Towards an ASEAN Economic Community (AEC): Progress in Key Pillars and Remaining Challenges

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Presentation Outline

• The Background
• Measuring Progress: The AEC Scorecard
• Achievements and Challenges by AEC Pillar
• Beyond AEC 2015: Critical Next Steps
• Changing Regional Architecture: RCEP, TPP etc.
The Background

• Main vehicle prior to AEC has been AFTA - ambitious liberalization program - Completed for the original ASEAN members

• AEC Pillars:
  • Pillar 1: Single market and production base
  • Pillar 2: Competitive economic region
  • Pillar 3: Equitable economic development
  • Pillar 4: Integration into the global economy

• Implementation guided by Economic Blueprint, progress measured by AEC Scorecard
The AEC Scorecard

• AEC Blueprint originally contained 316 priority measures; this has risen to 506 (includes 54 high-priority measures identified at the 21st ASEAN Economic Ministers’ Retreat).

• As of July 2015, ASEAN has fully implemented 463 out of the 506 measures (implementation rate: 91.5%).

• But ASEAN does not provide a breakdown of implementation rates per pillar.

• A more detailed ASEC presentation in 2013 provides an idea of where the bottlenecks lie.
Of the AEC targets due by March 2013, implementation rates were highest in Pillar 3 and 1, followed by Pillars 4 and 2; no explanation for these rates was given.

Some Caveats

- Scorecard relies on self-assessment – may not be balanced
- Scorecard measures aggregate progress – no in-depth analysis of bottlenecks, especially at national level
- Only two Scorecards have been made public, covering the first two phases of AEC implementation (2008-2009 and 2010-2011)
Pillar 1: Achievements and Challenges

- Pillar 1 elements: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investments; (iv) freer flow of capital; and (v) free flow of skilled labor
- Success has been uneven, across elements and sectors
  - Biggest achievements in reducing tariffs
  - Some improvements in trade facilitation and investment liberalization
  - Biggest gaps in liberalizing services and labor flows
Achievements under Pillar 1

• **Tariffs**
  • Import duties for 99.20% and 90.85% of committed tariff lines have been eliminated by ASEAN-6 and CLMV, respectively.
  • On the average, ASEAN member states have 96% Tariff Lines at 0% (MITI, 2015).

• **Trade Facilitation**
  • National Single Windows have gone live in the ASEAN-6; ASEAN-6 plus Viet Nam have tested preliminary exchange of trade data and information through the ASEAN Single Window (ASW)
Achievements under Pillar 1 (con’t)

• Investment Liberalization and Facilitation
  • ASEAN-6 are near achieving international best practices. Deloitte (2014) reports liberalization rates of 85% in all countries except Indonesia and Viet Nam, that lag behind with 80% or less.
  • Several noteworthy initiatives: (i) 2011 Credit Guarantee and Investment Facility; (ii) $240 billion CMIM swap arrangement; (iii) formation of the ASEAN Exchanges involving the ASEAN-5 and Viet Nam; and (iv) MOU to establish and implement the ASEAN mutual recognition framework for mutual funds.
Achievements under Pillar 1 (con’t)

• Services Liberalization
  • MRAs for three types of goods and eight professions:
    • architecture, accountancy, surveying, engineering, medical practitioners, dental practitioners, tourism professionals, and nurses
  • Mostly nurses, engineers and architects
Challenges under Pillar 1

• Removing barriers to trade in sensitive areas like agriculture, steel and services; and sacred cows

• Improving the domestic regulatory environment, particularly prudential regulation for financial services

• Removing behind-the-border constraints related to logistics, transport, infrastructure problems, and weak institutions

• Promoting greater labor mobility, to include unskilled, not just skilled labor
Achievements & Challenges- Pillar 2

- Eight members have enacted competition laws; Cambodia and Lao PDR by December 2015
- Biggest challenge still lies in competition policy and IPR – both difficult areas of reform
  - Competition policy and IPR protection are essentially national in application
  - Given different levels of development and national interests, cooperation and coordination—rather than uniformity in competition and IPR rules—are likely to be more achievable as goals
Achievements Under Pillar 3

• Some evidence that the process of convergence has begun, as newer members begin to catch up
• Implementation of various plans including:
  • Action Plan for ASEAN SME
  • ASEAN Framework for Equitable Economic Development
  • Initiative for ASEAN Integration (IAI)
Challenges Under Pillar 3

• AEC priority actions under Pillar 3 are useful, but not sufficient
• Domestic policy actions are more important, particularly investments in social infrastructure, especially in education and health
• Regional initiatives must be complemented with other elements of an inclusive growth strategy to ensure convergence
Achievements and Challenges Under Pillar 4

• The region’s openness has enabled a thriving ‘Factory ASEAN’

• However, there has been a shift from unilateral liberalization to preferential liberalization (through free trade agreements)

• Two mega-regionals involving ASEAN Member States: Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP) - more later...
Is ASEAN ready for the AEC?

• ADB-ISEAS study: 55% of respondents unaware of the AEC; more aware of ASEAN-China FTA
• Estimates that less than 1/5 of ASEAN firms have made any plans for the end of 2015.
• ASEAN’s own Survey on ASEAN Community Building Effort 2012 revealed that:
  • Overall level of understanding among businesses and the general public is still low, and preparations lower still
  • Most businesses have not prepared activities related to the AEC, nor considered how the AEC would link to their company’s vision
Beyond AEC 2015: Critical Next Steps

• December 31, 2015 will not see ASEAN achieving all of its AEC targets.
• Given that the deadline is likely to be missed, it is critical to ensure that reforms continue beyond 2015.
• The flexibility that characterizes ASEAN cooperation and institutional arrangements could give member states a pretext for non-compliance—and there are enforcement issues. Giving AEC commitments more teeth is a key challenge.
• Geo-political issues need to be addressed to ensure peace and stability, which are prerequisites for successful economic integration.
Changing Architecture

• AEC is not the only game in town
• Two other significant mega-regionals are the ASEAN+6 RCEP, and the US-led TPP-negotiations for which recently concluded. Also APEC’s FTAAP, but early days still
• Mega-regionals partly a response to proliferation of bilateral FTAs involving at least one country from the region
FTAs by Status – Total Asia (cumulative)

FTA = free trade agreement.
Notes: Framework Agreement signed = The parties initially negotiate the contents of a framework agreement (FA), which serves as a framework for future negotiations. Negotiations launched = The parties, through the relevant ministries, declare the official launch of negotiations or set the date for such, or start the first round of negotiations. Signed but not yet in effect = Parties sign the agreement after negotiations have been completed. However, the agreement has yet to be implemented. Signed and in effect = Provisions of FTA come into force, after legislative or executive ratification.

Source: ARIC FTA database (as of March 2015), Asian Development Bank.
FTAs by Scope – Asia (cumulative)

FTA= free trade agreement.
Notes: Bilateral refers to a preferential trading arrangement involving only two parties. Plurilateral refers to a preferential trading arrangement involving more than two parties.
Source: ARIC FTA database (as of March 2015), Asian Development Bank.
RCEP

• Same deadline as AEC, but likely to spill over to 2016
• Like AEC, facing difficulties- India being particularly difficult, and Sino-Japan tensions don’t help
• Focus is to be on harmonization and regulatory convergence
• Includes PRC but not US
TPP

• Numerous negotiation rounds since 2010 were finally concluded in October 2015 in Atlanta
• Labelled a gold standard agreement but likely to have been watered down to secure compromises – will know in November when negotiating text is made public.
TPP

• Many countries, including Malaysia, seeking longer transition periods and exemptions in sensitive areas- IP for pharma, government procurement, SOEs etc.

• Still needs to be ratified before entry into force- 2+ years away- and then implemented legitimately
Thank you!

For inquiry or comments, please contact:

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