

Chapter 8

Moving ASEAN and AEC Forward Beyond 2015: Highlights, Conclusions and Key Recommendations for the Successor AEC Blueprint post 2015

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Chapter 8

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The previous chapters elaborated the four pillars and the key foundation and the proposed ways forward towards an “ASEAN Miracle” of sustained high and equitable growth during the next two decades or so. This chapter consolidates the highlights, conclusions and recommendations in the previous chapters, with emphasis on the recommendations for the Successor AEC Blueprint post 2015. The chapter ends with the possible state of the ASEAN economies by 2025 and 2030 based on the results of the baseline simulations undertaken by Itakura (2013) for the Study.

ASEAN and AEC: progress and challenges

ASEAN experienced significant economic progress and transformation during the past two and a half decades, highlighted by ASEAN’s golden decade of 1985-1996 of high economic growth and substantial structural transformation in many AMSs (especially Thailand, Singapore, Malaysia and Indonesia). After the financial and economic crises in ASEAN in 1997-1999, ASEAN had more modest GDP per capita growth during the next decade, growing by 3.7 times in nominal dollar terms and 2.1 times in PPP terms during 1998-2011. There was also significant structural transformation in a number of AMSs during the past decade or so. The structural transformation during the 1998-2011 period is seen in the significant rise in the share of industry in the CLMV countries ranging from 8 to 16 percentage points as well as by the rise in the share of services in the Philippines by around 8.8 percentage points during the same period.

The robust economic growth in the region translated into the remarkable reduction in the incidence of poverty in the region from 45 percent in 1990 to about 15.6 percent in 2010¹ and the marked reduction in the poverty gap from 14 percent to 3 percent during the same period. The sharp reduction in poverty corresponds to a substantial rise in the region's middle class, more than doubling in share from about 15 percent of total population in 1990 to about 37 percent in 2010,² (or from about 10 percent in 1990 to about 27 percent under a more stringent definition of a middle class³). There have been substantial improvements also in other social development indicators such as infant mortality rate, youth literacy rate, life expectancy, human development index, and expected children schooling completion, especially in the CLMV countries.

The past decade has also seen substantial achievements in the region's economic integration efforts towards an ASEAN Economic Community, although much remains to be done to have a fully functioning economic community in ASEAN. Intra-ASEAN CEPT rates are virtually zero for ASEAN 6, and the average CEPT for the 10 countries was a mere 0.68 percent in 2012. There have been greater investment liberalisation commitments, especially in manufacturing, under ACIA as well as expanded services liberalisation commitments under AFAS 8. The trade facilitation regime in the region has also improved, with marked improvement in import and customs clearance in CLMV, the implementation of National Single Window in 6 AMSs (albeit still incomplete in many of them except for Singapore and possibly Malaysia), and the implementation of the ASEAN HTN. Air travel regime has also been more liberalised in many AMSs under the ASEAN-X principle. There is measured progress in many other regional cooperation agreements in ASEAN. Thus, despite that there is a lot more that needs to be done, there are robust grounds for optimism towards deeper economic integration in the ASEAN.

¹ Poverty threshold used is US\$ 1.25 PPP per capita per day at 2005 prices. The 15.6 percent estimate includes Myanmar. ASEAN-7 poverty rate is 14.2 percent. Myanmar poverty figure based on national poverty line which may differ from the US\$ 1.25 PPP per day per capita at 2005 prices used for ASEAN-7 (excluding Myanmar, Singapore and Brunei Darussalam).

² Middle class is defined by income per capita per day between US\$ 3 and US\$ 12.

³ The stringent definition of middle class is defined by income per capita per day between US\$ 4 and US\$30, which approximates the METI, Japan definition.

There remain, however, significant challenges for the ASEAN region. There were still around 95 million poor people in ASEAN by late 2000s. There were still around 120 million marginally non-poor, low income people living above US\$1.25 PPP per capita per day but below US\$2 PPP per capita per day around 2010. This means that regional economic community building needs to deeply take into account the economic status of such a huge segment of the ASEAN population. In addition, the gap between rich and poor AMSs remains very large and AMSs have a mixed record on income inequality. At the same time, there is a need to improve the competitiveness of ASEAN. ASEAN needs to be more integrated, generate more economies of scale and greater depth of industrial clusters, and become more innovative in order to be more competitive vis-à-vis the large economies of China and India.

Moreover, as indicated earlier, building a fully functioning ASEAN economic community remains unfinished. Nonetheless, as one eminent ambassador to ASEAN suggested, what matters with respect to AEC is not AEC 2015 per se but that the ambition and the momentum towards a more integrated, open, competitive, dynamic and resilient region, and the attendant reform and institution building efforts, remain and continue despite the many challenges along the way. Clearly, this process goes beyond 2015.

Vision, Indicative Outcomes and Framework

The vision of our ASEAN Leaders that was well articulated in the *ASEAN vision 2020* signed in Kuala Lumpur in the face of the tremendous uncertainties of the unfolding economic crisis of 1997 remains resonant for ASEAN for the years beyond 2015 in the current unsettled global economic environment. ASEAN remains a concert of Southeast Asian nations, now more robustly growing middle income and high income countries. ASEAN aims to be an economic community of dynamic development and that is more inclusive, resilient, sustainable and people-centered. Moreover, ASEAN continues to be a strong, outward-oriented and globally connected region.

ASEAN vision 2020 animated deeper integration initiatives in the region, best expressed by the ASEAN Economic Community, the ASEAN Charter with the creation of the three Communities in the region, and the Master Plan for ASEAN Connectivity. Significant progress in ASEAN community building

gave rise to *Bali Concord III*: Bali Declaration on ASEAN Community in a Global Community of Nations, signed on 17 November 2011. The Bali Concord III complements, amplifies, and indeed strengthens, ASEAN community building as it articulates ASEAN shared vision and coordinated action on various global concerns which they in turn impact on the progress and outcomes of ASEAN economic integration and community building efforts.

The Leaders' enduring vision and ambition of a dynamic, resilient, people-centered, inclusive, deeply integrated, and globally important ASEAN is best served by definable and high targets in order to continue to animate and sustain the momentum of the region's integration, reform, institution-building, and cooperation efforts. The Study proposes that ASEAN targets the elimination of (dire) poverty (i.e., people living below US\$ 1.25 PPP per capita per day), youth illiteracy and serious malnutrition as well as marked improvement of the region's food security capability by 2030. This calls for sustained high and equitable growth for the region's currently low income and lower middle income countries, marked improvement in the global rating and ranking of the lagging AMSs in indicators of business and investment climates and thereby generate a higher share of global FDI inflows by the early 2020s, and the successful conclusion and implementation of RCEP.

To achieve the Leaders' vision and the indicative outcomes discussed above and elaborated in Chapter 2A of this Integrative Report, the Study proposes a framework consisting of four pillars and a foundation towards the attainment of "ASEAN Miracle" of ASEAN RISING. The four pillars are similar to, evolved from, and deepen the four pillars of the AEC Blueprint: i.e., "Integrated and Highly Contestable ASEAN", "Competitive and Dynamic ASEAN", "Inclusive and Resilient ASEAN" and "Global ASEAN". In addition, the proposed framework includes "Responsive ASEAN" as the strong foundation of the four pillars. To a large extent, the Study's proposed framework and this Integrative Report explicate, build on, and deepen the *Jakarta Framework on Moving ASEAN and AEC Forward Beyond 2015* that ERIA, together with the ASEAN Secretary General, presented to ASEAN Leaders through H.E. President Yudhoyono during the ASEAN Summit in Bali in November 2011.

Note that the four pillars are not independent of each other; in fact, they are highly interrelated. Thus, a key challenge for AMSs and ASEAN is to find that balance and virtuous cycle among them, given that the measures needed to realise the four pillars are not easy at all. And precisely because the measures are tough, each AMS and ASEAN need to be responsive, bringing in the various stakeholders in the process of regulatory improvement and institution building needed to effect the ASEAN Miracle.

An integrated and highly contestable region (Pillar 1) with robustly growing, expanding and increasingly innovative industrial clusters (Pillar 2) linked more to a vast and robustly growing East Asia arising from a successful RCEP (Pillar 4) and operating under much more improved investment climate and responsive regulatory regime (Responsive ASEAN) can be expected to entice a much larger investment response and engender greater competitiveness in both domestic and foreign markets. This would lead to a markedly higher foreign trade, and ultimately, to higher economic growth and eventual elimination of poverty. Robust agricultural productivity growth, growing SMEs, greater physical connectivity between peripheries and growth centres, the drive for energy efficiency and green development, and greater disaster resiliency (which are all part of Pillar 3) also contribute to greater competitiveness, investment attractiveness, and dynamism of ASEAN (Pillar 2). Such greater competitiveness and dynamism is quantitatively expressed in terms of the increased share of ASEAN to the total FDI, trade and GDP envisioned in the previous sub-section. Thus, the implementation of the four pillars and foundation that comprise the proposed framework can be expected to lead to the attainment of the proposed desired indicative outcomes presented in the previous sub-section.

It is also worth noting that the four pillars are shaped by the following key premises; namely:

- Competitive industries and private sector dynamism is the core of ASEAN economic growth and development.
- Balanced and inclusive growth should be pursued primarily through dynamic economic forces, rather than primarily through income redistribution and social policies.

- The pursuit of resilient and green development brings out the complementarity among green growth, energy security and food security.
- ASEAN centrality should be kept in a dynamic pro-active diplomacy.

Pillar 1: Integrated and Highly Contestable ASEAN

Note that the pillar is expressedly not titled “Single Market and Production Base” because the latter has unnecessarily created alarm bells about AEC 2015 and much greater focus on liberalisation. The proposed Pillar 1 reframes “single market and production base” in the context of production networks-driven development and integration strategy. “Single market” is made compatible with diversified development stages among AMSs: this means “single market” remains a long term goal; a highly contestable market and integrated ASEAN is one great step towards it. A highly contestable market is one where there is relative ease in the entry and exit of goods and services (in the product market) and/or entry and exit of firms (for investments and operations in goods and services industries). The extreme form of highly contestable markets is “single market and economy” where there is free flow of goods, services, labour, and capital⁴. In the transition, priority is given to integration efforts to realise “*integrated production base*” or seamless production networks, with greater emphasis on *institutional connectivity*, *physical connectivity*, and *convergence of regulatory systems* to reduce service link costs.

In order that ASEAN becomes an even more competitive platform for regional production networks, a central element of Pillar 2 of the proposed framework, ASEAN needs to be more deeply integrated in terms of seamless trade facilitation, harmonisation of standards and facilitative conformance, greater connectivity and better transport facilitation, greater mobility of skilled labour, etc. in addition to highly contestable services and investment and non-protective NTMs. While there has been progress in many of them, much remains to be done. Indeed, the more difficult ones remain to be done beyond 2015. The reframing from “single market and production base” to “integrated

⁴ Given its popular usage in ASEAN, “single market and production base” may still be used but liberally interpreted as “integrated and highly contestable” in the transition.

and highly contestable ASEAN” shifts reference point from the European Union (the exemplar of single market and production base) to China and India as major competitors cum complements in trade and investment. Moreover, the reference frame is less ideological (i.e, “free flow...”) and more dynamically policy relevant in fast changing East Asia

In support of an integrated and highly contestable ASEAN, the following are the key recommendations culled from the previous chapters of the Report on various elements of Pillar 1 for the Successor AEC Blueprint post 2015:

1. Non-Tariff Measures and Non-Tariff Barriers

With the virtual elimination of tariffs, what is becoming a growing policy concern are the non-tariff measures (NTMs) since they have the potential to be measures for trade protection and thus become non-tariff barriers (NTBs). NTMs are much less transparent and more complex, covering a wide range of regulations that can have impact on the volume or pricing of international trade in goods. Said impact of the NTMs could have been unintentional or meant intentionally. Most NTMs actually have primary objectives meant for health, food or environmental safety and not for trade protection. Thus, the challenge is to ensure that such NTMs do not unnecessarily affect international trade adversely and/or become NTBs. This therefore constitutes a basis for the prioritisation of NTMs for review and streamlining.

The following are the key recommendations on addressing NTMs moving forward beyond 2015:

- a. ***Institutionalised consultation mechanism*** --- As economic integration and trade linkages deepen in ASEAN, there could be more cases that need to be resolved. Thus, ASEAN may need to establish a more continuing body than the current “Matrix of Cases” to look into these or to fully operationalise the ASEAN Consultation to Solve Trade and Investment Issues (ACT);
- b. ***Effective monitoring and transparency mechanism on NTMs---*** ASEAN can push for the global implementation of the new multilateral classification of NTMs as springboard for an exhaustive

inventory of NTMs in the region. This can then form part of the ASEAN Trade Repository in each AMS;

- c. ***Analysis of NTMs for streamlining prioritisation***---while the Matrix of Cases and NTM monitoring based on private sector feedback are possible approaches in the prioritisation of NTMs for streamlining, a more systematic approach is the statistical analysis cum case study on key industries which can indicate what NTMs have serious price-increasing impact in which industry. The results of such kind of analysis, together with case studies and private sector consultation, will provide the basis for determining which industries and which NTMs need to be given priority for possible streamlining;
- d. ***Addressing technical barriers to trade (TBTs) and SPSs***---this is addressed by ASEAN through its standards and conformance program and through the ASEAN Consultative Committee on Standards and Quality (ACCSQ); and
- e. ***NTM streamlining as a concerted domestic regulatory reform***—at the national level, NTMs may best be viewed not from a trade negotiation point of view but from a better regulation perspective. Streamlining NTMs therefore is really about minimising the cost of compliance by the private sector while the benefits from NTMs are achieved. Hence, the review of NTMs involves looking at the balance of benefits from NTMs *vis-a-vis* the cost of complying with them. It is assumed that there is sufficient analytic support in the AMSs to undertake said review. In the absence of such, though, there is need for capacity building and technical training to develop such capability to do a robust review and streamlining.

2. Trade facilitation and logistics

Efficient trade facilitation and logistics is absolutely necessary for a seamless production base and integrated ASEAN and is critical for competitive and well performing regional production networks. Results of the ERIA survey in 2011 reveal that the premier concern of the private sector in the region is trade facilitation and logistics. The two key components of ASEAN's trade facilitation program are the

establishment of (a) the ASEAN Trade Facilitation Repository, and (b) the ASEAN Single Window, both of which have corresponding national level initiatives. The full implementation of the two major initiatives can perhaps be described in terms of key components such as transparent and interactive repository of trade-related regulations and procedures; e-customs; e-permits (or e-certificates, etc.), and a single window.

The results of the ERIA survey of the private sector as part of the Mid-Term Review of the Implementation of the AEC Blueprint provide some indication of the important “to dos” in the short term. The results of the ERIA survey include the following (ERIA, 2012a, Vol 1, pp. IV-16-17):

- Strong support for an effective advanced ruling system to obtain binding rules
- A very considerable percentage of respondents in a number of AMSs view that irregular and arbitrary payments are often required to expedite release of goods from customs.
- Most of the respondents consider that computerisation and automation of customs and trade procedures have noticeably reduced average time of clearance.

The above results point to the importance of implementing *advanced ruling system, elimination of irregular and arbitrary payments, and the acceleration of the implementation of e-customs, e-payments, and the National Single Window to all AMSs*. Note that the process of the implementation of the National Single Window includes the *streamlining of business processes (including those of trade related agencies) and reduction of documentary requirements* (especially paper based), both of which can reduce further the time needed to import or export goods. Equally important is the institution of an *effective and efficient risk management system that helps reduce substantially the rate of physical inspection of goods*. Large number of documents and relatively high physical inspection rates are two important contributors to comparatively long period of time of import/export and customs clearance in some AMSs such as Lao PDR and Myanmar. The full implementation of the National and ASEAN Trade Repositories can be expected to reduce conflicts in interpretation of rules and regulations and

thereby reduce uncertainty, time spent, and likely the incidence of improper payment, in importing and exporting.

In addition to the above and more broadly, the ways forward towards a seamless trade facilitation regime in ASEAN include:

- a) ***standardisation of procedures***---it is necessary to strengthen and standardise existing NSWs that are at different levels of development and expedite their development;
- b) ***online payments***---online payment mechanisms through debit cards and credit cards should ideally not only be used for customs and tax/tariff payments but also for issuing licenses in technical control government agencies;
- c) ***digitalisation of back-office /support documentation***---efforts invested in creating facilitation tools will be less appreciated if control agencies continue to maintain documents in physical form in various parts of the country instead of in a handy digitalised manner. The role of ICT in automating the entire process is important; and
- d) ***digitalisation of support documents***--- documents should be digitalised in order for them to easily be shared, eventually leading to reductions in transaction costs.
- e) ***passing of e-commerce legislation***—this will allow all investments in ICT by the AMSs to be fully reaped. The legislation has to include digital signature, digital documentary proof and clear liabilities on the proper way to handle electronic documents;
- f) ***adoption of integrated risk management border controls to ensure cross border compliance***---this would allow for detailed controls of types of cargo and traders mobilising cargo in the region. This would likewise allow for all possible risks inherent to a shipment to be analysed;

In many ways, the above mentioned recommendations reflect the full roll-out of the National Single Windows in all (the major ports and airports at least) of the AMSs as well as the widening of the scope of the ASEAN Single Window beyond what is in the pilot project. Indeed, a

well performing ASW would call for the widening of the scope of the current ASW project to more stakeholders and more documents to all the AMSs as well as an effective legal framework for ASW.

In addition, the following are also recommended:

g) ***encouragement of use of pre-clearance and pre-certification programs***---this is to decrease congestion in wet and dry ports and allow for a more expedited physical movement of cargo. At the same time, having the needed information submitted to granting local authorities in advance will allow for a better risk assessment and compliance. In addition, implementation of advanced rulings can help minimize disputes such as on tariff classification for example. Relatedly, it would be important to streamline COO (certificates of origin) processes, including possibly the implementation of self-certification where feasible.

h) ***private sector involvement***—wherein a regular consultation or forum for public-private sector engagement should be held both at the national and regional levels through the creation of steering and technical committees for single windows;

i) ***physical infrastructure readiness***—this refers to the presence/availability of road, air and port infrastructure to expedite movement of cargo. Thus, for example, in border crossings between AMSs, the long truck queues arising from inadequate infrastructure is in fact one of the major complaints of the private sector. Improved infrastructure for effective implementation of NSW/ASW and customs clearance especially at the border included reliable electricity and backups to eliminate downtime as well as wider roads and more queue lanes at border posts.

3. Standards and conformance

Next to trade facilitation and logistics, the private sector respondents to an ERIA survey consider *standards and conformance* (S&C) the second most important area that should be implemented for AEC. This is because firms incur costs to meet technical regulations or standards and/or get conformity certifications in order to export to another country.

ASEAN is equally cognisant of the importance of the issues surrounding standards, technical regulations, and conformance assessment for a well performing AEC. As noted earlier, the majority of NTMs are in technical barriers to trade and SPS.

The process of harmonisation of national standards to international standards, practices and guides, the harmonisation of mandatory technical requirements and technical regulations, as well as the harmonisation of conformity assessment procedures is a complex, long and continuing process. Thus, ASEAN work on standards and conformance will run well beyond 2015.

Recommendations for the Successor AEC Blueprint post 2015 include:

- a) ***Add resources to deliver results***— Given the vital importance of standards and conformance (S & C) for AEC and given its complexity, it is important to put in more resources on S&C in order to deliver results. In particular, it is important to beef up the manpower and staff complement in the area of S&C at the ASEAN Secretariat. A ***High Level Task Force on Standards and Conformance***, possibly aligned with the High Level Task Force on Economic Integration, is proposed to help develop vision and strategies and raise policy profile for a facilitative S & C towards an integrated and highly contestable ASEAN

- b) ***Complete S&C in, and broaden out from, the Priority Integration Sectors***---ASEAN's decision to focus first on the Priority Integration Sectors allowed for a more effective utilisation of ASEAN limited resources and is delivering results. Much remains to be done in order to fully address the S&C bottlenecks in the priority sectors. Nonetheless, success in the priority sectors can serve as basis in broadening the S&C initiatives beyond the priority integration sectors. In expanding the sectoral coverage of S&C initiatives, one key question is whether to follow a similar approach as in the priority sectors or is it better to undertake "horizontal

measures” such as the creation of an **ASEAN product safety regulatory framework**;

- c) ***Identify and address the priority barriers***---having an external review of the barriers and potential economic benefits on addressing these barriers would be useful in order to determine the barriers that need to be prioritised. A common methodology in doing the review could be adopted and this may also serve as a mechanism to engage the private sector in the process;
- d) ***Maximise the benefits of engagement with the private sector***--The extent of private sector engagement in the AEC process is mixed. In S&C, the private sector is actively involved in some product working groups but not in others. SMEs also tend to be underrepresented. It is thus important to give more emphasis to greater engagement with the private sector in terms of information exchange, and developing mechanisms for feedback and support for the process;
- e) ***Define and communicate the benefits from AEC***---aside from defining the benefits from AEC on the whole, it is useful to define the benefits from standards and conformance (S&C) initiatives that lead to regulatory convergence and alignment of regulations and standards across ASEAN. The implied investment in data collection, analysis and dissemination of research results is to convince manufacturers and suppliers of the benefits of adhering to the standards and conformance initiatives. ; and
- f) ***Strengthen cooperation in capacity building***—the more developed economies need to bring the lesser developed economies on board the whole process so that the divide between them and the late developers does not deepen.

4. **Highly Contestable Markets in Services**

Simulation results indicate that reducing barriers to services investment and trade in ASEAN provides substantial potential benefit to AMSs. Moreover, modern services are the glue of production networks and value chains; e.g., logistics and transportation, telecommunications, finance. Moving up the value chain involves greater usage of high quality services embodied in production and increasingly outsourced domestically or internationally.

Given the importance of an efficient service sector in order to have a competitive goods sector and overall economy as well as for industrial and value chain upgrading, the policy implications include (a) the promotion of contestability in the service sector (including anti-monopoly measures), (b) the need for equal access to services, (c) transparency and greater participation of wider stakeholders; and (d) smart regulation to address market failures in the sector.

Moving forward into 2015 and beyond involves:

- a. Deepen and widen further the scope of services liberalisation beyond AFAS 8 (e.g., AFAS 10);
- b. More prudent application of the 15 percent flexibility (and reduction in the flexibility percentage beyond 2015);
- c. Minimize other MA and NT limitations;
- d. Preference should be given to the greater contestability in the connectivity- important services industries.

Financial services

A more measured and cautious approach to financial integration in the region is warranted. More integrated financial markets enhance efficiency and innovation in the provision of financial services within a country, provide greater venue for better allocation of investments within the region and entice more investments within the region. However, there are significant risks to financial integration, given the wide range of prudential regulatory capability and regimes among AMSs as well as the inadequacy of the region's financial stability infrastructure.

Despite mixed performance of AMSs in financial services liberalisation, ABIF aims for banking integration by 2020. Banking integration is more than banking liberalisation; it also includes cooperation and coordination. This reflects the importance of prudential aspects in banking as well as the wide gap in financial stability infrastructure among AMSs especially with BCLMV. Prudence is also called for because AMSs are increasingly interrelated resulting in business cycle synchronisation. This also calls for greater macroeconomic policy coordination in ASEAN.

Learning from lessons from EU, ASEAN has more cautious approach to banking integration with a greater focus on harmonisation of principles of prudential regulations, building financial stability infrastructure, capacity building for BCLMV, and market access for ASEAN Qualified Banks, likely initially for their subsidiaries and then branches.

Thus, the key recommendations for financial services in ASEAN post 2015 include the following (from Wihardja, 2013):

- a) ***Build the financial stability infrastructure to contain systemic risk and contagion effects after integration.*** This includes regional macro-prudential monitoring and surveillance (under AMRO), regional crisis management protocol, regional payment and settlement system, regional financial safety net (under CMIM now), legal system to protect property rights, and possibly automatic exchanges of tax information among the AMSs.
- b) ***Harmonise prudential regulations among AMSs.*** Despite being potential entry barrier, strong prudential regulations are a *sine qua non* to a robust and open financial sector.
- c) ***Capacity building is very important.*** This is especially so for BCLMV countries where regulatory gaps are substantial.
- d) ***Greater macroeconomic coordination within ASEAN and within ASEAN + 3 (China, Japan and Korea).***

e) *Intensive study on various aspects of ABIF and regional financial integration.* In view of the risks and rewards of deeper financial linkages within the region, it is important to examine the benefits, opportunities, costs and risks of the implementation of ASEAN Banking Integration Framework (ABIF).

5. Investment Liberalisation and Competition Policy

High investment rate is critical to the attainment of the target high economic growth in the Report. ASEAN remains dependent on large inflows of foreign direct investment in order for the region to strengthen its competitive footing and improve its technological upgrading in an increasingly competitive global market. This means that the region needs to maintain, and indeed improve, its investment climate. A more liberalised investment policy regime can be expected to improve further the investment climate in the region.

The way forward for investment liberalisation is relatively straightforward—to *continue the phased liberalisation process under ACIA*. Assuming strong political will and overall thrust among AMSs, the self-selection modality with the elimination or improvement of investment restrictions and impediments, together with clear guidelines for Component 1 and the institution of a CCI Peer Review Mechanism, is a robust and innovative way of forging ahead with the elimination of investment restrictions/impediments or the diminution of the scope and degree of the investment restrictions/impediments.

The ERIA Mid-Term Review of the implementation of the AEC Blueprint also recommended the setting up of guidelines on what can be included in the minimum investment restrictions/impediments under Component 2, and the institution of a third party monitor and resource, preferably the ASEAN Secretariat with possible analytic support from institutions like ERIA and the ERIA RIN members. It is well worth that such efforts, meant for AEC 2015, need to be continued and refined where needed in order to push ahead with the further phased liberalisation of the investment regime in the region.

6. Competition Policy

This is an important complement to the liberalisation and facilitation initiatives. Competition policy becomes more relevant in an increasingly integrated ASEAN not just with respect to practices in the domestic market but also to those that are transnational. The fundamental goal of competition policy is to ensure a level playing field for all firms, both domestic and foreign.

The recommended actions on competition policy beyond 2015 include the following:

- a) **Implementation of competition law.** AMSs without competition laws by 2015 need to be encouraged and provided technical support.
- b) **Capacity building.** More formal and institutionalised approach to capacity building needs to be considered.
- c) **Peer review of competition policy.** Given fairly uneven enforcement performance of competition authorities in ASEAN, it is worthwhile to undertake peer review of the competition law and policy in order to improve them further.
- d) **Enforcement cooperation arrangements.** With deeper economic integration, it is important to further strengthen cooperation on enforcement including general information exchange, case handling guidelines and joint investigations.
- e) **Competitive neutrality review and implementation.** As ASEAN deepens its economic integration, it is suggested that ASEAN undertakes or commissions a study towards competitive neutrality on issues like government issued financial guarantees, state aids or subsidies to firms (state owned enterprises or government linked corporations), and government procurement.
- f) **Anti-dumping and regulatory governance.** A review of the anti-dumping cases in ASEAN and the potential conflict between

competition policy (which focuses on consumer welfare) and anti-dumping policy (which focuses on firms) may need to be undertaken. There is also a need to study the impact of government regulations like price controls on competition.

7. Mobility of Skilled labour

The AEC Blueprint includes “Free Flow of Skilled Labour” as part of the single market and production base pillar. However, the measures in the Blueprint are suggestive more of “managed flow of skilled labour”. As such, it is best to look at mobility of skilled labour as primarily for enhanced competitiveness of ASEAN (e.g., through skills complementarity) and, perhaps more importantly as a major element of people to people connectivity, and therefore form part of Connected ASEAN discussed below.

To move forward beyond 2015, the following measures are recommended:

- a. ***Encourage more effective cooperation among tertiary institutions and facilitate exchange of students and staff.*** The use of the English language may facilitate student and staff exchanges. At the same time, ASEAN may consider programs like Europe’s Erasmus Programme and Bologna Process where, respectively, tertiary students spend some time in another regional country with transferability of course credits, etc, and where a system of comparable degree and credits is adopted.
- b. ***Liberalise and facilitate entry and employment of ASEAN professionals and skilled workers.*** Among the measures relating to this would be the facilitation of issuance of visas, employment permits for professionals and skilled workers, transparency on the legal and policy restrictions governing employment, creation of an ASEAN skills recognition framework, improvement of information networks on employment opportunities, and portability of social security benefits.

- c. ***Build ASEAN centres of excellence.*** With mutual recognition of qualifications and freer movement of professionals and skilled labour, ASEAN should look into developing centres of excellence and hubs for various services and sub-sectors in different countries.

- d. ***More effective implementation of MRAs.*** The ASEAN equivalence of the EU Professional Card for some ASEAN professions may be explored.

- e. ***Need to change mindset about skilled labour mobility.***
This would entail looking at skilled labour mobility as having a more synergistic effect on domestic pool of talents.

8. Connected ASEAN

Connectivity is central to an integrated and competitive ASEAN as a production base and to a more unified ASEAN market. ASEAN has thereupon developed a Master Plan on ASEAN Connectivity (MPAC) with a three-pronged strategy of having enhanced physical infrastructure development for physical connectivity, effective institutions, mechanisms and processes for institutional connectivity, and empowered people for people-to-people connectivity. The measures on trade facilitation, streamlining of non-tariff measures and engendering a more facilitative S&C regime all enhance institutional connectivity within ASEAN. ASEAN is enhancing physical connectivity within the region through the ASEAN transport facilitation agreements and through concerted efforts at improving transport infrastructure in the region (e.g., the ASEAN Highway Network; Singapore-Kunming Railway Line).

ASEAN has clear strategic actions to develop ASEAN physical connectivity through the ASEAN Strategic Transport Plan (ASTP) and the Master Plan on ASEAN Connectivity (MPAC). The challenge into 2015 and beyond for physical connectivity is essentially one of implementation. Thus, for example, it is important to have the signing of Protocol 2 to operationalise the AFAFGIT and AFAFIST, the two major land transportation facilitation agreements, preferably by 2015 at the latest. RIATS is now operative under ASEAN – X; however, without

Indonesia in it, air connectivity within ASEAN under RIATS is far from complete. Thus, the challenge is how to improve the political economy in Indonesia to allow the country to join RIATS, preferably by 2015. Meanwhile, the full implementation of SKRL can be expected to go beyond 2015.

Pillar 2: Competitive and Dynamic ASEAN

Plugging ASEAN deeply into the networked and innovation world future is the core of ASEAN's drive to be competitive and dynamic. Note though that some AMSs have been plugged into the networked world embodied in production networks and supply chains unleashed by what Robert Baldwin calls the 2nd unbundling. Note also that Baldwin dates the emergence of the 2nd unbundling during 1985-1995, precisely ASEAN's golden decade of high growth and significant economic transformation. Yes, ASEAN and China and Mexico have been very much the exemplars for the developing world of regional production networks and 2nd unbundling.

The 2nd unbundling and production networks are a catalyst for industrialisation; the challenge is to ensure that it does not become an "enclave industrialisation" with dual economies. The implementation of the AEC Blueprint measures and the measures suggested in this Report help prevent that to happen. Indeed, the measures under Pillar 1 for an integrated and contestable ASEAN as well as under the MPAC help AMSs join and grow with the regional production networks. At the same time, efforts to develop clusters and deepen the technological capability of AMSs deepen AMSs participation in and generate more benefits from production networks.

Thus, in many ways, the AEC Blueprint is a facilitator of industrial development in ASEAN and not only an enabler of regional integration.

Plugging many more AMS more deeply into the regional production networks includes deepening the capacity of AMSs in engaging in more commodities and more deeply through more robust industrial clusters or districts in each AMS and between such clusters among AMSs and the rest of East Asia. There are many lessons from the success stories of industrial clusters in ASEAN and China that can be adapted to more areas and countries in ASEAN. This may

also involve the development and implementation of a well-crafted cluster based industrial strategy in the ASEAN member states.

Thus for example, successful ASEAN clusters are leading MNC-driven; export oriented; have very good to excellent infrastructure; actively encourage inter-firm linkages and transmission of tacit knowledge, technical advice and support to local firms; and have advanced training institutes or specialised training programs. The successful Chinese clusters are characterised by export orientation, aggressive pursuit of foreign direct investment, very good to excellent infrastructure, and strong local government support on skill formation, quality assurance and innovation.

Technology transfer, adaptation and innovation are also very important for competitiveness and dynamic development. At the micro level, studies in ASEAN indicate that face to face contacts among engineers of partner firms facilitate more technology transfer than supplier audits and training. In addition, local firms which cater to foreign buyers, with joint ventures with MNCs, or invest more in research and development tend to undertake more process and product improvements than other kinds of firms. At the macro level, Singapore's successful experience highlights the importance of effective policy mechanisms to promote technology transfer and innovation (through FDI, licensing, joint ventures, as well as joint cooperation and development in research and innovation of local institutions with foreign and domestic enterprises), protection of intellectual property rights, and promotion of competition. Human capital development and increased investment in R & D are also critical moving forward, to provide a firmer and sounder base for innovation and creativity.

Drawing from the above, the key recommendations towards a competitive and dynamic ASEAN (Pillar 2) beyond 2015 and for the Successor AEC Blueprint post 2015 include:

- a) ***Undertake a regional cooperation program on industrial upgrading and clustering, together with the + 3 countries (China, Japan and Korea)***, to engender learning and partnership on areas like local government support programs in quality assurance, branding, and skills development; industrial cluster design, development and implementation (that includes prioritisation, linkages, specifics on

policy/regulatory/institutional issues, workforce development, and supply chain improvements, etc.), technology transfer programs, etc..

- b) Encourage more local firms to invest in R & D and raise substantially the investment rate in R & D nationally in most AMSs.*** As the Machikita-Ueki paper indicates, technology transfer, and product and process innovation is greater in local firms that undertake R & D. Moreover, moving up the technology ladder entails that firms and the government invest more in R & D,.
- c) Government facilitation programs where MNCs transfer technologies to selected local firms as future suppliers or sub-contractors*** through fiscal incentives to the firms and co-financing cost of technical experts. These will help local firms upgrade to meet the MNCs' quality standards and become innovative themselves. This is akin to Local Upgrading Programs such as Singapore's.
- d) Strengthen "visible and invisible colleges" for skill formation, human capital, and entrepreneurship.*** This calls for strengthening the quality of, and university-industry collaboration on, formal education especially in the technical, engineering and science areas. It also calls for the strengthening of network cohesion, encouragement of greater "shop-floor" or company skill formation, and establishment of institutionalised mechanisms for human capital development-based technology transfer such as the Penang Skills Development Center or the advanced technical training institutes that Singapore established with the cooperation of Japan, Germany and France in the 1980s.
- e) Improve the policy and institutional environment for technology transfer, adaptation and innovation.*** This includes some government co-funding support (with the private sector) for the establishment of specialised research institutes and training programs. It also includes strong intellectual property rights protection. Indeed, the results of the WIPO-ASEAN study indicate "more effective means to stop infringement" is a significant

determinant in the decision to apply for patents, trademarks or industrial design, while “streamlined and more efficient application procedures” were significant only for trademarks.

f) Many of the recommendations on IPR in the Mid-Term Review of the Implementation of the AEC Blueprint (ERIA, 2012a, Vol. II) are also relevant here for stronger regional cooperation towards improved facilitation and policy on IPR matters; to wit:

- a. Fully implement the ASEAN IPR Action Plan*
- b. Introduce special treatment for SMEs to enhance local innovation (e.g., expedited examination and discounted fee)*
- c. Continue cooperation in drafting legislation and enforcement procedures in IPR*
- d. Introduce numerical targets to monitor the administration quality; e.g., turnaround time in patents*
- e. Accelerate accession to key global IP conventions*
- f. Review existing legislation to enhance collaborative inventions and the local participation in them*
- g. Compile IPR-related data at the regional level in a comparable manner*
- h. Strengthen cooperation in dissemination to and engagement with stakeholders on IPR matters*

g) Strengthen supportive policy and institutional environment for investment and business operations. This includes a wide range of areas that are measures for an integrated and highly contestable ASEAN discussed in the previous chapter. This also implies greater ease of doing business and more responsive regulatory regime (discussed in Chapter 7 of the Report). A complementary aggressive pursuit of FDI is also important.

h) Facilitate greater mobility of skilled personnel (e.g. engineers) and scientists

i) Strengthen regional cooperation to build R & D infrastructure for the region and AMSs; e.g., AUN-SEEDS

- j) Engender a liberal research environment and encourage greater public-private collaboration in R & D*

Pillar 3: Inclusive and Resilient ASEAN

Inclusive and Resilient ASEAN pillar is similar to, but goes beyond, Pillar 3 of the AEC Blueprint “towards a region of equitable economic development”. The Study focuses on a few important areas related to inclusiveness and resiliency in ASEAN; namely, linking peripheries to growth centres and narrowing development gap, improving policy regime for SME development, raising agricultural productivity and improving AMSs food security robustness, the complementarity of energy efficiency, green energy, energy security and food security, and promoting social safety nets and disaster management.

The first is geographic inclusiveness where peripheral regions or countries are linked more with growth centres and engender growth in the peripheries themselves. Connectivity, and with it infrastructure, is critical to geographic inclusiveness. Using public private partnership (PPP) for the more bankable projects in the growth rates would allow resources to be freed for use for the less bankable infrastructures involving peripheral areas, and thereby bring them closer to the growth centres. The Report discusses issues and proposes recommendations related to engendering PPP in the region, as listed below.

Among AMSs, inclusiveness has been couched in terms of narrowing the development gaps between the hitherto poorer new ASEAN members and the richer old members. CLV countries have been the star growth performers in ASEAN during the past one and a half decades; the Myanmar Comprehensive Development Vision discussed in the Report has the potential of ensuring Myanmar to be ASEAN’s star growth performer during the next decade or so.

SME development is one key strategy in Pillar 3 of the AEC Blueprint. SMEs dominate the economic landscape in all AMS. Naturally, a competitive and dynamic ASEAN necessitates competitive and dynamic SMEs. Additionally, as dominant employment creators in most AMSs, a robustly growing SME sector is needed for robust employment growth, a critical means towards

inclusive growth. Thus, the importance of a supportive policy environment for SMEs in ASEAN. ERIA, together with the ASEAN SME Working Group and OECD, developed the ASEAN SME Policy Index based on a wide range of policy areas. The initial results of the ERIA Study suggest that there is so much more that needs to be done to really have a supportive SME policy environment in most AMSs, especially in CLM countries. Ironically, Singapore and to some extent Malaysia, two of the three richest AMSs, lead the AMSs towards the best practice regime for SMEs.

Agriculture and food security are equally important concerns for inclusive growth and resiliency in ASEAN. Agricultural development, primarily from productivity growth, remains an important driver of growth for CLM countries in the near future.

The continuing transformation of ASEAN and Asian food consumption, marketing and production offers both challenges and opportunities not only for CLM countries but also for other AMSs with sizeable agriculture sector such as Indonesia, the Philippines, Malaysia, Thailand and Viet Nam.

Greater emphasis on productivity enhancing investments, a trade regime and code of behaviour among importing and exporting countries to prevent sharp price volatility for basic food crop like rice, and greater access to and more certain land tenurial rights for countries like Myanmar augur well to a more inclusive and resilient agricultural development path in the region.

And food security is a Leaders' main concern especially after the 2007-2008 global food crisis. The malnutrition rates and the Rice Bowl Index indicate that a number of AMSs are very much food insecure and the capabilities to address food security remain significantly constrained in many AMSs. The Study proposes the institutionalisation of the Rice Bowl Index as a mechanism to determine each AMS's capability to address food security concerns.

Energy demand will grow markedly in ASEAN and East Asia in the next two decades, as the region becomes the growth driver of the world. A smart set of energy strategies and policies in ASEAN and East Asia can lead to more resilient and green ASEAN while, at the same time, raising growth prospects within the region and the world as well as contributing to improved climate

change scenarios. That smart set of strategies and policies include energy efficiency, expanded use of renewable energy like solar especially in island economies, institution of incentives for use of clean coal technology or CCT like Japan's BOCM, and the operationalisation of the ASEAN Petroleum Security Agreement.

Most of the above contribute to Greener ASEAN which would help in the long term to the region's food security and social equity since the region is very vulnerable to extreme weather disturbances that tend to hit the poor hardest as exemplified by Super Typhoon Haiyan that devastated Eastern Visayas of the Philippines. Super typhoon Haiyan brings out forcefully the fact that ASEAN and East Asia is the region most prone to natural disasters in the world. Super typhoon is just the latest of a string of major natural disasters during the past decade or so, such as the 2004 Indian Ocean tsunami, 2008 cyclone Nagis that devastated Myanmar, the 2008 earthquake in Sichuan, China, the 2009 earthquake in Padang, West Sumatra and the 2011 earthquake and tsunami in Japan.

Given that the region is disaster-prone, the fundamental challenge is to make the region more disaster resilient and to substantially reduce disaster losses in lives and property as well as adverse effects on the economy and the environment. Disaster risks arise when hazards interact with physical, social, economic and environmental vulnerabilities. Disaster risk reduction therefore involves understanding keenly the nature of the hazards and their interaction with the various vulnerabilities; reducing the vulnerabilities and underlying disaster risk factors; ensuring that disaster risk reduction is mainstreamed and embedded in national and local policies and programs; strengthening capacities for disaster preparedness including enhanced early warning system and for effective disaster response. The preceding constitutes the core of the Hyogo Framework for Action 2005-2015 in order to make the region more disaster resilient. In addition, it is important to strengthen complementarities among markets, government and the community such as through creative use of insurance schemes in minimising the adverse impact of disasters.

While disaster preparedness and disaster risk reduction rest a lot on national and local capacities and initiatives, there is clearly quite a bit of regional dimension to it. Indeed, ASEAN has been raising its collective efforts to cope

with the challenges, as exemplified by the establishment of ACDM, the signing of the AADMER, and the signing of the Cha-am Hua Hin Statement on EAS Disaster Management. The Cha-am Hua Hin Statement shows determination of EAS Leaders to strengthen cooperation and coordination on a wide range of areas in order to make the region more disaster resilient and the region's response to disasters more effective. The Report highlights key recommendations on the way forward into and beyond 2015 towards a more disaster resilient ASEAN and East Asia.

Finally, the Report points out that many AMSs have at best moderately effective coverage of a number of social safety net measures; e.g., unemployment benefits, old age pension, employment injury. As a number of AMSs face the problem of aging population and as AMSs become more integrated with each other and the world and therefore more vulnerable to economic shocks, the region may well examine how it would address the social safety net challenge in the future. International experience suggests that AMSs need to give emphasis on strong health insurance systems, developing effective transfer mechanisms that do not rely on labour market relationships, controlling administrative costs and modernising existing social security systems, and addressing the challenge of integrated systemic reforms in order to improve substantially the efficiency and effectiveness of social security systems. Note though that social safety nets need to be viewed as secondary to the more important strategy of engendering inclusive and dynamic economic growth towards social inclusiveness.

In view of the above, the following are the **key recommendations for the Successor AEC Blueprint post 2015 under Pillar 3 towards inclusive and resilient ASEAN:**

- a) ***Institutionalise the ASEAN SME Policy Index.*** This is a mechanism for a step by step and balanced process for consistently improving policy and institutional environment for SMEs in ASEAN. Of special interest are in the areas of technology, access to finance and easier and faster start-ups for SMEs.
- b) ***Strengthen government commitment to the PPP framework and the AMSs' capacity to select, develop and manage PPP projects.*** This is to

help address the infrastructural challenges of regional connectivity as well as national linkages of the peripheries to the growth centres. This implies, among others, the following:

- a. *AMSs invest more funds for PPP project development*, up to 5 – 10 percent of total project costs, to include the payment for expert advice as PPP projects can be complex.
 - b. For AMSs still learning the PPP ropes, *unbundle larger PPP projects into smaller and simpler projects*.
 - c. Establish a regional *ASEAN Centre of PPP Excellence* (or something similar) staffed with high calibre experts in areas like finance as a regional technical resource to provide assistance to AMSs in selecting and developing PPP projects.
 - d. Engender a *robust and enabling legal, regulatory and institutional environment* in developing and implementing efficient PPP infrastructure projects. This may call for the PPP units to have the necessary authority to move the PPP projects forward.
- c) ***Engender robust productivity driven agriculture growth*** as a major strategy to reduce poverty and narrow rural-urban divide in a number of AMSs. This involves, among others, the following:
- a. For CLM countries especially, where agriculture remains a key for rapid rural economic development, *public infrastructure, R & D, land titling, and rural credit* are very important.
 - b. For ASEAN -4, the focus is on *promotion of higher labour productivity, efficient resource allocation in agricultural production* (mainly towards high value added production), and overall price stability.
 - c. For the ASEAN region, the need for *coordinated and credible trade policy regime* and code of behaviour among importing and exporting AMSs is important to prevent sharp price volatility for basic food crop like rice, *improved supply chain connectivity* in agricultural products, and *enhanced regional cooperation in R & D, food safety and risk management strategies for farmers*.

- d) Institutionalise the *ASEAN Rice Bowl Index*, as a mechanism to determine each AMS's capability to address food security concerns.
- e) Towards *energy security and green ASEAN*, ASEAN and EAS need to prioritise the encouragement of energy saving and low carbon technologies as well as renewable energy. This entails, among others, the following:
 - a. Foster *policies supportive of renewable energy* and set targets accordingly. Policies can include the Feed-in-Tariff (FIT), renewable portfolio standards (RPS), and incentives for RE technology development.
 - b. *Develop framework to support the deployment and utilisation of efficient and low carbon technologies*, and call for international support to ensure ASEAN access to mechanisms that foster low carbon technologies more affordably. An example of a mechanism is the bilateral off set mechanism (BOCM) of Japan.
 - c. *Promote the use of biofuels for transportation*. This include ensuring free trade in biofuels within the region and investment in R & D on third-generation biofuels.
 - d. *Empower ASCOPE*, including the provision of funding, to implement the new ASEAN Petroleum Security Agreement.
- f) On *disaster management*, it is proposed for ASEAN to:
 - a. Strengthen further the (a) operationalisation of regional cooperation in disaster reduction and emergency response in the region, (b) networking and sharing of best practices, experiences and operational manuals among specialists, responders and practitioners, and (c) operationalisation and enhancement of standard operating procedures for greater compatibility and effectiveness in disaster response.
 - b. Accelerate national efforts in ASEAN to integrate disaster risk reduction in national policies and programs and to strengthen national and local capacity in disaster management in AMSs.

- c. Develop formal mechanisms to diversify aggregate disaster risks at national and regional levels and to elaborate multi-country risk pooling schemes and sources, i.e., regional fund, to cover sovereign disaster risk. Examine and implement *insurance mechanisms* at the regional level to help address the after-effects of natural disasters
- d. Establish a *regional centre for disaster risk data*, modelling and insurance. The availability of hazard maps and data is very important in enhancing risk-based pricing and identifying appropriate risk financing strategies for effective and timely disaster responses.

g) On *social protection*, focus needs to be given on

- a. Prioritisation and tiering to allow for wider coverage of population within prudent fiscal constraints.
- b. Establishing strong health insurance systems,
- c. Developing effective transfer mechanisms, and
- d. Making existing social security systems cost effective and modernised.

Pillar 4: Global ASEAN

The Global ASEAN pillar deepens further the Pillar 4 of the AEC Blueprint “Towards Full Integration to the Global Economy” to include issues of interest for ASEAN in the global community of nations.

The emphasis is on RCEP and ASEAN centrality in terms of process and substance, the tension between the need to strengthen ASEAN institutions especially the ASEAN Secretariat and the imperative of national autonomy, and where and how does ASEAN provide its voice in the international arena complementing and strengthening the voices of its member states.

The reason why RCEP is important for ASEAN is because deeper integration with East Asia matters even more: the benefits to AMSs are greater with deeper ASEAN integration with East Asia than with AEC alone. This reflects the fact that ASEAN economies are very much integrated in the production networks in the East Asia region, and East Asia is a much larger market than ASEAN alone. This means the current ASEAN strategy of moving towards an ASEAN Economic Community together with deepening economic integration with the rest of East Asia via RCEP is appropriate.

At the same time, much of the benefits from RCEP arise from lower barriers in services and easier flow of goods and services in East Asia, similar to the results of the simulations for AEC. Like in AEC, these areas, especially services and logistics, can be expected to be contentious in the negotiations. Nonetheless, the full benefits from the 2nd unbundling cannot be realised without efficient services, trade facilitation and logistics. Thus, there may need to be a change in mindset with respect to negotiations on services and trade facilitation in the RCEP in order for the latter to be an agent of development as much as of regional economic integration.

But it is important for ASEAN member states to have a coherent framework and approach to RCEP negotiations, and thereby shape the substance of RCEP negotiations. The Report presents a number of recommendations to ASEAN in shaping the RCEP agenda, as follows:

- ***Set at least 95 percent tariff elimination target, adopt “common concession”, and use extensively co-equal/ liberal ROOs.***
Greater emphasis on developing a common regime in support of expansion and deepening of regional production networks.
- ***Minimize ‘core NTMs’ that tend to be used for trade protection.***
- ***Use of the AFAS, including the formula approach, as the model approach for services liberalisation under RCEP.***
- ***Develop consolidated operational certification procedures.***
- ***Introduce concrete and tangible trade facilitation programs (as in the ASEAN) and address FTA utilisation issues.***

- *Set out agreements on RCEP implementation issues and arrangements such as dispute settlement mechanism for RCEP, possibility of trade policy review similar to the WTO review to enhance transparency in RCEP, and the operationalisation of the open access clause.*
- *Ensure strong technical and economic cooperation component in RCEP in support of the less developed AMSs.*

The above constitute the significant elements of the coherent approach. However, a previous study of ERIA shows that coming up with such a coherent approach along the lines listed above is not easy to do at all for the AMSs. There lies a key challenge for ASEAN and the credibility of ASEAN centrality in the shaping of the economic architecture in East Asia.

Strengthening ASEAN centrality in the evolving economic architecture in East Asia and raising ASEAN's voice in the regional and international arena necessitates deep integration within ASEAN and greater cohesion among AMSs themselves. Apart from ASEAN resolve and political will, **ASEAN may strengthen its cooperation with APEC** given the great overlap and complementarity of ASEAN and APEC initiatives. Areas of cooperation and joint learning between ASEAN and APEC include the following:

- Trade and business facilitation
- Standards and conformance
- Supply chain and regional connectivity issues
- Structural reform issues; e.g., regulatory reform, corporate and public sector governance, strengthening economic and legal infrastructure,
- Engendering greater transparency for greater public awareness of the progress and challenges of regional economic integration
- Strengthening the role of the private sector in the ASEAN process

However, ASEAN faces a significant institutional dilemma moving forward. Part of the problem for ASEAN is that ASEAN has not addressed frontally a major dilemma facing it: i.e., how to reconcile the need for effective regional institutions for regional integration with maintaining national autonomy and preserving regional diversity. Yet, maintaining ASEAN centrality and raising ASEAN voice and influence in the international arena demands that there is a

credible AEC performance and that AMSs have a strong political will to deepen economic integration within ASEAN and East Asia.

In order to address to a large extent the institutional dilemma facing ASEAN, the Study Team presents key recommendations on the way forward, as follows:

- ***Use flexible decision making when appropriate.*** Introduce voting on non-sensitive issues; retain consensus on sensitive issues.
- ***Build up independent monitoring mechanism.*** Strengthen monitoring of the AEC Blueprint by the ASEAN Secretariat (ASEC) and third parties. Strengthen track 2 and track 1.5 institutions in the ASEAN integration process.
- ***Introduce flexibility rules on members' financial contribution.*** The ASEAN Infrastructure Fund and the APEC Secretariat funding provide examples of flexibility in financial contributions that ASEAN may explore in revising the formula on members' financial contribution to ASEAN.
- ***Substantiate enforcement and dispute settlement.*** Strengthen EDSM. Establish mechanism to enforce compliance in non-economic sphere; e.g., establish independent Assessment Task Force; and explore adoption of regime sanctions.
- ***Strengthen ASEAN Secretariat.*** The Secretariat needs to be as much a technical resource as a secretariat. ASEAN may explore the establishment of specialised institutions linked with the Secretariat but located in other ASEAN capitals as a means of decentralising but at the same time strengthening the Secretariat.
- ***Increase private sector involvement.*** The Report shows many areas where the private sector can provide significant benefit to the ASEAN integration process.
- ***Clarify functions and relationships of ASEAN organs/institutions.*** For example, the role of CPR is not clear cut especially with respect to economic policy matters considering that institutional connectivity is a critical element of MPAC which the CPR oversees. The Report

highlights inclusiveness and resiliency a lot; this would call for greater coordination between the economic and socio-cultural community bodies. ASEAN may consider the OECD approach of creating joint committees from concerned ASEAN community bodies.

In addition, raising ASEAN voice through a “common foreign policy” a la European Union is not feasible given the great diversities among AMSs. An ASEAN voice and platform is best viewed as an additional and supplementary avenue for AMSs to access. Moreover, an ASEAN common voice and platform is not one of lowest common denominator but the creation and reiteration of norms so that ASEAN reinforces its normative power in the regional and international arenas.

Foundation: Responsive ASEAN

In addition to the four pillars, the Report’s framework includes a foundation for the four pillars; that is, responsive ASEAN.

Much of it is related to improving the business and investment environment in the region with a drive towards smart regulations and responsive regulatory regime. Note that the private sector is the key motor of the sustained high and equitable growth in ASEAN. Thus, AMSs need to create conducive and attractive business and investment environments for business.

Note that most AMSs have been improving markedly in global rankings on business and investment environments such as the Global Competitiveness Index, Logistics Performance Index and the Ease of Doing Business Index. And many of the AMSs are in top 20 investment destinations by MNCs as compiled by UNCTAD. Nonetheless, there are substantial gaps among AMSs and there remain significant concerns (e.g., corruption) which, when addressed, would make ASEAN an even more attractive investment destination.

One important way of improving further the investment attractiveness of AMSs and ASEAN is to move towards SMART regulations and responsive regulatory regime. SMART regulations, as put together by the World Bank and IFC in their Ease of Doing Business Report for 2014, is **Streamlined, Meaningful,**

Adaptive, Relevant and Transparent regulations. In a way, this is like the “best practice “set of regulations. As the DB report for 2014 brings out, Singapore is the nearest to the world’s “best practice” frontier, while a number of AMSs have huge regulatory gaps to fill up.

Moving towards the regulatory best practice is essentially regulatory improvement. The framework of the Report emphasises the role of responsive regulatory regime and the correlative informed regulatory conversations moving forward for regulatory improvement towards the best practice frontier but cognisant of the specific circumstances each AMS is in.

Responsive regulation or regulatory regime is a prerequisite for responsive ASEAN. Responsive regulatory regime involves the following actions:

Think in context – pre-test theories ‘on the ground’ with real participants.

Listen actively – it gives a voice to stakeholders.

Engage those who resist – show them respect, use their resistance as an opportunity to learn how to improve regulatory design.

Support the willing – use support and education to build a common understanding of the rationale for regulation, and to build the capacity and motivation to comply.

In resource poor countries, **engage wider networks of partners**, such as industry associations and NGOs, and co-opt them into the design and enforcement of regulation (e.g., development of industry-based accreditation programs and industry-based training).

Learn – evaluate how well and at what cost outcomes have been achieved, and communicate the lessons learned.

Informed regulatory conversations can ensure responsive regulatory regime. In support towards regulatory improvement and coherence in the AMSs and region, under the ERIA project monitoring the AEC, the ERIA RIN study team in each AMS facilitated regulatory conversations with concerned agencies and stakeholders on a specific regulatory issue of interest to each country. Informed regulatory conversations are meant to allow stakeholders to learn from each other, understand each other better, and converge on a common understanding about best ways forward.

The results suggest that yes, regulatory conversations---undertaken transparently and informed with some analysis, economy-wide perspective, and open mind---can be useful in improving the regulatory environment by highlighting (and engendering some consensus) on areas for improvement such as operational problems, coordination problems, and even regulatory inconsistencies. Ideally, informed regulatory conversations are continuing and regular, rather than one-off events.

The **proposed post 2015 regulatory agenda** consists primarily of setting some targets and milestones as well as the conduct of informed regulatory conversations. Regulatory reform is primarily a domestic issue, so **concerted unilateralism** is a better approach than negotiation. The AEC approach of setting targets and milestones has served ASEAN well in promoting concerted unilateralism. The targets proposed in Chapter 2 of the Report wherein all AMSs are in the top half and most AMSs in the top third of global rankings in ease of doing business, global competitiveness, logistics performance and the like by early 2020s can be considered. In addition, AMSs are proposed to agree to submit to periodic assessment of progress and impacts on the regulatory landscape of each AMS.

Process matters as well as content, so *the post-2015 agenda should also include commitments on process*. Informed regulatory conversations offer a responsive process – not just coming up with technical solutions, but involving stakeholders and helping to build a consensus in favour of reform. The informed regulatory conversations among government, business and other stakeholders need to be facilitated by independent intermediary institutions like research institutions and academia. The conversations are meant to assess efficiency of individual regulations, and coherence of (groups of) regulations.

ASEAN RISING: It's High Time It's ASEAN!

Given political will, concerted efforts among AMSs, and given private sector support in implementing the range of policy and regulatory reform, institution building, and regional cooperation initiatives spelled out in the previous chapters and consolidated in this chapter, ASEAN offers great opportunities for growth to the business sector and other stakeholders. To some extent, the best is yet to come for the ASEAN region.

The ASEAN region would have about 685 million people by 2025 and 720 million people by 2030. With robust growth of per capita income of most AMSs, dire poverty (i.e., people living below US\$ 1.25 PPP per capita per day) would be a thing of the past in the region within 2025-2030. **Table 8.1** presents possible per capita income (at 2007 prices) ranges for the AMSs based on the target growth rates set out in Chapter 2A of the Report and the use of the dynamic GTAP model. Using the current World Bank classification, **Table 8.1** suggests that there would be:

- At least 3 AMSs (Brunei Darussalam, Malaysia and Singapore) in the high income country category, with the possibility of Thailand joining the group if the actual growth rates would be substantially higher than the modest growth rates set out in Chapter 2A of the Report.⁵
- At least two AMSs (Indonesia and the Philippines) would barge into the upper middle income country category (but with the proviso that the Philippines experiences sustained growth rates very much higher than its historical performance), with Viet Nam nearly making it or could possibly make it also if the country could generate much greater growth bang out of its very high investment rate.⁶
- The lower income AMSs (Cambodia, Lao PDR and Myanmar) are expected to have their per capita GDP in real terms at least tripled or even quintupled by 2030 relative to 2007.

⁵ With fast growth and rising wages expected in Cambodia, Lao PDR and Myanmar, Thailand has a much tighter labour reserve to rely on, and thereby may need to markedly upgrade its technological capability and human capital in order to attain high economic growth rate.

⁶ Viet Nam had an extremely high investment rate (41 % of GDP in 2007), resulting in negative total factor productivity growth in the 2000s. The slow growth of Viet Nam in the model is the result of more sluggish growth in investment in the face of the country's very high investment to GDP ratio.

Table 8.1: GDP Per Capita and GDP Growth Rate Projection

	GDP Per Capita (US \$ at 2007 Prices)				Real GDP Growth Rate (Cumulative, 2007=100)			
	2025		2030		2025		2030	
	Low	High	Low	High	Low	High	Low	High
Cambodia	1523	1825	2090	2671	243	310	396	534
Indonesia	4598	6285	5971	9127	191	298	293	501
Laos	2272	2392	3249	3484	341	364	572	621
Malaysia	12831	15849	15694	20906	137	193	205	307
Philippines	3589	4772	4657	6857	195	292	310	504
Singapore	57065	64411	65277	76942	97	123	134	176
Thailand	6714	8204	8211	10777	87	128	128	199
Viet Nam	1986	2717	2605	3987	185	289	281	483
RoSEAsia	1567	1567	2165	2165	216	216	345	345

Source: Itakura (2013)

The GDP growth rate and GDP per capita in the table are decidedly ambitious for a number of AMSs. It is best to look at the implied investment growth rates as set out in **Table 8.2**. Perhaps the most striking is that of the Philippines in view of the comparatively lackluster performance of the country for much of at least two decades. It is best to look at the investment growth rate for the Philippines (as well as for the other AMSs) in **Table 8.2** as the **required** investment growth in order for the country to achieve the ambitious growth targets indicated in **Table 8.1**. This is because the country has such an extremely low investment to GDP ratio in 2007 (about 15% of GDP), in sharp contrast to the outstanding investment rate performance of Viet Nam during the year (41% of GDP). In short, *the Philippines has to focus its efforts at substantially improving its investment climate and dramatically increasing its investment rate* in order to generate the targeted high economic growth rates that are needed in order to eliminate dire poverty in the country during 2025-2030. Cambodia, Indonesia and Myanmar (although imperfectly represented in the model by RoSEA (Rest of Southeast Asia))⁷ also need to have markedly high investment rates in order to attain the growth targets set out in Chapter 2A which, as indicated earlier, represent the growth rates needed to eliminate dire poverty in the region.

⁷ Rest of Southeast Asia (RoSEAsia) is an amalgam of Brunei Darussalam, Myanmar and Timor Leste. Given that the population of Myanmar dwarfs the tiny populations of Brunei Darussalam and Timor Leste, the GDP and investment numbers in **Tables 8.1 and 8.2** appear more reflective of Myanmar. Brunei Darussalam, Myanmar and Timor Leste are lumped together in GTAP because there are no separate individual country models for each of them due to data problems.

Table 8.2: Cumulative Investment Growth

	Investment Growth (Cumulative, 2007=100)			
	2025		2030	
	Low	High	Low	High
Cambodia	538	708	849	1168
Indonesia	473	882	633	1288
Laos	367	415	607	698
Malaysia	451	619	596	880
Philippines	1255	1870	1729	2902
Singapore	402	492	477	619
Thailand	275	406	348	553
Viet Nam	55	143	109	251
RoSEAsia	996	991	1463	1448

Source: Itakura (2013)

Table 8.3 presents the cumulative export volume and import volume increases relative to the 2007 base year. For many of the AMSs, the export to GDP ratio and the import to GDP ratio would increase further in the next two decades, albeit only modestly so compared to the 1990s and the 2000s. The rise in the export shares is due mainly to the increased share of exports to the total output of machinery and heavy intermediates, especially in Indonesia⁸ and Thailand. The machinery and heavy intermediate manufacturing industries would have a rising share of GDP in most AMSs, as the discussion of **Table 8.4** below indicates. The table seems to suggest that domestic demand expansion would be a much greater driver of aggregate demand for the hitherto highly open AMSs, i.e., Malaysia and Singapore.

⁸ For Indonesia, light manufacturing and other manufactures also have marked increase in export orientation compared to the present.

Table 8.3: Cumulative Export Volume and Import Volume Growth

	Export Volume Growth Rate (Cumulative, 2007=100)				Import Volume Growth Rate (Cumulative, 2007=100)			
	2025		2030		2025		2030	
	Low	High	Low	High	Low	High	Low	High
Cambodia	315	380	454	588	202	257	295	396
Indonesia	205	214	308	369	258	382	360	575
Laos	422	451	691	758	415	467	686	791
Malaysia	119	158	186	261	195	253	280	384
Philippines	283	316	509	617	341	441	527	734
Singapore	87	112	123	163	143	179	185	242
Thailand	103	133	159	221	136	183	190	270
Viet Nam	220	317	305	488	157	233	231	368
RoSEAsia	97	100	169	173	443	446	682	685

Source: Itakura (2013)

The robust growth rates projected for the AMSs in the next two decades or so imply some changes in the structure of the economy of AMSs (see **Table 8.4**). The most notable pattern is the increased share to GDP of heavy intermediate manufactures (essentially chemicals, basic metals and metal based industries) and machinery industries (e.g., automotive, electrical, non-electrical) in many AMSs, most especially the Philippines (in machinery), Indonesia (in both), Malaysia (in heavy intermediates) and Thailand (in machinery). The resource based sectors and manufactures (e.g., agriculture and processing, mining and mineral processing, fiber and textiles, energy based industries) remain a key sector in a number of AMSs, especially Lao PDR, Cambodia, (likely) Myanmar, Viet Nam, and to a less extent, Indonesia. (Low skilled) Labour intensive manufactures in the table consist mainly of garments and footwear (light manufacturing) and other manufactures; the table suggests that Cambodia and, to a much less extent, Viet Nam would be the significant players in the region⁹. It is interesting to note that the share of labour intensive light manufactures and other manufactures is lower, and the share of agriculture and natural resource based industries is higher, under the high growth scenario than under the low growth scenario especially in Cambodia and even Viet Nam. This suggests that as wages rise, (low skilled) labour intensive manufactures lose comparative advantage in favour of agriculture and natural resource based

⁹ Myanmar could likely be another, but the RoSEAsia economic structure in the model is likely largely based on some “synthetic” structure from some comparable countries given the lack of robust sectoral and input-output data from Myanmar (as well as Brunei Darussalam and Timor Leste). Thus, the sectoral results for RoSEA could not probably provide significant insights for Myanmar or Brunei Darussalam.

processing industries, which generally tend to be more capital intensive than, say, garments and footwear. The table suggests that Singapore and Malaysia would be the AMSs most reliant on trade, financial and business services.

It must be emphasised that the projected sectoral shares in **Table 8.4** are based on models with economic structures (as indicated in input-output tables) around the base year of 2007 and the effect of resource reallocations across sectors arising primarily from wage increases over time. Such models **do not** adequately capture major technological or investment shocks. Thus, for example, Viet Nam has become a growing base for the assembly of electronics and electrical equipment products in recent years, which the input output available for 2007 would likely not capture adequately. Hence, it is likely that the share to GDP of machinery in Viet Nam would be significantly higher than what the model simulation results in **Table 8.4** indicate. Similarly, the Philippine I-O would not adequately capture the sharp rise in business process outsourcing services in the Philippines; as such, the share of trade, finance and business services would likely be higher and that share of machinery would likely be lower than what the table indicates. Thus, at best, the table can be viewed as essentially indications of the possible economic structure of ASEAN economies in the next two decades or so.

Even if it is only indicative, **Table 8.4** nonetheless suggests that changes in economic structure are inevitable in the face of economic growth and in the context of open and integrated economies in ASEAN. Such changes in economic structures, however, are not smooth and painless. Thus, it is best that such economic transformation process is managed well.

Arguably, many AMSs have been managing their economic transformations through such mechanisms as roadmaps or industrial development plans that have been agreed upon by key stakeholders, together with budgetary and institutional support. As an example, based on **Table 8.4**, the Philippines would have to undertake the biggest investment and economic transformation among the AMSs in order to meet the growth targets to eliminate poverty in the country. Specifically, apart from the marked rise in investment rate (and therefore the need for a very conducive investment climate), the Philippines would have to undertake a major revival of its hitherto languishing

manufacturing sector drawing from what **Table 8.4** suggests of a marked rise in the share of manufactures to GDP for the Philippines.

Table 8.4: Share of Sectoral Output Volumes and Projected Sectoral Shares in ASEAN

No	Sector	Share of Sectoral Output Volumes							
		Cambodia		Indonesia		Laos		Malaysia	
		Low	High	Low	High	Low	High	Low	High
1	Agriculture and agribased products, Natural resources & Energy	32	40	22	23	49	49	15	16
2	Light manufacturing, Other manufactures	23	15	4	2	3	2	1	1
3	Heavy intermediates	3	4	15	15	10	11	17	17
4	Machinery	5	5	10	9	1	1	24	23
5	Utilities, Transportations and communications	7	7	7	6	10	10	9	9
6	Trade, Financial and business services	11	11	14	15	9	9	22	22
7	Construction and other services, Public services	19	19	28	31	19	19	12	12
		100	100	100	100	100	100	100	100

No	Sector	Projected Sectoral Shares in ASEAN									
		Philippines		Singapore		Thailand		Viet Nam		RoSE	
		Low	High	Low	High	Low	High	Low	High	Low	High
1	Agriculture and agribased products, Natural resources & Energy	11	12	9	9	15	17	38	42	31	31
2	Light manufacturing, Other manufactures	2	1	0	0	4	3	12	7	2	2
3	Heavy intermediates	7	7	13	12	14	14	8	8	3	3
4	Machinery	41	38	21	22	30	29	7	7	7	7
5	Utilities, Transportations and communications	7	7	15	14	8	8	9	9	10	10
6	Trade, Financial and business services	15	15	24	24	18	18	11	11	19	19
7	Construction and other services, Public services	17	19	18	19	12	13	15	16	28	28
		100	100	100	100	100	100	100	100	100	100

Source: Itakura (2013)

Interestingly, the Philippines has been undertaking during the past year a serious process of crafting detailed industry roadmaps with the active involvement of industry players as well as the government. It is also interesting to note that the researcher person from the Philippine Institute for Development Studies or PIDS (an ERIA RIN member institute), who has been effectively in charge of consolidating and integrating the various industry roadmaps over the past year, has been recently promoted to a top government position with the responsibility of managing the implementation of the industry roadmaps.

It is worth looking into the Philippine industry roadmaps as an example of the preparation for an integrated ASEAN (and East Asia) and management of the

structural transformation process. Aldaba (2013) presents the Philippine new industrial policy that consolidates the various manufacturing industry roadmaps. Remarkably, the new industrial policy takes as given an integrated ASEAN and the focus of the roadmaps is how to attract more investments, strengthen coordination and facilitation to address binding constraints, and create proper environment for the private sector towards industry upgrading and along the country's comparative advantage (Aldaba, 2013, slide 2). The Philippine roadmap for structural transformation towards a globally competitive manufacturing sector consists of three phases, starting with Phase 1 of rebuilding capacity of existing industries and strengthening emerging industries where the country has comparative advantage, followed by Phase 2 of shifting to high value added activities, investment and upstream industries, and linking and integrating industries and firms especially between large enterprises and SMEs. The third phase involves deepening participation in regional production networks in a number of selected industries like automotive and machinery industries.

The roadmap has set out targets and strategic actions by industry, including specific actions to close the supply or value chain gaps by industry, expanding the domestic market base by industry, human resource development and skills training by industry, and the encouragement of SME development and innovation. Overseeing the implementation of the roadmap is the National Steering Committee headed by the President of the Philippines, Subcommittee for Industry Roadmap Formulation, and the Industry Councils and Institutes with the latter being the venue for coordination, information sharing, monitoring, and policy formulation for each selected industry. A big set of government agencies are involved in the implementation of the roadmap, and coordination among them is expected, given that it is the President of the country who chairs the National Steering Committee (see Aldaba, 2013 for details).

The Philippine manufacturing roadmap summarised above is both comprehensive and detailed, with heavy stakeholder involvement in design and formulation, and with apparent strong support from the government. It may well be a possible model for other AMSs that may need to develop their own roadmaps in order to better manage the structural transformation of their

economies to meet the demands of an open and integrated ASEAN (and East Asia) in the future.

In **conclusion**, by 2030, there would be 3 or 4 AMSs that are high income countries, 2 to 4 AMSs would be upper middle income countries and 3 to 4 are very well on their way to becoming upper middle countries themselves. These results are the expressions of the “ASEAN Miracle” story that the Framework of 4 Pillars and 1 Foundation of a Responsive ASEAN aim for. With about 720 million people by 2030, ASEAN is a huge market. With the targeted high growth rates for most AMSs, that is a robustly growing huge market. Thus, ASEAN offers opportunities and the best is yet to come. Thus, as AMSs maintain the momentum of reforms, institutional development, and community building towards an integrated and highly contestable ASEAN, competitive and dynamic ASEAN, inclusive and resilient ASEAN, and a global ASEAN, then it is high time it is ASEAN RISING indeed.