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
## NAVIGATING ASEAN'S ECONOMIC PRIORITIES

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12.02.2019

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East Asia Forum (11 February 2019)

Southeast Asian economies may face major economic headwinds this year amid US  trade tensions and US Federal Reserve interest rate increases. To help weather the impact, ASEAN member states should prioritise progress on regional economic initiatives.

Some observers think that the 90-day truce between Washington and Beijing could beget better relations between the two powers. But they may be overestimating China's ability to make concessions that fulfil what the Trump administration wants. Buying more American products is easy, but implementing measures to address unfair trade practices to a degree that satisfies the United States is more difficult to achieve within 90 days. More rounds of tariff escalations or other trade-restricting measures could be in the offing.

On the financial front, in December 2018 the US Federal Reserve raised interest rates from 2.25 to 2.50 per cent and forecast the possibility of further increases in 2019. The Fed did so to ensure there will be room for it to use monetary policy and decrease interest rates to fight the next US recession.

Additional hikes could trigger capital pull-outs from Southeast Asian countries as investors move funds to seek higher yields in the United States. If not well-managed, such capital outflows may instigate financial instability in the ASEAN region.

Regional economies must brace themselves for future economic and financial turbulence. While they are unlikely to be able to avoid such headwinds, ASEAN member states can nevertheless cushion the impact through regional initiatives: the ASEAN Economic Community (AEC) 2025, ASEAN  Kong Free Trade and Investment Agreements (AHKFTA and AHKIA), Regional Comprehensive Economic Partnership (RCEP) and Chiang Mai Initiative Multilateralization (CMIM).

Policymakers should prioritise the complete implementation of the AEC 2025. This is a regional economic integration project by the 10 ASEAN member states designed to achieve five objectives: a highly integrated and cohesive economy; a competitive, innovative and dynamic ASEAN; enhanced connectivity and sectoral cooperation; a resilient, inclusive, people-oriented and people-centred ASEAN; and a global ASEAN.

Advancing the AEC 2025 will enable businesses to better tap into the integrated market of over 600 million people, rendering regional economies more resilient to the incoming headwinds.

Southeast Asian governments should also ratify the AHKFTA and AHKIA signed in November 2017 so that these treaties can enter into force in early 2019 as expected. The agreements will enhance

cross-border flows of goods, services and investment between ASEAN and Hong Kong.

The agreements will not only allow firms to enjoy greater access to goods and services markets and better investment protection, but also enable ASEAN nations to further tighten trade and investment ties with China. The latter will help Southeast Asian economies to recuperate from any damage that future Washington-Beijing trade spats may inflict on them.

ASEAN authorities should also concentrate on wrapping up RCEP talks. If concluded, this 16-economy free trade bloc will encompass a market of 3.6 billion people that contributes to a third of global GDP. It will cover 29 per cent of global trade and 26 per cent of the world's foreign direct investment flows.

Concluding the negotiation will create more opportunities for businesses to deepen their supply chains, and provide RCEP economies with another means to diversify their economic relations and cushion against the negative effects of future US-China trade war spats.

Finally, ASEAN nations together with China, Japan and South Korea (ASEAN+3) should advance the CMIM, a regional financial safety net under the ASEAN+3 framework. Launched in 2010, the scheme provides financial support through a network of currency swaps to help ASEAN+3 nations weather their balance-of-payments difficulties.

Because future Fed rate hikes could trigger investor panic leading to financial instability and capital flights in certain regional economies, the CMIM can provide financial assistance to alleviate such problems.

Admittedly, the above initiatives face their own challenges. A major hurdle for implementing the AEC 2025 is a lack of coordination among domestic ministries and agencies. Individual ASEAN countries must sort out how to improve coordination among the involved authorities. Certain domestic hurdles must also be cleared for a successful ratification of the ASEAN [ ] [ ] [ ] [ ] Kong treaties.

Planned elections in Australia, India, Indonesia and Thailand in 2019 may delay the conclusion of RCEP negotiations in the first half of 2019. Politicians in these nations will likely prioritise their electioneering over international matters. And if the momentum of RCEP talks picks up in the second-half of the year, the parties' different positions and preferences will still need to be reconciled to seal the deal.

Regarding the CMIM, while a laudable agreement was signed in December 2018 to create more favourable conditions that will enable the regional financial safety net to better assist in a crisis, efforts to advance other aspects of the CMIM have been lacklustre in recent years.

For one, its size has remained the same at US\$240 billion since 2012. With this amount, the scheme can at best provide simultaneous lending support to a few small- and medium-sized economies should they come under a crisis. The participants must push for an expansion of the CMIM's size.

US trade tensions and Fed rate hikes will likely generate undesired effects for Southeast Asian economies this year. Despite the challenges of the above initiatives, ASEAN countries must collectively pursue them to navigate through the coming economic headwinds. Time is running out and policymakers must act fast.

<http://www.eastasiaforum.org/2019/02/11/navigating-aseans-economic-priorities/>

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