

# Chapter **11**

## **Policy Recommendations to Facilitate Implementation**

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The deepening economic integration project examines issues regarding to economic integration of ASEAN and East Asia. They involve three areas: 1) liberalization and facilitation issues; 2) regional cooperation of ASEAN and beyond; and 3) analysis of trade and investment and its promotion policies. Specifically, many of the following policy recommendations are examined and analyzed in more detail in Dr Hadi Soesastro's executive summary on "Deepening Economic Integration" under ERIA Research Project No1-2. The purpose of this chapter is to put those policy recommendations in a more cohesive, cogent and simplified manner to facilitate implementation by policy makers.

1. Given the different levels of development among ASEAN member countries, there arises the need to ensure the deepening and broadening integration in ASEAN is accompanied by technical and development cooperation to address the development divide and accelerate the economic integration of the less developed ASEAN Member Countries so that the benefits of ASEAN integration are shared by all ASEAN Member Countries. This process should be undertaken in the first phase of ASEAN Blueprint, 2008-2009;
2. The three principal pillars of regional cooperation of deepening integration, narrowing development gaps and sustainable development should be pursued and implemented simultaneously. Specifically, deepening economic integration should be complemented by the provision of "public goods" in terms of development assistance, concessionary grants and loans (ODAs), trade and investment facilitation, infrastructure and human resource development;

3. Deepening integration can be realized by a simultaneous implementation of the three pillars of regional cooperation as well as a facilitation in the movement of goods, services, investment, capital and skilled labour across the region as well as the elimination of non-tariff barriers (abide by the commitment of a standstill and roll-back on NTBs) effective immediately;
4. Such deepening integration shall agglomerate industry in the enlarged economic space of East Asia and through dispersal forces would tend to narrow development gap through reduction of service link costs and set-up costs;
5. De facto integration has progressed significantly in the region. De jure integration has to provide support and facilitation to accelerate de facto economic integration through improvements in ROOs to become less restrictive, simple and more flexible. For example, the change of tariff code (CTC) rule is not business friendly than the value-content (VC) rule, trade facilitation, customs integration through ASEAN Single Window and Standards and Conformance initiative as indicated in the ASEAN Blueprint;
6. Assessment and implementation of actual levels in liberalization and facilitation of goods, services, investment and competition policy are necessary and urgent as specified in the ASEAN Blueprint. ASEAN member countries must give serious attention to the effective implementation of the Blueprint and each member country will have to start this process by preparing a more detailed national action plans. It is equally important to identify the costs of specific barriers in specific sector and to clearly spell out the cost of restrictions to the domestic economy and not just to the foreign partners;
7. Partnership arrangements involving government agencies, sectoral bodies, business associations as well as the civil society will need to be established to ensure participation of all stakeholders in the preparation of national action plans;
8. Liberalization in service, including the establishment of foreign firms, is important for the region where production fragmentation and network have developed. Service liberalization can generate benefits beyond the service sector itself by

facilitating further development of production and distribution networks through the reduction of service link costs and network set-up costs;

9. With a view to minimize and avoid the so called “spaghetti bowl syndrome” because of the proliferation of FTAs in the region, an architecture of Asia wide economic integration is necessary. The AEC Blueprint stipulates the importance of developing coherent external economic policy because of its critical role in the economic integration of East Asia as a whole. Incoherence can be found in the areas of trade, FTA and investment policy;
10. Trade facilitation measure such as mutual recognition and standardization will provide new business opportunities and create innovation in the region;
11. Free flow of skilled labour is vital and necessary for transfer of technology and enhanced production network as clearly specified in the ASEAN Charter;
12. Harmonization and streamline of rules of origin (RoO) should be urgently implemented. Value content criterion is not favoured by firms in particular in machinery and automobile sector. Option system that firms can choose the value content criterion and change of tariff code might encourage trade in the region;
13. An Asian version of self-certificate system should be studied. Direct shipment requirement has reduced the effectiveness of regional FTAs;
14. Sectoral competition policy tends to establish a level playing field and to reform domestic market structure;
15. ASEAN Single Window should be implemented in all countries as early as possible, and the system will effectively work if national single window systems are successfully implemented to cover all provinces. At this stage. Coordination among government agencies and standardization of rules and regulations are of particular importance. For example, Indonesia has introduced the Single Administration Document (SAD) system in the Riau Island in December 2006;
16. The development of SMEs and infrastructure are important in the process of reducing development gap and equally important in establishing domestic industrial linkages and providing employment;

17. The concept and framework of ASEAN Economic Community can provide a useful benchmark and vital policy framework and stimulus to wider East Asia economic integration.
18. Investment has been the key driver of regional economic integration through the emergence of dynamic production network. In fact, investment issues have assumed more urgency requiring policy action to re-examine the concept of ASEAN Investment Area (AIA) as intra-Asian investment has been much more important than intra-ASEAN investment, particularly after the Asian Financial crisis in 1997;
19. The AEC Blueprint intends to develop a regional guideline on competition policy by 2010 and the introduction of competition policies in all member countries by 2015. While it is recognized that it would be impractical for ASEAN countries to have a uniform set of competition policies and laws but it is imperative to lend support to the initiative for some convergence of competition laws and “level of playing fields” where economic resources will be utilized more efficiently;
20. The desirable architecture of competition policy varies depending on the nature and characteristics of the sectors concerned. Sectoral competition policy, if carefully designed, can establish a level playing field and reform domestic market structure;
21. Deepening economic integration should be pursued among more participating countries so that economies of scale operate. A large economic space in East Asia would enhanced agglomeration forces and thereby dispersion forces. This implies that a larger regional trade and investment arrangement would be a more effective way in pursuing deepening economic integration and narrowing development gaps at the same time;
22. Ultimately, ASEAN member countries must give serious attention to the effective implementation of the ASEAN Blueprint, developing AEC scorecards in the areas of trade facilitation and services liberalization, streamlining ROOs in the region and re-examining the ASEAN Investment Area initiative as a first priority in the first stage (2008-2009) of the implementation of the ASEAN Blueprint.