

Overview of AEC Progress

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Objectives and Outline of Presentation

Objectives:

1. To understand the economic imperatives and scope of ASEAN economic integration
2. To evaluate economic integration outcomes and challenges

Outline:

1. ASEAN diversities – why it matters?
2. Conceptual underpinnings of Free Trade Agreements (FTA) and Production Networks and Value Chains (GPN-GVA)
3. ASEAN Economic Integration via Formal Free Trade Agreements
4. ASEAN Economic Integration via Production Networks and Value Chains
5. Progression in ASEAN Economic Integration
 - Prior to the AEC
 - Under AEC 2015
 - Under AEC Blueprint 2025
6. Conclusion

I. ASEAN Diversity -Why it matters? (Table 1)

Diversities:

1. Geographic size and dispersion – distant borders, archipelagic states
2. Demographic and economic size - population size, income and wealth
3. Historical traditions – Dutch, British, French, American, Russian => different legal systems, institutions, traditions and practices
4. Religious traditions and languages
5. Political systems
6. Economic systems - open-closed, market-state global-national

Question: Why does ASEAN diversity matter from the economic perspective

- Form and scope of economic integration?
- Speed and implementation?

Table 1: ASEAN – Some Aspects of Diversity, 2016

	Land area	Popula- Tion	GDP current	GDP per capita	Goods Trade	Trade/ GDP	FDI Inflow
	Thousand	Million	US\$bill.	US\$	US\$bill.	ratio %	US\$bill.
	sq km	Million	US\$bill.	US\$	US\$bill.	ratio %	US\$bill.
Brunei	5.8	0.4	11.2	26943	7.5	67	0.2
Indonesia	1913.6	258.7	931.2	3600	280.8	30	3.5
Malaysia	330.3	31.6	299.6	9464	357.8	119	11.3
Philippines	300.0	103.2	311.5	3017	142.3	46	7.9
Singapore	0.7	5.6	297.0	52963	630.0	217	53.9
Thailand	513.1	67.5	407.0	6034	410.0	101	2.6
Cambodia	181.0	15.2	19.2	1266	22.4	141	2.3
Laos	236.8	6.6	15.9	2402	7.2	46	1.1
Myanmar	676.6	52.9	68.6	1297	27.2	40	3.0
Vietnam	331.0	92.7	198.2	2138	351.0	177	12.6
ASEAN	4488.8	634.5	2559.5	4034	2236.3	87	98.0
Source: ASEAN Secretariat database							

II. Conceptual Underpinnings of Economic Integration

-Formal Integration Agreements

1. **PTAs**: when countries agree to reduce/eliminate *tariff barriers* on selected goods imported from each other
2. **FTAs**: when countries agree to remove barriers to *trade on all goods* among themselves, and also liberalise *trade in services, investments etc*
3. **CUs**: when countries, in addition to removing trade barriers among themselves, also adopt a *common external tariffs* versus rest of world.
4. **CM**: when countries remove all barriers to trade in goods and services and *movement of capital and labour* and adopt *harmonisation of micro-economic policies*, common rules regarding anti-competitive practices, common policies affecting key industries
5. **MU**: when countries scrap individual currencies and adopt a *common single currency, common exchange rate and monetary policy*
6. **EU**: when countries *harmonise tax systems and fiscal systems*

II.a WTO Rules governing Free Trade Agreements

- 1. Article XXIV of GATT:** Contains rules for trade in goods (236 RTA, 20 CU)
 - Eliminate barriers on *substantially all the trade* between signatory territories on originating goods
 - *Rules of origin* necessary to prevent trade deflection
- 2. Article V of GATS:** Contains rules for trade in services (152)
 - *Substantial sectoral coverage – number of sectors, volume of trade affected, modes of supply*
 - *National treatment*
- 3. The Enabling Clause: (51)** Allows RTAs among developing economies more flexible provisions in terms of substantial coverage, time frame for implementation, and partial tariff elimination.

Question: Is the AEC and its predecessors notified to the WTO under the Enabling Clause? What about ASEAN+1 FTAs such as ASEAN-Japan, ASEAN-China, ASEAN-South Korea, ASEAN-India and ASEAN-ANZ?

II.b Scope and content of Free Trade Agreements

1. Trade in goods—include trade remedies, customs procedures, rules of origin, technical barriers to trade, SPS, e-commerce
2. Trade in services – include financial and telecomms services
3. Investment -- include liberalisation, facilitation and protection
4. Other provisions – include movement of natural persons; intellectual property protection; competition policy; government procurement; labour and environment
5. Consultation and dispute settlement mechanism
6. Provision for periodic review
7. Transparent administration of laws and regulations

II.c Choice Between FTA and CU

Difficulties with common commercial policy in CU

1. The CET may lead to higher tariffs toward other WTO members and require redresses
2. Any proposed adjustment to tariff schedule by any CU member needs consent of other members because of CET
3. In membership with widely differing tariff regimes, difficult to arrive at consensus, eg in ASEAN

Difficulties with implementing preferential ROO in FTA

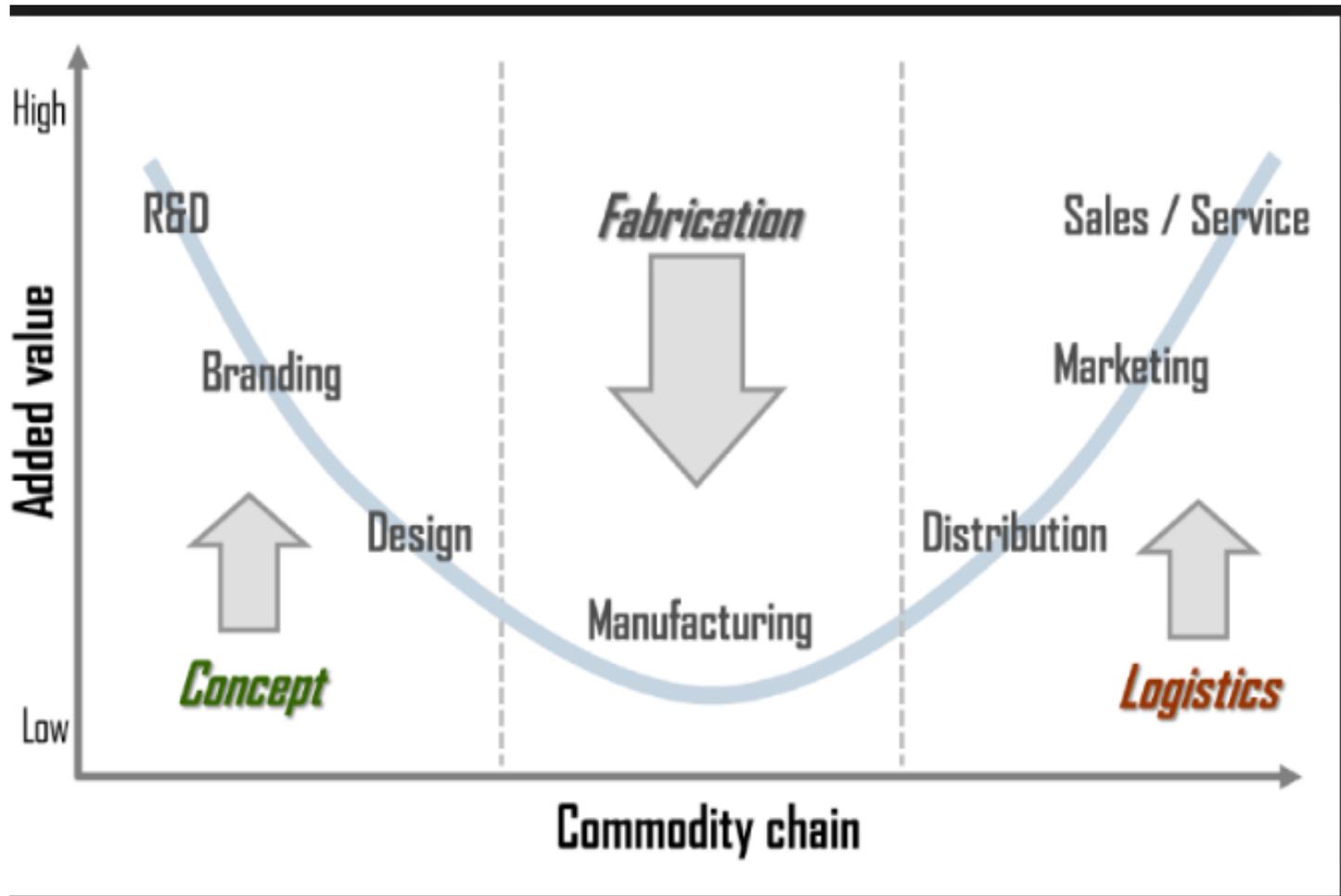
1. ROO implementation can be costly and time-consuming
2. “Spaghetti bowl” effect
3. “Erosion of tariff preferences” effect

III. Conceptual Underpinnings of Economic Integration

-Market-based GVCs and GPNs

1. **What is GVC (GPN)?** Fragmentation of production at different geog locations according to comparative advantage –specialization in tasks not products. Countries trade in value added rather than gross products
2. **Smile Curve** segments (see Fig)
 - Upstream concept – R&D, branding, design
 - Centre fabrication and manufacturing
 - Downstream logistics – distribution, marketing, sales-service
3. **Determinants** of GPN/GVC participation
 - Relative costs of production, procurement-distribution, cross-border coordination
 - Proximity to hubs
4. **Factors in growth of GVCs** in East Asia
 - Abundant low wage, trainable young labour
 - Connectivity and low risks of disruption to supply chain
 - FDI-MNC investments ---shift from Japan=>Asian NIEs=>**ASEAN4** , PRC=> **CLMV**

Smile Curve representing segments of value chain



III.a GVC Participation - Benefits and Concerns

Benefits and Concerns of GVC participation:

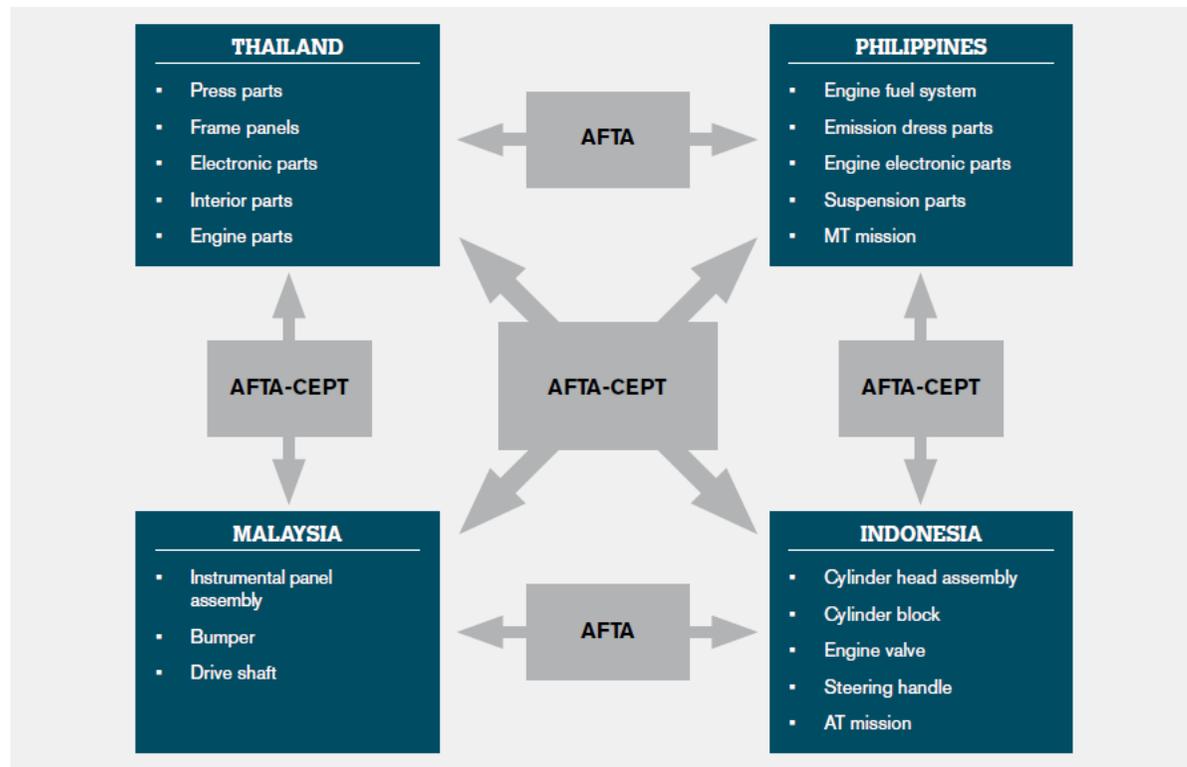
1. Foster industrialization as country needs capabilities in specific tasks rather than for whole product.
2. Encourages trade liberalisation, trade facilitation and transport and ICT connectivity to ensure smooth and open trade flows of imported inputs and exports
3. Leads to growth of intra-regional trade and FDI and strengthens AEC
4. Maximise domestic value added
5. Maximise participation of local suppliers and SMEs
6. Minimise coordination costs and disruption to supply chain
7. Implications of Brexit, Trump policies and BRI on GVC lengths and directions

Questions:

- How to increase involvement of Cambodia, Laos and Myanmar?
- How to move up the value chain for Indonesia, Malaysia, Philippines, Thailand and Vietnam?
- How to ensure Singapore remains in the high value added segment?

Complementary parts of supply system of auto-assembler in ASEAN (WTO-IDE)

Complementary parts supply system of an automobile assembler in ASEAN



IV. Progression in ASEAN Economic Integration

Formal ASEAN integration:

1. ASEAN PTA in 1977
2. AFTA, AFAS, AIA in 1992-1998
3. AEC 2015 in 2007
4. AEC 2025 in 2016

ASEAN market integration via GPN/GVC:

- On-going since the late 1980s when ASEAN5 adopted outward orientation industrialisation strategies focusing on FDI and export markets
- Integration into GPNs/GVCs received specific focus in AEC Blueprints

IV.a What is the AEC and Why?

What is the AEC?

The AEC is not a Customs Union (with CET) and not EU-style Single Market (with free mobility of capital and labour and some policy harmonisation), but an FTA Plus, with 4 pillars and core elements

Why the AEC?

1. Concern over weakened ability of ASEAN countries to attract FDI in the aftermath of AFC 1997-98 and emergence of China and India
2. 1997 *ASEAN Vision 2020* called for a stable, prosperous and highly competitive ASEAN in which there is free flow of goods, services, investment and freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities in year 2020.
3. 2002 *High Level Task Force on ASEAN Economic Integration* proposals and recommendations
4. *Bali Summit in October 2003*: ASEAN agreed to establish the AEC by 2020; later changed to 2015 for ASEAN6 and 2018-2020 for CLMV.

2007 AEC Blueprint (Table 2)

Table 2: AEC 2015 Pillars and Core Elements

Pillars	Core elements
A. Single Market and Production Base	A1. Free flow of goods: 9 strategic approaches
	A2. Free flow of services: 3 strategic approaches
	A3. Free flow of investment: 5 strategic approaches
	A4. Freer flow of capital: 7 strategic approaches
	A5. Free flow of skilled labour
	A6. Priority integration sectors
	A7. Food, agriculture and forestry
B. Competitive Economic Region	B1. Competition policy
	B2. Consumer protection
	B3. Intellectual property rights
	B4. Infrastructure development: 10 strategic approaches
	B5. Taxation
	B6. E-commerce
C. Equitable Economic Development	C1. SME development
	C2. Initiative for ASEAN Integration
D. Integration into Global Economy	D1. Coherent approach toward external economic relations
	D2. Enhanced participation in global supply networks

Source: ASEANSec, ASEAN Economic Community Blueprint

IV.b Benefits of AEC 2015 (1)

1. Goods and services trade liberalisation under ATIGA and AFAS

- Removal of tariffs and NTBs boost intra-ASEAN trade, economic growth and employment, more efficient resource allocation, productivity gains, encourage investments, lower business costs, improve economic competitiveness, lower consumer prices and widen consumer choice
- Trade facilitation (customs , standards, transport and connectivity) promote integration into GPNs/GVCs
- Improved service efficiency, lowers production and distribution costs
- Behind-the-border measures (competition policy, IPR protection, infrastructure development) reduce business costs and improve competitiveness

2. Investment liberalisation, skilled labour inflows under AIA and ACIA

- FDI brings financial, technological and managerial resources, GPN/GVC participation
- Skilled labour mobility facilitate services and FDI liberalisation with inflows of intra-corporate transferees and other skilled professionals. Skilled inflows facilitate transfer of knowhow, experiences and best practices.

IV.b Benefits of AEC 2015 (2)

3. Financial and capital market development

- Leads to more efficient markets to finance trade, investment and corporate development
- Cooperation in ASEAN+3 CMIM, ABM and AMRO contributes to financial resilience and stability

4. Narrowing the development gap

1. Promotes inclusive development and social cohesion in ASEAN
2. Facilitates implementation of AEC measures and actions
3. Transfer of resources, knowledge and development experiences from the more advanced to the less advanced members
4. Promotes SME development

IV.c Assessment of AEC 2015 Outcomes (1)

Overall assessment:

1. Generally regarded as successful, though recognise that the AEC remains a work-in-progress, requiring more efforts going forward
2. ASEAN economic integration has come a long way since the early efforts
3. ASEAN and AEC arguably the most successful grouping in the developing world. By end-2015 ASEAN region is economically dynamic and resilient, with regional peace and security achieved in large part through the ASEAN regional project

Failed full implementation of AEC Blueprint by end-2015

1. Problematic areas include services liberalisation, trade facilitation and free flow of skilled labour
2. Issue of uneven distribution of benefits and costs of liberalisation ---need mechanism to compensate losers (businesses and workers)
3. Need to strengthen monitoring capacity and reporting at ASEAN Secretariat and national levels

IV.c Assessment of AEC 2015 Outcomes (2)

Pillar 1: Single market and production base:

1. Tariff lines in the AFTA IL were eliminated by beginning of 2015. 96.0% of ATIGA tariff lines had zero tariffs. CLMV were allowed flexibility up to 2018 on 7% of tariff lines for sensitive products.
2. NTB elimination and trade facilitation measures - incomplete
3. Services liberalisation difficulties led to ASEAN minus X approach and partial liberalisation of Mode 3 and Mode 4 --replacement of AFAS by ATISA delayed.
4. Investment liberalisation -- ACIA replaced AIA in March 2012, covering manufacturing, agriculture, fisheries, forestry, mining and quarrying and related service. ACIA cobbled by extensive national exclusion lists and limitations on foreign ownership.
5. Freer flow of capital -- much unfinished business
6. Free flow of skilled labour ---8 MRAs concluded but implementation questionable

IV.c Assessment of AEC 2015 Outcomes (3)

Pillar 2: Competitive economic region:

1. Competition policy and law ---Not all AMS have enacted and implemented them. Challenge of anti-competitive behaviour of SOEs and discriminatory practices in government procurement.
2. IPR legislations and procedures ---Not all AMS have enacted and implemented them
3. Infrastructure development ---2004 ASEAN Transport Action Plan (2005-2010) broadens cooperation in regional transportation networks; Master Plan on ASEAN Connectivity (MPAC) 2010-2015; ASEAN Strategic Transport Plan (ASTP) 2011-2015. Land connectivity, ASEAN Single Shipping Market and ASEAN Single Aviation Market still “work in progress”. ASEAN Plan of Action for Energy Cooperation for several power interconnection projects for the ASEAN Power Grid implemented

IV.c Assessment of AEC 2015 Outcomes (4)

Pillar 3: Equitable economic development:

1. Significant progress in reducing development gaps between ASEAN6 and CLMV through rapid economic growth in CLMV
2. Strategic Action Plan for SME Development for 2010-2015 –incomplete implementation
3. IAI Workplan II met specific ASEAN-wide targets and commitments--- mostly training and capacity building initiatives.
4. ASEAN Framework for Equitable Economic Development (AFEED) adopted in 2011 to provide guiding principles for inclusive and sustainable growth for all sectoral and ministerial bodies under the AEC Pillars. The 2014 ASEAN Equitable Development Monitor focuses on identifying development gaps within ASEAN.

Pillar 4: Integration into global economy: (Mike Plummer to continue)

Questions on AEC 2015

1. Economists usually highlight the net benefits/gains of economic integration. What are the “costs” that must also be taken into consideration for wider public support and fuller implementation of AEC commitments/measures?
2. From your personal and country perspective, would you evaluate AEC 2015 as successful, qualified success, unsuccessful? What KPIs would you use?
3. From your personal and country perspective, what are the problematic pillars, sectors and issues in terms of (a) agreement with the objectives and (b) implementation difficulties?
4. One KPI often used to critique ASEAN economic integration is intra-ASEAN share of ASEAN’s total trade. This ratio seems to have stabilised at around 25% and is relatively low compared to EU and NAFTA. Is the low ratio problematic?
5. Another KPI often used to critique AFTA/ATIGA is low utilisation of tariff preferences among ASEAN importers. Why is that so? And does this present a problem?
6. For the CLMV countries, has the AEC objective of narrowing the development gap been achieved? What more needs to be done?

V. AEC Blueprint 2025 and Progress (1)

AEC 2025 Blueprint has 5 characteristics & core elements summarized in **Table 3**.

- 1. Highly cohesive and integrated economy** --- establish a more unified market and enhanced trade and production networks
- 2. Competitive, innovative and dynamic ASEAN** --- enhance competitiveness and productivity, deepen GVC participation, strengthen regulatory framework and practice and regional coherence.
- 3. Enhanced connectivity and sectoral cooperation** --- enhance connectivity in transport, telecommunications and energy and integrate-cooperate in key sectors.
- 4. Resilient, inclusive, people-centred, people-oriented ASEAN** ---enhance equitable economic development
- 5. Global ASEAN** –further global integration through FTAs and CEPs

Table 3: AEC Blueprint 2025 – 5 Characteristics and Core Elements

Characteristics	Core elements
1. Highly integrated and cohesive economy	A1. Trade in goods
	A2. Trade in services
	A3. Investment environment
	A4. Financial integration, financial inclusion & financial stability
	A5. Facilitating movement of skilled labour and business visitors
	A6. Enhance participation in global value chains
2. A competitive, innovative and dynamic ASEAN	B1. Competition policy
	B2. Consumer protection
	B3. Strengthening intellectual property rights cooperaton
	B4. Productivity-driven growth, innovation, R&D and technology commercialisation
	B5. Taxation cooperation
	B6. Good governance
	B7. Effective, efficient, coherent and responsive regulations and good regulatory practice
	B8. Sustainable economic development
	B9. Global megatrends and emerging trade related issues
3. An enhanced connectivity and sectoral cooperation	C1. Transport
	C2. Information and communication technology
	C3. E-commerce
	C4. Energy
	C5. Food, agriculture and forestry
	C6. Tourism
	C7. Healthcare
	C8. Minerals
	C9. Science and technology
4. Resilient, inclusive, and people-oriented, people-centred ASEAN	D1. Strengthening role of MSMEs
	D2. Strengthening role of private sector
	D3. Public-private partnership
	D4. Narrowing the development gap
	D5. Contribution of stakeholders on regional integration efforts
5. Global ASEAN	E1. Global ASEAN

Source: ASEAN Secretariat (2017) AEC 2025 Consolidated Strategic Action Plan

V. AEC Blueprint 2025 and Progress (2)

- ❖ **AEC 2025 Consolidated Strategic Action Plan (CSAP)** adopted in early 2017, laying out the 153 strategic measures and 525 specific action lines and expected timelines of implementation from 2016 to 2025, as well as sectoral work plans and bodies. It provides for a more structured tracking and reporting of the implementation progress of Blueprint 2025 by the ASEAN Secretariat.

Not included in AEC 2025 Blueprint

- No progression to CU or EU-style Single Market
- No government procurement provision
- No free movement of low-skilled labour provision

Emphases of AEC 2025 Blueprint

- Emphasis on completion of the 2015 objectives
- Emphasis on inclusive and sustainable development and innovation and IT developments
- Emphasis on improved monitoring, reporting, and public engagement

V. AEC Blueprint 2025 and Progress (3)

Actions taken so far, include:

- **ASEAN-wide Self-Certification System**
- **ASEAN Seamless Trade Facilitation Indicators (ASTFI); Trade Facilitation Action Plan (ATF-SAP)**
- **Focused and Strategic (FAST) Action Agenda on Investment**
- **RCEP –No conclusion after 20 rounds of negotiations.**
- **ASEAN Work Programme on Electronic-Commerce 2017-2025**
- **ASEAN Declaration on Innovation**
- **ASEAN Regional Guidelines on Food Security and Nutrition Policies**
- **ASEAN Institutional Framework on Access to Finance on MSMEs**
- **Vision for a Resilient and Innovative ASEAN**
- **Establishment of the ASEAN Smart Cities Network**

Questions on AEC 2025

- 1. Before finalisation of AEC 2025 Blueprint, there were many studies that recommended the future direction of the AEC, including progression to a EU-style Common Market. Is ASEAN too cautious and timid in retaining its FTA Plus model?**
- 2. Government procurement and mobility of low-skilled labour continue to be excluded from the AEC 2025. Discuss the pros and cons of their exclusion?**
- 3. From your perspective, which characteristic and core elements are going to be the most challenging in moving forward to year 2025?**

VI. Conclusion

1. ASEAN embarked on regional economic integration from 1992 with implementation of AFTA, AFAS, AIA followed by AEC, ATIGA, ACIA and ATISA. AEC2015 was established on 31 December 2015
2. AEC 2015 has achieved many milestones but have failed to fully realize its objectives and action programmes, and the AEC remains a work-in-progress. AEC 2025 was launched in 2016 to complete unfinished business and chart new directions
3. In the coming years the ASEAN region is facing serious challenges from anti-globalisation sentiments around the world, threats from terrorism and cybersecurity, and disruptive effects of climate change, technological advance and geopolitical shifts in the region.
4. More than ever, ASEAN needs to remain united and focused on its objective of building the ASEAN Community, especially ASEAN Economic Community.

“United we stand, divided we fall”.

END OF PRESENTATION

THANK YOU