

## Chapter 3

# **Implementing the ASEAN Economic Community (AEC) Blueprint**

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## **INTRODUCTION**

The Association of South East Asian Nation (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 socio-economic disparities” by the year 2020. To realize this, the ASEAN Leaders signed the Declaration of the ASEAN (Bali) Concord II in October 2003 aiming at an ASEAN Economic Community (AEC) as an end goal of its economic integration.

At the 11<sup>th</sup> ASEAN Summit in December 2005, the ASEAN Leaders discussed the acceleration of the AEC implementation from 2020 to 2015 and requested the concerned Ministers and Senior Officials to study its possibilities. Subsequently, the 9<sup>th</sup> High Level Task Force (HLTF) Meeting on ASEAN Economic Integration in Singapore discussed and recommended it to the ASEAN Economic Ministers (AEM). Thus, the ASEAN Secretariat was tasked to develop “a single and coherent blueprint for advancing the AEC, by identifying the characteristics and elements of the AEC by 2015, consistent with the Bali Concord II, with clear targets and timelines for implementing various measures and pre-agreed flexibilities for the interests of the Cambodia, Laos, Myanmar, Vietnam (CLMV) and other concerned Member Countries.” In their August 2006 Meeting, the Ministers recommended the acceleration of AEC implementation. Likewise, they agreed to endorse and propose it during the 12<sup>th</sup> ASEAN Summit in Cebu, Philippines.

Accordingly, the ASEAN Leaders agreed to accelerate AEC establishment to 2015 during the 12<sup>th</sup> Summit in January 2007 and adopted the AEC Blueprint in the following 13<sup>th</sup> Summit in November 2007. It took one full decade for ASEAN to translate its vision into a blueprint.

## **2. SIGNIFICANCE OF THE AEC BLUEPRINT**

The Declaration on the AEC Blueprint stipulates that, “each ASEAN Member Country shall abide by and implement the AEC by 2015.” Concerned Ministers were tasked, with assistance from the ASEAN Secretariat, to implement the AEC Blueprint and report regularly on the progress of its implementation to the Council of the AEC.

The AEC Blueprint is a very significant development milestone in ASEAN, as an organization, in general, and in its specific efforts to deepen regional economic integration. The AEC Blueprint is a clear departure from ASEAN’s tradition since it has never devised a blueprint before to achieving its objectives. The process of regional cooperation and ‘regional community building’ in the past had been left open-ended. It has been driven by the dynamics of the process itself that oftentimes had been dictated by the slowest mover. ASEAN remains a voluntary organization at large, with decisions being mostly non-binding in nature. There is a serious lack of capacity in ASEAN to enforce its decisions either at the regional or at the national level. Many of its past initiatives had been implemented disappointingly slow.

With the adoption of the Blueprint, ASEAN departs from a process-driven integration into that driven by clearly defined goals and timeframes. The AEC Blueprint is a binding declaration of commitments by all Member Countries.

The Blueprint is like a master plan, consisting of the roadmaps that direct the Member Countries on delivering target outcomes, namely the AEC objectives, by managing sets of deliverables or core elements, and carrying-out customized delivery vehicles or actions/measures within a scheduled timeframe.

The Blueprint is organized along the AEC’s four primary objectives (or characteristics), namely: (a) a single market and production base; (b) a highly

competitive economic region; (c) a region of equitable economic development; and, (d) a region fully integrated into the global economy. It is a comprehensive plan, with 17 ‘core elements’ and 176 priority actions, to be undertaken within a *Strategic Schedule* of four implementation periods (2008-2009, 2010-2011, 2012-2013 and, 2014-2015).

Considering the gaps existing amongst Member Countries, the Blueprint is not a detailed agreement with clearly defined targets based on lengthy up-front negotiations unlike that of the North American Free Trade Area (NAFTA). NAFTA is a narrow, yet, a deep integration project and is also not about ‘community building’. In the case of the AEC, there are elements and details that can be realized only when necessary agreement and support have emerged out of greater confidence and comfort in the process and broadening of domestic constituencies. These are accommodated by the Blueprint’s pre-agreed flexibility provisions.

In a sense, the ASEAN process towards realizing the AEC is more like that of the European Union’s (EU) rather than that of NAFTA. The stark and important difference, however, is that the EU’s integration process is driven by its strong regional institutions, of which the ASEAN still needs to build on.

It should be noted that the Blueprint has still some vaguely defined goals and missing milestones. In the process of its implementation, therefore, signposts should be set-up along the road to indicate the progress in achieving the goals. Here is where ‘analytical-based ASEAN Scorecards’ can play a useful, perhaps, a critical role in the successful implementation of the Blueprint<sup>1</sup>.

The Blueprint can also be instrumental in coordinating the many efforts to achieving the objectives and to drive the process of integration. It provides the framework for the development of a set of peer review mechanisms based on systematic regional-national monitoring and tracking systems. It is also the basis for setting-up of meaningful ‘signposts’ to indicate progress (or the lack thereof) towards achieving the four primary objectives of AEC. These processes can facilitate the identification of areas of analysis, policy development and, technical inputs needed along the process.

Having a blueprint also implies opening up the process of regional economic integration to greater public scrutiny. ASEAN has been making progress in publicizing its many initiatives, but it seldom informs the public about their implementation and outcomes. Many observers have been complaining about ASEAN’s lack of

transparency on this aspect, which could be a measure to spare its Member Countries from the embarrassment of failing to implement their commitments. The Association appears to have realized that this lack of transparency could be the cause for its poor performance record.

Hence, efforts towards systematic monitoring, tracking and, publicizing of the implementation will contribute to the successful realization of the Blueprint.

As the Blueprint aimed for the region's full integration in the global economy, it also imparts useful and operational bases for an expanded economic integration agenda to include the wide East Asian region.

### **3. CRITICAL AREAS OF IMPLEMENTATION**

The AEC is an extension of major ASEAN initiatives over the past few years, including the ASEAN Free Trade Area (AFTA), the ASEAN Investment Area (AIA) and, the ASEAN Framework Agreement on Services (AFAS). These can serve as the building blocks of the AEC because they constitute its core elements. As such, the AEC can build on their respective achievements and that of the 2001 Initiative for ASEAN Integration (IAI). However, relevant adjustments pertinent to each of those initiatives may be necessary.

Being comprehensive and in view of the accelerated target date, the AEC and its Blueprint may be ambitious. Defining the outcomes and the required tasks for creating a single market and production base are perhaps the least complicated among the four objectives of the AEC. However, getting this implemented is a different matter.

Essentially, a single market and production base is about providing consumers in the region with a larger market place, where they can satisfy their consumption needs, while offering its producers with an expanded space for their production activities, regardless of existing national (administrative) boundaries within the region. This implies the total removal of all trading barriers in goods, services and, investment. Removal of these barriers still faces many hurdles: physically, technically, economically, politically and culturally.

A Free Trade Area (FTA) in goods is the first step in regional economic integration. Tariffs in manufactured goods can be eliminated readily as compared with that in selected agricultural products. Since many FTAs have set fixed carve-outs on some sensitive sectors. Minimizing those carve-outs is likely to be the cause of the prolonged negotiation processes of FTAs. Beyond this, the agreement must also include a set schedule of tariff reduction and elimination of non-tariff barriers within a reasonable period. AFTA has adopted its own approach. In addition to the general exclusion list (GEL), AFTA has a built-in temporary exclusion list (TEL) and sensitive list (SL). In the process, items in the SL will be progressively moved to TEL while those in TEL will be progressively shortened and ultimately eliminated. GEL is justifiable only if it follows the universal rules. In fact, the AFTA approach of not fixing its carve-outs at the outset can be more liberalizing, but this approach contains an element of uncertainty.

Nevertheless, tariffs in the ASEAN-6 (the six oldest ASEAN members) had been reduced significantly. Most of their products are already in the inclusion list (IL) with about 0-5 percent tariffs. At least 60 percent of those in the IL have zero tariffs already. Above five percent tariffs of recently moved products into the IL will be reduced to 0-5 percent by 1 January 2010.

Despite these developments, the public has yet to consider AFTA seriously. The share of intra-ASEAN trade has not appeared to have been affected by AFTA, although its increase is not a primary gauge of AFTA's success. ASEAN economies are globally oriented and to remain so suggest their success in maintaining their international competitiveness, another key objective of the AEC. Instead of diverting trade from global to regional market, AFTA should watch over more important indicators like its overall trade growth and dynamism. The stable share of intra-ASEAN trade in the total ASEAN trade could signify its success in maintaining trade growth in both the global and ASEAN markets. This is attributed mostly to substantial proportion of manufacturing in ASEAN trade, especially the growing intra-industry trade, in parts and components, which in turn increased the exports of final products to markets outside ASEAN. A fuller picture of the working of regional production networks can be gained by expanding the scope of analysis to the wider East Asian region. The AEC Blueprint also aims at strengthening and deepening the role of ASEAN in these production networks.

In what follows is a provisional list of the critical areas for the implementation of the AEC Blueprint. With regard to the establishment of a single market and production base, the following are the main issues:

- (a) AFTA has brought about significant reduction and elimination of tariffs for goods. The challenge now is how to tackle a host of non-tariff barriers.
- (b) AFAS has not gone that far. The question is whether ASEAN should adopt a new approach in liberalizing trade of services.
- (c) AIA is based on an outdated concept. The task is to develop a new scheme for investment liberalization that can promote the region's dynamic involvement in regional and international production networks.
- (d) Many ASEAN trade and investment facility programs, including capacity building, could be strengthened through synergy with similar programs of wider regional cooperation arrangements (e.g., ASEAN Plus Three, APEC).

Pertaining to the second AEC objective of achieving a competitive economic region, among the key issues are:

- (a) The development of regional guidelines on competition policy;
- (b) The need to conduct a comprehensive review of existing ASEAN Action Plans (e.g., Intellectual Property Rights (IPR), Transport, Energy, among others) and to streamline them according to the *Strategic Schedule* of the AEC Blueprint; and,
- (c) The creation of a Regional Infrastructure Development Fund with the participation of other ASEAN Plus Three (APT) or East Asia Summit (EAS) partners.

With regard to the objective of achieving equitable economic development, key issues include:

- (a) The need to undertake a full review of the ASEAN Policy Blueprint for SME Development to identify real promising actions;
- (b) Serious efforts to translate the concept of "ASEAN (regional) public goods" into practice;

- (c) Development of mechanisms to deliver real and sustained technical assistance to the CLMV countries; and,
- (d) Establishment of an ASEAN Development Fund (ADF).

With the objective of full integration into the global economy, the main challenges are:

- (a) Development of approaches and mechanisms to strengthen ASEAN's role as "hub" in the East Asian integration; and,
- (b) Development of an effective and 'open regionalism' cooperation schemes with other parts of the world (e.g., North America, Europe and, Latin America).

An earlier assessment, based on a series of research, listed the following key questions<sup>2</sup>:

- (a) Whether or not the roadmap to achieve the AEC is realistic, given the relatively short implementation period (timeframe) set to undertake it;
- (b) Whether the progress made in expediting economic integration, particularly the acceleration of integration of the priority sectors, remains on track to achieve its targets and objectives;
- (c) Whether ASEAN has the institutional framework to support such deeper economic integration; and,
- (d) Whether ASEAN would be able to successfully address the economic development divide among its Member Countries.

The assessment also emphasized the following challenges and issues that ASEAN needs to address to achieving the AEC: (a) deal with the barriers to trade; (b) expediting investment and services trade liberalization; (c) strengthening the ASEAN Dispute Settlement Mechanism (DSM); (d) deal with the proliferation of FTAs; and, (e) narrow down the development gap among ASEAN Member Countries.

The issues identified in previous assessments on trade barriers focused on the low utilization of AFTA's preferential tariffs, or the Common Effective Preferential Tariffs (CEPT). Among the possible given reasons were lack of clear and transparent procedures, lack of mutual trust between preference-receiving country and preference-granting country, low margin of tariff preferences between CEPT and most-favored

nation (MFN) rates and, lack of private sector awareness. Apparently, even the rather simple rules of origin (ROO) in AFTA have been fraught with problems during implementation.

Likewise, it was found out that non-tariff measures (NTMs) continue to persist and impede intra-ASEAN trade, particularly in fast-tracking integration of the twelve priority integration sectors (PIS)<sup>3</sup>. The policy of devising the PIS aims to intensify the integration of the respective sectors beyond what AFTA can achieve. AFTA, even when fully completed in 2015 will remain rather shallow. Therefore, it is the deepening of the integration in these priority sectors that is more important than an acceleration of timeframes.

Roadmaps for implementing the PIS were organized along the so-called horizontal measures and sector-specific measures. Greater emphasis should be directed to the sector specific measures, specifically on the real problems that inhibit the integration of the respective sector (i.e., problems of standards and conformance).

Promotion of PIS should encourage the establishment of sectoral groups of stakeholders. Managing these sectoral groups is never easy, especially, if they attract broad interests in all 10 Member Countries. These sectors should not end up as mere industry clubs but function as working groups with a meaningful agenda. Their activities should be based on solid sectoral strategies and policy papers that seem to be nonexistent.

Sector-specific NTMs are a key issue to tackle. Indeed, efforts in the PIS can be directed towards identifying and eliminating NTMs. There are many types of NTMs, some of which seriously interfere with trade, while others become non-tariff barriers (NTBs). ASEAN should now devote more attention in eliminating NTBs. Impact of NTBs are much felt when tariffs fall down. The removing the tariffs can likely lead to the proliferation rather than a standstill of NTBs. It is important that ASEAN could agree on a standstill on NTBs, effective immediately. However, this will be meaningful only if there is capacity in ASEAN to monitor the many types of NTMs. By their very nature, NTBs tend to be non-transparent. There is now an ASEAN Database on NTMs, but it is unclear how well it reflects the reality in the field.

A work program is being developed to eliminate NTBs by 1 January 2010 for ASEAN-6 and 1 January 2015 for CLMV. The complexity and difficulty of dealing

with the issues of NTBs should not be underestimated. It is not clear how soon the NTBs can be eliminated. While tariffs are simple and are handled by one agency (customs office), NTBs take many forms and involve a wide variety of agencies.

There are different approaches to define and eliminate NTBs. ASEAN needs to develop its own practical approach. In the case of NAFTA, a voluminous portion of its agreement relates to the definition of NTBs. The EU, on the other hand, considered any NTM that can be shown to impede trade as a violation of the free movement of goods (free movement axioma). This simple approach works well in EU because a strong legal treaty backs it up.

It may not be practical for ASEAN to come up with a comprehensive assessment of what should constitute the NTBs, instead, the association can focus on what can be called “priority NTBs”. There are two possible approaches to identify them. First is to identify the NTBs that are commonly encountered in the region through a series of studies. The other is to focus its efforts to the PIS and deal with the NTBs in those sectors.

When priority NTBs are already identified, all Member Countries should declare and justify which among them have been applied for protective reasons. Those instituted for protective reasons should be phased out within a certain timeframe, otherwise, they should be dismantled immediately. This approach may have a greater chance of success, however, sufficient time should be given since identification takes time. Similarly, there is no clear reason why the removal of NTBs should take longer in CLMV.

Trade facilitation can be used to overcome many types of NTMs and should be given priority in the implementation of the Blueprint. Several areas deserve special attention. First is the customs modernization. The Vientiane Action Program (VAP) has identified a comprehensive list of actions based on the ASEAN Customs Vision 2020. To ensure that there is free flow of goods and free circulation of goods, priority should be given to the following measures:

- (a) Full implementation of the Strategic Plan for Customs Development 2005-2010.  
This requires Member Countries to overhaul their legal frameworks.
- (b) Modernizing customs techniques should include the implementation of ASEAN Customs Declaration Document for exports, imports and, goods in transit.

- (c) Establish the ASEAN customs systems to facilitate the transit and integration of production and supply chain.
- (d) Expedite the implementation of ASEAN e-Customs and ASEAN Single Window (ASW). National Single Windows (NSW) should be implemented in 2008 and 2012 by the ASEAN-6 and the CLMV, respectively.

Second is standards and conformance. The first principle to minimizing technical barriers to trade is to develop mechanisms that ensure transparency in the development and application of standards, technical regulations and, conformity assessment procedures. It is also important that member countries align their national standards to international standards. The ASEAN Policy on Standards and Conformance provides the guiding principles for joint implementation among Member Countries. Primarily, the principles focus on harmonization of standards, implementation of the relevant conformity assessment schemes, its adoption and, use in technical regulations. Thus, there is also a need to expedite the development of the ASEAN Conformity Mark to facilitate the free movement of goods within the region. More standards need to be harmonized and the focus should be on the PIS.

Under the ASEAN Framework Agreement on Mutual Recognition Arrangements (MRAs), several priority sectors have been identified for the development of sectoral MRAs. Their completion and implementation, likewise, need to be accelerated. This requires an active participation of all member countries, including accreditation of national conformity assessment bodies.

To implement these measures, critical attention on the following should be considered:

- (a) Coordination with other relevant agencies such as customs;
- (b) Improvement of technical infrastructure;
- (c) Changes in legislation; and,
- (d) Post-marketing surveillance.

Indonesian Trade Minister has identified customs modernization, standards and conformance and, infrastructure development as key challenges for the country in the implementation of the AEC Blueprint<sup>4</sup>. In addition, she also emphasized the

importance of establishing institutions or mechanisms in the country to monitor the implementation of commitments. It is likely that other Member Countries share these same concerns.

#### **4. INSTITUTIONAL DEVELOPMENT TO IMPLEMENT THE BLUEPRINT**

ASEAN Member Countries must now focus their attention and organize themselves to implement the Blueprint. In essence, each member country will have to begin this process by preparing more detailed national action plans.

The Blueprint suggests that, at the regional level, ASEAN sectoral bodies will be involved in coordinating the implementation of the Blueprint, while the concerned government agencies are responsible for overseeing and monitoring. Forming partnership arrangements with government agencies, sectoral bodies, business associations and, civil society will ensure the participation of all stakeholders in the preparation of national action plans and in regular consultations on implementation.

The implementation mechanism to be developed consists of the following elements:

- (a) Relevant Sectoral Ministerial Bodies are responsible for implementation of the Blueprint and for monitoring of commitments under their respective domain;
- (b) The ASEAN Economic Ministers (AEM), who are in-charge of the economic integration in the newly established Council of ASEAN Economic Community (in accordance to the ASEAN Charter), are accountable for the overall implementation;
- (c) The AEM is assisted by the High Level Task Force (HLTF);
- (d) The AEM organizes regular consultation meetings with stakeholders;
- (e) ASEAN Secretary General prepares progress report on the implementation of the AEC to relevant Ministerial meetings and the Summit; and,
- (f) The ASEAN Secretariat reviews and monitors the compliance of the implementation of the Blueprint.

The newly established Economic Research Institute for ASEAN and East Asia (ERIA) can provide a useful role in assisting ASEAN on the implementation of the Blueprint. In doing so, ERIA, perhaps through its Deepening Economic Integration (DEI) project, should develop regular consultations with the ASEAN HLTF. This would help ERIA members in understanding and facing the varying challenges of each Member Country. In-country ERIA researchers need to be organized to make an inventory of these key challenges.

The next step for the DEI project (in the next phase) is to provide analytical input to various priority action plans (policy measures) in each of the core elements of the AEC. This analytical input could directly feed into one key task of the ASEAN Secretariat, which is the development of AEC Scorecards to monitor and assess the progress in the implementation of each element of the AEC. In undertaking the analysis, ERIA would be placed in a good position to develop modalities for the implementation of the Blueprint according to the broader challenges of realizing ASEAN commitments under the CEPA (Closer Economic Partnership Agreement) or FTA with its economic partners (such as China, Japan, Korea, Australia, India and, New Zealand). ERIA could also identify areas where these economic partners could provide valuable assistance to ASEAN, especially in capacity building.

## NOTES

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1. 'Analytical-based scorecards' should be distinguished from scorecards based on descriptive statistics of broad socio-economic indicators or those defined by the bureaucratic procedures involved in the implementation (i.e., regulations/policies issued). Analytical-based scorecards consist of evidence-based indicators, factors, or elements, which clearly affect the outcomes (i.e., reduction of transactions or logistics costs).
2. The series of research has been conducted under the ASEAN-Australia Development Cooperation Program of the Regional Economic Policy Support Facility. See Denis Hew, "Conclusion: Towards an ASEAN Economic Community by 2015," in Denis Hew ed., *Brick by Brick: The Building of an ASEAN Economic Community* (Singapore: Institute of Southeast Asian Studies, 2007), pp.209-225.
3. The twelve sectors are: (1) agro-based products; (2) automotive; (3) e-ASEAN; (4) electronics; (5) fisheries; (6) healthcare and healthcare products; (7) textiles and apparel; (8) wood-based products; (9) rubber-based products; (10) tourism; (11) air travel; and, (12) logistics.
4. Presentation by Dr Mari Pangestu, Minister of Trade, at a public seminar at the Centre for Strategic and International Studies (CSIS) in Jakarta (Indonesia) on 2 November 2007.