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The Post-Brexit World: Closer UK-ASEAN Economic Ties?

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SYNOPSIS

Sooner or later, the United Kingdom (UK) will leave the European Union. The Brexit fallout will compel the UK to engage more with ASEAN economies as it searches for alternative markets and investment destinations. However, this may not easily translate into closer UK-ASEAN economic relations.

COMMENTARY

AS 31 OCTOBER dawned, Brexit appears to have been postponed once more. The United Kingdom dodged another deadline as the European Union (EU) agreed to postpone it to 31 January 2020. The EU also gave the “flexextension” option allowing the UK to leaving earlier on 1 December 2019 or 1 January 2020.

What this means is that sooner or later, the UK will depart the European bloc. Regardless of the terms struck between the UK and EU, the following will likely happen in the post-Brexit era.

Post-Brexit Scenarios: ASEAN

First, the UK and EU will likely trade and invest less with each other. The EU will likely impose stricter regulations and restrictions on the UK's goods and services as the EU does not want to reward the leaving party with favourable terms that its members enjoy. In other words, granting Britain such privileges will be a strange way to punish a leaver.

Therefore, the state will likely suffer from an economic slowdown. The UK's National Institute of Economic and Social Research estimated that the current Brexit deal pushed by Prime Minister Boris Johnson will shrink the country's GDP by 3.5 percent

within ten years. As a result, the state will be more eager than before to look beyond Europe for alternative markets and investment destinations.

Some signs are showing that Britain has been increasingly keen to augment its ties with Southeast Asian economies. For example, in May 2018, Foreign and Commonwealth Office ministers met with ambassadors of ASEAN states in London to stress the British commitment to Southeast Asia and forge stronger UK-ASEAN relations. The country also deployed its ambassador to its mission to ASEAN in Jakarta in 2019.

Why Britain Looks to ASEAN

Several reasons elucidate Britain's soaring enthusiasm. The first factor involves ASEAN's economic potentials. For instance, the 2018 PricewaterhouseCoopers estimated that by 2030 its middle-income bracket will constitute two-thirds of ASEAN's population.

According to HSBC, Southeast Asia is witnessing rapid urbanisation. Between 2015 and 2030, about 100 million people are predicted to move from the countryside to cities. Such phenomena will generate market opportunities for British businesses.

For instance, the middle-incomers will heighten demands for several services such as tourism and customised healthcare which UK firms can provide. Rapid urbanisation will amplify Southeast Asia's needs for infrastructure to improve city dwellers' security and well-beings. As the Asian Development Bank found, the region is suffering from an infrastructure financing deficit.

It is because from 2016 to 2030 Southeast Asia will need around US\$184-210 billion annually, but the ASEAN Infrastructure Fund can only chip in about \$485 million. This combined with competitions among other extra-regional states such as China's Belt Road Initiative and Japan's Partnership for Quality Infrastructure begets ample room for the UK to play a larger role in regional infrastructure building.

Regional Economic Integration

Regional economic integration is another reason why Britain finds ASEAN attractive. Although the ASEAN Economic Community (AEC) was formally established in December 2015, Southeast Asian states have been implementing the AEC Blueprint 2025 to further advance regional economic deepening.

Ten regional economies combined constitute a market of 650 million people and are predicted to become the world's fourth largest economy by 2030. In addition, ASEAN states are negotiating the Regional Comprehensive Economic Partnership (RCEP) with its six Dialogue Partners – Australia, China, India, Japan, New Zealand, and South Korea. This pact, if all signed on, will consolidate five existing ASEAN+1 free trade agreements (FTAs) into a single contract.

If concluded, RCEP will create a market of 3.4 billion people or about 45 percent of the world's population and encompass around one-third of the world's GDP.

Accordingly, the combined markets resulting from these integration efforts tempt British entrepreneurs to invest in the region to reap the benefits of the arrangements.

Stronger UK-ASEAN Economic Ties?

Will the UK's interest to engage more with Southeast Asian countries coupled with ASEAN's future demands result in tightened, stronger UK-ASEAN economic ties? One should not be too optimistic. The UK's willingness to enhance economic ties with ASEAN states may not translate into closer UK-ASEAN economic relations.

Leaving aside the issue of Britain's lack of manpower and experience in conducting trade talks with other countries, Southeast Asian economies will not rush to seal a new deal with the UK for several reasons. For one thing, the regional states can formally negotiate an FTA with the latter when it is formally out of the EU.

Also, even though the UK is able to assemble a team to negotiate with individual Southeast Asian nations, ASEAN's rising non-tariff barriers loom large. While tariffs in the region are virtually zero, the report by the Economic Research Institute for ASEAN and East Asia revealed that in the 2000-2015 period, the number of non-tariff measures rose from 1,634 to 5,975 measures.

Such protectionist policies can be found in all ten economies. For example, Indonesia possesses multiple non-tariff measures in machinery and textile industries. Also, Thailand imposes foreign ownership restrictions in land transport, making it difficult for foreign corporations to provide express delivery services in the country. These obstacles render it challenging for the UK government to strike a deal with ASEAN nations.

RCEP Better Than UK?

Moreover, during their negotiation with the UK, ASEAN countries will likely have an upper hand given the fact that RCEP just made significant progress early this week. According to the Joint Statement of the 3rd RCEP Summit, 15 members "have concluded text-based negotiations for all 20 chapters". India is holding out due to some internal difficulties, and the door is left open for it to return next year.

With or without Delhi's participation, the remaining RCEP parties will next year endorse the agreement which will create the world's biggest trading bloc. To Southeast nations, this pact will not only deepen transnational supply chains but also enable them to lessen the undesired impacts of US-China trade war.

As a result, these states have less urgency to strike another arrangement with the UK. Therefore, they will likely bargain hard and press Britain to make certain concessions in exchange for its greater access into their markets. ASEAN members' demands may be too much for Britain to accept. Haggling for the middle ground would take some time to settle.

In sum, Brexit has tempted the UK to engage ASEAN economies as a hedge against its reduced ties with the EU and economic slowdown. However, this may not easily

convert into closer UK-ASEAN economic relations due to ASEAN's non-tariff barriers and less urgency to seal another trade agreement with Britain.

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