

ERIA RIN STATEMENT No. 5

RIN Statement on AEC 2015 and Beyond: Community Building through Deepening Regional Economic Integration

ERIA RESEARCH INSTITUTE NETWORK



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FOREWORD

I would like to express my appreciation and thanks to Dr. Zakariah Rashid and Dr. Gary Hawke for drafting the Research Institute Network (RIN) Statement on AEC 2015 and Beyond: Community Building through Deepening Regional Economic Integration.

This statement is supported by RIN members; Jenny Corbett (Australia), Dk Mazlizah Pg Mahalee (Brunei) , Chap Sotharith (Cambodia), Wang Yuzhu (China), Sachin Chaturvedi (India), Yose Rizal Damuri (Indonesia), Daisuke Hiratsuka (Japan), Hyung-Gon Jeong(Korea), Leeber Leebouapao (Laos), Zakariah Rashid & Shankaran Nambiar (Malaysia), Khin Naing Oo(Myanmar), Gary Hawke (New Zealand), Gilberto Llanto & Sheila Siar (Philippines), Hank Lim (Singapore), Wisarn Pupphavesa (Thailand), and Vo Tri Thanh (Vietnam).

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Hank LIM
Chairperson, Research Institute Network

AEC 2015 and Beyond: Community Building through Deepening Regional Economic Integration

1. The ASEAN Economic Community will be constituted at the end of 2015. It will not be complete but it will establish commitment to progressive building of an ASEAN community.
2. The ASEAN Economic Community will be joined by the ASEAN Social and Political Community and the ASEAN Political and Security Community to form the ASEAN Community. Exactly what it will eventually look like cannot be known, but ASEAN Member States will find a balance between collective endeavour and national sovereignty which enables them to serve the whole population of ASEAN. The “ASEAN way”, ASEAN’s unique approach to regional co-operation characterised by respect for sovereignty, non-interference in the domestic affairs of other states and the non-use of force, and built on informal consultation, consensus and pragmatism, will generate a balance of collective and national appropriate to the ASEAN Community.
3. Just as the ASEAN Economic Community sits within the ASEAN Community, so it has a wider context in how it relates to its regional and international setting. ASEAN Member States, individually and in various combinations, will improve living standards and consumer welfare by interacting with a wider region and with the international economy. As they do so, they will probably be led to increase intra-ASEAN trade, but it is as a community within a wider regional community, and relating to the international economy, that living standards will gain most.
4. The immediate step is the Regional Comprehensive Economic Partnership between ASEAN and its trading partners. The successful establishment of RCEP will be an essential part of establishing respectful ASEAN centrality.
5. The Guiding Principles and Objectives adopted by ASEAN leaders determined its objective, to facilitate the best possible living standards for all the ASEAN Community and its regional partners. This requires the best possible allocation of all regional resources – human, natural, and constructed – and facilitation and cooperation to enhance those resources.

6. The “region” of RCEP offers many opportunities for more effective utilization of all its resources and capabilities through more effective infrastructural connections. These may take the form of transport facilities, ports, airports, roads, rail, or facilities for managing logistics at interchanges among transport media or national borders, and coordination of all the services required at borders – customs, immigration, any other licensing and regulatory systems. “Hard” and “soft” infrastructure are complementary, but whereas the latter require human capital formation through lifelong education opportunities, the former requires major construction and IT projects. Turning initial identification into detailed specification, and agreeing of priorities, are the major constraints on hard infrastructural development. This is especially so when developments are regional in nature – the major beneficiaries of any specific project may not be the residents of the economy in which most construction occurs. Aligning costs and benefits poses problems. Even the definition of “regional” becomes contested; development banks usually prefer “regional” to “national” projects but a project located entirely within one economy may have regional significance. A practical example is logistical linking of Indonesian islands. ERIA research such as the Comprehensive Asian Development Plan 2.0 provides a good starting point for the required analysis.
7. New development banks, such as AIIB, along with established sources of finance such as the World Bank, regional development banks, and bilateral contributors are all major providers of the expertise needed to connect available finance to infrastructural development. The role of financial deepening extends beyond infrastructure projects; firms participating in production networks need expertise in contracting, including with sources of finance.
8. Making best use of resources in the contemporary world requires providing for efficient operation of international production networks. When goods and services need to cross international boundaries several times, even low tariffs can be costly. Rules of origin should be undifferentiated and oriented towards regional collaboration. It should be possible to access services across borders, including movement of natural persons who are needed to ensure that international production networks can operate with contemporary “just in time” manufacturing processes in which a temporary delay at any point can become a widespread crisis. Competition rules and policies should promote competition between domestic producers and imports. Intellectual property rules should facilitate innovation,

including the likelihood that SMEs participating in international production networks can introduce improvements, especially in production processes, while complying with the standards required for collaboration among producers in different economies.

9. In summary, RCEP should seek to build on the international economic integration that business has already put in place within ASEAN and its trading partners.
10. In addition to allocating resources across national boundaries, RCEP should seek to enhance resources. This means predominantly enhancing human capabilities through learning although it also encompasses discovery or development of new uses for known natural resources and is therefore linked with innovation.
11. Learning may be directly related to economic integration as in understanding how to operate information technology so as to operate the modern equipment used for efficient logistics. But it need not be so direct. Learning is required to operate just-in-time manufacturing processes and lifelong learning plays a key role in generating the flexibility that enables SMEs and employees to change their activities so as to remain competitive in a changing world. Furthermore, learning has an even wider function – creating the public understanding that generates public and political support for the processes of economic integration and community building.
12. Just as community building within ASEAN is process of continual management rather than determination of a fixed end-point, so setting the ASEAN Community within its regional and international setting requires consensus on desired outcomes, continual review of progress towards agreed objectives, and periodic review of whether the agreed outcomes are still appropriate or need adjustment.
13. The Guiding Principles and Objectives of RCEP are an appropriate framework for such a process. ASEAN leaders mandate its establishment in late 2015 along with the ASEAN Economic Community. At the end of the year, we should have agreed objectives that clearly establish RCEP as a leading-edge process of economic integration and as showing how ASEAN-centric community building extends to its region and to the international community.

14. It will establish market access provisions that eliminate virtually all tariffs and constrain nontariff measures which have a barrier effect. It will establish clear rules for the delivery of services across borders by all modes, and it will provide a clear and welcoming basis for cross-border investment. It will set out the intention that Intellectual Property rules will facilitate innovation.
15. It was always envisaged that RCEP would respond to the different levels of development among ASEAN Member States and ASEAN's trading partners. We understand that negotiators have found a classification of three levels of development according to which different transition paths to the agreed market access objectives can be defined. We recommend that they should be expected to converge in 10 years, and that the mechanism should also be used for provisions other than market access in what has to be a charter for modern international businesses that contribute to an innovative and inclusive community. Economic cooperation activities among members should be linked to the learning together than is needed for achieving defined transition paths.
16. More specifically, the targets for 2025 should include: average external tariffs for members of 0-5 per cent; 95 per cent internal tariff elimination; the removal of core non-tariff trade barriers; the introduction of co-equal rules for ROOs; consolidated certification procedures; commitment to concrete trade facilitation programs; commitment to liberalization of services markets, particularly in areas which strengthen regional production networks; commitment to principles for regulatory reform (including transparency and contestability of markets); and commitment to principles for treatment of foreign investment
17. RCEP was also always intended to provide a means whereby its members could reach agreement with other trading partners. It has an opportunity to be a prototype for an accessions clause which avoids the need for approval by all existing members. An informed but independent entity such as ERIA could recommend how an applicant for an agreement with RCEP best fits into the pattern of transition paths defined for existing members.

RESEARCH INSTITUTE NETWORK (RIN)

The Research Institute Network consists of research institutes from 16 East Asia Summit countries. Economic Research Institute for ASEAN and East Asia (ERIA) requests Research Institute Network for continued cooperation in the following:

- To support ERIA's research activity through providing ERIA with country information and research findings from individual countries and giving advice to ERIA's research theme and policy recommendations;
- To encourage the dissemination of ERIA's research outcome to policymakers and political leaders who implement policy as well as opinion leaders in the countries;
- To support ERIA's capacity building programs;
- While ERIA will seek the best available talent for its research activities, it will look especially for participation from within members of Network.

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