Indo-Pacific Economic Integration: Managing Trade in ASEAN

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“Is the United States Decoupling from Asia’s Economic Architecture?”
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ASEAN Members
Mixed Economic Landscape for ASEAN

• Complicated economic situation for ASEAN member states to navigate
• Factors supporting greater growth can be offset by downward pressures
• Uneven tensions across ASEAN’s 10 member states
  – Reflection of diverse sizes and strength of connections to global and regional markets
• Situation likely to test ASEAN’s own economic integration abilities
  – Soaring ASEAN rhetoric meeting reality
  – But changing regional and global landscape may make this less important as firms scramble to cope
Integration Efforts in ASEAN

• ASEAN has always been at forefront of economic integration
  – ASEAN Economic Community (now AEC Blueprint 2025)
  – ASEAN+1 efforts—most recent new member [ASEAN-Hong Kong] in force on June 11, 2019
  – Regional Comprehensive Economic Partnership (RCEP) headed towards conclusion this year?

• Individual members also enthusiastic participants in trade deals
  – Progress on EU agreements (Singapore and Vietnam; Indonesia; Malaysia and Philippines)
  – Bilateral initiatives continuing as well
RCEP = 16 Members Across Asia
RCEP New Goods Market Access?

• Headed into 29th round of talks this month
• If sector of interest included, could give new market access across all 16 country markets
• Tariff reductions—potentially to zero?
  – However, offers still not ideal
  – Timelines for removal of barriers also important—if not immediately, then how soon?
• Rules of origin (ROOs) also going to be key
  – ROOs a serious challenge: if too hard to use, firms will just skip entire agreement
• Better trade facilitation: faster, easier processing of goods at customs
  – Will include same use of paperwork in all 16
RCEP Contents

• RCEP is not CPTPP—but does have about 16 substantive chapters included
  – Note that RCEP does have flexibilities for developing countries and Least Developed Country (LDC) members
• Services and investment included
  – Includes provisions on investor-state dispute (ISDS)
• Also some work on standards, legal, IP, e-commerce
• Biggest obstacles remain same issues from beginning: getting major players to open markets to each other and sorting out sensitivities for everyone
• Hope to wrap up RCEP in late 2019... if not, then what? Could default to ASEAN+3?
Against ASEAN’s Integration Plans, Some Serious Challenges

• Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) now in force for 7 countries
• Includes two members in ASEAN: Singapore and Vietnam
  – Brunei and Malaysia still have not ratified
  – Once they agree, in force in 60 days
• Economic benefits already flowing to Vietnam (especially) from CPTPP membership
• Thailand in line (?) to join
• Membership in CPTPP could split ASEAN
  – Already see Vietnam no longer bundled into “CMLV”
CPTPP Trade Flows (2017)

Trade among members of the Trans-Pacific Partnership without the US. Credit: Reuters
What’s Different About the CPTPP?

• CPTPP is broader:
  – Covers markets for all goods (including agriculture), services, investment, government procurement, e-commerce with meaningful promises for opening
  – 30 chapters included in agreement, 6000+ pages

• CPTPP is deeper:
  – Has new rules for areas like intellectual property, food and food safety (SPS), standards (TBT), environment, labor, competition, customs, etc.

• Shared norms:
  – Every member has same commitments (just longer time frames for some members to implement deal)
CPTPP: Market Access for Goods

• Extensive, interlocking nature of CPTPP contains deep commitments for goods
• Goods includes: goods chapter, tariff cuts, rules of origin, textiles, standards (TBT and SPS), trade facilitation, investment, services, e-commerce, annexes, plus many side letters
• Overall, CPTPP provides greater market access than any agreement since NAFTA
• “Double” tariff cuts already in force: on “year 2” of tariff schedules
• CPTPP largely cuts to zero on everything quickly
Tariffs Capture Headlines, But…

• Some of greatest CPTPP benefits found elsewhere in deal including services and investment
• Typically, CPTPP countries reluctant to open
• Examples: Health and education
• Partly given negative list scheduling and partly a result of overall ambition of agreement, members pledge greater openness than ever before
  – But, like in goods trade, not entirely automatic
  – Firms may need to show officials CPTPP deal as not all will be familiar with new commitments
  – Capacity building remains behind schedule
Vietnam Already Seeing CPTPP Benefits

Source: https://www150.statcan.gc.ca/n1/en/subjects/international_trade
Elephant in the Room…

• Of course the biggest plus/minus for ASEAN is the ongoing US/China trade war
• For very trade dependent countries, disruption is challenging in the short run
• But benefits could flow in the longer term
• So far, limited impact to see
  – Supply chains much “stickier” than imagined as costs of shifting are high
  – ASEAN does not have same ecosystem in place to support firms with speed and efficiency
• If trade war continues, firms may change minds
At the Outset, ASEAN Very Dependent on US-China Trade (2018)

Origin countries of Chinese imports

- Asia and Oceania ($703.3b)
- Europe ($287.0b)
- The Americas ($255.9b)
- Africa ($56.8b)

South Korea $159.0b
Japan $145.7b
Germany $86.1b
United States $135.1b

Australia $70.9b
Vietnam $37.2b
Russia $32.3b
Brazil $45.9b

Malaysia $49.3b
Philippines $17.4b
Canada $18.3b

Thailand $38.5b
Hong Kong $16.7b

Data: The Observatory of Economic Complexity; Graphic: Lazaro Gamio/Axios
ASEAN Could Capture “ABC” Supply Chains

Figure 1.17. Surveys of U.S. and European Companies’ Investment Plans in China

Impact of U.S.-China Trade Tensions on Business Strategy

Source or assemble outside of U.S. and China
Relocate out of China or U.S.
Delay or cancel investments
No impact
Others

% share of respondents

Top Destinations for Relocation or Consideration to Relocate

ASEAN
Elsewhere
South Asia
U.S.
Europe
East Asia
Latin America

% share of respondents

Sources: AmCham China; AmCham Shanghai; and AMRO staff calculations.
Note: Based on survey findings from 430 firms, conducted between August and September 2018.
Disruption Projections Remain

Absolute Impact, Adverse Trade Scenario (Average Change 2019-20), in % Pts

Change in Real GDP Growth (Against Baseline), % Pts

Source: AMRO
Note: Adverse Trade Scenario refers to the escalation scenario of global trade tensions (U.S. China), with tariffs being increased to 25% by both parties.
So Far, Minimal Supply Chain Impact

**Container shipping**

**Figure 1: Shanghai Container Freight Index (SCFI)**

**Figure 2: Weekly and yearly SCFI changes by routes**

**Figure 3: China Containerised Freight Index (CCFI)**

**Figure 4: Tianjin Container Freight Index (TDI)**

Source: Shanghai Shipping Exchange

Source: Tianjin Int'l trade and shipping centre

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