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### **Can the ASEAN Economic Community be Achieved by 2015?**

*By Sanchita Basu Das*

ASEAN Leaders have repeatedly shown that they do wish to achieve an ASEAN Economic Community (AEC) by 2015. They adopted the ASEAN Charter and the AEC Blueprint in 2007 and approved the Master Plan on ASEAN Connectivity (MPAC) in 2010. But be that as it may, it is highly unlikely that they will succeed. What may be a better approach is to see the AEC as an ongoing process for which all the right foundations have been laid.

This article sees the glass as half full, and discusses ASEAN's achievements as well as the challenges the grouping has to face where achieving the AEC is concerned.

#### PILLAR I: SINGLE MARKET AND PRODUCTION BASE

ASEAN Trade in Goods Agreement (ATIGA) came into effect in 2010, which is a comprehensive document that consolidates all commitments related to trade in goods. Although under the *free flow of goods*, ASEAN-6<sup>1</sup> countries have applied zero tariffs on 99 per cent of goods, and the CLMV<sup>2</sup> countries are trading 98.6 per cent of goods at 0-5 per cent of tariff rate; several non-tariff barriers (NTBs)<sup>3</sup> still exist and have replaced tariffs as protective measures. Almost half of all tariff lines in ASEAN are linked to at least one Non-tariff measure (NTM) (Ando and Obashi, 2010). Myanmar, Indonesia, and the Philippines are seen as the most NTM-restrictive countries, while Cambodia and Thailand are the least restrictive.

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<sup>1</sup> Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand

<sup>2</sup> Cambodia, Laos, Myanmar and Vietnam

<sup>3</sup> The article uses NTBs and NTMs interchangeably

To be sure, ASEAN governments face constant demands for protection of their domestic industries. As Nesadurai (2012) points out, ASEAN's political economy is characterised by the close relationship between the ruling elites and the business sector, which often distorts the organisations goals of regionalism.

Regarding trade facilitation<sup>4</sup>, one key initiative is to establish the ASEAN Single Window (ASW), which will be a network of National Single Windows (NSW) each representing a ASEAN member state. Indonesia, the Philippines, Singapore, and Thailand have largely implemented the NSWs, though they suffer from a lack of coordination between agencies or a lack of appropriate human resource. The CLMV countries are at a very early stage on this front (Intal, P., et al. 2011). Since the effectiveness of such a scheme covering the whole region is as yet in doubt, an ASW Pilot Project with seven member countries<sup>5</sup> is being launched first.

In order to benefit from the free flow of goods, ASEAN needs to reduce transportation and logistics costs between and within member countries. According to the Logistics Performance Index (LPI)<sup>6</sup> 2012, there is a wide gap where logistics performance between ASEAN states are concerned (Table 1).

**Table 1: Logistics Performance Index of ASEAN States, 2012**

	<b>Rank (Out of 155)</b>	<b>Score</b>	<b>% of highest performer</b>
Cambodia	101	2.56	50.0
Indonesia	59	2.94	62.2
Laos	109	2.50	48.0
Malaysia	29	3.49	79.8
Myanmar	129	2.37	43.8
Philippines	52	3.02	64.8
Singapore	1	4.13	100
Thailand	38	3.18	69.6
Vietnam	53	3.00	64.1

Source: LPI ranking and scores, 2012, World Bank

Seven packages of commitments to *liberalise services trade* under the ASEAN Framework Agreement in Services (AFAS) have so far been completed but despite negotiations over fifteen years only marginal liberalisation has been achieved. AFAS initially relied on the form of negotiation used by WTO's General Agreement on Trade in Services (GATS) which did not provide much impetus to liberalise services trade. Moreover, the services sector makes up a large share of the GDP of member-states, and with employment share increasing. It

<sup>4</sup> measures to smoothen cross-border trades.

<sup>5</sup> Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam

<sup>6</sup> LPI constitutes border control efficiency (customs), infrastructure quality, ease of arranging competitively priced shipments, competence of its logistics services, ability to track and trace consignment, timeliness in shipments of reaching destinations.

should be noted that services sector liberalisation is a far cry from full integration:

a) liberalisation in mode 3 (commercial presence) envisions only 70 per cent of ASEAN equity shares, b) liberalisation of mode 4 (movement of natural persons) is confined to movement of professional only and c) there are many flexibilities and exceptions.

Since the 1997-98 crisis, ASEAN has been struggling to raise foreign direct investments (FDI) in the region. It put the ASEAN Comprehensive Investment Agreement (ACIA) in place in April 2012, which consolidates provisions of the ASEAN Investment Area and the ASEAN Investment Guarantee Agreement. However, enforceability remains an issue. In 2010, 69 complaints were filed against lack of transparency and 121 complaints against the complicated and delayed procedure in ASEAN countries (Shujiro and Mitsuyo, 2011). Most of the complaints were made in Indonesia, Malaysia, Thailand and Vietnam, suggesting investment facilitation problems there.

Regional investment initiatives, it should be noted, need to be supplemented with proper domestic investment laws. According to investment indices, countries that rank well on that score often attract more FDI (Table 2).

**Table 2: Attractive of ASEAN member countries**

	<b>Rank: Ease of Doing Business, 2012<sup>a</sup></b>	<b>Rank: Global Competitiveness Index, 2012-13<sup>b</sup></b>
Brunei	83	28
Cambodia	138	85
Indonesia	129	50
Laos	165	–
Malaysia	18	25
Myanmar	–	
Philippines	136	65
Singapore	1	2
Thailand	17	38
Vietnam	98	75

Note: a- out of 183 economies; b- out of 144 countries

Source: *Doing Business 2012, World Bank; World Competitiveness Index, 2012-2013*

ASEAN countries allow flows of skilled professionals (Mode 4) to facilitate investment and free flow of services. It provides for *Mutual Recognition Arrangements (MRAs)*, wherein each country may recognise education and experience, licenses, and certificates granted in another ASEAN country. Until now, ASEAN has concluded seven MRAs<sup>7</sup>. But it is only engineering and architectural services that provide standardised recognition of the skills level of registered ASEAN architects and engineers. It should be noted that MRAs do not contain any liberalisation commitments but only provide frameworks to promote mobility of

<sup>7</sup> Engineering and architecture, nursing, accountancy services, surveying services, medical and dental profession.

professionals between member states on a voluntary basis. This generates flexibilities and allows member-states not to be too committed.

Moreover, many countries impose restrictions on foreign nationals. For example, in Thailand, the Alien Employment Act remains in force and this requires a work permit for all foreigners working in the country. Hence, MRAs cannot be equated with market access and effective intra-ASEAN mobility of skilled labour.

## PILLAR II: COMPETITIVE ECONOMIC REGION

AEC's objective of a competitive economic region has two aspects. First, there has to be an effective standardized competition policy in the region. However, competition policy is essentially national in application, and we see that Malaysia, Philippines and Brunei are yet to enact anti-monopoly laws. Singapore, Indonesia, Thailand and Vietnam have on the other hand propagated a competition law and have established independent competition authorities. Given the vast differences among ASEAN member states on this front, achieving a uniform competition policy regionally is quite a huge undertaking. In the long run, what may be achievable is limited coordination and cooperation between member states.

The other aspect of the region's competitiveness is with respect to the rest of the world. For the region to be truly competitive, infrastructural development is a key component. In 2010, ASEAN leaders adopted the Master Plan on ASEAN Connectivity (MPAC) that is expected to link ASEAN by enhancing development of physical infrastructure, institutional connectivity and people connectivity. According to the ADB, ASEAN needs about US\$60 billion a year in infrastructure investment for the 2010-20 period. ASEAN has established the ASEAN Infrastructure Fund (AIF) in collaboration with ADB (start-up capital of US\$485.2 million) and is actively promoting the Private-Public Partnership approach to implement key infrastructure projects in the region.

### PILLAR III: EQUITABLE ECONOMIC DEVELOPMENT

Another matter of concern is that the development divide among its member states is huge (Table 3), which makes the need for infrastructural connectivity a very serious one.

**Table 3: State of Development Divide in ASEAN**

	<b>Per Capita GDP (PPP, US\$), 2011</b>	<b>Trade to GDP Ratio, 2011</b>	<b>HDI Ranking, 2011</b>	<b>Poverty headcount ratio (% of population)*, latest year</b>
Brunei	49,384	99	33	–
Cambodia	2,065	126	139	53.3 (2008)
Indonesia	4,352	44	124	46.1 (2010)
Laos	2,449	64	138	66 (2008)
Malaysia	14,744	148	61	2.3 (2009)
Myanmar	1,254	33	149	–0
Philippines	3,920	52	112	41.5 (2009)
Singapore	56,708	298	26	–
Thailand	9,222	132	103	4.6 (2009)
Vietnam	3,143	166	128	43.4 (2008)

Note: \*the population living on less than \$2.00 a day at 2005 international prices

Source: World Economic Outlook, IMF; World Trade Organisation; Human Development Report, 2011, UNDP; World Bank;

ASEAN has a programme called Initiative of ASEAN Integration (IAI), wherein the more developed ASEAN members are expected to support the less developed members. Currently, ASEAN is in its second phase of the IAI Work Plan (2009-15) that covers seven priority projects<sup>8</sup>. But several major challenges exist. For example, IAI program areas may not fully fit the CLMV's key priorities; and they may not follow closely new issues like the emergence of bilateral and regional FTAs. Again, Myanmar and Vietnam need to address the issues of agricultural development and climate change, respectively. Yet these areas are not incorporated in the IAI Work Plans. This apparent mismatch is perhaps due to the eager attempt to adopt a common framework for all CLMV countries, which in the process led to their heterogeneity and different long-term needs being ignored.

<sup>8</sup> infrastructure development, human resources development, ICT development, capacity building, tourism, poverty and quality of life.

## PILLAR IV: INTEGRATION INTO THE GLOBAL ECONOMY

This pillar is one of the most successful in the AEC Blueprint. The region did see the realization of the ASEAN-China and ASEAN-Korea FTA, the commencement of ASEAN-CER FTA and the ASEAN-India trade in goods agreement. ASEAN also played a role of “bridge builder” between countries in the greater scope of Asia. It drove the process of ASEAN+3, East Asia Summit (EAS) and the latest Regional Comprehensive Economic Partnership (RCEP). The addition of the USA and Russia in EAS affirms the importance of ASEAN and the value of ASEAN centrality in the regional and global arena.

## OFFICIAL AEC SCORECARD

ASEAN has in the meantime developed an AEC scorecard to track the implementation of measures and the achievement of milestones the member states had committed to in the AEC Strategic Schedule.

After the Blueprint was adopted, ASEAN Secretariat came out with two official scorecards -2010 and 2012. According to the scorecard published in March 2012, ASEAN had achieved 68.2 per cent of its targets for the 2008–11 period (Table 4).

**Table 4: ASEAN Economic Community Scorecard, 2008-2011, (% of targets achieved)**

<b>ASEAN Economic Community</b>	<b>Pillar I: Single Market Production Base</b>	<b>Pillar II: Competitive Economic Region</b>	<b>Pillar III: Equitable Economic Development</b>	<b>Pillar IV: Integration into the Global Economy</b>
68.2	66.5	69.2	66.7	85.7

*Source: ASEAN Economic Community Scorecard, ASEAN Secretariat, 2012*

However, the AEC scorecard, in its current form, has only limited use. It does not give a country-specific break-down, is too brief, and omits too many details to be sufficiently informative to the common ASEAN citizen. The aggregate scores fail to reveal the reasons for delays, and also defy the understanding of the private sector by not assessing the benefits for the policy in terms of lower transaction cost, reduced prices and expanded consumer choices.

## ASEAN BUSINESSES

It should be noted that the decisions and actions of the private sector are vital to the creation of AEC by 2015 or later. Despite that, there has so far been a serious lack of awareness among businesses about ASEAN matters. The ASEAN Free Trade Area (AFTA) that came out in 1993 may have exhibited some of that awareness but its utilisation rate is at a low 23 per cent (Rosellon et al, 2012). For many businesses, the Internet is the primary source of information, and yet not much information about ASEAN can be found there. Those businesses that are most interested in ASEAN obtain information directly from the governments.

The private sector thus appears disappointed by the slow pace of policy implementation at the national level and considers the NTBs as the biggest hurdle to ASEAN economic integration. While some such barriers are necessary – for example, to protect the environment or the health of humans, animals and plants – others unnecessarily distort trade flows and restrict competition. Surveys of business firms operating in the region reveal that a problem common to several, but not all, ASEAN countries is corruption in the form of bribery to facilitate import clearances, license applications and renewals, testing, customs inspections, and work permits (ASC Report No. 4, 2009).

The business community in the less developed ASEAN members are also faced with a language problem, as they have to wait for ASEAN documents to be translated into their local language. Since the business model in Asia is changing fast and each sector is finding different values in different markets, it is important that ASEAN nations increase support quickly to businesses to promote their markets and prepare for new demand.

## POLICY RECOMMENDATIONS

1. Achieving the milestones set in the AEC Blueprint requires cooperation and coordination among different agencies. Each member country has to align its national policies to regional initiatives.
2. ASEAN has to work towards bridging the development gap among its member states.
3. The most important task is to raise awareness of the benefits of AEC among businessmen. Importance must be given to public-private sector partnerships and regular consultations must be encouraged. Written material on ASEAN and AEC should be readily available in English and local languages, and fast. Industry associations have to play a significant role and have to arrange workshops and involve the mass media in disseminating information.

4. The AEC scorecard should be made transparent, detailed and readily available for private-sector use and understanding.
5. Measures for trade facilitation should be given priority. Focus should be on smoother customs and logistical integration. ASEAN needs to review the progress and effectiveness of the central NTB database system.
6. ASEAN should unlock the potential of SMEs. SMEs tend to lack financial and technical know-how and thus need support and knowledge of markets before they can venture into other ASEAN countries. Government agencies should therefore provide the necessary support and information, and facilitate proper investment and trade development networks, which can provide assistance in the setting up of an office, in simplifying bureaucratic procedures, or in providing some guarantees to improve investor's confidence.

## CONCLUSION

Despite all these challenges, ASEAN economic integration efforts seem difficult to derail. Time is not on the organisation's side, however, and one option is for it to focus on "core" elements of integration and implement them earnestly in the shortest possible time. This may include trade liberalisation, services liberalisation (at least in the tourism sector), and measures to enhance connectivity, transparency and predictability in the region. The rest of the process, as envisaged in the AEC Blueprint, can follow after 2015.

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