



ASEAN'S FTA Process and Prospects

TO MINH THU – HAN LAM GIANG

Abstract: Over the past three decades, regional economic integration has been a focus on the economic agenda of all ASEAN member states as well as of the group. The rapid increase in both the number and quality of RTAs/FTAs is an indication of the region's active trade policy. This paper examined ASEAN's FTA policy and process since the early 1990s and the factors that led to the conclusion of various trade pacts among the member states and also those with partners, as well as the prospects and challenges of future commitments. The paper considered both strategic and economic dimensions of the integration process. It argued that ASEAN's FTA policy was brought about by strategic calculation and political aspiration to create a single market and production base; a trade and production hub of the Asia-Pacific region. The economic impacts of these trade pacts have, so far however, varied greatly. ASEAN is now embarking on the new phase of its integration process with the coming conclusion of RCEP. The paper suggests that it is crucial for ASEAN to make RCEP effective as it would bring significant economic benefits to member states and help enhance ASEAN's economic and strategic centrality.

Keywords: ASEAN, Free Trade Agreement (FTA), economic integration, prospects

Introduction

The Association of Southeast Asian Nations (ASEAN) is a regional intergovernmental organisation comprising of ten Southeast Asian countries, that promotes the unity of Asian peoples as well as the economic, political, security, military, educational, socio-cultural integration, and cooperation amongst its members, with partner countries and globally. ASEAN was established on August 8, 1967 in Bangkok, Thailand. The five original founding members are Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei Darussalam joined the group on January 7, 1984. Vietnam's accession to ASEAN came later on July 28, 1995; Lao PDR and Myanmar on July 23, 1997; and finally, Cambodia on April 30, 1999, making up what is today the ten Member States of ASEAN. ASEAN covers a land area of 4.5 million square kilometers (3% of the total land area of Earth) and has a combined population in 2019 of approximately 650 million people (8.3% of the world's population) (The ASEAN Secretariat, 2019).

The Association's total combined nominal GDP in 2018 was more than USD 3 trillion, making it the fifth-largest economy in the world if ASEAN were a single entity (after the United States, China, Japan and Germany). In terms of

trade, ASEAN's total value of trade in goods and services reached more than USD 2.8 trillion and USD 778.6 billion, respectively, in 2018. Intra-ASEAN trade has continuously accounted for the largest share of ASEAN total trade. In 2018, intra-ASEAN stands at 23.0% of total trade in the region, with an intra-ASEAN market constituting 24.1% and 21.8% of ASEAN total merchandise exports and imports, respectively. China (17.1%), EU-28 (10.2%), and the USA (9.3%) are ASEAN's top three trading partners in 2018.

ASEAN's sustained economic growth was brought about by the efforts to keep regional and national economies open and connected to the world economy. The promotion of regional economic integration in general and regional trade agreements, in particular, has been a key policy in the region. ASEAN's economic integration started in the early 1970s and initially focused on industrial cooperation. After undergoing a post-crisis recovery period, regional economic integration intensified in the 1990s and achieved important progress with the establishment of the ASEAN Free Trade Area (AFTA) in 1992 and the signing of the ASEAN Framework Agreement on Services (AFAS) in 1995 with the aim of services liberalisation. After more than a decade of implementation, AFTA was further upgraded to the ASEAN Trade in Goods Agreement (ATIGA) in 2009 to cover a wider range of commitments in trade in goods and a reduction of non-tariff barriers. Financial integration started with the Chiang Mai Initiative to prepare ASEAN for the future financial crises and later the adoption of the ASEAN Financial Integration Framework (AFIF) in 2011. The intra-regional investment was boosted through the entry into force of the ASEAN Comprehensive Investment Agreement (ACIA) in 2012. The establishment of the ASEAN Economic Community (AEC) in December 2015 marked an important milestone in the process of promoting greater economic integration in the region (The ASEAN Secretariat, 2017).

Along with the trend of signing free trade agreements (FTA) in the world since the 1990s, ASEAN has been playing a major role in the dynamics of FTA development in Asia through various bilateral FTAs with their important partners in the Asia-Pacific, including five FTAs already in force with China, Japan, Korea, India, and Australia-New Zealand, one newly-signed FTA with Hong Kong, and the Regional Comprehensive Economic Partnership (RCEP) currently under negotiation. The FTAs have impacted not only ASEAN as a whole but also on each member. The purpose of this paper is to review the process and the effects of FTAs on economic and strategic issues in ASEAN, then suggest some directions and prospects of regional economic integration in the coming years.

ASEAN Trade and Cooperation

For several decades, ASEAN countries have been successful in sustaining high economic growth through the expansion of trade and the attraction of FDI. During the period 1965-1995, the original members of ASEAN recorded an average growth rate of more than 7%¹. Together with the fast-growing Northeast Asian economies, Singapore, Indonesia, Malaysia, and Thailand were named by the World Bank as



the high-performing Asian economies (HPAEs)². During the period 1998-2008, despite the impacts of the financial crisis, the average rate of economic growth of the group was 5.3%, which was significantly higher than the world average. In the same period, the average annual growth in exports was 14.2%, while imports increased at an average rate of 17.5% per annum. From 2008 to 2018, ASEAN continued to sustain its average annual GDP growth of above 5%. The newer members, including Cambodia, Laos, Myanmar, and Vietnam have especially achieved much higher growth rates from 6% to 8% annually³, thus, helping narrow the development gap between them and the more developed members.

Table 1 presents a breakdown of ASEAN's trade with its major partners. Intra-ASEAN trade accounts for about a quarter of regional trade. This means that about 75% of ASEAN trade is directed outside ASEAN. Adding three East Asian countries (China, Japan, and Korea), intra-regional trade increases to more than 50% in the last decade. These shares are below that of the European Union, which exceeds 60%, but higher than that of NAFTA, which peaked at 49% in 2001 (ASEAN, 2008).

Table 1
ASEAN trade by selected country/region⁴

Partner country/region	Share to total ASEAN Trade (%)			
	2000	2008	2013	2018
ASEAN	22.0	26.8	24.5	23.0
Japan	15.3	12.4	9.5	8.2
China	4.3	11.3	13.8	17.1
European Union (EU-25)	13.5	11.8	9.7*	10.2*
USA	16.1	10.6	8.1	9.3
Republic of Korea	3.9	4.4	5.3	5.7
Australia, New Zealand	2.6	3.4	3.1	2.7
India	1.3	2.8	2.7	2.9
Others	21.0	16.5	23.3	20.9
Total	100	100	100	100

Linkages in FDI are also strong in the region. During the period 2000-2008, ASEAN received about USD 342.7 billion in FDI inflows, of which 34.5% came from East Asia, 27.0% from EU countries, and 10.1% from the US. Many ASEAN and East Asian

countries are now specializing in large-scale production of manufactured products. The region has developed regional production sharing with Japan leading the chain (specializing in high-value and high-tech products), followed by Korea, Singapore, Malaysia, Thailand, Indonesia, and the Philippines. Recently, new members of ASEAN started to join the low-end of the chain in electronics assembly and other labor-intensive manufactures. These trade and investment linkages have been a major force driving economic cooperation in the region. In addition, the need for regional cooperation became more urgent after the 1997 economic crisis. East Asian countries realised that maintaining regional dynamism would require economic policy cooperation among themselves, in addition to policy efforts at the national level. The successful experience from European and North American economic integration also provides strong motivation for deeper regional cooperation. With the AFTA framework in the early 1990s, ASEAN became a catalyst for shared prosperity in the region. Since 2001, ASEAN has embarked on free trade agreements with major trading partners, including China, Japan, Korea, India, Australia, and New Zealand. These trading partners, whilst generally seen as competitors, recognise that there is a mutual interest that could be realized through cooperation with ASEAN.

ASEAN's FTA Policy and Process

Over the past three decades, the number of bilateral and plurilateral trade agreements that have been signed and ratified in ASEAN has been growing. Table 2 provides a list of FTAs which comprise all of the 10 members of ASEAN.

The AFTA agreement was signed in 1992. According to the Agreement, member countries would gradually reduce intraregional tariffs and remove non-tariff barriers (NTBs) over a 15-year period commencing on January 1, 1993. AFTA uses the Common Effective Preferential Tariff (CEPT) Scheme to decrease tariffs on all manufactured products and processed agricultural products to a range of 0–5% by 2008. In 1994, AFTA members agreed to shorten the time frame to 2003. In 1999 it was again shortened to 2002 (Pangestu, 2005).

ASEAN's ambition towards regional trade liberalisation was echoed by its partners. In November 2000, China proposed the idea of a free trade area between ASEAN and China. The negotiation did not take long and the framework agreement was signed on November 4, 2002. ACFTA requires that China and the 6 countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) would eliminate their tariffs on 90% of their products by 2010 and the 4 countries Cambodia, Lao PDR, Myanmar, Vietnam (often called the CMLV) engaged in the same policy on tariffs, with the same goal to achieve by 2015. In 2010, the ASEAN–China Free Trade Area became the largest free trade area in terms of population and third largest in terms of nominal GDP. It was also the third-largest trade volume after the European Economic Area and the North American Free Trade Area (Gooch, 2009). On January 1, 2010, the average tariff rate on Chinese goods sold in ASEAN countries decreased from 12.8 to 0.6% pending implementation of the free trade area by the remaining ASEAN members. Meanwhile, the average tariff rate on ASEAN goods sold in China decreased from 9.8 to 0.1%.



The second FTA of ASEAN with its dialogue partners is the ASEAN-Korea Trade in Goods Agreement, which was signed in 2006 and entered into force in 2007. It sets out the preferential trade arrangement in goods among the ASEAN Member States and South Korea, allowing 90% of the products being traded between ASEAN and Korea to enjoy duty-free treatment. The Agreement provides for progressive reduction and elimination of tariffs by each country on almost all products. Under the Trade in Goods Agreement, ASEAN-6, including Brunei Darussalam, and Korea eliminated more than 90% of tariffs by January 2010.

Table 2
List of ASEAN's FTA⁵

Name	Members	Signed date	Effective date
ASEAN Free Trade Area (AFTA)	10 ASEAN countries	01/1992	1993
ASEAN-China Free Trade Agreements (ACFTA)	10 ASEAN countries and China	11/2002	
ASEAN-India Free Trade Area (AIFTA)	10 ASEAN countries and India	10/2003	
ASEAN-Republic of Korea Free Trade Area (AKFTA)	10 ASEAN countries and Korea	12/2005	06/2007
ASEAN-Japan Free Trade Area (AJCEP)	10 ASEAN countries and Japan	04/2008	12/2008
ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)	10 ASEAN countries, Australia and New Zealand	02/2009	01/2010
ASEAN-Hong Kong, China Free Trade Area (AHKFTA)	10 ASEAN countries and Hong Kong	11/2017	06/2019
Regional Comprehensive Economic Partnership	10 ASEAN countries, China, Japan, Korea, Australia, and New Zealand	Expected to be signed in late 2020	

In December 2008, the ASEAN–Japan Comprehensive Economic Partnership (AJCEP) came into force, marking the completion FTA between the ASEAN with its Northeast Asian partners. The Agreement covers trade in goods, trade in services, investment, and economic cooperation. The FTA provides for the elimination of duties on 87% of all tariff lines and includes a dispute settlement mechanism. It also allows for back-to-back shipment of goods between member countries, third party

invoicing of goods, and ASEAN cumulation. Both ASEAN and Japan have also initiated several economic cooperation projects that include capacity building and technical assistance in areas of mutual interest. These areas include intellectual property rights, trade-related procedures, information and communications technology, human resources development, small and medium enterprises, tourism and hospitality, transportation, and logistics, among others.

The agreement establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) was signed in February 2009 and entered into force in January 2010. At the time of signing, the FTA was the most comprehensive agreement covering a wide range of issues including trade in goods and services, investment, intellectual property, competition as well as economic cooperation. Since its inception, the AANZFTA has encouraged trade in goods and services by removing barriers and reducing transaction costs for companies wanting to do business in member countries. According to the agreement, 99% of the Australia-New Zealand trade in goods with Indonesia, Malaysia, the Philippines, and Vietnam will be duty-free by 2020. Upon full implementation in 2025, almost all trade between the member countries will be free of tariffs, helping businesses save millions of dollars in tariff duties each year.

Also in January 2010, the ASEAN-India Trade in Goods Agreement (AIFTA) entered into force. The signing of the agreement paved the way for the creation of one of the world's largest free trade area markets, creating opportunities for over 1.9 billion people in ASEAN and India with a combined GDP of USD 4.8 trillion. AIFTA creates a more liberal, facilitative market access, and an investment regime among the member countries. The agreement set tariff liberalisation of over 90% of products traded between the two dynamic regions. Accordingly, the tariffs on over 4,000 product lines were agreed to be eliminated by 2016, at the earliest.

The latest FTA partner of the ASEAN is Hong Kong. On November 12, 2017, the two sides signed a free trade and investment pact to strengthen economic cooperation and stimulate economic development. The two agreements, the ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA), and the ASEAN-Hong Kong Investment Agreement (AHKIA), were signed at the 31st ASEAN Summit in Manila and will come into force on January 1, 2019. The agreement will offer four key advantages to stakeholders in the region, namely tariff reduction for trade in goods; better and fairer investment protection; fewer restrictions for trade in services; and a longer stay for business travelers.

Currently, ASEAN and 5 partners, namely China, Japan, Korea, Australia, and New Zealand are in the final stage of negotiating the Regional Comprehensive Economic Partnership (RCEP), which is considered as a regional mega FTA. Initially, India was a part of the negotiation but it withdrew from the FTA due to concerns of competition from other members. However, ASEAN and other partners are still open to India joining later. It is expected that RCEP will be concluded and signed in November 2020 (ASEAN, 2020).

The creation of FTA in general and in ASEAN, in particular, has been explained extensively in the literature from both economic and political aspects. From an economic perspective, FTAs offer a more flexible choice for countries to facilitate trade when the speed of multilateral trade negotiation has slowed. Countries that see the potential to increase trade and economic linkages can choose to reduce



tariffs among themselves. In addition, with fewer members, it is easier to negotiate the level and extent of free trade. This flexibility is the strength of FTAs over global trade negotiations. Indeed, after several decades of high-speed economic growth, the economies of ASEAN have been more diversified in their production structures and more complementary towards each other. During the 1980s, several ASEAN countries undertook comprehensive economic reform to liberalise trade and investment, engaging deeper into the global production network (Tongzon, 2002). The expansion of ASEAN to include less developed countries, namely Cambodia, Laos, Myanmar, and Vietnam, means that there is more room for trade creation as these untapped markets are liberalized for trade and investment. Apart from the internal market, as shown earlier, ASEAN's economies had been highly dependent on a few partners, especially East Asian economies. Thus it is natural for ASEAN to look for closer trade links with its major partners.

During the 1990s, ASEAN faced significant challenges, especially due to changes in politics and the economy at both regional and global levels. The slow progress of the global trade liberalisation frustrated private sectors and governments in these countries. At the same time, the success of regional trade liberalisation in the EU and North America acts as a facilitator for regionalism as it increases competitiveness from regionally linked markets and also as a model for future market expansion, enhancing trade and investment relations among countries in the same region. Under such circumstances, ASEAN has been focused on regional economic integration as well as trade liberalisation. The association's commitment to the liberalisation of trade is highlighted in its efforts to establish a regional trade bloc, ASEAN Free Trade Area (AFTA), officially announced in the 4th ASEAN Summit in Singapore in 1992. This successful step of regional economic integration illustrates the expectations of supporting local trade and manufacturing in all ASEAN nations, attracting foreign direct investments as well as increasing the ASEAN region's competitive edge as a production base in the world market (Malaysia's Ministry of International Trade and Industry).

The policy of ASEAN on negotiating and signing FTAs has been through a number of significant changes. From signing FTAs within the member states in the region, ASEAN has moved towards signing and negotiating FTAs with other regional groups like the EU. ASEAN also concentrated on proliferating free trade with external dialogue partners. Up till now, ASEAN has six bilateral free trade agreements signed and in effect with seven dialogue partners including Hong Kong (China), China, Japan, Republic of Korea, India, and Australia and New Zealand via the platform of ASEAN+1 (ASEAN Website). Commitments to FTAs have been greatly accelerated and deepened. The coverage of FTAs has been widened to include much more diverse products, especially those initially excluded. Also, the implementation content of some FTAs, for instance, the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), covers a wide range of issues from trade in goods and services, investment, intellectual property, and the competition to economic cooperation (Dezan Shira & Associates, 2017). This is regarded as the most comprehensive and highest quality FTA concluded by ASEAN (The FTA Joint Committee, 2017).

From a political stance, it was well understood that closer economic relations and trade ties would help reinforce political commitment and help ensure stable relations (Gowa, 1989; Gowa and Mansfield 1993). For small states, it would be much more

difficult or sometimes impossible to negotiate a trade deal with a bigger partner. Thus being a member of ASEAN and a negotiating member of a trade agreement would help enhance their role in the partner's trade and foreign policy. For the group as a whole, trade agreements are often viewed more as political instruments for magnifying their strategic importance.

In addition, in the case of the FTA with the northeast Asian partners, the complicated relations between China, Japan, and Korea led ASEAN to opt for three separate FTAs with each country, despite various studies showing that the gain from an ASEAN+3 FTA would largely outweigh those of the three ASEAN+1 FTA. Indeed, some scholars have argued that the proliferation of FTA among ASEAN and China, Japan, and Korea is a strategic response to power distribution. It has been argued that the contestation over regional leadership between China and Japan had propelled a series of economic projects for regional integration (Yoshimatsu, 2005; Dent, 2006b; Wong, 2007).

Domestic political factors also play an important role in defining the FTA policy in ASEAN. Political leaders' preferences have played a pivotal role in determining the formation and direction of the AFTA. Chiou (2010) argues that since ASEAN countries are not fully democratic, the role of leaders is critical and as political leaders seemed to enjoy a stable win-set domestically, the achievement of FTA is more likely.

Economic Impacts of ASEAN FTA

There is a large volume of research that assesses the economic impacts of ASEAN's FTAs. Studies by Imada, Montes, and Naya (1991), Felipe and Wescott (1992), Takeuchi (1993), Adams and Park (1995), Nadal (1995), and Park (2000) show limited economic impacts for AFTA. Recently, Calvo-Pardo, Freund, and Ornelas (2009) and Kalra (2010) investigate the trade effect of AFTA by using preferential tariffs on nonmember economies. The empirical findings on trade effects suggest a small but positive improvement of intra-ASEAN trade, with similar gains to income. The relatively insufficient gains from AFTA is attributed to several factors, mainly (i) the slow progress of past ASEAN economic cooperation, (ii) the current low volume of intra-ASEAN trade, (iii) competition among ASEAN member nations for the same export markets (Japanese and U.S. market), (iv) relatively similar production and trade structures (light manufactured products and natural-resource-oriented products) in each member nation, (v) the very different tariff structures among member nations, and (vi) the negative effects on excluding the Northeast Asian neighbors (China, Japan, and Korea) will cause AFTA to fail (Park, 2011).

Comparing the impacts of different FTA arrangements using the same model, it is commonly agreed that the larger the size of the FTA, the more benefits it brings to the member economies, but also the higher the cost for non-members. These findings are to be expected because the benefits from improvements in resource allocation tend to increase with the size of the grouping without trade barriers. Lee, Choi, and Park (2003), Tsutsumi and Kiyota, (2000) find welfare gains for ASEAN increase significantly in ASEAN+3, compared with AFTA.



Kawai and Wignajawa (2007) provide the income effects for almost every individual economy in East Asia for ASEAN+1, ASEAN+3 and ASEAN+6, and find that the gains for member countries increase with the number of countries in the FTAs. The income effects for ASEAN improve from 3.72% in an ASEAN-China FTA⁶ to 5.23% in ASEAN+3, and to 5.66% in ASEAN+6. Effects on Northeast Asia rise from less than 0.3% in all ASEAN+1 FTAs to 1.85% in ASEAN+3 and 1.93% in ASEAN+6 FTA.

In sum, the evaluation of various FTA scenarios using different methods shows that economic gains for ASEAN countries in AFTA are quite limited. In other FTAs with partners, it would be more beneficial for ASEAN to reach a region-wide FTA, including all possible partners. Thus, economic motivation for AFTA and ASEAN+1 FTA is not the main driver for ASEAN to follow its past FTA policy. Instead, the political and strategic calculation could help shed light on the puzzling question of why ASEAN followed its current economic integration path.

ASEAN's New Phase of Economic Integration

As mentioned above, FTAs have brought about positive impacts on trade creation and trade diversion as well as serving for strategic goals. However, from the viewpoint of global value chains, ASEAN countries are still at the lower level of the chains. Although the regional FTAs offer high potentials for cooperation, the implementation has not been commensurated and is still limited compared with other high-quality FTAs in the world. Besides, the cooperation in various sectors other than trade in goods, such as trade in services, investment, labors, or environmental issues, is still at a low speed. Therefore, there are huge potentials that can be explored and those regional FTAs must be strengthened.

Due to its position as one of the most dynamic regions as well as its geostrategic location, ASEAN is in a good position to follow its integration path. Over the years, with the gradual opening up of its economies, increasing demographic importance, low labor costs, and steady growth, ASEAN has emerged as one of the most attractive foreign capital destinations in Asia. From the region's financial services capital in Singapore to its low-cost manufacturing hubs in Myanmar, the ASEAN region offers numerous opportunities for businesses interested in establishing operations or trading in Asia. In terms of low-cost manufacturing, besides Vietnam's already-firmed position, Myanmar, Cambodia, Lao PDR, and the Philippines have shown significant potential and development in their manufacturing activities and attracting investment in this sector. In addition, foreign businesses planning to set up operations in ASEAN also benefit from numerous tax incentives and fiscal benefits.

Furthermore, ASEAN is proven as a potential market of more than 600 million people. Also, the establishment and development of the ASEAN Economic Community (AEC) offers a possible avenue for businesses to capitalize on the region's dynamism. Exporters can tap into areas of strong consumer demand, a wide range of products eligible for preferential treatment, improved customs clearance times, and less complicated trade procedures (Dezan Shira and Associates, 2017). Moreover, due to the reality that ASEAN's intra-regional commodity production

structure is relatively similar, access to the external market is essential and a central priority. In addition, ASEAN is experiencing advantages in the current process of global and regional supply and value chain transition under the impact of the US-China trade war. Thus, the ASEAN's continued signing of FTAs as a single market also greatly supports member countries in the process of attracting FDI for socio-economic development towards modern and sustainable directions. This is especially so when the new-generation FTAs will require higher standards and cover wider issues that some members cannot meet if negotiating separately. Currently, the Regional Comprehensive Economic Partnership (RCEP) is the most prioritized FTA of ASEAN. RCEP, when signed and enforced, will create the largest free trade area in the world, and, at the same time, create a new driving force for development. The RCEP, initiated by ASEAN at the 21st ASEAN Summit in Phnom Penh, Cambodia in November 2012, is a proposed free trade agreement among 10 ASEAN member states and FTA partners are China, Japan, Korea, Australia, New Zealand, and India. The goal of launching RCEP negotiation is to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among ASEAN member states and ASEAN's FTA partners. In other words, the RCEP was built upon the existing ASEAN+1 FTAs with the spirit to strengthen economic linkages and to enhance trade and investment-related activities as well as to contribute to minimizing the development gap among the parties (ASEAN, 2016). The RCEP negotiation currently covers a wide range of fields, namely trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium enterprises (SMEs), and other issues. If the agreement was signed, confidence in the regional framework would have been further strengthened economically and politically, as well as in other areas. This will be the motivation to speed up the trade volume among participating countries, helping to rebuild the economies in the era of post-Covid-19.

Recently, India announced that it will withdraw from RCEP negotiation. The withdrawal of an important partner like India with a large market certainly makes RCEP less attractive. It is a clear symbol of how difficult it is to negotiate a mega-FTA and the determination of ASEAN to keep its economic integration policy forward. During the 36th ASEAN Summit, held via online format last June, ASEAN leaders applauded the progress made towards the full completion of the RCEP negotiations. The RCEP will send a clear signal that regional economic integration in Asia remains strong and vibrant, although protectionism and unilateralism are on the rise in the US and other regions. The challenges that lie ahead include how to convince people of the RCEP benefits and how to empower, allowing local citizens, small and medium enterprises to benefit from the regional trade agreement.

Many other scholars⁷ also agree on the importance of RCEP in the current context. The RCEP will be one of the most important regional free trade agreements in the world at this time. ASEAN leaders took a clear, unified stance against the policy of protectionism by moving forward, with deepening regional economic integration. Furthermore, it is important to build synergy between RCEP and other regional initiatives, to play a key role in enhancing development, and connecting regional infrastructure - key elements to support trade and investment attraction.



Another noticed trend is the birth of the so-called “new generation FTA”. This new kind has some different characteristics. Firstly, a new-generation FTA has higher standards and a broader scale. Compared to the previous FTAs, the new ones cover more fields such as the rule of origin, technical barriers, intellectual property rights, public procurement, growth models, labor unions, internal legislation, etc. Thus, new generation FTAs become more comprehensive and enhance standardisation levels at the same time. Secondly, the level of commitment to new generation FTAs is more extensive. This is shown in the process of negotiation and implementation where there have been no specific distinctions and preferences for any economy. Besides, the members also accept higher legal binding of the commitment. Thirdly, new generation FTAs care more about improving the mechanism of dispute resolution which is the weak point of current FTAs. It is necessary because of the more frequent trade and interest conflicts in recent times. Fourthly, the new generation FTAs have openness to the issue of member and content expansion, even after taking effect. These are flexible responses to the changing international context of today. Finally, considering entrepreneurs are the main growth driven force, the signatories prioritize measures to facilitate them creating innovation and development space. Hence, the new generation FTAs are predicted to have significant impacts on international trade and the economic policy of almost all countries.

Prospect of an ASEAN-EU FTA

The ASEAN is listed as a priority for further engagement as part of the European Union’s recently adopted strategy on trade, which aims to aggressively pursue the lowering of barriers of its exports through signing FTA (European Union, 2016). The ASEAN has been continuously growing in importance for European entrepreneurs as an attractive regional alternative or complement to business activities in China and India. The EU is the largest investor in the ASEAN region with the FDI stocks into ASEAN accounted for EUR 337 billion. ASEAN investment in Europe has also been growing steadily and impressively to a total stock of over EUR 141 billion in 2017. The EU is also the ASEAN’s second trading partner and the ASEAN represents the EU’s 3rd largest trading partner, with total trade in goods at EUR 237.3 billion in 2018 (European Commission, 2020). A free trade agreement between the two regions is expected to have a profound impact on trade and FDI between ASEAN and the EU. Negotiations for a region-to-region FTA between the EU and ASEAN were launched in 2007 and stalled in 2009 for political reasons. Nevertheless, the increasingly volatile international economic environment has pushed Europe towards Southeast Asia. In 2017, the EU re-started FTA negotiation with the ASEAN after the US pulled out of the transatlantic trade and investment partnership agreement (Hung, 2020a).

The proposed Free Trade Agreement (FTA) will take the form of a new generation of competitiveness-driven bilateral trade agreement that goes beyond traditional market access. Since the EU-ASEAN FTA negotiation was postponed in 2009, several bilateral FTA negotiations have been initiated which are conceived

as building blocks towards a future region-to-region agreement. Vietnam's parliament's ratification of the FTA between Vietnam and the European Union (EVFTA) in August 2020 can be seen as a positive sign. Previously, the EU also successfully signed an FTA with Singapore. In fact, Singapore and Vietnam are the EU's largest trading partners in the region. These two countries account for about 45% of the total EU's trade with ASEAN. These FTAs are expected to benefit inter-regional trade and employment. For European companies, the FTAs provide the opportunity to gain access to the potential ASEAN telecommunications, finance, and information technology markets. Singaporean companies at the forefront of the Industrial Revolution 4.0, will enjoy unlimited access to European digital markets. The Vietnamese government estimates that exports to the EU will increase by up to 20% under the EVFTA, adding 3% to the total domestic product by 2023 (Hung, 2020a). Therefore, the FTA between Singapore and Vietnam and the EU is expected to serve as a model for an ASEAN-EU multilateral FTA.

However, considering the current complicated context, the EU-ASEAN FTA will face a long path before reaching an agreement. The EU is struggling to find a way out for the deadlock in search of a post-Brexit trade deal with the UK. It is worth considering the trend of FTA negotiation between the Europeans and the ASEAN in the future, under the changing political and economic context. Firstly, Brexit has an impact on the way the EU negotiates bilateral FTAs with the rest of the ASEAN member states, so it definitely affects the FTA with ASEAN. Secondly, Brexit leads to the UK being out of any future EU FTAs, thus forcing the country to seek FTAs with ASEAN member states (Hung, 2020a). At the same time, the US-China trade war, as well as the US-EU trade tension, has not shown many positive signals. Along with that, the impact of the Covid-19 shock has caused certain adjustments to the directions and priorities of both sides. While there will be considerable economic value in securing duty-free trade with Indonesia, Malaysia, Thailand, and the Philippines, the EU still has disagreements over an FTA with the ASEAN bloc. For instance, the dispute between the major EU and ASEAN palm oil producers has also increased in 2019. Lawsuits over these disputes may take several years to settle and will likely dampen EU enthusiasm for duty-free trade with both of these countries.

With such barriers to a multilateral approach, the EU is likely to continue with bilateral negotiations with ASEAN members. On the basis of FTAs with Singapore and Vietnam becoming a foundation for strengthening confidence, Thailand can become a third country in ASEAN that can successfully negotiate an FTA with the EU. Indeed, the EU and Thailand initiated negotiations on an FTA in 2013, but stalled a year later, when Thailand's political situation changed. In 2017, the EU laid out the conditions for the resumption of negotiations (Rödl & Partner, 2018). The EU also expressed its goodwill to resume FTA negotiations with Indonesia and the Philippines. However, it seems that the EU is not ready to negotiate a separate FTA with countries such as Cambodia, Myanmar or Laos, nor apply tax exemption to these countries under the ASEAN hat. Therefore, from the perspective of economic dynamics, the prospects for an FTA between the two regions will be rather blurred.



Conclusion

In sum, although a latecomer, the economically important ASEAN has emerged at the forefront of global free trade agreement activity. There have been concerns raised about the negative effects of ASEAN FTAs, including the “noodle bowl” problem. The focus for policymakers should then be how best to minimise the costs of FTAs while maximizing their benefits. In fact, FTAs have brought many positive effects for ASEAN as a whole as well as for each member, both in terms of economic and strategic aspects. This continues one of the priorities of the ASEAN in the coming years. Especially, in the quickly changing world, negotiating and signing new FTAs along with effectively implementing the existing FTAs may play a crucial role in creating a new driving force for the development of the region. In which, RCEP is considered to be the most important one. Besides, the prospect of other new generation FTAs such as a FTA with the EU also opens many opportunities. However, the most important thing is the determination of the bloc to improve endogenous capacity to actively respond to the new shock, control the situation, and make good use of the advantages and chances.

Bibliography

- Adams, F. Gerard and Innwon Park. (1995). Measuring the Impact of AFTA: An Application of a Linked CGE System. *The Journal of Policy Modeling* , 17(4), 325-365.
- Ando, M. and S. Urata. (2005). The Impacts of East Asia FTA: A CGE Model Simulation Study. *KUMQRP Discussion Paper* , No. 2005-21.
- ASEAN. (2016). *Regional Comprehensive Economic Partnership (RCEP)*. Retrieved from ASEAN: https://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership&fbclid=IwAR17bNopzetYVhrB8tOzCSVITpWR8NvniR6h5v_qbacUcjUTarPyAOi4nGE
- ASEAN. (2019). *Gains and losses from the US-China trade war*. Retrieved from The World and Vietnam Report Website: <https://baoquocte.vn/asean-duoc-va-mat-tu-cuoc-chien-thuong-mai-my-trung-103588.html>
- ASEAN. (2018). *ASEAN Statistical Yearbook* . Jakarta: The ASEAN Secretariat.
- ASEAN. (2008). *ASEAN Statistical Yearbook*. Jakarta: The ASEAN Secretariat.
- ASEAN. (2020). *Chairman’s statement of the 36th ASEAN Summit*. Retrieved from <https://asean.org/storage/2020/06/Chairman-Statement-of-the-36th-ASEAN-Summit-FINAL.pdf>
- ASEAN. (n.d.). *Free Trade Agreements with Dialogue Partners*. Retrieved from <https://asean.org/asean-economic-community/free-trade-agreements-with-dialogue-partners/>
- ASEAN. (2016). *Regional Comprehensive Economic Partnership (RCEP)*. Retrieved from https://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership&fbclid=IwAR17bNopzetYVhrB8tOzCSVITpWR8NvniR6h5v_qbacUcjUTarPyAOi4nGE

- Brown, D. K. (1987). Tariffs, the terms of trade, and national product differentiation. *Journal of Policy Modeling* , 9, 503-526.
- Calvo-Pardo, Hector, Caroline Freund, and Emmanuel Ornelas. (2009). *The ASEAN Free Trade Agreement: Impact on Trade Flows and External Trade Barriers*. Washington, DC: The World Bank.
- Dezan Shira & Associates. (2017). *ASEAN's Free Trade Agreements: An Overview*. Retrieved from <https://www.aseanbriefing.com/news/aseans-free-trade-agreements-an-overview/>
- Dezan Shira and Associates. (2017). *ASEAN's FTAs and Opportunities for Foreign Businesses*. Retrieved from file:///C:/Users/Giang%20Han/Desktop/Work%20from%20home/aseans-ftas-opportunities-for-foreign-businesses.pdf
- European Commission. (2020). *Association of South East Asian Nations*. Retrieved from <https://ec.europa.eu/trade/policy/countries-and-regions/regions/asean>
- European Union. (2016). *A Global Strategy for the European Union's Foreign And Security Policy*. Retrieved from https://eeas.europa.eu/sites/eeas/files/eugs_review_web_0.pdf
- Felipe, Jesus and Robert Wescott. (1992). *The Welfare Effects of an ASEAN Free Trade Area: A Simulation Analysis*. Paper presented at the ICSEAD Model Comparison seminar on Trade, Development and Regional Groupings in East and South East Asia, organized by International Centre for the Study of East Asian Development, Kitakyushu City, Japan.
- Gooch, L. (2009). *Asia Free-Trade Zone Raises Hopes, and Some Fears About China*. Retrieved from <https://www.nytimes.com/2010/01/01/business/global/01trade.html>
- Hung, D. (2020a). *EVFTA: Model for ASEAN - EU Cooperation*. Retrieved from <https://congthuong.vn/evfta-mo-hinh-cho-hop-tac-asean-eu-139145.html>
- Hung, D. (2020b). *RCEP: New driving force of ASEAN*. Retrieved from <https://congthuong.vn/rcep-dong-luc-moi-cua-asean-140815.html>
- Imada, Pearl, Manuel Montes, and Seiji Naya . (1991). *A Free Trade Area*. Singapore: Institute of Southeast Asian Studies.
- Kalra, S. *A Chronicle of Shifting Trade Exposure and Regional Integration*. Washington, DC: International Monetary Fund.
- Malaysia's Ministry of International Trade and Industry. (n.d.). *ASEAN Free Trade Area (AFTA)*. Retrieved from <https://fta.miti.gov.my/index.php/pages/view/asean-afta>
- Nadal De Simon, Francisco. (1995). A Macroeconomic Perspective of AFTA's Problems and Prospects. *Contemporary Economic Policy* , 13(1), 49-62.
- Pangestu, M. (2005). Southeast Asian Regional and International Economic Cooperation. In D. E. Weatherbee (Ed.), *International Relations in Southeast Asia: The Struggle for Autonomy*. Lanham, MD: Rowman & Littlefield Publishers, Inc.



- Park, I. (2011). Is AFTA a Desirable Regional Trade Agreement for ASEAN? *International Area Studies Review*, Volume 14, Number 4, December 2011.
- Park, I. (2000). Trade Liberalization and Long-run Economic Growth: A CGE Model Analysis of AFTA. *Korea Review of International Studies*, 3(1), 107-130.
- RCEP members determined to sign deal in November. (2020). Retrieved from [Ahttps://www.asean2020.vn/xem-chi-tiet1/-/asset_publisher/ynfWm23dDfpd/content/rcep-members-determined-to-sign-deal-in-november](https://www.asean2020.vn/xem-chi-tiet1/-/asset_publisher/ynfWm23dDfpd/content/rcep-members-determined-to-sign-deal-in-november)
- Rödl & Partner;. (2018). *Free trade agreements in Asean and beyond – a key to attractive business perspectives*. Retrieved from https://www.roedl.com/insights/free-trade-agreements-asean-beyond-attractive-business-perspectives?fbclid=IwAR2LmEZn78DshQTDcx_EJO5xggCGRUfvE34m_10ALvfWjqZJ89Nc4cQCVs0
- Takeuchi, J. (1993). *Effect of AFTA on ASEAN Industrial Structure*. RIM: Pacific Business and Industries.
- The ASEAN Secretariat. (2017). *ASEAN Economic Integration Brief*. Retrieved https://asean.org/storage/2017/06/AEIB_No.01-June-2017_rev.pdf
- The ASEAN Secretariat. (2019). *ASEAN Key Figures 2019*. Retrieved from https://www.aseanstats.org/wp-content/uploads/2019/11/ASEAN_Key_Figures_2019.pdf
- The FTA Joint Committee. (2017). *General Review of AANZFTA-Stage One: Review of Implementation 2010-2017*. Retrieved from https://aanzfta.asean.org/uploads/2016/04/AANZFTA-General-Review-Stage-One-report_FINAL-public.pdf
- Tongzon, J. L. (2002). *The Economies of Southeast Asia* (2nd ed.). Edward Elgar Publishing.

Endnotes

- 1 Except for the Philippines which suffered stagnation during the 1980s (Lau and Park, 2003).
- 2 The HPAEs are often referred to as the 8 high performing East Asian economies, namely Japan, Korea, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, and Thailand (World Bank, 1993).
- 3 According to ASEAN's Statistical Yearbook, various years.
- 4 Calculated from data in ASEAN Statistical Yearbook 2008, 2019. The statistics are of the European Union in 2013 and 2018 are those of EU-28.
- 5 ASEAN, Free Trade Agreements with Dialogue Partners
- 6 The effects on ASEAN+Japan and ASEAN+ Korea FTAs are 2.34% and 0.66% respectively.
- 7 E.g. Mey Kalyan - senior advisor to the Supreme National Economic Council of Cambodia, Joseph Matthews - senior professor at BELTEI International University in Phnom Penh