7 RCEP POST COVID-19: REGAINING THE MOMENTUM

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I. INTRODUCTION

Having established since 1967, ASEAN is actually going nowhere. We are lacking the right impetus to do the leapfrogging. If we see the data, ASEAN intra-regional trade share is pushing hard to reach 30 percent target as it was expected by the Secretariat meeting in 2011. As of 2019, the figure is far reaching the target (25 % of ASEAN intra-regional trade share). Having this in mind, it is fair to say that ASEAN need prodigious pull factors that come externally. The Regional Comprehensive Economic Partnership (RCEP) can hit ASEAN to the next level of competitiveness. The scheme can best work under a standard gravity model in international economics. To ensure the base line in integration, we need shared culture, shared community, shared border and not to mention shared identity. All of this certainly existing within the RCEP as the core of further economic integration. Certainly that this will not be a single undertaking as we need to expand more under a more open regionalist framework. But his schematic will undoubtedly serve as the base line under the lowest common denominator. Let's call it the ASEAN way.

Regionalism includes any formal preferential trading arrangement between two or more countries, came late to Asia. Before the turn of the 21st century, there were few regional trading agreements in existence. While successful Asian economies by and large exploited the international marketplace effectively, they did so in the context of the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) framework However, regionalization, which we will define as a market-led process of increasing economic interaction, has been building up momentum in Asia for decades, spurred by unilateral liberalization, market-oriented reforms, and successful economic growth in Asia consistently above the global average (with the exception of the Asian Crisis years, 1997–1998). Hence, formal preferential trading arrangements in the region, particularly in the form of free trade areas (FTAs), are being developed as a means of enhancing regionalism ("the flag following trade") rather than the other way around, as was true of such agreements as colonial preferences or even the early years of European economic integration. In most of Asia, regionalism is being used as part of the overall process of economic reform, to buttress the outward-oriented development strategies of the region's economies.

The spirit of regionalism in Asia was first introduced as East Asian Economic Caucus (EAEC) in 1990 by former Malaysian Prime Minister Dr. Mahathir bin Mohammad and encompasses the Association of Southeast Asian Nations (ASEAN) member states, China, South Korea and Japan. Japan though refused participation due to the exclusion of the Western nations, which were already members of APEC and many other notable regional organizations in East Asia.

The EAEC was a reaction to ASEAN's integration into the Asia-Pacific Economic Cooperation (APEC) by Dr. Mahathir, who is known for his strong Asian standpoint. His suggestion apparently articulated his dissatisfaction with ASEAN joining APEC, which includes Western nations, an idea he was strongly opposed to. The aggressive Western-critical speech by Mahathir without consultations with his colleagues in other states scared most East Asian countries away from this idea. Japan especially, felt compromised by this. The way he introduced this idea of EAEC was perceived as greatly ineffectual, as he was even rejected by his colleagues in ASEAN. Mahathir tried to support the idea by stressing that the EAEC conforms to the General Agreement on Tariffs and Trade (GATT), but this step also brought hardly any results. In any way, it failed to grasp the audience. But right after the financial crisis, China, Japan and Korea began to show great interest in establishing FTAs with its ASEAN counterparts. They then gradually tried to make an official attempt to discuss stronger economic bonds within the EAEC scheme.

Furthermore, regionalism within the RCEP scheme will enable the region to cope with the future challenges of globalization and remain internationally competitive. An integrated East Asia would lead to the advancement in economies of scale, fuller development of production networks. As the former Indonesian Minister of Foreign Affairs Ali Alatas said in 2001, Asian Regionalism is equal to peace plus prosperity as it can contribute substantively to the achievement and maintenance of sustained and sustainable peace, stability and security and welfare in this part of the world. Post covid 19, China factor will shed the light of the dynamic process of RCEP. Understandably, China is well aware of the push to onshore or establish duplicate supply lines that bypass its factories as a product of Post Covid 19 strategy coming from the developed countries. RCEP proposal would at least keep business within China's network. And from the ASEAN point of view, Indonesia will be one of the most crucial actors that can establish leadership in the region and help to broker disputes between China and Japan, China and India and China and Australia. As already mentioned above, the Asian Financial Crisis gave substance to the ASEAN+3 grouping which brought together the ASEAN nations and China, Japan and South Korea. It's led to the Chiang Mai Initiative multilateral currency swap arrangements and helped bolster food security by setting national contributions to a rice stockpile. Then came the global financial crisis in 2008 but that was mostly a Western crisis. The COVID-19 pandemic, however, has affected every nation. China is more inclined to look for common ground than it was before.

II. DEFINING ASIAN REGIONALISM

Regionalism is formed when a group of countries establish an association in a way that it is beneficial in creating formal institution that pool together agreed resources available within the region. Moreover, regionalism can be best described as an integration of a geographical region that concludes variation of actors (regional institutions) that share the same interest (Mace and Therien (1996)) Regionalization on the other hand, reflects undirected process that forms economic interface within the region. Technically speaking, it is a part of dynamic process that can be explained as a persistent process in forming regions and/or regional communities (Whiting (1993) in Smith (1998)).

To put it in other words, regionalism is institution driven while regionalization is market driven process. This paper argues that a certain region can be better off if it experience an institution driven process i.e. regionalism, that allows sustainability hence solid regional growth. The process towards regionalism is a long and tiring process. To set up formal regional economic institution, a country must endure several stages of integration as Balassa (1960) argues. These differ in the degree of unification of economic policies, with the highest one being the completed economic integration of the states, which would most likely involve political integration as well. The shallowest part of integration would be a "Free Trade Area" (FTA) that is formed when at least two states partially or fully abolish custom tariffs on their inner border. But, as Hastiadi (2011) argues, RCEP should put more focus on trade integration since this region has a huge gap in development proximities. This gap will only constraint integrations as it moves beyond trade integration. But this very gap is actually beneficial for trade integration since differences in comparative advantage will post a significant contribution in trade flows thus said trade integration.

Another question that may arise is whether or not the Asian Regionalism can move beyond the RCEP. In the basis of gravity equation, we learn that geographical distance, shared language and shared culture is very important for trade. So instead of having a half globe integration in FTAAP or other mega regionalism schemes, the proposed scheme of RCEP seems to offer better result.

Having that in mind, we are currently witnessing RCEP countries that cannot escape from the fact that they are now being more integrated than before. Regionally speaking, the region has been nurtured by a market driven expansion of trade and FDI. According to Linn (2011), an integrated Asia will become significantly important for the region's overall development at least for six reasons. First, in order to sustain region-wide economic growth; second, to have positive spillovers and better respond to global challenges; third, to create long-term stability and prosperity; fourth, to set up a stepping stone for poorer countries so that they can move up the value change and maximize their growth potential; fifth, to be an important bridge between the interactions of individual East Asian countries and the rest of the world; and the last but not least is to have the voice and influence in the global agenda that is commensurate with its economic weight.

The process of trade regionalization can be associated by a growing tendency of trade flows among countries that reside in the same region. This process is often named as intra-regional trade. Increasing number of regional integration agreements (regionalism) is deemed as influential factor of the trend of intra-regional trend. This is well matched by the tendency of firms in expanding their activities within the region (market-driven regionalization).

III. ASEAN AS A HUB-THE ROLE OF MANUFACTURING SECTOR

ASEAN is fueled by a youthful spirit that could bring new hope to run through the global imbalances. ASEAN members are becoming more connected nowadays but the intra-regional trade share is quite stagnant. But if we expand the coverage to the plus six countries (China, Japan, Korea, Australia, New Zealand and India), the intra-regional trade figure is becoming more robust. The FTAs and EPAs that is well emerging since the mid 2000 have a significant contribution to the closer relation among the ASEAN + 6 countries. An important factor explaining the success of the ASEAN + 6 economies has been their participation in a dynamic, regionally integrated economic structure beyond just ASEAN + 6. Strong and dynamic production networks have progressively linked ASEAN + 6 countries. The fragmentation of manufacturing production and "fragmented trade" linked to rising intra-industry trade have enabled ASEAN + 6 countries to maintain their competitiveness and successfully pursue an export-led development strategy. ASEAN + 6 countries also developed robust, flexible and vibrant small and medium size enterprise (SME) sectors. Although this region has experienced two period of crisis (late 1997 and late 2008) but it did well to bounce back afterwards

If we compare the two crises period, we can get a general conclusion that the region has learned well in coping the crisis. It is reflected by the speed of recovery in 2010 which is better than 1999. Also, the closer integration among the countries has created a vaccine-like treatment in the region. Looking into the future, based on ADB projection, in 2030, per capita GDP in 2007 constant US dollars will mount to a number of 9012 for ASEAN.

The figures surely give a very optimistic path for the region in taking powerful role globally, but in order to play that role the region, especially for the ASEAN countries, have to put more attention some very crucial factors

In the short run, there might be a rivalry competition between China-ASEAN, China-India, China Japan and China-Australia but then again the mind set in viewing the economic opportunity or threat depends on whether China's economy is perceived as complementary or competitive vis-à-vis individual ASEAN economies and on whether the latter economies are able to exploit their complementary opportunities and overcome the competitive threats.

During the process of ASEAN's economic development, the presence of several commodity booms as well as a booming service sector recently assisted ASEAN's high pace of economic development. However, the kickstart and most rapid pace occurings around the early 1970s until the late 1990s before the Asian Financial Crisis. That kickstart and rapid pace of growth occured during the golden age of manufacturing sector for ASEAN 5 countries (Felker, 2003; Hill, 1997) which shows the significance of manufacturing sector for ASEAN economies.

Aside from that, ASEAN's manufacturing sector also provided a significant contribution in terms of creating their economic fundamentals, especially during the 1980s. In addition, highlighting the early 1980s is essential, since it is the period where ASEAN countries tried to conduct structural transformation from agricultural economies to industrial economies, as their peers had been doing in the East Asian region during the same period

(Ungor, 2017; Fan et al., 2013). Manufacturing sector plays a very important role in exports, as well as obtaining a relatively high pace of growth during the period of 1980 to mid-1990s (Abidin, 1997). However, it seems that manufacturing sector in ASEAN countries is not as dominant as it used to be (starting from the early 2000s) and it started a slight inverted U trend. This condition implies that ASEAN economies might focus their economy on service sector, which may decrease manufacturing exports. With the exception of Singapore, it is fair to say that ASEAN countries are still middle-income economies, which still need the contribution of manufacturing sector in order to strengthen their economic foundation and lead them to better performance in other sectors beside manufacturing in the future.

In the scope of development economics, manufacturing sector plays a major role for an economy. According to Rodrik (2013), manufacturing sector is a mode of growth for developing countries that could help them achieve convergence, due to positive correlation between sector growth and productivity. In addition, Felipe et al. (2014) argues that manufacturing sector could provide employment that prepares lower or middle-income countries to obtain a higher level of income, and richer economies are benefiting from employment in manufacturing sector. From both standpoints, it is clear that utilizing manufacturing sector is important for the majority of ASEAN countries, especially considering their current position as a middle-income economies that need to prepare themselves in order to escape from the middle-income trap problem. Productive growth through manufacturing sector is what ASEAN economies need to achieve, instead of service sector that seems to be more productive, but only valid if the country already has a strong human capital endowment.

One way to enhance the performance of manufacturing sector is by improving the role of its factor production, especially in terms of financial aspects. As is commonly recognized, financial capital is a major factor of production that could improve business production capacity and performance. Hence, improving the financial capital of business that operate in manufacturing sector is essential, especially if one needs to improve the performance of manufacturing sector.

Therefore, the answer to supporting manufacturing sector from financial sector lies in financial deepening. Generally, financial deepening is a term used to describe an effort to diversify financial resource allocation within a country (Sahay et al., 2015). Furthermore, recent trends within financial deepening is involving a more market – based resource allocation within a country, hence it primarily involves the broad and real impact from capital market (equity and debt markets) to real sector, in which the financial resources are allocated.

One might argue that the ASEAN 's past success in manufacturing sector and manufacturing exports is mainly due to their success in attracting FDI, despite relatively low levels of financial deepening. During the 1970s and 1980s, when ASEAN countries had just started to open-up their economies, they were still perceived as relatively lower income countries, which had potentials in natural resources as well as manufacturing sector through cheap labour and vast areas.

However, considering ASEAN's current economic state, investors already perceived ASEAN countries, especially ASEAN 5 (plus Vietnam) as strong emerging economies, which not only needs to rely on potential, but also needs to rely on stability and better investment atmosphere (Baum et al., 2017 & Stiglitz, 2003). Even from a global value chain perspective, aspects that could ensure production and demand stability are important to attract FDI, and it requires a strong financial sector (Felipe, 2018). Another important aspect that triggers the cruciality of financial deepening to FDI covers the aspect of financial product provided by financial sector. By obtaining a deeper financial sector, companies that conducting FDI will be able to seek for a proper and reliable financial product that could be used for re-investment.

Furthermore, Santoso and Hastiadi (2020) argue that bond market generates the most significant impact on manufacturing export in ASEAN. On the other hand, stock markets have not been able to generate significant impact to manufacturing export performance in ASEAN economies. The facts coming from the stock market shows that manufacturing sector or manufacturing export in ASEAN are still lagging in terms of competitiveness. Hence, for business that operate in both manufacturing sector or manufacturing export, it is important to enhance competitiveness, so that financing from stock market could also be obtained, not only from banking sector and bond market. With these in mind, it is also important to understand the nature of Global Production Network in the context of ASEAN Plus.

As Ilmi and Hastiadi (2019) argue, the strength of the RCEP global production network lies on the combine strength of the China, Japan Korea (CJK) Economy plus several pivotal countries as the like of India and Indonesia. Chinese economy undoubtedly lies on the rapid development of industrial and logistics infrastructure, supported by the ability of labor with competitive wages in all industries. Meanwhile, India is a developing country with a high GDP growth that supports the linkage in the global production network. Japan has spread its economy into many developed and developing countries. Its domestic development is more about high-tech industries and license holders, so that participation must be seen in a wider scope across all production network. Korea is experiencing rapid growth in the ICT industry and has begun to build its production network in numerous countries. However, its sectoral competition with other countries still requires maximum effort, including with Israel and Russia. Indonesia, currently the 16th largest economy in the world have been experiencing a stable economic growth over the last decade. After the Asian financial crisis in the late 1990s had halted a booming economy fostered by Suharto administration, Indonesian macroeconomic indicators started to come back on course in the mid-2000s. Yet, the Indonesia's economy recovered at the rate in excess of 5% in the period of 2010-2019. The key element that accounts for Indonesia's recent economic growth is domestic consumption. In line with rising per capita GDP and low borrowing costs, Indonesia's private consumption is robust. Despite the global economic slowdown, the GDP growth of Indonesia is considerably above the world's average. Unfortunately, Indonesia's participation level are lagging behind in many industries, particularly the automotive industry in due to, among others, lack of Infrastructure, lack of disclosure policy (FDI openness), low labor quality, and high trade costs compared to other ASEAN countries. These attributes become evaluation and input for ASEAN countries that have not maximized comparative factors and service links to achieve optimal benefits by connecting in a global production network (See Table 1). Among other factor, the middle-income trap has become longing factor that constraints ASEAN plus scheme.

TABLE 1. THE ORDER OF PARTICIPATION LEVEL OF GLOBAL PRODUCTION NETWORK OF EACH INDUSTRIAL GROUP

REGION	ORDER OF PARTICIPATION LEVEL	ALL INDUSTRIES	MACHINERY	ICT	TRANSPORT EQUIP.	RESOURCE BASED	OTHER MFG
ASEAN 5	1	Malaysia	Malaysia	Malaysia	Thailand	Malaysia	Malaysia
	2	Philippines	Singapore	Philippines	Philippines	Thailand	Thailand
	3	Singapore	Thailand	Singapore	Malaysia	Singapore	Philippines
	4	Thailand	Philippines	Thailand	Singapore	Philippines	Singapore
	5	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia
OTHER ASIA	1	China	China	China	China	China	China
	2	India	India	India	India	India	India
	3	Japan	Russian	Japan	Japan	Israel	Japan
	4	Israel	Japan	Israel	Russian	Japan	Russian
	5	Russian	Israel	Korea	Israel	Russian	Israel
	6	Korea	Korea	Russian	Korea	Korea	Korea

REGION	ORDER OF PARTICIPATION LEVEL	ALL INDUSTRIES	MACHINERY	ICT	TRANSPORT EQUIP.	RESOURCE BASED	OTHER MFG
EU	1	Germany	Turkey	Germany	Turkey	Turkey	Turkey
	2	Turkey	Germany	Turkey	Italy	Germany	Germany
	3	Italy	Italy	France	Germany	Italy	Italy
	4	France	France	Italy	France	France	France
	5	UK	UK	UK	Spain	Spain	Slovenia
	6	Spain	Spain	Netherlands	Slovakia	UK	Slovakia
	7	Slovakia	Slovakia	Spain	UK	Slovakia	UK
	8	Netherlands	Austria	Slovakia	Portugal	Belgium	Spain
	9	Austria	Netherlands	Portugal	Poland	Portugal	Poland
	10	Poland	Belgium	Austria	Slovenia	Austria	Netherlands
	11	Portugal	Poland	Poland	Belgium	Slovenia	Austria
	12	Belgium	Finland	Finland	Austria	Netherlands	Portugal
	13	Slovenia	Slovenia	Belgium	Netherlands	Poland	Belgium
	14	Finland	Portugal	Ireland	Czechia	Finland	Ireland
	15	Ireland	Switzerland	Slovenia	Finland	Switzerland	Czechia
	16	Switzerland	Ireland	Switzerland	Sweden	Czechia	Finland
	17	Czechia	Sweden	Czechia	Switzerland	Ireland	Switzerland
	18	Sweden	Czechia	Sweden	Ireland	Sweden	Sweden
	19	Denmark	Denmark	Denmark	Denmark	Denmark	Denmark
	20	Hungary	Norway	Hungary	Hungary	Hungary	Hungary
	21	Norway	Hungary	Norway	Norway	Norway	Norway
NAFTA	1	USA	USA	USA	USA	USA	USA
	2	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
	3	Canada	Canada	Canada	Canada	Canada	Canada
OTHERS	1	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil
	2	Argentina	Argentina	Australia	Argentina	Argentina	Argentina
	3	Australia	Australia	Argentina	South Africa	South Africa	South Africa
	4	South Africa	South Africa	South Africa	Australia	Australia	Australia
	5	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica

SOURCE: Created by the Author

IV. OVERCOMING THE MIDDLE-INCOME TRAP: THE ROLE OF INNOVATION ON SWITCHING ONTO A HIGHER INCOME GROUP FOR ASEAN MEMBER STATES

The middle-income trap is a situation where economic growth of a country stagnates. However, no universal threshold has been developed of how many years it takes to consider a country as being trapped in the middle-income economy. Bordans and Tainemaa (2016) proposed their own definition of the middle-income trap where they consider a country is considered trapped in a specific year if they are under three specific conditions. According to their definition, if a country's GDP per capita growth is below the average of global GDP per capita in its respective income level, its respective region's average growth, and also the weighted average growth of each country's trading partner, a country is considered trapped in the middle-income level. Despite their comprehensive approach on defining the middle-income trap, there is still a need for specific amount of years to be able to distinguish whether the growth of a country is considered growing normally or too slow. Consequently, the question on how many years is considered too long for a country to generate static growth remains unclear.

Felipe (2012) also offered a definition of the trap by conducting an arbitrary approach to calculate the number of years to be set as a threshold for a country to be trapped in the middle-income level. He did so by taking the median of the sample countries spent in their income categories before transcending onto the next category. In addition, Felipe implies that lower middle-income economy (i.e., that reaches $2,000 per capita income) has to attain an average growth rate of per capita income of at least 4.7% per annum to avoid falling into the lower middle-income trap (i.e., to reach $7,250, the upper middle-income level threshold); and an upper middle-income economy (i.e., that reaches $7,250 per capita income) has to attain an average growth rate of per capita income of at least 3.5% per annum to avoid falling into the upper middle-income trap (i.e., to reach $11,750, the high-income level threshold).

Many economists glorify innovation as a key driver of escaping the middle income trap through sustainable growth and development which was mainly contributed by the Schumpeterian growth theory. The Schumpeterian growth paradigm is constructed upon 3 main ideas (Aghion, Akcigit, and Howitt, 2013). First, long-run growth is achieved primarily through innovation, following Solow's theory that sustainable technological change is required for long-term economic growth. Second, following the endogenous growth theory, innovation is derived from investments in research and developments from firms that responds to the economic incentives that results from economic policies and institutions. Hence, government quality and support is needed to promote innovation. Lastly, innovation provokes creative destruction as Schumpeterian growth is perceived as a competition between the old and the new in the sense that new technology replaces old technology. With such pattern, it is believed that innovation has been responsible for continuous rise in standards of living (Grossman & Helpman, 1994) as there is perpetual replacement of old technology with new technology. Continuous innovation has the benefit of improved productivity as well as expansion in consumption, investment, and exports (Ambashi, 2017). However, the impact of innovation itself relies on the creativity of its eventual users, thus knowledge and education play an important role on adapting towards new innovation. Ambashi (2017) created a typology of innovation stages of ASEAN countries:

TABLE 2. TYPOLOGY OF INNOVATION FOR ASEAN MEMBERS

PHASE	CHARACTERISTICS	COUNTRY
Initial	Developing demand for innovation and technology	Cambodia, Laos, and Myanmar
Learning	Imitation and learning by doing from imported technology	Indonesia, Philippines, Thailand, and Vietnam
Catch-up	Initiation of creative destruction through licensing and creative duplication	Malaysia
Advanced	Frequent R&D and patent filing	
Frontier	Knowledge generator and technology shaper	Singapore

SOURCE: Created by the Author from Ambashi, 2017

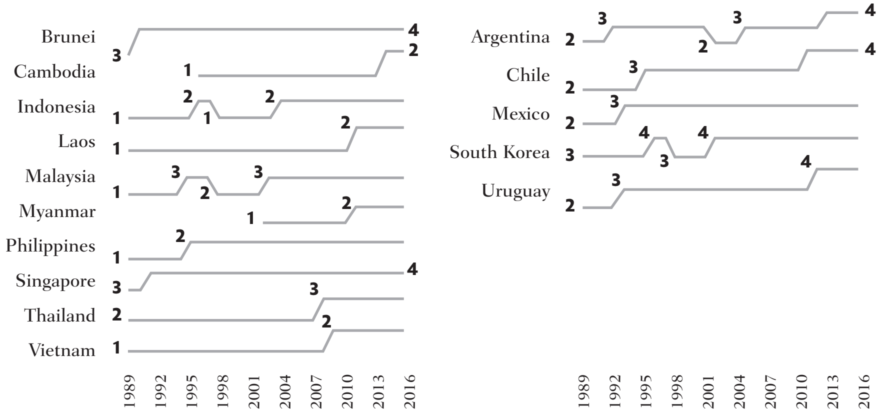
Referring to Table 2, we can infer that most ASEAN countries are beginners regarding innovation involvement. Newly lower-middle income countries (i.e. Cambodia, Laos, and Myanmar) are in the initial stage of innovation involvement where they start to develop demand for innovation and technology. While countries who has been longer in the lower-middle income stage (i.e. Indonesia, Philippines, and Vietnam) and Thailand who reached the upper-middle income level in 2008 are in the learning stage where they benefit from imitation of imported technology. Malaysia who has been an upper-middle income country quite a while is catching-up with high-income countries through initiation of creative destruction. Singapore on the other end is the leading innovation frontier in ASEAN, becoming a knowledge generator and technology shaper. This typology excluded Brunei Darussalam due to its heavy reliance on oil and gas as the main contributor to its economy, hence the country does not suit any of the stages in the innovation typology. Thus, we can conclude when it comes to innovation, ASEAN countries are still passive players that relies on market forces for new innovations.

When measuring innovation, patents and trademarks usually goes hand in as a proxy to quantify innovation, however patents leans more towards inventions (specifically technological inventions), while trademark denotes legal differentiation between products. As seen from the innovation typology, majority of ASEAN countries are still beginners when it comes to innovation, especially technological innovation. Therefore, using patents when attempting to capture innovation will fail to capture all innovative activities within a country because it focuses more on inventions rather than innovation. Since we are discussing about the middle-income economy who are squeezed between labor-intensive industries and high-skilled intensive industry that dominates innovation in technology, middle-income economy by nature are likely to lack in innovation that directs towards technology. Thus, the use of patents will fail to capture full innovation activities in a country. To measure the translation of R&D activities and patents into an actual innovation output that can be used by users, trademark has the ability to capture commercialization of new inventions used by firms to signal new products in the market (Castaldi, 2014). In addition, the use of trademark also enables to capture non-technological innovation such as organizational innovation, service innovation, marketing innovation, and as well as innovation in low-tech sectors.

Many ASEAN countries recently succeeded to exit low-income level and reached the middle-income level. In contrast, several Latin American countries recently graduated onto the high-income level after spending quite some time in the middle-income level. Figure 1 shows income-level movements of these countries between 1989 and 2016.

Among ASEAN member states, only two countries belongs to the high-income level, namely Brunei Darussalam and Singapore. Other ASEAN countries started to surpass the low-income level in this period, Philippines in 1995, Indonesia in 1996, Vietnam in 2009, Laos and Myanmar in 2011, lastly Cambodia in 2014. Malaysia and Thailand on the other hand has been categorized in the middle-income range over the whole observed period of 27 years. If we look deeper into past data, Thailand has spent 20 years in the lower middle-income level from 1988 until 2008, and 8 years in the upper middle-income level, which exempts Thailand from being considered trapped in the middle-income level. Meanwhile, Malaysia actually entered the lower middle-income level in 1979 and entered the upper middle-income level in 1995, which translates to 16 years in the lower middle-income level, and 21 years in the upper middle-income level. Corresponding to Felipe's income threshold, we can conclude that Malaysia is trapped in the upper middle-income level.

FIGURE 1. INCOME CLASSIFICATION OF ASEAN AND OTHER EMERGING COUNTRIES



SOURCE: Author's Compilation
1 = Low Income, **2** = Lower Middle-Income, **3** = Upper Middle-Income, **4** = High Income

Quah (1993) discovered that there is a tendency of thinning of the middle-income level in favor of very poor and very rich countries. Low-income levels tends to have downward mobility in which they are more likely to become poorer, although the possibility of upward mobility is still possible. While high-income levels seize balance between upward and downward mobility, in which they are more likely to persist in high-income level. Although the tendency of thinning of the middle-income level does not seem to occur in ASEAN countries as many of their members just recently reached the middle-income level, the downward mobility is still a risk that is faced by every country. The downward mobility can be found in Figure 1. where several countries (Indonesia, Malaysia, and South Korea) were vulnerable to fall down towards their previous income-level in a deteriorating economy from the Asian financial crisis in 1998. Indonesia specifically suffered greatly in the 1998 Asian financial crisis compared to the 2008 global financial crisis. The 1998 crisis includes depreciation of the Rupiah which effects exports and imports and also rising costs of foreign debts. During this time period, Indonesia just recently reached the lower-middle income level in 1996. As poverty increased due to the crisis, Indonesia fell back to the low-income level. However, we can see that Indonesia fared better in the 2008 crisis maintaining its position in the lower-middle income level. Tambunan (2010) studied that the resilience was due to more steady policies, better government housekeeping, and stronger financial sectors. Thereof, as it is easier for a country to descend towards lower-income levels, countries must be able to inject adequate input and productivity circulating in the economy and strategize economic policies in order to move up the income ladder or maintain current income level. This is proven by the resilience of Thailand and Vietnam from the global financial crisis in 2008 where the two countries were able to move up towards higher income status in spite of the crisis.

According to Nidhiprabha (2011), the limited impact of the global financial crisis in Thailand was attributed to financial refinement subsequent to the Asian financial crisis which results better banking structure and low exposure on subprime assets, supporting macroeconomic conditions also helped credit expansion that accelerates economic recovery. Similarly, Vietnam was not directly affected by the 2008 crisis due to its low exposure to international financial markets where 50% of its banks are state-owned (Le, 2009). Additionally, informalization of sectors are big in Vietnam, and the crisis induced informalization even further (Cling et al., 2010) which provides alternative source of income keeping them from poverty. Therefore, the resilience of the two countries in times of crisis shows the need for sound economic policies and an active government role that induces smooth economic recovery and preventing countries to move backwards towards a lower income level.

To understand the economic growth of each ASEAN countries, Table 3. shows GNI per capita growth for ASEAN countries.

TABLE 3. GNI PER CAPITA GROWTH FOR ASEAN 2016

COUNTRY	CLASSIFICATION	2016 GROWTH (ANNUAL %)	REQUIRED GROWTH ACCORDING TO FELIPE (2012)
Brunei Darussalam	High-Income	-2.32	-
Singapore	High-Income	2.06	-
Malaysia	Upper Middle-Income	2.64	3.5%
Thailand	Upper Middle-Income	3.05	3.5%
Philippines	Lower Middle-Income	4.91	4.7%
Indonesia	Lower Middle-Income	3.70	4.7%
Laos	Lower Middle-Income	5.75	4.7%
Vietnam	Lower Middle-Income	6.15	4.7%
Myanmar	Lower Middle-Income	-	4.7%
Cambodia	Lower Middle-Income	5.26	4.7%

SOURCE: Created by the Author from from Wold Bank,2018 and Felipe, 2012

The majority of lower middle-income countries grew adjacent around the required growth, except for Indonesia. However in terms of years, Indonesia is not considered trapped in the middle-income level yet, hence Indonesia must be able to compensate for the sluggish growth in the upcoming years before it is considered trapped in the lower middle-income level. Thailand and Malaysia also yielded growth lower than required, although Thailand still has time before it is considered trapped in the upper middle-income, it seems like it is harder for countries to exit the upper middle-income level. Latin American countries who recently reached the high-income level were actually trapped in the upper middle-income level as well in the past. However, with increased innovation efforts, foreign direct investment and productivity, they managed to reach high-income level.

V. THE PLUS SIX FACTOR

In a sense of creating integration in East Asia, there is a need to set up more formal institutional mechanisms for trade. It is rational for such mutually dependent countries in the region to institutionalize de facto integration through the establishment of regional arrangements (Kawai, 2005). The growing significance of the Plus Six market for ASEAN along with other economic modalities such as product complementarities, comparative advantage and intra industry trade in the region will then serve as the basis for a single Region Wide FTA.

The above arguments are coherent with the study conducted by Asian Development Bank in 2006 which identifies four solid pillars for the East Asian regional cooperation and integration. Those pillars are: (i) trade and investment; (ii) money and finance; (iii) infrastructure and connectivity; and (iv) regional public goods.

The factors above can be classified as technical pillars, should it be reached, non-technical factors still need to be tackled. Among those factors, some has proven to be major obstacles. First is historical factor, what had happened among China, Japan, and Korea in the old days is still noted to be influential clash. Second is ideological factor, political polarization happened in the cold war has given major impact for the relation among countries in RCEP. Although ideological concentration is now becoming insignificant but in some cases the conflicting interests among countries are deemed to be the indirect exposure of the remaining ideological concept. The absence of political bond among countries in RCEP would be a major problem when they have to face common enemy that take form as global economic crisis. This chapter define political bond as regionalism/institutionalism.

Being acknowledged as the economic front runners, Japan, China, Korea and Australia are assumed to have heavy responsibility for the economic welfare in the RCEP scheme. It is very obvious that RCEP cannot be put into practice without these countries' strong support. Unfortunately, the lack of institutional arrangements among these giant countries has stalled the overall welfare effect for the East Asian communities.

It is clear that trade activity is very intense which performs as the major contributing factor for economic growth in the region. The vast amount of trade has been very likely steered up by the amount of FDI flows among them. From this point of view, trade within RCEP is deemed to have substantial movement as a result from the shift of trade towards a more industrialized structure. The present driving force of the said relationship is the market by which in some sense is not enough; it should be matched by a top-down regionalism. The main focus of the regionalism is to make these countries grow together so that it can spread positive externalities throughout the region. Having said this, a concrete structure of region wide FTA is needed both for short and long run goals.

Regionalism has some important roles in guiding directions, providing visions, and setting up the principle in organizing and creating a regional community. The overall roles have raise important question of what kind of regional organizations should be formed, and how they should be formed and operated (He, 2004). Moreover, Kawai (2005) views a mounting need of institutionalization in East Asia in order to internalize externalities of the spillover effects.

Now, that we are come to the point that regionalism must take place in the Region, we have to encounter some problems embedded on it. The trade creation effect of regional co-operation is being viewed as an important cause of economic growth. However, the impact of trading blocs also has a trade diversion effect. Question then arises; do such arrangements benefit regional trade and increase overall welfare? The answer depends upon the difference between the trade creation effect and trade diversion effects.

The trade creation effect is caused by the extra output produced by the member countries. This extra output is generated due to the freeing up of trade between them. Increased specialization and economies of scale should increase productive efficiency within member countries.

The trade diversion effect exists because countries within trading blocs, protected by trade barriers, will now find they can produce goods more cheaply than countries outside the trade bloc. Production will be diverted away from those countries outside the trade bloc that have a natural comparative advantage to those within the trading bloc. From the point of view of developing countries, i.e. ASEAN, the existence of trading blocs depends rather on firstly whether the country is in the trading bloc and secondly which other countries are also members. Forming a trade bloc with other developing countries may result in only a small trade creation effect as the share of world trade involving developing countries is relatively small, that the trade bloc has limited influence on the market price and quantity. If the country joins a trade bloc with developed countries, i.e. CJK then there may be real advantages to the developing countries as resources flow within the bloc to the countries where there are cost advantages and the potential market for exports is significantly expanded.

By building trade liberalization on the foundation of discrimination, PTAs create a fundamental conflict with multilateralism. The ill effects of this key difference become manifest when one examines the recent proliferation of PTAs. This proliferation has led to a crisscrossing of trade preferences assigned to countries, hence the term "spaghetti bowl," where products in many important markets today enjoy access on varying terms depending on where they supposedly originate. Owing to the globalization of production, the ability to identify the country of origin for products is increasingly problematic. Since the spaghetti bowl's inefficiencies are increasingly magnified by unbundling and the rich/poor asymmetry, the region must find a solution. Since regionalism is here to stay, the solution must work with existing regionalism, not against it. The solution must be in the form of multilateralizing regionalism.

VI. MAKING REGIONALISM WORK

Among the more significant region-wide organizations to have emerged since the end of the Cold War are the Asia Pacific Economic Cooperation group (APEC), the ASEAN (Association of South East Asian Nations) Regional Forum (ARF), ASEAN plus 6 and the Asia–Europe Meeting (ASEM). None has as yet developed an elaborate bureaucratic structure. Though each has spawned many meetings and initiatives, they all remain first and foremost consultative arrangements aimed at securing broad declaratory agreements and benchmarks rather than binding targets or obligations. These developments suggest that, despite the inhospitable geopolitical terrain, especially in Northeast Asia, multilateralist approaches and institutions have come a long way in Asia Pacific. On the other hand, regional multilateralism in this part of the world faces a number of fundamental and as yet unresolved ambiguities, which, though not unique to this region, are likely to have far-reaching political, economic and in the longer run strategic implications. Foremost among these is the issue of membership, or to be more precise the geographic and political delineation of the region. With the passage of time East Asia has emerged as the core of the multilateral project. This is most obviously the case with ASEAN plus 6, the only absentees at this stage being the anomalous regimes of North Korea and Taiwan, with India still put on hold. Regionalism acts as a powerful mantra that spells the word "whether you are with us or against us". The act of exclusion from regionalism will only lead to marginalization. Therefore, the general idea is how to make it work

According to Kawai (2007), several factors play major role in constituting trade and FDI integration in Asia as we see today. The first factor is the continuous trend of trade and investment liberalization (race to the bottom) as a conjunction with the multilateral framework under the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) and open regionalism through Asia-Pacific Economic Cooperation (APEC). As a result, domestic economy must find its way to complement the liberalization measures as well as to compete with it. Trade policy reform is regarded as the best way to cope with the massive stream.

Kawai's second factor would be on the production networks and supply chains throughout East Asia resulting from the inward FDI trend and the footloose-ness effect (global MNCs). As Baldwin (2006) suggests, Asian countries has a trend of unbundling production process into multiple sub-process leading to the hollowing out phenomenon. In turn, RCEP can become integrated supply chain. Kawai adds that the whole process has undoubtedly created dynamic evolution of intra-regional division of labor leading to an emerging vertical intra-industry trade in parts and components. The process also implies significant connection between large inflows of FDI with the trade agreement in the region. The first group to lead would be the China, Japan, Korea, Australia and New Zealand followed by the rest. The path goes hand in hand with the flying-geese hypothesis that was developed by a Japanese economist, Kaname Akamatsu (1935). This model has been frequently proposed to examine the patterns and characteristics of East Asian economic integration. The premise of the flying-geese pattern suggests that a group of nations in this region are flying together in layers with Japan at the front layer (Xing, 2007). The layers signify the different stages of economic development achieved in various countries.

The third factor will be physical infrastructure, i.e. roads, bridges and electricity, improved means of communication and development of logistic service. These items will provide steadiness and assuredness in making investment among members. In other words, good infrastructure will only lead to a sustainable intra trade and investment.

The fourth factor is China that continues to grow fast. The China Factor has been spurring deeper linkages among Asian economies. As Kawai suggests, growing China has been giving major contribution to production networks and supply chains given to their export expansion which requires imports of industrial materials, parts and components from their trade partner in Asia.

Moreover, Feng and Genna (2003) argue that homogeneity of domestic institutions is needed to go hand in hand with the regional integration process. Moreover, they point out inflation, taxation and government regulation as representing factors for the economic institutions. Another variable that might enhance integration is population as already identified by Tamura (1995). He argues that large population is a catalyst for integration due to economic agglomeration. Scholars like Milner and Kubota (2005) even point out democracy as an important factor that could foster regionalism. Their empirical work on the developing countries from 1970-1999 showed that regime change toward democracy was associated with trade liberalization, and regionalization.

Having said this, knowing the factors that determine the formation of regionalism (top down process to match the existing bottom up process) is becoming more and more crucial for the post covid-19 era. Thus, RCEP can accelerate the momentum of overall trade liberalization as opposed to the growing protectionism coming from the west and boosting regional economic growth.

VII. RCEP IN THE MAKING: BALDWIN'S DOMINO EFFECT

Regionalism that takes form as RCEP is clearly the second best. The ultimate goal will be undoubtedly the WTO which is a totem of multilateralism. The departures from multilateralism create the so called "spaghetti bowl effect". The term was originally introduced by Jagdish Bhagwati in his works with Ann Krueger, "The Dangerous Drift to Preferential Trade Agreements', AEI Press, 1995. He then made it more pronounced through his later papers (e.g. Jagdish Bhagwati, David Greenaway, and Arvind Panagariya, "Trading Preferentially: Theory and Policy"; The Economic Journal 108: 1128-1148; Jagdish Bhagwati, Testimony, Subcommittee on Domestic and International Monetary Policy, Trade and Technology; April 1, 2003; U.S. House of Representatives). Bhagwati made his point by stressing on the rules of origin which he found FTA as source of problems since it created the scheme of production network that would not be consistent with the principle of economic efficiency. He then named this event as a spaghetti bowl phenomenon. He described this as crisscrossing lines and likened these strings of lines to strands of spaghetti tangled in a bowl. The spaghetti bowl phenomenon as referred to by Bhagwati is an inevitable result of FTAs that reduce or eliminate tariffs on imports from specific countries and cannot be circumvented simply by changing the shaping of FTAs. Or, to put it colloquially, the spaghetti bowl phenomenon acts as stumbling blocs for regionalism.

If we take Richard Baldwin's (2006) work into account, the phrase of stumbling blocks would become too robust since he tamed the spaghetti bowl to be considered building blocks on the path of global free trade. Before we get into the way to tackle the spaghetti bowl effect, we should first see the basic framework behind the trade liberalization process as Baldwin suggests. The framework focuses on three mechanisms: the juggernaut effect, the domino effect and the "race to the bottom' (RTB). The first one is heavily related to multilateral trade liberalization, the second goes deep into regional trade liberalization, while the latter part is linked to the unilateral trade liberalization.

The Juggernaut scheme involves three major actors: i) the government/ policy makers, ii) export-competing firms, iii) import-competing firms. In order to expand the market abroad, the export-competing firms need to lobby import-competing firms to accept lower tariffs so that foreign markets will reciprocally lower their tariffs. Lower tariff will also mean an increasing volume of import goods competing with the small domestic industries (import-competing firms). Naturally, the small domestic industries would resist any kind of tariff cuts. For the export-competing firms, the given characteristic means expensive lobbying cost. In this scheme, the government will set the optimal tariff resulting for the juggernaut effect

For the government, the principles of a setting an optimal realistic objective function are credibility, flexibility and political legitimation. Rule of law could create credibility if the rule is widely known and well understood by the public. With credibility, it will be easier to handle any economic turbulence with the policy instrument that is controlled by the economic authority. Credibility could function more when there is a transparent and accountable framework in which strengthens political legitimation. Effective policy would merge up if the policy makers have the ability to react promptly in every unprecedented shock. Credible policy makers are those who make the policy with respect for transparency. With the high level transparency, any economic shock would be easily diminished. Without transparency, every policy with regards to economic target and fiscal rule would become obsolete since the public could not compare between the target and the realization. Moreover, the political legitimation would become very important since the policies being made should reflect national consensus. This in turn creates balance of power and also general responsibilities which could reduce the negative effect from the uncoordinated policy.

Reciprocal trade talks (in the form of Multilateral Trade Negotiatons (MTNs)) conducted by the government will have a direct impact for a politically optimal tariff. This period will shift down the GFOC curve since the government has a new set of optimal tariff. The shifting GFOC will in turn drive some import-competing firms to be out of business since they face cheaper import goods. This situation will decrease the cost of lobbying since the political resistance from the import competing sectors is decreasing linearly with the size. Doing another reciprocal talk is cheaper now resulting to a further cut on tariff. The cycle repeats itself until new equilibrium (E') is met.

Now we move on to the next framework, the domino effect theory. This theory is best suited to explain the formation of trading blocs (regionalism) throughout the globe. We have two major actors here, which are pro-membership (export competing firms) and anti-membership (import competing firms) forces. The model describes a political equilibrium resulting from a balance on the two major forces. The pro-membership will gain preferential access if the nation decides to join the RTA and go through with marginalization if the nation stays out. On the other hand, the anti-membership forces will be marginalized if the nation decides to join while it will win the domestic market if the nation stays out.

Naturally, the export competing firms have larger output than the import competing one. Having sad this, the shock resulted from nation's decision of not joining the RTA would be bigger for the pro-membership side. This in turn will force the policy makers to join the existing RTA. As the membership expands, the incentive to join the RTA becomes more attractive even for those who previously found the political optimal decision by staying out. The cycle repeats itself until a new political equilibrium membership in RTA is met.

Moving to next framework is the RTB. The world has witnessed the trade liberalization flows through multilateralism and regionalism. In recent years, however, new trend is emerging from many developing nations, they are now keener to cut tariff unilaterally. The trend is more pronounced in East Asia which prefers unilateral tariff cuts rather than PTA/RTA. The strategy goes hand in hand with the global trend on the unbundling process in manufacturing sectors. The so called hollowing out happens because of the wage gap between the developed and developing nations let alone the decreasing trend in trade and communication costs. In turn, the offshore investment triggers lower tariff in the intermediate goods since the low-wage nations are competing to get the positive prospect of foreign direct investments (FDI). Lower tariff on intermediate goods is harmless for the import-competing firms since the goods have nothing to do with domestic demand. Therefore, the force of opposition for the unilateral tariff cuts become insignificant resulting for a further cuts (race to the bottom) to acquire greater chance of inward FDI.

The trend of unilateral tariff cuts (RTB) creates a very low tariff in the region which also means lower trade cost. Lower trade cost will create the same level of playing field between local and foreign firms. The magnitude of shifting industry from foreign to home is larger when they face lower trade cost. In other word, it tells us how small changes in relative market access have a more pronounced effect on the location of industry when facing low trade costs.

From the trade policy viewpoints, this means that the cut in tariff will be more distinct when the overall industrial protection is low. In East Asia, tariff is cut unilaterally which in turn creates complexity for East Asian firms. But the complexity is acting as building blocks for regionalism since efforts to form regionalism will gain more in the low tariff environment. As the membership expands, regionalism will find its way to have a greater grip in East Asia (domino effect). But we have to note that this only happens when RTB unilateralism prevents complexity for becoming problems while the opposite is still likely to happen. If this happens then, as Baldwin suggests, the combination of complexity and unbundling may create a new political economy force which in turn creates big push from the East Asian multinationals.

The FTAs happening in Asia has created the so called "noodle bowl" (adapting the term of spaghetti bowl). However, the connection between RTB and domino effect will clean the mess. Given the overall tariff protection and the non resistance from the anti-membership side, the pro-membership side will urge the government to join the existing FTA. Due to the big push and the prospect of higher profits, the government is expected to set a region wide FTAs into force.

Having said this, the problems of crisscrossing preferential rates become irrelevant in the region; therefore the task of setting RCEP becomes relatively easy. According to Baldwin (2008), the government stand point towards RTA is a derivation of a political equilibrium between anti- and pro-RTA forces. Baldwin uses the example of bilateral FTA for the domino logic, using the same approach, this will become the basis of the region wide FTA. As far as regionalism is concerned, deeper integration will enhance the welfare of participating nations, i.e. the Multinational Corporations—thereby urging export competing firms to be heavily involved in a pro-RTA political activity. The RCEP signing will trigger other to act promptly even for the nations who previously opted to stay out. This can be thought of as one domino knocking down the next one (think of the first country who joins the RTA as someone who causes the first domino to fall causing others to fall). Countries that are out of the scheme will be marginalized due to the shrinkage of foreign market access. In the political sphere this new disadvantage will result in greater political pressure – pressure on their own governments to negotiate with the existing RTA.

While RCEP has made considerable strides on multiple fronts, the existing regional architecture needs to be given a more solid normative foundation, a stronger institutional base and a more coherent set of functions. At the normative level, it is important that each institutional arrangement reflects a commitment to a broad set of principles that goes beyond the aims and objectives of the particular organization. All regional institutions should be expected to conform to and actively promote a normative framework that defines appropriate forms of state conduct and spells out the values that are to guide the complex relationship between states, markets and civil society, on the one hand, and between the national, regional and global tiers of governance, on the other.

Indeed, RCEP, in brief, is an important and complex issue on an increasing globalized economy. It requires difficult answers about whether and, if so, how and with whom regional preferential integration should be pursued. To make such an assessment, one is required to focus on some of the important questions that need to be answered. The issue of costs and benefits will come first to mind and whether the formation of regional integration arrangements will help to raise or to lower welfare. Then, there is also the debate over the virtues and dangers of regional preferential treatment and whether these arrangements can reinforce or hinder multi-lateral trade liberalization. Answers to these questions have never been easy. As RCEP is about to embark on, its own vision of a region-wide free trade arrangement, it is timely to look closely at the regional groupings, especially in the post pandemic period. This is to ensure that RCEP is well conceptualized to bring about more opportunities for the region, thus is also contributing to the multi-lateral trade liberalization and global competition. The key questions are, what the costs and benefits of this attempt and what the pay-offs are. This is particularly important when one considers additional requirements of "deeper integration" in RCEP which hopes to improve welfare for all parties.

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