

ASEAN Community Building & Competitive Liberalization

By Kazumasa Kusaka

At the end of 2015, the ASEAN Economic Community (AEC) was born. I would like to congratulate our ASEAN friends on bringing the AEC to life. I hope that ASEAN continues to play the central role in realizing regional economic integration in East Asia. The 14th gathering of the Asia-Pacific Forum took place in Jakarta in November 2015. With the aim of promoting FTAs to realize sustainable economic growth, the forum was first convened in 2003 in Singapore. The meeting in Canberra in November 2013 concluded the first round of rotating co-hosting by forum members, each member always collaborating with JEF, and since the second round resumed in Singapore in 2014 both the discussions and the realities of FTA networks such as the TPP and RCEP have seen progress.

Naturally, discussions deepened to include domestic policies and measures called “behind the border measures”, and as is seen in ASEAN, the deepening of integration impacts the economies, societies, and politics of each individual country and of the region as well. How to address these issues has become a big challenge.

However, the mindset of trade negotiators at the GATT and WTO is “the less they offer on the table, the better”. If they agree to liberalize more than their counterparts, they are seen as losers. This belief is based on the notion that national wealth can best be promoted by protecting one’s own market and earning foreign currency by exporting. Is this the truth or only a myth? For Japan, the export/GDP ratio has been around 14% over the last five years. The ratio for China or Indonesia is also low at around 24%, contrasting with 86% for Vietnam. East Asian dynamism in economic growth comes from direct investment, both foreign and domestic, which serves to stimulate not only foreign demand but more importantly domestic and regional demand in goods and services.

As the focus of the efforts made at the AEC and TPP illustrates, updating domestic policy measures, which is called “structural reform”, is the most relevant step to further improving the business and investment environment of the region when a country has chosen the path to growth. The discussions in Jakarta were, after a rather low-key start to the AEC, aiming for deeper economic integration and focused on whether we are ready economically, socially and politically.

Some complication and confusion come from so-called “competitive liberalization”. When we face the fact that some nations have opted for the TPP while the process for the RCEP is also proceeding, the question arises as to what the roles of the TPP and RCEP are.

We hear that while the TPP is a 21st century high-level liberalization deal, the ambition of the RCEP is lower in terms of trade liberalization. For me, the aim of the two projects seems to differ. The RCEP is for

“community building” as APEC originally intended. In APEC, in fact, because of its geographical expansion, some member economies, especially in the eyes of the general public, have not shared a sense of community. And some think of APEC liberalization as a sub-set of global liberalization. Among APEC’s three pillars of trade and investment liberalization, facilitation and eco-tech cooperation, the third tends to be treated as an outsider. The RCEP started as a process of community building, and therefore elements of cooperation form an important core. More importantly, as a community project, the ship called “RCEP” with its inclusive growth slogan cannot afford to lose some passengers even if their level of economic development is lagging. The challenge both the AEC and RCEP face is similar to the formative period of the European Economic Community, or would be more serious than the European case, since the political systems, religions and level of per capita income in East Asia are extraordinarily diverse.

The trade negotiations used to be managed through the coordination of the interests of stakeholders who were positively or negatively affected, being handled by a ministry in charge of trade. However, since trade-in-services, which is basically behind borders, comes under the WTO, and as deeper integration proceeds, the expertise and political power required have exceeded the narrow scope of trade officials, and this development has required the mobilization of domestic ministries, local governments and the whole political apparatus, because it directly affects domestic service industries and ordinary households.

And as we now see in the European Union, the public in some of the member countries, seeing an increase in the numbers of plumbers or florists from new member countries moving into their local towns, have been making their voices heard, saying “Wait a minute, we haven’t been consulted on the deepening and broadening of the EU!” As the AEC and RCEP deepen, they will also start seeing resistance from the public.

All these things convince us that it is time to do our homework. Not leaving economists just to market liberalization as being good for economic efficiency, national leaders have to get out of their offices to share their policy objectives and growth strategies with stakeholders and the public. We are pursuing structural reforms not because our trade negotiators have negotiated poorly, but because we need these reforms to update outdated policy measures. That is exactly what “Abenomics” aims for.

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