

# Chapter 4

## Deepening Economic Integration: The ASEAN Economic Community and Beyond

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## **4. DEEPENING ECONOMIC INTEGRATION: THE ASEAN ECONOMIC COMMUNITY AND BEYOND**

The policy framework toward East Asian economic integration should be designed to support production fragmentation and networking by reducing the accompanying costs, namely service link and network set-up costs.

For this purpose, trade facilitation is particularly important since one additional occurrence of production fragmentation across countries generates four additional border controls, which is a key determinant of service link costs. In fact, while time and costs of international trade varies significantly by countries, it is still very high in several countries in the region (Layton, 2008). By the same token, services liberalization is equally important, not only for the services sector itself but also for the industrial sector by directly reducing service link costs. It is theoretically confirmed that trade in goods will be facilitated by efficient inputs from the service sector, such as transportation, logistic, finance, and insurance (Deardorff, 2000). Moreover, a recent survey reveals that the time required to start up new businesses, which is a main component of network set-up costs, varies significantly by country (World Bank, 2007).

These observations imply that there remains ample room to reduce services link and network set-up costs through trade facilitation, services liberalization, and investment liberalization and facilitation, which are beyond the scope of traditional trade liberalization. East Asia is now at the stage where it should pursue deep economic integration by taking regional collective actions.

### **4.1. Deepening economic integration**

While economic integration in East Asia has substantially advanced for trade in goods — parts and components in particular — and FDI flows, it is far from complete for other elements. That is, there remains ample room to promote international production fragmentation and networking through eliminating such gaps by devising a proper policy environment. This is the process of deepening economic integration.

Recent FTAs envisage deep economic integration, by including not only tariff reduction and elimination but also trade facilitation, services liberalization, investment

liberalization and facilitation, government procurement, standards, intellectual property rights, labor regulations, environmental issues, and economic cooperation<sup>5</sup>. Although the coverage widely varies across agreements, FTAs today share a common feature aimed at deepening economic integration far beyond shallow economic integration with simple border liberalization.

The worldwide development of production networks has revealed the necessity to deepen economic integration, not only by reducing border barriers, but also by working toward convergence in the policy environments, e.g., regulations on services industry, competition policy, technical standards, and intellectual property rights. In other words, the deepening of *de facto* economic integration has begun to require comprehensively-designed institutional arrangements to facilitate deeper economic integration. East Asia, as a region with growing production networks, should follow this global trend, by taking regional collective action.

## **4.2. Implementing the ASEAN Economic Community Blueprint**

In the context of East Asian economic integration, ASEAN has been gaining importance as the hub of regional FTA networks as well as the forerunner to deepen economic integration. Therefore, ASEAN's initiatives toward the ASEAN Economic Community (AEC) should be supported by the collective action of East Asia as a whole, because deepening economic integration in East Asia largely depends on the successful implementation of the AEC.

### *4.2.1. The AEC Blueprint*

The ASEAN Economic Community (AEC) Blueprint, which was officially agreed to in the ASEAN Summit in November 2007, is a very significant development in ASEAN's efforts, based on the substantial realization of ASEAN Free Trade Area (AFTA), towards the AEC. The AEC Blueprint is a clear departure from ASEAN's tradition. With the adoption of the Blueprint ASEAN has moved from an integration driven by the process to an integration driven by clearly defined end goals and timelines. The AEC Blueprint is also a binding document of commitments by the members

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<sup>5</sup> Evans, *et al* (2006) provides in-depth study on the elements of 'deep' economic integration covered in FTAs involving developing countries.

(Soesastro, 2008b).

The Blueprint is organized along the AEC's four main characteristics, namely: (a) a single market and production base; (b) a highly competitive economic region; (c) a region of equitable economic development; and (d) a region fully integrated into the global economy. The fourth characteristic indicates the "open" nature of ASEAN's pursuit of regional economic integration (*open regionalism*). From the viewpoint of the New Economic Geography and the fragmentation trade theory, the AEC Blueprint is a policy package, designed to reduce service link and network set-up costs, to pursue deepening economic integration and narrowing development gaps in the wider East Asian region.

The Blueprint identifies 17 "core elements" of the AEC and delineates 176 priority actions to be undertaken within a strategic schedule of four implementation periods (2008-2009, 2010-2011, 2012-2013, and 2014-2015). It should be noted that some goals in the Blueprint remain vaguely defined and "milestones" are still missing. Thus, effective implementation is very important for realizing the AEC.

#### *4.2.2. Rules of origin and overlapping FTAs*

First of all, effective implementation of AFTA and several FTAs involving ASEAN is particularly important since, in East Asia, a number of bilateral/plurilateral FTAs are already implemented, concluded, or under negotiation, including those undertaken by individual ASEAN member countries. Figure 4-1 displays the current status of FTAs in East Asia and Asia-Pacific. We observe that the countries in ASEAN have already connected themselves with a number of trading partners within and outside ASEAN by FTAs.

Despite the proliferation of FTAs centering on ASEAN in East Asia, their potential benefits do not seem to have been realized because of the lower-than-expected utilization of FTAs. Our ex post evaluation study on FTAs identified several reasons (Hiratsuka *et al*, 2008).

First, firms, SMEs in particular, are not fully familiar with the FTAs. Second, import tariff exemption systems, e.g. the Board of Investment (BOI) privileges, are intensively used instead of FTAs in ASEAN. Firms are much more familiar with such BOI import tariff exemption systems. Third, the Information Technology Agreement (ITA) of the WTO has allowed exemption of tariffs on information technology related

products. Most electronics parts and components are already being traded with zero tariffs in the WTO member countries. Fourth, FTAs in East Asia have been unimpressive, as phase-out tariff schedules are employed for a large number of products. AFTA preferential tariff rates are zero for substantially all products for the original ASEAN member countries. But, FTAs involving ASEAN are still initial stages of the phase-out tariff schedules. Fifth, the administration cost to satisfy rules of origin (ROO) are very costly for exporters. This is a serious problem for exporters since the current ROOs in East Asia require exporters to prepare documents while the benefits go to the importers. Sixth, due to the so-called spaghetti-bowl effect, “proliferation” of FTAs has resulted in additional costs to utilize FTAs by forcing exporters to face various ROOs according to the goods and the destinations. As a result, only a few FTAs are being used and not for so many products. Seventh, other provisions in FTAs, such as the one on direct shipment, can discourage the utilization of FTAs.

In order to exploit the potential of existing FTAs, including AFTA, it is necessary to improve ROOs to become less restrictive, simpler and more flexible. The findings suggest that the change of tariff code (CTC) rule is more business-friendly than the value content (VC) rule, and that less demanding administration, in particular, the self-certificate system may encourage the utilization of FTAs. There is also a need to streamline ROOs in overlapping FTAs. In reality, however, the ROOs in East Asia tend to employ product-specific rules that differ by products. The problem of overlapping ROOs is likely to be more serious, since ROOs differ by product and by country.

Trade rules should be compliant with the WTO rule. In this regard, import tariff exemption systems, e.g. BOI privileges, contradict the Trade Related and Investment Measures System (TRIMS), which prohibits local content and export conditions, etc. Such import tariff exemption systems should be replaced with WTO compliant rules, such as FTAs. Thus, full implementation of FTAs is a very important issue.

Furthermore, it is most important to keep in mind that FTA provisions should be in line with the multilateral nature of production and distribution networks in East Asia. In this regard, a single regional wide FTA is better than multiple bilateral and plurilateral FTAs. Finally, it is crucial to conduct ex post evaluations of existing FTAs to pinpoint key bottlenecks and, on that basis, draw more detailed prescriptions to eliminate them.

Figure 4-1: Status of FTAs in Asia-Pacific region (as of January 2008)

	Russia	Chinese Taipei	Japan	Korea	China	Philippines	Indonesia	Malaysia	Thailand	Singapore	Brunei	Vietnam	Lao PDR	Cambodia	Myanmar	India	Australia	New Zealand	United States	Canada	Mexico	Peru	Chile	
Russia	■			△												△								
Chinese Taipei		■								△									△					
Japan			■	○	△	◎	◎	◎	◎	◎	◎	○	○	○	○	○	○	○	■	△	△	◎	◎	◎
Korea	△		○	■	△	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	△	△	◎	○	○	△	◎
China			△	△	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	△	○	○					◎
Philippines			◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	○	□	□						
Indonesia			◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	○	□	□					
Malaysia			◎	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	○	○	○	○				○
Thailand			◎	○	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	○			◎	
Singapore		△	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	○	○	○	◎
Brunei			◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	○	□	◎					◎
Vietnam			○	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	◎	○	□	□					
Lao PDR			○	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	○	□	□					
Cambodia			○	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	○	□	□					
Myanmar			○	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	○	□	□					
India	△		○	○	△	○	○	○	◎	◎	○	○	○	○	○	■	△	△						△
Australia			○	△	○	□	□	○	◎	◎	□	□	□	□	□	△	■	◎	◎	◎				○
New Zealand			○	△	○	□	□	○	◎	◎	◎	□	□	□	□	△	◎	◎	■					◎
United States		△		◎				○	○	◎							◎		■	◎	◎	◎	◎	◎
Canada			△	○						○									◎	■	◎	◎	◎	◎
Mexico			◎	○						○									◎	◎	■	◎	◎	◎
Peru				△					◎	○									◎	○	○	■	◎	◎
Chile			◎	◎	◎			○		◎	◎					△	○	◎	◎	◎	◎	◎	◎	■

Note: ◎: Entered into force / signed,  
 ○: Under negotiation / agreed to negotiate (bilateral),  
 □: Under negotiation / agreed to negotiate (plurilateral), and  
 △: Under consideration (G-G base) / feasible study initiated.

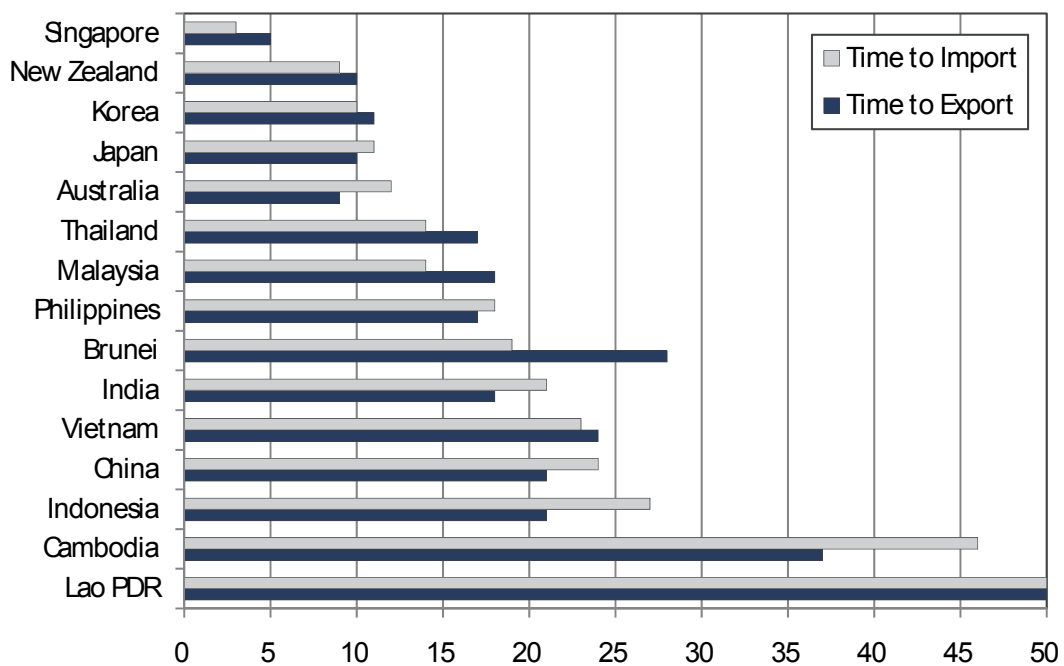
Source: Updated based on Lee, Kimura, Huh and Kuno (2006).

#### 4.2.3. Trade facilitation

International interest in trade facilitation has increased noticeably in the last few years, reflecting the progress of trade liberalization and the development of international production and distribution networks. In fact, a study confirmed that trade costs other than tariffs are quite high even for OECD member countries (Anderson and Wincoop, 2004). Also, recent studies on trade costs, employing gravity models, suggest that

there can be significant economic gains from trade facilitation measures, specifically in areas that increase the overall reliability of the supply chain; overcoming the weakest link in the supply chain; better coordination of border procedures between customs and other agencies; increasing the availability of quality and competitive services such as trucking, custom brokering and warehousing; as well as reforming the logistic service markets.

**Figure 4-2: Time for trading across borders (days)**



Source: World Bank, *Doing Business 2008*, Washington, D.C.

In fact, time and costs of international trade varies significantly by countries; it remains very high in several countries. Among the 16 East Asian countries, the time required for export procedures is 10 times different between the shortest in Singapore (5 days) and the longest in Lao PDR (50 days). Similarly, the time required for import procedures is more than 16 times different between the shortest in Singapore (3 days) and the longest in Lao PDR (50 days). Such long lead times for trade procedures do not match with the current production fragmentation and networks prevailing in ASEAN and East Asia.

In this context, the AEC Blueprint on trade facilitation, in particular, the

establishment of the ASEAN Single Window and customs integration, is necessary because it will significantly reduce service link costs. It is important to ensure that current policy intentions are translated by the various governments and agencies into action and implemented. Attention should be given to finding the most effective means to do so, together with monitoring the progress of implementation (Layton, 2008).

#### *4.2.4. Services liberalization*

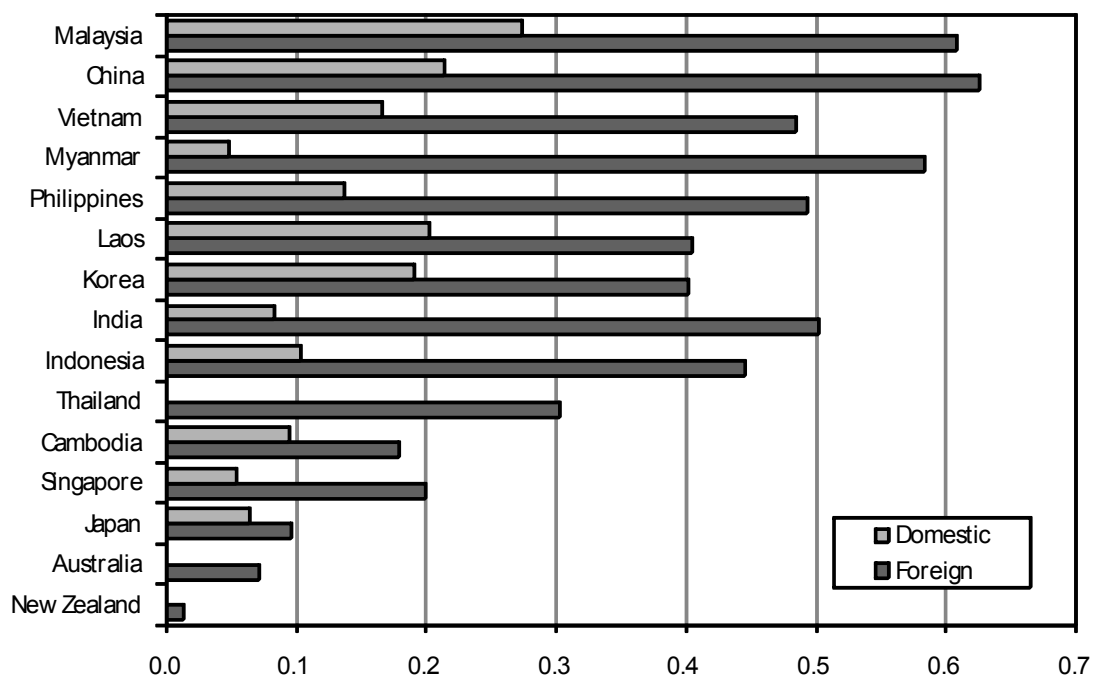
Services liberalization can generate benefits beyond the service sector itself by facilitating further development of international production and distribution networks through the reduction of service link costs and network set-up costs.

Judging from the importance to facilitate fragmentation through international production and distribution networking, ERIA has conducted detailed studies on services liberalization in East Asia focusing on the following six sub-sectors: business services, postal/courier services, ports/maritime services, financial services, distribution services, and logistic services (NZIER, 2008a and AJRC-ANU, 2008). These are important sub-sectors and complement the Priority Integration Sectors (PIS) set out in the AEC Blueprint. In an effort to develop sub-sectoral scorecards, taking all the four modes of services liberalization into consideration, the study has compiled sub-sectoral “restrictiveness indices” that can eventually be used to conduct quantitative analyses on the impact of services liberalization (See Figure 4-3 for example).

The most important implication that can be drawn from the study is that gains are much larger from reducing non-discriminatory barriers than from reducing the discriminatory barriers that are typically the focus of trade negotiations. The reason for this is that most of these barriers are of the cost-raising (i.e. productivity reducing) type rather than the price-raising (or tax) type, although it is not yet clear exactly which type of barriers has which type of effect in all the major services sectors. It is important, therefore, to identify the costs of specific barriers in specific sectors and to clearly spell out the costs of these restrictions to the domestic economy and not just to foreign trading partners (Corbett, 2008).



**Figure 4-3: Restrictiveness indexes: Banking sector**



*Note:* Indexes are averaged over three datapoints, 1997, 2001, and 2005 for most countries, except for New Zealand, Korea, India, Philippine and Singapore where the 2005 data were not available at the time of the research. Brunei is not included due to the lack of data. Countries are listed in descending order of the sum of domestic and foreign indexes.

*Source:* AJRC-ANU (2008).

#### 4.2.5. Investment liberalization and facilitation

FDI has been a key driver of regional economic integration through the emergence of dynamic production networks. Intra-Asian FDI has been far more critical than intra-ASEAN investment in this process. Therefore it is necessary to re-examine the concept of the ASEAN Investment Area (AIA) to establish the ASEAN Comprehensive Investment Agreement (ACIA) by expanding the scope and measures.

One of our empirical studies, using gravity models, found that distance, which is a widely used proxy of service link costs, and wage differentials are significant determinants of intra-Asian FDI flows (Rajan, 2008). This further signifies the importance of investment liberalization and facilitation as one of the main policy pillars of the strategic framework to pursue in deepening economic integration and narrowing development gaps.

In addition, another ERIA study on FDI confirmed that the domestic business environments, particularly economic regulations, tax regimes, competition policy, and corporate and labor laws, are determinants of intra-ASEAN FDI (Sudsawasd, 2008). Some of these have not been well addressed in the AEC Blueprint because they are usually viewed as “behind-the-border” issues. However, it should be stressed that investment liberalization and the accompanying domestic reforms can generate significant positive synergy and contribute to the narrowing of development gaps in ASEAN.

#### *4.2.6. Competition policy*

The AEC Blueprint intends to develop a regional guideline on competition policy by 2010, and to introduce competition policies in all member countries by 2015. Today only four ASEAN countries (Indonesia, Philippines, Thailand and Vietnam) have competition policies, although some others, including Malaysia, have enacted laws and regulations aimed at curbing monopolistic and restrictive business practices.

It is recognized that it would be impractical for ASEAN countries to have a uniform set of competition policies and laws, but the study lends support to the call for some convergence of competition laws<sup>6</sup>. In its absence, there is the danger that the competition law in one country will be challenged under the existing laws in other countries. Conversely, a convergence of competition policies will contribute to the creation of “level playing fields”, in particular between domestic and foreign firms, in which economic resources will be utilized more efficiently.

#### *4.2.7. Equitable economic development*

In the era of globalization, the development strategy of each country should be designed to effectively utilize fragmentation and agglomeration forces in production and distribution networking. The AEC Blueprint entrusts ASEAN to address development gaps by enhancing its existing frameworks to achieve equitable economic development. In view of the continuously expanding production and distribution networks, this issue can be addressed more effectively by the collective action of East Asia as a whole. In order to widely diffuse the benefits of the AEC or to narrow

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<sup>6</sup> Ariff (2008a). Further details are reported in NZIER (2008b) and MIER (2008).

development gaps, ASEAN member countries should make self-reliant efforts to improve and enhance their business environment, infrastructure and human resources. In the process, regional collective actions, including economic and technical assistance, are of crucial importance.

#### *4.2.8. Coherent external economic policy*

The AEC Blueprint stipulates the importance of developing coherent external economic policy by ASEAN because of its critical role in the economic integration of East Asia as a whole. Incoherence, however, can be found in the areas of trade policy, including FTA, and investment policy (Atje, 2008). For example, in trade policy, ASEAN members still maintain wide differences in levels of trade protection in several sectors. They also have concluded a number of FTAs without sufficient consultation with each other. Similarly, in the area of investment policy, not all members have adopted the universal principle of national treatment. They also need to give greater attention to jointly reviewing and revising domestic laws and regulations that are critical for promoting investment flows into the region. In establishing a system to enhance regional coordination to formulate coherent external economic policy, it is crucial to address the issue of cooperation and competition among member countries.

ASEAN members should realize that bilateral FTAs are not sufficient to promote production and distribution networks because they are multilateral in nature. Moreover, empirical studies continue to reveal that bilateral FTAs are far inferior to unilateral trade liberalization on an MFN (most favored nation) basis.

Therefore, ASEAN members are recommended to focus on the timely completion of comprehensive economic partnership agreements (including FTAs) with their main partners in East Asia (China, Japan, Korea, Australia, New Zealand, and India). ASEAN members should have a common template to be used in concluding the above agreements. A common template in the area of investment, competition policy and intellectual property rights can avoid distortions and deflections that would be detrimental to the further promotion of dynamic production and distribution networks in the region.

### **4.3. Beyond the ASEAN Economic Community**

The AEC is evidently an ambitious initiative, in the sense that it envisions to establish an economic community with 10 heterogeneous countries within a relatively short timeframe. Though it may sound paradoxical, in order to maximize the benefits from establishing the AEC, ASEAN is recommended not to confine itself to the AEC. There are at least two directions to go beyond the AEC, the geographical coverage and the depth of economic integration.

#### *4.3.1. Beyond “ASEAN” Economic Community*

Although ASEAN is a grouping of 10 nations, it pales in comparison with the European Union (EU) and the North American Free Trade Area (NAFTA) in terms of population size and purchasing power. ASEAN is also dwarfed by China. ASEAN is less than one-half of China in terms of both gross domestic product and population.

Size does matter. While ASEAN countries collectively are stronger and more resilient than they are individually, there are limits to ASEAN’s economic prowess. To be sure, ASEAN cannot afford to be autarkic or exclusive. ASEAN needs to reach out beyond its regional borders. Fortunately, as a group of export-oriented economies, ASEAN has always been an outward-looking entity. Indeed, ASEAN’s external linkages are much stronger than its internal linkages, as manifested by its trade and investment network. Extra-regional FDI inflows into ASEAN are far more important to its member countries than intra-regional FDI inflows. By the same token, extra-ASEAN trade accounts for the bulk of the total trade, with intra-ASEAN trade accounting for only one-fourth.

Equally importantly, geographical distance does matter as it determines service link costs. With advancement of transport and community technology, geographical distance, in terms of time, will be shortened. The combination of size and geographical distance will shape optimal geographical space beyond ASEAN. Wide regional economic space will provide opportunities for ASEAN firms to grow as global companies, and SMEs can form industrial clusters by specialization.

Although the ASEAN economy remains wide open to the rest of the world, ASEAN is not practicing what may be termed “open regionalism”. The latter term implies that the membership is open to all countries or the privileges of membership are

extended to all, without discrimination, which is not the case with ASEAN, or with any other regional grouping for that matter. The only grouping that comes close to this definition is Asia Pacific Economic Cooperation (APEC), which functions in a non-discriminatory fashion, although membership is limited.

What ASEAN practices may be described as “open integration,” as it links up with the rest of the world through trade and investment. The ongoing proliferation of FTAs reinforces the existing linkages, thereby intensifying the integration process beyond regional borders. To remain relevant and effective, ASEAN needs to broaden and deepen the extra-regional integration process. This is akin to drawing bigger and bigger concentric circles, with ASEAN remaining the focal point at the center.

The concept of concentric circles can transform neatly into a long-term vision for ASEAN, with each layer having a specific role to play in the regional architecture. The ASEAN Plus Three (APT), the East Asia Summit (EAS), and APEC may be characterized as the first, second and third layers around the AEC core. The degree or extent of integration would tend to be deeper at the inner layers and somewhat shallower at the outer layers.

ASEAN is envisioned to be the apex of the wider regional architecture with AEC constituting a closely-knit sub-regional economic community, a single market without borders, ensuring efficient allocation of ASEAN resources with intra-ASEAN specialization and division of labor. For meaningful and effective macroeconomic policy coordination and monetary and financial cooperation, ASEAN needs to team up with China, Japan and Korea under the APT umbrella. Even the APT would be too small to effectively handle bigger issues such as energy security, for which EAS would seem better suited. Global issues, which include multilateral trade and environmental concerns, may be better addressed in APEC, not only because more countries are involved in the latter but also because “concessions” are voluntary, albeit with some peer pressure.

Geography need not necessarily be a determinant of such layers, except in the case of ASEAN, which is clearly defined as a Southeast Asian grouping. ASEAN may grow from current 10 into 11 by accepting East Timor into its fold. APT would evolve eventually to include Taiwan and North Korea. For geographers EAS may present a problem as East Asia is stretched horizontally on both sides to include India and Australasia, but EAS does make considerable economic sense. The matrix of FTAs

(Figure 4-1) clearly shows that EAS is interconnected in ways that would constitute a natural configuration. However, it is not unthinkable for Russia, more specifically the Russian Far East, to be a part of the EAS. In the same vein, it is quite conceivable that APEC may also expand to include India, now that India is already a member of EAS.

The roadmap for ASEAN thus goes far beyond the narrow confines of the Southeast Asian boundaries. The concentric circles may grow, regional and sub-regional borders may be re-drawn. What is important is that each layer has a specific and complementary role to play so that ASEAN can orchestrate well with the rest of the world.

#### *4.3.2. Behind-the-border issues*

While the numerous bilateral and regional free trade agreements can help reduce, if not eliminate, tariff and non-tariff barriers to trade, they inadvertently create new barriers through complex sets of ROO. The latter so-called “spaghetti-bowl effect” would raise production and transaction costs for the manufacturers and traders, not to mention the horrendous problems it would pose for customs officers. All this would tend to negate the very purpose of these agreements, namely greater efficiency through improved allocation of resources.

The “spaghetti-bowl” syndrome can be effectively handled in two ways. The first is to craft simpler and standardized ROOs for all such agreements and the second is to mitigate the rising service-link costs by reducing the cost of doing business in all partner countries. To be sure, it is not a case of either or, as the first would reduce the services-link costs while the second would reduce the cost of doing business at home.

In this context, it is important to distinguish the “border” measures from what may be termed as “behind-the-border” measures. The former relates to the protectionist measures that overtly discriminate against foreign goods, services and investments at the border, such as tariffs, subsidies, national content requirements, quotas and restrictions on foreign equity. The latter refers to domestic measures that do not overtly discriminate against exports or imports or foreign ownership, such as crony handouts, affirmative action agendas, monopolistic practices and price controls of sorts.

Although such behind-the-border measures (BBMs) do not directly interfere with trade flows, they do cause market distortions, with serious cost implications. BBMs include, in addition to the examples above, regulations that hinder business at home,

such as licensing procedures; bankruptcy procedures, which depend on the quality of the civil service that administer the system; and the rule of law, which in turn depends on the quality of the legal framework. An important hallmark of such reforms is transparency, which would not only promote better governance and accountability but also facilitate more informed and intelligent public discussion of policy choices.

The argument for reforms targeted at BBMs rests basically on the enormous efficiency gains that would lead to significant reductions in the cost of doing business in a country. Besides, regional economic integration and community building cannot take place effectively if BBM issues are left untouched. Community building implies subscribing to common values and common standards. Although it is impractical for a diverse grouping to adopt a common institutional infrastructure that would govern BBM matters, some convergence would still be desirable and possible, as shown by the European Union experience. A convergence would enable a freer flow of resources within the region and facilitate deeper economic integration.

In the ASEAN context, this issue may be considered highly sensitive, as it entails some loss of national sovereignty. To be sure, BBM matters belong overwhelmingly to the domain of domestic affairs and are mixed delicately with domestic politics. Thus, the BBM issues cannot be placed on the ASEAN agenda to the extent that any such attempt would be construed as interference in the internal affairs of the member countries.

In any case, the BBM issues, by their very nature, do not lend themselves neatly to reciprocal liberalization. Such reforms are best undertaken in a unilateral fashion. ASEAN should encourage its members to do just that. After all, it is in the member country's own national interest to undertake such reforms voluntarily. It is however important for the frontrunners in ASEAN to set the pace for others in the regional grouping to follow, which may be described as leadership by example.

All this boils down to enhancing competitiveness. While ASEAN as a group will have to compete with other regional entities for global markets and investments, individual ASEAN countries will have to compete among themselves within the region to secure a fair share of the gains. Institutional reforms would augment individual country's competitiveness.

As ASEAN becomes borderless, thanks to liberalization "at the border," firms will become increasingly footloose, looking for best possible locations within ASEAN for

their activities. They will opt for places where the cost of doing their business is apparently the lowest, and hence the relevance of “behind-the-border” liberalization.

In the final analysis, it is companies, not countries, which compete in the marketplace. While liberalization at the border would provide easier market access for aspiring firms, their ability to compete in these markets would depend critically on liberalization taking place behind the border in the countries in which they operate. It is in this sense that “behind-the-border measures” tend to weigh more heavily on individual firms than the “border measures”.