

Chapter 7

Conclusion and Policy Convergence

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A year and half have elapsed since the onset of the pandemic-led economic and health crises. During this time, there has been increasing policy convergence and a more unified regional response to the twin crises. The Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic was adopted by the Association of Southeast Asian Nations (ASEAN) Heads of State/Government at a Special ASEAN Summit on 14 April 2020. It provided the mandate to implement the ASEAN Economic Ministers' Statement on Strengthening ASEAN's Economic Resilience in Response to the Outbreak of COVID-19, issued on 10 March 2020, and to explore a temporary arrangement to preserve supply chain connectivity during the coronavirus disease (COVID-19) pandemic.

Since then, more policy convergence has been facilitated and response mechanisms have been put in place in ASEAN and other parts of the world. The ASEAN Economic Community, ASEAN's Dialogue Partners, and international organisations have worked together to understand and respond to the twin crises over the past months. While the crises have not abated in Southeast Asia, or globally, several policy responses and business activities reaffirm the value of international cooperation and bring into focus the underlying strength of a partnership between the United Kingdom (UK) and ASEAN that would make the supply chains in ASEAN more resilient to the twin crises, deepen UK–ASEAN trade relations, and bring the UK–ASEAN partnership into relief in the emerging economic architecture of the Indo-Pacific.

The promise of building back better should be at the core of UK–ASEAN policy engagement in the months ahead, while the ASEAN Economic Community would be the UK's natural partner in the regional architecture. The ASEAN Economic Community Vision 2025, the Master Plan on ASEAN Connectivity 2025, and the ASEAN Outlook on the Indo-Pacific would guide the implementation of the UK's objectives of expanding and deepening its trade relations in ASEAN and the Indo-Pacific. All the important economies of Southeast and East Asia (China, Japan, the Republic of Korea, Australia, New Zealand, and India) have several decades of ASEAN+1 processes in place. The United States (US) and Russia have also followed the Asian countries in greater engagement with ASEAN and East Asia since 2010. The UK will be able to bring unique policy convergence to this region through its trade in goods and services, and its core strengths in education, research, medicine, health equipment, digital technology, and low-carbon and green technology, amongst others. ASEAN would bring a reciprocal strength in manufacturing, infrastructure, agro-food, e-commerce, and new start-ups in the digital economy.

The sectoral composition of trade flows between the UK and ASEAN has remained relatively stable in the last decade. On a bilateral basis, there are deviations in the sectoral composition of UK exports to ASEAN, but the sectoral structure is more heterogeneous for UK imports across AMS partners, reflecting to a large extent the product specialisation of each ASEAN economy. The chapters on trade flow and trade integration between the UK and ASEAN establish that ASEAN is already a manufacturing hub, and closer trade relations with ASEAN would improve the integration of the UK in the global value chains (GVCs) outside the European Union (EU), in particular that of Asia. However,

GVCs are partial to efficiency. Product/sector matching can be achieved only through supply chain efficiencies and market demand. A case in point is the reduction of petroleum exports to ASEAN. The removal of infrastructure bottlenecks in the gulf coast countries reduced their cost of production when compared with the UK and the EU (US Energy Information Administration, 2014). This has increased US' petroleum exports to ASEAN, especially to the large consumers such as Indonesia and Malaysia.

On a structural basis, the GVC integration of ASEAN with other economies predominantly corresponds to backward participation, especially with the US and Japan. The nature of bilateral integration has changed over time, positioning ASEAN more upstream with respect to the EU and downstream with respect to China, accounting for a larger participation of Chinese inputs in ASEAN exports. GVC integration between ASEAN and the UK is asymmetrical in both its characterisation and evolution. Backward participation accounts for the largest share for ASEAN, while forward participation contributes more for the UK – emphasising its input export specialisation. From a country perspective, the most significant bilateral integration is with Singapore. For the rest of the AMS, it has remained relatively limited, particularly for commodity exporting countries such as Brunei Darussalam, Cambodia, and Indonesia.

The current basket of traded goods between the UK and ASEAN, however, can be expanded if the future needs of the region are taken into account. ASEAN is preparing to play a larger role in the value chains of the new digital economy. It is also committed to a growth model that is sustainable and inclusive. The UK's competitiveness in the digital economy, services components of goods trade, research and development, financial services, and low-carbon and green products is an important channel for integrating the UK economy into supply chains in ASEAN and East Asia. An important consideration in this roadmap would lie in the accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The Regional Comprehensive Economic Partnership (RCEP), although equipped with a provision for accession, may prove to be too regional and not deep enough to accommodate the UK's strength in the services sector. More immediately, trade agreements with Japan and Australia are important milestones for the UK. India would be an important addition too. Given the economic and institutional diversity within ASEAN, bilateral trade agreements with individual ASEAN Member States would be a better strategy in the near term. Viet Nam's free trade agreement (FTA) with the EU is a good example of mutual economic benefit. In the period leading to the EU–Viet Nam FTA entry into force in July 2020, Viet Nam replaced Thailand as ASEAN's largest exporter to the EU. This trade will likely increase further with zero duties on 99% of traded goods. The EU–Singapore FTA is similarly designed and complements the services economy on both sides.

Supply chains in ASEAN are likely to remain intact in the post-COVID-19 period. It is still too early to say to what extent GVC integration has been affected by the COVID-19 pandemic, as rigorous data will only be released after a delay of some years (Shepherd and Prakash, 2021). However, the available trade data show that there has been a major drop in trade, particularly in services requiring personal contact. It is still unclear why the recovery is happening at radically different rates in different countries. The survey of domestic and international firms in ASEAN and India, led by the Economic Research Institute for ASEAN and East Asia (ERIA), largely confirms that supply chains have been impacted to some degree across the sectors, but the business outlook amongst firms remains cautiously optimistic.

The ASEAN region has shown, so far, that supply chains have been fairly able to withstand the supply and demand shocks. From a supply chain integration standpoint, technology (digital, robotics, and automation) has the potential to move production closer to the location of final consumption, but existing production locations are still preferred. The pandemic experience will likely lead to a reassessment of the risks associated with dispersed production and just-in-time management practices, but anecdotal evidence and surveys suggest that businesses resolved those problems rapidly and retooled to meet increased short-term demand for pandemic-related products. The implications of the pandemic are more macroeconomic in nature, with some difference across sectors (Shepherd and Prakash, 2021). So far, Southeast Asia has shown that it is particularly well placed to take advantage of improved global demand later in 2021, as this region has seen fewer and shorter restrictions to economic activity than other parts of the world, in particular Europe and the US. However, in the case of a prolonged pandemic, gaps in health services, non-availability of vaccines, lack of social security mechanisms, social distancing measures, and restricted mobility of people across borders may still cause lasting damage to economic activities.

Trade and investment policies will assume more significance in the coming months as they determine the ability of firms to contest foreign markets or to source intermediate inputs from foreign suppliers. For the UK and ASEAN, trade and investment facilitation would be crucial as it can increase backward and forward linkages and deepen trade integration. Nurturing the business environment would also play a role in structuring the trade relations.

A UK–ASEAN trade and economic cooperation plan must consider China. In 2019, China became ASEAN’s largest trading partner (surpassing intra-ASEAN trade) and is now the fifth largest investor in the region. Closely integrated value chains between China and ASEAN cast a shadow on some trade and investment partnerships with ASEAN, e.g. with Japan, the EU, and most noticeably with India. The negotiations for trade in goods in RCEP reflected these concerns at several points before the conclusion of the FTA. It is also an important reason why India stayed out from the conclusion of RCEP. The emerging economic architecture in the Indo-Pacific, in which ASEAN has a central role, would also face the inevitability of supply chain integration between ASEAN and China. As the Indo-Pacific looks towards diversified supply chains in the region, it underlines the recommendation that the UK prepare for integration in the value chains of the digital economy in ASEAN, as there is both the scope and immediate need for efficient and trusted partners. Value chains of the green economy, high-tech production, research and development, and financial markets are other strong prospects. Investments in infrastructure for the digital economy and cybersecurity are the two most pressing needs in the region for it to grow as a digital economy hub. The UK should be ready and able to fulfil both the capacity needs and trust issues required in this industry. On a similar note, new supply chains emerging in the region – such as Australia–Japan–India, the Mekong Subregion, and India–Myanmar–Thailand – will function via ASEAN. Keeping the UK’s interest alive in these emerging activities will be important.

The UK and ASEAN are some of the most open markets for both trade and investment. Regulatory coherence and mutual recognition would not be painful to negotiate. Preferential trade and investment arrangements and regulatory connectivity focusing on identified core sectors will be better than wide-ranging FTAs. Concessions in the mobility of people and capital should be favourable in all plans, given that most regional trade arrangements have nearly by-passed these issues due to their emphasis on trade and tariffs, and less than meaningful services components. While trade facilitation can increase backward and forward linkages, negotiating investments will be important as

restrictive regulatory regimes governing foreign direct investment are associated with a lower degree of GVC integration, especially backward GVC participation (Shepherd and Prakash, 2021).

Reviving the UK's historical presence in the businesses of Southeast Asia through contemporary and future-ready cooperation plans – and promoting ASEAN's core competency in manufacturing in the UK – is the foreseeable and practical direction ahead for the UK–ASEAN partnership.

References

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