ASEAN COMMERCIAL POLICY: A RARE CASE OF OUTWARD-LOOKING REGIONAL INTEGRATION

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Contents

Abstract

ASEAN has significant achievements to its credit. It is a durable and effective functioning entity, more so than any other regional organization in the developing world. For a region characterized by great diversity and a history of conflict, ASEAN has played a role in delivering relative peace and stability in the region, which has in turn facilitated rapid economic development. Yet ASEAN has not progressed very far in terms of becoming a formal economic entity. But its own brand of market-driven and institution-light regionalism has served it well. The ASEAN-6 countries have undertaken several waves of multilateralizing preferences, ensuring global connectedness. Looking forward, hopefully the new members will follow suit, and this approach towards open regionalism will be preserved with the move to an ASEAN Economic Community.

Keywords: ASEAN, open regionalism, multilateralization of preferences, FTA

JEL Classification: F13, F14, F17

1. Introduction

Global and regional economic integration has meant many things for the 10 Southeast Asian economies that make up the Association of Southeast Asian Nations (ASEAN). During the colonial period they were more or less all connected to the global economy through the mercantile powers, sometimes on a preferential or discriminatory basis. In the early postcolonial era, only Singapore, Malaysia, and Thailand were categorized as "always open,"—in the sense defined by Sachs-Warner, and also in Myint's (1972) typology of outward-looking economies. Indonesia and Myanmar deliberately chose to disengage from the global economy, while the Philippines adopted a comprehensive import-substitution industrialization strategy. The three so-called Indochinese economies (Viet Nam, Cambodia, and the Lao People's Democratic Republic [Lao PDR]) were increasingly engulfed in conflict, and then isolated from the west and global markets for more than a decade after 1975.

However, in recent decades the six less open economies have generally taken on more liberal economic policies with a series of increasingly decisive unilateral liberalizations taking root. Indonesia led the way from the late 1960s, further consolidating policy in the 1980s. The Philippines began some cautious reforms in the early 1980s, solidifying them in the 1990s. The three Indochina economies began the major transition from planned to market economies from the late 1980s, led by Viet Nam's *doi moi* policies. Completing the wave of reforms, it now appears very likely that Myanmar is in the process of making this transition as well.

Alongside these largely unilateral reforms, ASEAN—founded in 1967—has become by far the developing world's most durable and effective regional association.[1] After an early hesitancy, it has grown to become an increasingly important tool for regional economic integration—from the 1992 ASEAN Free Trade Area (AFTA) to the ASEAN Economic Community (AEC) slated to start in late 2015. ASEAN is an unusual and often misunderstood form of regional integration. The key to its longevity is its "outward-looking" regional integration, as emphasized by the Indonesian economist Hadi Soesastro (2006). This is rare, particularly for a group of developing countries. For reasons of political economy—70% of intra-ASEAN trade is through or with the free-trade island nation of Singapore—it will never become an European Union (EU)-type "project" with common external trade barriers. It will likely continue to multilateralize most of its regional trade concessions.

Initially focused on trade liberalization, ASEAN's regional integration agenda is increasingly directed toward services trade, investment, labor migration, and macroeconomic policy. The 1997–1998 Asian financial crisis (AFC) led to macroeconomic policy reforms that boosted dialogue, cooperation and integration—advancing again following the 2008–2009 global financial crisis (GFC). These crises originated in macroeconomic and financial policies within and outside the region, exposing the inadequacy of existing financial safety net arrangements, particularly those beyond International Monetary Fund purview. These crises also highlighted the need for the smaller ASEAN economies to engage with the much larger Northeast Asian

[1] For example, for a recent commentary on the ineffectiveness of the major South American initiative, known as Mercosur, see 'Mercosur RIP?', Economist, 14 July, 2012.

economies, giving rise to the "ASEAN+3" regional economic architecture—ASEAN, the PRC, Japan, and Republic of Korea. Its centerpiece, among other initiatives, is the Chiang Mai Initiative Multilateralization (CMIM), now seen in some quarters as the region's principal financial safety net.

This paper is organized as follows. Section 2 traces the evolution of ASEAN and its changing objectives and modalities. Section 3 examines its record on merchandise trade, the main focus of initiatives during ASEAN's first quarter-century. The broader agenda from the late 1990s is investigated in section 4, including services trade, foreign investment, migration and the regional commercial architecture. Section 5 addresses a major contemporary—and as yet untested—priority, the regional financial safety net. The main conclusions are laid out in section 6.

As with the post-WWII move toward greater European integration, ASEAN cooperation is naturally about much more than economics. The drive for closer relations initially grew out of the recognition that colonization forced divisions between these countries, leading to ever-present regional tensions in the early postcolonial era. ASEAN's founders were staunchly anticommunist—brought about by the Cold War geopolitics of the 1960s and the perceived threat of communism from the People's Republic of China (PRC) and Indochina. But closer political relations in turn required tangible initiatives in economics, business, education, culture and many other fields. Any evaluation of ASEAN economic cooperation has to be seen in light of these broader objectives of a more peaceful and harmonious regional neighborhood.

2. ASEAN's Evolution[2]

ASEAN was formally established in August 1967. In a region plagued by 25 years of conflict and divided by a diverse colonial past, ASEAN has first and foremost forged diplomatic cohesion among its members' combined population of about 600 million people. Signed by leaders of ASEAN's original five members,[3] the Bangkok Declaration—ASEAN's founding document—was broad and general in its objectives. These included "To accelerate the economic growth, social progress and cultural development in the region. To promote regional peace and stability. To promote active collaboration and mutual assistance ... in the economic, social, cultural, technical, and administrative spheres." Subsequently, ASEAN developed into a closely knit group, holding some 700 meetings each year on economic, political, cultural, educational and security matters. ASEAN has also been able to effectively project itself regionally and internationally through a wide range of initiatives.

Thus far, there are four more or less distinct phases in ASEAN's evolution. The first phase began with its establishment in 1967, in a highly uncertain regional and global environment overshadowed by conflict. This was at the height of the Cold War, the Indochina conflict was at its peak, and the PRC was in the throes of the Cultural Revolution. Indonesia had only

[2] The literature on ASEAN and its development is voluminous. In addition to Hill and Menon (2012a), see Chia (2011), and the references cited in both these papers.

[3] Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

recently renounced its intention to "crush" Malaysia; Malaysia and Singapore had recently separated after a brief union; Malaysia and the Philippines were (and still are, periodically) in dispute over Sabah; and there were significant leftist insurgencies (either brewing, active, or remnants thereof) across much of the region. Thailand was widely regarded as a likely next "domino" to fall to the communist advance. Earlier attempts at establishing a regional association, such as the Association of Southeast Asia (ASA), and a possible three-nation Malay group, Maphilindo, had not progressed. A major impetus for the 1967 meeting and declaration was the early 1966 regime change in Indonesia, with the Suharto administration signaling its intention to rejoin the international community, to focus on economic development, and to seek better relations with its neighbors. Then, as now, ASEAN has been able to move only as fast as its dominant power.

Therefore, the vision of ASEAN's first leaders focused primarily on establishing regional harmony. While all were strongly anticommunist in outlook, they explicitly emphasized socio-economic cooperation and development rather than defence and security. In 1969, the ASEAN Foreign Ministers commissioned the United Nations Development Programme to prepare a study on ASEAN economic cooperation. The Kansu Report (named after its leader, Professor G. Kansu) was completed in 1972. But it was not widely circulated, and was not formally published until 1974 (as United Nations, 1974). Its recommendations on economic cooperation reflected both popular thinking at the time and the inclination of ASEAN member countries. Specifically, it proposed trade liberalization through selective, or product-by-product tariff negotiations, package deal arrangements for large industrial projects, and financial cooperation.

The second phase began with the February 1976 Bali Summit of the five ASEAN leaders. They agreed to a formal set of regional cooperation measures. These included the ASEAN Preferential Trading Agreement (APTA), ASEAN Industrial Projects (AIPs), the ASEAN Industrial Complementation (AIC) scheme, and ASEAN Industrial Joint Ventures (AIJVs). APTA, the most significant of the four, was the first attempt to promote intra-ASEAN trade through institutional integration and regional trade preferences. On the other hand, the AIPs, were designed to establish a large-scale, inter-governmental project in each member country. The AIC and the AIJVs aimed to promote specialization in complementary products and to facilitate the pooling of resources.

These initiatives were broadly consistent with the Kansu and other reports. They reflected a desire on the part of leaders to "put some flesh on the bones" of regional cooperation, at least in a minimal, nonthreatening way. A major trigger was the reunification of Viet Nam in April 1975 and communist take-overs in Cambodia and the Lao PDR. ASEAN, meanwhile, became more active in international affairs. It began to caucus as a group, for example, in the United Nations and on issues such as market access for its labor-intensive manufactures and tropical cash crops. ASEAN established dialogue-partner relationships with a wide array of countries and regions, with some forming the basis for subsequent regional trade initiatives. ASEAN also began to be active diplomatically, especially in its attempts to isolate Viet Nam for its late-1978 overthrow of the Khmer Rouge regime in Cambodia.

However, none of the four economic cooperation programs had any significant impact on regional economic relations (Imada and Naya, eds, 1992). Indeed, they were explicitly designed for minimal effect. APTA's tariff cuts were product-by-product rather than across-the-board. Hence, its commodity coverage was narrow, tariff cuts too small to have any discernible impact on trade, and in addition implementation was half-hearted. Moreover, APTA failed to deal with nontariff barriers (NTBs), generally more serious impediments to trade than tariffs. The AIP, AIC and AIJVs also had limited success. In the case of AIJVs, for example, the Philippines and Thailand wanted to produce the same automotive parts. More generally, the failure of these initiatives at the time showed that members were unwilling and ill-prepared to pursue either trade liberalization or regional integration.

The 1980s brought little further progress. Brunei Darussalam joined ASEAN in 1984 following its independence. During 1984–1987, the Philippines was engulfed in economic and political crises, effectively disengaging from ASEAN. The mid-1980s collapse in global commodity prices pushed both Indonesia and Malaysia—and by extension Singapore—into recession. This prompted swift and effective reforms, but reduced interest in the broader regional agenda.

A third phase began at the 1992 Fourth ASEAN Summit in Singapore with the announcement of the ASEAN Free Trade Area (AFTA). This marked a clear break with the past. Stronger economic cooperation became a regional objective. For the first time, "free trade" was defined with a clear timetable for implementation. The "negative list" approach was adopted, meaning all goods trade was to be included within AFTA unless explicitly excluded. The six leaders agreed to reduce common effective preferential tariff (CEPT) rates to 0%-5% by 2008, with an interim target of 20% by 1998–2000. This deadline was subsequently advanced to 2005 and then again to 2003. The leaders also agreed that each country would have at least 85% of its tariff lines on the "Inclusion List" by 2000, and 90% by 2001.

A range of regional and external factors drove this more decisive approach. First, there was general recognition that the 1976 measures had been cosmetic and ineffective. Second, there was increased self-confidence in the region. Indonesia in particular had weathered the mid-1980s debt crisis effectively, and had introduced sweeping economic policy reforms. Third, substantive regional associations were coming into vogue elsewhere, especially with the signing in 1991 of the EU Maastricht Accord and the imminent extension of the North American Free Trade Agreement (NAFTA) to Mexico, a middle-income competitor in the crucial US export market. Fourth, the PRC, implementing its own economic reform program since the late 1970s, was now growing fast and attracting large foreign direct investment (FDI) inflows. ASEAN leaders felt they had to push the region as a competitive single-market alternative to the PRC. Fifth, other changes in the regional and global commercial architecture were gaining momentum and threatened to overshadow slow-moving ASEAN. Notable were the establishment of the multilateral Asia Pacific Economic Cooperation (APEC) process in 1989 and the promulgation of the World Trade Organization (WTO) Uruguay Round in 1995.

ASEAN leaders built on this renewed vigor by seeking to extend its geographic spread and commercial depth. By the early 1990s, Viet Nam had clearly signaled its intention to adopt market-oriented reforms and open up internationally. ASEAN's earlier antipathy gave way to pragmatism, fuelled on both sides by a common apprehension toward the PRC. Thus Viet Nam joined in 1995, followed by the Lao PDR and Myanmar in 1997, and—after a delay due to domestic political instability—Cambodia in 1999. ASEAN now had 10 members.

Since the mid-1990s, ASEAN has helped its new members through increased commercial engagement. ASEAN membership reinforced the outward orientation of the so-called CLMV (Cambodia, the Lao PDR, Myanmar, and Viet Nam) countries, building confidence in their reform momentum, enabling lessons learned from their more advanced neighbors. Although Myanmar was until recently one of the world's most isolationist states. Its major policy shift in 2012 has helped it begin to reintegrate with the regional and global economy. The CLMV negotiated phased-in arrangements for accession to AFTA, as well as other agreements. Thus, Viet Nam had until 2006 to bring down tariffs to no more than 5% on products on its Inclusion List. The deadline for the Lao PDR and Myanmar was 2008, with Cambodia complying by 2010.

Also in the mid-1990s, ASEAN began to cautiously develop arrangements for liberalized regional trade in services and investment, and for harmonizing customs, among other measures. This was consistent with the global trend toward preferential trade agreements (PTAs) at the time. The ASEAN Framework Agreement on Services (AFAS) was signed at the 1995 Fifth ASEAN Summit in Bangkok. This ambitious agreement had two main objectives: (i) to substantially eliminate all restrictions (both discriminatory and market access measures) to trade in services among member countries, and (ii) to liberalize trade in services by expanding the depth and scope of liberalization beyond steps undertaken by members under the General Agreement on Trade in Services (GATS). ASEAN was also one of the first regional groups in the developing world to adopt formal instruments to try to promote and protect cross-border investment among its members. Several agreements were signed, the most significant being the Framework Agreement on the ASEAN Investment Area (AIA) in October 1998, subsequently expanded and consolidated into the ASEAN Comprehensive Investment Agreement (ACIA) in February 2009.

However, just as the original leaders' dream of "one Southeast Asia" started to materialize, the 1997–1998 Asian financial crisis suddenly erupted with unexpected ferocity. For ASEAN as an institution, the crisis had two principal effects.

First, the region as a whole lost some of its commercial attractiveness, especially as the PRC and India remained largely unaffected by the crisis. Moreover, ASEAN was seen by many as an ineffective and feeble institution, unable to respond decisively in times of crisis. ASEAN was also absent from the two other major regional flashpoints during the period—the 1998–1999 Timor crisis, which led to the creation of a newly independent state, Timor-Leste in 2002; and the 1997–1998 transboundary haze crisis, when Indonesian forest fires severely disrupted life in neighboring Malaysia and Singapore.[4]

[4] For instance, Soesastro (1999, p. 158-159) observed: "The public has been largely disappointed with ASEAN. Its perception is that of a helpless ASEAN, an ASEAN that cannot move decisively, an ASEAN that is trapped under its organizational and bureaucratic weight, and an ASEAN that fails to respond to real, current problems and challenges."

Second, the crisis led to a general rethinking of the future of regional economic cooperation. Against the backdrop of a fast-changing regional and global environment—including a plethora of initiatives affecting the commercial policy architecture—ASEAN acknowledged the need for some sort of coordinated macroeconomic response when crisis strikes, and the capacity to avert future crises when they threaten. The result was the current fourth phase in ASEAN's evolution, which brought not simply a return to growth, but also the struggle to redefine its own rationale and identity.

Four features dominate ASEAN commercial policy in the 21st century. And all pose new and difficult challenges. The first is the spread of PTAs. Singapore in particular, frustrated with slow pace of ASEAN progress, began to break ranks and embark on a bold strategy of signing PTAs with its global trade partners. Although causing strain within the group, it had a domino effect, with other members feeling compelled to follow.

Second, is the recognition that ASEAN is too small to address some of the broader, postcrisis macroeconomic coordination issues. For example, ASEAN is too small to seriously contemplate coordinated macroeconomic policy. For example, in terms of emergency and crisis prevention measures—including currency swaps and fiscal standby agreements—the huge international reserves accumulated in Northeast Asia since the Asian financial crisis dictate that these economies be major players in any regional and international agreements on safety-net issues.

Third, ASEAN has now largely completed the "easy phase" of intraregional trade liberalization. As of 2010, zero tariffs applied to 99% of tariff lines in the ASEAN-6 Inclusion List. The average tariff for ASEAN-6 under the CEPT scheme is down to 1.5%—from 12.8% in 1993. For the CLMV, 49.3% of the tariff lines on the Inclusion List are already at 0%, bringing the ASEAN average to 80.3% (MITI, 2013). What remains are politically more sensitive—heavy industry and food crops in particular. An unstated tenet of ASEAN trade liberalization is that the concessions would be "multilateralized" so long as it was politically acceptable domestically. But for more contentious liberalization, progress has been slower with exemptions proliferating—such as for rice and iron and steel in many countries, and automobiles in Malaysia.

Fourth, the rise of fragmentation trade questions the viability of all forms of PTAs that do not multilateralize concessions. East Asia has dominated this fast-growing segment of international trade, which involves the physical relocation of stages of production that can be transferred to lower-cost sites. Parts and components in the electronics and automotive industries have been the major segment of this trade, although it is now spreading rapidly to (poorly measured) services trade through Build Operate Transfer (BOT) facilities. Within East Asia, ASEAN members stand out for their heavy dependence on fragmentation trade. In 2009–2010, for example, parts and components accounted for 45% of ASEAN manufactured exports, up from 29% in 1992-1993. The shares are higher still for some countries: 73% for the Philippines in 2009-2010 (up from 24% in 1992–1993), 55% in Malaysia (from 37%) and 50% in Singapore (from 32%) (Athukorala, 2011).

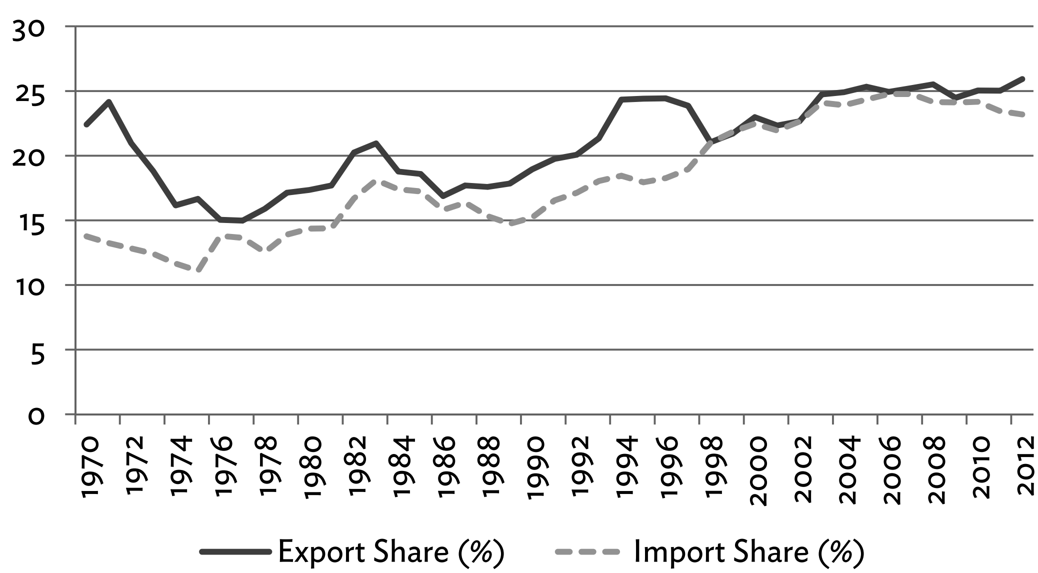
Clearly, the management of global production facilities—sourcing inputs from many countries for assembly in a single location—is anathema to PTAs: some countries may be signatories to various PTAs, and these agreements, each with its own specific rules of origin, are unlikely to be mutually compatible. The response of governments and multinational enterprises (MNEs) in these industries has been to locate in free trade zones, thus placing their operations on a free-trade footing. More recently, governments have come to recognize the impracticality of any form of trade barrier—unilateral or preferential—in this segment of manufacturing, through the establishment of the International Technology Agreement (Bhagwati, 2008), signed by major Southeast Asian electronics exporters.

We now examine these issues more closely, focusing in turn on merchandise trade; trade in services; investment and migration; and broader integration issues.

3. The Early Agenda: Merchandise Trade

Two features dominate ASEAN trade. First, ASEAN economies trade predominantly with the rest of the world. Since 1970, intraregional trade has generally been between 15% and 30% of total ASEAN trade (Figure 1). Although this has been trending upward, it remains low relative to other regions. The fact that ASEAN economies hold only a small share of global trade flows partly accounts for this—and adjustment for "trade intensity" increases it significantly for some countries. Intraregional trade is now also less commodity-based, with manufactures playing a larger role, increasingly through Singapore-centered global production networks.

Figure 1. Intra-ASEAN Trade Shares, 1970-2012 (%)



Source: UNCTAD, 2009. *Handbook of Statistics Online* (1970-1989 data); ARIC Integration Indicators Database, ADB.

The second feature is that Singapore dominates intra-ASEAN trade flows (Table 1). The largest single trade flow is between Singapore and Malaysia, as it has for decades. Singapore's trade with Indonesia and Thailand is also very large. The largest non-Singapore trade flows are between the region's second most open economy, Malaysia, and its two neighbors with land boundaries, Indonesia and Thailand. The matrix also shows the small scale of official trade of the poorer mainland states, although Viet Nam is rising fast. The countries also differ with respect to the importance of ASEAN within their total trade. ASEAN markets account for about a third of total trade for Singapore, and nearly a quarter of total trade for Malaysia. The share is much lower for Indonesia, where natural resource exports to extraregional markets are important, and for the Philippines, whose commercial patterns have always been the least ASEAN-centered of the five original members.

Table 1. Major Intra-ASEAN Trade Flows in 2012, % of total intra-ASEAN trade

Economy	Partner					
	Indonesia	**Malaysia**	**Philippines**	**Singapore**	**Thailand**	**Viet Nam**
Indonesia	-	3.8%	0.7%	7.1%	3.0%	0.8%
Malaysia	3.1%	-	0.8%	9.3%	3.9%	1.5%
Philippines	0.6%	0.6%	-	1.5%	1.0%	neg
Singapore	10.4%	14.9%	2.0%	-	4.2%	2.1%
Thailand	3.2%	4.2%	1.2%	3.1%	-	1.6%
Viet Nam	neg	1.3%	0.5%	1.5%	1.4%	-

Notes: top 10 flows in bold; neg = very small, <0.5%

Source: *IMF Direction of Trade Statistics*, downloaded from the ARIC Integration Indicators Database, ADB.

Two important implications for the governance of regional economic architecture flow from this analysis. First, it does not make sense for ASEAN to contemplate forming a customs union, given the proportion of trade outside the region. The costs of trade diversion would almost certainly exceed the benefits of trade creation. Second, Singapore's dominance in intra-ASEAN trade, and the country's nonnegotiable commitment to open borders, means it is impossible to set a common external trade regime outside what Singapore wants, as it would veto any proposed agreement. This does not necessarily preclude the adoption of free trade within ASEAN alongside differing trade policies for each state. But it would imply a two-tier trade policy for all but Singapore—technically feasible but obviously administratively cumbersome and subject to widespread corruption. In any case, the fact that less than 10% of intra-ASEAN trade avails of AFTA concessions suggest this approach is virtually irrelevant. The margins of preference between AFTA and most favored nation (MFN) rates are already very low, and the administrative procedures render the AFTA option unattractive. We return to this issue below.

4. The 21st Century Agenda: Services, FDI and Regional Economic Architecture

As noted, ASEAN has deepened its regional economic integration objective since the 1990s. Here we examine issues beyond the first-round efforts directed mainly at merchandise trade. Following AFTA, ASEAN signed agreements relating to trade in services, intraregional investment and labor movements. While ASEAN economies are increasingly integrated in all these respects, progress has been entirely market-driven, with little if any formal implementation of regional initiatives through distinct policy measures.

4.1 Deepening Integration: Services Trade, FDI, and Labor

Under the 1995 AFAS agreement, negotiations have focused on five sectors: (i) financial services; (ii) transport; (iii) telecommunications; (iv) tourism; and (v) professional business services. However, progress has been limited. There has been a lack of political commitment to open up services markets, weaknesses in negotiation frameworks, legal restrictions, and institutional limitations (Rajan and Sen, 2002). These problems have been compounded by the tendency globally to liberalize services trade last, whether general market liberalization or specifically privatization and FDI liberalization.

Of course, while notoriously difficult to measure, intra-ASEAN service trade is intense, driven by proximity (which generally matters more for services than merchandise trade) and complementarity. In the majority of ASEAN countries, tourists from the region make up the largest group of visitors. In financial services and telecommunications, Singapore and Malaysia are major investors throughout the region. Intraregional flows of education and health services are growing rapidly. These transactions are essentially market-driven, facilitated by simplified visa arrangements (such as the current ASEAN-wide visa-free facility) and other harmonization measures that lower transaction costs. However, it would hardly make sense for ASEAN governments to give preferential access to neighboring service providers over the best-practice global alternative.

In the case of FDI, there are several sequentially related agreements, starting in 1987 with the ASEAN Agreement for the Promotion and Protection of Investment, commonly known as the ASEAN Investment Guarantee Agreement (IGA). More than a decade later, in October 1998, the Framework Agreement on the ASEAN Investment Area (AIA) was signed. The most significant initiative of the AIA was the preferential, or discriminatory, treatment afforded ASEAN investors in member countries for a fixed period of time. This preferential treatment was to allow access to particular industrial sectors available only to ASEAN member countries on a reciprocal basis. However, in 2007, the 39th Meeting of the ASEAN Economic Ministers effectively nullified this preferential treatment when its provisions were extended to foreign-owned ASEAN-based investors. In February 2009, the ASEAN Comprehensive Investment Agreement (ACIA) was signed. This was intended to be more comprehensive as it deals with liberalization, promotion, facilitation and protection, and also adopts a single negative list approach.

Regional investment flows rose rapidly over this period. But again, these have been predominantly market-driven. There is no evidence they were induced by the special provisions under the AIA or ACIA. Although some ASEAN investment provisions could channel regional protectionism or sectoral sheltering rather than liberalization, in practice they appear to have little impact.

Singapore—with its extraordinarily high savings rate and international reserves, along with a large government-linked corporate (GLC) sector—has emerged as a major foreign investor, globally and regionally (Hill and Jongwanich, 2013). In several ASEAN countries it ranks among the top three foreign investors. It invests in a broad range of sectors, including banking, telecommunications, hotels, and real estate. As the major regional headquarters for MNEs, Singapore is also a base for these companies investing elsewhere in the region. Malaysia too has become a major investor abroad, with a similar set of drivers at work—high savings rates, loss of comparative advantage in labor-intensive activities, and an activist GLC sector. For example, in the 2000s, Singapore and Malaysia were major investors in Indonesia in a diverse range of businesses, including banking, palm oil, hotels, and telecommunications. Thailand is now a major investor in the small neighboring CLM economies in a wide range of services, manufacturing, and resource-based activities.

In terms of realized FDI by source for 2008–2010, economies outside ASEAN dominate—typically five to seven times larger than those originating from within ASEAN (Table 2). These are indicative of longer-term shares. And they apply to all economies, including the mainland transition economies which, during their early reform phase, received much of their FDI from ASEAN neighbors. Also, the intra-ASEAN share of total FDI flows to the region is less than the corresponding share for trade. This is to be expected given that, among the ASEAN-10, only Singapore is an outward investor on a global scale.

Regional labor markets are growing increasingly integrated. Here too ASEAN has signed several formal accords since 2000, including the January 2007 ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. Substantial liberalization in professional labor mobility is part of the forthcoming ASEAN Economic Community. However, intra-ASEAN labor flows occur largely independent of these arrangements, and they are primarily market-driven, dictated by large inter-country wage differentials and open labor markets. Labor flows to, from and within the ASEAN countries are significant. Several lower-income countries are major labor exporters, particularly the Philippines, where inward remittances are the fourth largest in the developing world. The two richer countries, Singapore and Malaysia, along with tiny Brunei Darussalam, have always maintained open labor markets, with temporary foreign workers making up 20% or more of their workforces. The number of foreign workers in Thailand has been growing rapidly; migrants originate mainly from its poorer neighbors, particularly Myanmar. Nowhere is there deliberate preference for workers from specific ASEAN countries. But in practice, proximity and ethnic/cultural similarities matter. This is particularly true in Malaysia, where an estimated 75% of foreign workers hail from Indonesia. Given Malaysia's delicate ethnic mix, it is widely believed the dominant Malay community tacitly supports these large inflows. The Philippines is Malaysia's second largest source of migrant workers, with particularly large inflows to the East Malaysian states, primarily from the Muslim south.

Table 2. Intra and Extraregional FDI flows in ASEAN, 2010-2012 (as of October 2013)

Economy	2010			2011			2012[2/]			Share to ASEAN total, 2012			Share to Economy's total, 2012		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	89.5	535.9	625.4	67.5	1,140.8	1,208.3	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Cambodia	349.0	433.6	782.6	223.8	667.9	891.7	523.0	1,034.1	1,557.1	2.6	1.1	1.4	33.6	66.4	100.0
Indonesia	5,904.4	7,866.4	13,770.9	8,334.5	10,907.2	19,241.6	8,027.0	11,826.4	19,853.4	39.8	13.1	18.0	40.4	59.6	100.0
Lao PDR	135.4	197.2	332.6	54.0	246.8	300.7	73.6	220.7	294.4	0.4	0.2	0.3	25.0	75.0	100.0
Malaysia	525.6	8,630.2	9,155.9	2,664.3	9,336.6	12,000.9	2,813.9	6,586.1	9,400.0	14.0	7.3	8.5	29.9	70.1	100.0
Myanmar	230.3	2,018.7	2,249.0	210.7	1,846.3	2,057.0	118.0	1,034.3	1,152.3	0.6	1.1	1.0	10.2	89.8	100.0
Philippines	40.2	1,257.8	1,298.0	-74.1	1,890.0	1,815.9	145.2	2,651.8	2,797.0	0.7	2.9	2.5	5.2	94.8	100.0
Singapore	5,647.8	47,899.2	53,547.0	4,311.8	50,973.4	55,285.2	7,286.6	48,885.4	56,172.0	36.1	54.2	50.9	13.0	87.0	100.0
Thailand	1,236.9	7,874.6	9,111.6	564.9	8,434.6	8,999.4	-89.7	10,786.7	10,697.0	-0.4	12.0	9.7	-0.8	100.8	100.0
Viet Nam	1,300.9	6,699.1	8,000.0	1,517.3	6,001.7	7,519.0	1,262.5	7,105.5	8,368.0	6.3	7.9	7.6	15.1	84.9	100.0
Total	15,460.1	83,412.7	98,872.8	17,874.6	91,445.3	109,319.9	20,160.1	90,131.1	110,291.2	100.0	100.0	100.0	18.3	81.7	100.0
ASEAN-5[1/]	13,355.0	73,528.3	86,883.3	15,801.3	81,541.8	97,343.1	18,182.9	80,736.5	98,919.4	90.2	89.6	89.7	18.4	81.6	100.0
BCLMV[1/]	2,105.1	9,884.4	11,989.5	2,073.3	9,903.5	11,976.8	1,977.2	9,394.6	11,371.9	9.8	10.4	10.3	17.4	82.6	100.0

FDI = foreign domestic investment; Lao PDR = Lao People's Democratic Republic; n.a = not available.
[1]ASEAN-5 consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand, while BCLMV comprises Brunei Darussalam, Cambodia, the Lao PDR, Myanmar, and Viet Nam.
[2]Data for 2012 are preliminary; no data available for Brunei Darussalam. Myanmar and the Lao PDR data on "by source country" currently unavailable; intra-/extra-ASEAN breakdown estimated by the ASEAN Secretariat.

Note: Totals may not add due to rounding.
FDI is net, computed as follows: Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings. Net implies the following should be deducted from FDI gross flows: (i) reverse investment (made by foreign affiliates in host country to its parent company/direct investor; (ii) loans given by a foreign affiliate to its parent company; and (iii) repayments of intra-company loans (paid by a foreign affiliate to its parent company). Thus, FDI net inflows can be negative.
Source: *ASEAN Foreign Direct Investment Statistics Database.*

4.2 The Rise of PTAs

As noted, with the exception of ASEAN itself, the economies of Southeast Asia generally eschewed preferential trading arrangements until the late 1990s, preferring a combination of multilateral and unilateral measures. Multilateral measures created a global trading environment that generally supported export expansion with few serious trade barriers, apart from some agricultural and labor-intensive manufactured products. And there was a series of significant domestic liberalizations in the 1980s and 1990s, primarily in the three communist states, but also in Indonesia and the Philippines.

Somewhat related to this was the proliferation of various forms of PTAs (Table 3). They include a variety of agreements, ranging from the comprehensive to the so-called "trade-lite", so they are not strictly comparable. Singapore has adopted most, with 21 concluded, and 17 under negotiation or proposed. And it accounts for 20% of the regional PTAs under implementation.

Table 3. FTA Status, ASEAN by Economy (as of July 2013)

Economy	Proposed	Under Negotiation		Signed but not yet In Effect	Signed and In Effect	TOTAL
		Framework Agreement signed	Negotiations launched			
Brunei Darussalam	6	2	2	0	8	18
Cambodia	4	0	2	0	6	12
Indonesia	6	1	6	2	7	22
Lao PDR	4	0	2	0	8	14
Malaysia	7	1	6	1	12	27
Myanmar	4	1	2	0	6	13
Philippines	7	0	2	0	7	16
Singapore	6	1	10	2	19	38
Thailand	8	3	6	0	12	29
Viet Nam	4	1	6	0	8	19

FTA = free trade agreement; Lao PDR = Lao People's Democratic Republic .

Notes:

1. Proposed: Parties consider an FTA, with the governments or relevant ministries issuing a joint statement on its desirability or the establishment of a joint study group/joint task force for the conduct of feasibility studies.
2. Framework Agreement signed: The parties initially negotiate a framework agreement used for future negotiations.
3. Negotiations launched: The parties, through relevant ministries, declare the official launch of negotiations or set the date for negotiations, or start the first round of negotiations.
4. Signed but not yet in effect: Parties sign the agreement after negotiations have been completed. However, the agreement has yet to be implemented.
5. Signed and in effect: Provisions of FTA come into force after legislative or executive ratification.

Source: *ARIC FTA Database, ADB.*

Three general observations need to be made. First, PTAs vary considerably in scope, depth and coverage. The larger economic powers, notably Japan and the US, are able to extract specific requirements—for example, Japan's exclusion of sensitive agricultural products and the US weight on intellectual property rights. Where ASEAN rules apply, the agreements are more likely to be multilateralized and have less restrictive rules of origin (ROOs). Some agreements are very minor and have little functional significance.

Second, implementation varies greatly based on government capacity. Singapore, for example, has high-quality analytical and negotiating capacity, while the Lao PDR has practically none and has struggled for years just to satisfy WTO accession requirements. PTAs involving transition economies are a clear distraction from the more important task of general trade and other reforms.

Third, there is the issue of whether these and the broader regional initiatives discussed below will be subsumed by a plurilateral, pan-Asian agreement. For instance, it is argued that the Regional Comprehensive Economic Partnership (RCEP) being negotiated by the "ASEAN+6"—ASEAN+3, Australia, India, and New Zealand—could pave the way for consolidating many ASEAN+1 FTAs under a single regional agreement. However, there are few details of how these PTAs could be melded into a much broader multilateral agreement. Advocates often argue that bilateral agreements are able to achieve much deeper integration because only two parties are involved. This is perplexing, as they inexplicably expect the same depth from a consolidated agreement involving many more parties.

Even if the "consolidation approach" may be able to address the proliferation of often overlapping PTAs, and make the best of the current tangle, other options could achieve the same outcome without creating yet another PTA. One alternative is the multilateralization of preferential accords. Another would be the dilution of ROOs. The original ASEAN members have used the multilateral approach with success—today close to 90% of PTA preferences are available to nonmembers on an MFN basis. This is a model of how "open regionalism" can work. Because of this, overall tariffs have fallen sharply on trade with all countries, because PTA liberalization has been more ambitious and rapid than the WTO alone could have delivered. Consequently, utilization rates of remaining preferences have also fallen to negligible levels. Joining a new East Asian PTA would be a step backward, as it would stop the process of multilateralizing preferences (Hill and Menon, 2008).

If PTA signatories are not yet ready to give up reciprocal preferences, then liberalizing ROOs could be an interim step in preparing the groundwork. This could be done by harmonization, and expanding "rules of cumulation" (the number of countries whose value-added qualifies). If rules of cumulation are sufficiently expanded and then harmonized across different agreements, the outcome might no longer require formal multilateralization of tariff accords. Here again, a new and larger PTA is not required, and would in fact be less desirable.

Both these alternatives would work for intra- and extraregional PTAs. On the other hand, the consolidation approach only applies to intraregional PTAs. But with most PTAs extraregional, it makes less sense. For instance, a consolidated agreement like RCEP could potentially neutralize one-third of all PTAs. But that prompts the question why most PTAs are extraregional to begin with. A common explanation is that they are designed to restore market access in traditional trading partners that may have joined a regional PTA (see Menon, 2007). If this is true, then RCEP may itself spark a new wave of extraregional PTAs. And with more countries outside the region than within, an East Asian PTA could actually be counter-productive, leading perversely to an increase in the total number of PTAs. Consolidation therefore does not appear to provide a solution. It may actually contribute to the problem by adding another strand to the "noodle bowl" or, worse, inducing a new wave of extraregional PTAs.

4.3 From ASEAN to the ASEAN Economic Community, RCEP, and Beyond?

ASEAN has developed an elaborate set of extraregional agreements, ranging from general statements on the desirability of closer economic relations to firm commitments to economic integration, at least as it appears on paper (see for example Plummer and Chia eds, 2009). Until around 2000, visceral talk prevailed, involving little more than official dialogue and sporadic business cooperation programs. However, in recent years, ASEAN has made significant commercial policy commitments, initially through ASEAN+3, and more recently ASEAN+6, and the expanded East Asia Summit (EAS) or "ASEAN+8", adding the Russian Federation and the United States. While ASEAN's ASEAN Economic Community (AEC) and the ASEAN+3 RCEP focus on economic integration, the EAS has morphed into a politico-security forum. In addition, there are various formal agreements with other economic communities, such as the AFTA-CER, involving ASEAN and Australia-New Zealand, and ASEAN+1 agreements, where ASEAN negotiates with a particular country (or bloc) on a specific issue.

ASEAN's regional economic integration efforts are geared toward creating an AEC. ASEAN leaders originally intended to create the AEC by 2020, but in early 2007 they advanced the deadline to 2015. The AEC envisions ASEAN as a competitive economic region with a single market and production base. At the 13th ASEAN Summit held in Singapore in November 2007, ASEAN leaders adopted the ASEAN Economic Blueprint—with 17 "core elements" and 176 "priority actions"—to serve as a guide for establishing the AEC. Given ASEAN's diversity and sensitivities regarding different issues and sectors, it was agreed that the liberalization of goods, capital, and (skilled) labor flows proceed at different speeds according to member countries' readiness. Thus, despite the blueprint and the various priority actions and schedules, it remains to be seen to what extent concrete liberalization initiatives will be implemented, or whether the Blueprint will remain essentially a vision statement.

ASEAN's own assessment records its progress toward the AEC at about 70% as of 2013. A lot of this relates to tariff liberalization and other "low hanging fruit" reforms. ASEAN has removed customs duties on most intra-ASEAN trade but, as noted earlier, this has been achieved mainly through AFTA. Assessments of progress toward realizing an AEC involve significant amounts of double counting, where reforms undertaken under different initiatives and before the AEC proposal was launched are still being added to the tally. But there have been other positive developments.

ASEAN members formally adopted a Customs Code of Conduct, national and regional "Single Window" systems, the ASEAN Harmonised Tariff Nomenclatures, and the WTO's mode of customs valuation. They have concluded "framework" agreements on liberalizing trade in services, investment, goods in transit, multimodal and interstate transport, and information and communications technology. They have agreed on mutual recognition agreements (MRAs) or their equivalent for three types of goods and seven professions, and have also concluded a "framework" agreement on MRAs.[5] Although most of these agreements are shot through with loopholes under the general cover of "flexibility", and some of them have not been ratified by all ASEAN members, they do manifest ASEAN's recognition of the desirability of regional economic integration and each member's commitment to it (Severino and Menon, 2013). Although it is highly unlikely that ASEAN will meet its self-imposed deadline of 2015, it would have come a long way toward increasing integration.

As recent territorial disputes involving the People's Republic of China have shown,[6] progress on the economic front cannot be divorced from the geopolitical challenges facing ASEAN as a group. Indeed, these events remind us that ASEAN was born as, and in many ways designed to be, a politico-security pact. The economic agenda is a more recent experiment. Given the interdependence between economics and geopolitics, however, ASEAN will have to weather the political pressures on its cohesion if it is to progress on economic integration.

The ASEAN Framework on the RCEP was formally endorsed at the 19th ASEAN Summit held in November 2011, and negotiations kicked off on 20 November 2012 on the sidelines of the East Asia Summit in Phnom Penh, Cambodia. Although RCEP membership is based on open accession, it will start with the 10 ASEAN economies and the "+6", all of whom have bilateral FTAs with ASEAN. Recognizing individual development needs, RCEP's Negotiating Principles provide for special and differential treatment with additional flexibility for the least-developed ASEAN members. Although negotiations are meant to be completed by 2015, the difficulties noted earlier in melding multiple, disparate agreements into a single regional one suggest that the target is ambitious. There is also a real risk of a "race to the bottom", in which the lowest common denominator prevails in order to secure consensus. If this happens, then RCEP will contribute little to reform or the regional trade landscape, and merely add to the existing clutter.

The Trans-Pacific Partnership (TPP), the other mega regional in the Asia-Pacific, vaulted into headlines as part of the 2012 US "pivot to Asia". It involves some but not all ASEAN members, namely Brunei Darussalam, Malaysia, Singapore, and Viet Nam.[7] Brunei Darussalam and Singapore were part of the original "P4" agreement (with Chile and New Zealand), preceding the TPP. But while Malaysia and Viet Nam have joined, the other six ASEAN countries have not, suggesting varied motives, extending beyond economics into the geopolitical sphere.

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[5] MRAs covering traded goods would avoid duplication in the testing of products at both the exporting and importing ends, while those pertaining to services usually provide for mutual recognition of professional credentials.

[6] See, for instance, "Getting in the Way", *Economist*, 17-23 May, 2014.

[7] Other current members are Australia, Canada, Chile, Japan, Mexico, New Zealand, Peru and the US. Like RCEP, it has an open access clause for membership.

The TPP agenda is wide-ranging and demanding, much more so than most other high quality FTAs, let alone the WTO Doha requirements. It is unclear if many TPP members, especially developing countries, will be able to comply with these stringent requirements. The TPP has already missed three deadlines—the latest October 2013. There is also concern that the TPP is degenerating into a series of bilateral deals, with a US-Japan agreement at its core. Given sensitivities across members on different issues, multitude exemptions are anticipated and can only be accommodated through bilateral arrangements (see Menon, 2014b). Another challenge involves its current limited membership, which excludes the PRC and the Republic of Korea. A significant increase in Asian membership is needed before it can be a serious alternative to the RCEP. But as with the RCEP, it is too early to tell what form the TPP will take, if it in fact materializes.

ASEAN also participates in a range of broader regional and multilateral initiatives. These include APEC and WTO-based negotiations (for example, the current Doha Round). Its official position is that it regards these processes as consistent with ASEAN objectives and therefore supports them. However, in practice, ASEAN has not played an effective or catalytic role in recent years. One ASEAN country, Indonesia, is a member of the G20, which appears to be morphing into the principal global forum for addressing key development issues, such as measures to prevent a recurrence of financial crises and to address climate change. It is too early to judge whether Indonesia attempts to represent ASEAN interests at these meetings, apart from its own. Institutionally, ASEAN holds observer status at the G20. In sum, ASEAN is moving cautiously and uncertainly toward being at the center of a potentially large, yet still undefined, economic group.

5. Does East Asia have a Workable Financial Safety Net?[8]

When the Asian financial crisis hit, the ASEAN Swap Arrangement (ASA), given its small size, proved sorely inadequate in providing the liquidity needed by its members.[9] There was little choice but to resort to assistance from the International Monetary Fund (IMF). Following disenchantment with the way the IMF dealt with crisis lending programs in the most affected countries, the region has been working on bolstering its own financial safety net. The first step came in May 2000 with the launch of the Chiang Mai Initiative (CMI), as part of the ASEAN+3 process. CMI resources grew from just $1 billion to $84 billion by the time the global financial crisis erupted in 2008.

If the Asian financial crisis lit the fuse to transform the ASA into the CMI, then the global crisis highlighted the continued shortcomings of that transformation. Despite the CMI having grown rapidly in size, it remained too small to be useful. And the absence of rapid-response mechanisms forced affected countries to turn to existing bilateral swaps with the US, the PRC,

[8] This section summarizes the key arguments outlined in Hill and Menon (2012b). See the original article for a detailed discussion of the various institutional arrangements, as well as the reforms required to make the Chiang Mai Initiative Multilateralization (CMIM) a viable proposition.

[9] See Hill and Menon (2012b) for details, including a more comprehensive discussion of the evolution of the arrangements.

Japan, and regional agencies. In response, the CMI was radically transformed. First, it was multilateralized, so the Chiang Mai Initiative Multilateralization (CMIM) would be a self-managed reserve pooling arrangement, governed by a single contract, reducing costly and wasteful duplication. Second, the size of the pool was increased to $120 billion in May 2009. And third, authorities agreed to establish an independent regional surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), launched in May 2011.

Since the global crisis hit, continuing macroeconomic problems in the Eurozone and persistent risks of external shocks highlighted the need to strengthen the CMIM's capacity to act as a regional financial safety net (Azis 2012). To address this need, the 15th ASEAN+3 Finance Ministers Meeting in May 2012, agreed to (i) double the total size of the CMIM to $240 billion; (ii) increase the IMF de-linked portion to 30% in 2012, with a view to increasing it to 40% in 2014, subject to review should conditions warrant; and (iii) introduce a crisis prevention facility.

These are impressive developments over a relatively short time. However, the critical issue is whether these reforms are sufficient to give the region a working option in the event of a crisis. Is it likely that the CMIM will be activated when the next crisis strikes? Unfortunately, for several reasons the CMIM still appears unusable, either as a co-financing facility in tandem with the IMF or as a stand-alone alternative. Several major reforms are required for it to become a viable financial support mechanism.

First, as a reserve-pooling arrangement, it is not actually a fund but a series of promises. This may not be a problem per se, but it becomes one when there are no rapid response procedures to handle a fast-developing financial emergency. Unless procedures are streamlined, the CMIM is unlikely to be used even as a co-financing facility. If the CMIM is to be a real substitute for the IMF and serve its role as a true regional alternative, then the size of the fund, or the portion de-linked from an IMF program, also needs to be substantially increased.[10] Unlike the IMF, the CMIM does not have an exceptional access clause, that is, one which allows a country to borrow amounts above their quota in exceptional circumstances (Menon and Ng 2013). But if there is a is a full-blown systemic crisis in East Asia that spreads across several members, then this clause will not be of much value either. Membership would have to increase beyond ASEAN+3, not just to bolster the size of the fund, but also to diversify it. Obvious candidates initially would include Australia, India, and New Zealand, the additional ASEAN+6 members.

Without these changes, ASEAN+3 is unlikely to turn to the CMIM either as a co-financier or as a substitute for the IMF. This is why countries continue to take the high-cost mercantilist route of self-insurance by holding excessive foreign exchange reserves, and why they continue to

[10] During the Asian financial crisis of 1987—1998, Thailand received over $17 billion in emergency liquidity from an IMF-led consortium. Yet, in a future crisis, Thailand (and the four other original ASEAN members) could access only a fraction of the amount, about $7 billion in 2012 US dollars, from the CMIM without an IMF program. Indonesia received almost six times ($40 billion) the amount of its de-linked portion of the CMIM, or an even greater multiple if converted into today's US dollars. The Republic of Korea was the other crisis-affected country that availed of an IMF-led program with bilateral support that totaled $57 billion, yet today its full quota with the CMIM is about $38 billion (see Hill and Menon 2012, Table 2, for details).

pursue bilateral swap arrangements (BSAs) separately, and often with other CMIM members. Japan is also looking to strengthen bilateral relations with ASEAN directly, matching the PRC in bypassing the ASEAN+3 process. It is expected to revive bilateral currency swap agreements with Malaysia, Singapore, and Thailand and to strengthen existing bilateral arrangements with Indonesia and the Philippines. Some see this as an early warning sign of the unraveling of the CMIM—as a result of rising tensions involving territorial disputes, as well as competition among the "+3" to gain influence in Southeast Asia.[11] If this process continues or spreads, the "noodle bowl" of bilateral swap agreements the CMIM's single agreement was designed to rectify will reappear. In fact, BSAs are quickly becoming the main instrument of Asia's financial safety net, although they remain somewhat ad-hoc. But shifting national reserves to a regional fund that is unlikely to be used could actually be counterproductive, as it weakens a country's first line of defense in the event of a financial crisis.

If AMRO gains sufficient credibility, then the CMIM's small size and limited membership would be less binding constraints. After all, even the IMF relied on other partners to fund the bailouts in Asia in 1997–1998 and in Europe during and after the 2008–2009 global crisis. In both cases, the IMF led the rescue and set the terms. And this is what matters. AMRO needs to be strong enough to fulfill a similar role. Although ASEAN+3 may appear to have a co-financing facility with the IMF via the CMIM, it is currently unusable. If it wants its own regional safety net, then it has far to go. Exactly how far remains unclear. But hopefully it can be made workable before, rather than because of, the next crisis.

6. Summing Up

ASEAN has significant achievements to its credit. It is a durable and effective functioning entity, more so than any other regional organization in the developing world. For a region characterized by great diversity and a history of conflict—and notwithstanding more recent but occasional border skirmishes—Southeast Asia has been comparatively peaceful since the mid-1980s, as the four mainland states progressively re-entered the regional and international mainstream. ASEAN in aggregate has been a region of rapid economic development and rising living standards. One can debate the direction of causality between growing prosperity and ASEAN's four-phase evolution. But undeniably the determination of the region's leaders to forge more cordial relations has facilitated economic development.

ASEAN has also been diplomatically skillful in playing "balance of power" politics (Acharya, 2009). There is no clear economic and political leadership in East Asia, where the economic giants of the past and future—Japan and the PRC respectively—are engaged in a battle of constant diplomatic rivalry. Courted by both, ASEAN has thus been able to advance its own interests considerably, and become either the arbiter or driver of almost every major initiative on regional commercial and security architecture.

[11] See, for instance, Park (2013) and "Japan, ASEAN to launch new Framework for Financial Cooperation in May," *Kyodo News*, 25 April 2013. http://english.kyodonews.jp/news/2013/04/221835.html

Yet, on the other side of the ledger, ASEAN has not progressed very far in terms of becoming a formal economic entity. This proposition can be illustrated with reference to the standard theory of customs unions (Table 4). In over four decades, it has not progressed beyond the first phase, of loosely exchanging trade preferences, while maintaining separate, and still quite variable, trade regimes. As noted, it is very unlikely to progress to the next stage of a customs union with common external tariffs. Deeper integration, affecting factor markets and a common macroeconomic policy regime as in the EU is even further off.

Table 4. Indicators of Economic Integration

Indicator	ASEAN	EU	NAFTA	CER	Mercosur
Free trade in goods	part	yes	yes	yes	part
Free trade in services	part	yes	part	yes	part
Capital mobility (FDI)	part	yes	part	yes	part
Labour mobility	no	yes	no	yes	no
Competition law converging	no	yes	no	yes	no
Monetary union	no	yes	no	no	no
Unified fiscal policy	no	part	no	no	no

ASEAN = Association of Southeast Asian Nations; EU = European Union; NAFTA = North American Free Trade Agreement; CER = Closer Economic Relations; Mercosur = *Mercado Común del Sur*.
Source: Authors' interpretation.

Moreover, ASEAN runs the risk of being perceived as a diplomatic talk-shop. In the words of one former Secretary General, "regional economic integration seems to have become stuck in framework agreements, work programmes, and master plans" (Severino, 2006, p. 247). ASEAN has a long history of issuing declarations, action plans and charters, yet with limited capacity—and arguably, in some cases limited intention—of implementing them. It has generally prevaricated on whether to become a formal customs union. It has developed a plan for labor market integration, while some of the largest labor movements in the world (relative to the size of the recipient economy) have occurred outside this framework. Even after one of the deepest economic crises in the region's history, ASEAN has been unable to develop a set of emergency support mechanisms, and it remains unclear whether the formally constructed regional financial safety nets will ever be workable. At its root, the "ASEAN Way" is an institutional mechanism that renders the prospect of a fundamental change in direction very unlikely. The most likely outcome is that member countries' policy regimes will converge over time to where preferential arrangements become redundant. As the region's commercial hub, Singapore sets the standard in this respect, and one to which lower-income ASEAN members might aspire.

It is therefore not surprising that ASEAN's greatest economic achievement has more to do with what AFTA has indirectly induced rather than what it mandated. The original ASEAN members have been reducing their external tariffs in conjunction with falling barriers to intra-

ASEAN trade in order to minimize the potential costs of trade diversion, recognizing that most of the region's trade is extraregional. The ASEAN-6 countries have also undertaken several waves of multilateralizing preferences, where they have voluntarily offered their AFTA concessions to nonmembers on a nondiscriminatory basis. When preferences are fully multilateralized, the margins of preference are zero, as is the potential for trade diversion. This was the case for more than two-thirds of the tariff lines for the ASEAN-6 countries through 2002, and the proportion has increased since: in 2008, the trade-weighted preference margin for intra-ASEAN trade was a mere 2.3% (WTO, 2011). Furthermore, because preferential tariff reduction schedules have been as ambitious as they were rapid, AFTA accelerated the pace of multilateral trade liberalization in the ASEAN-6 countries. As a result, 72.9% of trade traveled at a zero MFN rate in 2008 (WTO, 2011). Instead of jeopardizing multilateralism, it has hastened the speed at which these countries have moved toward their goal of free and open trade.

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ASEAN Commercial Policy
A Rare Case of Outward-Looking Regional Integration

ASEAN has significant achievements to its credit, although it has not progressed very far in terms of becoming a formal economic entity. But its own brand of market-driven, institution-light and outward-looking regionalism has served it well. Looking forward, hopefully this approach will be preserved with the move to an ASEAN Economic Community.

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