

AEC should be seen as a work in progress

It is only from 2003 that Asean economies started their journey towards the AEC. Some promises have been met, but major challenges remain.

By

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AS the Asean Economic Community's (AEC) 2015 deadline approaches, there are more detractors than supporters. The majority seems to feel 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.

This broad statement has some merit. But we must ask, "What was the real definition of economic community, when Asean decided to form an AEC?" Even if we go with the notion of "Asean cannot deliver on AEC", how far is Asean, as an organisation, accountable for that? And can AEC alone be responsible for policy changes in domestic economy, and hence the possible negative fallouts? To answer these questions, I will attempt to explain five crucial facts about Asean economic cooperation. This is important, as regardless of any criticism Asean will announce the attainment of the AEC on Dec 31, 2015.

Fact one: 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.

Since the early days of Asean, the sovereignty of nation states and non-interference in domestic matters have been the key principles guiding the organisation. Economic cooperation is sought in areas where it is felt necessary, such as to provide economies of scale to multinationals doing business in South-east Asia or to anchor the production networks (ie, a single good is not produced in one country but across multiple countries) that are already developing in the broader Asian region. Economic cooperation is envisioned as a gradual process in Asean, with long-term aspirations, rather than a mechanism with strict rules that apply, irrespective of the economic nature of member economies and changing global conditions.

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

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. 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.

Fact three: The AEC is not the sole cause of increasing competition.

It is very important to note that the vision for the AEC was developed with an awareness of current global economic trends, such as the production fragmentation, China's accession to WTO, developments of the EU and the Nafta and the 1997-98 financial crisis. The 10 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, thereby dimming hopes for quick outcomes. Moreover, the concerns and objections of small economies like the ones in South-east Asia are not likely to get heard.

In that scenario, Asean or the 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 process of the establishment of the AEC, but advanced member countries (like Singapore, Malaysia and Thailand) are not restricted to this framework only. They have pursued bilateral free trade agreements (FTAs) with their key trading partners. Thus, 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 liberalisation.

Fact four: 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 Asean was instituted in 1967 so as to promote peace and stability and economic cooperation came much later in 1976 to the agenda. Slowly economic cooperation became a form of diplomacy and most often was carried out in the foreign ministry of a country, in consultation with the commerce or trade ministry.

This led observers of trade agreements to say that economic regionalism in Southeast Asia is a subject of political elites, with almost no involvement from other stakeholders. This has been accompanied by a generalised low level of awareness of relevant economic cooperation measures, particularly among the end-users. 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 foreign direct investment in the country.

Fact five: The AEC should be seen in conjunction with the Asean Political-Security Community and Asean Socio-Cultural Community.

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 and 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 this put together will eventually cultivate a sense of regional identity. Hence, the AEC should not be seen in isolation when judging whether Asean can deliver on its community-building commitments.

Given these facts, one should conclude that the AEC should be seen as a work in progress, where some promises have been met, but significant challenges remain. It is only from 2003 that the 10 diverse economies started their journey towards the AEC. Awareness both among policymakers and final users is just beginning. Of course, Asean will be repeatedly criticised for weak institutions and that may be attributed as the main cause of unfinished implementation. But only time will tell how far that can be changed. With the AEC and Asean Charter, the region has already evolved as a rules-based association.

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 2008 economic 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 cooperation 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 help Asean members to withstand the next global crisis with confidence, whenever it arrives.

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