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Growing Economic Diplomacy in ASEAN: Opportunities and Threats

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EXECUTIVE SUMMARY

- Globalisation has increasingly made economic diplomacy a key component of foreign policy. Since production decisions made by Transnational Corporations (TNCs) are influenced by various domestic factors, the role of host governments has become more important for example in keeping transaction costs low. Participating in free trade agreements (FTAs) that go beyond trade in goods and services to include non-tariff barriers, government procurement, competition policy, and intellectual property protection is one key mechanism for keeping such costs low and through this attract foreign direct investment (FDI).
- FTAs involving ASEAN countries have introduced a structured and government-to-government form of cooperation that is redefining the balance of economic power. This can be observed in the growing number of such arrangements, and symbolises not only greater economic opportunity but also closer political ties.

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- ASEAN states have adapted to this new trend of diplomacy at four levels (global, trans-regional, regional and bilateral) and its related strategic and political alignments. The positive effects of growing ASEAN economic diplomacy, in addition to lowering business costs, are also observed in technology and skills transfer and infrastructure investment.
- Economic diplomacy is said to have its advantages. It generates higher economic growth, efficiency, transparency and ease of doing business in a country. However, its benefits face risks as well – issues of non-traditional security, China using its growing economic leverage in territorial disputes, rising nationalistic sentiments and other political-economic issues.
- Going forward, one should note that economic diplomacy is a dynamic process that changes with new realities. It is a pursuit of all countries, provided they grow at a robust pace. However, to succeed in economic diplomacy, a country needs a skilled pool of policy makers and private sector actors who can understand and negotiate key economic and trade issues.
- For the ASEAN economies, assuming the status quo, as long as they continue to deliver on robust economic growth and there is a cooperative stance towards each other, economic diplomacy can be seen as a 'positive-sum' game in the years to come.

INTRODUCTION

Free Trade Agreements (FTAs) have been flourishing in ASEAN and among its member countries for the last two decades. While generating further economic opportunities, they also contribute to closer political ties among the participating states. The economies of ASEAN, especially the mature ones (Indonesia, Malaysia, the Philippines, Singapore and Thailand) have taken advantage of this FTA trend and have adopted them as key tools of economic diplomacy. FTAs have become part of a much larger set of international arrangements that build trust between states, leading to positive non-economic spill over effects in political relations.² This paper looks at this trend of economic diplomacy through FTAs and analyses the strategic opportunities and potential risks that may emanate from such diplomacy in the future.

PROLIFERATION OF FTAs

Over the last three decades, Asian economies³ have grown at an average rate of 6.0 per cent per annum, mainly due to the expansion of international trade and FDI. While Asian exports rose from 12 to 27 per cent of total world exports during the 1980-2012 period, imports to Asia expanded from 13 to 26.5 per cent. FDI inflows into Asia more than tripled from 5.7 per cent of the world total in 1980 to 20 per cent in 2012. This has been accompanied by rising intraregional concentration of trade and FDI flows through the establishment of regional production networks and supply chains throughout Asia.

Realising this, since the early 1990s, ASEAN states first decided to establish an ASEAN Free Trade Area (AFTA) and later committed to a comprehensive vision of an ASEAN Economic Community (AEC) by 2015. Consistent with the AEC, ASEAN as an organisation pursued 'plus' one FTAs with China, South Korea, Japan, India and Australia-New Zealand, thereby making ASEAN the hub for regional FTAs in Asia. In addition, individual member states signed bilateral FTAs with extra-regional partners from Japan, Australia, and the U.S. to more distant states and regional groupings in the Middle East and the Latin America. This way the economies of the region have moved towards more formal economic arrangements first amongst themselves and subsequently with key external partners either through bilateral or plurilateral arrangements.

² Bergeijk, Peter A.G; Okano-Heijmans, Maaïke and Melissen, Jan. (2011). 'Economic Diplomacy: The Issues' in Peter A.G Bergeijk; Maaïke Okano-Heijmans and Jan Melissen (ed) *Economic Diplomacy: Economic and Political Perspectives*, Koninklijke Brill NV, Leiden, The Netherlands.

³ Asian economies include the ten ASEAN economies, China, South Korea, Japan and India.

The interest in trade agreements can also be observed in data. While there were 55 FTAs in Asia in different stages of development as of 2000, there was more than a four-fold jump in FTAs in Asia within the last ten years with most of them being bilaterally negotiated. (Table 1)

Table 1: Free Trade Agreements in Asia (cumulative as of January 2013)

| | Total | Type of FTA | |
|------|-------|-------------|--------------|
| | | Bilateral | Plurilateral |
| 1989 | 5 | 3 | 2 |
| 1995 | 32 | 28 | 4 |
| 2000 | 55 | 48 | 7 |
| 2005 | 169 | 132 | 37 |
| 2010 | 241 | 180 | 61 |
| 2013 | 257 | 189 | 68 |

Note: Asia in this table refers to Asian Development Bank members.

Source: Free Trade Agreement Database, Asia Regional Integration Center (ARIC)

Notably, among the ASEAN member states, Singapore has the largest number of FTAs that are in effect currently. This is followed by Malaysia and Thailand, who have enacted twelve FTAs each. Cambodia and Myanmar have the fewest FTAs at six each, all of which are plurilateral ASEAN-based ones. (Table 2)

Table 2: FTA Status of Individual Asian Economies, 2013

| | Proposed | Under Negotiation | | Signed but not in effect | Signed and in effect | Total |
|-------------|----------|----------------------------|----------------------|--------------------------|----------------------|-------|
| | | Framework Agreement Signed | Negotiation Launched | | | |
| ASEAN | | | | | | |
| Brunei | 6 | 2 | 2 | 0 | 8 | 18 |
| Cambodia | 4 | 0 | 2 | 0 | 6 | 12 |
| Indonesia | 6 | 1 | 6 | 2 | 7 | 22 |
| Laos | 4 | 0 | 2 | 0 | 8 | 14 |
| Malaysia | 7 | 1 | 6 | 1 | 12 | 27 |
| Myanmar | 4 | 1 | 2 | 0 | 6 | 13 |
| Philippines | 7 | 0 | 2 | 0 | 7 | 16 |
| Singapore | 6 | 1 | 10 | 2 | 19 | 38 |
| Thailand | 8 | 3 | 6 | 0 | 12 | 29 |
| Vietnam | 4 | 1 | 6 | 0 | 8 | 19 |

Note: the data is as of July 2013

Source: Free Trade Agreement Database, Asia Regional Integration Center (ARIC)

Realising the challenges of multiple FTAs whilst acknowledging the benefits for a comprehensive region-wide initiative⁴, a decision was reached in November 2011 to establish a region-wide FTA under the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) framework. This involves sixteen countries – the ten ASEAN member states, China, Japan, South Korea, India, Australia and New Zealand, with the objective of a comprehensive and mutually beneficial economic partnership agreement that is WTO-consistent and transparent and that is expected to involve deeper engagement between ASEAN and its FTA partners (and subsequently with other external economic partners).⁵

⁴ Itakura, K (2012), 'Impact of Liberalisation and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community Mid Term Review', (*mimeo*). ERIA. According to this study, the RCEP, when completed, is expected to deliver the greatest benefits to the national outputs of ASEAN member countries.

⁵ ASEAN Framework for Regional Comprehensive Economic Partnership (<http://www.asean.org/news/item/asean-framework-for-regional-comprehensive-economic-partnership>; accessed on 21 January 2014).

For the ASEAN economies, FTA initiatives are followed on a four-track approach: a) global, WTO-based; b) trans-regional, APEC and TPP-based; c) regional, ASEAN+1 and ASEAN+6 (or RCEP)-based and d) bilateral initiatives. While bilateral and regional ones are expected to bring in greater liberalisation and deeper levels of economic integration including beyond-the-border measures like fair competition and the harmonization of standards and procedures, trans-regional and global ones are difficult to negotiate, thereby raising concerns over the likely depth of such agreements.

FTAs – A FORM OF ECONOMIC DIPLOMACY

Economic diplomacy, also termed commercial diplomacy, is defined as *diplomacy designed to influence foreign government policy and regulatory decisions that affect global trade and investment. In the past Commercial Diplomacy concerned itself largely with negotiations over tariffs and quotas on imports. In today's more interdependent world, trade negotiations cover a much wider range of government regulations and actions that affect international commerce – including standards in areas such as health, safety, environment, and consumer protection; regulations covering services such as banking, telecommunications and accounting; competition policy and laws concerning bribery and corruption, agricultural support programs; and industrial subsidies. The most obvious practitioners of Commercial Diplomacy are trade officials who are charged with negotiating international trade and investment agreements and resolving policy conflicts that impact on international commerce.*⁶

Globalisation, with its dynamics of trade in goods and services and flows of capital and technology, has increasingly made economic diplomacy a key component of foreign policy. A distinct feature that has emerged in the present period of globalisation is the way that corporations manage their production globally: there has been a rapid development of cross-border production networks with each country specializing in a particular stage of production⁷. These developmental changes were observed and acted upon in ASEAN as states aggressively sought and received FDI both from the US and Japan.⁸ TNCs have become the leading players in this form of production as

⁶ This definition is taken from the website of the Institute for Trade & Commercial Diplomacy (<http://www.commercialdiplomacy.org/>).

⁷ Ando, M. (2006). 'Fragmentation and Vertical Intra-industry Trade in East Asia', *North American Journal of Economics and Finance*, 17(3): 257–281.

⁸ US firms, challenged by productivity growth, used FDI as a tool and moved their labour-intensive part of production to the low-wage country of Asia, Latin America and the Caribbean. During the same time, Japanese firms, following the 'flying geese' development pattern and favouring trade and FDI, also moved to the low-wage destinations of Asia and the Pacific (Kojima, Kiyoshi. (2000). 'The 'Flying Geese' Model of Asian Economic De-

this gives them the flexibility to cut their production process into separate, geographically dispersed blocks. However, this fragmentation is only viable if the production costs are low in the producing country and transport costs are competitive as well. Production decisions remain with the TNCs and are influenced by potential host country market size, infrastructure development and geographical location. In order to meet the TNCs demand and lower transaction costs, the role of the host government has become crucial in attracting FDI, with FTAs a useful economic diplomatic tool to improve one's attractiveness.^{9,10}

In ASEAN and its economic relations in wider Asia, FTAs have introduced a structured and government-to-government form of cooperation, despite countries' insistence on national sovereignty, loose institutions and flexible rule-making. Besides facilitating cross-border trade and investment, regional and bilateral FTAs are serving a role similar to that of security alliances, that of symbolising closer political ties.¹¹ There is a body of literature that suggests a strong correlation between good economic relations and fewer political conflicts.¹² Even when such conflicts arise, there is a higher chance of compromise among the parties as both sides have a greater stake in future economic gains. A recent example of this is the dilemma that has surfaced regarding US policy towards China. Although the US is not happy with China's assertive behaviour towards its neighbours regarding territorial disputes in both the South China and East China Seas, it cannot adhere to a firm policy of containment with China as the two countries have strong bilateral trade (US\$562 billion in 2013) and investment relations. Moreover, China holds US\$1.3 trillion (8 per cent of the total) of the US treasury debt, becoming America's banker to a significant extent.¹³

Hence, while the FTAs do not affect the military balance of power, they influence and redefine the balance of economic power. The more advanced ASEAN states have adapted to this new trend of FTAs (as discussed earlier) and its related strategic and political alignments.¹⁴ A key trigger point of this was the 1997-98 Asian

velopment: Origin, Theoretical Extensions, and Regional Policy Implications' *Journal of Asian Economics*, No. 11, pp. 375-401.

⁹ Patrella, R. (1996). 'Globalisation and Internationalisation: The Dynamics of the Emerging World Order,' in Robert Boyer and Daniel Drache (eds), *States Against Markets*, London: Routledge, pp. 62-83.

¹⁰ Walter, A. (2000). 'Globalisation and Policy Convergence: The Case of Direct Investment Rules', in Richard A. Higgott, Geoffrey R.D. Underhill and Andreas Bieler (eds), *Non-State Actors and Authority in the Global System*, London: Routledge, pp. 51-73.

¹¹ Frost, Ellen L. (2007). 'China's Commercial Diplomacy: Promise or Threat?' in William W. Keller and Thomas G. Rawski, ed., *China's Rise and the Balance of Influence in Asia*, Pittsburgh, PA: University of Pittsburgh Press.

¹² Russett, Bruce and John R. Oneal., 2001. *Triangulating Peace: Democracy, Interdependence, and International Organizations*. New York: Norton. One of the claims of the publication is that trade raises costs of conflict and also the benefits of conflict avoidance and conflict management.

¹³ Carpenter, Ted Galen. (2014). 'Washington's Dilemma with China: Security vs. Economics', Commentary, Cato Institute. The next largest foreign holder of U.S. debt is Japan, US\$1.18 trillion, by end 2013.

¹⁴ Pollins, Brian M. (1989). 'Conflict, Cooperation, and Commerce: The Effect of International Political Interactions on Bilateral Trade Flows', *American Journal of Political Science*, 33(3): 737-761. According to the paper, trade flows are affected by the decision of social actors from individuals to interest groups to nation states. Diplomatic climate and political conditions enter into these decisions in different ways.

financial crisis, when these economies realised the 'public good' nature of a crisis and felt the need to work together on regional macroeconomic growth and stability. Another catalyst was the domino effect of FTAs in the US and the deepening of the European Single Market in the early 1990s. Hence, while the ten ASEAN countries committed to deeper economic cooperation through AFTA then the AEC, the bigger Asian economic players announced their FTAs with ASEAN, thereby visibly joining the game of economic diplomacy.

In ASEAN, economic diplomacy, in addition to lowering trade and investment barriers, is also observed in improving technology and skill transfer and infrastructure investment, mainly in roads, railways, ports and bridges. For example, the Implementation Plan of the Vision Statement of the ASEAN-Japan Commemorative Summit in December 2013 talks extensively about narrowing the development gap and enhancing technology transfer and connectivity.¹⁵ These are enticing for less developed ASEAN countries who may not have the capacity to fund it themselves and also do not like the 'conditions' attached to loans from multilateral organisations. This form of diplomacy showcases the linkage between economics and strategy. Hence, economic diplomacy is a 'positive-sum' game, where Asia's rising economic powers can channel their resources from power politics to softer, more peaceful and influential politics.

A distinctive feature of economic diplomacy is that the private sector is involved in the decision-making process behind a state's negotiating position in a trade deal. Also because of its mixed nature, some countries like Australia and South Korea have merged their foreign affairs and trade departments.

Economic diplomacy is also seen as altering the geopolitics in the Asian region. It is viewed as a 'bridge builder', linking Southeast Asia with Northeast and South Asia. The relationship between these regions has been limited by the Cold War, border disputes and other historical conflicts. It reminds the ASEAN countries, especially the less developed ones that it is not just China which is economically relevant, but also Japan and India, as they have key assets including banking expertise, technology, ICT and educated workforces, all of which are important for the development of the entire region. To balance it all, Australia and New Zealand, despite their perceived 'outsider' status, are bunched together under ASEAN's 'plus' diplomacy after both governments signed the Treaty of Amity and Cooperation in 2005. Of course, ASEAN's economic diplomacy has some loopholes. Despite Hong Kong and Taiwan being active participants in regional production activities, they are currently left out of ASEAN-based region-wide agreements.¹⁶ Nevertheless, economic diplomacy

¹⁵ Implementation Plan of the Vision Statement on ASEAN-Japan Friendship and Cooperation: Shared Vision, Shared Identity, Shared Future (<http://www.mofa.go.jp/mofaj/files/000022447.pdf>). This came out during the ASEAN-Japan 2013 Commemorative Summit in Tokyo.

¹⁶ Taiwan and Hong Kong are member economies of APEC. A study has been proposed for ASEAN-Hong Kong FTA in 2013.

through bilateral or regional FTAs of ASEAN + 1 or ASEAN+6 processes provides a framework within which Asian countries regularly meet and consult each other.¹⁷

Economic diplomacy, in the form of FTAs, is also said to narrow the rich-poor divide between more developed and less developed member countries and also within a particular country participating in an economic arrangement. FTAs help participating countries to undertake reforms and promote domestic competition, leading to new foreign investment and job creation.

OPPORTUNITIES AND RISKS OF FTAs – ECONOMIC DIPLOMACY

Opportunities in Economic Diplomacy

Economic diplomacy, using FTAs, offers significant opportunities for the member countries. This is especially true at a time when many imagine an Asian century where global growth is being driven by the emerging economies of China, India and Southeast Asia (*Table 3*).

Table 3: Economic Growth, 1980-2013 (annual percentage change)

| | 1980-89 | 1990-99 | 2000-09 | 2010-13 |
|--------------------|---------|---------|---------|---------|
| <i>China</i> | 9.8 | 10.0 | 10.3 | 8.8 |
| <i>India</i> | 5.5 | 5.6 | 7.0 | 6.0 |
| <i>Indonesia</i> | 5.7 | 4.5 | 5.0 | 6.1 |
| <i>Malaysia</i> | 5.9 | 7.2 | 4.7 | 5.7 |
| <i>Philippines</i> | 2.0 | 2.8 | 4.5 | 6.2 |
| <i>Singapore</i> | 7.8 | 7.3 | 5.2 | 6.2 |
| <i>Thailand</i> | 7.3 | 5.3 | 4.1 | 4.4 |
| <i>Vietnam</i> | 5.0 | 7.4 | 6.9 | 5.8 |
| <i>The US</i> | 3.1 | 3.2 | 1.8 | 2.2 |
| <i>The EU</i> | 2.1 | 2.2 | 1.7 | 0.8 |
| <i>Japan</i> | 4.4 | 1.5 | 0.6 | 2.0 |
| <i>World</i> | 3.2 | 3.1 | 3.6 | 3.8 |

Source: IMF World Economic Outlook Database, October 2013

¹⁷ ASEAN holds Summit meetings with all five of its FTA partners. It also hosts the East Asia Summit that includes ASEAN+6 members and the U.S. and Russia.

Along with these high economic growth rates has come the willingness to embrace FTAs. This attitude, though initially reactive in nature, soon became a form of proactive diplomacy to deliver on strategic and economic interests. FTAs are not only expected to lower business costs but also, negotiation among a small group of countries can help participating governments to exclude 'politically sensitive' non-competitive domestic sectors from the trade liberalisation process.¹⁸ ASEAN countries also believe that FTAs are essential to create economies of scale and to offer a larger market for consumers to make ASEAN and its member economies more attractive to potential investors. Facing China and India's growing and large markets, the countries of ASEAN have favoured a cooperative stance instead of being 'hollowed out' by a competitive attitude towards each other.

Following these considerations, in 2010, ASEAN and China began implementing the ASEAN-China Free Trade Area (ACFTA). It is the world's most populous free trade area of 2.0 billion consumers, with a combined GDP of approximately US\$10.5 trillion and total international trade of US\$6.3 trillion (*Table 4*).

Table 4: Size of ASEAN FTAs, 2012

| | Total Population, 2012 | Total GDP, 2012 | | Total Trade to the World, 2012 |
|--|---------------------------|-----------------|-------------------|--------------------------------------|
| | Persons in billion | US\$ trillion | PPP\$ trillion | US\$ trillion |
| <i>ASEAN-Australia-New Zealand FTA</i> | 0.65 | 4.04 | 4.92 | 3.06 |
| <i>ASEAN-China FTA</i> | 2.0 | 10.55 | 16.09 | 6.34 |
| <i>ASEAN-Japan CEP</i> | 0.75 | 8.29 | 8.41 | 4.16 |
| <i>ASEAN-RoK FTA</i> | 0.67 | 3.46 | 5.43 | 3.54 |
| <i>ASEAN-India FTA</i> | 1.8 | 4.17 | 8.55 | 3.26 |
| <i>RCEP (ASEAN+6)</i> | 3.4 (48) | 21.2 (29) | 27.8 (32) | 10.5 (28) |

Note: PPP – Purchasing Power Parity; RoK – Republic of Korea; CEP – Comprehensive Economic Partnership; FTA – Free Trade Agreement

Numbers in the bracket give % share in world total

Source: World Economic Outlook, October 2013 Database, IMF; World Trade Organisation Database; Authors' estimate

¹⁸ Ravenhill, John. (2006). 'Regionalism', in John Ravenhill ed. *Global Political Economy*, Oxford University Press, 172-210.

In addition to the ASEAN-China FTA, ASEAN is in different stages of implementation of the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-India FTA, the ASEAN- Korea FTA and the ASEAN-Australia-New Zealand FTA. With RCEP, ASEAN is expected to spearhead a regional agreement covering almost half of world population, 28 per cent of world trade and 29 per cent of global GDP.

Overall, the region has much to gain from meshing FTAs and economic diplomacy. Cross-border movement of goods and services are expected to encourage competition and raise the efficiency and productivity of both labour and capital. It will also put pressure on the governments to increase transparency, streamline regulations and procedures and reduce illegal fees, improving investor's confidence in the country. Economic diplomacy also favours good governance.

Risks in Economic Diplomacy

However, despite these encouraging trends, potential risks exist. There is a constant debate on how the ASEAN economies can sustain their economic growth, when there are still growth uncertainties in the developed markets of the US and the EU. In the past year of 2013, growth slowed in two of the big economies of Asia – China (7.6 per cent) and India (3.8 per cent).

In this scenario, three critical risks loom to the gains from economic diplomacy through FTAs. The first derives from 'non-traditional' security (NTS) issues. These are defined as challenges to the well-being of people and states that arise from issues like climate change, infectious disease, natural disaster, irregular migration, food shortages, smuggling of persons, drug trafficking and other forms of transnational crimes. These cannot be addressed directly in FTAs.¹⁹ The effects of these NTS threats can be deep and far-reaching. For example, the severe acute respiratory syndrome (SARS) in 2003 demonstrated that in an era of globalisation, infectious disease can affect the security and well-being of people and several facets of an economy. The cost of SARS to Southeast and East Asia has been estimated at US\$18-60 billion in direct expenditures, lost tourism and business, and slowed economic development.²⁰ Lessons from SARS and other NTS crises like Avian Flu, the 2004 tsunami and rising food prices in 2007-08 suggest that although they cannot be prevented altogether, the impact can be mitigated if countries cooperate. However, the Asian countries have a long way to go.

The second risk to the "win-win" benefits of economic diplomacy in Asia through FTAs emanates from China's use of its economic leverage as a tool to settle international disputes in its favour. Although there is no uniform Southeast Asian perception

¹⁹ This definition of the term 'non-traditional security' is used by the Consortium of Non-traditional Security Studies in Asia (NTS-Asia; also see <http://www.rsis-ntsasia.org/>)

²⁰ Caballero-Anthony, Mely. (2010) 'Non-traditional Security Challenges: Regional Governance and the ASEAN Political-Security Community', Asia Security Initiative Policy Series, Working Paper no. 7

of China, the states of the region have oscillated on their views on China from it being a threat to regional security in the 1980s-1990s to it being the main driver of regional economic growth after the 1997-98 financial crisis (while maintaining its apprehension over China's military rise). The ASEAN-China FTA is one such initiative that puts more emphasis on China's economic rise and Southeast Asia's willingness to benefit from it. However, in the past few years, there have been instances when China has resorted to economic measures to compel a partner country to alter its policies, or to penalise it. When the ASEAN members failed to produce a joint communique for the first time in 45 years in 2012, most foreign policy analysts pointed to Cambodia's close economic relationship with China as a possible reason. Another instance occurred in 2012, when Beijing imposed tighter controls on Philippine banana imports. Many viewed this as economic collateral damage from security tensions over disputed territorial claims in the South China Sea.²¹ If such negative economic diplomacy trends continue, it could add to worries about China as economic power.

The third set of risks emanates from the 'nationalistic' sentiments amongst the regional governments of Asia. These include island disputes in the South China and East China seas, the Korean peninsula, Japan's announcement in 2013 of its first increase in defence spending in over a decade and insurgency movements in Southeast Asia. Handling these issues require sophisticated negotiation skills and strong political will among the concerned parties in order to cooperate and compromise.

Other political-economy factors that may derail "win-win" economic diplomacy in and with ASEAN and may signal security concerns are: tension between economics and politics (as states are political entities, political consideration will outweigh economic ones. For example, ASEAN is not considering an FTA with Taiwan because of political considerations); trade and investment disputes; financial and economic crises (as these compel countries to raise barriers to trade and put narrow national economic interests as a priority over regional or global ones); and food and energy prices (Chinese growing demand for energy can put regional peace in jeopardy). Another concern derives from how well the governments manage the international and domestic pressures on them, as this has direct bearing on the quality of FTAs and hence on economic diplomacy.

CONCLUDING REMARKS

In summary, ASEAN economies have been pursuing economic diplomacy through FTAs since the turn of the century in reaction to globalisation and the fact that trade is being driven by the development of cross-border production networks. The state

²¹ Glaser S. Bonnie. 'China's Coercive Economic Diplomacy', *The Diplomat*, 25 July 2012

has become a crucial intermediary as they seek to provide a conducive environment to attract TNCs. In such a scenario, FTAs have become a key tool of economic diplomacy, which the ten ASEAN countries have been pursuing at four different levels – bilateral, regional, trans-regional and global. Economic diplomacy, which redefines the balance of economic power, is said to have its advantages. It generates greater efficiency and transparency and increases the ease of doing business. However, there are risks too to the benefits it can deliver – such as issues of non-traditional security, China using its economic leverage in territorial disputes, nationalistic sentiments and other political economy factors.

Going forward, it should be noted that economic diplomacy is a dynamic process that changes with new realities. Any of the current potential risks turning to reality could change the context significantly. Economic diplomacy is the pursuit of all countries, provided they grow at a robust pace. A wealthy country is assumed to be more politically stable and is expected to bring social justice and good governance, using economic diplomacy as one of its key foreign policy tools. However, to pursue and to succeed in this form of diplomacy, a country needs a skilled pool of policy makers and private sector actors who can understand and negotiate key economic and trade issues. The lack of qualified personnel may threaten a country's economic gains in the globalised and competitive world.

For the ASEAN economies, as long as they continue to deliver on robust economic growth and there is a cooperative stance towards each other and towards the broader Asian region, economic diplomacy will continue to be a 'positive-sum' game in the years to come. However, if the economic growth in the region falters and the growing nationalistic sentiments among the countries evolve into rivalry, can economic diplomacy among the regional economies prevent a bigger geopolitical dispute in the future?

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