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INTRODUCTION

The ASEAN Economic Community and Beyond

The ten countries of Southeast Asia — Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam — are achieving a major milestone of an ASEAN Community (AC) by the end-2015. The ASEAN Community comprises of three pillars — ASEAN Political Security Community, ASEAN Economic Community (AEC) and ASEAN Socio-cultural Community. While the ASEAN Political-Security Community calls for a “rules-based community of shared values and norms”, good governance, human rights, and adherence to the principles of democracy; the ASEAN Socio-cultural pillar covers a wide range of areas — education, information and communication technology, poverty alleviation, migration, natural disasters, entrepreneurship, social safety nets and the environment. The ASEAN Economic Community aims to deliver on an integrated production space with free movement of goods, services, and skilled labour.

According to the April 2015 Summit, there has been positive progress in building an ASEAN Community since 2009. In particular, the AEC, because of its quantitative nature and expected tangible benefits, has

attracted relatively more attention and is said to have achieved 90.5 per cent of its targeted 506 priority measures. This volume focuses on the ASEAN Economic Community and other economic initiatives arising out of it.

It should be noted that the ASEAN countries combined constitute a population of about 625 million, spanning a total area of 4.5 million square kilometres. In 2013, the ASEAN countries together generated a combined gross domestic product (GDP) of US\$2.4 trillion and total trade of US\$2.5 trillion, accounting for almost a quarter of Asia's total exports and imports.

THE ASEAN ECONOMIC COMMUNITY (AEC)

The ASEAN Vision 2020, adopted in December 1997, envisaged “a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and freer flow of capital, equitable economic development and reduced poverty and socioeconomic disparities” by the year 2020. To realize this vision, the ASEAN leaders signed the Declaration of ASEAN Concord II at the ASEAN Summit in October 2003, aiming for an AEC as an end goal of its economic integration. Later, the deadline was brought forward to 2015.

ASEAN achieved a major milestone at the November 2007 ASEAN Summit when its leaders adopted the AEC Blueprint, which laid out a road map to achieve the economic integration, and included action plans, targets and timelines to facilitate the process. It became a binding declaration of commitments by all member countries. The blueprint is organized along the AEC's four main characteristics, namely:

- a single market and production base;
- a highly competitive economic region;
- a region of equitable economic development; and
- a region that is fully integrated into the global economy.

The highlights of the blueprint are shown in Box 1.1. The blueprint envisions ASEAN as an internationally competitive and integrated region in the global economy, with benefits for all ten ASEAN member countries.

As ASEAN countries are nearing the deadline of December 2015, it is being increasingly felt that building a community is a work in progress. For a single market and production base, implying a larger production and market place, while tariffs have been reduced or eliminated, there still exist non-tariff barriers to that trade. In order to develop a competitive economic region, member countries are yet to build the necessary soft and hard infrastructures, and ASEAN is still grappling with the issue of the

BOX 1.1**Main Highlights from the AEC Blueprint****I. Single Market and Production Base**

<i>5 Core Elements</i>	<i>Liberalization</i>	<i>Facilitation</i>
Free flow of goods	Tariff and NTB elimination Synchronized external tariff alignment	Custom integration Standards and technical barriers to trade
Free flow of services	Full market access and national treatment Remove substantially all restrictions on trade in services	Mutual recognition Arrangements (MRAs) on professional services; professional exchange
Free flow of investment	All industries and services incidental to these industries to ASEAN investors	Transparency; streamlined procedures, avoidance of double taxation; joint promotion
Free flow of capital	Relax capital control measures on intra-ASEAN portfolio investments	Harmonize capital market standards; facilitate market driven efforts to establish exchange and debt market linkages
Free flow of skilled labour	Remove discrimination on employment	Harmonization of standards in education and training; MRA on vocational training

Priority Integration Sectors (PIS)

- Conduct a biannual review to monitor the status, progress, and effectiveness of the PIS road maps to ensure timely implementation
- Identify sector-specific projects or initiatives through regular dialogues or consultation with stakeholders, particularly the private sector.

Food, Agriculture and Forestry

- Enhance trade and long-term competitiveness of ASEAN food, agriculture, and forestry products
- Promote cooperation with international and regional organizations and private sector

II. Competitive Economic Region

- Develop a competition policy
- Strengthen consumer protection
- Regional cooperation in intellectual property rights (IPRs)
- Regional cooperation in infrastructure development
- Complete network of bilateral agreements on avoidance of double taxation
- Promote electronic commerce (e-commerce)

III. Equitable Economic Development

- Accelerate the development of small and medium-sized enterprises (SMEs)
- Enhance the Initiative for ASEAN Integration (IAI) to narrow the development gap

IV. Integration into the Global Economy

- Achieve a coherent approach towards external economic relations, including its negotiations for free trade area (FTAs) and comprehensive economic partnerships (CEP) agreements
- Enhance participation in global supply networks

development divide. The CLMV countries (Cambodia, Laos, Myanmar, Vietnam) need to narrow the gap dividing them from the ASEAN-6, so that they can participate more effectively in the AEC. Thus, for the end-2015, although key foundations for building a community have been laid, much more has to be done for the ASEAN citizens and businesses to feel the tangible benefits.

BEYOND THE ASEAN ECONOMIC COMMUNITY

Besides ASEAN's own economic integration process, the grouping has been actively negotiating free trade agreements with Australia–New Zealand (together known as CER — Closer Economic Relation), China, India, Japan and South Korea. This is because in addition to the trade within the ASEAN region, which is limited to around 25 per cent of ASEAN's total trade, the ASEAN countries trade more with countries outside the region (Table 1.1). These five ASEAN+1 free trade agreements (FTAs) are also enacted to strategically place ASEAN as a "hub" of FTAs in the broader Asian region.

However, the ASEAN+1 FTAs differ significantly from each other. The differences are in the way of negotiation, economic coverage, Rules of Origin and the administration system that is attached to these FTAs. These lead to concerns that the absence of a common framework across the FTAs may negate the maximum gain for the ASEAN region. This is observed from the low utilization of these FTAs by the businesses of the participating countries.

TABLE 1.1
ASEAN's Trade by FTA Partners, 2012 (US\$ billion)

	<i>Exports</i>	<i>Imports</i>	<i>Total Trade</i>
ASEAN	323.5 (25.8)	277.4 (22.7)	600.9 (24.3)
Australia	45.8 (3.7)	23.8 (1.9)	69.6 (2.8)
China	141.5 (11.3)	177.0 (14.5)	318.5 (12.9)
India	43.8 (3.5)	27.7 (2.3)	71.5 (2.9)
Japan	126.3 (10.1)	136.1 (11.2)	262.4 (10.6)
Korea	54.9 (4.4)	76.0 (6.2)	130.9 (5.3)
New Zealand	5.6 (0.4)	3.6 (0.3)	9.2 (0.4)
Total ASEAN	1,254 (100)	1,221 (100)	2,475 (100)

Note: Numbers in the bracket denote share in percentage.

Source: ASEAN Secretariat (Statistics Publication).

Realizing the challenges, during the ASEAN Summit of November 2011, it was decided to establish an FTA involving sixteen countries — ten ASEAN member countries, China, India, Japan, South Korea, Australia and New Zealand — under the framework of the Regional Comprehensive Economic Partnership (RCEP). The objective of RCEP is to attain a comprehensive and mutually beneficial economic partnership agreement that is WTO-consistent and transparent and is expected to involve deeper engagement between ASEAN and its FTA partners.

RCEP, once successfully negotiated and implemented, is expected to generate a GDP of US\$28 trillion (approximately 30 per cent of the world), covering about 3.5 billion people (48 per cent of the world). The agreement, led by ASEAN, is expected to entrench its “centrality” in a wider Asia-Pacific regional architecture.

Another FTA that has attracted attention since September 2008 is the Trans-Pacific Partnership (TPP). The agreement is believed to be a part of American foreign policy of “pivot to Asia”. During the APEC Summit of 2011, a framework for the TPP Agreement was launched with nine Asia-Pacific economies — Brunei, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, the United States, and Vietnam. The negotiations were later joined by Canada, Mexico and Japan.

These twelve economies together, in 2012, constituted 39 per cent (US\$28.1 trillion) of the world GDP, 26 per cent of the world trade (US\$9.6 trillion) and 11 per cent (792 million) of the world population. Negotiators envision the TPP to be a “comprehensive and high-quality” FTA, which aims to liberalize trade in goods and services, encourage investments, promote innovation, economic growth and development and support job creation and retention.

It should be noted that negotiations of both RCEP and TPP face complex challenges and are difficult to conclude. The TPP, although said to be in its final stages with the Trade Promotion Authority being granted to President Obama administration in June 2015, is facing difficulty. The presence of a number of contentious issues, including market access of agricultural products, automobile and dairy products, intellectual property rights, competition policy, government procurement, investment and environment, has been the major reason for prolonged negotiations since 2010. Similarly, the RCEP negotiations are not without complications, especially keeping in mind the dynamics between China, South Korea and Japan. Even India, though is viewed as a rising economic power, its position in multi-party trade negotiations remains rather conservative. The deadline of end-2015 thus looks too optimistic.

With both TPP and RCEP around, there is an ongoing debate on whether the mega-trade deals are competing or complementary. There are increasing discussions that an enlarged TPP or an enlarged RCEP will lead to the creation of a free trade area for Asia-Pacific (FTAAP).

The idea of FTAAP was first floated in 2004 by the APEC Business Advisory Council (ABAC). The FTAAP proposal was a way to fasten the progress towards achieving the APEC Bogor Goals and complete global liberalization in the WTO. It was also meant to minimize the possible negative effects arising out of an increasingly complex web of FTAs in the Asia-Pacific region. However, not much progress has been made on FTAAP until 2010 during the APEC Leaders' Summit, when it was announced that an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6 (now known as RCEP) and the TPP. Finally, during the APEC Summit in 2015, China actively pushed for an FTAAP among APEC countries and got the member countries to agree for a "strategic study" to be delivered by 2016.

ASEAN AND ITS REGIONAL CONNECTIVITY DRIVE

In addition to discussion on FTAs, the Asian region, with its economic rise, also witnessed significant discussion on connectivity in the last few years. An Asian Development Bank study, done in 2009, generated huge interest on the need for infrastructure financing in the Asian region. It stipulated that from 2010–20, Asia would need US\$8 trillion in national infrastructure and about US\$290 billion in regional infrastructure to connect its economies to each other and the world.

The ADB study was soon followed by ASEAN's Master Plan for ASEAN Connectivity (MPAC) in 2010. This Plan sought to further integrate a region of over 600 million people with a combined GDP of about US\$2.3 trillion across ten countries. It identified several priority projects, including the ASEAN Highway Network, the Singapore Kunming Rail Link, the ASEAN Broadband Corridor and a roll-on roll-off network. The critical aspect of the Master Plan was resource mobilization to implement key projects, and according to ADB estimates, ASEAN countries required infrastructure investment amounting to as much as US\$596 billion during 2006–15. Although ASEAN explored ways to generate funding, it was far too short

to match the need. Following the ASEAN connectivity initiative, APEC developed its own plans, and in 2014 adopted a Blueprint to promote regional connectivity by 2025.

Observing this wave of interest in connectivity and its financing discussions, China seized the moment, with its Finance Ministry proposing the idea of an Asian Infrastructure Investment Bank (AIIB) in early 2013 and thereafter in 2014, signing a Memorandum of Understanding with twenty-one countries. During this time, China also announced its “One Belt, One Road” initiative, referring to the New Silk Road Economic Belt, which is said to link China with Europe through Central and Western Asia; and the 21st Century Maritime Silk Road, which is to connect China with Southeast Asian countries, Africa and Europe.

The purpose of this book, then, is to seek to clarify and discuss in detail some of the issues unfolding in the last five to seven years. This is in the hope that this book, with its compilation of papers written during 2012–15, will develop a better understanding among people who may either constructively criticize or may appreciate the initiatives undertaken by the regional policymakers. To make a success of the initiatives of AEC or RCEP/TPP or regional connectivity, the participating countries do not only need vision and negotiation techniques, but also the understanding of a wider segment of its people.

ABOUT THE BOOK

It was during the development of AEC or emergence of RCEP, TPP, FTAAP and connectivity discussion that these twenty-one papers were written from 2012 to 2015. The idea to write these papers and subsequently to consolidate them in a book is, in general, to create better understanding of the regional integration issues that are happening not just within ASEAN but beyond that in the Asia-Pacific region.

The book does not narrate every initiative in detail under the ASEAN economic cooperation or the other agreements that are currently getting negotiated in the region. It does not assess the impact of economic cooperation on the ground level of participating members. Few others have done that work, and the papers in the book try not to duplicate their work. What the book does is deal with the regional economic integration initiative as a whole, and elaborate on some of the individual issues that may be of interest to people.

The book is divided into three parts. The first part deals with the state of the ASEAN Economic Community by 2015, the rationale for building up such a community, reasons for slow implementation at national level, issues of trade in goods and labour mobility and what possibilities lie ahead for AEC beyond 2015. The second part discusses ASEAN's external trade relations, mainly its five free trade agreements that led to the development of the Regional Comprehensive Economic Partnership (RCEP) Agreement. The papers on RCEP discuss the rationale behind such an undertaking, challenges during negotiation and policy recommendations. The part also deliberates on the other trade agreements like TPP, APEC and FTAAP that have emerged or gained prominence in the last few years. The last part talks of regional connectivity, which lately has grabbed policymakers' interests and is seen as a part of economic cooperation in the region. The part covers issues of Asia's infrastructure financing need, modes of financing, ASEAN and APEC connectivity and China's initiative in regional connectivity.

The book does not treat the issues of ASEAN economic cooperation, RCEP, TPP or regional connectivity as mutually exclusive subjects, rather strives to present them as inter-related elements of economic diplomacy that is growing in the Asia-Pacific region. Each paper, however, can be treated by itself, according to the reader's time and interest.

The papers in the book use personal discussion with academics and policymakers and secondary data and publications as the key sources of information. Being in a think-tank like the Institute of Southeast Asian Studies, I had the privilege of interacting with many experts knowledgeable and interested in this area.

The book is meant for people who have some knowledge about regional integration in Southeast Asia and are interested in growing it further. Among them are academics, journalists, and policymakers of Southeast Asia and elsewhere.