has to facilitate the free flow of goods and high-skilled workers within the ASEAN region.

To establish AEC and reap the benefit of integration, political consensus will be key, as well as economic reform. Major progress in the implementation of AEC will be essential to speed up the negotiation of RCEP in the future.

Major Challenges to Economic Growth and ASEAN'S Programs by Dr. Josef T. Yap, Professorial Lecturer, School of Economics, University of the Philippines

There are many challenges to global economic growth and ASEAN has made efforts to address these issues on a regional basis. The framework is based on endogenous economic growth theory which highlights the quality as well as quantity of inputs. The challenges were classified into three categories; factors of production, macroeconomic stability, and issues of sustainability.

Under factors of production, the main challenge is investment in physical infrastructure. ADB estimated that US\$ 8 trillion is required between 2010 and 2020 in order to meet the requirements of physical infrastructure in developing Asia. Unfortunately, many countries are facing a chronic fiscal crisis, particularly advanced economies. This limits available funds. There are alternatives such as engagement in public private partnerships or development banks such as the AIIB. In this context, a key question is whether AIIB will provide a significant boost.

Apart from investment, there are concerns regarding innovation, skills and education. Innovation is a main long-term driver for economic growth. There is concern that the rate of innovation is slowing down. However, while there has been no major invention like electricity or the automobile in recent history, there are major advances in selected areas such as information technology, genomics, and nanotechnology. ASEAN countries have to improve intellectual property rights in order to promote innovation.

In the labor market, there is a need for skills enhancement due to the lack of skilled workers within the region. The situation can be characterized as too few high-skilled workers and too few jobs for low-to-medium skilled workers. This issue of mismatch should be addressed through close coordination between academe, government and the private sector. Stakeholders could also encourage the use of Technical and Vocational Education and Training (TVET). Meanwhile, the quality of education should also be improved with focus on nurturing innovative thinkers and managers who could address complex issues and develop creative solutions.

Financial sector stability is the main concern in the area of macroeconomic stability because of the experience with the 2008 Global Financial Crisis. There should be stronger regulation on capital flows and a sovereign debts workout mechanism in order to maintain the stability of the financial sector. There is also concern about narrow fiscal space due to ageing population. Lack of fiscal flexibility is also due to the need to achieve macroeconomic stability. Inadequate supply of public goods is evident through the undercapitalization of international institutions like the World Bank and UN. Policy coordination is also a problem related to macroeconomic stability. For example, the recent G-20 meeting could not address the global macroeconomics imbalances.

Included under the issue of sustainability are: i) environmental management which focuses heavily on climate change; ii) inequality and inclusive growth; iii) economic rebalancing and product diversification; and iv) the problem of demographic winter in many countries.

ASEAN has made progress to address these challenges to economic growth. There is a master plan for ASEAN connectivity which includes ASEAN highway network, integrated and competitive maritime transport and single aviation market. In education, ASEAN is trying to establish a university network in order to increase the quality of education. Intra-regional migration is managed through the ASEAN Declaration on The Protection and Promotion of the Rights of Migrant Workers.

ASEAN is also involved actively in financial cooperation such as the CMIM and AMRO. ASEAN is planning to create a roadmap for monetary and financial integration which would be an important

driver for economic growth. Apart from financial cooperation, SME development will be essential to address the issue of inclusive growth. ASEAN is experiencing significant growth in SME development which is a remarkable achievement for the region.

The overall goal of ASEAN cooperation is to create a single market and production base with high competitiveness. It is important for ASEAN to promote equitable economic development within the region which is deeply integrated with the global economy.

ASEAN Economic Community: Financing Growth by Mr. Poltak Hotradero, Head of Research Division, Indonesian Stock Exchange, Indonesia

There are differences in economic growth amongst ASEAN countries. Countries could learn through other members within the region through AEC, in order to fulfill their economic potential.

If we are talking about ASEAN, Indonesia could be considered as the average of ASEAN since Indonesia's population and GDP count for a large fraction of the region. Indonesia contributes 40.5% of ASEAN's population while GDP accounts for 40.58% of ASEAN's total. The numbers are staggering compared to other countries within the region.

If we talk further, what is the pattern of financing in ASEAN for development?

Apparently, there are no single pattern of financing in ASEAN. There is a huge difference the ratio banks assets to GDP among ASEAN countries. Myanmar has the lowest bank asset to GDP ratio which is less than 32%. Surprisingly, Indonesia has the second lowest ratio in ASEAN OF 52.2%, even though Laos, Cambodia and Brunei, which is smaller in size, ranked higher within the region. Singapore stands out within the region with a ratio of 271.8%. There is no uniformity in this form of financing within the region.

Government bond outstanding ratio to GDP also shows huge variation. Government bond is an important source of financing for the government to leverage their position. Even amongst the ASEAN 5, Indonesia has one of the lowest government bond outstanding ratio compared to Malaysia, Thailand, Singapore and Vietnam. Indonesia could be classified as under-leveraged and should learn from other countries regarding debt leverage. Government bond will be an important source for Indonesia, in order to boost economic growth.

In the equity market, Indonesia hasn't performed really well compared to other ASEAN-5 countries. Surprisingly, Thailand recorded high volumes of daily trading value, higher than Singapore. There is a growing need for portfolio diversification and ASEAN is seen as potential for equity diversification.

There is also a huge variance in mutual fund assets amongst ASEAN countries based on a report from 2010. Indonesia recorded a feeble 2.6% assets share of GDP while other countries such Singapore, Malaysia and Thailand recorded 20% of share of GDP.

ASEAN countries could learn a lot from each other especially with the introduction of AEC. AEC could serve as a systematic platform for knowledge sharing for member countries. Compared to countries from other regions, ASEAN has a huge potential to develop. ASEAN-5 could help other member countries to develop in order to fulfill the potential of the region.

Dr. Cho Cho Thein, Professor, Department of Applied Economics, Yangon University of Economics, Myanmar

ASEAN is in moving forward to a peaceful and prosperous community. It has been transforming into a Rules-based and People centered organization by integrating Southeast Asia's diverse economies.

When the AEC happens in reality, some countries will see many new opportunities presented to them and the reverse for others.

To attain the concrete achievement of AEC goal, we have to first of all, ensure to create the Single Market and production based (first pillar of AEC). After reducing the tariffs among AMSs in line with the CEPT scheme, tariffs are coming down very fast and are practically zero for the ASEAN-6. Now non-tariff measures (NTMs) have become particularly salient as a potential barrier to smoother trade linkages among AMSs. For trade facilitation, we need to establish the National Single Window (NSW) in AMSs for materialize the ASEAN Single Window (ASW). The ASEAN Single Window (ASW) is not yet operative. To reach the AEC goal ASW, National Single Windows are not yet fully operational in most AMSs; and indeed, for three AMSs (CLM), they have yet to be put in place. The implementation of NTM in Myanmar is also underway.

In addition, it is the need for the full operationalization of both national and regional trade repositories. Narrowing development gaps is also one of the main challenges to be tackled at national as well as at regional level. Furthermore, raising awareness on ASEAN should remain the top priority for greater participation of people in the building of people-centered community through among other, active engagement with all relevant stakeholders. Owing to the cross-cutting nature of development gap between ASEAN-6 and CLMV countries and its significance to the ASEAN integration process, we reaffirm to support for the implementation of the IAI in post-2015.

Questions and Answers for Panel Session 2:

Moderator:

In the beginning, TPP is meant to be an organization for developed country. However Vietnam, which has a lower GDP than Indonesia, has decided to join the cooperation. What is the reason behind Vietnam involvement? Does Vietnam use TPP an alternative to push domestic reform?

Dr. Vo Tri Thanh:

Vietnam is poised to be involved in TPP as well as the AEC. The TPP is driven by the United States in order to establish a market in the Pacific region. At the same time, Vietnam feels that TPP offered a high quality cooperation among Pacific countries.

Vietnam is keen to join the TPP, in order to stimulate domestic form. Involvement in TPP requires various changes. So far, TPP has been able to promote institutional reform and domestic reform. TPP is seen as a turning point of Vietnam in the process of deepening integration.

Secondly, Vietnam has had experience regarding the process of integration. Thus, Vietnam believe that it can overcome sensitive issues and the challenges that is posed by TPP. Apart from challenges, TPP provides a huge potential for Vietnam since the United States is one Vietnam's major trading and investment partner. Thus, engagement in TPP would give a significant boost in economic growth.

Lastly, TPP involves sensitive issues within the negotiation. However, the areas that were addressed by the TPP is consistent with the objective of Vietnam, especially SOE. Vietnam has been trying to reform their domestic institution and TPP provides a huge boost in that regard. **Moderator:**

Apart from TPP, there is also AEC, RCEP and other FTA's. Could they stimulate domestic reform? Does ASEAN integration played a huge role for East Asia and Asia Pacific integration? Do we really believe in the role of ASEAN integration? How to promote integration?

Mr. Poltak Hotradero:

There are stages of integration in ASEAN. ASEAN countries should learn from each other in order to improve integration within the region. The flow information will be a key driver for ASEAN to learn from each other, in order to strengthen the bond between ASEAN countries.

Moderator:

In the presentation, Indonesia has the lowest M2 to GDP ratio and bank asset to GDP ratio. Is it possible that the lack of competition cause Indonesia to perform poorly in that ratio? What could be done to overcome this issue?

Mr. Poltak Hotradero:

The utilization of financial products, such as credit, is still very low in Indonesia. Most of time, Indonesians rely on informal financial products. The banking sector of Indonesia is still under-utilized even though the potential is huge for the taking. Apart from informal financing, competition also caused under-utilization of the banking sector. Transfer of information could be an alternative to overcome this issue. Thus, transparency should be ensured by all member countries.

ERIA:

TPP is considered by Vietnam as a driver for domestic reform. Intellectual property in general, competition law and labor standards are some of the aspects that Vietnam has to pursue, in order to comply with the requirements of TPP. What is Vietnam plan to overcome this issues?

Dr. Vo Tri Thanh:

Vietnam and US is trying to understand each other in regards to TPP. Apart from the compliance to the agreements, TPP offers some flexibility for their member countries in certain circumstances. Vietnam, for example, has been able to protect their garment and textile industry before they could perform independently within the TPP.

Basically, TPP is a rule-based arrangements but TPP also offers mechanism to support countries in managing the requirements. For example, protection to SME, consultation and financial supports. TPP is not specific attempt to push domestic reform but they also provide measures to support member countries to fulfill the requirements of TPP.

Moderator:

Based on Shiro's paper, RCEP is considered as a better arrangement for ASEAN countries, compared to TPP. Could Mr. Shiro Armstrong give some explanation regarding the argument?

Dr. Shiro Armstrong:

Fundamentally, TPP contains an exhaustive list of requirements that needs to be fulfilled by the member countries in order to join. On other hand, RCEP provides more lenient requirements at point of entry but ambitious goals with measures such as capacity building to reach those standards over a committed time. Vietnam's decision to join TPP is influenced by the access to the US garment and textile industry which is large for Vietnam. Vietnam is also trying to reform their SOEs and will have to do so within the framework of the TPP. The calculation for China is different from that of Vietnam and the reform of China's SOEs driven by an external process such as TPP and mandated by US Congress will be very difficult. An ambitious RCEP with strong commitments by members will help to create an external environment that is congenial to pursuing domestic structural reform.

Moderator:

Vietnam is known for textile and garment industry. However, within TPP, there is an issue about intellectual property right. The intellectual property law could brought significant impact to the drugs industry. Under intellectual protection, drugs' price could soar due to the lack of the competition. This would jeopardize competition within the drugs industry.

Under the TPP, there will be several beneficiaries such as the textile and e-commerce. These sectors would gain under the current TPP arrangements. However, would it be the right step for Vietnam?

Dr. Vo Tri Thanh:

Vietnam, within the negotiation, acquired some space to address the requirements of TPP. There will be some compromises and challenges under the TPP but Vietnam believes that this is a necessary thing to do, particularly the intellectual property right issues. Vietnam admits that there will be some strict measure within the drugs industry. However, Vietnam believe that this loss would be compensated in other industries, particularly exports of garments and textile.

Moderator:

Regarding the issue of AEC, it is wise for ASEAN to strengthen the single market and production base. How do you proceed with the AEC?

There are indications that ASEAN is not ready for AEC. Conflict of interest is still evident within the local government which obstruct the progress of AEC to move forward. There were some issues within the blueprints of the AEC that need to be addressed.

Dr. Somkiat Tangkitvanich:

If AEC doesn't show any significant progress, ASEAN should consider other alternatives such as TPP. Vietnam, Malaysia and Brunei have made their decision to join TPP. Meanwhile, Indonesia and Thailand still have to decide their position. RCEP will not move forward if AEC doesn't succeed. ASEAN need to liberalize themselves, or if not, they should choose other FTA's. Agreements such as TPP could give external pressure to the ASEAN community, to deepen the integration within the region.

Moderator:

Countries that are interested in TPP include Indonesia, Philippines, Thailand and Myanmar. These countries are problematic, due to low rate of liberalization, but they are willing to join the TPP. Even Philippines, for example, is still struggling in the manufacturing sector. AEC is a very ambitious plan for deeper integration. Could TPP be beneficial for ASEAN integration? Does ASEAN really needs external pressure to deepen the integration within the region?

Dr. Vo Tri Thanh:

TPP could be a facilitator to enhance the integration within the region. Vietnam is willing to share their experience, regarding the implementation of the reform, to other ASEAN countries. TPP could serve as a complement to other partnership agreements.

Moderator:

Who will drive the process of integration in ASEAN? Will it be Indonesia? If it is so, then Indonesia has to embrace their position and decide whether integration would be useful for their country. Does Indonesia play a significant role in ensuring AEC in 2016?

Soy Pardede:

There are doubts regarding Indonesia's role as the leader of ASEAN integration. The concept of AEC, which focused on inclusive on economic integration, is not really familiar within value of Indonesian. Indonesian people believe in the principal of togetherness, thus, they will be reluctant to assert themselves as the leader of ASEAN countries.

Moderator:

Based on the argument of Mr. Soy Pardede, Indonesia is reluctant to take its position as the leader of ASEAN countries. Why Indonesia decide to pick such condition?

Soy Pardede:

The understanding of Indonesian on AEC is inclusivity rather than exclusivity.

Moderator:

Indonesian was a leader of ASEAN integration before, based on historical evidence. Could someone give any comments regarding Indonesia's position?

Dr. Yose Rizal Damuri:

There are several figures which assert Indonesia's position in the ASEAN. Indonesia counts for 50% of ASEAN's GDP which made them the biggest contributor within the region. Based on this fact, Indonesia has capacity to step forward as the leader of ASEAN, especially in economic integration. Unfortunately, the general perception from most Indonesia's stakeholders, including business, government officials, and policy makers, may not be as favourable. The regional integration is perceived to make Indonesia as a market only and Indonesia would become a "victim", rather than getting benefits of greater economic integration.

There is a tendency that Indonesia is trying focus on domestic issues rather than external integration. And this is not unusual for big countries like Indonesia. China has experience success with outward-looking focus but the achievement is considered as an exception to other developing countries.

However, Indonesia should take more active role in defining economic integration in ASEAN. With that Indonesia may be able to obtain greater benefits of integration by shaping it to reflect its economic interest, instead of just follow the process. If Indonesia doesn't take any initiative to be the leader, the concern that Indonesia could be left out as a market for other ASEAN countries might be realized.

Moderator:

Indonesia has to take the issue of the integration seriously. Indonesia accounts for almost 50% of ASEAN's GDP. If Indonesia is not interested in enhancing ASEAN integration, then the AEC will be doomed to fail. There are potentials within the ASEAN region. It is essential for Indonesia to change their mindset regarding the ASEAN community.

Dr. Somkiat Tangkitvanich:

If Indonesia doesn't want to be the leader for ASEAN integration, Thailand, which is smaller in size, has to look for other alternatives such as the TPP. Other ASEAN countries have to look for some insurance in TPP or other FTA's. The issue could lead ASEAN to crumble and jeopardize the progress of RCEP.

Moderator:

Based on the discussion, it is important for participants to read the blue print of the AEC, which will officially begin in 2016. The blue print of AEC doesn't only contain a concept for a single market cooperation but a deeper regional cooperation.

Dr. Vo Tri Thanh:

It is possible for ASEAN countries to enjoy the benefits of TPP while maintain progress of integration within the region.

Panel Session 3 : Regional Economic Integration: Can the New Economic Institutions like RCEP, TPP, and AIIB Deepen the East Asian Economic Integration?

Moderated by Dr. Yose Rizal Damuri, Head, Department of Economics, CSIS, Jakarta

New regional engagements, which emphasize deeper economic integration among EA countries and have greater focus on building a more integrated region, are taking place (TPP, RCEP, AIIB) that will significantly influence economic developments in the EA region. With TPP and RCEP negotiations scheduled to conclude soon, how can we realize the potential and opportunities of these mega-regionals? How can AIIB be an instrument of sustainable and inclusive growth in the region?

TPP, RCEP, FTAAP & AIIB: Hit or Miss? By Dr. Man-Jung Mignonne Chan, Founder and CEO, Out-of-the-Box Consultancy, Chinese Taipei

Dr. Chan's presentation outlines the new development for FTAAP, challenges for TPP and RCEP, the One Belt One Road (OBOR) initiative, the Asian Infrastructure Investment Bank (AIIB), and game changers for OBOR & AIIB.

To address next generation trade and investment issues (NGeTI), Dr. Chan briefed on APEC's current state of play as ways forward for the FTAAP, including a collective strategic study that includes a stocktaking of regional RTAs/FTAs and an analysis of the various possible pathways towards the eventual FTAAP, including an assessment of the impacts of the "spaghetti bowl" phenomenon, treatment of "Spaghetti Bowl" Effects, and sustaining APEC growth strategy and capacity building.

In her assessment, challenges ahead for the TPP includes signs of strategic anxiety (who should make the rules of world trade?), time-exerting for domestic approvals, and the implementation of the platinum standard. Challenges that lie ahead for RCEP includes differentiated liberalization in trade-in-goods (as some have not been keeping in pace in terms of offering the width and depth of liberalization), modality for gradual reduction, and bridging towards an upgraded FTA in due course since some ASEAN member states are unwilling to admit that they are not up to gear.

Dr. Chan also introduced the OBOR initiative as a development-based grand plan, and the AIIB as a new financial scheme. She declared that game changers for OBOR & AIIB will be China's rise (whether peaceful or in conflict and the impact of the "New Normal"), participation in rule-making (can the Standard of Project Evaluation be met? Will there be economic benefits for all parties concerned?), and Peace and Prosperity, taking into account geo-political dynamics and the geo-economic landscape.

Dr. Shankaran Nambiar, Senior Research Fellow, Malaysian Institute of Economic Research, Malaysia

ASEAN is one of the most vibrant economies in the world. The region has a rising consuming class, increasing opportunities in infrastructure, large potential for participation in global production networks, and tremendous space for trade and investment.

The AEC, which advocates liberalization and institutional reform, is a significant step in the right direction because it allows ASEAN to harness its capabilities to take advantage of global trends and the emerging opportunities that they present. However, liberalization by itself is not sufficient and needs to be supported by the right rules and regulatory frameworks. In this context, RCEP is important and a necessary step towards achieving ASEAN centrality.

However, RCEP faces the additional challenge of securing the agreement of ASEAN's dialogue partners. As such, Dr. Nambiar hopes that RCEP will not have to submit to the lowest common denominator, and will strive to adopt moderate standards with the aim of progressively raising them. There are three elements that can be expected to receive due attention within the RCEP: a) attention to SMEs, b) narrowing development gaps, and c) economic cooperation. These issues cannot be ignored.

The TPP will have considerable impact on EA. Countries that are members of the TPP will derive benefits from trade and investment, disadvantaging non-TPP members in ASEAN and ASEAN's dialogue partners. This might encourage some of the countries in ASEAN to consider participating in the TPP at a later stage.

Nevertheless, with the increasing growth and development in ASEAN there will be many infrastructure projects. China has planned an ambitious network of connectivity projects that will span the region. India, too, has initiated many projects that will improve connectivity in the region. The increasing energy demand in the region will also require better infrastructure and investment. This is where the AIIB will have a positive role to play. It will offer a range of opportunities that goes beyond the World Bank and ADB.

Prof. Shujiro Urata, Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University, Japan

New regional arrangements such as the TPP, RCEP, and AIIB are likely to contribute to deepening regional economic integration in East Asia, although the extent and the depth of their contributions differ among them.

The TPP is likely to have important impacts in East Asia, as it establishes a business friendly environment where free flow of goods, services, capital, and information is promoted with high level of trade and investment liberalization and a comprehensive and ambitious set of rules on economic activities. The agreed measures will promote trade and investment among TPP member countries possibly at the cost of trade and investment for the non-TPP member countries, giving them an incentive to join the TPP in order to avoid discriminatory and negative impacts.

RCEP is likely to take some time to be concluded and enacted, considering the progress in negotiations that has been made so far. Judging from media reports, compared to the TPP, the RCEP will not be as high level in terms of liberalization or comprehensive and ambitious in terms of rules. One important element in RCEP, which is not given much priority in the TPP, is economic cooperation. Indeed, there are several members that can benefit significantly from economic cooperation to be extended by other RCEP members.

The establishment of the AIIB has positive impacts on infrastructure building as it prompted other organizations such as the ADB and other donor countries including Japan to increase financial assistance for building infrastructure in Asia. AIIB should cooperate with other international organizations including the ADB and the World Bank to build infrastructure, which would benefit the region.

Prof. Gary Hawke, Emeritus Professor, Victoria University of Wellington, New Zealand

Professor Hawke claims that RCEP, TPP, and AIIB can deepen EA economic integration. But the bigger question is will they? He sees the TPP as a set of linked bilateral rather than a regional agreement, a modest enhancement of market access, a conventional and traditional approach to sectors and international rules, and claims that the TPP makes no contact with the Region's agenda for inclusive, innovative growth.

RCEP brings about three main questions: Will there be more market access schedules or internationalization of AEC? Can RCEP achieve both a high level of ambition and sufficient flexibility for a highly-varied membership? And can RCEP provide for existing and future international production networks covering both goods and services? The AIIB still come across constraints when it comes to improving infrastructure and connectivity. Professor Hawke claims that these constraints are more often due to the design of projects, including alignment of costs and benefits, rather than lack of finance.

If the FTAAP is an even bigger wrangle over market access than TPP it cannot be expected to be more successful than Doha. The FTAAP should be used to avoid incompatibilities between TPP and RCEP, facilitate development of the WTO, foster the wider integration agenda (including AIIB and development banks), and to build support for innovative, inclusive growth throughout the region.

Institutions for Deepening Asian Regional Economic Integration by Dr. Shiro Armstrong, Co-Director, Australia Japan Research Center, Australian National University, Australia

Dr. Armstrong argues that the impact of bilateral trade agreements have been minimal and often exaggerated. There is a lack of evidence of trade creation and diversion. The reasons are because of low utilization, and many exclusions (of politically sensitive issues). There are already low barriers from unilateral liberalization in Asia.

The TPP has the potential to change that and really affect trade and investment flows. One positive outcome was the limits on strengthening intellectual property rights (IPR) which are difficult for developing countries and some developed countries like Australia. There are also problems of bilaterals within the TPP as it makes accession harder for new entrants and does not simplify commerce and supply chains. Furthermore, the TPP is designed to hurt non-members with trade diversion as the incentive to join. Dr. Armstrong sees RCEP as a binding Asian cooperation. At best, it would strengthen and expand the AEC. RCEP holds ambitious targets and capacity building, not high hurdles to membership and punishment like the TPP does. It holds the potential to negate diversionary impacts of TPP if an ambitious outcome is reached. The challenge for RCEP and TPP is in expanding its membership.

Dr. Armstrong argues that development cannot be negotiated. Trade and investment liberalization alone won't deliver deeper economic integration. Binding rules help governments from going backwards but won't deliver investment or development. For that, capacity building and frameworks

for cooperation is required. He concludes that newer initiatives should be embraced and has the potential to be shaped to benefit the region. The AIIB as China's provision of a regional public good, OBOR as a potential to connect, and enfolding that into the ASEAN+6 agenda in order to gain from Asian regional cooperation in a way that embraces and furthers new initiatives.

Questions and Answers in Panel Session 3

Dr. Wang started the session by directing a question to Dr. Chan, Prof. Urata and Dr. Armstrong. He asked if the TPP will prevail. Will it have more members in the future? And will it set the next generation global standard for rules?

Dr. Armstrong replied by adding that the TPP standards are set by the mass economies, namely the US. This is in contrast to how it's been done in Asia before, where the setting of rules and standards are by consensus. As such, there is a worry of big countries setting the rules in the absence of strong justification. Hence, he doesn't think that the TPP will become the global standard for rules, and other countries might not be willing to join otherwise.

Prof. Urata explains that his response is somewhat different from Dr. Armstrong's. He believes that the TPP will eventually become the global framework, based on the amount of countries that are interested in joining the TPP. He claims that once the TPP is enacted, countries such as Malaysia and Vietnam will benefit greatly, and this in turn will attract non-member countries to join the TPP in order to avoid being on the losing side. He also believes that China will benefit a lot from being a part of TPP, and also that being a larger global investor will be a main motivator for China to join the TPP as it will help avoid discriminatory treatment.

Dr. Chan is not sure if the TPP would be the global standard, but she provides 4 observations:

- 1) TPP is very much stricter in regulations compared to TTIP
- 2) Were it not for the fact that TPP accommodated RCEP's concept (with some overlapping members of TPP and RCEP), TPP would not have been finished this year.
- 3) In terms of the next generation issue we have to face, other than the at-, across-, and behind- the- border supply chain issues, the most challenging next generation issues are behind-the-border ones (legal framework and so on). Because of this, she has faith in RCEP in the sense that the three pillars (political, cultural, and economic) of the ASEAN Community have a valuable presence there, which may ease future tension by accommodating the legal framework that each member has to face.
- 4) In the case of China, China is about to sign the US-China Investment Treaty, which is not necessarily below some of the standards set by certain chapters of the TPP, as she understands it. China also has individual FTAs with other TPP members. As the second largest economy in the world, it is quite doubtful that China has any plan to join TPP. In any case, at the current state of play, TPP is aspired to be the standard of global trade and investment.

Mr. Soy Pardede, former Head of the Trade Committee in KADIN, invited the speakers to discuss the need for competition policy. He noted that in terms of multilateral trade arrangements, several (negative) impacts need to be addressed: 1) excessive exploitation of natural resources; 2) fate of local industries, particularly those who are still in its infant status in developing countries; 3) fate of SMEs; 4) labor/employment issues; and 5) agriculture. To cope with the negative impacts of all this trade

liberalization and development goals, competition policy is what needs to be, but hasn't been, addressed. What is the role of the regulators in providing sound competition policy that can address the impact?

Dr. Armstrong believes that competition policy cannot be mandated. The TPP might have that, but there 's a lack of capacity implemented in a lot of these countries.

Prof. Hawke reminds the audience that RCEP is linked to AEC as well, and not just to the TPP. Although RCEP is less developed, it certainly has the potential to do better than TPP in a number of areas, including competition policy. Furthermore, if the interest is in things like non-discriminatory treatment, national treatment of firms, then you can provide any number of agreements (e.g. China-NZ FTA) without necessarily joining the TPP.

Dr. Armstrong also provided the audience with a thought provoking question by asking if Indonesia really wants to join the TPP. Is it just a political ploy to please other global leaders, or is there real intent for Indonesia to join?

Dr. Damuri also commented on Dr. Armstrong's presentation on the minimal impact of FTAs. He mentioned that CSIS previously conducted a study that attempted to evaluate the impact of Indonesian FTAs, and found that utilization of FTAs are quite low in Indonesia. One of the problems, perhaps, is what people call the "Spaghetti Bowl" effect: where there are too many trade agreements, that people lose track of which can be used for their business, especially within the business sector. Now, not only bilateral agreements, but also mega-regional agreements are underway or concluded. How will this development affect the spaghetti bowl effect?

Prof. Urata mentioned that there are 2 kinds of studies when it comes to evaluating the usage of FTAs: 1) questions and survey of companies (asking whether they use FTAs or not); and 2) use of trade statistics to compute the value of import coming via FTA divided by total import value. In both cases, the numbers tend to be quite low. But there you have to be careful. The first method should take into account that some companies might not need to use FTAs at all, while the second method should consider that many imports also don't need to use FTAs. As such, you must choose the method of study carefully as numbers could be very different.

Prof. Hawke raised the point of looking at the reverse of trade in countries with which you have FTA, compared to countries with which you don't have FTA. It is almost inevitable that the growth is much higher in countries with which you do have FTAs.

Dr. Armstrong mentioned that studies have found very little evidence of FTAs making positive impact on trade and investment. Australia just completed FTA with China, ratified in Australia this month, and big part is gain market access to services in China. However, although the door has been opened, how do you take advantage of these opportunities, what are the opportunities? It is important to turn these agreements into ongoing processes instead of one-shot games so that you can account for recent events.

Dr. Nambiar states that in some ways, RCEP is an extension of or builds upon the AEC. There are some features of RCEP that one is not likely to see in the TPP, for instance that of cooperation or narrowing the development gap. . He also mentioned that certain countries, such as Thailand and the Philippines, might, in time, show an interest in joining the TPP, if only to close the competitive gap between themselves and Malaysia. As such, Malaysia sees it in its advantage to participate in the TPP now, while the rules of the TPP are still under negotiation, rather than later when they are set in stone.