UK’s Post-Brexit Engagement with ASEAN: Issues and Opportunities

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Abstract – In 2020, the UK formally departed from the EU, after nearly four years of intense maneuvering and discussions. In the post-hegemonic regional world order, Brexit meant a rejection of supranationalism. Despite the UK’s departure, the EU remains a cohesive regional group. ASEAN is an intergovernmental organization in which each member state maintains complete sovereignty. ASEAN’s regionalism has risen from strength to strength in the previous half-century, with a vision of uniting this varied area into one of peace and prosperity. The EU is ASEAN’s second-largest trading partner, accounting for over a quarter of all FDI inflows. It works with Southeast Asia on a multilateral and bilateral basis, depending on the needs of individual member states. Its previous multilateral involvement with ASEAN was managed through the EU. ASEAN, on the other hand, works with other countries as dialogue partners, sectoral partners, and development partners. The question now is how Britain will engage with ASEAN. Brexit is expected to have global economic, social, and political ramifications. The article focuses on the consequences and potential orientations of the United Kingdom’s post-Brexit relationship with ASEAN.

Keywords – Brexit, ASEAN, UK, security, STI, economic cooperation.

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1. Introduction

Jan 31st 2020, was a momentous day in the history of Europe, when EU Withdrawal Agreement took effect and Britain formally left the EU. The arguments, discussions and negotiations took over three and a half years after the Brexit referendum on June 2016 won by a slim margin, thus, bringing an end to over 4 decades of Britain’s membership to the EU (earlier known as EEC). Article 50 of the Treaty on EU was invoked that states that “Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements” [1].

As a member of the EU, Britain has enjoyed several benefits, including the free movement of goods and services. Yet these benefits have come at a cost: the free movement of goods has also meant free movement of people. With EU expanding its membership base to include East European countries, the region saw large influx to people into UK, immensely burdening its public services. The ensuing austerity measures may have further contributed to the votes in favour of Brexit.

Now that UK has a sovereign equality with the EU and other nations, the question now is how Britain is going to work with ASEAN. Brexit is likely to have far reaching economic, social and political implications worldwide. However, for the purpose of the discussion today, the article will focus on UK’s post-Brexit engagement in two main areas - economic and regional security.

The graph in Figure 1 implies that Brexit vote has had a negative impact on the UK Economy. The fall in the sterling has raised inflation, deterring imports of foreign goods and has been responsible for overall increase in the cost of living [2]. The exports also have not seen a boost. Besides, Business investment has in fact seen a reduction. However, the good news is that amid this acrimonious four years that has deeply divided the nation between “remain” and “leave” groups, the labour market has remained resilient.
2. UK-ASEAN Free Trade Agreement and Economic Cooperation

Post Brexit, UKs effort should enter FTA with individual member states. This is easier, in comparison to a UK-ASEAN FTA, given the immense economic disparity among the member states, and the fact that even the ASEAN-EU FTA has not been possible for all these years, even though EU is the second largest trading partner of ASEAN and EU accounting for almost 25% of FDI in the region. Being a Dialogue partner may be necessary before a UK-ASEAN FTA could be negotiated. Nonetheless, UK could still look forward to engaging with ASEAN for a region-wide FTA and even looking beyond it towards trade partnership arrangements such as the CPTPP of which some ASEAN member states are signatories of.

If we look at this statistic (see Table 1) of UK investments abroad, where do we see ASEAN or any ASEAN member state? UK’s FDI into ASEAN for 2017 was 17 billion pounds which amounts to 1.3% of total UK outwards FDI. However, now since the Brexit deal is in, there is anticipation of short-term boost in the Economy. Nonetheless, UK’s exit from the Single Market and Customs Union will not be easy for UK trade. Hence both the parties have to quickly work out an UK-EU FTA deal to ensure that their separation does not hurt and trade between the two parties could flourish. Other route is through bilateral trade negotiations with individual EU nations, but that would be prolonged and cumbersome.

UK engages with Southeast Asia both multilaterally and bilaterally with individual member states. Its multilateral engagement with ASEAN is mediated through the EU. On the other hand, ASEAN engages with other countries as dialogue, sectoral or development partners [3].

Table 1. Stocks of UK Investments abroad (Source: ONS)

<table>
<thead>
<tr>
<th></th>
<th>£ billions</th>
<th>% total</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>295</td>
<td>20.9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>160</td>
<td>11.4%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>117</td>
<td>8.3%</td>
</tr>
<tr>
<td>France</td>
<td>82</td>
<td>5.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>74</td>
<td>5.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>72</td>
<td>5.1%</td>
</tr>
<tr>
<td>UK Off-Shore Islands</td>
<td>58</td>
<td>4.1%</td>
</tr>
<tr>
<td>Ireland</td>
<td>53</td>
<td>3.8%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>49</td>
<td>3.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>2.5%</td>
</tr>
<tr>
<td>EU</td>
<td>601</td>
<td>42.7%</td>
</tr>
<tr>
<td>Non-EU</td>
<td>807</td>
<td>57.3%</td>
</tr>
<tr>
<td>World</td>
<td>1409</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Given the fact that ASEAN collectively is the 6th largest economy now and is projected to be the 4th largest economy by 2050, the current FDI is far too small. Well this is again an opportunity for UK to setup more shops and invest in the region.

UK has a trade deficit with ASEAN: it imported more than it exported leaving a 4-billion-pound deficit. This it should look to improve by exporting more to ASEAN.

The good news that although UK has seen a slight dip in the total inwards FDI investment, it still retained top position in Europe in terms of FDI attractiveness. The credit for this goes to UK’s legal system, which is stable, and low corporation tax.

Both UK and ASEAN need to look at financial integration that would help bring capital flows. Financial flows are critical to developing markets such as ASEAN. For this they need inward FDIs. For this they have to improve ‘Institutional quality’—which means stable legal system, efficient taxation, protection of property rights, low or no corruption [4].

Only Singapore stands out in terms of its trade with the UK. It has the lion’s share when it comes to both exports and imports into the region. Part of the region is also that Singapore serves as an entrepot for the UK in the region. Cambodia, Myanmar and Laos and Philippines, which at present do not show substantial trade with the UK, are the “go to” member states that UK could deploy its investment machinery.

Brexit gives UK an identity independent of EU, thus more room now for self-expression and control in range of policies, be it border control, migration, trade and regulations. The soft Brexit and now the transition period that we are in means that UK is articulate in its engagement with EU and would ensure that the divorce does not hurt their relationship. Conversely, as an independent entity UK is looking forward to, in fact, emboldening its
relationship with EU and its member states through bi-lateral negotiations.

ASEAN is the emerging economy bigger than India with a population of about over 650 million, majority of whom are below the age of 25. Unsurprisingly, UK wants ASEAN to be its “key partner” and has demonstrated this by opening a dedicated mission to ASEAN. ASEAN’s establishment of ASEAN Economic community, embrace of CPTPP which is already ratified by Singapore and Vietnam, and once RCEP talks are concluded by ASEAN it will create one of the world’s biggest FTA zones encompassing almost half of world’s population. In addition, ASEAN’s digital economy is booming and has an enormous growth potential. Thus, surely, we can see that it is in UK’s best interest to give top priority to its relationship with ASEAN and look for trade and investment in areas such as digital economy, sustainable energy and infrastructure. This means a large market that the UK could tap.

3. **Cooperation in Science Technology and Innovation**

UK remains one of the top study destinations for ASEAN students. So much so, that about 70% of the ASEAN students who land in Europe, land up in the UK. British education and educational credential have a special appeal and trust of high quality, in this region. UK can capitalize of this trust to build more off-campuses, credit mobility, research and student mobility, STI collaborations, thereby growing the entire research and educational ecosystem with ASEAN.

ASEAN already has ASEAN Plan of Action on Science Technology and Innovation (or APASTI) which works in conjunction with ASEAN-EU plan of Action. Research bedrocks such as the EU’s FP7 and Horizon 2020 could be replicated and in this regard, they could work directly with ASEAN Committee on Science and technology (or COST) to create a plan of action in the lines of ASEAN-EU Plan of Action. Collaborative Research is particularly important in the biomedical field. UK has the Fleming and Newton Funds and the International Climate Finance where substantial sums are allocated for the Southeast Asian region. However, UK needs to engage with ASEAN in a bespoke fashion in critical areas of research. For example, both UK and ASEAN member states could work together to develop vaccines for the newly identified pathogens, viruses and carry out prevention mechanisms, advisory and education to halt the disease before it takes the shape of an epidemic or pandemic. The key is to get there ‘earlier on in the process of emergence’. We particularly say this since there is a higher probability for such virus to emerge and propagate in the developing world than the developed world. Regions like Southeast Asia, West and Central Africa and Latin America are among of hotspots of with highest potential of disease spill over due to their high biodiversity [5]. Emergence of global disease is directly linked to human induced drivers and among them interactions between humans and wildlife that bring about zoonotic spillovers.

UK has a world class research infrastructure and scientists, and as it ventures into the emerging markets it has to take additional steps to share its expertise in areas such as sustainability, disaster management and biomedicine and others. After all, any negative outcome (for example, an environmental disaster or virus outbreak) would otherwise directly impact the UK businesses in the region.

4. **Defense and Security Related Ties**

UK has significant defense and security related ties with ASEAN. However, while setting its regional strategy, it cannot ignore two elephants in the room – China and Japan. Japan has been vary of China’s growing military and economic prowess in the region and had declared its “Free and Open Indo-pacific strategy” which is believed to be Tokyo’s tactical hedging strategy against China [6]. ASEAN member states have so far followed an appeasement strategy with the regional superpower, China. This was aptly demonstrated through their lack of consensus in the 2016 Arbitral Turbunal which had rejected China’s claim over South China Sea along the ‘9 dash line’. The infrastructural development initiative of China – or the Belt and Road Initiative too have several takers among the ASEAN member states.

ASEAN, when declaring its own outlook of the Indo-pacific, has reiterated its centrality in the regional architecture. While not explicitly mentioning China’s name, it strongly believes in cooperation with China for regional stability and security of the region.

UK undoubtedly has the most extensive security presence in this region. It is a founding member of Five Power Defence arrangements (FPDA), maintains a defense garrison in Brunei and a naval logistics facility in Singapore It sells defense materials, provides defense related courses and carries out joint defence exercises with the Southeast Asian counterparts. Post-Brexit UK has pledged to further strengthen these engagements. However, its increased Naval presence in the Indo-pacific is provoking China which considers these as transgression over the South China Sea as violation of its sovereignty. UK has maintained its stand on
the South China Sea, which expects China to adhere to the United Nations Convention of the Law of the Sea.

With the stalemate expected continue the South China sea dispute, UK needs to play its presence in the Asian waters safely so as not to detail its other economic interests with China, such as, the proposed post Brexit UK-China FTA.

5. Conclusions

Brexit indicated a rejection to supranationalism in the post-hegemonic regional world order. Despite UK exit, EU as a regional bloc is still very cohesive. ASEAN represents an inter-governmental grouping where every member state retains full sovereignty. In the last over half-a-century ASEAN’s regionalism has grown from strength to strength with a vision of integrating this diverse region where peace and prosperity prevails. Kishore Mahbubani, a former Singapore’s diplomat, calls the ASEAN model a ‘miracle’, worthy of a Nobel Prize [7].

‘Global Britain’ initiative of the UK aims to strengthen relationships with other nations around the world and reposition Britain as one of the central actors on the world stage. UK and ASEAN are no strangers to each other given this region’s colonial past. The current partnership spans Defence and Security, ASEANAPOL Dialogue Partnership, trade and investment, Tourism and Education, Development, Infrastructure and S&T [8].

The initial reaction to the Brexit in 2016 in ASEAN was one of disappointment as there were concerns about EU-ASEAN free trade agreement, FDI investments and other bi-lateral and multilateral deals with countries and the regions [9]. These concerns stemmed from the notion that leaving the EU would slowdown trade due to tighter boarder inspections, higher shipping costs, taxation, shifting of distribution hubs from UK to another EU country, sterling devaluation to name just a few.

These anxieties have since subsided, and there is growing optimism about the future trade configurations.

References


