

APPENDIX

Regarding the “ASEAN Economic Community and Japan”¹

KAZUSHI SHIMIZU

Faculty of Economics, Kyūshū University

HIDEO KOBAYASHI

Research Institute Auto Parts Industries, Waseda University

Introduction

Since the Lehman Shock, China and the ASEAN countries have received more attention. The main reason for this has been the strong economic growth of these countries. Japanese companies are not exceptional so that under the so-called “China+1” framework, ASEAN as a whole and each ASEAN country has received attention. However, aside from such scenarios, ASEAN was able to take steps towards regional integration. These efforts have materialised in the form of the ASEAN Economic Community (AEC), which will be implemented from 2015. If AEC is completed, it will form a unified market of 600 million consumers, which is more than a third of China’s population. It is unnecessary to explain the consequences of this huge, unified market for the global economy – let alone for the neighbouring Japanese economy. In this book, the authors trace the historic development and give a detailed description of the current state of ASEAN and AEC.

¹ Enomoto Yuta, MA student at Waseda University, helped in writing this Appendix.

This paper provides an overview of the book authored by Koichi Ishikawa and colleagues titled “ASEAN Economic Community and Japan: The Birth of a Large Common Market” (2013) and discusses remaining issues with Kazushi Shimizu, one of the book’s original authors.

1. Current State of and issues in the ASEAN Economic Integration

First, a brief overview of this book’s content is provided. This volume consists of three parts. The first part consists of two chapters, namely “The global economy and ASEAN regional integration” (Chapter 1) and “Can ASEAN achieve regional integration?” (Chapter 2). In Chapter 1, the developments since the foundation of ASEAN are covered, including problems and struggles in the process of maturing into a single market mechanism, the foreign capital induced system of division of labour, the foundation of AEC 2015 that aims at achieving even more economic growth as well as the question of whether ASEAN can become the core of East Asia’s integration. Chapter 2 covers the ASEAN Blueprint that includes market consolidation, policy coordination, reduction of interstate gaps, and the situation of free trade areas (FTAs). Under the current condition, while tariffs between ASEAN member states are going to be eliminated, there is still the severe issue of non-tariff barriers that must be addressed.

The second part consists of six chapters: “Liberalisation and harmonisation of ASEAN trade in goods” (Chapter 3), “Liberalisation of service trade, investment and movement of individuals” (Chapter 4), “ASEAN connectivity and improvement of traffic and infrastructure” (Chapter 5), “ASEAN community and energy cooperation” (Chapter 6), “Concerning finance and financial services cooperation under AEC” (Chapter 7), and “Current state and future perspective of IPR in ASEAN” (Chapter 8). Chapter 3 highlights the difference between original member states’ advanced state of tariff reduction, high degree of openness towards FTAs, and the road to newer member states’ complete liberalisation as well as an argument that the automotive and electronics industries are the main users of FTAs. Through these examples, the necessity for smoothly harmonising rules of origin

(ROOs) is highlighted. Chapter 4 underlines the importance of not only liberalising trade in goods, but also in services, finance, and the movement of individuals (skilled labour). However, in reality, every state has its own perspective on liberalisation, so that a trend towards protectionism is highlighted. Despite these extreme difficulties, the authors explain the importance of overcoming these barriers. Chapter 5 stresses the necessity of the transport sector for better economic integration in regard to the ASEAN connectivity and the creation of sufficient road, sea, and air transport infrastructure that should be addressed urgently. Specifically, creating an economic (transport) corridor and the liberalisation of aviation are necessary, because these enable a free, smooth and timely arrival of people and goods. Chapter 6 argues that energy as a main factor for the economy requires cooperation. Practically, the build-up of electricity grid and gas-pipelines should be prepared. It is also mentioned that the considerate use of environmental resources and the utilisation of renewable energy are necessary. In Chapter 7, the importance of cooperation in financial services and finance is highlighted. In this context, the lessons of the 1997 financial crisis and the consensus-based cooperation between ASEAN, Japan, China, and South Korea are explained. However, it is stressed that the liberalisation of financial transactions requires member states to conform to the market. Chapter 8 argues that ASEAN must cooperate in the protection of intellectual property rights (IPRs). As the protection of IPRs is central to competitiveness, required by the international community and beneficial for ASEAN, the community should consider creating a unified patenting system. Furthermore, creating an intellectual property system would promote trust not only internationally but also locally within ASEAN resulting in companies that will surely encourage exports from and investments to ASEAN.

The third part consists of five chapters, namely “Closing the gap” (Chapter 9), “East Asian FTAs and ASEAN” (Chapter 10), “Concerning deepening ASEAN regional integration beyond 2015” (Chapter 11), “Japanese companies and AEC” (Chapter 12), and “AEC and Japan-ASEAN cooperation” (Chapter 13). Chapter 9 explores the narrowing gap between Cambodia, Laos, Myanmar, and Viet Nam or collectively known as CLMV and the pioneer countries. In the last years, the improvement of infrastructure, natural resource use, and specialisation in the garments industry have led to a wave of investments into Cambodia, Laos, and Myanmar (or the CLM

countries), which has caused economic growth. From now on, due to ASEAN Economic Community (AEC) related infrastructure projects such as the economic corridor and the Cross-Border Transport Agreement (CBTA), it is expected that CLM countries will become increasingly attractive for manufacturing industries. However, this makes it necessary to invest in human resource development. Thus, the link between attracting investments and economic competitiveness is underlined. Chapter 10 discusses the five free trade areas (FTAs) that encompass East Asia, Australia, New Zealand, and India as well as the issues related to the Trans-Pacific Partnership (TPP) headed by the United States. While TPP has the potential to speed up AEC integration, it is also possible that it will have the opposite effect. In any case, ASEAN is regarded as the core of East-Asia's integration. In Chapter 11, the ASEAN development beyond 2015 is discussed with respect to the question of whether ASEAN is going to become a customs union or an Asian copy of the European Union (EU). Chapter 12 discusses whether the already strong relationship between Japanese firms and ASEAN is going to become even deeper due to AEC. It is worth mentioning that with Japanese companies having a strong business presence in the region, these have forwarded requests to ASEAN regarding simplifying customs procedures and ROOs, standardisation of safety regulation, cooperation in infrastructure development, and the necessity to become an ASEAN partner. Chapter 13 explores the issue on whether Japan and ASEAN can go beyond the current strong economic relationship and build a reciprocal relation that is based on shared values such as the rule of law.

2. Historic Development towards Economic Integration of ASEAN

In 1998, Shimizu analysed the process of regional integration in Asia and related issues in *The Political Economy of ASEAN Regional Economic Cooperation*. Chapter 5 discussed the so-called brand-to-brand complementation (BBC) scheme for the automotive industry in detail. The scheme is a general foreign investment-based, export-oriented industrialisation strategy, which has caused the development of the ASEAN automotive market as well as the creation of supply chains. Subsequently, Ishikawa and Shimizu published the *ASEAN Economic Community* under

JETRO in 2009. This book discusses the relation between AEC and the ASEAN Charta, and the AEC basic schedule and tasks as well as the effects on every member state's key industry and Japan's cooperation under the scheme. Furthermore, Shimizu published *AEC and Japan* shortly after and explored similar questions. It is possible to state that each work analyses the contemporary state and problems of ASEAN's development. Through these three volumes, one can trace ASEAN's progress up to the current point and, to some extent, foresee the direction of its development. While the question of ASEAN being the core of East Asia's economic integration is widely discussed, it appears necessary to further observe the development in order to understand the process. The achievements have been credited but the problematic points must also be named, which according to Chapter 11 in *AEC and Japan* are:

1. The ability to further deepen integration beyond AEC 2015 as described by the ASEAN Blueprint. If this would be the case, what does the author think as necessary solutions for such a strangling of the automobile and components industries?
2. Concerning AEC 2015, the CLMV countries are delaying the implementation of tariff elimination. What kind of change in the CLMV countries is expected? Moreover, what kind of influence can older member states have over CLMV countries?
3. Negotiations on TPP are progressing at present and ASEAN member states Singapore, Malaysia and Viet Nam are involved. Regarding the period beyond AEC 2015, what kind of relations will TPP negotiations bring to ASEAN? Furthermore, what kind of influence would joining TPP have on Japan?
4. Regarding East Asia (China, Japan, South Korea), what lessons must be drawn if AEC and TPP are intertwined?

3. Remaining Issues for the Economic Integration of ASEAN

Based on the preceding section, Kobayashi developed the following questions. The responses and clarifications were provided by Shimizu.

Issue 1

Regarding the development of the ASEAN Economic Community beyond 2015, Chapter 11 argues that it depends on the implementation of the ASEAN Blueprint. In case that this process impacts on the automobile and auto parts industries, likely problems are taken into account and possible solutions are considered. Some problems include the practical consequences of the unrestricted intra-regional trade of completely built units (CBUs) and vehicle components as well as free movement of capital.

Issue 2

Under AEC 2015, tariff reduction in all CLMV countries will be delayed until 2018. During this period, which changes must be implemented in these countries? Furthermore, what influence can the older member countries have over them in this process?

Issue 3

Negotiations on TPP are progressing at present and ASEAN member states Singapore, Malaysia and Viet Nam are involved. Regarding the period beyond AEC 2015, what relation will the TPP negotiations bring to ASEAN? Furthermore, what kind of influence would joining TPP have on Japan?

Issue 4

Regarding East Asian nations (China, Japan, and South Korea), what insights can be drawn from the interwoven nature of AEC 2015 and TPP?

Response 1

Due to the forthcoming regulations developed as the four pillars of AEC 2015, the following will be liberalised:

1. Trade in goods (as tariff is reduced to zero)
2. Service trade
3. Capital and investment conditions

4. Movement of individuals.

It appears possible that further liberalisation can be achieved. In one such step, the ASEAN 6 countries (Thailand, Indonesia, Malaysia, the Philippines, Singapore, and Brunei) have eliminated tariffs, with a few exceptions only. From 2015, CLMV countries will – again, with some restricted items – reduce their tariffs to zero, which is an anticipated huge change. Thus, it is expected that CLMV countries will have eliminated all tariffs by 2018. At present the ASEAN 6 still apply a 5 percent tariff to the goods mentioned above and 98 percent of all goods are traded without any tariff. While it is possible to state that AEC's core is AFTA, which currently still allows a 5 percent tariff rate (however, it is aiming for reduction to zero for intra-regional transport), it is also clear that ASEAN 10 will be a further step towards a regional free trade system. It is possible that AEC 2015 will become the starting point of further (outward) tariff reduction.

Regarding the liberalisation of services, capital, and movement of individuals, it appears highly likely that these goals are not going to be fully implemented by 2015. Hence, while the liberalisation of trade in goods is going to be implemented by 2015 on one hand, the liberalisation of services, capital, and skilled labor on the other hand is most likely going to be delayed. There are those who say that AEC 2015 is only a tariff elimination program, however, this is not entirely correct. Let us consider the long-term perspective: While the initial economic cooperation – specifically the ASEAN Industrial Program (AIP) and ASEAN Industrial Complementation (AIC) schemes of 1976 – failed, the second half of the 1980s saw the implementation of a common market strategy commence. Subsequently, Japan's Mitsubishi Motors applied for the BBC scheme and in 1992, AFTA was created. The implementation of AFTA marked the beginning of numerous tariff reductions and, at that time, complete tariff elimination was regarded as impossible by member countries. However, some 20 years later, the impact of globalisation, the Asian financial crisis as well as the rise of China have led ASEAN to create a remarkable free trade system. (Additionally, it can be stated that the BBC scheme and its successor the ASEAN Industrial Cooperation (AICO) have played leading roles in reducing tariffs on intra-regional auto parts and vehicles trade.)

The first half of 2000s witnessed an import and export crisis and simultaneous liberalisation in parts trade in the automotive industry. Toyota's IMV project is a representative example of an intra-regional system of parts complementation using Thailand and Indonesia as assembly centers. While this is the general structure of complementary production in ASEAN, it depends on the strategy of individual OEMs if this is also their future model. Of course, it is possible that liberalisation may encourage OEMs to continue final vehicle assembly in Thailand or Indonesia. However, wage increase in Thailand and other countries currently promotes the relocation of certain production to Laos and Cambodia (refer to question 2). In the end, a mixed system of concentrated assembly and simultaneous production in peripheral regions can be expected. Each company has to ask and answer the question if the current system can be continued or if relocating production to newer member countries is necessary.

Moreover, there is the problem of non-tariff barriers. Eliminating non-tariff barriers should be the next step. For example, security standards or non-tariff levies are issues that have to be addressed when tariffs are eliminated.

Response 2

As AEC promotes trade liberalisation, an increase in intra-regional automobile imports and exports may be expected. For example, it is not only possible that CLMV countries will increase their domestic production but that car imports from Thailand, Indonesia, and Malaysia are going to increase as well. Furthermore, under the rules of the World Trade Organization (WTO), it is no longer possible to use taxation (on goods) as a protective measure. On the contrary, CLMV countries must accept tariff-free imports of vehicles produced under the system of shared labor-inputs in the region. Thus, it is necessary to develop the automotive parts industry and to find a specialised task in the production and supply system. As Thailand and the CLMV countries are geographically close, wage increases may encourage the transfer of labor-intensive production steps to Cambodia, Laos, and Myanmar; this is an extension of the regional production network. In other words, CLMV countries have the potential to expand industry by becoming part of the inter-process production network of the automotive industry.

Response 3

It is likely that TPP negotiations are going to have an impact on ASEAN's economic integration and it is important to consider the possible impacting issues of TPP on ASEAN itself. At the moment, 12 countries are involved in TPP negotiations. In the beginning, four APEC member countries (Singapore, Brunei, Chile, and New Zealand) have concretely agreed to engage in trade liberalisation. Subsequently, the United States (US) joined the negotiations and quickly gained strong influence. TPP is a combination of the world's leading country in gross domestic product (GDP) terms and rather small economies. However, when Japan joined the negotiations in 2011, this even increased any possible impact on ASEAN and it becomes necessary to consider the possibility of having Japan and USA – the No. 1 and No. 3 countries in GDP terms – together in TPP.

Parallel to the TPP, the regional East Asian FTA called Regional Comprehensive Economic Partnership (RCEP) is also progressing. ASEAN 6 member states decided in 2003 that tariffs in AFTA should be reduced to 5 percent and to zero by 2010. Against this background, ASEAN could create a system of FTAs with Japan, South Korea, China, India, Australia, and New Zealand, called ASEAN+1, which are basically extensions of the ASEAN internal system. Furthermore, as there is no FTA between the leading countries in East Asia (there are no Japan-China, Japan-South Korea, or South Korea-China connections), the chances for ASEAN are extremely favourable. How is the ASEAN initiative opposed to China's proposal called the East Asia FTA (EAFTA) and Japan's Comprehensive Economic Partnership Agreement (CEPA)?

TPP negotiations take place under such conditions. While it appears currently possible that Japan is going to join TPP, China has proposed EAFTA (ASEAN+3) in August 2011 while CEPA (ASEAN+6) represents another possible compromise. These attempts to promote regional FTAs under Chinese and Japanese leadership, which will undermine ASEAN centrality, have left ASEAN in a tense condition.

While ASEAN has created a system of ASEAN+1 FTAs, Japan and China's individual initiatives would leave this currently best solution as second-best.

Furthermore, while RCEP has the potential to leave ASEAN sidelined, the success of AEC 2015 is more important to address and would probably eliminate the current sense of crisis. Thus, RCEP will speed up the implementation of AEC.

Moreover, ASEAN economic integration is not restricted to ASEAN but involves the attraction of foreign investment and exports, and engaging the world outside the region is necessary. Furthermore, as ASEAN practices a common foreign investment-based and export-oriented strategy since 1987, outward relations, economic integration and FTA are a well-known demand. Despite this background, at the moment it appears as if ASEAN may push back further economic integration. ASEAN must defend itself by promoting RCEP and pushing forward its own economic integration. Thus, it can be concluded that while TPP is being negotiated, there is pressure to promote RCEP and to successfully implement AEC.

Response 4

This question is related to RCEP. While it is presently negotiated, it looks like RCEP's system is fundamentally unable to meet the expectations that AEC 2015 and ASEAN+1 FTAs have created. However, AEC 2015 should be the decisive factor for the evolution of RCEP. Naturally, RCEP's legal clauses can in turn also impact the development of AEC 2015, especially regarding the IPR issues. However, it will be difficult to make RCEP more liberal than AEC with regard to services and investment, which makes it even more important for ASEAN to widen from the core to East Asia.

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