

PERSPECTIVE

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Domestic Consensus Vital for ASEAN Economic Integration Beyond 2015

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EXECUTIVE SUMMARY

- On 31st December 2015, the ten ASEAN member states will jointly announce the establishment of the ASEAN Economic Community (AEC).
- At present, these states have yet to fulfil all the stipulated targets stated in the AEC Blueprint. This Blueprint ultimately aims for an integrated market and a production base that allow for free movement of goods, services and skilled labour, as well as freer movement of capital.
- One explanation for their shortcoming is the conflicting interests existing within the domestic economy. These generally involve technical, human and financial constraints; national priorities; bureaucratic complexities; preference for unilateral liberalization; differing interests among industry players; as well as lack of coherence in government policies.

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- What is needed to enhance the AEC beyond 2015 are improvements in four key areas:
a) greater policy coherence in domestic economies; b) increased stakeholder consultation; c) identifying winners and losers to mitigate the negative impact on domestic stakeholders; and d) overcoming resource constraints.

INTRODUCTION¹

On 31st December 2015, the ten ASEAN member states will jointly announce the establishment of the ASEAN Economic Community (AEC). In the run-up to that scheduled event, a lively debate is nevertheless taking place where some claim that ASEAN is not really an economic community while others assert that the AEC should be seen as a work in progress where some of the targets have already been met by the member countries. This article takes a look at this debate, and considers the conflicts of interest in selected national economies in the region as a possible explanation for the delays in meeting AEC commitments. It concludes that building domestic consensus is the key to deeper integration.

What are the salient arguments in this debate? Those who claim that the AEC is a work in progress point out that tariffs for trade in goods have in fact been lowered, National Single Windows (that will eventually lead to an ASEAN Single Window) are almost achieved, and key agreements such as the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Comprehensive Investment Agreement (ACIA) are in place. The Master Plan for ASEAN Connectivity (MPAC) has also been adopted to reduce business transaction time and travel costs. Furthermore, Mutual Recognition Arrangements (MRAs) for eight types of professionals have been signed – engineering and architecture, nursing, accountancy and surveying services, medical, dental and tourism profession. Disparity in per capita income among members is also being tackled through the Initiative of ASEAN Integration (IAI) Programme and through encouraging Small and Medium Scale Enterprises (SME) to utilise the ASEAN agreements. Since early 2000, ASEAN has engaged its major trading partners through Free Trade Agreements (FTAs), and companies such as Jollibee, Jebsen and Jessen, Denso Corporation, Sony Electronics, L’Oreal, Caterpillar, Prudential Insurance, CIMB bank and Fortis Hospital are already benefiting from ASEAN’s initiatives on liberalisation and facilitation.²

Despite these positive outcomes, there are doubters who state that ASEAN is really not an economic community. These doubters can be divided into three groups – businessmen, general ASEAN public and experts/ academic community. For businessmen, an economic community is supposed to provide expanded production space that can circumvent existing national (or administrative) boundaries. This would provide economies of scale based on the region’s population of 617 million people as well as greater efficiencies in production based on the differing comparative advantages of constituent members. For this to happen, barriers to trade in goods and services as well as investment have to be fully removed. This has not been fully achieved. According to several business surveys, although tariffs may have been eliminated among ASEAN countries, there are still non-tariff barriers.³ The latter include non-automatic

¹ This article is largely based on our study, ‘Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building’, which was published in *Journal of Southeast Asian Economies*, Vol. 32 No. 2. Singapore: ISEAS Publishing.

² See ASEAN Community Progress Monitoring System, The ASEAN Secretariat and the World Bank, 2012; Mid-term Review of the ASEAN Economic Community Blueprint, Economic Research Institute for ASEAN and East Asia (ERIA), 2012; and Can the ASEAN Economic Community be Achieved by 2015? Sanchita Basu Das, *ISEAS Perspective*, 11 October, Singapore: Institute of Southeast Asian Studies. This is supplemented by information gathered from discussions with ASEAN Secretariat officials.

³ Hu, Albert G. ASEAN Economic Community Business Survey, in *The ASEAN Economic Community: A Work in Progress*, edited by Sanchita Basu Das, Jayant Menon, Rodolfo Severino and Omkar Lal Shrestha,

licensing, technical regulations, quality standards, administrative costs attached to the use of preferential measures and a lack of physical and institutional connectivity. It has also been stated that the lack of information on AEC measures is a key reason for the limited interest shown by businessmen in the regional market⁴.

To the ASEAN public in general, a completed AEC should provide access to an expanded market for consumption and income opportunities. While the former can be observed in the increased availability of consumer goods in at least the advanced ASEAN members, the latter are difficult to realise in the short term. Although ASEAN countries have signed Mutual Recognition Arrangements for eight types of professionals; better job availability is still limited by the domestic rules and regulations that govern these areas.⁵ Be that as it may, visa-free travel for ASEAN citizens and the opening up of air transportation services under the ASEAN Open Skies Agreement have undoubtedly been broadly welcomed.

Finally, for the experts and the academic community, three criteria are necessary for economic integration to be realised: a) elimination of border measures; b) full national treatment beyond the borders; and c) harmonisation of measures across member countries. While ASEAN has achieved success in eliminating border tariffs, thereby satisfying the first condition to a large extent, it has not satisfied the other two conditions. Non-tariff barriers still discriminate foreign from national products and hence restrict competition. ASEAN countries continue to lag behind in creating regional standards, harmonising and streamlining customs procedures and developing conformity assessments to avoid duplicative testing of manufactured products. In addition, transparency is lacking. Although the Chairman's Statement from the 26th ASEAN Summit in April 2015 indicated that the current rate of implementation of AEC Blueprint goals stands at 90.5 per cent of the targeted 506 measures, there is not enough information to validate this claim.⁶

Hence, although there are significant achievements in ASEAN in terms of deeper economic cooperation, there are nevertheless issues and challenges that need to be addressed before the region's objective of a 'single market and production base' can be met.

How is the disparity to be understood between the stated goals of 'single market and production base' and other targets of the AEC, and its current state of achievement of these goals? The literature often attributes this to 'lack of political will'. One possible explanation for this may be the fact that deep economic cooperation faces domestic opposition through various forms of economic conflicts. Parallel examples include the case of the European Economic

2013; ASEAN Business Outlook Survey 2015, AmCham, Singapore (<http://www.amcham.org.sg/public-affairs/publications/aseanoutlooksurvey2015/>); Survey of Japanese-Affiliated Firms in Asia and Oceania, FY2014 Survey, Japan External Trade Organization (http://www.jetro.go.jp/ext_images/en/reports/survey/pdf/2015_01_biz.pdf).

⁴ Kawai, M. and G. Wignaraja (ed.), *Asia's Free Trade Agreements: How is Business Responding?* Asian Development Bank, the ADB Institute with Edward Elgar Publishing, 2011

⁵ The Limited Impact of the ASEAN Economic Community on Skilled Labour Migration, Sukti Dasgupta and Sanchita Basu Das, ISEAS Perspective, 22 September 2014

⁶ Chairman's Statement of the 26th ASEAN Summit, Kuala Lumpur and Langkawi, 27 April 2015 (http://www.asean.org/images/2015/april/26th_asean_summit/Chairman%20Statement%2026th%20ASEAN%20Summit_final.pdf)

Community, which, after the Treaty of Rome was signed, took nearly 40 years to achieve its objective of a single market. Also, the reason for the stalling Doha Development Agenda can be attributed to domestic resistance and hostility from protectionist groups in participating economies. Likewise, for ASEAN, while the AEC is a regional initiative, implementation is left to the individual member economies, and so, regional ambitions have to contend with domestic antagonism.

DOMESTIC CONFLICTS AND THE IMPLEMENTATION OF REGIONAL COMMITMENTS

The domestic conflicts in ASEAN economies range from macro-level policy making to company-level perception of the winners and losers of the AEC. These vary depending on the economic structure of the country in question, its stage of development, and degree of openness to the global economy as well as its development goals and priorities. This section lists a few domestic conflicts that exist in six selected ASEAN countries while implementing their respective AEC commitments.

Let's start with Indonesia. If one looks at trade facilitation and harmonization measures – ASEAN Single Window, modernization of customs procedures, and the establishment of the ASEAN Trade Repository – as stipulated in the AEC Blueprint, three major conflicts are evident. These pertain firstly to the scarcity of resources needed for the implementation of these measures. Not surprisingly, this has limited the implementation effectively. For example, information on the Indonesia Trade Repository (INTR), though very useful with respect to trade, has yet to be translated into English for the use of foreign traders and investors. The human resource and funding that were initially allocated to establish the INTR is already running at full capacity. For anything more, extra resources from the government are needed. The second major conflict lies in the bureaucratic structure of the country, requiring substantial coordination efforts for effective implementation of the AEC measures. Indonesia's National Single Window (INSW) currently connects 17 ports and 18 government agencies, and a committee will be needed to manage and develop the system in the future. However, there has been significant reluctance among government agencies to transfer responsibilities and functions to a single coordinating body. Domestic negotiations took over five years just to reach the current stage of implementation. Lastly, Indonesia suffers from conflicts between domestic priorities (such as infrastructure and foreign investment) and the country's commitments to AEC. This has been slowing critically needed reforms in the regulatory structure.⁷

In Malaysia's services sector, there still exists, despite progressive liberalization, a gap between the commitments made to ASEAN, and actual practice. The country prefers unilateral to regional liberalization, especially as the former is reversible. In addition, conflicting policy objectives are also slowing the pace of liberalization at the regional level. For example,

⁷Damuri, Yose R. 'Implementation of Facilitation and Harmonization Measures under AEC in Indonesia', in *Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building*, edited by Tham Siew Mun and Sanchita Basu Das, 2016 (forthcoming), Singapore: Institute of Southeast Asian Studies.

affirmative actions in terms of Bumiputera preferences have been negatively influencing the pace of liberalization. These preferences are listed in the ASEAN commitments as carve-outs i.e. excluded from the country's commitments. Bumiputera preferences can indeed be seen in the guidelines issued on foreign participation in the distributive trade services in Malaysia. Government-linked companies are also "sheltered" from liberalization measures by domestic regulations that can also serve as bureaucratic hurdles to domestic and foreign investments.⁸

Taking the automotive industry as an illustration, the Philippines seems to have two major conflicts that have impeded the competitiveness of this industry. These are conflicts in economic interests among the industry players as well as a lack of coherence in government policies. While the multinationals (MNCs) have supported liberalization, the small and medium enterprises (SMEs) have resisted it. This prompted the government initially to adopt protectionist measures to position the SMEs as winners, but subsequent liberalization measures have instead made the same group of firms' losers in the region. Where policy coherence is concerned, conflicting policy objectives can be seen in the implementation of local content requirements and the reduction of tariff rates, delays and administrative costs at the border as well as between the trade and investment policies of the country.⁹

Three case studies of the agriculture sector, logistics industry and medical professionals showcase the conflicts happening in Thailand. In the agricultural sector, the main benefactors from liberalization measures are the large exporters, large processing food companies and high productivity farmers. Small farmers are deemed to lose out as they do not understand the AEC and do not gain much from the expected increase in income that comes with liberalization. Similarly, in the logistics sector, winners are perceived to be large firms such as the multinationals while the small and fragmented Thai operators come out as losers. Finally, while liberalization is perceived to alleviate the shortage of medical staff in the country and facilitate the expansion of the medical tourism industry as well as knowledge exchange, it is also feared that Thai medical practitioners may not be able to compete with foreign professionals. At the same time, relocation of Thai medical staff with the expansion of Thai hospitals to neighbouring countries may worsen the shortage of such staff in the country.¹⁰

Vietnam's domestic conflicts arise from four factors. First, it suffers from resource constraints similar to those mentioned in the case of Indonesia. It should be noted that domestic conflicts observed in Vietnam, and to a large extent in other countries, may not be solely attributable to the liberalization efforts made under the AEC. This is because, for any single country, there

⁸Tham Siew Yean. 'The AEC and Domestic Challenges in Malaysia: Examining the Liberalisation of Services in AFAS', in *Journal of Southeast Asian Economies*' special issue on *Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building*, edited by Tham Siew Mun and Sanchita Basu Das, Volume 32, Number 2, August 2015, Singapore: Institute of Southeast Asian Studies.

⁹ Austria, Myrna S. 'The Philippines and the AEC Beyond 2015: Managing Domestic Challenges', in *Journal of Southeast Asian Economies*' special issue on *Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building*, edited by Tham Siew Mun and Sanchita Basu Das, Volume 32, Number 2, August 2015, Singapore: Institute of Southeast Asian Studies.

¹⁰ Sermcheep, Sineenat and Chirathivat, Suthiphand. 'Moving the AEC Beyond 2015: Managing Domestic Economic Interests in Thailand', in *Journal of Southeast Asian Economies*' special issue on *Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building*, edited by Tham Siew Mun and Sanchita Basu Das, Volume 32, Number 2, August 2015, Singapore: Institute of Southeast Asian Studies.

are concurrent efforts to liberalize at the unilateral, bilateral and multilateral levels. These multiple levels of liberalization imply that the already scarce resources in developing countries are stretched to the limit and they therefore face severe resource constraints in meeting AEC commitments. Second, domestic conflicts arise due to the reforms undertaken to facilitate the country's AEC commitments. Stakeholder consultation is deemed to be crucial for reforms. Even though Vietnam is making increasing efforts to engage its key stakeholders, the effectiveness of such consultations is deemed to be limited due to the fact that there is little engagement with civil society, and to the restricted flow of information based on confidentiality arguments. This leads to insufficient information and time for planning for the affected stakeholders. Third, lack of awareness about the AEC has also limited the ability of Vietnam to take advantage of the market-opening measures involved. Lastly, the adverse effects of liberalization are not adequately mitigated by policy measures, especially with regards to the social safety nets which remain lacking in the country.¹¹

The case of Singapore differs significantly from the other countries in ASEAN. The domestic conflicts are limited due to the fact that the country has long embraced globalization and liberalization. This is necessitated by the small size of the city-state, with no natural resources or agricultural sector and the ASEAN region being viewed as a natural hinterland for market access and resources. The country has thus maintained an open economy since Independence in 1965, thereby entrenching over time a competitive and efficient spirit in its economy. Hence, for example, in the electronics and aviation sectors, there is very little domestic pressure against the AEC's liberalization process. The pressure is more from Singapore's general approach of using non-protectionist measures to manage global competition. For instance, the electronics sector has undergone dramatic restructuring in response to changing cost advantages and the emergence of competitive facilities in other ASEAN countries and in China. Likewise, the aviation sector is undergoing tremendous competitiveness pressures with challenges to Changi's air hub status and SIA's premier airline standing. In such an environment, the government's policy response has been to restructure its economic activities and continuously upgrade its competitiveness.¹²

ASEAN BEYOND 2015 – POLICY RECOMMENDATIONS

There will undoubtedly be some outstanding measures from the AEC Blueprint targets which will not have been implemented by the end of December 2015. Moreover, although ASEAN may announce a significant number as its AEC implementation rate, most people in the region may not yet experience ASEAN as a 'single market and production base'.

¹¹ Vo, Tri Thanh. 'Managing Domestic Consensus for ASEAN Community Building in Vietnam', in Journal of Southeast Asian Economies' special issue on Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building, edited by Tham Siew Mun and Sanchita Basu Das, Volume 32, Number 2, August 2015, Singapore: Institute of Southeast Asian Studies.

¹² Chia Siow Yue and Basu Das, Sanchita. 'The AEC Beyond 2015: Implementation and Challenges for Singapore', in Journal of Southeast Asian Economies' special issue on Moving AEC Beyond 2015: Managing Domestic Consensus for Community-Building, edited by Tham Siew Mun and Sanchita Basu Das, Volume 32, Number 2, August 2015, Singapore: Institute of Southeast Asian Studies.

Beyond 2015, ASEAN will have to focus on major remaining measures of AEC and on new initiatives that can bring ASEAN closer to the single market objective. More importantly, relevant domestic reforms will be needed if member countries are to benefit from their respective AEC commitments. Thus the implementation challenges highlighted in the earlier section in terms of the domestic conflicts warrant closer policy attention.

First is the need for greater policy coherence. Policy making is a complex matter and is made even more complex by the need to coordinate decisions across several ministries and agencies. Intentions to liberalize may, for example, be undermined by various domestic policies that strive in a contrary direction. Minimizing this tendency entails two key components: a review of the policy priorities in each country and a reappraisal of AEC commitments in a country's priorities. It also calls for each country's plans, programmes and legislations to be in support of AEC initiatives.

Second, to enhance policy coherence, increased stakeholder consultation – within the government, with businesses, academia, civil society and the general public – is necessary. This involves enhanced transparency in information flows as well as improved timeliness and updating of relevant information. But more importantly, stakeholder consultation needs also to focus on effective engagement for successful buy-in and to overcome 'turf' mentalities that hinder cooperation, especially when implementation requires stakeholders within the government to share information and perhaps to transfer some of their responsibilities and functions.

Third, identifying winners and losers among domestic stakeholders in the economic integration process is required if the negative impact on the domestic front is to be limited. This primarily involves assistance programmes, economic restructuring and/or social safety net. Government assistance programmes can enhance the capabilities of members of the population negatively affected to compete against cheaper imports. Restructuring is inevitable, since competition will create sunset industries as well as start new ones. Policy focus should be on industrial upgrading rather than continued protection in areas that are not sustainable. Thus firms need to continuously upgrade and improve in order to compete not just domestically but also regionally. Social safety nets are needed for the poor and marginalized who lack the resources to compete. However, programmes for mitigating the adverse impact of liberalization need to be regularly monitored and reviewed to ensure that they achieve their intended objectives.

Fourth, resource constraints need to be overcome. Each country has multiple commitments requiring financial, technical and human resources, and policy priorities will determine the distribution of these scarce resources. However, sharing of technical knowledge and experts can be tapped for capacity building, especially for the less developed members of ASEAN.

In summary, consulting stakeholders to increase information flows, enhancing the capacity of key domestic sectors, coordinating domestic policies, integrating the work of the agencies implementing AEC measures, and embedding these into the country's development strategy are crucial for reducing conflicts and for deepening economic integration within ASEAN beyond 2015.

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