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World Trade Amidst War, Inflation and Protectionism

ASEAN Free Trade Agreements

By Su-Hyun Lee

SYNOPSIS

ASEAN's commitment to regional economic cooperation through trade and investment liberalization has become increasingly important amid global economic uncertainty. ASEAN's Free Trade Agreements will continue to play a vital role in the economic prosperity and stability of the region, and in realizing ASEAN's goal of regional economic integration.

COMMENTARY

The member states of the Association of Southeast Asian Nations (ASEAN) have affirmed repeatedly their continuing and strong commitment to trade openness for regional economic cooperation and integration.

Since the end of the Cold War, ASEAN has consistently emphasized the importance of trade liberalisation and trade facilitation as the fundamental imperative for the creation of a [single market and production base](#) in Southeast Asia. The regional organisation's vision for the ASEAN Economic Community released in [2008](#) and [2015](#) stated that free movement of goods and services through the elimination of tariff and non-tariff barriers will transform ASEAN into "a stable, prosperous, and highly competitive region with equitable economic development, reduced poverty, and socio-economic disparities".

In this vein, ASEAN's Free Trade Agreements (FTAs) have emerged as important institutional pillars that support ASEAN's end goals and values while shaping regional economic architectures that maintain and enhance trade cooperation within and beyond ASEAN.

ASEAN's FTAs: Origins and Evolution

The ASEAN Free Trade Area (AFTA) established in 1992 was ASEAN's first collective effort to promote regional economic cooperation through a multilateral preferential trade agreement among ASEAN member states. [AFTA](#) aimed for the reduction of intra-regional tariffs on manufacturing and processed agricultural imports to 0-5 per cent through the Common Effective Preferential Tariff (CEPT) Scheme and the elimination of non-tariff protectionist measures for products receiving tariff concessions.

Despite its ambitious goals, however, AFTA was mostly regarded as a political gesture that would not generate any substantial outcomes because of its reliance on voluntary cooperation and [informality](#), as manifested by the lack of binding obligations and mechanisms for monitoring and enforcement.

However, ASEAN's FTAs have extended and developed further into consolidated institutional mechanisms for trade and investment liberalization between ASEAN and non-ASEAN countries in other regions. From 2004 to 2010, ASEAN signed five FTAs with its six dialogue partners, i.e., China, the Republic of Korea, Japan, India, and, jointly, with Australia and New Zealand.

ASEAN's commitment to regional economic cooperation is also reflected in member countries' participation in mega FTAs, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), which entered into force in 2018 and 2022, respectively, after several years of negotiations.

The CPTPP, a mega trade bloc that represents 13.5 per cent of the global economy, connects four ASEAN member states, namely, Singapore, Brunei, Malaysia and Vietnam, and seven other countries in the Asia Pacific. The CPTPP was originally built on the [Trans-Pacific Strategic Economic Partnership Agreement](#) (TPSEP, also known as P4) for trade and investment liberalization among Brunei, Chile, New Zealand and Singapore, which entered into force in 2006.

As more countries joined trade negotiations in the late 2010s, the TPSEP was officially extended into the Trans-Pacific Partnership (TPP) for 12 countries of the Pacific Rim and then reshaped into the CPTPP following the United States' withdrawal from the original TPP in 2017.

The RCEP, once proclaimed as a [triumph of ASEAN's middle-power diplomacy](#), has emerged as the world's largest trade bloc representing 30 per cent of the global economy and the world's population, and including all ten ASEAN member states and five other countries. The RCEP is the first free trade agreement that includes China, Japan and the Republic of Korea together.

ASEAN FTAs: Continuity and Change

The trajectories of ASEAN FTAs over the past decades show [continuity and change](#) in ASEAN's regional economic cooperation. Continuity is to be found in the principal goals commonly addressed in ASEAN FTAs, which are to liberalize and facilitate trade

and investment for sustainable economic growth and development by eliminating protectionist measures, increase market access, and build transparent mechanisms among signatories of the FTAs.

The [institutional designs](#) of ASEAN FTAs have been evolving in correspondence with the complicated dynamics of the global economy. Unlike the 1992 AFTA, the scope of issue areas covered by ASEAN FTAs was extended from “tariff reductions” to “services trade” or “investment”, as was the case of the separate ASEAN FTAs with China, the Republic of Korea, and Japan. The [ASEAN-Australia-New Zealand FTA](#) includes tariff reductions, services trade, investments, as well as “competition” and “intellectual property rights”. The latter FTA covers a much higher levels of cooperation.

Furthermore, all ASEAN FTAs with dialogue partners have added more [flexibility provisions](#) such that member countries effectively make policy adjustments in response to unexpected circumstances or shocks without violating the trade agreement.

The nature of the RCEP and CPTPP also shows the evolution of ASEAN’s trade cooperation and its increasing centrality in global and regional economic engagements. As an [ASEAN-led trade deal](#), RCEP has consolidated existing ASEAN FTAs into a single trade deal that reduces uncertainties from the US-China trade war and contributes to international trade governance.

[Elements of the RCEP](#) not addressed in ASEAN+1 FTAs, such as the Rules of Origin, also provide value-added benefits for member countries by enhancing global supply chains and furthering investment liberalization. Similarly, [CPTPP](#) offers ASEAN member states more comprehensive market access with robust and comprehensive liberalization and institutional platforms that address cross-cutting trade issues related to regulatory coherence, business facilitation, small and medium-sized enterprises (SMEs), and other relevant trade and development concerns.

These changes suggest that ASEAN has deepened its level of regional economic cooperation gradually but steadily. ASEAN has moved away from its erstwhile operating principle of “[Agree First, Talk Later](#)”.

ASEAN FTAs and Multilateralism in Times of Uncertainty

The extension of ASEAN FTAs suggests strategic initiatives to enhance ASEAN centrality in the regional economic architecture and to integrate the region further into the global economy. ASEAN’s trade agreements are also firmly based on its enduring commitment to [uphold multilateralism](#) and to support the rules-based multilateral trading system, as shown by its participation in the World Trade Organization’s [Joint Initiative on E-Commerce](#).

Global economic uncertainty triggered five years ago by the US-China trade war has become more complicated. Disruptions in trade, investment, and global supply chains show no significant signs of recovery due to the [COVID-19 pandemic](#), [Russia’s invasion of Ukraine](#), and [the growing US-China rivalry](#). The [International Monetary](#)

[Fund](#) recently reported that the global economy is facing its weakest growth since 1990, with prolonged inflation and volatility in banking sectors.

The importance of ASEAN's FTAs and commitment to the multilateral trading system cannot be emphasized enough. Deepening ASEAN's economic and trade cooperation through multiple institutional mechanisms will allow ASEAN and other countries to respond to the fluctuations in the global economy and to promote peace, stability and prosperity for the region.

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