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BUILDING THE ASEAN ECONOMIC COMMUNITY

Definite progress has been made in this task, but there are still issues to be addressed

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AFTER two turbulent years of the financial crisis, Asean, in 2010, emerged as one of the important players among the emerging Asian economies. It grew by 7.4 per cent year-on-year in 2010, on good domestic fundamentals, compared to a fragile 1.3 per cent expansion in 2009.

There are signs that this economic expansion that began in mid-2009 will continue, although the rate of growth will moderate to 5.4 per cent in 2011.

Apart from economic growth, Asean's progress towards Asean Economic Community (AEC) by 2015 is reflected in its achievements in 2010. In the beginning of the year, the Asean-6 countries applied zero tariffs on 99 per cent of goods.

The CLMV countries (Cambodia, Laos, Myanmar and Vietnam) also committed to trade 98.6 per cent of goods at 0-5 per cent of tariff rate. In addition, the Asean Trade in Goods Agreement came into effect on May 17, 2010. These are significant achievements towards the goal of forming a free trade area for goods.

In services trade, besides completing the seventh package of commitments, the Asean Leaders signed a protocol in October to introduce the eighth package of commitments under the Asean Framework Agreement on Services. The implementation of the Asean Comprehensive Investment Agreement has also been stepped up, helping in free movement of investment capital in the region.

A scorecard mechanism, which was adopted to track the implementation of measures in the AEC Blueprint, has been reported for the first time to the AEC Council and the Asean Summit in April 2010. The public version of the first AEC Scorecard has also been issued.

In order to speed up the Asean connectivity process both within and outside the region, in October 2010, the Asean Leaders adopted the Master Plan on Asean Connectivity submitted by the High Level Task Force.

2010 also saw positive developments of interactions between Asean members and East Asian countries in general. On Jan 1, 2010, Asean witnessed the realisation of the Asean-China and Asean-Korea Free Trade Agreements (FTAs), and the entry into force of the Asean-Australia-New Zealand FTA and the Asean-India Trade in Goods Agreement.

The 10 Asean members, besides their role in promoting cooperation and dialogue in the region, also became a 'bridge builder' among countries in the greater scope of Asia.

In another move to showcase Asean's centrality in regional cooperative architecture, in April 2010, the Asean leaders brainstormed the possibility of forming Asean+8, encompassing the 16 original members of the East Asia Summit (EAS), and the US and Russia.

Later the EAS Leaders endorsed the idea and invited both the countries to participate in the EAS starting next year. The Asean Defence Ministers' Meeting plus Eight has already met for the first time in October 2010 in Hanoi.

On Asean financial cooperation, the enlarged US\$120 billion swap arrangement under the Chiang Mai Initiative Multilateralisation (CMIM) became operational on March 24, 2010. This multilateral swap facility is expected to assist the Asean and Plus Three countries with short-term liquidity difficulties, further strengthening the regional defensive capabilities against the risks emerging from the global economy.

In May 2010, the region also established the Credit Guarantee Investment Facility of US\$700 million, which is expected to support the issuance of local currency-denominated corporate bond in Asia, so as to contribute to Asian economic development and prosperity.

Although in 2010, there was some definite progress on building an economic community by 2015, the implementation of Asean agreements has to be sped up to manage the integration process and achieve the targets within the time-frames set in the blueprint.

According to the first AEC Scorecard, Asean has a 75.5 per cent achievement rate for the period 2008-2009. This is primarily due to the non-implemented measures involving the ratification of important economic agreements under AEC.

More importantly, as the timeline to achieve AEC is only four years from now, Asean member states urgently need to incorporate the regional commitments into the domestic reform process. The countries

should actively address the issue of capacity building to tackle any shortcomings in implementing the commitments.

As non-tariff barriers (NTBs) lower the potential benefits under the Asean FTA, in the next four years, measures for trade facilitation should be given priority. It is also advisable to review the progress and effectiveness of Asean's central database system for NTBs and its implementation.

As financing the developments of Asean integration will continue to be a challenge, public-private partnership models have to be encouraged. The member countries should also look into new ways of raising funds from dialogue partners and donors to support the integration process. For the financial cooperation, even though the CMIM is a good starting point of building Asean's own resources, it is not sufficient to stave off a financial crisis in the Asean countries.

Finally, Asean private-sector involvement should be a key mission in the region's economic integration strategy. This is because it is only through the decisions and actions of Asean businessmen that an effective integration can be achieved.

In this regard, the AEC scorecard should be made transparent, detailed and readily available for private-sector use. Also there should be regular dialogue with the business community so that Asean can address their concerns and create a more facilitating environment for doing business in the region.

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