Economic Regionalism is Key to Openness and Growth: An ASEAN Perspective

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The 10 members of the Association of Southeast Asian Nations (ASEAN) are involved in several regional economic arrangements, not only their own ASEAN Economic Community (AEC), but also those in a bigger geographic area, such as the ASEAN+1 Free Trade Agreements (FTAs) and the Regional Comprehensive Economic Partnership (RCEP). A subset of these countries are partaking of Asia-Pacific deals, namely the latest Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Asia-Pacific Economic Cooperation (APEC). Some are pursuing bilateral deals in pursuit of deeper economic cooperation. Finally, all ASEAN countries are members of the Belt and Road Initiative (BRI), which although not labelled a trade agreement, is concerned with trade-related measures including transport infrastructure, policy coordination, economic connectivity through trade and investment, customs modernization, financial cooperation, and people-to-people linkages.[1]

A common feature of all these trade agreements is that they are not just focused on removing restrictions on trade, i.e. lowering import tariffs and quotas, but are much more comprehensive and include issues like trade in services, investment, labor, intellectual property rights, regulatory standards, and health and safety rules. All of these agreements deal with cooperation measures beyond national borders and can be called deep economic cooperation. They go beyond the WTO framework and are often labeled "new regionalism," understood as state-led projects in the context of global developments.[2] The extent of deepness varies, mainly depending on the participating countries' development stage and the economic competitiveness of domestic sectors.

What do the ASEAN countries aim to achieve? Theory has elucidated that governments have motives ranging from politics to economics when entering an economic cooperation arrangement. The political motives could be confidence building, i.e. if an international relationship was blemished by a history of conflict, economic cooperation can introduce a process of confidence building.[3] For smaller countries, it could be seen as a means to increase bargaining power with the international community. Countries often see economic cooperation as a means to hasten their domestic economic reforms so as to increase attractiveness to foreign investors.[4] Governments could follow a regionalism exercise also to defend domestic interests that are threatened by regionalism elsewhere.

As for the economic motives, countries prefer cooperation among a limited number of players as it enables continued protection in a bigger geographical space and shuns producers from non-members. This enables them to exclude "politically sensitive," non-competitive domestic sectors completely from trade liberalization. Finally, regional economic arrangements are essential for creating economies of scale for producers and offering a larger market for consumers, which increases attractiveness to potential investors.

This chapter elaborates on ASEAN's perspective on economic regionalism in the Asia-Pacific. It examines key initiatives that ASEAN countries are currently negotiating or implementing in their national economies, discusses economic and strategic motives, and views the future of regionalism from an ASEAN perspective. It concludes that although the ASEAN countries are facing some uncertainties in their pursuit of economic regionalism, they will continue to support the endeavor as it serves their economic structure of openness. The countries have realized the benefits of economic integration in terms of confidence building of investors, thereby bolstering economic growth.

ASEAN and Economic Regionalism

ASEAN Economic Community (AEC)

The ASEAN countries established an economic community in 2015. Conceptualized in 2003 and clarified in 2007, the idea was not only to create a single market and production base but also to develop a competitive region by narrowing the development gap and helping members plug into global value-chains (GVCs).[5] This was a more comprehensive and deeper approach compared to what ASEAN pursued through its piecemeal efforts at an ASEAN Free Trade Area (AFTA) in 1992, ASEAN Framework Agreement of Services (AFAS) in 1995, and ASEAN Investment Area (AIA) in 1998.

While many of the AEC targets, such as the near elimination of import tariffs, had been met by the end of 2015, non-tariff barriers (NTBs)—regulatory requirements, pre-shipment inspections, non-automatic licensing, price control measures, etc.—remain prevalent. Although most countries are in the advanced stages of establishing their e-customs (National Single Window), they are yet to connect them at the regional level, as agreed earlier in the AEC Blueprint. Service sector liberalization remains patchy, with significant political sensitivity including in the movement of professionals. Investment cooperation is constrained by lack of domestic reforms in host countries. While ASEAN has recognized the importance of building infrastructure for deepening economic integration, it is struggling in securing adequate financing. Lastly, ASEAN has made its mark by signing plus one FTAs with six economies—Australia, New Zealand, China, India, South Korea, and Japan—but the private sector is yet to utilize them widely in their business operations.[6]

ASEAN has now moved to the next phase of economic integration, namely the AEC 2025, where many of the earlier regional commitments are retained (such as NTBs, customs reforms, GVCs) and new ones have been added (good governance and e-commerce).[7] Among the old measures, reiteration of the importance of GVCs in ASEAN countries' economic activities is important. While many of the advanced ASEAN countries are already part of GVCs, the less developed members need to be supported for their eventual engagement. Commitments around trade facilitation, customs reform, harmonization of standards, and improved connectivity are crucial in this regard. Among the new ones, e-commerce or digital economy is a vital agenda, given its immense potential and prospective benefits to small businesses. It has been estimated that the ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) economies contribute only 1 percent of global online retail sales, although they account for 3-4 percent and 8 percent of world GDP and population respectively.[8]

ASEAN economic integration has peculiarities. It is a gradual process, built keeping in mind the global context and member countries' domestic interests. That is why ASEAN commitments are often broad in nature and offer flexibilities. For example, the AEC blueprint, while outlining the policy action under "integration into the global economy," states "establish a system for enhanced coordination and possibly arriving at common approaches and/or positions in ASEAN's external economic relation and in regional and multilateral forums," where the word "possibly" connotes flexibility. Implementation mechanism is kept generic.[9]

It accords responsibility to the sectoral ministerial bodies for implementation. But it does not specify how initiatives have to be carried out, a domestic responsibility. This leads to uneven quality and pace of implementation of AEC commitments.

ASEAN's decision-making process, i.e. the ASEAN way and principle of "non-interference," may discourage the private sector to take an interest in ASEAN matters. This may be slowly changing as ASEAN is moving towards issues that are not just about tariff liberalization, but also cover highly technical matters. This may convince governments to work with the private sector for their input, thereby working together for a regional public good.

ASEAN+1 Free Trade Agreements (FTAs)

From its inception, ASEAN countries followed a path of "open regionalism," viewing their own integration as important as their integration with their key trading partners.[10] ASEAN signed five FTAs with Australia-New Zealand (known as CER - Closer Economic Relations), China, India, Japan, and South Korea. While ASEAN's own intra-regional merchandise trade share is limited to around 25 percent of total ASEAN trade, the share goes up to 50 percent if one takes into account ASEAN's FTAs with China and Japan.

However, these FTAs from different periods are very different from each other.[11] By the time AEC was adopted in 2007, ASEAN had already signed the ASEAN-China FTA and ASEAN-Korea FTA. The FTA with Japan was signed in 2008, and the two FTAs with Australia-New Zealand and India were concluded in 2009. While China had negotiated its FTA with ASEAN as a group, Japan placed more emphasis on bilateral linkages, thereby concluding seven bilateral FTAs and subsequently combining them into a regional ASEAN-Japan FTA.

The FTAs also differed in terms of economic coverage and depth. First, for tariff reductions of merchandise trade, ASEAN-6 countries had committed to eliminate tariffs in more than 90 percent of the products (on average); ASEAN-4 for 80-90 percent. For the FTA partners, other than India, all have committed to eliminate more than 90 per cent of tariff lines vis-à-vis ASEAN. Second, for rules-of-origin, although most of the ASEAN+1 FTAs follow Regional Value Content (RVC) requiring a 40 percent minimum (from parties of the agreement) or Change in Tariff Heading (CTH) (equivalent to Change in Tariff Classification (CTC) at a 4-digit level; inputs from non-member parties are sufficiently transformed in production, requiring a change in classification) as a general rule, there are some small differences. For the ASEAN-India FTA, the general rule is RVC (35) +Change in Tariff Sub-Heading (CTSH) i.e. the required minimum RVC, is lower at 35 percent, with an additional requirement of a CTC at a higher 6-digit level. Third, the services chapters of the ASEAN+1 FTAs were not in-depth. They were signed relatively fast for the ASEAN-Australia-New Zealand, ASEAN-China, and ASEAN-Korea FTAs, but it took a long time to conclude negotiations for ASEAN-India and ASEAN-Japan. According to ERIA, the liberalization commitments under this sector were not substantial for most of the ASEAN +1 FTAs.[12] Most have limitations in terms of movement of persons or participation of foreign capital.

Due to differences among these FTAs the business sector was not very interested in them. A survey by JETRO on Japanese affiliates in ASEAN found that 56 percent of companies using FTAs utilize only one FTA.[13] In another survey of 841 export-oriented firms,[14] it was found that while Chinese firms have a relatively higher usage rate at 45 percent, Japanese and Korean firms are at 29 and 21 percent, respectively. Among ASEAN countries, even fewer firms make use of the FTAs - Thailand (25 percent), the Philippines (20 percent) and Singapore (17 percent). Businesses reported that the reasons for not using FTAs were: lack of information, low margin of preference (between MFN and ASEAN FTAs), prevalence of NTBs, long exclusion list, multiple rules-of-origin (ROOs), and administrative cost.

RCEP

ASEAN embarked on RCEP in 2011 as it signed a framework document among its own members and six of its FTA partners—Australia, New Zealand, China, India, South Korea, and Japan. The participants intended to form a "mega-regional" arrangement to eventually cover 30 percent of world GDP, 50 percent of world population, and 30 per cent of global trade. The document provided a guideline for negotiations and promised to deliver a "comprehensive and mutually beneficial" agreement that would cover "broader and deeper engagement with significant improvements over existing ASEAN FTAs/ CEP with Dialogue Partners." It stated that the agreement would address new issues that may emerge, while promising: high transparency upon signing of the agreement; availability of economic and technical cooperation for implementation; and focus on trade facilitation. The document provided flexibility in the negotiating process, i.e. sequential or a single undertaking; future accession both for ASEAN FTA partners who may decide not to participate at the outset or new members; and special and differential treatment for less developed ASEAN members.[15]

The Guiding Principles for negotiating RCEP issued in August 2012 reiterated the goals and stated coverage as trade in goods and services, investment, intellectual property, competition, dispute settlement, and any other issue that will be mutually agreed upon during the course of negotiations.[16] This later was extended to e-commerce and government procurement.

Since commencing negotiations in 2013 and completing 20 rounds by December 2017, RCEP continues to face challenges. It has missed three deadlines for concluding negotiations since 2015. Negotiators quickly realized that they could not merely add the individual ASEAN+1 FTAs as they are very different from each other. Also, as the aim is to 'multilateralize" the agreement not only among the ASEAN members and ASEAN+1 FTA partners, but also among the non-ASEAN FTA partners, it created new issues as many of the non-ASEAN participants do not have an existing trade agreement with each other. The biggest challenge, for example, was observed between China and India as the latter runs a huge trade deficit with the former.

Structural differences among participating members became an obstacle. Most ASEAN members and China are involved in labor-intensive manufacturing, while Japan and South Korea lean towards capital-intensive production. India is an outlier with its comparative advantage in the service sector, mostly in information technology. Australia and New Zealand's economies are primarily driven by the agriculture sector and mining. The advanced ASEAN countries, China, Japan, and South Korea have relied on their external sector for economic growth and entwined themselves in regional value chain activities. India, on the contrary, has been less outward-oriented and embraced globalization only in the early 1990s. India is yet to be a strong participant in the regional value-chain of the manufacturing sector, though there are some linkages in the automotive sector. Hence, RCEP is mired in difficulty, mainly due to the differences in structure and growth strategies.

Following the U.S. withdrawal from TPP, political leaders are expressing a willingness to conclude RCEP negotiations soon, otherwise the global economy may witness a somber mood with regard to international trade and related governance mechanisms. Moreover, there is a creeping fear that in the absence of a TPP with the U.S. and RCEP, China may take this opportunity to promote its own cooperation agenda of an East Asia FTA, covering the 10 ASEAN members and China, Japan, and South Korea. Beijing has already sounded this out during the 20th ASEAN+3 Leaders' Meeting in 2017. It has proposed cooperation across six areas and offered to align its Belt and Road Initiative with a new master plan on East Asia connectivity.

Bilateral Deals

Besides the regional FTAs, the ASEAN countries have also been pursuing bilateral trade deals with distant partners. Singapore took the lead, beginning its negotiations with New Zealand in 1999, and thereafter completed deals with Japan, Australia, the United States, South Korea, India, and others. It has signed 13 bilateral FTAs, while four are under negotiation. Although Thailand started negotiating bilateral trade agreements from early 2000, it lost its momentum by 2005 in the face of political turmoil with two military coups in 2006 and 2014 and six prime ministers. Similarly, Malaysia joined the bandwagon in 2006 by signing an FTA with Japan and a few others; however, the government did not have the political will to negotiate away protection of the state-mentored automobile and steel industries, the *Bumiputra* (Malay) enterprises, and the service sector, in general.

For Indonesia, the Philippines, and other less developed ASEAN members, bilateral FTAs are not very popular. They are more concerned about domestic issues and are trying to be part of globalization through ASEAN. Most suffer from a weak domestic regulatory environment and lack of infrastructure, which are big hindrances for trade and investment liberalization. The countries are also not sure of the benefits from FTAs. For example, Indonesia worries about the low competitiveness of its manufacturing and agricultural sectors.[17]

Other Plurilateral Arrangements – TPP and BRI

In October 2015, the original TPP agreement was broadly reached among the twelve parties, of which four are ASEAN members. It consisted of 30 chapters, including market access, government procurement, intellectual property rights, e-commerce, competition policy, financial services, investment, environmental standards, and labor standards. The agreement was finally signed by all in February 2016. A study by Petri and Plummer estimated that the TPP would raise global annual income by $492 billion and U.S. income by $131 billion by 2030.[18] Large gains were expected for Japan, Malaysia, and Vietnam. Some non-members such as Indonesia and the Philippines would suffer small losses while Thailand would face a relatively significant setback—mainly because of trade diversion from non-members to members and dilution of earlier preferences in TPP countries.

TPP could not survive U.S. politics. During the 2016 presidential campaign, Trump called TPP a disaster and accused it of reflecting the interests of a small group, while Hillary Clinton blamed it for falling short of its promised high standards. Trump withdrew U.S. membership in January 2018, following which the remaining 11 participants decided to suspend a series of provisions in the original deal (mainly in the chapters of investment and intellectual property) and added a few side agreements in order to move forward with the pact, now known as the Comprehensive and Progressive TPP (CPTPP) signed in March 2018.

All ASEAN countries are also part of BRI and its attached financing mechanism of the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank with $100 billion of capital. BRI was announced by China in 2013, referring to the New Silk Road Economic Belt, linking China with Europe through Central and Western Asia; and the 21st Century Maritime Silk Road, connecting China with Southeast Asian countries, Africa, and Europe. The core objective was to encourage Chinese firms to venture into emerging markets that already have trade and investment linkages with China, sharing China's development experience, leveraging China's development assistance, and exporting China's technology and production capacity in oversupplied areas, such as steel manufacturing.

Economic Rationale

The ASEAN countries have several reasons to be part of these various regional cooperation arrangements. Most are highly dependent on trade. As for the share of merchandise trade in total GDP, trade is a sizable proportion for Singapore, Malaysia, Thailand, and Vietnam (Table 1). For some, the share is more than 100 percent, reflecting significant dependence on the external economy. This share has gone up over time for Malaysia, the Philippines, Thailand, and Vietnam. Dependency on merchandise trade is reason to enter into trade agreements; lowering import duties entails lower cost. Trade agreements add to policy certainty as participating countries are supposed to adhere to their commitments. In addition, for small countries of Southeast Asia, trade agreements ensure access into bigger markets. For example, in the case of Singapore, the ASEAN market serves as an immediate hinterland.

Table 1: Merchandise Trade (% Share of GDP)

	1980	1985	1990	1995	2000	2005	2010	2015	2016
Brunei	104.5	101.8	91.3	94.9	83.5	81.2	83.5	74.1	69.2
Cambodia	n.a.	n.a.	n.a.	59.3	91.1	111.5	106.2	113.1	113.4
Indonesia	32.9	27.0	34.4	35.2	60.7	52.3	38.8	34.0	30.0
Laos	n.a.	10.4	30.5	51.0	50.0	52.5	53.4	55.6	51.2
Malaysia	89.8	82.1	126.0	158.9	178.9	172.7	142.4	126.6	120.7
Myanmar	n.a	n.a	n.a	n.a	44.8	47.4	27.1	47.4	42.1
Philippines	38.8	29.7	43.0	55.8	92.7	88.0	55.1	44.1	46.8
Singapore	359.3	264.6	292.0	276.3	284.1	337.2	280.3	216.8	206.3
Thailand	47.0	40.8	63.4	75.1	103.6	121.0	110.3	104.5	100.7
Vietnam	6.1	17.3	80.3	65.4	96.5	120.0	139.3	171.6	174.3

Source: WTO Trade Database, author's calculation

As the ASEAN trade agreements are comprehensive in nature, they make countries commit to other trade enhancement initiatives, such as reduction or elimination of NTBs or customs modernization. Robust institutions lower trade costs by increasing transparency, simplifying trade procedures, and introducing greater predictability.[19] In regard to NTBs, the 2016 Enabling Trade Report by the World Economic Forum observed that apart from Singapore, which is a free port with well-supported infrastructure and operating environment, most ASEAN countries perform poorly (Table 2). The bad performance in efficiency and transparency of border administration, lack of infrastructure, and poor operating environment are hindrances to greater trade flows. Participating in trade agreements thus ensures that ASEAN countries address issues at the border and beyond the border hindrances. The countries' commitment to Customs Single Window or streamlined trade procedures or even harmonized product standards should be seen in this regard.

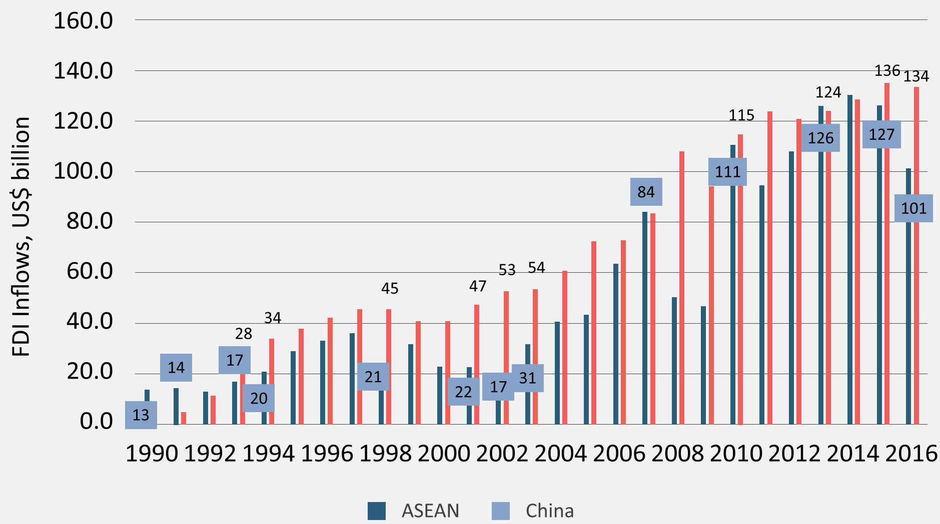
Table 2: Enabling Trade Index Rankings, 2016

(Ranking out of 136 countries)	Enabling Trade Index 2016 Ranking	Market-Access Sub-index		Border Administration sub-Index	Transport Infrastructure sub-Index	Operating Environment sub-Index
		Domestic market access	Foreign market access			
Brunei	72	7	74	107	74	69
Cambodia	98	107	5	116	113	94
Indonesia	70	30	92	79	64	64
Laos	93	67	10	114	125	79
Malaysia	37	43	107	47	17	26
Myanmar	n.a.	n.a	n.a	n.a	n.a.	n.a.
Philippines	82	22	39	93	116	104
Singapore	1	2	84	1	3	2
Thailand	63	88	96	44	35	83
Vietnam	73	77	79	86	66	77

Source: World Economic Forum (2016)

Along with trade, attracting FDI is also an important consideration in agreeing to regional policy measures. FDI, by itself, has long played an important role in ASEAN countries' economic growth. Japanese FDI has been responsible for catalyzing growth of ASEAN manufacturing sectors.[20] This was followed by American and European firms and more recently the Chinese. Although, among the developing countries, the ASEAN countries were a leading destination for FDI in the early 1990s, the trend slowed down by the mid-1990s as China emerged as a more attractive market (Figure 1). The inflows were further affected as ASEAN countries were severely hit by the 1997-98 financial crisis. It was around that time that policy-makers felt that cooperation among small countries was important to ensure economies of scale to foreign investors and that committing to reform at the regional level of ASEAN would help countries to accelerate their reform process at the national level, thereby raising the confidence of foreign investors. This rationale was reflected in Singapore Minister for Trade and Industry, George Yeo's speech in 2002: "In 1990, China accounted for less than 20 percent of total foreign investments in developing Asia, while Southeast Asia took 60 percent. Today, the numbers are reversed."[21] ASEAN countries therefore need deep integration to raise investors' confidence in the region.

Figure 1: FDI Inflows to China and ASEAN

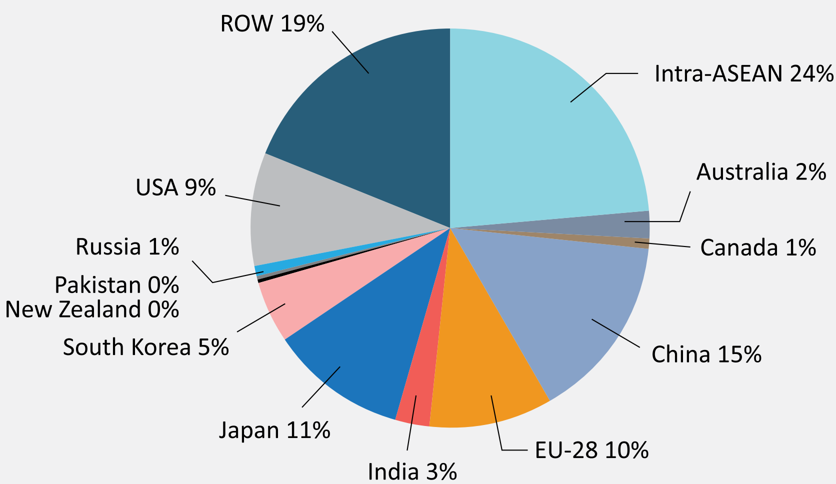


Source: UNCTAD Database

Being trade dependent also requires ASEAN countries to effectively participate in regional and global value chains. Production of a commodity with a long value chain (such as automotives, electronics, textiles, and processed food) is no longer confined to one country, different from the way production and trade were undertaken in the 1970s or earlier. Then, overseas production decisions were governed by low labor costs and confined to a particular economy. Trade was primarily exports to developed countries. However, at present, a single production chain is divided into different parts and produced in multiple countries. ASEAN countries, especially the advanced ones, have been part of these production networks since the late 1980s. Over time low value-added production activities began to shift to less developed ASEAN members. U.S. multinationals operating in Singapore since the early 1970s relocated their production facilities to Malaysia, Thailand, and the Philippines, which offered lower-cost facilities. More recently, the production facilities saw gradual expansion to Vietnam.[22] While multinationals' decisions play an important role in locating their production bases, also influential are government policy decisions to provide adequate infrastructure and access to large markets.[23] To attract foreign firms, it became important for governments to work together on AEC to provide a large market of 650 million people, develop transport and regulatory infrastructure, and commit to facilitation measures to lower transaction costs.

ASEAN countries' trade with each other was as important as their trade with China, Japan, and South Korea (Figure 2). The share of intra-regional trade of these ASEAN+3 countries is a sizable 55 percent compared to ASEAN's share of intra-regional trade of 24 percent. Many of the production networks are not only among the ASEAN countries but across a bigger geography of Asia. Although Japan was leading the production value chain activities in the region, China's emergence as a "global factory" by the early 1990s—serving as a final assembly destination and incorporating intermediate goods from neighboring countries, catalyzed deeper production networks. ASEAN countries needed to simultaneously integrate their own economies and their combined economy to the rest of the world. ASEAN+1 FTAs with Australia-New Zealand, China, India, Japan, and South Korea assumed importance in this respect. ASEAN economic integration is "outward looking"; integration is connected to key trading partners.[24] As Lee Kuan Yew said in 2003, "the diversion of foreign investments away from ASEAN is palpable. [...] Individually, most ASEAN countries do not have the economic weight of a province in China or a state in India. We must create a larger and more attractive economic entity. [...] How strongly we grow depends on two key factors: first, our success at continuing to deepen integration within ASEAN, and second, our ability to keep ASEAN outward-looking [...]. This (AEC) consolidated market of 500 million people will make us more competitive. [...]. At the same time, [...] we must remain focused on our ties with key partners worldwide."[25]

Figure 2: Share of ASEAN's Trade, 2015



Source: ASEAN Secretariat Statistical Publications

Despite ASEAN's effort to facilitate trade and investment through AEC and ASEAN+1 FTAs, it remained largely unappreciated by the private sector, the final users. Given low utilization of ASEAN FTAs, policy-makers need to think about a deeper form of integration that will not only support trade and investment flows but will also take into account regional value chains. This is where RCEP assumes importance. The private sector continues to face challenges in cross-border transactions, mainly from multiple rules-of-origin and inefficient customs. In a 2015 survey of 5,545 Japanese firms operating in Southeast Asia, "simplified customs clearance" was recorded as the AEC measure most desired. These firms have also requested simplified rules-of-origin as criteria for using FTAs.[26] For U.S. firms, around 50 percent of 451 respondents from ASEAN expect a greater reduction in transaction costs. They place high importance on ASEAN's trade facilitation initiative and customs program.[27] Similarly, for EU firms, the 2017 survey of 246 companies reported that 67 percent of respondents are worried about burdensome customs procedures within ASEAN for development of a regional supply chain.[28]

To overcome the low utilization rate and other challenges, ASEAN thought of a comprehensive mega-trade agreement called RCEP, addressing the issue of multiple ROOs in the region. It would focus on trade facilitation and new economic issues during the negotiations, helping ASEAN countries to engage in the regional value chain, and lower cross-border transaction costs for businesses.

Finally, regarding bilateral and plurilateral deals, ASEAN countries view these as means for deeper economic integration. While AEC, ASEAN+1, and RCEP lead to economic integration, they are relatively shallow as they involve countries from different development stages. Most often, the CLMV countries of ASEAN request flexibility or a longer timeline to adhere to a regional commitment. The flexible nature of regional commitments can be observed in the AEC blueprint language of best endeavor in several places. Even for RCEP, the framework document states that negotiations will give due consideration to the development stages of participating countries. A bilateral deal is useful; it is easy to negotiate and can closely match participating countries' interests. For an advanced country bilateral deals can help reach agreements both wider in scope and deeper in terms of agreed agendas. In trade agreements, Singapore has a strong market access focus, with cooperation in areas of investment, education, transport services, government procurement, etc. Thailand's interest, on the other hand, lies in getting market access for its agricultural and manufacturing products, while promoting its tourism sector.

A plurilateral deal, like the TPP, is useful as it enables ASEAN countries to participate in high-standard agreements on issues like government procurement, labor, and environment, which are not yet discussed in regional FTAs of ASEAN. The deeper agendas help ASEAN countries to use an external agent to undertake domestic reforms that often face challenges. Even the BRI serves the economic interest of closing the infrastructure gap in the region. In a 2017 study by the Asian Development Bank (ADB), it was estimated that all ASEAN members will together require $184 billion annually during 2016-2030 for their infrastructure needs. The figure rises to $210 billion annually if one takes into account carbon emissions and climate change. Indonesia alone would need $74 billion annually under the baseline scenario and $82 billion annually under a climate change-adjusted estimate.[29] Building infrastructure is seen as the next phase of ASEAN integration.[30] While the region has its Master Plan of ASEAN Connectivity (MPAC), it severely suffers from financing issues.

Strategic Rationale

There were several strategic imperatives for the ASEAN countries to undertake regional economic cooperation. Mari Pangestu, Minister of Trade of Indonesia from 2004-2011 mentioned that ASEAN's economic cooperation is part of the country's foreign policy, and there are far more strategic reasons than economic ones to pursue such a direction.[31] For example, AFTA was formed in the early 1990s to provide a new political purpose to Southeast Asia after the end of the U.S.-Soviet confrontation and the Cambodian crisis.[32] It was felt that AFTA could provide a sense of regional identity, which was necessary to strengthen ASEAN as a regional organization in the post-Cold war era.[33]

More than a decade later, when AFTA had advanced to AEC, a deeper, more comprehensive form of cooperation, there were different strategic imperatives. First, AEC was viewed as the most logical extension of the various economic initiatives that ASEAN undertook in the 1990s.[34] From 1995 to 1999, ASEAN expanded its membership to the CLMV countries and encountered serious development gaps.[35] The AEC provided a "fresh" comprehensive framework, building on agreements that had already been signed by member countries—AFTA, AFAS, and AIA[36]—and would also look into the capacity building exercise of the CLMV countries through the Initiative of ASEAN Integration (IAI) that came in 2001. As the countries use the regional policies to undertake domestic reform, it was expected to raise their economic competitiveness to attract FDI, especially vis-à-vis China.

Second, ASEAN decided for AEC as it was expected to play the role of a "hub," a strategic position for the regional organization. By default, ASEAN could have the leadership position as none of the East Asian nations can do so due to their past and ongoing conflicts. It was argued that ASEAN's closer economic relationships with its key trading partners in the form of ASEAN+1 FTAs would help ASEAN to accelerate its own economic integration and, in the process, create a single economic space.[37] "The only way ASEAN stands a chance of effectively checking the power of the plus three nations (i.e. China, Japan, Korea) is if it is united."[38]

Third, the economic community was expected to contribute to regional cohesion, which, in turn, was likely to strengthen ASEAN's bargaining power and geopolitical influence. It was expected to strengthen member states' position to participate in the WTO and in their collective negotiating position for FTAs and other strategic matters.[39] Fourth, ASEAN's initiative to move towards AEC could also be viewed as a defensive response to the proliferation of RTAs, especially with the expansion of the EU and the success of NAFTA. The governments of ASEAN feared that they needed to act fast to remain competitive and relevant in multilateral negotiations. Moreover, there was dissatisfaction with the slow progress of the WTO-Doha liberalization process and the APEC process.[40]

As for RCEP, it was decided to create a favorable geopolitical environment around the ASEAN region,[41] in accord with thinking about a region-wide FTA since 2001. While China has been promoting an ASEAN+3 framework (the East Asia FTA), Japan advanced its idea of ASEAN+6, including India, Australia, and New Zealand (the Comprehensive Economic Partnership of East Asia, CEPEA). To end this debate, ASEAN proposed RCEP (involving ASEAN+6 countries) in November 2011—an ASEAN-centric regional FTA, where issues and aspirations of AEC would be elevated to the bigger geography of an East Asian Economic Community. This became increasingly important, because forging closer ties and forming common positions with economies of all sizes would help ASEAN to entrench its centrality, which implies that the regional architecture is led by ASEAN and the region's relations with the wider global community are conducted keeping in mind the interests of the ASEAN Community. RCEP would showcase ASEAN's capability to bring together not only its own ten members but also external partners for harmonized policies and economic growth.[42] The strategic importance of RCEP was highlighted recently by Singapore Prime Minister Lee Hsien Loong, when he urged the participating countries to conclude RCEP negotiations soon. "When you make a trade agreement like this, it is very seldom only about economics or trade. There is always another aspect to it—of bilateral cooperation, of friendship, of strategic calculation."[43]

A subset of ASEAN countries also values the strategic importance of other bilateral and plurilateral deals. Singapore would like to strengthen long-term strategic alliances with major powers and trading partners using the FTAs.[44] This was also reflected in a Singapore official's statement, while detailing the benefits to arise from a bilateral FTA with the United States: "Singapore's interest in the US, however, transcends business and economics. Singapore wishes to entrench the presence of the US in the region because it underpins the security of the whole Asia-Pacific region. Singapore regards the US-Singapore FTA as a symbol of continued US commitment to the region [...] the USSFTA [...] is about enhancing the prospects of peace and stability in the region."[45]

For Thailand, the idea of bilateral FTAs in the initial years of 2000 was to raise its diplomatic status in the global economy. It adopted FTAs as an integral part of foreign policy and marked them as a form of "forward engagement" or "economic diplomacy."[46] It was also felt that Thailand wanted to build its administrative and negotiating capabilities through signing FTAs with small countries. It agreed to FTAs with the Czech Republic and Croatia not only so that it could gain access to the EU market, but also to have flexibility that these small economies allow. As Thailand was not very sure about the impact of FTAs, its choice of countries in the early days was more to serve as a guide for subsequent negotiations with bigger economies.[47]

Finally, with regard to the plurilateral deals, the original TPP, keeping the United States economically engaged in the region, was of immense interest to a subset of the ASEAN countries. In an interview on America's role in Asia and TPP in March 2016, Singapore Prime Minister, Lee Hsien Loong, categorically stated "I think it (TPP) is important for the openness and the stability of Asia, beyond the good it does to your own investments and your own interests there (Asia). The TPP is a very important part of this. Because whatever you say about rebalancing, and even if you have security and military resources committed, finally, you have to make the argument that this is in aid of mutual interest for Americans and for the countries in the region. And what is that mutual interest? It is enhanced engagement, cooperation, trade, and the TPP is a visible manifestation of that."[48] For Thailand and Malaysia, the original TPP filled the gap of not having a bilateral FTA with the U.S. Each had started bilateral negotiations in 2004 and 2006 respectively, but those failed due to the U.S. push for a high standard FTA, incorporating environment and labor, which was difficult given the domestic politics of Thailand and Malaysia. Even if the U.S. is not there is the new incarnation of TPP, i.e. CPTPP, the idea is to keep the deal alive so that the U.S. can join the trade pact in the future.

On the whole, the economic cooperation arrangement serves ASEAN's purpose of staying strategically relevant in the global economy. While ASEAN's own integration provides it with cohesion and solidarity, its economic linkage with big economies helps it to maximize its options, thereby managing its quest for "dynamic multidirectional equilibrium in Southeast Asia."[49] ASEAN acknowledges the changing nature of the global economy and the related geopolitics. Hence, it takes a pragmatic approach to alter its economic cooperation model to more rules-based organization. Moreover, ASEAN recognizes the fact that each of its economic relations with the big economies has its own dynamics. While China is seen as fulfilling short-term economic needs, India is observed as a partner with immense potential in the future. Japan is respected for its infrastructure and manufacturing investments in the region since WWII. ASEAN aims to maintain an "open and inclusive" form of economic cooperation arrangement, where no one country can dominate to take advantage of the others.

The Future of Regionalism

ASEAN has been following the path of economic regionalism since the early 1990s. It decided to strengthen its own economic integration to deal with the bigger economies of the world. This led to ASEAN+1 FTAs, which transformed into a quest for a bigger undertaking RCEP. However, ASEAN-led FTAs are not the only economic regionalism model in the Asia-Pacific region. There is the CPTPP and the BRI.

What does this mean for the future of regionalism from ASEAN's perspective? ASEAN will continue to be a major promoter of economic regionalism. However, it may feel pressure, both internally and externally.

Internally, challenges will emerge as all ASEAN members may not benefit equally from AEC. The policy document only lists the policy action lines and responsibility of implementation resides with individual member countries. As at domestic level, countries suffer from lack of human and financial resources to implement measures and they are not willing to implement measures in a timely manner. Hence, in the process of integration, some will be laggards. This will have implications for FDI flows into the individual members. While the leading ASEAN members will attract most of the foreign capital, the rest will continue to struggle in attracting investors. This was observed in numbers showing that Singapore attracted 50 percent of the total FDI in the region (Table 3). Some will lose incentive to participate fully in AEC, as already observed while designing the next phase of the AEC blueprint: countries like Singapore and Malaysia wanted to take a greater leap in the next ten years, Indonesia wanted to consolidate its economy first before committing to any visionary idea.

Table 3: Investment Attractiveness of ASEAN Member Countries

	2003-2013		2015		2016*	
	US $million	% of total	US $million	% of total	US $million	% of total
Brunei	8,796	1.11	171	0.14	-150	-
Cambodia	7,808	0.99	1701	1.41	2280	2.33
Indonesia	10,6266	13.41	16642	13.81	3521	3.59
Laos	2,642	0.33	1079	0.90	1076	1.10
Malaysia	77,279	9.76	10180	8.45	11329	11.56
Myanmar	12,142	1.53	2824	2.34	2989	3.05
Philippines	22,147	2.80	5639	4.68	7933	8.09
Singapore	40,1002	50.62	62446	51.82	53912	54.99
Thailand	89,999	11.36	8027	6.66	2553	2.60
Vietnam	64,080	8.09	11800	9.79	12600	12.85

Source: ASEAN Statistical Yearbook 2014 and 2016/2017

Most ASEAN countries increasingly believe that the lack of infrastructure needs to be resolved before benefiting from regional integration. Indeed, all members have supported the regional connectivity master plan that covered three elements: physical connectivity, institutional connectivity, and people-to-people connectivity. They are also developing their national plans, keeping in mind the regional plan. Connectivity is increasingly felt to be necessary to reduce cross-border business transaction costs, travel, and time costs and to ensure that regional integration benefited the periphery as well as the core of member countries. A key determinant for obtaining the full benefits of the trade and investment liberalization that countries have been pursuing for the last two decades is believed to be infrastructure development. But almost all ASEAN countries suffer from financial constraints. As they lack fiscal space to undertake public spending in infrastructure, they also lack resources to design bankable projects to fund roads, bridges, highways, power-plants, etc. using a public-private-partnership (PPP) model.

This is where the external challenge comes in. Given that tariffs have been reduced for most of the economies in the region, removal of NTBs will mostly remain a work in progress, and countries are struggling with managing their infrastructure demand, China sees this as an opportunity to introduce its own model of economic cooperation that is based on building infrastructure. In other words, BRI has been announced at an opportune time. The BRI connects China with the countries of Central Asia through road infrastructure and links the Chinese coast via Southeast Asia to the Indian Ocean and all the way to Europe through maritime routes. Since BRI will be implemented bilaterally between China and different host countries, it is expected that China will try to integrate itself closely with other countries. BRI will become a means for it to align trade flows and investments through improved infrastructure. Indeed, the ASEAN-China FTA becomes important in this regard and complements the BRI. In addition, Beijing, during the 20th ASEAN+3 Leaders' meeting in 2017, expressed its intention to align BRI with the Master Plan of ASEAN Connectivity (MPAC), thereby promoting the idea of East Asia connectivity. Beijing realizes the importance of hard and soft infrastructure in regional economic integration and also comprehends the difficulties of ASEAN countries to invest in long-term investment projects. Accordingly, it has suggested ways to match common interests of ASEAN countries and China.

Most importantly, Beijing seems to have learned from ASEAN's experience of what components of economic integration work (like liberalization and facilitation) and what may always lag (such as eliminating NTBs and narrowing the development gap). Including domestic regulatory issues of competition policy, intellectual property rights, environmental standards, or labor laws is not practical as many less developed countries in the region may not be able to comply. As most of the benefits under liberalization have been reaped, it is better connectivity that needs to be popularized among interested parties to move towards deeper regional integration. Of course, ASEAN does not want to miss this opportunity and has expressed its support by joining the AIIB. However, it is very mindful of China's economic dominance in the region. It fears the rise of China as a regional hegemon to gain economic domination of the region that has subsequent implications for political-security cooperation.

In order to balance Chinese influence, ASEAN will welcome CPTPP and earnestly try to conclude RCEP negotiations. Although only four ASEAN members are part of CPTPP, Indonesia, Thailand, and the Philippines are not disregarding their prospects of joining the deal, taking a "wait and watch" approach to see if the United States joins the deal. There is already some murmuring that it may join if the CPTPP members agree to re-negotiate some provisions. With regard to RCEP, the negotiating parties are optimistic that the negotiations will conclude by the end of 2018, under Singapore's chairmanship of ASEAN. The negotiators have been instructed to explore new ways of formatting the RCEP deal, perhaps to suit India's interests, a two-tier structure: one for countries already having an

FTA with each other; and the other among countries without such bilateral trade deals. There is an extremely slim chance that RCEP will be concluded without India, as many in the media are speculating that it may be asked to stay out of the deal given its foot-dragging during negotiations. RCEP without India would dilute the economic and strategic value of the agreement and offer China an opportunity to advance its own regional cooperation agenda.

Although economic regionalism is a crucial measure for ASEAN countries' economic growth, prospects seem uncertain at the current moment. ASEAN's principle of "open regionalism" seems to have hit a ceiling, as countries like China are seeing this as an opportunity to gain economic access into the region, while the other big economies are either turning inwards or have limited economic resources to expend to ASEAN members. ASEAN is also struggling internally to manage the momentum of its own economic cooperation. The member countries are paying more attention to their own domestic needs for infrastructure, rather than cruising along with economic integration. While it will be impossible for ASEAN to disband its economic community, time will only tell how ASEAN, as an organization, will address its current challenges and manage to keep its economic regionalism agenda intact.

Conclusion

For the ASEAN countries, all kinds of regional initiatives strengthen its outward looking economic structure. Most are highly open to the global economy, having a significant share of their GDP in trade and aiming to attract foreign investment for domestic industries. Many advanced ASEAN members are already part of GVCs, while the less developed ones are targeting this in the next decade. The economic regionalism project among the ten members provides policy certainty and also cohesion, useful for staying strategically relevant in the global economy and facilitating the negotiation of trade deals by the small member with the bigger economies of China, Japan, and India. Given its economic structure, ASEAN from the beginning has promoted regionalism that is "open" in its approach, i.e., "open regionalism." The bilateral deals are useful for deeper integration, while the latest plurilateral deals fuel aspirations for economic development. Regionalism in ASEAN is to ensure openness, which would eventually feed into a country's development.

There are some uncertainties. The United States has pulled out of the TPP, although the agreement has survived as the 11 other members exerted their political will. RCEP, after five years of negotiations, is still facing challenges, including issues of market access, services, and investment. Looking at a strategic opening, China is promoting its own economic cooperation model of BRI and slowly making in-roads into neighboring developing economies. Even ASEAN's own economic community is facing some difficulties. Member countries, although not discarding AEC, are not willing to commit to deeper measures. They are biased toward building their national infrastructure and implementing the older AEC commitments, rather than promising new ones in an era of uncertainty around economic regionalism.

Will ASEAN survive this phase of uncertainty? The answer is probably "yes," as the ASEAN countries have already tasted some benefits of regional integration. The region has regained a lot of FDI, which was felt to be getting diverted to China in the mid-1990s. In 2013/2014, FDI inflows of $125 billion to ASEAN were almost on a par with China (Figure 1). Many members are also building their national institutions to adhere to their ASEAN commitments. For instance, almost all ASEAN countries now have a competition commission, not the case earlier. The less developed ASEAN members have benefitted from increased attention from the developed countries (such as the EU, the United States, Japan, and Australia) and their technical and financial assistance in areas of economic integration. For example, the USAID program provided assistance to Laos and Vietnam to establish their National Single Window (NSW). It also helped ASEAN to develop the technical and legal components of ASEAN Single Window and assisted in implementation of pilot projects. The EU has already earmarked more than 170 million euros for the post-2015 ASEAN integration. Finally, the economic regionalism projects involving ASEAN facilitate its members being part of many discussions that are cross-border in nature. Recently, all ASEAN countries have been exploring ways to cooperate on e-commerce. This not only means business opportunities but also risks in terms of, say, cyber-security. It is the economic cooperation that is bringing all ASEAN members together to find ways to mitigate risks that are regional or global in nature. Thus, for members, while the pace of economic regionalism may slow, the initiatives will continue to survive in order to enable them to grow and develop in the future.

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