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Towards Closer ASEAN-Latin American Ties

By Barry Desker

Synopsis

ASEAN is poised to develop closer ties with the Pacific Alliance of four Latin American states, which share an openness to international trade and investment and are comfortable with their relationship with the major powers.

Commentary

Prospects have opened for a trans-Pacific connection between East Asia and Latin America with the inauguration of an institutional relationship between ASEAN and the new Pacific Alliance (PA) comprising Mexico, Colombia, Peru and Chile. The ASEAN-PA forum represents a partnership of equals that creates a bridge across the Pacific and provides an opportunity to increase trade, investment and services linkages.

An inaugural ASEAN-PA Foreign Ministers Meeting was held in New York in September 2014. The PA Ministers invited ASEAN to consider ways to cooperate in line with the PA mandate of building links in trade, investment, services and people-to-people connectivity. Singapore has been appointed as the ASEAN coordinator for ASEAN-PA relations.

There are currently moves to organise a meeting of the Committee of Permanent Representatives of ASEAN (CPR) and PA Ambassadors in Jakarta in May, which could lay the groundwork for an ASEAN-PA Ministerial Meeting on the side-lines of the Forum for East Asia and Latin America Cooperation (FEALAC) Foreign Ministers Meeting to be hosted by Costa Rica in July/August 2015.

Challenges and Opportunities for the Pacific Alliance

There are three areas which highlight the challenges and opportunities for the Pacific Alliance relationship with ASEAN and East Asia.

First, East Asia has benefited from a virtuous cycle of economic growth led by Japan in the 1950s, followed by the newly industrialising economies of South Korea, Taiwan, Hong Kong and Singapore in the 1960s and 1970s, and later emulated by China, Malaysia, Thailand, Indonesia and Vietnam in the 1980s and 1990s. The region has also benefited from networked economies and efficient supply chains that encouraged distributed manufacturing of parts and components, especially in the textiles and garments sector earlier and electronics today.

Intra-ASEAN trade accounted for 25% of total trade in 2013, rising from 19.2% in 1993. The establishment of the institutional aspects of regional integration such as the East Asian Summit and

the ASEAN plus Three framework occurred after distributed manufacturing resulted in growing intra-regional trade. China has become a major locomotive for regional economic growth, with intra-ASEAN trade and ASEAN trade with China accounting for 37% of ASEAN's total trade.

By contrast, the PA states have moved quickly to establish a policy infrastructure conducive to expanded trade and investment; but intra-PA trade remains low at 4% due to Mexico's trade dependence on the United States and the reliance of Chile, Colombia and Peru on commodity exports, increasingly to China. The challenge is also one of geography with a long coastline, mountainous terrain, poor infrastructure and the lack of contiguity between AP member states.

Secondly, while PA builds the institutional framework for intra-PA cooperation, it should develop key external linkages. In reaching out to the Asia-Pacific, the PA should promote business-to-business integration and exchanges, increased connectivity through air and sea links and people-to-people exchanges through the promotion of tourism as well as student and youth exchanges. A focus on government-to-government ties would create a diplomatic community with shallow roots in their respective societies.

The next stage in PA economic integration should be in promoting trade facilitation by lowering the cost of doing business, cutting redundant regulations, boosting education and creating a work force with the skills for a 21st century economy. This will promote greater investment inflows from the East Asian region.

Thirdly, a cross-regional ASEAN-PA partnership or free trade agreement could be concluded more easily than the Trans-Pacific Partnership (TPP). The TPP is promoted as a "state of the art" agreement on intellectual property, services and government procurement. I support the TPP as it is a multilateral agreement which avoids the trade-distorting aspects of single country FTAs.

Nevertheless, there will be difficulties concluding TPP negotiations on traditional trade issues such as agriculture, where protectionist lobbies in the United States and Japan are unlikely to go much further than concessions at the WTO. Although negotiations are scheduled to conclude by May this year, the target is unlikely to be met.

In any case, we are moving too near to the cycle for the 2016 US presidential elections for President Obama to successfully push for Trade Promotion Authority. As the American public's attitude towards international trade agreements is becoming more negative, Congress is likely to be less willing to give the President much leeway in negotiations. By contrast, an ASEAN-PA Partnership agreement or China-PA FTA is likely to win support from both sides and could be a catalyst for TPP ratification by the US Senate.

Pacific Alliance's pragmatic approach

Notably in the two years of the Pacific Alliance's existence, its "early harvest" approach to trade negotiations has produced quick results, prevented the formation of coalitions against the negotiations and minimised opposition in national legislatures compared to the usual approach of a "single undertaking" or WTO-like negotiations where "nothing is agreed until everything is agreed". This pragmatic and non-ideological approach focused on economic cooperation differentiates the PA from other Latin American regional groupings such as Mercosur.

Its four members have agreed to remove tariffs on 92% of goods, integrate their stock exchanges and enhance cooperation in a wide variety of areas, including the elimination of visas for travel between member countries, real time sharing of information among security and immigration authorities and the adoption of a single electronic certificate of origin.

The PA's Trade Protocol will co-exist alongside previous bilateral FTAs among its members. Like those agreements, it is broadly based on NAFTA, the North America Free Trade Area, including the Negative List for non-conforming measures in investment and services, Investor-State dispute settlement provisions and separate chapters on financial services and telecoms. There are also plans by the member states to set up joint embassies and trade offices, undertake joint trade promotion tours to Asia and conclude air services agreements for cargo and passenger traffic with 3rd, 4th and 5th freedom rights.

Shared interest of ASEAN and PA

ASEAN and the PA share an interest in developing outward-looking societies committed to promoting international trade and investment. We are both comfortable in our interactions with the major powers. We are committed to ensuring the security of our peoples, fostering economic growth and developing stable and prosperous societies. ASEAN-PA ties are likely to be one of the more productive external relationships of ASEAN.

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