

▶ Chapter 3

Entanglement of Regional Economic Integration and ASEAN

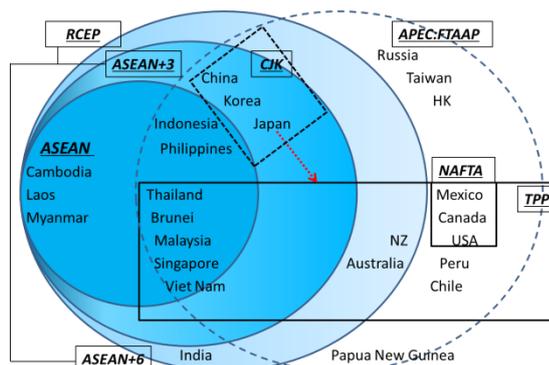
Takashi Terada

Professor of International Relations, Department of Political Science, Faculty of Law

Key Points

- As in the hypothesis that FTAs occur in domino chains, four main types of bilateral FTA have multiplied in the Asia-Pacific: 1) FTAs between individual members of the Association of Southeast Asian Nations (ASEAN) and Japan; 2) ASEAN+1 FTAs centered on ASEAN; 3) FTAs in Northeast Asia centered on China; and 4) the FTAs involving non-Asian partners such as the United States and European Union (EU) caused by South Korea.
- Since 2010, triggered by the launch of Trans-Pacific Partnership (TPP) negotiations, the focus of the FTA domino effect has been shifting from bilateral to multilateral agreements. This is primarily due to a competition over rules and norms of regional integration between the largest and second largest economies in the world, the United States and China. The decision of the third largest economy, Japan, also maintains a key position in defining the trend in this power game. As a result, with ASEAN, Northeast Asia (a Japan-China-South Korea FTA), East Asia (RCEP), and the Asia-Pacific (TPP), we are facing an era of entanglement of regional integration in which there is a jumble of regional integration frameworks forming different contents, rules, and members, respectively.
- This era of entanglement of regional integration has a large effect on the future of ASEAN, which has maintained the function of merely providing meetings and opportunities under the name thus far of “ASEAN Centrality.” In order for ASEAN to increase its influence, it must make certain the achievement of the ASEAN Economic Community (AEC) as soon as possible to act as a single actor in this trade politics game.

Regional integration frameworks in the Asia-Pacific (as of November 2012)



Introduction

In November 2012, a series of Association of Southeast Asian Nations (ASEAN) Summit Meetings held in Cambodia, were watershed gatherings for the regional integration of the Asia-Pacific. First, at the China-Japan-South Korea Trade Ministers' Meeting, the launch of negotiations the following year for a Northeast Asian trilateral free trade agreement (FTA) was announced (hereafter CJK). Furthermore, the East Asian Summit (EAS) saw an agreement for the start of negotiations for the Regional Comprehensive Economic Partnership (RCEP) in 2013. RCEP is a regional integration initiative in East Asia pursued by ASEAN+6 members including 10 ASEAN members, China, Japan, South Korea, India, Australia, and New Zealand. With this, four regional integration frameworks are to be negotiated: ASEAN, CJK, and ASEAN+6, along with the Trans-Pacific Partnership (TPP), for which negotiations began in 2010 and Mexico and Canada joined in 2012.

While many countries in the Asia-Pacific are thus participating in multiple regional integration frameworks, the contents and rules of each integration framework differ, and so we are entering an era of intertwined regional integration frameworks. In the Yokohama Vision released in November 2010 at a meeting of the Asia-Pacific Economic Cooperation (APEC) in Yokohama, the prioritization of these different regional integration frameworks were made clear. There, it is considered to be possible to achieve the Free Trade Area of the Asia-Pacific (FTAAP), which is the regional integration framework of the 21 APEC members, by “developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership, among others”.¹ This carries key questions for the future development of regional integration in the Asia-Pacific: how and why the FTAAP has emerged as the overarching regional integration framework and the significance of TPP has been underscored, as juxtaposed with the existing East Asian frameworks. In fact, the expansion of the TPP, in which twelve APEC members are currently participating, has established a more practical way of providing the momentum for the formation of an FTAAP, and the TPP development spurred the combination of existing regional integration plans, ASEAN+3 and ASEAN+6, culminating in the formation of RCEP.

However, until the TPP began negotiations in 2010, the ASEAN Free Trade Area (AFTA) was the only regional integration framework in the Asia-Pacific region that actually held negotiations and implemented liberalization. Amidst a proliferation of bilateral FTAs, ASEAN has played the

¹ http://www.mofa.go.jp/mofaj/gaiko/apec/2010/docs/aelmdeclaration2010_j.pdf.

rule of the hub of East Asian integration in a manner known as ASEAN centrality through the integration framework of AFTA and signing a network of ASEAN+1 FTAs as a single actor with the East Asian countries including Japan, China and South Korea.

This chapter examines how these intertwined regional integration frameworks arose, and what the new role for ASEAN will be amidst this situation. In particular, while identifying major characteristics the intertwined state of regional integration exhibits, this chapter attempts to depict future scenarios through an analysis of ASEAN views on the development of CJK FTA, RCEP, and the TPP.

1. The conventional features: a domino effect in bilateral FTAs

Before the intertwining of regional integration frameworks took place, the movement of regional integration in the Asia-Pacific was characterized by a proliferation of bilateral FTAs. They can be grouped into the following four categories: 1) bilateral FTAs centered on Japan with individual countries of ASEAN; ASEAN+1 FTAs centered on ASEAN (with Japan, China, South Korea, India, and Australia/New Zealand); 3) FTAs in Northeast Asia including Taiwan centered on China, and 4) FTAs started by South Korea with the non-Asian large economies including the United States and the EU. Each of the four types of bilateral FTA has its own central country (or region), but the proliferation of each case can be explained using the domino theory.

One theory often used to explain FTA proliferation focuses on trade diversion from the exclusive nature of FTAs. In other words, benefits brought to a counterparty of an FTA, such as the elimination of tariffs, generally victimize a third country not included in the agreement. This means a third country's products that are more competitive in terms of quality and price will replace the FTA countries' less competitive products as a result of the FTA, which will negatively affect consumers of the FTA countries, while exports from the third country to the FTA countries will be blocked and reduced.²

While tariff-free privileges will be granted to companies in the FTA countries, third country companies will be placed at a competitive disadvantage, which will spur business and interest groups to lobby the government to conclude an FTA, and as a result, FTA negotiations will begin,

² Viner 1950.

which in turn will cause a domino effect that proliferates FTAs.³ The important point of this argument is the difference in economic power of FTA negotiating countries. As Bhagwati indicates, all countries do not wield an equal amount of power, one country may be a major power and have great influence, or provide security guarantees, so we often see a pattern where FTAs move forward centered on hegemonic powers⁴. In the case of FTAs signed by powerful countries, since certain third countries will have their market access inhibited, trade diversion concerns are born, which create motivation for a country to conclude an FTA with the same major power. In this sense, even if small and medium sized countries conclude an FTA together, this will not necessarily cause trade diversion concerns, and even if a major economic power was inhibited as a third country, it can be said that this major power has nearly no motivation to conclude the same FTAs as a combative measure. In other words the FTA domino effect will not occur.

An exception to the powerful-country-led domino theory, is the successive bilateral FTAs going beyond the Asian region initiated by South Korea. The movement by South Korea to sign FTAs with the enormous markets of the United States and the EU resulted in a situation where Japan, which competes in major export goods including automobiles and electric appliances in particular, was forced to follow suit. South Korean exports constitute nearly 50% of GDP, and since the Asian Financial Crisis in 1997-8, South Korea has implemented an export-led economic growth strategy taking advantage of the undervalued won. However, just as South Korean President Lee Myung-bak stated that “with FTAs signed with 45 countries”—including the United States—“the economic territory of South Korea is the best in the world,”⁵ FTAs are a particularly important tool for its trade expansion.

South Korea, with its slogan of “simultaneous multiple FTA negotiations,” has placed a high priority on the expansion of FTA networks, especially ones with major trading partners. A real threat to Japanese industry was the FTA concluded between South Korea and the EU. Japanese companies had yet to establish extensive production bases in the EU, while the tariff rate on competing products was relatively high (LCD TVs: 14%; automobiles: 10%). Preventing price disadvantages with South Korea became a major motivational factor for Japan to sign a similar FTA with the EU. As a result, FTA negotiations began between South Korea and the EU in May 2007 urged the Japanese Business Federation (*Keidanren*) to call for a Japan-EU EPA the very next

³ Baldwin 1996.

⁴ Bhagwati 2008, pp. 43-47.

⁵ *Nikkei Shimbun*, 31 December 2010.

day.⁶ However, the EU judged that an FTA with Japan would not be advantageous to the EU, and so did not respond to Japan's requests for a long time. For example, of the foreign cars exported to the EU in 2009, Korean cars made up 12% of the total, while Japanese cars were 36%, and furthermore it was felt that if tariffs were eliminated for Japanese cars, which had advanced green technology such as hybrid vehicles, it would be a threat to European automobiles. Also, amidst the normalization of the EU trade deficit with Japan (€32.8 billion in 2008, €19.9 billion in 2009), about 70% of EU exports to Japan were already tariff-free. As a result, the EU considered the benefits of an FTA with Japan to be small.⁷ However, with Japan's interest in the TPP, the EU's attitude began to change. The EU was interested in regulatory easing in the non-tariff barriers, as seen in the lower level of inbound investment in Japan, and not being able to bid in government procurement. The EU noticed that easing or eliminating domestic regulations was a major task in the TPP led by the United States, indicating the EU's speculation that it could also put the elimination of non-tariff barriers for promoting exports and investment on the negotiating table.

In fact, the EU has chosen potential Asian FTA partners who have participated in the TPP such as Singapore, Malaysia and Vietnam or signed an FTA with the United States such as South Korea, so the EU FTA strategy can be seen to have the characteristic of chasing the United States.⁸ Accordingly, Japanese participation in the TPP opened the path to an FTA with the United States and the EU, and thus signifying the response to the request made by exporting industries in Japan to catch up to Korea's aggressive approach to FTAs. More importantly, this domino effect is also connected to the EU and the United States showing interest in an FTA with ASEAN, and the beginnings of an improvement in the human rights problems in Myanmar, which had been a large obstacle to this move, also indicates the possibility of an economic partnership between the EU and ASEAN.

However, the different product coverage and distinctive time framework of liberalization in these two types of FTAs in Southeast Asia, together with the bilateral FTA networks Japan mainly forged, would make it difficult for multinational companies as potential FTA users to identify which FTA at both bilateral and regional levels could be most effective in terms of cost-saving for their business. Thus, a 'spaghetti bowl' effect⁹, meaning a large number of rules of origin with specific standards and involving specific procedures will be formulated, and different rules will be applied to a single commodity, would be most conspicuously presented in Southeast Asia.

⁶ Keidanren. 2007.

⁷ *Nikkei Shimbun*, 29 November 2010.

⁸ Heydon and Woolcock 2009, p.165.

⁹ Bhagwati 2008.

2. TPP and regional integration dominos

As noted at the beginning, the FTAs in the Asia-Pacific region entered the era of entanglement of regional integration frameworks, and the domino effect can also be identified as a driving force behind this move. In the domino effect for bilateral FTAs, Japan, China, and South Korea each played an important role in the different categories, but for the multilateral domino effect, it is the United States that emerged as a key player that gave influence to the trend. The United States and China have consequently been promoting competing regional integration concepts, reflecting their respective preferences over issues to be covered, while the importance of the role of Japan as the third largest economy is also rising in the sense of what framework it will support join. In other words, it would be a completion between Asia Pacific regional integration where the world's largest and third-largest economies would be integrated in a discriminatory trading arrangement and East Asia one integrating the world's second- and third-largest economies

The Obama administration began in the United States, and adopted a “pivot to Asia” policy, and the emphasis of the foreign policy has been shifting to the Asia-Pacific, stressing the importance of the TPP as a major trade policy. Secretary of State Clinton stated that the United States will strengthen its economic leadership in order to maintain its strategic leadership in the Asia-Pacific region¹⁰, signifying America's determination to strengthen involvement in the TPP by incorporating as many participating countries as possible to build the desired economic order in the region. Ian Bremmer, who leads the Eurasia Group, a powerful political consulting company, stated that “Japan should join hands with the United States and strive to nurture the TPP into a new WTO. If the TPP becomes a strong presence, China will eventually have no choice but to submit to its rules.”¹¹ This statement indicates that today, with WTO liberalization negotiations bogged down, there is the idea in the United States of giving the primary role of promoting liberalization of trade and investment to the TPP, and also informs that China has a large presence behind the United States intention to proceed with economic leadership.

In 2008, the United States expressed its desire to formally join the TPP, and this decision was premised on the United States belief that, as stated by US Trade Representative (USTR) Ron Kirk, “the number of trade agreements in the Asia-Pacific that exclude the United States has proliferated, shutting American business and

¹⁰ *Bangkok Post*, 17 November 2012.

¹¹ *Nikkei Shimbun*, 22 October 2012.

workers out of valuable opportunities.”¹² In the United States government, there were those who believed that China’s promotion of “low-quality” FTAs in Southeast Asia was spurring the “spaghetti bowl” effect, which had the possibility of raising trading costs for businesses, and even if the East Asian regional integration is not achieved, that fact that it is being constantly discussed in East Asia is promoting the “marginalization” of the United States. Also, there emerged a view that instead of criticizing that, it would be desirable to promote trade policy in lines with the trend in East Asia and build up its own regional integration plan. On this point, one National Security Council (NSC) official stated, “We felt that if other countries were getting credit for offering their ‘pie-in-the-sky’ FTAs, we should try to score points for our own ‘pie-in-the-sky’ FTA proposal.”¹³ This implies that the United States announced it would promote FTAAP, or an APEC-wide FTA in 2006 with a belief that the plan was not even thought to be realistic, and was ultimately a symbolic idea to challenge the Chinese growing influence in East Asian trade politics.

Although the view that the FTAAP was infeasible, American policymakers were also frustrated by the criticism that the United States was disengaged from the East Asian FTA movement while China enjoyed credit for promoting “low quality” FTAs in Southeast Asia. For instance, American industry bodies such as the National Association of Manufacturers and the United States Chamber of Commerce and Industry voiced their fears about the exclusion of the United States as a result of the rising tide of East Asian regionalism.¹⁴ Eventually, the United States began to use the FTAAP concept to change the discourse, or at least to change the expectation of where the politics of regional trade would be headed in the future.¹⁵

FTAAP negotiations will not, of course, commence any time soon, nor have the norms by which APEC operates changed, but the larger goal of the FTAAP is reflected in the announcement by the United States of its intention to participate in the FTA formed in 2005 among Singapore, Chile, New Zealand, and Brunei, known as the TPP. Accordingly, the primary motivation for the United States to join the P4 was not to secure an export market. In fact, the fraction of US trade in the Pacific rim that was with the eight countries that arrived at the first TPP negotiating table in 2010 was 17%, and the fraction of US trade with the world that was with these countries was not even 6%. Assistant US Trade Representative Cutler considered that the greatest reason the United States turned its eye to the P4 was its high quality in

¹² Kirk 2009.

¹³ Searight 2011, pp.59-60.

¹⁴ *Jiji Press*. 5 February 2008.

¹⁵ Terada, 2011.

the form of eliminating tariffs for all items by 2015, and thus would be an “FTAAP prototype.” The quality was high, but the number of participating members was low. Thus, the United States began to express interest in increasing the membership of the TPP. For example, at the first round of TPP negotiations in Melbourne, New Zealand Trade Minister Groser stated that the added value of the TPP to the United States would grow the more member countries there were. In other words, the United States was starting to take the strategy that through more APEC members joining, a “critical mass” would be formed, causing the cost for other members of not participating would grow, and resulting in a further increase in membership. The United States recruited the participation of as many countries as possible in the “WTO-Plus” FTA that it is seeking, and it can be said that it build a means for countering the regional integration plan proceeding in East Asia. In fact, with the participation of the United States, the countries of Australia, Peru, and Vietnam joined at around the same time, followed by Malaysia, Canada, Mexico and, finally, a big economy such as Japan.

One of reasons the United States is interested in the TPP has to do with China, which is being kept in mind as the “shadow negotiating partner” of the TPP. For example, in April 2011, six industry groups sent a letter to US Trade Representative Kirk requesting that a punitive obligatory provision with legal binding force be added to the TPP in response to overseas state-influenced entities that improperly obstruct the economic activities of private businesses. Although state-operated corporations even exist in highly liberalized countries such as Singapore, a US business participant stated that “limiting business practices and subsidies to state-owned corporations through the TPP would act as a weight on the activities of Chinese businesses in the Asian market, and in the future, will provide a policy framework that will be the cornerstone of trade negotiations at the bilateral, regional, and global level with China.”¹⁶ In other words, it can be understood that there exists in the United States a sense of hope that the TPP will be a means for applying legal shackles to China, which proceeds with business practices that are not free capitalist ones. The participation in the TPP by Vietnam, as another socialist country where state-operated enterprises are rampant, is imagined by the United States to play the role of a virtual China.

China became concerned about these moves, and acted to promote the regional integration frameworks other than the TPP. It is not easy for China to participate in the TPP, as China would be required to guarantee that foreign companies get equal treatment with China’s state-owned companies, an issue that China is highly unlikely to go along with. Thus, the progress of negotiations while the TPP membership increases, is not a desirable situation for China. In fact,

¹⁶ Solis 2011.

China's concerns about the negative impact the TPP might have on its regional integration policy were so strong that when Japan initially expressed an interest in joining the TPP in 2010, China quickly became more flexible in its own talks with Japan. For example, China accepted a proposal from Tokyo to conclude a trilateral investment agreement first among China, Japan and South Korea (a framework that Beijing had previously resisted due partly to the required protections for Japanese and South Korean investors). As this was viewed as a prerequisite for the trilateral FTA which China was keener to promote to secure Japanese market. China has also been moving away from its exclusive pursuit of an ASEAN+3 regional framework, toward greater interest in the ASEAN+6 framework, which was Japan's preferred arrangement. These two Chinese concessions led to the start of official negotiations for the CJK FTA and the RCEP, in 2013.

In short, American strong involvement in the FTAAP and TPP has influenced the regional integration of many countries including China. This has also encouraged the possibility for an FTA involving Japan and China, and has played a role in accelerating the trend toward East Asian regional integration. The United States' trade strategy to incorporate certain East Asian countries has led Japan and China to engage in cooperation and move past their competitive view of one another, and so the possibility exists that the "external pressure" seen in TPP progress will nudge the East Asian regional integration process forward.

3. RCEP and regional integration dominos

As discussed above, a major force behind the emergence of the tangle of regional integration initiatives in the Asia-Pacific is that the United States and China have been promoting competing regional integration concepts, reflecting their respective preferences over issues to be covered. Though the United States long remained on the sidelines of East Asian integration initiatives, it is now seeking high-quality "WTO-plus" regional integration through TPP, while China's commitment to regional integration frameworks such as RCEP is strongly oriented towards developing countries and would contain more exemptions in the form of tariff elimination duties, with few deregulation requirements that would demand the reform of domestic economic systems. This also means the United States and China will continue to compete against each other over trade and investment rule-making in East Asia and the Pacific. Japan, as the third largest economic power, will join with, or which it will join with first will lead to an expansion in the size of integration, and so as seen in the Chinese concessions and EU interest in an FTA with Japan mentioned earlier, it is possible to find a role as a balancer influencing the directionality of the intertwined regional

integration. In other words, it can be noted that the global economic powerhouses are colliding in terms of their own national interest and are promoting regional integration that each desires, which is a factor that has led to the proliferation of regional integration frameworks in the Asia-Pacific region.

As is depicted in the diagram, the central position of ASEAN was the characteristic of the founding of separate regional institutions each having a summit meeting (the EAS in the case of ASEAN+6) while expanding concentric integration frameworks centered on ASEAN, or in other words, expanding the membership from ASEAN to ASEAN+3 and then ASEAN+6. However, the word “center” can be easily misunderstood. This is because this does not signify that ASEAN has been actively promoting liberalization of trade and investment and has been promoting regional integration, much less that a regional integration concept or process schedule including major extra-regional countries such as Japan, China, and South Korea has been created. The main function of ASEAN’s centrality has been to provide venues for meetings such as conveniently hosting summit and ministerial meetings. Particularly since 2011, the American President now visits Southeast Asia at least once a year to participate in the EAS meeting, and so ASEAN is maintaining the function of providing an opportunity for the leaders of the United States and China to participate in a multilateral forum.

The problem with the concentric circles of this regional integration concept is that if ASEAN does not move, the integration of ASEAN+3 and ASEAN+6, which include extra-regional major countries, would also not move. Former Singaporean Prime Minister Goh Chok Tong once stated, if liberalization is sought through the WTO, APEC, or the like, it devolves to the lowest common denominator, and so the actions of liberalization-oriented countries are fettered by countries that do not desire liberalization. The least enthusiastic country ends up holding back the base of trade liberalization, becoming a large obstacle to promoting regional integration.¹⁷ If liberalization is conducted unilaterally, the free rider problem arises in which a country keeps the barriers to the entry of imported goods high while freely sending export goods to the market of another country that has lowered those barriers. Especially in the case of competing products, there is the underlying possibility of this becoming a domestic political problem due to threatening employment. Based on this, a major reason why negotiations of East Asian integration that converges the five ASEAN+1 FTAs while bringing them into effect have not started thus far is that ASEAN has been reluctant as its role as a hub in the ASEAN+1 FTA networks would be reduced.

¹⁷ Terada 2005.

The fact that Japan and China, which had until then been competing over whether ASEAN+3 or ASEAN+6 should be the framework for East Asian integration, set their spears aside in August 2011 and jointly proposed the founding of a working group to promote the liberalization of trade and investment under both frameworks stems from concerns on the part of both countries that while TPP negotiations are proceeding, East Asian integration frameworks would not make progress if it was left up to ASEAN.¹⁸

The agreement between Japan, China, and South Korea to start FTA negotiations independent from ASEAN+3 has also acted as a worrisome development as it would exclude ASEAN. The start of negotiations towards the unification of an enormous market in Northeast Asia with a total GDP among the three countries of \$754 billion (2011) signified the appearance on ASEAN's doorstep of a tremendous magnet for eliciting FDIs, casting a shadow on ASEAN's investment market. This accelerated ASEAN's intention to promote integration, urging ASEAN to have a stronger interest in strengthening its role as a FDI magnet.¹⁹ This measure dissolved the "lines" of ASEAN+1 FTAs with six countries, as it decided to aim for a free trade agreement in the form of East Asian regional integration comprising 16 countries, namely the formation of the RCEP. More importantly, in order to break through the ASEAN+1 shell and promote integration with extra-regional major countries, the completion of the AEC should be accelerated, and a unified market of 600 million people must be quickly formed. However, Japan, China, and South Korea well understood such concerns on ASEAN's part about the negative impact arising from the formation of the CJK FTA, and so Chinese Commerce Minister Chen Deming emphasized that the CJK FTA was an open one, and South Korean Trade Minister Bark Tae-ho also indicated that information on the contents of the negotiations would be shared with ASEAN.²⁰ An important point in such a change from bilateral FTAs to regional integration is the expansion of countries that are the subject of cumulative origin, which has the benefits of increasing the number of goods for which no tariff is applied, simplifying the rules for that purpose, and ultimately contributing to an expansion in exports, as Japan's Ministry of Economy, Trade and Industry also emphasizes this point.²¹

Another factor causing ASEAN to more strongly push on with the need for a single market is the

¹⁸ Author's interview of official at Ministry of Economy, Trade and Industry, 26 December 2011, Tokyo.

¹⁹ Ministry of Foreign Affairs (Singapore), 2012.

²⁰ http://www.jetro.go.jp/jfile/report/07001118/asean_economics_minister_meeting.pdf

²¹ Ministry of Economy, Trade and Industry (2012). Vietnam is importing almost all of its raw silk, which is the starting material for textiles, from China, but, for example, this was not able to satisfy the rules of origin of the ASEAN-India FTA. However, there is the observation that if the RCEP comes into force, this problem would likely be solvable.

TPP development, for which negotiations have been actually progressing since 2010. As indicated in the diagram, the TPP splits ASEAN by skewering the concentric circle shaped centered on ASEAN. Since Thailand expressed the intention to participate in 2013, the likelihood of there being five participating countries from ASEAN increased. This problem would also cast a doubt on ASEAN's capability to continue to place a higher priority on the ASEAN centrality, resulting in a stronger impression of an ASEAN rift. Indonesian Trade Minister Gita stated, the TPP is not a threat to ASEAN, and the selection of integration framework differs according to the conditions in each member of ASEAN, but since the TPP allows virtually no exceptions to tariff elimination, Indonesia would have many problems and so there are no plans to participate.²² This statement indicates that as a result of the advent of the TPP, countries sharing a vision for regional integration will proceed with domestic reforms and a high level of liberalization within ASEAN would participate, and that the "lowest common denominator" approach to liberalization will no longer be applied.

4. Conclusion: The future of ASEAN and intertwined regional integration

Lastly, the future of ASEAN amidst the entanglement of regional integration frameworks is examined. ASEAN has the characteristic of being considered a collection of developing countries, lacking a political and cultural sense of unity. This is why the "ASEAN way" was employed, while putting importance on voluntarism and avoiding legal binding force as much as possible for regional cooperation. Accordingly, no penalties have actually been applied for non-fulfillment of ASEAN's collective decision, allowing for exceptional measures taken individually. This represents the difficulty in participating in very high level integration programs like the TPP that include provisions relating to labor standards and environmental regulations. The former would potentially require members to abide by standards set by the International Labor Organization, including freedom of association and collective bargaining. Consequently, voices appealing to the need to abandon the "ASEAN way" are beginning to be heard, for example, ASEAN Secretary General Surin, whose five-year term ended at the end of 2012, considered that if there is no strong centralized power mechanism, it is very difficult to survey and coordinate all problems that could become serious matters,²³ and he stressed the need to strengthen the authority of the ASEAN Secretariat like in the EU, and to tighten the regulation of participating members.

²² *Nikkei Shimbun*, 20 November 2011.

²³ JETRO, 1 August 2012.

As a further characteristic of ASEAN, the fact that regional integration as defined in the European style of producing for its own consumption is not being emulated can be identified. As noted by Sally, ASEAN integration is just a fragment of a supply chain deployed at a global level by multinational corporations.²⁴ ASEAN is inevitably dependent on economies outside the region for growth through FDI and exports, as economic cooperation from major powers outside the region is essential to ASEAN's further growth. For example, in the middle of the 2000s approximately 80% of ASEAN trade was with countries outside the region, while intra-ASEAN trade of Indonesia and the Philippines, which account for about 60% of the ASEAN region's population, was less than 10% and less than 6% respectively²⁵. Accordingly, amidst the Western export markets cooling down due to the global financial crisis, it has become clear since the crisis that integration incorporating major markets outside the Southeast Asian region such as Japan, China, and South Korea is needed and thus RCEP is desirable even for ASEAN. Furthermore, not just tariffs, but many non-tariff barrier problems, for example the import quotas as introduced in Indonesia, are left untouched in ASEAN, and so there is a lack of unified mechanisms for regulatory easing for the trade and investment sustained by each country. As a result, there is the recognition in the business society in Southeast Asia that ASEAN is a loose collection of 10 countries with 10 different sets of economic rules.²⁶

Furthermore, the so-called "ASEAN divide" problem of intra-regional disparities that has been a pending issue since the latter half of the 1990s when the Indochinese countries joined ASEAN has signified the constant presence of rules for the advanced members and for the other members, and there is long-term difficulty in promoting integration at the same pace. If ASEAN, with these characteristics and problems, actually sets forth with regional integration negotiations, it will no longer be able to easily play the role of a promoter. For example, with regards to the contents of the RCEP, Singapore and Malaysia call for a comprehensive range of liberalization including not only goods but also services and investment, whereas Indonesia, to which cheaper Chinese goods are flowing, causing strong anxiety over a ballooning trade deficit with China, takes a position of opposing FTAs with higher and deeper liberalization rates.

In this way, in order for ASEAN to create the state of ranking among the extra-regional powerful countries in negotiations and the like as a unified economic actor, it is necessary to clear a variety

²⁴ Sally 2010.

²⁵ Pang, 2007.

²⁶ Hutagalung 2010.

of hurdles. Also in recent years, political and security problems are arising. For example, China's territorial disputes with Vietnam and the Philippines in the South China Sea are souring. Similarly to the Japan-China-South Korea FTA problems mentioned earlier, the possibility that the existence of these political and security problems will have a negative impact on the progress of negotiations such as a postponement of holding a conference cannot be denied. Furthermore, large amount of aid is entering into Cambodia, Laos, and Myanmar from China, has greatly affected the operation of ASEAN. For example, Cambodia, the 2012 ASEAN chair, ran the proceedings in a direction in accordance with the wishes of China with regards to the problems in the South China Sea. This provoked a reaction from the Philippines and Vietnam, which are opposed to China's assertions in this sea. At the Asia-Europe Meeting held in October of the same year in Laos, Premier Wen Jiabao from China, which wants to move Laos to promote it for meetings and operation, was sitting beside the Laotian Prime Minister, who was also the chairperson. This was an anomalous situation that went against accepted custom.²⁷ After Cambodia, the next ASEAN chair country is Brunei, followed Myanmar and Laos. Thus, there is a string of CLM countries, and so not only will the topics of debate for promoting integration be about developing countries, but it cannot be denied that there is the possibility that the ASEAN meetings will be run in a manner that is in accordance with China's wishes. This can be noted as a new problem point for ASEAN centrality in terms of providing dialogue and opportunities.

However, amidst the situation of exports to Western markets not being expected to rise due to the global financial crisis, the allure of the ASEAN market is sparkling yet more. In the first half of 2012, \$1.4 billion in capital flowed to ASEAN offshore funds, while net outflows to Chinese and Indian offshore funds were recorded at \$1.6 billion and \$185 million respectively, and so the hopes of global investors is being attracted. There are even reports from a positive perspective that the AEC would form a \$2 trillion market realizing the free flow of goods, services, investment, workers, and the like.²⁸ In order not to disappoint these global expectations, it is vital for ASEAN to act as a more powerful single actor, and to achieve this, fundamental reforms such as the early implementation of the AEC, the expansion and reinforcement of the Secretariat, and the easing of the "ASEAN way" are called for.

²⁷ *Nikkei Shimbun*, 19 November 2012.

²⁸ Reuters, 1 August 2012.

References

- Ministry of Economy, Trade and Industry (2012) White Paper on International Economy and Trade 2012. Shobi Printing.
- Nippon Keidanren (2007) Nichi EU keizai renkei kyotei ni kansuru kyodo kenkyu wo motomeru [A call for joint research on a Japan-EU Economic Partnership Agreement]. June 12.
- Baldwin, Richard (2006) "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade", *The World Economy*, Vol.29 (11), pp.1451-1518
- Bhagwati, Jagdish (2008) *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*, Oxford University Press, Oxford.
- Fergusson, Ian F. and Bruce Vaughn (2011). "The Trans-Pacific Partnership Agreement." *CRS Report*.
- Heydon, Kenneth and Woolcock, Stephen (2009) *The Rise of Bilateralism: Comparing American, European and Asian Approaches to Preferential Trade Agreements*, United Nations University Press, Tokyo.
- Hutagalung, Martin (2010) "ASEAN: An Integrated Market?" in S. Tiwari (ed.) *ASEAN: Life after the Charter*, Institute of Southeast Asian Studies, Singapore, pp.141-144.
- Kirk, Ronald (2009) "Letters to Speaker of the House Nancy Pelosi and Senate President Pro Tempore Robert Byrd" 14 December.
- Ministry of Foreign Affairs (Singapore) (2012) "MFA Press Statement: Prime Minister Lee Hsien Loong's Attendance at the 21st ASEAN Summit and Related Meetings, Phnom Penh, Cambodia", 18 November 2012
- Pang, Eul-Soo (2007) "Embedding Security into Free Trade: The Case of the United States-Singapore Free Trade Agreement." *Contemporary Southeast Asia*, vol. 29, no. 1.
- Sally, Razeen (2010) "The ASEAN Charter and the ASEAN Economic Community: A Watershed for Regional Economic Integration?" in S. Tiwari (ed.) *ASEAN: Life after the Charter*, Institute of Southeast Asian Studies, Singapore, pp.113-123.
- Searight, Amy (2011) The United States and Asian Economic Regionalism: On the Outside Looking In?" in Mark Borthwick and Tadashi Yamamoto (eds.) *A Pacific Nation: Perspectives on the United States Role in an East Asia Community*, Japan Center for International Exchange, Tokyo.
- Solis, Mireya (2011) "Last train for Asia-Pacific Integration?: U.S. Objectives in the TPP Negotiations", *WOJUSS Working Paper Series*, No.2. Waseda University.

- Terada, Takashi (2005) “The Japan-Australia Partnership in the Era of the East Asian Community: Can They Advance Together?” *Pacific Economic Papers*, No.352, 2005.
- Viner, J. (1950) *The Customs Union Issues*, Carnegie Endowment for International Peace, New York.