ASEAN Economic Community –
A Model for Economic Integration in Asia?

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Outline of Presentation

- Overview of ASEAN Economic Community
  - How ASEAN integration has evolved
  - Why the AEC?
  - ASEAN as an integrated market
  - Strategy to achieve the AEC

- Assessment of AEC: Is it really working?
  - Accomplishments to date
    (ATIGA, AFAS, ACIA, RIA-Fin)
  - Challenges and issues

- Final thoughts: AEC beyond 2025
AEC: some caveats ...

- ASEAN model of economic integration is different from the EU!
  - motivation (political vs economic)
  - approach (single market vs monetary union)
  - governance (light vs heavy institutional set-up)

- European Community is only an “inspiration” but not a model for AEC

- AEC does not mean a radical change in the region; it only means that by end of 2025, ASEAN will be a more competitive, open and dynamic region

- AEC is a big push to reach the region’s potentials, but the goal of an integrated market remains a continuing challenge
ASEAN is at a crossroads

Status quo

Revitalized ASEAN
ASEAN economic integration has evolved ...
... with the AEC as an end-goal

- Eliminating Barriers
- Reducing Costs
- Enhancing Competitiveness

AEC 2025
Why the AEC?

- Endorsed by ASEAN Leaders in 2003, **AEC is an end-goal of achieving a highly integrated ASEAN economy**

- AEC is supposed to **build resilience of ASEAN** against internal and external shocks and to sustain economic growth

- Perceived need to **deepen economic integration** within ASEAN given the dominance of free trade areas in the world

- Emerging regional architecture – rise of China, India and other emerging economies underscores the importance of **creating a stronger, more united and cohesive ASEAN**
What an integrated ASEAN means

ASEAN in the Global Economy GDP 2017 (US$ billions)

- **China**: $12,015
- **Japan**: $4,872
- **ROK**: $1,538
- **India**: $2,611
- **Australia and New Zealand**: $1,581
- **ASEAN**: $2,766
What an integrated ASEAN means

Potential Economic Impact of AEC Measures on Countries’ GDP

Notes: Brunei is proxied by “Rest of South East Asia” in the simulation, excluding Myanmar. No estimates for Myanmar because of serious data problems. Cumulative Percentage Point, deviation from baseline, 2011 to 2015

Source: Computed by Itakura for MTR project.
Strategy to achieve the AEC

“The ASEAN Economic Community by 2025 shall be highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-centered community, integrated with the global economy”

(ASEAN 2025: Forging Ahead Together, 2015)
Strategy to achieve the AEC

Element 1: Highly Integrated and Cohesive Economy
- Role of MSMEs
- Role of the Private Sector
- Public-Private Partnership
- Narrowing the Development Gap
- Contribution of Stakeholders on Regional Integration Efforts

Element 2: Competitive, Innovative and Dynamic ASEAN

Element 3: Enhanced Connectivity and Sectoral Cooperation
- Strategic approach towards external economic relations
- Review and improve existing ASEAN FTAs and CEPs
- Enhance economic partnerships with non-FTA DPs
- Engage with regional and global partners
- Support to the multilateral trading system
- Engagements with regional and global institutions

Element 4: Resilient, Inclusive, People-Oriented ASEAN

Element 5: Global ASEAN

- Trade in Goods
- Trade in Services
- Investment
- Financial Integration, Financial Inclusion, and Financial Stability
- Movement of Skilled Labor & Business Visitors
- Enhancing Participation in GVCs

- Effective Competition Policy
- Consumer Protection
- IPR Cooperation
- Productivity, Innovation, Technology
- Taxation Cooperation
- Good Governance
- Regulations, and GRP
- Sustainable Economic Development
- Global Megatrends and Emerging Trade-related Issues

- Transport
- ICT
- E-commerce
- Energy
- Food, Agriculture, and Forestry

- Tourism
- Healthcare
- Minerals
- Science & Technology

- Travel
- ICT
- E-commerce
- Energy
- Food, Agriculture, and Forestry
- Tourism
- Healthcare
- Minerals
- Science & Technology
Free flow of goods under the AEC

ASEAN Trade in Goods Agreement (ATIGA; 2009)

- **Elimination of tariff and non-tariff barriers.** Since 2010, tariffs are virtually zero in ASEAN-6; in CLMV, average tariffs are in 0-5% range. But eliminating NTBs/NTMs remains difficult.

- **Trade facilitation:** integrating customs procedures, establishing single processing of customs release and clearance (“ASEAN Single Window”), improving transparency of trade, reforms of rules of origin (ROOs)

- **Standards and conformance:** harmonizing technical barriers to trade such as technical regulations, standards and conformance assessment
Free flow of investment under the AEC

ASEAN Comprehensive Investment Agreement (ACIA; 2009)

- Elimination of investment impediments in 5 industries
- Investment protection
- Investment facilitation
- Investment promotion

Manufacturing
Agriculture
Fishery
Forestry
Mining and Quarrying
Services incidental to these 5 industries

Negative List Approach
Reservation Lists:
Component 1
Component 2
Free flow of services under the AEC

- Progressive liberalization of services sectors (business, construction, distribution, education, health, transport, telecoms, tourism, finance)
- Four modes of supply (GATS+)
- Based on a series of negotiations

ASEAN Framework Agreement on Services (AFAS; 1995)

ASEAN Trade in Services Agreement (ATISA; currently negotiated)
Freer flow of capital under the AEC

AEC 2025 Vision for Financial Integration: Three Pillars

Part I: Vision for AEC 2025 (Ultimate Objectives)
- Resilient, Inclusive and People-centered ASEAN
- Integrated and Highly Cohesive Economy
- Competitive, Innovative and Dynamic ASEAN
- Enhanced Sectoral integration and Cooperation

Part II: ASEAN Financial Integration Broad Framework (Intermediate Goals)
Financial Integration:
- Financial services and markets to be more connected through:
  - Increasing significance of regional banks
  - More deeply penetrated insurance markets with greater risk diversification across the region
  - Greater capital mobility

Financial Inclusion:
- Enhanced inclusion to the financial services through:
  - Financial education and literacy
  - Variety of products and services

Financial Stability:
- Enhancement of financial system stability and its infrastructure through:
  - Cross-border supervisory framework and cooperation
  - Enhanced surveillance

Gradual and prudent Capital Account Liberalisation
Payment and Settlement Systems that are more linked
Capacity Building to address regional capacity gaps

Part III: Progressive Implementation (Quantifiable Targets)
- WC-CAL: ASEAN Capital Market Forum
- WC-PSS: ASEAN Insurance Cooperation
- WC-FSL: ASEAN Customs Cooperation
- WC-CMD: ASEAN Forum on Taxation
- SCCB
- WC-ABIF
- WC-FINC

Source: AFMGM Outcome, March 21, 2015
Free flow of skilled labor under the AEC

- Development of Mutual Recognition Arrangements (MRAs) for ASEAN professional services. Seven MRAs signed:
  - Engineering services (2005)
  - Nursing services (2006)
  - Architectural services and Surveying qualifications (2007)
  - Accounting services, Medical practitioners, and Dental practitioners (2009)
  - Tourism professionals (2009)

- ASEAN Agreement on Movement of Natural Persons (MNP):
  - Signed in 2012
  - Schedules of commitments endorsed in 2013

- ASEAN Qualifications Reference Framework
AEC – where are we now?

**ASEAN ECONOMIC COMMUNITY**

**Highly Integrated & Cohesive Economy**
- Seamless movement of goods, services, investment, capital and skilled labor to enhance trade and production networks

**Competitive, Innovative & Dynamic ASEAN**
- Increasing competitiveness and productivity through: competition policy, GVC participation, strengthening regulatory frameworks

**Enhanced Connectivity & Sectoral Cooperation**
- Enhance economic connectivity involving various sectors i.e. transport, telecommunication and energy

**Resilient, Inclusive, People-Oriented & People-Centered ASEAN**
- Enhance “Equitable Economic Development”

**Global ASEAN**
- Integrating the region into the global economy through FTAs and comprehensive economic partnership agreements (CEPs)

2025 Monitoring and Evaluation Framework: Impact, Output and Outcome Monitoring
AEC – where are we now?

... with some substantial targets achieved so far

- Tariff elimination on track (AFTA)
- Trade facilitation more flexible (ROOs, NSW, MRA)
- More open investment regime
- Chiang Mai Initiative, ASEAN Exchanges
- Others: IPR, CP, ASEAN+1 FTAs
AEC – where are we now?

But also more major hurdles to overcome

AEC 2025 targets
Priorities in 2018 ...

- **Minimize NTB effects of NTMs** through a robust mechanism (e.g., development of NTM Guidelines; ASEAN Seamless Trade Facilitation Indicators)

- **Deliver better on facilitation** (trade facilitation, investment facilitation, and transport and connectivity facilitation) (e.g., full operation of ASEAN Trade Repository; additional electronic documents for ASEAN Single Window; ASEAN-wide Self Certification Scheme; signing of transport agreements and protocols)

- **Forge ahead with liberalization** (investment liberalization, services liberalization) (e.g., signing of ATISA; ratification of protocols to amend ACIA; enhancing the ACIA; endorsement of ACIA revised reservation lists)

- **Enhance new elements under** AEC (financial inclusion; GVCs; innovation and technology) (e.g., signing of ASEAN Agreement on electric commerce; digital integration framework; endorsement of ASEAN Good Regulatory Practice Core Principles; Regional Cooperation Framework for Competition)

- Leverage on the benefits of **“open regionalism”** (e.g., substantial completion of RCEP negotiations)
... and in 2025 and beyond

- Continue to **strengthen the foundations** of integrated and connected ASEAN (“priority measures for 2025”)

- **Build building blocks** for a well-performing single market and production base:
  - standards and conformance
  - MRAs and labor mobility
  - financial market integration and inclusion
  - ICT and digital economy; energy, agriculture, infrastructure
  - innovation and productivity-driven growth

- Address and manage **institutional/new/emerging issues and reforms**
  - digitization and fourth industrial revolution
  - AEC monitoring
  - dispute settlement
  - private sector engagement
  - domestic regulatory reforms
Conclusion

2025

ASEAN is at a crossroads

AEC 2025

Post 2025
http://www.asean.org/asean-economic-community/
Thank You!

www.asean.org