



Monthly BUSINESS REPORT

ASEAN INTERNATIONAL ADVOCACY | Indonesia | Singapore | Laos

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| REPORT BACKGROUND

While recession looms at some countries in Asia, notably Singapore and India (India is facing challenges due to the discontinuation of the GSP with USA), owing to the US-China Trade War, the repercussions have not been short of a mixed bag. Southeast Asian countries such as Vietnam, Malaysia and Thailand have seen some positive and most welcomed added investments from China.

Will we see a turning point of this US China Trade War saga? Will the talks at the G20 Summit provide a much-needed trade respite? The team at ASEAN International Advocacy provides the following analysis as we see the economic challenges and opportunities furthered its wheels, much banking on 4.0 IR.

The report also covers the progress that each country in Southeast Asia has embarked on with regards to trade and investment initiatives, as well as the influence of China and Japan in the region. This is a clear indication of ASEAN's nations upscaling to attract economic growth.

Detailed report can be purchased from ASEAN International Advocacy by making inquiries to shanti@ventureadvisory.asia

| **The US Moves, a seesaw of “technology cold war”**

Perhaps a risk calculus has been concluded and that now, we see some goodwill coming from the “tariff war” between USA and China. Much is unclear, and that is not new to most of us who, by now, understand the Trump game. Huawei, a major China tech giant, that has been caught in the trade war may have some sigh of relief. After much analysis, it is predicted that the cost of further tariffs would cost American consumers an additional US\$ 12bn price hikes. On the other side, the Chinese businesses have been hit hard, in terms of investments plans, economic confidence and exports in the world's second largest economy, forcing the two sides to have much to agree on.

US demands that Beijing change the way China's economy has grown over the last four decades - get rid of subsidies to state owned companies, open up the domestic market and most importantly, hold China to account if it fails to deliver on any of these commitments. China has rejected the demands from US, unaccepting of any trade truce to close the gap.

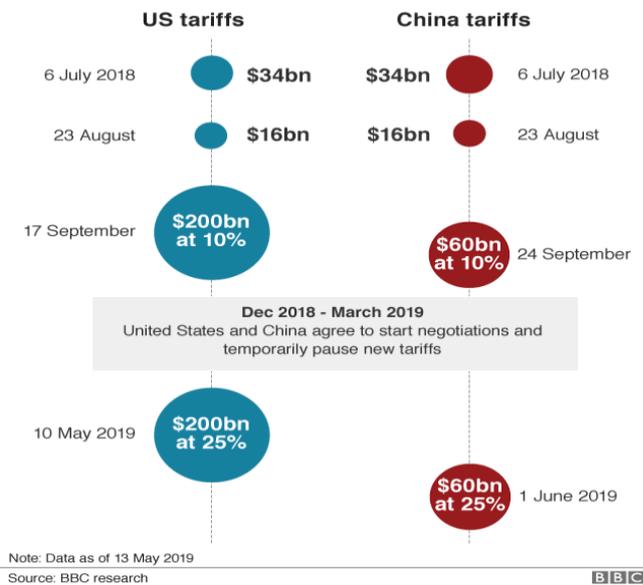
What transpires at G20, is more of a diplomatic amicability to display goodwill to slow down the threats of a world recession. A power play, or power at play?

Meanwhile, as the “trade truce talks” will be taking sometimes to mature, the Southeast Asian region remain a benefactor with Chinese firms investing and moving manufacturing facilities to compensate

the trade imbalances. While it is fair to say, that countries in Southeast Asia leads a cognisant lookout to the currency fluctuations and are hopeful for a comforting trade war outcome.

Below chart (courtesy to BBC) elaborates the trade disputes between the two giants.

How the US-China trade war has escalated



US-China trade war

Total US tariffs applied exclusively to Chinese goods: US\$250 billion

Total Chinese tariffs applied exclusively to US goods: US\$110 billion

Day 356: June 26, 2019 – Tentative truce reached days before G20 Summit

At the onset, the discussions were divided into two areas – ‘trade issues’, which included trade imbalances in certain sectors and ‘structural issues’, such as forced technology transfers, intellectual property protection, and non-tariff barriers. From the look of it, this is not a trade issue, this is a technology advancement war that have the two giants fighting for a future world market.

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| ASEAN Stepping Up its Global Power

ASEAN International Advocacy attended the 23 June 2019, 34th ASEAN Summit where the Summit Chair, Thailand Prime Minister Prayuth Chan-o-cha emphasised the Southeast Asian bloc’s collective economic strength and its potential as a united bargaining unit in the global economy against the backdrop of an ongoing trade war between the world’s two largest economies. According to Prayuth, the conclusion of negotiations for the Regional Comprehensive Economic Partnership (RCEP) is at the top of the bloc’s agenda as they still hope to finalise the pact by the end of 2019. Other outcomes from the summit include the launch of the ASEAN Indo-Pacific Outlook — a five-page document that aims to serve as a guide for geopolitical cooperation in the region; calls for the de-escalation of tension in the South China Sea with plans for a first reading of the Code of Conduct negotiating draft this year; and, in the case of repatriation of the Rohingya population, “continued support for Myanmar’s commitment to facilitate the voluntary return of displaced persons in a safe, secure and dignified manner.”

| India, the Trouble Boy in the Neighbourhood

Regional Comprehensive Economic Partnership (RCEP) harbours a promise of economic stability and power for the nations in Southeast Asia, nonetheless, the plus partners, notably India has shown timid attempts to negotiate a healthy agreement, causing an almost deadlock of RCEP. It has come to a point where the ASEAN economic ministers have agreed to send a delegation comprising representatives from Thailand, Indonesia plus ASEAN Secretary-General Lim Jock Hoi to engage with the Indian government in hopes of concluding negotiations over the Regional Comprehensive Economic Partnership (RCEP) as soon as possible. Thailand was selected as they are this year's ASEAN Chair, while Indonesia is the country coordinator for RCEP negotiations.

The decision was made during an ASEAN economic ministers meeting held on the side-lines of the 34th ASEAN Summit in Bangkok. According to Indonesian trade minister Enggartiasto Lukita, the troika will pursue meetings with Indian officials at the soonest with the aim of “substantially concluding” negotiations through the resolution of all market issues. Separately, a Trade Negotiation Committee (TNC) representing the Southeast Asian bloc left for Melbourne for the twenty-sixth round of RCEP negotiations on June 24. According to Thai Prime Minister Prayut Chan-o-cha, it is vital for the RCEP to be concluded this year as it would serve as both a buffer for ASEAN economies impacted by the ongoing trade tensions and a rallying call against global protectionism.

| BIMP EAGA Members Push for Trade on Flights and Shipping Routes

Filipino President Rodrigo Duterte called for greater trade and connectivity between members of the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) during the BIMP-EAGA summit held in Bangkok on June 24 on the side-lines of the 34th ASEAN Summit, which was also attended by the leaders of Brunei, Indonesia and Malaysia. He added that at present, only 16% of the 63 Priority Infrastructure Projects under the BIMP-EAGA Vision 2025 have been completed. Duterte also urged Malaysian Prime Minister Mahathir Mohamad to expedite ongoing negotiations for the institutionalisation of barter trade between the Philippines and Malaysia, as he believed that such a system would greatly improve the livelihoods and income of small communities along the country's border, especially in the newly-established Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).

| Indonesia and Vietnam Delimit Economic Zones

Indonesian President Joko Widodo and Vietnamese Prime Minister Nguyen Xuan Phuc's meeting on the side-lines of the 34th ASEAN Summit in Bangkok concluded with both leaders agreeing to expedite ongoing negotiations related to the delimitation of their exclusive economic zones (EEZ), said Indonesian foreign minister Retno LP Marsudi. Furthermore, Retno shared that both sides have also agreed to restart discussions to develop a set of “provisional common guidelines” to prevent fishing incidents while negotiations over delimitation are ongoing.

Indonesia's EEZ delimitation talks with Vietnam is one of five ongoing border negotiations that the government is engaged in. This is in addition to talks that led to the Philippines' ratification of a EEZ delimitation agreement with the country earlier this month, which established boundaries in the Mindanao and Celebes seas. According to Indonesian foreign ministry officials, the next step for Indonesia and the Philippines will be to negotiate the continental shelf lines in the same area, in order to demonstrate that the EEZ lines and the continental shelf lines are two different legal regimes.

| Trade Gaps, Indonesia and Philippines

The Philippines' trade secretary Ramon M. Lopez and Indonesian trade minister Enggartiasto Lukita's meeting on the side-lines of the ASEAN Summit concluded with both sides agreeing to consider several trade requests from their bilateral counterpart and hold follow-up meetings in a month or two. According to Lopez, the Philippines is keen to narrow its trade imbalance with Indonesia and it hopes to do so by exporting more agricultural products such as shallots and bananas, alcoholic beverages, automotive parts for the Toyota Fortuner SUV, as well as the Mitsubishi Mirage G4 and Toyota Vios sedans when the Philippines becomes the regional production hub for these models.

In return, Indonesia has asked the Philippines to review existing safeguards affecting its exports of coffee and ceramic products. Enggartiasto, for his part, said that both sides have agreed to form a small working group to increase bilateral trade. Trade between the countries reached US\$1.8 billion in the first quarter of 2019, up from US\$1.7 billion during the same period last year.

| After EU, Vietnam Aims for US\$100 bn Bilateral Trade with South Korea

Vietnamese Deputy Prime Minister (DPM) Vuong Dinh Hue's working visit to South Korea concluded with both sides agreeing to reach for US\$100 billion in bilateral trade by 2020, up from the US\$68.3 billion recorded in 2018. Among the highlights of DPM Hue's trip was his meeting with his South Korean counterpart Hong Nam-ki, who is also South Korea's economy and finance minister. During the meeting, DPM Hong announced the South Korean government's plans to establish a "cooperative centre" in Vietnam to boost the participation of South Korean companies in large-scale infrastructure projects in Vietnam and ensure that these projects are successfully implemented.

Separately, the Philippines' trade and industry secretary Ramon Lopez officiated the opening of the Korea-ASEAN Free Trade Agreement (FTA) Support Centre in Makati City on June 25. Speaking at the ceremony, Lopez said that both the South Korean and Filipino governments aim to conclude negotiations for their bilateral FTA by September, and have it signed in November. Meanwhile, the Malaysian Ministry of International Trade and Industry announced on June 27 that it has initiated negotiations for a bilateral FTA with South Korea.

| VIETNAM-EU Trade & Investment Agreements

The European Union and Vietnam will sign the EU-Vietnam Free Trade Agreement (EVFTA) on Sunday, June 30 in Hanoi after receiving the go-ahead from the EU Council of Ministers on June 25. The EVFTA, which was finalised in December 2015, comprises two parts: a Trade Agreement which only requires the Council's approval and European Parliament's consent, and an Investment Protection Agreement which must be ratified by all EU member states before it can come into force.

Under the trade agreement, virtually all customs duties on goods traded between the parties will be eliminated, in addition to a significant reduction in regulatory barriers and overlapping red tape on both sides. For instance, EU companies will be able to compete for procurement tenders in Vietnam on an equal footing with domestic companies, while Vietnam's textile and apparel exports will gain access to an even larger EU market. Furthermore, the investment protection agreement will provide — as its name suggests — greater protection for investments on both sides, with a new Investment Court System in place to enforce the agreed upon bilateral investment regulations.

| LAOS Gearing Up for New Trading License for Foreign Enterprises

Foreign companies who are not registered in Laos and who wish to import goods from or export goods to Laos will need to apply for a trading rights license from the Lao Ministry of Industry and Commerce's Department of Import and Export beginning June 27.

The new regulations came into force after a ministerial decision authorised by industry and commerce minister Khemmani Pholsena on June 6 following complaints from domestic companies that foreign companies were doing business in Laos without the necessary permission from the authorities. According to the ministry, the new regulations will help create "a fair business environment" since foreign companies who wish to export their goods to Laos will only need to obtain a trading rights license moving forward. Nevertheless, local enterprises interviewed by the media felt that the new regulations were unfair since domestic companies must not only obtain a business operations license but also pay taxes.

| JAPAN Ahead of China in Southeast Asia

Japan has nearly one and a half times more projects than China in the pipeline in the six largest ASEAN economies — Indonesia, Thailand, Malaysia, Vietnam, Singapore and the Philippines — despite China's push for expansion in the region in recent years through its signature Belt and Road Initiative (BRI), based on the latest data published by Fitch Solutions. According to Fitch, whose conclusion was drawn based only on "pending projects" in the stages of planning, feasibility study, tender and currently under construction, there are currently US\$367 billion worth of Japan-backed projects and US\$255 billion worth of China-backed projects in the six countries.

Vietnam accounted for over half of Japan's total pending projects, with the Hanoi-Ho Chi Minh City high-speed railway accounting for US\$58.7 billion of the total US\$209 billion worth of Japanese investments in the country. Meanwhile, Indonesia accounted for 36% or US\$93 billion of China's total pending projects, with the largest project being the US\$17.8 billion Kayan River hydropower plant.

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