

**Keynote Address by H.E. S. Pushpanathan, Deputy Secretary–  
General of ASEAN for ASEAN Economic Community at the  
ASEAN Roundtable 2010 on 29 April 2010 at the Shangri-La  
Hotel, Singapore**

***“ASEAN’s Readiness in Achieving the ASEAN Economic  
Community 2015: Prospects and Challenges”***

Ambassador K. Kesavapany, Director, Institute of Southeast Asian  
Studies

Dr. Wilhelm Hofmeister, Regional Representative for Southeast  
Asia, Konrad Adenauer Stiftung

Mr. Rodolfo Severino, Head, ASEAN Studies Centre, Institute of  
Southeast Asian Studies

Excellencies and Members of the Diplomatic Community

Distinguished Speakers and Delegates

Ladies and Gentlemen,

Good morning.

It is an honour and privilege for me to address this year’s  
ASEAN Roundtable. I wish to thank the ASEAN Studies Centre of  
the Institute of Southeast Asian Studies and the Konrad Adenauer  
Stiftung for inviting me to this important meeting. Let me also  
take this opportunity to convey the sincere regrets of H.E. Dr.  
Surin Pitsuwan, Secretary–General of ASEAN, for not being able to  
be with you today. He extends his best wishes to you and is  
looking forward to receiving your pertinent recommendations on

further enhancing the building of the ASEAN Economic Community (AEC).

### **ASEAN in Today's Context**

In today's rapidly evolving economic and financial landscape spurred by globalisation, ASEAN lies in the midst of the strategic and dynamic region of East Asia. To maintain its centrality in the region and as an increasingly important player in the global stage, ASEAN needs to be more integrated as a grouping; more engaged with the global economy; and more pro-active and nimble to respond to changing circumstances in a rapidly shifting but increasingly interdependent world. New issues and challenges are confronting ASEAN and therefore pushing ahead with integration and strengthening ASEAN institutions, mechanisms and processes will be crucial for the region to address these developments.

As a region, ASEAN Member States have worked together to ensure peace, stability, prosperity and development for all of them and the region as a whole. The regional resilience that ASEAN has brought about has contributed to national resilience and vice-versa. ASEAN has enjoyed rapid growth and development in the last four decades. The development has helped ASEAN to be a pillar of strength and catalyst for regionalism in Asia. The regional role of ASEAN has been further enhanced by its community building efforts, particularly the AEC.

## **ASEAN Charter and ASEAN's Readiness for Community Building**

The readiness of ASEAN for community building was clearly reflected by the signing of the ASEAN Charter in 2007 and later its ratification in 2008. After four decades, ASEAN has a constitution to base its work on and to pursue with determination the establishment of an ASEAN Community with three interlocking pillars of which AEC is one of them. The other two are the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community.

The Charter also puts in place the institutions and mechanisms that will support the building of the ASEAN Community. For the economic pillar, an AEC Council was established and was given the mandate to oversee the implementation of the AEC. The Committee of Permanent Representatives to ASEAN was also set-up to handle the day-to-day work of ASEAN covering all the three pillars. This body coordinates closely with the ASEAN Secretariat in moving forward the agenda of the ASEAN Community.

The Secretary-General of ASEAN has also been given more mandates to coordinate the work of ASEAN as its Chief Administrative Officer. The Secretariat itself has undergone a complete transformation last year from just providing basic services to that of initiating, coordinating and facilitating the community building agenda of ASEAN. Indeed, the mechanisms under the Charter had provided the much needed coordination

between the national and regional levels to see through the implementation of the AEC Blueprint.

Apart from setting the mechanisms under the Charter in motion, ASEAN also adopted the Blueprints for the three Communities. The AEC Blueprint was adopted in 2007 and serves as the comprehensive and coherent master plan for building the economic community characterised by a single market and production base; a competitive economic region with equitable development, and a region that is fully plugged into the global economy.

In order to ensure a more rules-based ASEAN Community, the ASEAN Secretariat was also given the mandate to undertake compliance review for the three pillars to ensure Member States are implementing their commitments under the three Blueprints in a timely manner. For the AEC, a scorecard mechanism was adopted to track the implementation of measures in the AEC Blueprint, which is reported to the AEC Council and the ASEAN Summit. The public version of the first AEC Scorecard has been issued and we hope to receive the comments and inputs of the business community, scholars and other stakeholders to further improve the Scorecard.

Efforts are also ongoing to beef up the procedures to put into operations the dispute settlement mechanism under the AEC for covered economic agreements so that festering economic disputes can be resolved in a more rules-based manner and quickly thereby promoting greater confidence and transparency

for the business community in the region. A Protocol to the ASEAN Charter on Dispute Settlement Mechanisms has been adopted recently that aims to put in place a mechanism to help Member States resolve disputes concerning the interpretation or application of the ASEAN Charter. The Dispute Mechanism also applies to other ASEAN instruments which do not specifically provide for dispute settlement mechanisms.

### **Milestone Achievements in 2010**

Apart from the institutional mechanisms and processes, ASEAN's readiness for the AEC 2015 is reflected by its achievements in the last two years since the signing of the Charter and the adoption of the AEC Blueprint. In this regard, ASEAN has secured a few landmark achievements in 2010. Beginning 1 January 2010, the ASEAN-6 countries achieved zero tariffs covering 99.65 % and for the CLMV 98.6% at 0-5% tariff rates of the total tariff lines traded under the Common Effective Preferential Tariff Scheme for ASEAN Free Trade Area (CEPT-AFTA) making this the most tangible high-impact outcome for ASEAN.

1 January 2010 also saw the realisation of the ASEAN-China and ASEAN-Korea Free Trade Agreements (FTAs) and the commencement of the implementation of the ASEAN-Australia-New Zealand FTA and the ASEAN-India Trade in Goods Agreement. ASEAN's success in engaging pro-actively with its major trading partners in free trade agreements is bearing fruit. Two-way trade has been enhanced and cements ASEAN's central

role within the region. ASEAN's trade with China, Korea, and Japan remains strong and is growing, while ASEAN is also expected to reap benefits from its newly signed FTAs with Australia–New Zealand and with India.

Another important achievement of ASEAN is that despite the current financial crisis, it has been able to achieve full economic recovery supported by the fiscal and monetary stimulus packages of the individual Member States and the improving economic situation. Overall, we have a good story to tell as ASEAN is expected to achieve a growth rate of 4.9% to 5.6%, after a feeble 1.5% in 2009 due the global economic crisis. There are signs that the region as a whole may attain even higher growth rates if the situation continues to improve. We are already witnessing increasing exports and capital inflows; inflation continues to remain subdued and manageable; and our currencies are appreciating. With the upbeat projection, ASEAN economies are starting to look at exit strategies while being vigilant to any emerging risks. This will provide further incentive for ASEAN to push ahead with its economic integration.

### **Progress in Implementing the AEC Blueprint**

Let me now touch on some of the key progress achieved in economic integration, which is another indication of the commitment and readiness of ASEAN to achieve the AEC by 2015.

The ASEAN Trade in Goods Agreement (ATIGA) is expected to be fully ratified by the first half of 2010. The ATIGA will

provide a single legal enactment to effectively implement the stipulated tariff reduction up to 2015 as well as to promote trade facilitation.

To further ensure tariff reductions are not nullified by non-tariff measures (NTMs), ASEAN is working on trade facilitation issues to ensure NTMs do not impede trade. ASEAN has adopted a Trade Facilitation Framework to address systematically issues such as removal of non-tariff barriers, simplification and harmonisation of customs, standards and conformance, and sanitary and phyto-sanitary measures. It is planning to establish an ASEAN Trade Repository by 2015 that would serve as a gateway of regulatory information at the regional and national levels.

With a view to achieving more expeditious customs clearance, the Member States are developing the ASEAN Single Window, which would provide an integrated platform of partnership among government agencies and end-users in the movement of goods across the region by connecting their National Single Windows. We are also working on a self-certification scheme for the declaration of origin. This will provide certified economic operators to self certify the originating status of goods in place of the existing system of presenting certificate of origins issued by government authorities.

On improving standards and conformity assessment, ASEAN has concluded two Mutual Recognition Arrangements (MRAs) in the electrical and electronic sector and the cosmetic sector. MRAs

for agro-based products and automotives are being developed for possible conclusion in 2010. We are also working on a conformity marking scheme to support the expeditious clearance of products through the customs that have conformed to ASEAN Harmonised Technical Regulations/Requirements.

In the area of services, the ASEAN Member States are close to completion of the 7<sup>th</sup> package of services commitments under the ASEAN Framework Agreement on Services (AFAS). The services sector of ASEAN received the highest amount of FDI, accounting for 50.6% of total ASEAN FDI in 2009. ASEAN's exports of commercial services to the world is also showing an encouraging trend, more than doubling from US\$68 billion in 2000 to US\$162.8 billion in 2009.

In investment, ASEAN has witnessed a steady increase in intra-ASEAN FDI flows, accounting for 18.2% (US\$10.8 billion) of total ASEAN FDI (US\$59.7 billion) inflows in 2008, compared with a share of 13.8% in 2006. For the same period, total FDI inflows increased by 8.6%. The ASEAN Comprehensive Investment Agreement (ACIA), which is expected to come into effect this year, will help to market ASEAN as a single investment destination and buttress the single market and production base of ASEAN. It will liberalise, facilitate, promote, and protect investments in the region by ASEAN investors and ASEAN based foreign investors.

MRAs in the services sector are being actively pursued to facilitate the flow of professional services providers in the region, in accordance to domestic rules and regulations. The MRAs

include surveyors, engineering services, nursing services, architectural services, tourism professionals, accountancy, medical practitioners and dental practitioners. More is expected to be negotiated and concluded in the near future supporting the development of the services sector in ASEAN.

In the finance sector, the enlarged US\$120 billion swap arrangement under the Chiang Mai Initiative Multilateralisation (CMIM) was operationalised on 24 March 2010. This multilateral swap facility will assist the ASEAN and Plus Three countries of China, Japan and the Republic of Korea with short-term liquidity difficulties. An independent surveillance office for the CMIM will be established in Singapore by early next year.

The establishment of the US\$ 700 million Credit Guarantee and Investment Facility (CGIF) is also expected to be launched in May by the ASEAN Plus Three Finance Ministers. This will help in the development of deep and liquid local currency and regional bond markets. An ASEAN infrastructure fund is also being considered to finance regional infrastructure building crucial for the establishment of a well-connected and integrated single market and production base in ASEAN.

In the transport sector, three framework agreements on facilitation of goods in transit, multimodal transport and facilitation of inter-state transport have been concluded. These agreements will simplify and harmonise trade and transport procedures and documentation, formulate uniform guidelines and requirements for registration of transit transport and multimodal

transport operators and promote ICT applications for seamless cargo transportation.

Besides, the ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services, extending unlimited air traffic rights to all cities in ASEAN has been finalised and is expected to be signed in November 2010. In terms of air connectivity, negotiations with China have entered into the final stages. Meanwhile, the ASEAN Strategic Transport Plan for 2011-2015 is being developed to cover all modes and aspects of transport connectivity.

As connectivity is crucial to building a vibrant internal market and linking it to the global economy, ASEAN has embarked on developing a Master Plan on Connectivity. The Master Plan will focus, among others, on transport, information communication technology (ICT), energy and cross-border linkages, and facilitation for the smooth movement of people, goods and services.

Ladies and Gentlemen,

### **Challenges to Address**

Let me now address the several challenges facing ASEAN in achieving AEC 2015. Firstly, ASEAN has to manage the integration process and achieve the targets within the timeframes that have already been agreed. The recently concluded 16<sup>th</sup> ASEAN Summit in Viet Nam has called for the speeding up of the implementation of ASEAN agreements through timely ratification

of agreements and protocols as well as concrete actions. The ASEAN Leaders have emphasised the need to set-up a monitoring mechanism to ensure effective implementation, identification of priorities for each period and implementing bodies and improve the coordination among the pillars as well as resource mobilisation. These are very important issues to be addressed if ASEAN is to see the successful implementation of the ASEAN Community as a whole by 2015.

According to the first AEC Scorecard, ASEAN has a 75.5% achievement rate for the period 2008 to 2009. This is primarily due to the non-implemented measures involving the ratification of important economic agreements related to trade in goods, investment, transport and the cosmetics directive. Indeed, of the 124 economic agreements under AEC, only 73 per cent of them have been ratified by all ASEAN Member States. ASEAN Member States will have to look at ratifying them in a timely manner so that integration could be speed up.

More importantly, ASEAN Member States will have to transpose these regional commitments into national obligations through their respective domestic processes and at a quicker pace. The domestic legal enactments relating to ASEAN commitments could be monitored as part of the scorecard process.

Secondly, ASEAN countries should actively address the non-implementation of regional commitments, which should include capacity building to tackle any inadequacies in implementing

commitments; peer reviews for sharing and learning of best practices as well as transparency and confidence-building; and utilising the dispute settlement mechanisms already in place to resolve issues in a rules-based manner. There could also be specific target-setting to encourage ASEAN to achieve more. For example, there could be specific targets for bringing down the costs of doing business in ASEAN.

Thirdly, a robust regional surveillance mechanism is necessary to track emerging risks in the AEC and to deal with them in a timely manner. In this regard, the ASEAN Secretariat will soon be establishing a Macroeconomic and Finance Surveillance Office which will undertake surveillance on economic and financial integration issues. The office, as a start, will embark on trade, investment, and macroeconomic surveillance for the AEC.

Fourthly, financing the development of an ASEAN single market and production base will continue to be a challenge. In this regard, ASEAN countries should look at innovative and creative ways to augment the funds being provided by dialogue partners and donors to support ASEAN economic integration. While ASEAN Dialogue Partners are keen in supporting ASEAN integration, such assistance is mostly limited to the softer side of integration such as capacity building, training and sharing of best practices and experiences. The ASEAN Development Fund is undersized relative to what ASEAN intends to achieve by 2015. The Chiang Mai Initiative Multilateralisation (CMIM) and Credit Guarantee Investment Facility (CGIF) are examples where ASEAN is starting to put in its own resources for its own development but more will need to be done to achieve the ambitious goal of AEC.

One way forward would be to look at public-private partnership models. The participation of government in such high cost endeavours will reduce the risks of investors and make investing in such long-term projects attractive. The multilateral development banks, including the World Bank and the Asian Development Bank should also be actively engaged in such financing schemes. Our immediate neighbours such as China, Japan and Republic of Korea as well as India, Australia and New Zealand could be partners in some of these schemes as ASEAN's growth will also impact these economies positively.

Fifthly, the development divide within ASEAN certainly deserves more attention to realise the AEC by 2015. The assistance to the CLMV countries needs to be stepped up to enable them to catch up with the ASEAN-6, so that they can effectively participate in building the AEC and fully benefit from it. Preliminary findings of a study on the impact of accelerating the AEC from 2020 to 2015 reveal that CLMV countries are benefitting in terms of increased trade and FDI flows amongst the CLMV countries, and with the ASEAN-6, and East Asia.

New approaches are being examined to assist the CLMV countries. One is "ASEAN help ASEAN approach" where the ASEAN-6 countries are sharing their expertise and experiences with these countries through bilateral development assistances. Two, intra-ASEAN investments from ASEAN-6 to these countries are increasing and this would help to transfer knowledge and technical know-how for their development and integration into the AEC. Three is to introduce targeted and tailored programmes

for each of these countries to meet ASEAN economic integration goals such as the on-going Laos Pilot Project (LPP). This is tripartite cooperation model involving Lao PDR as the recipient of aid, JICA as the donor, and the ASEAN Secretariat as the facilitator.

Sixthly, the private sector of ASEAN must be better engaged in building the AEC as they are the principal driver of regional economic integration. There should be regular sector-specific dialogue with the business community so that ASEAN can address their concerns and create a more facilitating environment for doing business in the region. More technical meetings of ASEAN in the economic arena could also be opened up to the participation of the business community. More efforts are also needed to better engage the peoples of ASEAN, in particular the civil society, the strategic think-tanks and economic institutes to tap their expertise and knowledge. A good intellectual foundation and peoples' participation will provide a stronger underpinning for the development and consolidation of the AEC.

Finally, if the private sector in ASEAN is the "driver" of economic integration, the ASEAN Secretariat must be the "lubricant" of this integration. The ASEAN Economic Ministers at their last meeting have given their strongest endorsement yet for an enhanced role of the Secretariat. A strengthened Secretariat will contribute more to regional economic surveillance; compliance monitoring; economic dispute settlement; and implementing major economic integration programmes. ASEAN must explore the tremendous potential of developing the ASEAN Secretariat by investing in its human resources and systems.

## Concluding Remarks

The key challenge for ASEAN is to stay the course in community building as a whole. While readiness is important, it is not sufficient to deliver the AEC by 2015. The building of the AEC will need strong leadership, vision, political will as well as strong mechanisms and institutions to support coordination and implementation, both at the national and regional levels. ASEAN must continue to stay open and engage its partners to maximise the gains from the AEC given our outward-looking economic orientation. A transformation of mindset from "national interest to regional action" to "regional interest to national action" is also necessary for community-building as a whole.

The time left for the establishment of the AEC is less than 6 years. A greater sense of urgency is therefore necessary to achieve the goal of AEC and to maintain ASEAN's centrality.

I wish this Roundtable great success and I look forward to your report on the AEC.

Thank you.

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