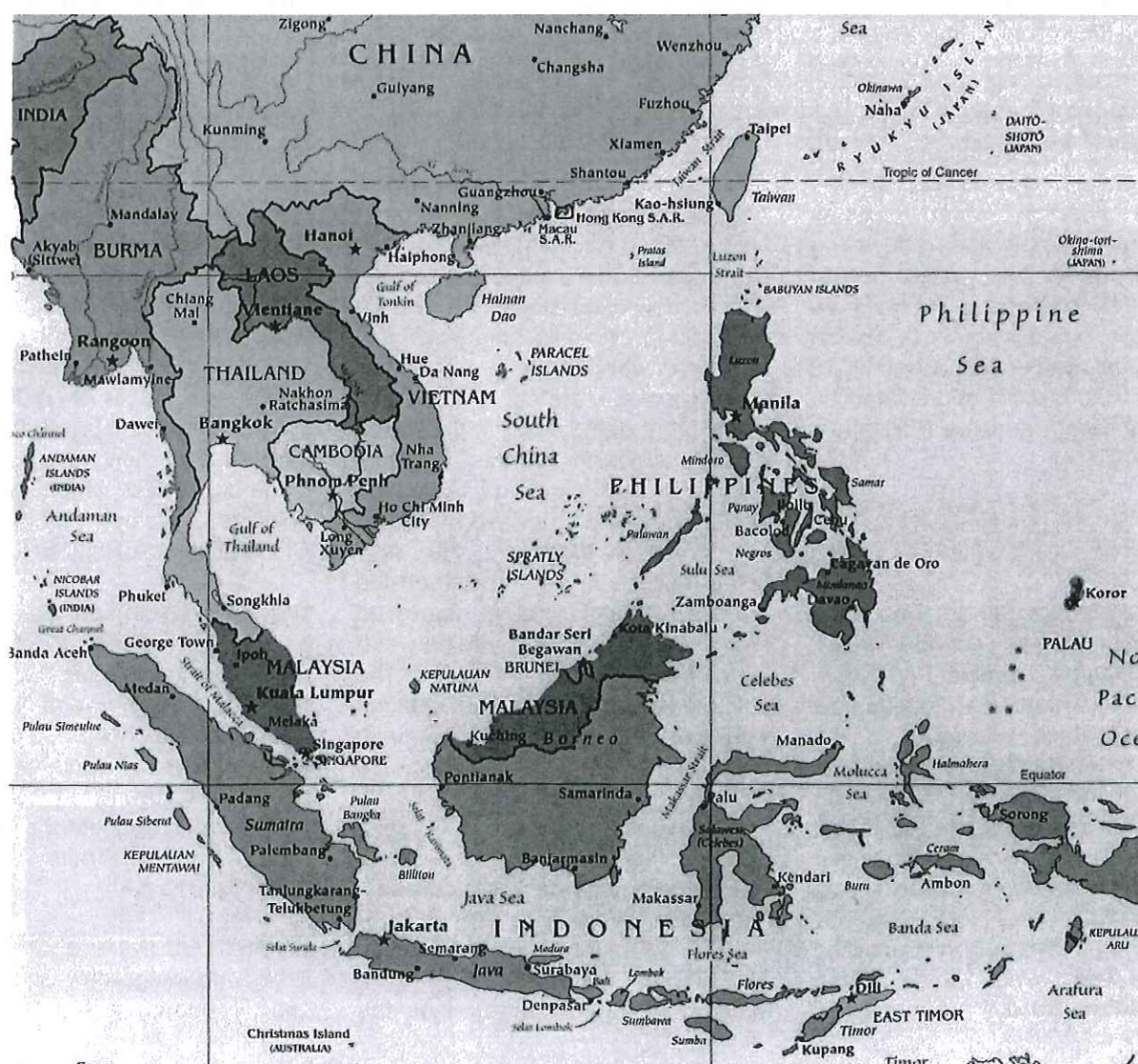


ASEAN

THE POLITICAL, ECONOMIC AND FINANCIAL
DIMENSIONS OF CREATING ONE BIG MARKET

AND CHINA'S RELATIONS WITH THESE COUNTRIES

BY MEINE PIETER VAN DIJK



INTRODUCTION

In this article, the political, economic and financial dimensions of creating one big market through the Association of Southeast Asian Nations (ASEAN) and the influence of China on these ASEAN countries will be analyzed. ASEAN counted originally five members (Indonesia, Malaysia, Singapore, Thailand and the Philippines) and currently ten members (also Brunei, Cambodia, Laos, Myanmar and Vietnam). If the envisaged economic integration will be successful one market of almost 500 million people will be created in 2015. This is comparable to the Transatlantic Trade Initiative (TIIP) between the United States (US) and the EU, which will create a market for 800 million people. The ASEAN countries even consider launching their own currency, just like the European Union (EU).

I will argue that China always acts strategically and in this case the relations are part of China's strategy to become a world power, which includes playing an important role abroad (Kennedy, 1989). Secondly, the country wants to ensure the supply of raw materials for the Chinese industry, which requires control over supply lines and trying to get a port for the western part of China, for example in Myanmar. Finally the country wants to stretch its territorial area up to the first ring of islands, which is not appreciated by Japan, Vietnam and the Philippines (Holslag, 2014).

POLITICAL INTEGRATION: BRIGHT PROSPECTS FOR ASEAN?

ASEAN was created in 1967 with five countries to provide some counterbalance against Vietnam, Laos and Cambodia, communist countries, which according to the domino theory of that time could fall if communism would win in Vietnam. Mahbubani (2013: 38) notes that it survived against all odds. However, for a long time ASEAN was not a very dynamic or powerful block. Currently ASEAN has more clout and it is called ten plus three, since China, Japan and South-Korea are not members,

but invited to the events. The countries also prepared a regional treaty to fight smog from forest fires. Indonesia hopes to ratify in 2014 this international anti-pollution pact. It will be the last country to do so. Mahbubani (2013: 85) notes that South East Asia 'begins to accept international legal norms'.

The prospects for ASEAN seem to be bright according to the weekly Vietweek (10-1-2014: 7). The world of business in ASEAN countries is optimistic about the future (based on research by Grant Thornton). Optimism increased from 25 to 45 percent, because businessmen expect a bigger demand for their products and services after 2015. The ideal of ASEAN is formulated in the article as: "not only politically cohesive, economically integrated, socially responsible, but also truly people-oriented, people-centred and rules-based."

Mahbubani (2013) considers the political integration and in particular how ASEAN dealt with Myanmar the big success of ASEAN. According to him 'the march to modernity in Asia' has started to pay off. He considers ASEAN a mini-replica of the European Union (EU) and emphasizes that the organization 'played a critical role in delivering peace'. It was 'a policy of continually engaging' with Myanmar, which finally bore fruit. By not excluding it the country became finally more democratic. In the 1990s ASEAN achieved 'reduced levels of distrust in the region' and 'increased levels of goodwill: now 10 members are working together'. He also notes that the relations between the member countries have improved and there is more solidarity between them. However, the real test of the political integration is the relation with China. How are the relations evolving with the important regional powerhouse, China? Given China's policies concerning the South China Sea and the Mekong river will the ASEAN countries manage to handle that relation properly?

THE ROLE OF CHINA

Mahbubani (2013) notes that the

claim on different islands in the South China Sea may lead to a division between China and ASEAN. Recently China introduced a law that 'requires foreign fishermen to seek Beijing's approval to operate in much of the South China Sea' (Jakarta Post, 11-1-2014: 12). The newspaper adds that the Philippines and Vietnam condemn China's law. Like the conflict with Japan about air identification zone in the East China Sea such conflicting territorial claims have increased the tension between the concerned ASEAN countries and China. Hanoi for example expressed its undisputable sovereignty over the Spratly and Paracel islands and the Philippines have asked China for clarification. The Jakarta Post (11-1-2014: 12) notes that the regulation which took effect January 2014 'reinforces China's expansive territorial claims and violates international law, particularly the UN Convention on the Law of the Sea'. The Philippines also emphasized that the law was contrary to a 2002 declaration that China has signed with the 10-member ASEAN to refrain from changing the status quo'. All this increases the risk of a confrontation with China.

During the next meeting of ASEAN in 2014 Myanmar will be the chair. According to the Bangkok Post (6-1-2014: 1) the close relations between the military junta of Myanmar and China will make it more difficult for Myanmar to play that role. The ASEAN countries have to accept a Code of conduct, which should solve conflicts between members and China (Bangkok Post, 6-1-2014: 1).

Will ASEAN be in a position to mediate between China and members such as Vietnam and the Philippines? Will this law test the relation between China and ASEAN or could it lead to forming one block against China? The strong reactions of the Philippines and Vietnam suggest that this is not a run race (The Straits Times, 11-1-2014: 1).

ECONOMIC INTEGRATION

Economic integration, lowering tariff and non-tariff barriers, promotes

economic development. Mahbubani (2013: 193) notes that ASEAN has stimulated different forms of collaboration, for example through an 'open skies agreement' which has resulted in an increase of air traffic of 7 percent per year during the last 20 years. The ASEAN countries now want to create the ASEAN Economic Community (AEC) starting at the end of 2015 (Viet Nam News, 11-1-2014: 6 and Bangkok Post, 6-1-2014: 1). The four most important objectives are:

- a. A single market and production base
- b. A highly competitive economic region
- c. A region of equitable economic development and
- d. A region fully integrated into the global economy

AEC should turn the ASEAN countries into one region with free movement of goods and services and capital. The participating countries got a taste of what this means on January 1, 2014 when import duties on cars from the region were reduced by almost 55% (Viet Nam News, 4-1-2014: 13). This is the result of the beginning of the ASEAN Trade in Goods Agreement (ATIGA). In particular car exporting countries like Thailand, Indonesia and Malaysia should benefit from this opportunity to export more.

The Straits Times (11-1-2014: D6-7) draws up the balance of the preparations for 2015 and concludes that a number of countries are not yet ready for this event. In particular Indonesia has not done enough. The Asian Development Bank (ADB, 2014) notes that free trade agreements (FTAs) in ASEAN tend to be weak and could be distracting members from real economic reforms and regional integration. The study for the ADB concludes that the 'FTAs that ASEAN has concluded hardly promote economic integration or ASEAN's integration with the wider Asia or the global economy ... they certainly will not help achieve the AEC by 2015'. The argument used is that the agreements commit the parties to eliminating tariffs among themselves, they do not address

regulatory and non-tariff barriers such as product standards and mutual recognition arrangements, services, investments, intellectual property rights, government procurement, or the movement of business people. These are all very important points for regional integration, even more important than tariffs according to the report.

Other integration efforts take place at the same time and may be more important. For example the 12-nation Trans-Pacific Partnership (TPP), which tries to tie the US more firmly to the dynamic Asia-Pacific region (Viet Nam News, 11-1-2014: 6). Japan is part of it, but China is suspicious (box 1).

and Taiwan were already member of APEC and it must have been difficult for China to accept APEC. According to Mahbubani (2013: 163) China became member of APEC because it was needed 'to make the Chinese economy strong and competitive'.

In the meantime the WTO Doha Round achieved its first agreement on Bali in December 2013. However, China has indicated that it is not happy with the slow speed in the negotiations in the framework of the WTO's Doha round. During the WTO conference in Bali the Chinese Minister of Trade announced that China is also open to other 'multilateral - and plurilateral - negotiations' (Financial Times, 6-12-2013). China acts in this respect like

Box 1 Trans-Pacific Partnership (TPP)

These negotiations between 12 countries have been initiated by the US for countries around the Pacific Ocean. China was consciously left out. Singapore is involved, just like Japan and Chile. President Obama wants TPP to go further than traditional FTA, dealing mainly with import duties and market access. New elements are (The Straits Times, 11-1-2014: A28):

1. Protection for companies that compete against government-backed businesses

2. Stricter safeguards for patent and copyrights

It was hoped to finish the negotiations in 2013.

TPP is comparable for Europeans with the Transatlantic Trade and Investment Partnership (TTIP; Van Dijk and Faber, 2013). What makes TTIP interesting for the EU is that it has been tried to make the agreement compatible with the World Trade Organization (WTO), something the EU has not managed to do with its agreements with its former colonies (the Lomé agreements; Van Dijk en Hoestenberghe, 2005).

THE ROLE OF CHINA

The TPP negotiations have made China suspicious (also other important trading parties are not involved: Mexico and Turkey for example; Jakarta Post, 11-1-2014: 6). China is also active in an organisation competing with ASEAN's AEC, namely the Asia-Pacific Economic Cooperation (APEC). Hong Kong

the US and the EU.

China also has a free trade agreement with the ASEAN, which spurred Japan and India to propose to do the same. China also wants to participate in negotiations initiated by the EU and the US on trade in services (in particular information technology), now taking place between more than 50 countries representing 70 percent of the global trade in services. Finally Beijing would be interested in participating in the TPP negotiations (Box 1). The Financial Times (6-12-2013) notes that representatives of the EU and the US are very sceptical about this because China has already caused delays in the negotiations on trade in services by formulating its requirements. The newspaper concludes that 'Any move to join the TPP would also be years

away'. Not only China is interested in these negotiations. Also South Korea has an interest to participate (The Straits Times, 11-1-2014: A28), also because the country has already FTAs with 10 of the 12 participating countries. South Korea adds that the country also wishes to conclude a trade agreement with China in particular because the local currency has substantially appreciated in 2013, which makes competition more difficult.

FINANCIAL INTEGRATION IN ASEAN

The ASEAN countries want to achieve real financial integration. They even want to create a single regional currency. Separately another financial development in the region will have important consequences for the ASEAN countries. After the Asian financial crisis of 1997 Japan suggested to create the Asian Monetary Fund, which did not please the US or the International Monetary Fund (IMF), because it would undermine their influence in the region. Subsequently the ASEAN members took the initiative in 2000 in Chiang Mai in Thailand to exchange their monetary reserves, which became the basis for a new regional cooperative arrangement allowing them to head off future financial crises (Stiglitz, 2006: 265). Stiglitz notes that November 2005 about 60 billion dollar was available for exchange between different Asian countries.

THE ROLE OF CHINA

China is also looking for a more important role in international finance as well. It tries to make the renminbi (RMB) an important currency and has been quite successful. The RMB is currently the world's ninth most traded currency. Recently it replaced the Euro as the second most heavily used currency in international trade finance (Financial Times, 7-1-2014: 26). One currency in the ASEAN countries could compete with the renminbi in the future.

China has to become a world power, and this includes the need to play a more prominent role on the world stage (Kennedy 1998). This also

requires safeguarding the country's international supply and control over its supply routes. Therefore, China is trying to gain port access to its west, in Pakistan, and in Myanmar and Sri Lanka, and in any case outside the first ring of islands to which China is currently seeking to extend its control: Japan, Vietnam and the Philippines (Holtslag, 2014).

CONCLUSIONS

The developments in ASEAN used to be slow. The question is now whether the Association can live up to its own expectations. Much depends on Indonesia, the biggest partner, but also slow as far as implementing legislation is concerned and reluctant to open its borders, because its industries are often not very competitive. ASEAN has become a more interesting case to follow, because it can provide some countervailing power to China. No longer are domino theories relevant, but the issue remains who has the real power in the region. An unexpected and negative consequence of these developments is that the countries concerned have started to arm themselves (the Philippines seek to buy more US navy ships, Jakarta Post 16-1-2014: 11). Unexpected was also that Vietnam during a visit of foreign secretary Mrs. Clinton, asked the Americans to help the country in its quarrel with China!

China has a strategy and it counts on the support of its allies in ASEAN countries like Laos, Cambodia and Myanmar. This is where China invests and provides much development aid and it demands in return that these countries do not criticize its policy of building dams in the Mekong River or of stretching its territorial claims in the China Sea.

Mahbubani (2013) emphasizes that Asia wants Asian solutions for Asian problems. The idea of an Asian IMF fits in that approach, even if we do not know whether the fund will have enough money to survive a major crisis. China is testing its relations with the ASEAN countries. Just like in the Mekong River Commission (MRC, where China only has an

observer status, while its interests are not the same as those of Thailand and Vietnam). Tensions increased because of the eight dams on the Mekong river built in China and China's support for dams to be built in Laos and Cambodia. Two or three countries support China (Laos, Cambodia and in ASEAN also Myanmar), while three countries are critical about the behaviour of the regional superpower (Vietnam in the MRC and in ASEAN also Malaysia and the Philippines).

Mahbubani (2013) concludes that 'ASEAN provides a powerful microcosm of the great convergence that the world is experiencing'. I am not sure whether there is so much convergence between ASEAN countries and between ASEAN and China. It could be that a potential conflict with China brings the ASEAN countries together, giving them one common enemy.

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