Chapter 3

Trade Flows between ASEAN and the UK: A Comparative Study

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Chapter 3

Trade Flows between ASEAN and the UK:

A Comparative Study

This chapter describes the evolution of bilateral trade between the United Kingdom (UK) and the Association of Southeast Asian Nations (ASEAN) over the past decade, especially in key sectors. Explained in the global context, it provides an overall characterisation as well as highlights of the main trading partners and sectoral disaggregation over the last 2 decades. It focuses on trade flows between ASEAN and the UK compared with European Union (EU) countries. It includes boxes on international trade in services and a recent trade agreement in Asia, underlining the UK's policy directions for greater trade engagement with ASEAN and East Asia.

Overview

ASEAN is one of the most open economic regions in the world, but the degree of openness is decreasing as domestic demands grow. Its economies are growing faster than the rest of the world and are converging in terms of production capacity as well as purchasing power. At the same time, a massive shift has taken place in the last 20 years, with China displacing the United States (US) as ASEAN's number one trading partner.

The UK and some key EU member countries have a smaller presence in trade with ASEAN, which has not improved in recent years. This is not surprising from an ASEAN perspective given the smaller size of the UK economy in the last few years. The same is true for the EU countries.

From the UK perspective, however, it is not easy to understand why its exports to such a dynamic region have increased so little as a share of the region's total imports. The trend is even worse for some key EU players, such as Germany, while France surprises on the positive side with ASEAN – gaining market share in its exports much faster than the UK and from a lower base.

The sectoral breakdown of UK bilateral trade with ASEAN is similar to that of the major EU countries, but with a greater presence of petroleum-related items. In other words, the UK competes with the EU for most export items – machinery and equipment, textiles, and chemicals and pharmaceuticals. This means that a trade agreement with ASEAN would put the UK at an advantage in these markets compared with the EU.

As for services, the situation is even more underwhelming as the share of ASEAN in the UK's trade in services is very small, in both directions. The exception is Singapore, mainly for business services. Japan dominates the ASEAN region in financial services, but still with a very low base compared with the UK's trade in services with other areas of the world, especially the US and the EU. UK imports of services from ASEAN are dominated by tourism, especially from Thailand, but with a much more limited scope than with other parts of the world, especially the EU.

Thinking ahead, ASEAN offers an important opportunity for the UK in terms of growing exchanges – whether trade in goods or trade in services. The UK's decision to apply to join the Comprehensive and

Progressive Agreement for Trans-Pacific Partnership (CPTPP) is an important signal regarding the increasing relevance of the Asia-Pacific region (ASEAN but also Australia and Japan as well as some Latin American economies, i.e. Chile and Mexico). While welcome, the UK will need to come to terms with the very strong gravitation of ASEAN towards China, given its huge economic size but also its central role in the global value chain (GVC). Such gravitation will probably accelerate thanks to the Regional Comprehensive Economic Partnership (RCEP) signed amongst ASEAN economies, Australia, Japan, the Republic of Korea (henceforth, Korea), and most importantly, China. However, the RCEP is a rather limited trade deal in terms of scope and mainly focuses on a slow but steady reduction in tariffs for goods. Still, the power of gravity is bound to push ASEAN's economic integration further towards China, which may make it difficult for the UK to reap the benefits within the CPTPP if it delays becoming part of it.

Box 3.1: Data Description and Definitions

Trade in goods

Annual gross goods trade flows analysed throughout this chapter are sourced from the United Nations International Trade Statistics Database (United Nations, n.d.), measured in nominal United States dollars. Sectoral data correspond to the aggregation of products from the Harmonized System (HS) classification at the two-digit level: agriculture and food industry (HS codes 1–24), petroleum (27), chemicals and pharmaceuticals (28–38), textiles (50–66), metals (72–83), machinery and equipment (84–89), and other activities (rest).

Trade in services

Annual gross services trade flows analysed in Box 3.2 are sourced from the United Kingdom's Office for National Statistics (2020) Geographical Breakdown of the Current Account in *The Pink Book*, measured in nominal pounds sterling. Types of services are based on the International Monetary Fund's *Balance of Payments and International Investment Position Manual* (IMF, 2009). Individual data for ASEAN Member States as trade partners are limited to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Definitions

Trade openness corresponds to the sum of total exports and imports of a country over its gross domestic product (GDP).

Sectoral specialisation corresponds to a larger share of a sector in the total exports of a country compared with the world or a certain economic area.

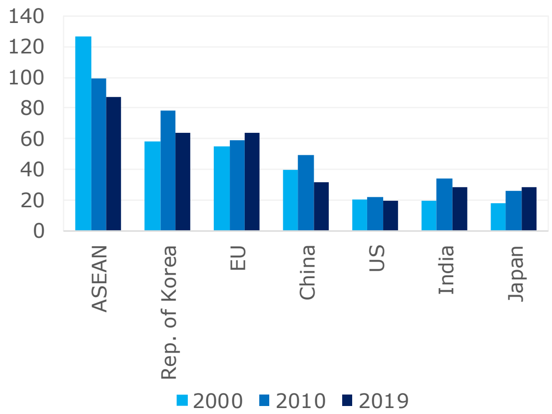
Source: Authors.

Trade flows in ASEAN

A comparison across the world's main economic areas shows that ASEAN trade openness is very high by global standards (Figure 3.1) – well above the levels in the US and even the highly integrated EU, as well as other economies in Asia, such as China, India, Japan, or Korea.

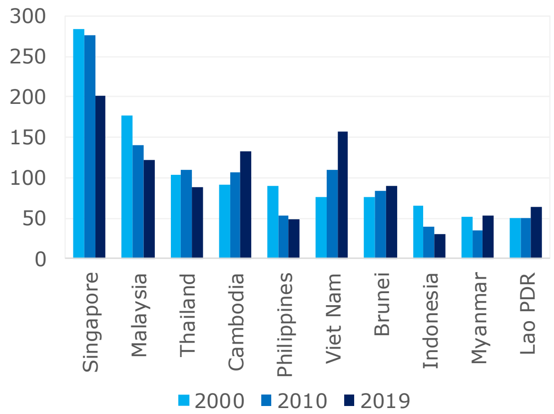
The picture holds for most of the ASEAN Member States (AMS), although there is still quite a lot of heterogeneity amongst countries, with Singapore the most open and Indonesia – the largest economy in the bloc – the least open (Figure 3.2).

Figure 3.1: Total Trade as a Share of GDP, by Economic Area (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, GDP = gross domestic product, US = United States.
Note: Total trade is the sum of exports and imports.
Sources: UN Comtrade, UNCTAD, and WDI.

Figure 3.2: Total Trade as a Share of GDP, by ASEAN Member State (%)



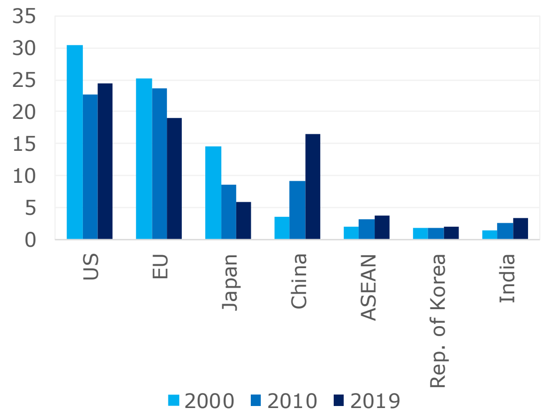
ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.
Note: Total trade is the sum of exports and imports.
Sources: UN Comtrade, UNCTAD, and WDI.

In the last 2 decades, economic growth has been strong in developing and emerging Asia, increasing the share of China, India, and ASEAN in the world´s gross domestic product (GDP) to the detriment of developed economies such as the US and, in particular, the EU and Japan (Figure 3.3).

Economic growth in developing and emerging Asia – China and ASEAN in particular – has been fuelled by the vast expansion of domestic demand resulting from gains in purchasing power and the rise of middle-income groups. This, and not lower participation in global trade, has been the key factor leading to a progressive and generalised reduction in the share of exports and imports over GDP (Figures 3.1 and 3.2) and the trade surplus with the rest of the world (Figure 3.4). This characterisation is opposed to that of most developed economies, where domestic demand has remained stagnant and external demand is an increasingly important growth engine.

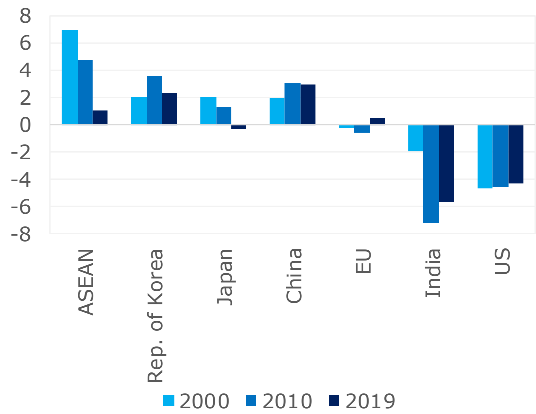
Within ASEAN, two countries have become even more open since 2000 relative to GDP – Cambodia and Viet Nam – succeeding in both high economic growth and larger participation in global trade (Figure 3.2).

Figure 3.3: Share of World GDP, by Economic Area (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, GDP = gross domestic product, US = United States.
Sources: UN Comtrade, UNCTAD, and WDI.

Figure 3.4: Trade Balance as a Share of Each Country's GDP, by Economic Area (%)

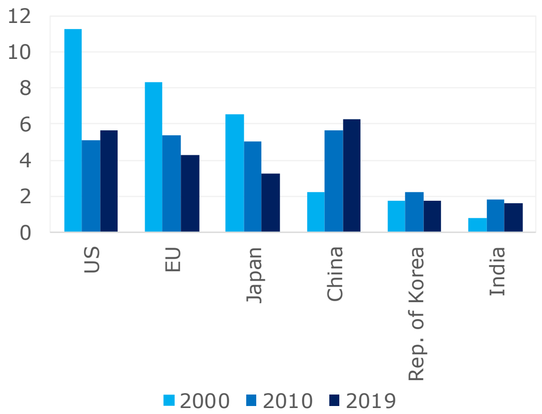


ASEAN = Association of Southeast Asian Nations, EU = European Union, GDP = gross domestic product, US = United States.
Note: Trade balance equals the value of exports minus imports.
Sources: UN Comtrade, UNCTAD, and WDI.

When looking into the geographical composition of trade, the main feature characterising ASEAN participation in global trade is the increasing relevance of China over the last two decades. The share of China as a destination for ASEAN exports rose from 2% in 2000 to more than 5% in recent years (Figure 3.5), while an even bigger increase was recorded on the import side during the same period, reaching a share of almost 15% (Figure 3.6). Accordingly, the increasing trade linkages between both economic areas are rather asymmetric, accumulating a sizeable trade deficit for ASEAN, which had run a surplus in the past.

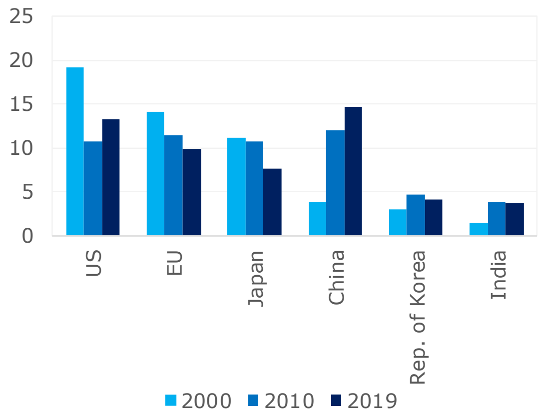
In sum, China has become the top trading partner of ASEAN to the detriment of the US, and, particularly, the EU and Japan – clearly diminishing the relative importance of developed economies in ASEAN's trade and establishing a stronger relation within Asian borders.

Figure 3.5: Exports from ASEAN as a Share of Total Exports, by Trading Partner (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Note: EU = member countries as of 1995–2003.
Sources: UN Comtrade, UNCTAD, and WDI.

Figure 3.6: Imports of ASEAN as a Share of Total Imports, by Trading Partner (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Note: EU = member countries as of 1995–2003.
Sources: UN Comtrade, UNCTAD, and WDI.

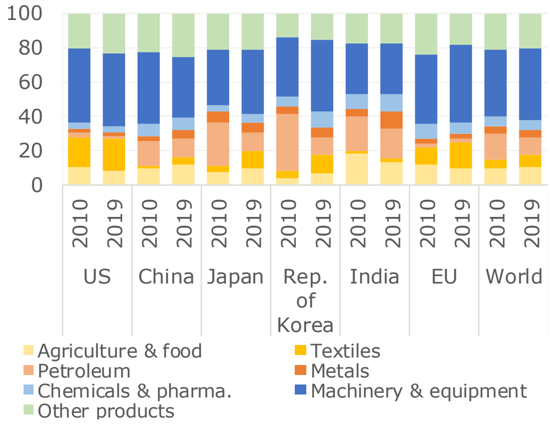
In terms of the sectoral composition of trade, the largest share of ASEAN exports to the world corresponds to machinery and equipment, followed by petroleum, and, in the commodity space, agriculture and food (Figure 3.7).

By trading partner, the most noticeable difference in the sectoral composition corresponds to a higher share of manufacturing goods in exports to Western developed economies (the US and the EU) and a higher share of commodities in exports to other Asian economies. In other words, ASEAN today is already a manufacturing platform, as it comes to the UK or the EU, so closer trade relations with ASEAN could improve the integration of the UK in the GVC and, in particular, that of Asia.

The overall sectoral composition is very similar from the import perspective, with a slightly higher share for metals (from other Asian economies) and petroleum and a lower one for textiles and agriculture and food (from developed economies in particular) (Figure 3.8).

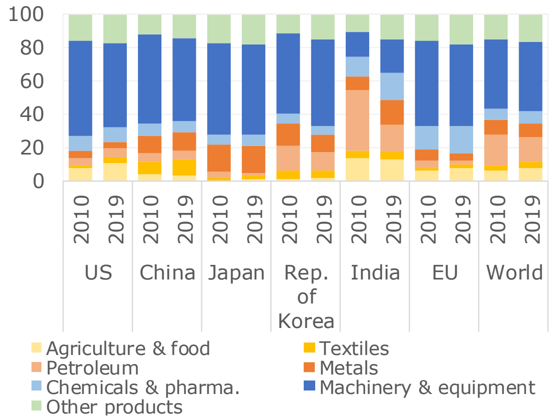
Sectoral specialisation is also changing over time, with the share of petroleum products having decreased overall in ASEAN trade during the last decade. On the export side, this reduction has been to the benefit of textiles in general, machinery and equipment to developed economies, and agriculture and food to China and Japan. On the import side, it has mirrored a generalised increase in the share of machinery and equipment (except for the US, for which imports of agriculture and food show the largest increase).

Figure 3.7: Sectoral Composition of Exports from ASEAN, by Trading Partner (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

Figure 3.8: Sectoral Composition of Imports of ASEAN, by Trading Partner (%)



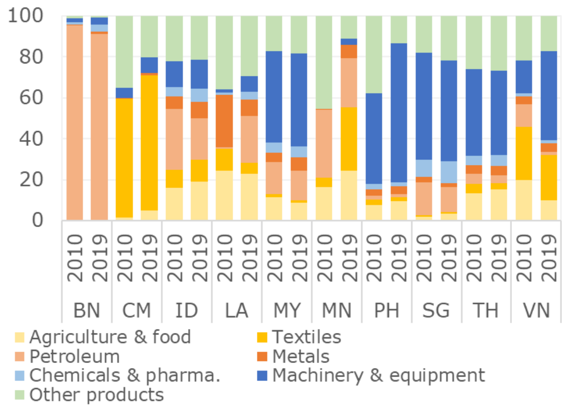
ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

At the country level, trade specialisation is very diverse across AMS, reflecting both the availability of natural resources and very different levels of economic development, which determine production capacities and demand patterns.

On the export side, the most pronounced specialisation is found for Brunei Darussalam (petroleum products) and Cambodia (textiles) (Figure 3.9). For machinery and equipment, which accounts for the largest share of ASEAN exports (as mentioned before), the Philippines, Singapore, Thailand, and Malaysia stand out, while Indonesia, the Lao People's Democratic Republic (Lao PDR), and Myanmar clearly fall behind the region's average. On the other hand, Viet Nam shows the most noticeable change in export specialisation during the last decade, increasing the share of machinery and equipment to the detriment of agriculture and food in particular.

In turn, the import structure by sector is much more similar across AMS than for exports (Figure 3.10). The largest deviations have been identified in the two countries with a more pronounced export specialisation – Brunei Darussalam and Cambodia – which both show the largest import share in the same product categories in which they are specialised, likely reflecting foreign intermediates processed for later exporting activities.

Figure 3.9: Sectoral Composition of Total Exports from ASEAN Member States (%)

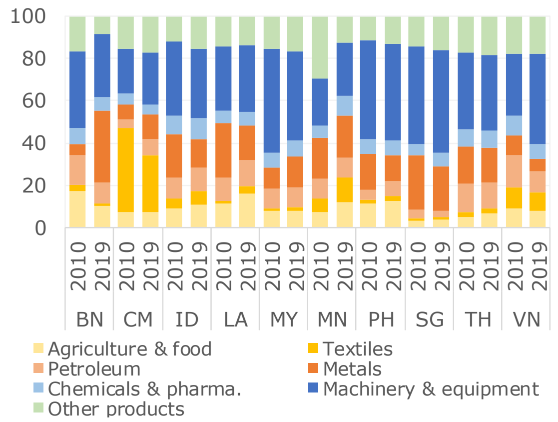


ASEAN = Association of Southeast Asian Nations, BN = Brunei Darussalam, CM = Cambodia, ID = Indonesia, LA = Lao PDR, MY = Malaysia, MN = Myanmar, PH = Philippines, SG = Singapore, TH = Thailand, VN = Viet Nam.

Note: See Box 3.1 for the definition of sectors.

Source: UN Comtrade.

Figure 3.10: Sectoral Composition of Total Imports of ASEAN Member States (%)



ASEAN = Association of Southeast Asian Nations, BN = Brunei Darussalam, CM = Cambodia, ID = Indonesia, LA = Lao PDR, MY = Malaysia, MN = Myanmar, PH = Philippines, SG = Singapore, TH = Thailand, VN = Viet Nam.

Note: See Box 3.1 for the definition of sectors.

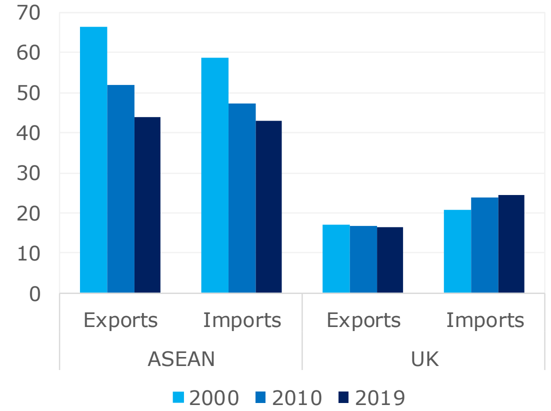
Source: UN Comtrade.

Trade flows between ASEAN and the UK

The UK has become more open, trade-wise, in the last two decades relative to its GDP, although its trade openness remains well below that of ASEAN (Figure 3.11) and most of the AMS (see Figure 3.2 for comparison). The larger increase on the import side has generated an increasing deficit in goods trade for the UK with the rest of the world, which is being only partially offset by the surplus in services trade (Box 3.2).

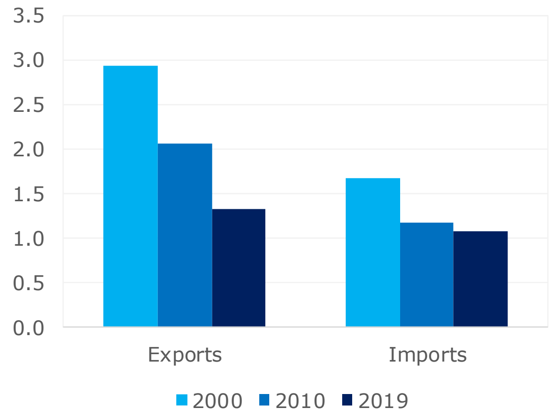
On a bilateral basis, and from the perspective of ASEAN, the share of trade with the UK has declined significantly in the last 2 decades, falling to less than 1% of ASEAN's total exports and imports in recent years from around 2%–3% in 2000 (Figure 3.12). This trend has been particularly intense for the UK as an export destination, and reflects the fact that the UK has become a smaller economy in the global context (its GDP share of the world total declined from 3.1% in 2000 to 2.2% today according to IMF (2021) figures).

Figure 3.11: Total Exports and Imports of ASEAN and the UK as a Share of GDP (%)



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, UK = United Kingdom.
Sources: UN Comtrade and UNCTAD.

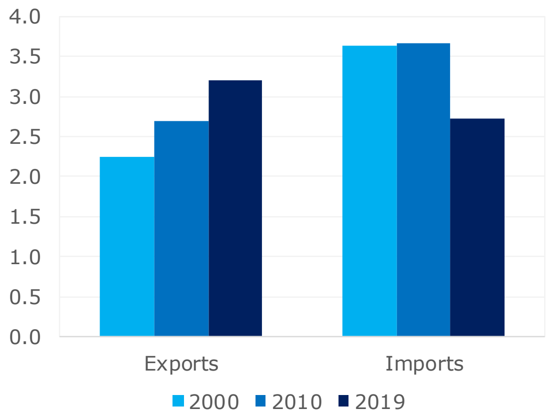
Figure 3.12: Exports/Imports of ASEAN to/from the UK as a Share of Total ASEAN Exports/Imports (%)



ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

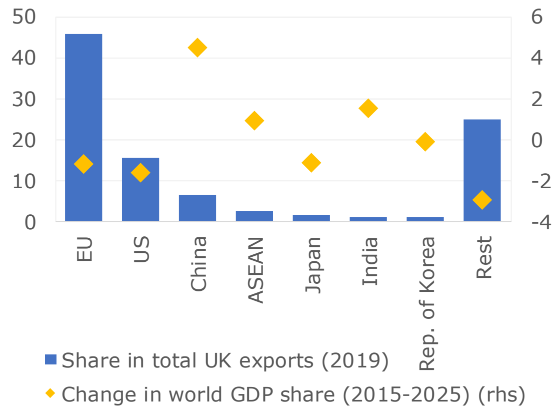
From the UK perspective, the share of trade with ASEAN is higher and has increased on the export side in recent years due to faster growth in ASEAN demand, reaching around 3% of total UK trade in 2019 (Figure 3.13). Nevertheless, bilateral trade is still limited and the share of UK exports to ASEAN remains rather modest, particularly when compared with the size of ASEAN economies and, most importantly, their fast growth (Figure 3.14). Significantly, the UK's modest trade with ASEAN is also reflected in the UK's exports to other emerging economies, including China. On the other hand, trade with the EU, favoured by geographical proximity and past institutional ties, remains excessively large, at least when compared with the EU's economic size and growth performance (both past and expected).

Figure 3.13: Exports/Imports of the UK to/from ASEAN as a Share of Total UK Exports/Imports (%)



ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

Figure 3.14: Share of UK Exports (%) **and Expected Change in World GDP Share** (% points)**, by Trading Partner**

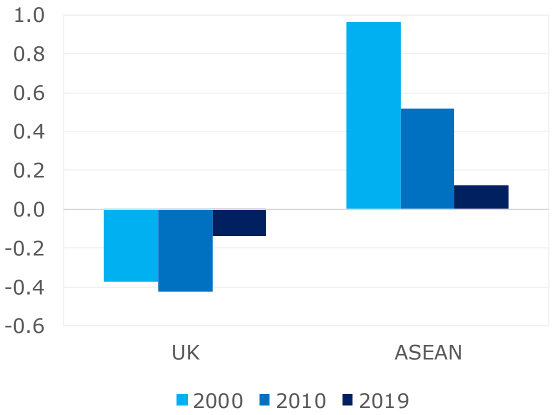


ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, UK = United Kingdom.
Sources: UN Comtrade and IMF.

The combination of the decreasing relative relevance of the UK for ASEAN and the increasing relevance of ASEAN for the UK, triggered by the positive growth differential in favour of ASEAN economies, has resulted in a narrower trade surplus for ASEAN and the reversion of the UK's structural deficit to virtually balanced trade (Figure 3.15).

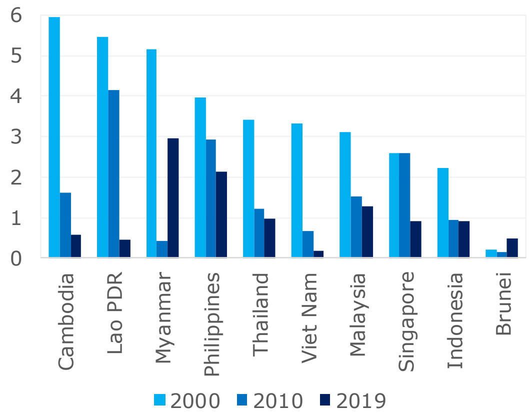
At the ASEAN country level, a general decrease has been observed for the UK share of total exports during the last decade (Figure 3.16), which is particularly significant for Cambodia, the Lao PDR, Thailand, and Viet Nam.

Figure 3.15: Bilateral Trade Balance Between ASEAN and the UK as a Share of UK/ASEAN GDP (%)



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, UK = United Kingdom.
Note: Trade balance equals the value of exports minus imports.
Sources: Natixis, UN Comtrade, and UNCTAD.

Figure 3.16: Exports of ASEAN Member States to the UK as a Share of Total Exports (%)



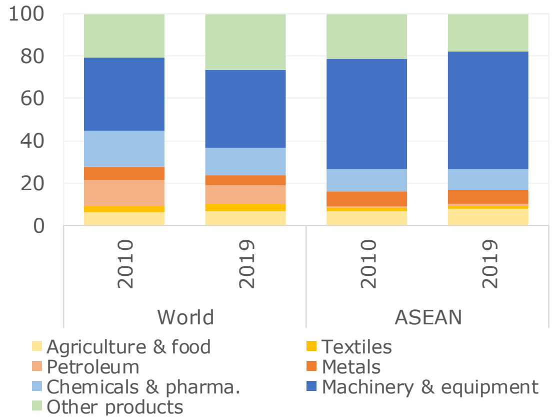
ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

When looking into the geographical composition of trade, the largest product group in UK exports to the world corresponds to machinery and equipment, followed by chemicals and pharmaceuticals, and petroleum products (Figure 3.17). In contrast, the sectoral structure of UK exports to ASEAN is more concentrated, with a significantly higher share for machinery and equipment to the detriment of chemicals and pharmaceuticals as well as petroleum products.

On the import side, the sectoral composition for the UK is very similar to exports when considering total trade with the world (Figure 3.18). However, imports from ASEAN show a quite different structure, with a higher share for agriculture and food and textiles and a lower share for petroleum products and chemicals and pharmaceuticals.

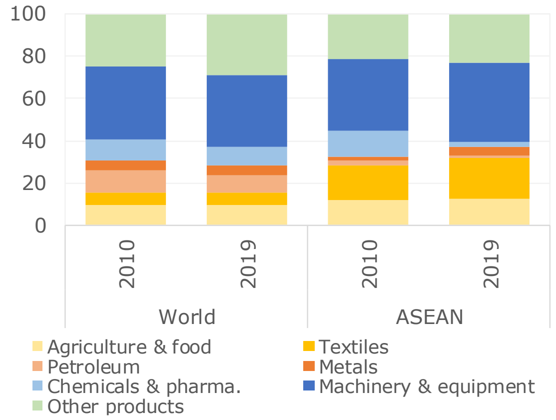
The sectoral composition of trade flows between the UK and ASEAN has remained relatively stable in the last decade.

Figure 3.17: Sectoral Composition of Total UK Exports to the World and to ASEAN (%)



ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

Figure 3.18: Sectoral Composition of Total UK Imports from the World and from ASEAN, by Trading Partner (%)

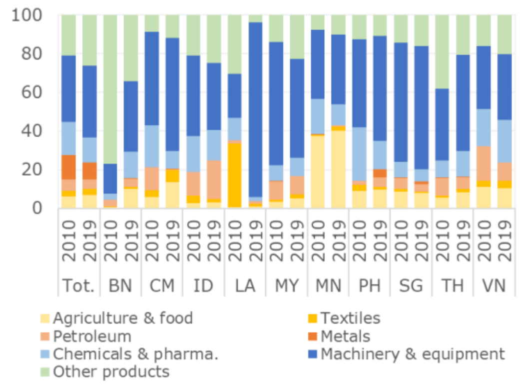


ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

On a bilateral basis with AMS, a number of deviations are observed with respect to the sectoral composition of total UK trade. For instance, on the export side, the share of machinery and equipment is particularly large for UK exports to Cambodia, the Lao PDR, Malaysia, and Singapore, while the same happens to the share of metal products exported to Indonesia and Viet Nam or agricultural products to Myanmar (Figure 3.19).

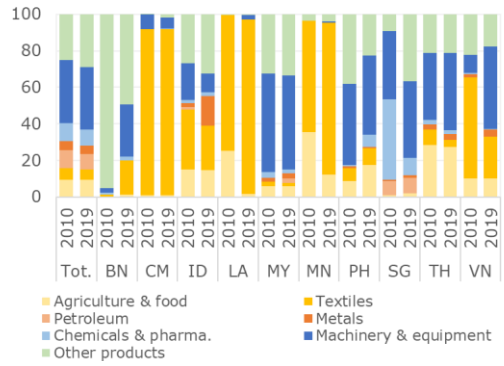
The sectoral structure is more heterogeneous for UK imports across AMS partners, reflecting to a large extent the product specialisation of each ASEAN economy (Figure 3.20). This is particularly the case for Cambodia, the Lao PDR, and Myanmar, with an underwhelming importance of textiles in their export basket to the UK, as well as Thailand in the case of agricultural products.

Figure 3.19: Sectoral Composition of Total UK Exports and UK Exports to AMS (%)



AMS = ASEAN Member States, ASEAN = Association of Southeast Asian Nations, BN = Brunei Darussalam, CM = Cambodia, ID = Indonesia, LA = Lao PDR, MY = Malaysia, MN = Myanmar, PH = Philippines, SG = Singapore, TH = Thailand, UK = United Kingdom, VN = Viet Nam.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

Figure 3.20: Sectoral Composition of Total UK Imports and UK Imports from AMS (%)



AMS = ASEAN Member States, ASEAN = Association of Southeast Asian Nations, BN = Brunei Darussalam, CM = Cambodia, ID = Indonesia, LA = Lao PDR, MY = Malaysia, MN = Myanmar, PH = Philippines, SG = Singapore, TH = Thailand, UK = United Kingdom, VN = Viet Nam.
Note: See Box 3.1 for definition of sectors.
Source: UN Comtrade.

Box 3.2: Trade in Services: UK's Competitive Advantage in ASEAN and East Asia

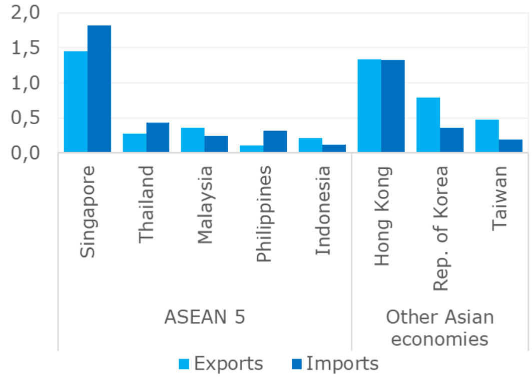
Geographical composition

UK's trade in services with the European Union (EU), as in the case of goods, remains excessively large, representing around 45% of exports and imports (Figure A). The second partner of the United Kingdom (UK) is the United States (US), with 20%–25% of total services trade – above the share in goods trade (around 15% as shown in Figure 3.14).

On the other hand, compared with overall economic size, services trade with Asia is rather modest, not exceeding a 3% share for Japan, China, or India. Figures are particularly low for China when compared with goods trade, while the ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) appear higher in the ranking although still modest given the fast economic growth in the region.

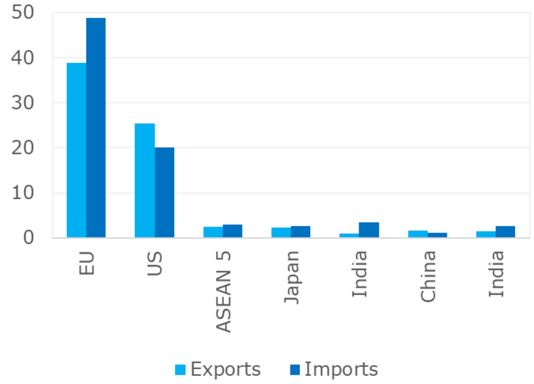
At a country level, Singapore is the UK's main ASEAN partner for services (Figure B), representing around 1.5% of total UK trade in services, while the bilateral relation with other ASEAN Member States is very limited (0.0%–0.5%). Beyond Singapore, relations with other Asian economies appear to be more relevant for the UK, such as the case of Hong Kong or the Republic of Korea (Figure B).

Figure A: Share of Total UK Services Exports and Imports by Trading Partner, 2019 (%)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

Figure B: Share of Total UK Services Exports and Imports by Trading Partner, 2019 (%)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

Composition by type of service

By type of service, the largest share of UK trade with the rest of the world is concentrated in three categories: travel, financial services, and business services.

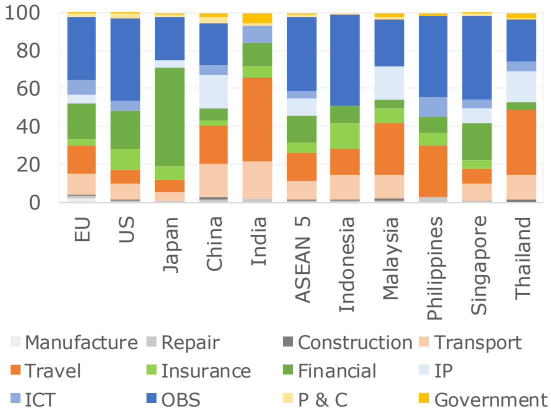
On the export side (Figure C), the largest category of aggregate services trade with the ASEAN 5 corresponds to business services including professional activities (close to 40% in value terms), followed by travel and financial services (almost 15% in each case), transportation and intellectual property (near 10% each), and insurance and information and communication technology (ICT) services (5% each).

At the country level, and compared with the ASEAN 5 benchmark, business and financial services represent a significantly larger share of exports to Singapore, as well as travel and intellectual property in the case of Malaysia and Thailand.

On the import side (Figure D), the structure of the bilateral relation with the ASEAN 5 mainly differs from exports in the larger share of travel services (25%) and the minimal role of insurance and intellectual property import flows (less than 1% in each case).

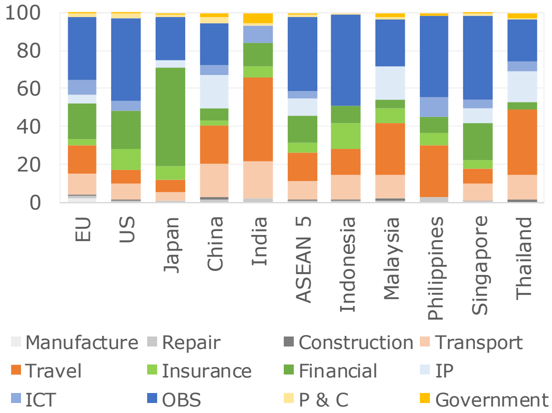
This picture is much starker when considering individual countries beyond the case of Singapore. UK imports of travel services represent more than 40% for the rest of the ASEAN Member States, reaching almost 80% in the case of Thailand.

Figure C: Sectoral Composition of UK Services Exports, by Trading Partner, 2019 (%)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; IP = intellectual property; ICT = information and communication technology; OBS = other business services; P & C = personal and cultural services UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

Figure D: Sectoral Composition of UK Services Imports, by Trading Partner, 2019 (%)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; IP = intellectual property; ICT = information and communication technology; OBS = other business services; P & C = personal and cultural services UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

Services trade balance

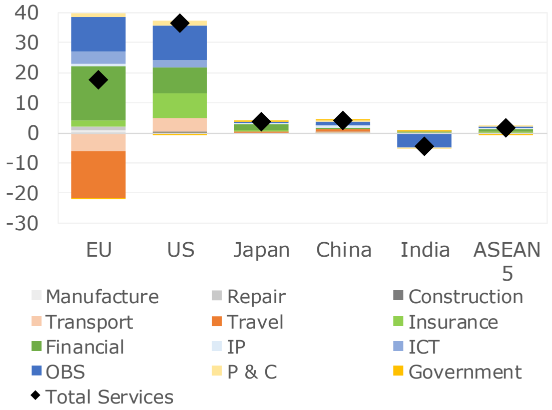
The UK is a global leader in providing services to the rest of the world, recording a significant trade surplus (around £100 billion in 2019) (Figure E). On a bilateral basis, this surplus is higher with the US ($36 billion) than with the UK's main partner, the EU ($18 billion). This situation is the result of a trade deficit in both transportation and, particularly, travel services.

The balance with Asian economies is also positive against Japan, China, and the ASEAN 5, while it is negative in the case of India due to ICT services imports by the UK.

At the country level (Figure F), the UK has a trade surplus with Malaysia, Singapore, and Indonesia, while the balance is slightly negative with the Philippines and Thailand due to a bilateral deficit in travel services.

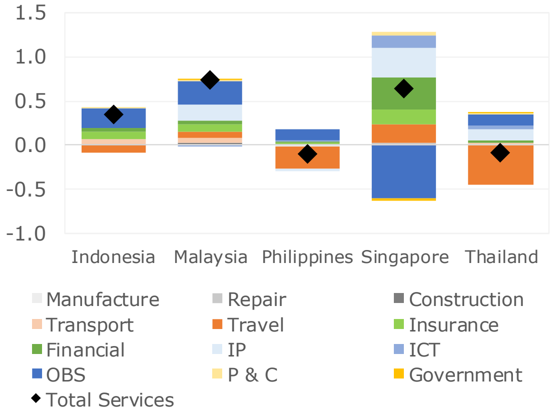
In the case of Singapore, the UK's main service trade partner in ASEAN, the UK is specialised in providing financial services and intellectual property, while the same happens for Singapore in the category of 'other business services', which includes professional and technical activities.

Figure E: UK Services Trade Balance by Trading Partner and Sector, 2019(£ billion)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; ICT = information and communication technology; UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

Figure F: UK Services Trade Balance by Trading Partner and Sector, 2019 (£ billion)



ASEAN 5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; ASEAN = Association of Southeast Asian Nations; EU = European Union; ICT = information and communication technology; UK = United Kingdom; US = United States.
Source: Office for National Statistics (2020).

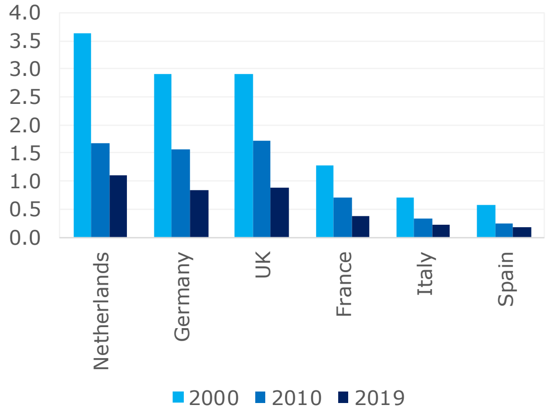
Box source: Authors.

Trade flows between ASEAN and the EU compared with the UK

EU economies, as we observed in the previous section for the case of the UK, have lost their relevance as a destination for ASEAN exports, reflecting stagnant economic growth compared with that of other ASEAN trading partners, especially China and the rest of Asia. This is true for all major EU countries (as measured by GDP size), and particularly for Germany and the Netherlands, showing in all cases a share below 1% as an export destination for ASEAN products in 2019 (Figure 3.21).

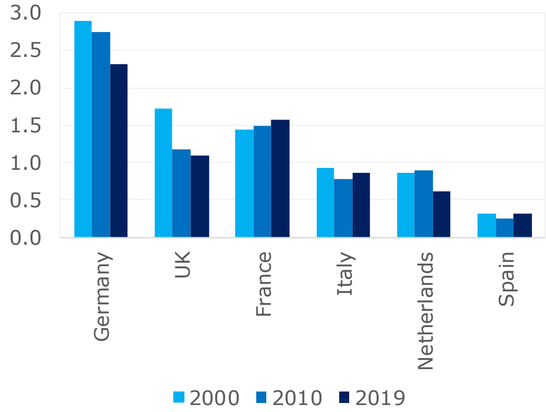
On the import side, a more heterogeneous picture is observed, with imports from Germany and the Netherlands becoming less relevant in relative terms for ASEAN (Figure 3.22) – similar to the trend described above for the UK. In contrast, the share of total ASEAN imports has remained relatively stable for Italy and Spain, and even increased for France.

Figure 3.21: ASEAN Exports to the UK and the Largest EU Countries in Total ASEAN Exports (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

Figure 3.22: ASEAN Imports from the UK and the Largest EU Countries in Total ASEAN Imports (%)

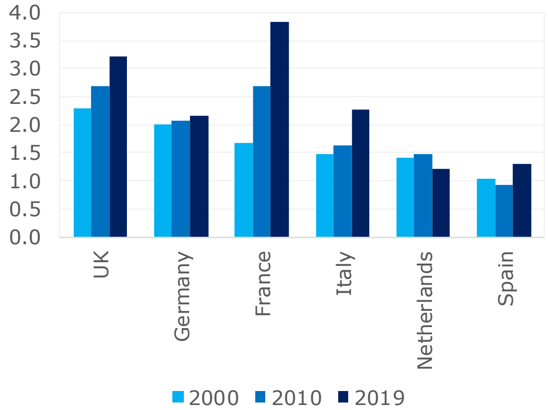


ASEAN = Association of Southeast Asian Nations, EU = European Union, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

When looking from the EU perspective, the relative share of ASEAN in total exports has increased – as for the UK in the previous section – for most large EU economies (Figure 3.23). That is particularly the case of France, which has experienced a doubling of the share of exports to ASEAN since 2000.

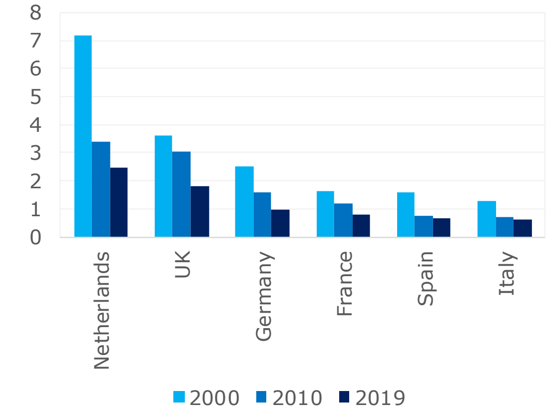
On the import side, the share of ASEAN has come down – as observed before for the UK – in all EU countries and particularly for the Netherlands, which seems to contradict ASEAN's increasing economic weight and might reflect a fast-rising dependence on China's products (Figure 3.24).

Figure 3.23: Exports to ASEAN in Total Exports, by Country (%)



ASEAN = Association of Southeast Asian Nations, EU = European Union, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

Figure 3.24: Imports from ASEAN in Total Imports, by Country (%)



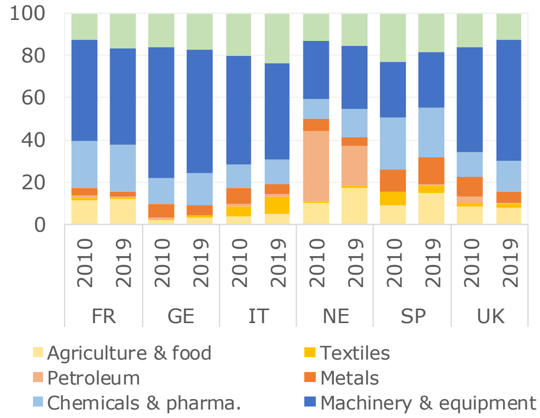
ASEAN = Association of Southeast Asian Nations, EU = European Union, UK = United Kingdom.
Sources: Natixis, UN Comtrade, and UNCTAD.

Moving to the sectoral composition of ASEAN trade with the largest EU economies, some differences can be identified. While similar for Germany, France, Italy, and the UK, the relative share of Dutch and

Spanish exports of machinery and equipment to ASEAN is much smaller compared with other export destinations (Figure 3.25). In turn, the Netherlands exports more petroleum products to ASEAN and Spain exports more chemicals and pharmaceuticals to ASEAN.

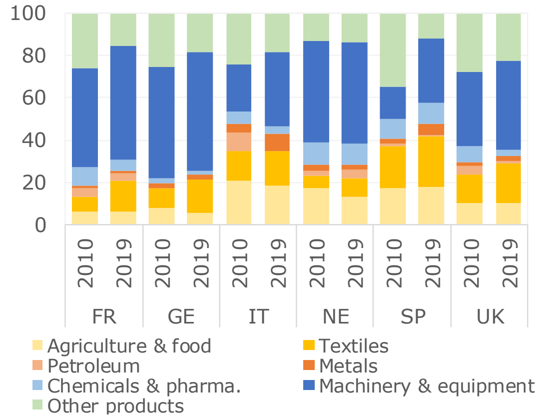
The sectoral structure of imports from ASEAN is again similar for Germany, France, and the UK (Figure 3.26), with machinery and equipment as the largest product group followed by textiles. In this case, agricultural and food products are more relevant for Italy and Spain.

Figure 3.25: Sectoral Composition of ASEAN Imports, by Trading Partner (%)



ASEAN = Association of Southeast Asian Nations, FR = France, GE = Germany, IT = Italy, NE = Netherlands, SP = Spain, UK = United Kingdom.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

Figure 3.26: Sectoral Composition of ASEAN Exports, by Trading Partner (%)



ASEAN = Association of Southeast Asian Nations, FR = France, GE = Germany, IT = Italy, NE = Netherlands, SP = Spain, UK = United Kingdom.
Note: See Box 3.1 for the definition of sectors.
Source: UN Comtrade.

Box 3.3: RCEP – A Regional Trade Agreement with Asian Linkage Only

After 8 years of negotiations, the Regional Comprehensive Economic Partnership (RCEP) comprising 15 Asian countries was announced in November 2020. The trade deal is expected to tighten ties amongst Asian countries in terms of key liberalisation measures and the value chain in Asia.

As the largest trade agreement so far, the RCEP links 15 Asia-Pacific economies in trade liberalisation – the 10 Association of Southeast Asian Nations (ASEAN) Member States, Australia, China, Japan, New Zealand, and the Republic of Korea (henceforth, Korea). The signatories to the agreement make up nearly one-third of the world's total population and nearly 29% of global gross domestic product (GDP).

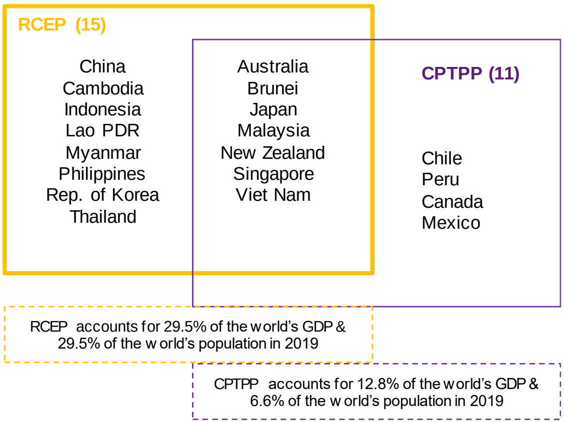
The aim of the RCEP was even bigger when the negotiations started in 2012. Not only was the geographical coverage larger – with India, the third largest economy in Asia – but the scope in terms of liberalisation was also greater. India withdrew from the negotiations because of the potential negative impact on its local industry development from Chinese imports. Furthermore, when the RCEP started as a response to the then Trans-Pacific Partnership (TPP), the strategic competition between the United States (US) and China was just starting; now, it is pulling RCEP members in different directions. The best example is the ongoing trade friction between China and Australia, which started almost immediately after the RCEP was concluded in the last quarter of 2020. Although the US is not a member of the RCEP, increasingly pervasive US sanctions against China targets will affect the RCEP's performance.

The importance of the RCEP is apparent on both economic and political fronts. The RCEP is expected to reduce tariffs over a 20-year period, streamline customs procedures, and replace a number of bilateral trade agreements in the region with one set of rules. The unique value of the RCEP is in simplifying and minimising different rules of origins, thus equating the requirements for all players. The RCEP is not as broad an agreement as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) because it focuses only on trade in goods, excludes services, and does not mitigate the influence of state-owned enterprises in the economy (Figure A). Still, it is a valuable regional structure as it links the major economies in the Asia-Pacific region and tightens the bond between Asian countries, particularly in a time of de-globalisation and post-pandemic recovery, without the involvement of the US or Europe.

The impact from the RCEP is believed to be incremental, as the existing trade agreements have already pushed the tariffs low. In fact, the current average tariff is 4.4% amongst the members of the RCEP and only 2.7% amongst the members of the CPTPP, yet the GDP per capita of CPTPP members is 1.5 times higher than that of the RCEP members (Figure B). For the RCEP to enter into force, at least six ASEAN Member States and three non-ASEAN countries need to ratify the agreement. By the end of April 2021, China, Singapore, and Thailand had completed the procedures for ratification, while Japan is in the process of completion.

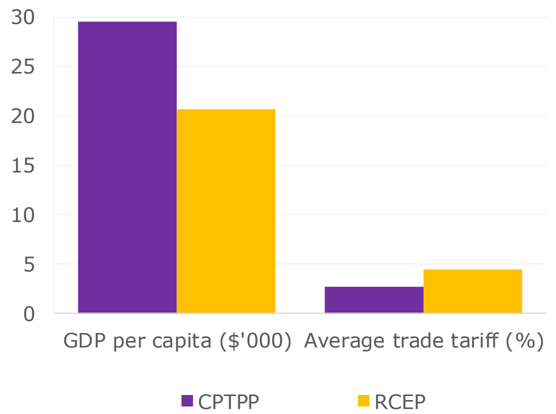
Beyond the economic benefits, which may not be obvious in the short term as tariffs are already low, the high point of the RCEP may be simplifying different rules into a single set of rules of origin – equating the requirements for all players.

Figure A: Membership and Characterisation of the RCEP and CPTPP Trade Agreements



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership.
Sources: Natixis and WDI.

Figure B: Characterisation of the RCEP and CPTPP Trade Agreements

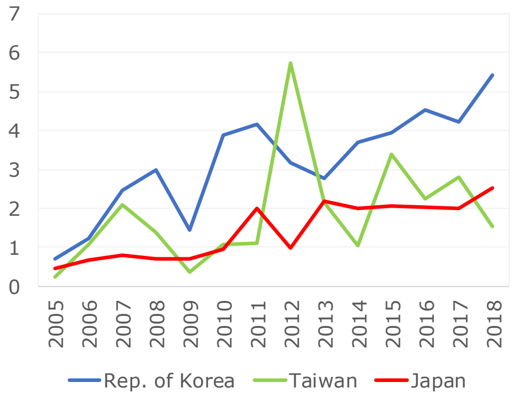


CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership.
Sources: Natixis and WDI.

ASEAN will lead the reshuffle in value chains

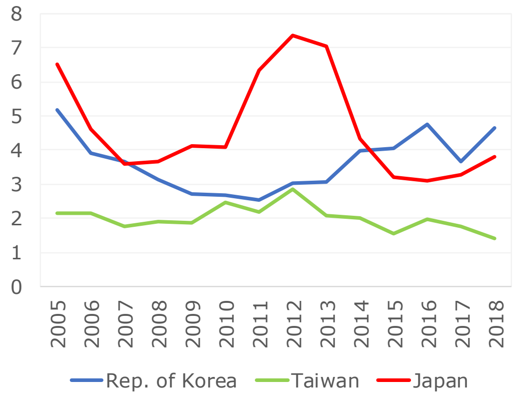
ASEAN has been receiving increasing manufacturing foreign direct investment (FDI) from Korea, Taiwan, and Japan (Figure C), and the amount has already been larger than to China (Figure D). This is in response to the increasingly high labour costs in China compared with the rest of ASEAN, and the need to diversify the risks from a value chain that remains overly concentrated in China. With the increasing amount of FDI, and the ease of the RCEP rules, ASEAN will be able to grow its manufacturing capacity to serve the massive market of North Asia. China's ageing population makes this trend even more meaningful.

Figure C: FDI in ASEAN
($ billion)



ASEAN = Association of Southeast Asian Nations, FDI = foreign direct investment.
Sources: Natixis and CEIC.

Figure D: FDI in China
($ billion)



FDI = foreign direct investment.
Sources: Natixis and CEIC.

Potential impact on the US and the EU

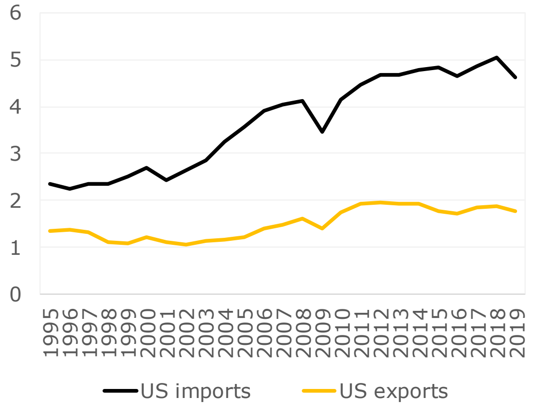
The RCEP and the CPTPP will shape the regional economic architecture, but the RCEP poses challenges for the CPTPP, and to the influence of the US and the European Union (EU) in the Indo-Pacific region. With the US perhaps re-joining the CPTPP, participating in the CPTPP requires a higher level of commitment than the RCEP as it covers more areas of trade and investment well beyond tariff reduction. In addition, the existing members have potential veto power – offering less negotiation room for newcomers to alter existing rules. As such, the CPTPP is poised to receive attention from several countries, especially after the closure of the RCEP negotiations, but the actual expansion of its membership might not be as fast.

Multiregional trade between the US and the EU with Asian countries has been evolving, with increases in both imports and exports. Both the US and the EU have incorporated heavy trade relations with Asian countries beyond the RCEP (Figures E and F), particularly with China, Japan, and Korea.

Since the US and the EU are not yet part of either trade deal, the RCEP may tilt economic reliance towards China – reducing Asian dependence on the US market. The RCEP covers all East Asia, which is a hub for the supply chain networks of major manufacturing companies. The gradual shift of manufacturing from China to more cost-efficient Southeast Asia could enable China to accumulate more cost-competitive exporting power to the US. On the other hand, the RCEP includes key US allies – Korea, Japan, Australia, and New Zealand. Tighter economic ties with these countries could provide leverage for any aspiring member of the RCEP.

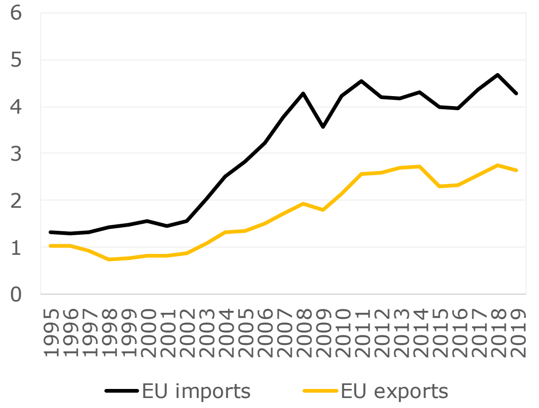
The EU has concluded the Comprehensive Agreement on Investment with China and free trade agreements with Korea, Japan, Singapore, and Viet Nam. Amongst the existing economic relations, the RCEP could benefit the EU through a reduction in costs under rules of origin as European companies participate in intra-Asian supply chains or subsidiaries. On the other hand, the cost-competitive manufactured products from Asian countries could threaten EU manufactured goods with more intense competition. That said, the impact of the RCEP on EU–Asia economic relations will be seen incrementally in the long term.

Figure E: US Trade with RCEP Countries as a Share of GDP (%)



GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership, US = United States.
Note: In 2015 constant prices.
Sources: Natixis and UNCTAD.

Figure F: EU Trade with RCEP Countries as a Share of GDP (%)



EU = European Union, GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership.
Note: In 2015 constant prices.
Sources: Natixis and UNCTAD.

UK–ASEAN partnership in the Indo-Pacific and the RCEP

The United Kingdom (UK) Government's Integrated Review of Security, Defence, Development and Foreign Policy (HM Government, 2021) provides a current assessment of the major trends that will shape the national security and international environment to 2030. Timely and strategic participation of the UK in global and regional initiatives is the key to realising the Prime Minister's Vision for the UK to 2030 (HM Government, 2021: 6–7).

The Integrated Review spells out the global role of the UK as an open economy and a maritime trading nation with a large diaspora. It identifies the Indo-Pacific as one of the dynamic regions of the world, and deepening of connections with the economic architecture of this region will enhance the UK's future prosperity. ASEAN is at the centre of the Indo-Pacific, and UK cooperation with ASEAN will be crucial to any prospective participation in the RCEP and the CPTPP. The UK has important trade linkages with the 10 ASEAN Member States of the RCEP, as well as the other five – Australia, China, Japan, Korea, and New Zealand. The RCEP and the CPTPP will also provide pathways for the UK to adapt to the intricate regional value chains in the Indo-Pacific and the balance of power, while working with existing structures.

To attain the objectives under the strategic framework, stronger diplomatic and trading ties are envisaged with several countries in the region such as China, India, and Japan; and extend to others including Korea, Viet Nam, Indonesia, Malaysia, Thailand, Singapore, and the Philippines. Although closer relations through existing institutions such as ASEAN and the CPTPP (the UK has applied for accession to the CPTPP) are clearly spelled out in the strategic framework, UK–ASEAN relations may also find a unique synergy through the RCEP.

Chapter 20 (Final Provisions) of the RCEP sets out the relationship between the RCEP agreement and other international agreements, a general review mechanism, procedures to amend the agreement, and an accession provision. The RCEP agreement is open for accession by any state or separate customs territory 18 months after its entry into force.* The Depositary[1] for the RCEP will be responsible for receiving and disseminating documents to the acceding state or customs territory, including any notifications, requests for accession, and instruments of ratification acceptance, approval, or accession. The provision on entry into force provides that the RCEP agreement would need signatory states, including at least six ASEAN and three non-ASEAN signatory states, to deposit their instruments of ratification, acceptance, or approval for the RCEP agreement to enter into force. The UK still has time to consider its accession plans to the RCEP.

* This agreement is open for accession by India, as an original negotiating state, from the date of its entry into force, without waiting 18 months.

[1] The RCEP Agreement has designated the Secretary-General of ASEAN as the Depositary for this Agreement and any amendment thereto. The Depositary will accept the instruments of ratification and notice for withdrawal and accession, amongst other functions.

Source: Authors.

Main takeaways for UK opportunities in ASEAN

UK trade with ASEAN is modest, given the increasing relevance of ASEAN in the global economy. This is true for trade in goods and services. Changing this trend will not be easy, as the rule of gravity has pushed China to the centre of ASEAN exchanges. This is particularly true for trade in parts of components, given ASEAN's large integration in the global supply chain.

For the UK to increase its share of trade in goods and services, it is important to accelerate the UK's accession to the CPTPP while reaching bilateral deals with some AMS to further support economic exchanges with this region. The recent trade deal between the UK and Australia is a good case in point, given Australia's close relations with ASEAN.

More importantly, the UK needs to target its efforts towards its comparative advantage – services and, most importantly, digital services. Achieving strategic autonomy in the increasingly harsh competition between the US and China can only help the UK achieve this goal.

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