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Five Facts about the ASEAN Economic Community

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EXECUTIVE SUMMARY

- The article attempts to explain five facts about the ASEAN Economic Community (AEC). The AEC was not developed on the basis of the European Union (EU) model, though there are some learning experiences to be gleaned from this process. For ASEAN governments, the AEC is a gradual process with long term aspirations and is pursued in areas where it is felt necessary.
- Although AEC is a regional initiative, its implementation is carried out by the national economies. At the national level, implementation faces difficulties as each initiative is not the sole preserve of any one ministry, but rather multiple government ministries and other agencies. In the domestic economy, the AEC also generates proponents and opponents of integration, slowing down the pace of implementation further.
- AEC is not the sole cause of increasing competition. For any single country, heightened competition is a part of the globalisation process and there are other frameworks too - bilateral, regional and multilateral - that further economic integration.



- ASEAN economic cooperation is a top-down initiative and hence awareness among stakeholders is low and uneven. With the looming deadline of 2015, voices from the private sector have begun to be heard. However, the advocacy for trade initiatives is not unanimous in nature and is often driven by the relative strength of particular firms that bring in more foreign direct investment to the country.
- AEC should be seen in conjunction with the ASEAN Political-Security Community and ASEAN Socio-Cultural Community. As a result, it should not be seen in isolation when judging whether ASEAN can deliver on its community-building commitments.

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INTRODUCTION

As the ASEAN Economic Community's (AEC) 2015 deadline approaches, the project suffers more detractors than supporters. A majority seems convinced that the initiative's deliverables, namely an integrated production space with free movement of goods, services, and skilled labour will not be achieved by December 2015.¹

This 'bald' statement has some merit. But we must ask ourselves what the definition of economic community was when ASEAN decided to form an AEC. Even if we go with the notion that 'ASEAN cannot deliver on AEC', how far can we blame the organisation? And can AEC, as the only regional initiative, be blamed for policy changes in each member country's domestic economy, and hence for the possible negative fallouts? To answer these questions, this article will attempt to explain five crucial facts about ASEAN economic cooperation. This is important, as irrespective of any criticism, ASEAN will announce the attainment of the AEC on 31 December 2015.

Fact 1: AEC was not developed on the basis of the European Union (EU) model, although there are some relevant lessons to be learned from the latter.

Yes, the term 'economic community' for ASEAN resonates with the European style of integration, i.e. the European Economic Community, but the similarities end there. In reality, 'economic community' conveys the ASEAN governments' willingness to strive for deeper economic integration. The AEC, along with the other two community pillars – the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community – is supposed to generate a sense of identity for Southeast Asia.² While the European integration model has been studied as a form of successful integration, many aspects have been adjusted keeping in mind the developments of Southeast Asian economies and culture.

Since the early days of ASEAN, the sovereignty of nation states and non-interference in domestic matters were the key principles guiding the organization. Economic cooperation was sought in areas where it was felt necessary, such as to provide economies of scale to multinationals doing business in Southeast Asia or to anchor the production networks that were already developing in the broader Asian region. Economic cooperation is envisioned as a gradual process in ASEAN, with long term aspirations, rather than as a mechanism with

¹ ASEAN Integration Remains an Illusion, Barry Desker, The Straits Times, 4 March 2015 (<http://www.straitstimes.com/news/opinion/eye-the-world/story/asean-integration-remains-illusion-20150304>); Moving too slowly towards an ASEAN Economic Community, Jayant Menon, 14 October 2014, East Asia Forum; Getting in the Way, 17 May 2014, Banyan, The Economist (<http://www.economist.com/news/asia/21602265-south-east-asia-finds-decorum-its-regional-club-rather-rudely-shattered-getting-way>)

² Severino, R and Menon, J. (2014) 'Overview', in Sanchita Basu Das, Jayant Menon, Rodolfo Severino and Omkar Shrestha (ed.), The ASEAN Economic Community – A Work in Progress, ISEAS-ADB

strict rules that apply, irrespective of the economic nature of member economies and changing global conditions.

There are many areas where ASEAN is different from the EU style of cooperation. For example, the EU is defined as a group of nation-states whose citizens may live, work and study anywhere in the region.³ However, this is not applicable for ASEAN and is highly unlikely to be accepted anytime in the near future. The latest crisis in the EU is also a reminder for the member countries of ASEAN that goals and targets have to be realistic in nature, as the socio-economic diversity within a regional grouping may generate sensitivities overtime.

Given this background, for ASEAN, a more acceptable definition of community is a region where the leadership class and an increasing number of businesses and ordinary people feel that they share a common identity. In doing so, personal and national interests are likely to be advanced along with the growing political and economic cohesion that eventually helps the region to progress⁴.

Fact 2: Although AEC is a regional initiative, implementation is carried out by the national economies.

Though AEC is a regional initiative, implementation of AEC commitments depends on national-level action. Initiatives like tariff cutting, removal of non-tariff barriers, services sector liberalisation, national treatment of foreign investors, customs modernisation, and many others have to be adopted in domestic law and policy decisions.

These are not easy to realise, as each of the AEC actions is not restricted to one but multiple government ministries and agencies. For example, the ASEAN Single Window is a key deliverable for the organisation under AEC. But prior to that, each of the ten countries need to set up their National Single Window (NSW). Though the responsibility of the NSW resides with the national customs agency, it has to work with a number of other government agencies, certification authorities, banks, ports and with the private sector.⁵ This could be challenging as other agencies may not have the same sense of responsibility and vision. For less developed ASEAN countries, there could be bottlenecks in terms of financial assistance,

³ European Commission Upholds Free Movement of People, Brussels, 15 January 2014 (http://europa.eu/rapid/press-release_MEMO-14-9_en.htm)

⁴ Severino, R and Menon, J. (2014) 'Overview', in Sanchita Basu Das, Jayant Menon, Rodolfo Severino and Omkar Shrestha (ed.), The ASEAN Economic Community – A Work in Progress, ISEAS-ADB

⁵ Please see Evolution of Singapore's Single Window (http://www.wcoomd.org/en/topics/facilitation/activities-and-programmes/single-window/~/_media/455C7C6899914D6094DCB2BA1FBCF577.ashx); Thailand National Single Window (<http://www.customs.go.th/wps/wcm/connect/custen/nationsinglewindow/nationsinglewindow>)

Information and Communications Technology (ICT) systems, human resources and legal environment.⁶

ASEAN members, which include a range of countries with very different levels of development, have only had eight years since 2007 to implement all the measures under the AEC. Furthermore, the 2008-09 crisis drew resources and attention away from the pursuit of the AEC. It should not be ignored that ‘successful’ economic cooperation takes time to happen. For example, after the Treaty of Rome, the European Economic Community took nearly 40 years to achieve its objective of single market.

Even after a regional integration agreement is negotiated, domestic implementation remains a bigger challenge. Information about the AEC was spread only after it was negotiated. Increasing awareness also poses additional challenges as interest groups coalesce around specific issues. The emergence of organized groups opposing the process can also slow down implementation.

Hence, one cannot fault ASEAN as an organisation for not delivering on its commitments towards the AEC. It is also too soon to conclude that AEC will not be effective. A better way to follow development towards the AEC is to look at its individual measures (more than 150) and relevant developments within member economies. Furthermore, the AEC encompasses many initiatives and each one may need different skill sets to achieve.

Fact 3: AEC should not be blamed for every policy change within a national economy.

As the AEC deadline draws close, member economies are worried that they will soon face increased competition and in the process vulnerable firms (mostly small and medium scale businesses) may be eliminated, leading to job losses.⁷

It is very important to note that the vision for the AEC was developed with an awareness of current global economic trends. Production networks (implying that the goods are not produced in one country, but multiple countries) were fast developing in a few key industries (electronics, automobile, textiles) and were spreading across Asian economies. China was becoming the ‘factory of Asia’ with its entry into the World Trade Organisation (WTO) in 2001 and Western economies were forming trade blocs, namely the European Union and the North American Free Trade Agreement (NAFTA). Indeed, the 1997-98 Asian financial crisis became the catalyst for the ten Southeast Asian countries to think of a self-help mechanism that was more comprehensive and ambitious than what they possessed in the 1990s (e.g. the

⁶ Mid-term Review of the Implementation of AEC Blueprint: Executive Summary, October 2012, ERIA (http://www.eria.org/publications/key_reports/mid-term-review-of-the-implementation-of-aec-blueprint-executive-summary.html)

⁷ ASEAN Economic Community and Thai Labour, Robert Virasin, 8 August 2014, Siam Legal (<http://www.siam-legal.com/thailand-law/asean-economic-community-and-thai-labor/>); SMEs at Risk in new ASEAN Single Market, Chia Yan Min, September 10, 2014, The Straits Times (<http://business.asiaone.com/news/smes-risk-new-asean-single-market>)

ASEAN Free Trade Area, ASEAN Investment Area and ASEAN Framework Agreement of Services).⁸

The ten countries of ASEAN realised quite soon that WTO membership by itself is not helpful as there are 150 other countries representing different levels of economic developments, and thereby dimming hopes for quick outcomes. Moreover, the concerns and objections of small economies like the ones in Southeast Asia are not likely to get heard. In that scenario, ASEAN or AEC is a small grouping where the member economies will consider the interests of all and may also accord flexibility for a short period. Of course, this is likely to slow down the establishment of the AEC, but advanced member countries (like Singapore, Malaysia, Thailand) are not restricted to this framework only. They have pursued bilateral Free Trade Agreements (FTAs) with their key trading partners, which cover not only trade and investment liberalisation but go beyond to include issues like education and government procurement, thereby making it much deeper than the measures mentioned under the AEC cooperation.⁹

Hence, AEC should not be the only cause of anxiety for increased competition. For any single country, domestic reforms and other policy changes are required to address the challenges of globalisation and there are several bilateral, regional and multilateral frameworks available as modes for economic cooperation.

Fact 4: ASEAN economic cooperation is a top-down initiative and hence awareness among stakeholders is low and uneven

Looking back at ASEAN's history, one notes that economic cooperation came much later to the agenda than the pursuit of peace and stability. ASEAN was instituted in 1967 so as to promote peace and stability so that individual member countries could focus on their domestic economies and promote growth and development in a sustainable manner. Hence, it was not until 1976 that they decided to cooperate further to showcase their solidarity.¹⁰ Slowly, economic cooperation became a form of diplomacy and most often was carried out in foreign ministries in consultation with the commerce or trade ministries.¹¹

But international trade is not carried out between a few government agencies. Rather, it is a concern of several sectoral government bodies, who may have limited awareness regarding globalisation and economic cooperation matters. In addition, countries of the region were

⁸ Sanchita Basu Das, The ASEAN Economic Community- An Economic and Strategic Project, ISEAS Perspective, 29 January 2015, ISEAS.

⁹ Singapore and Malaysia are party to 20 and 19 FTAs respectively which are in different levels of negotiation and implementation.

¹⁰ Please refer to the webpage of Economic Achievement under ASEAN Secretariat (<http://www.asean.org/asean/about-asean/history/item/economic-achievement>)

¹¹ Sanchita Basu Das, Growing Economic Diplomacy in ASEAN: Opportunities and Threats, ISEAS Perspective, 10 April 2014, ISEAS

already undergoing a market-driven economic integration, led by multinationals (MNCs). This led observers of trade agreements to say that economic regionalism is a subject of political elites, with almost no involvement from other stakeholders.¹² This has been accompanied by a generalized low level of awareness of relevant economic cooperation measures, particularly among the end-users. Hence, despite low tariff levels for intra-regional trade, the latest surveys indicate little interest among firms to utilise the existing preferences.¹³

It has only been of late, with the looming deadline of 2015, that private sector groups have begun to voice their concerns. They have, in general, complained not about tariff but about non-tariff barriers and problems with other facilitation mechanisms. Even then, advocacy for trade initiatives is not unanimous in nature. It is most often driven by the relative strength of particular firms that bring in more foreign direct investment to the country. Also most government agencies, other than the foreign and commerce ministries, generally lack detailed knowledge about the AEC, and hence may not share the same vision on economic cooperation matters.

Fact 5: AEC should be seen in conjunction with the ASEAN Political-Security Community and ASEAN Socio-Cultural Community.

Community building in ASEAN has to be seen in a comprehensive manner, taking on board its economic, political and socio-cultural aspects. An economic community in ASEAN entails increased economic cooperation, delivering on free flow of goods, services and investments, equitable economic development and reduced poverty. A political security community works towards regional peace and stability while a socio-cultural community encompasses regional cooperation in areas like protection of the regional environment, limiting the spread of contagious diseases, combating transnational crime, and cooperation in responding to natural disasters. It is hoped that all these put together will cultivate a sense of regional identity. In other words, the ASEAN Community is likely in the future to be a region that is politically cohesive and economically integrated, capable of cooperating effectively on regional public goods.¹⁴

Hence, AEC should not be seen solely with regard to its economic aspects when judgements are made about whether ASEAN can deliver on its community-building commitments. ASEAN has managed to foster peace in the region for more than two decades. Its members

¹² Formulation of East Asian Free Trade Agreements: Top-down, Bottom-up and Across Border, Antonio Postigo, September 2013, Working Paper Series 2013, No. 13-147, Development Studies Institute, London School of Economics and Political Science (<http://www.lse.ac.uk/internationalDevelopment/pdf/WP/WP147.pdf>)

¹³ Asia's Free Trade Agreements: How is Business Responding? Edited by Masahiro Kawai and Ganeshan Wignaraja, 2011, ADB-ADB-Edward Elgar Publishing (<http://www.adbi.org/files/2011.01.31.book.asia.free.trade.agreements.pdf>)

¹⁴ Severino, R and Menon, J. (2014) 'Overview', in Sanchita Basu Das, Jayant Menon, Rodolfo Severino and Omkar Shrestha (ed.), The ASEAN Economic Community – A Work in Progress, ISEAS-ADB

have also engaged the major powers in Southeast Asian affairs through various ASEAN-centred forums and cooperative activities such as a free trade area and through economic partnership.¹⁵ This has contributed directly to the region's stability. ASEAN has also recognised the growing importance of cooperation in the protection of the regional environment and other regional public goods under the socio-cultural mode of cooperation.

CONCLUSION

The AEC should probably not be used as a barometer on whether the region can deliver on its community-building promises. Peace, stability and social cohesion are equally needed to form an effective economic community. The AEC blueprint is a complex and detailed document. Despite a few failing measures, it is nevertheless a little early to conclude that the AEC will not transpire. A more effective way to judge the AEC is to go by its components and actions. That is why member countries are also focusing on a priority list, rather than the entire AEC blueprint.

Again, AEC should not be brushed off. It should be seen as a work in progress, where some promises have been met, but where significant challenges also remain. It is only a decade since ten socially and economically diverse countries have started this journey towards the AEC. Awareness both among policy makers and final users are just beginning. It should not be concluded yet that the political leaders lack resolve and are trying to compete with each other, thereby relinquishing on the goal of the AEC. ASEAN will be repeatedly criticised for a lack of or weak institutions and that may be attributed as the main cause of unfinished implementation. Time will tell how far that will change. With the AEC and ASEAN Charter, the region has already evolved as a rules-based association.¹⁶

Nevertheless, now, more than ever, is the time when the countries should come together to strengthen the economic community. The global economy has been in a constant state of flux since the latest financial crisis, and the exponential growth in social media has meant that every event is instantly transmitted and discussed all over the world. In such an environment, any form of co-operation among countries is welcome. The AEC-2015 may not be able to deliver on a fully integrated single market and production base for ASEAN stakeholders, but it will likely be a stronger group of nations on many counts. This will help ASEAN members withstand the next global crisis with confidence, whenever it arrives.

¹⁵ Tommy Koh, Three Wishes for the New Year, The Straits Times, 3 January 2015 (<http://www.straitstimes.com/news/opinion/invitation/story/three-wishes-the-new-year-20150103>)

¹⁶ ASEAN's Economic Community and its Strategic Implications, Hyung Jong Kim, November 13, 2013, East Asia Institute, Issue Briefings (McArthur Asia Security Initiative) (http://www.eai.or.kr/type/panelView.asp?bytag=p&code=eng_report&idx=12608&page=1)

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