

# Authentic ASEAN Regional Integration Still Has a Long Way to Go



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## Trade & Industrial Policy Coordination — a Starting Point for ASEAN Cooperation

The Declaration that the founders of the Association of Southeast Asian Nations (ASEAN) issued on Aug. 8, 1967 had seven “aims and purposes”, four of which had to do with economic, social and cultural development. In reality, however, the new association’s objective had everything to do with political issues — to keep the Southeast Asian countries’ disputes from turning violent and the region out of the rivalries of the big powers.

It was not until February 1976 that ASEAN leaders had their first summit meeting, at which they issued a declaration that set down ASEAN’s objectives, embodied a program of action, established a central secretariat, and directed ASEAN’s “economic” ministers (AEM) — more than one minister in charge of the economy in each nation — to meet in Kuala Lumpur in March 1976 to talk about setting up “large-scale” industries and preferential tariff arrangements.

The Preferential Trading Arrangement (PTA) covered food and energy, the products of the ASEAN Industrial Projects (AIP), and a list of goods agreed on by the ASEAN member-states. The PTA basically allowed “margins of preference” from normal tariffs on covered goods. The number of goods on the lists, the margins of preference and the cut-off import value were periodically increased until the PTA was in effect superseded in 1992 by the Common Effective Preferential Tariffs for the ASEAN Free Trade Area (CEPT/AFTA).

Another component of ASEAN economic cooperation at the beginning was the AIP. At their March 1977 inaugural meeting in Kuala Lumpur, the AEM agreed to assign a urea fertilizer plant each to Indonesia and Malaysia, a similar factory to the Philippines involving what was then believed to be extensive deposits of superphosphates in that country, diesel engines to Singapore, and a soda ash plant to Thailand. The AIP scheme soon ran aground on the shoals of projected national and/or personal interests. The ASEAN members refused to refrain from setting up industries competing with the AIP. They unilaterally decided to replace the industries assigned to them. Finally, they refused to commit themselves to purchasing the products of the AIP. As a result, only the two urea fertilizer plants, in Bintulu, Sarawak, and in Aceh, have survived.

## Non Trade Barriers to Be Included for Economic Integration

I have observed elsewhere that “Faced with the challenges and recognizing the opportunities of a liberalizing global economy, the ASEAN countries realized that they had to transform their economic orientations and business mindsets from being largely state-guided to being market-driven, from import substitution to being export-led, from regional cooperation to integration. The ASEAN countries had to integrate their economies in order to overcome the vulnerabilities inherent in operating as small, fragmented economies in a globalizing and regionalizing world. Politically, the region’s governments wished to be seen as responding to the global trend toward globalization and free trade and to the challenges that it raised, as well as to attract investments from Japan and others through an integrated regional market.”

ASEAN policymakers knew that regional economic integration entailed more than the elimination of tariffs on intraregional trade. It could even be said that tariffs are of less importance in integrating a regional economy than the lowering of nontariff barriers to trade, the efficient and honest application of customs regulations, the harmonization of product standards, the liberalization of trade in services, and seamless transportation and communication linkages.

## ASEAN’s External Partners

The Free Trade Agreements (FTA), Comprehensive Economic Cooperation (CEC) accords or Comprehensive Economic Partnership Agreements (CEPA) that ASEAN as a group has concluded with an external partner (as distinct from a member-state’s own bilateral deal) generally covers trade in goods (tariff preferences, rules of origin and the reduction of non-tariff barriers as protectionist measures), trade in services, investments, and help to Cambodia, Laos and Myanmar on human resource development, ostensibly to enable them to take advantage of the benefits of regional economic integration.

As has been usual since they became extraordinarily active in international relations, the Chinese beat everyone else to recognizing FTA or similar agreements as a strategic asset. They concluded the agreement on trade in goods and adopted the ASEAN Rules of Origin in November 2004. China also signed with ASEAN a trade-in-services agreement in January 2007 and one on investments in August 2009. Not least, ASEAN and China established in 2004 a dispute-settlement

mechanism for the Framework and associated agreements. Above all, the Chinese managed to have each ASEAN member recognize China as a full market economy at a time, in 2004, when the United States and the European Union were refusing to do so, presumably for trade and other economic reasons, as well as political ones.

By way of comparison, it was not until November 2004 that ASEAN and South Korea jointly announced their intention to negotiate an FTA between them, and it was not until 2005 (December), 2006 (August), 2007 (November), and 2009 (June) that South Korea signed with ASEAN as a group a “framework” on a FTA, trade-in-goods, trade-in-services, and investment agreements, respectively.

Although India signed an FTA “framework agreement” with ASEAN as early as October 2003, the country did not conclude a trade-in-goods agreement until August 2009, or almost six years later. I understand that the services and investments components are still being negotiated.

The first economic agreement proposed for ASEAN with an external partner was actually one with Australia and New Zealand, in 1999. Although one of the ASEAN countries blocked its formal conclusion, the process of cooperation did not stop. In lieu thereof, ASEAN and Australia and New Zealand signed a “comprehensive economic partnership” that avoided trade and investment liberalization and concentrated instead on technical cooperation, trade and investment facilitation, business competitiveness, transparency of regulations, technical and other non-tariff barriers to free trade, standards and conformity assessment, e-commerce, small and medium enterprises, and capacity-building.

Japan had a different approach. Japan’s bureaucracy concluded a general agreement with ASEAN that “involved” all ASEAN members as one of the “outcomes” of a “Commemorative Summit” (to commemorate 30 years of ASEAN-Japan relations, a reckoning that could have been challenged by Australia and Europe as an entity) that had been planned at least since 2002. It was the only way the Japanese bureaucrats could get, and the ASEAN bureaucrats could agree, to have the ASEAN leaders gather, for the first time, outside Southeast Asia.

Japan’s leadership was convinced that Tokyo, too, had to be perceived as having strong links with Southeast Asia. Accordingly, the leaders of Japan and ASEAN signed a “framework” in Bali in October 2003, pledging their “maximum efforts to commence the negotiations on the CEPA between Japan and ASEAN as a whole” at the beginning of 2005 and emphasizing that the proposed CEPA would include “elements of a possible free trade area”.

In the meantime, Japan was negotiating and signing individual EPAs with the first six ASEAN members — Singapore (2002), Malaysia (2003), the Philippines (2006), Thailand (April 2007), Brunei (June 2007), and Indonesia (August 2007). Japan also concluded an EPA with Vietnam in December 2008, bringing to seven the number of EPAs it has concluded with individual ASEAN members. The CEPA with ASEAN as a whole entered into force in December 2008.

Photo: Official Website of the Ministry of Foreign Affairs of Japan



Group photo of APEC leaders at the 2014 summit in Beijing

In November 2002, the leaders of ASEAN and China signed an agreement expressing their desire “to adopt a Framework Agreement on Comprehensive Economic Cooperation” that was so full of “flexibilities” as to render it ineffective for the lobbies which usually whisper in the ears of policy- and/or decision-makers, many of them on behalf of the sectors or companies that employ them. By February 2010, the ASEAN-China agreements on investments and on trade in goods (implemented July 2005) and services (entered into force July 2007) had been concluded.

Of the Dialogue Partners that consider themselves as having strategic interests by virtue of geography or history or both in East Asia, only the US has no FTA agreement with ASEAN as a group. But then it would not have been consistent with American culture or the political system for Washington to conclude such a general and unenforceable agreement as an FTA that other leaders have blithely signed with those of ASEAN, if only for symbolic purposes.

Of the rest, the most active forum seems to be that of ASEAN+3, the three being the Northeast Asian countries of China, Japan, and South Korea. A comparison between the activities with ASEAN of ASEAN+3 and those of the rest of the Dialogue Partners, individually or in concert, would bear this out.

## New Development of Regional Cooperation — Chiang Mai Initiative

The centerpiece of the ASEAN+3 process is the Chiang Mai Initiative (CMI) on financial cooperation, after the Thai city where it was agreed upon at an AEM meeting that took place there.

The problem with the Chiang Mai Initiative, as originally conceived in response to the 1997-8 “Asian” crisis (or, rather, as allowed to be set up after the US, the Washington-influenced International Monetary Fund (IMF), and China shot down the proposal for an Asian Monetary Fund by Eisuke Sakakibara, then Japan’s vice minister of finance), was not only its size or the lack of it. Because of the CMI’s small size, the crisis had prompted Thailand, South Korea and Indonesia to turn to the IMF in response to their political travails following the financial crisis, rather than to their fellow East Asians, many of whom were wallowing in large amounts of international reserves. The CMI had been based on bilateral currency swap arrangements (including the extension of the 1977 ASEAN Swap

Photo: Yomiuri Shimbun/AFLO



*Japanese Economy Minister Akira Amari and US Trade Representative Michael Froman attend a press conference after the Trans-Pacific Partnership (TPP) negotiations in Maui, Hawaii, on July 31, 2015. As differences on outstanding issues remain, Japan, the US and the 10 other economies participating in the talks failed to reach a final deal on the TPP at the four-day meeting.*

Arrangement to the economically powerful Northeast Asian countries). The CMI had, in the opinion of many, still too large (at least about 90%) a portion subject to IMF “conditionalities”. Not least, the CMI was also deeply involved in the Sino-Japanese rivalry for dominance in East Asia.

In the light of all this, finance ministers and central bank governors from the 13 countries or their deputies gathered as AFMM+3 (the ASEAN Finance Ministers Meeting and those of China, Japan and South Korea) in Madrid in 2008 and Bali in 2009 for their twice-yearly meetings, plus Hong Kong, technically part of the Chinese delegation, but representing the interests of Hong Kong, meetings that increased the total available from \$36.5 billion in 2001 to \$80 billion in 2007 and, in pursuit of a decision of the 2008 Madrid meeting, to \$120 billion, and \$240 billion in 2009 (Bali). The meetings also expanded the percentage of loans free of, or “de-linked” from, IMF “conditionalities” to 30. Perhaps most importantly, the 13 economies agreed to multilateralize the system, that is, they added to the available funds from bilateral currency swap arrangements one pool of currency reserves, thus re-naming the scheme Chiang Mai Initiative Multilateralization and changing its initials to CMIM. The latest expansions took effect in July 2014.

Anwar Nasution, former deputy governor of Indonesia’s central bank, acknowledges, “The size of the swap facility (ASA and CMI) is still insignificantly added to the financial resources available to the countries in the region to help ease their liquidity needs.” One could, of course, reply that the very existence of the CMIM, backed as it is by foreign-exchange-rich countries, has helped prevent a repetition of 1997-8 in East Asia. This also raises the question of Taiwan and its large kitty of external reserves, as Nasution does, but that is another story.

Although the CMIM was not and is not, strictly speaking, an ASEAN endeavour, all ASEAN members take part in its major decisions and approve them by consensus. The CMIM retains its

ASEAN character not only through the continued existence and extension to ASEAN+3 of the 1977 ASEAN Swap Arrangement but also through the modified adoption of the “ASEAN Way” of decision-making. It is modified in the sense that the Executive-Level Decision-Making Body (ELDMB), usually made up of the deputy finance ministers and deputy central bank governors of the ASEAN+3 countries, approves its decisions on lending, renewal and default by a two-thirds majority-vote rather than by consensus. Each member has a vote of 1.6 plus a number equal to its contribution.

Part of the CMIM is a small office in Singapore unprepossessingly named the ASEAN+3 Macroeconomic Research Office (AMRO), which does the economic surveillance and monitoring work of the 13 member-economies.

### Rivalry Between China & Japan

There were at least two problems, both of them having to do with the then-incipient rivalry between China and Japan for leadership in the Asia-Pacific, although the governments of the two countries regularly deny the existence of such a rivalry. The first problem was: Who will be the first AMRO director, a Chinese or a Japanese official, and for how long a term? Another question was: Which country would have the biggest contribution to the enlarged and more-independent CMIM, China or Japan? It is striking that AMRO “resolved” these problems through a form of the “ASEAN Way”, that is, its informal and legally unenforceable nature, with its enforceability depending on peer pressure and friendly negotiations.

The first “problem” was “resolved” in this way. Wei Benhua, a former senior official of the Asian Development Bank (ADB) and of China’s Ministry of Finance, was appointed as the first director of AMRO, but for only two years, 2011-2012. In this way, he was able not only to recruit the first set of AMRO officials but also to put the Chinese stamp on its operations. Japan’s Yoichi Nemoto, a former senior official of AMRO and, before that, in Japan’s Ministry of Finance, succeeded him in 2012 for a regular three-year term.

A further question, that is, which of the two rivals for Asia-Pacific leadership, China or Japan, was to be allocated the biggest contribution, was answered in a similarly clever way. Japan already had the perennial presidency of the ADB, which was established in Manila in 1965. In 1985, a meeting of the finance ministers of the world’s five leading economies — France, West Germany, Japan, the United Kingdom and the US — effectively revalued the Japanese yen, among other actions, and thereby encouraged Japanese firms to relocate to and invest in ASEAN countries, thus helping to industrialize those countries. By the late 1990s, Japanese companies, most of them in the automotive sector, were dominating foreign participation in the ASEAN Industrial Cooperation (AICO) scheme, a scheme that was terminated in 2011, for perfectly sound economic reasons, by the AEM. Through these years, Japan at great expense was taking active part in the region’s cultural and humanitarian endeavors — and receiving credit for it.

On the other hand, China was not yet in the major-power game.

The question of the size of contributions to the CMIM, among other initiatives, had been meant to narrow the gap. Without Hong Kong's 3.5%, Japan would have the largest share of the CMIM. With Hong Kong's contribution being part of China's, the Chinese share would amount to 32%, exactly the same as Japan's. This is a matter of at least symbolic importance for the two rivals for regional supremacy.

## TPP, RCEP & AIIB

Amidst this flurry of finance-related activities, US officials have not been idle. Early in 2008 or in 2009, depending on how one defines "join" and "lead", they joined and took over the leadership of the four-member (Brunei, Chile, New Zealand and Singapore) Trans-Pacific Strategic Partnership Agreement of 2005, or P4 for short. They called the process the Trans-Pacific Partnership (TPP). There are now 11 countries negotiating with the US on what the Obama administration has called the "Crown Jewel" of its trade policy and a 21st-century trade agreement. Because it embraces things like intellectual property rights, environmental protection, labor rights, government procurement, and other overtly non-trade issues with politically powerful constituencies in the US, some people, however, including no doubt "strategic thinkers" in the American presidential office, the State Department, academia and the media, think of the TPP as another weapon in the US arsenal for containing China, certainly a large and growing economy in today's world. Thus, instead of preventing the Pacific Ocean from being divided down the middle, as the Obama administration once proclaimed, the TPP now threatens to exacerbate that division.

While the Obama administration, with US Trade Representative Michael Froman in the lead, continues to deny any political motives behind the TPP, Chinese officials keep asking, with pretended disingenuousness, "Whom do we approach to get an invitation to the negotiations on the TPP? Who gave them, whoever they are, the authority to issue such an invitation?" Other Chinese officials insist that China is not ready to make those concessions that the Americans want, say, on intellectual property and labor rights.

This lack of readiness on the part of state decision-makers is precisely the reason why some ASEAN members other than Brunei, Malaysia, Singapore and Vietnam have so far opted out of joining the negotiations on the TPP.

China and some of its neighbors prefer the Regional Comprehensive Economic Partnership (RCEP) agreement, which would include the 10 ASEAN members and those that have concluded FTAs with ASEAN as a group. This would exclude Russia and the US but include Japan, South Korea, India, Australia and New Zealand, to begin with. Presumably, Brunei, Malaysia, Singapore and Vietnam would be in both the TPP and the RCEP. Presumably, too, the RCEP agreement would be devoid of the non-trade issues that it would not be possible to resolve or even negotiate without the requisite internal domestic reforms on the part of China and of at least some of the ASEAN members.

It is no secret that Washington has been applying pressure on its

allies to join the negotiations on the TPP, allies like Taiwan, the Philippines, Thailand, and some others. Already, the US has spectacularly succeeded in the case of Japan. In any event, a particular country's attitude towards the TPP is sure to be determined by its overall relationship with Washington — and the one with Beijing.

At the APEC summit that it hosted in 2014, China pushed for the conclusion of a Free Trade Agreement for the Asia-Pacific (FTAAP). Astonishingly, the US shot down that idea, although the US was its first proponent, apparently preferring to push the Obama-sanctioned TPP instead. Nevertheless, the FTAAP remains on the APEC agenda.

As a counterweight to what is generally perceived as heavy American influence on the decisions of the World Bank and the IMF and similar domination by Japan of ADB decision-making, China has proposed a Chinese-led Asian Infrastructure Investment Bank (AIIB). The initial misgivings of Washington, which had urged its "friends" to see how the proposed bank would operate before applying to become "founding members" of the AIIB, were to no avail.

## Conclusions

From the foregoing discussion of ASEAN economic integration it may be possible to draw certain tentative conclusions.

The first is that ASEAN agreements, declarations, and other statements, no matter how high up they are made, are seldom self-executory. While most of them may be drafted and negotiated by well-meaning bureaucrats and other technicians, who may have at heart the interests of the nation and of the economy and society as a whole, they need to be carried out or implemented by political leaders, who are almost invariably motivated by their own political, if not physical, survival and the preservation of their legacies, which may include the lives and lifestyles of their families and friends.

Another conclusion could be that the ASEAN community has to be looked at and built as one whole — political and security, economic, and socio-cultural — and this takes time. Fortunately or unfortunately, the days of long-serving strongmen are gone. Instead, largely because of the new media, more and more people have influence on the formulation and execution of policy, and these people have short, and narrow, attention spans. The more vocal and influential ones usually represent no one but themselves or the elites or special interests whom they serve.

A third conclusion could be that ASEAN's supreme achievement lies not in Southeast Asia's economic integration at all — although the more it is economically integrated the greater its influence in today's world — but in the sensitive realm of political and security cooperation and in the cultivation of a regional identity. Without the mutual trust engendered and made possible by political-security cooperation and a regional identity, genuine economic integration would not be possible. **JS**

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