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Analysis

Blueprint for an ASEAN Economic Community

Denis Hew *

At the 2003 ASEAN Summit in Bali, Indonesia, ASEAN leaders agreed to embark on an ambitious initiative to integrate their economies and establish an ASEAN Economic Community (AEC) by 2020. This deadline was brought forward by five years to 2015 at the ASEAN Summit in Cebu, Philippines in January 2007. Although the end-goal was not elaborated, what was clear at the outset was the need for a significantly higher level of regional economic integration if the ASEAN economies were to compete in a post-crisis world and a world in which the weight of China and India would continue to rise.

The blueprint for AEC, which was launched at the recent ASEAN Summit in Singapore in November 2007, comes at a propitious time. Ostensibly, this blueprint will provide the roadmap necessary to realize the AEC by 2015. This includes providing action plans, targets and timelines for the implementation of the various economic measures to advance the AEC.

The AEC is envisaged to be: i) a single market and production base; ii) a highly competitive economic region; iii) a region of equitable economic development; and iv) a region that is fully integrated into the global economy.

Creating an ASEAN single market and production base, which is the prime aim of the AEC, would involve achieving free flow of goods, services,

investment, capital and skilled labour. Moreover, the fast track integration of 12 priority sectors is expected to act as a catalyst to accelerating economic integration. These priority sectors are: electronics, information and communications technology (ICT), healthcare, wood-based products, automotives, rubber-based products, textiles and apparels, agro-based products, fisheries, air travel, tourism and logistics.

Conceptually, the AEC connotes a European Union (EU)-style single market. Lloyd (2007) notes that the objective of a single market is very definite. Within the ASEAN context, it will require coverage of all measures to remove discrimination against ASEAN suppliers of goods, services and factors. ASEAN still has a long way to go to achieve a single market. To do so will require a fundamental change in thinking by ASEAN economic policy-makers especially in the way they approach regional economic integration.

The ASEAN Free Trade Area (AFTA) is perhaps one of the most important building blocks of the AEC as it facilitates the freer movement of goods in the region. Tariff rates reduction to 0 to 5 per cent under AFTA have already been adopted by most member countries with full implementation by all members from 2010.

Cutting tariffs is the easy part; eliminating non-tariff barriers (NTBs) is a lot harder. These NTBs not only include border measures but also standards, regulations and laws of each member country that prevent the free movement of goods and services across national boundaries. The prevalence of the trade inhibiting effects of NTBs may be reflected to some extent in the low level of intra-ASEAN trade (about a quarter of total ASEAN trade) which has not increased

Paper of the Month

The paper of the month for December 2007 was **How to Mobilize the Asian Savings within the Region: Securitization and Credit Enhancement for the Development of East Asia's Bond Market** by Gyutaeg Oh, Daekeun Park, Jaeha Park, and Doo Yong Yang.

Latest News

The 32nd PAFTAD Conference was held on 17-19 December, 2007 in Hanoi, Vietnam.

The next phase of work on Institutional Foundations for Microeconomic and Structural Reform in Asia and the Pacific will begin with a workshop in Sydney 28-29 January, with expert participation from EABER Institutes around the region and APEC officials responsible for hosting the special APEC Ministerial Meeting on Structural Reform in Melbourne in August 2008.

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significantly since the signing of the AFTA agreement more than a decade ago.

Brick by Brick: The Building of an ASEAN Economic Community concludes that NTBs are a major impediment to the free flow of goods and services across the ASEAN region. In fact, a wide variety of persistent NTBs were affecting the integration of most priority sectors. It will be absolutely crucial to tackle NTBs effectively if the AEC is to succeed.

Perhaps, the greatest challenge to ASEAN economic integration lies in addressing the wide development divide among its member countries. ASEAN is made up of member countries at very different stages of economic development. The AEC Blueprint aims to address the development gap through the Initiative for ASEAN Integration (IAI) as well as other regional development initiatives. The IAI was launched by ASEAN in 2001 as a means to narrow the development gap and covers areas such as infrastructure, human resource development, information and communications technology and capacity building for regional economic integration. While ASEAN policy-makers appear to recognize that deeper economic integration has to be accompanied with regional cooperation to narrow the development gap, what seems clear is that the success of ASEAN's longer term economic goals will depend on how the economic divide is addressed today.

So what will the AEC be like in 2015? There is no evidence that there is any political desire by ASEAN leaders to establish a European-style single market. Nevertheless, ASEAN could still be a highly competitive economic region by 2015. It is possible for ASEAN to realise an 'AFTA Plus' arrangement in less than a decade. An 'AFTA Plus' AEC would be a fully functioning free trade area with minimal non-tariff barriers and freer

movement of goods, services, investments, capital and skilled labour.

While this may be a more limited objective, it is likely to be politically acceptable and feasible given the short timeline of 7 years from now to 2015. The successful implementation of the AEC blueprint which sets out the approach, targets and milestones leading up to 2015 is absolutely critical. The main concern lies in getting member countries to comply and meet the demanding targets and deadlines. This is why the ASEAN Dispute Settlement Mechanism (DSM) has to be made workable. Despite recent enhancements to the ASEAN DSM, it continues to be unused by member countries.

An economic community of any kind will not be possible if ASEAN policy-makers remain inflexible to the concept of national sovereignty which currently undermines greater institutional development. There is a need to be more open to the idea of pooling national sovereignties to facilitate deeper economic integration. This includes moving away from the existing consensus-based decision making process towards a more flexible approach.

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