



Explaining “competing” visions: ASEAN-RCEP, TPP, FTAAP by Daniel Wu and Marc Mealy

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The evolution of Asia’s trade architecture is one of the most important developments in the global economy. The continued emergence of China and India; free trade and investment initiatives such as the Australia-Malaysia FTA and the Japan, China, and Korea Trilateral Investment agreements; and a wide range of regional economic cooperation and integration efforts are catalyzing new patterns in production supply chain networks and investment trends throughout East Asia.

As we search for a long-term vision that will bring Asia’s FTAs together, the various paths forward involving APEC, the East Asia Summit, and the Trans-Pacific Partnership all share one thing: the centrality of ASEAN. Indeed, how ASEAN’s leading economies navigate these processes while striving to achieve their own regional trade liberalization and integration effort, through the formation of the ASEAN Economic Community, will play a critical role in shaping Asia’s regional trade landscape.

ASEAN centrality prevails

At the 18th ASEAN Economic Ministers (AEM) Retreat on Feb. 26, 2011 in Naypyitaw, priority was given to developing an ASEAN regional consensus on how the association would approach future trade liberalization agreements with its main economic partners. The outcome of the retreat was a draft document entitled the ASEAN Framework on Regional Comprehensive Economic Partnership (RCEP). RCEP articulates an ASEAN-led process to restart and elevate discussions with FTA partners (namely Australia, China, Japan, South Korea, India, and New Zealand) and other trade partners to create a free trade area that targets the removal of 95 percent of tariffs on goods. The RCEP was formally endorsed by the 10 ASEAN leaders at the 2011 ASEAN Summit.

Initial reactions from the private sector and public policy community have ranged from apprehension about diverting precious bandwidth from the TPP to relief knowing that ASEAN negotiators will have more choice in the trade policy marketplace and that progress is forthcoming on addressing the “spaghetti bowl” FTA realities. These developments have confirmed, to a degree, observations of ASEAN’s paradigms and motivations.

In their current form, regional trade liberalization initiatives such as the TPP and APEC’s Free Trade Area of the Asia Pacific (FTAAP) do not include all ASEAN member states. Given that ASEAN was formed from Southeast Asia’s adherence to the principle of “all for one and one for all,” the need for regional resilience through a united front continues to be a key premise of ASEAN’s foreign economic relations. The adoption of the RCEP would assuage the frustrations of ASEAN states that the explicit inclusion of equitable treatment and flexible consideration of nations at varying levels of development, remains a preeminent principle for ASEAN as an organization.

While ASEAN’s early focus was on identifying gains through common ground, rather than attempting to bridge diverging interests, a “patchwork” design now will undoubtedly delay, if not undermine, the vision of a unified Asia-Pacific, presumably led by ASEAN. However, ASEAN’s centrality in the Asia-Pacific and deference to its authority demonstrates an institutional evolution despite the lag in confidence-building and paradigm shifts. In a sense, the TPP would accentuate demarcation lines caused by the diverse economic gaps and commitments to “gold standards” in ASEAN. The RCEP, therefore, can be used as ASEAN’s homecoming in trade policy leadership in the region.

With stuttering progress in the WTO Doha Round, the proliferation of bilateral and regional preferential trade liberalization efforts suggests that it is easier for small groups of states that share common goals and values than it is for 200 sovereign states to find common ground. The key is to ensure these multi-track, multi-speed agreements are complementary by design, don’t create double standards or “floating yardsticks” that would result in further fragmentation and detract from a true trade liberalization agenda.

The RCEP alternative

The rhetoric of TPP being the “only game in town” has, to differing degrees, cornered ASEAN states by exaggerating perceived and real opportunity costs to “varying” degrees of trade liberalization as an instrument to promote economic development. At this moment, we envision that both the TPP and RCEP tracks will coexist but engage in friendly rivalry, as it is likely the RCEP and TPP will have different depths and areas of coverage.

The flexibility principle in the RCEP, such as “the agreement can be accomplished in a sequential manner or single undertaking or through any other agreed modality” and “the agreement shall provide for special and differential treatment to ASEAN Member States” arguably provides a more generous consideration of each state’s development needs. Therefore, a pragmatic RCEP approach that takes into account a second-best world with greater market access might be more appealing to some ASEAN members, as opposed to

the TPP's "no gold standard, no deal." This notion may become increasingly relevant from a commercial perspective in some sectors and industries in the current post-global economic crisis environment where global trade volumes are struggling and economic protectionism is rising.

One ASEAN official noted that "if you do lower than the TPP, then no one will be interested in joining," adding that China, which is not a party to TPP negotiations, may agree to join the RCEP since it is keen "not to fall behind," as noted by Japan's *Mainichi Shimbun*. A major recurring rationale of non-TPP partners was that their economies could not and would not benefit and, therefore, they will not comply with the TPP's "gold standards."

We have taken a hard look at ASEAN's ability to deliver high standards while under pressure and agree that ASEAN is undergoing a paradigm shift to ensure its relevance and leadership, de jure or otherwise, in the "Asian Century." While naysayers have pitted TPP superiority against ASEAN's reluctance to address tariff and non-tariff barriers, the appeal to the lowest common denominator made operational by the "ASEAN Way" seems to be evolving.

What's next?

Even in the best of times, a trade negotiation of this size and one that includes China would not be easy. However, the proposal of the RCEP of an "ASEAN + α " as opposed to an explicit "ASEAN+3" may prove to be a much needed confidence- and community-building exercise to demonstrate ASEAN's capacity to integrate its members and external states into concords of prosperity in pursuit of efficiency, growth, and harmonization. With the tacit belief that any trade agreement should incorporate China, Indonesia, and other Asian economies which carry the high growth of the Asia-Pacific region, the RCEP could be the sister incubator of FTAAP alongside APEC.

While global economic recovery continues on a slow but steady pace in 2012, the bottom line is that the more efficient, integrated, and free markets in ASEAN can become, the more domestic and foreign enterprises will invest, employ, and commit resources. ASEAN's emergence as a growth leader in the global economic rebalancing is an opportunity to focus attention and build momentum to create a climate in which firms and entrepreneurs of all types – from local enterprises to regional corporations and multinationals – have opportunities and incentives to invest productively, create jobs, and expand, and contribute to growth and poverty reduction. Ultimately, progress in ASEAN requires both the public and private sectors to take joint ownership of the region's economic future to address important constraints in ways that give firms the confidence to invest.

ASEAN has taken numerous blows to its credibility and relevance as an umbrella organization to protect the interests of its members. At the same time, the world looks to ASEAN to usher in a renaissance of Asian leadership on global affairs. However, leadership is that elusive yet enigmatic ability that enables one to turn vision into a reality by engaging other people. As the former Prime Minister of Malaysia Abdullah Ahmad Badawi once said, "ASEAN has been successful because its members have a very strong commitment to

cooperation. Cooperation for the benefit of all and cooperation for stability and peace of the region in many ways has become a prerequisite for sustaining efforts to deepen regional economic integration. This is a very important hallmark of ASEAN." Those words were, are, and can continue to be the guiding principles of ASEAN's leadership in East Asia.

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This piece was written in honor of the retirement of Professor Stanley J. Michalak, a gentleman, scholar, mentor, and friend.

PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed.